

ANNUAL REPORT 2003

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FINANCIAL HIGHLIGHTS

SALES

€ (thousands)	2003	%	2002	%	Change 2003/2002	%
Pharmaceuticals	424,041	87.0	414,362	84.1	9,679	2.3
Pharmaceutical chemicals	63,494	13.0	78,362	15.9	(14,868)	(19.0)
Total Sales	487,535	100.0	492,724	100.0	(5,189)	(1.1)
Italy	211,580	43.4	195,386	39.7	16,194	8.3
International	275,955	56.6	297,338	60.3	(21,383)	(7.2)

EBIT

€ (thousands)	2003	% of Sales	2002	% of Sales	Change 2003/2002	%
Pharmaceuticals	85,539	20.2	85,785	20.7	(246)	(4.8)
Pharmaceutical chemicals	(4,509)	(6.0)*	3,439	3.8*	(7,948)	n.s.
Total EBIT	81,030	16.6	89,224	18.1	(8,194)	(1.1)

* The calculation basis includes intercompany sales

KEY CONSOLIDATED DATA

€ (thousands)	2003	% of Sales	2002	% of Sales	Change 2003/2002	%
Net Sales	487,535		492,724		(5,189)	(1.1)
EBITDA ⁽¹⁾	107,773	22.1	119,862	24.3	(12,089)	(10.1)
Operating Income (EBIT)	81,030	16.6	89,224	18.1	(8,194)	(9.2)
Net Income	23,747	4.9	50,216	10.2	(26,469)	(52.7)
Cash Flow	80,497	16.5	84,184	17.1	(3,687)	(4.4)
Shareholders' Equity	227,947		227,072		875	0.4
Dividends	18,392 ⁽²⁾		18,321			
Dividends/Net Income	77.4% ⁽²⁾		36.5%			

⁽¹⁾ Earnings before interest, taxes, depreciation and amortization

⁽²⁾ Proposed by the Board of Directors and calculated on the number of shares outstanding at year-end net of treasury stock which amounted to 1,199,666 shares at 31 December 2003 and 988,880 shares at 31 December 2002

PER SHARE

€ per share ⁽³⁾	2003	2002	Change 2003/2002	%
Net Income	0.49	1.01	(0.52)	(51.5)
Cash Flow	1.65	1.69	(0.04)	(2.4)
Shareholders' Equity	4.65	4.63	0.02	0.4
Shares outstanding:				
- average during the year	48,900,132	49,827,455		
- at December 31	49,044,748	49,066,534		

⁽³⁾ 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. Shares outstanding at year end are net of treasury stock which amounted to 1,199,666 shares at 31 December 2003 and 988,880 shares at 31 December 2002.



TO OUR SHAREHOLDERS AND EMPLOYEES

2003 CONSOLIDATED NET SALES WERE € 487,5 MILLION

Growing pharmaceutical sales;
resources to be focused on the expansion
of this business.

2003 was a demanding year for both our business segments and on the whole ended with positive results.

Consolidated net sales were € 487.5 million, a slight decrease of 1.1% compared to 2002 (€ 492.7 million). Pharmaceutical sales grew by 2.3% over those of the preceding year and were € 424.0 million. A significant volume increase more than offset the price reduction of reimbursable specialties imposed in Italy which was worth € 15.6 million. Excluding the 2002 non-recurring revenue from lercanidipine in the U.S., which totaled € 12.5 million, pharmaceutical sales increased by 5.5%. Sales of pharmaceutical chemicals were € 63.5 million, down by 19.0% compared to the prior year due to a negative volume effect following the decision to gradually exit from the market for certain intermediates for antibiotics, and an unfavorable currency effect. Altogether international sales were € 276.0 million and represent 56.6% of total sales.

Operating income (EBIT), at 16.6% of sales, was € 81.0 million, down 9.2% on last year. The pharmaceutical business contributed € 85.5 million, in line with that recorded in 2002. This is a particularly good result taking into account the abovementioned impact of the price reductions in Italy and the non-recurring margin on lercanidipine income from Forest Laboratories, our U.S. licensee, which altogether accounted for about € 25 million. The pharmaceutical chemicals business on the other hand booked a loss of € 4.5 million due mostly to the biochemical product lines.

Net income was € 23.7 million after extraordinary write-downs for over € 30 million, before tax, of assets employed by the pharmaceutical chemicals business.

The group's financial structure was strengthened thanks to the cash flow generated by operations. Net financial indebtedness as of 31 December 2003 was down to € 21.4 million, while shareholders' equity reached € 227.9 million. The debt to equity ratio improved to 0.09.

The pharmaceuticals business was able to react to the changed market conditions, while the pharmaceutical chemicals segment declined during the year. The different development prospects for the two businesses, including their profits outlook for the future, have led us to focus the group's financial and managerial resources on the pharmaceutical segment with the primary objective of consolidating and expanding our operations in the European market.

Going forward therefore, the group's growth strategy will be based on the following three important elements:

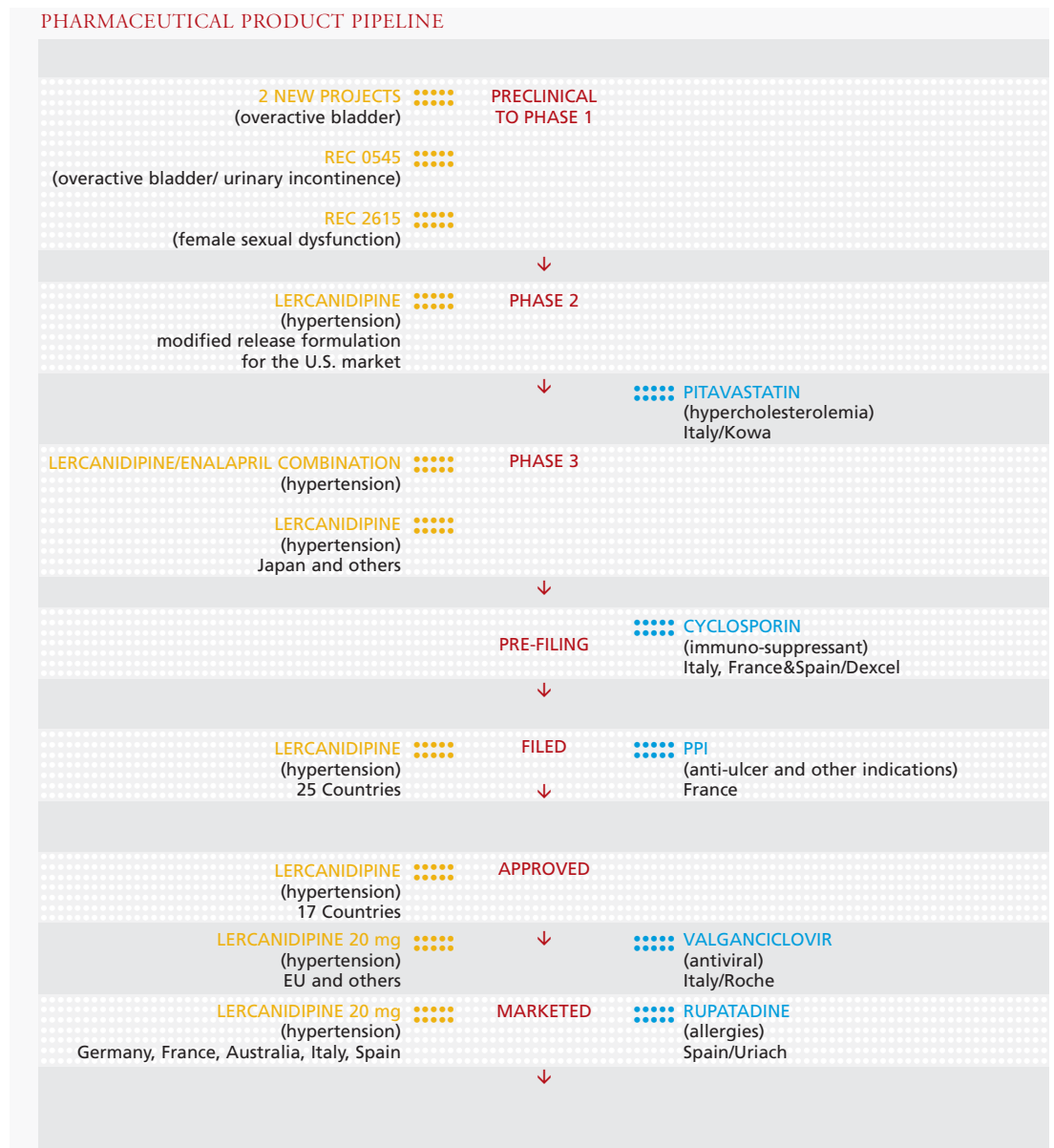
- § Commitment to the research of innovative drugs in the cardiovascular and urogenital areas, in which Recordati has proven scientific competence, with the objective of developing treatments to satisfy the needs of an ageing population and the growing request for an improved quality of life.
- § Filling the pipeline through the acquisition of new product licenses. Partnering with other pharmaceutical companies has always been an important means of growth for Recordati. Our product portfolio which comprises specialties in the cardiovascular, gastroenterological, central nervous system and analgesic therapeutic areas will benefit from complementary additions originated by other research organizations.
- § International expansion through the acquisition of other companies in Europe. In the pharmaceutical business being in a number of countries is necessary to remain competitive. In this way the results from proprietary research are optimal and multi-territorial coverage can be offered to potential partners.

During 2003 our research activity progressed and positive results were obtained. Our research projects in the urogenital field address the treatment of micturition disorders and female sexual dysfunction, conditions which lack adequate therapeutic responses, which affect millions of individuals and for which a satisfactory pharmacological approach is both a medical and social necessity. In 2004 we will initiate the proof of concept clinical trials with two drug candidates for the treatment of these disorders.

In the cardiovascular area, during 2003 the 20mg strength of lercanidipine, our original antihypertensive calcium channel blocker, was approved in Europe and in other countries and was launched in Germany, France and Australia. This new formulation provides therapeutic convenience to those patients who require a higher daily dose. In the U.S. our licensee Forest Laboratories has identified a modified release formulation of lercanidipine for that market and will shortly initiate the necessary clinical trials.

The ongoing development of a fixed combination between lercanidipine and the ace-inhibitor enalapril addresses the need to treat a major proportion of patients with more than one antihypertensive agent to achieve adequate blood pressure control, as shown in recent scientific reports. Our objective is to complete the international approval file in 2004.

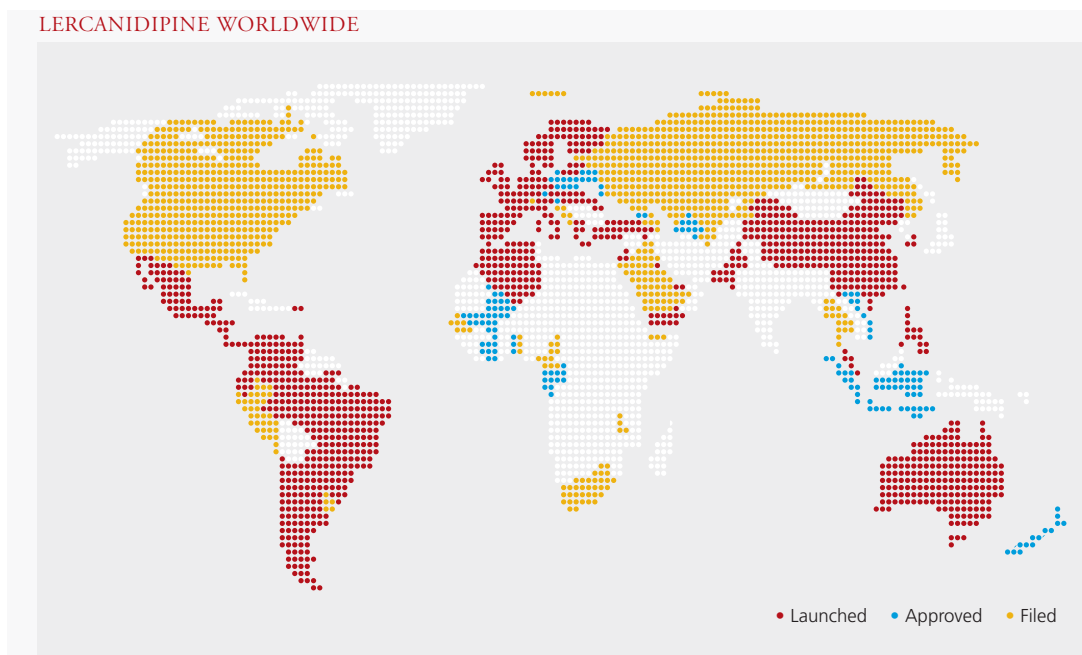
The growing sales of lercanidipine confirmed its success as did the increasing shares in its main markets. Sales recorded in 2003 were € 91.5 million, an increase of 19.5% excluding 2002 sales to



Forest Laboratories which did not recur this year. We expect growth to continue thanks to its roll-out in new markets and the launch of the new 20mg formulation. Total sales in the market generated by Recordati and by its licensees during 2003 are estimated to be € 180 million.

