

Annual Report 2001



The Prize Arrigo for scientific research Recordati



The Arrigo Recordati Prize for scientific research was established to honour the memory of Arrigo Recordati, who passed away on 18 February 1999. The Prize is aimed at promoting research in cardiovascular diseases. It is awarded every two years to a clinician or scientist of any nationality who has shown special prominence in the field. The first edition of the Prize was devoted to arterial hypertension.

The candidates were selected by a panel of top international experts from leading scientific societies and institutions with an interest in the field of arterial hypertension.

The candidates were evaluated by a Jury composed of James W. Black (*President of the Jury*) (*Professor of Analytical Pharmacology Emeritus, King's College, London, Nobel Laureate in Medicine, 1988*), Edward D. Frohlich (*Alton Ochsner Distinguished Scientist, Alton Ochsner Medical Foundation, New Orleans, Louisiana*) and Alberto Zanchetti (*Director of the Centre for Clinical Physiology and Hypertension, University of Milan, Ospedale Maggiore - Policlinico di Milano*).

After thorough discussion, the Jurors decided to award the 2001 Prize to Giuseppe Mancia (*Professor of Medicine, University of Milan-Bicocca; Chairman, Department of Internal Medicine, San Gerardo Hospital, Monza; President of the European Society of Hypertension*). The award ceremony for the first edition of the Arrigo Recordati Prize took place at Palazzo Marino, (Milan's City Hall) on February 19, 2001, on the second anniversary of Arrigo Recordati's death.

*Award ceremony
for the first edition
of the Arrigo Recordati Prize.
Palazzo Marino, Milan
February 19, 2001*

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Recordati in Figures

Sales

€ (thousands)	2001	%	2000	%	Change 2001/2000	%
Pharmaceuticals	349,641	80.7	269,312	75.7	80,329	29.8
Pharmaceutical Chemicals	83,727	19.3	86,574	24.3	(2,847)	(3.3)
Total	433,368	100.0	355,886	100.0	77,482	21.8
Italy	168,359	38.8	152,692	42.9	15,667	10.3
International	265,009	61.2	203,194	57.1	61,815	30.4

Investments

€ (thousands)	2001	% of Sales	2000	% of Sales	Change 2001/2000	%
Non-Current Assets						
- Ongoing Activities	26,916	6.2	15,815	4.4	11,101	70.2
- Acquisitions/Change in Consolidation Perimeter	26,479 ^(a)	6.1	82,848	23.3	(56,369)	(68.0)
Total Non-Current Assets	53,395	12.3	98,663	27.7	(45,268)	(45.9)
R&D ^(b)	30,936	7.1	36,867	10.4	(5,931)	(16.1)
Total	84,331	19.4	135,530	38.1	(51,199)	(37.8)

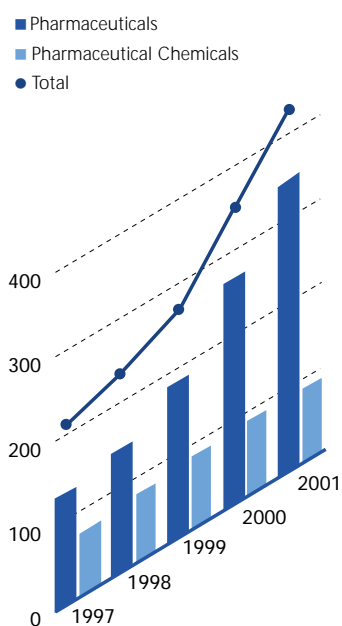
Investments include disposals net of accumulated depreciation.

(a) Includes the full consolidation of Sophartex and the restatement of goodwill resulting from the merger of the French companies (see Notes to the Consolidated Financial Statements).

(b) Entirely expensed in the period.

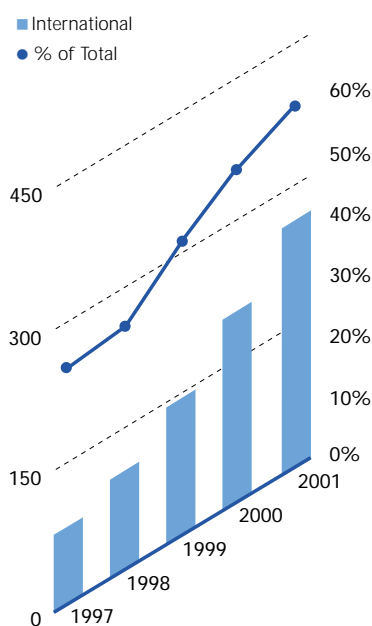
Consolidated Net Sales

millions of euro



International Net Sales

millions of euro



Recordati in Figures

Key Consolidated Data

€ (thousands)	2001	% of Sales	2000	% of Sales	Change 2001/2000	%
Net Sales	433,368		355,886		77,482	21.8
EBITDA ⁽¹⁾	98,533	22.7	70,585	19.8	27,948	39.6
Operating Income (EBIT)	65,120	15.0	46,610	13.1	18,510	39.7
Net Income	35,997	8.3	27,400	7.7	8,597	31.4
Cash Flow	69,410	16.0	52,227	14.7	17,183	32.9
Shareholders' Equity	212,634		137,051		75,583	55.1
Dividends	12,479 ⁽²⁾		7,721		4,758	61.6
Dividends/Net Income	34.7%⁽²⁾		28.2%			

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

(2) Proposed by the Board of Directors

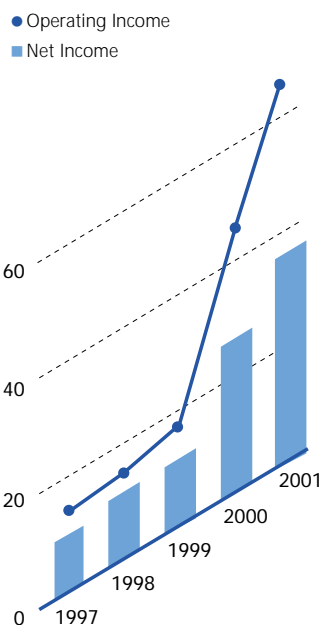
Per Share Data⁽³⁾

€	2001	2000	Change 2001/2000	%
Net Income	0.72	0.55	0.17	31.5
Cash Flow	1.39	1.05	0.34	33.0
Shareholders' Equity	4.26	2.73	1.53	56.1
Shares Outstanding as of December 31	49,915,914	50,206,200		

(3) Net Income and Cash Flow per share are based on average shares outstanding during the year. Shareholders' Equity per share is based on total shares outstanding at year-end. For comparison purposes values and number of shares outstanding are shown with a pro-forma retroactive effect of the 2:1 stock split which took place in February 2001.

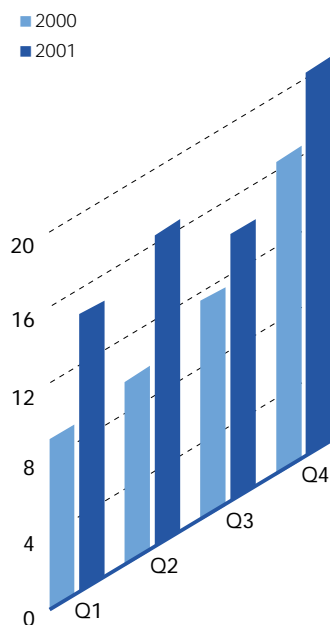
Operating and Net Income

millions of euro



Quarterly EBIT Development

millions of euro





Giovanni Recordati *Chairman & CEO*

To Our Shareholders and Employees



In 2001 Recordati grew significantly, keeping up the positive trend of the last several years. Accordingly, financial results improved over 2000 and prior years. As compared to 1998 sales have doubled, international sales have almost trebled and operating income is four times what it was. This growth was obtained thanks to the remarkable development of the international pharmaceuticals business and to the fulfillment of important objectives which are crucial for the company's future progress. The expansion policy based on research and internationalization, which has been followed in recent years, made these important results possible.

The improved profitability in 2001 can be attributed to the development of the pharmaceutical segment and in particular to the international performance of Zanidip® (lercanidipine), our proprietary drug for hypertension, which achieved good sales results in Germany and in France, respectively the third and fourth largest pharmaceutical markets in the world.

During 2001 important objectives for the future development of the group were attained. The NDA (New Drug Application) for lercanidipine was filed with the FDA (Food and Drug Administration) in the USA, the largest pharmaceutical market. In Japan, the second largest pharmaceutical market, our licensee Tsumura and Dainippon Pharmaceutical came to a preliminary collaboration agreement which will increase resources for the development of lercanidipine in that market. New important drugs in the cardiovascular, gastroenterological and CNS areas were added to our pharmaceutical pipeline which will significantly contribute to sales growth.

Financial Highlights

Consolidated net sales were € 433.4 million, compared to € 355.9 million in 2000 (+21.8%). This increase was due both to the development of our existing product portfolio and to the results obtained by Bouchara, the French group which was consolidated as from 1 July 2000. The growth is to be attributed to the pharmaceuticals segment with sales which rose from € 269.3 million to € 349.6 million (+29.8%) due mainly to international growth. In fact, during 2001 international pharmaceutical sales increased by 53.5% and accounted for more than half this segment's turnover. Pharmaceutical chemicals sales were € 83.7 million (€ 86.6 million in 2000) down slightly from the preceding year (-3.3%). Altogether international sales were € 265.0 million, that is 61.2% of total sales.

EBITDA, at 22.7% of sales, increased from € 70.6 million to € 98.5 million (+39.6%) thanks to the improved profitability of the pharmaceuticals segment whose EBITDA grew by 57.4% reaching 23.2% of sales. This improvement derives mainly from the growth in international markets achieved over the last few years.

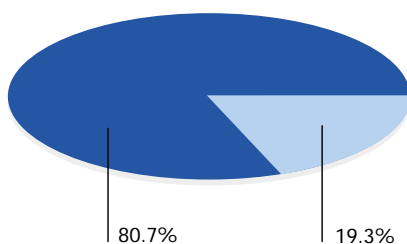
Operating income, at 15.0% of sales, was € 65.1 million, up 39.7% over last year despite the significant increase in goodwill amortization charges which account for 3.3% of sales.

Net income, at 8.3% of sales, went from € 27.4 million to € 36.0 million, an increase of 31.4%, less than that recorded by operating income due to higher non-operating expenses and tax rate.

Business Segments

percentage of sales

- Pharmaceutical Chemicals
- Pharmaceuticals



Cash flow was € 69.4 million (16.0% of sales) increasing by 32.9% over the preceding year.

The group's financial structure was significantly strengthened thanks to the cash flow generated during the year and the funds raised by the conversion of all savings shares into ordinary shares. Net financial indebtedness as of 31 December 2001 was down to € 48.8 million while shareholders' equity reached € 212.6 million. The debt to equity ratio greatly improved to 0.23.



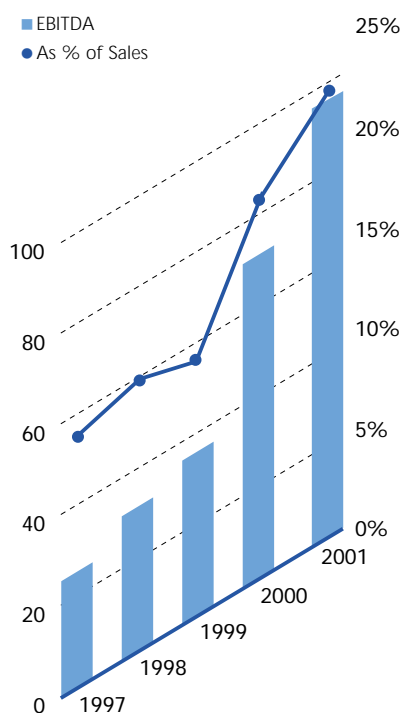
Operating Highlights

Throughout 2001 our efforts continued to be devoted to the development and growth of the group.

- Activities in support of the worldwide development of lercanidipine went ahead. In particular:

EBITDA

millions of euro

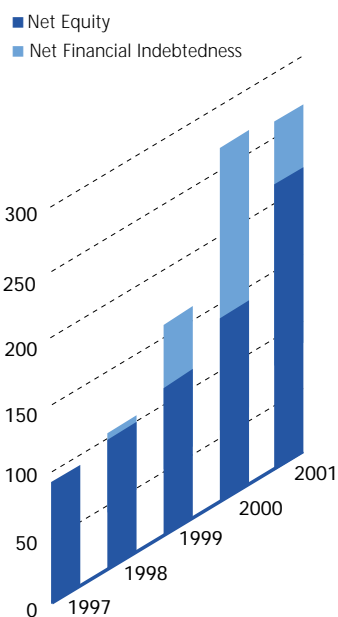


- Our U.S. licensee Forest Laboratories filed the NDA with the FDA. The U.S. market represents around 40% of the world pharmaceutical market. The market there for antihypertensive drugs recorded sales of over 12 billion dollars in 2000 and calcium channel blockers, the class to which lercanidipine belongs, account for around 30% of that in value.
- In Japan, the second largest pharmaceutical market, our licensee Tsumura entered into a preliminary collaboration agreement with Dainippon Pharmaceutical for the co-development and co-marketing of lercanidipine in that country. Thanks to this agreement additional efforts could be devoted to a faster introduction to the Japanese market.
- During the year a license agreement was concluded with Fournier Pharma to market lercanidipine in Canada, the seventh largest pharmaceutical market.
- In Germany and France, respectively the third and fourth largest pharmaceutical markets, lercanidipine performed very well.

- As of the end of 2001 lercanidipine was marketed in 32 countries which represent around 30% of the worldwide pharmaceutical market and it was approved in a total of 45 countries. License agreements in place to date cover the markets of over 100 countries.
- The pharmaceutical pipeline was considerably expanded with the acquisition of important drugs in the cardiovascular, gastroenterological and CNS therapeutic areas.
 - In the cardiovascular area a semi-exclusive licensing agreement was signed with the Japanese company Kowa for the marketing in Italy of pitavastatin, an innovative cholesterol lowering agent currently in phase II clinical trials in Europe and the U.S.A.. Pitavastatin is a “superstatin” with a remarkable capacity for reducing both the cholesterol fraction associated with high cardiovascular risk (LDL) as well as triglyceride levels, and at the same time increasing the “protective” fraction of cholesterol (HDL). Pitavastatin could become one of the more competitive statins, a class which is growing rapidly in all industrialized countries.
 - A licensing agreement was concluded with Mylan Technologies for the sale in France and in Portugal of a nitroglycerin transdermal patch. This agreement is an extension of that signed previously for the Italian market. The product is indicated for the treatment of angina and its technical features make it one of the best in the market. Its launch in Italy is expected in early 2002 while it is under development in France.

