RECORDATI

ANNUAL REPORT 2012

RECORDATI

REVENUE

€ (thousands)	2012	%	2011	%	Change 2012/2011	%
TOTAL REVENUE	**828,317**	**100.0**	**762,036**	**100.0**	**66,281**	**8.7**
Italy	219,898	26.5	221,603	29.1	(1,705)	(0.8)
International	608,419	73.5	540,433	70.9	67,986	12.6

KEY CONSOLIDATED DATA

€ (thousands)	2012	% of revenue	2011	% of revenue	Change 2012/2011	%
Revenue	828,317	100.0	762,036	100.0	66,281	8.7
EBITDA[(1)]	191,711	23.1	187,742	24.6	3,969	2.1
Operating income	166,964	20.2	163,477	21.5	3,487	2.1
Net income	118,497	14.3	116,446	15.3	2,051	1.8

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

KEY BALANCE SHEET DATA

€ (thousands)	31 December 2012	31 December 2011	Change 2012/2011	%
Net financial position[(2)]	(153,456)	(55,734)	(97,722)	175.3
Shareholders' equity	661,397	594,480	66,917	11.3

[(2)] Short-term financial investments, cash and cash equivalents, net of bank overdrafts and loans which include the measurement at fair value of hedging derivatives (fair value hedge).

PER SHARE DATA

€	2012		2011	Change 2012/2011	%
Net income[(3)]	0.593		0.584	0.009	1.5
Shareholders' equity[(3)]	3.297		2.982	0.315	1.1
Dividend	0.30	[(4)]	0.30	0.000	0.0
SHARES OUTSTANDING:					
- average during the year	199,722,208		199,369,542		
- at December 31	200,619,366		199,339,366		

[(3)] Net income per share is based on average shares outstanding during the year net of average treasury stock. Average treasury stock amounted to 9,402,948 shares in 2012 and 9,755,614 shares in 2011. Shareholders' equity per share is based on total shares outstanding at year end net of treasury stock. Treasury stock amounted to 8,505,790 shares at 31 December 2012 and 9,785,790 shares at 31 December 2011.

[(4)] Proposed by the Board of Directors.

RECORDATI

LETTER FROM THE CHAIRMAN

To Our Shareholders,

The year just ended was a very productive period, both in terms of initiatives and investments, for the development of our group in international markets. The acquisition of new products in the Central and Eastern European markets and of those for the treatment of rare diseases in the U.S.A. will drive further growth in these important areas. These investments were made thanks to the group's solid financial situation and the continuing growth of profits. Group consolidated revenue for 2012 is € 828.3 million, up 8.7% over the preceding year and pharmaceutical revenue is € 797.4 million, up 8.7%. Operating income, at 20.2% of sales, is € 167.0 million, a growth of 2.1% compared with the preceding year. Net income at 14.3% of sales is € 118.5 million (+1.8%). The Group's net financial position records net debt of € 153.5 million. During the period € 21.0 million were paid for the acquisition of six OTC products in Germany, € 14.3 million overall were paid for the acquisitions in Poland of the pharmaceutical company Farma-Projekt plus a portfolio of products, € 66.7 million were paid for the acquisition of a portfolio of products in Russia and the other C.I.S.. Dividends for a total of € 60.0 million were paid. Shareholders' equity further increased to € 661.4 million.

A number of initiatives were pursued in 2012 which are fundamental for the future development of the Group.

In February the activities for the preparation of a European Phase III clinical trial for REC 0482 (NX-1207), following the successful completion of a Scientific Advice meeting with the European Medicines Agency (EMA) were initiated. The pivotal controlled clinical trial will assess the efficacy and safety of a single TRUS-guided intraprostatic injection of the drug in patients with lower urinary tract symptoms (LUTS) associated with BPH not adequately controlled by medical therapy. A European licensing agreement for the development and commercialization of NX-1207 was signed in 2010 by Recordati and Nymox Pharmaceutical Corporation. Under the terms of the agreement Recordati received exclusive rights to develop and subsequently market and sell the drug in Europe including Russia and the CIS, the Middle East, South Africa and the Maghreb area of North Africa.

NX-1207 is a novel patented drug developed by Nymox which is currently in Phase III trials in the U.S.A.. The drug is injected by a urologist in an office setting directly into the zone of the prostate where the enlargement occurs and involves little or no pain or discomfort. In clinical trials a single dose of NX-1207 has been found to significantly improve the signs and symptoms of BPH, and showed evidence of long lasting benefit. Benign prostatic hyperplasia (BPH), or growth in prostate size associated with ageing, can seriously impact the health and quality of life of older men. It can lead to acute urinary retention, incontinence, and other serious consequences.

During April the marketing authorizations, the trademarks and additional assets concerning six OTC pharmaceuticals for Germany were acquired from Cilag GmbH International and McNeil GmbH & Co. oHG. The products acquired are JHP-Rödler® (mint oil indicated for digestive disorder, headache, cough and cold), Betadorm® D (diphenhydramine HCl indicated for sleep disorders), Rhinopront® (pseudoephedrine+triprolidine indicated for rhinitis and head colds), Collomack® Topical (salicylic acid solution, an anti-corn preparation), Tirgon® (bisacodyl for constipation) and Xitix® (vitamin C lozenges to treat vitamin C deficiency). In 2012 the annual sales for the six products are of around € 6 million.

