

Annual Report 2000



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Sales

Millions of Lire

	2000	%	1999	%	Change 2000/1999	%
Pharmaceuticals	521,461	75.7	365,019	69.3	156,442	42.9
Pharmaceutical Chemicals	167,631	24.3	161,328	30.7	6,303	3.9
Total	689,092	100.0	526,347	100.0	162,745	30.9
Italy	295,654	42.9	260,048	49.4	35,606	13.7
International	393,438	57.1	266,299	50.6	127,139	47.7

Investments

Millions of Lire

	2000	% of Sales	1999	% of Sales	Change 2000/1999	%
Non-current Assets						
- Ongoing Activities	30,621	4.4	29,574	5.6	1,047	3.5
- Acquisitions ^(a)	160,416	23.3	72,355	13.7	88,061	121.7
Total Non-Current Assets	191,037	27.7	101,929	19.3	89,108	87.4
R&D ^(b)	71,384	10.4	58,719	11.2	12,665	21.6
Total	262,421	38.1	160,648	30.5	101,773	63.4

Investments include disposals net of accumulated depreciation.

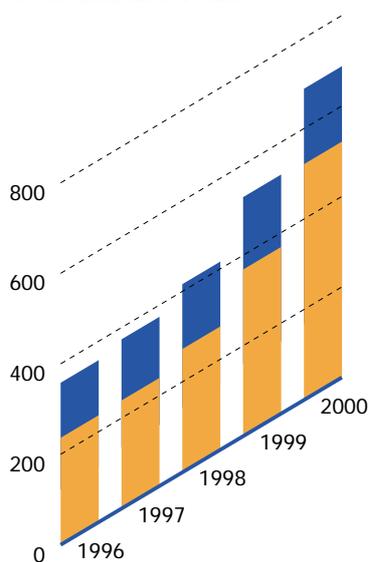
(a) Includes Doms-Adrian in 1999 and Bouchara in 2000.

(b) Entirely expensed in the period.

Consolidated Net Sales

billions of lire

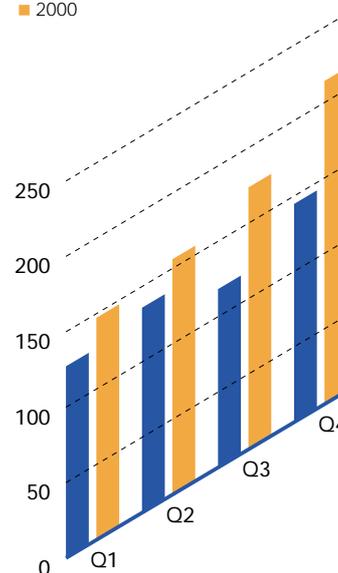
■ Pharmaceuticals
■ Pharmaceutical Chemicals



Quarterly Sales Development

billions of lire

■ 1999
■ 2000



Key Consolidated Data

Millions of Lire

	2000	% of Sales	1999	% of Sales	Change 2000/1999	%
Net Sales	689,092		526,347		162,745	30.9
EBITDA ^(a)	136,671	19.8	72,248	13.7	64,423	89.2
Operating Income (EBIT)	90,250	13.1	37,211	7.1	53,039	142.5
Net Income	53,054	7.7	23,177	4.4	29,877	128.9
Cash Flow	101,125	14.7	59,136	11.2	41,989	71.0
Shareholders' Equity	265,368		213,366		52,002	24.4
Dividends	14,950 ^(b)		8,145		6,805	83.5
Dividends/Net Income	28.2%		35.1%			

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

(b) Proposed by the Board of Directors

lire

Per share data ^(c)	2000	1999*	Change 2000/1999	%
Net Income	2,127	932	1,195	128.2
Cash Flow	4,055	2,378	1,677	70.5
Shareholders' Equity	10,641	8,579	2,062	24.0
Total Shares Issued	24,938,844	24,871,233		
Ordinary Shares	13,650,000	13,650,000		
Savings Shares	11,288,844	11,221,233		

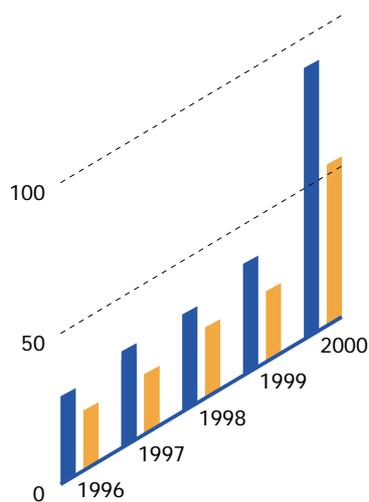
(c) Based on average shares outstanding during the year.

* Recalculated for comparison purposes

Operating and Net Income

billions of lire

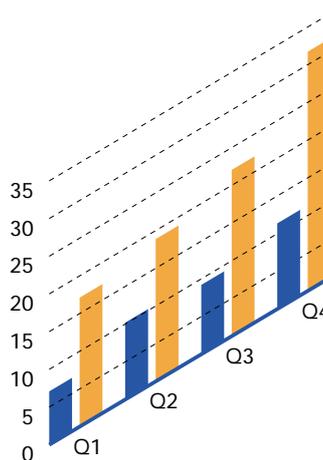
■ Operating Income
■ Net Income



Quarterly EBIT Development

billions of lire

■ 1999
■ 2000



Recordati is a research based European pharmaceutical company dedicated to discovering, developing and marketing innovative, value-added products to help people enjoy longer, healthier and more productive lives.

Our continuing success through serving the needs of patients will benefit our customers, partners in research and business, employees and shareholders.

To Our Shareholders and Employees

During 2000 Recordati significantly improved its profitability, consolidated its structural growth and expanded its international presence.

Profits grew considerably. Operating income was 2.4 times that of the previous year and as a percentage of net sales it increased from 7.1% to 13.1%. Net income also increased significantly, up 128.9%.

We wish to underline that these results are underpinned by structural factors, which were consolidated during the year. Zanidip®, our proprietary drug for hypertension, progressed both in Italy, where it now ranks third in the calcium channel blocker segment of the anti-hypertension market, and internationally. It is now available to patients in 22 countries. As for our product portfolio in general we focused our efforts on high potential products, which allowed us to once again achieve growth rates in excess of the market in Italy and Spain. The acquisition of the pharmaceutical group Bouchara in France, the world's fourth largest pharmaceutical market, contributed significantly to the growth of the group and to the positive results for 2000.

Net sales of 689.1 billion lire represent an increase of more than 30% over 1999. In particular international sales grew by 47.7% and now correspond to 57.1% of total sales. Our group is thus continuing its strategy of international expansion that has characterized the last few years, accentuating its European identity with a solid market coverage in Italy and France, strong growth in Spain and an initial presence in Portugal.

These significant results were achieved while continuing to devote considerable resources to research and development, which in 2000 amounted to 71.4 billion lire, an increase of 21.6% over 1999.

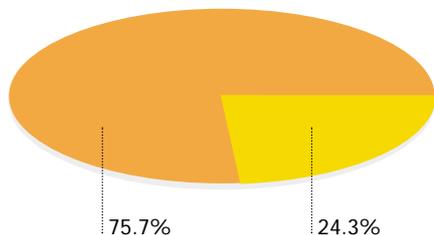


Giovanni Recordati
Chairman & CEO

Business Segments

percentage of sales

- Pharmaceuticals
- Pharmaceutical Chemicals



Financial Highlights

- Consolidated net sales reached 689.1 billion lire, compared to 526.3 billion lire in 1999 (+ 30.9%). This increase was due both to the development of our existing portfolio of products (+ 14.4%) and to the acquisition of Bouchara, which was consolidated in the second half of the year (+ 16.5%). Growth was particularly strong in the pharmaceutical segment with sales increasing by 42.9%, from 365.0 billion lire to 521.5 billion lire, while in the pharmaceutical chemicals segment sales were 167.7 billion lire (+ 3.9%). International sales soared to 393.4 billion lire (+ 47.7%) and accounted for 57.1% of total sales. This trend was accentuated during the second half of the year, when, following the acquisition of Bouchara, international sales represented 63.7% of total sales.

- Gross profit, at 58.0% of sales, increased by 117.8 billion lire, from 281.7 billion lire to 399.5 billion lire (+ 41.8%). It increased as a percentage of sales due to strong growth in the pharmaceutical segment and to a more favorable product mix. The positive currency effect in the pharmaceutical chemicals segment was mostly compensated for by a negative price effect.

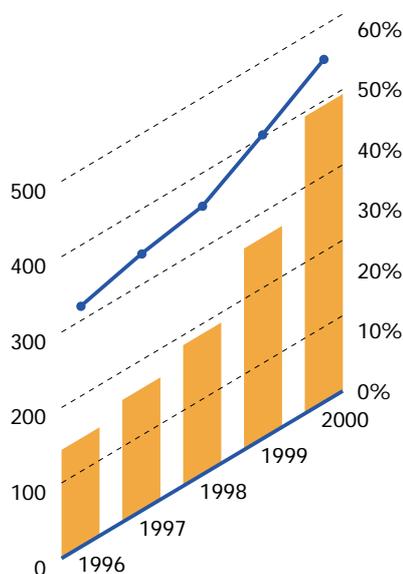
- EBITDA, at 19.8% of sales, grew from 72.2 billion lire to 136.7 billion lire, an increase of 89.2%. Both segments contributed to this favorable performance. In particular, EBITDA in the pharmaceutical segment was 2.6 times that of the previous year and significantly improved as a percentage of net sales from 10.3% to 19.1%. EBITDA in the pharmaceutical chemicals segment continued its historical trend, attaining 20.3% of sales.

- Operating income, at 13.1% of sales, increased from 37.2 billion lire to 90.3 billion lire (+142.5%) while maintaining our commitment to research and development and despite goodwill amortization charges, which increased from 6.7 billion lire to 15.5 billion lire. During 2000 operating profits improved steadily reaching 14.9% of sales in the fourth quarter, partially due to a favorable seasonal effect.

International Sales

billions of lire

- International Sales
- As % of total



- Net income, at 7.7% of sales, more than doubled, increasing from 23.2 billion lire to 53.1 billion lire. As a result, earnings per share increased from 932 to 2,127 lire (+128.2%).
- The Group's financial structure remains solid despite our French acquisition. Shareholders' equity, as of 31 December 2000, amounted to 265.4 billion lire, a growth of 52.0 billion lire over 1999 (+ 24.4%) after the dividends distribution of 8.1 billion lire during the year. Capital employed increased from 300.3 billion lire at 31 December 1999 to 515.5 billion lire at 31 December 2000 and net financial indebtedness from 86.9 to 250.2 billion lire.

Operational Highlights

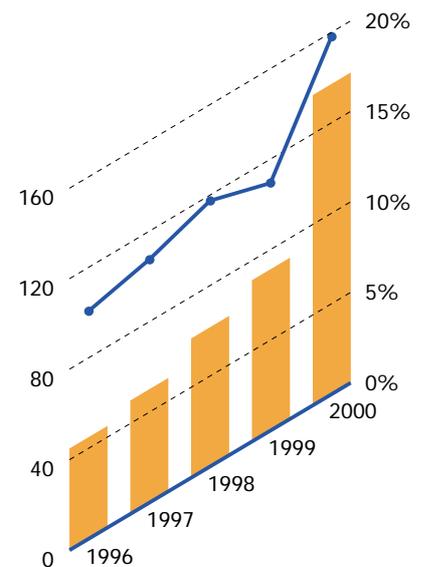
Throughout 2000, our efforts were devoted to the development and growth of the Group.

- We acquired the French pharmaceutical group Bouchara, an important step in our international expansion strategy. The acquisition took place in June and the acquired companies were fully consolidated as from July 2000 with the exception of Sorphartex, an independent manufacturer of pharmaceutical dosage forms. This profitable company, which operates in a different business segment, is intended for future sale. Our enhanced presence in France, the world's fourth largest pharmaceutical market, will enable us to effectively launch Zanidip® through our 230-strong sales force.
- In order to further the international development of lercanidipine, a licensing agreement was concluded with Pierre Fabre to co-market the product in France with our subsidiary. In Germany, Europe's largest and the world's third largest pharmaceutical market, two important licensing agreements were signed with Berlin Chemie (Menarini group) and with the international pharmaceutical group UCB which launched our drug, under two different brands, in the last quarter of 2000.

EBITDA

billions of lire

- EBITDA
- As % of sales



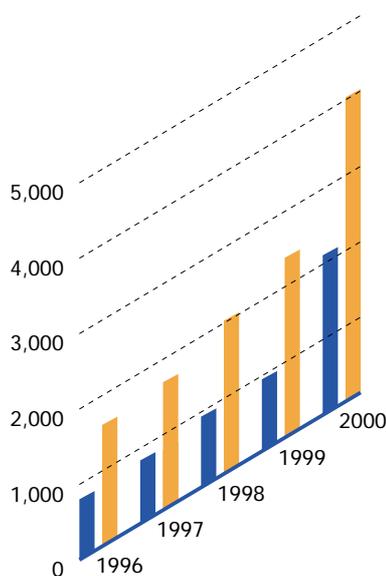
Initial sales results are positive and encouraging. A licensing agreement was also signed with Forest Laboratories for the registration and the marketing of Zanidip® in the U.S.A., the world's largest pharmaceutical market. Forest Laboratories, already present in the cardiovascular area, is a strong and capable partner, having already achieved important results through the launch of innovative drugs on the American market in the past. The registration application to the Food and Drug Administration (FDA) is expected to be filed during the second half of 2001.

- Lercanidipine sales results were very positive in 2000. In-market sales of products based on our active ingredient, realized both directly and indirectly by our licensees, totaled 106 billion lire. Recordati's sales (direct and to licensees) reached 75.4 billion lire, an increase of 67.3% over 1999. During the year the drug was launched in 11 new markets. As of 31 December 2000 lercanidipine was marketed in 22 countries and approved in a total of 27.