New products were added to our portfolio and negotiations are ongoing for the acquisition of additional product licenses. Entact® (escitalopram), indicated for the treatment of depression and panic disorders, was launched in Italy. Octegra® (moxifloxacin), an antibacterial indicated for the treatment of respiratory infections, was relaunched on the Italian market. In France, Epinitril®, a nitroglycerin transdermal patch for the treatment of angina, was introduced on the market and in Spain we acquired the license for Alergoliber® (rupatadine), a last generation treatment for allergies, which was launched in January 2004.

During 2003 steps were taken to consolidate the base for the future development of the group. Activities leading to the disposal of the French pharmaceutical manufacturing company Sophartex were initiated and it is expected that the final sale will take place within the first few months of 2004. This business, which is dedicated for the most part to the production of pharmaceutical dosage forms



for third parties and which was acquired in 2000 as part of the Bouchara group of companies, is not considered to be strategic for the development of the group.

In the first two months of 2004 pharmaceutical sales grew by 7%. The new 20mg strength of lercanidipine was launched in Italy and in Spain, where we market directly through our own detailing forces, and in the Scandinavian countries by our licensee.

The reorganization of the pharmaceutical chemicals segment is taking place in order to focus the business on those product lines which can compete and offer development potential under the current conditions. Some productions, including biochemicals, will be scaled down, which will result in reduced sales, with the objective of regaining profitability in the short term. In the first two months of 2004 pharmaceutical chemicals sales were down 30% on the same period of the prior year.

Overall, the group's net sales in the first two months of 2004 increased by 2%.

In order to optimize the use of our financial resources, Bouchara-Recordati sold its office building in Paris for € 20 million realizing a gain, on a consolidated basis, of € 2.0 million, during the month of January.

After three years of slow-down the worldwide economy is expected to pick up in 2004 although to a lesser extent in Europe. Healthcare cost containment will thus remain one of the main objectives of European governments, and we hope that the means to achieve this goal shall not be solely directed at reducing the bill for pharmaceuticals, particularly in Italy where the pharmaceutical industry has already suffered from drastic measures which could adversely affect its future development.

To meet our objectives for 2004 we count on the professional skills and entrepreneurship of our management team, the motivation and drive of our employees and the support of our shareholders. We would like to express our gratitude to all of them for their contributions during 2003.

Dividends

Based on these results and after taking into account that net income decreased mainly as a result of the extraordinary write-downs of the pharmaceutical chemicals business assets while the financial structure of the group further improved during 2003, the Board will propose a dividend of € 0.375 per share (€ 0.375 per share last year) to be paid to all shares outstanding, excluding those in treasury stock, as from 22 April 2004. This per share dividend includes the accretion deriving from the dividend which would have been due to those shares in treasury stock. Retained earnings of Recordati S.p.A. worth € 9.6 million will be utilized to pay the dividend, the total amount of which is € 18.4 million.

Giovanni Recordati

Chairman and Chief Executive Officer

A handwritten signature in black ink, appearing to read 'Giovanni Recordati', written in a cursive style.

RESEARCH AND DEVELOPMENT

FOCUS ON THE UROGENITAL AND CARDIOVASCULAR AREAS OF RESEARCH

Two drug candidates, one for urinary incontinence and one for female sexual dysfunction to enter proof of concept trials in 2004.

Lercanidipine: the new 20mg strength and the experimental fixed combination with enalapril will enhance its therapeutic profile.

The ageing of the population in the industrialized world is affecting many aspects of its social and individual lives. The incidence of illness linked to old age is increasing, which has a growing impact on costs and quality of life, while basic health needs are being progressively satisfied. In recent years Recordati's research and development activity has been dedicated to studying treatments for these conditions and for the improvement of the quality of life of patients.

Our strategy is to concentrate our efforts where we have specific scientific competence, where there is a need for innovative drugs and where the creativity of our researchers is able to compensate for limited funding, which however is sufficient to support focused research projects. Our research is in the urogenital and cardiovascular therapeutic areas which include those disorders typical of the older population.

Research and development is conducted principally in Europe, in collaboration with universities of international standing and first rate research institutes, or with other pharmaceutical companies through co-development programs.

Urinary incontinence

Mature and older people are often affected by disorders of the urogenital tract which can result in a variety of micturition disturbances and in many cases in urinary incontinence. Opportunities exist in this field for a pharmaceutical organization able to develop an effective and convenient drug without the side effects of the currently available treatments.

Micturition disorders are estimated to affect over 70 million people in the major pharmaceutical markets (France, Germany, Italy, Japan, Spain, U.K. and the U.S.A.). It is also estimated that only 20% of these are diagnosed and that not all receive, or are able to tolerate, the current pharmacological therapies. Drug spending for these conditions is still limited, while the annual overall cost related to urinary incontinence exceeds 10 billion dollars in the U.S. alone.

People who suffer from urinary incontinence do not easily disclose their condition which explains why not many cases are diagnosed. Patients are often reluctant to seek help because they are under the false impression that urinary incontinence is an inevitable part of the ageing process and that not much can be done to cure it. Various pharmaceutical companies are therefore conducting information campaigns to build up awareness of the availability of new treatments among patients and doctors.

Anticholinergic agents are the most commonly used among the main classes of drugs for the treatment of urinary incontinence. They are effective but have many side effects. With an annual growth rate expected to be around 8% until 2010, anticholinergics will continue to generate the major portion of sales. The recent introduction of new controlled release formulations of established molecules has revived commercial interest in the irritative micturition disturbances market.

Over forty years of research have enabled Recordati to acquire specific know-how in the urogenital field. In the seventies Recordati originated flavoxate, an antispasmodic of the urinary tract, which was the first Italian New Chemical Entity (NCE) to be approved by the Food and Drug Administration (FDA). This drug represented a novel approach for the treatment of urinary incontinence with a mechanism of action different from that of the anticholinergics. Our research activity has since moved towards the study of the central nervous system mechanisms that control the bladder's function and important advances have been made at the receptor level. Potent antagonists of the α_1 -adrenergic receptors, which are highly selective for the lower urogenital tract, were discovered and a new target for novel drugs was identified, the 5-HT_{1A} serotonergic receptor.

The first candidate to be developed as an antagonist of the 5-HT_{1A} receptor, denominated REC 0545, is a molecule that acts through an innovative mechanism and could present a significantly better tolerability profile than the anticholinergics. In 2003, following an initial phase during which research was conducted in collaboration with Pharmacia, Recordati regained the full rights to this original molecule and has now completed the preparatory phase leading into the proof of concept clinical trials.

In addition to the approach that led to the discovery of REC 0545, Recordati's researchers have identified two other potential biological targets for new drugs to treat these disorders and are currently synthesizing new candidates for further development.

Female sexual dysfunction

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, a disorder that is recently becoming more prominent.

Over 40% of the female population suffers from these dysfunctions which differ in terms of nature and severity. These are caused by a variety of physical and psychological factors, which are not only linked to the ageing process, and affect human relationships in general and sexual ones in particular. Different approaches to this problem exist, some of which try to address the insufficient blood circulation in the related areas, and others that look to the reduced hormonal levels typical of the ageing process.

The results obtained in this area of research are encouraging. Recordati has in fact identified a new active principle which is already in development, REC 2615, on which pre-clinical testing was done in 2003 in preparation for testing on patients to evaluate its efficacy. In these human trials a topical formulation will be used.

Hypertension

Recordati also conducts research and development activities in the area of cardiovascular disease. Hypertension is an asymptomatic disease that affects around 600 million individuals worldwide and is one of the main risk factors of cardiovascular morbidity and mortality. The risk of becoming hypertensive is increasing in the industrialized world on account of factors that appear to be linked to its onset such as insufficient physical exercise, smoking and unhealthy eating habits.

The results of clinical studies have shown that blood pressure control reduces the risk of cardiovascular events and mortality. Despite the proven advantages of a correct antihypertensive treatment, it is estimated that half of the hypertensive population is never diagnosed, that half of those diagnosed are not treated, and that half of the patients treated is not adequately controlled.

Antihypertensive treatments represent one of the major segments of the worldwide pharmaceutical market. In 2002 the market for antihypertensive drugs was worth 36 billion U.S. dollars, 9% of the whole pharmaceutical market. It is expected that in the period 2003 – 2008 sales of these drugs will increase at a rate of 7% annually reaching a total of 53 billion U.S. dollars, driven among others by the growing awareness of physicians of the risks related to high blood pressure.

Recordati's efforts in this area are driven by the need for drugs with better therapeutic profiles. This commitment led to the discovery of lercanidipine, a latest generation calcium channel blocker. Its long duration of action and excellent tolerability profile, which have been shown by a number of clinical studies published in leading international scientific journals, have determined its success. Lercanidipine has been approved in a total of 72 countries and is currently on the market in 55 of these. It is in its last phase of development in Japan and a new modified release formulation is in development in the U.S.A.. During 2003 the new 20mg strength which is a convenient dosage form for those patients requiring higher dosages was approved in Europe and in Australia.

The use of more than one antihypertensive agent for the treatment of high blood pressure is progressively becoming more frequent. For many patients, instead of increasing the dose of a single drug, a combination of drugs with different mechanisms of action is administered. The associated use of different drugs to achieve an improved therapeutic response in the treatment of hypertension was confirmed by the recently issued international guidelines for the treatment of this condition.

A recent study on antihypertensive therapy published by the Journal of the Royal Society of Medicine in 2003 showed that after a year's treatment with a single drug only 14% of patients achieved satisfactory blood pressure levels and that many patients requiring additional drugs remain on monotherapy.

In line with these findings and in order to pursue innovative solutions in antihypertensive treatment, Recordati is studying a fixed combination of lercanidipine with enalapril, another antihypertensive belonging to the ACE-inhibitor class of drugs. Throughout 2003 development phase III of this association was conducted and it is expected to be completed in 2004 in order to finalize the international registration dossier and thereafter seek approval with the intention of launching the product on the market in 2006.

THE ARRIGO RECORDATI INTERNATIONAL PRIZE FOR SCIENTIFIC RESEARCH

The second edition of the Arrigo Recordati International Prize for Scientific Research was devoted to the lifetime achievement for research in heart failure, a very critical area in the field of cardiology, which affects nearly 15 million Americans and Europeans.

The prize was awarded to *Jay N. Cohn* MD. (Professor of Medicine, Cardiovascular Division, Department of Medicine, University of Minnesota Medical School, Minneapolis, United States) and *John Kjekshus* MD. PhD. (Professor of Medicine, Department of Cardiology, Rikshospitalet, University of Oslo, Oslo, Norway) with the following statement expressed by the jury: "The Recordati prize recognizes the contributions of Jay N. Cohn and John Kjekshus for making fundamental mechanistic observations on the pathophysiology of heart failure, translating those observations to clinical practice, and benefiting all patients with heart failure".

The candidates were evaluated by a jury composed of *Douglas P. Zipes* MD. (Distinguished Professor of Medicine, Pharmacology and Toxicology, Director of the Cardiology Division and Krannert Institute of Cardiology at Indiana University, Indianapolis, United States) *Peter Libby* MD. (Chief of Cardiovascular Medicine at the Brigham & Women's Hospital and Mallinckrodt Professor of Medicine at Harvard Medical School, Boston, United States) and *Karl Swedberg* MD. PhD. (Professor of Medicine at the Cardiovascular Institute at Göteborg University and Senior Physician at the Department of Medicine at Sahlgrenska University Hospital/ Ostra, Göteborg, Sweden).

The winners were honoured at a gala ceremony which took place in Vienna, on August 31st during the European Society of Cardiology Congress 2003.

The 2005 edition of the prize, again in the field of cardiology, will be dedicated to the lifetime achievement for research in sudden cardiac death.



REVIEW OF OPERATIONS

SIGNIFICANT VOLUME INCREASE OF PHARMACEUTICAL SALES

Zanidip[®] continues to be a success.

Strong growth of the Italian antidepressant franchise.