Financing of Capital Employed

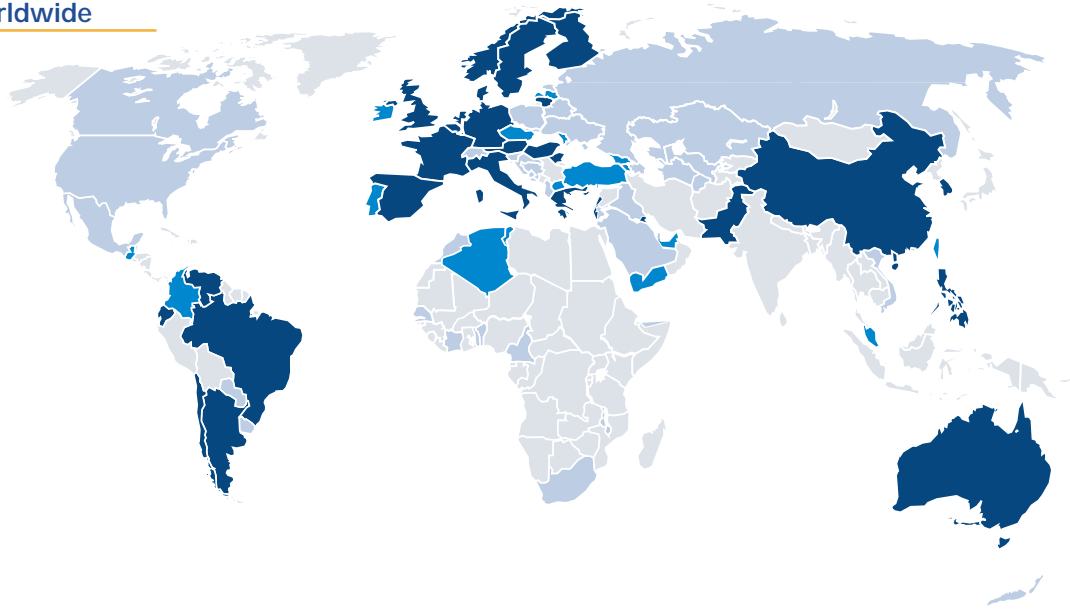
millions of euro



- An agreement was reached with AstraZeneca for the transfer to Recordati of all marketing rights in Italy to Lercadip® (lercanidipine).
- In the area of gastroenterology a non-exclusive licensing agreement was concluded with Byk Gulden for the sale in Italy of Peptazol® (pantoprazole), a drug belonging to the proton pump inhibitor (PPI) class indicated for the treatment of peptic ulcers and gastro-esophageal reflux disease. About 17% of the Italian population suffers from these conditions and the PPI market is growing steadily. Pantoprazole, as shown by many clinical trials and ample scientific literature, is one of the best drugs in its class.

Lercanidipine Worldwide

- Launched
- Registered
- Filed



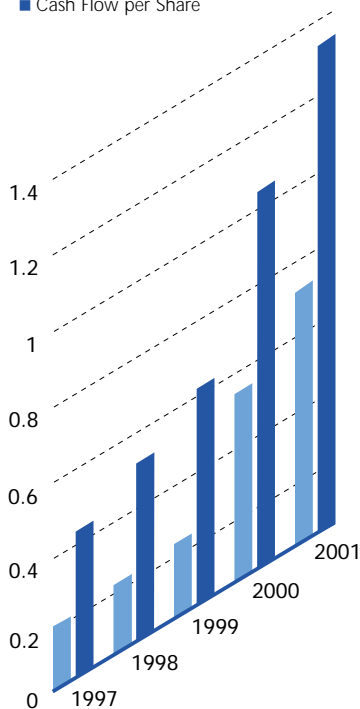
The Peptazol® license builds upon Recordati's presence in the gastroenterological field. In fact, as of 1996 the Spanish subsidiary, Recordati España, is a licensee of this same drug. Sales of Peptazol® in Italy started at the end of 2001.

- In the CNS area a semi-exclusive agreement was entered into with the Danish pharmaceutical company Lundbeck for the marketing and sale in Italy of Gaudium® (escitalopram), an SSRI (selective serotonin reuptake inhibitor) drug, indicated for the treatment of depression and panic disorders. This new agreement follows on the previous license for citalopram (Elopram®), the antidepressant successfully launched in Italy in co-marketing with Lundbeck in 1995. The market for this class of drugs continues to grow in Italy and elsewhere.

Earnings and Cash Flow per Share

euro

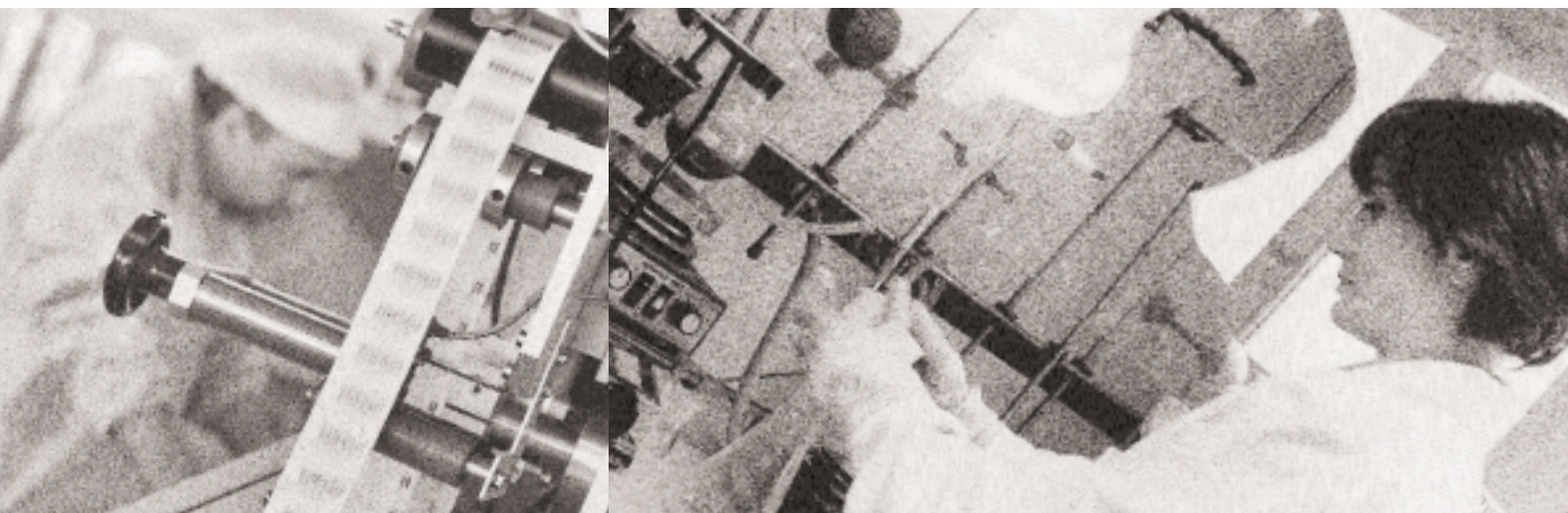
- Earnings per Share
- Cash Flow per Share



- Research and development activities in the urological and cardiovascular areas progressed.

Under the collaboration with Pharmacia in the urological area a number of new molecules were synthesized and tested in order to identify potential drug candidates for the treatment of unstable bladder and urinary incontinence.

In the cardiovascular area an important clinical trial was completed involving over 800 elderly hypertensive patients. The data showed that lipophilic calcium channel blockers, among which lercanidipine, at comparable efficacy, caused significantly less drop-outs due to any adverse event, as well as less leg edema or symptoms associated with leg swelling and drop-outs due to leg edema, than the leading non-lipophilic calcium channel blocker amlodipine.



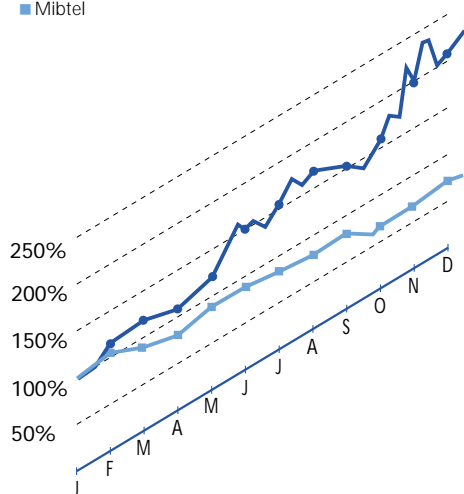
The phase III clinical development of a fixed association between lercanidipine and an ACE inhibitor started with the objective of filing for approval of the new combination product within 2003.

- The reorganization of the companies acquired in France in 1999 and 2000 was concluded successfully with the establishment of a single company, Bouchara-Recordati. Its marketing organization was expanded and reinforced and a single leaner central operation was implemented to create synergies and cost savings.
- A new three-year stock option plan for the benefit of several additional members of management was put in place while changes were made to the current top management's plan. Overall, during 2001 options were awarded for the subscription of a total of 693,000 ordinary shares. The options awarded under both plans can be exercised in tranches, which may be accumulated, at pre-established times but not later than May 2005.
- The conversion of all savings shares into ordinary shares was successfully completed. A vast majority of savings shareholders (over 95%) opted for the conversion of their savings shares into ordinary shares at a ratio of 1:1 with the payment of a € 4.00 premium. The aims of the operation which were to simplify the company's capital structure, raise funds to sustain future growth and increase liquidity of the stock were thus achieved.

Recordati Share Performance 2001

percent

- Recordati Share
- Mibtel



* * *



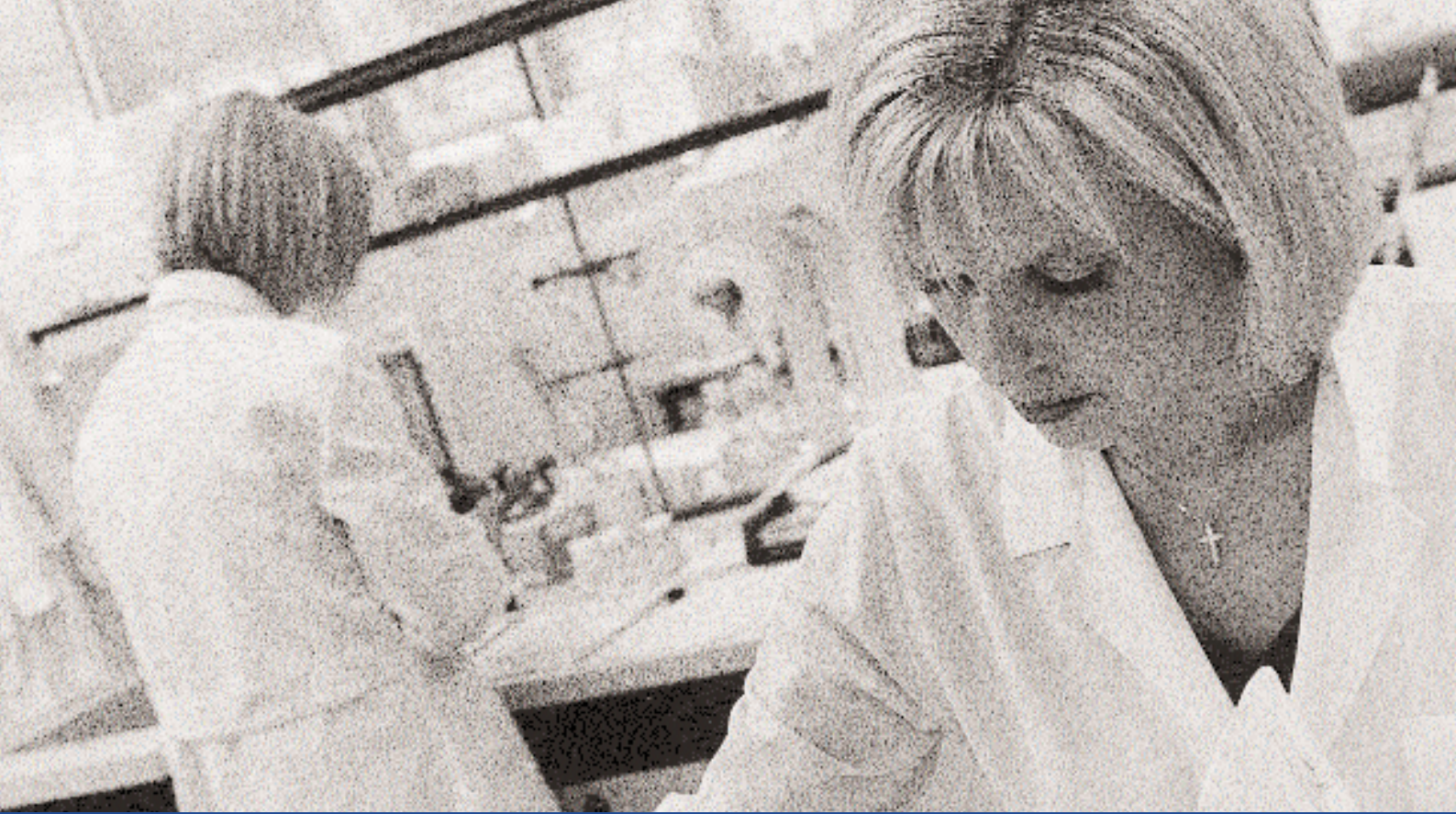
In 2002 Recordati intends to keep pursuing the development policy laid out in recent years. It shall continue to invest in research, expand its international presence, acquire innovative products in order to ensure growth, to be competitive, to remain independent and to create value for its partners and stakeholders.

To achieve these goals we count on the professional skills and entrepreneurship of our management team, the motivation and drive of our employees and the support of our shareholders. We would like to express our gratitude to all of them for their contributions during 2001.

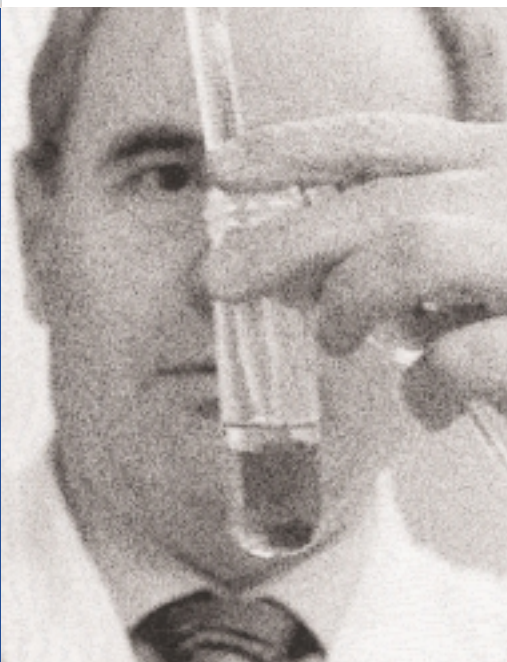
Dividends

Based on these positive results, we propose a dividend of € 12.5 million, as compared to the € 7.7 million prior year dividend (+61.6%). The proposed dividend is € 0.25 per share, payable as from 25 April 2002.


Giovanni Recordati
Chairman and Chief Executive Officer



Research and Development



Pharmaceuticals

In 2001 our research activities progressed in the urological and cardiovascular areas.

Within the urological area the main focus of our activity was the synthesis and evaluation of interesting new molecules for the treatment of disorders of the lower genito-urinary tract under the collaboration agreement with Pharmacia. Our combined efforts have led to the identification of a candidate for proof-of-concept in humans for the treatment of unstable bladder and of a molecule, still in the preclinical phase, with potential application to female sexual disorders.

Within the cardiovascular area, the clinical development of our proprietary molecule lercanidipine continued, with the aim of adding to its therapeutic profile. In particular, an important clinical study was completed which assessed the tolerability of lipophilic and non-lipophilic dihydropyridine calcium channel blockers in elderly hypertensive patients. This double blind, randomized, controlled study was conducted on more than 800 patients and compared lercanidipine and another lipophilic drug to amlodipine, the leading non-lipophilic calcium channel blocker. The data showed that lipophilic calcium channel blockers, as is lercanidipine, caused significantly less leg edema or symptoms associated with leg swelling and drop-outs due to leg edema as well as less drop-outs due to any adverse event. The main results of this study were presented on occasion of an important international meeting on hypertension.

