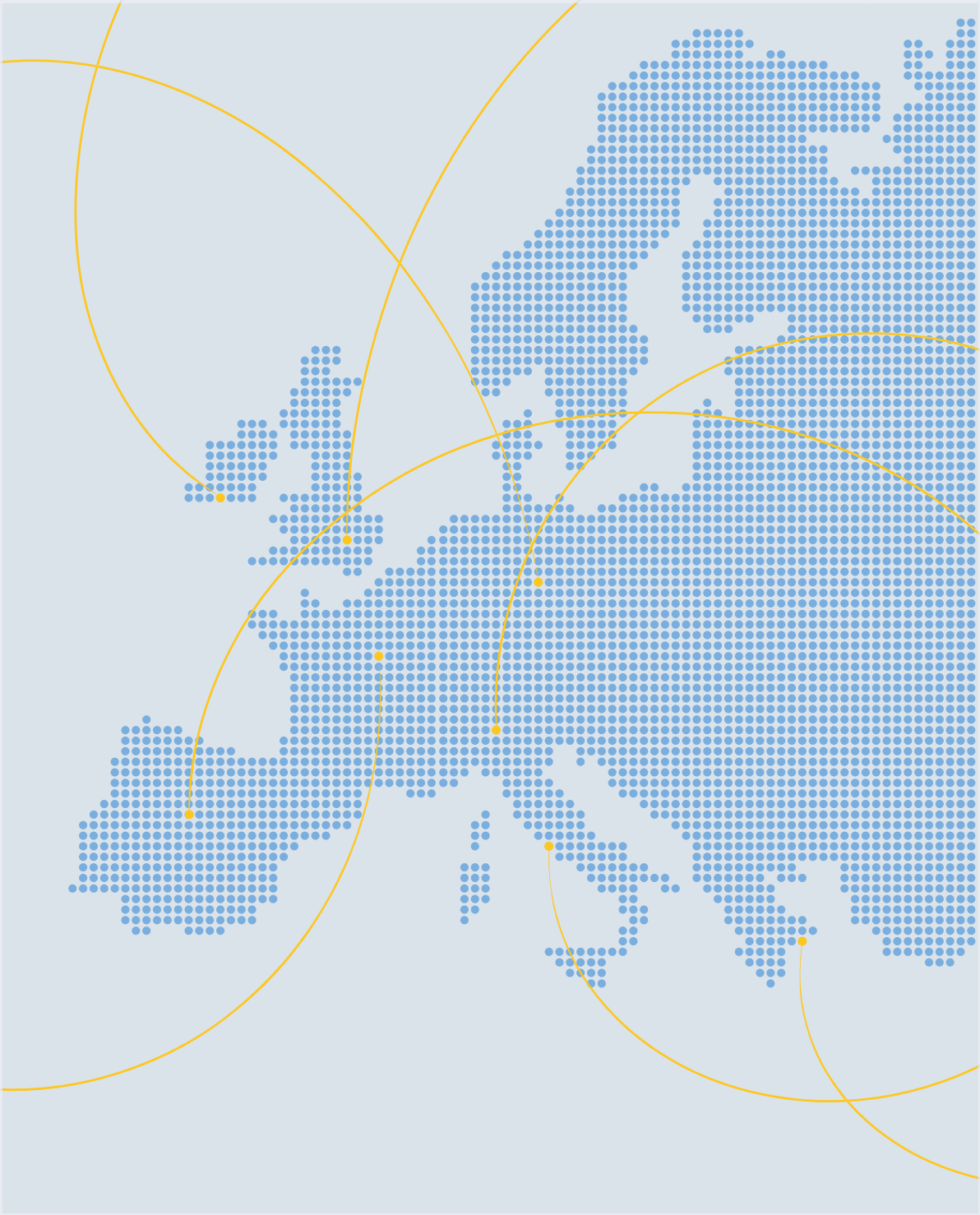
Annual Report 2005



RECORDATI 1926 ◆ 2006

CONTENT

FINANCIAL HIGHLIGHTS

REVENUE

€ (thousands)	2005	%	2004*	%	Change 2005/2004	%
Pharmaceuticals	537,445	93.3	438,876	91.6	98,569	22.5
Pharmaceutical chemicals[1]	38,635	6.7	40,285	8.4	(1,650)	(4.1)
Total Revenue	**576,080**	**100.0**	**479,161**	**100.0**	**96,919**	**20.2**
Italy	221,281	38.4	217,041	45.3	4,240	2.0
International	354,799	61.6	262,120	54.7	92,679	35.4

(1) *Excludes discontinued operations*
* *Restated for comparison purposes*

KEY CONSOLIDATED DATA

€ (thousands)	2005	% Revenue	2004*	% Revenue	Change 2005/2004	%
EBITDA[2]	132,222	23.0	108,262	22.6	23,960	22.1
Operating Income	111,130	19.3	88,166	18.4	22,964	26.0
Net Income	64,543	n.s.	53,130	n.s.	11,413	21.5
Cash Flow	89,024	15.5	76,092	15.9	12,932	17.0
Shareholders' Equity	324,697		263,169		61,528	23.4
Dividends	27,534 [3]		21,665		5,869	27.1
Dividends/Net Income	42.7% [3]		40.8%			

(2) *Earnings before interest, taxes, depreciation and amortization*

(3) *Proposed by the Board of Directors and calculated on the number of shares outstanding at year-end net of treasury stock which amounted to 4,798,664 shares*

* *Restated for comparison purposes following the introduction of new IAS/IFRS and discontinued operations*

PER SHARE

€ per share [4]	2005	2004*	Change 2005/2004	%
Net Income	0.326	0.270	0.056	20.7
Cash Flow	0.450	0.387	0.063	16.3
Shareholders' Equity	1.621	1.336	0.285	21.3
Shares outstanding:				
- average during the year	198,050,942	196,487,926		
- at December 31	200,250,592	196,956,492		

(4) *Net income and cash flow per share are based on average shares outstanding during the year net of average treasury stock. Shareholders' equity per share is based on total shares outstanding at year end net of treasury stock. Shares outstanding at year end are net of treasury stock which amounted to 4,798,664 shares for both years.*

* *Restated for comparison purposes following the introduction of new IAS/IFRS and discontinued operations*

LETTER FROM THE CHAIRMAN

CONSOLIDATED REVENUE € 576.1 MILLION, OPERATING INCOME € 111.1 MILLION AND NET INCOME € 64.5 MILLION

"The successful German and British transactions completed during 2005 have allowed us to establish a direct presence in a further two key countries. Recordati now covers 80% of the European pharmaceutical market with its own direct marketing capabilities."

To Our Shareholders,

During 2005 important projects were completed which have enabled the group to become a specialty pharmaceutical company of reference in the European market. The successful German and British transactions have allowed us to establish a direct presence in a further two key countries. The pharmaceutical chemicals business is being rationalized and will be carried out exclusively in the Campoverde di Aprilia (Latina, Italy) plant which will be increasingly dedicated to the production of our original active ingredients. The biochemical plant in Opera (Milan, Italy) and, at the beginning of 2006, the chemical synthesis plant in Beniel (Murcia, Spain) were sold. The results of these discontinued activities are recognized in a single line as "discontinued operations".

These important undertakings and the growth of our pharmaceutical business have led to brilliant financial results for the year with revenues and profitability growing by more than 20%.

Consolidated revenue in 2005 is € 576.1 million, an increase of 20.2% over 2004. On a like-for-like basis, that is excluding Merckle Recordati and Sophartex (sold in April 2004), revenues increased by 10.5%. This result was driven by the good performance of international pharmaceutical sales

(+ 42.1%) and lercanidipine sales (+ 23.4%). Sales in France grow by 18.4%, pharmaceutical sales in Spain by 32.2% and sales to licensees by 16.5%. Growth in Italy is lower (+1.8%) due to the public healthcare cost containment measures. Merckle Recordati, consolidated as from 1 January 2005, generates sales of € 54.3 million. Pharmaceutical chemical sales, excluding the discontinued operations, are € 38.6 million, a reduction of 4.1%.

Operating income is € 111.1 million, or 19.3% of revenues, an increase of 26.0 % over the preceding year. As compared to the 2004 results restated in accordance with the IAS/IFRS in effect as from the 2005 accounts, and before goodwill amortization, 2005 operating income increased by 21.3%.

Net income from continuing operations is € 68.6 million (11.9% of revenues), an increase of 24.9% over 2004. Group net income, which includes the negative result deriving from the discontinued operations, is € 64.5 million, and increase of 21.5% over 2004.

The net financial position at 31 December 2005 was positive by € 26.2 million as compared to € 72.1 million at 31 December 2004. The decrease is to be mainly attributed to the Merckle acquisition and to the repurchase of the rights to lercanidipine in the United Kingdom. Shareholders' equity further increased and is € 324.7 million.

Our efforts and strong motivation in the pursuit of our international expansion objectives have made the conclusion of a number of important projects possible:

- On 22 February the acquisition of the branded pharmaceutical business of Merckle GmbH, founded in 1881 with operations headquartered in Ulm, Baden-Württemberg (Germany), was successfully concluded for a total price of € 62.5 million. At closing € 45.0 million were paid and the remainder is due over the following three years contingent upon certain favourable future developments in relation to some products. Of the latter a first instalment of € 5.8 million was paid in January 2006. The product portfolio of the new German subsidiary Merckle Recordati comprises prescription and OTC products mainly in the field of gastroenterology and rheumatology. The results of Merckle Recordati are consolidated as from 1 January 2005.

- In June an agreement was reached with the former licensee Napp Pharmaceuticals to buy back the sales and marketing rights of Zanidip® (lercanidipine), Recordati's original antihypertensive calcium channel blocker, for a price close to £ 15 million which was paid in July. At the same time, a subsidiary was established in the United Kingdom, Recordati Pharmaceuticals, to sell Zanidip® directly in this market. The new organization is currently being built up in preparation for the launch of the 20mg strength in 2006.

- Furthermore, in September the newly established subsidiary in Greece, Recordati Hellas Pharmaceuticals S.A., began operations, the objective being to cover directly the Greek pharmaceutical market which in the past 5 years has grown at a rate which is almost double the European average.

The expansion of our presence in the main European markets has allowed us to become more competitive in acquiring new products through agreements and alliances. During 2005:

- A license agreement was entered into with InfaCare Pharmaceuticals (U.S.A.) for the development and marketing in Europe and other Mediterranean countries, of stannsoporfin (Stanate®, tin-mesoporphyrin), a compound discovered at Rockefeller University and currently under development by InfaCare for the treatment of neonatal hyperbilirubinemia (jaundice).

- In July a multi-territorial license agreement was signed with Lavipharm Laboratories (U.S.A.) for the marketing and sale of a new transdermal patch containing the narcotic analgesic fentanyl, indicated for the treatment of moderate to severe chronic pain, in France, Germany, Italy, Spain and the United Kingdom.

- Recordati España acquired the rights to market and sell Yoduk® (potassium iodide) in Spain from the pharmaceutical company Stada. Yoduk® is indicated in situations of iodine deficiency and it was launched in March.

- In October an agreement was signed with Ipsen (a French pharmaceutical group) under which Recordati obtained exclusive rights until 2012 for the marketing and sales in France of Tenstaten® (cicletanine), a diuretic indicated for the treatment of hypertension, thus expanding its offering in this therapeutic area.

- At year end a license agreement was entered into with Labopharm, a Canadian based pharmaceutical group, for the exclusive marketing and sale in the United Kingdom of an innovative once-daily tablet formulation of Tramadol (a widely used, centrally acting, opioid analgesic medicine indicated for the management of moderate to severe pain) which incorporates Contramid®, Labopharm's proprietary advanced controlled-release technology.

In addition, further development of lercanidipine, Recordati's proprietary calcium channel blocker, with the objective of identifying new formulations, is ongoing. During December a new research program in collaboration with Osmotica Pharmaceutical Europe started. Under this agreement Osmotica will apply its Osmodex™ technology to the development of a modified-release formulation of lercanidipine with new and improved release properties. In-house programs to the same end are also being carried out.

The German Medicines Agency (BfArM) continued its review of the dossier requesting approval of a new specialty developed by Recordati for the treatment of hypertension which is based on a fixed combination of lercanidipine and enalapril, a widely used medicine belonging to the ACE-inhibitor class of drugs. The new drug application was filed in Germany in December 2004 and, in the event of approval, Germany will act as Reference Member State in the mutual recognition approval process for the rest of Europe.

Regarding Recordati's original research in the area of urology, during 2005 patients were enrolled in the proof of concept clinical trials involving our molecule REC 0545, a 5-HT1A serotoninergic receptor antagonist, which is being studied for the treatment of micturition disorders. In addition to the approach which led to the synthesis of this molecule, a further two potential biological targets for new drugs to treat these disorders have been identified. Proof of concept clinical trials for another drug candidate, REC 2615, an innovative approach for the treatment of female sexual dysfunction, also started.

Recordati regained the sales and marketing rights of lercanidipine in Japan as a consequence of the termination of the license agreements with Tsumura and Dainippon following the change in business strategy and the corporate actions in which the two Japanese pharmaceutical companies have been respectively involved.

At the end of 2005 Recordati acquired from its licensor Roche the trademarks and marketing authorizations for the Italian market of Tora-Dol®, Naprosyn®, Synflex® and Gynestrel®, together with their production know-how, for a price of € 10.5 million. At the same time supply agreements for the active ingredients ketorolac and naproxen were concluded at more advantageous conditions. These specialties belong to the NSAIDs (non steroidal anti-inflammatory drugs) class of drugs and are indicated for the treatment of pain and inflammation. The total sales of the products in this agreement represent approximately 10% of pharmaceutical sales in Italy.

In October the new active pharmaceutical ingredients plant in Ringaskiddy, County Cork, Ireland became operational. The construction of the € 28 million plant which was announced in 2003 represents an important development for Recordati in Ireland. The plant is currently dedicated to the manufacturing of proprietary pharmaceutical active ingredients, particularly lercanidipine. As part of the second stage of its development a research and development centre is also planned.

The pharmaceutical chemicals business was scaled down following the sale of the Opera (Milan, Italy) and Beniel (Murcia, Spain) plants. The biochemical plant in Opera, which had ceased operations, was sold effective 1 April 2005 for a price which was substantially in line with its carrying value. In January 2006 the Beniel plant was sold for a price of € 13 million, about € 3 million below the book value of the assets sold. This business will be focused on a selection of products which 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 which is considered to be strategic for the group. A program for the reorganization and rationalization of the activities of the plant has started which will involve the transfer of around 100 employees to the national redundancy fund.