In August the acquisition of 100% of the share capital of Farma-Projekt Sp. z o.o., a Polish pharmaceutical company with headquarters in Krakow, was concluded. The value of the transaction (enterprise value) is of PLN 71.0 million of which PLN 50.8 million were paid at the closing. Of the remaining balance a portion will be paid in tranches on future dates and a portion comprises the company's debt. Farma-Projekt operates on the Polish pharmaceutical market since 2003 and markets drugs belonging to a variety of therapeutic areas, mainly

cardiovascular and urological treatments as well as dietary supplements. The company employs around 135 personnel, of which 84 are dedicated to sales and marketing. Sales in 2011 were of around PLN 47 million.

In October the oral care line of products bearing the Dentosan® trademark was acquired for the Italian market from Cilag GmbH International, part of the Johnson & Johnson Family of Consumer Companies. Dentosan® is the second leading brand in the Italian oral care market at pharmacy level *(IMS – September 2012)*. The line consists of three product categories: mouthwash, toothpaste gel and toothbrushes, sold mainly in pharmacies, and of which the mouthwash category represents the most important franchise. All Dentosan® mouthwash brands - Dentosan® Azione Intensiva, Dentosan® Trattamento Mese and Dentosan® Ortodontico – are based on chlorhexidine at different concentrations and are highly appreciated by the professional dental community and consumers. Recordati is a very well-known name in the pharmacy and we are confident that this prestigious brand will become even more popular in the future.

In November the acquisition of all rights to five product lines on the Russian market: Alfavit, Qudesan, Vetoron, Focus and Carnitone was successfully concluded. The value of the transaction is of RUB 2.7 billion. The brands of the products acquired, which are OTC pharmaceuticals and dietary supplements, are very well known in Russia. The Alfavit product line in particular comprises a wide range of formulations containing vitamins and minerals and holds a leading position on the market. Qudesan is based on coenzyme Q_{10}, an adjuvant for cardiac function, promoted for the prevention and treatment of chronic fatigue and metabolic dysfunction. The key ingredient in Vetoron is beta-carotene, Focus contains bilberry anthocyanins and lutein for eye health and Carnitone is a source of L-carnitine. Total annual sales of the five product lines are of around RUB 1.0 billion.

Also in November subsidiary Orphan Europe and Erytech Pharma, a French biopharmaceutical company, entered into an agreement granting Orphan Europe the exclusive rights for the commercialization and distribution of Graspa® for the treatment of Acute Lymphoblastic Leukemia (ALL) and Acute Myeloid Leukemia (AML) in Europe. Graspa®, human erythrocytes encapsulating L-asparaginase, for the treatment of hematological malignancies, is currently in pivotal Phase II/III clinical trial for ALL and will enter a Phase IIb trial in AML in Europe. The product has obtained an orphan drug designation in Europe and the USA for ALL. Graspa® is a new formulation of L-asparaginase with a safer and broader range of clinical use than existing forms due to the entrapment and protection of the enzyme inside homologous red blood cells. The added value of Graspa® (by encapsulating L-asparaginase in red blood cells) relates to its ability to overcome existing limitations associated with conventional L-asparaginase via longer efficacy, better compliance, reduced doses and a better safety profile. Graspa® is intended to satisfy the unmet medical needs of frail patients, patients suffering relapses and other patient groups for whom the current treatments are not suitable.

In December an agreement for the acquisition of all rights concerning a portfolio of products indicated for the treatment of rare and other diseases and marketed mainly in the United States of America, from Lundbeck LLC. was signed. The value of the transaction, which was successfully closed in January 2013 is of $ 100 million. Expected revenues in 2013 for the acquired portfolio are of around $ 40 million. The acquired portfolio will be marketed in the U.S. by Recordati Rare Diseases, a wholly-owned U.S. corporation. The main product in the portfolio is Panhematin® (haemin for injection) for the amelioration of recurrent attacks of acute intermittent porphyria. Other important drugs acquired are NeoProfen® (ibuprofen lysine injection) and Indocin® I.V. (indomethacin injection), indicated to close a clinically significant patent ductus arteriosus (PDA) in premature infants, and Cosmegen® (dactinomycin for injection) used mainly in the treatment of three rare cancers. The acquisition of this portfolio of products is a confirmation of Recordati's intention to become a leading player in rare diseases worldwide and will also contribute to the growth and enhancement of our current operation in the U.S..