Earnings and Cash Flow per Share

lire

- Earnings per Share
- Cash Flow per Share



- A collaboration agreement was entered into with Pharmacia Corporation for the research and development of new drugs for the treatment of overactive bladder (OAB) and other conditions of the lower urogenital tract. The collaboration will initially be based on several molecules recently discovered by Recordati. Recordati will conduct the research, manufacture the active ingredients and co-market the products in certain countries. Pharmacia will be responsible for the development, registration and marketing of the new drugs throughout the world.

- In the pharmaceutical chemicals segment, activities continued to be focused on the development, scale-up and production of new active ingredients aimed at the world generics markets, which offer interesting growth opportunities in the near future due to the expiry of important drug patents. Efforts were also directed towards the improvement of production processes, in order to match the increasing price competition and thus maintain this segment's profitability. Improvements were made in the Campoverde di Aprilia

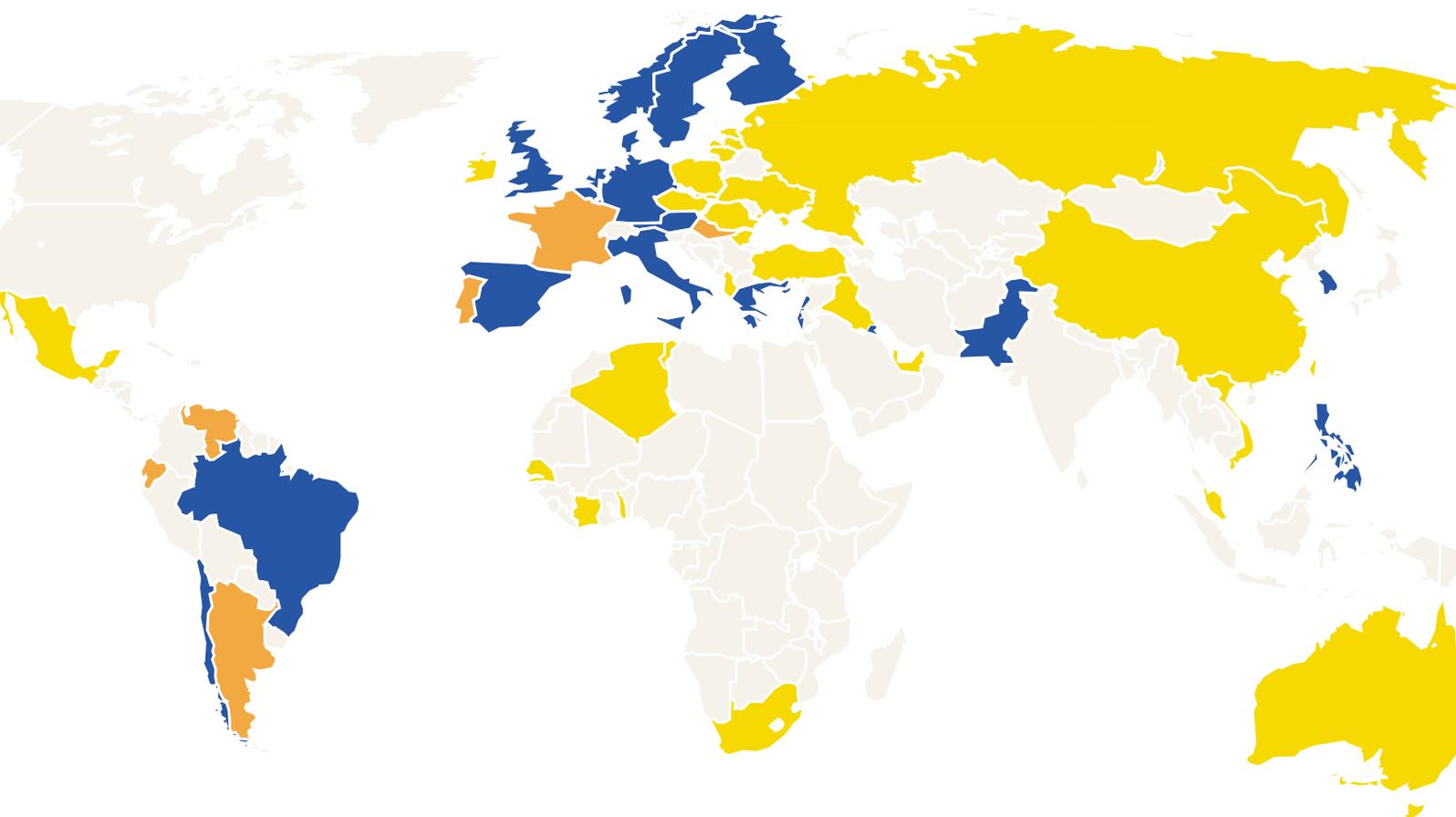
and Opera plants, while the investment program aimed at strengthening both production and services of the Murcia plant is in its final phase.

- During 2000 a project for the conversion of all savings shares into ordinary shares was approved. Simplifying the capital structure, raising additional funds, improving the debt to equity ratio and increasing the liquidity of the stock were the main objectives pursued. Savings shareholders were offered the choice of converting their shares at the ratio of 1:1 by paying € 4 per share or, alternatively, in the ratio of 25:16 with no payment. Based on average stock prices during the 10 trading days preceding the announcement of the project, the implicit conversion premium was of approximately 30% for conversion with payment, and of approximately 16% without payment. Conversion was successfully completed in January 2001 raising € 43.7 million in capital (see subsequent events).

Lercanidipine Worldwide

Marketing Authorisation Status
(Feb. 2001):

- Launched (22)
- Registered (6)
- Filed (30)



- During 2000 the outstanding savings shares stock option plans were accelerated in order to enable the company management to participate in the conversion. Altogether 203,100 new savings shares were issued and subsequently converted into ordinary shares. A new three-year stock option plan was approved for the benefit of senior management. Options to 150,000 new shares were assigned to be exercised during 2001-2003 in three installments, the first and second equivalent to 30% and the third to 40% of the total amount.

* * *

In 2001 our focus remains on consolidating our direct presence in Europe. This will also be an important year for the further development of Iercanidipine, particularly in the large French and German markets.

We shall continue to dedicate significant resources to innovative research, as we are aware that our long-term independence depends on the ability to generate original drugs.

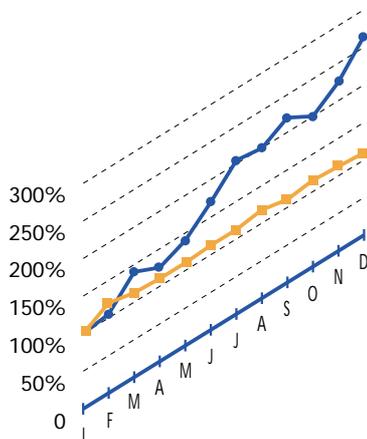
Specific objectives for 2001 are to continue the positive sales trend and confirm the significant profitability improvement, particularly in the pharmaceutical segment.

To achieve these goals we count on the entrepreneurship and professional skills of our management team, the motivation and drive of the Group's employees and the support of our shareholders. We would like to express our gratitude to all of them for their contributions during 2000.

Recordati Share Performance 2000

percent

● Recordati Ordinary Shares
■ Mibtel



Dividends

Based on these positive results, we propose an overall dividend of 14,950 million lire, as compared to the 8,145 million lire dividend of 1999. An amount of 300 lire will be paid to each of the 49,834,914 ordinary shares currently outstanding following the conversion of savings shares completed on 26 January 2001 and the subsequent 2:1 stock split effective from 19 February 2001.

Giovanni Recordati

Chairman and Chief Executive Officer



Research and Development

Pharmaceuticals

In 2000 our research efforts progressed in the urological and cardiovascular areas.

In the urological area our efforts were directed towards the synthesis and evaluation of interesting new molecules for the treatment of disorders of the lower urinary tract. Over the last years we have been dedicating considerable resources to original research in this area and have developed programs for the treatment of overactive bladder, benign prostatic hyperplasia and female sexual disorders. To accelerate development we have entered into a collaboration agreement with Pharmacia Corporation, the world leader in the development and commercialization of drugs for unstable bladder and other urogenital conditions. The collaboration, based on several molecules recently discovered by Recordati, establishes that Recordati conduct the research activity and that Pharmacia be responsible for the development and registration of new products. This agreement recognizes the quality of our research in this therapeutic area.

In the cardiovascular area, the clinical development of our proprietary molecule lercanidipine continued, with the aim of improving its competitive profile. Clinical trials requested by the FDA (Food and Drug Administration) were carried out in order to submit the NDA (new drug application) for the United States, the world's most important pharmaceutical market. The licensing agreement signed with Forest Laboratories provides for close collaboration in all activities necessary to complete the drug's registration application (NDA).

Activities for the registration of lercanidipine in new international markets continued. In Germany, Europe's largest pharmaceutical market,





two registrations were obtained and the drug was subsequently launched. In Australia, the technical commission (ADEC) of the Department of Health (TGA) recommended the registration of lercanidipine. Registration applications were filed in numerous other countries including many in Eastern Europe, where the product is under license to Berlin Chemie.

The first clinical trials of a fixed association between lercanidipine and another anti-hypertensive drug were completed, with the intention of carrying out, during 2001, the clinical development work necessary for the preparation of an international registration dossier for the new combination product. The new guidelines for the treatment of hypertension require, with increasing frequency, the use of more than one drug in order to significantly reduce major cardiovascular clinical events resulting from high blood pressure. The development of a fixed association would offer patients who are currently benefiting from multiple therapy a single, effective product with a simple, convenient once-a-day formulation, thereby increasing compliance and treatment success rates.

Pharmaceutical Chemicals

Our laboratories continued to develop new production processes of pharmaceutical active ingredients, products for the generics industry.

In the area of chemical synthesis, the development of simvastatine and the extraction and purification of lovastatine were completed, while the pre-industrial development of two other important active ingredients is well under way. Furthermore, greater integration of production processes at the Murcia plant was achieved by developing the synthesis of several intermediates for nabumetone, zidovudine and ketoconazole.

In the biochemistry and fermentation area, the development of enzymatic biocatalysts was focused on both reducing production costs and facilitating use. The industrial development of the fermentation

process of lovastatine was finalized and we began the necessary investments for its industrial production. The research and development activity in the fermentation process of another important secondary metabolite continued successfully.

In all our production plants, optimization of production processes progressed with significant involvement of the research and development resources.

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





Pharmaceuticals

Net sales of pharmaceuticals are shown in the following table:

Millions of Lire

	2000		1999		Change 2000/1999	
		%		%		%
Prescription Pharmaceuticals ^(a)	248,640	47.7	209,928	57.6	38,712	18.4
Self-Medication Pharmaceuticals ^(b)	30,282	5.8	30,056	8.2	226	0.8
Pharmaceuticals Italy	278,922	53.5	239,984	65.8	38,938	16.2
France	113,291	21.7	47,954	13.1	65,337	136.2
Spain	33,970	6.5	26,826	7.3	7,144	26.6
International Licensees ^(c)	95,278	18.3	50,255	13.8	45,023	89.6
International Pharmaceuticals	242,539	46.5	125,035	34.2	117,504	94.0
Total	521,461	100.0	365,019	100.0	156,442	42.9

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

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

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

(c) Include the Portuguese subsidiary's sales.

Pharmaceutical sales in 2000 increased by 42.9% over 1999 due to the development of the international business that grew by 94.0% and represented 46.5% of this segment's net sales. The growth is due both to the development of the existing product portfolio in Italy and abroad and to the acquisition of Bouchara, consolidated from 1 July 2000. If we exclude the Bouchara effect, pharmaceutical net sales increased by 19.1%.



Pharmaceuticals, Italy

Domestic sales of prescription pharmaceuticals recorded an 18.4% increase in value over 1999, compared to an estimated increase of the Italian market of 12.3%. During the year, the number of units per pack of some of our most important products was increased and therefore the number of packs sold was in line with that of 1999, as opposed to an estimated market growth of 2.6%.

All the main drugs in our portfolio contributed to the positive 2000 results, as shown in the following table:

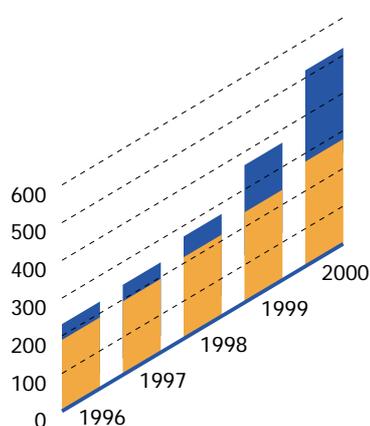
Millions of Lire

Sales	Therapeutic Area	2000	1999	Change 2000/1999	%
Tora-dol®	Analgesia	47,635	44,944	2,691	6.0
Zanedip®	Hypertension	45,649	27,607	18,042	65.4
Elopram®	Depression	27,003	11,826	15,177	128.3
Diezime®	Anti-infective	25,177	22,758	2,419	10.6
Isocef®	Anti-infective	21,312	19,650	1,662	8.5
Acequin® /Acequide®	Hypertension	18,969	18,734	235	1.3

Pharmaceutical Net Sales

billions of lire

■ Italy
■ International



The cardiovascular therapeutic area now accounts for 28.3% of prescription pharmaceutical sales, therefore becoming the most important therapeutic area thanks to the continuous growth of Zanedip® (lercanidipine), our proprietary anti-hypertension drug, which now ranks third among the calcium channel blockers on the Italian market. Sales of the other lercanidipine brands, co-marketed by AstraZeneca and Rottapharm, also increased, resulting in an overall share of 9.6% of the Italian calcium channel blocker anti-hypertensive market.

In the CNS (central nervous system) area (12.2% of sales), Elopram® (citalopram), an anti-depressive in the SSRI (selective serotonin reuptake inhibitors) class, more than doubled its sales as compared to 1999, reaching a market share of 6.1% in a segment which recorded significant growth.

