Quarterly Report

Fourth Quarter 2004

HIGHLIGHTS

Sales

(thousands of €)	Fourth Quarter 2004	Fourth Quarter 2003	Change %	Full Year 2004	Full Year 2003	Change %
Pharmaceuticals	112,810	116,015	(2.8)	438,876	424,041	3.5
Pharmaceutical Chemicals	12,060	14,885	(19.0)	49,432	63,494	(22.1)
Total	**124,870**	**130,900**	**(4.6)**	**488,308**	**487,535**	**0.2**
Italy	53,919	52,964	1.8	218,797	211,580	3.4
International	70,951	77,936	(9.0)	269,511	275,955	(2.3)

Key consolidated data

(thousands of €)	Fourth Quarter 2004	Fourth Quarter 2003	Change %	Full Year 2004	Full Year 2003	Change %
Net Sales	124,870	130,900	(4.6)	488,308	487,535	0.2
EBITDA	30,635	31,007	(1.2)	111,566	107,773	3.5
Operating Income (EBIT)	25,806	24,982	3.3	90,425	81,030	11.6
Net Income	13,761	(6,249)	n.s.	53,964	23,747	127.2
Net Financial Position				72,137	(21,374)	n.s.

MANAGEMENT COMMENTS

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.

In the fourth quarter 2004 consolidated net sales were € 124.9 million, slightly down on the same period of the preceding year due to the sale of the French company Sophartex in the month of April. Pharmaceutical sales were € 112.8 million. Excluding Sophartex pharmaceutical sales increased by 3.0% in the quarter. Pharmaceutical chemical sales were € 12.1 million, a reduction of 19.0% as compared to the fourth quarter of 2003, due to the decision to discontinue product lines which are no longer profitable and to a negative currency effect deriving from the lower dollar value versus the euro.

For the full year 2004 consolidated net sales 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 increase in pharmaceutical sales is of 8.4%. Growth was thanks to the success of Zanidip® 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 both to the reorganization of this business and to the negative currency effect.

EBIT for the fourth quarter 2004 was € 25.8 million, or 20.6% of sales, an increase of 3.3% over the last quarter of the preceding year. The pharmaceutical business generated EBIT of € 24.8 million, a margin on sales of 22.0%. The slight reduction as compared to the preceding year was essentially due to the sale of Sophartex and to a significant increase in R&D expenditure (+33.7%). EBIT generated by the pharmaceutical chemicals business during the fourth quarter was € 1.0 million, as opposed to a prior year loss, thanks to the reorganization process implemented in 2004.

EBIT for the full year 2004 was € 90.4 million, or 18.5% of sales, an increase of 11.6% over the preceding year. The pharmaceutical business generated EBIT of € 88.4 million, a margin on sales of 20.1%. The pharmaceutical chemicals EBIT was € 2.0 million as opposed to a loss in 2003.

Net income in the fourth quarter was in line with that booked in the first three quarters of the year. A comparison with the fourth quarter of 2003 is not significant as the extraordinary write-down of assets for over € 30,0 million linked to the pharmaceutical chemicals business was taken in that quarter.

Full year 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. Net income in 2004 increased more than EBIT, even after excluding the extraordinary items, thanks to lower financial expenses and tax rate.

At 31 December 2004 the net financial position was positive by € 72.1 million, a significant improvement due both to cash flow generated by operations and to the sale of an office building in Paris and of the company Sophartex.

FINANCIAL REVIEW

Income statement

(thousands of €)	Fourth Quarter 2004	Fourth Quarter 2003	Change %	Full Year 2004	Full Year 2003	Change %
Net Sales	**124,870**	**130,900**	**(4.6)**	**488,308**	**487,535**	**0.2**
Cost of Sales	(42,538)	(52,265)	(18.6)	(179,274)	(199,749)	(10.3)
Gross Profit	**82,332**	**78,635**	**4.7**	**309,034**	**287,786**	**7.4**
Selling Expenses	(38,777)	(39,093)	(0.8)	(156,000)	(148,031)	5.4
R&D Expenses	(10,613)	(7,937)	33.7	(37,311)	(32,766)	13.9
G&A Expenses	(6,373)	(5,416)	17.7	(21,844)	(21,134)	3.4
Amortization of Goodwill	(763)	(1,207)	(36.8)	(3,454)	(4,825)	(28.4)
Operating Income (EBIT)	**25,806**	**24,982**	**3.3**	**90,425**	**81,030**	**11.6**
Financial Income (Expense), Net	(1,986)	(1,476)	34.6	(4,811)	(6,448)	(25.4)
Other Non-Operating Income (Expense), Net	(1,423)	(34,099)	(95.8)	1,108	(36,147)	n.s.
Pretax Income	**22,397**	**(10,593)**	**n.s.**	**86,722**	**38,435**	**125.6**
Provision for Income Taxes	(8,636)	4,344	n.s.	(32,758)	(14,688)	123.0
Net Income	**13,761**	**(6,249)**	**n.s.**	**53,964**	**23,747**	**127.2**

Gross profit for the fourth quarter was € 82.3 million, a 65.9% margin on sales. For the full year 2004 gross profit was € 309.0 million with a margin on sales of 63.3%, an improvement over the preceding year due to the increased weight of pharmaceutical sales, a favorable product mix in both businesses and the disposal of Sophartex which had lower gross margins.