Gowing forward we will continue to develop the business internationally, both by growing the existing product portfolio as well as through acquisitions of products or companies, with the objective of enhancing our presence

in markets with higher future growth potential. In 2012 the pharmaceutical market decreased in most of the more mature markets of Western Europe. On the one hand demand for medicines increases due to an ageing population and the growing availability of new treatments, but on the other hand prices are decreasing due to the measures introduced by healthcare authorities to contain pharmaceutical expenditure and to the competition from generic versions of specialties no longer patent protected. However, in emerging markets which include those of Central and Eastern Europe the pharmaceutical market is still growing strongly. In this context group strategy will continue to be focused on expanding its operations in these growing areas. Growth in the segment dedicated to treatments for rare diseases will continue to be a priority. Our group already makes these treatments available through its own organizations throughout Europe, in the Middle East and has now reinforced its presence in the U.S.A. following the recent acquisition of a portfolio of products. In coming years our objective is to extend the presence of our rare disease operations to other important markets worldwide. Furthermore, we will continue to dedicate resources to research and development and strong emphasis will be placed on the enrichment of our product portfolio both through the development and launch of pipeline products as well as through the acquisition of new specialties.

We believe that the strict implementation of our strategy will enable us to be optimistic regarding the future, and we count, as always, on the entrepreneurship and determination of our management team, the professional skills of our employees and the trust of our shareholders. We would like to express our gratitude to all of them for their support during 2012.

DIVIDENDS

Based on the results obtained, the Board of Directors of the parent company will propose to the shareholders a dividend of € 0.10 per share, in full balance of the interim 2012 dividend of € 0.20, to be paid to all shares outstanding at ex-dividend date, excluding those in treasury stock, as from 25 April 2013 and record date on 24 April 2013, with ex-dividend on 22 April 2013. The full 2012 dividend is therefore of € 0.30 per share (€ 0.30 per share last year).

RESEARCH AND DEVELOPMENT

During 2012, development activities focused on the consolidation of several ongoing programs in urology, hypertension and rare diseases. In addition, two new clinical development programs were launched in Europe, namely, the treatment of cancer-related pain in cases of resistance or intolerance to opioids and the treatment of acute myeloblastic leukemia (AML) in patients older than 65 who are unfit for chemotherapy. Renewed emphasis was given to all regulatory and post-approval activities regarding corporate products (silodosin, lercanidipine, pitavastatin) as well as orphan drugs for rare diseases (Carbaglu®, Cystadrops®). In view of these activities of consolidation and expansion, Recordati continued to strengthen its drug discovery and development team, adding highly trained personnel in the areas of chemistry, pharmacology and molecular biology to ensure the highest levels of performance. The following table shows the main projects and products in development.

PRODUCT DEVELOPMENT PIPELINE

NAME	ORIGINATOR	INDICATION	DEVELOPMENT STATUS
CARBAGLU®	Recordati	Organic acidemias (OA)	Approved in EU Phase III in U.S.A.
ZANIPRESS®*	Recordati	Essential hypertension	Filed in EU
REC 0482	Nymox (NX-1207)	Benign prostatic hyperplasia (BPH)	Phase III
methadone		Cancer related pain in cases of resistance or intolerance to opioids	Phase IIIb
CYSTADROPS®	Recordati	Ocular cystinosis	Phase III
GRASPA®	Erytech	Acute lymphoblastic leukemia (ALL) in patients with first recurrence of Philadelphia chromosome negative ALL	Phase II/III
		Acute myeloid leukemia (AML) in patients >65 unfit for chemotherapy	Phase IIb
REC 1819	Recordati	Overactive bladder and Incontinence	Phase I
REC 0438	Recordati/UFPeptides	Overactive bladder in patients with spinal lesions	Phase I

* New dosage

The introduction in the pipeline of new products, both through our discovery programs as well as through alliances with other biotechnology and pharmaceutical companies, is of great importance for the group's future growth. During 2012 a number of products advanced in the development pipeline, and a large group of potential development candidates (from small molecules to biotechnology compounds and gene therapy) belonging to numerous therapeutic areas (urology, metabolism, pain, oncology and rare diseases), were recognized and evaluated. Some of the latter projects are currently in an advanced phase of evaluation in order to assess their potential, with the objective of reinforcing our primary care product portfolio but especially to expand our involvement in projects for specialized therapies, personalized medicine and new remedies for the treatment of rare diseases.

Research and development activities during 2012 are summarized in the following paragraphs.

LERCANIDIPINE

In 2012 Recordati successfully completed a vast international multi-factorial phase II study that evaluated the efficacy and safety of full doses of our leading anti-hypertensive, lercanidipine, in patients suffering from essential hypertension. The results of this study led to the filing with the European authorities of an approval request for a new formulation and dosage form of our fixed combination of lercanidipine+enalapril (lercanidipine 20 mg + enalapril 20 mg). We expect the approval of the dossier during the first half of 2013. The new dosage will allow patients to simplify their daily treatment of hypertension and increase compliance by using a fixed combination of the two drugs.

During 2013 a new phase IV clinical trial on the beneficial effects of our fixed combination of lercanidipine+enalapril will be launched, to further assess and confirm the effects of the fixed combination treatment on the renal function of hypertensive patients with metabolic disorders and moderate kidney impairment.

