ANNUAL REPORT 2004

RECORDATI

CONTENT

FINANCIAL HIGHLIGHTS

REVENUE

€ (thousands)	2004	%	2003	%	Change 2004/2003	%
Pharmaceuticals	438,876	89.9	424,041	87.0	14,835	3.5
Pharmaceutical chemicals	49,432	10.1	63,494	13.0	(14,062)	(22.1)
Total	**488,308**	**100.0**	**487,535**	**100.0**	**773**	**0.2**
Italy	218,797	44.8	211,580	43.4	7,217	3.4
International	269,511	55.2	275,955	56.6	(6,444)	(2.3)

OPERATING INCOME

€ (thousands)	2004	% of Revenue	2003	% of Revenue	Change 2004/2003	%
Pharmaceuticals	88,383	20.1	85,539	20.2	2,844	3.3
Pharmaceutical chemicals	2,042	3.2*	(4,509)	(6.0)*	6,551	n.s.
Total	**90,425**	**18.5**	**81,030**	**16.6**	**9,395**	**11.6**

** The calculation basis includes intercompany revenue*

KEY CONSOLIDATED DATA

€ (thousands)	2004	% of Revenue	2003	% of Revenue	Change 2004/2003	%
Revenue	488,308		487,535		773	0.2
EBITDA [(1)]	111,566	22.8	107,773	22.1	3,793	3.5
Operating income	90,425	18.5	81,030	16.6	9,395	11.6
Net income	53,964	11.1	23,747	4.9	30,217	127.2
Cash flow	76,926	15.8	80,497	16.5	(3,571)	(4.4)
Shareholders' equity	261,769		225,658*		36,111	16.0
Dividends	21,665[(2)]		18,392		3,273	17.8
Dividends/net income	40.1%[(2)]		77.4%			

[(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.
* Reclassified for comparison purposes.

PER SHARE

€ per share [(3)]	2004	2003	Change 2004/2003	%
Net income	1.10	0.49	0.61	124.5
Cash flow	1.57	1.65	(0.08)	(4.8)
Shareholders' equity	5.32	4.60*	0.72	15.7
Shares outstanding:				
- average during the year	49,121,982	48,900,132		
- at December 31	49,239,123	49,044,748		

[(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 net of treasury stock. Shares outstanding at year end are net of treasury stock which amounted to 1,199,666 shares for both years.
* Reclassified for comparison purposes.

LETTER FROM THE CHAIRMAN

2004 CONSOLIDATED REVENUE € 488.3 MILLION, OPERATING INCOME € 90.4 MILLION AND NET INCOME € 54.0 MILLION

Our strategy:
Expand pharmaceutical operations in Europe.
Acquire new product licenses.
Maintain commitment in R&D.

To Our Shareholders,

2004 was a very busy year which generated very good financial results and during which the basis for the future development of the group's pharmaceutical business was set, both through product pipeline enhancement and expansion into other European markets.

Consolidated revenues were € 488.3 million, substantially in line with those of the preceding year on the whole, but with a different performance of the two businesses. Pharmaceutical sales were € 438.9 million, an increase of 3.5%. Excluding Sophartex, the French company which was sold in April, the increase in pharmaceutical sales is of 8.4%. Growth was thanks to the success of Zanidip® (lercanidipine) in all markets where it is sold and to the performance of the international pharmaceutical business which was up 12.0%. Pharmaceutical chemical sales were down 22.1% at € 49.4 million due to the decision to discontinue product lines which are no longer profitable and to a negative currency effect.

Operating income was € 90.4 million, or 18.5% of sales, an increase of 11.6% over the preceding year. The pharmaceutical business generated operating income of € 88.4 million, a margin on sales of 20.1%. The pharmaceutical chemicals operating income was € 2.0 million as opposed to a loss in 2003 as a result of the reorganization process implemented in 2004.

Net income was € 54,0 million, or 11.1% of sales, an increase of over 100% compared to 2003 due to the extraordinary write-down of pharmaceutical chemicals assets booked in that year. In 2004 net non-operating items were positive by € 1.1 million. Net income in 2004 increased more than operating income, even after excluding these non-operating items, thanks to lower financial expenses and tax rate.

The group's financial structure was further strengthened due to the cash flow generated by operations and to the sale of an office building in Paris and of the company Sophartex. At 31 December 2004 the net financial position was positive by € 72.1 million, while shareholders' equity reached € 261.8 million.

Both business segments performed well. The pharmaceuticals business confirmed its ability to react to changed market conditions, and in particular to the price reductions applied in Italy, increasing its sales volumes by over 10%. Despite a drop in sales the pharmaceutical chemicals business turned a profit.

Resources continued to be invested in product portfolio enhancement and in the expansion of our European operations. Throughout 2004 Recordati maintained its commitment to the research and development of innovative drugs in the cardiovascular and urogenital fields, areas in which it has specific and extensive scientific competence. The group's pipeline was strengthened through the acquisition of new licenses for innovative products which are either fully developed or for which the final phase of clinical development is still to be completed. Furthermore, negotiations started for the acquisition of companies in other European markets including that relative to Merckle GmbH's branded pharmaceutical business. This particular transaction was successfully completed at the beginning of 2005. Expansion into the main European pharmaceutical markets 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 2004:

- The international development of lercanidipine, Recordati's original antihypertensive calcium channel blocker, continued. The new 20mg formulation, approved in 2003, was launched in Italy, Spain, the Scandinavian countries and Portugal and is already on the market in Germany, France and Australia since last year. A new drug application for Zanipress®, the fixed combination of lercanidipine and enalapril, was filed with the BfArM, the German medicines agency.

- Collaboration agreements were concluded with the Danish company LifeCycle Pharma and with Eurand Pharmaceuticals (Ireland) for the development of new modified release formulations of lercanidipine. As regards the U.S. development project, the new modified release formulation used by Forest Laboratories during a pilot study did not did not meet all the stringent pre-set criteria for dose response across the range of doses studied. Alternative extended release formulations are being developed and evaluated.

- Investments for the completion of the new plant in Ireland, which will be dedicated to the production of lercanidipine and will be operational as from the second half 2005, continued.

- Further steps were taken in our licensing-in strategy. An agreement was signed with Almirall Prodesfarma, the leading Spanish pharmaceutical company, for the marketing and sale in Spain of Cidine® (cinitapride), a drug for the treatment of chronic dyspepsia. As a part of the agreement Recordati granted Almirall's Italian subsidiary the right to market and sell Synflex® (naproxen sodium), an analgesic drug, and Theo-dur® (theophylline), a respiratory drug. A series of agreements were concluded with the Spanish pharmaceutical company Uriach for the marketing and sale in Italy and in France of rupatadine, an antihistamine drug indicated for the treatment of allergies. The agreements also include license options for Germany, Poland and the United Kingdom. An agreement was signed with the Italian pharmaceutical company Angelini for the marketing and sale in Spain of prulifloxacin, a new anti-bacterial fluorquinolone. In December Recordati entered into an important license agreement with Kissei Pharmaceutical, a Japanese pharmaceutical company, for the pan-European development and marketing of silodosin, a drug indicated for the treatment of symptoms associated with benign prostatic hyperplasia.

- In line with the strategy of expanding its pharmaceutical operations in Europe, over April and May Recordati acquired almost 25% of the share capital of the Polish pharmaceutical company Polfa Kutno with the declared intention to increase its holding to just under 50%. At the same time the U.S. pharmaceutical company Ivax announced its intention to acquire 100% of the same company. Following declarations from the main Polfa Kutno shareholders of their willingness to sell all of their holdings at a take out premium, Recordati, not interested in acquiring the entire company at the resulting multiples, decided to sell its holding to Ivax. Overall a capital gain of € 2 million, net of all expenses, was realized.

- The reorganization of the pharmaceutical chemicals business began during the period with the objective of regaining profitability in the short term. Biochemical products are no longer being produced and the portfolio of active pharmaceutical ingredients has been rationalized. As part of this program agreement was reached with the unions for the transfer of 140 employees, from both the Campoverde and Opera plants, to the national redundancy fund.

- In January Bouchara Recordati sold its office building in Paris for an amount of ca. € 20 million realizing, on a consolidated basis, a capital gain of € 2.1 million.

- During April Sophartex, which was purchased in 2000 as part of the Bouchara group of French pharmaceutical companies, was sold for a total cash receipt of over € 25 million. This amount comprises the price of € 17.3 million, the reimbursement of a loan of € 5.3 million from Bouchara-Recordati and the distribution during March of a € 3 million dividend. The sale price realized is in line with the book value of the business which includes the allocation of goodwill paid at the time of its acquisition. Sophartex is a manufacturing business dedicated to the production of finished pharmaceutical dosage forms mainly for third parties. This activity was not considered to be strategic for the development of the Recordati group and the company had been earmarked for disposal from the beginning.

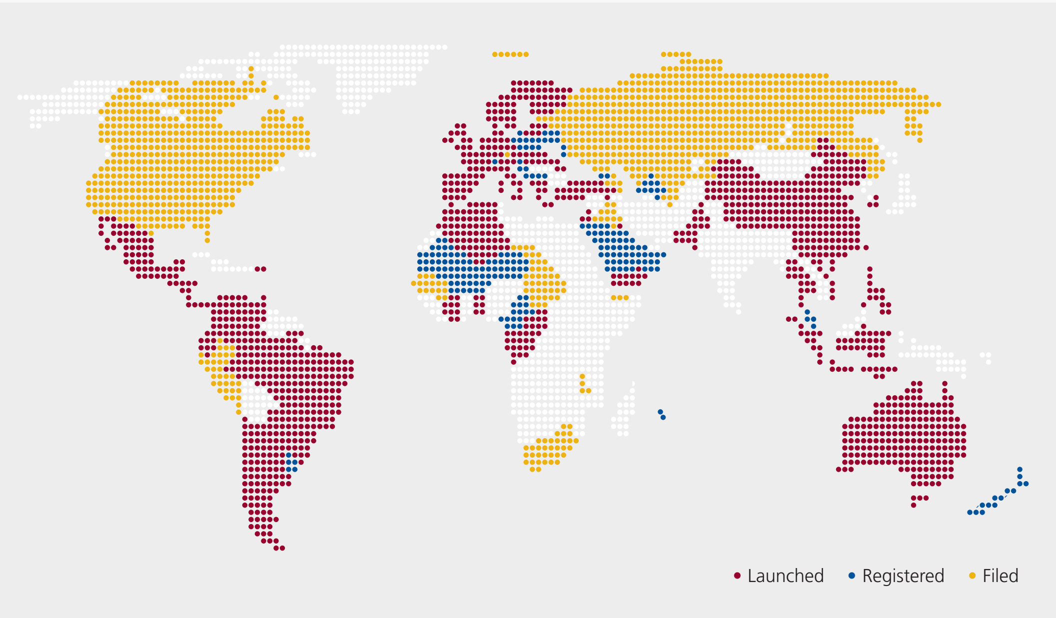
Commitment to research and the internationalization of the business will remain the foundation for our future growth. Priority will be given to enhancing our product portfolio and to entering new European markets when allocating financial and managerial resources. Europe will progressively become our reference market and this will require a significant growth effort.

The acquisition recently concluded in Germany represents a fundamental step in our strategy allowing our group to gain access to the largest pharmaceutical market in Europe and the third largest worldwide. Germany accounts for 22% of the European pharmaceutical market and thanks to this transaction we will now have marketing operations in over two thirds of the E.U. market. A direct presence in Germany strengthens Recordati's position as a company of reference in the European specialty pharmaceutical arena. Our extended European coverage, our consolidated expertise in obtaining effective collaborations with third parties and our competence and experience in dealing with European regulatory affairs authorities, make our group an ideal partner for those companies which are unable to develop their products for the European market on their own. These competencies allow Recordati to be competitive in obtaining new product licenses for the European markets, even against "big pharma".

The achievement of the ambitious targets that we have given ourselves for the future requires maximum determination and focus on our part. Each of us must be aware and convinced of the fact that we must grow more and more rapidly if we wish to survive in today's pharmaceutical market which is in continuous evolution and becomes more competitive every day.

We therefore, as always, 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 2004.

LERCANIDIPINE WORLDWIDE



DIVIDENDS

The Board of Directors of the parent company will propose to the shareholders a 4:1 stock split. Each of the 50,438,789 currently outstanding shares, par value € 0.50 each, will be replaced by 4 new shares, par value € 0.125 each. The new shares shall be entitled to profits as from 1 January 2004. In view of the results achieved in 2004 and taking into account the proposed stock split, the Board of Directors will propose the payment of a dividend of € 0.11 per share existing after the stock split (€ 0.09375 per share last year on an adjusted basis) to be paid to all shares outstanding, excluding those in treasury stock, as from 28 April 2005. This per share dividend includes the accretion deriving from the dividend which would have been due to those shares in treasury stock.

Giovanni Recordati
Chairman and Chief Executive Officer

RESEARCH AND DEVELOPMENT

FOCUS ON THE UROGENITAL AND CARDIOVASCULAR AREAS OF RESEARCH

New molecules in different stages of clinical development.