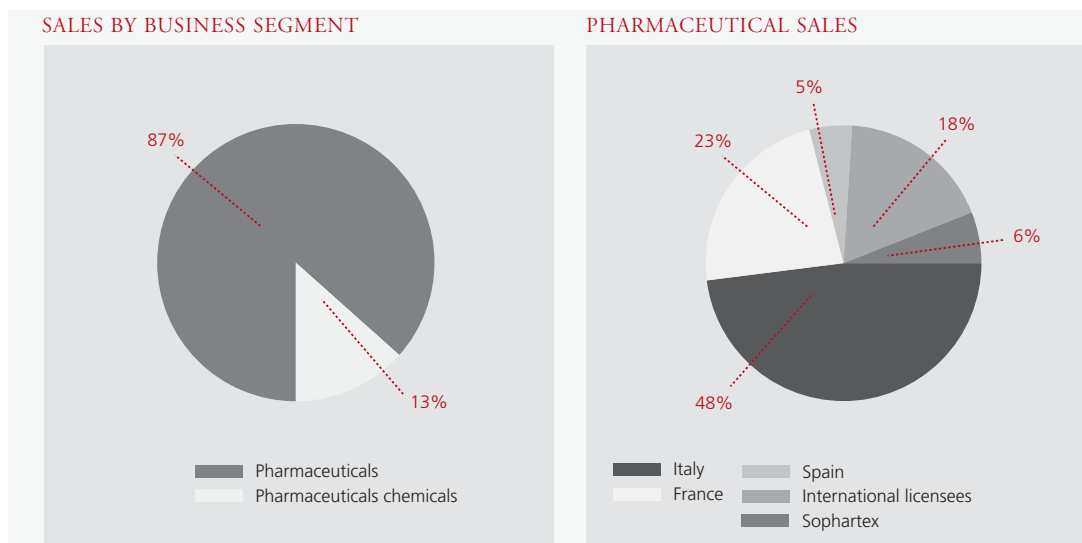
Bouchara-Recordati strengthens its presence in the cardiovascular area.

The pharmaceutical chemicals business is being reorganized.

The following table includes a breakdown of the year's net sales:

€ (thousands)	2003	2002	Change 2003/2002	%
Italy	203,390	185,696	17,694	9.5
France	97,878	92,540	5,338	5.8
Spain	21,004	21,438	(434)	(2.0)
International licensees	76,062	88,078	(12,016)	(13.6)
Sophartex	25,707	26,610	(903)	(3.4)
Total pharmaceutical sales	424,041	414,362	9,679	2.3
Pharmaceutical chemical sales	63,494	78,362	(14,868)	(19.0)
Total Sales	487,535	492,724	(5,189)	(1.1)

Both years include revenues from down payments, royalties and miscellaneous items.



Zanidip® (lercanidipine)

The success of Zanidip® (lercanidipine, a calcium channel blocker entirely discovered and developed by Recordati), as an important drug of choice in the treatment of hypertension was demonstrated by its market share growth in the majority of the important markets where it is sold. Zanidip® is sold directly by our marketing companies in Italy, France and Spain and by licensees in these and in an additional 52 countries. Our licensees purchase the product exclusively from Recordati. In 2003 lercanidipine accounted for 18.8% of total sales and 21.6% of pharmaceutical sales. Its sales breakdown is shown in the following table:

€ (thousands)	2003	2002	Change 2003/2002	%
Italy	33,674	32,332	1,342	4.2
France *	15,738	9,351	6,387	68.3
Spain	4,267	4,669	(402)	(8.6)
Direct sales	53,679	46,352	7,327	15.8
Sales to licensees (ex Forest)	37,806	30,229	7,577	25.1
Sales to Forest Laboratories	0	9,106	(9,106)	n.s.
Total lercanidipine sales	91,485	85,687	5,798	6.8

* Includes export sales of € 319 thousand in 2003 and € 318 thousand in 2002

Sales of Zanedip® and Lercadip®, the two brands of lercanidipine sold by Recordati in Italy, were € 33.7 million, up 4.2% over the preceding year. This result was particularly significant taking into account the price cuts imposed at the beginning of 2003 and was possible thanks to an increase in sales volumes of over 20%. Lercanidipine achieved a 10% share of the Italian calcium channel blocker market during 2003, its sixth year since launch.

Lercanidipine has also been very successful in France, where it is marketed by Bouchara-Recordati and Pierre Fabre since March 2001, reaching a market share of over 10% in the fourth quarter 2003, an

even better growth trend than that recorded in Italy. Sales of Zanedip® by Bouchara-Recordati were € 15.7 million, an increase of 68.3% over the preceding year.

On the Spanish market Zanedip®, sold by Recordati España, recorded sales of € 4.3 million, slightly below those in 2002. In the fourth quarter 2003 lercanidipine attained a 5% market share in Spain, where it is also marketed by Uriach and Zambon.

In the other 52 countries where lercanidipine is currently marketed, but where Recordati has no direct presence, sales are generated through licensees. In Germany, licensees Berlin Chemie and UCB achieved a combined market share of around 10% in the fourth quarter 2003. This shows that lercanidipine is widely used in the largest European market for the treatment of hypertension, as subsequently confirmed by the good acceptance by doctors of the new 20mg formulation launched in 2003. Growth trends continued also in other European countries where market shares improved throughout the year. In Australia lercanidipine was launched by Solvay in November 2001 and has already attained an 8% market share. Another interesting market is South Korea where lercanidipine has a share of around 9%.

Overall, sales to licensees in 2003 were € 37.8 million, up 25.1% over the preceding year, excluding 2002 sales to Forest Laboratories which did not recur this year.

Pharmaceuticals, Italy

€ (thousands)	2003	2002	Change 2003/2002	%
Prescription pharmaceuticals ^(a)	186,583	169,620	16,963	10.0
Self-medication pharmaceuticals ^(b)	16,807	16,076	731	4.5
Pharmaceuticals, Italy	203,390	185,696	17,694	9.5

^(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 2003 were € 186.6 million, up 10.0% over 2002 compared with an estimated pharmaceutical market growth of 4.0%, hospital sales included. This is a particularly important achievement taking into account the impact on sales of the cost containment measures imposed by the Health Ministry during 2002 which became effective in January 2003 and which determined a negative price effect of € 15.6 million.

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

€ (thousands)	Therapeutic area	2003	2002	Change	% 2003/2002
Elopram®/Entact®	Depression	45,139	34,859	10,280	29.5
Zanedip®/Lercadip®	Hypertension	33,674	32,332	1,342	4.2
Peptazol®	Gastroenterology	19,719	15,507	4,212	27.2
Tora-Dol®	Analgesia	19,220	23,213	(3,993)	(17.2)
Isocef®	Anti-infective	14,753	13,540	1,213	9.0
Acequin®/Acequide®	Hypertension	8,595	9,354	(759)	(8.1)
Diezime®	Anti-infective	8,062	11,362	(3,300)	(29.0)
Octegra®	Anti-infective	6,547	472	6,075	n.s

The cardiovascular therapeutic area accounts for 26.5% of prescription pharmaceutical sales and is still the largest of our portfolio thanks mainly to the continuing success of lercanidipine. Sales of Nitrocor[®], a nitroglycerin transdermal patch for the treatment of angina, were € 5.4 million, almost double those recorded in 2002.

In the CNS (Central Nervous System) area (25.1% of sales), Elopram[®] (citalopram), an SSRI antidepressant, continued its strong growth trend (+25%) and further increased its market share. During November 2003 Entact[®] (escitalopram) was launched. This new drug, indicated for the treatment of depression and panic disorder, also belongs to the SSRI class of antidepressants, is highly specific and selective, and has an early onset of action and excellent tolerability. A further efficacious therapy for the pharmacological treatment of depression and panic disorder is thus made available to Italian physicians and patients.

Regarding the anti-infective area (17.5% of sales), Isocef[®] (ceftibuten) maintained its market share while Diezime[®] (cefodizime) suffered from an overall reduction of the market for injectable antibiotics. At the beginning of the year Octegra[®] (moxifloxacin), an antibacterial fluorquinolone, in-licensed from Bayer AG in 2002, was relaunched on the Italian market. Sales of Octegra[®] during 2003 were € 6.5 million, 50% above those made by the previous licensee in 2002.

Within the analgesia/anti-inflammatory therapeutic area (14.6% of sales), Toradol[®] (ketorolac) maintained its position as the market leader in its class.

In the gastroenterological area (10.7% of sales), Peptazol[®] (pantoprazole), relaunched at the beginning of 2002, grew by 27.2% and increased its share of the proton pump inhibitor market, one of the largest drug classes in the Italian pharmaceutical market.

Sales of self-medication products in 2003 were € 16.8 million, up 4.5% over the preceding year, within a market which grew by 9.8%. Imidazol[®] and Proctolyn[®], the main products in our portfolio, recorded increased sales during the year. Sales of Alovex[™], for the treatment of oral cavity aphthas, were up 21.0% to € 1.6 million, helped by the launch of a new gel formulation at year end 2002. Eumill[®] confirmed its growth trend, and together with Imidazol[®] reinforces Recordati's leadership in the eye drops market.

In January 2003 the measures introduced by the Ministry of Health in Italy in order to curb public pharmaceutical spending became effective. A 2% price cut was imposed on all specialties reimbursed by the national health service, in addition to the 5% reduction which was already effective as from April 2002. Furthermore, a maximum level of reimbursable daily therapy cost within each homogeneous therapeutic class was established. The effect of these price reductions on our 2003 sales was of € 15.6 million.

The treasury bill for 2004 does not provide for additional price cuts but instead contains indirect measures to control public pharmaceutical spending. The bill for pharmaceuticals must not exceed 13% (16% if hospital purchases are included) of the overall healthcare expenditure on a regional basis; 60% of any amounts exceeding this ceiling are to be paid back by the pharmaceutical companies. In addition, a tax of 5% will be levied on the amounts spent on promotion by pharmaceutical companies.

Pharmaceuticals, France

In 2003 sales in France by Bouchara-Recordati were € 97.9 million, an increase of 5.8% over the preceding year within a market which grew by 6.2%. This increase was obtained mainly due to the success of Zanicidip® which recorded a sales growth of 70.7%.

The following table shows sales of the main products:

€ (thousands)	Therapeutic area	2003	2002	Change	% 2003/2002
Hexa-line	Respiratory	17,509	15,690	1,819	11.6
Zanicidip®	Hypertension	15,419	9,033	6,386	70.7
Exomuc®	Respiratory	13,070	13,655	(585)	(4.3)
Neocodion®	Respiratory	9,019	9,033	(14)	(0.2)

Within the French product portfolio the respiratory therapeutic area is still the largest and accounts for 41.4% of total sales. However, the cardiovascular area is becoming more important thanks to the growth of Zanicidip® and the launch of Epinitril®, a nitroglycerin transdermal patch for the treatment of angina, which generated sales of € 1.3 million in 2003.

During 2003 the French healthcare authorities revised the list of reimbursed products, with a marginal impact on the sales of some of our brands. During 2004 the second phase of this revision will become effective and will affect certain therapeutic classes which include some of our product portfolio's main products. 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, Spain

Sales in Spain in 2003 by Recordati España were € 21.0 million, slightly down (-2.0%) on the preceding year. In 2003 the Spanish pharmaceutical market grew by 12.0%.

The following table shows sales of the main products:

€ (thousands)	Therapeutic area	2003	2002	Change	% 2003/2002
Ulcotenal®	Gastroenterology	14,146	13,215	931	7.0
Zanicidip®	Hypertension	4,267	4,669	(402)	(8.6)
Dermatrans®	Cardiovascular	948	437	511	n.s.

Ulcotenal® (pantoprazole), an anti-ulcer of the proton pump inhibitor class, confirmed its position as the top selling product within the portfolio with sales of € 14.1 million, an increase of 7.0% over the preceding year. Zanicidip® recorded sales of € 4.3 million. Dermatrans®, a nitroglycerin transdermal patch for the treatment of angina which was launched during September 2002, generated sales of almost € 1.0 million and is now the third most important product in the Spanish portfolio.

The increase during 2003 of public expenditure for pharmaceuticals has induced the healthcare authorities to propose a series of cost containment measures. Effective 1 January 2004 the prices of over 2,000 products within the reference pricing system for off-patent drugs were reduced. The effect on our product portfolio will be marginal.

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)	2003	2002	Change 2003/2002	%
Lercanidipine	36,538	29,047	7,491	25.8
Lercanidipine U.S.A.	-	9,106	(9,106)	n.s.
Flavoxate	7,627	8,856	(1,229)	(13.9)
Fenticonazole	4,991	4,977	14	0.3
Bouchara-Recordati (foreign sales)	23,585	26,282	(2,697)	(10.3)
Other income	3,321	9,810	(6,489)	(66.1)
Total International Licensees	76,062	88,078	(12,016)	(13.6)

Excluding those to Forest Laboratories in 2002, sales of lercanidipine to international licensees increased by 25.8%. Sales of flavoxate, an antispasmodic for the treatment of urinary incontinence, decreased in part due to a negative currency effect and in part due to a price reduction in Japan, its main market. Fenticonazole, an antimycotic for dermatological and gynecological use, maintained its 2002 level of sales. Sales outside France by our French subsidiary Bouchara-Recordati were affected by regulatory delays in two important markets, Algeria and Vietnam, during the first quarter of the year.

Other income includes mainly royalties and down payments. The 2002 figure includes a milestone payment of \$ 3.0 million from Forest Laboratories in connection with the receipt of the *approvable letter* from the FDA, in addition to \$ 3.0 million from Pharmacia for research activities in the urological area.

Sophartex

Sophartex, an independent manufacturer of finished pharmaceutical dosage forms, recorded € 25.7 million sales to third parties during 2003, slightly down from € 26.6 million in 2002.

