

Annual Report 2002





The Arrigo Recordati Cardiology Center at Milan's Ospedale Maggiore was inaugurated

At the beginning of 2003 the Arrigo Recordati Cardiology Center at Milan's Ospedale Maggiore was inaugurated. The Italian Minister of Health, Professor Girolamo Sirchia, was guest of honor at the inauguration ceremony.

The Arrigo Recordati center was funded by the Recordati Foundation in memory of this outstanding entrepreneur who for nearly 50 years headed the Recordati pharmaceutical group. Arrigo Recordati, with great dedication and determination, pursued a development strategy based on the research of innovative drugs. This donation to Milan's Ospedale Maggiore underscores the attachment of Arrigo Recordati and his company to Milan and its historical hospital. Time-honored Milanese patronage has thus contributed to the renewal of a tradition of clinical and scientific excellence in the area of heart disease.

The Arrigo Recordati center comprises a cardiologic intensive care unit for 7 patients, a cardiology unit for 14 patients and an additional area dedicated to the diagnosis and treatment of hypertension. This modern and fully equipped center could become an important reference point for the city's patients with heart disease.

Contents

Recordati in Figures	2
To Our Shareholders and Employees	5
Research and Development	15
Pharmaceuticals	19
Pharmaceutical Chemicals	29
Financial Review	31
Fourth Quarter 2002 Results	45
Subsequent Events	47
Corporate Governance	49
Consolidated Financial Statements	53
Notes to the Consolidated Financial Statements	59
Auditors' Report on Consolidated Financial Statements	73

Recordati in Figures

Sales

€ (thousands)	2002	%	2001	%	Change 2002/2001	%
Pharmaceuticals	414,362	84.1	349,641	80.7	64,721	18.5
Pharmaceutical Chemicals	78,362	15.9	83,727	19.3	(5,365)	(6.4)
Total	492,724	100.0	433,368	100.0	59,356	13.7
Italy	195,386	39.7	168,359	38.8	27,027	16.1
International	297,338	60.3	265,009	61.2	32,329	12.2

Investments

€ (thousands)	2002	% of Sales	2001	% of Sales	Change 2002/2001	%
Non-Current Assets						
- Ongoing Activities	39,986 ^(a)	8.1	26,916	6.2	13,070	48.6
- Acquisitions/Change in Consolidation Perimeter	0	0	26,479 ^(b)	6.1	(26,479)	(100.0)
Total Non-Current Assets	39,986	8.1	53,395	12.3	(13,409)	(25.1)
R&D ^(c)	35,124	7.1	30,936	7.1	4,188	13.5
Total	75,110	15.2	84,331	19.4	(9,221)	(10.9)

Investments are after net disposals.

(a) Includes the acquisition of a production site in Ireland.

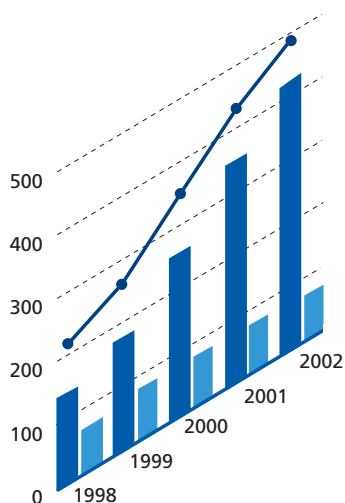
(b) Includes the full consolidation of Sophartex and the restatement of goodwill resulting from the merger of the French companies.

(c) Entirely expensed in the period (see Financial Review).

Consolidated Net Sales

millions of euro

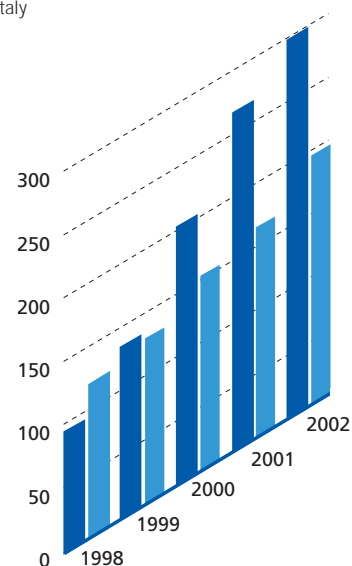
- Pharmaceuticals
- Pharmaceutical Chemicals
- Total



Composition of Net Sales

millions of euro

- International
- Italy



Recordati in Figures

Key Consolidated Data

€ (thousands)	2002	% of Sales	2001	% of Sales	Change 2002/2001	%
Net Sales	492,724		433,368		59,356	13.7
EBITDA ⁽¹⁾	119,862	24.3	98,533	22.7	21,329	21.6
Operating Income (EBIT)	89,224	18.1	65,120	15.0	24,104	37.0
Net Income	50,216	10.2	35,997	8.3	14,219	39.5
Cash Flow	84,184	17.1	69,410	16.0	14,774	21.3
Shareholders' Equity	227,072		212,634		14,438	6.8
Dividends	18,321 ⁽²⁾		12,479		5,842	46.8
Dividends/Net Income	36.5% ⁽²⁾		34.7%			

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

(2) Proposed by the Board of Directors and calculated on the number of shares currently outstanding excluding treasury stock of 1,199,666 shares.

Per Share⁽³⁾

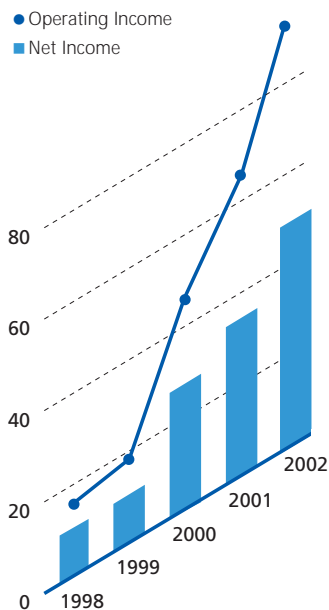
€	2002	2001	Change 2002/2001	%
Net Income	1.01	0.72	0.29	40.3
Cash Flow	1.69	1.39	0.30	21.6
Shareholders' Equity	4.63	4.26	0.37	8.7
Shares Outstanding:				
- average during the year	49,827,455	49,841,793		
- at December 31	49,066,534	49,915,914		

(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. Shares outstanding for 2002 are net of treasury stock which amounted to 988,880 shares at 31 December.

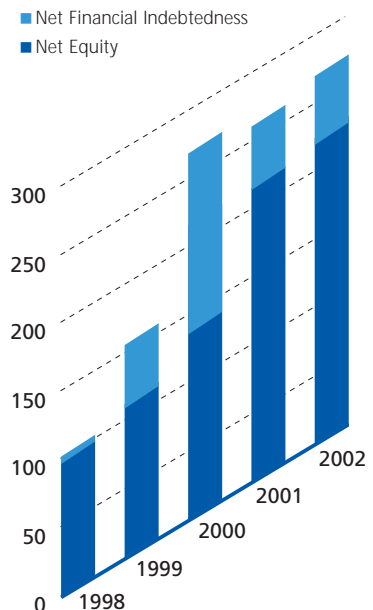
Operating and Net Income

millions of euro



Financing of Capital Employed

millions of euro





To Our Shareholders and Employees

Significant growth of both sales and profitability, as in recent years, also underscored the 2002 financial year. The strong financial improvement is to be entirely attributed to the pharmaceutical business which developed well in the Italian as well as in international markets.

In addition to the excellent financial results, important objectives were achieved during 2002 for the development of the group. Our research activities progressed and positive results were obtained. Our product portfolio grew thanks to the acquisition of new product licenses and the stage was set for further agreements. Activity related to the performance of Zanidip® (lercanidipine), our original research drug, proceeded satisfactorily.

At year end, quite unexpectedly, we were faced with a delay in the approval process of lercanidipine in the U.S.A. after the Food and Drug Administration (FDA) had issued an *approvable letter* for the drug in August. The delay in the development of this project in no way alters the group's expansion strategy which has characterized our recent history and which is currently being actively pursued. Research, international development and product pipeline extension are the objectives on which we are focusing our resources and in which we will continue to invest to secure future growth.

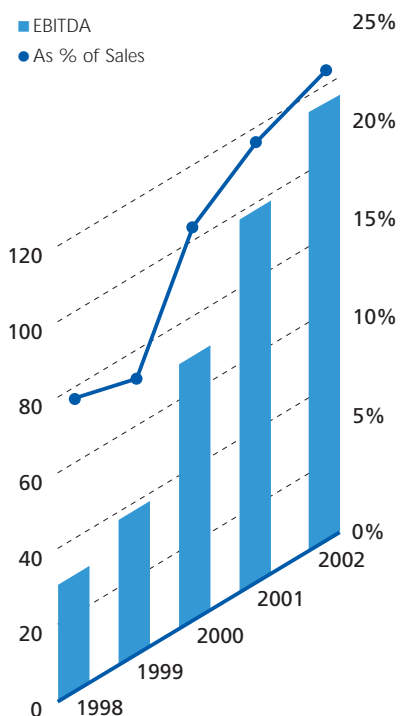
Financial Highlights

Consolidated net sales were € 492.7 million, compared to € 433.4 million in 2001 (+13.7%). The growth is to be attributed entirely to the pharmaceuticals segment with sales which rose from € 349.6 million to € 414.4 million (+18.5%) and which were achieved thanks to new product launches in Italy, the continuing success of Zanidip® in the more important markets and the good performance of existing products. Pharmaceutical chemicals sales were down (-6.4%) due to continued downward pressure on prices and were € 78.4 million (€ 83.7 million in 2001). Altogether international sales were € 297.3 million, that is 60.3% of total sales.

EBITDA, at 24.3% of sales, reached € 119.9 million (€ 98.5 million in 2001), an increase of 21.6%. EBITDA from the pharmaceutical business continued to improve reaching a 25.9% margin on sales thanks to further growth in international markets. The pharmaceutical chemicals EBITDA declined and stood at 14.0% of sales.

EBITDA

millions of euro



Operating income, at 18.1% of sales, was € 89.2 million, up 37.0% over last year. The improvement came mostly from operations but also benefited from lower goodwill amortization charges of € 5.1 million due to the longer period over which the goodwill related to the acquisition of the French companies Doms-Adrian and Bouchara is amortized (see Financial Review).

Net income, at 10.2% of sales, went from € 36.0 million to € 50.2 million, an increase of 39.5%.

Cash flow was € 84.2 million (17.1% of sales) increasing by 21.3% over the preceding year.

The group's financial structure was strengthened thanks to the cash flow generated by operations. Net financial indebtedness as of 31 December 2002 was down to € 44.7 million despite significant investments during the second half of the year and the buy-back of company shares, while shareholders' equity reached € 227.1 million. The debt to equity ratio improved to 0.2.



Operating Highlights

Throughout 2002 our efforts continued to be devoted to the development and growth of the group.

- **Pharmaceutical research**

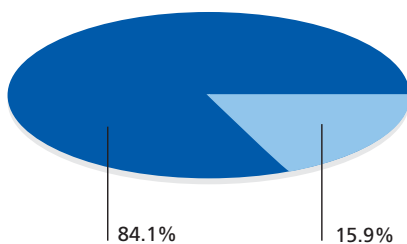
Research and development activities in the urological and cardiovascular areas progressed.

The collaboration with Pharmacia in the urological area which focuses on the 5HT1A receptor antagonists for the treatment of unstable bladder moved forward. In addition, new discovery approaches for molecules with potential therapeutic use in urinary disorders were identified. Our original molecule REC 15/2615, under research for the treatment of female sexual dysfunction, progressed through pharmacological proof-of-concept trials in animals.

Business Segments

percentage of sales

- Pharmaceuticals
- Pharmaceutical Chemicals



In the cardiovascular area, in addition to further development of lercanidipine, phase III clinical trials proceeded involving a fixed combination of lercanidipine and an ACE inhibitor, another anti-hypertensive agent.

- **Lercanidipine**

The performance of lercanidipine in Italy, France and Spain, where it is sold directly by our own marketing organizations, as well as in those countries where it is marketed through licensees, continued to be very satisfactory. Currently lercanidipine is available in 43 different countries and has succeeded in obtaining growing favor from doctors both in European and other countries, totaling 20 million months of therapy by December 2002.

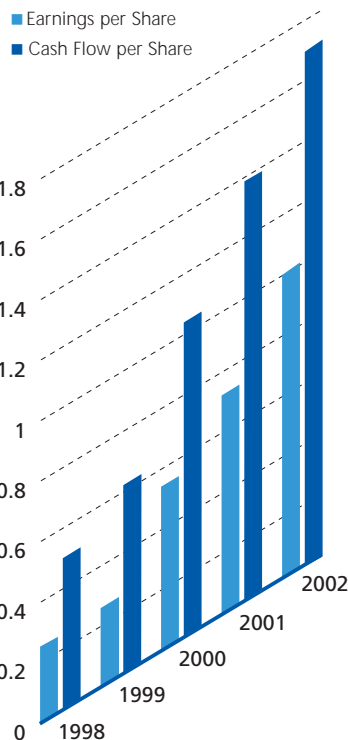
Unexpectedly, our plans for the introduction of lercanidipine in the U.S. market have suffered a set back. After Forest Laboratories, our licensee in the U.S.A., received an *approvable letter* in August, which requested that some matters be addressed before an approval could be issued, during a successive meeting the FDA required that new studies be conducted to provide the response to certain issues raised. In particular, the FDA did not deem the data supplied to be sufficient to recommend the requested dosing regimen as the best for the American doctor. In Japan two important co-marketing agreements were finalized with Dainippon Pharmaceutical Co. and Tsumura Co.. These two agreements formalize the co-development collaboration which already existed between the two Japanese companies with the objective of obtaining the approval of lercanidipine in Japan and represent an important step towards the introduction of our drug in this important market.

In Canada our licensee Fournier filed an application for the approval of lercanidipine during the month of January.

Very interesting results emerged from the extensive clinical program which is being conducted to better develop and document the therapeutic profile of lercanidipine. The conclusions of the Cohort study which showed the advantages of lercanidipine over amlodipine, the worldwide leader within the calcium channel blocker market, were published by The American Journal of Hypertension.