Research and international expansion are, and will remain, the foundation of our future development. Our financial and managerial resources will therefore be dedicated in the first place to the enhancement of our product portfolio and to the entry into new European markets. Europe, with a population which in 2004 was 8.2% of the worldwide population, is the second largest pharmaceutical market in the world (after the U.S.) with a share which is nearing 30%. Europe is increasingly becoming our group's market of reference. The German and British transactions which were concluded in 2005 therefore represent two fundamental steps in our strategy allowing Recordati to gain access to two key European markets. Thanks to these operations and to the establishment of a subsidiary in Greece we now cover 80% of the European pharmaceutical market with an overall field force of 1,000 medical representatives. Our group can therefore be increasingly described as a European specialty pharmaceuticals company of reference.

Our extended European coverage, our consolidated expertise in concluding effective collaborations with third parties and our competence and experience in dealing with European regulatory affairs authorities, make our group an ideal partner for those companies which are unable to develop their

products for the European market on their own. These competencies allow Recordati to be competitive in obtaining new product licenses for the European markets, even against "big pharma".

We trust that our interesting new product development programs, the quality of our product portfolio and our extended commercial presence in Europe will allow our group to remain competitive and keep up a solid growth trend also in future years.

The achievement of the ambitious targets that we have given ourselves for the future requires maximum determination and focus on our part. Each one of us must be aware and convinced of the fact that we must grow more and faster if we wish to survive in a continuously evolving and increasingly competitive pharmaceutical market.

We therefore, as always, count on the entrepreneurship and determination of our management team, the professional skills of our employees and the trust of our shareholders. We would like to express our gratitude to all of them for their contributions during 2005.

Dividends

Based on these results, the Board of Directors of the parent company will propose to the shareholders a dividend of € 0.1375 per share (€ 0.11 per share last year) to be paid to all shares outstanding, excluding those in treasury stock, as from 27 April 2006. This per share dividend includes the accretion deriving from the dividend which would have been due to the shares in treasury stock.

Giovanni Recordati
Chairman and Chief Executive Officer

RESEARCH AND DEVELOPMENT

ORIGINAL RESEARCH AND PARTNERSHIPS ARE FUNDAMENTAL GROWTH DRIVERS

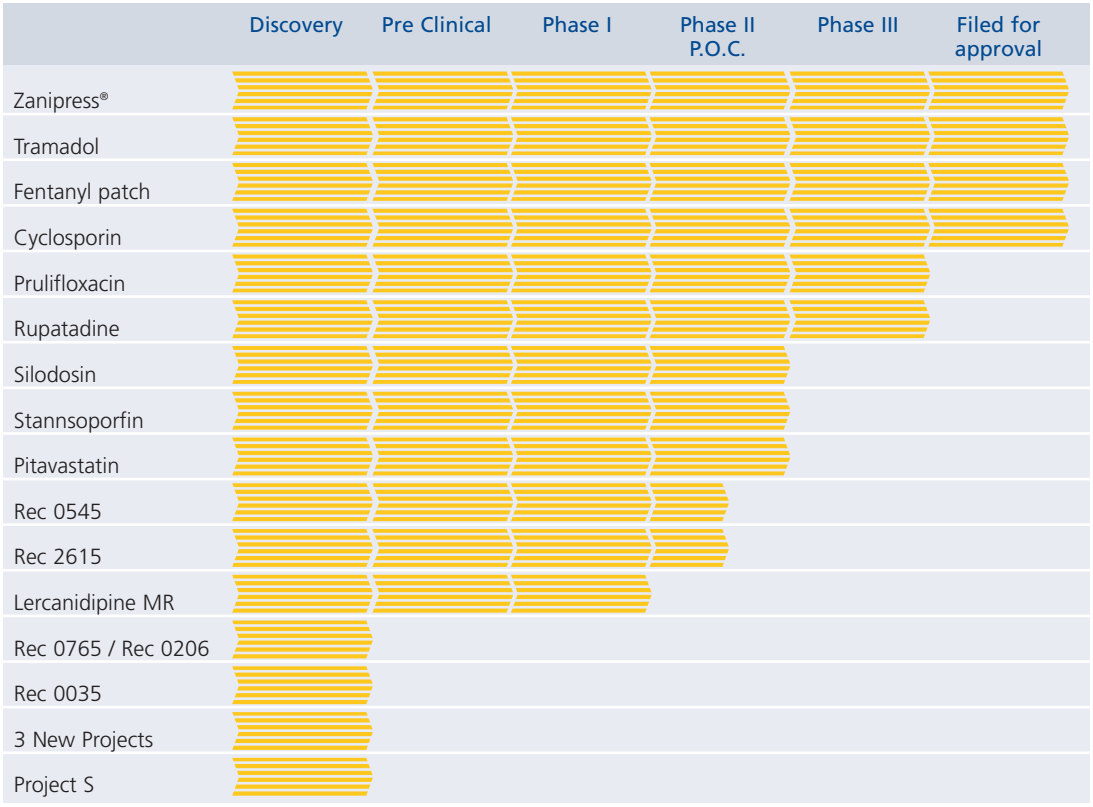
"2005 was a very fruitful year for the enhancement of our product pipeline. Our proprietary research programs, some of which are in clinicals, have progressed and five new licensing agreements were concluded with important international pharmaceutical companies."

Research and development are fundamental for the future growth strategy of the group and have as their objective the introduction on the market of new products. 2005 was a very fruitful year for the enhancement of our product pipeline. Our proprietary research programs, some of which are in clinicals, have progressed and various development and marketing agreements were concluded with important international pharmaceutical companies.

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

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

PRODUCT PIPELINE



Zanipress® is a new specialty indicated for the treatment of hypertension developed by Recordati. It is a fixed combination of lercanidipine and enalapril, an extensively used drug belonging to the angiotensin conversion enzyme inhibitors class (ACE inhibitors). In December 2004 Recordati submitted a new drug application in Germany and, assuming approval is obtained, Germany will act as Reference Member State in a mutual recognition approval process for the rest of Europe. During 2005 the BfArM, the German medicines agency, proceeded with its review of the data submitted.

Fixed combinations of more than one antihypertensive agent will play a significant and increasing role in the future hypertension market. The international guidelines for the treatment of hypertension establish new aggressive targets for blood pressure control in order to minimize the risk of severe cardiovascular events. Most hypertensive patients, especially those with other associated risk factors, now require multiple therapies using more than one drug to keep their blood pressure at desired levels. Associations of a calcium antagonist and an ACE inhibitor are frequently prescribed in such conditions. The advantages of fixed combinations as opposed to the administration of separate treatments are significant. The combined dosages of the drugs are those broadly used by the physician and their efficacy and tolerability have been clinically proven. Patient compliance – which is extremely important in chronic treatments aimed at reducing and preventing cardiovascular risk – is increased. The cost of treatment is reduced, an advantage which could play an important role in curbing public healthcare spending.

Throughout 2005 Recordati continued to invest in the further development of lercanidipine with an aim to improve its clinical profile through the creation of new formulations. The two projects initiated in 2004, one with LifeCycle Pharma and the other with Eurand Pharmaceuticals, for the development of new modified release formulations of lercanidipine have gone ahead. A third program recently started in collaboration with Osmotica Pharmaceutical Europe which will apply its Osmodex™ technology to the development of a formulation of lercanidipine with new and improved release properties. New in-house projects to the same end are also under way.

Tramadol is a widely used, centrally acting, opioid analgesic medicine indicated for the management of moderate to severe pain. Pain management is a large market as pain afflicts millions of people worldwide but the condition is generally under-treated. There is a growing need for safer analgesics for patients who require treatment for moderate to severe pain. Tramadol provides powerful relief from many kinds of pain and is already widely prescribed also by the family doctor. In November a license agreement was entered into with Labopharm, a Canadian based pharmaceutical group, for the exclusive marketing and sale in the United Kingdom of a once-daily tramadol tablet formulation incorporating Contramid®, Labopharm's proprietary advanced controlled-release technology. This new once-a-day tramadol formulation is an attractive and safe treatment option that provides patients with strong and reliable 24-hour pain relief. The product has successfully completed its review process in the UK via an MRP (Mutual Recognition Process) and the marketing authorization is expected shortly.

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

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

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

Rupatadine is a latest generation systemic antihistamine drug indicated for the treatment of allergies. Recent epidemiological studies have confirmed an increase in the incidence of allergies. Hay fever in particular now affects 20% of the population (it was 1% at the beginning of the 20th century), as reported by the W.H.O.. During 2005 license agreements were signed with the Spanish pharmaceutical company Uriach for the marketing and sale of rupatadine in Germany and in the United Kingdom. Agreements entered into previously cover rights for France, Italy and Spain. These agreements also include a license option for Poland.

Silodosin is a new compound indicated for the treatment of symptoms associated with benign prostatic hyperplasia. It is a selective alpha-1A receptor antagonist which relaxes smooth muscles at the prostate and the urethra. Urinary resistance is consequently decreased and thus symptoms associated with benign prostatic hyperplasia are alleviated. This condition is frequently observed in ageing men and its symptoms significantly reduce quality of life. Benign prostatic hyperplasia is increasing in frequency due to the progressive ageing of the population. Recordati obtained a license from the Japanese pharmaceutical company Kissei at the end of 2004 for the development and marketing of silodosin in all European countries and some countries outside Europe. During 2005 the final clinical development phase was entered and will involve 100 experimental centres in 12 different countries.

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

Pitavastatin is a statin, a class of drugs which is widely used for the treatment of hypercholesterolemia. This compound, which is already on the market in Japan, was developed by the Japanese pharmaceutical company Kowa. It is Kowa's intention to start the phase III development of the drug also in Europe. Pitavastatin has a high capacity for reducing both the cholesterol fraction associated with high cardiovascular risk (LDL) as well as triglyceride levels, and at the same time increasing the "protective" fraction of cholesterol (HDL). Recordati has rights covering the sale of the drug in Italy where, as in the rest of the industrialized world, hypercholesterolemia is quite a common condition and, ever more frequently, guidelines issued by competent authorities recommend adequate treatment in order to reduce morbidity and mortality resulting from cardiovascular events. Statins represent one of the most significant contributions to cardiovascular therapy.

Recordati's original research is primarily focused on the search for treatments which address micturition disorders. These disorders, the incidence of which is increasing in the industrialized world, are only in part treated pharmacologically and therefore opportunities exist for the development of effective and well tolerated drugs. Over forty years of research have enabled Recordati to acquire specific know-how in this field. In recent years our research has moved towards the study of the central nervous system mechanisms that control the function of the bladder and new targets for novel drugs were identified, one of which is the 5-HT1A serotoninergic receptor. The first candidate to be developed as an antagonist of the 5-HT1A receptor is REC 0545. Experimental models have shown

that this compound acts centrally increasing bladder volume capacity without blunting bladder contractility, or its emptying capability, differently from currently used treatments. During 2005 patients were enrolled in the proof of concept clinical trials. Furthermore, another molecule was identified as a possible alternative to REC 0545. In addition to the approach that led to the discovery of REC 0545, two other potential biological targets for new drugs to treat these disorders were identified and currently new candidates for further development are being synthesized.

Recordati's know-how in the urogenital field of research led to the synthesis of yet another novel molecule that could be useful to treat female sexual dysfunction. Recordati has in fact identified a new drug candidate, REC 2615, which has entered its proof of concept clinical phase.

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

The search for new collaboration agreements with other pharmaceutical companies is also directed at further enhancing local product portfolios. In Spain the rights to market and sell Yoduk® (potassium iodide) were acquired from the pharmaceutical company Stada. Yoduk® is indicated in situations of iodine deficiency and it was launched in March. Yoduk® is the first product in the Spanish market which contains potassium iodide as a single component. The Spanish Ministry of Health and various scientific societies, mainly those dedicated to obstetrics, neonatology, and endocrinology, are conducting awareness campaigns directed at health professionals and the public to promote the full understanding of iodine deficiency disorders.

In October an agreement was signed with the French pharmaceutical group Ipsen under which Recordati obtained exclusive rights until 2012 for the marketing and sales in France of Tenstaten®(cicletanine), a diuretic indicated for the treatment of hypertension, thus expanding its offering in this therapeutic area.

THE ARRIGO RECORDATI INTERNATIONAL PRIZE FOR SCIENTIFIC RESEARCH

The 2005 edition of the Arrigo Recordati International Prize for Scientific Research, a prize awarded for lifetime achievement in the advancement of scientific knowledge in the field of cardiovascular disease, was dedicated to Sudden Cardiac Death which is the leading cause of mortality in the Western world for men aged 20 to 65 years old, but also affects infants and adolescents. Every year, 325,000 people in Europe and 400,000 in the United States die suddenly even though apparently healthy.

The Prize was awarded to Leonard A. Cobb, MD, Hemeritus Professor, American College of Cardiology, Seattle WA, USA; Peter J. Schwartz, MD, Professor and Chairman, Department of Cardiology, Policlinico San Matteo IRCCS, Pavia, Italy and Hein J.J. Wellens, MD, Honoré Retired Professor, University of Maastricht; Director of Arrhythmology, Interventional Electrophysiology and Cardiology, University of Maastricht, Maastricht, The Netherlands. Professor Camm, on behalf of the Jury, stated the following motivation: "The Recordati Prize recognizes the outstanding contribution made by Leonard A, Cobb, Peter J. Schwartz and Hein J.J. Wellens to scientific discovery and clinical innovation in the field of Sudden Cardiac Death". The Jury's decision to divide the 2005 edition of the Prize between the three scientists was meant as a recognition for the outstanding value of their research in basic arrhythmogenic mechanisms and the improvement of both prevention and active therapy, both in Europe and in the United States.

The Jury comprised three world-renowned experts in the fields of cardiology and Sudden Cardiac Death and was chaired by A. John Camm, Professor of Clinical Cardiology, Chairman of the Division of Cardiac and Vascular Sciences, St. George's Hospital Medical School, London University, London, UK. The other two Members were Kim M. Fox, Professor of Clinical Cardiology Imperial College, Director of Cardiology Royal Brompton Hospital and President-Elect European Society of Cardiology, London, U.K. and Michael R. Rosen, Gustavus A. Pfeiffer Professor of Pharmacology, Professor of Pediatrics, Director, Center for Molecular Therapeutics Columbia University College of Physicians and Surgeons, New York, NY, USA.

The award ceremony took place in Stockholm during the European Society of Cardiology 2005 Congress.

The theme chosen for the 2007 edition of the Prize is "Ischaemic cardiomyopathy, including interventional cardiology".