Four new product licenses obtained.

Zanipress® (the lercanidipine-enalapril fixed combination) filed for approval.

During 2004 Recordati has significantly strengthened its licensing and development capabilities and activities which have resulted in an enhancement of its product pipeline.

These results were achieved in a very competitive environment thanks to management's flexible approach and its capability of reacting rapidly, but with careful risk assessment, to capture the right opportunities. Recordati's growth strategy requires a continued and intense search of new products and partnerships. Its efforts and resources have simultaneously been directed at both alternatives. Its own drug discovery is highly focused on the identification of innovative compounds for the treatment of micturition disorders, an area in which Recordati excels. An outsourced project in the cardiovascular area is underway for which a series of collaborations have been created. In addition to its own research, Recordati's strength lies in its consolidated expertise in obtaining effective collaborations with third parties and in its competence and experience in dealing with European regulatory authorities.

Recordati continues to be active in the research of treatments which address disorders of the urogenital tract. The incidence of these disorders is increasing in the industrialized world as a consequence of the progressive ageing of the population. Urinary incontinence in particular is not always treated pharmacologically, in part due to the side effects associated with anticholinergic agents which are the most commonly used among the main classes of drugs for the treatment of this condition. Therefore, opportunities exist in this field for the development of an effective and convenient drug without the side effects of the currently available treatments.

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. 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 function of the bladder and important advances have been made. A new target for novel drugs was identified, the 5-HT_{1A} serotoninergic receptor.

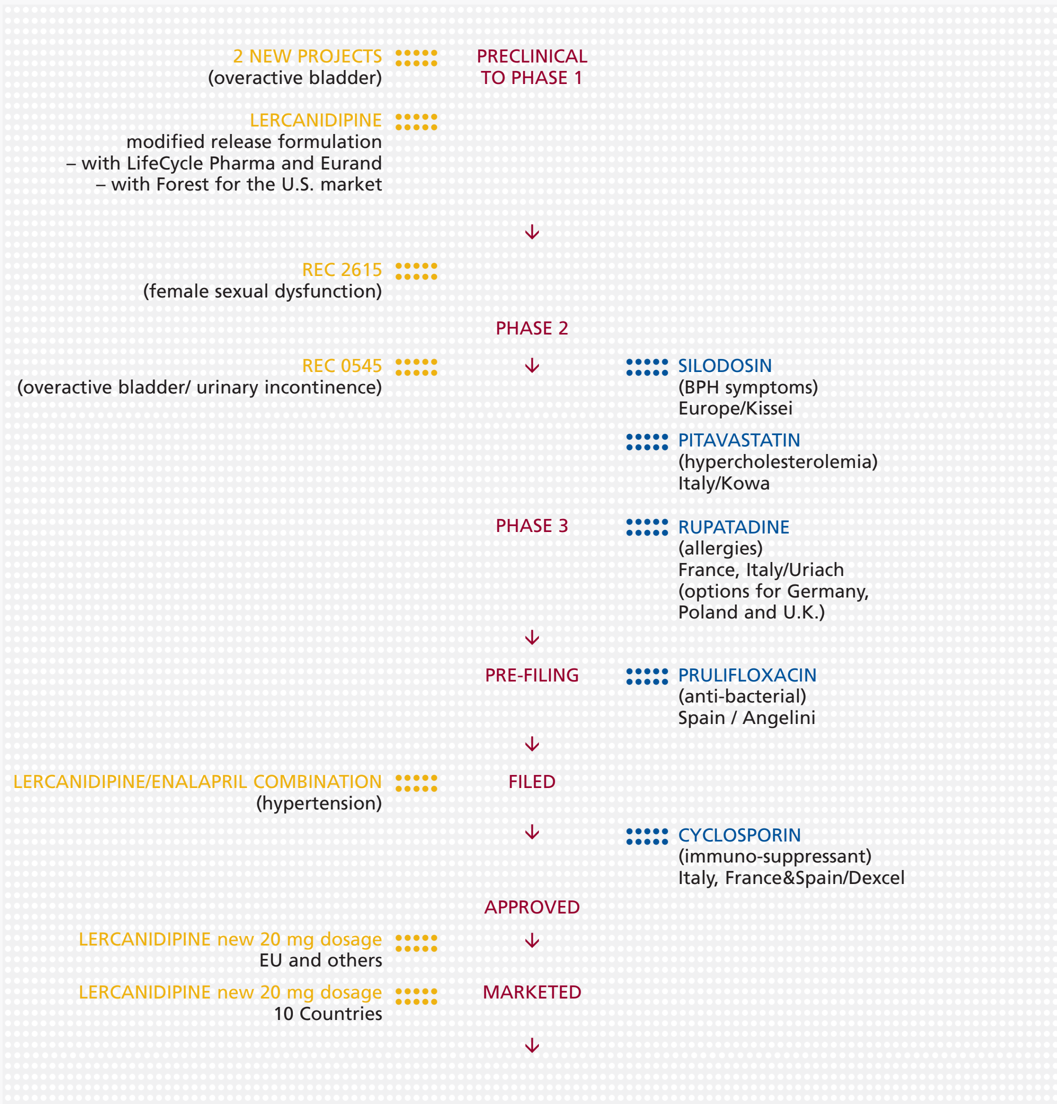
The first candidate to be developed as an antagonist of the 5-HT_{1A} receptor, REC 0545, represents a completely new approach for controlling the overactive bladder and could present a better tolerability profile than the anticholinergics. REC 0545 is endowed with a potent and selective antagonistic effect and shows remarkable activity in increasing bladder volume capacity, or time between micturitions, without blunting bladder contractility, differently from anticholinergics. This product candidate is currently undergoing its proof of concept clinical program. 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.

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. Recordati has in fact identified a new drug candidate, REC 2615, a topical formulation of which will initiate its proof of concept clinical phase during 2005.

A new project in the urological therapeutic area initiated with the recent signature of a license agreement with Kissei Pharmaceutical, a Japanese pharmaceutical company, for the pan-European development and marketing of silodosin, a new compound indicated for the treatment of symptoms associated with benign prostatic hyperplasia, in all European countries. Silodosin is a selective alpha-1A receptor antagonist which relaxes smooth muscles at the prostate and the urethra. Urinary resistance is consequently decreased and thus symptoms associated with benign prostatic hyperplasia are alleviated. This condition is frequently observed in ageing men and its symptoms significantly reduce quality of life. Benign prostatic hyperplasia is increasing in frequency due to the progressive ageing of the population. The drug has already completed its development in Japan where a new drug application has been filed. Under this agreement Recordati obtained exclusive rights to silodosin for the European countries where it will complete its clinical development and following approval will market and sell it.

Recordati also conducts research and development activities in the area of cardiovascular disease and in particular as related to hypertension. Hypertension is an asymptomatic condition but is a dangerous risk factor in the development of coronary and cerebral ischemic disease. 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 is not treated, and that half of the patients treated is not adequately controlled.

PHARMACEUTICAL PRODUCT PIPELINE



Recordati's efforts in this area 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 92 countries and is currently on the market in 67 of these.

Throughout 2004 Recordati continued to invest in the further development of lercanidipine with an aim to improve its clinical profile through the creation of new formulations. Collaboration agreements were concluded with the Danish company LifeCycle Pharma and with Eurand Pharmaceuticals (Ireland) for the development of new modified release formulations of lercanidipine.

In December Recordati submitted a new drug application for Zanipress®, a fixed combination of lercanidipine and enalapril, an extensively used drug belonging to the angiotensin conversion enzyme inhibitors class (ACE inhibitors). The registration dossier was filed with the BfArM, the German medicines agency and, assuming approval is obtained, Germany will act as Reference Member State in a mutual recognition approval process for the rest of Europe.

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

Efforts directed at establishing new collaboration agreements with other pharmaceutical companies resulted in the strengthening of our product portfolio. Agreements were concluded with the Spanish pharmaceutical company Uriach for the marketing and sale in Italy and in France of rupatadine, an antihistamine drug indicated for the treatment of allergies. The agreements also include license options for Germany, Poland and the United Kingdom. These agreements follow the license obtained last year from Uriach for the sale of rupatadine in Spain. This product was then launched by Recordati España as Alergoliber® at the beginning of 2004. Rupatadine, researched and developed by Uriach, is a latest generation systemic antihistamine and does not cause drowsiness, an undesired side effect of previous generation drugs. It is patented until 2013. Recent epidemiological studies have confirmed an increase in the incidence of allergies. Hay fever in particular now affects 20% of the population (it was 1% at the beginning of the 20th century), as reported by the W.H.O.. Rupatadine will be launched in France and in Italy when authorization and pricing procedures are completed in these two countries.

Furthermore, Recordati signed a non-exclusive license agreement with the pharmaceutical company Angelini for the marketing and sale in Spain of prulifloxacin, a new anti-bacterial fluorquinolone indicated for the treatment of infections of the urinary tract and the relapse of chronic bronchitis. Prulifloxacin is a latest generation fluorquinolone discovered by the Japanese pharmaceutical company Nippon Shinyaku and developed in Europe by Angelini. Recordati España will launch the product once the mutual recognition approval process, for which Italy acts as Reference Member State, is finalized.

REVIEW OF OPERATIONS

GROWTH DRIVEN BY VOLUME INCREASE OF PHARMACEUTICAL SALES

Zanidip® (lercanidipine) sales up 25%.

Zanidip® 20mg creates additional market share.

Double digit growth from the main products.

Sales growth in Italy, France and Spain exceeds the market.

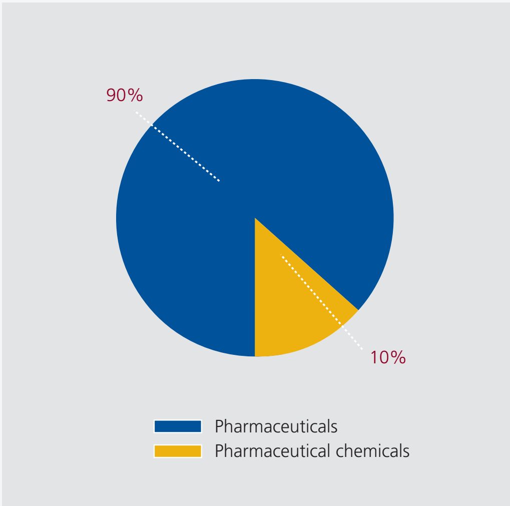
Successful reorganization of the pharmaceutical chemicals business.

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

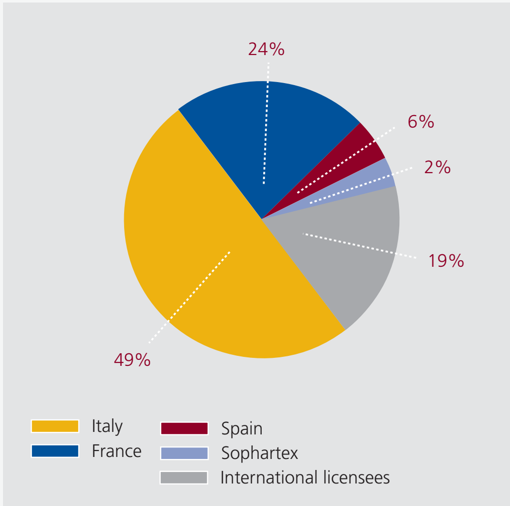
€ (thousands)	2004	2003	Change 2004/2003	%
Italy	213,541	203,390	10,151	5.0
France	106,733	97,878	8,855	9.0
Spain	26,313	21,004	5,309	25.3
International licensees	85,384	76,062	9,322	12.3
Sophartex	6,905	25,707	(18,802)	(73.1)
Total pharmaceutical revenue	438,876	424,041	14,835	3.5
Pharmaceutical chemical revenue	49,432	63,494	(14,062)	(22.1)
Total Revenue	**488,308**	**487,535**	**773**	**0.2**

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

REVENUE BY BUSINESS SEGMENT



PHARMACEUTICAL REVENUE



ZANIDIP® (LERCANIDIPINE)

Zanidip® (lercanidipine), a calcium channel blocker entirely discovered and developed by Recordati, continued to perform well in 2004 and its success is also shown by its market share growth in the majority of the important markets where it is sold, helped by the launch of the new 20mg dosage form. Zanidip® is sold directly by our marketing companies in Italy, France and Spain and by licensees in these and in an additional 64 countries. Our licensees purchase the product exclusively from Recordati.