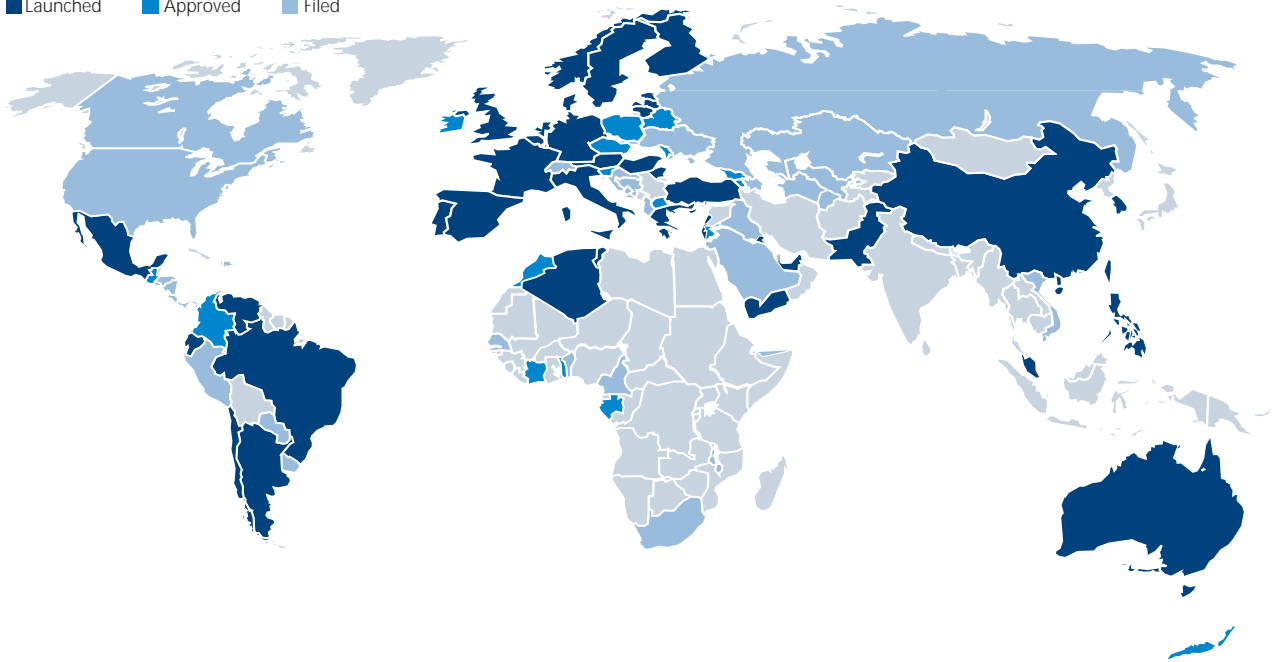
Earnings and Cash Flow per Share

euro



Lercanidipine Worldwide

■ Launched ■ Approved ■ Filed



These results were also confirmed by a subsequent trial conducted in Norway.

The U.K. Medicines Control Agency granted a Product License (marketing approval) for the 20 mg formulation of Zanidip® (lercanidipine), thus providing therapeutic convenience in a single once daily administration to those patients who, on account of the severity of their hypertensive condition, require a higher daily dose. Marketing authorization for Zanidip® 20 mg was also obtained in France. The mutual recognition procedure to extend registration to the other European states is near completion.

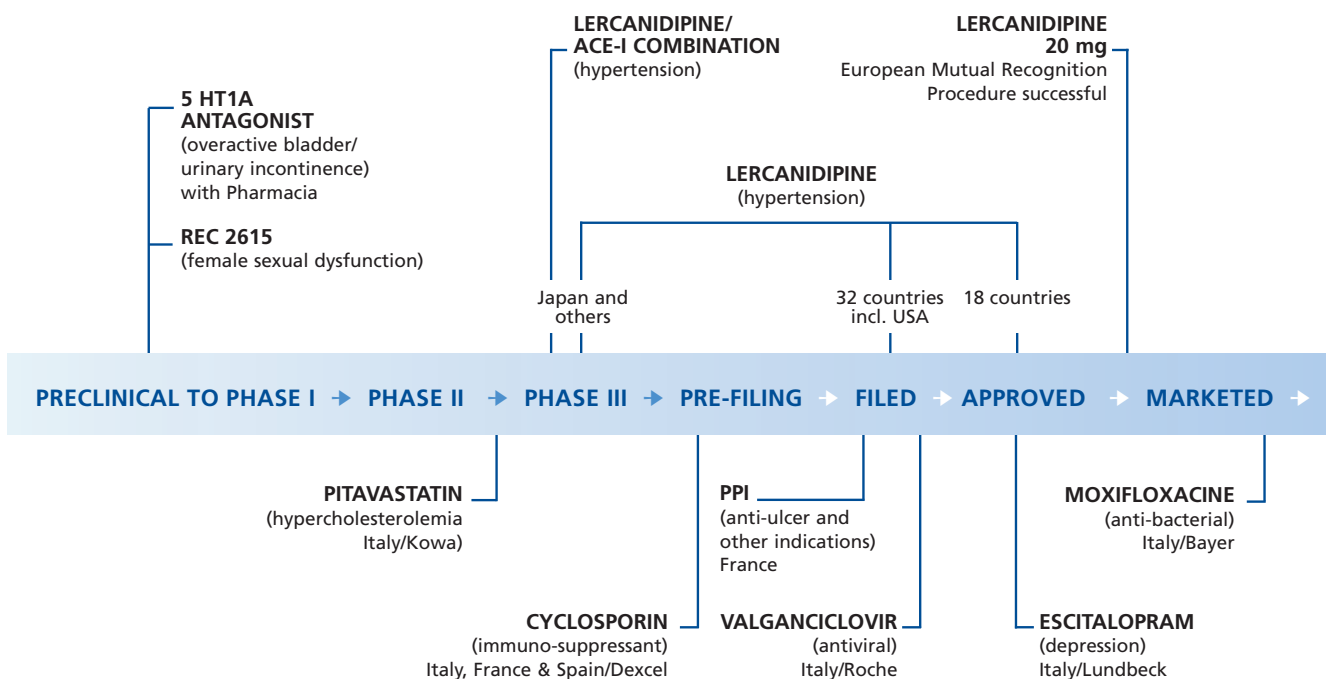
- **Pharmaceutical Pipeline**

The pharmaceutical pipeline was strengthened with the acquisition of new products and the progress along the development and regulatory path of existing drugs.

At the beginning of the year a semi-exclusive license was obtained from the Danish company Lundbeck for the marketing and sale in Italy of escitalopram, a new drug belonging to the selective serotonin reuptake inhibitors (SSRI's) class of antidepressants

indicated for the treatment of depression and panic disorders. In December a marketing authorization was granted through the European mutual recognition procedure. Recordati expects to launch escitalopram during the second half of 2003 as soon as the normal pricing process is completed. The market in Italy for antidepressants, the class of drugs which will include escitalopram, continues to grow. An exclusive license agreement was signed with Dexcel for the sale in Italy, France and Spain of a novel oral formulation of cyclosporin, a well established immuno-suppressant drug which is indicated mainly to prevent rejection following organ transplants. A European patent application for this product is pending and filings for marketing approvals have been made in various European countries. The 2001 combined market value of this class of drugs in Italy, France and Spain amounts to approximately € 150 million. This is the first time rights to a product in the three countries where Recordati has a direct presence have been acquired in a single stroke.

Pharmaceutical Product Pipeline





Licenses were obtained in Spain and France for a nitroglycerin transdermal patch for the treatment of angina. The product was launched in Spain towards the end of 2002 under the brand Dermatrans[®], while it will be launched in France during 2003 as Epinitril[®].

In France an agreement was also signed for the marketing and sale of an anti-ulcer drug belonging to the proton pump inhibitor (PPI) class for which an approval application was filed.

At year-end a co-marketing agreement was entered into with Bayer AG for the marketing and sale in Italy of Octegra[®] (moxifloxacin), an anti-bacterial fluorquinolone, already marketed in Italy, indicated for the treatment of respiratory infections. Moxifloxacin, discovered and developed by Bayer, is a last generation drug in its class, which is well known and established in Italy. Over the last 12 months sales for this class were around € 145 million. In Italy moxifloxacin's patent protection runs until 2014.

- **Recordati Ireland**

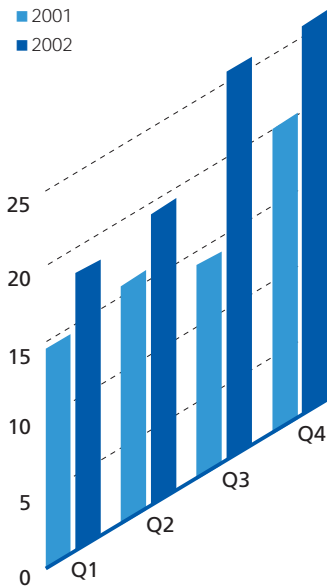
A new subsidiary, Recordati Ireland Ltd., was constituted and became operational as a center for licensing, commercial and support activities for the international licensees of lercanidipine, some of which are established in Ireland. During 2002 the company purchased a production site in County Cork. € 28 million will be invested to establish a manufacturing facility and an R&D center. Initially the facility will serve to increase the production of the active ingredient lercanidipine to supply international markets while the R&D center will develop chemical processes for the production of experimental drugs during their clinical development phase.

* * *



Quarterly EBIT Development

millions of euro



In 2003 the group intends to keep pursuing its established development strategy which to date has been successful. European expansion and the acquisition of new products will be given priority as a means to achieve solid growth. Further growth expansion of lercanidipine in the countries where it is marketed will be actively pursued through the acquisition of new market shares. Lercanidipine will therefore continue to contribute substantially to the group's development. Our international business is expected to help overcome the impact of the healthcare cost containment measures in Italy.

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 2002.

Dividends

Based on these positive results, the Board will propose a dividend of € 0.375 per share (€ 0.25 per share last year) to be paid to all shares outstanding, excluding those in treasury stock, as from 25 April 2003. This per share dividend includes the accretion deriving from the dividend which would have been due to those shares in treasury stock.

Giovanni Recordati

Chairman and Chief Executive Officer



Research and Development

Pharmaceuticals

Our research activities in 2002 continued to be focused on the cardiovascular and urological areas.

Within the urological area, under the collaboration agreement with Pharmacia, the 5HT_{1A} receptor antagonists program for the treatment of unstable bladder went ahead. The pre-clinical development of a candidate for proof-of-concept trials in humans which will begin in 2003 progressed satisfactorily.

In 2002 work started on two new interesting discovery lines for novel compounds with potential for the treatment of urination disorders. Various highly active molecules, which were tested in both *in vitro* and *in vivo* pharmacological models using state-of-the-art technology, were identified and initial patents for these programs were applied for.

The development of our molecule REC15/2615 which has been identified as a candidate for the treatment of female sexual dysfunction also proceeded. A new galenic formulation, targeted to be suitable for human administration, was created and a pharmacological proof-of-concept trial in animals was completed. Activities in preparation for the start of the clinical development phase are underway.

Within the cardiovascular area very interesting results emerged from the extensive clinical program which is being conducted to better develop and document the therapeutic profile of lercanidipine.

The results of a comparative study which confirmed the tolerability advantage of lercanidipine over the worldwide class leader amlodipine were published by a prestigious journal, The American Journal of Hypertension, with a positive evaluation in the editorial. This advantage was further confirmed by a recently completed Norwegian trial, the conclusions of which will be published by The Journal of Hypertension.

Following the receipt of an *approvable letter* from the FDA by Forest Laboratories, in which our licensee was asked to address some matters before an approval could be issued, surprisingly, during a meeting in December, the FDA requested that new studies be conducted to provide the response to certain issues raised. In particular, the FDA did not deem the data supplied to be sufficient to recommend the requested dosing regimen as the best for the American doctor. The development program to bring lercanidipine to the American market is currently under review. The alternative which entails conducting further clinical trials using the existing formulation, if successful, could lead to a launch of the drug not before 2005. However, a second alternative, which involves developing a modified release formulation of lercanidipine, and which might better meet the FDA's requirements, will most likely be the one chosen. The new formulation may also provide additional patent protection and increased therapeutic advantages but will take longer to develop.

A fixed combination of lercanidipine with another anti-hypertensive agent (ACE inhibitor) is currently in phase III of clinical development and we expect to file for approval in a number of countries by 2004. We believe that the publication of the ALLHAT (a large independent trial conducted under the aegis of the U.S. National Institute of Health which compared different classes of anti-hypertensive drugs) results served to confirm the clinical benefits of using calcium channel blockers for the treatment of hypertension. In addition, the study demonstrated the need for multiple therapy in order to achieve adequate blood pressure control in many patients. These findings are expected to have a significant influence on the new guidelines for the treatment of hypertension, in particular regarding the use of combination therapy to achieve the best results. In this context formulations which provide a fixed combination of drugs will prove to be convenient both in therapeutical as well as economical terms.



Pharmaceutical Chemicals

During 2002 our research laboratories continued to develop production processes for new active ingredients for use in the generic pharmaceuticals market in addition to optimizing production processes.

In the chemical plant at Campoverde the pilot scale synthesis of venlafaxine, manidipine and fosfofentoina were completed. Processes for a further three active ingredients were developed and tested on a pre-pilot scale. Innovative processes for the synthesis of two important antivirals, whose patents expire within a few years, are being studied.

In the biochemical plant in Opera the production of lovastatin began. The industrial process for the production of mevastatin was optimized and a first campaign is planned for 2003. A laboratory scale method for the production of pravastatin was developed. With regards to enzymes for industrial use development continued with the objective of improving the performance of biocatalysts. In addition, development proceeded on an enzyme for alimentary purposes and an industrial method was identified for the production of a D-aminoacid.