The success of this product on the main world markets is thus being confirmed also in Italy.

Within the analgesia/anti-inflammatory therapeutic area (27.3% of sales), Toradol® (ketorolac) maintains its position as market leader of its class.

With respect to the anti-infective area (21.6% of sales), our two antibiotics Diezime® (cefodizime) and Isocef® (ceftibuten), recorded increased sales in a substantially stable market.

A number of events were organized during 2000 in order to extend awareness of our products, chiefly Zanedip® and Elopram®. These included activities connected with prestigious national and international congresses, the organization of epidemiological trials in collaboration with national specialist associations and specialization courses on subjects related to hypertension and mental disturbances.

During 2000, the first 5% price reduction applicable to off-patent products was imposed by the authorities and accounted for lower sales of 0.5 billion lire. On the other hand, the third round of reimbursable pharmaceuticals price increases, to bring Italian prices into line with the so-called "European Average Price", came into effect on 15 July, with a positive effect on net sales of 2.6 billion lire.

At the end of 2000, the Italian budget, which contains important changes regarding National Health Service expenditure, was approved. The most significant items included the abolishment of patient co-payment for reimbursable drugs, the cancellation of the pay-back system designed to cover public health spending in excess of the 1998-2000 budget, and the application as from 1 July 2001 of a reference price for the reimbursement of off-patent drugs. The second 5% price reduction of off-patent drugs, applicable as of 1 January 2001, was confirmed, but only as applied to prices exceeding 10,000 lire per pack.



Sales of our self-medication pharmaceuticals reached 30.3 billion lire, increasing over 1999 by 0.8% in value and decreasing by 2.6% in volume, in a market that recorded a 2.5% growth in value and a 3.3% volume reduction.

Both Imidazyl® (eyedrops), which strengthened its position as market leader in its class thanks to the launch of a new single dose formulation, and Proctolyn® (anti-haemorrhoidal cream) performed well.

During the year the Lactò® product line, a sporolactobacillus based vitamin integrator, and a new formulation within the Alovex™ line, for the treatment of oral cavity aphthas, were launched.

Radio and press advertising supported our OTC products Imidazyl®, Antoral® Gola, Vegetallumina®, Transcop® and the medical patch Alovex™.

Pharmaceuticals, France

During 2000 our direct presence on the French pharmaceutical market increased significantly through the acquisition of Bouchara, consolidated for the second half of the year. Together with Doms-Recordati, acquired in 1999, sales in the French market amounted to 113.3 billion lire compared to 48.0 billion lire in 1999. Pro-forma sales for the whole of 2000 on the French market would have been 165.8 billion lire, with a new pro-forma market share of approximately 0.6% in value and over 1.5% in volume.



Within the French product portfolio, the respiratory therapeutic area accounts for 53.2% of total sales. The Bouchara products Exomuc®, an acetylcysteine based mucolytic, Neocodion®, a codeine based anti-cough, and Isofra®, a framcetine based nasal decongestant, were added to the Doms-Recordati products Hexaspray® and Hexapneumine® (biclotimol), oral cavity antibacterials. Our presence in the anti-infectives area (12.7% of sales) also increased due to the entry of Amodex® (amoxicillin).



Co-promotion of Lomexin (fenticonazole), a proprietary Recordati drug under license to Effik for the French market, continued during 2000.

As planned during the acquisition process, the reorganization and strengthening of the 230-strong sales force took place during the second half of 2000 in order to better support the launch of Zanidip® in the first quarter of 2001. In preparation for the launch, extensive pre-marketing of the product to specialist physicians was carried out.

During the year the French authorities imposed a price reduction on products within certain therapeutic classes, accounting for a sales reduction of 0.2 billion lire during the last two months of 2000. At year-end, the covenant signed with the Comité Economique du Médicament (CEM), defining prices and selling volumes of drugs for the period 2001-2003, was renewed.



Pharmaceuticals, Spain

Sales of our subsidiary Recordati España during 2000 increased by 26.6% as compared to an estimated market growth of 9.3%.

The increased sales of our proprietary calcium channel blocker Zanidip® (+86.4%), launched in September 1998 in co-marketing with Uriach and Zambon, contributed significantly to these positive results. Zanidip® ranked third in its therapeutic class in terms of growth, and, together with the other two brands of lercanidipine, achieved a 5.3% market share of the calcium channel blocker segment at year-end. The positive growth trend of Ulcotenal® (pantoprazole), an anti-ulcer proton pump inhibitor under license from Byk Gulden, continued especially thanks to the growth of the 20mg formulation.

Sales of the anti-infectives Cunesin® (ciprofloxacin) and Clavucid® (amoxicillin and clavulanic acid) were less than last year's due to the strong generic competition in their respective markets.

During 2000 the company underwent widespread organizational



changes, especially within the sales force in order to improve its promotional efficiency and effectiveness. At year-end the total number of personnel employed in the pharmaceutical division of Recordati España was 104.

During the year the Spanish authorities introduced reference pricing within homogeneous product classes. None of Recordati España's products suffered price reductions.

International Licensees

Sales to licensees include direct sales to, and other income from, the licensees of our proprietary active ingredients, as well as international sales by our French subsidiaries. In 2000, at 95.3 billion lire, they increased by 45.0 billion lire (+89.6%) due to the performance of lercanidipine and the consolidation of Bouchara's foreign sales as from 1 July 2000.

Sales of lercanidipine to international licensees in 2000 reached 17.0 billion lire, due to growth in the existing markets and its launch in a further 11 countries: Chile, Cyprus, Denmark, Finland, Germany, Korea, Kuwait, Norway, Pakistan, the Philippines and Sweden. The launch in Germany, the largest European pharmaceutical market, during October, was particularly important and the initial results are encouraging. In addition to the previously mentioned agreements with Forest Laboratories and Pierre Fabre, licensing agreements were signed with Robapharm (Switzerland and Liechtenstein), Elmor (Venezuela), Gador (Argentina, Paraguay and Uruguay), Menarini (Central America and Eastern Europe), Biotoscana (Colombia and Peru) and Orient Europharma (Malaysia and Singapore).

Sales of flavoxate, our proprietary antispasmodic for the treatment of urinary incontinence, were 18.3 million lire in 2000, in line with those of last year.

Fenticonazole, our proprietary antimycotic for dermatological and gynaecological use, continued to grow, generating revenues of 8.0 billion lire (+22.4%). Sales were good in France and Turkey and are progressing in South America, where the product was launched in Argentina and Brazil. During 2000 licensing agreements for fenticonazole were signed with Stevenden (the United Kingdom and Ireland), Byk Gulden (Brazil), Caricorp (Dominican Republic), Robapharm (Switzerland and Liechtenstein), Fournier (Poland), Taejoon Pharma (Corea) and Tecnoquimicas (Colombia).

Our French subsidiaries' foreign sales of 36.2 billion lire are mainly obtained in the French-speaking African countries, in Vietnam and in Eastern Europe. The products are sold through distributors and supported by a sales force.





Pharmaceutical Chemicals

Net sales of pharmaceutical chemicals are shown in the following table:

Millions of Lire

	2000		1999		Change 2000/1999	
		%		%		%
Italy	16,732	10.0	20,064	12.4	(3,332)	(16.6)
Europe (Italy excluded)	66,738	39.8	53,195	33.0	13,543	25.5
North America	34,116	20.3	49,665	30.8	(15,549)	(31.3)
Asia	29,257	17.5	26,036	16.1	3,221	12.4
Other Areas	20,788	12.4	12,368	7.7	8,420	68.1
International	150,899	90.0	141,264	87.6	9,635	6.8
Total	167,631	100.0	161,328	100.0	6,303	3.9

Net sales, as compared to 1999, increased in 2000 by 6.3 billion lire (+3.9%) due both to volume growth and a favorable currency effect (see "Financial Review"). However, strong pressures on prices continued, particularly in the U.S.A., which offset for the most part the favorable exchange rate effect.

Pharmaceutical chemicals revenue is almost entirely generated by foreign markets. Even domestic sales are strongly influenced by international demand as our intermediates, sold to Italian customers, are mainly exported after processing. Italian sales represented 10.0% of total pharmaceutical chemicals business and suffered from the reduced sales of one enzymatic biocatalyst.

International sales grew by 6.8% from 141.3 billion lire to 150.9 billion lire.

In Europe (Italy excluded) sales increased by 25.5% due to the good performance of all active ingredients (mainly acyclovir and verapamil) and to the toll manufacturing for primary European companies.

Sales in North America declined due to stock-ins by certain customers in 1999 and strong competition in the acyclovir market.

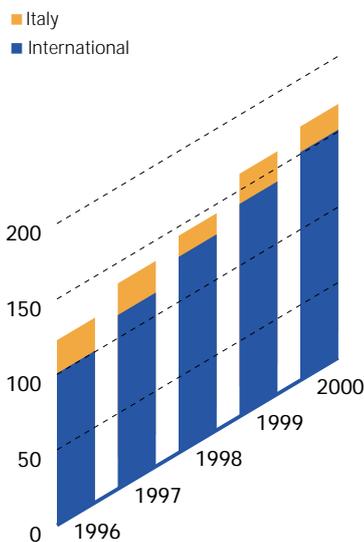
Asian sales increased by 12.4% as a result of the positive acyclovir sales in Japan and to the higher volumes of antibiotic intermediates sold in the Far East and India.

The three most important products performed well. Verapamil confirms its position as the principal product in our portfolio, followed by parahydroxyphenylglycine (and its Dane salt) and acyclovir, the volume growth of which more than offset the decrease in price. Good sales were recorded for both ketoconazole, the main product of the Murcia plant, and the biocatalysts used in the production of antibiotics.

We continued our investment programs in the Italian and Spanish plants, deploying significant organizational and financial resources. At the Murcia plant an important investment project designed to update and extend both production and service infrastructures (warehousing, finishing plant, solvents tank farm, environmental protection) was completed.

Pharmaceutical Chemicals Net Sales

billions of lire





Murcia Plant



Financial Review

Income Statement

The following table shows the profit and loss accounts, including their formulation as percentages of net sales and change versus 1999:

Millions of Lire

	2000	%	1999	%	Change 2000/1999	%
Net Sales	689,092	100.0	526,347	100.0	162,745	30.9
Cost of Sales	(289,627)	(42.0)	(244,656)	(46.5)	(44,971)	18.4
Gross Profit	399,465	58.0	281,691	53.5	117,774	41.8
Selling Expenses	(186,240)	(27.0)	(153,974)	(29.2)	(32,266)	21.0
R&D Expenses	(71,384)	(10.4)	(58,719)	(11.2)	(12,665)	21.6
General and Administrative Expenses	(36,090)	(5.2)	(25,134)	(4.8)	(10,956)	43.6
Amortization of Goodwill	(15,501)	(2.2)	(6,653)	(1.2)	(8,848)	133.0
Operating Income	90,250	13.1	37,211	7.1	53,039	142.5
Financial Income (Expense), Net	(12,513)	(1.8)	(2,904)	(0.6)	(9,609)	330.9
Other Non-Operating Income (Expense), Net	2,106	0.3	4,246	0.8	(2,140)	(50.4)
Pretax Income	79,843	11.6	38,553	7.3	41,290	107.1
Provision for Income Taxes	(26,789)	(3.9)	(15,378)	(2.9)	(11,411)	74.2
Minority Interests	0	0.0	2	0.0	(2)	n.m.
Net Income	53,054	7.7	23,177	4.4	29,877	128.9

Consolidated net sales grew from 526.3 billion lire to 689.1 billion lire, an increase of 30.9% due to both organic growth and the acquisition of Bouchara.

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

<i>Segment Change in %</i>	Volume Effect	Price Effect	Currency Effect	Total Change
- Pharmaceuticals Italy	14.5	1.7	0	16.2
- International Pharmaceuticals (Bouchara excluded)	23.0	(0.4)	2.0	24.6
Pharmaceuticals (Bouchara excluded)	17.4	1.0	0.7	19.1
Pharmaceuticals (Bouchara included)	41.2	1.0	0.7	42.9
Pharmaceutical Chemicals	1.9	(6.4)	8.4	3.9
Total	29.1	(1.3)	3.1	30.9

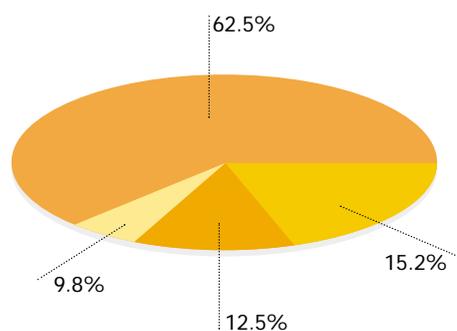
The positive performance of all our main products drove the growth of both domestic (+14.5%) and international sales (+23.0%, excluding Bouchara). The positive price effect is mainly due to the cancellation of the pay-backs on public pharmaceutical expenditure included in the 2001 budget.

The volume of pharmaceutical chemical sales increased slightly (+1.9%). The positive currency effect, deriving from sales in US dollars, was substantially offset by the negative price effect due to the continued market pressure on prices.

International Sales by Region

percentage of sales

- Europe
- North America
- Asia
- Rest of World



International sales rose considerably, growing from 266.3 billion lire to 393.4 billion lire, an increase of 47.7%, and reached 57.1% of total sales. During the second half of the year, following the acquisition of Bouchara, international sales represented 63.7% of total sales.

The breakdown of international sales by geographic area is shown in the table below:

<i>Millions of Lire</i>				
	2000	%	1999	%
Europe (excluding Italy)	246,009	62.5	151,512	56.9
North America	38,747	9.8	50,492	19.0
Asia	49,125	12.5	36,638	13.8
Rest of the World	59,557	15.2	27,657	10.3
Total	393,438	100.0	266,299	100.0

Sales in Europe increased from 56.9% to 62.5% of total international sales mainly due to the acquisition of Bouchara and the sales growth of lercanidipine in a number of important European markets. The decrease of sales in North America can be attributed to the pharmaceutical chemicals division.