Furthermore, we have begun the phase III clinical trials of a fixed association between lercanidipine and another anti-hypertensive drug, an angiotensin conversion enzyme inhibitor (ACE inhibitor), with the aim of filing for approval of the new combination product within 2003.

The new guidelines for the treatment of hypertension require, with increasing frequency, the use of more than one drug in order to significantly reduce major cardiovascular clinical events resulting from high blood pressure. The development of a fixed association will offer patients on multiple therapy a single, effective product with a simple, convenient once-a-day formulation, thereby increasing compliance and treatment success rates.

Activities aimed at obtaining the registration of lercanidipine in additional new international markets continued. In October the new drug application was filed with the FDA in the U.S.A., the largest pharmaceutical market (see Operating Highlights). A number of new marketing approvals were obtained during 2001. Two of the most significant relate to Australia and China and in both these countries lercanidipine was recently launched.

During 2001 activity aimed at filling up our pipeline also yielded important results with the acquisition of licenses to important and innovative drugs. Various agreements were concluded for a series of drugs in different stages of development in order to ensure a continuous flow of products in the next few years. Peptazol[®], pantoprazole under license from Byk Gulden, and Lercadip[®], lercanidipine, are already on the market in Italy; the nitroglycerine transdermal patch, licensed in from Mylan, is being sold as of January 2002 in Italy and is under development for the French market; Gaudium[®] (escitalopram), an SSRI under license from Lundbeck, and the successor to citalopram, is under review for approval in Italy; valganciclovir, an antiviral under license from Roche, is due to be filed for approval soon; pitavastatin, a cholesterol lowering agent licensed in from Kowa, is undergoing phase II of development in Europe and in the U.S.A. (see Operating Highlights).

Pharmaceutical Chemicals

Our research laboratories developed production processes for four more active ingredients for use in the generic pharmaceuticals market.

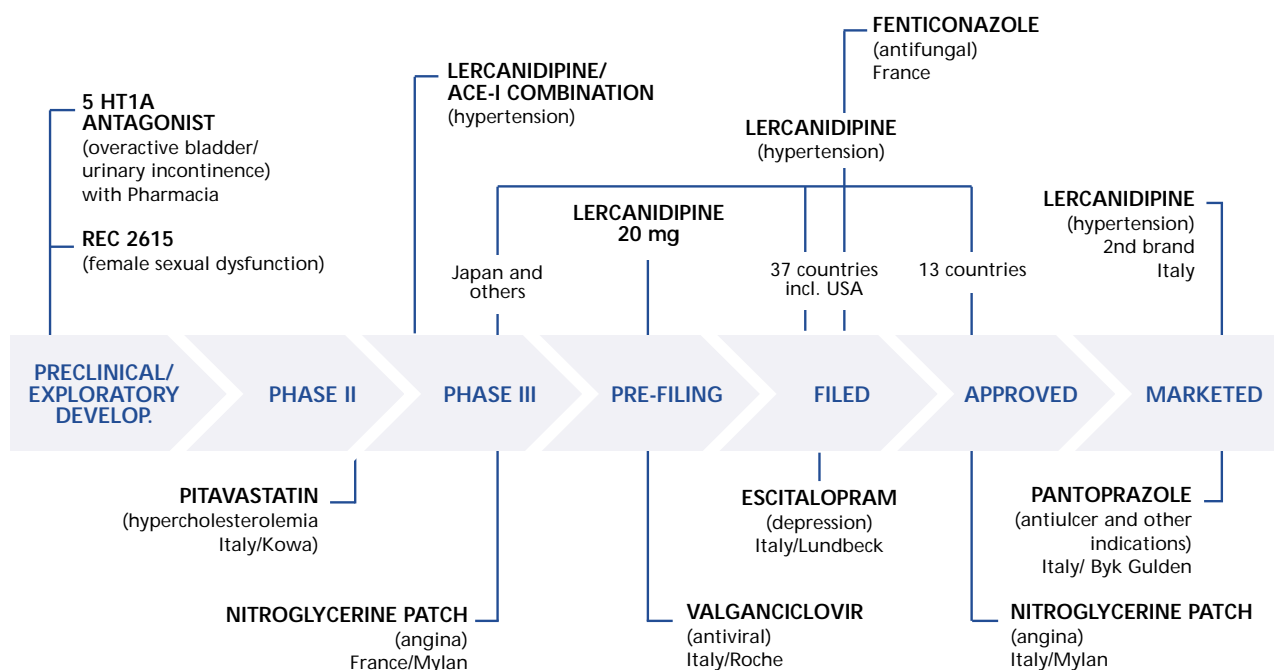
In the area of chemical synthesis, the pilot scale development for sertraline (antidepressant), terbinafine (antimycotic) and an important antihypertensive was completed. The industrial development of simvastatin was concluded. Processes for a further four active ingredients, whose patents expire within the next few years, were developed and tested on a pre-pilot scale.

In the biochemical area, the industrial process for lovastatin was optimized and its production will initiate in 2002. Furthermore, a production process for pravastatin was finalized and various custom manufacturing collaborations went ahead.

In all our plants optimization of production processes was a priority and the research and development staff provided significant support.

Collaborations with external research institutions continued in order to benefit from their specific know-how and to access new technologies.

Pharmaceutical Product Pipeline





Pharmaceuticals

Net sales of pharmaceuticals are shown in the following table:

€ (thousands)	2001	%	2000	%	Change 2001/2000	%
Prescription Pharmaceuticals ^(a)	141,627	40.5	128,412	47.7	13,215	10.3
Self-Medication Pharmaceuticals ^(b)	15,726	4.5	15,639	5.8	87	0.6
Pharmaceuticals Italy	157,353	45.0	144,051	53.5	13,302	9.2
France	93,579	26.8	58,510	21.7	35,069	59.9
Spain	20,411	5.8	17,544	6.5	2,867	16.3
International Licensees ^(c)	66,001	18.9	49,207	18.3	16,794	34.1
Sophartex	12,297	3.5	0	0	12,297	n.s.
International Pharmaceuticals	192,288	55.0	125,261	46.5	67,027	53.5
Total	349,641	100.0	269,312	100.0	80,329	29.8

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

(a) Prescription pharmaceuticals include both reimbursable and non-reimbursable drugs.

(b) Self-medication pharmaceuticals include OTC products and other pharmaceuticals not requiring prescription. All self-medication pharmaceuticals are not reimbursable.

(c) Include the Portuguese subsidiary's sales.

Pharmaceutical sales in 2001 increased by 29.8% over 2000 mainly due to the development of international sales which were up 53.5% and represent 55.0% of total segment sales. Growth derives from both the existing product portfolio and the consolidation of the French companies acquired at the end of June 2000. If we exclude the consolidation effect, pharmaceutical sales increased by 10.5%.

Zanidip® (lercanidipine)

During 2001, Zanidip® (lercanidipine), our proprietary anti-hypertensive calcium channel blocker, continued to perform well especially in the new important markets where it was launched. Lercanidipine sales are shown in the following table:

€ (thousands)	2001	%	2000	%	Change 2001/2000	%
- Italy	26,309	47.0	23,576	60.5	2,733	11.6
- France	3,517	6.3	0	n.s.	3,517	n.s.
- Spain	3,991	7.1	2,379	6.1	1,612	67.8
Direct Sales	33,817	60.4	25,955	66.7	7,862	30.3
Sales to Licensees	22,164	39.6	12,983	33.3	9,181	70.7
Total Lercanidipine Sales	55,981	100.0	38,938	100.0	17,043	43.8

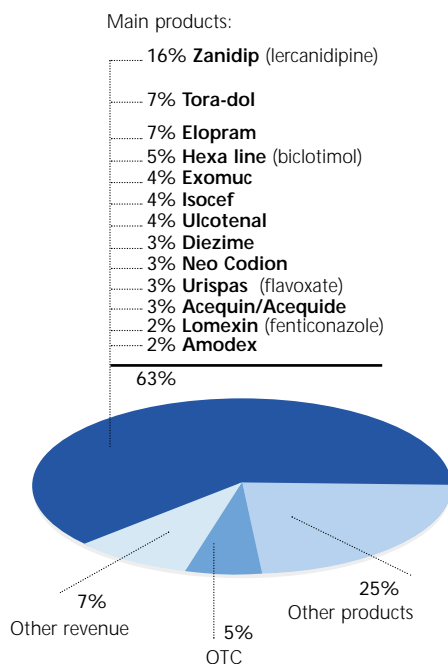
Sales of Zanidip® in Italy were € 26.0 million, up 10.3% over the preceding year. The increase is to be attributed entirely to the second half of 2001 when sales grew by 30.4%. In the first half of the year a slight decrease was recorded as during the same period of 2000 the launch of the new 28 tablets presentation involved additional stock-ins. Throughout 2001 Zanidip® consolidated its position as the third calcium channel blocker on the market.

In order to further develop sales of lercanidipine in Italy, during 2001 an agreement was reached with AstraZeneca for the transfer to Recordati of all marketing rights to Lercadip®, a lercanidipine based drug. As of December 2001 this brand is being sold by the subsidiary Innova Pharma. In Italy, lercanidipine, which is also marketed by Rottapharm, reached a market share of 8.5% of the calcium channel blocker class in the fourth quarter 2001.

In France Zanidip® was launched by Bouchara-Recordati in March 2001 and recorded sales of € 3.5 million, growing steadily throughout the year. Thanks also to the performance of our co-marketer Pierre Fabre, lercanidipine in France reached a market share of 4.0% in the fourth quarter. This performance, which is in line with that of the Italian launch, is very encouraging for the development prospects of our drug in the second largest European pharmaceutical market.

On the Spanish market Zanidip® maintained its strong growth trend recording sales of € 4.0 million (+67.8%). In the fourth quarter 2001 the market share attained by lercanidipine in Spain, where it is also sold by Zambon and Uriach, was 4.4%.

Main Products



In the countries where Recordati has no direct presence lercanidipine is marketed through licensees. Sales to licensees in 2001 were € 22.2 million, up 70.7% over the preceding year. The growth was due to the success of the new launches as well as to the good performance of the product in markets where it was already being sold. In particular, sales in Germany, where lercanidipine was launched in the last quarter of 2000, are growing significantly reaching a market share of 4.0%. Overall, as of 31 December 2001, lercanidipine is marketed in 32 countries which represent around 30% of the world's pharmaceutical market.

Pharmaceuticals, Italy

Sales in Italy of prescription drugs (including Zanedip®) in 2001 were € 141.6 million, up 10.3% over 2000 against an estimated pharmaceutical market growth of 11.9%, hospital sales included.

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

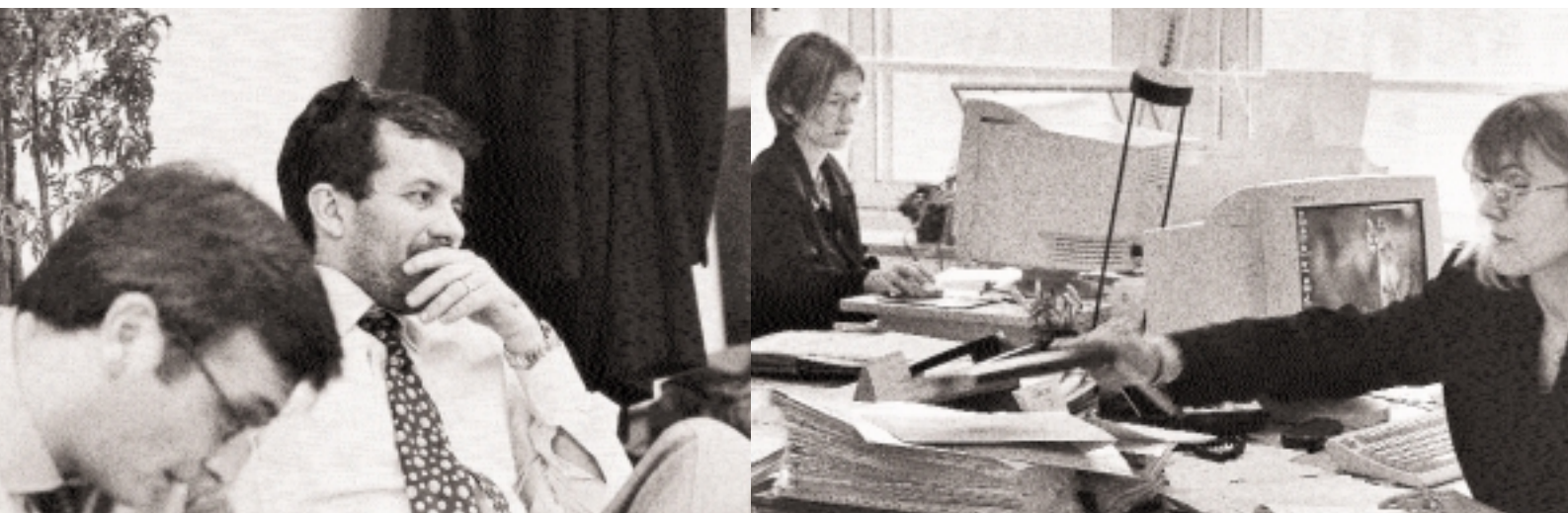
Sales € (thousands)	Therapeutic Area	2001	2000	Change 2001/2000	%
Zanedip®/Lercadip® ^(a)	Hypertension	26,309	23,576	2,733	11.6
Tora-dol®	Analgesia	25,649	24,601	1,048	4.3
Elopram®	Depression	25,560	13,946	11,614	83.3
Isocef®	Anti-infective	13,507	11,007	2,500	22.7
Diezime®	Anti-infective	12,098	13,003	(905)	(7.0)
Acequin® /Acequide®	Hypertension	9,102	9,797	(695)	(7.1)

(a) Includes Lercadip® sales by Innova Pharma only for the month of December 2001

The cardiovascular therapeutic area accounts for 26.9% of prescription pharmaceutical sales and has become the most important of our portfolio thanks to the continuing growth of Zanedip®.

In the CNS (Central Nervous System) area (19.5% of sales), Elopram® (citalopram), an SSRI antidepressant, continued its strong growth trend and nearly doubled its 2000 sales. Its market share also increased further.

Within the analgesia/anti-inflammatory therapeutic area (24.8% of sales), Toradol® (ketorolac) consolidated its position as the market leader in its class.



Regarding the anti-infective area (20.4% of sales), Isocef® (ceftibuten) recorded increased sales and market share while Diezime® (cefodizime) suffered from an overall reduction of the market for injectable antibiotics.

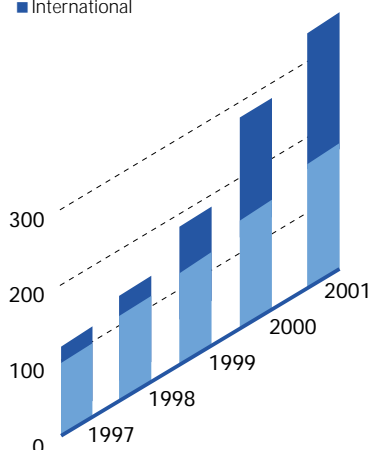
At the end of 2001 two new important products, which were already on the market in Italy, were added to our portfolio, Lercadip® (lercanidipine) and Peptazol® (pantoprazole). Both drugs belong to important therapeutic classes and represent interesting growth prospects for the years to come. In order to ensure the success of their re-launch our field force was reorganized and strengthened.