REVIEW OF OPERATIONS

ZANIDIP® (LERCANIDIPINE) SALES UP 23.4%. REVENUE FROM PHARMACEUTICALS UP 22.5%. SALE OF TWO PHARMACHEMICAL PLANTS

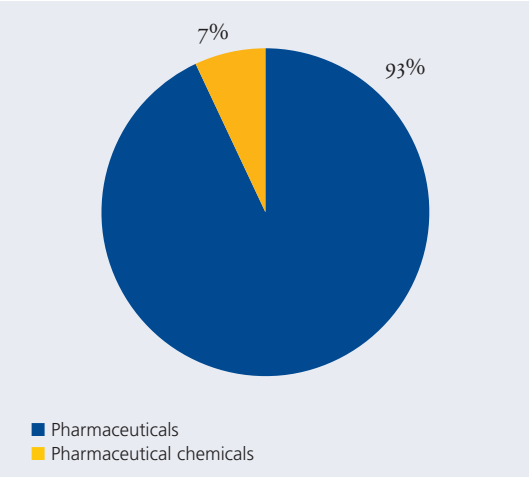
"The growth of our pharmaceutical business has led to brilliant financial results for the year with revenues and profitability growing by more than 20%."

€ (thousands)	2005	2004	Change 2005/2004	%
Italy	217,351	213,541	3,810	1.8
France	126,410	106,733	19,677	18.4
Germany	54,343	-	54,343	n.a.
Spain	34,787	26,313	8,474	32.2
United Kingdom	5,056	-	5,056	n.a.
International licensees	99,498	85,384	14,114	16.5
Sophartex	-	6,905	(6,905)	(100.0)
Total pharmaceutical revenue	537,445	438,876	98,569	22.5
Pharmaceutical chemical revenue	38,635	40,285	(1,650)	(4.1)
Total Revenue	**576,080**	**479,161**	**96,919**	**20.2**

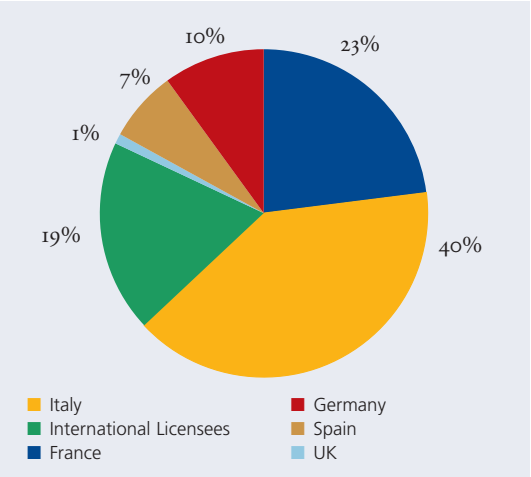
Both years include sales as well as income from up-front payments, royalties and miscellaneous items.

Revenue from pharmaceuticals is up 22.5%. On a like-for-like basis, that is excluding Merckle Recordati and Sophartex, which was sold in April 2004, revenues increased by 11.8% due to the strong increase in sales volumes (+16.5%) in all areas. Revenue from pharmaceutical chemicals generated by the Campoverde plant represents 6.7% of total revenues and is down by 4.1%. Revenues from the plants in Opera (Milan) and Murcia (Spain), both of which have been sold, are recognized as discontinued operations in both years and are excluded from the above analysis.

REVENUE BY BUSINESS



PHARMACEUTICAL REVENUE



ZANIDIP® (LERCANIDIPINE)

Zanidip® (lercanidipine), a calcium channel blocker entirely discovered and developed by Recordati, continued to perform well in 2005 and has become a success both in the countries where it is sold directly to the market by our own marketing organizations as well as in the countries where it is sold through licensees. In most countries its market share has increased in part due to the growth of the 20mg strength.

In 2005 lercanidipine sales increased by 23.4% and accounted for 24.6% of total sales and 26.3% of pharmaceutical sales. Its sales breakdown is shown in the following table:

LERCANIDIPINE SALES

€ (thousands)	2005	2004	Change 2005/2004	%
Italy	43,626	39,491	4,135	10.5
France *	30,001	23,361	6,640	28.4
Spain	5,976	4,944	1,032	20.9
United Kingdom	5,056	-	5,056	n.a.
Direct sales	84,659	67,796	16,863	24.9
Sales to licensees	56,909	46,913	9,996	21.3
Total lercanidipine sales	**141,568**	**114,709**	**26,859**	**23.4**

** Includes export sales of € 1.1 million in 2005 and € 0.4 million in 2004*

Sales of Zanedip® and Lercadip®, the two brands of lercanidipine sold by Recordati in Italy, are € 43.6 million, up 10.5% despite the price reduction imposed as from the beginning of 2005 and the mandatory 6.8% discount applied across the board as from June 2004. The substantial increase in sales volumes is an indication of the widespread appreciation by physicians of the drug. Lercanidipine achieved an 12.1% share of the Italian calcium channel blocker market during the last quarter of 2005.

Lercanidipine is marketed in France by Bouchara Recordati and Pierre Fabre. Our product is very successful in this market and has reached a market share of 18.5% in the fourth quarter 2005, which is one of the best growth trends of all the countries where it is being sold. Sales of Zanidip® by Bouchara Recordati are € 30.0 million, an increase of 28.4% over the preceding year.

In Spain Zanidip® recorded sales of € 6.0 million, up 20.9% over 2004 due to the improving performance of the 20mg dosage form. Together with the brands sold by licensees Uriach and Rottapharm, lercanidipine attained a 7.1% share of the Spanish calcium channel blocker market in the fourth quarter 2005.

As from July 2005 lercanidipine is sold directly to the market by Recordati also in the United Kingdom following the repurchase of rights from ex licensee Napp. Direct sales in this country were € 5.1 million.

Lercanidipine is also marketed in a further 78 countries. In Germany, the largest European pharmaceutical market, lercanidipine is widely used for the treatment of hypertension as demonstrated by its market share which reached 17.7% in the fourth quarter 2005. Growth trends continued also in other European countries where market shares improved throughout the year. In Australia lercanidipine has already attained a 16.1% market share. Another interesting market is South Korea where lercanidipine has a share of 10.2%. These results testify to the quality of our product which is becoming one of the most frequently prescribed calcium channel blockers in the markets where it is present.

Overall, sales to licensees in 2005 are € 56.9 million, up 21.3% over the preceding year.

Pharmaceuticals, Italy

€ (thousands)	2005	2004	Change 2005/2004	%
Prescription pharmaceuticals [a]	197,797	195,455	2,342	1.2
Self-medication pharmaceuticals [b]	19,554	18,086	1,468	8.1
Pharmaceuticals, Italy	**217,351**	**213,541**	**3,810**	**1.8**

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

Sales in Italy of prescription drugs (including lercanidipine) in 2005 are € 197.8 million, up 1.2% over 2004. The market for prescription drugs in Italy, excluding hospital sales, decreased by 0.9%. Our increase in sales was obtained thanks to volume growth which more than offset the negative price effect resulting from the 6.8% discount imposed as from June 2004 through to the end of October 2005 on the sale of specialties reimbursed by the national healthcare scheme and additional price cuts on selected products.

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

€ (thousands)	Therapeutic area	2005	2004	Change 2005/2004	%
Elopram®/Entact®	Depression	49,612	50,971	(1,359)	(2.7)
Zanedip®/Lercadip®	Hypertension	43,626	39,491	4,135	10.5
Peptazol®	Gastroenterology	27,672	23,546	4,126	17.5
Tora-Dol®	Analgesia	18,684	19,544	(860)	(4.4)
Isocef®	Anti-infective	13,351	13,605	(254)	(1.9)
Octegra®	Anti-infective	7,589	6,779	810	11.9

The cardiovascular therapeutic area accounts for 29.7% of prescription pharmaceutical sales and is still the largest in our portfolio thanks mainly to the continuing success of lercanidipine. Sales of Nitrocor®, a nitroglycerin transdermal patch for the treatment of angina, were € 5.0 million, in line with those recorded in 2004. Rextat® (lovastatin), indicated for the treatment of hypercolesterolaemia, was launched in the last quarter and generated sales of € 1.4 million.

In the CNS (Central Nervous System) area (25.8% of sales), the 2005 combined sales of Elopram® (citalopram) and Entact® (escitalopram), both SSRI antidepressants, are in line with those recorded in 2004. Entact®, the new drug which is highly specific and selective and has an excellent tolerability profile, is performing well and has increased sales by more than 30%. Sales of Elopram®, on the other hand, are decreasing due to competition from generic versions which resulted in a progressive price reduction as from July 2004.

Regarding the anti-infective area (15.1% of sales) sales of Isocef® (ceftibuten) are substantially in line with those realized in 2004 while Octegra® (moxifloxacine), an antibacterial fluorquinolone, grows by 12%.

In the gastroenterological area (14.0% of sales), Peptazol® (pantoprazole), a proton pump inhibitor for the treatment of ulcers, grew by 17.5% and increased its share of the proton pump inhibitor market, one of the largest drug classes in the Italian pharmaceutical market.

Within the analgesia/anti-inflammatory therapeutic area (11.3% of sales), Tora-Dol® (ketorolac) maintains its position as the market leader in its class. At the end of 2005 the trademark and marketing authorization for this drug in Italy were acquired from the licensee Roche.

Sales of self-medication products in 2005 are € 19.6 million, up 8.1% over the preceding year, within a market that grew by 3.7%. Sales of Imidazyl®, Proctolyn® and Localyn®, the main products in our portfolio, further increased during the year. Sales of Alovex™, for the treatment of oral cavity aphthas, are up 21.7% to € 2.7 million, consolidating its position as a reference product for this condition. Eumill®, single dose eye drops, recorded increased sales and, together with Imidazyl®, reinforces Recordati's leadership in the eye drops market.

During 2005 the application of measures aimed at curbing public pharmaceutical spending continued. The mandatory discount of 6.8% on the sale of specialties reimbursed by the national healthcare scheme which was introduced in June 2004 remained in place until the end of October 2005. Furthermore, the Italian pharmaceuticals agency (AIFA) revised the national list of reimbursable drugs with the aim to recover the 2004 expenditure which exceeded the established budget for public pharmaceutical spending. The prices of those products whose sales grew during the first half 2004 more than the market average (8.6%) were selectively reduced. Some Recordati products were impacted.

For 2006 the Italian pharmaceuticals agency (AIFA), after having reinstated the prices as at December 2004 of those products whose prices had been selectively reduced, imposed an across-the-board price reduction of 4.4% for reimbursed products as well as a mandatory discount to be applied by the pharmaceutical manufacturers of 1% with the aim to recover the 2005 expenditure which exceeded the established budget.

Pharmaceuticals, France

In 2005 revenue realized in France by Bouchara Recordati is € 126.4 million, an increase of 18.4% over the preceding year within a market which grew by 6.1%.

The following table shows sales of the main products:

€ (thousands)	Therapeutic area	2005	2004	Change 2005/2004	%
Zanidip®	Hypertension	28,949	22,994	5,955	25.9
Hexa line	Respiratory	20,428	15,246	5,182	34.0
Exomuc®	Respiratory	13,052	11,714	1,338	11.4
Abufene®	Gynecology	8,666	8,407	259	3.1

Within the French product portfolio the respiratory therapeutic area is still the largest and accounts for 33.0% of total sales. Sales of the Hexa line of products and Exomuc® grew by 34.0% and 11.4% respectively in part due to the particularly severe flu season in the first quarter.

The cardiovascular area has become significant thanks to the growth of Zanidip® and Epinitril®, a nitroglycerin transdermal patch for the treatment of angina, which generated sales of € 4.4 million, up 21.0% over 2004. This therapeutic area will become even more important in 2006 following the relaunch in January of Tenstaten® (cicletanine), a diuretic indicated for the treatment of hypertension under license from Ipsen.

Abufene®, a drug indicated for the treatment of menopausal symptoms, consolidated its position in the market reaching sales of € 8.7 million, a slight increase over 2004.

During 2005 no cost containment measures were enacted in France affecting our operations. However, on 1 March 2006 the expected revision of the list of reimbursed products which will exclude entire product classes will be implemented. Our Hexa line of products and Exomuc® will be impacted by this measure. Self-medication will be the new reference market for these products within which our well known brands and the possibility of free pricing are expected to partially offset the loss in sales volumes.

Pharmaceuticals, Germany

Sales generated by our new subsidiary Merckle Recordati are € 54.3 million, in line with the preceding year, and account for 10.1% of group pharmaceutical sales. Its main products are performing well: Claversal® (mesalazine), indicated for the treatment of ulcerative colitis, recorded sales of € 16.7 million, up over the preceding year due in part to the launch of a new micropellets formulation; Suplasyn® (hyaluronic acid) used for treating osteoarthrosis of the joints, generated sales of € 9.6 million, in line with those of 2004.

During 2006 in Germany the application of reference prices for drug reimbursement, which in some cases apply to whole classes of drugs with no distinction between patented and generic compounds, will continue to be enacted in order to curb public healthcare spending. We expect this mechanism to be extended also to calcium channel blockers.

Pharmaceuticals, Spain

Revenues in Spain in 2005 by Recordati España were € 34.8million, up 32.2% over the preceding year. In 2005 the Spanish pharmaceutical market grew by 5.7%.

The following table shows sales of the main products:

€ (thousands)	Therapeutic area	2005	2004	Change 2005/2004	%
Ulcotenal®	Gastroenterology	15,216	15,085	131	0.9
Cidine®	Gastroenterology	9,257	1,247	8,280	n.a.
Zanidip®	Hypertension	5,976	4,944	1,032	20.9
Dermatrans®	Cardiovascular	1,793	1,644	149	9.1
Alergoliber®	Respiratory	1,432	1,159	273	23.6

Ulcotenal® (pantoprazole), an anti-ulcer of the proton pump inhibitor class, recorded sales of € 15.2 million, an increase of 0.9% over the preceding year. Cidine® (cinitapride), a drug for the treatment of chronic dyspepsia which was relaunched at the end of 2004, represented an important growth factor during 2005 realizing sales of € 9.5 million. Sales of Zanidip® were € 6.0 million, up 20.9%. Dermatrans®, a nitroglycerin transdermal patch for the treatment of angina, generated sales of € 1.8 million. Alergoliber® (rupatadine), an antihistamine under license from Uriach, was launched at the beginning of 2004 and recorded sales of € 1.4 million.

In 2005, in application of a new strategic plan for pharmaceutical policy, a mandatory payback system was introduced which requires companies to pay back a progressive percentage of their prescription sales under the national health system each year. This measure affected our business in Spain by 2.2% Furthermore, effective 1 February 2005, a 4.2% price cut was imposed (products subject to reference pricing and those on the market for less than one year are excluded). A further cut of 2% was imposed as from 1 February 2006.

Pharmaceuticals, United Kingdom

During 2005 a subsidiary was established in the United Kingdom, Recordati Pharmaceuticals, and at the same time an agreement was reached with the former licensee Napp Pharmaceuticals to buy back the sales and marketing rights of Zanidip® (lercanidipine), Recordati's original antihypertensive calcium channel blocker. In 2005 direct sales of Zanidip® in the British market are € 5.1 million.