In 2004 lercanidipine sales increased by 25.4% and accounted for 23.5% of total sales and 26.1% of pharmaceutical sales. Its sales breakdown is shown in the following table:

€ (thousands)	2004	2003	Change 2004/2003	%
Italy	39,491	33,674	5,817	17.3
France*	23,361	15,738	7,623	48.4
Spain	4,944	4,267	677	15.9
Direct sales	67,796	53,679	14,117	26.3
Sales to licensees	46,913	37,806	9,107	24.1
Total lercanidipine sales	**114,709**	**91,485**	**23,224**	**25.4**

** Includes export sales of € 367 thousand in 2004 and € 319 thousand in 2003*

Sales of Zanedip® and Lercadip®, the two brands of lercanidipine sold by Recordati in Italy, were € 39.5 million, up 17.3% over the preceding year. This excellent result was due to the continued good performance of the drug and to the launch of the new 20mg form in February. Lercanidipine achieved an 11.4% share of the Italian calcium channel blocker market during the last quarter of 2004.

Lercanidipine has also been very successful in France, where it is marketed by Bouchara Recordati and Pierre Fabre, reaching a market share of over 15% in the fourth quarter 2004, an even better growth trend than that recorded in Italy. Sales of Zanidip® by Bouchara Recordati were € 23.4 million, an increase of 48.4% over the preceding year.

In Spain, where the new 20mg dosage form was launched in January 2004, Zanidip® recorded sales of € 4.9 million, up 15.9% over 2003. Together with the brands sold by licensees Uriach and Rottapharm, lercanidipine attained a 6.0% share of the Spanish calcium channel blocker market in the fourth quarter 2004.

In the other 64 countries where lercanidipine is currently marketed, but where Recordati has no direct presence, sales are generated through licensees. In Germany, the lercanidipine market share was 13.8% in the fourth quarter 2004, a demonstration that lercanidipine is widely used in the largest European pharmaceutical market for the treatment of hypertension. Growth trends continued also in other European countries where market shares improved throughout the year. In Australia lercanidipine has already attained a 13.2% market share. Another interesting market is South Korea where lercanidipine has a share of 10.2%.

Overall, sales to licensees in 2004 were € 46.9 million, up 24.1% over the preceding year.

Pharmaceuticals, Italy

€ (thousands)	2004	2003	Change 2004/2003	%
Prescription pharmaceuticals (a)	195,455	186,583	8,872	4.8
Self-medication pharmaceuticals (b)	18,086	16,807	1,279	7.6
Pharmaceuticals, Italy	**213,541**	**203,390**	**10,151**	**5.0**

(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 2004 were € 195.5 million, up 4.8% over 2003 compared with a pharmaceutical market growth of 4.6%, hospital sales included. This result was obtained thanks to volume growth which more than offset the negative price effect following the 6.8% discount imposed on the sale of specialties reimbursed by the national healthcare scheme starting in June, 2004.

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

€ (thousands)	Therapeutic area	2004	2003	Change 2004/2003	%
Elopram®/Entact®	Depression	50,971	45,139	5,832	12.9
Zanedip®/Lercadip®	Hypertension	39,491	33,674	5,817	17.3
Peptazol®	Gastroenterology	23,546	19,719	3,827	19.4
Tora-Dol®	Analgesia	19,544	19,220	324	1.7
Isocef®	Anti-infective	13,605	14,753	(1,148)	(7.8)
Acequin®/Acequide®	Hypertension	7,250	8,595	(1,345)	(15.6)
Octegra®	Anti-infective	6,779	6,547	232	3.5

The cardiovascular therapeutic area accounts for 27.9% of prescription pharmaceutical sales and is still the largest in our portfolio thanks mainly to the continuing success of lercanidipine. Sales of Nitrocor®, a nitroglycerin transdermal patch for the treatment of angina, were € 5.2 million, in line with those recorded in 2003.

In the CNS (Central Nervous System) area, the combined sales of Elopram® (citalopram) and Entact® (escitalopram), both SSRI antidepressants, grew by 12.9%. Entact®, the new drug launched in November 2003 which is highly specific and selective and has an excellent tolerability profile, was favorably received by physicians and has shown progressive growth throughout the year reaching a market share of 6% at year end. Sales of Elopram®, on the other hand, are reducing due to competition from generic versions of the tablet form which resulted in a significant price reduction as from July 2004.

Regarding the anti-infective area (15.1% of sales) the weak season for winter illnesses caused an overall contraction of the market for antibiotics and consequently decreased sales of Isocef® (ceftibuten) and Diezime® (cefodizime). Sales of Octegra® (moxifloxacine), an antibacterial fluorquinolone, increased slightly.

Within the analgesia/anti-inflammatory therapeutic area (13.1% of sales), Toradol® (ketorolac) maintained its position as the market leader in its class.

In the gastroenterological area (12.0% of sales), Peptazol® (pantoprazole) grew by 19.4% 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 2004 were € 18.1 million, up 7.6% over the preceding year, within a relatively stable market. Imidazyl®, Proctolyn® and Localyn®, the main products in our portfolio, again recorded increased sales during the year. Sales of Alovex‰, for the treatment of oral cavity aphthas, were up 34.0% to € 2.2 million, consolidating its position as a reference product for this disease. Eumill® confirmed its growth trend, and together with Imidazyl® reinforces Recordati's leadership in the eye drops market.

In 2004 further measures were introduced aimed at curbing public pharmaceutical spending. A tax of 5% to be levied on the amounts spent on promotion by pharmaceutical companies was imposed.

In addition, a discount of 6.8% was applied as from 26 June 2004 until 31 December 2004 on the sale of specialties reimbursed by the national healthcare scheme.

The treasury bill for 2005 extended the application of the 6.8% discount to the whole of the current year. Furthermore, the recently formed Italian pharmaceuticals agency (AIFA) revised the national list of reimbursable drugs with the aim to recover the 2004 expenditure which exceeded the established budget for public pharmaceutical spending. The prices of those products whose sales grew during the first half 2004 more than the market average (8.6%) were selectively reduced. Two Recordati products are involved with a € 4.5 million impact in 2005.

Pharmaceuticals, France

In 2004 revenue in France by Bouchara Recordati was € 106.7 million, an increase of 9.0% over the preceding year within a market which grew by 6.0%. This increase was obtained mainly due to the success of Zanidip® which recorded a sales growth of 49.1%.

The following table shows sales of the main products:

€ (thousands)	Therapeutic area	2004	2003	Change 2004/2003	%
Zanidip®	Hypertension	22,994	15,419	7,575	49.1
Hexa-line	Respiratory	15,246	17,509	(2,263)	(12.9)
Exomuc®	Respiratory	11,714	13,070	(1,356)	(10.4)
Abufene®	Gynecology	8,407	5,693	2,714	47.7

Within the French product portfolio the respiratory therapeutic area is still the largest and accounts for 33.0% of total sales. Sales of the Hexa line of products decreased mainly due to the delisting of some forms of Hexapneumine. Exomuc was affected by the overall sales contraction for this class of products.

The cardiovascular area has become relevant thanks to the growth of Zanidip® and the launch of Epinitril®, a nitroglycerin transdermal patch for the treatment of angina, which generated sales of € 3.7 million, more than double those of 2003.

Abufene®, a beta-alanine based drug indicated for the treatment of menopausal symptoms, was actively promoted during 2004 reaching sales of € 8.4 million, an increase of almost 50% over 2003.

The second phase of the revision of the list of reimbursed products, which was expected to take place in 2004, was suspended. A newly created health insurance organization issued a health insurance reform bill at the end of July 2004 which includes an objective to save € 2.5 billion in public pharmaceutical spending by 2007. For some classes of drugs which were expected to be delisted alternative measures, such as price reduction, are being evaluated. Other cost containment measures include a rise in the promotional tax levied on the pharmaceutical industry, the adjustment of pack sizes and measures to boost generics.

Pharmaceuticals, Spain

Revenues in Spain in 2004 by Recordati España were € 26.3 million, up 25.3% over the preceding year. In 2004 the Spanish pharmaceutical market grew by 7.2%.

The following table shows sales of the main products:

€ (thousands)	Therapeutic area	2004	2003	Change 2004/2003	%
Ulcotenal®	Gastroenterology	15,085	14,146	939	6.6
Zanidip®	Hypertension	4,944	4,267	677	15.9
Dermatrans®	Cardiovascular	1,644	948	696	73.4
Alergoliber®	Respiratory	1,159	0	1,159	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 € 15.1 million, an increase of 6.6% over the preceding year. Sales of Zanidip® were € 4.9 million, up 15.9%. Dermatrans®, a nitroglycerin transdermal patch for the treatment of angina, generated sales of € 1.6 million and is now the third most important product in the Spanish portfolio. Alergoliber® (rupatadine), an antihistamine under license from Uriach, was launched at the beginning of the year and recorded sales of € 1.2 million. Recordati España also obtained a license for the marketing and sale of Cidine, (cinitapride), a drug for the treatment of chronic dyspepsia, which was relaunched at the end of the year. This product is expected to help growth in 2005.

Effective 1 January 2004 the prices of over 2,000 packs and 92 active substances within the reference pricing system for off-patent drugs were reduced. The effect on Recordati’s product portfolio was marginal. A new strategic plan for pharmaceutical policy was approved by the new government in November 2004 which includes an obligatory payback system, effective 2005, requiring companies to pay back between 1.5% and 5% of their prescription sales under the national health system each year. Furthermore, effective 1 February 2005, a 4.2% price cut is imposed for 2005 (products subject to reference pricing and those on the market for less than one year are excluded) and a further cut of 2% for 2006.

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)	2004	2003	Change 2004/2003	%
Lercanidipine	45,224	36,538	8,686	23.8
Flavoxate	6,999	7,627	(628)	(8.2)
Fenticonazole	5,771	4,991	780	15.6
Bouchara Recordati (foreign sales)	24,582	23,585	997	4.2
Other income	2,808	3,321	(513)	(15.4)
Total International Licensees	**85,384**	**76,062**	**9,322**	**12.3**

Sales of lercanidipine to international licensees increased by 23.8%. Sales of flavoxate, an antispasmodic for the treatment of urinary incontinence, decreased partly due to a negative currency effect. Sales of Fenticonazole, an antimycotic for dermatological and gynecological use, increased by 15.6% over the preceding year thanks to its performance in new markets.

Sales outside France by our French subsidiary Bouchara Recordati grew by 4.2% due to good sales performance in the main markets.

Other income includes mainly royalties and up-front payments.

Pharmaceutical Chemicals

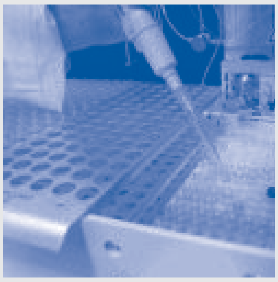
€ (thousands)	2004	%	2003	%	Change 2004/2003	%
Italy	5,256	10.6	8,190	12.9	(2,934)	(35.8)
Europe (Italy excluded)	19,070	38.6	21,475	33.8	(2,405)	(11.2)
North America	12,813	25.9	18,547	29.2	(5,734)	(30.9)
Asia	4,894	9.9	6,866	10.8	(1,972)	(28.7)
Other areas	7,399	15.0	8,416	13.3	(1,017)	(12.1)
International	44,176	89.4	55,304	87.1	(11,128)	(20.1)
Total sales	**49,432**	**100.0**	**63,494**	**100.0**	**(14,062)**	**(22.1)**

Revenues in 2004 decreased from € 63.5 million to € 49.4 million mainly due to the reorganization of this business which involved a decrease in volumes of 18.9% following the decision to focus on the products for which the company is in a favorable competitive position and discontinue those product lines which are no longer profitable.

Furthermore, sales were affected by a negative currency effect of 3.1% arising from the weak dollar value as compared to the euro.


LA MACCHINA UMANA


Fenaro
DA RECORDATI



FINANCIAL REVIEW

Income Statement

The following table shows the profit and loss accounts, including their expression as a percent of sales and change versus 2003:

€ (thousands)	2004	%	2003	%	Change 2004/2003	%
Revenue	**488,308**	**100.0**	**487,535**	**100.0**	**773**	**0.2**
Cost of sales	(179,274)	(36.7)	(199,749)	(41.0)	20,475	(10.3)
Gross profit	**309,034**	**63.3**	**287,786**	**59.0**	**21,248**	**7.4**
Selling expenses	(156,000)	(31.9)	(148,031)	(30.4)	(7,969)	5.4
R&D expenses	(37,311)	(7.6)	(32,766)	(6.7)	(4,545)	13.9
G&A expenses	(21,844)	(4.5)	(21,134)	(4.3)	(710)	3.4
Amortization of goodwill	(3,454)	(0.7)	(4,825)	(1.0)	1,371	(28.4)
Operating income	**90,425**	**18.5**	**81,030**	**16.6**	**9,395**	**11.6**
Financial income/(expense), net	(4,811)	(1.0)	(6,448)	(1.3)	1,637	(25.4)
Non-operating income/(expense), net	1,108	0.2	(36,147)	(7.4)	37,255	n.s.
Pretax income	**86,722**	**17.8**	**38,435**	**7.9**	**48,287**	**125.6**
Income taxes	(32,758)	(6.7)	(14,688)	(3.0)	(18,070)	123.0
Net income	**53,964**	**11.1**	**23,747**	**4.9**	**30,217**	**127.2**

Consolidated net revenue was in line with that of the preceding year.