Pharmaceuticals

Net sales of pharmaceuticals are shown in the following table:

€ (thousands)	2002	%	2001	%	Change 2002/2001	%
Prescription Pharmaceuticals ^(a)	169,620	40.9	141,627	40.5	27,993	19.8
Self-Medication Pharmaceuticals ^(b)	16,076	3.9	15,726	4.5	350	2.2
Pharmaceuticals Italy	185,696	44.8	157,353	45.0	28,343	18.0
France	92,540	22.3	93,579	26.8	(1,039)	(1.1)
Spain	21,438	5.2	20,411	5.8	1,027	5.0
International Licensees ^(c)	88,078	21.3	66,001	18.9	22,077	33.4
Sophartex ^(d)	26,610	6.4	12,297	3.5	14,313	n.s.
International Pharmaceuticals	228,666	55.2	192,288	55.0	36,378	18.9
Total	414,362	100.0	349,641	100.0	64,721	18.5

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.

(d) Consolidated from 1 July 2001

Pharmaceutical sales in 2002 increased by 18.5% over 2001 mainly due to the development of sales both in Italy and internationally. Growth was due to the significant increase in sales volumes (+21.5%) while a negative price effect of 2.9% was recorded following the implementation of measures to keep public healthcare spending under control. The consolidation of Sophartex contributed 3.8 percent points of the increase.

Zanidip® (lercanidipine)

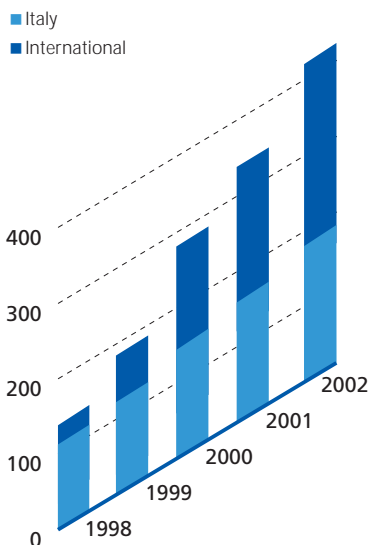
During 2002, Zanidip® (lercanidipine), our proprietary anti-hypertensive calcium channel blocker, continued to perform very well and achieved increased market shares in all the important markets where it is sold. Overall, sales of Zanidip® were € 85.7 million, an increase of 53.1%, and account for 20.7% of our pharmaceutical portfolio. Its sales breakdown is shown in the following table:

€ (thousands)	2002	%	2001	%	Change 2002/2001	%
- Italy	32,332	37.7	26,309	47.0	6,023	22.9
- France	9,351	10.9	3,517	6.3	5,834	165.9
- Spain	4,669	5.5	3,991	7.1	678	17.0
Direct Sales	46,352	54.1	33,817	60.4	12,535	37.1
Sales to Licensees	39,335	45.9	22,164	39.6	17,171	77.5
Total Lercanidipine Sales	85,687	100.0	55,981	100.0	29,706	53.1

Sales of Zanedip® and Lercadip®, both Recordati's brands of lercanidipine in Italy, were € 32.3 million, up 22.9% over the preceding year. The relaunch of Lercadip® by the Italian subsidiary Innova Pharma went particularly well. Zanedip® consolidated its position as the third calcium channel blocker on the market. Overall lercanidipine, also marketed by Rottapharm as Cardiovasc®, increased its market share to 9.4% of the Italian calcium channel blocker market in the fourth quarter 2002.

Pharmaceutical Net Sales

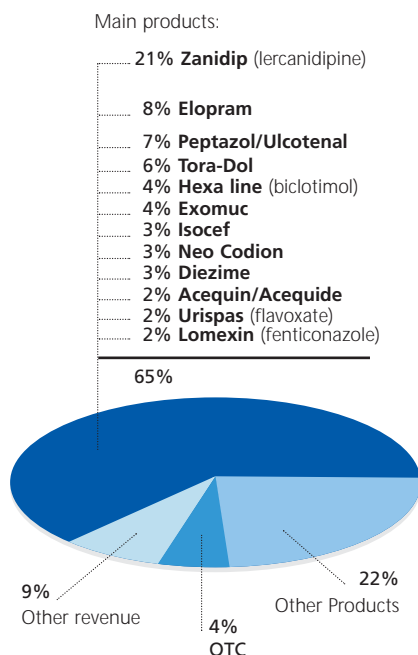
millions of euro



In France lercanidipine is marketed by Bouchara-Recordati and Pierre Fabre since March 2001 and has developed extremely well reaching a market share of 7.0% in the fourth quarter 2002, an even better growth trend than that recorded in Italy at the time of launch. Sales of Zanidip® by Bouchara-Recordati were € 9.4 million, nearly three times those of the preceding year. This performance confirms the development potential of our drug in the second largest European pharmaceutical market.

On the Spanish market Zanidip®, sold by Recordati España, maintained its growth trend recording sales of € 4.7 million (+17.0%) in its fourth year from launch. In the fourth quarter 2002 the market share attained by lercanidipine in Spain, where it is also marketed by Uriach and Zambon, was 4.8%.

Main Products



In the other 39 countries where lercanidipine is currently marketed, but where Recordati has no direct presence, sales are generated through licensees. Sales in Germany, the largest European pharmaceutical market, have been growing steadily. Lercanidipine was launched in this country during the last quarter of 2000 by Berlin Chemie and UCB, reaching a 6.8% share of the calcium channel blocker market in the last quarter 2002. Market shares have also increased in the other European markets throughout 2002. In Australia lercanidipine was launched by Solvay in November 2001 and has already attained a 4.2% market share. Another interesting market is South Korea where lercanidipine has a share of 6.9%. During 2002 new markets have been accessed the more significant of which are Mexico, Portugal and Turkey.

Overall, sales to licensees in 2002 were € 39.3 million, up 77.5% over the preceding year. These include € 9.1 million in supplies of active ingredient to Forest Laboratories, our licensee for the U.S. market, for production trials, the manufacturing of sample packs and initial sales inventories. Excluding these sales growth would have been 36.6%.

Pharmaceuticals, Italy

Sales in Italy of prescription drugs (including Zanedip®) in 2002 were €169.6 million, up 19.8% over 2001 compared with an estimated pharmaceutical market growth of 5.3%, hospital sales included.

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

Sales € (thousands)	Therapeutic Area	2002	2001	Change 2002/2001	%
Elopram®	Depression	34,859	25,560	9,299	36.4
Zanedip®/Lercadip®	Hypertension	32,332	26,309	6,023	22.9
Tora-dol®	Analgesia	23,213	25,649	(2,436)	(9.5)
Peptazol®	Gastroenterology	15,507	289	15,218	n.s.
Isocef®	Anti-infective	13,540	13,507	33	0.2
Diezime®	Anti-infective	11,362	12,098	(736)	(6.1)
Acequin®/Acequide®	Hypertension	9,354	9,102	252	2.8



The cardiovascular therapeutic area accounts for 27.4% of prescription pharmaceutical sales and is still the largest of our portfolio thanks mainly to the continuing success of Zanedip®. This important therapeutic area was extended to include Nitrocor®, a nitroglycerin transdermal patch for the treatment of angina, which was launched at the beginning of 2002 and generated sales of € 2.8 million.

In the CNS (Central Nervous System) area (21.4% of sales), Elopram® (citalopram), an SSRI antidepressant, continued its strong growth trend (+36.4%) and further increased its market share.

Within the analgesia/anti-inflammatory therapeutic area (18.5% of sales), Toradol® (ketorolac) consolidated its position as the market leader in its class.

Regarding the anti-infective area (16.6% of sales), Isocef® (ceftibuten) maintained its market share while Diezime® (cefodizime) suffered from an overall reduction of the market for injectable antibiotics. In October



2002 a license to market Octegra® (moxifloxacin), an antibacterial fluorquinolone, was acquired from Bayer AG. The product, which was already marketed in Italy with sales of over € 4 million in 2002, will be relaunched by our subsidiary Innova Pharma through an increased detail force.

During 2002 the gastroenterological area became significant (9.3% of sales) thanks to the success of Peptazol® (pantoprazole) under license from Altana. This product was relaunched at the beginning of 2002 reaching sales of € 15.5 million, three times those recorded during 2001 by the previous licensee.

During 2002 further restrictions were introduced by the Ministry of Health in Italy in order to curb public pharmaceutical spending. On 18 April 2002 a 5% price cut was imposed on all specialties reimbursed by the national health service, with an additional 2% effective January 2003. Furthermore, during the second half of the year the reimbursement lists underwent a process of analysis and revision which resulted in

prices being lowered to certain new lower ceilings, as well certain classes being de-listed, effective January 2003. The effect of all these measures on 2003 sales will be of about € 12-13 million. Under the devolution to the Regions of public health expenditure, a number of Regions re-introduced some form of patient co-payment.

Sales of self-medication products in 2002 were € 16.1 million, up 2.2% over the preceding year, within a market which grew by 4.9%.

ImidazyI® and Proctolyn® remained the main products in our portfolio and a number of products launched in recent years performed well. Lactò®, a sporelactobacillus based vitamin integrator, recorded sales of € 1.0 million, an increase of 41% over the preceding year, and sales of Alovex™, for the treatment of oral cavity aphthas, were up 45% to €1.4 million, helped by the launch of a new gel formulation at year end. Eumill® confirmed its growth trend, and together with ImidazyI® reinforces Recordati's leadership in the eye drops market.

Pharmaceuticals, France

In 2002 sales in France by Bouchara-Recordati were € 92.5 million, slightly down on the preceding year (-1.1%). The French pharmaceutical market grew by an estimated 4.1%. The sales slowdown of some products, which was true for the whole class to which they belong, was due mainly to generic competition. Znidip®, on the other hand, progressed extremely well becoming one of the main products in the portfolio.

The following table shows sales of the main products:

Sales <i>€ (thousands)</i>	Therapeutic Area	2002	2001	Change 2002/2001	%
Hexa line	Respiratory	15,690	15,881	(191)	(1.2)
Exomuc®	Respiratory	13,655	14,789	(1,134)	(7.7)
Znidip®	Hypertension	9,033	3,517	5,516	156.8
Neocodion®	Respiratory	9,033	10,482	(1,449)	(13.8)

Within the French product portfolio the respiratory therapeutic area is still the largest and accounts for 46.1% of total sales. However, with the success of Zanidip® the cardiovascular area is becoming more important and will be extended in 2003 to include a nitroglycerin transdermal patch for the treatment of angina which was obtained under license.

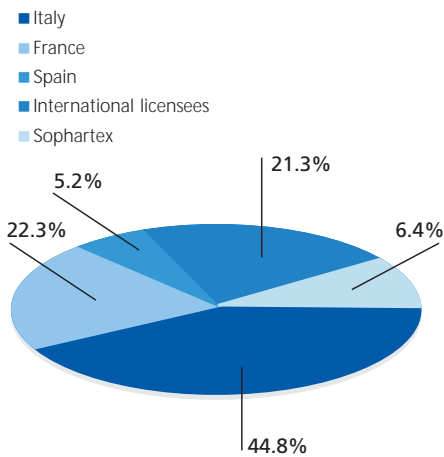
Also in France the healthcare authorities enacted a series of initiatives in an effort to control public spending on pharmaceuticals including cutting the prices of certain types of drugs. Within the convention established with the authorities Bouchara-Recordati agreed to reduce the prices of some products with a moderate impact on 2002 sales.

A revision of the reimbursement list is expected to take place in 2003 which will affect our sales volumes of certain products for a total estimated value of € 2-3 million.



Breakdown of 2002 Pharmaceutical Sales

percentage of sales



Pharmaceuticals, Spain

Sales in Spain in 2002 by Recordati España were € 21.4 million, up 5.0%, compared to an estimated market growth of 9.8%.

Zanidip® sales, which increased by 17.0%, contributed to a large extent to this positive result. Ulcotenal® (pantoprazole), an anti-ulcer of the proton pump inhibitor class, confirmed its position as the top selling product within the portfolio increasing by 7.3% over the preceding year. Dermatrans®, a nitroglycerin transdermal patch for the treatment of angina, was launched during September generating sales of € 0.4 million.

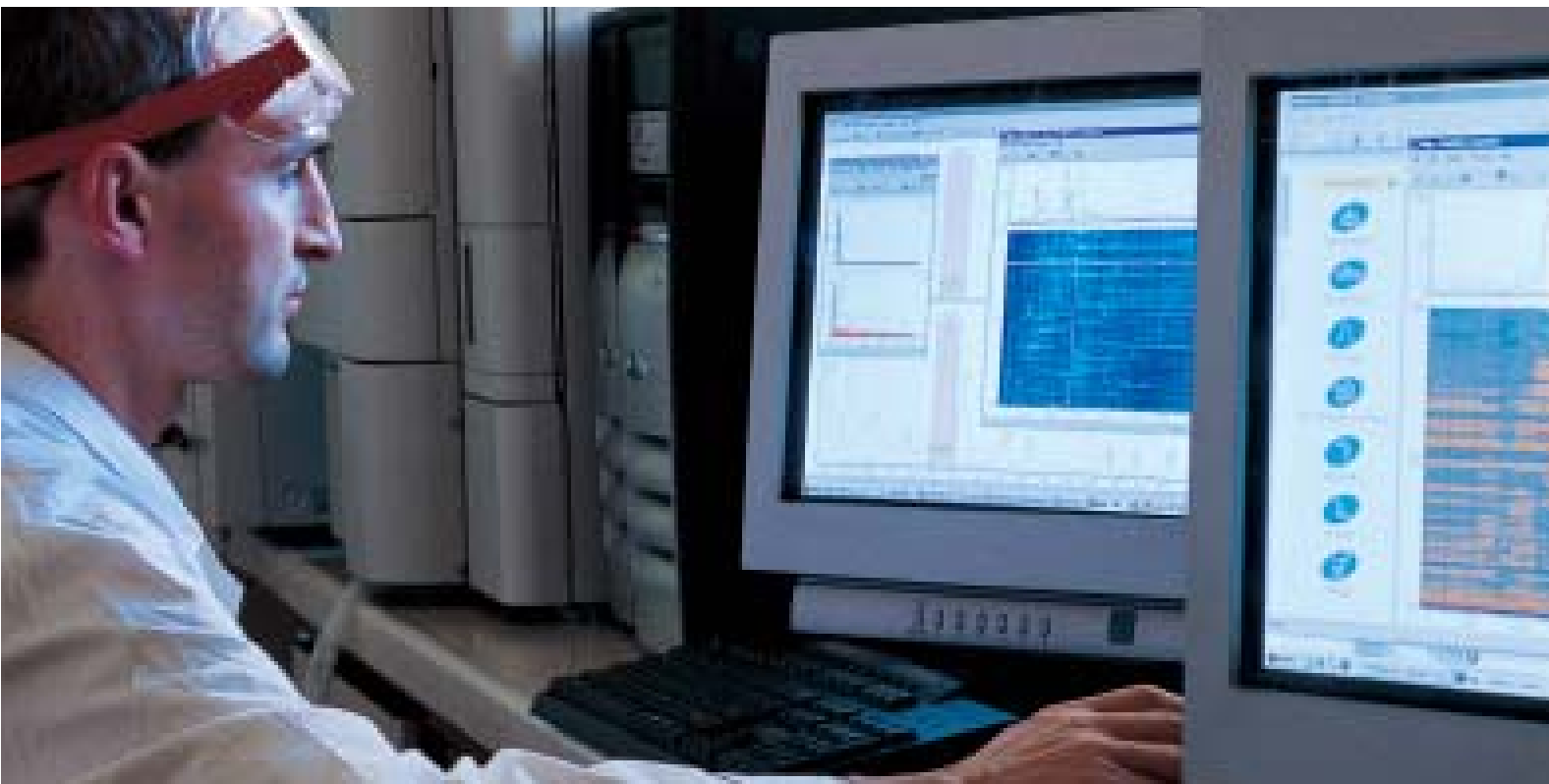
Under the reference pricing system introduced by the Spanish healthcare authorities in 1999 for off-patent drugs, in November prices were further reduced for certain therapeutic classes and additional product groups were added to the system. The impact on Recordati España's sales came from the inclusion of amoxicillin plus clavulanic acid but was not significant.