International Licensees

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

€ (thousands)	2005	2004	Change 2005/2004	%
Lercanidipine	54,859	45,224	9,635	21.3
Flavoxate	6,405	6,999	(594)	(8.5)
Fenticonazole	5,352	5,771	(419)	(7.3)
Bouchara Recordati (foreign sales)	29,616	24,582	5,034	20.5
Other income	3,266	2,808	458	16.3
International Licensees	**99,498**	**85,384**	**14,114**	**16.5**

Sales of lercanidipine to international licensees increased by 21.3%. Sales of flavoxate, an antispasmodic for the treatment of urinary incontinence, are gradually decreasing as this product has reached maturity. Sales of fenticonazole, an antimycotic for dermatological and gynecological use, are substantially in line with the preceding year except for those in some Latin American countries.

Sales outside France by our French subsidiary Bouchara Recordati grew by 20.5% due to good sales performance in the main markets.

Other income includes mainly royalties and up-front payments.

Pharmaceutical Chemicals

€ (thousands)	2005	%	2004	%	Change 2005/2004	%
Italy	3,930	10.2	3,500	8.8	430	12.3
Europe (Italy excluded)	12,753	33.0	16,012	39.7	(3,259)	(20.4)
North America	11,395	29.4	12,627	31.3	(1,232)	(9.8)
Far East	2,613	6.8	3,851	9.6	(1,238)	(32.1)
Rest of the world	7,944	20.6	4,295	10.6	3,649	85.0
International Licensees	**38,635**	**100.0**	**40,285**	**100.0**	**(1,650)**	**(4.1)**

Sales shown above refer exclusively to the production of the Campoverde d'Aprilia (Latina, Italy) plant and are down by 4.1% attributable to lower volumes due both to a slowdown in purchases by some important customers who are reducing stocks as well as to the effect of our ongoing business reorganization program aimed at focusing production and sales to only a selection of active ingredients.

Sales generated by the Opera (Milan, Italy) and Beniel (Murcia, Spain) plants are stated under discontinued operations.

FINANCIAL REVIEW

Income Statement

As required by IAS/IFRS, revenues and costs related to the discontinued plants in Murcia and Opera have been reclassified and recognized on a single line in the income statement defined "discontinued operations". The 2004 income statement has been restated to incorporate the changes consequent to the application of the new accounting standards which became effective on 1 January 2005 regarding the cost of stock option plans, the valuation of the staff leaving indemnities provision and the elimination of the non operating income/expense line.

The following table shows the profit and loss accounts, including their expression as a percent of sales and change versus 2004:

€ (thousands)	2005	%	2004*	%	Change 2005/2004	%
Revenue	**576.080**	**100.0**	**479,161**	**100.0**	**96,919**	**20.2**
Cost of sales	(200,623)	(34.8)	(170,423)	(35.6)	(30,200)	17.7
Gross profit	**375,457**	**65.2**	**308,738**	**64.4**	**66,719**	**21.6**
Selling expenses	(192,342)	(33.4)	(156,448)	(32.7)	(35,894)	22.9
R&D expenses	(44,959)	(7.8)	(37,286)	(7.8)	(7,673)	20.6
G&A expenses	(25,301)	(4.4)	(21,806)	(4.6)	(3,495)	16.0
Other income (expense), net	(1,725)	(0.3)	(1,578)	(0.3)	(147)	9.3
Operating income (before goodwill amortization)	111,130	19.3	91,620	19.1	19,510	21.3
Amortization of goodwill	-	-	(3,454)	(0.7)	3,454	(100.0)
Operating income	**111,130**	**19.3**	**88,166**	**18.4**	**22,964**	**26.0**
Financial income (expense), net	(4,132)	(0.7)	(5,895)	(1.2)	1,763	(29.9)
Other investments gain (loss), net	0	0.0	5,880	1.2	(5,880)	(100.0)
Pretax income	**106,998**	**18.6**	**88,151**	**18.4**	**18,847**	**21.4**
Provision for income taxes	(38,435)	(6.7)	(33,269)	(6.9)	(5,166)	15.5
Net income from continuing operations	**68,563**	**11.9**	**54,882**	**11.5**	**13,681**	**24.9**
Discontinued operations	(4,020)		(1,752)		(2,268)	129.5
Net income	**64,543**	**n.s.**	**53,130**	**n.s.**	**11,413**	**21.5**

** Restated for comparison purposes following introduction of new IAS/IFRS and discontinued operations*

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

Change as % of revenue	Volume Effect	Price Effect	Currency Effect	Total change
Pharmaceuticals (like-for-like)	16.5	(4.8)	0.1	11.8
Merckle Recordati	100.0			100.0
Sophartex	(100.0)			(100.0)
Pharmaceutical chemicals	(1.3)	(2.9)	0.1	(4.1)
Total change	24.6	(4.5)	0.1	20.2

The volume growth of pharmaceuticals (+16.5%) continues to drive the increase in sales. The negative price effect was mainly due to cost containment measures in Italy and in Spain and to the price reduction of Elopram® to maintain sales in the face of generic competition. The decision to rationalize the pharmaceutical chemicals product portfolio determined the 4.1% decrease of these sales.

International revenues went from € 262.1 million to € 354.8 million, an increase of 35.4% following the European expansion of the pharmaceutical business. International sales represent 61.6% of total revenue. Their breakdown by geographic area is shown in the table below:

€ (thousands)	2005	%	2004	%
Europe (Italy included)	290,541	81.9	203,182	77.5
North America	11,395	3.2	12,879	4.9
Far East	21,667	6.1	20,699	7.9
Rest of the world	31,196	8.8	25,360	9.7
Total international revenue	**354,799**	**100.0**	**262,120**	**100.0**

Gross profit is € 375.5 million with a margin of 65.2% on sales, an improvement over that of last year thanks to the increased weight of pharmaceutical sales, a favorable product mix and the disposal of Sophartex which had lower gross margins.

Selling expenses increased by 22.9% mainly due to the consolidation of the new German subsidiary whose operating costs are principally incurred by marketing and sales.

R&D expenses, at € 45.0 million, increased by 20.6% as a consequence of the new development activities undertaken. During 2005 the pan-European development of silodosin entered phase III clinicals and the clinical and pre-clinical studies related to our original research programs continued. R&D expenses include up-front payments relating to license agreements of € 2.2 million which were incurred mainly in the last quarter.

G&A expenses are € 25.3 million and, at 4.4%, show a slight improvement over the preceding year.

Other income/expense includes income of € 0.3 million and provisions of € 1.6 million for the Campoverde plant restructuring program and € 0.4 million to cover potential risks related to the presumed liability of Recordati pursuant to decree-law 231/2001.

As prescribed by IFRS 3, as of 2005 goodwill is subject to periodic impairment testing and is no longer amortized. At 31 December 2005 no loss of value emerged.

Net financial charges are € 4.1 million, down as compared to the preceding year. Both 2005 and 2004 figures include the interest cost arising from the valuation of the staff leaving indemnities provision.

Gains from other investments in 2004 refer to those realized on the sale of the office building in Paris, the property in Campoverde di Aprilia and in Rome, and on the sale of Polfa Kutno shares.

Net income from continuing operations went from € 54.9 million to € 68.6 million, an increase of 24.9% and an 11.9% margin on sales.

Discontinued operations in 2005 generated a loss of € 4.0 million which includes the result of operations during the year and the write-down of the book value of the Murcia plant, for approximately € 3 million, to bring it in line with the selling price realized in January 2006.

Group net income is € 64.5 million, an increase of 21.5% over 2004.

Financial Position

During 2005 important investments were made with the aim of expanding our European presence and enhancing our product portfolio.

Merckle GmbH's branded pharmaceutical business was acquired for a total price of € 62.5 million. The transaction was concluded in February and € 45.0 million were paid at closing.

A further € 53.5 million were invested in intangible assets, the most important of which were:

- the repurchase of our sales and marketing rights to Zanidip® (lercanidipine) in the United Kingdom from former licensee Napp Pharmaceuticals for the equivalent of € 21.4 million;
- the acquisition of marketing rights to Tenstaten® in France for € 11.7 million;
- the acquisition from our licensor Roche of the trademarks and marketing rights of Tora-Dol®, Naprosyn®, Synflex® and Gynestrel® for an amount of € 10.5 million.

An amount of € 10.1 million was invested in property, plant and equipment, less than the average capital expenditure in previous periods mainly due to the scaling down of the pharmaceutical chemicals business.

Net working capital for operations at 31 December 2005 is € 66.2 million and is thus comprised:

€ (thousands)	31.12.2005	% of Revenue	31.12.2004	% of Revenue*	Change 2005/2004	%
Trade receivables, net	111,924	19.4	99,862	20.8	12,062	12.1
Inventories	68,621	11.9	61,566	12.8	7,055	11.5
Other current assets	26,099	4.5	14,605	3.0	11,494	78.7
Current assets	**206,644**	**35.8**	**176,033**	**36.7**	**30,611**	**17.4**
Trade payables	90,095	15.6	77,166	16.1	12,929	16.8
Tax payable	9,780	1.7	22,344	4.7	(12,564)	(56.2)
Other current liabilities	40,569	7.0	31,783	6.6	8,786	27.6
Current liabilities	**140,444**	**24.4**	**131,293**	**27.4**	**9,151**	**7.0**
Net working capital for operations	**66,200**	**11.5**	**44,740**	**9.3**	**21,460**	48.0
Days of sales outstading	68		75			
Inventories as % of cost of sales	34.2%		34.3%			

** Restated for comparison purposes*

Net working capital increase of € 21.5 million can be attributed to the increase in business volumes and to the lower taxes payable which were particularly high at year end 2004.

Despite the investments make during the year the net financial position at 31 December 2005 remained positive by € 26.2 million.

€ (thousands)	31.12.2005	31.12.2004	Change 2005/2004	%
Cash and short-term financial investments	162,756	232,229	(69,473)	(29.9)
Bank overdrafts	(5,991)	(3,478)	(2,513)	72.3
Loans – due within one year	(22,718)	(25,166)	2,448	(9.7)
Net liquid assets	**134,047**	**203,585**	**(69,538)**	**(34.2)**
Loans – due after one year (1)	(107,883)	(131,448)	23,565	(17.9)
Net financial position	**26,164**	**72,137**	**(45,973)**	**(63.7)**

(1) *Does not include change in fair value (fair value hedge)*

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

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 Financial Statements at and for the year ended 31 December 2005

The consolidated Financial Statements are presented in accordance with IAS (International Accounting Standards) and IFRS (International Financial reporting Standards)
Further information is provided in the Notes to the Consolidated Financial Statements

RECORDATI S.P.A. AND SUBSIDIARIES
CONSOLIDATED INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2005

INCOME STATEMENT

€ (thousands)	Note	2005	2004	
Revenue	3	**576.080**	**479,161**	*
Cost of sales	4	(200,623)	(170,423)	*
Gross profit		**375,457**	**308,738**	
Selling expenses	4	(192,342)	(156,448)	*
Research & Development expenses	4	(44,959)	(37,286)	*
General & Administrative expenses	4	(25,301)	(21,806)	*
Other income (expense), net	4	(1,725)	(1,578)	*
Operating income (before goodwill amortization)		**111,130**	**91,620**	
Amortization of goodwill	4	0	(3,454)	
Operating income		**111,130**	**88,166**	
Financial income (expense), net	5	(4,132)	(5,895)	*
Other investments gain (loss), net	6	0	5,880	*
Pretax income		**106,998**	**88,151**	
Provision for income taxes	7	(38,435)	(33,269)	*
Net income from continuing operations		**68,563**	**54,882**	
Discontinued operations	8	(4,020)	(1,752)	
Minority interest		0	0	
Net income		**64,543**	**53,130**	
Earnings per share from continuing operations				
Basic		€ 0.346	€ 0.279	
Diluted (1)		€ 0.333	€ 0.269	
Earnings per share from continuing and discontinued operations				
Basic		€ 0.326	€ 0.270	
Diluted (1)		€ 0.314	€ 0.260	

* *Restated following the introduction of new IAS/IFRS.*
(1) *Diluted earnings per share is calculated taking into account new shares authorized but not yet issued.*

As from 18 April 2005 each share outstanding was replaced by four new shares as resolved by the Extraordinary Shareholders' Meeting held on 6 April 2005.

Earnings per share (EPS) are based on average shares outstanding during each year, 198,050,942 in 2005 and 196,487,926 in 2004, net of average treasury stock which amounted to 4,798,664 shares for both years. These values are calculated for comparison purposes as if the stock split had taken effect on 1 January, 2004.