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

Change as % of revenue	Volume Effect	Price Effect	Currency Effect	Total change
Pharmaceuticals	12.2	(3.5)	(0.3)	8.4
Sophartex	(73.1)			(73.1)
Pharmaceutical chemicals	(18.9)	(0.1)	(3.1)	(22.1)
Total	3.6	(2.8)	(0.6)	0.2

The volume growth of pharmaceuticals (+12.2%) continues to drive the increase in sales. The negative price effect was mainly due to a mandatory discount of 6.8% in Italy as from 26 June 2004, and to the price reduction of Elopram® to maintain sales in the face of generic competition. The decision to rationalize the pharmaceutical chemicals product portfolio determined a decrease in volumes of 18.9%. The negative currency effect, mainly affecting pharmaceutical chemicals, is due chiefly to the weakness of the U.S. dollar.

International revenues went from € 276.0 million to € 269.5 million as a result of the lower pharmaceutical chemicals sales, which are prevalently generated abroad. International sales represent 55.2% of total revenue. Their breakdown by geographic area is shown in the table below:

€ (thousands)	2004	%	2003	%
Europe (Italy excluded)	206,240	76.5	205,795	74.6
North America	13,065	4.8	18,756	6.8
Asia	21,742	8.1	21,505	7.8
Rest of the world	28,464	10.6	29,899	10.8
Total	**269,511**	**100.0**	**275,955**	**100.0**

Gross profit was € 309.0 million, a margin of 63.3% on sales, an improvement over that of the preceding year. The growth is to be attributed to the increased weight of pharmaceutical sales on total sales, to the more favorable product mix in both lines of business and to the disposal of Sophartex which had lower gross margins.

Selling expenses increased by 5.4% due to the promotional support of new product launches during the year.

Research and development expenses were € 37.3 million, up 13.9% on the preceding year. Among the main items included are the costs incurred during the year for the clinical development of the fixed combination of lercanidipine with enalapril, a new product for which the new drug application was filed with BfarM, the German medicines agency, at the end of 2004. Also included are up front payments of around € 2.5 million related to new product licenses.

General and Administrative expenses were € 21.8 million, and at 4.5% of sales increased slightly compared to the preceding year.

Goodwill amortization was € 3.5 million and is associated with the acquisition of the French companies. The decrease compared to the preceding year is mainly due to the sale of Sophartex.

The following table analyses trends in operating income in both business segments:

€ (thousands)	2004	% of Revenue	2003	% of Revenue	Change 2004/2003	%
Pharmaceuticals	88,383	20.1	85,539	20.2	2,844	3.3
Pharmaceutical chemicals	2,042	3.2*	(4,509)	(6.0)*	6,551	n.s.
Total operating income	**90,425**	**18.5**	**81,030**	**16.6**	**9,395**	**11.6**

** The calculation basis includes intercompany sales*

Operating income, at 18.5% of revenue, was € 90.4 million, an increase of 11.6% compared to 2003 thanks to the positive contribution from both businesses. Operating income generated by the pharmaceuticals business was € 88.4 million (20.1% of sales) an increase of € 3.3 million over 2003 due to the improvement in gross profit which compensated for the growth in R&D expenses of over 20%. The pharmaceutical chemicals business regained profitability thanks to the reorganization process implemented in 2004 recording operating income of € 2.0 million.

Labor cost in 2004 decreased by 5.2% compared to 2003 while labor cost increase per employee was 11.2%. Changes mainly derive from the deconsolidation of Sophartex which had a *pro capite* cost of labour below that of the other companies within the group. Excluding Sophartex the labor cost increase per employee would have been 7.3%.

Personnel and other human resources data at 31 December 2004 and 2003 are shown in the following table:

	2004	2003
Employees at year-end	**1,796**	**2,159**
Average age	42	42
Average service	9	8
Labor cost increase (decrease):		
Total	(5.2)%	6.2%
Per employee [(a)]	11.2%	5.2%
Labor productivity:		
Labor cost on net sales	26.0%	27.5%
Sales per employee (€ thousands) [(a)]	269.6	229.6
Value added per employee (€ thousands) [(a) (b)]	131.7	113.7

Labor cost includes wages, related charges and additional costs.
(a) Data per employee for both years are computed on the average number of personnel, 1,811 in 2004 as opposed to 2,124 in 2003.
(b) Value added is computed excluding non-operating items.

Net financial charges were € 4.8 million in 2004. Included are foreign exchange losses of € 0.4 million and the prudential write down of equity investments for € 0.8 million. Interest expense paid on loans was € 4.5 million (€ 5.8 million last year).

Net non-operating income was € 1.1 million and includes a capital gain of € 2.1 million on the sale of an office building in Paris, a capital gain of around € 2 million on the sale of Polfa Kutno stock and a further capital gain of € 1.9 million on the sale of property belonging to the parent company. Non-operating costs relate mainly to the write down of some biochemical products inventory for € 1.0 million, a provision to cover risks connected with a tax assessment received by Bouchara Recordati and the accrued portion of profits that the French companies share with their employees *(participation au résultat)*.

Taxes include, besides income taxes, IRAP, a local Italian tax on production activities. The effective tax rate was 37.8%.

Capital Employed

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

€ (thousands)	31.12.2004	%	31.12.2003	%	Change 2004/2003	%
Net working capital for operations	44.740	23.2	71,664	28.7	(26,924)	(37.6)
Net non-current assets	170,680	88.5	211,052	84.7	(40,372)	(19.1)
Reserves for long term liabilities	(22,603)	(11.7)	(33,395)	(13.4)	10,792	(32.3)
Capital employed	**192,817**	**100.0**	**249,321**	**100.0**	**(56,504)**	**(22.7)**
Net financial indebtedness	(72,137)	(37.4)	21,374	8.6	(93,511)	n.s.
Fair value of hedging derivatives	3,185	1.6	2,289*	0.9	896	39.1
Shareholders' equity	261,769	135.8	225,658*	90.5	36,111	16.0
Financing of capital employed	192,817	100.0	249,321	100.0	(56,504)	(22.7)
Shareholders' equity to net non-current assets	1.7		1.2*			
Operating return on capital employed (ROCE)	46.9%		32.5%			
Return on equity (ROE)	20.6%		10.5%*			
Revenue	**488,308**		**487,535**		**773**	**0.2**
Revenue on capital employed	2.5		2.0			

** Reclassified for comparison purposes.*

Capital employed at 31 December 2004 decreased by € 56.5 million compared to that at year-end 2003. This significant difference derives from the sale of property in Paris, the sale of Sophartex and a decrease of working capital. Net working capital for operations at 31 December 2004 was particularly low as it includes higher than normal taxes payable by Bouchara Recordati arising from the capital gains realized during the year.

ROCE improved significantly going from 32.5% in 2003 to 46.9% in 2004, thanks to the increase in operating income together with a sharp reduction in capital employed. ROE increased from 10.5% to 20.6% due to the impact, on the net income of 2003, of the asset write-downs and restructuring costs of the pharmaceutical chemicals business.

The net revenue to capital employed ratio improved and went from 2.0 to 2.5.

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)	31.12.2004	% of Revenue	31.12.2003	% of Revenue	Change 2004/2003	%
Trade receivables, net	99,862	20.4	116,086	23.8	(16,224)	(14.0)
Inventories	61,566	12.6	62,257	12.8	(691)	(1.1)
Other current assets	14,605	3.0	17,123	3.5	(2,518)	(14.7)
Current assets	**176,033**	**36.0**	**195,466**	**40.1**	**(19,433)**	**(9.9)**
Trade payables	77,166	15.8	78,338	16.1	(1,172)	(1.5)
Other current liabilities	54,127	11.1	45,464	9.3	8,663	19.1
Current liabilities	**131,293**	**26.9**	**123,802**	**25.4**	**7,491**	**6.1**
Net working capital for operations	**44,740**	**9.1**	**71,664**	**14.7**	**(26,924)**	**(37.6)**
Days of sales outstanding	75		81			
Inventories as % of cost of sales	34.3%		31.2%			

Net working capital for operations decreased by € 26.9 million which includes € 1.9 million resulting from the deconsolidation of Sophartex.

Net trade receivables dropped by € 16.2 million. Pharmaceutical trade receivables decreased by € 11.2 million due to the deconsolidation of Sophartex (€ 5.1 million) and to an improvement in the average days of sales outstanding which went from 80 in 2003 to 75 in 2004. Trade receivables relating to pharmaceutical chemicals were reduced by € 5.0 million due to the decrease in sales.

The reduction in inventories was of € 0.7 million. The deconsolidation of Sophartex accounted for a reduction of € 5.7 million. Inventories of pharmaceutical products increased by € 5.5 million due to the increased business volumes. Pharmaceutical chemicals inventories on the other hand decreased by € 0.5 million and include the write down of some biochemical products in the amount of € 1.0 million.

Other current assets decreased by € 2.5 million mainly due to the reduction of tax credits in the French subsidiaries. The € 1.0 million residual value of the Opera plant, which is expected to be sold in 2005, has been posted to other current assets. The deconsolidation of Sophartex accounted for a decrease of € 1.6 million.

Trade payables decreased by € 1.2 million. The reduction deriving from the deconsolidation of Sophartex (€ 4.7 million) was offset by an increase in Recordati Ireland's trade payables related to the investments in the new production site.

Other current liabilities consist mainly of income tax due, net of pre-payments, payments due to personnel and social security payables. The increase as compared to 31 December 2003 is due mainly to taxes payable. Following the sale of property in Paris and of the company Sophartex an amount of € 8.6 million, which was previously treated as a provision for long-term liabilities, was reclassified as it is due to be paid in 2005. The deconsolidation of Sophartex accounted for a reduction in current liabilities of € 5.8 million.

Net Non-Current Assets

Net non-current assets comprise € 153.7 million of fixed assets (property, plant, equipment, intangibles and financial assets) and deferred tax assets in the amount of € 16.9 million.

Net fixed assets decreased by € 34.6 million compared to 2003, going from € 188.3 million to € 153.7 million, as shown in the following table:

€ (thousands)	2004	2003
Net fixed assets at the beginning of the year	188,298	220,422
Investments (net of disposals) in:		
Plant and equipment	(8,536)	15,894
Intangibles	(3,793)	5,251
Financial assets	(1,094)	(57)
Total investments	**(13,423)**	**21,088**
Depreciation and amortization	(21,141)	(26,743)
Write-downs	0	(26,469)
Net fixed assets at year-end	**153,734**	**188,298**
Ratio of net revenue to:		
Net fixed assets	3.2	2.6
Plant and equipment	6.2	4.9
Accumulated depreciation as % of plant and equipment	63.8%	63.8%

The reduction of plant and equipment is due mainly to the sale of the office building in Paris for € 18.0 million and to the deconsolidation of Sophartex for € 7.2 million. Also included is the reclassification of the residual value of the Opera plant to current assets.
Investments in plant and equipment during 2004 were € 18.8 million and were mostly (€ 11.3 million) for the new production site that is being built in Ireland. New investments in Italy for € 5.6 million were in line with those made last year and relate prevalently to the Milan production site and headquarters offices.

The net reduction in intangible assets of € 3.8 million includes the deconsolidation of € 10.2 million of goodwill following the sale of Sophartex. New investments were made for an amount of € 6.4 million which relate mainly to the acquisition of new product licenses.

Depreciation of plant and equipment at € 12.0 million decreased as compared to the preceding year due to the write down of assets employed by the pharmaceutical chemicals business which was booked in 2003. Amortization of intangible assets (€ 9.1 million) was in line with that booked in the preceding year.

Deferred tax assets were € 16.9 million and decreased by € 5.8 million as compared to 31 December 2003 due to the depreciation of the asset revaluation made by Recordati S.p.A. according to Italian law in previous years.

Provisions for Long Term Liabilities

Provisions for long-term liabilities amounted to € 22.6 million and include deferred tax liabilities of € 0.2 million. The decrease as compared to the € 10.8 million recorded in 2003 is mainly due to the reclassification of € 8.6 million to other current liabilities. The deconsolidation of Sophartex accounted for a reduction of € 2.0 million.

Net Financial Position

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

€ (thousands)	31.12.2004	31.12.2003	Change 2004/2003	%
Cash and cash equivalents	232,229	98,685	133,544	135.3
Bank overdrafts	(3,478)	(17,603)	14,125	(80.2)
Loans - due within one year	(25,166)	(27,553)	2,387	(8.7)
Net liquid assets	**203,585**	**53,529**	**150,056**	**280.3**
Loans - due after one year (1)	(131,448)	(74,903)	(56,545)	75.5
Net financial position	**72,137**	**(21,374)**	**93,511**	**n.s.**
Average interest rate payable on long term loans	4.3%	5.2%		

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

The net financial position improved by € 93.5 million and at 31 December 2004 was positive by € 72.1 million thanks to the cash flow generated by operations and to the proceeds from the sale of the Paris office building and of Sophartex.