PROJECTS IN UROLOGY

REC 0482 (NX-1207)

The inclusion in our development pipeline of REC 0482 (the molecule known as “NX-1207”) is fully coherent with our commitment to increase availability to patients of innovative, simple, effective and long-lasting treatments for significant urological disorders, and in particular for enlarged prostate (benign prostatic hyperplasia, BPH).

BPH is a common affliction of older men that causes difficulties with urine emission that can have a detrimental impact on health and quality of life and can lead to incontinence and acute urinary retention . This disorder affects approximately 50% of men over age 50 and close to 90% of men by age 80. The market for BPH treatments is expected to grow progressively, as the population ages.

REC 0482 is a patented new chemical entity developed as NX-1207by the Canadian company Nymox. The molecule involves a new targeted approach to the treatment of BPH. The drug is administered by a urologist in an office setting directly into the zone of the prostate where the enlargement occurs. The procedure takes only a few minutes, causes little or no pain or discomfort, and does not require preliminary anaesthesia nor subsequent catheterization. The drug has successfully completed a series of controlled multi-center U.S. trials where a single dose of NX-1207 has been found to produce symptomatic improvements without causing the urinary, sexual or cardiovascular side effects associated with currently approved drugs. Long-term follow-up studies have shown the long-lasting benefit of a single injection procedure, with a significant proportion of men with BPH reporting maintained symptom improvement for several years without other treatments.

During 2012 Recordati designed a clinical development program for REC 0482 that is based upon a large international clinical trial to be conducted in fifty renowned clinical centers in a number of European and non-European Countries. The program was previously discussed and agreed with the European Medicines Agency (EMA). Enrolment of the first patients is expected to take place starting from the second quarter 2013.

IN-HOUSE UROLOGY PROJECTS

Recordati’s discovery programs in Urology are primarily focused on the search for innovative treatments to address micturition disorders. Irritative symptoms of the lower urinary tract, such as urgency and frequency, with or without incontinence, are frequent, mainly in women and in the elderly. Opportunities exist for the development of effective and well-tolerated drugs. Recordati has specific know-how in the area of disorders of the lower urinary tract acquired over 40 years of research in this field, and is currently developing several innovative medicines.

Recordati's original molecule REC 1819, has a new mechanism of action targeting a group of receptors located in the central nervous system. Preclinical regulatory activities successfully completed in 2012 led to a phase I (first-in-man) clinical trial that is currently ongoing. A small series of back-ups to the lead molecule was chemically synthesized and initially characterized, in order to either follow or substitute for the lead molecule in the development program.

In 2012, Recordati completed the preclinical evaluation of REC 0438, which represents a structurally different class of compounds to be potentially used, upon intravesical administration, in patients with spinal lesions with the object of improving their lower urinary tract stability. This molecule proved to have an optimal tolerability profile and, following the positive opinion issued by the Italian health institute (Istituto Superiore di Sanità), clinical trials have started in the end of 2012.

PROJECTS IN THE AREA OF CANCER-RELATED PAIN

In France Recordati markets methadone exclusively as replacement therapy for major opioid drugs dependence, in the framework of programs involving medical, social and psychological management. In other countries methadone is also prescribed for the treatment of cancer-related pain as a second-line therapy after morphine. Several studies and a large body of literature (>200 publications) have shown the benefits of methadone for the treatment of cancer-related pain. In France, methadone is already used by teams in palliative care units and specialists of pain management in patients with cancer, and in particular, since AFSSAPS (ANSM) in June 2010 published recommendations to relieve pain in cancer patients, when level 3 analgesics (morphine, oxycodone, transdermal fentanyl, hydromorphone) are inadequately efficient or poorly tolerated. Thus, cancer pain control represents an attractive potential use of methadone; however, this use would be outside of the approved indication for the currently marketed product. In 2012, Recordati started in France an open, multicentre, randomized, national phase IIIb clinical study (dubbed "EQUIMETH2") on methadone for the treatment of cancer-related pain inadequately relieved by opioids. The study will include 146 adult patients suffering from cancer, undergoing chemotherapy treatment or not, hospitalized or requiring hospitalization. Patients with be followed up for 56 days. Today, the study has recruited 59 patients in 16 clinical sites in France, and inclusions should be completed by March 2013.

RARE DISEASES

Recordati is expanding its involvement in the discovery and development of treatments for rare diseases, and has a number of projects in the pipeline. Currently, through its subsidiary Orphan Europe, Recordati has seven "orphan" drugs in various development phases, from formulation studies to post-approval and phase III studies.

Carbaglu® (carglumic acid) is an orphan drug approved by the European Medicines Agency (EMA) and by the Food and Drug Administration (FDA) for the treatment of hyperammonaemia due to N-Acetyl Glutamate Synthase (NAGS) deficiency. NAGS deficiency is an extremely rare inherited metabolic disorder affecting the urea cycle which leads to accumulation of ammonia in the blood. If not adequately and quickly treated, hyperammonaemia causes irreversible brain damage, coma, and eventually death. Carbaglu® is the only existing specific treatment of NAGS deficiency and this genetic disorder requires life-long treatment. Following the approval for the extension of the use of Carbaglu® to treat hyperammonaemia due to organic acidemias (isovaleric acidemia, methylmalonic acidemia or propionic acidemia), Carbaglu® is now in phase III clinical development also in the U.S.A. for the treatment of organic acidemias.