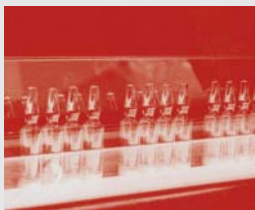
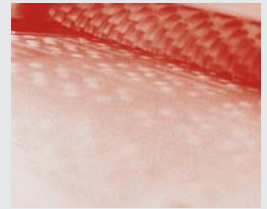
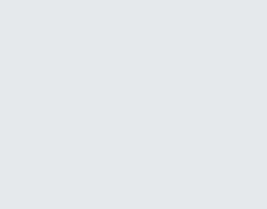
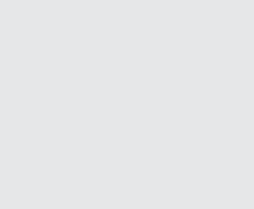
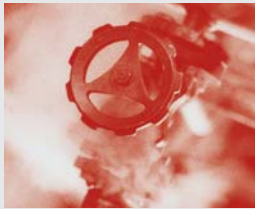
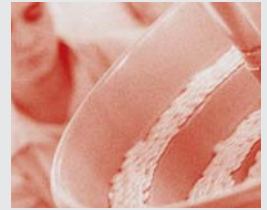
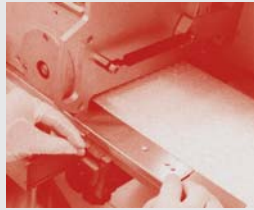
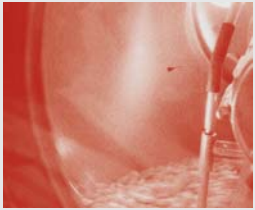
Pharmaceutical chemicals

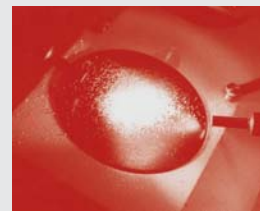
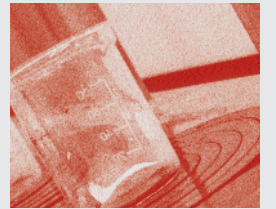
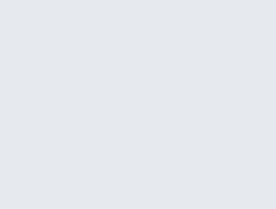
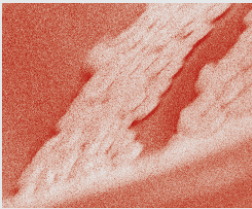
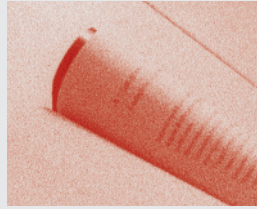
€ (thousands)	2003	%	2002	%	Change 2003/2002	%
Italy	8,190	12.9	9,690	12.4	(1,500)	(15.5)
Europe (Italy excluded)	21,475	33.8	27,337	34.9	(5,862)	(21.4)
North America	18,547	29.2	17,250	22.0	1,297	7.5
Asia	6,866	10.8	14,429	18.4	(7,563)	(52.4)
Other areas	8,416	13.3	9,656	12.3	(1,240)	(12.8)
International	55,304	87.1	68,672	87.6	(13,368)	(19.5)
Total sales	63,494	100.0	78,362	100.0	(14,868)	(19.0)

Sales in 2003 decreased from € 78.4 million to € 63.5 million due to a reduction in sales volumes of 7.7% and a negative price/exchange effect of 11.3%.

The main reason for the reduced sales volumes was the decision to progressively exit from the market for certain intermediates for antibiotics (less € 11.7 million in sales) which no longer offers satisfactory margins as a result of increased production capacity in the Far East. Sales of biocatalysts used in the production of these intermediates have also been reduced.

Sales of active pharmaceutical ingredients for the production of generics, which is the mainstay of our pharmaceutical chemicals business, decreased slightly despite increased volumes which were able to only partially offset the unfavorable currency effect.





FINANCIAL REVIEW

Income Statement

The following table shows the profit and loss accounts, including their expression as a percent of sales and change versus 2002:

€ (thousands)	2003	%	2002	%	Change 2003/2002	%
Net Sales	487,535	100.0	492,724	100.0	(5,189)	(1.1)
Cost of sales	(199,749)	(41.0)	(203,578)	(41.3)	3,829	(1.9)
Gross Profit	287,786	59.0	289,146	58.7	(1,360)	(0.5)
Selling expenses	(148,031)	(30.4)	(133,786)	(27.2)	(14,245)	10.6
R&D expenses	(32,766)	(6.7)	(35,124)	(7.1)	2,358	(6.7)
G&A expenses	(21,134)	(4.3)	(21,124)	(4.3)	(10)	0.0
Amortization of goodwill	(4,825)	(1.0)	(9,888)	(2.0)	5,063	(51.2)
Operating Income	81,030	16.6	89,224	18.1	(8,194)	(9.2)
Financial income/(expense), net	(6,448)	(1.3)	(6,082)	(1.2)	(366)	6.0
Non-operating income/(expense), net	(36,147)	(7.4)	(2,417)	(0.5)	(33,730)	n.s.
Pretax Income	38,435	7.9	80,725	16.4	(42,290)	(52.4)
Provision for income taxes	(14,688)	(3.0)	(30,509)	(6.2)	15,821	(51.9)
Net Income	23,747	4.9	50,216	10.2	(26,469)	(52.7)

Consolidated net sales were € 487.5 million compared to € 492.7 million in 2002, a slight decrease of 1.1%. The volume growth of pharmaceutical sales offset the negative price and currency effects as shown in the following table:

Change as % of sales	Volume Effect	Price Effect	Currency Effect	Total change
Pharmaceuticals	6.5	(3.6)	(0.6)	2.3
Pharmaceutical chemicals	(7.7)	(3.1)	(8.2)	(19.0)
Total	4.4	(3.6)	(1.9)	(1.1)

The negative price effect on pharmaceutical sales was due mainly to the price reduction of reimbursable specialties in Italy and was worth over € 15 million. Pharmaceutical chemicals sales volumes decreased following the decision to progressively exit from the market for intermediates for antibiotics. The negative price effect mainly affects this line of products. The severe negative currency effect was determined by the lower dollar value versus the euro which affects around 50% of pharmachem revenue.

International sales went from € 297.3 million to € 276.0 million as a result of the lower pharmaceutical chemicals sales, which are prevalently generated abroad, and the absence of U.S. revenues from lercanidipine which in 2002 accounted for € 12.5 million. International sales represent 56.6% of total sales. Their breakdown by geographic area is shown in the table below:

€ (thousands)	2003	%	2002	%
Europe (Italy excluded)	205,795	74.6	203,425	68.4
North America	18,756	6.8	30,139	10.1
Asia	21,505	7.8	31,095	10.5
Rest of the world	29,899	10.8	32,679	11.0
Total	275,955	100.0	297,338	100.0

Sales in Europe went from 68.4% to 74.6% of total international sales due mainly to the performance of lercanidipine in important European markets.

Gross profit was € 287.8 million, a margin of 59.0% on sales, slightly better than that of the preceding year. The increase is to be attributed to the increased weight of pharmaceutical sales on total sales and the improved pharmaceutical profitability resulting from a favorable product mix.

Selling expenses increased by 10.6% due to the strengthening of the detail force in Italy and the costs related to new product launches.

Research and development expenses were € 32.8 million and include costs incurred during the year for the phase III clinical development of a fixed combination of lercanidipine with enalapril, another anti-hypertensive drug belonging to the ACE inhibitor class.

General and Administrative expenses were € 21.1 million, and at 4.3% of sales remained stable compared to the preceding year.

Goodwill amortization (1.0% of sales) was € 4.8 million and is to be attributed essentially to the acquisitions in France. Goodwill amortization decreased due to a revised estimate of the remaining useful life of the goodwill associated with the acquisition of the French companies which resulted in an extended amortization period effective as from 1 July 2002.

The following table analyses trends in EBIT in both business segments:

€ (thousands)	2003	% of Sales	2002	% of Sales	Change 2003/2002	%
Pharmaceuticals	85,539	20.2	85,785	20.7	(246)	(0.3)
Pharmaceutical chemicals	(4,509)	(6.0)*	3,439	3.8*	(7,948)	n.s.
Total EBIT	81,030	16.6	89,224	18.1	(8,194)	(9.2)

* The calculation basis includes intercompany sales

EBIT, at 16.6% of sales, was € 81.0 million, a decrease compared to 2002 (-9.2%) due to the negative pharmaceutical chemicals result.

EBIT generated by the pharmaceuticals business was € 85.5 million, which at 20.2% of sales was substantially in line with that of the preceding year. This is a particularly good result taking into consideration the impact of the price reductions in Italy and the non-recurring margin from lercanidipine revenue in the U.S. which altogether accounted for € 25 million.

The pharmaceutical chemicals business booked a loss of € 4.5 million due mostly to the biochemical product lines.

Labor cost in 2003 increased by 6.2% over 2002. Total headcount at year end increased mainly as the detail force in Italy was expanded. Overall labor cost increase per employee was 5.2%.

Personnel and other human resources data at 31 December 2003 and 2002 are shown in the following table:

€ (thousands)	2003	2002
Employees at year-end	2,159	2,182
Average age	42	41
Average service	8	7
Labor cost increase:		
Total	+ 6.2%	+ 11.7%
Per employee ^(a)	+ 5.2%	+ 2.0%
Labor productivity:		
Labor cost on net sales	27.5%	25.6%
Sales per employee (€ thousands) ^(a)	229.6	234.3
Value added per employee (€ thousands) ^{(a) (b)}	113.7	116.5
Labor cost includes wages, related charges and additional costs		
^(a) Data per employee for both years are computed on the average number of personnel, 2,124 in 2003 as opposed to 2,103 in 2002		
^(b) Value added is computed excluding non-operating items		

Net financial charges were € 6.4 million in 2003 and are slightly above those of the preceding year. Included are foreign exchange losses of € 0.5 million as opposed to the € 3.3 million gain in 2002. Interest expense paid on loans was € 5.8 million (€ 6.8 million last year).

Net non-operating expenses were € 36.1 million and include a € 29.1 million write-down of the fixed assets, and part of the inventories, of the pharmaceutical chemicals segment, in order to bring their book value in line with that resulting from the valuation of future cash flows. In addition, costs which will most probably have to be incurred following the decision to reorganize the pharmaceutical chemicals business were accrued in the amount of € 1.5 million. Non-operating expenses also comprise the accrued portion of profits that the French companies share with their employees (*participation au résultat*) and an extraordinary tax provision to take advantage of an Italian law which allows the definitive settlement of prior tax years.

Taxes include, besides income taxes, IRAP, a local Italian tax on production activities. The effective tax rate was 38.2%.

Capital Employed

The following table shows the breakdown of capital employed and the sources of financing:

€ (thousands)	2003	%	2002	%	Change 2003/2002	%
Net working capital for operations	71,664	28.7	73,675*	27.1	(2,011)	(2.7)
Net non-current assets	211,052	84.7	229,469*	84.4	(18,417)	(8.0)
Reserves for long term liabilities	(33,395)	(13.4)	(31,325)*	(11.5)	(2,070)	6.6
Capital Employed	249,321	100.0	271,819	100.0	(22,498)	(8.3)
Net financial indebtedness	21,374	8.6	44,747	16.5	(23,373)	(52.2)
Shareholders' equity	227,947	91.4	227,072	83.5	875	0.4
Financing of Capital Employed	249,321	100.0	271,819	100.0	(22,498)	(8.3)
Ratio of shareholders' equity to net non-current assets	1.2		1.0			
Return on investment (ROI)	32.5%		32.8%			
Return on equity (ROE)	10.4%		22.1%			
Net sales	487,535		492,724		(5,189)	(1.1)
Ratio of net sales to capital employed	2.0		1.8			

* Reclassified for comparison purposes

Capital employed at 31 December 2003 decreased by € 22.5 million compared to that at year-end 2002. This difference comprises a € 2.0 million reduction of net working capital for operations, a net non-current assets decrease of € 18.4 million and an increase in the reserves for long term liabilities of € 2.1 million. ROI remained relatively stable going from 32.8% to 32.5% while ROE decreased from 22.1% to 10.4% due to the impact of the asset write-downs and restructuring costs of the pharmaceutical chemicals business. The net sales to capital employed ratio improved slightly and went from 1.8 to 2.0. The components of capital employed are analyzed in the following paragraphs.

Net Working Capital for Operations

The breakdown of net working capital for operations is shown in the following table:

€ (thousands)	2003	% of Sales	2002	% of Sales	Change 2003/2002	%
Accounts receivable, net	116,086	23.8	122,438	24.8	(6,352)	(5.2)
Inventories	62,257	12.8	66,777	13.6	(4,520)	(6.8)
Other current assets	17,123	3.5	13,816*	2.8	3,307	23.9
Current Assets	195,466	40.1	203,031	41.2	(7,565)	(3.7)
Trade accounts payable	78,338	16.1	74,408	15.1	3,930	5.3
Other current liabilities	45,464	9.3	54,948*	11.2	(9,484)	(17.3)
Current Liabilities	123,802	25.4	129,356	26.3	(5,554)	(4.3)
Net Working Capital for Operations	71,664	14.7	73,675	14.9	(2,011)	(2.7)
Days of sales outstanding	81		85			
Inventories as % of cost of sales	31.2%		32.8%			

* Reclassified for comparison purposes

Net working capital for operations decreased by € 2.0 million, a reduction of 2.7%.