Cash and cash equivalents stood at € 232.2 million. Included are the funds collected by means of a U.S. private placement of long term senior unsecured notes for an equivalent of € 80.6 million. Liquidity is invested short term and thus kept available to be used for the group's development plans.

Short-term bank debt is attributable mainly to debt incurred by the parent company in relation to the coverage of foreign currency positions.

Medium and long-term debt increased as a result of the U.S. private placement of long term senior unsecured notes for an equivalent of € 80.6 million as mentioned above. The notes are denominated in euros, U.S. dollars and sterling and have an average duration of 9.5 years.

Fair Value of Hedging Derivatives

Interest rate swaps are in place to hedge medium and long term debt by establishing fixed interest rates or an interest rate collar. The fair value of these instruments was determined by comparing the discounted interest flows at the rates agreed with the theoretical interest flows applying the expected variable rates at 31 December 2004. A liability was recognized which represents the unrealized benefit of paying the current expected future rates instead of the rates agreed. This liability amounts to € 3.2 million and was booked directly to equity as prescribed by IAS 39 for cash flow hedge transactions. In fact, the interest rate swaps are intended to hedge the risk of interest rate fluctuations.

Shareholders' Equity

Shareholders' equity increased by € 36.1 million over 31 December 2003 for the following reasons:

- net income for 2004 (increase of € 54.0 million)
- payment of 2003 dividends (decrease of € 18.4 million)
- issue of 194,375 new ordinary shares, following the exercise by top management of stock options under the 2001-2004 and 2003-2007 stock option plans, 135,500 shares at € 12.33 and 58,875 shares at € 14.71 (increase of € 2.5 million)
- change in the fair value of hedging derivatives (decrease of € 0.9 million)
- translation adjustments (decrease of € 1.1 million)

Cash Flow

€ (thousands)	2004	2003
Net income	53,964	23,747
Depreciation and amortization	21,141	26,743
Write-downs	1,821	30,007
Changes in medium and long term items	(4,063)	(11,637)
Changes in working capital	24,032	(1,526)
Net investments	(4,860)	(21,088)
Free cash flow	**92,035**	**46,246**

Free cash flow, i.e. cash flow generated by operations after taking into account changes in working capital, changes in operating medium and long term items and cash absorbed by investments, increased significantly as compared to the preceding year due in part to the sale of assets during 2004.

Further details are provided in the consolidated financial statements and in the notes to the financial statements.

CONSOLIDATED FINANCIAL STATEMENTS

Recordati S.p.A. and Subsidiaries
Consolidated Financial Statements at and for the year ended 31 December 2004

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

RECORDATI S.P.A. AND SUBSIDIARIES
CONSOLIDATED INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2004

INCOME STATEMENT

€ (thousands)	Note	2004	2003
Revenue	3	**488,308**	**487,535**
Cost of sales	4	(179,274)	(199,749)
Gross profit		**309,034**	**287,786**
Selling expenses	4	(156,000)	(148,031)
Research & development expenses	4	(37,311)	(32,766)
General & administrative expenses	4	(21,844)	(21,134)
Amortization of goodwill	4	(3,454)	(4,825)
Operating income		**90,425**	**81,030**
Financial income/(expenses), net	5	(4,811)	(6,448)
Non-operating income/(expenses), net	6	1,108	(36,147)
Pretax income		**86,722**	**38,435**
Provision for income taxes	7	(32,758)	(14,688)
Minority interest		0	0
Net income		**53,964**	**23,747**
Earnings per share		**€ 1.10**	**€ 0.49**

Earnings per share are based on average shares outstanding during each year, 49,121,982 in 2004 and 48,900,132 in 2003, net of treasury stock which amounted to 1,199,666 shares for both years.
Fully diluted earnings per share are € 1.06 in 2004 and € 0.47 in 2003.

RECORDATI S.P.A. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEET AT 31 DECEMBER 2004

ASSETS

€ (thousands)	Note	31.12.2004	31.12.2003
Non-current assets			
Property, plant and equipment	8	78,577	99,113
Intangible assets	9	26,566	25,857 *
Goodwill	10	45,775	59,418 *
Other investments	11	905	1,696
Other non-current assets	12	1,911	2,214
Deferred tax assets	13	16,946	22,754
Total non-current assets		**170,680**	**211,052**
Current assets			
Inventories	14	61,566	62,257
Trade receivables	15	99,862	116,086
Other receivables	16	13,055	16,264
Other current assets	17	1,550	859
Cash and cash equivalents	18	232,229	98,685
Total current assets		**408,262**	**294,151**
Total assets		**578,942**	**505,203**

** Reclassified for comparison purposes*

RECORDATI S.P.A. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEET AT 31 DECEMBER 2004

EQUITY AND LIABILITIES

€ (thousands)	Note	31.12.2004	31.12.2003
Shareholders' equity			
Share capital		25,219	25,122
Additional paid-in capital		52,882	50,442
Treasury stock		(20,410)	(20,410)
Hedging reserve		(3,185)	(2,289) *
Translation reserve		(421)	681
Other reserves		20,656	20,656 *
Retained earnings		133,064	127,709
Net income for the year		53,964	23,747
Group shareholders' equity	**19**	**261,769**	**255,658**
Minority interest	20	0	0
Shareholders' equity		**261,769**	**255,658**
Non-current liabilities			
Loans - due after one year	21	128,346	74,903
Staff leaving indemnities	22	22,410	24,045
Deferred tax liabilities	23	193	5,714
Other non-current liabilities	24	0	3,636
Total non-current liabilities		**150,949**	**108,298**
Current liabilities			
Trade payables	25	77,166	78,338
Other payables	26	24,248	26,134 *
Tax liabilities	27	22,344	12,207 *
Other current liabilities		1,711	1,559
Provisions	28	5,824	5,564
Fair value of hedging derivatives *(Cash flow hedge)*	29	3,185	2,289 *
Fair value of hedging derivatives *(Fair value hedge)*	21	3,102	0
Loans - due within one year	21	25,166	27,553
Bank overdrafts	30	3,478	17,603
Total current liabilities		**166,224**	**171,247**
Total equity and liabilities		**578,942**	**505,203**

** Reclassified for comparison purposes*

RECORDATI S.P.A. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEARS ENDED 31 DECEMBER 2003 AND 31 DECEMBER 2004

€ (thousands)	Share capital	Additional paid-in capital	Treasury stock	Hedging reserve	Translation reserve	Other reserves	Retained earnings	Net income for the year	Total
Balance at 31 December, 2002	25,028	48,823	(17,519)	0	4,055	20,656	95,813	50,216	227,072
Allocation of 2002 net income:									
- Allocation to reserves							17,142	(17,142)	0
- Dividends distributed								(18,321)	(18,321)
- Retained earnings							14,753	(14,753)	0
Increase in share capital	94	1,619							1,713
Treasury stock			(2,891)						(2,891)
Dividends lapsed							1		1
Net Income for the Year								23,747	23,747
Changes in fair value of hedging derivatives*				(2,289)					(2,289)
Translation Adjustment					(3,374)				(3,374)
Balance at 31 December, 2003	25,122	50,442	(20,410)	(2,289)	681	20,656	127,709	23,747	225,658
Allocation of 2003 net income:									
- Allocation to reserves							85	(85)	0
- Dividends distributed								(18,392)	(18,392)
- Retained earnings							5,270	(5,270)	0
Increase in share capital	97	2,440							2,537
Net Income for the Year								53,964	53,964
Changes in fair value of hedging derivatives				(896)					(896)
Translation Adjustment					(1,102)				(1,102)
Balance at 31 December, 2004	25,219	52,882	(20,410)	(3,185)	(421)	20,656	133,064	53,964	261,769

** Reclassified for comparison purposes*

RECORDATI S.P.A. AND SUBSIDIARIES
CONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2004

€ (thousands)	2004	2003
Operating activities		
Cash flow		
Net Income	53,964	23,747
Depreciation of property, plant and equipment	12,000	15,968
Amortization of intangible assets	9,141	10,775
Write-down of assets (1)	1,821	30,007
Total cash flow	**76,926**	**80,497**
(Increase)/decrease in deferred tax assets	4,772	(13,707)
Staff leaving indemnities:		
Provision	4,509	4,568
Payment	(4,187)	(3,654)
Increase/(decrease) in other non-current liabilities:	(9,157)	1,156
	72,863	**68,860**
Changes in working capital		
Trade and other receivables	13,018	3,396
Inventories	(5,996)	982
Other current assets	(962)	(351)
Trade and other payables	5,832	(2,992) *
Tax liabilities	11,586	(2,975) *
Other current liabilities	152	(671)
Provisions	402	1,085
Changes in working capital	**24,032**	**(1,526)**
Net cash from operating activities	**96,895**	**67,334**
Investing activities		
Net (investments)/disposals in property, plant and equipment	1,365	(15,894)
Net (investments)/disposals in intangible assets	(6,397)	(5,251)
Net (increase)/decrease in equity investments	0	(99)
Net (increase)/decrease in other non-current receivables	172	156
Net cash used in investing activities	**(4,860)**	**(21,088)**
Financing activities		
New medium and long-term loans raised	81,711	1,996
Share capital increase	97	94
Additional paid-in capital increase	2,440	1,619
Treasury stock (increase) decrease	0	(2,891)
Transfer of current portion of medium and long-term debt to current liabilities	(25,051)	(27,553)
Changes in current portion of medium and long-term debt	(1,942)	(833)
Dividends paid	(18,392)	(18,321)
Proceeds on sale of Sophartex	17,873 ***	0
Change in translation reserve	(1,102)	(3,374)
Net cash from/(used in) financing activities	**55,634**	**(49,263)**
Changes in short-term financial position	**147,669**	**(3,017)**
Short-term financial position at beginning of year **	81,082	84,099
Short-term financial position at end of year **	228,751	81,082

(1) Includes the extraordinary write-down of pharmaceutical chemicals inventories.
** Reclassified for comparison purposes.*
*** Includes cash and cash equivalents net of bank overdrafts.*
**** Sale of Sophartex:*

Working capital	1,862
Property, plant, equipment and intangible assets	7,303
Goodwill	10,189
Deferred tax assets	1,036
Provisions	(1,957)
Loans	(560)
	17,873

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2004

1. General

The consolidated financial statements comprise Recordati S.p.A. (the Company) and subsidiaries controlled by the Company. The companies included in the consolidated accounts, their percentage of ownership and a description of their activity are set out in attachment 1.

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

2. Summary of Significant Accounting Policies

The financial statements have been prepared in accordance with International Accounting Standards and International Financial Reporting Standards (IAS/IFRS). Accordingly, the financial statements of the consolidated companies, prepared by the Board of Directors or the Sole Directors for submission to the respective Shareholders' meetings, have been reclassified and adjusted as required. The criteria applied is consistent with that of the consolidated financial statements at 31 December 2003.

The financial statements have been prepared on the historical cost basis, except for derivative financial instruments (and the relative underlying hedged financial liability) and assets held for sale for which their fair value has been applied.

The principal accounting policies adopted are set out below.

Basis of consolidation

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

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

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

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

During 2004 the most significant operation involving group companies was the sale of the French company Sophartex S.A..

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

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

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

Translation differences arising from this process are booked to equity.

Balance sheet

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

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

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

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

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

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

Goodwill - Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary, associate or jointly controlled entity at the date of acquisition. Goodwill is recognized as an asset and amortized on a straight-line basis over its estimated useful life.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Staff leaving indemnities - Staff leaving indemnities include benefits accrued for each employee at year end, determined in accordance with current laws and labor contracts. The provision for the year, which includes the revaluation of the accumulated provision at the end of the preceding year, is recognized in the income statement.

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

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

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

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

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

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

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

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

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

Foreign currencies - Transactions in currencies other than the Euro are initially recorded at the rates of exchange prevailing on the dates of the transactions. Monetary assets and liabilities denominated in such currencies are retranslated at the rates prevailing on the balance sheet date. Profits and losses arising on exchange are included in net profit or loss for the period.

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

Income statement

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

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

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

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

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

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

Non-operating items - Include income and expenses not related to the Group's normal operations as well as extraordinary items. As from 1 January 2005 these items will be stated in operating income in accordance with IAS 1 as revised in December 2003 which becomes effective as from 1 January 2005.

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

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

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

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

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

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

RECORDATI S.P.A. AND SUBSIDIARIES
SUBSIDIARIES INCLUDED IN THE CONSOLIDATED ACCOUNTS AT 31 DECEMBER 2004

ATTACHMENT 1.

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

** Sold during the reporting period*

3. Revenue

Net revenue for the years 2004 and 2003 is € 488.3 million and € 487.5 million respectively and can be broken down as follows:

€ (thousands)	2004	2003	Change 2004/2003
Net sales	483,796	482,227	1,569
Royalties	866	1,456	(590)
Up-front payments	1,616	2,047	(431)
Other revenue	2,030	1,805	225
Total revenue	**488,308**	**487,535**	**773**

Revenue is substantially in line with the preceding year. Pharmaceutical revenue increased by 3.5%, or 8.5% on a like-for-like basis. Revenue from pharmaceutical chemicals, on the other hand, decreased by 22.1% due mainly to the decision to rationalize the product portfolio of this business and to an unfavorable currency effect.