Cystadrops® (cysteamine chlorhydrate) are eye drops developed for the ocular manifestations of cystinosis which cannot be controlled by orally administered cysteamine. Cystinosis affects all body organs, including the eyes. Without proper treatment, cystine crystals accumulate in the cornea, resulting in progressive blurred vision, pain,

photophobia and frequent corneal ulceration and eye infections. Cystadrops® was specially formulated in a gel form for a patient-friendly administration with fewer instillations per day. After completion of a safety and efficacy evaluation trial, the development of Cystadrops® has entered a new phase III clinical trial in a group of 30 patients with ocular cystinosis in order to complete the development program and prepare to file for approval in the indication throughout Europe. In the meanwhile, the use of Cystadrops® under a Named Patient Use (NPU) distribution plan continues with growing success in Countries in Europe and the Middle East- North Africa.

PROJECTS IN THE AREA OF ONCO-HEMATOLOGY

Asparagine is a tumor growth factor, and the enzyme L-asparaginase has been shown to possess a powerful antitumor activity, due to its capacity to degrade asparagine in plasma. The enzyme being highly toxic, a large part of the patient population presents with a hypersensitivity to L-asparaginase, does not tolerate well the current treatment protocols and thus has no access to an appropriate L-asparaginase treatment. This population (comprised mainly of senior and elderly adults or relapsed patients) represents a large currently unmet medical need.

GRASPA® is a new alternative for asparaginase administration: it is L-asparaginase encapsulated in homologous human red blood cells. GRASPA® avoids toxicity and hypersensitivity issues associated with L-asparaginase treatments, while effectively suppressing the plasmatic bioavailability of asparagine. GRASPA® was granted Orphan Drug status in EU in 2006 and in US in 2010 for the treatment of Acute Lymphoblastic Leukemia (ALL).

ALL represents 12% of all cases of leukemia, with an incidence of 1 to 5 cases in 100,000 people. The U.S.A., Costarica, Switzerland and Italy are the countries where incidence is highest. In the U.S.A. every year 3,000 children under 14 years of age are affected by ALL, with the highest incidence occurring between the ages of 2 and 5. During the past 30 years the prognosis for ALL has significantly improved thanks to the intensification and improvement of treatments. With the current treatment protocols based on poli-chemotherapy, which includes L-asparaginase, the cure rate exceeds 80%.

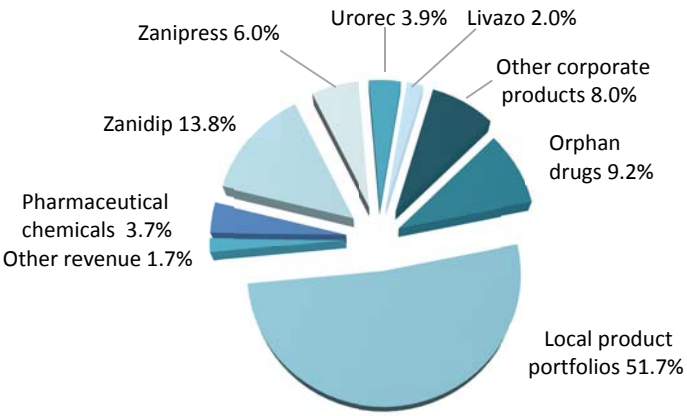
In December 2009 an open, multicentre, randomized, Phase II-III clinical study to evaluate the efficacy and tolerability of GRASPA® vs. L-asparaginase in combination with standard poli-chemotherapy, was initiated involving a group of patients (children aged 1 to 17 and adults aged 18 to 55) affected by ALL after a first relapse. To date 72 of the 80 patients currently scheduled for the study have been enrolled. The last patient visit is expected to take place in April 2014. The use of GRASPA® is expected to reduce the incidence and the severity of allergic reactions to L-asparaginase while at the same time maintaining treatment efficacy.

GRASPA® may be useful in a number of other indications. Recordati is now launching an open, multicentre, randomized, controlled, international Phase IIb clinical study evaluating the efficacy and tolerability of GRASPA® plus low-dose cytarabine vs. low-dose cytarabine alone in the treatment of newly diagnosed Acute Myeloid Leukemia (AML) in patients over 65 years of age and unfit for intensive chemotherapy. The enrollment of 123 patients will run from March 2013 until September 2016.