Net accounts receivable dropped by € 6.4 million due mainly to an improvement in the average days of sales outstanding which went from 85 to 81 in 2003.

The reduction in inventories of € 4.5 million is to be attributed to the slow down of the pharmaceutical chemicals business and to the year-end write-downs of pharmaceutical chemical products.

Other current assets increased mainly due to higher tax credits.

Trade accounts payable, at € 78.3 million, increased by € 3.9 million over 2002 due to different payment terms to suppliers.

Other current liabilities, at € 45.5 million, consist mainly of personnel, social security and tax payables and were lower than the preceding year by € 9.5 million.

Net Non-Current Assets

Net non-current assets comprise € 188.3 million of fixed assets (which also include intangibles and financial assets) and deferred tax assets in the amount of € 22.7 million.

Net fixed assets decreased by € 32.1 million compared to 2002, going from € 220.4 million to € 188.3 million, as shown in the following table:

€ (thousands)	2003	2002
Net Fixed Assets at the beginning of the year	220,422	214,404
Investments (net of disposals) in:		
Plant and equipment	15,894	26,814
Intangibles	5,251	13,223
Financial assets	(57)	(51)
Total Investments	21,088	39,986
Depreciation and amortization	(26,743)	(30,639)
Write-downs	(26,469)	(3,329)
Net Fixed Assets at year-end	188,298	220,422
Ratio of net sales to:		
Net fixed assets	2.6	2.2
Plant and equipment	4.9	4.0
Accumulated depreciation as % of plant and equipment	63.8%	56.5%

Investments in plant and equipment during 2003, net of disposals, were € 15.9 million. Most of these were made in the production plants in Italy (€ 5.6 million), in Spain (€ 2.7 million), in France (€ 2.3 million) and in Ireland (€ 2.7 million).

The net investment in intangible assets of € 5.3 million consists mainly of product licensing rights in Italy.

Depreciation of plant and equipment at € 16.0 million increased over the preceding year due to the completion of new investments while amortization of intangibles, at € 10.7 million, decreased due to the reduction of the goodwill amortization charge following the revised estimate of the remaining useful life of the goodwill associated with the acquisition of the French companies, effective as from 1 July 2002.

The fixed assets of the pharmaceutical chemicals segment were written down as a consequence of this business's reduced ability to generate future cash flows at least equivalent to the net book value of the assets employed.

As from the 2003 accounts, deferred tax assets, which amount to € 22.7 million, are classified separately under non-current assets. The increase over 31 December 2002 of € 13.7 million represents the future tax benefit generated by the write-down of the assets employed by the pharmaceutical chemicals business, the asset revaluation made by Recordati S.p.A. according to Italian law, and that portion of equity investment write-downs which is tax deductible in future years.

Provisions for Long Term Liabilities

Provisions for long-term liabilities amounted to € 33.4 million and include, as from the 2003 accounts, deferred tax liabilities which were previously booked to other current liabilities. The increase of € 2.1 million recorded in 2003 is mainly due to the deferred taxes booked by the French subsidiary Bouchara-Recordati.

Net Financial Position

The following table shows the composition of net liquid assets and the net financial position:

€ (thousands)	2003	2002	Change 2003/2002	%
Cash and marketable securities	98,685	103,860	(5,175)	(5.0)
Short term bank debt	(17,603)	(19,761)	2,158	(10.9)
Current portion of medium and long-term debt	(27,553)	(28,386)	833	(2.9)
Net liquid assets	53,529	55,713	(2,184)	(3.9)
Medium and long-term debt	(74,903)	(100,460)	25,557	(25.4)
Net financial indebtedness	(21,374)	(44,747)	23,373	(52.2)
Average interest rate payable on long-term loans	5.2%	5.2%		

Net financial indebtedness decreased from € 44.7 million as of 31 December 2002 to € 21.4 million as of 31 December 2003. The improvement stems from operating cash flow generated during the period. The debt to equity ratio also improved and now stands at 0.09.

Cash and marketable securities include short-term investments mainly denominated in euros. Short-term bank debt is attributable mainly to local debt incurred by certain subsidiaries.

Medium and long-term debt, at € 74.9 million, was reduced by € 25.6 million. The average interest rate on this debt is in line with that of the preceding year as most of the indebtedness is at fixed rates or covered by forward interest rate contracts.

Low-interest loans account for 14.7% of total medium and long term debt.

Shareholders' Equity

Shareholders' equity increased by € 0.9 million over 31 December 2002 for the following reasons:

- § net income for 2003 (increase of € 23.7 million)
- § payment of 2002 dividends (decrease of € 18.3 million)
- § issue of 189,000 new ordinary shares following the exercise by top management of stock options under the 2001-2003 stock option plan (increase of € 1.7 million)
- § purchase of 210,786 own shares following authorization received by the Shareholders' Meeting on 16 September 2002 (decrease of € 2.9 million)
- § translation adjustments (decrease of € 3.3 million)

Cash Flow

€ (thousands)	2003	2002
Net income	23,747	50,216
Depreciation and amortization	26,743	30,639
Write-downs	30,007	3,329
Cash flow from operations	80,497	84,184
Changes in medium and long term items	(11,637)	(733)
Changes in working capital	(1,526)	(3,587)
Net investments	(21,088)	(39,986)
Free cash flow	46,246	39,878

Cash flow generated by operations decreased from € 84.2 million in 2002 to € 80.5 million in 2003 (-4.4%), as a result of lower net income. The write-down of pharmaceutical chemicals inventories for a value of € 3.5 million have been included in the 2003 "Write-downs" line.

Free cash flow increased as compared to the preceding year. Changes in medium and long term items are mainly due to deferred tax assets booked during the period. The reduction of investments is a consequence of the decision to reorganize the pharmaceutical chemicals business segment.

Further details are provided in the consolidated statement of cash flow.

FOURTH QUARTER 2003 RESULTS

The following table analyses the results for the fourth quarter 2003:

€ (thousands)	IV Quarter 2003	%	IV Quarter 2002	%	Change 2003/2002	%
Net Sales	130,900	100.0	127,915	100.0	2,985	2.3
Cost of sales	(52,265)	(39.9)	(54,644)	(42.7)	2,379	(4.4)
Gross Profit	78,635	60.1	73,271	57.3	5,364	7.3
Selling expenses	(39,093)	(29.9)	(31,007)	(24.2)	(8,086)	26.1
R&D expenses	(7,937)	(6.1)	(9,262)	(7.2)	1,325	(14.3)
G&A expenses	(5,416)	(4.1)	(5,752)	(4.5)	336	(5.8)
Amortization of goodwill	(1,207)	(0.9)	(1,209)	(0.9)	2	(0.2)
Operating Income	24,982	19.1	26,041	20.4	(1,059)	(4.1)
Financial income/(expense), net	(1,476)	(1.1)	(1,068)	(0.8)	(408)	38.2
Non-operating income/(expense), net	(34,099)	(26.0)	(2,026)	(1.6)	(32,073)	n.s.
Pretax Income	(10,593)	(8.1)	22,947	17.9	(33,540)	n.s.
Provision for income taxes	4,344	3.3	(8,546)	(6.7)	12,890	n.s.
Net Income	(6,249)	(4.8)	14,401	11.3	(20,650)	n.s.

Net sales in the fourth quarter 2003 were € 130.9 million, up 2.3% over the same period of 2002. The increase is to be attributed entirely to the pharmaceuticals business which recorded sales of € 116.0 million, an increase of 7.9% over the same period of the preceding year. Pharmaceutical chemicals sales at € 14.9 million were below those of the last quarter 2002 (-27.1%) due to a particularly unfavorable currency effect linked to U.S. dollar denominated sales and the discontinuance of the intermediates for antibiotics line of products.

Selling expenses were higher than those incurred during the same period of the preceding year due to the sales effort linked to the launch of Entact® (escitalopram) during November in addition to the strengthening of the detail force in Italy during the year.

The following table analyses trends in EBIT in both business segments for the fourth quarter:

€ (thousands)	IV Quarter 2003	% of Sales	IV Quarter 2002	% of Sales	Change 2003/2002	%
Pharmaceuticals	26,366	22.7	26,979	25.1	(613)	(2.3)
Pharmaceutical chemicals	(1,384)	(7.9)*	(938)	(4.1)*	(446)	47.5
Total EBIT	24,982	19.1	26,041	20.4	(1,059)	(4.1)

* The calculation basis includes intercompany sales

EBIT generated by the pharmaceutical business was in line with that of the same period of the preceding year despite the increased selling expenses. The pharmaceutical chemical EBIT, on the other hand, was negative as was the case in the prior quarters.

Net income was negative due to the extraordinary non-operating expenses booked to the last quarter accounts which are mainly related to the reorganization of the pharmaceutical chemicals segment for an amount of over € 30 million.

CONSOLIDATED FINANCIAL STATEMENTS

Recordati S.p.A. and Subsidiaries

Consolidated Financial Statements at and for the years ended 31 December 2003 and 2002

The Consolidated Financial Statements are presented in accordance with IFRS (International Financial Reporting Standards). Further information is provided in the Notes to the Consolidated Financial Statements

RECORDATI S.P.A. AND SUBSIDIARIES
 CONSOLIDATED BALANCE SHEETS AT 31 DECEMBER 2003 AND 2002

ASSETS

€ (thousands)	Notes	2003	2002
Current Assets			
Cash and Cash Equivalents	1	98,685	103,860
Marketable Securities	2	0	0
Accounts Receivable:			
- Trade	3	116,086	122,438
- Others	4	16,264	13,308*
		132,350	135,746
Inventories:			
- Raw Materials and Supplies		24,673	23,570
- Intermediates and Work in Process		15,223	15,887
- Finished Goods		22,361	27,320
	5	62,257	66,777
Accrued Income and Pre-paid expenses	6	859	508
Total Current Assets		294,151	306,891
Non-Current Assets			
Deferred Tax Assets	7	22,754	9,047*
Financial Assets			
- Equity Investments	8	1,696	1,597
- Other Receivables	9	2,214	2,370
		3,910	3,967
Fixed Assets:			
- Land and Buildings		80,037	81,244
- Machinery and Equipment		147,508	142,453
- Other Fixed Assets		36,337	35,132
- Construction-in-Progress		9,711	25,211
		273,593	284,040
Less: Accumulated Depreciation		(174,480)	(160,553)
	10	99,113	123,487
Intangible Assets	11	85,275	92,968
Total Non-Current Assets		211,052	229,469
Total Assets		505,203	536,360

* Reclassified for comparison purposes

LIABILITIES AND SHAREHOLDERS' EQUITY

€ (thousands)	Notes	2003	2002
Current Liabilities			
Short-Term Financial Debt	12	17,603	19,761
Current Portion of Medium and Long-Term Debt	16	27,553	28,386
Accounts Payable:			
- Trade	13	78,338	74,408
- Others	14	38,341	48,238
		116,679	122,646
Accrued Expenses and Other Liabilities		1,559	2,230
Other Provisions	15	5,564	4,480*
Total Current Liabilities		168,958	177,503
Non-Current Liabilities			
Medium and Long-Term Loans Net of Current Portion	16	74,903	100,460
Employees' Termination Pay	17	24,045	23,131
Deferred Tax Liabilities	18	5,714	2,927*
Other Non-Current Liabilities	19	3,636	5,267
Total Non-Current Liabilities		108,298	131,785
Total Liabilities		277,256	309,288
Minority Interests	20	0	0
Shareholders' Equity			
Capital Stock		25,122	5,028
Legal Reserve		5,220	5,220
Capital in Excess of Par Value		50,442	48,823
Treasury Stock		(20,410)	(17,519)
Reserve from Revaluation & Grants		15,436	15,436
Retained Earnings		127,709	95,813
Cumulated Translation Adjustment		681	4,055
Net Income for the Year		23,747	50,216
Total Shareholders' Equity	21	227,947	227,072
Total Liabilities and Shareholders' Equity		505,203	536,360

* Reclassified for comparison purposes

RECORDATI S.P.A. AND SUBSIDIARIES
 CONSOLIDATED STATEMENTS OF INCOME FOR THE YEARS ENDED 31 DECEMBER 2003 AND 2002

STATEMENT OF INCOME

€ (thousands)	Notes	2003	2002
Net Sales	22	487,535	492,724
Cost of Sales		(199,749)	(203,578)
Gross Profit		287,786	289,146
Selling Expenses		(148,031)	(133,786)
Research & Development Expenses		(32,766)	(35,124)
General & Administrative Expenses		(21,134)	(21,124)
Amortization of Goodwill		(4,825)	(9,888)
Operating Income		81,030	89,224
Financial Income/(Expenses), Net	23	(6,448)	(6,082)
Non Operating Income/(Expenses), Net	24	(36,147)	(2,417)
Pretax Income		38,435	80,725
Provision for Income Taxes	25	(14,688)	(30,509)
Net Income		23,747	50,216