RECORDATI S.P.A. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEET AT 31 DECEMBER 2005

ASSETS

€ (thousands)	Note	31.12.2005	31.12.2004
Non-current assets			
Property, plant and equipment	9	62,747	78,577
Intangible assets	10	88,650	26,566
Goodwill	11	94,568	45,775
Other investments	12	911	905
Other non-current assets	13	1,253	1,911
Deferred tax assets	14	15,062	16,946
Total non-current assets		**263,191**	**170,680**
Current assets			
Inventories	15	68,621	61,566
Trade receivables	16	111,924	99,862
Other receivables	17	24,030	13,055
Other current assets	18	2,069	1,550
Fair value of hedging derivatives (fair value hedge)	23	2,174	0
Short-term financial investments	19	34,999	0
Cash and cash equivalents	19	127,757	232,229
Total current assets		**371,574**	**408,262**
Non-current assets held for sale	20	**12,634**	**0**
Total assets		**647,399**	**578,942**

RECORDATI S.P.A. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEET AT 31 DECEMBER 2005

EQUITY AND LIABILITIES

€ (thousands)	Note	31.12.2005	31.12.2004
Shareholders' equity			
Share capital		25,631	25,219
Additional paid-in capital		67,664	52,882
Treasury stock		(20,410)	(20,410)
Hedging reserve (cash flow hedge)		(3,158)	(3,185)
Translation reserve		1,824	(421)
Other reserves		23,485	23,023 *
Retained earnings		165,118	132,931 *
Net income for the year		64,543	53,130 *
Group shareholders' equity	21	**324,697**	**263,169**
Minority interest	22	0	0
Shareholders' equity		**324,697**	**263,169**
Non-current liabilities			
Loans – due after one year	23	110,057	128,346
Staff leaving indemnities	24	22,821	20,320 *
Deferred tax liabilities	25	6,273	883 *
Other non-current liabilities	26	11,240	0
Total non-current liabilities		**150,391**	**149,549**
Current liabilities			
Trade payables	27	90,095	77,166
Other payables	28	33,151	24,248
Tax liabilities	29	9,780	22,344
Other current liabilities		481	1,711
Provisions	30	6,937	5,824
Fair value of hedging derivatives (cash flow hedge)	31	3,158	3,185
Fair value of hedging derivatives (fair value hedge)	23	0	3,102
Loans – due within one year	23	22,718	25,166
Bank overdrafts	32	5,991	3,478
Total current liabilities		**172,311**	**166,224**
Total equity and liabilities		**647,399**	**578,942**

** Restated following the introduction of new IAS/IFRS.*

RECORDATI S.P.A. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2004 AND 31 DECEMBER 2005

€ (thousands)	Share capital	Additional paid-in capital	Treasury stock	Hedging reserve	Translation reserve	Other Riserves	Retained earnings	Net income for the year	Total
Balance at 31 December, 2003	**25,122**	**50,442**	**(20,410)**	**(2,289)***	**681**	**22,514***	**127,576***	**23,747**	**227,383**
Allocation of 2003 net income:									
- Allocation to reserves							85	(85)	
- Dividends distributed								(18,392)	(18,392)
- Retained earnings							5,270	(5,270)	
Increase in share capital	97	2,440							2,537
Net income for the period								53,130*	53,130
Changes in fair value of hedging derivatives				(896)*					(896)
Application of new IAS/IFRS						509*			509
Translation Adjustment					(1,102)				(1,102)
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 distributed								(21,665)	(21,665)
- Retained earnings							31,465	(31,465)	
Increase in share capital	412	14,782							15,194
Net income for the period								64,543	64,543
Changes in fair value of hedging derivatives				27					27
Application of new IAS/IFRS						462	722		1,184
Translation Adjustment					2,245				2,245
Balance at 31 December 2005	**25,631**	**67,664**	**(20,410)**	**(3,158)**	**1,824**	**23,485**	**165,118**	**64,543**	**324,697**

** Restated following the introduction of new IAS/IFRS.*

RECORDATI S.P.A. AND SUBSIDIARIES
CONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2005

€ (thousands)	2005	2004
Operating activities		
Cash flow		
Net Income	64,543	53,130 *
Depreciation of property, plant and equipment	12,751	12,000
Amortization of intangible assets	9,307	9,141
Write-down of assets (1)	2,423	1,821
Total cash flow	**89,024**	**76,092**
(Increase)/decrease in deferred tax assets	2,978	4,772
Staff leaving indemnities - provision	3,733	4,509
Staff leaving indemnities - payment	(2,612)	(6,277) *
Increase/(decrease) in other non-current liabilities	11,700	(8,467) *
	104,823	70,629
Changes in working capital		
Trade and other receivables	(21,860)	13,018
Inventories	(3,698)	(5,996)
Other current assets	(519)	(962)
Trade and other payables	17,991	5,832
Tax liabilities	(13,302)	11,586
Other current liabilities	(1,230)	152
Provisions	856	402
Changes in working capital	**(21,762)**	**24,032**
Net cash from operating activities	**83,061**	**94,661**
Investing activities		
Net (investments)/disposals in property, plant and equipment	(9,977)	1,365
Net (investments)/disposals in intangible assets	(53,342)	(6,397)
Net (increase)/decrease in equity investments	(63,325) ***	0
Net (increase)/decrease in other equity investments	(6)	0
Net (increase)/decrease in other non-current assets	658	172
Net cash used in investing activities	**(125,992)**	**(4,860)**
Financing activities		
New medium and long-term loans raised	16	81,711
Share capital increase	412	97
Additional paid-in capital increase	14,782	2,440
Effect of application of new IAS/IFRS	1,184	2,234 *
Transfer of current portion of medium and long-term debt to current liabilities	(23,581)	(25,051)
Changes in current portion of medium and long-term debt	(2,448)	(1,942)
Dividends paid	(21,665)	(18,392)
Proceeds on sale of Sophartex	-	17,873 ****
Change in translation reserve	2,245	(1,102)
Net cash from/(used in) financing activities	**(29,055)**	**57,868**
Changes in short-term financial position	**(71,986)**	**147,669**
Short-term financial position at beginning of year **	228,751	81,082
Short-term financial position at end of period **	156,765	228,751

(1) *Includes the extraordinary write-down of pharmaceutical chemicals inventories*

* *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 (48,793), Deferred tax assets (1,094), Deferred tax liabilities 5,695 and Provisions & other liabilities 615*

**** *Sale of Sophartex: Working capital 1,862, Property, plant, equipment and intangible assets 7,303, Goodwill 10,189, Deferred tax assets 1,036, Provisions (1,957) and Loans (560)*

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005

1. General

The consolidated financial statements at 31 December 2005 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. Merckle Recordati GmbH, 100% owned by Recordati España S.L., is consolidated with effect as from 1 January 2005. The acquisition of Merckle Recordati was recognized in the accounts in accordance with IFRS 3 and its effect is disclosed in the comments to each balance sheet account. The consolidation perimeter also includes the newly constituted subsidiaries Recordati Pharmaceuticals Ltd. (UK) and Recordati Hellas Pharmaceuticals S.A. (Greece).

During the year the biochemical plant in Opera (Milan, Italy) was sold and the sale of the chemical synthesis plant in Beniel (Murcia, Spain) was decided. As prescribed by IFRS 5 the results of these discontinued operations are presented as a single amount in the income statement and the assets of the Spanish plant, at fair value, are classified as non-current assets held for sale.

During the last quarter of the year the dormant company Vectorpharma International Corporation was liquidated.

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

2. Summary of Significant Accounting Policies

The financial statements have been prepared in accordance with International Accounting Standards and International Financial Reporting Standards (IAS/IFRS). The Company is not a first-time adopter of these standards as IAS/IFRS were already applied in the preparation of the financial statements in preceding years. The consolidated accounts at 31 December 2004 in particular were subject to a full audit and include the difference between consolidated shareholders' equity and net income determined according to Italian GAAP and that determined according to IAS/IFRS. In the preparation of the consolidated financial statements at 31 December 2005 the new IAS/IFRS which apply to the financial statements for the annual period beginning on 1 January 2005 have also been adopted, and in particular:

- IAS 1 (revised Dec 2003) *"Presentation of Financial Statements"*

As per this standard no items of income and expense are to be presented as extraordinary items. Accordingly, the line "Non-operating income (expense), net" has been eliminated from the income statement and the amounts stated therein for the 2004 accounting period have been reclassified to the respective revenue or expense lines by function (IAS 8 – retrospective application of changes in accounting policies).

- IFRS 2 *"Share-based Payment"*
The transitional provisions for this standard require that it be retrospectively applied to share options granted after 7 November 2002 and not yet vested at the effective date of this IFRS. Therefore, the cost of stock options granted and not yet vested was calculated and recognized in staff costs for the portion pertaining to 2005. In addition, the 2004 comparative period was restated to include the portion of stock option cost pertaining to that year.

- IFRS 3 *"Business Combinations"*
This IFRS applies to the accounting for business combinations agreed on or after 31 March 2004 and prescribes that goodwill acquired be tested for impairment on an annual basis and not amortized. This IFRS is to be applied prospectively, from the beginning of the first annual period beginning on or after 31 March 2004, to goodwill acquired in a business combination agreed before 31 March 2004. Accordingly, as from 1 January 2005 the amortization of previously recognized goodwill was discontinued and the accounting for business combinations agreed during 2005 was done as prescribed by the new rules.

- IFRS 5 *"Non-current Assets Held for Sale and Discontinued Operations"*
This standard prescribes that the carrying amount of assets and liabilities, the sale of which is considered highly probable, be measured to fair value and classified, net of selling costs, as 'Non-current assets held for sale' and presented separately on the face of the balance sheet. The sum of the post-tax profit or loss and the post-tax gain or loss recognized on the measurement to fair value of these discontinuing operations, which should represent a separate major line of business or geographical area, as well as the result of operations already discontinued, should be presented separately as a single amount on the face of the income statement. These results are also presented separately on the comparative income statement of the preceding period.

The financial statements of the consolidated companies, prepared by the Board of Directors or the Sole Directors for submission to the respective Shareholders' meetings, have been reclassified and adjusted as required in accordance with International Accounting Standards and International Financial Reporting Standards (IAS/IFRS). The criteria applied is consistent with that of the consolidated financial statements at 31 December 2004.

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

The principal accounting policies adopted are set out below.

BASIS OF CONSOLIDATION

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

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

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

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

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

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

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

Translation differences arising from this process are booked to equity.

BALANCE SHEET

Property, plant and equipment - Property, plant and equipment is stated at purchase cost less accumulated depreciation and any recognized impairment loss. Reviews are performed annually or when events or situations occur which indicate that the carrying amount of the assets can no longer be recovered (see paragraph on *Impairment)*. Depreciation is computed on a straight-line basis using rates which are held to be representative of the estimated useful life of the assets:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

the maturity amount. The effective interest method is a method of calculating the amortised cost of a financial asset or liability and of allocating the interest income or expense over the relevant period.

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

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

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

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

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

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

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

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

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

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

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

Foreign currencies - Transactions in currencies other than the Euro are initially recorded at the rates of exchange prevailing on the dates of the transactions. Monetary assets and liabilities denominated

in such currencies are retranslated at the rates prevailing on the balance sheet date. Profits and losses arising on exchange are included in net profit or loss for the period.

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

INCOME STATEMENT

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

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

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

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

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

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

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

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

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

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

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

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

RECORDATI S.P.A. AND SUBSIDIARIES
SUBSIDIARIES INCLUDED IN THE CONSOLIDATED ACCOUNTS AT 31 DECEMBER 2005

ATTACHMENT 1.

	PERCENTAGE OF OWNERSHIP					
Subsidiary	Recordati S.p.A. *(parent)*	Innova Pharma S.p.A.	Recordati S.A.	Bouchara-Recordati S.a.s.	Recordati España S.L.	Total
RECOFARMA S.R.L., *Italy* *Sales of pharmaceutical chemicals*	100.00%					100.00%
INNOVA PHARMA S.P.A., *Italy* *Marketing and sales of pharmaceuticals*	100.00%					100.00%
RECORDATI ESPAÑA S.L., *Spain* *Development, production, marketing and sales of pharmaceuticals and pharmaceutical chemicals*	90.70%		9.30%			100.00%
VECTORPHARMA INTERNATIONAL CORPORATION****,*USA* *Dormant*		100.00%				100.00%
RECORDATI S.A. CHEMICAL AND PHARMACEUTICAL COMPANY, *Luxembourg* *Holding company*	100.00%					100.00%
BOUCHARA RECORDATI S.A.S., *France* *Development, production, marketing and sales of pharmaceuticals*	99.94%		0.06%			100.00%
RECORDATI PORTUGUESA LDA, *Portugal* *Marketing and sales of pharmaceuticals*	98.00%		2.00%			100.00%
FARMARECORD LTDA., *Brazil* *Dormant, holds pharmaceutical marketing rights in Brazil*			100.00%			100.00%
RECORDATI CORPORATION, *U.S.A.* *Sales Agent for pharmaceutical chemicals*			100.00%			100.00%
SOPHARTEX S.A.*, *France* *Manufacturing of pharmaceutical dosage forms*				100.00%		100.00%
RECORDATI IRELAND LTD., *Ireland* *Development, production, marketing and sales of pharmaceuticals*			100.00%			100.00%
RECORDATI S.A., *Switzerland* *Marketing and sales of pharmaceuticals and pharmaceutical chemicals*			100.00%			100.00%
LABORATOIRES BOUCHARA RECORDATI S.A.S., *France* *Development, production, marketing and sales of pharmaceuticals*				100.00%		100.00%
MERCKLE RECORDATI GMHH.**, *Germany* *Marketing and sales of pharmaceuticals*					100.00%	100.00%
RECORDATI PHARMACEUTICALS LTD.***, *U.K.* *Marketing and sales of pharmaceuticals*	3.33%		96.67%			100.00%
RECORDATI HELLAS PHARMACEUTICALS S.A.***, *Greece,* *Marketing and sales of pharmaceuticals*	15.83%		84.17%			100.00%

* *Sold in April 2004*
** *Acquired during the period*
*** *Established during the period*
**** *Liquidated during the period*

3. Revenue

Net revenue for the years 2005 and 2004 is € 576.1 million and € 479.2 million respectively and can be broken down as follows:

€ (thousands)	2005	2004*	Change 2005/2004
Net sales	567,068	474,725	92,343
Royalties	1,330	853	477
Up-front payments	2,472	1,616	856
Other revenue	5,210	1,967	3,243
Total revenue	**576,080**	**479,161**	**96,919**

** Restated for comparison purposes*

The revenues produced by operations discontinued during the period are not included in either year and are € 7.0 million in 2005 and € 9.1 million in 2004. These amounts, net of costs incurred, are presented in the income statement on a separate line under "discontinued operations".

4. Operating Expenses

Total operating expenses for the years 2005 and 2004 are € 464.9 million and € 390.9 million respectively and are analyzed by function as follows:

€ (thousands)	2005	2004*	Change 2005/2004
Cost of sales	200,623	170,423	30,200
Selling expenses	192,342	156,448	35,894
Research and development expenses	44,959	37,286	7,673
General and administrative expenses	25,301	21,806	3,495
Other income (expense), net	1,725	1,578	147
Goodwill amortization	-	3,454	(3,454)
Total operating expenses	**464,950**	**390,995**	**73,955**

** Restated for comparison purposes*

In accordance with the new accounting and reporting standards which are effective as from the annual period beginning 1 January 2005, the 2004 results have been restated. Changes are as follows:

- in accordance with IAS 1 (revised) the accrued portion of profits that the French companies share with their employees (participation au résultat) which was € 1.9 million and other expense (net of other income) of € 2.7 million previously stated in the line "Non-operating income (expense), net" have been reclassified to the respective revenue or expense lines by function;
- in accordance with IFRS 2 the cost of stock option plans for an amount of € 0.7 million was booked;
- in accordance with IFRS 5 costs and expenses for an amount of € 11.5 million incurred by discontinued operations were classified separately.

As from the 2005 financial statements the staff leaving indemnities provision on the Italian companies' balance sheets is measured as prescribed by IAS 19. This method of recognition involved a € 0.7 million reduction in operating costs and a € 0.9 million increase in financial costs in 2004.

Labor cost in 2005 is € 145.8 million, an increase of 14.8% compared to 2004 while labor cost increase per employee was 8.4%. Changes mainly derive from the consolidation of the new subsidiary Merckle Recordati. Labor cost includes a provision of € 2.4 million in respect of staff leaving indemnities for the Italian companies measured in accordance with IAS 19.