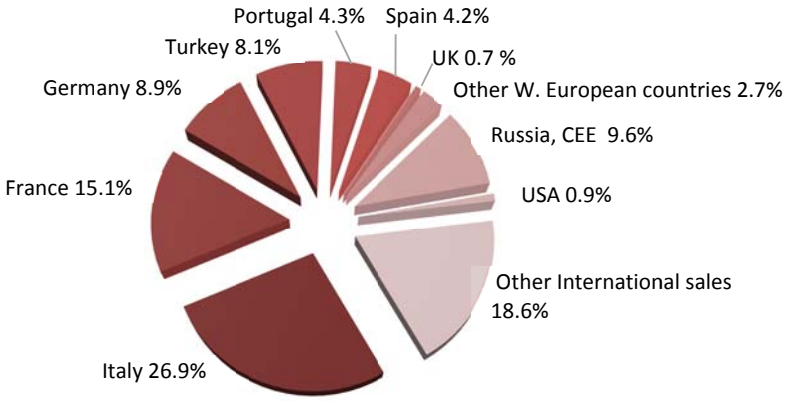
REVIEW OF OPERATIONS

In 2012 revenues are € 828.3 million, up by 8.7% over those of the preceding year, with an increase of 12.6% in international sales (€ 608.4 million) which represent 73.5% of total revenue. Pharmaceutical revenue is € 797.4 million, growing by 8.7%. The 2012 results include the consolidation of sales generated by the Turkish company Dr. F. Frik Ilaç, acquired in the last quarter 2011. The effect of this consolidation, net of intercompany revenues arising from Yeni Recordati's production activity on behalf of the newly acquired company, is of around € 32 million. Furthermore, the Polish company Farma-Projekt acquired during August was consolidated as from 1 September with an effect of around € 4 million. Sales of pharmaceutical chemicals are € 30.9 million, up by 8.9% and represent 3.7% of total revenue.

Sales by business



Pharmaceutical sales



PHARMACEUTICALS

The group's pharmaceutical business, which represents 96.3% of total revenue, is carried out in the main European markets, in Russia and the other C.I.S. and in Turkey through our own subsidiaries but also in the rest of the world through licensing agreements with pharmaceutical companies of high standing. We have gradually extended our presence in these markets through the acquisition of existing marketing organizations with the aim to add our proprietary products, and those obtained under multi-territorial licenses, to the local portfolios.

The performance of products sold directly in more than one market (corporate products) during 2012 is shown in the table below and described in the following paragraphs.

€ (thousands)	2012	2011	Change 2012/2011	%
Zanidip® (lercanidipine)	114,573	124,718	(10,145)	(8.1)
Zanipress® (lercanidipine+enalapril)	49,325	41,592	7,733	18.6
Urorec® (silodosin)	32,740	19,750	12,990	65.8
Livazo® (pitavastatin)	16,305	6,797	9,508	139.9
Other corporate products	65,907	59,183	6,724	11.4
Orphan drugs	75,857	69,257	6,600	9.5

Zanidip® (lercanidipine) is Recordati's original calcium channel blocker for the treatment of hypertension available in 96 countries and is one of the most prescribed calcium channel blockers in the countries where it is present.

Our lercanidipine based products are sold directly to the market by our own marketing organizations in Western Europe as well as in Central and Eastern Europe and in Turkey. In the other markets they are sold by licensees, and in some of the aforementioned ones co-marketing agreements are in place.

€ (thousands)	2012	2011	Change 2012/2011	%
Direct sales	62,369	70,917	(8,548)	(12.1)
Sales to licensees	52,204	53,801	(1,597)	(3.0)
Total lercanidipine sales	**114,573**	**124,718**	**(10,145)**	**(8.1)**

The reduction of direct sales is due mainly to the lower sales in Italy (-9.6%) and in France (-37.1%) principally due to lower sales volumes as a result of generic competition. Direct sales in the other countries are up by 1.3% thanks mainly to the continuous growth of Zanidip® in Turkey. Sales to licensees, which represent 45.6% of total lercanidipine sales, are down by 3.0% as a result of generic competition.

Zanipress® is a specialty also indicated for the treatment of hypertension developed by Recordati which consists of a fixed combination of lercanidipine with enalapril. This new product is already marketed successfully by Recordati or by its licensees in 23 countries.

€ (thousands)	2012	2011	Change 2012/2011	%
Direct sales	33,203	26,485	6,718	25.4
Sales to licensees	16,122	15,107	1,015	6.7
Total lercanidipine+enalapril sales	**49,325**	**41,592**	**7,733**	**18.6**

This product is available in Italy as from the second quarter 2011 where it was launched by Recordati and Innova Pharma with the brands Zanipril® and Lercaprel® and by co-marketers sigma tau and Polifarma with the brands Coripren® and Atover® respectively. Sales recorded in 2012 by Zanipril® and Lercaprel® are € 5.5 million. Overall the product has achieved a market share which exceeds 39% in a new market segment which is growing at a rate of over 200%. In France the lercanidipine/enalapril fixed combination is marketed by Bouchara Recordati and by Pierre Fabre under their respective brands Zanextra® and Lercapress®. Sales of Zanextra® are € 10.2 million, up by 18.4%. Overall the product has achieved a market share of over 31% in a market segment which is growing by 17%. In Germany, Recordati Pharma sells Zanipress® (lercanidipine+enalapril), which recorded sales of € 8.0 million, an increase of 6.4%. The lercanidipine/enalapril fixed combination is also sold by Berlin Chemie (Menarini group) as Carmen ACE® and by Meda as Zaneril®. Overall this product is the leader in its class with a market share of over 60%. The lercanidipine/enalapril fixed combination is also sold directly by our marketing companies in Portugal, generating sales of € 4.8 million (+6.9%), in Spain with sales of € 3.2 million (+8.4%), in Greece, in Ireland and in the Czech Republic. In Portugal the product is also sold by Delta (Rottapharm/Madaus group) and in Spain it is co-marketed by Meda and by Rottapharm/Madaus. During 2012 this specialty was also launched in Turkey and in Russia.