4. Operating Expenses

Total operating expenses for the years 2004 and 2003 are € 397.9 million and € 406.5 million respectively and are analyzed by function as follows:

€ (thousands)	2004	2003	Change 2004/2003
Cost of sales	179,274	199,749	(20,475)
Selling expenses	156,000	148,031	7,969
Research and development expenses	37,311	32,766	4,545
General and Administrative expenses	21,844	21,134	710
Goodwill amortization	3,454	4,825	(1,371)
Total operating expenses	**397,883**	**406,505**	**(8,622)**

Total staff costs in 2004 are € 127.1 million and depreciation and amortization costs, including the amortization of goodwill, are € 21.1 million.

5. Financial Income and Expense

In 2004 and 2003 financial items recorded a net financial expense of € 4.8 million and € 6.4 million respectively which are comprised as follows:

€ (thousands)	2004	2003	Change 2004/2003
Exchange gains/(losses)	(424)	(473)	49
Interest expense on loans	(4,531)	(5,795)	1,264
Net interest on short-term financial position	935	(279)	1,214
Net gains/(losses) on valuation of securities	(791)	99	(890)
Change in fair value of hedging derivatives	(3,102)	0	(3,102)
Change in fair value of hedged item	3,102	0	3,102
Total financial income (expense), net	**(4,811)**	**(6,448)**	**1,637**

Net financial expenses in 2004 decreased compared to 2003. Net exchange losses are in line with the preceding year. Interest expense on loans is € 4.5 million in 2004 (€ 5.8 million in 2003). In 2004 net interest on short term financial items is positive due to the progressive improvement in the cash position. The loss on valuation of securities to market in 2004 was related to the € 0.6 million and € 0.2 million write-downs of the equity holdings in SurroMed Inc. and Technogen Associates L.P. respectively.

6. Non-Operating Income and Expense

Non-operating items recorded a net gain of € 1.1 million in 2004 and are analyzed in detail as follows:

€ (thousands)	2004	2003
Gain on sale of a building in Paris	2,059	0
Gain on sale of Polfa Kutno shares	2,008	0
Gain on sale of property of the parent company	1,913	0
Write-down of pharmaceutical chemicals assets	(1,030)	(29,073)
Participation au résultat	(1,908)	(1,234)
Tax expense	(1,095)	(1,857)
Accrual for extraordinary restructuring expenses	0	(1,500)
Other	(839)	(2,483)
Total non-operating income (expense), net	**1,108**	**(36,147)**

The gain on the sale of Polfa Kutno shares represents the final result of an operation which led Recordati to acquire almost 25% of the share capital of the Polish pharmaceutical company Polfa Kutno with the declared intention to increase its holding to just under 50%. At the same time the U.S. pharmaceutical company Ivax announced its intention to acquire 100% of the same company. Following declarations from the main Polfa Kutno shareholders of their willingness to sell all of their holdings at a take out premium, Recordati, not interested in acquiring the entire company at the resulting multiples, decided to sell its holding to Ivax. Overall a capital gain of € 2 million, net of all expenses, was realized.

The gain on the sale of property belonging to the parent company regards the sale of residential buildings in Campoverde and in Rome which were almost entirely depreciated. The write-down of pharmaceutical chemicals assets refers to inventories of some biochemical products which were written-down to net realizable value. *Participation au résultat* refers to the accrued portion of profits that the French companies share with their employees. The tax expense is a provision which was booked following a tax assessment at the subsidiary Bouchara Recordati in France.

7. Provision for Income Taxes

The 2004 provision for income taxes amounts to € 32.8 million, or 37.8% 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)	2004 %	2003 %
Standard income tax rate on pretax income	33.0	34.0
Reduced tax rate from asset revaluation	(0.1)	(10.1)
Tax incentives in Italy to increase R&D spending	(0.8)	-
Dual income tax	-	(1.8)
Dividends from foreign subsidiaries	0.2	0.5
Consolidation effect of foreign subsidiaries	(4.1)	(5.5)
Other differences, net	3.6	8.5
Effective tax rate on income	31.8	25.6
IRAP	6.0	12.6
Effective tax rate, including IRAP	**37.8**	**38.2**

IRAP tax accounted for 6.0% of pretax income as this tax is computed applying a 4.25% rate to a broader taxable base which includes labor cost, interest and certain extraordinary items.

8. Property, Plant and Equipment

Property, plant and equipment is recorded at historical purchase or construction cost and, net of accumulated depreciation, at 31 December 2004 and 2003, amounts to € 78.6 million and € 99.1 million respectively. The composition and variation of property, plant and equipment are shown in the following table:

€ (thousands)	Land & buildings	Plant & machinery	Other equipment	Advances/ construction in progress	Total
Cost					
Balance at 31.12.03	80,042	147,482	36,373	9,711	273,608
Additions	951	2,071	1,379	14,357	18,758
Disposals	(23,512)	(939)	(2,965)	(28)	(27,444)
Changes in reporting entities	(15,043)	(14,794)	(2,820)	(1,938)	(34,595)
Other changes	(931)	(4,885)	(1,976)	(5,292)	(13,084)
Balance at 31.12.04	**41,507**	**128,935**	**29,991**	**16,810**	**217,243**
Accumulated depreciation					
Balance at 31.12.03	36,722	109,858	27,915	0	174,495
Additions	1,661	7,824	2,515	0	12,000
Disposals	(5,284)	(533)	(2,576)	0	(8,393)
Changes in reporting entities	(12,808)	(12,353)	(2,262)	0	(27,423)
Other changes	(1,137)	(7,588)	(3,288)	0	(12,013)
Balance at 31.12.04	**19,154**	**97,208**	**22,304**	**0**	**138,666**
Carrying amount at					
31 December 2004	22,353	31,727	7,687	16,810	78,577
31 December 2003	43,320	37,624	8,458	9,711	99,113

The land and buildings located in Milan, Italy having a carrying amount of € 5.9 million have been pledged to secure loans granted by IMI.

The carrying amount of the Group's land and buildings includes an amount of € 1.9 million (€ 20.3 million in 2003) in respect of assets held under finance leases. The decrease is due to the sale of a building in Paris.

The increase of € 18.8 million in 2004 are attributed to the following investments:

- € 11.3 million in the production site in Ireland which is being built by Recordati Ireland where a production facility, which will serve initially to increase production of the active ingredient lercanidipine, and a research center for the development of chemical processes for the production of experimental drugs will be established;
- € 3.3 million in the Milan pharmaceutical plant and headquarters building;
- € 2.3 million in production facilities at the Campoverde di Aprilia pharmaceutical chemicals plant;
- € 1.0 million in the French subsidiary;
- € 0.9 million in the Murcia (Spain) pharmaceutical chemicals plant;

Disposals are due mainly to the sale by Bouchara Recordati of its office building in Paris. Changes in reporting entities arise from the sale of Sophartex. Other changes include the transfer of the net carrying value of the Opera plant of € 1.0 million to "other current assets".

9. Intangible Assets

Intangible assets, net of accumulated amortization, at 31 December 2004 and 2003 amount to € 26.6 million and € 25.9 million respectively. Their composition and variation are shown in the following table:

€ (thousands)	Patent rights	Distribution, license, trademark and similar rights	Other	Advance payments	Total
Cost					
Balance at 31.12.03	23,986	31,415	14,155	1,704	71,260
Additions	0	4,264	889	1,231	6,384
Disposals	0	(145)	(216)	0	(361)
Changes in reporting entities	0	(227)	0	0	(227)
Other changes	0	519	766	(1,460)	(175)
Balance at 31.12.04	**23,986**	**35,826**	**15,594**	**1,475**	**76,881**
Accumulated amortization					
Balance at 31.12.03	18,491	16,580	10,332	0	45,403
Additions	1,835	2,298	1,554	0	5,687
Disposals	0	(118)	(216)	0	(334)
Changes in reporting entities	0	(226)	0	0	(226)
Other changes	0	3	(218)	0	(215)
Balance at 31.12.04	**20,326**	**18,537**	**11,452**	**0**	**50,315**
Carrying amount at					
31 December 2004	**3,660**	**17,289**	**4,142**	**1,475**	**26,566**
31 December 2003	5,495	14,835	3,823	1,704	25,857

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

Additions in 2004 are primarily related to the acquisition of software and product license rights. Among the latter, the most important are those related to Cidine® (€ 2.5 million), a product under license from Almirall Prodesfarma and to Octegra® (€ 1.1 million), under license from Bayer AG.

10. Goodwill

Goodwill, net of accumulated amortization, at 31 December 2004 and 2003 amounts to € 45.8 million and € 59.4 million respectively and changed as follows:

€ (thousands)	Goodwill
Cost	
Balance at 31.12.03	99,740
Changes in reporting entities	(16,301)
Balance at 31.12.04	**83,439**
Accumulated amortization	
Balance at 31.12.03	40,322
Amortization for the year	3,454
Changes in reporting entities	(6,112)
Balance at 31.12.04	**37,664**
Carrying amount at	
31 December 2004	45,775
31 December 2003	59,418

The sale of Sophartex accounted for a net reduction of goodwill of € 10.2 million.

The € 45.8 million residual goodwill at 31 December 2004 is related to the following equity investments:

- € 13.4 million related to the acquisition of Doms-Adrian (amortized over 20 years to 2018);
- € 32.4 million related to the Bouchara group of companies (amortized over 20 years to 2020);

In accordance with IFRS 3, goodwill described above continued to be amortized in 2004 as it relates to acquisitions effective before 31 March 2004. As from 2005, as included in the IFRS 3 guidelines, goodwill will no longer be amortized and an impairment test will be made on its residual value at each balance sheet date.

11. Other Investments

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

€ (thousands)	Value at 31 December		Percentage of Equity Owned	
	2004	2003	2004	2003
Technogen Associates L.P., U.S.A.	449	622	n.s.	n.s.
Maxygen Inc., U.S.A.	218	218	n.s.	n.s.
Tecnofarmaci S.p.A., Pomezia (Rome)	87	87	4%	4%
Consorzio C4T, Pomezia (Rome)	78	78	2.2%	2.2%
SurroMed Inc., U.S.A.	63	681	n.s.	n.s.
Confarma S.p.A., Novara	8	8	3%	3%
DAFNE, Reggello (Florence)	2	2	2%	2%
Total equity investments	**905**	**1.696**		

The holding in Technogen Associates LP, a California based company investing in developing genomics, biotechnology and pharmaceutical companies, amounts to € 0.4 million and was written-down by € 0.2 million to reflect its fair value. The holding in Maxygen Inc. remained unchanged at 27,816 shares. The value of the investment in SurroMed Inc. decreased by € 0.6 million following a cautionary write-down to reflect its fair value.

12. Other Non-Current Assets

Receivables included in non-current assets at 31 December 2004 are € 1.9 million, slightly down on the preceding year-end, and comprise primarily advance payments of taxes due by employees on their leaving indemnity made by the Italian companies, according to Italian law.

13. Deferred Tax Assets

Deferred tax assets at 31 December 2004 and 2003 amount to € 16.9 million and € 22.7 million respectively, a decrease of € 5.8 million, and changed as follows:

€ (thousands)	2004	2003
Balance at 1 January	22,754	9,047
Additions	2,089	18,121
Utilization	(6,861)	(4,414)
Changes in reporting entities	(1,036)	0
Balance at 31 December	**16,946**	**22,754**

The main deferred tax assets and their change in 2004 is analyzed below.

€ (thousands)	Write-down chemicals business	Write-down equity investments	Asset revaluation	Tax losses	Profit and loss temporary differences	Other	Total
Balance at 1 January	5,260	5,165	8,300	700	1,638	1,691	22,754
Additions	385	0	0	0	1,049	655	2,089
Utilization	(772)	(1,291)	(4,383)	0	(288)	(127)	(6,861)
Changes in reporting entities	0	0	0	0	(861)	(175)	(1,036)
Balance at 31 December	**4,873**	**3,874**	**3,917**	**700**	**1,538**	**2,044**	**16,946**

Other tax loss carry-forwards which may generate deferred tax assets are not significant.

14. Inventories

Inventories at 31 December 2004 and 2003 amount respectively to € 61.6 million and € 62.3 million, net of an obsolescence provision of € 4.7 million and € 4.0 million respectively. Their composition is as follows:

€ (thousands)	31.12.2004	31.12.2003	Change 2004/2003
Raw materials and supplies	17,275	24,673	(7,398)
Intermediates and work-in-process	16,147	15,223	924
Finished goods	28,144	22,361	5,783
Total inventories	**61,566**	**62,257**	**(691)**

Overall, inventories decreased by 1.1% (€ 0.7 million) as compared to the preceding year. The deconsolidation of Sophartex accounted for a reduction of € 5.7 million which was mostly offset by increased stocks due to the higher business volumes.