A number of events were organized during 2001 in order to extend awareness of our products, chiefly Zanedip® and Elopram®. These included activities connected with prestigious national and international congresses, the organization of epidemiological trials in collaboration with national specialist associations and specialization courses on subjects related to hypertension and mental disorders.

Pharmaceutical Net Sales

millions of euro

■ Italy
■ International



During 2001 important changes regarding National Health Service drug programs were implemented in Italy. Notably, a reimbursement reference price for off-patent products was set, and the public health budget was devolved from the State to the Regions. The expense for pharmaceuticals was fixed at maximum 13% of the overall budget. The application of the reference price involved some of our naproxen products with a marginal impact on sales volumes. Devolution to the Regions of public health expenditure, however, creates a measure of uncertainty for 2002 as the 13% ceiling is clearly inadequate while the Regions could adopt different solutions to curb pharmaceutical spending.



Sales of self-medication products in 2001 were € 15.7 million, in line with the preceding year, within a market which grew by 4.0%. Imidazyl® and Proctolyn® remained the main products in our portfolio, while Antoral® Gola suffered from the negative trend of its market. A number of products launched in recent years such as Lactò®, a sporolactobacillus based vitamin integrator, Alovex™, for the treatment of oral cavity aphthas, and Eumill® eye drops, performed well.

Pharmaceuticals, France

In 2001 our direct presence in the French pharmaceutical market increased significantly mainly due to the consolidation of Bouchara, acquired at the end of June 2000. Sales in France by Bouchara-Recordati were € 93.6 million, up 59.9%. If Bouchara's first half 2000 sales are included for comparison purposes, the increase was 8.1% thanks to the stability of the acquired product portfolio and to the launch of Zanidip® which took place in March. The French pharmaceutical market grew by an estimated 6.7%.

The following table shows sales of the main products:

Sales <i>€ (thousands)</i>	Therapeutic Area	2001	2000	Change 2001/2000	%
Hexa line	Respiratory	15,881	12,800	3,081	24.1
Exomuc®	Respiratory	14,789	14,263	526	3.7
Neo Codion®	Respiratory	10,482	11,060	(578)	(5.2)
Amodex®	Anti-infective	7,040	8,578	(1,538)	(17.9)



Within the French product portfolio the respiratory therapeutic area accounts for 51.7% of total sales while antiinfectives represent 9.5%. With the launch of Zanidip® the cardiovascular area becomes important. The subsidiary's activity was focused on the launch of our original drug. Local clinical trials involving lercanidipine commenced and events aimed at extending awareness of the product within the medical community were organized.

Once again in 2001 the French authorities, in an effort to control public spending on pharmaceuticals, reduced the prices of products within certain therapeutic classes including a number of our brands.

Pharmaceuticals, Spain

Sales in Spain in 2001 by the subsidiary, Recordati España, were € 20.4 million, up 16.3%, compared to an estimated market growth of 11.3%. Zanidip® sales, which increased by 67.8%, contributed to a large extent to this positive result. Ulcotenal® (pantoprazole), an antiulcer of the proton pump inhibitor class, confirmed its position as the top selling product within the portfolio increasing by 34.2% over the preceding year. The anti-infectives Cunesin® (ciprofloxacin) and Clavucid® (amoxicillin and clavulanic acid) underperformed with respect to 2000 due to generic competition.

During the year the Spanish Ministry of Health reduced the prices of products based on certain active ingredients, among which ciprofloxacin (Cunesin®), by 15%.

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. In 2001 these sales reached € 66.0 million with an increase of € 16.8 million over 2000 (+34.1%) thanks to the continuous roll-out of lercanidipine and to the consolidation of Bouchara-Recordati's sales outside France.

Sales of flavoxate, an antispasmodic for the treatment of urinary incontinence, were € 8.3 million, slightly down from those of the preceding year. Fenticonazole, an antimycotic for dermatological and gynecological use, continued to grow recording revenues of € 4.9 million (+18.1%).

In 2001 sales outside France by our French subsidiary were € 24.8 million coming mainly from French-speaking African countries, Vietnam and Eastern Europe. Sales are effected through distributors with the support of a detail force.

Other revenue related to the licensing of active ingredients includes a down payment of \$ 3.0 million from Forest Laboratories in connection with the filing of the NDA for lercanidipine with the FDA, in addition to \$ 3.0 million from Pharmacia for research activities in the urological area.

Sophartex

The financial results of Sophartex, an independent manufacturer of finished pharmaceutical dosage forms, were fully consolidated as of the third quarter 2001. The company was acquired in 2000 as part of the Bouchara group but it was not consolidated immediately as it was intended for future sale. Although we continue to regard this business as non strategic it was fully consolidated a year after its acquisition.

Sales to third parties during the second half 2001 were € 12.3 million. For the whole of 2001, third party sales were € 25.8 million, slightly higher than those of the preceding year (+2.0%).



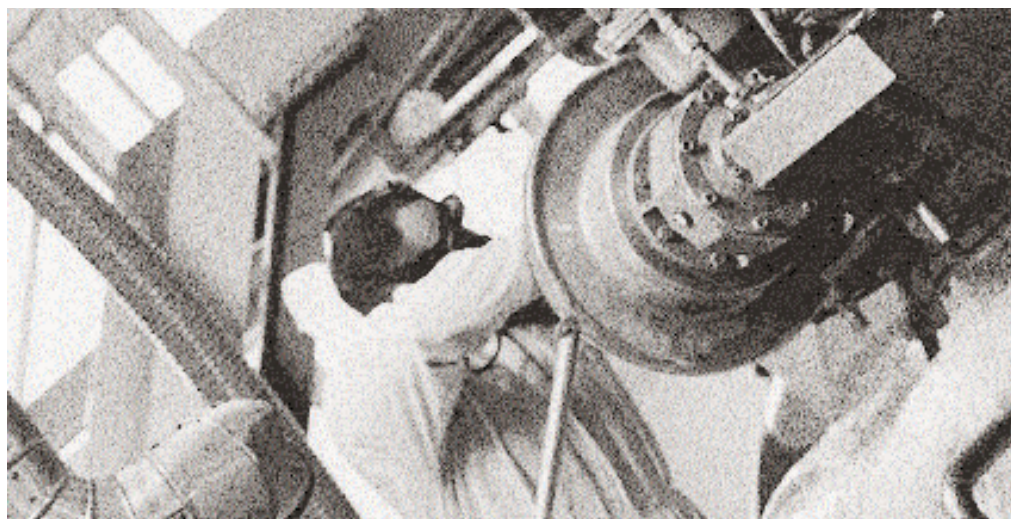
Pharmaceutical Chemicals

Revenue generated by pharmaceutical chemicals is shown in the following table:

€ (thousands)	2001	%	2000	%	Change 2001/2000	%
Italy	11,006	13.2	8,641	10.0	2,365	27.4
Europe (Italy excluded)	24,523	29.3	34,467	39.8	(9,944)	(28.9)
North America	24,805	29.6	17,619	20.3	7,186	40.8
Asia	13,407	16.0	15,111	17.5	(1,704)	(11.3)
Other Areas	9,986	11.9	10,736	12.4	(750)	(7.0)
International	72,721	86.8	77,933	90.0	(5,212)	(6.7)
Total	83,727	100.0	86,574	100.0	(2,847)	(3.3)

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

Sales in 2001 decreased by € 2.8 million from 2000 (-3.3%). The shortfall occurred mainly in the third quarter in part due to the overall economic slowdown and in part due to specific circumstances of certain productions. Sales in the other quarters were substantially in line with those of the preceding year, in a very competitive marketplace. Downward price pressure was only partly offset by a relatively strong dollar, a currency in which a considerable part of revenue is denominated. Sales volumes, however, increased by 1.0% (see Financial Review).

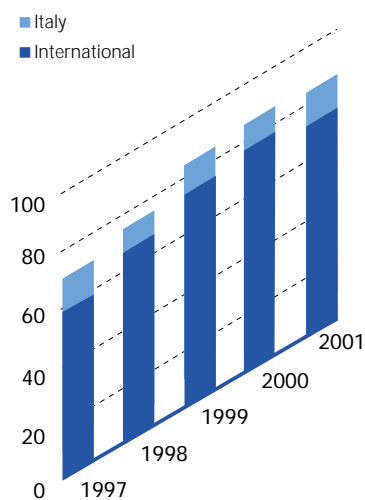


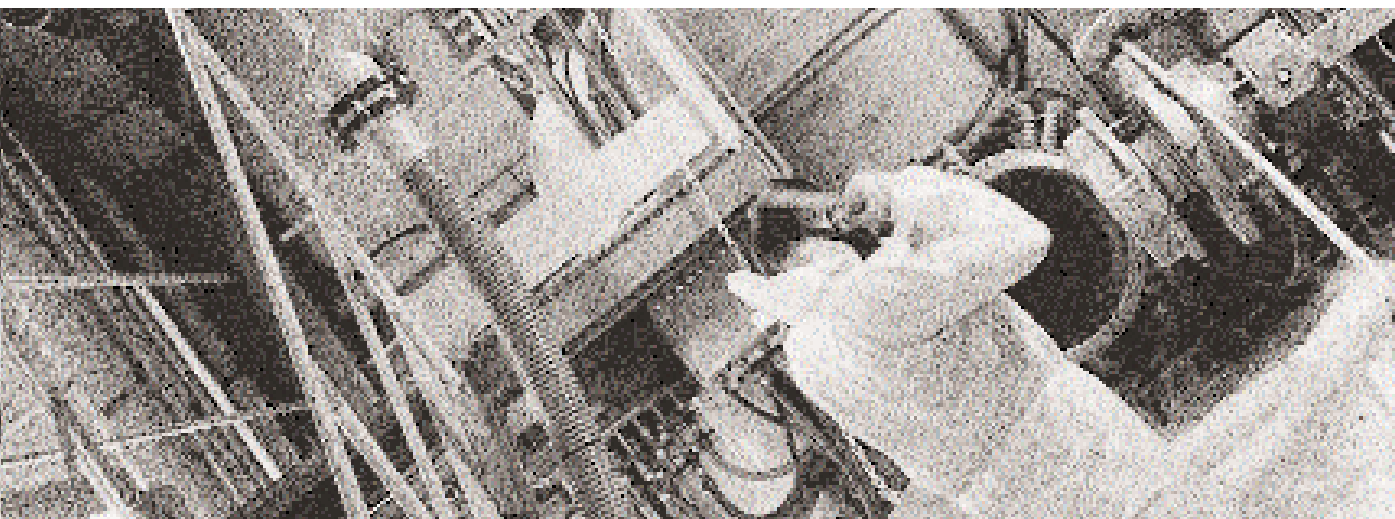
Pharmaceutical chemicals revenue is almost entirely generated in foreign markets. Even domestic sales are strongly influenced by international demand as intermediates, sold to Italian customers, are mainly exported after processing. During 2001, however, the development of the generics market in Italy resulted in increased sales from € 8.6 million to € 11.0 million (+27.4%).

Overall international sales were down by 6.7%, from € 77.9 million to €72.7 million. European sales (Italy excluded) were down by 28.9% due mainly to a reduction in toll manufacturing for leading pharmaceutical producers and lower sales of intermediates for antibiotics. On the other hand, sales in North America increased, principally due to higher volumes, and involved all of our main products.

Pharmaceutical Chemicals Net Sales

millions of euro





Verapamil continued to be an important product of our portfolio and grew significantly, in particular in the American market. Sales of parahydroxyphenylglycine (and its Dane salt) were in line with those of the preceding year. Acyclovir sales, while recording volume growth, were slightly down due to keen price competition. Sales of ketoconazole, the main product of the Murcia plant, were also down. Overall, sales of biochemical products increased slightly.

Investment programs in all our plants progressed, requiring significant organizational and financial resources.



Financial Review

Income Statement

The following table shows the profit and loss accounts, including their expression as a percent of sales and change versus 2000:

€ (thousands)	2001	%	2000	%	Change 2001/2000	%
Net Sales	433,368	100.0	355,886	100.0	77,482	21.8
Cost of Sales	(182,074)	(42.0)	(149,580)	(42.0)	(32,494)	21.7
Gross Profit	251,294	58.0	206,306	58.0	44,988	21.8
Selling Expenses	(121,407)	(28.0)	(96,185)	(27.0)	(25,222)	26.2
R&D Expenses	(30,936)	(7.1)	(36,867)	(10.4)	5,931	(16.1)
General and Administrative Expenses	(19,697)	(4.5)	(18,639)	(5.2)	(1,058)	5.7
Amortization of Goodwill	(14,134)	(3.3)	(8,005)	(2.2)	(6,129)	76.6
Operating Income	65,120	15.0	46,610	13.1	18,510	39.7
Financial Income/(Expense), Net	(6,110)	(1.4)	(6,462)	(1.8)	352	(5.4)
Other Non-Operating Income/ (Expense), Net	(2,836)	(0.7)	1,087	0.3	(3,923)	n.s.
Pretax Income	56,174	12.9	41,235	11.6	14,939	36.2
Provision for Income Taxes	(20,177)	(4.7)	(13,835)	(3.9)	(6,342)	45.8
Net Income	35,997	8.3	27,400	7.7	8,597	31.4

Consolidated net sales increased from € 355.9 million to € 433.4 million, up 21.8% due both to organic growth (+7.1%) and to the consolidation of the Bouchara group of companies (+14.7%).



Volume, price and currency effects are shown in the following table:

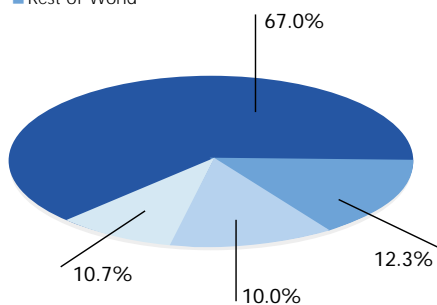
Change as % of sales	Volume Effect	Price Effect	Currency Effect	Total Change
- Pharmaceuticals Italy	9.4	(0.2)	-	9.2
- International Pharmaceuticals (Bouchara excluded)	12.6	(0.8)	0.1	11.9
Pharmaceuticals (Bouchara excluded)	11.0	(0.5)	-	10.5
Pharmaceuticals (Bouchara included)	30.3	(0.5)	-	29.8
Pharmaceutical Chemicals	1.0	(7.1)	2.8	(3.3)
Total	23.2	(2.1)	0.7	21.8

Sophartex is included in Bouchara

International Sales by Region

percentage of sales

- Europe
- North America
- Asia
- Rest of World



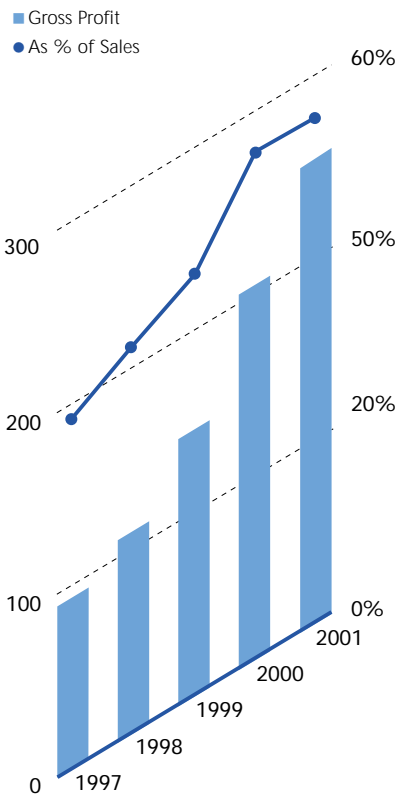
Pharmaceuticals sales growth, excluding the consolidation of Bouchara, was due to volume increases in Italy (+9.4%) and in international markets (+12.6%) and can be attributed to the good performance of our main products. The pharmaceutical chemicals segment recorded slightly increased volumes (+1.0%) but suffered from downward pressure on prices (-7.1%) which was only partly compensated for by a favorable currency effect (+2.8%).