Urorec® (silodosin) is a new drug indicated for the treatment of the symptoms of benign prostatic hyperplasia (BPH, enlargement of the prostate). BPH manifests with problems linked to urination and the prevalence of the disorder is increasing with the ageing of the population, it is frequent in men over the age of fifty and its

symptoms significantly reduce quality of life. Clinical evidence shows that patients receiving silodosin benefited from a significant reduction of symptoms associated with BPH and an improvement in quality of life within the first week of treatment. Silodosin was originated by Kissei (Japan) and was obtained under license by Recordati for the development and marketing in the whole of Europe (45 countries) and a further 18 countries in the Middle East and Africa. Currently the product is successfully marketed in 17 countries, directly by our subsidiaries under the brand Urorec® and by licensees under the brand Silodyx™. Overall sales of silodosin based products in 2012 are € 32.7 million. Urorec® is doing particularly well in Italy, where it was launched in May 2011, achieving sales in 2012 of € 7.7 million. The product was also launched successfully in September 2012 by our marketing organization in Turkey.

Livazo® (pitavastatin) is a novel statin indicated for the reduction of elevated total and LDL cholesterol. Controlled clinical trials show that pitavastatin induces a reduction in LDL-cholesterol (the "bad" cholesterol that contributes to formation of atherosclerotic plaques) and an increase in HDL-cholesterol (the "good" cholesterol that is removed from the arterial walls), a dual effect that should be regarded as highly relevant, since it appears to reduce the relative risk for cardiovascular complications. Furthermore, presents an excellent safety profile due to the lower likelihood of drug-drug interactions than that of most other statins. Thanks to these properties pitavastatin can be regarded as an effective and safe treatment of dyslipidemia. Pitavastatin was licensed by Recordati from the Japanese pharmaceutical company Kowa for the European market, Russia and the other C.I.S. countries and Turkey. The drug has been launched in Spain and in Portugal where it is marketed by our subsidiaries Recordati España and Jaba Recordati respectively, and by co-marketers Esteve in Spain and Delta (Rottapharm/Madaus) in Portugal. Sales generated in 2012, including sales to licensees, are € 16.3 million. During the year it was also launched in Switzerland by our licensee Eli Lilly.

Lomexin® (fenticonazole), another original Recordati product, is an internationally and widely used antimycotic indicated for the treatment of dermatological and gynecological infections caused by fungi, mould, yeast and gram positive bacteria. Sales of this product for 2012 are € 12.7 million, up 3.3% over the preceding year.

Flavoxate is an antispasmodic for the treatment of urinary incontinence, also originated by Recordati, which is marketed internationally under the brands Genurin® and Urispas®. Sales of this product in 2012 are € 10.0 million, decreasing slightly.

Procto-Glyvenol®, indicated for the treatment of internal and external hemorrhoids, was acquired from Novartis Consumer Health at the beginning of 2011 in the following countries: Poland, Russia, Turkey, Romania, Czech Republic, Slovakia, Ukraine, Portugal, the Baltic states and Cyprus. Sales in the market of this product in 2012 are € 10.1 million.

TransAct® LAT, a transdermal patch containing 40 mg of flurbiprofen indicated for the symptomatic relief of localized pain involving the musculoskeletal system, obtained under license from Amdipharm, is sold on the Italian and Portuguese markets. Sales of this product are € 11.6 million in 2012.

Rupatadine is a systemic antihistamine indicated for the treatment of allergies and in particular allergic rhinitis. Under license from Uriach, it is marketed in Spain (Alergoliber®), Italy and Germany (Rupafin®) and as from 2010 in France (Wystamm®). Sales of all brands of rupatadine in 2012 total € 11.6 million.

Kentera® is an oxybutynin transdermal patch indicated for the symptomatic treatment of disorders of the lower urinary tract such as incontinence, increased urinary frequency and urgency, obtained under license from Watson Pharmaceuticals and marketed in 16 countries. Sales of Kentera® are € 6.7 million in 2012.

Lopresor® (metoprolol) is a well known selective beta blocker for the treatment of different cardiovascular disorders, in particular hypertension and angina pectoris, acquired from Novartis for the Greek and other

European markets. Sales of this product in 2012 are € 5.4 million and are generated mostly in Greece and in Germany.