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 2002 these sales reached € 88.1 million with an increase of € 22.1 million over 2001 (+33.4%) thanks to the positive performance of lercanidipine.

Sales of flavoxate, an antispasmodic for the treatment of urinary incontinence, were € 8.9 million, slightly up on the preceding year. Fenticonazole, an antimycotic for dermatological and gynecological use, also showed slight growth recording revenues of € 5.0 million.

In 2002 sales outside France by our French subsidiary were € 26.0 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 milestone payment of \$ 3.0 million from Forest Laboratories in connection with the receipt of the *approvable letter* from the FDA, in addition to \$ 3.0 million from Pharmacia for research activities in the urological area.

Sophartex

Sophartex, an independent manufacturer of finished pharmaceutical dosage forms, recorded € 26.6 million sales to third parties during 2002 up slightly from € 25.8 million for the whole of 2001. The financial results of Sophartex were fully consolidated as of the third quarter 2001 and sales to third parties during the second half 2001 were € 12.3 million.



Pharmaceutical Chemicals

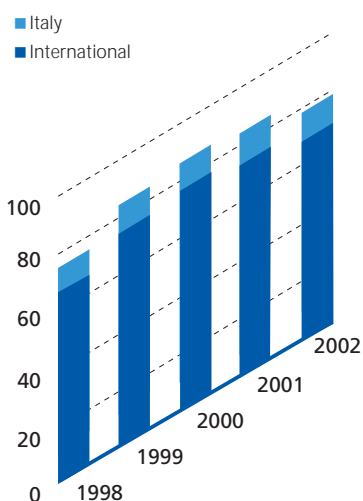
Revenue generated by pharmaceutical chemicals is shown in the following table:

€ (thousands)	2002	%	2001	%	Change 2002/2001	%
Italy	9,690	12.4	11,006	13.2	(1,316)	(12.0)
Europe (Italy excluded)	27,337	34.9	24,523	29.3	2,814	11.5
North America	17,250	22.0	24,805	29.6	(7,555)	(30.5)
Asia	14,429	18.4	13,407	16.0	1,022	7.6
Other Areas	9,656	12.3	9,986	11.9	(330)	(3.3)
International	68,672	87.6	72,721	86.8	(4,049)	(5.6)
Total	78,362	100.0	83,727	100.0	(5,365)	(6.4)

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

Pharmaceutical Chemicals Net Sales

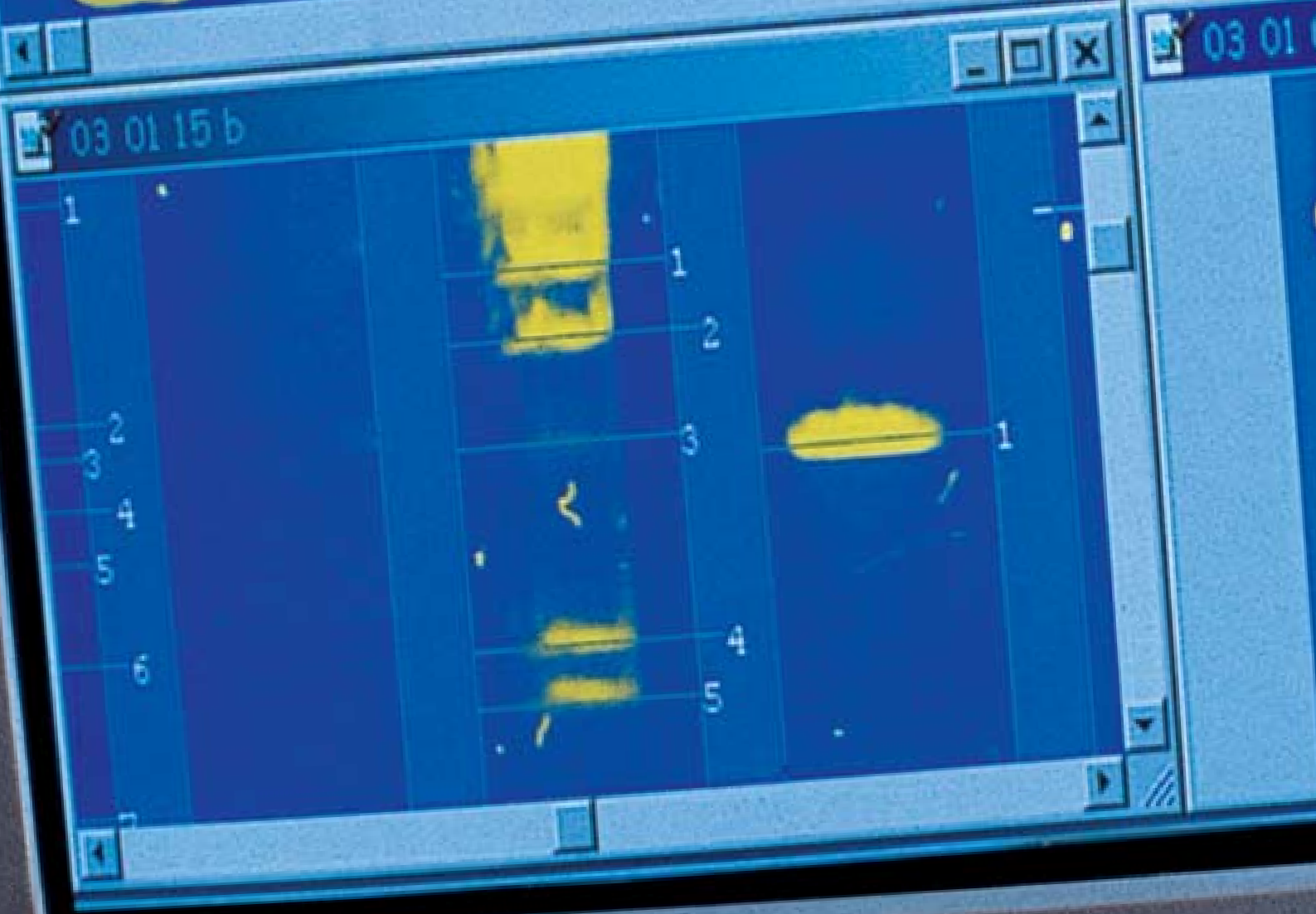
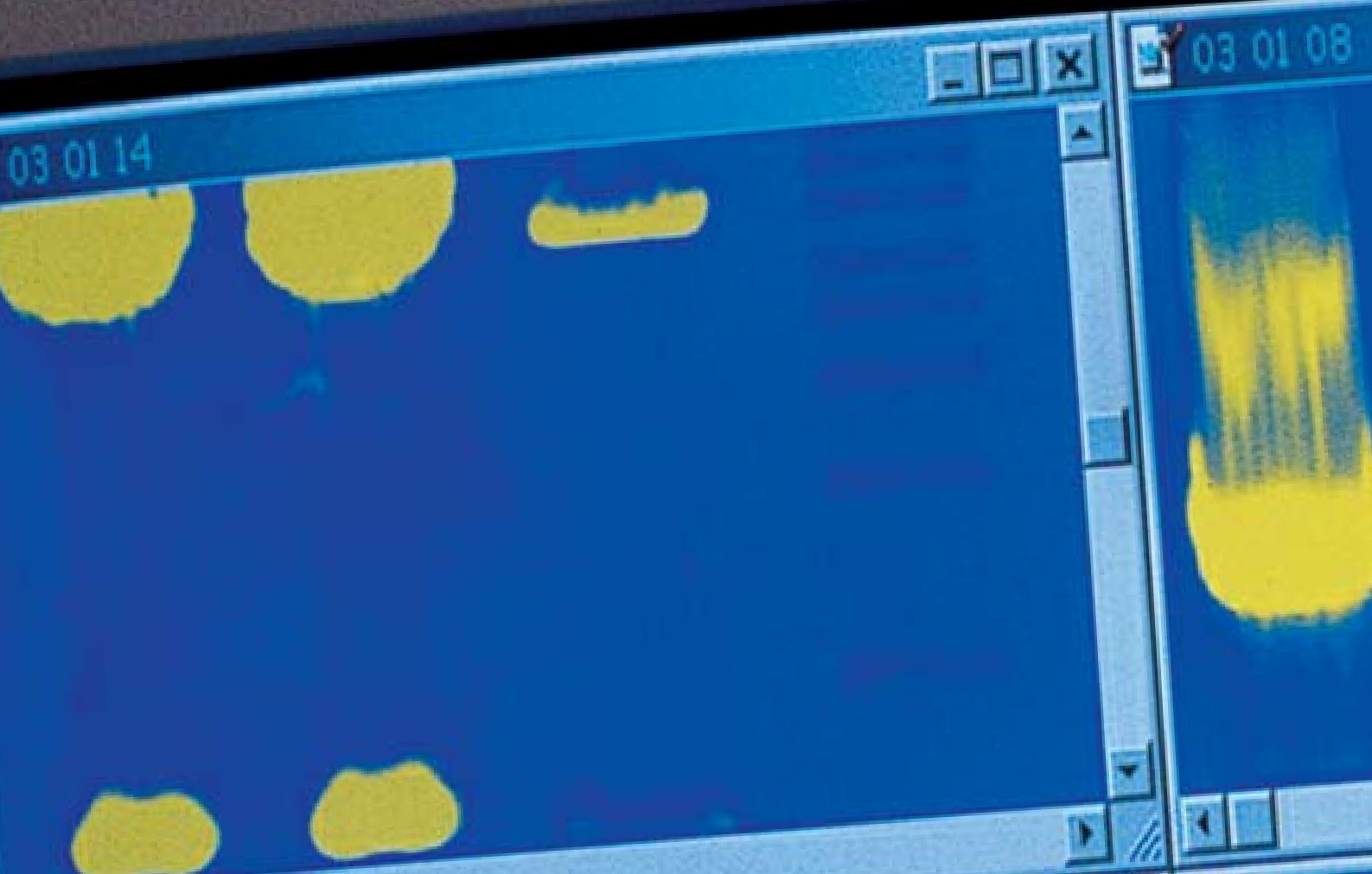
millions of euro



Sales in 2002 were down by 6.4% on 2001 due to a negative price and currency effect (see Financial Review). Sales volumes, however, increased by 3.9%.

Sales in Italy decreased by 12.0% due essentially to lower volumes. International sales, on the other hand, recorded increased volumes which were offset by the negative price and currency effect. The shortfall on international markets occurred mainly as from the second quarter 2002.

The main active ingredients maintained their leading positions in their respective markets while the line of intermediates for antibiotics was subject to keen price competition as a result of increased production capacity coming from competition in the Far East. We expect this downward pressure on prices to continue in the medium term.



Financial Review

Income Statement

The following table shows the profit and loss accounts, including their expression as a percent of sales and change versus 2001:

€ (thousands)	2002	%	2001	%	Change 2002/2001	%
Net Sales	492,724	100.0	433,368	100.0	59,356	13.7
Cost of Sales	(203,578)	(41.3)	(182,074)	(42.0)	(21,504)	11.8
Gross Profit	289,146	58.7	251,294	58.0	37,852	15.1
Selling Expenses	(133,786)	(27.2)	(121,407)	(28.0)	(12,379)	10.2
R&D Expenses	(35,124)	(7.1)	(30,936)	(7.1)	(4,188)	13.5
General and Administrative Expenses	(21,124)	(4.3)	(19,697)	(4.5)	(1,427)	7.2
Amortization of Goodwill	(9,888)	(2.0)	(14,134)	(3.3)	4,246	(30.0)
Operating Income	89,224	18.1	65,120	15.0	24,104	37.0
Financial Income/(Expense), Net	(6,082)	(1.2)	(6,110)	(1.4)	28	(0.5)
Other Non-Operating Income/ (Expense), Net	(2,417)	(0.5)	(2,836)	(0.7)	419	(14.8)
Pretax Income	80,725	16.4	56,174	12.9	24,551	43.7
Provision for Income Taxes	(30,509)	(6.2)	(20,177)	(4.7)	(10,332)	51.2
Net Income	50,216	10.2	35,997	8.3	14,219	39.5

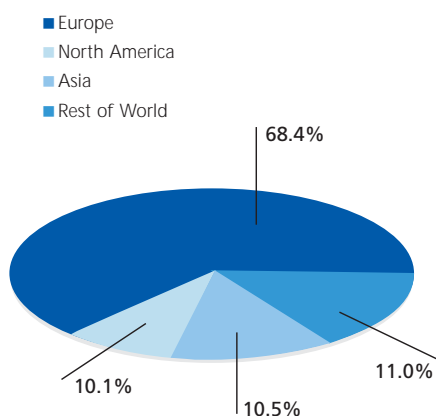
Consolidated net sales increased from € 433.4 million to € 492.7 million, up 13.7%. The consolidation of Sophartex for the whole of 2002 accounted for 3.1 percent points of the growth.