Personnel and other human resources data at 31 December 2005 and 2004 are shown in the following table:

	2005	2004
Employees at year-end	**1,946**	**1,796**
Average age	42	42
Average service (years)	8.3	8.7
Labor cost increase (decrease):		
Total	14.8%	(5.2)%
Per employee [(a)]	8.4%	11.2%
Labor productivity:		
Labor cost on net sales	25.0%	26.0%
Sales per employee (€ thousands) [(a)]	304.0	269.6
Value added per employee (€ thousands) [(a)]	143.5	131.7

Labor cost includes wages, related charges and additional costs.
(a) *Data per employee for both years are computed on the average number of personnel, 1,918 in 2005 and 1,811 in 2004.*

Depreciation and amortization charges recognized in continuing operations are € 21.1 million. Depreciation of property, plant and equipment is € 11.8 million, in line with the 2004 charges, while amortization of intangibles went from € 5.7 million in 2004 to € 9.3 million in 2005 as a result of the substantial investments made during the year.

5. Financial Income and Expense

In 2005 and 2004 financial items recorded a net expense of € 4.1 million and € 5.9 million respectively which are comprised as follows:

€ (thousands)	2005	2004*	Change 2005/2004
Exchange gains (losses)	233	(424)	657
Interest expense on loans	(5,892)	(4,531)	(1,361)
Net interest on short-term financial position	2,347	750	1,597
Interest cost in respect of defined benefit plans	(826)	(899)	73
Net gains (losses) on valuation of securities	6	(791)	797
Change in fair value of hedging derivatives	5,276	(3,102)	8,378
Change in fair value of hedged item	(5,276)	3,102	(8,378)
Total financial income (expense), net	**(4,132)**	**(5,895)**	**1,763**

** Restated for comparison purposes*

Net financial expenses decreased compared to the preceding year as the increase in interest expense on loans, due to the interest on the long term senior unsecured notes privately placed during 2004, was more than offset by the increase in interest income generated by the short term investment of liquidity.

The interest cost in respect of defined benefit plans was generated by the measurement of the staff leaving indemnities provision in accordance with IAS 19.

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. Gain or Loss on other Investments

The gain on other investments during 2004 is related to the capital gain arising from the sale of the office building in Paris, the property in Campoverde di Aprilia and in Rome and on the sale of Polfa Kutno shares.

7. Provision for Income Taxes

The 2005 provision for taxes on income of continuing operations amounts to € 38.4 million and includes income taxes levied on all consolidated companies as well as the Italian regional tax on production activities (IRAP) which is levied on all Italian companies.

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

€ (thousands)	2005 %	2004 %
Standard income tax rate on pretax income	33.0	33.0
Effect of asset revaluation	0.1	(0.1)
Tax incentives in Italy to increase R&D spending	0.0	(0.8)
Dividends from foreign subsidiaries	0.2	0.2
Consolidation effect of foreign subsidiaries	(4.8)	(4.1)
Other differences, net	3.5	3.6
Effective tax rate on income	32.0	31.8
IRAP	5.3	6.0
Effective tax rate, including IRAP	**37.3**	**37.8**

IRAP tax accounted for 5.3% of pretax income as this tax is computed applying a 4.25% rate to a broader taxable base which includes labor cost, interest and certain extraordinary items.

8. 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 2005 result are disclosed.

€ (thousands)	Opera	Murcia	Vectorpharma International	Total
Revenue	0	7,002	0	7,002
Expenses	(186)	(7,703)	(423)	(8,312)
Pretax income	**(186)**	**(701)**	**(423)**	**(1,310)**
Provision for income taxes	71	(18)	0	53
Loss recognized on measurement to fair value	0	(2,763)	0	(2,763)
Related income tax expense	0	0	0	0
Discontinued operations	**(115)**	**(3,482)**	**(423)**	**(4,020)**

The Opera (Milan, Italy) plant was sold in 2005 while the plant in Murcia (Spain) was sold in January 2006. The Murcia assets held for sale at 31 December 2005 were measured at fair value by applying the selling price which was subsequently realized less costs to sell.

9. Property, Plant and Equipment

Property, plant and equipment is recorded at historical purchase or construction cost and, net of accumulated depreciation, amounts to € 62.7 million and € 78.6 million at 31 December 2005 and 2004 respectively. The composition and variation of property, plant and equipment are shown in the following table:

€ (thousands)	Land & buildings	Plant & machinery	Other equipment	Advances/ construction in progress	Total
Cost					
Balance at 31.12.04	41,507	128,935	29,991	16,810	217,243
Additions	1,380	3,277	1,241	4,187	10,085
Disposals	(683)	(373)	(1,087)	(80)	(2,223)
Changes in reporting entities	0	0	1,331	0	1,331
Other changes	1,319	17,421	709	(19,439)	10
Classification to non-current assets held for sale	(4,819)	(12,538)	(3,822)	(271)	(21,450)
Balance at 31.12.05	**38,704**	**136,722**	**28,363**	**1,207**	**204,996**
Accumulated depreciation					
Balance at 31.12.04	19,154	97,208	22,304	0	138,666
Additions	1,678	8,425	2,648	0	12,751
Disposals	(686)	(370)	(1,049)	0	(2,105)
Changes in reporting entities	0	0	1,003	0	1,003
Classification to non-current assets held for sale	(571)	(6,592)	(903)	0	(8,066)
Balance at 31.12.05	**19,575**	**98,671**	**24,003**	**0**	**142,249**
Carrying amount at					
31 December 2005	19,129	38,051	4,360	1,207	62,747
31 December 2004	22,353	31,727	7,687	16,810	78,577

The land and buildings located in Milan, Italy having a carrying amount of € 4.6 million have been pledged to secure loans granted by IMI.

The carrying amount of the Group's land and buildings includes an amount of € 1.7 million (€ 1.9 million in 2004) in respect of assets held under finance leases.

The additions of € 10.1 million in 2005 are below the average investments in previous years mainly due to the rationalization of the pharmaceutical chemicals business. They refer mainly to investments in the Milan pharmaceutical plant and headquarters building of € 3.1 million, to the completion of the production site in County Cork by Recordati Ireland for an amount of € 2.8 million and to various minor investments in the production facilities at the Campoverde di Aprilia plant for € 2.0 million.

Changes in reporting entities arise from the consolidation of the new subsidiary Merckle Recordati following the acquisition in Germany.

The depreciation charges of € 12.8 million include € 1.0 million in relation to the Murcia plant.

10. Intangible Assets

Intangible assets, net of accumulated amortization, at 31 December 2005 and 2004 amount to € 88.7 million and € 26.6 million respectively. Their composition and variation are shown in the following table:

€ (thousands)	Patent rights and marketing authorizations	Distribution, license, trademark and similar rights	Other	Advance payments	Total
Cost					
Balance at 31.12.04	23,986	35,826	15,594	1,475	76,881
Additions	14,716	11,577	427	26,783	53,503
Disposals	(223)	(451)	(680)	0	(1,354)
Changes in reporting entities	19,199	62	0	35	19,296
Other changes	(3)	183	(118)	(95)	(33)
Balance at 31.12.05	**57,675**	**47,197**	**15,223**	**28,198**	**148,293**
Accumulated amortization					
Balance at 31.12.04	20,326	18,537	11,452	0	50,315
Additions	4,420	3,339	1,548	0	9,307
Disposals	(86)	(450)	(681)	0	(1,217)
Changes in reporting entities	1,153	54	0	0	1,207
Other changes	(4)	(3)	38	0	31
Balance at 31.12.05	**25,809**	**21,477**	**12,357**	**0**	**59,643**
Carrying amount at					
31 December 2005	**31,866**	**25,720**	**2,866**	**28,198**	**88,650**
31 December 2004	3,660	17,289	4,142	1,475	26,566

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

The additions in 2005 of € 53.5 million are primarily related to:
- the repurchase of marketing rights to Zanidip® (lercanidipine) in the United Kingdom from Napp Pharmaceuticals for an amount in pounds sterling equivalent to € 21.4 million;
- the acquisition of marketing rights to Tenstaten® in France for € 11.7 million;
- the acquisition from our licensor Roche of the trademarks and marketing rights of Tora-Dol®, Naprosyn®, Synflex® and Gynestrel® for an amount of € 10.5 million.

The changes in reporting entities are due mainly to the allocation of a fair value of € 18.1 million to the Merckle brands acquired in Germany which are estimated to have a useful life of 10 years.

Amortization for the period is € 9.3 million, more than that for 2004 due to the substantial investments made.

11. Goodwill

Goodwill, net of accumulated amortization, at 31 December 2005 and 2004 amounts to € 94.6 million and € 45.8 million respectively and changed as follows:

€ (thousands)	Goodwill
Cost	
Balance at 31.12.04	83,439
Changes in reporting entities	48,793
Balance at 31.12.05	**132,232**
Accumulated amortization	
Balance at 31.12.04	37,664
Changes in reporting entities	0
Balance at 31.12.05	**37,664**
Carrying amount at	
31 December 2005	**94,568**
31 December 2004	45,775

The increase of € 48.8 million is to be attributed entirely to the excess of the cost of the acquisition in Germany after recognition of the net fair value of the identifiable assets, liabilities and contingent liabilities. In compliance with IFRS 3, as from 2005 goodwill is no longer amortized. Instead, it shall be tested, at least annually, for impairment. At 31 December 2005 no loss in the value of goodwill on the balance sheet was identified.

The € 94.6 million residual goodwill at 31 December 2005 is related to the following equity investments:
- € 13.4 million related to the acquisition of Doms-Adrian;
- € 32.4 million related to the Bouchara group of companies;
- € 48.8 million related to Merckle Recordati.

12. Other Investments

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

€ (thousands)	Value at 31 December		Percentage of Equity Owned	
	2005	2004	2005	2004
Technogen Associates L.P., U.S.A.	449	449	n.s.	n.s.
Maxygen Inc., U.S.A.	176	218	n.s.	n.s.
Tecnofarmaci S.p.A., Pomezia (Rome)	87	87	4.2%	4.2%
Consorzio C4T, Pomezia (Rome)	78	78	2.3%	2.3%
Alavita Inc.(formerly SurroMed Inc.,U.S.A.)	63	63	n.s.	n.s.
Confarma S.p.A., Novara	8	8	3.1%	3.1%
Quantum Dot Corp., U.S.A.	48	-	n.s.	-
DAFNE, Reggello (Florence)	2	2	2.5%	2.5%
Total equity investments	**911**	**905**		

The holding in Maxygen Inc. (27,816 shares) was written-down to reflect its fair value. The holding in Quantum Dot Corp. comprises 8,159 shares awarded by the investment company Technogen Associates.

13. Other Non-Current Assets

Receivables included in non-current assets at 31 December 2005 are € 1.3 million, slightly down on the preceding year-end, and comprise primarily advance payments of taxes due by employees on their leaving indemnity made by the Italian companies, according to Italian law.

14. Deferred Tax Assets

Deferred tax assets at 31 December 2005 and 2004 amount to € 15.1 million and € 16.9 million respectively, a decrease of € 1.8 million. The main deferred tax assets and their change in 2005 are analyzed below.

€ (thousands)	2005	2004
Balance at 1 January	16,946	22,754
Additions	7,887	2,089
Utilization	(10,865)	(6,861)
Changes in reporting entities	1,094	(1,036)
Balance at 31 December	**15,062**	**16,946**

€ (thousands)	Write-down chemicals business	Asset revaluation reversed	Tax losses	Write-down equity investments	Profit and loss temporary differences	Other	Total
Balance at 31.12.2004	4,873	3,917	700	3,874	1,538	2,044	16,946
Additions	0	4,020	0	0	1,631	2,236	7,887
Utilization	(4,812)	(2,726)	0	(1,293)	(1,643)	(391)	(10,865)
Changes in reporting entities	0	0	0	0	1,094	0	1,094
Balance at 31.12.2005	**61**	**5,211**	**700**	**2,581**	**2,620**	**3,889**	**15,062**

The utilization of the deferred tax assets generated by the write-down of the pharmaceutical chemicals business followed the sale of the Opera plant which was written-down in 2003.

The deferred tax assets arising from the revaluation of assets, subsequently reversed in the consolidated financial statements, increase by € 4.0 million following the revaluation in 2005 of certain intangible assets on the Recordati S.p.A. balance sheet as allowed under Italian law. The tax benefit resulting from this asset revaluation will be realized in the period from 2008 to 2014. Due to the uncertainty associated with a period this long, the tax assets were calculated using a prudent approach and taking into consideration the probability that the benefit be realized, in line with the group's policy in relation to the recognition of deferred taxes. The calculation of the tax benefit over the full period and applying the current tax rate would have generated tax assets of € 8.5 million.

Other tax loss carry-forwards which may generate deferred tax assets refer to subsidiaries for which their recovery is uncertain.

15. Inventories

Inventories at 31 December 2005 and 2004 amount respectively to € 68.6 million and € 61.6 million, net of an obsolescence provision of € 0.9 million and € 4.7 million respectively. The reduction of the latter provision was due to the sale of the Opera plant. Composition of inventories is as follows:

€ (thousands)	31.12.2005	31.12.2004	Change 2005/2004
Raw materials and supplies	17,278	17,275	3
Intermediates and work-in-process	18,337	16,147	2,190
Finished goods	33,006	28,144	4,862
Total inventories	**68,621**	**61,566**	**7,055**

Inventories increased as compared to the preceding year mainly due to the consolidation of Merckle Recordati, which accounted for € 5.3 million, and to the increase in sales volumes. The balance at 31 December 2005 does not include inventories at the Murcia chemicals plant which are stated under non-current assets held for sale.

16. Trade Receivables

Trade accounts receivable at 31 December 2005 and 2004 amount to € 111.9 million and € 99.9 million respectively. These are shown net of the allowance for doubtful accounts which at 31 December 2005 is € 6.4 million (€ 5.9 million at 31 December 2003) and is considered to be sufficient to cover potential losses on collection. Average days sales outstanding decreased from 75 to 68. The acquisition of Merckle Recordati accounted for an increase in trade receivables of € 1.0 million.

17. Other Receivables

Other receivables amount to € 24.0 million (€ 13.1 million at 31 December 2004) and their breakdown is as follows:

€ (thousands)	31.12.2005	31.12.2004	Change 2005/2004
Tax receivable	11,016	3,432	7,584
Balances due from employees and agents	7,550	3,019	4,531
Other	5,464	6,604	(1,140)
Total other receivables	**24,030**	**13,055**	**10,975**

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

The acquisition of Merckle Recordati accounted for an increase of € 0.2 million.

18. Other Current Assets

At 31 December 2005 other current assets amount to € 2.1 million (€ 1.6 million at 31 December 2004) and relate mainly to prepaid expenses.

19. Short Term Financial Investments, Cash and Cash Equivalents

A breakdown is shown in the following table.