The development of international sales was significant, from € 203.2 million to € 265.0 million, up 30.4% and reaching 61.2% of total sales. The breakdown of international sales by geographic area is shown in the table below:



Gross Profit

millions of euro



€ (thousands)	2001	%	2000	%
Europe (Italy excluded)	177,601	67.0	127,053	62.5
North America	28,306	10.7	20,011	9.8
Asia	26,587	10.0	25,371	12.5
Rest of the World	32,515	12.3	30,759	15.2
Total	265,009	100.0	203,194	100.0

Sales in Europe went from 62.5% to 67.0% of total international sales due to the consolidation of Bouchara and the performance of lercanidipine in important European markets. Strong revenue growth in North America is to be attributed to pharmaceutical chemicals.

Gross profit reached € 251.3 million, up 21.8%, and represents a percent margin of 58.0% substantially in line with that of the preceding year. The consolidation of Sophartex, a company engaged in third party manufacturing and thus incurring a significantly higher cost of sales, as from the second half 2001, accounted for a 0.9% reduction of percent gross margin.

Selling expenses increased by 26.2%, higher than growth in sales mainly due to the costs incurred for the launch of Zanidip® in France and the strengthening of the detail force in Italy which took place at the end of the year.



Research and development expenses were € 30.9 million, as compared to € 36.9 million in the preceding year due to the reduced clinical and regulatory expenditure booked by Recordati in connection with the development of lercanidipine in the U.S.A. and Canada. These expenses are now mostly borne by our licensees Forest Laboratories and Fournier Pharma.

General and Administrative expenses were € 19.7 million, improving as a percentage of sales to 4.5% due to synergies obtained through organizational changes, mainly in France.

Goodwill amortization (3.3% of sales) increased significantly by € 6.1 million and is to be attributed essentially to the French acquisitions.

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

<i>€ (thousands)</i>	2001	% of Sales	2000	% of Sales	Change 2001/2000	%
EBITDA						
Pharmaceuticals	80,944	23.2	51,436	19.1	29,508	57.4
Pharmaceutical Chemicals	17,589	19.1*	19,149	20.3*	(1,560)	(8.1)
Total	98,533	22.7	70,585	19.8	27,948	39.6
Operating Depreciation	19,279	4.4	15,970	4.5	3,309	20.7
Goodwill Amortization	14,134	3.3	8,005	2.2	6,129	76.6
Operating Income	65,120	15.0	46,610	13.1	18,510	39.7

(*) The calculation basis includes intercompany sales

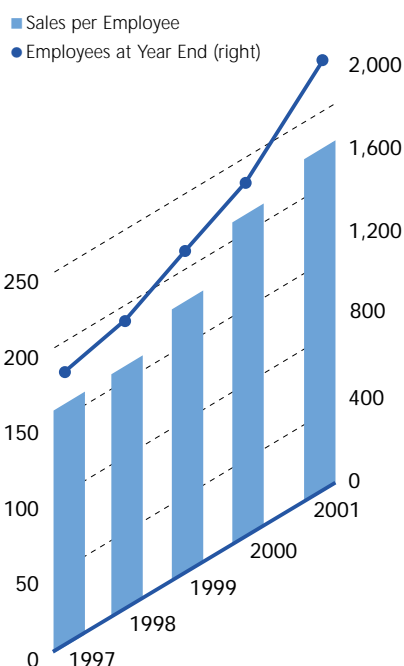
EBITDA, at 22.7% of sales, was € 98.5 million, an increase of € 27.9 million (+39.6%) over 2000. Growth came from the pharmaceuticals segment which improved its EBITDA margin from 19.1% to 23.2% of sales thanks mainly to growth in international sales. In fact, the original drug, Zanidip®, is performing well on international markets and the companies acquired in France contribute to growth. The pharmaceutical chemicals business maintained a good level of profitability (19.1% of sales) despite a slight reduction due to keen price competition which was offset only in part by volume growth.

Operating income, at 15.0% of sales, was € 65.1 million, an increase of € 18.5 million over 2000 (+39.7%). Operating profits improved during the year reaching a margin of 16.1% of sales in the fourth quarter due to a favorable seasonality effect and the one-off down-payment connected with the filing of the lercanidipine NDA in the U.S.A..

Labor cost increased by 17.9% over 2000, essentially due to the consolidation of the French companies. Total headcount increased mainly due to the inclusion of Sophartex (338 employees) and to the beefing up of the detail force in Italy which was partly offset by the streamlining of the headquarters organization in France. Labor cost increase per employee was of only 0.4% as the pro-capita cost in Sophartex is lower than the group average. Excluding this effect the increase would have been 3.5%.

Number of Employees and Sales per Employee

thousands of euro



Personnel and other human resources data as of 31 December 2001 and 2000 are shown in the following table:

	2001	2000
Employees at Year-End	2,147	1,781
Average Age (years)	41	41
Average Service (years)	7	8
Labor Cost Increase:		
Total	+17.9%	+16.2%
Per Employee ^(a)	+0.4%	+8.6%
Labor Productivity:		
Labor Cost on Net Sales	26.1%	26.9%
Sales per Employee (€ thousands) ^(a)	225.7	217.6
Value Added per Employee (€ thousands) ^{(a) (b)}	109.7	101.3

Labor cost includes wages, related charges and additional costs.

(a) Data per employee for both years are computed on average number of personnel (1,920 in 2001 as opposed to 1,635 in 2000).

(b) Value added is computed excluding non-operating income.

Personnel development continued during 2001 through training programs and a salary policy based on merit.

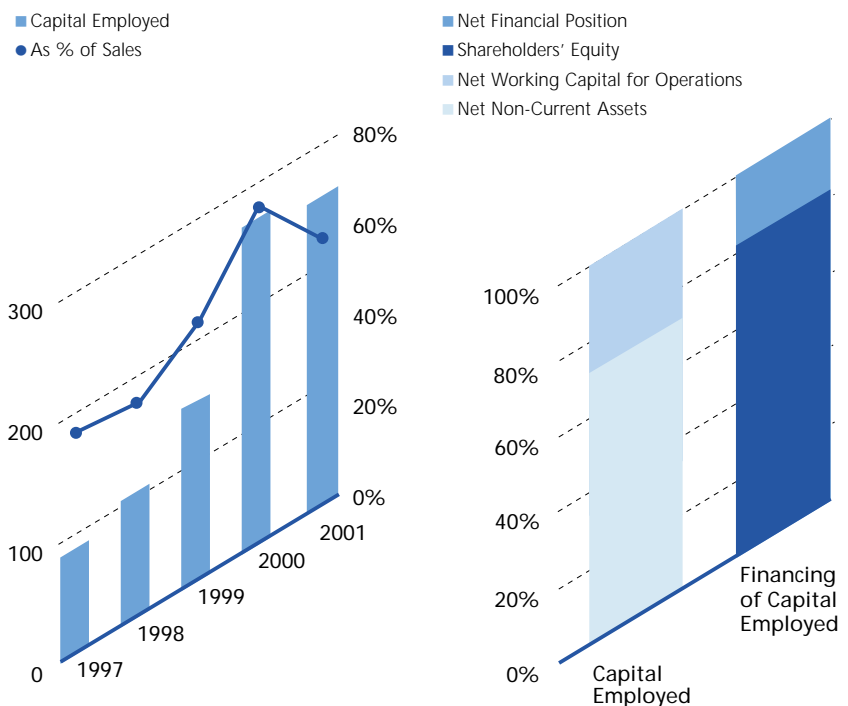
Net financial charges were € 6.1 million in 2001 and are in line with those of the preceding year.

Net non-operating expense was € 2.8 million as opposed to a 2000 net income of € 1.1 million which included the non-recurring gain from the sale of the Vectorpharma business. The 2001 non-operating expenses were incurred mainly in connection with the reorganization of Bouchara-Recordati but include also prudent provisions for future contract and tax risks.

Taxes include, besides income taxes, IRAP, a local Italian tax on production activities. The effective tax rate was 35.9%, above that of 2000 due to the lower tax rate applicable to the extraordinary gains recorded in that year. As in 2000, also in 2001 a revaluation of fixed assets was carried out by Recordati S.p.A. as per Italian law.

Capital Employed

millions of euro



Capital Employed

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

€ (thousands)	2001	%	2000*	%	Change 2001/2000	%
Net Working Capital for Operations	76,416	29.2	91,497	34.4	(15,081)	(16.5)
Net Non-Current Assets	214,404	82.0	194,422	73.0	19,982	10.3
Reserves for Long Term Liabilities	(29,339)	(11.2)	(19,664)	(7.4)	(9,675)	49.2
Capital Employed	261,481	100.0	266,255	100.0	(4,774)	(1.8)
Net Financial Indebtedness	48,847	18.7	129,204	48.5	(80,357)	(62.2)
Shareholders' Equity	212,634	81.3	137,051	51.5	75,583	55.1
Financing of Capital Employed	261,481	100.0	266,255	100.0	(4,774)	(1.8)
Ratio of Shareholders' Equity to Net Non-Current Assets	1.0		0.7			
Return on Investment (ROI)	24.9%		17.5%			
Return on Equity (ROE)	16.9%		20.0%			
Net Sales	433,368		355,886		77,482	21.8
Ratio of Net Sales to Capital Employed	1.7		1.3			

* Reclassified for comparison purposes

Capital employed as of 31 December 2001 is substantially in line with that at year-end 2000. The changes in its composition derive mainly from the consolidation of Sophartex which accounted for a reduction of € 18.3 million of net working capital – the holding in Sophartex was previously booked as a current asset – and an increase of € 23.0 million in net non-current assets, which include fixed assets and goodwill.

ROI improved significantly from 17.5% to 24.9% while ROE decreased from 20.0% to 16.9% due to the increase in equity, a component of which is the € 43.7 million raised through the conversion of savings shares into ordinary shares which took place in February 2001.

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)	2001	% of Sales	2000	% of Sales	Change 2001/2000	%
Accounts Receivable, Net	119,548	27.6	107,484	30.2	12,064	11.2
Inventories	66,153	15.3	57,447	16.1	8,706	15.2
Other Current Assets	23,524	5.4	45,157	12.7	(21,633)	(47.9)
Current Assets	209,225	48.3	210,088	59.0	(863)	(0.4)
Trade Accounts Payable	80,334	18.5	69,895	19.6	10,439	14.9
Other Current Liabilities	52,475	11.3	48,696	13.7	3,779	7.8
Current Liabilities	132,809	29.8	118,591	33.3	14,218	12.0
Net Working Capital for Operations	76,416	18.5	91,497	25.7	(15,081)	(16.5)
Days of Sales Outstanding in Accounts Receivable	89		88			
Inventories as a Percentage of Cost of Sales	36.3%		38.4%			

Net working capital for operations was reduced from € 91.5 million to € 76.4 million due to the consolidation of Sophartex. When compared to a proforma situation as of 31 December 2000, including Sophartex, an increase of € 3.1 million (+4.3%) is shown which is significantly lower than the growth of the business.

Net accounts receivable as of 31 December 2001 were € 119.5 million, an increase of € 12.1 million over year-end 2000. Average days of sales outstanding went from 88 to 89. The evolution of accounts receivable by business segment was as follows:

€ (thousands)	2001	% of Sales ^(a)	2000	% of Sales ^(a)	Change 2001/2000	%
Pharmaceuticals	95,132	25.7	81,812	24.3	13,320	16.3
Pharmaceutical Chemicals	24,416	28.8	25,672	29.0	(1,256)	(4.9)
Total	119,548	26.3	107,484	25.3	12,064	11.2

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

The increase in pharmaceutical receivables as compared to 31 December 2000 was € 13.3 million due mainly to the growth in sales volumes and to the consolidation of Sophartex (€ 4.7 million). Average days of sales

outstanding increased from 83 to 87 essentially due to the French sales policy which substituted discounts with longer payment terms. In Italy the National Health Service payment terms, at 254 days, were slightly worse than those of the preceding year.

Pharmaceutical chemicals average days sales outstanding improved from 108 to 101 due to a different geographical sales mix.

Inventories increased by € 8.7 million, up 15.2%, less than cost of sales growth. Development by business segment is shown below:

€ (thousands)	2001	% of Cost of Sales	2000 ^(a)	% of Cost of Sales	Change 2001/2000	%
Pharmaceuticals	43,197	38.2	35,331	44.3	7,866	22.3
Pharmaceutical Chemicals	22,956	33.1	22,116	31.7	840	3.8
Total	66,153	36.3	57,447	38.4	8,706	15.2

(a) Reclassified for comparison purposes

Pharmaceuticals inventories increased mainly due to the consolidation of Sophartex (€ 6.2 million). Otherwise, close inventory control resulted in modest inventory increases despite sales growth. Inventory balances improved from 44.3% of cost of sales to 38.2%.

Pharmaceutical chemicals inventories increased slightly in excess of sales volume growth.

Other current assets decreased significantly compared to 2000 essentially due to the reversal of the holding in Sophartex (€ 16.8 million) and the elimination of intercompany receivables (€ 5.3 million). Remaining items were in line with the preceding year and include mainly tax credits and deferred tax assets.

Trade accounts payable, at € 80.3 million, increased by € 10.4 million over 2000 due to different payment terms to suppliers and the consolidation of Sophartex (€ 6.7 million).

Other current liabilities, at € 52.5 million, consist mainly of personnel, social security and tax payables, including deferred taxes. The consolidation of Sophartex accounted for a € 4.4 million increase.