EMU currencies were used in 61.4% of international sales transactions (47.9% in 1999) and the US dollar in 34.8% of such transactions (46.5% in 1999). The remainder of trade was conducted in other currencies.

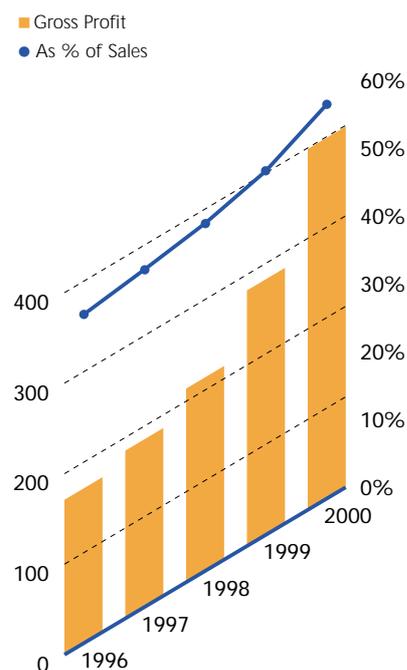
Gross profit (58.0% of sales) reached 399.5 billion lire confirming its positive trend, due principally to the growth of the pharmaceutical segment and the more favorable product mix.

Selling expenses increased by 21.0%, improving as a percentage of net sales because of the increased focus on high potential products.

Research and development expenses increased from 58.7 billion lire to 71.4 billion lire, an increase of 21.6%. The increase was entirely attributable to the pharmaceutical segment, whose R&D expenses went from 50.2 billion lire to 63.1 billion lire, representing 12.1% of pharmaceutical sales. At year-end, research and development employees were 189 (174 in 1999), accounting for 10.6% of total personnel.

Gross Profit

billions of lire



General and administrative expenses, on the other hand, increased by 43.6% due to the consolidation of Bouchara and certain non-recurring expenses mainly connected with the savings shares conversion project.

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

Millions of Lire

	2000	% of Sales	1999	% of Sales	Change 2000/1999	%
EBITDA						
Pharmaceuticals	99,594	19.1	37,470	10.3	62,124	165.8
Pharmaceutical Chemicals	37,077	20.3*	34,778	19.9*	2,299	6.6
Total	136,671	19.8	72,248	13.7	64,423	89.2
Operating Depreciation	30,920	4.5	28,384	5.4	2,536	8.9
Goodwill Amortization	15,501	2.2	6,653	1.3	8,848	133.0
Operating Income	90,250	13.1	37,211	7.1	53,039	142.5

(*) The calculation basis includes intercompany sales

EBITDA (19.8% of sales) at 136.7 billion lire increased by 64.4 billion lire (+89.2%) over 1999. Both business segments performed well, and the pharmaceutical segment in particular recorded a substantial improvement in profitability. In fact, this segment's EBITDA increased from 37.5 billion lire to 99.6 billion lire (+165.8%) and, as a percentage of sales, from 10.3% to 19.1%. The growth derives mainly from structural factors such as the success in Italy and abroad of Zanidip®, the concentration of resources on high potential products, the continued attention paid to costs and expenses, and the positive contribution from the new companies recently acquired in France. The pharmaceutical chemicals segment confirmed its historical trend in 2000, recording EBITDA of 37.1 billion lire, equivalent to 20.3% of sales, an increase of 6.6% over 1999.

Operating income (at 13.1% of sales) amounted to 90.3 billion lire (+142.5%), notwithstanding the high goodwill amortization charge, which increased from 6.7 billion lire to 15.5 billion lire following the acquisition of Bouchara. During 2000 operating profits improved progressively, reaching 14.9% of sales in the fourth quarter, due in part to favorable seasonal factors.

Labor cost increased in 2000 by 16.2% over 1999, mainly due to the increased number of personnel following the acquisition of Bouchara (+236 employees). If we exclude Bouchara, the average number of personnel remained essentially stable and labor cost per employee increased by 5.9%. Personnel and other human resources data as of 31 December 2000 and 1999 are shown in the following table.

	2000	1999
Employees at Year-end	1,781	1,566
Average Age (years)	41	41
Average Service (years)	8	9
Labor Cost Increase:		
Total	+ 16.2%	+ 24.0%
Per Employee ^(a)	+ 8.6%	+ 6.0%
Labor Productivity:		
Labor Cost on Net Sales	26.9%	30.3%
Sales per Employee (millions of lire) ^(a)	421.4	344.5
Value Added per Employee (millions of lire) ^{(a) (b)}	196.1	151.0

Labor cost includes wages, related charges and additional costs.

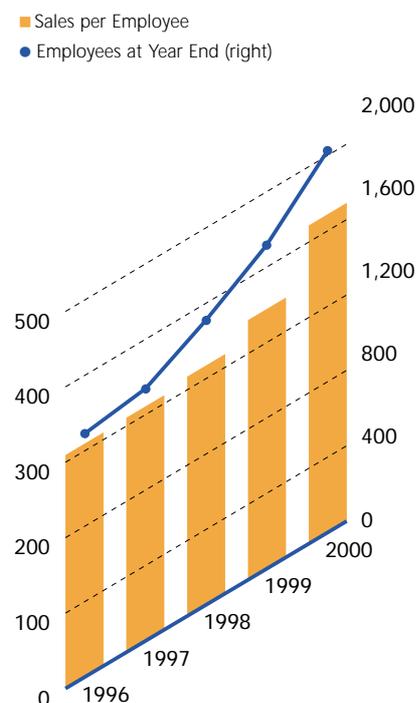
(a) Data per employee for both years are computed on average number of personnel (1,635 in 2000 as opposed to 1,528 in 1999).

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

Activities aimed at personnel development continued during 2000, mainly through training initiatives and a salary policy based on merit. A new incentives policy and various organizational changes were introduced in sales and marketing in order to create a more focused and efficient commercial organization.

Number of Employees and Sales per Employee

billions of lire



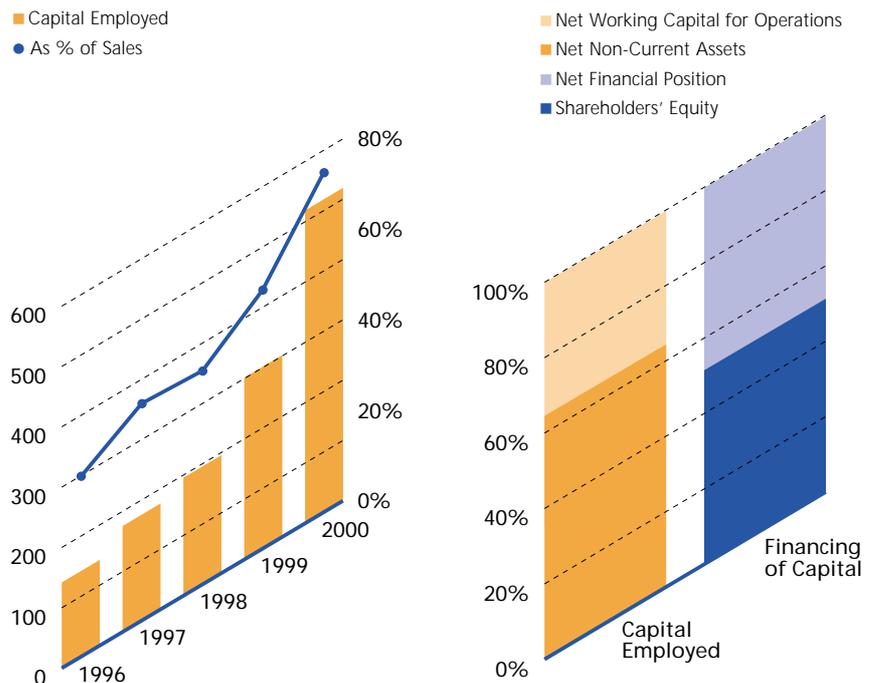
Net financial expenses were 12.5 billion lire in 2000, an increase of 9.6 billion lire over 1999, mainly due to indebtedness incurred for the acquisition of Bouchara in June.

Non-operating income totaled 2.1 billion lire and includes extraordinary gains resulting from the sale of the Vectorpharma business net of related costs, less personnel costs arising from organizational changes completed in Spain and ongoing in France.

Taxes include, besides income taxes, IRAP, a local Italian tax on production activities. The effective tax rate was 33.6%, below that of 1999 due to the lower tax rate applicable to extraordinary gains and the fiscal benefit deriving from a revaluation of fixed assets carried out by Recordati S.p.A. as per Italian law.

Capital Employed

billions of lire



Capital Employed

The following table shows the composition of capital employed and the sources of financing.

Millions of Lire

	2000		1999		Change 2000/1999	
		%		%		%
Net Working Capital						
for Operations	182,220	35.4	103,334	34.4	78,886	76.3
Net Non-Current Assets	376,454	73.0	233,488	77.8	142,966	61.2
Reserves for Long Term Liabilities	(43,133)	(8.4)	(36,547)	(12.2)	(6,586)	18.0
Capital Employed	515,541	100.0	300,275	100.0	215,266	71.7
Net Financial Indebtedness	250,173	48.5	86,909	28.9	163,264	187.9
Shareholders' Equity	265,368	51.5	213,366	71.1	52,002	24.4
Financing of Capital Employed	515,541	100.0	300,275	100.0	215,266	71.7
Ratio of Shareholders' Equity to Net Non-Current Assets	0.7		0.9			
Return on Investment (ROI)	17.5%		12.4%			
Return on Equity (ROE)	20.0%		10.9%			
Net Sales	689,092		526,347		162,745	30.9
Ratio of Net Sales to Capital Employed	1.3		1.8			

The substantial increase of capital employed, which went from 300.3 billion lire to 515.5 billion lire, was due mainly (197.5 billion lire) to the acquisition of Bouchara, as is shown in the cash flow statement.

Return on capital improved significantly. ROI stands at 17.5% while ROE reaches 20.0%.

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

Net Working Capital for Operations

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

Millions of Lire

	2000	% of Sales	1999	% of Sales	Change 2000/1999	%
Accounts Receivable, Net	208,119	30.2	145,176	27.6	62,943	43.4
Inventories	111,233	16.1	76,383	14.5	34,850	45.6
Other Current Assets	87,436	12.7	27,912	5.3	59,524	213.3
Current Assets	406,788	59.0	249,471	47.4	157,317	63.1
Trade Accounts Payable	135,336	19.6	95,715	18.2	39,621	41.4
Other Current Liabilities	89,232	12.9	50,422	9.6	38,810	77.0
Current Liabilities	224,568	32.5	146,137	27.8	78,431	53.7
Net Working Capital for Operations	182,220	26.4	103,334	19.6	78,886	76.3
Days of Sales Outstanding in Accounts Receivable	88		85			
Inventories as a Percentage of Cost of Sales	38.4%		31.2%			

Net working capital for operations rose from 103.3 billion lire to 182.2 billion lire, an increase of 78.9 billion lire over 1999. Of this, 44.1 billion lire are attributable to the consolidation of Bouchara and, in particular, to the acquisition of Sophartex which is recorded as a current asset, since it is intended for disposal, and is therefore valued at its expected sales price (32.5 billion lire).

Net accounts receivable amounted to 208.1 billion lire as of 31 December 2000, recording an increase of 62.9 billion lire over 31 December 1999. Average days of sales outstanding went from 85 to 88. The evolution of accounts receivable by business segment was as follows:

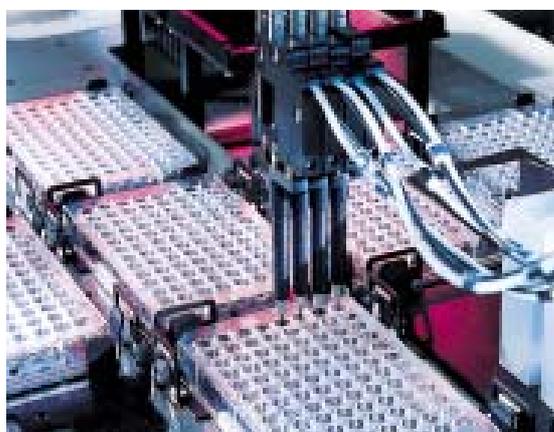
Millions of Lire

	2000	% of Sales ^(a)	1999	% of Sales ^(a)	Change 2000/1999	%
Pharmaceuticals	158,410	24.3	103,362	26.1	55,048	53.3
Pharmaceutical Chemicals	49,709	29.0	41,814	25.7	7,895	18.9
Total	208,119	25.3	145,176	26.0	62,943	43.4

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

The considerable increase in pharmaceutical receivables (55.0 billion lire) reflects the net trade accounts receivable acquired with Bouchara (25.2 billion lire) and the growth in sales volume. Days of sales outstanding are 83, compared to 85, in 1999 due to the effect of Bouchara's shorter collection days. In Italy, at 244 days, the National Health Service payment terms are slightly worse than last year's.

Pharmaceutical chemical receivables increased more than sales essentially due to the different geographical sales mix. Days of sales outstanding go from 91 to 108.



Inventories increased by 34.8 billion lire, or 45.6%. Both business segments developed as follows:

Millions of Lire

	2000	% of Cost of Sales	1999	% of Cost of Sales	Change 2000/1999	%
Pharmaceuticals	69,293	42.4	37,872	31.0	31,421	83.0
Pharmaceutical Chemicals	41,940	33.2	38,511	31.5	3,429	8.9
Total	111,233	38.4	76,383	31.2	34,850	45.6

The increase of pharmaceutical inventories by 31.4 billion lire can be attributed to the acquisition of Bouchara for 17.4 billion lire, with the remainder due to the growth in sales volume.

Pharmaceutical chemical inventories increased by 8.9%, in excess of volume growth.