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

Change as % of sales	Volume Effect	Price Effect	Currency Effect	Total Change
Pharmaceuticals	21.5	(2.9)	(0.1)	18.5
Pharmaceutical Chemicals	3.9	(7.4)	(2.9)	(6.4)
Total	18.2	(3.8)	(0.7)	13.7

International Sales by Region

percentage of sales



Pharmaceuticals sales growth was due to volume increases in Italy (+20.8%) and in international markets (+22.2%) and can be attributed to the good performance of our product portfolio and to the consolidation of Sophartex.

The pharmaceutical chemicals segment recorded slightly increased volumes (+3.9%) but suffered from downward pressure on prices (-7.4%) and an unfavorable currency effect (-2.9%).

International sales increased from € 265.0 million to € 297.3 million, up 12.2%, and represent 60.3% of total sales. The breakdown of international sales by geographic area is shown in the table below:

€ (thousands)	2002	%	2001	%
Europe (Italy excluded)	203,425	68.4	177,601	67.0
North America	30,139	10.1	28,306	10.7
Asia	31,095	10.5	26,587	10.0
Rest of the World	32,679	11.0	32,515	12.3
Total	297,338	100.0	265,009	100.0

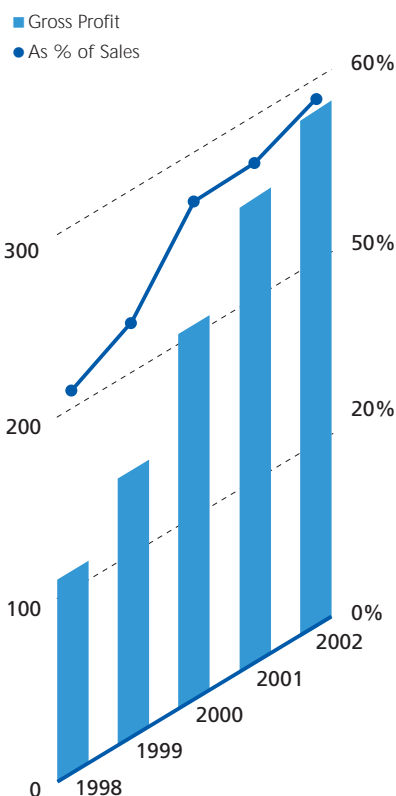
Sales in Europe went from 67.0% to 68.4% of total international sales due to the performance of lercanidipine in important European markets. The revenue growth in North America is to be attributed to sales to our licensee Forest Laboratories.

Gross profit reached € 289.1 million, up 15.1%, and represents a percent margin of 58.7%, slightly better than that of the preceding year.

Selling expenses increased by 10.2%, less than growth in sales, despite the strengthening of the detail force in Italy and the cost related to new product launches.

Gross Profit

millions of euro



Research and development expenses increased to € 35.1 million from € 30.9 million in the preceding period (+13.5%) due mainly to costs incurred during the year for the phase III clinical development of a fixed combination of lercanidipine with another anti-hypertensive drug belonging to the ACE inhibitor class.

General and Administrative expenses were € 21.1 million, improving as a percentage of sales to 4.3%.

Goodwill amortization (2.0% of sales) was € 9.9 million and is to be attributed essentially to the French acquisitions. Goodwill amortization decreased due to a revised estimate of the remaining useful life of the goodwill associated with the acquisition of the French companies. The reorganization of the French operations, which includes the merger of Doms Adrian and Bouchara, and the strengthening of the detailing force were successful and have contributed to the good performance of Zanidip® in France. This has led the company to review the original amortization periods of 10 and 5.5 years for Doms Adrian and Bouchara respectively and establish that the Bouchara-Recordati goodwill be amortized over 20 years from the respective dates of acquisition. This change was effective 1 July 2002 and the impact on the 1 January - 31 December period is of lower amortization charges by € 5.1 million than would have been otherwise. As compared to 2001, however, the total 2002 goodwill amortization charge decreased by € 4.2 million as it includes a full year of the goodwill amortization connected to the acquisition of Sophartex, consolidated as from 1 July 2001.

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

€ (thousands)	2002	% of Sales	2001	% of Sales	Change 2002/2001	%
EBITDA						
Pharmaceuticals	107,228	25.9	80,944	23.2	26,284	32.5
Pharmaceutical Chemicals	12,634	14.0*	17,589	19.1*	(4,955)	(28.2)
Total	119,862	24.3	98,533	22.7	21,329	21.6
Operating Depreciation	20,750	4.2	19,279	4.4	1,471	7.6
Goodwill Amortization	9,888	2.0	14,134	3.3	(4,246)	(30.0)
Operating Income	89,224	18.1	65,120	15.0	24,104	37.0

(*) The calculation basis includes intercompany sales

EBITDA, at 24.3% of sales, was € 119.9 million, an increase of € 21.3 million (+21.6%) over 2001. Growth came from the pharmaceuticals segment which improved its EBITDA margin from 23.2% to 25.9% of sales thanks mainly to growth in international sales of the original drug, Zandip®, which continues to perform well on all markets. This result includes € 10 million related to lercanidipine supplies to Forest Laboratories, our licensee for the U.S. market, and to the milestone payment received following the issue of the *approvable letter* by the FDA.

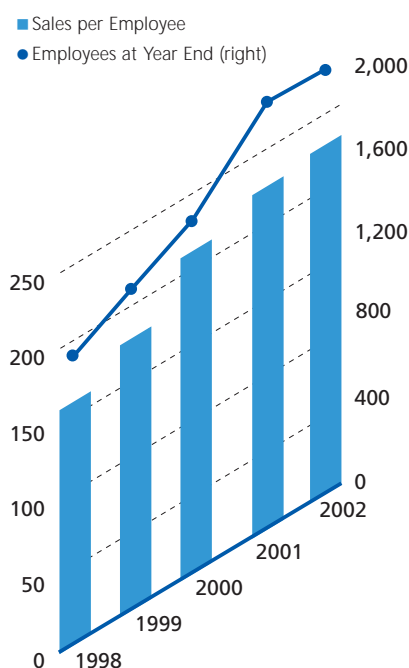
The profitability of the pharmaceutical chemicals business decreased due to keen price competition affecting certain product lines. In addition, this business segment was also subject to an unfavorable currency effect linked to dollar denominated sales, particularly during the second half of the year.



Operating income, at 18.1% of sales, was € 89.2 million, an increase of € 24.1 million over 2001 (+37.0%) thanks to the pharmaceutical segment's improved profitability.

Number of Employees and Sales per Employee

thousands of euro



Labor cost in 2002 increased by 11.7% over 2001. Total headcount at year end increased mainly as the detail force in Italy was expanded. Overall labor cost increase per employee was 2.0%.

Personnel and other human resources data at 31 December 2002 and 2001 are shown in the following table:

	2002	2001
Employees at Year-End	2,182	2,147
Average Age (years)	41	41
Average Service (years)	7	7
Labor Cost Increase:		
Total	+11.7%	+17.9%
Per Employee ^(a)	+2.0%	+0.4%
Labor Productivity:		
Labor Cost on Net Sales	25.6%	26.1%
Sales per Employee (€ thousands) ^(a)	234.3	225.7
Value Added per Employee (€ thousands) ^{(a) (b)}	116.5	109.7

Labor cost includes wages, related charges and additional costs.

(a) Data per employee for both years are computed on the average number of personnel excluding those on leave of absence (2,103 in 2002 as opposed to 1,920 in 2001).

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

Personnel development continued during 2002 through training programs and a salary policy based on merit.

Net financial charges were € 6.1 million in 2002 and are in line with those of the preceding year. Their breakdown is shown in the following table:

€ (thousands)	2002	2001	change 2002/2001
Net Interest Income/(Charge)	(6,118)	(6,157)	39
Net Exchange Profit/(Loss)	3,286	47	3,239
Loss on Valuation of Securities, Net	(3,250)	0	(3,250)
Total	(6,082)	(6,110)	28

The positive exchange difference was essentially due to the profit realized by Recordati S.A. (Luxembourg) following the liquidation of its Swiss branch and arose from the difference between the euro value of the capital reimbursed and its recorded historical value. The loss on valuation of securities to market is related mainly to the € 3.3 million cautionary write-off of the equity holding in Digital Gene Technologies.

Net non-operating expense was € 2.4 million and comprises the accrued portion of profits that the French companies share with their employees (*participation au résultat*) and an extraordinary tax provision to take advantage of a recent Italian law which allows the definite settlement of prior tax years.

Taxes include, besides income taxes, IRAP, a local Italian tax on production activities. The effective tax rate was 37.8%, above that of 2001 due to higher tax costs resulting from the recently introduced fiscal reform in Italy.

Capital Employed

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

€ (thousands)	2002	%	2001	%	Change 2002/2001	%
Net Working Capital for Operations	79,795	29.4	76,416	29.2	3,379	4.4
Net Non-Current Assets	220,422	81.1	214,404	82.0	6,018	2.8
Reserves for Long Term Liabilities	(28,398)	(10.5)	(29,339)	(11.2)	941	(3.2)
Capital Employed	271,819	100.0	261,481	100.0	10,338	4.0
Net Financial Indebtedness	44,747	16.5	48,847	18.7	(4,100)	(8.4)
Shareholders' Equity	227,072	83.5	212,634	81.3	14,438	6.8
Financing of Capital Employed	271,819	100.0	261,481	100.0	10,338	4.0
Ratio of Shareholders' Equity to Net Non-Current Assets	1.0		1.0			
Return on Investment (ROI)	32.8%		24.9%			
Return on Equity (ROE)	22.1%		16.9%			
Net Sales	492,724		433,368		59,356	13.7
Ratio of Net Sales to Capital Employed	1.8		1.7			

Capital employed at 31 December 2002 recorded an increase of € 10.3 million over that at year-end 2001. This difference comprises a € 3.4 million increase of net working capital for operations, additional net non-current assets of € 6.0 million and a decrease in the reserves for long term liabilities of € 0.9 million.

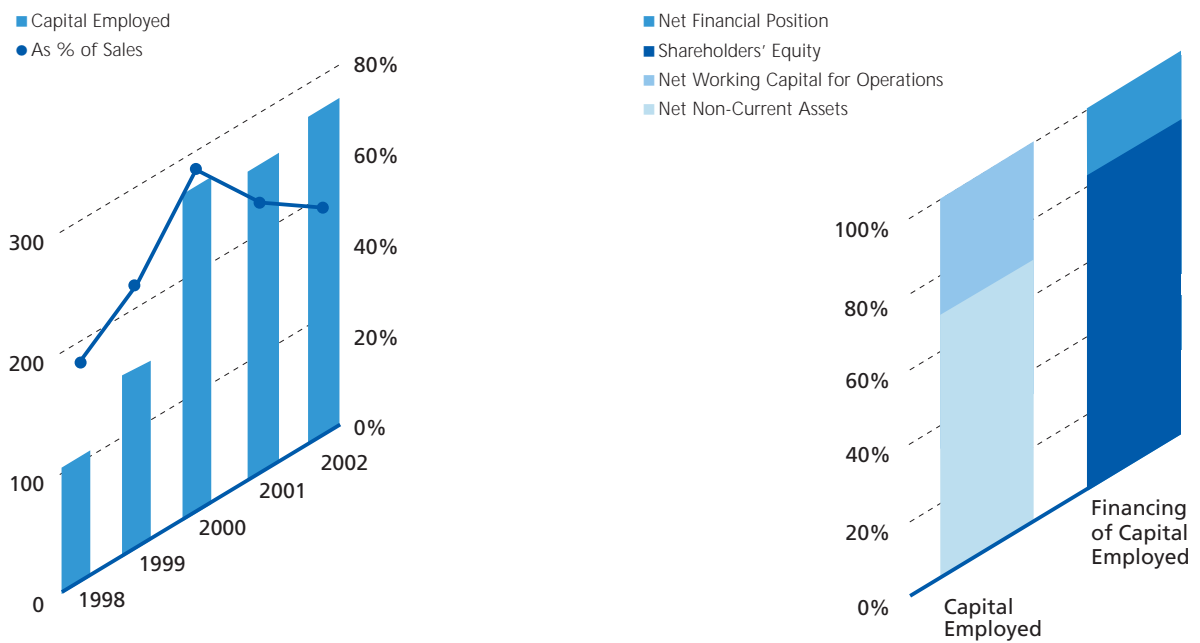
ROI improved significantly from 24.9% to 32.8% as did ROE which went from 16.9% to 22.1%.

The components of capital employed are analyzed in the following paragraphs.



Capital Employed

millions of euro



Net Working Capital for Operations

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

€ (thousands)	2002	% of Sales	2001	% of Sales	Change 2002/2001	%
Accounts Receivable, Net	122,438	24.8	119,548	27.6	2,890	2.4
Inventories	66,777	13.6	66,153	15.3	624	0.9
Other Current Assets	22,863	4.6	23,524	5.4	(661)	(2.8)
Current Assets	212,078	43.0	209,225	48.3	2,853	1.4
Trade Accounts Payable	74,408	15.1	80,334	18.5	(5,926)	(7.4)
Other Current Liabilities	57,875	11.7	52,475	11.3	5,400	10.3
Current Liabilities	132,283	26.8	132,809	29.8	(526)	(0.4)
Net Working Capital for Operations	79,795	16.2	76,416	18.5	3,379	4.4
Days of Sales Outstanding in Accounts Receivable	85		89			
Inventories as a Percentage of Cost of Sales	32.8%		36.3%			



Net working capital for operations increased by € 3.4 million, a modest growth when compared to the higher business volumes.