Net Non-Current Assets

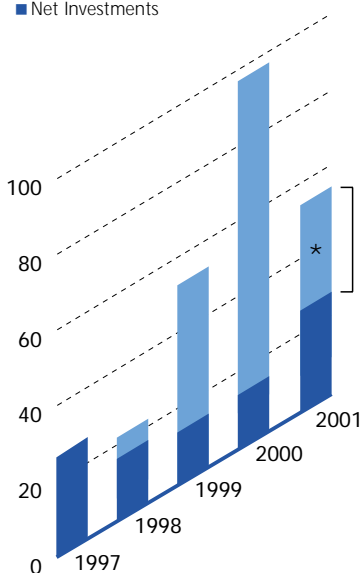
Net non-current assets increased by € 20.0 million over 2000, going from € 194.4 million to € 214.4 million, as shown in the following table:

€ (thousands)	2001	2000	Change 2001/2000
Net Non-Current Assets as of January 1	194,422	120,586	73,836
Investments:			
- Fixed Assets	23,328	17,523	5,805
- Intangible Assets	3,641	(1,519)	5,160
- Financial Assets	(53)	(189)	136
- Increase due to Consolidation of Acquisition	26,479	82,848	(56,369)
Total	53,395	98,663	(45,268)
Depreciation and Amortization	(33,413)	(24,827)	(8,586)
Net Non-Current Assets as of December 31	214,404	194,422	19,982
Ratio of Net Sales to:			
- Net Non-Current Assets	2.0	1.8	
- Net Fixed Assets	3.9	3.8	
Accumulated Depreciation as a Percentage of Fixed Assets	57.0%	54.2%	

Net Investments and Acquisitions

millions of euro

- Acquisitions
- Net Investments



* change of consolidation perimeter

Year 2001 investments in fixed assets, net of disposals, were € 23.3 million, significantly higher than average investments in previous years. Most of these investments were made in the pharmaceutical chemicals plants, particularly for the expansion of the Murcia plant. In addition, the renovation of the pharmaceuticals production plant in Milan was completed.

The net investment in intangible assets of € 3.6 million consists mainly of software and product licensing rights.

The increase due to consolidation for 2001 consists mainly of the consolidation of Sophartex and of the restatement of goodwill related to the acquisition of Bouchara. The consolidation of Sophartex added € 6.9 million to fixed assets in terms of production facilities and € 14.7 million goodwill, net of amortization charges from 1 July 2000 to 30 June 2001, to intangible assets. The restatement of Bouchara's goodwill following the merger of the French companies resulted in an increase of € 4.9 million and the extension of the amortization period to 31 December 2005.

Provisions for Long-Term Liabilities

Provisions for long-term liabilities amounted to € 29.3 million and increased by € 9.7 million mainly to cover a fifteen year tax liability arising from the revaluation of one of Bouchara's fixed assets which became effective with the merger of the French companies. The consolidation of Sophartex accounted for € 1.5 million.

Net Financial Position

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

€ (thousands)	2001	2000	Change 2001/2000	%
Cash and Marketable Securities	124,419	76,014	48,405	63.7
Short Term Bank Debt	(33,733)	(66,776)	33,043	(49.5)
Current Portion of Medium and Long-Term Debt	(13,423)	(10,081)	(3,342)	33.2
Net Liquid Assets	77,263	(843)	78,106	n.s.
Medium and Long-Term Debt	(126,110)	(128,361)	2,251	(1.8)
Net Financial Indebtedness	(48,847)	(129,204)	80,357	(62.2)
Average Interest Rate payable on Long-Term Loans	5.3%	5.4%		

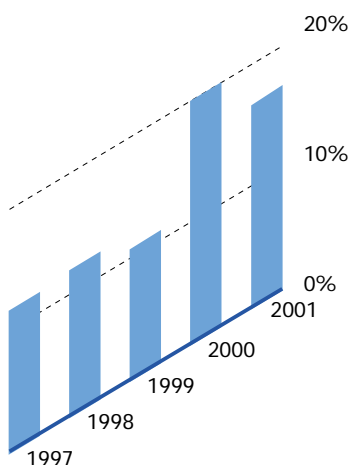
Net financial indebtedness dropped from € 129.2 million as of 31 December 2000 to € 48.8 million as of 31 December 2001. This significant decrease of € 80.4 million was possible thanks to the conversion of savings shares which took place in February 2001 and generated € 43.7 million in additional capital, as well as to cash flow from operations. The debt to equity ratio was thus considerably improved to 0.23.

Cash and marketable securities includes short-term investments denominated in Euros and US dollars. Short-term bank debt is attributable mainly to local debt incurred by certain subsidiaries.

Medium and long-term debt, at € 126.1 million, was reduced by € 2.3 million. The average interest rate on this debt is in line with that of the preceding year as most of the indebtedness is at fixed rates or covered by forward interest rate contracts.

Low-interest loans account for 13.6% of total medium and long-term debt. During 2001 additional low-interest loans and grants were obtained for

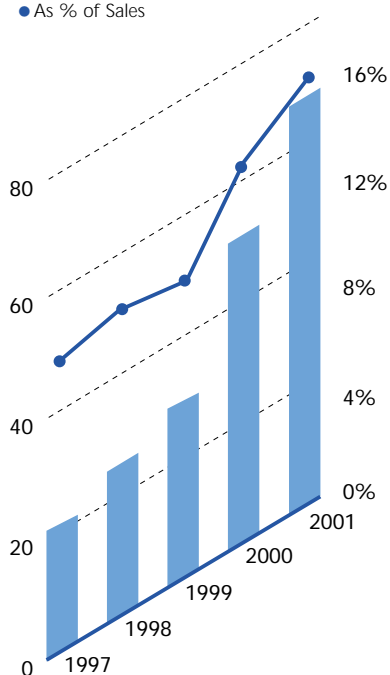
Return on Equity



Cash Flow

millions of euro

■ Cash Flow
● As % of Sales



€ 3.3 million and € 1.5 million respectively, to fund industrial investments, technological innovation and research programs.

Low-interest loans and grants to be received, already approved by European, State and Regional agencies, amounted to a total of € 6.3 million and € 1.3 million respectively as of 31 December 2001. During 2001 additional applications were filed for low-interest loans and grants for the funding of research projects related to both business segments.

Shareholders' Equity

Shareholders' equity increased by € 75.6 million over 31 December 2000 for the following reasons:

- year 2001 net income (increase of € 36.0 million)
- payment of year 2000 dividends (decrease of € 7.7 million)
- conversion of savings shares into ordinary shares with payment of a € 4.0 premium each (increase of € 43.7 million)
- issue of 81,000 new ordinary shares at € 7.86 each, following the exercise by top management of stock options under the 2001-2003 stock option plan (increase of € 0.6 million)
- net income realized by Sophartex from 1 July 2000 to 30 June 2001, net of goodwill amortization (increase of € 0.7 million)
- translation adjustments (increase of € 2.3 million).

Cash Flow

Cash flow generated by operations increased by 32.9%, from € 52.2 million in 2000 to € 69.4 million in 2001, as a result of net income growth and higher depreciation and amortization charges, related in particular to goodwill.

€ (thousands)	2001	2000	Change 2001/2000	%
Net Income	35,997	27,400	8,597	31.4
Depreciation and Amortization	33,413	24,827	8,586	34.6
Cash Flow	69,410	52,227	17,183	32.9
Cash Flow as a Percentage of Net Sales	16.0%	14.7%		

Further details are provided in the Consolidated Financial Statements.

Fourth Quarter 2001 Results

The following table analyses the results for the fourth quarter 2001:

€ (thousands)	IV Quarter 2001	%	IV Quarter 2000	%	Change 2001/2000	%
Net Sales	124,514	100.0	109,840	100.0	14,674	13.4
Cost of Sales	(52,740)	(42.4)	(45,687)	(41.6)	(7,053)	15.4
Gross Profit	71,774	57.6	64,153	58.4	7,621	11.9
Selling Expenses	(32,001)	(25.7)	(28,403)	(25.9)	(3,598)	12.7
R&D Expenses	(10,250)	(8.2)	(10,171)	(9.3)	(79)	0.8
General and Administrative Expenses	(5,677)	(4.6)	(5,847)	(5.3)	170	(2.9)
Amortization of Goodwill	(3,737)	(3.0)	(3,357)	(3.1)	(380)	11.3
Operating Income	20,109	16.1	16,375	14.9	3,734	22.8
Financial Income (Expense), Net	(594)	(0.5)	(2,468)	(2.2)	1,874	n.s.
Other Non-Operating Income (Expense), Net	(945)	(0.8)	(550)	(0.5)	(395)	n.s.
Pretax Income	18,570	14.9	13,357	12.2	5,213	39.0
Provision for Income Taxes	(6,152)	(4.9)	(2,832)	(2.6)	(3,320)	117.2
Net Income	12,418	10.0	10,525	9.6	1,893	18.0

Net sales in the fourth quarter 2001 were € 124.5 million, up 13.4% over the same period of 2000. The increase is to be attributed entirely to the pharmaceuticals business which recorded sales of € 102.4 million, an increase of 17.1% over the same period of the preceding year. Pharmaceutical chemicals sales were substantially in line with those of the last quarter 2000 (-1.3%). Fourth quarter revenue includes the \$ 3 million down-payment from Forest Laboratories related to the filing of lercanidipine's NDA with the FDA.

R&D expenses were € 10.3 million, an increase over the previous 2001 quarters, due to new activities related to the clinical development of lercanidipine, alone and in combination, and the payment to Kowa of € 1.0 million for the pitavastatin license.

Profitability in terms of EBITDA is shown for each business segment in the following table:

€ (thousands)	IV Quarter 2001	%	IV Quarter 2000	%	Change 2001/2000	%
EBITDA						
Pharmaceuticals	24,675	24.1	19,251	22.0	5,424	28.2
Pharmaceutical Chemicals	3,883	15.9*	4,230	17.1*	347	(8.2)
Total	28,558	22.9	23,481	21.4	5,077	21.6
Operating Depreciation	4,712	3.8	3,749	3.4	963	25.7
Goodwill Amortization	3,737	3.0	3,357	3.1	380	11.3
Operating Income	20,109	16.1	16,375	14.9	3,734	22.8

(*) The calculation basis includes intercompany sales

Operating income in the fourth quarter reached a margin of 16.1% of sales thanks to a favorable seasonal effect.

Net financial charges were lower than those recorded in previous quarters due to a positive currency effect.

Net income, at 10.0% of sales, benefited from a lower effective tax rate than previous quarters mainly due to the revaluation of fixed assets carried out by Recordati S.p.A. as per Italian law.

Subsequent Events

During the first two months of 2002 new registrations of lercanidipine were obtained, bringing the total countries where the product has been approved to 49. The approval request (NDS) for Canada was filed by our licensee.

Sales during the first two months of 2002 increased by 20.1% over the same period of the preceding year. Excluding the effect of the consolidation of Sophartex, growth was 12.2%. The positive trend derives from both business segments and the good performance of the newly acquired products.

On 1 March 2002 the Italian Stock Exchange announced that as from 18 March 2002, the Recordati share will become part of the MIDEX market index.

Consolidated Financial Statements

Recordati S.p.A. and Subsidiaries

Consolidated Financial Statements as of
and for the years ended 31 December 2001 and 2000

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

Consolidated Balance Sheets as of 31 December 2001 and 2000

€ (thousands)

Assets		2001	2000	2000 Proforma*
Current Assets	Cash	124,419	56,418	56,827
	Marketable Securities	0	19,596	19,596
	Other Current Assets	0	16,769	0
	Accounts Receivable:			
	- Trade	119,548	107,484	109,611
	- Others	21,222	27,423	24,463
		140,770	134,907	134,074
	Inventories:			
	- Raw Materials and Supplies	24,249	20,244	23,697
	- Intermediates and Work-in-Process	18,714	13,713	16,501
	- Finished Goods	23,190	23,490	23,318
		66,153	57,447	63,516
	Accrued Income and Pre-Paid Expenses	2,302	966	1,535
	Total Current Assets	333,644	286,103	275,548
Non-Current Assets	Financial Assets			
	- Equity Investments	4,735	4,717	4,717
	- Other Receivables	2,612	2,654	2,683
		7,347	7,371	7,400
	Fixed Assets			
	- Land and Buildings	76,759	57,344	71,970
	- Machinery and Equipment	131,782	106,060	120,072
	- Other Fixed Assets	31,360	29,123	30,902
	- Construction-in-Progress	19,457	14,194	14,504
		259,358	206,721	237,448
	Less:			
	Accumulated Depreciation	(147,898)	(111,954)	(135,115)
		111,460	94,767	102,333
	Intangible Assets	95,597	92,284	107,777
	Total Non-Current Assets	214,404	194,422	217,510
Total Assets		548,048	480,525	493,058

* Includes consolidation of Sophartex

The notes to the consolidated financial statements are an integral part of these statements.

Liabilities and Shareholders' Equity		2001	2000	2000 Proforma*
Current Liabilities	Short-Term Financial Debt	33,733	66,776	66,915
	Current Portion of Medium and Long-Term Debt	13,423	10,081	11,053
	Accounts Payable:			
	- Trade	80,334	69,895	74,463
	- Others	38,767	33,857	36,451
		119,101	103,752	110,914
	Accrued Expenses and Other Liabilities	4,554	7,989	7,989
	Other Provisions	4,122	2,878	3,005
	Tax Provisions	5,032	3,973	3,973
	Total Current Liabilities	179,965	195,449	203,849
Non-Current Liabilities	Medium and Long-Term Loans Net of Current Portion	126,110	128,361	130,523
	Employees' Termination Pay	21,545	19,664	20,995
	Other Non-Current Liabilities	7,794	0	0
	Total Non-Current Liabilities	155,449	148,025	151,518
	Total Liabilities	335,414	343,474	355,367
Minority Interests		0	0	0
Shareholders' Equity	Capital Stock	24,958	12,965	12,965
	Legal Reserve	4,544	4,544	4,544
	Capital in Excess of Par Value	47,535	15,142	15,142
	Reserve from Revaluation & Grants	15,169	15,152	15,152
	Retained Earnings	73,238	52,858	53,498
	Cumulated Translation Adjustment	11,193	8,990	8,990
	Net Income for the Year	35,997	27,400	27,400
	Total Shareholders' Equity	212,634	137,051	137,691
Total Liabilities and Shareholders' Equity		548,048	480,525	493,058

* Includes consolidation of Sophartex

The notes to the consolidated financial statements are an integral part of these statements.

Consolidated Statements of Income for the years ended 31 December 2001 and 2000

€ (thousands)

	2001	2000
Net Sales	433,368	355,886
Cost of Sales	(182,074)	(149,580)
Gross Profit	251,294	206,306
Selling Expenses	(121,407)	(96,185)
Research & Development Expenses	(30,936)	(36,867)
General & Administrative Expenses	(19,697)	(18,639)
Amortization of Goodwill	(14,134)	(8,005)
Operating Income	65,120	46,610
Financial Income/(Expenses), Net	(6,110)	(6,462)
Non Operating Income/(Expenses), Net	(2,836)	1,087
Pretax Income	56,174	41,235
Provision for Income Taxes	(20,177)	(13,835)
Net Income	35,997	27,400

The notes to the consolidated financial statements are an integral part of these statements.

Consolidated Statements of Shareholders' Equity for the years ended 31 December 2001 and 2000

€ (thousands)

	Capital Stock	Capital in Excess of Par Value	Legal Reserve	Reserves from Revaluations & Grants	Treasury Stock	Retained Earnings	Net Income for the Year	Cumulative Translation Adjustment	Total
Balance at 31 December, 1999	12,859	14,435	4,995	15,071	0	44,725	11,970	6,139	110,194
Allocation of 1999 Net Income:									
- Dividends Distributed							(4,207)		(4,207)
- Allocation to Untaxed Reserves				123			(123)		
- Retained Earnings						7,640	(7,640)		
Increase in Capital Stock	106	707							813
Net Income for the Year							27,400		27,400
Reclassification to Retained Earnings			(451)	(42)		493			
Translation Adjustment								2,851	2,851
Balance at 31 December, 2000	12,965	15,142	4,544	15,152	0	52,858	27,400	8,990	137,051
Change in consolidation perimeter									
						640			640
Balance at 31 December, 2000	12,965	15,142	4,544	15,152	0	53,498	27,400	8,990	137,691
Allocation of 2000 Net Income:									
- Allocation to Reserves				17			(17)		
- Dividends Distributed							(7,721)		(7,721)
- Retained Earnings						19,662	(19,662)		
Change in consolidation perimeter						78			78
Increase in Capital Stock	11,993	32,393							44,386
Net Income for the Year							35,997		35,997
Translation Adjustment								2,203	2,203
Balance at 31 December, 2001	24,958	47,535	4,544	15,169	0	73,238	35,997	11,193	212,634

The notes to the consolidated financial statements are an integral part of these statements.