Other current assets, excluding the Sophartex holding, amounted to 55.0 billion lire and consisted mainly of other receivables which include VAT tax credits and prepaid taxes. The acquisition of Bouchara accounted for 23.5 billion lire consisting mainly of its receivables from Sophartex.

Trade accounts payable, at 135.3 billion lire, increased by 39.6 billion lire, of which 16.1 billion lire were consequent to the consolidation of Bouchara.

Other current liabilities amount to 89.2 billion lire, of which 38.4 billion lire were consequent to the consolidation of Bouchara, and consist mainly in tax, personnel and social security payables.

Net Non-Current Assets

Net non-current assets increased by 143.0 billion lire over 1999, from 233.5 billion lire to 376.5 billion lire, as shown in the following table:

Millions of Lire

	2000	1999	Change 2000/1999
Net Non-Current Assets as at January 1	233,488	167,520	65,968
Investments:			
- Fixed Assets	33,929	27,214	6,715
- Intangible Assets	(2,942)	21,364	(24,306)
- Financial Assets	(366)	(129)	(237)
- Increase Due to Consolidation of Acquisition	160,416	53,480	106,936
Total	191,037	101,929	89,108
Depreciation and Amortization	(48,071)	(35,961)	(12,110)
Net Non-Current Assets as at December 31	376,454	233,488	142,966
Ratio of Net Sales to:			
- Net Non-Current Assets	1.8	2.3	
- Net Fixed Assets	3.8	4.3	
Accumulated Depreciation as a Percentage of Fixed Assets	54.2%	61.2%	

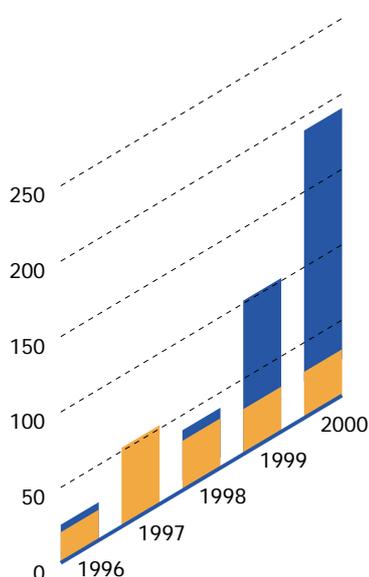
Gross investments in fixed assets during 2000 amounted to 33.9 billion lire. The expansion of the production and service infrastructures at the chemical plant in Murcia was completed, as were the planned investment projects at the Campoverde and Opera plants. The investments at the Milan pharmaceutical plant connected with the possible production of lercanidipine for the U.S. market are being finalized.

Net intangible assets decreased by 2.9 billion lire primarily due to the write-off of the Vectorpharma goodwill following the sale of its business.

Net Investments and Acquisitions

billions of lire

■ Net Investments
■ Acquisitions



Consolidation of Bouchara in 2000 increased non-current assets by 160.4 billion lire, of which 55.3 billion lire are mainly fixed assets and 105.1 billion lire are goodwill.

Provisions for Long-Term Liabilities

These provisions increased by 6.6 billion lire as compared to 1999, and are entirely attributable to the consolidation of Bouchara (7.0 billion lire). The provision for employees' termination pay and similar items amounts to 38.1 billion lire.

Net Financial Position

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

	<i>Millions of Lire</i>			
	2000	1999	Change 2000/1999	%
Cash and Marketable Securities	147,185	77,577	69,608	89.7
Short Term Bank Debt	(129,296)	(58,596)	(70,700)	120.7
Current Portion of Medium and Long-Term Debt	(19,520)	(13,305)	(6,215)	46.7
Net Liquid Assets	(1,631)	5,676	(7,307)	n.s.
Medium and Long-Term Debt	(248,542)	(92,585)	(155,957)	168.4
Net Financial Indebtedness	(250,173)	(86,909)	(163,264)	187.9
Average Interest Rate payable on Long-Term Loans	5.4%	4.8%		

Net financial indebtedness increased from 86.9 billion lire at 31 December 1999 to 250.2 billion lire at 31 December 2000 due to the acquisition of Bouchara and consists mainly in medium and long-term debt. Indebtedness, which as of 30 June 2000 was 285.5 billion lire, is being gradually reduced as planned. The debt to equity ratio as of 31 December 2000 is 0.94.

Cash and marketable securities includes short-term investments denominated in Euros and US dollars. Short-term bank debt consists mainly in parent company and Doms-Recordati indebtedness incurred to finance the Bouchara acquisition.

Medium and long-term debt, amounting to 248.5 billion lire, increased by 156.0 billion lire due to seven year loans, without collateral obligations, for a total of 82.6 million euros obtained for the acquisition of Bouchara. In connection with these loans, a forward interest rate contract was stipulated which will guarantee a rate of interest slightly below 6% for the next 7 years.

Low-interest loans accounted for about 11% of total medium and long term debt. During 2000 additional low-interest loans and grants were obtained for 3.7 billion lire and 1.5 billion lire respectively, to fund industrial investments, technological innovations and research programs.

Low-interest loans and grants to be received, already approved by European, State and Regional agencies, amounted to a total of 20.8 billion lire and 6.2 billion lire respectively as of 31 December 2000. During 2000 additional applications were filed for low-interest loans and grants for the funding of research projects related to both business segments.

Shareholders' Equity

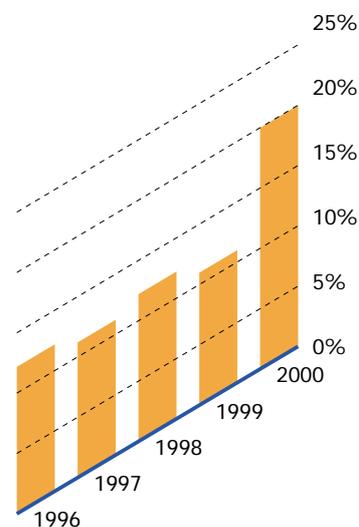
Shareholders' Equity increased by 52.0 billion lire over 31 December 1999 for the following reasons:

- year 2000 net income (increase of 53.1 billion lire);
- distribution of 1999 dividends (decrease of 8.1 billion lire);
- issue of 53,100 new savings shares at par value and 150,000 new savings shares at 10,127 lire each, following the exercise by management of stock options assigned under the 1999 and 2000 Stock Option Plans (increase of 1.6 billion lire);
- translation adjustments (increase of 5.4 billion lire).

Return on Equity

percent

■ Return on Equity



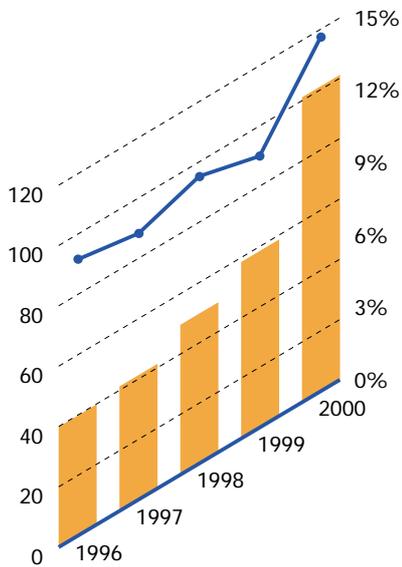
Cash Flow

Cash flow from operations in 2000 was 101.1 billion lire as opposed to 59.1 billion lire in 1999, an increase of 71.0%, due to both higher net income and higher goodwill amortization.

Cash Flow

billions of lire

- Cash Flow
- As % of Sales



Millions of Lire

	2000	1999	Change 2000/1999	%
Net Income	53,054	23,177	29,877	128.9
Minority Interest Income (Loss)	0	(2)	2	n.m.
Depreciation and Amortization	48,071	35,961	12,110	33.7
Cash flow	101,125	59,136	41,989	71.0
Cash flow as a Percentage of Net Sales	14.7%	11.2%		

Further details are provided in the consolidated financial statements.



Fourth Quarter 2000 Results

The following table analyses the results for the fourth quarter 2000:

Millions of Lire

	IV Quarter 2000		IV Quarter 1999		Change 2000 vs 1999	
		%		%		%
Net Sales	212,679	100.0	145,290	100.0	67,389	46.4
Cost of Sales	(88,462)	(41.6)	(67,312)	(46.3)	(21,150)	31.4
Gross Profit	124,217	58.4	77,978	53.7	46,239	59.3
Selling Expenses	(54,996)	(25.9)	(40,710)	(28.0)	(14,286)	35.1
R&D Expenses	(19,693)	(9.3)	(17,675)	(12.2)	(2,018)	11.4
General and Administrative Expenses	(11,321)	(5.3)	(6,693)	(4.6)	(4,628)	69.1
Amortization of Goodwill	(6,501)	(3.1)	(1,663)	(1.1)	(4,838)	290.9
Operating Income	31,706	14.9	11,237	7.7	20,469	182.2
Financial Income (Expense), Net	(4,780)	(2.2)	224	0.2	(5,004)	n.s.
Other Non-Operating Income, Net	(1,065)	(0.5)	688	0.5	(1,753)	n.s.
Pretax Income	25,861	12.2	12,149	8.4	13,712	112.9
Provision for Income Taxes	(5,484)	(2.6)	(4,546)	(3.1)	(938)	20.6
Net Income	20,377	9.6	7,603	5.2	12,774	168.0

Net sales for the fourth quarter 2000 were 212.7 billion lire, an increase of 46.4% over the same period of 1999. The increase exceeded that for the whole year due to the effect of the Bouchara consolidation which took place during the second half of 2000. Net sales for the fourth quarter include a payment of 4.4 billion lire from Forest Laboratories under the license agreement for the sale of lercanidipine on the U.S. market.

Operating income confirms the strongly improved trend (+182.2% compared to last year) at 31.7 billion lire, or 14.9% of sales. A favorable seasonal sales effect compounds the structurally improved profitability of the fourth quarter.

Net income also significantly increased (+168.0%) as a result of the lower tax rate deriving from Recordati S.p.A.'s revaluation of fixed assets as per Italian law.

Subsequent Events

During the first two months of 2001 the operations aimed at simplifying the capital structure of the company were completed. During January all the savings shares were converted into ordinary shares and the capital stock was re-denominated in euros through the use of available reserves. The operation was satisfactorily concluded with 97% of the savings share shareholders opting for conversion and with a consequent increase in funds of € 43.7 million. On 19 February 2001 a 2:1 stock split took place. The new share capital is now of € 24,917,457 and is represented by 49,834,914 shares of par value € 0.50 each. In January 2001 certain savings shareholders, who collectively declared to own about 1% of savings shares, contested the decision to convert the savings shares into ordinary shares, a decision adopted by the Special Savings Shareholders' Meeting on 26 October 2000 and by the Extraordinary Shareholders' Meeting on 25 October 2000. These shareholders questioned the legitimacy of the "automatic" conversion provision and subsequently presented a motion to suspend the execution of the conversion. This motion, however, was rejected on 13 February 2001 by the tribunal in charge. The Company maintains that the conversion operation enacted was fully legal and that it was very advantageous for all savings share shareholders, an opinion confirmed by the positive reaction of the stock market and the ratio of shareholders who opted for the 1:1 conversion with a € 4 premium.

In memory of the late Chairman of the company, the "Arrigo Recordati Prize for Scientific Research", an international prize dedicated to a specific theme in cardiovascular research, was awarded for the first time during February. The prize winner is Professor Giuseppe Mancina, one of the most prestigious and internationally recognized researchers and clinicians in the area of hypertension.



*Nobel prizewinner Sir James Black
and Mayor Gabriele Albertini applaud
professor Mancina at Milan City Hall.*

Consolidated Financial Statements in Lire

Recordati S.p.A. and Subsidiaries

Consolidated Financial Statements as of
and for the years ended 31 December 2000 and 1999
(with Auditors' Report thereon).

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 2000 and 1999

Millions of Lire

Assets

	2000	1999
Current Assets		
Cash	109,241	73,810
Marketable Securities	37,944	3,767
Other Current Assets	32,470	0
Accounts Receivable:		
- Trade	214,928	150,313
- Others	53,098	19,062
	268,026	169,375
Less: Allowance for Doubtful Accounts	(6,809)	(5,137)
	261,217	164,238
Inventories:		
- Raw Materials and Supplies	39,198	23,078
- Intermediates and Work-in-Process	26,552	27,177
- Finished Goods	45,483	26,128
	111,233	76,383
Accrued Income and Pre-Paid Expenses	1,868	8,850
Total Current Assets	553,973	327,048
Non-Current Assets		
Financial Assets		
- Equity Investments	9,134	7,176
- Other Receivables	5,139	6,055
	14,273	13,231
Fixed Assets		
- Land and Buildings	111,034	55,765
- Machinery and Equipment	205,360	195,793
- Other Fixed Assets	56,391	46,070
- Construction-in-Progress	27,483	17,110
	400,268	314,738
Less: Accumulated Depreciation	(216,774)	(192,899)
	183,494	121,839
Intangible Assets	178,687	98,418
Total Non-Current Assets	376,454	233,488
Total Assets	930,427	560,536

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

Liabilities and Shareholders' Equity

	2000	1999
Current Liabilities		
Short-Term Financial Debt	129,296	58,596
Current Portion of Medium and Long-Term Debt	19,520	13,305
Accounts Payable:		
- Trade	135,336	95,715
- Others	65,556	35,224
	200,892	130,939
Accrued Expenses and Other Liabilities	15,469	12,759
Other Provisions	5,573	117
Accrued Income Taxes	2,634	2,322
Total Current Liabilities	373,384	218,038
Non-Current liabilities		
Medium and Long-Term Loans, Net of Current Portion	248,542	92,585
Employees' Termination Pay	38,074	36,177
Deferred Income Taxes	5,059	370
Total Non-Current Liabilities	291,675	129,132
Total Liabilities	665,059	347,170
Minority Interests	0	0
Shareholders' Equity		
Capital Stock	25,103	24,900
Legal Reserve	8,799	9,672
Capital in Excess of Par Value	29,319	27,950
Reserve from Revaluation & Grants	29,339	29,182
Retained Earnings	102,348	86,599
Cumulated Translation Adjustment	17,406	11,886
Net Income for the Year	53,054	23,177
Total Shareholders' Equity	265,368	213,366
Total Liabilities and Shareholders' Equity	930,427	560,536