€ (thousands)	31.12.005	31.12.2004	Change 2005/2004
Short term investments	34,999	0	34,999
Deposits in bank current accounts	49,698	51,756	(2,058)
Short term time deposits	78,044	180,458	(102,414)
Cash on hand	15	15	0
Total short term investments, cash and cash equivalents	**162,756**	**232,229**	**(69,473)**

Short term financial investments are investments in insurance policies with guaranteed capital and minimum return which can be liquidated as from one year from their subscription, which took place in 2005. Short term time deposits have maturities of one month or less and are remunerated at current market interest rates. The substantial decrease is due to the funding of investments in non-current assets during the period.

At 31 December 2005 cash and cash equivalents are denominated mainly in Euro (€ 143.4 million) and held for the most part by the parent Recordati S.p.A. (€ 99.7 million) and the subsidiary Recordati Ireland Ltd. (€ 17.8 million). Cash deposits in U.S. dollars amount to US$ 21.7 million and are held mostly by Recordati Corporation.

20. Non-current Assets Held for Sale

The following table analyzes the assets of the Murcia plant which are held for sale and have been classified separately and measured at their expected selling price less cost to sell.

€ (thousands)	31.12.2005
Property, plant and equipment	10,961
Intangible assets	40
Inventories	1,973
Liability for cost to sell	(340)
Total non-current assets held for sale	**12,634**

Property, plant and equipment are stated net of the € 2.4 million write-down arising from their measurement at fair value.

21. Shareholder's Equity

Share capital – At 31 December 2005 the issued and fully paid share capital consists of 205,049,256 ordinary shares with a par value of € 0.125 each for a total of € 25,631,157.00. On 6 April 2005 the Extraordinary Shareholders Meeting resolved a 4:1 stock split. Each share outstanding, par value € 0.50, was replaced by 4 new shares, par value € 0.125 each.

During 2005 share capital increased by € 411,762.50 following the issue of 3,294,100 new ordinary shares, of which 427,000 at a price of € 3,575 each, 537,000 at a price of € 3,6775 each, 412,500 at a price of € 4.055 each, 951,000 at a price of € 5.18 each and 966,600 at a price of € 5.27 each, to company managers who exercised stock options under the 2001-2003 and 2003-2007 stock option plans.

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

Stock options outstanding at 31 December 2005 are analyzed in the following table.

	Strike price (€)	Options outstanding at 1.1.2005	Options execised during 2005	Options cancelled or expired	Options outstanding at 31.12.2005
Date of grant:					
13 November 2001	5.2700	1,792,000	(966,600)	(338,000)	487,400
30 October 2002	5.1800	1,888,000	(951,000)	(310,000)	627,000
14 May 2003	3.6775	1,666,500	(537,000)	(269,500)	860,000
7 April 2004	3.5750	1,844,000	(427,000)	(73,500)	1,343,500
27 October 2004	4.0550	1,914,000	(412,500)	(49,000)	1,452,500
Total		**9,104,500**	**(3,294,100)**	**(1,040,000)**	**4,770,400**

The share capital increase in relation to options outstanding has already been authorized.

As from 1 January 2005 stock option plans are measured and recognized as prescribed by IFRS 2.

Additional paid-in capital – During 2005 additional paid-in capital increased from € 52,881,909.58 to € 67,664,339.08 following the issue of 3,294,100 new shares for a total price in excess of par value of € 14,782,429.50.

Treasury stock – At 31 December 2005, 4,798,664 shares were held as treasury stock for a total cost of € 20.4 million. Of these, 3,955,520 shares were purchased on the market during 2002 for an amount of € 17.5 million and 843,144 were purchased during 2003 for an amount of € 2.9 million, as authorized by the Shareholders' Meeting held on 16 September 2002.

Hedging reserve – In accordance with IAS 39 the € 3.2 million liability arising from the measurement at fair value at 31 December 2005 of interest rate swaps qualifying as a cash flow hedge is recognized directly in equity as a hedging reserve.

Other reserves – These amount to € 23.5 million at 31 December 2005 and include the statutory reserve of the parent company in the amount of € 5.2 million, reserves from revaluations and grants for a total of € 15.5 million, and reserves arising from the application of IFRS 2 and IFRS 19 of € 1.3 million and € 1.5 million respectively. For comparison purposes, in relation to the application of these two standards, other reserves at 31 December 2004 are increased by € 2.4 million.

Retained earnings and net income for the year – These amount to € 165.1 million at 31 December 2005 and increased by € 32.2 million as compared to 31 December 2004. Net income for the year is € 64.5 million, an increase of 21.5% over the € 53.1 million 2004 net income.
Shareholders' Equity includes untaxed reserves of € 19.2 million. In addition, a total of € 48.2 million untaxed reserves are recorded on the balance sheets of Recordati S.p.A. and Innova Pharma S.p.A. which relate to the revaluation of fixed assets according to Italian law, and which are reversed in the consolidated financial statements. In accordance with IAS 12 deferred taxes are not recognized on these reserves until their distribution is resolved.

22. Minority Interest

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

23. Loans

At 31 December 2005 and 2004, medium and long-term loans included:

€ (thousands)	31.12.2005	31.12.2004
Loans granted to Recordati S.p.A.:		
Istituto Bancario San Paolo IMI loans, guaranteed by mortgages on the Milan and Campoverde plants, at an average annual interest rate of 0.99% repayable in semi-annual installments through 2010	4,636	5,902
Research loans granted by Istituto Bancario San Paolo IMI, at an average annual interest rate of 2.61%, repayable in semi-annual installments through 2009	3,173	5,375
Loans granted by the Ministry of Industry and Commerce repayable in annual installments through 2013, at an annual interest rate of 3.30% during the amortization period (2004-2013) and at 0.825% before that	995	1,102
Banca Intesa loans for financial investments at variable interest rates, converted into a fixed annual interest rate of 5.915% by IRS, repayable in semi-annual installments through 2007	10,329	15,494
Banca Popolare di Milano, loans for financial investments at an annual interest rate of 3.98%, repayable in semi-annual installments through 2006	1,500	4,500
Loans granted to other Group companies:		
Loan granted by Banca Intesa to Recordati España S.L. at variable interest rate, converted into a fixed annual interest rate of 4.85% by IRS, repayable in quarterly installments through 2008	3,005	4,207
Various loans granted to Recordati España S.L. at an average annual interest rate of 2.47%	3,201	4,322
Loan granted by Banca Intesa to Bouchara-Recordati S.a.s. at variable interest rate, converted into a fixed annual interest rate of 5.99% by IRS, repayable in semi-annual installments through 2007	4,128	6,192
Loan granted by Banca Popolare di Milano to Bouchara Recordati S.a.s. at variable interest rate, converted into a fixed annual interest rate of 6.0% by IRS, repayable in semi-annual installments through 2007	4,128	6,192
Loan granted by Banca Unicredito Italiano to Bouchara Recordati S.a.s. at variable interest rate, converted into a fixed annual interest rate of 6.01% by IRS, repayable in semi-annual installments through 2007	8,260	12,390
Loan granted by Istituto S. Paolo IMI to Bouchara Recordati S.a.s. at variable interest rate, converted into a fixed annual interest rate of 6.0% by IRS, repayable in semi-annual installments through 2007	6,196	9,294
Various loans granted to Bouchara-Recordati S.a.s. at an average annual interest rate of 4.26%	948	1,580
Guaranteed senior notes issued by Recordati S.A. (Luxembourg) privately placed with international institutional investors:		
€ 15 million at a fixed interest rate of 4.52% due 2011		
$ 40 million at a fixed interest rate of 5.50% due 2014		
€ 26 million at a fixed interest rate of 5.02% due 2014		
£ 5 million at a fixed interest rate of 6.09% due 2014	* 80,102	* 80,064
	130,601	**156,614**
Less: Current portion	(22,718)	(25,166)
Total amortized cost of loans	107,883	131,448
Change in the fair value of loans	2,174	(3,102)
Total	**110,057**	**128,346**

** Net of direct issue costs of € 0.5 million amortized using the effective interest method.*

The average effective interest rate at 31 December 2005, applying the rates resulting from the interest rate swaps, is 4.13%.

At 31 December 2005, the repayment schedule of long-term debt due after 2006 is as follows:

€ (thousands)	
2007	20,299
2008	2,917
2009	2,158
2010	1,538
2011 and subsequent years	80,971
Total	**107,883**

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. The measurement at fair value of the cross-currency interest rate swap generated an asset of € 2.2 million, an amount equivalent to the increase in the fair value of the underlying debt. This amount is recognized in the balance sheet as an increase of debt and under current assets 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.

The total amount of the notes was simultaneously covered with a further interest rate swap, qualifying as a cash flow hedge, to fix a range (modified in 2005 to between 2.1% and 4.8%) within which the interest rate can fluctuate in order to optimize the cost of financing for the duration of the notes. The fair value of the cash flow hedge is recognized directly in equity and stated as a current liability.

Medium and long-term loans at variable interest rates for a total of € 36.0 million are hedged with interest rate swaps (which qualify as a cash flow hedge) in order to entirely eliminate any interest rate fluctuation risk. The fair value of the cash flow hedge is recognized directly in equity and stated as a current liability. The derivative instruments and the hedged items are linked and the Group does not intend to terminate or modify one independently from the other.

24. Staff Leaving Indemnities

This provision at 31 December 2005 and 2004 is € 22.8 million and € 20.3 million respectively and reflects the Group's obligation towards its employees as determined in accordance with IAS 19. The roll forward of this fund is as follows:

€ (thousands)	2005	2004*
Balance at 1 January	20,320	21,471
Additions	3,733	3,834
Utilization	(2,612)	(3,028)
Deconsolidation of Sophartex	-	(1,957)
Consolidation of Merckle Recordati	1,380	-
Balance at 31 December	**22,821**	**20,320**

** Restated for comparison purposes*

The main part of this liability is to be attributed to the staff leaving indemnity fund (*TFR, trattamento fine rapporto*) in the Italian companies. The valuation of this fund at 31 December 2005 in accordance with IAS 19 generated a liability of € 18.7 million and a reduction of € 2.6 million of the balance at 1 January 2004. This latter amount, after tax, is recognized directly in equity. The remaining part of this provision comprises employee benefit plans in the French and German subsidiaries of € 2.6 million and € 1.5 million respectively.

25. Deferred Tax Liabilities

Deferred tax liabilities at 31 December 2005 and 2004 were € 6.3 million and € 0.9 million respectively, and changed as follows:

€ (thousands)	2005	2004*
Balance at 1 January	883	6,563
Additions	570	155
Utilization	(875)	(2,990)
Disposal of leased property	0	(2,845)
Consolidation of Merckle Recordati	5,695	-
Balance at 31 December	**6,273**	**883**

** Restated for comparison purposes*

The increase in deferred tax liabilities is mainly due to the deferred taxes arising from the allocation of part of the cost of the Merckle Recordati acquisition to intangible assets which is not recognized for tax purposes.

The balance at 1 January 2004 has been restated to include the effect of the adoption of IAS 19 which determined a deferred tax charge of € 0.7 million.

At 31 December 2005 no deferred tax liabilities exist in relation to subsidiaries' undistributed earnings because no additional tax must be paid by the Group in the event of these dividend distributions thanks to the exemption from dual income taxation.

26. Other Liabilities (included in non-current liabilities)

These include the balance of € 11.7 million due for the acquisition of Merckle Recordati to be paid in two installments, in 2007 and in 2008, net of € 0.5 million arising from the calculation of the present value of the amount as required by IAS/IFRS.

27. Trade Payables

Trade accounts payable, which are entirely of a business nature and include allocations for invoices to be received, at 31 December 2005 and 2004 amount to € 90.1 million and € 77.2 million respectively. The consolidation of Merckle Recordati determined an increase of € 2.1 million.

28. Other Payables

Other accounts payable at 31 December 2005 and 2004 amount to € 33.1 million and € 24.2 million respectively. Their composition is as follows:

€ (thousands)	31.12.2005	31.12.2004	Change 2005/2004
Personnel	14,542	12,277	2,265
Social security	8,861	7,603	1,258
Agents	390	839	(449)
Other	9,358	3,529	5,829
Total other payables	**33,151**	**24,248**	**8,903**

Other payables increased by € 8.9 million mainly due to the first installment (€ 5.8 million), to be paid at the beginning of 2006, on the amount outstanding for the acquisition of Merckle Recordati. The consolidation of Merckle Recordati accounted for € 2.1 million.

29. Tax Liabilities

Tax liabilities at 31 December 2005 and 2004 amount to € 9.8 million and € 22.3 million respectively and include tax provisions computed by the companies on the basis of estimated taxable income, net of tax advances already paid, and withholding taxes payable.

The substantial reduction is due mainly to the payment of taxes due by the French companies in relation to the extraordinary operations carried out in 2004. The consolidation of Merckle Recordati accounted for € 0.7 million.

30. Provisions

Tax and other provisions are included as follows:

€ (thousands)	31.12.2005	31.12.2004	Change 2005/2004
Tax	436	1,432	(996)
Other	6,501	4,392	2,109
Total provisions	**6,937**	**5,824**	**1,113**

The tax provision decreased mainly due to the payment made by Bouchara Recordati against the provision made in 2004 following a tax assessment at the subsidiary.

Other provisions include amounts set aside for future contingencies which are uncertain as to timing and value. The increase is mainly due to provisions of € 1.6 million for the Campoverde plant restructuring program and € 0.4 million to cover potential risks related to the presumed liability of Recordati pursuant to decree-law 231/2001.

The consolidation of Merckle Recordati determined an increase of € 0.3 million.

Changes in provisions are as follows:

€ (thousands)	2005	2004
Balance at 1 January	5,824	5,564
Additions	3,443	2,165
Utilization	(2,587)	(1,763)
Consolidation of Merckle Recordati	257	(142)
Balance at 31 December	**6,937**	**5,824**

31. Fair Value of Hedging Derivatives

The interest rate swaps covering the cash flows related to medium and long-term loans measured at fair value at 31 December 2005 give rise to a € 3.2 million liability which represents the unrealized benefit of paying the current expected future rates instead of the rates agreed.

Of this liability € 0.6 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 € 2.6 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.

32. Bank Overdrafts

Bank overdrafts at 31 December 2005 and 2004 amount to € 6.0 million and € 3.5 million respectively and consist of overdraft facilities in Euro and foreign currency mostly in the parent company as part of its policy for the hedging of foreign currency trade receivables.

33. Acquisition of Subsidiary

The effect of the acquisition of Merckle GmbH, already included in each single note, is analyzed hereunder.