Consolidated Statements of Cash Flow for the years ended 31 December 2001 and 2000

€ (thousands)

		2001	2000
Cash Flow from Operations	Cash flow		
	Net Income	35,997	27,400
	Depreciation of Fixed Assets	13,561	11,365
	Amortization of Intangible Assets	19,852	12,610
	Write-down of Intangible Assets	0	852
	Total Cash Flow	69,410	52,227
	Employees' Termination Pay:		
	- Provision	3,544	3,513
	- Payment	(3,069)	(3,916)
	Other Provisions	7,794	0
		77,679	51,824
Changes in Working Capital	Accounts Receivable	(4,429)	(25,613)
	Inventories	(2,852)	(8,984)
	Other Current Assets	(1,023)	4,256
	Accounts Payable	6,639	12,802
	Accrued Expenses and Other Liabilities	(3,435)	(781)
	Tax and Other Provisions	2,300	554
	Changes in Working Capital	(2,800)	(17,766)
	Net Cash Provided by Operations	74,879	34,058
Cash Flow from Investments	Net Investments in Fixed Assets	(23,328)	(17,523)
	Net Investments in Intangible Assets	(8,491)	1,519
	Acquisitions	0	*(94,215)
	Net Increase (Decrease) in Equity Investments	(18)	(1,011)
	Net Investments in Non-current Financial Assets	71	1,200
	Net Cash Used for Investments	(31,766)	(110,030)
Cash Flow from Financing Activities	Medium and Long-Term Loans obtained during the Year	9,380	87,007
	Stock Capital Increase	11,993	106
	Capital in Excess of Par Value Increase	32,393	707
	Transfer of Current Portion of Medium and Long-Term Debt to Current Liabilities	(12,811)	(11,912)
	Changes in Current Portion of Medium and Long-Term Debt	2,412	856
	Dividends Distributed	(7,721)	(4,207)
	Change in Consolidation Perimeter	***485	0
	Translation Adjustments	2,203	2,851
	Net Cash Provided by Financing Activities	38,334	75,408
Changes in Short-Term Financial Position		81,447	(564)
	Short-term Financial Position at Beginning of Year **	9,239	9,803
	Short-term Financial Position at End of Year **	90,686	9,239

* This amount refers to the acquisition of the Bouchara group: Working capital (6,009); Other Current Assets (16,769); Fixed Assets (28,567); Loans 7,804; Provisions 3,607; Goodwill (54,281)

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

*** Change due to the consolidation of Sophartex: Working capital 1,110; Fixed Assets (6,958); Loans 2,111; Provisions 1,406; Reversal of Other Current Assets 16,769; Goodwill (14,671); Net Equity 718

The notes to the consolidated financial statements are an integral part of these statements.

Notes to the Consolidated Financial Statements as of and for the years ended 31 December 2001 and 2000

1. Basis of consolidated financial statements

These consolidated financial statements as of and for the years ended 31 December 2001 and 2000 include the financial statements of the following companies:

- Recordati S.p.A. – Italy (which researches, develops, manufactures and markets pharmaceuticals and pharmaceutical chemicals) – parent company.
- Recordati S.A. – Luxembourg (which markets pharmaceuticals and pharmaceutical chemicals) – wholly-owned.
- Recofarma S.r.l. – Italy (which markets pharmaceutical chemicals) – wholly-owned.
- Recordati España S.L. – Spain (which researches, develops, manufactures and markets pharmaceuticals and pharmaceutical chemicals) – 90.7% owned by Recordati S.p.A. and 9.3% by Recordati S.A..
- Recordati Corporation – U.S.A. (which acts as agent for pharmaceutical chemicals) – wholly-owned by Recordati S.A..
- Farmarecord Ltda. – Brazil (dormant and holder of pharmaceutical marketing rights in Brazil) – wholly-owned by Recordati S.A..
- Innova Pharma S.p.A. (formerly Recordati Innova S.p.A.) – Italy (which markets pharmaceuticals as from 2001) – wholly-owned.
- Vectorpharma International Corporation – U.S.A. – wholly-owned by Innova Pharma S.p.A.
- Bouchara-Recordati S.a.s. (formerly Doms-Recordati S.a.s.) – France (which researches, develops, manufactures and markets pharmaceuticals). During 2001 Financière Philippe Bouchara S.A., JACB Investissements S.A., Bouchara S.A. and Laboratoires du Docteur Emile Bouchara S.A. merged into Bouchara-Recordati S.a.s. – 99.94% owned by Recordati S.p.A. and 0.06% by Recordati S.A..
- Sophartex S.A. – France (which manufactures pharmaceutical dosage forms) – wholly-owned by Bouchara-Recordati S.a.s..
- Recordati Portuguesa Produtos Químicos e Farmacêuticos Lda. – Portugal (which markets pharmaceuticals) – 98% owned by Recordati S.p.A. and 2% by Recordati S.A..

Sophartex S.A. was acquired in 2000 and recorded as a current asset in view of its expected disposal. After one year from its acquisition it was fully consolidated, as of the third quarter 2001, as follows:

- Net income from 1 July 2000 to 30 June 2001 was charged to equity, net of goodwill amortization.
- Accounts were consolidated on a line by line basis as from 1 July 2001.

For comparison purposes a proforma balance sheet at 31 December 2000, which includes Sophartex S.A. as if consolidated, was prepared.

The financial statements at 31 December 2001 of the consolidated companies were prepared by the Board of Directors or the Sole Directors for submission to the respective Shareholders' Meetings. They have been reclassified and adjusted in order to comply with the I.A.S. (International Accounting Standards). Similar criteria were applied to the consolidated financial statements at 31 December 2000.

2. Summary of accounting policies

The most significant accounting policies to prepare these consolidated financial statements are as follows:

Translation of financial statements in foreign currency - Financial statements of foreign subsidiaries were translated into Euros as follows:

- Assets and liabilities, at year-end exchange rates;
- Shareholders' equity at historical exchange rates;
- Income and expense items at the average exchange rates for the year.

Differences arising from translation are shown under shareholders' equity.

Principles of consolidation - The line-by-line consolidation method was applied using the following criteria:

- a. The book value of investments in consolidated subsidiaries is eliminated against the relevant shareholders' equity while the assets and liabilities are consolidated on a line-by-line basis.
- b. Intercompany payables and receivables and transactions are eliminated as well as intragroup profits and losses not yet realized.
- c. Any difference between the purchase cost of an equity investment and the subsidiary's equity at current value at the date of acquisition was debited or credited to consolidated shareholders' equity until 31 December 1993; while it is accounted for among non current intangible assets from 31 December 1994 and amortized on a straight-line basis over a period of no more than 10 years.
- d. Minority interests in the equity of consolidated subsidiaries are shown separately under liabilities, while minority interests in the net income of such companies are shown separately in the consolidated income statement.

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

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

Marketable securities - Marketable securities were valued at the lower of purchase and market value until 31 December 2000. As from 2001 they are valued at market value.

Inventories - Inventories are valued at the lower of purchase or production cost and market or realizable value. The market value of raw materials and subsidiaries is determined by their substitution cost whereas that related to finished goods and work-in-process is represented by their net realizable value. Except for work-in-process and promotional material, inventories are mainly valued using the LIFO cost method, by annual inventory layers. Work-in-process

and promotional material are valued at the average cost for the year. Promotional samples are charged to the income statement when distributed.

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

Fixed assets - Fixed assets are recorded at purchase or internal production cost. Depreciation is calculated on the basis of their estimated useful lives. An asset is written-down when the recoverable amount of that asset is permanently below its remaining useful life.

Intangible assets - Intangible assets are valued at purchase cost, net of amortization calculated on a straight line basis and on the basis of their residual income generating potential which cannot exceed 10 years. Patents, licenses and know-how are amortized as from the year of the first sale of relevant products. Amortization of distribution and license rights is generally calculated over the duration of the contract. An asset is written-down when the recoverable amount of that asset is permanently below its remaining economic usefulness.

Taxes - The liability for taxes is recorded by each company on the basis of its taxable income. Provisions have also been made for deferred taxation. Deferred tax assets are carried forward if their recovery is reasonably certain.

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

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

Non-reimbursable government grants - Non-reimbursable government grants, net of relevant taxes, were credited to equity reserves until 31 December 1996. Grants received as from 1997 are booked to the income statement 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 expenses - All research expenses are charged to the income statement in the year in which they are incurred.

Revenues and expenses - These are recorded on a prudential and accruals basis, net of returns, discounts and rebates. Promotional expenses for new products incurred in the launch year are charged to the income statement in proportion to the revenues of the launch period.

3. Marketable securities

Marketable securities at 31 December 2001 and 2000 are as follows:

€ (thousands)	Book Value		no. of shares/quota	
	2001	2000	2001	2000
Ascent Pediatrics Inc.	0	24	30,000	30,000
CMBL JP Morgan (Income Funds)	0	1,754	0	13,916
CMBL JP Morgan (Short duration)	0	439	0	3,907
Crédit Lyonnais Certificates of deposit	0	3,659	0	n.a.
Banca Commerciale Italiana Certificates of deposit	0	13,720	0	n.a.
Total Securities	0	19,596		

During 2001 the Crédit Lyonnais and Banca Commerciale Italiana certificates of deposit, short-term investments held by Bouchara S.A., were liquidated. Following the merger of Bouchara S.A. into Bouchara-Recordati S.a.s. proceeds are managed as part of the new company's treasury. At the end of the year the US\$ JP Morgan funds were sold. Their average yield in 2001 was 10% due to both the resulting capital gain and the exchange rate gain.

The holding in Ascent Pediatrics Inc. was written off as that company is no longer listed and is being reorganized.

4. Other Current Assets

No other current assets are recorded at 31 December 2001 following the decision to consolidate Sophartex on a line-by-line basis. In fact, the € 16.8 million shown in the balance sheet at 31 December 2000 related exclusively to the value of the equity investment in Sophartex S.A. including the allocation of goodwill arising on consolidation.

5. Accounts Receivable

Trade accounts receivable at 31 December 2001 and 2000 amounted to € 119.5 million and € 107.5 million respectively. These are shown net of the allowance for doubtful accounts which at 31 December 2001 amounted to € 4.8 million (€ 3.5 million at 31 December 2000) and which is considered to be sufficient to cover potential insolvency.

Other receivables consist mainly of tax credits for amounts paid on account and deferred tax assets (see Income Tax).

6. Inventories

Inventories at 31 December 2001 and 2000 amounted to € 66.1 million and € 57.4 million respectively.

Had the average cost method been applied, (corresponding substantially to current costs) inventory values at 31 December 2001 would have been € 1.5 million greater (€ 0.7 million at 31 December 2000). Inventories are valued net of an obsolescence provision of € 2.7 million to account for pharmaceuticals which are slow moving or close to expiring.

7. Equity Investments

Equity investments in non-consolidated companies and other holdings reflected in the consolidated balance sheets at 31 December 2001 and 2000 are as follows:

€ (thousands)	Balance Sheet Value		Percentage of Equity Owned	
	2001	2000	2001	2000
Investments				
Digital Gene Technologies Inc., U.S.A.	3,283	3,196	2.6%	3%
Maxygen Inc., U.S.A.	40	143	n.m.	n.m.
SurroMed Inc., U.S.A.	671	653	n.m.	n.m.
Groupement Pharmaceutique Européen S.A., France	0	0	15%	15%
Tecnofarmaci S.p.A., Pomezia (Rome)	87	87	4%	4%
Confarma S.p.A., Novara	8	8	3%	3%
SPA Ricerche ed Education S.r.l., Milan	31	31	4%	4%
DAFNE - Distribuzione Aziendale Farmaceutica Network EDI, Reggello (Florence)	2	2	2%	2%
Consorzio Nazionale Imballaggi, Rome	0	0	n.m.	n.m.
	4,122	4,120		
Other Holdings				
Technogen Associates L.P., U.S.A.	613	597		
Total Equity Investments	4,735	4,717		

During the year 51,500 Maxygen Inc. shares were sold at an average unit price of US\$ 19.72 with a capital gain of € 1.0 million. The remaining 18,924 shares are valued at cost in view of the wide range of recent prices. Had they been valued at the price prevailing at 31 December 2001, a € 0.4 million before tax gain, with an equivalent increase in net equity and net income, would have been recorded.

The holdings in Digital Gene Technologies Inc. and SurroMed Inc. remain unchanged. The difference in value is due to an exchange rate effect as these holdings are denominated in Swiss francs. Their value is in line with that of their recent share issues.

Shares in Groupement Pharmaceutique Européen S.A., which operates in the pharmaceutical sector, are held by Bouchara-Recordati S.a.s. and have been completely written-off.

The holding in Technogen Associates LP, a California based company investing in developing genomics, biotechnology and pharmaceutical companies, remained unchanged. The difference in value is due to an exchange rate effect.

8. Fixed Assets

Fixed assets are recorded at historical purchase or construction cost. Those of Recordati S.p.A. were partly revalued in accordance with Italian laws enacted in 1975, 1983 and 1991. The surplus arising from this monetary revaluation at 31 December 2001 amounts to € 1.5 million.

Depreciation was computed on a straight-line basis using rates which are held to be representative of the estimated economic and technological lives of the assets:

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

Fixed assets, net of accumulated depreciation, were, at 31 December 2001 and 2000, € 111.5 million and € 94.8 million respectively. The composition and variation of fixed assets is shown in the following table:

€ (thousands)	Net value at 31.12.00	Increase	Depreciation	Change in consolidation area	Disposals	Other variations	Net value at 31.12.01
Land and Buildings	39,656	234	(2,662)	3,221	(11)	4,629	45,067
Machinery and Equipment	35,398	5,462	(8,501)	2,747	(17)	4,981	40,070
Other Fixed Assets	5,519	1,670	(2,398)	549	(86)	1,612	6,866
Work-in-Process	14,194	16,152	0	408	(59)	(11,238)	19,457
Total Fixed Assets	94,767	23,518	(13,561)	6,925	(173)	(16)	111,460

The increase of € 23.5 million can be attributed to the following investments:

- € 5.3 million in production facilities at the Campoverde di Aprilia pharmaceutical chemicals plant,
- € 1.9 million in production facilities at the Opera biochemical plant,
- € 8.1 million in the ongoing investment program at the Murcia (Spain) pharmaceutical chemicals plant,
- € 4.0 million in the Milan pharmaceutical plant for the renovation of its production facilities,
- € 2.2 million in upgrades to the production facilities at the pharmaceutical plants in France.
- € 1.0 million for research equipment,
- € 1.0 million for other investments mainly to upgrade infrastructures and information systems.

Changes in the consolidation area are due to the consolidation of Sophartex S.A.. "Other Variations" of € 16 thousand are net translation adjustments.