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

Consolidated Statements of Income for the years ended 31 December 2000 and 1999

Millions of Lire

	2000	1999
Net Sales	689,092	526,347
Cost of Sales	(289,627)	(244,656)
Gross Profit	399,465	281,691
Selling Expenses	(186,240)	(153,974)
Research & Development Expenses	(71,384)	(58,719)
General & Administrative Expenses	(36,090)	(25,134)
Amortization of Goodwill	(15,501)	(6,653)
Operating Income	90,250	37,211
Financial Income/(Expenses), Net	(12,513)	(2,904)
Non Operating Income/(Expenses), Net	2,106	4,246
Pretax Income before Minority Interests	79,843	38,553
Provision for Income Taxes	(26,789)	(15,378)
Loss (Income) Attributable to Minority Interests	0	2
Net Income	53,054	23,177

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

Consolidated Statements of Shareholders' Equity for the years ended 31 December 2000 and 1999

Millions of Lire

	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, 1998	24,800	27,950	8,541	27,579	(1,615)	74,729	22,584	4,931	189,499
Allocation of 1998 Net Income:									
- Legal Reserve			1,131				(1,131)		
- Dividends Distributed							(7,983)		(7,983)
- Retained Earnings						13,470	(13,470)		
Increase in Capital Stock	100								100
Allocation to Untaxed Reserves				1,603		(1,603)			
Dividends Lapsed						3			3
Sale of Treasury Stock					1,615				1,615
Net Income for the Year							23,177		23,177
Translation Adjustment								6,955	6,955
Balance at 31 December, 1999	24,900	27,950	9,672	29,182	0	86,599	23,177	11,886	213,366
Allocation of 1999 Net Income:									
- Dividends Distributed							(8,145)		(8,145)
- Allocation to Untaxed Reserves				239			(239)		
- Retained Earnings						14,793	(14,793)		
Increase in Capital Stock	203	1,369							1,572
Dividends Lapsed						1			1
Net Income for the Year							53,054		53,054
Reclassification to Retained Earnings			(873)	(82)		955			
Translation Adjustment								5,520	5,520
Balance at 31 December, 2000	25,103	29,319	8,799	29,339	0	102,348	53,054	17,406	265,368

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

Consolidated Statements of Cash Flow for the years ended 31 December 2000 and 1999

Millions of Lire

	2000	1999
Cash Flow from Operations		
Cash flow		
Net Income	53,054	23,175
Depreciation of Fixed Assets	22,006	19,909
Amortization of Intangible Assets	24,415	15,128
Write-Down of Fixed Assets	0	924
Write-Down of Intangible Assets	1,650	0
Total Cash Flow	101,125	59,136
Employees' Termination Pay:		
- Provision	6,802	6,628
- Payment	(7,582)	(7,781)
Other Provisions:		
- Provision	1,724	(1,317)
- Payment, Reversal	(1,343)	(1,061)
	100,726	55,605
Changes in Working Capital		
Accounts Receivable	(49,594)	(30,676)
Inventories	(17,395)	(982)
Other Current Assets	8,240	1,344
Accounts Payable	24,788	(798)
Accrued Expenses and Other Liabilities	(1,512)	2,514
Accrued Income Taxes	692	(3,539)
Changes in Working Capital	(34,781)	(32,137)
Net Cash provided by Operations	65,945	23,468
Cash Flow from Investments		
Net Investments in Fixed Assets	(33,929)	(27,214)
Net Investments in Intangible Assets	2,942	(2,489)
Acquisitions	*(182,426)	*(53,568)
- Related Intellectual Property Rights	0	(18,875)
Net Increase (Decrease) in Equity Investments	(1,958)	(74)
Net Investments in Non-Current Financial Assets	2,324	203
Net Cash used for Investments	(213,047)	(102,017)
Cash Flow from Financing Activities		
Medium and Long-Term Loans obtained during the Year	168,469	36,369
Stock Capital Increase	203	100
Capital in Excess of Par Value Increase	1,369	0
Sale of Treasury Stock	0	1,615
Increase (Decrease) in Minority Interests	0	2
Transfer of Current Portion of Medium and Long-Term Debt to Current Liabilities	(23,065)	(17,844)
Changes in Current Portion of Medium and Long-Term Debt	1,658	4,960
Dividends Distributed	(8,145)	(7,983)
Dividends Lapsed	1	3
Translation Adjustments	5,520	6,955
Net Cash Provided (Used) by Financing Activities	146,010	24,177
Changes in Short-Term Financial Position	(1,092)	(54,372)
Short-Term Financial Position at Beginning of Year **	18,981	73,353
Short-Term Financial Position at End of Year **	17,889	18,981

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

* The year 2000 amount refers to the acquisition of Bouchara group: Working capital (11,635); Other Current Assets (32,470); Fixed Assets (55,313); Loans 15,110; Provisions 6,985; Goodwill (105,103)
The 1999 figure refers to the acquisition of Doms-Adrian SA: Working capital (5,424); Assets (6,416); Loans 3,154; Provisions 2,182; Goodwill (47,064)

** 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 31 December 2000 and 1999

1. Basis of Consolidated Financial Statements

The consolidated financial statements as of 31 December 2000 and 1999 include the financial statements of the following companies:

- Recordati S.p.A. - Italy (which researches, develops, manufactures and markets pharmaceuticals and pharmaceutical chemicals) - Parent Company.
- Recordati S.A. - Luxembourg (which markets pharmaceuticals and pharmaceutical chemicals) - wholly-owned subsidiary.
- Recofarma S.r.l. - Italy (which markets pharmaceutical chemicals). During 2000 Pharmarecord S.r.l. and Recogen S.r.l. were incorporated by Recofarma S.r.l. - wholly-owned subsidiary.
- Recordati España S.L. - Spain (which researches, develops, manufactures and markets pharmaceuticals and pharmaceutical chemicals) - 90.7% owned by Recordati S.p.A. and 9.3% by Recordati S.A..
- Recordati Corporation - U.S.A. (which markets pharmaceutical chemicals) - wholly-owned subsidiary of Recordati S.A..
- Farmarecord Ltda. - Brazil (dormant and holder of pharmaceutical marketing rights in Brazil) - wholly owned by Recordati S.A..
- Recordati Innova S.p.A. (previously Vectorpharma S.p.A.) - Italy (which operated in the field of new pharmaceutical technologies) - wholly-owned by Recordati S.p.A..
- Vectorpharma International Corporation - U.S.A. - wholly owned by Recordati Innova S.p.A..
- Doms-Recordati S.a.s. (previously Laboratoires Doms-Adrian S.A.) - France (which researches, develops, manufactures and markets pharmaceuticals) - 99.94% owned by Recordati S.p.A. and 0.06% by Recordati S.A..
- Recordati Portuguesa Produtos Químicos e Farmacêuticos Lda. (previously R.I.C.F. Portuguesa Produtos Químicos e Farmacêuticos Lda.) - Portugal (which markets pharmaceuticals) - 98% owned by Recordati S.p.A. and 2% by Recordati S.A..
- Financière Philippe Bouchara S.A. - France (holding company) - wholly-owned by Doms Recordati S.a.s..
- JACB Investissements S.A. - France (holding company) - wholly-owned by Doms Recordati S.a.s..
- Bouchara S.A. - France (which operates in the pharmaceutical sector) - 19.05% owned by Doms-Recordati S.a.s., 56.42% by Financière Philippe Bouchara S.A. and 24.53% by JACB Investissements S.A..
- Laboratoires du Docteur Emile Bouchara S.A. - France (which researches, develops and markets pharmaceuticals) - wholly-owned by Bouchara S.A..

As of 2000 the consolidated accounts include the financial statements of the companies belonging to the French pharmaceutical group Bouchara which are Financière Philippe Bouchara S.A., JACB Investissements S.A., Bouchara S.A. and Laboratoires du Docteur Emile Bouchara S.A.. The new companies were acquired at the end of June and therefore their profit and loss account has only been consolidated for the last six months.

The group acquired includes also the company Sophartex S.A. which has not been consolidated but rather recorded as a current asset in view of its expected disposal in the near future.

The financial statements as of 31 December 2000 of the consolidated companies were prepared by the Board of Directors or Managing Directors for submission to the respective Shareholders' Meetings. They were consolidated following reclassifications and adjustments to ensure their accordance with I.A.S. (International Accounting Standards). Similar criteria were applied to the consolidated financial statements as of 31 December 1999.

2. Summary of Accounting Principles

The most significant accounting principles applied for the preparation of the enclosed consolidated financial statements are as follows:

Translation of foreign currency financial statements - Financial statements of foreign subsidiaries were translated into Italian lire as follows:

- Balance sheet accounts, except for shareholders' equity accounts, at year-end exchange rates;
- Shareholders' equity accounts at historical exchange rates;
- Statement of income accounts at average exchange rates for the year.

Differences arising from translation are reflected in a separate shareholders' equity account.

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

- a. The carrying 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 between consolidated companies are eliminated as well as inter-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 10 years.
- d. Minority interests in the equity of consolidated subsidiaries are shown separately under liabilities, while minority interests in the net income of such companies are shown separately in the consolidated income statement.

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

Accounts receivable and payable denominated in EMU (European Monetary Union) currencies were recorded in 1998 at the fixed and irrevocable conversion rates and the positive and negative currency effects were fully charged to income.

When currency hedging contracts are in place, gains and losses deriving from translation at the year-end exchange rates of both (a) accounts receivable and payable denominated in foreign currencies and (b) of their related currency hedging contracts are recorded in the income statement on an accrual basis.

Marketable securities - Marketable securities are valued at the lower of purchase and market value.

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

Equity investments - Non-consolidated equity investments above 20% are valued at equity; other non-consolidated equity investments are valued at cost, reduced where losses are incurred.

Fixed assets - Fixed assets are recorded at purchase or internal production cost. Depreciation is calculated on the basis of the estimated useful lives of the assets.

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

Intangible assets - Intangible assets are valued at purchase cost, net of amortization calculated on the basis of the estimated useful lives of assets, which, however, does not exceed 10 years. Patents, licenses and know-how are amortized as from the year of the first sale of relevant products. Amortization of distribution and license rights is generally calculated over the life 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 there is a reasonable expectation of realization.

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 income.

Accruals and pre-payments - Accrued income/expenses and pre-paid expenses/income are calculated using the accrual basis of accounting.

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 income on an accrual 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 income in the year in which they are incurred.

Revenues and expenses - These are recorded on a prudential and accrual basis, net of returns, discounts and rebates.

Promotional expenses for new products incurred in the launch year are charged to income in proportion to the revenues of the launch period.

Infra-group transactions are realized at market conditions.

3. Marketable Securities

Marketable securities as of 31 December 2000 and 1999 are shown in the table below:

<i>Millions of Lire</i>	Book Value		Nr. of Shares/Quota	
	2000	1999	2000	1999
Ascent Pediatrics Inc.	47	71	30,000	30,000
JP Morgan US Fixed Income Fund (Class B)	0	3,696	0	17,491.691
CMBL JP Morgan (Income Funds)	3,397	0	13,916	0
CMBL JP Morgan (Short Duration)	850	0	3,907	0
Crédit Lyonnais Certificates of Deposit	7,084	0	n.a.	0
Banca Commerciale Italiana Certificates of Deposit	26,566	0	n.a.	0
Total Securities	37,944	3,767		

The increase in holdings of marketable securities is mainly due to the investment of Bouchara S.A.'s liquidity in certificates of deposit issued by Crédit Lyonnais and Banca Commerciale Italiana. During 2000 the investment in JP Morgan funds was diversified increasing the shorter term holdings. The value of holdings in Ascent Pediatrics Inc was adjusted to the lower market value as of 31 December 2000.

4. Other Current Assets

Other current assets as of 31 December 2000 amounted to 32,470 million lire and represent the value of the French company Sophartex S.A. acquired with the Bouchara group of companies and intended for future disposal. The amount of the equity investment which includes the allocation of part of the goodwill paid (23,612 million lire) represents the expected realizable value.

5. Inventories

Inventories as of 31 December 2000 and 1999 amounted to 111,233 million lire and 76,383 million lire respectively.

Inventory values as of 31 December 2000 would have been 1,295 million lire higher if the average cost method, corresponding substantially to current costs had been applied (1,547 million lire as of 31 December 1999).

Work-in-process, valued at average cost for the year, amounts to 5,592 million lire at 31 December 2000 (5,707 million lire at 31 December 1999).

6. Equity Investments

Equity investments in non-consolidated companies and other holdings reflected in the consolidated financial statements as of 31 December 2000 and 1999 are as follows:

<i>Millions of Lire</i>	Balance Sheet Value		Percentage of Equity Owned	
	2000	1999	2000	1999
Investments				
Digital Gene Technologies Inc., U.S.A.	6,188	5,872	3%	3%
Maxygen Inc., U.S.A.	278	264	n.m.	n.m.
Deltapharma S.A., Spain	0	2	0	20%
SurroMed Inc., U.S.A.	1,265	0	n.m.	0
Groupement Pharmaceutique Européen S.A., France	0	0	15%	0
Tecnofarmaci S.p.A., Pomezia (Rome)	168	168	4%	4%
Confarma S.p.A., Novara	15	15	3%	3%
SPA Ricerche ed Education S.r.l., Milan	60	60	4%	4%
DAFNE - Distribuzione Aziendale Farmaceutica Network EDI, Reggello (Florence)	3	1	2%	2%
Consorzio Nazionale Imballaggi, Rome	1	1	n.m.	n.m.
Total	7,978	6,383		
Other holdings:				
Technogen Associates L.P., U.S.A.	1,156	793		
Total Equity Investments	9,134	7,176		

During the year 150,000 shares in SurroMed Inc., an American company engaged in research in the biotech sector, were acquired.