RECORDATI S.P.A. AND SUBSIDIARIES
 CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY FOR THE YEARS ENDED 31 DECEMBER, 2003 AND 2002

€ (thousands)	Capital Stock	Capital in Excess of Par Value	Legal Reserve	Reserves from Revaluations & Grants	Treasury Stock	Retained Earnings	Net Income for the Year	Cumulative Translation Adjustment	Total
Balance at 31 December, 2001	24,958	47,535	4,544	15,169	0	73,238	35,997	11,193	212,634
Allocation of 2001 Net Income:									
- Allocation to Reserves			676	267		82	(1,025)		
- Dividends Distributed							(12,479)		(12,479)
- Retained Earnings						22,493	(22,493)		
Increase in Capital Stock	70	1,288							1,358
Treasury Stock					(17,519)				(17,519)
Net Income for the Year							50,216		50,216
Translation Adjustment								(7,138)	(7,138)
Balance at 31 December, 2002	25,028	48,823	5,220	15,436	(17,519)	95,813	50,216	4,055	227,072
Allocation of 2002 Net Income:									
- Allocation to Reserves						17,142	(17,142)		
- Dividends Distributed							(18,321)		(18,321)
- Retained Earnings						14,753	(14,753)		
Increase in Capital Stock	94	1,619							1,713
Treasury Stock					(2,891)				(2,891)
Dividends Lapsed						1			1
Net Income for the Year							23,747		23,747
Translation Adjustment								(3,374)	(3,374)
Balance at 31 December, 2003	25,122	50,442	5,220	15,436	(20,410)	127,709	23,747	681	227,947

RECORDATI S.P.A. AND SUBSIDIARIES
 CONSOLIDATED STATEMENTS OF CASH FLOW FOR THE YEARS ENDED 31 DECEMBER, 2003 AND 2002

CASH FLOW FROM OPERATIONS

€ (thousands)	2003	2002
Cash flow		
Net Income	23,747	50,216
Depreciation of Fixed Assets	15,968	14,787
Amortization of Intangible Assets	10,775	15,852
Write-down of Assets ⁽¹⁾	30,007	3,329
Total Cash Flow	80,497	84,184
Deferred Tax Assets	(13,707)	718*
Employees' Termination Pay:		
Provision	4,568	4,819
Payment	(3,654)	(3,233)
Other Provisions	1,156	(3,037)*
	68,860	83,451
Changes in Working Capital		
Accounts Receivable	3,396	(4,741)*
Inventories	982	(624)
Accrued income and pre-paid expenses	(351)	1,794
Accounts Payable	(5,967)	2,051
Accrued Expenses and Other Liabilities	(671)	(830)
Tax and Other Provisions	1,085	(1,237)*
Changes in Working Capital	(1,526)	(3,587)
Net Cash provided by Operations	67,334	79,864
Cash Flow From Investments		
Net Investments in Fixed Assets	(15,894)	(26,814)
Net Investments in Intangible Assets	(5,251)	(13,223)
Net (Increase) Decrease in Equity Investments	(99)	(191)
Net (Increase) Decrease in Non-current Financial Assets	156	242
Net Cash used for Investments	(21,088)	(39,986)
Cash Flow From Financing Activities		
Medium and Long-Term Loans obtained during the Year	1,996	2,632
Stock Capital Increase	94	70
Capital in Excess of Par Value Increase	1,619	1,288
Treasury stock (Increase) Decrease	(2,891)	(17,519)
Transfer of Current Portion of Medium and Long-Term Debt to Current Liabilities	(27,553)	(28,282)
Changes in Current Portion of Medium and Long-Term Debt	(833)	14,963
Dividends Distributed	(18,321)	(12,479)
Translation Adjustments	(3,374)	(7,138)
Net Cash provided (used) by Financing Activities	(49,263)	(46,465)
Changes In Short-Term Financial Position	(3,017)	(6,587)
Short-term Financial Position at Beginning of Year **	84,099	90,686
Short-term Financial Position at End of Year **	81,082	84,099

* Reclassified for comparison purposes

** Includes Cash and Cash Equivalents and Short-Term Bank Debt excluding Current portion of Medium and Long-Term Debt

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

ACCOUNTING POLICIES

CONSOLIDATED FINANCIAL STATEMENTS AT AND FOR THE YEARS ENDED 31 DECEMBER 2003 AND 2002

The consolidated financial statements comprise the parent Recordati S.p.A. and subsidiaries controlled by the parent. Control is achieved where the parent directly or indirectly holds more than 50% of the voting rights or is otherwise able to exercise or actually exercises control. The companies included in the consolidated accounts, their percentage of ownership and a description of their activity are set out in attachment 1 (page 45). During 2003 Laboratoires Bouchara-Recordati S.a.s. was constituted in France following an internal reorganization of the group and became part of the consolidation perimeter.

The consolidated financial statements are prepared in accordance with International Financial Reporting Standards (IFRS). The financial statements of the consolidated companies were prepared by the Board of Directors or the Sole Directors for submission to the respective Shareholders' Meetings. They have been reclassified and adjusted in order to comply with the IFRS. The criteria applied in preparing the consolidated financial statements is consistent with that of last year.

Significant accounting policies and procedures

Translation of financial statements in foreign currency

Financial statements of foreign subsidiaries were translated into Euros 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.

Differences arising from translation are shown under shareholders' equity.

Principles of consolidation

The line-by-line consolidation method was 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 are eliminated as well as intra-group profits and losses not yet realized.
- c. Any difference between the purchase cost of an equity investment and the subsidiary's equity at current value at the date of acquisition was debited or credited to consolidated shareholders' equity until 31 December 1993; while it is accounted for among non current intangible assets from 31 December 1994 and amortized on a straight-line basis over a period of no more than 20 years.
- d. Minority interests in the equity of consolidated subsidiaries are shown separately under liabilities, while minority interests in the net income of such companies are shown separately in the consolidated income statement.

Balance sheet

Cash and cash equivalents

Cash in banks and highly liquid investments.

Marketable securities

Investments recognized under current assets are measured at the market price at the balance sheet date. Both realized and unrealized gains and losses are recognized in the income statement under financial items.

Trade accounts receivable

Accounts receivable are valued at their estimated realizable value, by recording an appropriate provision for doubtful accounts. Accounts receivable in foreign currencies are translated at rates that are substantially those at year-end.

In the case of currency hedging contracts, gains and losses arising from the valuation at market rates of currency hedging contracts and the related accounts receivable and payable in foreign currencies are recorded in the income statement on an accrual basis.

Inventories

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. Write-down to net realizable value is made if the latter is lower than cost.

The market value of raw materials and subsidiaries is determined by their substitution cost whereas that related to finished goods and work-in-process is represented by their net realizable value.

Accruals and pre-payments

Accrued income/expenses and pre-paid expenses/income are calculated on an accruals basis.

Equity investments

Non-consolidated equity investments above 20% are valued at equity. Other non-consolidated equity investments are valued at market. If their market value cannot be reasonably determined, these investments are valued at cost and reduced if and when permanent loss of value occurs.

Other non-current receivables

Are valued at cost and reduced if and when permanent loss of value occurs.

Fixed assets

Fixed assets are recorded at purchase or internal production cost. Depreciation is computed on a straight-line basis using rates which are held to be representative of the estimated economic and technological lives of the assets:

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

An asset is written-down when the recoverable amount of that asset is permanently below its remaining useful life.

Intangible assets

Intangible assets are valued at purchase cost, net of amortization calculated on a straight line basis and on the basis of their residual income generating potential which 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. An asset is written-down when the recoverable amount of that asset is permanently below its remaining economic usefulness.

Debt and accounts payable

Are measured at nominal value and include bank and other financial debt as well as payables arising in the group's normal course of business.

Tax payable and receivable

The liability for taxes is recorded by each company on the basis of its taxable income.

Deferred tax assets and liabilities are recognized for all temporary differences between the carrying amount of assets and liabilities in the financial statements and their tax base. A deferred tax asset is recognized only to the extent that it is probable that future taxable income will be available against which the credits and carry-forwards can be applied.

Other provisions

Provisions are made for identified losses or liabilities whose occurrence is either certain or probable but whose amount or date of settlement cannot be determined.

Employees' termination pay

Employees' termination pay includes benefits accrued for each employee at year end, determined in accordance with current laws and labor contracts. The provision for the year is charged to the income statement.

Other non-current liabilities

Include liabilities with maturities in excess of 12 months and are measured at nominal value.

Accrued expenses and other liabilities

Accrued expenses and other liabilities are calculated on an accruals basis.

Equity

Proposed dividend is recognized as a liability at the time of adoption of the dividend resolution at the annual shareholders' meeting.

Cost and selling prices of treasury shares are recognized directly under equity. Gains and losses on sales are therefore not recognized in the income statement.

Income statement

Revenues

Revenues from sales of products are recognized 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

Cost of goods sold 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 new products incurred in the launch year are charged to the income statement in proportion to the revenues obtained during the launch period.

Research expenses

All research expenses are charged to the income statement in the year in which they are incurred. These include the cost of all personnel employed in research and development and amounts due under collaboration agreements with third parties.

Non-reimbursable government grants

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 included under 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.

Non-operating items

Include income and expenses not related to the group's normal operations as well as extraordinary items.

SUBSIDIARIES INCLUDED IN THE CONSOLIDATED ACCOUNTS
AT 31 DECEMBER 2003

ATTACHMENT 1

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AT AND FOR THE YEARS ENDED 31 DECEMBER 2003 AND 2002

1. Cash and cash equivalents

Are constituted mainly by cash in banks and at 31 December 2003 and 2002 amounted to € 98.7 million and € 103.9 million respectively. A breakdown is shown in the following table:

€ (thousands)	31 Dec. 2003	31 Dec. 2002
Cash and cash equivalents:		
Deposits in bank current accounts	66,899	51,690
Short term deposits	31,760	52,142
Cash on hand	26	28
Total	98,685	103,860

At 31 December 2003 cash and cash equivalents were denominated mainly in euros (€ 76.0 million) and held for the most part by the parent Recordati S.p.A. (€ 18.7 million) and the subsidiaries Recordati S.A., Luxembourg (€ 23.2 million), and Recordati Ireland (€ 16.3 million). Cash deposits in U.S. dollars amounted to US\$ 24.5 million and were held mostly by Recordati Corporation. Short term deposits have maturities of one month or less and comprise bank deposits and notes issued by the Irish National Treasury Management Agency.

2. Marketable securities

Marketable securities at 31 December 2003 and 2002 comprise 30,000 shares of Ascent Pediatrics Inc. which were written off in 2001 as that company is no longer listed and is being reorganized.

3. Trade accounts receivable

Trade accounts receivable at 31 December 2003 and 2002 amounted to € 116.1 million and € 122.4 million respectively. These are shown net of the allowance for doubtful accounts which at 31 December 2003 amounted to € 6.7 million (€ 5.2 million at 31 December 2002). An additional € 2.4 million were provided for in 2003 and the total allowance is considered to be sufficient to cover potential insolvency.

Average days sales outstanding decreased from 85 to 81. The evolution of trade accounts receivable by business segment was as follows:

€ (thousands)	31 Dec. 2003	% of Sales ^(a)	31 Dec. 2002	% of Sales ^(a)
Pharmaceuticals	102,253	23.1	102,012	24.0
Pharmaceutical chemicals	13,833	21.6	20,426	25.8
Total trade accounts receivable	116,086	22.9	122,438	24.3

^(a) Since receivables include VAT, these percentages are computed based upon sales gross of VAT

The increase in pharmaceutical receivables as compared to 31 December 2002 was € 0.2 million, a less than proportional increase when compared to sales growth. Average days of sales outstanding decreased from 84 to 80 despite the increase of the Italian National Health Service effective payment terms which went from 278 days in 2002 to 292 days.

Pharmaceutical chemicals average days of sales outstanding also improved going from 95 to 88.

4. Other Receivables

Other receivables amounted to € 16.3 million (€ 13.3 million at 31 December 2002) and their breakdown is as follows:

€ (thousands)	31 Dec. 2003	31 Dec. 2002*
Other receivables:		
Tax receivable	8,319	5,585
Balances due from employees and agents	2,739	1,751
Other	5,206	5,972
Total	16,264	13,308
* Reclassified for comparison purposes		

At 31 December 2003 tax receivable prevalently comprises value added tax (VAT) receivable and advance payments of income tax. The "other" line refers to advances paid to suppliers and other parties, in addition to computed credits under licensing-in agreements.

5. Inventories

Inventories at 31 December 2003 and 2002 amounted respectively to € 62.3 million and € 66.8 million, net of an obsolescence provision of € 4.0 million and € 1.5 million respectively. The increase of the obsolescence provision is to be attributed mainly to the write-downs consequent to the reorganization of the pharmaceutical chemicals business.