Selling expenses in the fourth quarter were slightly down. For the whole of 2004 these increased by 5.4% mainly due to the promotional support of new product launches in particular during the first half of the year.

R&D expenses increased by 33.7% in the fourth quarter 2004. For the whole of the year R&D expenses were € 37.3 million, an increase of 13.9% over 2003, and include, among others, the expenditure related to the clinical development of the fixed combination of lercanidipine and enalapril (Zanipress®), the new product which was filed for approval in Germany at the end of 2004. Also included are down-payments for around € 2.5 million relative to new product licenses which were paid mostly in the last quarter.

Goodwill amortization in 2004 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.

EBIT by business area (thousands of €)	Fourth Quarter 2004	Fourth Quarter 2003	Change %	Full Year 2004	Full Year 2003	Change %
Pharmaceuticals	24,791	26,366	(6.0)	88,383	85,539	3.3
Pharmaceutical chemicals	1,015	(1,384)	n.s.	2,042	(4,509)	n.s.
Total	**25,806**	**24,982**	**3.3**	**90,425**	**81,030**	**11.6**

EBIT generated by the pharmaceutical business in the fourth quarter 2004, which was 22.0% of sales, was slightly down on the same period of the preceding year due to the sale of Sophartex and to the significant increase in R&D expenditure. Pharmaceutical chemicals EBIT during the fourth quarter was € 1.0 million, as opposed to a prior year loss, thanks to the reorganization of this business.

EBIT for the full year 2004 was € 90.4 million, or 18.5% of sales, an increase of 11.6% over the preceding year thanks to the contribution of both businesses. The pharmaceutical business generated EBIT of € 88.4 million, a margin on sales of 20.1%, up 3.3% over 2003 thanks to gross margin improvement which compensated for the significant increase in R&D expenditure which grew by over 20% in this business segment. The pharmaceutical chemicals business recovered and generated EBIT of € 2.0 million as opposed to a loss in 2003.

In the fourth quarter 2004 net financial charges were € 2.0 million and include the write-down of some financial investments for € 0.8 million for reasons of prudence. Net financial expenses for the whole year were € 4.8 million and include exchange losses of € 0.4 million in addition to the write-down described above. Interest expense paid on loans was € 4.5 million (€ 5.8 million in 2003).

Net non-operating expenses in the fourth quarter were € 1.4 million and include the write-down of some biochemical products inventory (€ 1.0 million) and a provision in connection with a tax assessment at Bouchara Recordati. Non-operating income of € 1.9 million was generated in the period from the sale of property by the parent company.

For the full year 2004 non-operating revenues of € 1.1 million, net of expenses, include the capital gain of € 2.1 million arising from the sale of the Paris office building and that realized on the sale of Polfa Kutno shares of approximately € 2.0 million in addition to the gain booked in the last quarter. Expenses were essentially those incurred in the fourth quarter in addition to the accrued portion of profits that the French companies share with their employees (*participation au résultat*).

Net income in the fourth quarter was in line with that booked in the first three quarters of the year. A comparison with the fourth quarter of 2003 is not significant as the extraordinary write-down of assets for over € 30,0 million linked to the pharmaceutical chemicals business was taken in that quarter.

Net financial position

(thousands of €)	31 December 2004	31 December 2003	Change	Change %
Cash and marketable securities	232,229	98,685	133,544	135.3
Short term bank debt	(3,478)	(17,603)	14,125	(80.2)
Current portion of medium and long term debt	(25,166)	(27,553)	2,387	(8.7)
Short term financial position	203,585	53,529	150,056	280.3
Medium and long term debt	(131,448)	(74,903)	(56,545)	75.5
Net financial position	**72,137**	**(21,374)**	**93,511**	**n.s.**

The net financial position improved by € 93.5 million and at 31 December 2004 was positive by € 72.1 million thanks to the proceeds from the sale of the Paris office building and of Sophartex in addition to the cash flow generated by operations. Capital employed decreased significantly compared to that at end 2003 and was due to a decrease in working capital in addition to the disposals mentioned above. Working capital at 31 December 2004 was particularly low due to the inclusion of Bouchara Recordati tax debts, which were higher than normal as they were generated by the capital gains realized during the year, and to a reduction of trade receivables due to an improvement in the average days of sales outstanding.

Cash and cash equivalents, at € 232.2 million, includes the funds raised by the private placement of long term debt for an equivalent value of € 80.6 million which was subscribed by international institutional investors. Cash is invested short term and is held for future investment in the group's development activities.

Short term bank debt is attributable mainly to local debt incurred by certain subsidiaries.

Medium and long term debt increased following the issue of long term notes for an equivalent of € 80.6 million in connection with the private placement transaction described before. The notes are denominated in euros, U.S. dollars and sterling and have an average duration of 9 and a half years.

Statements contained in this report, other than historical facts, are "forward-looking statements" (as such term is defined in the Private Securities Litigation Reform Act of 1995). These statements are based on currently available information, on current best estimates, and on assumptions believed to be reasonable. This information, these estimates and assumptions may prove to be incomplete or erroneous, and involve numerous risks and uncertainties, beyond the Company's control. Hence, actual results may differ materially from those expressed or implied by such forward-looking statements.
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