15. Trade Receivables

Trade accounts receivable at 31 December 2004 and 2003 amount to € 99.9 million and € 116.1 million respectively. These are shown net of the allowance for doubtful accounts which at 31 December 2004 is € 5.9 million (€ 6.7 million at 31 December 2003). An additional € 0.6 million were provided for in 2004 and the total allowance is considered to be sufficient to cover potential insolvency. Average days sales outstanding decreased from 81 to 75. The sale of Sophartex accounted for a reduction in trade receivables of € 5.1 million.

16. Other Receivables

Other receivables amount to € 13.1 million (€ 16.3 million at 31 December 2003) and their breakdown is as follows:

€ (thousands)	31.12.2004	31.12.2003	Change 2004/2003
Tax receivable	3,432	8,319	(4,887)
Balances due from employees and agents	3,019	2,739	280
Other	6,604	5,206	1,398
Total other receivables	**13,055**	**16,264**	**(3,209)**

At 31 December 2004 tax receivable prevalently comprises value added tax (VAT) receivable and excess advance payments of income tax. The decrease is due by € 1.2 million to the deconsolidation of Sophartex and by € 3.4 million to tax credits reimbursed in the French subsidiary.

The "other" line refers to advances paid to suppliers and other parties, in addition to computed credits under licensing-in agreements and receivables from the controlling company of € 0.1 million. The deconsolidation of Sophartex accounted for a decrease of € 0.1 million.

17. Other Current Assets

At 31 December 2004 other current assets amount to € 1.6 million (€ 0.9 million at 31 December 2003) and relate mainly to the residual value of the Opera plant which is expected to be sold in 2005 for € 1.0 million. This amount was transferred from property, plant and equipment in 2004. Also included are prepaid expenses for a total of € 0.6 million.

18. Cash and Cash Equivalents

These are constituted mainly by cash in banks and at 31 December 2004 and 2003 amount to € 232.2 million and € 98.7 million respectively. A breakdown is shown in the following table:

€ (thousands)	31.12.2004	31.12.2003	Change 2004/2003
Deposits in bank current accounts	51,756	66,899	(15,143)
Short term time deposits	180,458	31,760	148,698
Cash on hand	15	26	(11)
Total cash and cash equivalents	**232,229**	**98,685**	**133,544**

At 31 December 2004 cash and cash equivalents are denominated mainly in Euro (€ 212.7 million) and held for the most part by the parent Recordati S.p.A. (€ 168.3 million) and the subsidiary Recordati Ireland Ltd. (€ 20.9 million). Cash deposits in U.S. dollars amount to US$ 24.3 million and are held mostly by Recordati Corporation.

Short term time deposits have maturities of one month or less and are remunerated at current market interest rates. Included are the funds collected through a U.S. private placement of long term senior unsecured notes for an equivalent of € 80.6 million.

19. Shareholders' Equity

Share capital - At 31 December 2004 the share capital consists of 50,438,789 ordinary shares with a par value of € 0.50 each for a total of € 25,219,394.50.

During 2004 share capital increased by € 97,187.50 following the issue of 194,375 new ordinary shares, 135,500 of which at a price of € 12.33 each and 58,875 of which at a price of € 14.71 each, to company managers who exercised stock options under the 2001-2003 and 2003-2007 stock option plans.

Additional stock options for 461,000 shares to be exercised at a price of € 14.30 per share and for 478,500 shares to be exercised at a price of € 16.22 per share were assigned.

Altogether, at 31 December 2004 options for 2,276,125 shares to be exercised from 2005 to 2009 were outstanding. These consist of 448,000 options to be exercised at a price of € 21.08 per share, 472,000 options at a price of € 20.72 per share, 416,625 at a price of € 14.71 per share, 461,000 options at a price of € 14.30 per share and 478,500 options at a price of € 16.22 per share. The related capital increase has already been approved.

As from 1 January 2005 stock option plans will be valued and accounted for as prescribed by IFRS 2.

Additional paid-in capital - During 2004 additional paid-in capital increased from € 50,442,330.83 to € 52,881,909.58 following the issue of 194,375 new shares for a total price in excess of par value of € 2,439,578.75.

Treasury stock - At 31 December 2004, 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.

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

Other reserves - These amount to € 20.7 million at 31 December 2004 and remain unchanged from 31 December 2003. Included is the statutory reserve of the parent company in the amount of € 5.2 million and reserves from revaluations and grants for a total of € 15.5 million.

Retained earnings and net income for the year - The Board of Directors of the parent company proposes to the shareholders a 4:1 stock split. Each of the 50,438,789 currently outstanding shares, par value € 0.50 each, will be replaced by 4 new shares, par value € 0.125 each. The new shares shall be entitled to profits as from 1 January 2004. The Board of Directors also proposes the payment of a dividend of € 0.11 per share existing after the proposed stock split (€ 0.09375 per share last year on an adjusted basis) to be paid to all shares outstanding excluding those in treasury stock as from 28 April 2005. This per share dividend includes the accretion deriving from the dividend which would have been due to those shares in treasury stock.

Untaxed reserves - At 31 December 2004 such reserves amounted to € 19.2 million. In addition, a total of € 26.9 million untaxed reserves are recorded on the balance sheets of Recordati S.p.A. and Innova Pharma S.p.A. which relate to the revaluation of fixed assets according to Italian law, and which are reversed in the consolidated financial statements. In accordance with IAS 12 deferred taxes are not recognized on these reserves until their distribution is resolved.

20. Minority Interest

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

21. Loans

At 31 December 2004 and 2003, medium and long-term loans included:

€ (thousands)	31.12.2004	31.12.2003
Loans granted to Recordati S.p.A.: 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	5,902	4,622
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	5,375	6,809
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	1,202	1,206
Banca Intesa loans for financial investments at an annual interest rate of 5.935%, fully repaid in 2004	0	3,098
Banca Intesa loans for financial investments at variable interest rates, converted into a fixed annual interest rate of 5.915% by IRS, repayable in semi-annual installments through 2007	15,494	20,658
Banca Popolare di Milano, loans for financial investments at an annual interest rate of 3.98%, repayable in semi-annual installments through 2006	4,500	7,500

€ (thousands)	31.12.2004	31.12.2003
Loans granted to other Group companies: Loan granted by Banca Intesa to Recordati España S.L. at variable interest rate, converted into a fixed annual interest rate of 4.85% by IRS, repayable in quarterly installments through 2008	4,207	5,409
Various loans granted to Recordati España S.L. at an average annual interest rate of 3.27%	4,322	5,229
Loan granted by Banca Intesa to Bouchara-Recordati S.a.s. at variable interest rate, converted into a fixed annual interest rate of 5.99% by IRS, repayable in semi-annual installments through 2007	6,192	8,256
Loan granted by Banca Popolare di Milano to Bouchara-Recordati S.a.s. at variable interest rate, converted into a fixed annual interest rate of 6.0% by IRS, repayable in semi-annual installments through 2007	6,192	8,256
Loan granted by Banca Unicredito Italiano to Bouchara-Recordati S.a.s. at variable interest rate, converted into a fixed annual interest rate of 6.01% by IRS, repayable in semi-annual installments through 2007	12,390	16,520
Loan granted by Istituto S. Paolo IMI to Bouchara-Recordati S.a.s. at variable interest rate, converted into a fixed annual interest rate of 6.0% by IRS, repayable in semi-annual installments through 2007	9,294	12,392
Various loans granted to Sophartex S.A. at an average annual interest rate of 5.31%	0	626
Various loans granted to Bouchara-Recordati S.a.s. at an average annual interest rate of 3.94%	1,580	1,875
Guaranteed senior notes issued by Recordati S.A. (Luxembourg) privately placed with international institutional investors: €15 million at a fixed interest rate of 4.52% due 2011 $ 40 million at a fixed interest rate of 5.50% due 2014 € 26 million at a fixed interest rate of 5.02% due 2014 £ 5 million at a fixed interest rate of 6.09% due 2014	* 80,064	0
	156,614	**102,456**
Less: Current portion	(25,166)	(27,553)
Total amortized cost of loans	131,448	74,903
Change in the fair value of loans	(3,102)	0
Total	**128,346**	**74,903**

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

The average effective interest rate at 31 December 2004, applying the rates resulting from the interest rate swaps, is 4.31%.

At 31 December 2004, the repayment schedule of long-term debt due after 2005 is as follows:

€ (thousands)	
2006	22,637
2007	20,376
2008	3,106
2009	2,172
2010 and subsequent years	83,157
Total	**131,448**

Medium and long-term loans at variable interest rates for a total of € 53.8 million are hedged with interest rate swaps (which qualify as a cash flow hedge) in order to entirely eliminate any interest rate fluctuation risk. The fair value of the cash flow hedge is recognized directly in equity and stated as a current liability. The derivative instruments and the hedged items are linked and the Group does not intend to terminate or modify one independently from the other.

The series of guaranteed senior notes issued in various currencies at fixed interest rates have been covered with a cross-currency interest rate swap effectively converting the whole debt into Euro at a variable interest rate equivalent to the Euribor 6 months rate plus a spread. The measurement at fair value of the cross-currency interest rate swap generated a liability of € 3.1 million, an amount equivalent to the reduction in the fair value of the underlying debt. The change in fair value of the derivative instrument and the underlying debt are recognized in the income statement and have a combined zero effect as the transaction is perfectly hedged. The change in fair value of the loan is recognized as a reduction of debt and the change in fair value of the cross-currency interest rate swap is stated as a current liability. The derivative instrument and the hedged item are linked and the Group does not intend to terminate or modify one independently from the other.

The total amount of the notes was simultaneously covered with a further interest rate swap, qualifying as a cash flow hedge, to fix a 2.5% to 5.2-6.3% range within which the interest rate can fluctuate in order to optimize the cost of financing for the duration of the notes. The fair value of the cash flow hedge is recognized directly in equity and stated as a current liability.

22. Staff Leaving Indemnities

The balances at 31 December 2004 and 2003 are € 22.4 million and € 24.0 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 is as follows:

€ (thousands)	2004	2003
Balance at 1 January	24,045	23,131
Additions	4,509	4,568
Utilization	(4,187)	(3,654)
Changes in reporting entities	(1,957)	0
Balance at 31 December	**22,410**	**24,045**

In view of the ongoing debate as to whether the criteria of IAS 19 actually apply to the staff leaving indemnity fund (TFR, *trattamento fine rapporto*) which is mandatory in Italy and has peculiarities that are not found in the legislation of any other European country, it was decided, for the moment, not to effect the complex actuarial calculations prescribed by IAS 19 for the valuation of defined benefit plans.

However, were the Italian companies' staff leaving indemnity funds valued in accordance with IAS 19, net of any tax effect, the Company deems these would not generate any material difference in the consolidated profit and loss or shareholders' equity accounts at 31 December 2004.

23. Deferred Tax Liabilities

Deferred tax liabilities at 31 December 2004 and 2003 were € 0.2 million and € 5.7 million respectively, and changed as follows:

€ (thousands)	2004	2003
Balance at 1 January	5,714	2,927
Additions	155	3,530
Utilization	(2,831)	(743)
Reversal following sale of leased property	(2,845)	0
Balance at 31 December	**193**	**5,714**

At 31 December 2004 no deferred tax liabilities exist related to subsidiaries' undistributed earnings because no additional tax must be paid by the Group in the event of these dividend distributions thanks to the exemption from dual income taxation.

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

Other non-current liabilities at 31 December 2004 are nil (€ 3.6 million at 31 December 2003) following the transfer of taxes payable by the French subsidiary Bouchara Recordati to current liabilities as a result of the sale of its office building in Paris.

25. Trade Payables

Trade accounts payable, which are entirely of a business nature and include allocations for invoices to be received, at 31 December 2004 and 2003 amount to € 77.2 million and € 78.3 million respectively. The net reduction derives from the deconsolidation of Sophartex (€ 4.7 million) and an increase in Recordati Ireland's trade payables related to the investments in the new production site.

26. Other Payables

Other accounts payable at 31 December 2004 and 2003 amount to € 46.6 million and € 38.3 million respectively. Their composition is as follows:

€ (thousands)	31.12.2004	31.12.2003	Change 2004/2003
Personnel	12,277	13,245	(968)
Social security	7,603	8,539	(936)
Agents	839	951	(112)
Other	3,529	3,399	130
Total other payables	**24,248**	**26,134**	**(1,886)**

The deconsolidation of Sophartex accounted for an overall reduction of € 4.2 million of which € 3.7 million related to personnel, € 0.4 million to social security payables and € 0.1 to other payables.

27. Tax Liabilities

Tax liabilities at 31 December 2004 and 2003 amount to € 22.3 million and € 12.2 million respectively and include tax provisions computed by the companies on the basis of estimated taxable income, net of tax advances already paid, and withholding taxes payable.

Following the sale of property in Paris and of the company Sophartex an amount of € 8.6 million, which was previously treated as a provision for long-term liabilities, was reclassified as it is due to be paid in 2005. The deconsolidation of Sophartex accounted for a reduction in tax liabilities of € 1.5 million.