The holding in Groupement Pharmaceutique Européen S.A., active in the pharmaceutical sector, derives from the consolidation of the Bouchara group.

The holding in Maxygen Inc. increased by 20,424 shares freely distributed by the Technogen Associates L.P. fund, and therefore now comprises a total of 70,424 shares. The change in value from 1999 is due to an exchange rate effect.

The holding in Digital Gene Technologies Inc. remains unchanged. The difference in value is due to an exchange rate effect.

During 2000 the holding in the Spanish company Deltapharma S.A. was sold, recording a capital gain of 8 million lire.

A fourth tranche of US\$ 150,000 in Technogen Associates LP., a California based investment company specialized in developing genomics, biotechnology and pharmaceutical companies, was acquired. The ceiling of US\$ 600,000 provided for in the contractual agreements has now been reached.

7. Fixed Assets

Fixed assets are recorded at historical purchase cost or construction cost. Those of Recordati S.p.A. were partly revalued in accordance with Italian laws enacted in 1975, 1983 and 1991. The surplus arising from this revaluation as of 31 December 2000 amounts to 3,220 million lire.

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

Buildings	5.5%
Machinery and Equipment	10% - 17.5%
Other Fixed Assets	12% - 40%

Fixed assets, net of accumulated depreciation, were, as of 31 December 2000 and 1999, 183,494 million lire and 121,839 million lire respectively. The composition and evolution of fixed assets is set forth in the table below:

<i>Millions of Lire</i>	Net Value at 31.12.99	Increase	Depreciation	Consolidation Area Adjustment	Disposals	Other Variations	Net Value at 31.12.00
Land and Buildings	32,551	1,395	(3,330)	46,695	(1,607)	1,082	76,786
Machinery and Equipment	63,127	15,526	(14,295)	0	(4,740)	8,922	68,540
Other Fixed Assets	9,051	2,229	(4,381)	3,037	(727)	1,476	10,685
Work-in-Process	17,110	22,113	0	0	(263)	(11,477)	27,483
Total Fixed Assets	121,839	41,263	(22,006)	49,732	(7,337)	3	183,494

The increase of 41,263 million lire in 2000 can be attributed to the following investments:

- 13,605 million lire in production facilities at the Campoverde di Aprilia pharmaceutical chemicals plant,
- 3,522 million lire in production facilities at the Opera biochemical plant,
- 17,652 million lire for the completion of the investment program to upgrade and expand production and service infrastructures at the Murcia (Spain) plant,

- 3,368 million lire in the Milan pharmaceutical plant mainly in connection with the possible production of lercanidipine for the U.S.A. market,
- 903 million lire for research equipment,
- 2,213 million lire for other investments mainly related to the updating of infrastructures and information systems.

The consolidation area adjustment is related to the acquisition of the Bouchara group of companies. Furthermore, buildings held by Bouchara S.A. were revalued by 22,643 million lire in total, through the allocation of part of the goodwill resulting from the acquisition, in order to bring them in line with market values.

The disposals are due to the sale of the Vectorpharma and Pharmarecord plants.

"Other Variations" of 3 million lire are net translation adjustments.

8. Intangible Assets

Intangible assets, net of accumulated amortization, as of 31 December 2000 and 1999, amounted to 178,687 million lire and 98,418 million lire respectively. The composition and the evolution of intangible assets is shown in the following table:

<i>Millions of Lire</i>	Net Value at 31.12.99	Increase	Depreciation	Consolidation Area Adjustment	Disposals & Other Variations	Net Value at 31.12.00
Capital Increase Related and Other Deferred Costs	251	46	(100)	0	(53)	144
Patent Rights	25,048	15	(4,110)	0	74	21,027
Distribution, License, Trademark & Other Rights	11,613	774	(2,716)	3,556	(1,184)	12,043
Goodwill	48,539	1,481	(15,501)	105,103	(5,094)	134,528
Work-in-Process and Advance Payments	4,325	814	0	617	(3,444)	2,312
Others	8,642	1,172	(1,988)	0	807	8,633
Total Intangible Assets	98,418	4,302	(24,415)	109,276	(8,894)	178,687

The increase of 4,302 million lire is due mainly to the acquisition of industrial property rights and to the updating of our information systems.

The disposals are connected with the sale of the Vectorpharma business. The write-off of the residual goodwill (5,094 million lire) was booked to the profit and loss account under "non operating income (expenses), net" against the capital gain realized.

The 134,528 million lire goodwill as of 31 December 2000 is related to the equity investments in the Bouchara Group for 94,593 million lire (amortized over 5 years), in Doms-Recordati S.a.s. for 37,652 million lire (amortized over 10 years) and in Recordati España S.L. for the acquisition of Almu S.A., incorporated during 1999, for 2,283 million lire (amortized over 10 years).

Translation adjustments for positive 542 million lire are included in the "Disposals & Other Variations" column.

9. Short-Term Bank Debt

Amounts due to banks as of 31 December 2000 and 1999 consist mainly in overdraft facilities in Italian lira and foreign currency.

10. Income Tax

Income taxes for the years 2000 and 1999 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 tax assessments relative to the fiscal years still open for the different companies within the Recordati group.

Deferred taxes increase by 4,689 million lire mainly due to the consolidation of Bouchara S.A..

Other receivables include 12,815 million lire of deferred tax assets partly due to the asset revaluation effected in 2000 by Recordati S.p.A. according to Italian law. The revaluation was reversed in the consolidated statements and deferred tax assets (6,696 million lire) related to the future fiscal benefits, prudentially calculated using the minimum tax rate applicable, were booked. The reduced tax payable on the revaluation, for 8,170 million lire, was booked to tax liabilities and entirely expensed to profit and loss account.

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

	2000 %	1999 %
Standard income tax rate on pretax income	37.0	37.0
Reduced tax rate applied to asset revaluation	(4.4)	0.0
Tax incentive for new capital expenditure	(2.1)	(2.5)
Dividend from a foreign subsidiary	0.1	3.2
Different subsidiaries' tax rates	(5.5)	(7.2)
Write-down of equity investments	(4.4)	(7.1)
Other differences, net	3.6	1.6
Effective tax rate on income	24.3	25.0
IRAP	9.3	14.9
Effective tax rate, including IRAP	33.6	39.9

IRAP tax accounted for 9.3% of pretax income as this tax is computed applying a 4.25% rate to a broader taxable base which includes labor cost, interest and extraordinary items.

Recordati S.p.A. has settled all tax years up to 1994, with the exception of 1991 and 1992, for which the company has received a tax assessment for an alleged irregularity concerning the purchase of future dividend rights on non-quoted shares. The Company has appealed against both tax assessments. A favorable ruling was obtained on the 1991 assessment while the 1992 one (hearing held on 12 October 1999) is still pending. The Company therefore confirms that in its opinion these transactions are fully legal as recognized in several tax commissions' favorable rulings. In fact, in November 1992 a new provision of the law was introduced implicitly endorsing the operations carried out previously, while from that date forward the company promptly adhered to the new regulation. Therefore no accrual has been made in this respect.

11. Medium and Long-Term Loans

As of 31 December 2000 and 1999, medium and long-term loans included:

<i>Millions of Lire</i>	2000	1999
Istituto Mobiliare Italiano loans, guaranteed by mortgages on Milano and Campoverde plant and equipment, at an average annual interest rate of 6.44% repayable in semi-annual installments through 2004	9,892	14,597
Research loans granted by Istituto Mobiliare Italiano, guaranteed by mortgages on Milano property and equipment, at an annual interest rate of 1.71%, repayable in semi-annual installments through 2005	3,972	4,539
Research loans granted by Istituto Mobiliare Italiano, at an annual average interest rate of 2.96%, repayable in semi-annual installments through 2010	17,893	16,249
Banca Commerciale Italiana, loans for financial investments at an annual interest rate of 5.93%, repayable in semi-annual installments between 2000 and 2004	24,000	30,000
Banca Commerciale Italiana, loans for financial investments at an annual interest rate of 5.92%, repayable in semi-annual installments through 2007	50,000	0
Banca Popolare di Milano, loans for financial investments at an annual interest rate of 3.98%, repayable in semi-annual installments through 2006	29,044	29,044
Loan granted by the Cassa di Risparmio di Trieste S.p.A. at an average annual interest rate of 8.0% repayable in semi-annual installments through 2007	0	2,577
Loan granted by Friulia S.p.A. - Friuli Venezia Giulia regional financial company at an average annual interest rate of 2.26%, repayable in semi-annual installments through 2000	0	95
Various loans granted to Recordati España S.L. at an average annual interest rate of 3.12%	10,210	5,659
Loan granted to Doms-Recordati S.a.s. by Banca Commerciale Italiana at an annual interest rate of 5.99%, repayable in semi-annual installments through 2007	19,982	0
Loan granted to Doms-Recordati S.a.s. by Banca Popolare di Milano at an annual interest rate of 6.0%, repayable in semi-annual installments through 2007	19,982	0
Loan granted to Doms-Recordati S.a.s. by Banca Unicredito Italiano at an annual interest rate of 6.01%, repayable in semi-annual installments through 2007	39,984	0
Loan granted to Doms-Recordati S.a.s. by Istituto San Paolo-Imi S.p.A. at an annual interest rate of 6.0%, repayable in semi-annual installments through 2007	29,993	0
Various loans granted to Doms-Recordati S.a.s. at an average annual interest rate of 4.48%	2,991	3,130
Various loans granted to Bouchara S.A. at an average annual interest rate of 5.97%	8,273	0
Various loans granted to Laboratoires du Docteur Emile Bouchara. at an average annual interest rate of 5.77%	1,846	0
	268,062	105,890
Less: Current Portion	(19,520)	(13,305)
Total	248,542	92,585

As of 31 December 2000, the repayment schedule of long-term debt due after 2001 is as follows:

	<i>Millions of Lire</i>
2002	24,326
2003	52,844
2004	49,868
2005	43,954
2006 and subsequent years	77,550
Total	248,542

The overall average interest rate is 5.38%.

12. Minority Interest in Net Assets

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

13. Shareholders' Equity

Capital stock - As of 31 December 2000 the capital stock consisted of 13,650,000 ordinary shares and of 11,453,100 savings shares with a par value of 1,000 lire each, authorized and fully paid-up. Capital stock increased by 203 million lire over 1999 following the issue of 203,100 savings shares to company managers who exercised stock options assigned to them under the Stock Option Plans. Of these, 53,100 were issued at par value as per the 1999 Stock Option Plan, while 150,000 were issued at a price of 10,127 lire each as per the 2000 Stock Option Plan and the relative amount in excess of par value, for a total of 1,369 million lire, was booked to shareholders' equity. As of 31 December 2000 an additional 150,000 stock options were assigned, to be exercised in the period 2001-2003 at a price of 15.72 euros (before the stock split). During the month of October the Extraordinary Shareholders' Meeting and the Special Savings Shareholders' Meeting approved a project for the conversion of all savings shares into ordinary shares, the simultaneous re-denomination of capital stock in euros with a nominal capital increase through the use of available reserves, and a subsequent stock split in the ratio of 2:1. The operation was concluded during February 2001 and the resulting share capital is of 24,917,457 euros represented by 49,834,914 ordinary shares of par value 0.50 euros each. The stock option rights granted in the 2001-2003 Stock Option Plan have been duly recalculated.

In January 2001 certain savings shareholders, who in total declare to own about 1% of savings shares, contested the decision to convert the savings shares into ordinary shares adopted by the Special Savings Shareholders' Meeting on 26 October 2000 and by the Extraordinary Shareholders' Meeting on 25 October 2000, questioning the legitimacy of the "automatic" conversion provision. These shareholders also presented a motion to suspend the execution of the said decision, which however was rejected on 13 February 2001 by the competent court. The Company maintains that the conversion operation was perfectly legal as well as very advantageous for the savings shareholders, which was confirmed by the positive reaction of the market and the very high percent of shareholders opting for the conversion.

Reserves from revaluations and grants - As of 31 December 2000 and 1999, this caption included:

<i>Millions of Lire</i>	2000	1999
a. Non-reimbursable government grants to promote research and investments	23,299	23,060
b. Other non-reimbursable grants	1,001	1,013
c. Reserve from revaluation (Law 413/91) partially untaxed	5,039	5,109
Total	29,339	29,182

An amount of 239 million lire has been allocated from Recordati S.p.A.'s 1999 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 1999 but which were assigned in previous years.

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.

The fixed assets related to Asmez grants received up to 31 December 1992 are completely depreciated, while those related to grants subsequently received, and bound by a special reserve, are depreciated by 97%.

Untaxed reserves - As of 31 December 2000 such reserves amounted to 36,915 million lire. In addition, the reserves related to Recordati S.p.A. include 20,919 million lire connected with the revaluation of fixed assets which was reversed in the consolidated statements.

In accordance with International Accounting Standard, as revised by the International Accounting Standards Committee during 2000, the income tax consequence of a distribution of these reserves is recognized when a liability to pay a dividend exists.

Retained earnings and net income for the year - As of 31 December 2000 retained earnings include 7,952 million lire allocated to the reserve for investments in the South of Italy (law 488/92).

As regards the allocation of the 2000 income, the Board of Directors of Recordati S.p.A. proposed that a dividend of 14,950 million lire (300 lire per ordinary share) be distributed to the 49,834,914 shares outstanding following the conversion of the savings shares completed on 26 January 2001 and a subsequent 2:1 stock split effective from 19 February 2001.

14. 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.