Net accounts receivable at 31 December 2002 were € 122.4 million, an increase of € 2.9 million over year-end 2001. Average days of sales outstanding went from 89 to 85. The evolution of accounts receivable by business segment was as follows:

€ (thousands)	2002	% of Sales ^(a)	2001	% of Sales ^(a)	Change 2002/2001	%
Pharmaceuticals	102,012	24.0	95,132	25.7	6,880	7.2
Pharmaceutical Chemicals	20,426	25.8	24,416	28.8	(3,990)	(16.3)
Total	122,438	24.3	119,548	26.3	2,890	2.4

(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 2001 was € 6.9 million, a less than proportional increase when compared to sales growth. Average days of sales outstanding decreased from 87 to 84. In Italy the National Health Service payment terms, at 278 days, were worse than those of the preceding year (254 days).

Pharmaceutical chemicals average days sales outstanding also improved going from 101 to 95.

Inventories remained relatively stable increasing by only € 0.6 million, up 0.9%, significantly less than cost of sales growth. Development by business segment is shown below:

€ (thousands)	2002	% of Cost of Sales	2001	% of Cost of Sales	Change 2002/2001	%
Pharmaceuticals	43,394	33.6	43,197	38.2	197	0.5
Pharmaceutical Chemicals	23,383	31.4	22,956	33.1	427	1.9
Total	66,777	32.8	66,153	36.3	624	0.9

Close inventory control resulted in modest inventory increases despite sales growth. Inventory balances improved from 36.3% of cost of sales to 32.8%.

Other current assets decreased by € 0.7 million compared to 2001 and include mainly tax credits and deferred tax assets.

Trade accounts payable, at € 74.4 million, decreased by € 5.9 million over 2001 due to different payment terms to suppliers.

Other current liabilities, at € 57.9 million, consist mainly of personnel, social security and tax payables, including deferred taxes. The increase of € 5.4 million over 2001 was due mainly to the higher income tax charges incurred by the Italian companies.

Net Non-Current Assets

Net non-current assets increased by € 6.0 million over 2001, going from € 214.4 million to € 220.4 million, as shown in the following table:

€ (thousands)	2002	2001	Change 2002/2001
Net Non-Current Assets as of January 1	214,404	194,422	19,982
Investments:			
- Fixed Assets	26,814	23,328	3,486
- Intangible Assets	13,223	3,641	9,582
- Financial Assets	(51)	(53)	2
- Increase due to Consolidation of Acquisition	0	26,479	(26,479)
Total	39,986	53,395	(13,409)
Depreciation and Amortization	(30,639)	(33,413)	2,774
Write-down of Equity Investments	(3,329)	0	(3,329)
Net Non-Current Assets as of December 31	220,422	214,404	6,018
Ratio of Net Sales to:			
- Net Non-Current Assets	2.2	2.0	
- Net Fixed Assets	4.0	3.9	
Accumulated Depreciation as a Percentage of Fixed Assets	56.5%	57.0%	

Investments in fixed assets during 2002, net of disposals, were € 26.8 million, higher than average investments in previous years. Most of these investments were made in the production plants in Italy (€ 12.5 million), in Spain (€ 4.4 million) and in France (€ 3.7 million). In addition, towards the end of the year, Recordati Ireland invested € 5.7 million in the acquisition of a production site.

The net investment in intangible assets of € 13.2 million consists mainly of product licensing rights, the most significant of which was the acquisition of the marketing rights to Octegra® (moxifloxacin).



Depreciation of fixed assets at € 14.8 million increased over the preceding year due to the completion of new plant and equipment while amortization of intangibles, at € 15.8 million, was below that of 2001 due to the reduction of the goodwill amortization charge following the revised estimate of the remaining useful life of the goodwill associated with the acquisition of the French companies, as commented above.

During the year the € 3.3 million holding in Digital Gene Technologies Inc. (U.S.A.), a biotechnology company, was written off as a cautionary measure given the current weak financial position of the company and the uncertainty of its research activities.

Provisions for Long-Term Liabilities

Provisions for long-term liabilities amounted to € 28.4 million and declined slightly (€ 0.9 million) compared to the preceding year.

Net Financial Position

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

€ (thousands)	2002	2001	Change 2002/2001	%
Cash and Marketable Securities	103,860	124,419	(20,559)	(16.5)
Short Term Bank Debt	(19,761)	(33,733)	13,972	(41.4)
Current Portion of Medium and Long-Term Debt	(28,386)	(13,423)	(14,963)	111.5
Net Liquid Assets	55,713	77,263	(21,550)	(27.9)
Medium and Long-Term Debt	(100,460)	(126,110)	25,650	(20.3)
Net Financial Indebtedness	(44,747)	(48,847)	4,100	(8.4)
Average Interest Rate payable on Long-Term Loans	5.2%	5.3%		

Net financial indebtedness decreased from € 48.8 million as of 31 December 2001 to € 44.7 million as of 31 December 2002. The improvement was enabled by operating cash flow generated during the period over and above the considerable investments made towards year end and € 17.5 million invested in treasury stock. The debt to equity ratio improved and now stands at 0.2.

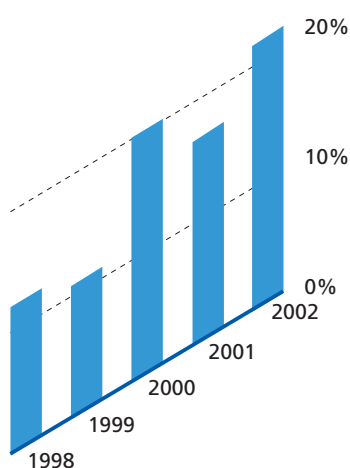
Cash and marketable securities includes short-term investments denominated in Euros and US dollars. Short-term bank debt is attributable mainly to local debt incurred by certain subsidiaries.

Medium and long-term debt, at € 100.5 million, was reduced by € 25.7 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 13.4% of total medium and long-term debt. During 2002 additional low-interest loans and grants were obtained for € 2.6 million and € 0.8 million respectively, to fund industrial investments, technological innovation and research programs.

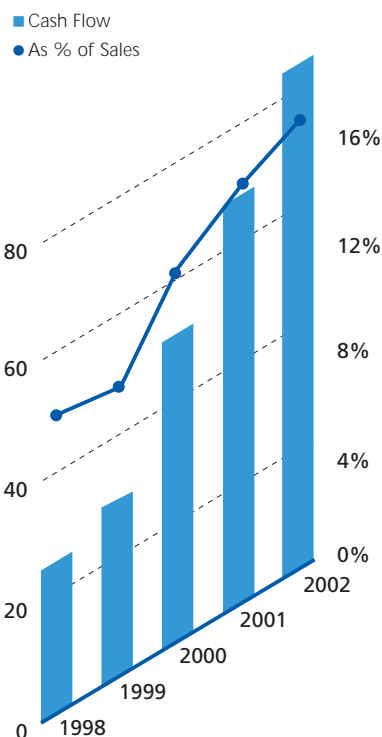
Low-interest loans and grants to be received, already approved by European, State and Regional agencies, amounted to a total of € 3.5 million and € 1.7 million respectively as of 31 December 2002. During 2002 additional applications were filed for low-interest loans and grants for the funding of research projects and industrial investments.

Return on Equity



Cash Flow

millions of euro



Shareholders' Equity

Shareholders' equity increased by € 14.4 million over 31 December 2001 for the following reasons:

- net income for 2002 (increase of € 50.2 million)
- payment of 2001 dividends (decrease of € 12.5 million)
- issue of 139,500 new ordinary shares, following the exercise by top management of stock options under the 2001-2003 stock option plan (increase of € 1.3 million)
- purchase of 988,880 own shares following authorization received by the Shareholders' Meeting on 16 September 2002 (decrease of € 17.5 million)
- translation adjustments (decrease of € 7.1 million).

Cash Flow

Cash flow generated by operations increased by 21.3%, from € 69.4 million in 2001 to € 84.2 million in 2002, as a result of net income growth.

€ (thousands)	2002	2001	Change 2002/2001	%
Net Income	50,216	35,997	14,219	39.5
Depreciation and Amortization	30,639	33,413	(2,774)	(8.3)
Write-downs ^(a)	3,329	0	3,329	n.s.
Cash Flow	84,184	69,410	14,774	21.3
Cash Flow as a Percentage of Net Sales	17.1%	16.0%		

(a) Write-off of the equity investment in Digital Gene Technologies Inc.

Further details are provided in the consolidated financial statements.



Fourth Quarter 2002 Results

The following table analyses the results for the fourth quarter 2002:

€ (thousands)	IV Quarter 2002	%	IV Quarter 2001	%	Change 2002/2001	%
Net Sales	127,915	100.0	124,514	100.0	3,401	2.7
Cost of Sales	(54,644)	(42.7)	(52,740)	(42.4)	(1,904)	3.6
Gross Profit	73,271	57.3	71,774	57.6	1,497	2.1
Selling Expenses	(31,007)	(24.2)	(32,001)	(25.7)	994	(3.1)
R&D Expenses	(9,262)	(7.2)	(10,250)	(8.2)	988	(9.6)
General and Administrative Expenses	(5,752)	(4.5)	(5,677)	(4.6)	(75)	1.3
Amortization of Goodwill	(1,209)	(0.9)	(3,737)	(3.0)	2,528	(67.6)
Operating Income	26,041	20.4	20,109	16.1	5,932	29.5
Financial Income (Expense), Net	(1,068)	(0.8)	(594)	(0.5)	(474)	79.8
Other Non-Operating Income (Expense), Net	(2,026)	(1.6)	(945)	(0.8)	(1,081)	114.4
Pretax Income	22,947	17.9	18,570	14.9	4,377	23.6
Provision for Income Taxes	(8,546)	(6.7)	(6,152)	(4.9)	(2,394)	38.9
Net Income	14,401	11.3	12,418	10.0	1,983	16.0

Net sales in the fourth quarter 2002 were € 127.9 million, up 2.7% over the same period of 2001. The increase is to be attributed entirely to the pharmaceuticals business which recorded sales of € 107.5 million, an increase of 5.0% over the same period of the preceding year. Pharmaceutical chemicals sales at € 20.4 million were below those of the last quarter 2001 (-7.8%) due to downward pressure on prices and a particularly unfavorable currency effect linked to U.S. dollar denominated sales.

Selling, R&D and general and administrative expenses were substantially in line with those of the preceding quarters. Selling expenses were slightly higher during the first half of the year due to the sales effort linked to the launch of new pharmaceutical products in Italy.

Goodwill amortization was below that recorded in the last quarter 2001 due to the revised estimate of the remaining useful life of the goodwill associated with the acquisition of the French companies.

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

€ (thousands)	IV Quarter 2002	% of sales	IV Quarter 2001	% of sales	Change 2002/2001	%
EBITDA						
Pharmaceuticals	30,348	28.2	24,675	24.1	5,673	23.0
Pharmaceutical Chemicals	1,598	7.0*	3,883	15.9*	(2,285)	(58.8)
Total	31,946	25.0	28,558	22.9	3,388	11.9
Operating Depreciation	4,696	3.7	4,712	3.8	(16)	(0.3)
Goodwill Amortization	1,209	0.9	3,737	3.0	(2,528)	(67.6)
Operating Income	26,041	20.4	20,109	16.1	5,932	29.5

(*) The calculation basis includes intercompany sales

EBITDA for the pharmaceutical business was particularly good, partly thanks to a favorable seasonal effect. The pharmaceutical chemical EBITDA, on the other hand, was influenced not only by a severe downward pressure on prices but also by a particularly unfavorable sales mix.

Operating income in the fourth quarter reached a margin of 20.4% of sales thanks to the favorable seasonal effect and the lower goodwill amortization charge applied during the second half of the year.

Net income, at 11.3% of sales, benefited from a slightly lower effective tax rate than previous quarters mainly due to the application of tax breaks linked to investments in accordance with Italian legislation.

Subsequent Events

During the month of February 2003 the Mutual Recognition Procedure in European Union countries for the approval of the new 20 mg presentation of lercanidipine (Zanidip®), our original anti-hypertensive calcium channel blocker, was successfully completed. The new 20 mg presentation, which will be marketed together with the 10 mg form, satisfies an existing therapeutic need and enhances the competitive profile of lercanidipine. This new formulation provides therapeutic convenience in a single once daily administration to those patients who, on account of the severity of their hypertensive condition, require a higher daily dose, thus increasing compliance.

Sales during the first two months of 2003 were slightly below those of the same period of the preceding year. The sales performance of the pharmaceutical segment is positive with growth in excess of our expectations, particularly in Italy. On the other hand the decline of the pharmaceutical chemical business continues. Implementation of programs for the restructuring and reorganizing of this business segment, which may involve the disposal of non strategic, low margin activities, has started.

Corporate Governance

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

A concise description of the main elements of these rules follows. Full details can be found in a document available at the company's offices, at the Italian Stock Exchange and on the company's website

<http://www.recordati.com/chisiamo.asp> under the Corporate Governance tab.

Board of Directors

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

Nine directors sit on the Board. Two of them are executive directors, the Chairman and the President of the Pharmaceutical Chemicals Division. Six are independent professionals of high standing.

The Board meets at least four times a year. During 2002 it met seven times. Composite attendance was 83% and 4 directors had 100% attendance.

Chairman and Chief Executive Officer

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

President of the Pharmaceutical Chemicals Division

The President of the Pharmaceutical Chemicals Division is fully empowered for the ordinary administration and management of all matters related to this Division and can act on behalf of the company as established by specific powers.

Executive Committee

The Board of Directors has delegated power to the Executive Committee to act on behalf of the company in all urgent matters whether ordinary or extraordinary, excluding those which by law must remain with the Board, when deemed necessary by the Chairman and Chief Executive Officer. Furthermore, even if not urgent, the committee can decide upon the granting of guarantees or the undertaking of joint obligations with third parties, the stipulation of medium and long term loans, the acquisition or disposal of equity interests as well as pharmaceutical specialties or products in general.