€ (thousands)	Carrying value assets & liabilities acquired	Adjustments to fair value	Fair value
Property, plant and equipment	328	0	328
Intangible assets	6,773	11,316	18,089
Goodwill	0	0	0
Deferred tax assets	0	1,094	1,094
Inventories	5,330	0	5,330
Trade receivables	1,034	0	1,034
Other receivables	143	0	143
Staff leaving indemnities	(1,270)	(110)	(1,380)
Deferred tax liabilities	0	(5,695)	(5,695)
Other liabilities (included in non-current liabilities)	0	765	765
Trade payables	(2,109)	0	(2,109)
Taxes payable	(738)	0	(738)
Other payables	(2,207)	135	(2,072)
Provisions	(257)	0	(257)
			14,532
Goodwill			48,793
Purchase price			**63,325**

34. Fair Value of Financial Instruments

€ (thousands)	Carrying value	Fair value
Financial assets		
Short-term financial investments	34,999	34,999
Cash and cash equivalents	127,757	127,757
Hedging derivatives *(fair value hedge)*	2,174	2,174
Trade receivables	99,862	99,862
Equity investments	911	911
Other receivables	24,030	24,030
Financial liabilities		
Borrowings		
- loans covered with fixed interest rate swaps	82,276	82,276
- loans at fixed interest rates	13,505	12,085
- loans at variable interest rates	36,994	36,994
Trade payables	90,435	90,435
Other payables	42,931	42,931
Hedging derivatives *(cash flow hedge)*	3,158	3,158
Bank overdrafts	5,991	5,991

35. 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)	31.12.2005	31.12.2004	Change 2005/2004
Europe	511,822	420,223	91,599
of which Italy	*221,281*	*217,041*	*4,240*
Far East	21,667	20,699	968
North America	11,395	12,879	(1,484)
Latin America	8,825	6,056	2,769
Other areas	22,371	19,304	3,067
Total revenue	**576,080**	**479,161**	**96,919**

** 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.

36. Reconciliation Between the Parent company's Shareholders' Equity and Net Income Determined According to Italian GAAP and Consolidated Shareholders' Equity and Net Income Determined According to IAS/IFRS

€ (thousands)	Shareholders' equity		Net income for the year	
	31.12 2005	31.12.2004	31.12.2005	31.12.2004
Recordati S.p.A.	253,585	202,808	27,768	27,070
Consolidation adjustments:				
Margin in inventories	(9,985)	(3,333)	(6,652)	(1,847)
Related deferred tax	3,313	1,116	2,197	624
Revaluation of assets, reversal	(28,173)	(3,827)	5,134	3,197
Adjustments resulting from different accounting principles:				
Shares held in treasury stock	(20,410)	(20,410)	0	0
Valuation of inventories	689	318	371	284
Related deferred tax	(227)	(105)	(122)	(94)
Valuation as per IAS 19	1,848	2,008	(160)	(160)
Related deferred tax	(611)	(663)	52	52
Valuation of stock option plans	0	0	(1,184)	(732)
Change in fair value of hedging derivatives	(2,732)	(2,159)	0	0
Retained earnings of consolidated subsidiaries, at beginning of the year, net of amounts already booked by Recordati S.p.A.	76,437	54,641	0	0
Net income for the year of consolidated subsidiaries, net of amounts already booked by Recordati S.p.A.	49,139	33,196	49,139	33,196
Dividends received from consolidated subsidiaries	0	0	(12,000)	(8,500)
Translation adjustments	1,824	(421)	0	40
Consolidated financial statements	**324,697**	**263,169**	**64,543**	**53,130**

37. Litigation and Contingent Liabilities

The parent company and some subsidiaries are party to certain legal actions. Management is of the opinion that such legal actions will not result in any significant liability.

In January 2001 certain savings shareholders, who said they owned in total about 1% of savings shares, contested the decision to convert the savings shares into ordinary shares adopted by the Special Savings Shareholders' Meeting on 26 October 2000 and by the Extraordinary Shareholders' Meeting on 25 October 2000, questioning the legitimacy of the "automatic" conversion provision. These shareholders also presented a motion to suspend the execution of the said decision, which however was rejected on 13 February 2001 by the competent court. The Company filed its entry of appearance. On 18 May 2004 and on 10 January 2005 the hearings for the final pleas of the parties took place and the court decision is now expected. The Company maintains that the conversion operation was perfectly legal as well as very advantageous for the savings shareholders, which was confirmed by the positive reaction of the market and the very high percent of shareholders opting for the conversion.

38. Intercompany Transactions and Related Issues

At 31 December 2005, intercompany accounts amount to € 167.9 million, the most significant of which are:

- loans from Recordati S.A. Chemical & Pharmaceutical Company to Recordati S.p.A. of € 80.6 million;
- loans from the parent Recordati S.p.A. to the subsidiary Recordati España S.L. of € 30.0 million.
- receivables by Recordati S.p.A. from its subsidiaries for the supply of goods and services totaling € 17.5 million;
- loans from the parent Recordati S.p.A. to the subsidiary Bouchara Recordati S.a.s. of € 10.0 million.

Intragroup sales and services recorded during 2005 are € 111.6 million. During the year, Recordati S.p.A. received dividends of € 12.0 million from Recordati S.A. Chemical and Pharmaceutical Company, Recordati S.A. Chemical and Pharmaceutical Company received dividends of € 15.0 million from Recordati Ireland Ltd. and dividends of CHF 2.8 million from Recordati S.A. (Switzerland). Bouchara Recordati S.a.s. received dividends of € 8.0 million from Laboratoires Bouchara Recordati S.a.s..

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

Other receivables include an amount of € 2.1 million receivable from the controlling company Fimei S.p.A. mainly relative to a tax credit arising from adhesion to the tax consolidation option in Italy.

39. Subsequent Events

During January 2006 the chemical synthesis plant in Beniel (Murcia, Spain) was sold to Apotecnia S.A., an affiliate of the Spanish pharmaceutical company Asturpharma S.A.. 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 were transferred to the acquiring company. The sales price, which has already been received, is of € 13 million, about € 3 million less than the carrying value of the assets sold.

In January 2006 the first instalment of € 5.8 million of the outstanding amount due for the acquisition of Merckle Recordati was paid.

In Feburary 2006 Recordati S.p.A. received a notice of indictment pursuant to decree-law 231/2001 which regulates the responsibility of legal persons, in relation to a presumed offence by two Recordati employees in their dealings with the Public Administration and has been summoned for a hearing to evaluate the application of precautionary measures. Recordati adopted an internal system of control and vigilance years ago in order to prevent the commission of this kind of offence by company personnel and this system is constantly monitored and updated. The Company is therefore confident that it will be able to prove that any possible offence committed by its employees should be attributed to their fraudulent avoidance of its internal procedures and not to any lack of control by the company or any facilitating organizational deficiency.

Group sales in the first two months of 2006 grew by 11.2%.

CORPORATE GOVERNANCE

The rules of corporate governance adopted by Recordati include, for the most part, the recommendations contained in the Code of Behavior for listed companies issued in 1999 and reviewed in 2002 by the Committee for Corporate Governance of Listed Companies established within Borsa Italiana S.p.A. (the Italian Stock Exchange).
A concise description of the main elements of these rules follows. Full details can be found in a document available at the company's offices, at the Italian Stock Exchange and on the company's website http://www.recordati.com/aboutus.asp under the Corporate Governance tab.

Board of Directors

Recordati's Board of Directors is fully empowered for both the ordinary and extraordinary administration of the company and has a central role in the organization of the company's activities. While the Chairman and Chief Executive Officer have specific powers, the Board exercises an overall power of direction and control.
Nine directors sit on the Board. On 14 December 2005 Mr. Alberto Recordati resigned from his position as Director and Vice Chairman of the Board. The Shareholders' Meeting convened to approve the 2005 accounts will be called upon to appoint a substitute. There were, until 14 December 2005 (date on which Mr. Alberto Recordati submitted his resignation as aforementioned), three executive directors, the Chairman and Chief Executive Officer, Mr. Giovanni Recordati, the Vice Chairman, Mr. Alberto Recordati and the Director Mr. Andrea Recordati, who are all company managers. The six non-executive directors are independent professionals of high standing.
During 2005 the Board met seven times with a composite attendance rate of around 81%.

Chairman and Chief Executive Officer

The Chairman is empowered by the Board to act on behalf of the company, with his sole signature, in all matters ordinary and extraordinary, excluding the stipulation of mortgages or loans at other than reduced rates and those with real collateral, the disposal of real estate, the acquisition or sale of equity interests, pharmaceutical specialties and products in general, the granting of guarantees or the undertaking of joint obligations with third parties, when said operations exceed certain limits.

Vice Chairman

The Vice Chairman is empowered by the Board to act on behalf of the company in case of absence or impediment of the Chairman.

Executive Committee

The Board of Directors has delegated power to the Executive Committee to act on behalf of the company in all urgent matters whether ordinary or extraordinary, excluding those which by law must remain with the Board, when deemed necessary by the Chairman and Chief Executive Officer. Furthermore, even if not urgent, the committee can decide upon the granting of guarantees or the undertaking of joint obligations with third parties, the stipulation of medium and long term loans, the acquisition or disposal of equity interests as well as pharmaceutical specialties or products in general. The Executive Committee, until 14 December 2005 (the date Mr. Alberto Recordati submitted his resignation from the Board), was composed of the Chairman and Chief Executive Officer, Mr. Giovanni Recordati who acts as President, the Vice Chairman, Mr. Alberto Recordati, the Director Mr. Andrea Recordati, and four non executive independent directors.
During 2005 the Executive Committee did not convene.

General Managers

The General Manager of the Pharmaceutical Chemicals Division and the General Manager of the Pharmaceuticals Division have been granted ample powers in all matters pertaining to their respective areas of competence by the Board of Directors. Both are also empowered to act on behalf of the company as per specific powers.

Internal Control Committee

The Board of Directors has established an Internal Control Committee to submit proposals and give advice to the Board for the preparation, analysis and operation of an internal control system.
The three committee members are all independent non executive directors.
During 2005 the Internal Control Committee met four times, with a composite attendance rate of around 92%.

Remuneration Committee

The Board of Directors has formed a Remuneration Committee to submit proposals and act as a consulting body to the Board for the remuneration of the managing directors and of those directors who are appointed to particular positions and, acting on a proposal from the Chairman and Chief Executive Officer, for the criteria to be used in determining the remuneration of the company's top management as well as the company's stock option plans.
The three committee members are all independent non executive directors.
During 2005 the Remuneration Committee met five times with a composite attendance rate of around 93%.

Board of Auditors

The Board of Auditors monitors the compliance with laws and regulations, with the company's bylaws and with correct accounting principles. It checks that the company's organization as it relates to its areas of competence, as well as the internal control system and the accounting procedures, are adequate.
The Board is composed of three standing auditors and two substitute auditors.
During 2005 the auditors attended the meetings of the Board of Directors with an attendance rate of around 86%. The Board of Auditors met eight times in 2005. The President of the Board of Auditors and an auditor attended all the meetings of the Internal Control Committee.

Confidential and Price Sensitive Information

The Board of Directors has adopted internal procedures for the internal handling and disclosure to third parties of confidential information and documents concerning the company, with special reference to price-sensitive information. As per these procedures the Chairman and Chief Executive Officer is responsible for the handling and disclosure of such information.

Internal Dealing

The company's Board of Directors has adopted a Code of Behavior governing the disclosure requirements for transactions involving the company's securities or financial instruments based thereon carried out by directors, managers, members of the Board of Auditors and other persons with significant decision-making power or whose positions give them access to relevant information. These transactions are communicated to the company by the abovementioned relevant persons, and by the company to the market, every quarter for transactions with a cumulated value between € 50,000 and € 250,000, or immediately if this last amount is exceeded on a cumulative basis. Transactions by these persons are also subject to certain regular or ad hoc blackout periods.

AUDITORS' REPORT

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

To the Shareholders of
RECORDATI S.p.A.

1. We have audited the consolidated financial statements of Recordati S.p.A. and subsidiaries (the Recordati Group), which comprise the balance sheet as at December 31, 2005, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes. These consolidated financial statements are the responsibility of the Company's Directors. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

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

   For the opinion on the consolidated financial statements of the prior year, prepared in accordance with International Financial Reporting Standards, which are presented for comparative purposes, reference should be made to the auditors' report issued by us on March 11, 2005.

3. In our opinion, the consolidated financial statements present fairly the financial position of the Recordati Group as of December 31, 2005, and the results of its operations and its cash flows for the year then ended in accordance with IFRS as adopted by the European Union.

4. As stated in the notes to the consolidated financial statements, starting from December 31, 2005, the Group valuated the staff leaving indemnities (TFR – trattamento di fine rapporto) according to IAS 19 for the valuation of defined benefit plans.

This application, applied with retroactive effects starting from January 1, 2004, determined a positive effect on the stockholders' equity as of January 1, 2004 of Euro 2,6 million and a negative effect on the net income for the period ended December 31, 2004 and 2005 equal to, respectively, Euro 150 and Euro 293 thousand. Consequently, the positive effect on the final stockholders' equity as of December 31, 2005, is equal to Euro 1,8 million (amounts before tax).

DELOITTE & TOUCHE S.p.A.

Signed by
Vincenzo Mignone
Partner

Milan, Italy,
March 13, 2006

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

BOARD OF DIRECTORS
as of the Shareholders' Meeting
of April 6, 2006

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

Alberto Recordati
Vice Chairman
Recordati S.p.A.

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

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

Francesco Costantini
Former Chairman
and Chief Executive Officer
Parke Davis S.p.A.

Mario Garraffo
Senior Advisor
GE Europe

Carlo Pedersoli
Partner
Pedersoli e Associati Law Firm

Andrea Recordati
Chairman and Managing Director
Recordati Ireland Ltd.
Chairman
Recordati Pharmaceuticals Ltd., UK

Marco Vitale
Economist and Business Consultant

EXECUTIVE COMMITEE

Giovanni Recordati
Alberto Recordati
Andrea Recordati
Heinz Wolf Bull
Francesco Costantini
Mario Garraffo
Marco Vitale

AUDIT COMMITTEE

Marco Vitale
Chairman

Heinz Wolf Bull
Carlo Pedersoli

COMPENSATION COMMITTEE

Francesco Costantini
Chairman

Heinz Wolf Bull
Mario Garraffo

STATUTORY AUDITORS

Alessandro Manusardi
President

Emilio Aguzzi de Villeneuve
Oreste Severgnini
Active Members

Angelo Gastaldi
Carlo Severgnini
Substitute Members

AUDITORS

Deloitte & Touche S.p.A.

MANAGEMENT

Giovanni Recordati
Chairman and Chief
Executive Officer

Alberto Recordati
Vice Chairman

Walter Bevilacqua
Corporate Development

Luciano Bonacorsi
Human Resources

Vittorio Bonazzi
Pharmaceuticals

Giorgio Oberrauch
Pharmaceutical Chemicals

Avi Sartani
Pharmaceuticals,
Research and Development

Fritz Squindo
Chief Financial Officer

Franco Tomasini
Purchasing and Logistics

This booklet is a summary of the 2005 Report of Board of Directors of Recordati SpA, which has been publicly filed in accordance with Italian law.

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

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