15. 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 as of 31 December 2000 and 31 December 1999 are reconciled as follows:

<i>Millions of Lire</i>	Shareholders' Equity		Net Income for the Year	
	2000	1999	2000	1999
Recordati S.p.A.	199,646	156,266	15,122	14,753
Adjustment resulting from different accounting principles:				
- research grants	(32)	(66)	34	34
- related deferred tax effect	6	13	(7)	(7)
Anticipated depreciation	0	234	(234)	(245)
- related deferred tax effect	0	(94)	94	98
Intercompany margin in inventory	(958)	(2,269)	1,311	(757)
- related deferred tax effect	384	908	(524)	303
Reversal of fixed asset revaluation	(22,759)	0	12,071	0
Retained earnings of consolidated subsidiaries, at beginning of the year, net of amounts already booked by Recordati S.p.A.	40,321	24,171	0	0
Net income for the year of consolidated subsidiaries, net of amounts already booked by Recordati S.p.A.	31,059	22,317	31,059	22,317
Dividends received from consolidated subsidiaries	0	0	(5,933)	(13,268)
Exchange gain on dividends received	295	0	295	0
Translation adjustments	17,406	11,886	(234)	(51)
Consolidated financial statements	265,368	213,366	53,054	23,177

16. Intercompany Transactions and Related Issues

The following operations took place within the group during the financial year:

- Doms-Recordati S.a.s. (previously Doms-Adrian S.A.) acquired 100% of the French pharmaceutical group Bouchara consisting of five companies. Financière Philippe Bouchara S.A., JACB Investissements S.A., Bouchara S.A. and Laboratoires du Docteur Emile Bouchara S.A. were consolidated as of 30 June 2000, while Sophartex S.A. was recorded as a current asset as it is intended for sale;
- to simplify the company structure, Pharmarecord S.r.l. and Recogen S.r.l. were incorporated by Recofarma S.r.l.;
- the Luxembourg company Recordati S.A. re-denominated its accounts from Swiss francs to Euros;
- the Portuguese company R.I.C.F. Portuguesa Produtos Químicos e Farmacêuticos Lda., 98% held by Recordati S.p.A. and 2% held by Recordati S.A., was renamed Recordati Portuguesa Produtos Químicos e Farmacêuticos Lda.;
- Recordati S.p.A.'s holding in Vectorpharma S.p.A. was increased to 100% through the acquisition of existing minority interests. The company was renamed Recordati Innova S.p.A. and its registered offices transferred to Milan.

As of 31 December 2000, intercompany accounts amounted to 97.3 billion lire, the most significant of which were receivables for Recordati S.p.A. from its subsidiaries for the supply of goods and services totaling 24.8 billion lire, payables from Laboratoires du Docteur Emile Bouchara S.A. towards its parent Bouchara S.A. of 36.0 billion lire, and a receivable for Recordati Innova S.p.A. for a loan to Recordati S.p.A. of 9.4 billion lire.

Intragroup sales and services recorded during the course of 2000 were 86.3 billion lire. During the financial year, Recordati S.p.A. received dividends of 4.7 million Swiss francs from Recordati S.A..

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

Consolidated Financial Statements in Euros

Recordati S.p.A. and Subsidiaries

Consolidated Financial Statements as of
and for the years ended 31 December 2000 and 1999
(with Auditors' Report thereon).

The Consolidated Financial Statements
are presented in accordance with
IAS (International Accounting Standards).

Consolidated Balance Sheets as of 31 December 2000 and 1999

Thousands of Euros

Assets

	2000	1999
Current Assets		
Cash	56,418	38,120
Marketable Securities	19,596	1,945
Other Current Assets	16,769	0
Accounts Receivable:		
- Trade	111,001	77,630
- Others	27,423	9,845
	138,424	87,475
Less: Allowance for Doubtful Accounts	(3,517)	(2,653)
	134,907	84,822
Inventories:		
- Raw Materials and Supplies	20,244	11,919
- Intermediates and Work-in-Process	13,713	14,036
- Finished Goods	23,490	13,494
	57,447	39,449
Accrued Income and Pre-Paid Expenses	966	4,570
Total Current Assets	286,103	168,906
Non-Current Assets		
Financial Assets		
- Equity Investments	4,717	3,706
- Other Receivables	2,654	3,127
	7,371	6,833
Fixed Assets		
- Land and Buildings	57,344	28,800
- Machinery and Equipment	106,060	101,119
- Other Fixed Assets	29,123	23,793
- Construction-in-Progress	14,194	8,837
	206,721	162,549
Less: Accumulated Depreciation	(111,954)	(99,624)
	94,767	62,925
Intangible Assets	92,284	50,829
Total Non-Current Assets	194,422	120,587
Total Assets	480,525	289,493

Liabilities and Shareholders' Equity

	2000	1999
Current Liabilities		
Short-Term Financial Debt	66,776	30,263
Current Portion of Medium and Long-Term Debt	10,081	6,872
Accounts Payable:		
- Trade	69,895	49,433
- Others	33,857	18,191
	103,752	67,624
Accrued Expenses and Other Liabilities	7,989	6,590
Other Provisions	2,878	60
Accrued Income Taxes	1,361	1,199
Total Current Liabilities	192,837	112,608
Non-Current liabilities		
Medium and Long-Term Loans Net of Current Portion	128,361	47,816
Employees' Termination Pay	19,664	18,684
Deferred Income Taxes	2,612	191
Total Non-Current Liabilities	150,637	66,691
Total Liabilities	343,474	179,299
Minority Interests	0	0
Shareholders' Equity		
Capital Stock	12,965	12,859
Legal Reserve	4,544	4,995
Capital in Excess of Par Value	15,142	14,435
Reserve from Revaluation & Grants	15,152	15,071
Retained Earnings	52,858	44,725
Cumulated Translation Adjustment	8,990	6,139
Net Income for the Year	27,400	11,970
Total Shareholders' Equity	137,051	110,194
Total Liabilities and Shareholders' Equity	480,525	289,493

Consolidated Statements of Income for the years ended 31 December 2000 and 1999

Thousands of Euros

	2000	1999
Net Sales	355,886	271,835
Cost of Sales	(149,580)	(126,354)
Gross Profit	206,306	145,481
Selling Expenses	(96,185)	(79,521)
Research & Development Expenses	(36,867)	(30,326)
General & Administrative Expenses	(18,639)	(12,980)
Amortization of Goodwill	(8,005)	(3,436)
Operating Income	46,610	19,218
Financial Income/(Expenses), Net	(6,462)	(1,500)
Non Operating Income/(Expenses), Net	1,087	2,193
Pretax Income before Minority Interests	41,235	19,911
Provision for Income Taxes	(13,835)	(7,942)
Loss (Income) attributable to Minority Interests	0	1
Net Income	27,400	11,970

Consolidated Statements of Shareholders' Equity for the years ended 31 December 2000 and 1999

Thousands of Euros

	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, 1998	12,808	14,435	4,411	14,243	(834)	38,594	11,664	2,547	97,868
Allocation of 1998 Net Income:									
- Legal Reserve			584				(584)		
- Dividends Distributed							(4,123)		(4,123)
- Retained Earnings						6,957	(6,957)		
Increase in Capital Stock	51								51
Allocation to Untaxed Reserves				828		(828)			
Dividends Lapsed						2			2
Sale of Treasury Stock					834				834
Net Income for the Year							11,970		11,970
Translation Adjustment								3,592	3,592
Balance at 31 December, 1999	12,859	14,435	4,995	15,071	0	44,725	11,970	6,139	110,194
Allocation of 1999 Net Income:									
- Dividends Distributed							(4,207)		(4,207)
- Allocation to Untaxed Reserves				123			(123)		
- Retained Earnings						7,640	(7,640)		
Increase in Capital Stock	106	707							813
Dividends Lapsed						0			0
Net Income for the Year							27,400		27,400
Reclassification to Retained Earnings			(451)	(42)		493			
Translation Adjustment								2,851	2,851
Balance at 31 December, 2000	12,965	15,142	4,544	15,152	0	52,858	27,400	8,990	137,051

Consolidated Statements of Cash Flow for the years ended 31 December 2000 and 1999

Thousands of Euros

	2000	1999
Cash Flow from Operations		
Cash flow		
Net Income	27,400	11,969
Depreciation of Fixed Assets	11,365	10,282
Amortization of Intangible Assets	12,610	7,813
Write-Down of Fixed Assets	0	477
Write-Down of Intangible Assets	852	0
Total Cash Flow	52,227	30,541
Employees' Termination Pay:		
- Provision	3,513	3,423
- Payment	(3,916)	(4,018)
Other Provisions:		
- Provision	890	(680)
- Payment, Reversal	(694)	(548)
	52,020	28,718
Changes in Working Capital		
Accounts Receivable	(25,613)	(15,843)
Inventories	(8,984)	(507)
Other Current Assets	4,256	694
Accounts Payable	12,802	(412)
Accrued Expenses and Other Liabilities	(781)	1,298
Accrued Income Taxes	358	(1,828)
Changes in Working Capital	(17,962)	(16,598)
Net Cash provided by Operations	34,058	12,120
Cash Flow from Investments		
Net Investments in Fixed Assets	(17,523)	(14,055)
Net Investments in Intangible Assets	1,519	(1,285)
Acquisitions	*(94,215)	*(27,666)
- Related Intellectual Property Rights	0	(9,748)
Net Increase (Decrease) in Equity Investments	(1,011)	(38)
Net Investments in Non-Current Financial Assets	1,200	105
Net Cash used for Investments	(110,030)	(52,687)
Cash Flow from Financing Activities		
Medium and Long-Term Loans obtained during the Year	87,007	18,783
Stock Capital Increase	106	51
Capital in Excess of Par Value Increase	707	0
Sale of Treasury Stock	0	834
Increase (Decrease) in Minority Interests	0	1
Transfer of Current Portion of Medium and Long-Term Debt to Current Liabilities	(11,912)	(9,216)
Changes in Current Portion of Medium and Long-Term Debt	856	2,562
Dividends Distributed	(4,207)	(4,123)
Dividends Lapsed	0	2
Translation Adjustments	2,851	3,592
Net Cash Provided (Used) by Financing Activities	75,408	12,486
Changes in Short-Term Financial Position	(564)	(28,081)
Short-Term Financial Position at Beginning of Year **	9,803	37,884
Short-Term Financial Position at End of Year **	9,239	9,803

* The year 2000 amount refers to the acquisition of Bouchara group: Working capital (6,009); Other Current Assets (16,769); Fixed Assets (28,567); Loans 7,804; Provisions 3,607; Goodwill (54,281)
The 1999 figure refers to the acquisition of Doms-Adrian SA: Working capital (2,801); Assets (3,314); Loans 1,629; Provisions 1,127; Goodwill (24,307)

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

Auditors' Report on Consolidated Financial Statements

To the stockholders of Recordati S.p.A.

1. We have audited the accompanying consolidated balance sheets of Recordati S.p.A. and subsidiaries as of 31 December 2000 and 1999 and the related consolidated statements of income, and consolidated cash flows for the years then ended. These consolidated financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.
2. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.
3. In our opinion, the consolidated financial statements present fairly, in all material respects, the financial positions of Recordati S.p.A. and subsidiaries as of 31 December 2000 and 1999 and the results of their operations and their cash flows for the years then ended in accordance with International Accounting Standards (IAS).
4. Without qualifying our opinion, we draw attention to note 13 of the consolidated financial statements. At 31 December 2000 reserves in suspension of taxation amounted to Lit 36,915 million. In addition, the financial statements of Recordati S.p.A. included further reserves in suspension of taxation of Lit 20,919 million connected with the revaluation of fixed assets which was reversed in the consolidated financial statements. In accordance with International Accounting Standard 12, as revised by the International Accounting Standards Committee during 2000, no deferred tax liability has been accrued on the above-mentioned reserves in suspension of taxation.
5. Without qualifying our opinion, we draw attention to note 10 of the consolidated financial statements describing the tax issue arising from a tax inspection on the treatment of a beneficial interest in shares, for the years 1991 and 1992 of Recordati S.p.A.. The company received a tax assessment with respect to 1991 and 1992. However, based on legal advice and on the favourable ruling obtained on the 1991 assessment, the company's management believes that the issue has no merit.

KPMG S.p.A.

Massimo Maffeis
Director of Audit

Milan, 20 March 2001

This booklet is a summary
of the 2000 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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(as of Shareholders'
Meeting of 11 April 2001)

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

Alberto Recordati*

President of the Pharmaceutical
Chemicals Division
Recordati S.p.A.

Romilda Bollati

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

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former
Chief Executive Officer
Byk Gulden GmbH
and Member of the
Management Board
Altana A.G.

Mario Casella

former Professor of Private Law
University "Luigi Bocconi"

Francesco Costantini*

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

Mario Garraffo*

Director for Italy
GE Capital Europe

Sandro Onestinghel

Management Consultant

Carlo Pedersoli

Partner of Pedersoli Lombardi
e Associati law firm

Andrea Recordati

Pharmaceuticals
Business Development
Recordati S.p.A.

Marco Vitale*

Economist
and Business Consultant

Secretary to the Board

Giorgio Cogliati

Legal and Corporate Affairs
Recordati S.p.A.

* *Members of the
Executive Committee*

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Giovanni Recordati*

Chairman
and Chief Executive Officer

Alberto Recordati

President of the
Pharmaceutical
Chemicals Division

Walter Bevilacqua

Corporate Development

Luciano Bonacorsi

Human Resources

Vittorio Bonazzi

Pharmaceuticals

Attilio Calzolari

Pharmaceutical Chemicals

Giovanni Recordati

Pharmaceuticals
International Operations
interim

Avi Sartani

Pharmaceuticals, Research and
Development

Fritz Squindo

Finance

Franco Tomasini

Purchasing and Logistics

Auditors

KPMG S.p.A.

Operating Subsidiaries

Recordati S.A. Chemical and Pharmaceutical Company

(Luxembourg and
its Swiss Branch)

Doms-Recordati S.A.S.

(Levallois-Perret, France)

Laboratoires du Docteur

Emile Bouchara S.A

(Levallois-Perret, France)

Recordati España S.L.

(Murcia, España)

Recordati Corporation

(Clark, New Jersey, USA)

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