28. Provisions

Tax and other provisions are included as follows:

€ (thousands)	31.12.2004	31.12.2003	Change 2004/2003
Tax	1,432	1,191	241
Other	4,392	4,373	19
Total provisions	**5,824**	**5,564**	**260**

The tax provision at 31 December 2004 refers almost entirely to provisions made by Bouchara Recordati (€ 1.1 million) following a tax assessment at the subsidiary.

Other provisions include amounts set aside for future contingencies which are uncertain as to timing and value. They are substantially in line with those stated in 2003 and include an accrual of € 1.1 million made by the Company to cover costs which may have to be incurred following the decision to reorganize the pharmaceutical chemicals business. The deconsolidation of Sophartex accounted for a € 0,1 million reduction of other provisions.

Changes in provisions are as follows:

€ (thousands)	2004	2003
Balance at 1 January	5,564	4,480
Additions	2,165	3,093
Utilization	(1,763)	(2,009)
Changes in reporting entities	(142)	0
Balance at 31 December	**5,824**	**5,564**

29. Fair Value of Hedging Derivatives

The interest rate swaps covering the cash flows related to medium and long-term loans are measured at fair value at 31 December 2004 giving rise to a € 3.2 million liability which represents the unrealized benefit of paying the current expected future rates instead of the rates agreed.

Of this liability € 1.5 million relate to the interest rate swaps covering the medium and long-term loans at variable interest rates in Recordati S.p.A., Bouchara Recordati S.a.s. and Recordati España S.L.. The remaining € 1.7 million refer to an interest rate swap defining a collar which limits the fluctuation of the interest rates payable on the guaranteed senior notes issued by Recordati S.A. Chemical & Pharmaceutical Company.

30. Bank Overdrafts

Bank overdrafts at 31 December 2004 and 2003 amount to € 3.5 million and € 17.6 million respectively and consist of overdraft facilities in Euro and foreign currency mostly in the parent company as part of its policy for the hedging of foreign currency trade receivables.

31. Fair Value of Financial Instruments

In accordance with IAS 32, a comparison of the carrying amounts of financial assets and liabilities and their fair value at December 2004 is shown in the following table:

€ (thousands)	Carrying value	Fair value
Financial assets		
Cash and cash equivalents	232,229	232,229
Trade receivables	99,862	99,862
Equity investments	905	905
Other receivables	13,055	13,055
Financial liabilities		
Borrowings		
- loans covered with fixed interest rate swaps	76,962	76,962
- loans at fixed interest rates	21,201	20,655
- loans at variable interest rates	55,349	55,349
Trade payables	77,166	77,166
Other payables	22,344	22,344
Hedging derivatives *(cash flow hedge)*	3,185	3,185
Hedging derivatives *(fair value hedge)*	3,102	3,102
Bank overdrafts	3,478	3,478

32. Segment Reporting

The following segment information has been prepared in accordance with IAS 14. The Group has two reportable segments: pharmaceuticals and pharmaceutical chemicals. The segments are determined based on the nature of the products developed, manufactured and marketed and reflect the management structure of the organization and the internal reporting system.

The main profit and loss and balance sheet items relative to the two segments at and for the year ended 31 December 2004 are the following:

€ (thousands)	Pharmaceuticals	Pharmaceutical chemicals	Unallocated	Total
Revenue	438,876	49,432	-	488,308
Intercompany revenue	-	14,226	-	14,226
Operating income	88,383	2,042	-	90,425
Non-current assets	116,043	37,691	16,946	170,680
Inventories	42,034	19,532	-	61,566
Trade receivables	91,067	8,795	-	99,862
Other current assets	12,093	2,512	-	14,605
Cash and cash equivalents	-	-	232,229	232,229
Total assets	**261,237**	**68,530**	**249,175**	**578,942**
Non-current liabilities	16,514	5,896	128,539	150,949
Current liabilities	94,744	14,205	57,275	166,224
Total liabilities	**111,258**	**20,101**	**185,814**	**317,173**
Net capital employed	149,979	48,429	-	-
Investments during the year	21,901	3,241	-	25,142
Depreciation and amortization for the year	13,686	7,455	-	21,141

Deferred tax assets and liabilities, tax receivable and payable, borrowings, fair value of hedging derivatives and cash and cash equivalents are not allocated to the segments.

The following table presents net revenues by geographic area:

€ (thousands)	2004	2003	Change 2004/2003
Europe	425,037	417,375	7,662
of which Italy	218,797	211,580	7,217
Asia	21,742	21,505	237
North America	13,065	18,756	(5,691)
Latin America	8,717	8,974	(257)
Other areas	19,747	20,925	(1,178)
Total revenue	**488,308**	**487,535**	**773**

As regards the secondary segment (geographic) non-current assets and Group investments are located exclusively in Europe.

33. Reconciliation Between Consolidated Shareholders' Equity and Net Income Determined According To Italian GAAP and that Determined According to IAS/IFRS

Consolidated shareholders' equity and net income for the year as determined according to Italian GAAP and that determined according to IAS/IFRS are reconciled as follows:

€ (thousands)	Shareholders' equity 31.12.2004	31.12.2003	Net income for the year 2004	2003
Consolidated financial statements prepared according to Italian GAAP	285,466	248,357	54,066	23,747
Adjustments:				
Shares held in treasury stock	(20,410)	(20,410)	0	0
Change in fair value of hedging derivatives	(3,185)	(2,289)*	0	0
Costs not capitalized	(102)	0	(102)	0
Consolidated financial statements prepared according to IAS/IFRS	**261,769**	**225,658**	**53,964**	**23,747**

** Reclassified for comparison purposes*

34. Litigation and Contingent Liabilities

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

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 appealed against this tax assessment and a favorable ruling was obtained from the Provincial Tax Court in 2001. On 24 November 2004 the Regional Tax Court confirmed this favorable ruling. A favorable, and final, ruling was obtained on the equivalent 1991 assessment from the Internal Revenue Service.

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. On 18 May 2004 the hearing for the final pleas of the parties took place and the court decision is now expected. The Company maintains that the conversion operation was perfectly legal as well as very advantageous for the savings shareholders, which was confirmed by the positive reaction of the market and the very high percent of shareholders opting for the conversion.

35. Intercompany Transactions and Related Issues

At 31 December 2004, intercompany accounts amount to € 162.8 million, the most significant of which are:

- loans from Recordati S.A. Chemical & Pharmaceutical Company to Recordati S.p.A. of € 99.6 million;
- receivables by Recordati S.p.A. from its subsidiaries for the supply of goods and services totaling € 20.0 million;
- loans from Bouchara Recordati S.a.s. to Recordati S.p.A. of € 15.0 million;
- loans from the parent Recordati S.p.A. to the subsidiary Recordati España S.L. of € 3.5 million.

Intragroup sales and services recorded during 2004 are € 110.3 million. During the year, Recordati S.p.A. received dividends of € 8.5 million from Recordati S.A. Chemical and Pharmaceutical Company, Recordati S.A. Chemical and Pharmaceutical Company received dividends of € 12.0 million from Recordati Ireland Ltd. and Bouchara Recordati S.a.s. received dividends of € 3.0 million from Sophartex S.A. which was then sold in April.

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

Other receivables include an amount of € 0.1 million receivable from the controlling company Fimei S.p.A. mainly relative to a tax credit arising from adherence to the tax consolidation laws in Italy.

36. Subsequent Events

Recordati acquired Merckle GmbH's branded pharmaceutical business in Germany, thus gaining access to the largest pharmaceutical market in Europe and the third largest worldwide. The transaction was successfully concluded in February. The business acquired comprises a portfolio of prescription and OTC products mainly in the field of gastroenterology and rheumatology, marketing activities which are conducted by an organization of around 50 people, and a field force of over 130 medical representatives covering the entire German market. This business generated revenues of around € 50 million in 2004 and is profitable. At closing € 45 million were paid and a further € 20 million will be due over the next three years contingent upon certain favourable future developments in relation to some products.

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

Group sales in the first two months of 2005, including sales of the new German subsidiary Merckle Recordati, grew by 15%. Excluding Merckle Recordati as well as Sophartex, the French company sold in April 2004, sales would have grown by 12%.

CORPORATE GOVERNANCE

The rules of corporate governance adopted by Recordati include, for the most part, the recommendations contained in the Code of Behavior for listed companies issued in 1999 and reviewed in 2002 by the Committee for Corporate Governance of Listed Companies established within Borsa Italiana S.p.A. (the Italian Stock Exchange).

A concise description of the main elements of these rules follows. Full details can be found in a document available at the company's offices, at the Italian Stock Exchange and on the company's website http://www.recordati.com/aboutus.asp under the Corporate Governance tab.

Board of Directors

Recordati's Board of Directors is fully empowered for both the ordinary and extraordinary administration of the company and has a central role in the organization of the company's activities. While some directors have specific powers, the Board exercises an overall power of direction and control.

Nine directors sit on the Board. There are three executive directors, the Chairman and Chief Executive Officer, Mr. Giovanni Recordati, the Vice Chairman, Mr. Alberto Recordati and Mr. Andrea Recordati, who are both company managers. On 4 February 2004 Mr. Alberto Recordati was appointed Vice Chairman by the Board, with power to act on behalf of the company in case of absence or impediment of the Chairman, and ceased his former responsibilities as President of the Pharmaceutical Chemicals Division. The six non-executive directors are independent professionals of high standing.

During 2004 the Board met ten times with a composite attendance rate of around 82%.

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 2004 the Executive Committee convened once, with an attendance rate of around 83%.

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 2004 the Internal Control Committee met four times, with a composite attendance rate of around 92%.

Remuneration Committee

The Board of Directors has formed a Remuneration Committee to submit proposals and act as a consulting body to the Board for the remuneration of the managing directors and of those directors who are appointed to particular positions and, acting on a proposal from the Chairman and Chief Executive Officer, for the criteria to be used in determining the remuneration of the company's top management as well as the company's stock option plans.

The three committee members are all independent non executive directors.

During 2004 the Remuneration Committee met twice with a composite attendance rate of around 83%.

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 2004 the auditors attended the meetings of the Board of Directors and of the Executive Committee with an attendance rate of around 67%. The Board of Auditors met fourteen times in 2004. 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

Deloitte.

To the Stockholders of RECORDATI S.p.A.

We have audited the accompanying consolidated balance sheets of Recordati S.p.A. and subsidiaries as of December 31, 2004 and the related consolidated statements of income, consolidated cash flows for the year then ended. These consolidated financial statements are the responsibility of the Company's Directors. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

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 position of Recordati S.p.A. and subsidiaries as of December 31, 2004 and the results of their operations and their cash flows for the year then ended, in accordance with International Financial Reporting Standards (IFRS).

As stated in the notes to the financial statements, given the ongoing debate and the lack of a definite conclusion on the applicability of the rules laid down by IAS 19 to the staff leaving indemnities (TFR – *trattamento di fine rapporto* – required by Italian law), the Company has decided, for the moment, not to perform the complex actuarial calculations prescribed by IAS 19 for the valuation of defined benefit plans.

Milan, Italy
March 11, 2005

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

This booklet is a summary of the 2004 Report of Board of Directors of Recordati SpA, which has been publicly filed in accordance with Italian law.

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

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BOARD OF DIRECTORS
as of the Shareholders' Meeting of April 6, 2005

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

Alberto Recordati
Vice Chairman
Recordati S.p.A.

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

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

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

Mario Garraffo
Senior Advisor
GE Europe

Carlo Pedersoli
Partner
Pedersoli e Associati Law Firm

Andrea Recordati
Chairman and Managing Director
Recordati Ireland Ltd

Marco Vitale
Economist and Business Consultant

EXECUTIVE COMMITEE

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

AUDIT COMMITTEE

Marco Vitale
Chairman

Heinz Wolf Bull
Carlo Pedersoli

COMPENSATION COMMITTEE

Francesco Costantini
Chairman

Heinz Wolf Bull
Mario Garraffo

STATUTORY AUDITORS

Alessandro Manusardi
President

Emilio Aguzzi de Villeneuve
Oreste Severgnini
Active Members

Angelo Gastaldi
Carlo Severgnini
Substitute Members

AUDITORS

Deloitte & Touche S.p.A.

MANAGEMENT

Giovanni Recordati
Chairman and Chief
Executive Officer

Alberto Recordati
Vice Chairman

Walter Bevilacqua
Corporate Development

Luciano Bonacorsi
Human Resources

Vittorio Bonazzi
Pharmaceuticals

Giorgio Oberrauch
Pharmaceutical Chemicals

Avi Sartani
Pharmaceuticals,
Research and Development

Fritz Squindo
Chief Financial Officer

Franco Tomasini
Purchasing and Logistics

RECORDATI

Industria Chimica e Farmaceutica S.p.A.

HEADQUARTES
Via Matteo Civitali, 1 - 20148 Milano, Italy
Ph +39 02 48787.1 - Fax +39 02 40 073 747
www.recordati.com