Inventories decreased by 6.8% (€ 4.5 million) as compared to the preceding year. Their breakdown by business segment follows:

€ (thousands)	31 Dec. 2003	% of cost of sales	31 Dec. 2002	% of cost of sales
Pharmaceuticals	42,224	32.4	43,394	33.6
Pharmaceutical chemicals	20,033	28.9	23,383	31.4
Total inventories	62,257	31.2	66,777	32.8

Close inventory control resulted in lower pharmaceuticals inventories despite sales volume growth. The slow down of the pharmaceutical chemicals business and the year-end write-downs of pharmaceutical chemical products accounted for the significant reduction of this segment's inventories. The overall inventory balances improved going from 32.8% of cost of sales to 31.2%.

6. Accrued income and pre-paid expenses

The balance at 31 December 2003 of € 0.9 million (€ 0.5 million at 31 December 2002) refers entirely to pre-paid expenses.

7. Deferred tax assets

As from the 2003 accounts deferred tax assets are booked separately under non-current assets. At 31 December 2003 deferred tax assets amounted to € 22.7 million (€ 9.0 million at 31 December 2002), an increase of € 13.7 million. The balance mainly comprises the future tax benefit generated by the following transactions:

- § write-down of the pharmaceutical chemicals business assets (tax effect of € 5.3 million)
- § write-down of equity investments, tax deductible over 5 years (tax effect of € 5.2 million)
- § asset revaluation made by parent Recordati S.p.A. according to Italian law, reversed in the consolidated accounts (tax effect € 8.3 million)

8. Equity Investments

Equity investments in non-consolidated companies and other holdings reflected in the consolidated balance sheets at 31 December 2003 and 2002 are as follows:

€ (thousands)	Value at 31 December 2003	2002	Percentage of Equity Owned 2003	2002
Investments				
Digital Gene Technologies Inc., U.S.A.	0	0	2.3%	2.3%
Maxygen Inc., U.S.A.	218	119	n.m.	n.m.
SurroMed Inc., U.S.A.	681	681	n.m.	n.m.
Groupement Pharmaceutique Européen S.A., France	0	0	15%	15%
Tecnofarmaci S.p.A., Pomezia (Rome)	87	87	4%	4%
Confarma S.p.A., Novara	8	8	3%	3%
DAFNE, Reggello (Florence)	2	2	2%	2%
Consorzio C4T, Pomezia (Rome)	78	78	2.2%	2.2%
Consorzio Nazionale Imballaggi, Rome	0	0	n.m.	n.m.
	1,074	975		
Other holdings				
Technogen Associates L.P., U.S.A.	622	622		
Total equity investments	1,696	1,597		

The holding in Maxygen Inc. increased by 8,892 shares which were distributed by Technogen Associates LP in lieu of dividends. The holding now stands at 27,816 shares which were marked to market and a € 0.1 million gain was recorded. Shares in Groupement Pharmaceutique Européen S.A., which operates in the pharmaceutical sector, are held by Bouchara-Recordati S.a.s. and have been completely written-off. The value of all the other equity investments remain unchanged.

The holding in Technogen Associates LP, a California based company investing in developing genomics, biotechnology and pharmaceutical companies, remained unchanged.

9. Other non-current receivables

Non-current receivables at 31 December 2003 were € 2.2 million, substantially in line with the preceding year-end, and mainly comprises advance payments of taxes due by employees on their termination pay made by the Italian companies, according to Italian law.

10. Fixed Assets

Fixed assets are recorded at historical purchase or construction cost. Those of Recordati S.p.A. were partly revalued in accordance with Italian laws enacted in 1975, 1983 and 1991. The net surplus arising from this monetary revaluation at 31 December 2003 amounts to € 1.2 million.

Fixed assets, net of accumulated depreciation, were, at 31 December 2003 and 2002, € 99.1 million and € 123.5 million respectively. Their composition and variation are shown in the following table:

€ (thousands)	Net value at 31 Dec. 2002	Increase	Depreciation	Write- downs	Disposals	Other variations	Net value at 31 Dec. 2003
Land and buildings	46,863	840	(2,976)	(4,934)	(4)	3,531	43,320
Plant and equipment	42,257	2,623	(10,770)	(16,089)	(247)	19,850	37,624
Other fixed assets	9,156	1,590	(2,222)	(3,043)	(47)	3,024	8,458
Work-in-process	25,211	11,465	0	(234)	(309)	(26,422)	9,711
Total fixed assets	123,487	16,518	(15,968)	(24,300)	(607)	(17)	99,113

The increase of € 16.5 million can be attributed to the following investments:

- § € 3.5 million in production facilities at the Campoverde di Aprilia pharmaceutical chemicals plant;
- § € 2.7 million in the production site in Ireland which is being built by Recordati Ireland, where a production facility and a research center for the development of chemical processes for the production of experimental drugs will be established. The facility will serve initially to increase production of the active ingredient lercanidipine for international markets;
- § € 2.7 million in the completion of the investment program at the Murcia (Spain) pharmaceutical chemicals plant;
- § € 2.3 million in upgrades to the production facilities at the pharmaceutical plants in France;
- § € 2.3 million for other investments mainly to upgrade infrastructures;
- § € 1.6 million in the Milan pharmaceutical plant for the completion of the renovation of its production facilities;
- § € 0.9 million for research equipment;
- § € 0.5 million in production facilities at the Opera biochemical plant.

The write-downs of € 24.3 million refer mainly to the pharmaceutical chemicals segment assets and were booked following a valuation of the future cash flows they are expected to generate.

11. Intangible Assets

Intangible assets, net of accumulated amortization, at 31 December 2003 and 2002 amounted to € 85.3 million and € 93.0 million respectively. Their composition and variation are shown in the following table:

€ (thousands)	Net value at 31 Dec. 2002	Increase	Depreciation	Write- downs	Disposals and other variations	Net value at 31 Dec. 2003
Deferred costs	153	0	(37)	0	(4)	112
Patent rights	7,405	0	(1,846)	(64)	0	5,495
Distribution, license, trademark and other rights	4,111	4,334	(2,504)	(522)	9,416	14,835
Goodwill	64,978	0	(4,825)	(735)	0	59,418
Work-in-process and advance payments	12,310	613	0	(184)	(11,035)	1,704
Others	4,011	301	(1,563)	(664)	1,626	3,711
Total intangible assets	92,968	5,248	(10,775)	(2,169)	3	85,275

The main investments comprise the acquisition of software and product license rights. Among the latter, the most important are those related to Octegra® (€ 2.7 million), an antibacterial fluoroquinolone under license from Bayer AG and to Entact® (€ 1.0 million) an antidepressant under license from Lundbeck.

The € 59.4 million residual goodwill at 31 December 2003 is related to the following equity investments:

- § € 14.4 million relative to the acquisition of Doms-Adrian (amortized over 20 years to 2018);
- § € 34.4 million relative to the Bouchara group companies (amortized over 20 years to 2020);
- § € 10.6 million relative to the consolidation of Sophartex (amortized over 10 years to 2010);

The write-downs of € 2.2 million refer mainly to the pharmaceutical chemicals segment assets and were booked following a valuation of the future cash flows they are expected to generate.

12. Short-Term Bank Debt

Short-term bank debt at 31 December 2003 and 2002 amounted to € 17.6 million and € 19.8 million respectively and consists of overdraft facilities in Euro and foreign currency mostly in the French and Spanish subsidiaries.

13. Trade Accounts Payable

Trade accounts payable, which include allocations for invoices to be received, at 31 December 2003 and 2002 amounted to € 78.3 million and € 74.4 million respectively.

14. Other Accounts Payable

Other accounts payable at 31 December 2003 and 2002 amounted to € 38.3 million and € 48.2 million respectively. Their composition is as follows:

€ (thousands)	31 Dec. 2003	31 Dec. 2002
Other accounts payable:		
Tax payable	12,207	15,182
Personnel	13,245	13,348
Social security	8,539	8,605
Agents	951	1,008
Other	3,399	10,095
Total	38,341	48,238

Tax payable includes that computed by the companies on the basis of estimated taxable income net of tax advances already paid, and withholding taxes mainly related to payroll.

15. Other provisions

This line includes tax provisions and other provisions as follows:

€ (thousands)	31 Dec. 2003	31 Dec. 2002*
Other provisions:		
Tax	1,191	1,962
Other	4,373	2,518
Total	5,564	4,480
* Reclassified for comparison purposes		

The tax provision at 31 December 2003 refers almost entirely to provisions made by Recordati S.p.A. (€ 0.9 million) and Innova Pharma S.p.A. (€ 0.2 million) in order to cover a planned payment to take advantage of a recent law which allows for the automatic settlement of tax years still open.

Other provisions include amounts set aside for future contingencies and the increase recorded in 2003 is due mainly to the €1.5 million accrual made by the parent to cover costs which will most probably have to be incurred following the decision to reorganize the pharmaceutical chemicals business.

16. Medium and Long-Term Loans

At 31 December 2003 and 2002, medium and long-term loans included:

€ (thousands)	31 Dec. 2003	31 Dec. 2002
Istituto Bancario San Paolo IMI loans, guaranteed by mortgages on Milan and Campoverde plant and equipment, at an average annual interest rate of 1.67% repayable in semi-annual installments through 2010	4,622	5,481
Research loans granted by Istituto Bancario San Paolo IMI, at an average annual interest rate of 2.83%, repayable in semi-annual installments through 2012	6,809	7,739
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	1,206	1,206
Banca Intesa loans for financial investments at an annual interest rate of 5.935%, repayable in semi-annual installments through 2004	3,098	6,197
Banca Intesa loans for financial investments at an annual interest rate of 5.915%, repayable in semi-annual installments through 2007	20,658	25,823
Banca Popolare di Milano, loans for financial investments at an annual interest rate of 3.98%, repayable in semi-annual installments through 2006	7,500	10,500
Loan granted by Banca Intesa to Recordati España S.L. at an annual interest rate of 4.85%, repayable in quarterly installments through 2008	5,409	6,010
Various loans granted to Recordati España S.L. at an average annual interest rate of 3.27%	5,229	4,504
Loan granted by Banca Intesa to Bouchara-Recordati S.a.s. at an annual interest rate of 5.99%, repayable in semi-annual installments through 2007	8,256	10,320
Loan granted by Banca Popolare di Milano to Bouchara-Recordati S.a.s. at an annual interest rate of 6.0%, repayable in semi-annual installments through 2007	8,256	10,320
Loan granted by Banca Unicredito Italiano to Bouchara-Recordati S.a.s. at an annual interest rate of 6.01%, repayable in semi-annual installments through 2007	16,520	20,650
Loan granted by Istituto S. Paolo IMI to Bouchara-Recordati S.a.s. at an annual interest rate of 6.0%, repayable in semi-annual installments through 2007	12,392	15,490
Various loans granted to Sophartex S.A. at an average annual interest rate of 5.31%	626	1,241
Various loans granted to Bouchara-Recordati S.a.s. at an average annual interest rate of 3.94%	1,875	3,365
	102,456	128,486
Less: Current portion	(27,553)	(28,386)
Total	74,903	100,460

As of 31 December 2003, the repayment schedule of long-term debt due after 2004 is as follows:

€ (thousands)	
2005	25,154
2006	22,488
2007	20,079
2008	2,818
2009 and subsequent years	4,364
Total	74,903

The overall average interest rate on medium and long-term indebtedness is 5.15%. Medium and long-term debt is almost entirely at fixed interest rates as the variable interest rate debt contracts were simultaneously covered with interest rate swap contracts in order to eliminate the fluctuation risk. IRS contracts are in place for a total of € 71.5 million at an average rate of 5.89%. Their valuation at market rates, as required by IAS 39, after tax, does not materially affect net equity at 31 December 2003.

During 2003 low-interest loans and grants were obtained for € 0.6 million and € 0.4 million respectively, to fund industrial investments, technological innovation and research programs. At 31 December 2003 low-interest loans account for 14.7% of total medium and long-term debt.

17. Employees' Termination Pay

The balances at 31 December 2003 and 2002 were € 24.0 million and € 23.1 million respectively and comprise amounts due to employees upon termination of employment according to local legislation and labor contracts. The roll forward of this fund was as follows:

€ (thousands)	
Balance at 1 January 2003	23,131
Addition	4,568
Utilization	(3,654)
Balance at 31 December 2003	24,045

The valuation of the Italian companies' employee termination funds according to the requirements established by International Accounting Standard 19, net of any tax effect, is deemed not to generate any material difference in the consolidated profit and loss or shareholders' equity accounts at 31 December 2003.

18. Deferred Tax Liabilities

Deferred tax liabilities at 31 December 2003 and 2002 were € 5.7 million and € 2.9 million respectively, increasing mainly due to deferred taxes accrued on the Bouchara-Recordati balance sheet. At 31 December 2002 deferred tax liabilities were booked to current liabilities.