The Executive Committee is composed of the Chairman and Chief Executive Officer, the President of the Pharmaceutical Chemicals Division and four non executive independent directors.

During 2002 the Executive Committee convened four times, with a 100% attendance for all members except one who was present at 3 out of the 4 meetings.

General Managers

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

Internal Control Committee

The Board of Directors has established an Internal Control Committee to submit proposals and give advice to the Board for the preparation, analysis and operation of an internal control system.

The three committee members are all independent non executive directors.

During 2002 the Internal Control Committee met seven times, with a 100% attendance by all members except for one who was absent once.

Remuneration Committee

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

The three committee members are all independent non executive directors.

During 2002 the Remuneration Committee met twice and all members were present.

Board of Auditors

The Board of Auditors monitors the compliance with laws and regulations, with the company's bylaws and with correct accounting principles. It checks that the company's organization as it relates to its areas of competence, as well as the internal control system and the accounting procedures, are adequate.

The Board is composed of three standing auditors and two substitute auditors.

During 2002 most of the auditors attended the meetings of the Board of Directors and of the Executive Committee.

The President of the Board of Auditors or a delegated auditor attended most of the meetings of the Internal Control Committee.

Confidential and Price Sensitive Information

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

Internal Dealing

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

Consolidated Financial Statements

Recordati S.p.A. and Subsidiaries

Consolidated Financial Statements as of
and for the years ended 31 December 2002 and 2001

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 2002 and 2001

€ (thousands)

Assets		2002	2001
Current Assets			
	Cash	103,860	124,419
	Marketable Securities	0	0
	Accounts Receivable:		
	- Trade	122,438	119,548
	- Others	22,355	21,222
		144,793	140,770
	Inventories:		
	- Raw Materials and Supplies	23,570	24,249
	- Intermediates and Work-in-Process	15,887	18,714
	- Finished Goods	27,320	23,190
		66,777	66,153
	Accrued Income and Pre-Paid Expenses	508	2,302
	Total Current Assets	315,938	333,644
Non-Current Assets			
	Financial Assets		
	- Equity Investments	1,597	4,735
	- Other Receivables	2,370	2,612
		3,967	7,347
	Fixed Assets		
	- Land and Buildings	81,244	76,759
	- Machinery and Equipment	142,453	131,782
	- Other Fixed Assets	35,132	31,360
	- Construction-in-Progress	25,211	19,457
		284,040	259,358
	Less:		
	Accumulated Depreciation	(160,553)	(147,898)
		123,487	111,460
	Intangible Assets	92,968	95,597
	Total Non-Current Assets	220,422	214,404
Total Assets		536,360	548,048

Liabilities and Shareholders' Equity		2002	2001
Current Liabilities	Short-Term Financial Debt	19,761	33,733
	Current Portion of Medium and Long-Term Debt	28,386	13,423
	Accounts Payable:		
	- Trade	74,408	80,334
	- Others	48,238	*40,261
		122,646	120,595
	Accrued Expenses and Other Liabilities	2,230	*3,060
	Other Provisions	2,518	4,122
	Tax Provisions	4,889	5,032
	Total Current Liabilities	180,430	179,965
Non-Current Liabilities	Medium and Long-Term Loans Net of Current Portion	100,460	126,110
	Employees' Termination Pay	23,131	21,545
	Other Non-Current Liabilities	5,267	7,794
	Total Non-Current Liabilities	128,858	155,449
	Total Liabilities	309,288	335,414
Minority Interests		0	0
Shareholders' Equity	Capital Stock	25,028	24,958
	Legal Reserve	5,220	4,544
	Capital in Excess of Par Value	48,823	47,535
	Treasury stock	(17,519)	0
	Reserve from Revaluation & Grants	15,436	15,169
	Retained Earnings	95,813	73,238
	Cumulated Translation Adjustment	4,055	11,193
	Net Income for the Year	50,216	35,997
	Total Shareholders' Equity	227,072	212,634
Total Liabilities and Shareholders' Equity		536,360	548,048

*Reclassified for comparison purposes

Consolidated Statements of Income for the years ended 31 December 2002 and 2001

€ (thousands)

	2002	2001
Net Sales	492,724	433,368
Cost of Sales	(203,578)	(182,074)
Gross Profit	289,146	251,294
Selling Expenses	(133,786)	(121,407)
Research & Development Expenses	(35,124)	(30,936)
General & Administrative Expenses	(21,124)	(19,697)
Amortization of Goodwill	(9,888)	(14,134)
Operating Income	89,224	65,120
Financial Income/(Expenses), Net	(6,082)	(6,110)
Non Operating Income/(Expenses), Net	(2,417)	(2,836)
Pretax Income	80,725	56,174
Provision for Income Taxes	(30,509)	(20,177)
Net Income	50,216	35,997

Consolidated Statements of Shareholders' Equity for the years ended 31 December 2002 and 2001

€ (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, 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
Allocation of 2001 Net Income:									
- Allocation to Reserves			676	267		82	(1,025)		
- Dividends Distributed							(12,479)		(12,479)
- Retained Earnings						22,493	(22,493)		
Increase in Capital Stock	70	1,288							1,358
Treasury stock					(17,519)				(17,519)
Net Income for the Year							50,216		50,216
Translation Adjustment								(7,138)	(7,138)
Balance at 31 December, 2002	25,028	48,823	5,220	15,436	(17,519)	95,813	50,216	4,055	227,072

Consolidated Statements of Cash Flow for the years ended 31 December 2002 and 2001

€ (thousands)

		2002	2001
Cash Flow from Operations	Cash flow		
	Net Income	50,216	35,997
	Depreciation of Fixed Assets	14,787	13,561
	Amortization of Intangible Assets	15,852	19,852
	Depreciation of Financial Assets	3,329	0
	Total Cash Flow	84,184	69,410
	Employees' Termination Pay:		
	- Provision	4,819	3,544
	- Payment	(3,233)	(3,069)
	Other Provisions	(2,527)	7,794
		83,243	77,679
Changes in Working Capital	Accounts Receivable	(4,023)	(4,429)
	Inventories	(624)	(2,852)
	Other Current Assets	1,794	(1,023)
	Accounts Payable	2,051	6,639
	Accrued Expenses and Other Liabilities	(830)	(3,435)
	Tax and Other Provisions	(1,747)	2,300
	Changes in Working Capital	(3,379)	(2,800)
	Net Cash Provided by Operations	79,864	74,879
Cash Flow from Investments	Net Investments in Fixed Assets	(26,814)	(23,328)
	Net Investments in Intangible Assets	(13,223)	(8,491)
	Net Increase (Decrease) in Equity Investments	(191)	(18)
	Net Investments in Non-current Financial Assets	242	71
	Net Cash Used for Investments	(39,986)	(31,766)
Cash Flow from Financing Activities	Medium and Long-Term Loans obtained during the Year	2,632	9,380
	Stock Capital Increase	70	11,993
	Capital in Excess of Par Value Increase	1,288	32,393
	Treasury stock	(17,519)	0
	Transfer of Current Portion of Medium and Long-Term Debt to Current Liabilities	(28,282)	(12,811)
	Changes in Current Portion of Medium and Long-Term Debt	14,963	2,412
	Dividends Distributed	(12,479)	(7,721)
	Change in Consolidation Perimeter	0	*485
	Translation Adjustments	(7,138)	2,203
	Net Cash Provided (used) by Financing Activities	(46,465)	38,334
Changes in Short-Term Financial Position		(6,587)	81,447
	Short-term Financial Position at Beginning of Year **	90,686	9,239
	Short-term Financial Position at End of Year **	84,099	90,686

* 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.

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

Notes to the Consolidated Financial Statements as of and for the years ended 31 December 2002 and 2001

1. Basis of Consolidated Financial Statements

These consolidated financial statements as of and for the years ended 31 December 2002 and 2001 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. Chemical and Pharmaceutical Company – 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. Chemical and Pharmaceutical Company.
- Recordati Corporation – U.S.A. (which acts as agent for pharmaceutical chemicals) – wholly-owned by Recordati S.A. Chemical and Pharmaceutical Company.
- Farmarecord Ltda. – Brazil (dormant and holder of pharmaceutical marketing rights in Brazil) – wholly-owned by Recordati S.A. Chemical and Pharmaceutical Company.
- Innova Pharma S.p.A. – Italy (which markets pharmaceuticals) – wholly-owned.
- Vectorpharma International Corporation – U.S.A. – wholly-owned by Innova Pharma S.p.A..
- Bouchara-Recordati S.a.s. – France (which researches, develops, manufactures and markets pharmaceuticals). – 99.94% owned by Recordati S.p.A. and 0.06% by Recordati S.A. Chemical and Pharmaceutical Company.
- 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. Chemical and Pharmaceutical Company.
- Recordati Ireland Ltd. – Ireland (was constituted in 2002 and markets pharmaceuticals and pharmaceutical chemicals) – wholly-owned by Recordati S.A. Chemical and Pharmaceutical Company.
- Recordati S.A. – Switzerland (was constituted in 2002 and markets pharmaceuticals and pharmaceutical chemicals) – wholly-owned by Recordati S.A. Chemical and Pharmaceutical Company.

During 2002 Recordati Ireland Ltd. and Recordati S.A. were constituted following an internal reorganization of the group and became part of the consolidation perimeter.

The financial statements at 31 December 2002 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 2001.

2. Summary of Accounting Policies

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

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. As from 2002 inventories are valued at the average cost for the year while previously, except for work-in-process and promotional material, inventories were mainly valued using the LIFO cost method, by annual inventory layers. 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 20 years. Patents, licenses and know-how are amortized as from the year of the first sale of relevant products. Amortization of distribution and license rights is generally calculated over the duration of the contract. An asset is written-down when the recoverable amount of that asset is permanently below its remaining economic usefulness.

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

4. Accounts Receivable and Other Current Assets

Trade accounts receivable at 31 December 2002 and 2001 amounted to € 122.4 million and € 119.5 million respectively. These are shown net of the allowance for doubtful accounts which at 31 December 2002 amounted to € 5.2 million (€ 4.8 million at 31 December 2001) and which is considered to be sufficient to cover potential insolvency.

Other receivables amounted to € 22.3 million (€ 21.2 million at 31 December 2001) and consist mainly of tax credits for amounts paid on account and deferred tax assets (see Income Tax).

5. Inventories

Inventories at 31 December 2002 and 2001 amounted to € 66.8 million and € 66.1 million respectively.

As from 2002 inventories are valued at the average production cost for each year. Had the LIFO cost method, by annual inventory layers, been used as in preceding periods, inventory values at 31 December 2002 would have been € 1.2 million lower. The change in valuation method therefore accounted for a € 0.7 million increase in income and net equity, net of taxes. Inventories are valued net of an obsolescence provision of € 1.5 million to account for pharmaceuticals which are slow moving or close to expiring.

6. Equity Investments

Equity investments in non-consolidated companies and other holdings reflected in the consolidated balance sheets at 31 December 2002 and 2001 are as follows:

€ (thousands)	Balance Sheet Value		Percentage of Equity Owned	
	2002	2001	2002	2001
Investments				
Digital Gene Technologies Inc., U.S.A.	0	3,283	2.3%	2.6%
Maxygen Inc., U.S.A.	119	40	n.m.	n.m.
SurroMed Inc., U.S.A.	681	671	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	0	31	0	4%
DAFNE - Distribuzione Aziendale Farmaceutica Network EDI, Reggello (Florence)	2	2	2%	2%
Consorzio C4T	78	0	2.2%	0
Consorzio Nazionale Imballaggi, Rome	0	0	n.m.	n.m.
	975	4,122		
Other Holdings				
Technogen Associates L.P., U.S.A.	622	613		
Total Equity Investments	1,597	4,735		

During the year the holding in Digital Gene Technologies Inc. (U.S.A.), a biotechnology company, were written off given the current weak financial position of the company and the uncertainty of its research activities.

The holding in Maxygen Inc. remains unchanged. The remaining 18,924 shares were marked to market and a € 79 thousand gain was recorded.

The holding in SurroMed Inc. remains unchanged. The difference in value is entirely due to an exchange rate effect.

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.

SPA Ricerche ed Education S.r.l., Milan, was liquidated during the year.

A 2.2% share of the consortium Colosseum Combinational Chemistry Center for Technology S.c.a.r.l. (C4T), which operates in the area of combinatorial chemistry, was acquired.

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.

7. Fixed Assets

Fixed assets are recorded at historical purchase or construction cost. Those of Recordati S.p.A. were partly revalued in accordance with Italian laws enacted in 1975, 1983 and 1991. The net surplus arising from this monetary revaluation at 31 December 2002 amounts to € 1.3 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 2002 and 2001, € 123.5 million and € 111.5 million respectively. The composition and variation of fixed assets is shown in the following table:

€ (thousands)	Net value at 31.12.01	Increase	Depreciation	Change in consolidation area	Disposals	Other variations	Net value at 31.12.02
Land and Buildings	45,067	4,468	(3,043)	0	(849)	1,220	46,863
Machinery and Equipment	40,070	5,374	(9,701)	0	(10)	6,524	42,257
Other Fixed Assets	6,866	1,169	(2,043)	0	(80)	3,244	9,156
Work-in-Process	19,457	17,457	0	0	(19)	(11,684)	25,211
Total Fixed Assets	111,460	28,468	(14,787)	0	(958)	(696)	123,487

The increase of € 28.5 million can be attributed to the following investments:

- € 6.1 million in production facilities at the Campoverde di Aprilia pharmaceutical chemicals plant;
- € 5.7 million for the purchase of a production site in County Cork, Ireland, by the newly constituted company Recordati Ireland, where a production facility and a research center for the development of chemical processes for the production of experimental drugs will be established. The facility will serve initially to increase production of the active ingredient lercanidipine for international markets;
- € 4.4 million in the ongoing investment program at the Murcia (Spain) pharmaceutical chemicals plant;
- € 3.7 million in upgrades to the production facilities at the pharmaceutical plants in France;
- € 3.7 million in production facilities at the Opera biochemical plant;
- € 2.7 million in the Milan pharmaceutical plant for the completion of the renovation of its production facilities;
- € 1.5 million for other investments mainly to upgrade infrastructures and information systems;
- € 0.7 million for research equipment.