9. Intangible Assets

Intangible assets, net of accumulated amortization, at 31 December 2001 and 2000 amounted to € 95.6 million and € 92.3 million respectively. The composition and variation of intangible assets is shown in the following table:

€ (thousands)	Net Value at 31.12.00	Increase	Amortization	Changes in consolidation area	Disposals & other variations	Net value at 31.12.01
Capital Increase Related and Other Deferred Costs	74	0	(23)	0	0	51
Patent Rights	10,859	184	(1,846)	0	50	9,247
Distribution, License, Trademark & Other Rights	6,219	1,712	(2,633)	3	71	5,372
Goodwill	69,479	4,850	(14,134)	14,671	0	74,866
Work-in-Process and Advance Payments	1,194	1,510	0	0	(680)	2,024
Others	4,459	524	(1,216)	0	270	4,037
Total Intangible Assets	92,284	8,780	(19,852)	14,674	(289)	95,597

The main investments are related to the acquisition of software and product license rights. Among the latter, the most important is that related to Lercadip®, a product based on lercanidipine, the rights to which were bought back from AstraZeneca. As a result of the merger of the French companies during 2001, the goodwill connected to the acquisition of Bouchara was restated to align it to the post-merger goodwill in Bouchara-Recordati S.a.s.. Its value was increased by € 4.9 million and the amortization period extended to 31 December 2005 with no material impact on net equity nor net income.

The change in the area of consolidation refers to the line-by-line consolidation of Sophartex S.A. as from 1 July 2001, net of amortization charges from 1 July 2000 to 30 June 2001.

The € 74.9 million residual goodwill at 31 December 2001 is related to the following equity investments:

- € 17.0 million relative to the acquisition of Doms-Adrian (amortized over 10 years to 2008);
- € 43.0 million relative to the Bouchara group companies (amortized over 5.5 years to 2005);
- € 13.9 million relative to the consolidation as of 1 July 2001 of Sophartex (amortized over 10 years to 2010);
- € 1.0 million recorded by Recordati España relative to the acquisition of Almu (amortized over 10 years to 2008).

The "Disposals & Other Adjustments" column also includes positive € 0.05 million translation adjustments.

10. Short-Term Bank Debt

Short-term bank debt at 31 December 2001 and 2000 amounted to € 33.7 million and € 66.8 million respectively and consists of overdraft facilities in Euro and foreign currency.

11. Accounts Payable

Trade accounts payable at 31 December 2001 and 2000 amounted to € 80.3 million and € 69.9 million respectively.

Other accounts payable consist mainly of amounts due to personnel, and social security and tax payables (see Income Tax).

12. Income Tax

Income taxes for the years 2001 and 2000 were computed by the companies on the basis of estimated taxable income. Furthermore, the tax provision includes accruals for possible tax contingencies. Recordati management deems such provision adequate with reference to possible assessments for tax years still open to inspection for different companies within the Recordati group.

Deferred taxes are booked to current liabilities under accrued income taxes and amounted to € 3.4 million (€ 2.6 million as of 31 December 2000), increasing mainly due to temporary differences in the Recordati S.p.A. accounts.

Deferred tax assets are booked to other current assets and amounted to € 9.8 million, € 7.0 million of which stems from the asset revaluation made by Recordati S.p.A. in 2000 and 2001 according to Italian law. The tax payable on the revaluation, at a reduced rate of 19%, was entirely expensed in the amounts of € 4.2 million in 2000 and € 3.1 million in 2001. The remaining tax payable amounts to € 5.9 million, € 3.2 million of which was booked to medium and long-term liabilities.

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

	2001	2000
	%	%
Standard income tax rate on pretax income	36.0	37.0
Reduced tax rate applied to asset revaluation	(6.1)	(4.4)
Tax incentive for new capital expenditure	(1.9)	(2.1)
Dividends from foreign subsidiaries	0.3	0.1
Different subsidiaries' tax rates	5.4	(5.5)
Write-down of equity investments	(8.7)	(4.4)
Other differences, net	3.2	3.6
Effective tax rate on income	28.2	24.3
IRAP	7.7	9.3
Effective tax rate, including IRAP	35.9	33.6

IRAP tax accounted for 7.7% 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.

Recordati S.p.A. has settled all tax years up to 1995, with the exception of 1991 and 1992, for which the company has received a notice of assessment for an alleged irregularity concerning the purchase of future dividend rights on non-quoted shares. The Company has appealed against both tax assessments. A favorable ruling was obtained on the 1991 assessment while the decision on the 1992 one (hearing held on 12 October 1999) is still pending. The Company therefore confirms that in its opinion these transactions are fully legal as recognized in several tax commissions' favorable rulings. In fact, in November 1992 a new provision of the law was introduced implicitly endorsing the operations carried out previously, while from that date forward the company promptly adhered to the new regulation. Therefore no accrual has been made in this respect.

13. Medium and Long-Term Loans

At 31 December 2001 and 2000, medium and long-term loans included:

<i>€ (thousands)</i>	2001	2000
Istituto Mobiliare Italiano loans, guaranteed by mortgages on Milano and Campoverde plant and equipment, at an average annual interest rate of 3.42% repayable in semi-annual installments through 2010	6,378	7,160
Research loans granted by Istituto Mobiliare Italiano, at an average annual interest rate of 2.96%, repayable in semi-annual installments through 2010	8,497	9,241
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	965	0
Banca Intesa BCI, loans for financial investments at an annual interest rate of 5.935%, repayable in semi-annual installments between 2000 and 2004	9,296	12,395
Banca Intesa BCI, loans for financial investments covered by an interest rate swap (IRS) contract for an effective fixed annual interest rate of 5.915%, repayable in semi-annual installments through 2007	25,823	25,823
Banca Popolare di Milano, loans for financial investments at an annual interest rate of 3.98%, repayable in semi-annual installments through 2006	13,500	15,000
Loan granted by Banca Intesa BCI to Recordati España S.L. covered by an interest rate swap (IRS) contract for an effective fixed annual interest rate of 4.85%, repayable in semi-annual installments through 2008	6,010	0

Various loans granted to Recordati España S.L. at an average annual interest rate of 3.20%	5,221	5,273
Loan granted by Banca Intesa BCI to Bouchara-Recordati S.a.s. covered by an interest rate swap (IRS) contract for an effective fixed annual interest rate of 5.99%, repayable in semi-annual installments through 2007	10,320	10,320
Loan granted by Banca Popolare di Milano to Bouchara-Recordati S.a.s. covered by an interest rate swap (IRS) contract for an effective fixed annual interest rate of 6.0%, repayable in semi-annual installments through 2007	10,320	10,320
Loan granted by Banca Unicredito Italiano to Bouchara-Recordati S.a.s. covered by an interest rate swap (IRS) contract for an effective fixed annual interest rate of 6.01%, repayable in semi-annual installments through 2007	20,650	20,650
Loan granted by Banca S. Paolo IMI to Bouchara-Recordati S.a.s. covered by an interest rate swap (IRS) contract for an effective fixed annual interest rate of 6.0%, repayable in semi-annual installments through 2007	15,490	15,490
Various loans granted to Sophartex S.A. at an average annual interest rate of 5.95%	1,962	0
Various loans granted to Bouchara-Recordati S.a.s. at an average annual interest rate of 5.18%	5,101	6,770
	139,533	138,442
Less: Current portion	(13,423)	(10,081)
Total	126,110	128,361

As of 31 December 2001, the repayment schedule of long-term debt due after 2002 is as follows:

	€ (thousands)
2003	28,409
2004	27,491
2005	24,557
2006	21,663
2007 and subsequent years	23,990
Total	126,110

The overall average interest rate on medium and long-term indebtedness is 5.27% and the weighted average duration is 3 years and 8 months. Medium and long-term debt is almost entirely at fixed interest rates as the variable interest rate debt contracts were simultaneously covered with interest rate swap contracts in order to eliminate the fluctuation risk. IRS contracts are in place for a total of € 88.6 million at an average rate of 5.90%. Their valuation at market rates, as required by IAS 39, after tax, does not materially affect net equity at 31 December 2001.

14. Minority Interest in Net Assets

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

15. Shareholders' Equity

Capital stock – As of 31 December 2001 the capital stock consisted of 49,915,914 ordinary shares with a par value of € 0.50 each for a total of € 24,957,957. During 2001 the capital structure of the company was simplified, all savings shares were converted into ordinary shares, the capital stock was re-denominated in euros through the use of available reserves and subsequently a 2:1 stock split took place. The operation was completed in February 2001 resulting in a capital stock of € 24,917,457 consisting of 49,834,914 shares with a par value of € 0.50 each. During December capital stock increased by € 40,500 following the issue of 81,000 new ordinary shares, at a price of € 7.86 each, to company top managers who exercised stock options under the 2001-2003 stock option plan.

Additional stock options were assigned to top managers under the 2001-2003 stock option plan approved in 2000, i.e. options for 245,000 shares to be exercised at a price of € 12.33 per share and for a further 245,000 shares at a price of € 21.08 per share. Moreover, a new three year stock option plan for the benefit of group management, excluding top managers, was put in place. Under this plan options for 203,000 shares were awarded to be exercised at a price of € 21.08 per share.

Altogether, at 31 December 2001 a total of options for 912,000 shares to be exercised from 2002 to 2005 were outstanding. These consist of 219,000 options to be exercised at a price of € 7.86 per share, 245,000 options at a price of € 12.33 per share and 448,000 at a price of € 21.08 per share. The relative capital increase has already been approved.

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 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.

Capital in excess of par value – During 2001 capital in excess of par value increased from € 15,142,026 to € 47,535,106 as a consequence of:

- the allocation of € 11,952,788 to increase the par value to € 1.00 per share following the capital stock re-denomination in euros;
- the payment of € 4.00 per share by savings shareholders' who opted to convert their savings shares into ordinary shares at a ratio of 1:1, for a total of € 43,749,708;

- the issue of 81,000 new shares to company top managers who exercised their stock options at a price in excess of par value of € 7.36 per share, for a total of € 596,160.

Reserves from revaluations and grants – At 31 December 2001 and 2000 this caption included:

€ (thousands)	2001	2000
a. Non-reimbursable government grants to promote research and investments	12,050	12,033
b. Other non-reimbursable grants	517	517
c. Reserve from revaluation (Law 413/91) partially untaxed	2,602	2,602
Total	15,169	15,152

€ 17 thousand were allocated from Recordati S.p.A.'s 2000 earnings to a special reserve covering non-reimbursable grants related to research and investments, in order to allow suspension of 50% of taxes due on grants received during 2000 but which were assigned in the years prior to 1998.

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

Untaxed reserves – At 31 December 2001 such reserves amounted to € 19.0 million. In addition, Recordati S.p.A.'s reserves include € 18.1 million for the revaluation of fixed assets, which reserve is reversed in the consolidated financial statements. In accordance with International Accounting Standard 12, as revised by the International Accounting Standards Committee during 2000, the income tax consequence of a distribution of these reserves is recognized when such distribution is decided.

Retained earnings and net income for the year – At 31 December 2001 retained earnings include € 4.1 million allocated to the reserve for investments in the South of Italy (law 488/92).

As regards the allocation of the 2001 income, the Board of Directors of Recordati S.p.A. proposed that a dividend of € 12.5 million (€ 0,25 per share) be distributed to the 49,915,914 ordinary shares outstanding.

16. Guarantees, Commitments and Contingent Liabilities

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

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

Shareholders' equity and net income for the year as reflected in the financial statements of Recordati S.p.A. and in the consolidated financial statements at 31 December 2001 and 2000 are reconciled as follows:

€ (thousands)	Shareholders' equity		Net income for the year	
	2001	2000	2001	2000
Recordati S.p.A.	166,354	103,109	13,505	7,810
Adjustment resulting from different accounting principles:				
- research grants	0	(18)	18	18
- related deferred tax effect	0	4	(4)	(4)
Accelerated depreciation	0	0	0	(121)
- related deferred tax effect	0	0	0	49
Intercompany margin in inventory	(2,127)	(495)	1,632	677
- related deferred tax effect	702	198	504	(271)
Reversal of fixed asset revaluation	(12,036)	(11,754)	12,793	6,234
Retained earnings of consolidated subsidiaries, at beginning of the year, net of amounts already booked by Recordati S.p.A.	27,658	20,824	0	0
Net income for the year of consolidated subsidiaries, net of amounts already booked by Recordati S.p.A.	20,890	16,041	20,890	16,041
Dividends received from consolidated subsidiaries	0	0	(10,250)	(3,064)
Exchange rate gain on dividends received	0	152	0	152
Translation adjustments	11,193	8,990	173	(121)
Consolidated Financial Statements	212,634	137,051	35,997	27,400

18. Intercompany Transactions and Related Issues

The following transactions took place within the group during the year.

- In order to simplify the corporate structure in France, Financière Philippe Bouchara S.A., JACB Investissements S.A., Bouchara S.A. and Laboratoires du Docteur Emile Bouchara S.A. merged into Doms-Recordati S.a.s., and the new company was renamed Bouchara-Recordati S.a.s.;
- Recordati Innova S.p.A. was renamed Innova Pharma S.p.A..

At 31 December 2001, intercompany accounts amounted to € 37.2 million, the most significant of which were receivables by Recordati S.p.A. from its subsidiaries for the supply of goods and services totaling € 17.2 million, and a receivable by Innova Pharma S.p.A. for a loan to Recordati S.p.A. of € 4.0 million.

Intragroup sales and services recorded during 2001 were € 70.0 million. During the year, Recordati S.p.A. received dividends of € 10.2 million from Recordati S.A. and Recordati S.A. received dividends of US\$ 0.5 million from Recordati Corporation.

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.

**Auditors' Report
on Consolidated
Financial Statements**



To the stockholders of Recordati S.p.A.

- 1 We have audited the accompanying consolidated balance sheets of Recordati S.p.A. and subsidiaries as of 31 December 2001 and 2000 and the related consolidated statements of income, and consolidated cash flows for the years then ended. These consolidated financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.
- 2 We conducted our audit in accordance with International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.
- 3 In our opinion, the consolidated financial statements present fairly, in all material respects, the financial positions of Recordati S.p.A. and subsidiaries as of 31 December 2001 and 2000 and the results of their operations and their cash flows for the years then ended in accordance with International Accounting Standards (IAS).

KPMG S.p.A.

A handwritten signature in black ink, appearing to read 'Massimo Maffeis'.

Massimo Maffeis
Director of Audit

Milan, 8 March 2002

This booklet is a summary
of the 2001 Report of
Board of Directors
of Recordati S.p.A.,
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
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elected by the Shareholders' Meeting of April 10, 2002

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

Alberto Recordati

President
Pharmaceutical Chemicals Division
Recordati S.p.A.

Romilda Bollati di St.Pierre

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Bollati-Boringhieri Editore S.r.l.

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Marco Vitale

Economist and Business Consultant

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Giovanni Recordati

Alberto Recordati
Heinz Wolf Bull
Francesco Costantini
Mario Garraffo
Marco Vitale

Audit Committee

Marco Vitale

Chairman

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Auditors

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Chairman and Chief Executive Officer

Alberto Recordati

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Pharmaceutical Chemicals Division

Walter Bevilacqua

Corporate Development

Luciano Bonacorsi

Human Resources

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Pharmaceuticals

Attilio Calzolari

Pharmaceutical Chemicals

Avi Sartani

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