19. Other Non-Current Liabilities

Other non-current liabilities at 31 December 2003 and 2002 were € 3.6 million and € 5.3 million respectively and comprise provisions made by the subsidiary Bouchara-Recordati for taxes due on property revaluation recorded in prior years.

20. Minority Interest in Net Assets

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

21. Shareholders' Equity

Capital stock

As of 31 December 2003 the capital stock consisted of 50,244,414 ordinary shares with a par value of € 0.50 each for a total of € 25,122,207. During 2003 capital stock increased by € 94,500 following the issue of 189,000 new ordinary shares, 51,000 of which at a price of € 12.33 each and 138,000 of which at a price of € 7.86 each, to company top managers who exercised stock options under the 2001-2003 stock option plan.

Additional stock options for 475,500 shares to be exercised at a price of € 14.71 per share were assigned.

Altogether, at 31 December 2003 options for 1,531,000 shares to be exercised from 2004 to 2006 were outstanding. These consist of 135,500 options to be exercised at a price of € 12.33 per share, 448,000 options at a price of € 21.08 per share, 472,000 at a price of € 20.72 per share and 475,500 options at a price of € 14.71 per share. The related capital increase has already been approved.

Capital in excess of par value

During 2003 capital in excess of par value increased from € 48,823,321 to € 50,442,331 following the issue of 189,000 new shares for a total price in excess of par value of € 1,619,010.

Reserves from revaluations and grants

At 31 December 2003 and 2002 this caption included:

€ (thousands)	31 Dec. 2003	31 Dec. 2002
Non-reimbursable government grants to promote research and investments	12,317	12,317
Other non-reimbursable grants	517	517
Reserve from revaluation (Law 413/91) partially untaxed	2,602	2,602
Total	15,436	15,436

Fixed assets funded by grants cannot be withdrawn from the use originally envisaged for a period of 5 to 10 years according to their nature. Assets relating to grants received from the Ministry of Industry and Commerce (formerly Asmez) are substantially depreciated.

Treasury stock

At 31 December 2003, 1,199,666 shares were held as treasury stock for a total value of € 20.4 million. Of these, 988,880 shares were purchased on the market during the preceding year for a value of € 17.5 million and 210,786 were purchased during 2003 for a value of € 2.9 million, as authorized by the Shareholders' Meeting held on 16 September 2002.

Untaxed reserves

At 31 December 2003 such reserves amounted to € 19.2 million. In addition, a total of € 28.0 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 International Accounting Standard 12, as revised by the International Accounting Standards Committee during 2000, the income tax consequence of a distribution of these reserves is recognized when such distribution is decided.

Retained earnings and net income for the year

As regards the allocation of the 2003 income, the Board of Directors of Recordati S.p.A. proposed the payment of a dividend of € 0.375 per share (€ 0.375 per share last year) to be paid to all shares outstanding excluding those in treasury stock as from 22 April 2004. This per share dividend includes the accretion deriving from the dividend which would have been due to those shares in treasury stock. Retained earnings of Recordati S.p.A. worth € 9.1 million will be utilized to pay the dividend, the total amount of which is € 18,4 million.

22. Net Sales

Sales for the years 2003 and 2002 were € 487.5 million and € 492.7 million respectively and can be broken down as follows:

€ (thousands)	2003	2002
Net sales:		
Italy	211,580	195,386
Europe (ex Italy)	205,795	203,425
Asia	21,505	31,095
North America	18,756	30,139
Latin America	8,974	9,378
Rest of the world	20,925	23,301
Total	487,535	492,724
Of which:		
Royalties	1,456	229
Down-payments	2,047	8,666
Other income	1,805	3,735

The slight decrease in sales is to be attributed to the pharmaceutical chemicals segment (-19% on the preceding year). The pharmaceuticals segment on the other hand grew by 2.3% over 2002.

Royalties and down-payments derive prevalently from licensing-out agreements relating to Recordati's original research antihypertensive lercanidipine.

23. Financial Income and Expense

In 2003 and 2002 financial items recorded net financial expense of € 6.4 million and € 6.1 million respectively which are comprised as follows:

€ (thousands)	2003	2002
Financial income/(expense), net:		
Exchange gains/(losses)	(473)	3,286
Interest expense on loans	(5,795)	(6,790)
Net interest on short-term financial position	(279)	672
Net gains/(losses) on valuation of securities	99	(3,250)
Total	(6,448)	(6,082)

The loss on valuation of securities to market in 2002 was related mainly to the € 3.3 million cautionary write-off of the equity holding in Digital Gene Technologies.

24. Non-Operating Income and Expense

In 2003 and 2002 non-operating items recorded net expenses of € 36.1 million and € 2.4 million respectively which are comprised as follows:

€ (thousands)	2003	2002
Non-operating income/(expense), net:		
Write-down of pharmaceutical chemicals assets	(29,073)	0
Accrual for extraordinary restructuring expenses	(1,500)	0
<i>Participation au résultat</i>	(1,234)	(1,298)
Tax expense	(1,857)	(750)
Other	(2,483)	(369)
Total	(36,147)	(2,417)

The fixed assets, and for a minor part the inventories, of the pharmaceutical chemicals segment were written-down in order to bring their book value in line with that resulting from the valuation of future cash flows. Costs which will most probably have to be incurred following the decision to reorganize the pharmaceutical chemicals business were accrued. This line also includes the accrued portion of profits that the French companies share with their employees (*participation au résultat*). Tax expense comprises an extraordinary tax provision to take advantage of a recent Italian law which allows the definitive settlement of prior tax years and income tax due in previous periods but paid in 2003. Other non-operating expense represents the write-down of fixed assets no longer in use by the French companies.

25. Provision for Income Taxes

The 2003 provision for income taxes amounts to € 14.7 million, or 38.2% of pretax income. Apart from income taxes the provision also includes IRAP, the Italian regional tax on production activities.

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

€ (thousands)	2003 %	2002 %
Standard income tax rate on pretax income	34.0	36.0
Reduced tax rate from asset revaluation	(10.1)	(0.9)
Dual income tax	(1.8)	(1.0)
Dividends from foreign subsidiaries	0.5	0.4
Consolidation effect of foreign subsidiaries	(5.5)	(7.1)
Other differences, net	8.5	3.4
Effective tax rate on income	25.6	30.8
IRAP	12.6	7.0
Effective tax rate, including IRAP	38.2	37.8

IRAP tax accounted for 12.6% 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.

26. Reconciliation of Shareholders' Equity and Net Income of Recordati S.p.A. to Consolidated Financial Statements

Shareholders' equity and net income for the year as reflected in the financial statements of Recordati S.p.A. and in the consolidated financial statements at 31 December 2003 and 2002 are reconciled as follows:

€ (thousands)	Shareholders' Equity 31 Dec. 2003	31 Dec. 2002	Net Income for the year 2003	2002
Recordati S.p.A.	191,593	190,695	9,404	35,462
Adjustment resulting from different accounting principles:				
Treasury stock	(20,410)	(17,519)	0	0
Change in inventory valuation method	34	1,179	(1,145)	1,179
- related deferred tax effect	(11)	(474)	463	(474)
Intercompany margin in inventory	(1,486)	(1,687)	201	440
- related deferred tax effect	492	557	(65)	(145)
Reversal of fixed asset revaluation	(7,024)	(4,897)	5,973	7,139
Retained earnings of consolidated subsidiaries, at beginning of the year, net of amounts already booked by Recordati S.p.A.	37,178	32,740	0	0
Net income for the year of consolidated subsidiaries, net of amounts already booked by Recordati S.p.A.	26,900	22,423	26,900	22,423
Dividends received from consolidated subsidiaries	0	0	(18,000)	(16,000)
Translation adjustments	681	4,055	16	192
Consolidated financial statements	227,947	227,072	23,747	50,216

27. Guarantees, Commitments 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.

On 24 November 1998 the parent, Recordati S.p.A., received a notice of assessment relative to tax year 1992 for an alleged irregularity concerning the purchase of future dividend rights on non-quoted shares. The Company has appealed against this tax assessment. A favorable ruling was obtained from the Provincial Tax Court which was appealed by the Internal Revenue Service. On 10 February 2003 the company filed its statement of defense but the date of the relative hearing has not yet been set. A favorable, and final, ruling was obtained on the equivalent 1991 assessment from the Internal Revenue Service. The company confirms that in its opinion these transactions are fully legal as recognized in several tax commissions' favorable rulings. In fact, in November 1992 a new provision of the law was introduced implicitly endorsing the operations carried out previously, while from that date forward the company promptly adhered to the new regulation. Therefore no accrual has been made in this respect.

In January 2001 certain savings shareholders, who in total said they owned 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 and during the 19 June 2002 hearing the Court adjourned the trial to 18 May 2004 for the final plea of the parties. 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.

28. Intercompany Transactions and Related Issues

The following corporate actions took place within the group during the year.

§ Laboratoires Bouchara-Recordati S.a.s., was constituted in France and became operational. The company manufactures and markets pharmaceuticals.

At 31 December 2003, intercompany accounts amounted to € 91.1 million, the most significant of which were receivables by Recordati S.p.A. from its subsidiaries for the supply of goods and services totaling € 39.4 million, and receivables by Recordati S.p.A. for loans to Bouchara-Recordati S.a.s. and Recordati España of € 17.0 million and € 2.0 million respectively.

Intragroup sales and services recorded during 2003 were € 136.6 million. During the year, Recordati S.p.A. received dividends of € 14.0 million from Recordati S.A. Chemical and Pharmaceutical Company and of € 4.0 million from Innova Pharma S.p.A..

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.

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/chiamo.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 some directors have specific powers, the Board exercises an overall power of direction and control.

Nine directors sit on the Board. Until 4 February 2004 there were three executive directors, the Chairman, Mr. Giovanni Recordati, the President of the Pharmaceutical Chemicals Division, Mr. Alberto Recordati, and Mr. Andrea Recordati who is a company manager. On that date Mr. Alberto Recordati was appointed Vice Chairman by the Board and ceased his responsibilities as President of the Pharmaceutical Chemicals Division. He will act on behalf of the company in case of absence or impediment of the Chairman. Of the seven non-executive directors six are independent professionals of high standing.

The Board meets at least four times a year. During 2003 it met seven times with a composite attendance rate of around 90%.

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 is composed of the Chairman and Chief Executive Officer, the Vice Chairman and four non executive independent directors.

During 2003 the Executive Committee convened three times, with a composite attendance rate of around 94%.

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 2003 the Internal Control Committee met five times, with a composite attendance rate of around 93%.

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 2003 the Remuneration Committee met three times and all members were present.

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 2003 the auditors attended the meetings of the Board of Directors and of the Executive Committee with an attendance rate of around 76%. The Board of Auditors met nine times in 2003. The President of the Board of Auditors or a delegated 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 ON CONSOLIDATED FINANCIAL STATEMENTS

Deloitte.

To the Stockholders of RECORDATI S.p.A.

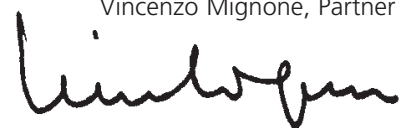
We have audited the accompanying consolidated balance sheet of RECORDATI S.p.A. and subsidiaries as of December 31, 2003 and 2002 and the related consolidated statements of income, consolidated cash flows and changes in the consolidated equity for the years then ended. These consolidated financial statements are the responsibility of the Company's Management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing. Those standards require that we plan and perform the audit in order 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 Management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial positions of RECORDATI S.p.A. and subsidiaries as of December 31, 2003 and 2002 and the results of their operations and their cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS).

Milan, March 12, 2004

Deloitte & Touche S.p.A.
Vincenzo Mignone, Partner



This booklet is a summary of
the 2003 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.

PRODUCED BY
Recordati
Corporate Communications Dept.

CONCEPT AND GRAPHIC DESIGN BY
Massa & Marti Srl

PHOTOGRAPHY
Monzino (1999), E. Signorelli (2001),
Pictures Born Nessler (2003)

PRINTED IN MILAN (ITALY) IN APRIL 2004 BY
Grafiche Mazzucchelli SpA

BOARD OF DIRECTORS
as of the Shareholders' Meeting
of April 7, 2004

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
Director for Italy
GE Capital Europe

Carlo Pedersoli
Partner
Pedersoli e Associati Law Firm

Andrea Recordati
Director Lercanidipine Business Unit
Recordati S.p.A.
Chairman and Managing Director
Recordati Ireland Ltd

Marco Vitale
Economist and Business Consultant

EXECUTIVE COMMITTEE

Giovanni Recordati
Alberto 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
Mario Garraffo
Heinz Wolf Bull

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

Attilio Calzolari
Pharmaceutical Chemicals

Avi Sartani
Pharmaceuticals,
Research and Development

Fritz Squindo
Chief Financial Officer

Franco Tomasini
Purchasing and Logistics

RECORDATI

Industria Chimica e Farmaceutica S.p.A.

HEADQUARTERS

Via Matteo Civitali 1 – 20148 Milano, Italy

Ph +39 02 48787.1 – Fax +39 02 40073747 – www.recordati.com