The balance of "Other Variations" represents transfers to Intangible Assets following the final allocation of work-in-process.

8. Intangible Assets

Intangible assets, net of accumulated amortization, at 31 December 2002 and 2001 amounted to € 93.0 million and € 95.6 million respectively. The composition and variation of intangible assets is shown in the following table:

€ (thousands)	Net Value at 31.12.01	Increase	Amortization	Changes in consolidation area	Disposals & other variations	Net value at 31.12.02
Deferred costs related to capital increases and other	51	138	(37)	0	1	153
Patent Rights	9,247	3	(1,845)	0	0	7,405
Distribution, License, Trademark & Other Rights	5,372	1,398	(2,676)	0	17	4,111
Goodwill	74,866	0	(9,888)	0	0	64,978
Work-in-Process and Advance Payments	2,024	10,832	0	0	(546)	12,310
Others	4,037	137	(1,406)	0	1,243	4,011
Total Intangible Assets	95,597	12,508	(15,852)	0	715	92,968

The main investments are related to the acquisition of software and product license rights. Among the latter, the most important is that related to Octegra®, an antibacterial fluorquinolone for which a co-marketing license in Italy was acquired.

During the year the remaining useful life of the goodwill associated with the acquisition of the French companies was revised. The reorganization of the French operations, which includes the merger of Doms Adrian and Bouchara, and the strengthening of the detailing force were successful and have contributed to the good performance of Zanidip® in France. This has led the company to review the original amortization periods of 10 and 5.5 years for Doms Adrian and Bouchara respectively and establish that the Bouchara-Recordati goodwill be amortized over 20 years from the respective dates of acquisition. This change was effective 1 July 2002 and the impact on the 1 January - 31 December period is of lower amortization charges by € 5.1 million than would have been otherwise.

The € 65.0 million residual goodwill at 31 December 2002 is related to the following equity investments:

- € 15.3 million relative to the acquisition of Doms-Adrian (amortized over 20 years to 2018);
- € 36.6 million relative to the Bouchara group companies (amortized over 20 years to 2020);
- € 12.2 million relative to the consolidation of Sophartex (amortized over 10 years to 2010);
- € 0.9 million recorded by Recordati España relative to the acquisition of Almu (amortized over 10 years to 2008).

The balance of "Disposals & Other Variations" refers mainly to transfers from fixed assets following the final allocation of work-in-process.

9. Short-Term Bank Debt

Short-term bank debt at 31 December 2002 and 2001 amounted to € 19.8 million and € 33.7 million respectively and consists of overdraft facilities in Euro and foreign currency.

10. Accounts Payable

Trade accounts payable at 31 December 2002 and 2001 amounted to € 74.4 million and € 80.3 million respectively. Other accounts payable at 31 December 2002 and 2001 amounted to € 48.2 million and € 40.3 million respectively and consist mainly of amounts due to personnel, and social security and tax payables (see Income Tax).

11. Income Tax

Income taxes for the years 2002 and 2001 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. During 2002 the provision on Recordati S.p.A.'s balance sheet was increased by € 0.7 million in order to cover a planned payment to take advantage of a recent law which allows for the automatic settlement of tax years still open.

Deferred taxes are booked to current liabilities under accrued income taxes and amounted to € 2.9 million (€ 3.4 million at 31 December 2001), decreasing mainly due to temporary differences in the Recordati S.p.A. accounts.

Deferred tax assets are booked to other current assets and amounted to € 9.0 million, € 5.9 million of which stems from the asset revaluation made by Recordati S.p.A. in 2000 and 2001 according to Italian law, the tax due on which, at a reduced rate of 19%, was entirely expensed in 2000 and in 2001. The tax payable balance outstanding amounts to € 3.2 million, € 1.0 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:

	2002 %	2001 %
Standard income tax rate on pretax income	36.0	36.0
Reduced tax rate applied to asset revaluation	(0.9)	(6.1)
Tax incentive for new capital expenditure	(1.0)	(1.9)
Dividends from foreign subsidiaries	0.4	0.3
Consolidation effect of foreign subsidiaries	(7.1)	(3.3)
Other differences, net	3.4	3.2
Effective tax rate on income	30.8	28.2
IRAP	7.0	7.7
Effective tax rate, including IRAP	37.8	35.9

IRAP tax accounted for 7.0% of pretax income as this tax is computed applying a 4.25% rate to a broader taxable base which includes labor cost, interest and certain extraordinary items.

Recordati S.p.A. has settled all tax years up to 1996, 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 which was not appealed and therefore that judgment can be considered final.

With regards to the 1992 assessment, a favorable ruling was obtained from the Provincial Tax Court which was appealed by the Internal Revenue Service. On 10 February 2003 the Company filed its statement of defense and 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.

12. Medium and Long-Term Loans

At 31 December 2002 and 2001, medium and long-term loans included:

<i>€ (thousands)</i>	2002	2001
Istituto Bancario San Paolo IMI loans, guaranteed by Mortgages on Milan and Campoverde plant and equipment, at an average annual interest rate of 1.87% in semi-annual installments through 2010	5,481	6,378
Research loans granted by Istituto Bancario San Paolo IMI, at an average annual interest rate of 2.86%, repayable in semi-annual installments through 2010	7,739	8,497
Loans granted by the Ministry of Industry and Commerce repayable in annual installments through 2013, at an annual interest rate of 3.30% during the amortization period (2004-2013) and at 0.825% before that	1,206	965
Banca Intesa loans for financial investments at an annual interest rate of 5.935%, repayable in semi-annual installments through 2004	6,197	9,296
Banca Intesa loans for financial investments at an 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	10,500	13,500
Loan granted by Banca Intesa to Recordati España S.L. at an annual interest rate of 4.85%, repayable in quarterly installments through 2008	6,010	6,010

Various loans granted to Recordati España S.L. at an average annual interest rate of 3.04%	4,504	5,221
Loan granted by Banca Intesa to Bouchara-Recordati S.a.s. at an annual interest rate of 5.99%, repayable in semi-annual installments through 2007	10,320	10,320
Loan granted by Banca Popolare di Milano to Bouchara-Recordati S.a.s. at an annual interest rate of 6.0%, repayable in semi-annual installments through 2007	10,320	10,320
Loan granted by Banca Unicredito Italiano to Bouchara-Recordati S.a.s. at an annual interest rate of 6.01%, repayable in semi-annual installments through 2007	20,650	20,650
Loan granted by Istituto S. Paolo IMI to Bouchara-Recordati S.a.s. at an annual interest rate of 6.0%, repayable in semi-annual installments through 2007	15,490	15,490
Various loans granted to Sophartex S.A. at an average annual interest rate of 5.51%	1,241	1,962
Various loans granted to Bouchara-Recordati S.a.s. at an average annual interest rate of 3.69%	3,365	5,101
	128,846	139,533
Less: Current portion	(28,386)	(13,423)
Total	100,460	126,110

As of 31 December 2002, the repayment schedule of long-term debt due after 2003 is as follows:

	€ (thousands)
2004	27,554
2005	24,810
2006	22,190
2007	19,650
2008 and subsequent years	6,256
Total	100,460

The overall average interest rate on medium and long-term indebtedness is 5.20%. 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 2002.

13. Minority Interest in Net Assets

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

14. Shareholders' Equity

Capital stock – As of 31 December 2002 the capital stock consisted of 50,055,414 ordinary shares with a par value of € 0.50 each for a total of € 25,027,707. During 2002 capital stock increased by € 69,750 following the issue of 139,500 new ordinary shares, 58,500 of which at a price of € 12.33 each and 81,000 of which at a price of € 7.86 each, to company top managers who exercised stock options under the 2001-2003 stock option plan.

Additional stock options for 472,000 shares to be exercised at a price of € 20.72 per share were assigned.

Altogether, at 31 December 2002 a total of options for 1,244,500 shares to be exercised from 2003 to 2006 were outstanding. These consist of 138,000 options to be exercised at a price of € 7.86 per share, 186,500 options at a price of € 12.33 per share, 448,000 at a price of € 21.08 per share and 472,000 options at a price of € 20.72 per share. The related 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 filed its entry of appearance and during the 19 June 2002 hearing the Judge adjourned the trial to 18 May 2004 for the final plea of the parties. The Company maintains that the conversion operation was perfectly legal as well as very advantageous for the savings shareholders, which was confirmed by the positive reaction of the market and the very high percent of shareholders opting for the conversion.

Capital in excess of par value – During 2002 capital in excess of par value increased from € 47,535,106 to € 48,823,321 following the issue of 139,500 new shares for a total price in excess of par value of € 1,288,215.

Reserves from revaluations and grants – At 31 December 2002 and 2001 this caption included:

€ (thousands)	2002	2001
a. Non-reimbursable government grants to promote research and investments	12,317	12,050
b. Other non-reimbursable grants	517	517
c. Reserve from revaluation (Law 413/91) partially untaxed	2,602	2,602
Total	15,436	15,169

€ 267 thousand were allocated from Recordati S.p.A.'s 2001 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 2001 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 received from the Ministry of Industry and Commerce (formerly Asmez) are substantially depreciated.

Treasury stock – At 31 December 2002, 988,880 shares were held as treasury stock for a total value of € 17.5 million. These shares were purchased on the market during the year as authorized by the Shareholders' Meeting held on 16 September 2002.

Untaxed reserves – At 31 December 2002 such reserves amounted to € 19.3 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 2002 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 2002 income, the Board of Directors of Recordati S.p.A. proposed the payment of a dividend of € 0.375 per share (€ 0.25 per share last year) to be paid to all shares outstanding excluding those in treasury stock as from 25 April 2003. This per share dividend includes the accretion deriving from the dividend which would have been due to those shares in treasury stock.

15. 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.

16. 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 2002 and 2001 are reconciled as follows:

€ (thousands)	Shareholders' equity		Net income for the year	
	2002	2001	2002	2001
Recordati S.p.A.	190,695	166,354	35,462	13,505
Adjustment resulting from different accounting principles:				
Treasury stock	(17,519)	0	0	0
Research grants	0	0	0	18
- related deferred tax effect	0	0	0	(4)
Change in inventory valuation method	1,179	0	1,179	0
- related deferred tax effect	(474)	0	(474)	0
Reversal of fixed asset revaluation	(4,897)	(12,036)	7,139	12,793
Intercompany margin in inventory	(1,687)	(2,127)	440	1,632
- related deferred tax effect	557	702	(145)	504
Retained earnings of consolidated subsidiaries, at beginning of the year, net of amounts already booked by Recordati S.p.A.	32,740	27,658	0	0
Net income for the year of consolidated subsidiaries, net of amounts already booked by Recordati S.p.A.	22,423	20,890	22,423	20,890
Dividends received from consolidated subsidiaries	0	0	(16,000)	(10,250)
Translation adjustments	4,055	11,193	192	173
Consolidated Financial Statements	227,072	212,634	50,216	35,997

17. Intercompany Transactions and Related Issues

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

- A new subsidiary, Recordati Ireland Ltd., was constituted and became operational with responsibility for licensing activities and the relationship with the international licensees of lercanidipine. During 2002 the company purchased a production site in County Cork where a manufacturing facility and a R&D center will be established.
- Recordati S.A., a Swiss company whose activity is the marketing of pharmaceuticals, was constituted.

At 31 December 2002, intercompany accounts amounted to € 57.5 million, the most significant of which were receivables by Recordati S.p.A. from its subsidiaries for the supply of goods and services totaling € 33.7 million, and a receivable by Recordati S.p.A. for a loan to Bouchara-Recordati S.a.s. of € 7.0 million.

Intragroup sales and services recorded during 2002 were € 113.8 million. During the year, Recordati S.p.A. received dividends of € 16.0 million from Recordati S.A. Chemical and Pharmaceutical Company.

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.

We have audited the accompanying consolidated balance sheet of RECORDATI S.p.A. and subsidiaries as of December 31, 2002 and the related consolidated statement of income, and consolidated cash flow for the year then ended. These consolidated financial statements are the responsibility of the Company's Management. Our responsibility is to express an opinion on the consolidated financial statements based on our audit. Another auditor, whose report dated March 8, 2002, expressed an unqualified opinion on those statements, audited the financial statements of the Company as of December 31, 2001.

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

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

DELOITTE & TOUCHE S.p.A.

Vincenzo Mignone
Partner

Milan, March 14, 2003

This booklet is a summary
of the 2002 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
to indicate the advisability
of administering any product
in any particular instance.

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Board of Directors

*as of the Shareholders' Meeting
of April 7, 2003*

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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

Chairman of the Board
Bollati-Boringhieri Editore S.r.l.

Heinz Wolf Bull

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

Francesco Costantini

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

Mario Garraffo

Director for Italy
GE Capital Europe

Carlo Pedersoli

Partner
Pedersoli Lombardi
e Associati Law Firm

Andrea Recordati

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

Marco Vitale

Economist and Business Consultant

Executive Committee

Giovanni Recordati

Alberto Recordati

Heinz Wolf Bull

Francesco Costantini

Mario Garraffo

Marco Vitale

Audit Committee

Marco Vitale

Chairman

Heinz Wolf Bull

Carlo Pedersoli

Compensation Committee

Francesco Costantini

Chairman

Mario Garraffo

Heinz Wolf Bull

Statutory Auditors

Alessandro Manusardi

President

Emilio Aguzzi de Villeneuve

Oreste Severgnini

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Angelo Gastaldi

Carlo Severgnini

Substitute Members

Auditors

Deloitte & Touche S.p.A

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Chairman and Chief Executive Officer

Alberto Recordati

President
Pharmaceutical Chemicals Division

Walter Bevilacqua

Corporate Development

Luciano Bonacorsi

Human Resources

Vittorio Bonazzi

Pharmaceuticals

Attilio Calzolari

Pharmaceutical Chemicals

Avi Sartani

Pharmaceuticals,
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Fritz Squindo

Chief Financial Officer

Franco Tomasini

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