Our specialties indicated for the treatment of rare and orphan diseases are marketed directly all over Europe, in Turkey, in the Middle East and in the U.S.A., and through partners in other parts of the world. Sales of these products in 2012 total € 75.9 million, an increase of 9.5%. The main products in this portfolio are Adagen® (pegademase bovine), indicated for the treatment of severe combined immunodeficiency disease associated with adenosine deaminase deficiency (SCID-ADA deficiency), Carbaglu® (carglumic acid), indicated for the treatment of hyperammonaemia due to N-acetylglutamate synthase deficiency (NAGS deficiency) and due to any of the three main organic acidaemias (isovaleric acidaemia, methylmalonic acidaemia or propionic acidaemia), Pedea® (i.v. ibuprofen) used in the treatment of a serious congenital cardiac malformation, the persistence of *patent ductus arteriosus* (PDA) and Normosang® (human haemin) indicated for the treatment of acute attacks of hepatic porphyria. During 2012 sales of Carbaglu® in the U.S.A. grew progressively reaching $ 7.4 million. In December our presence in the U.S.A. was reinforced with the acquisition of a portfolio of products for the treatment of rare and other diseases which will be marketed by Recordati Rare Diseases Inc..

The pharmaceutical sales of the Recordati subsidiaries are broken down as follows:

€ (thousands)	2012	2011	Change 2012/2011	%
Italy	214,697	217,660	(2,963)	(1.4)
France	120,208	128,693	(8,485)	(6.6)
Germany	70,922	66,208	4,714	7.1
Turkey	64,815	31,027	33,788	108.9
Portugal	33,889	34,360	(471)	(1.4)
Spain	33,268	31,824	1,444	4.5
United Kingdom	5,583	7,636	(2,053)	(26.9)
Other Western European countries	21,296	19,426	1,870	9.6
Russia, Czech Rep., other C.E.E. countries	76,630	54,469	22,161	40.7
U.S.A.	7,354	6,070	1,284	21.2
Other international sales	148,712	136,242	12,470	9.2
Total pharmaceutical sales	**797,374**	**733,615**	**63,759**	**8.7**

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

ITALY

€ (thousands)	2012	2011	Change 2012/2011	%
Prescription pharmaceuticals [(a)]	187,676	191,819	(4,143)	(2.2)
Self-medication pharmaceuticals [(b)]	27,021	25,841	1,180	4.6
Pharmaceuticals, Italy	**214,697**	**217,660**	(2,963)	(1.4)

(a) Prescription pharmaceuticals include both reimbursable and non-reimbursable drugs.
(b) Self-medication pharmaceuticals include OTC products and other pharmaceuticals not requiring a prescription.

The performance of the main products in Italy is the following:

€ (thousands)	Indication	2012	2011	Change 2012/2011	%
Entact®	depression	38,717	37,735	982	2.6
Peptazol®	gastric ulcers	20,934	22,085	(1,151)	(5.2)
Zanedip®/Lercadip®	hypertension	20,114	22,250	(2,136)	(9.6)
Tora-Dol®	pain	13,974	14,915	(941)	(6.3)
Cardicor®	heart failure	12,484	10,830	1,654	15.3
Rextat®/Lovinacor®	hypercholesterolemia	10,001	10,456	(455)	(4.4)

Sales of pharmaceuticals in Italy are down by 1.4%, as compared to the same period of the preceding year. The basis of comparison includes up-front payments of € 5.3 million received from our licensees during 2011 following the launch of the lercanidipine+enalapril fixed combination in Italy in April. Cardicor® (bisoprolol), a beta-blocker indicated for the treatment of chronic, stable, moderate to severe heart failure, is performing well and sales Urorec® (silodosin), at € 7.7 million, and of Zanipril®/Lercaprel® (lercanidipine+enalapril), at € 5.6 million, both launched in the second quarter of 2011, are developing positively. The decrease in sales of Peptazol®, Zanedip®/Lercadip®, Tora-Dol® and Rextat®/Lovinacor® are due to generic competition. Sales of drugs for the treatment of rare diseases grow by 21.3% in Italy.

Sales of self-medication products in 2012 are € 27.0 million, up by 4.6%. Proctolyn® (treatment of haemorrhoids) is now our best-selling self-medication product generating sales of € 6.4 million, an increase of 14.2% over the preceding year. Sales of Alovex™, indicated for the treatment of oral cavity aphthas, continue to grow and are up by 8.3% to € 6.3 million, consolidating this product's position as a reference product for this condition. Sales of Imidazyl® (eye drops) are slightly down while those recorded for Eumill® (single dose eye drops) which, together with Imidazyl® maintain Recordati's leadership in the eye drops market, are growing. In the last quarter of 2012 the Dentosan® line of oral care products became part of our self-medication product portfolio.

FRANCE

The 2012 revenue realized by our subsidiaries in France is € 120.2 million, down by 6.6% compared to the preceding year. The decrease is to be attributed mainly to the sales volume reduction of Zanidip® (lercanidipine) due to competition from generic versions of lercanidipine. The following table shows sales of the main products.

€ (thousands)	Indication	2012	2011	Change 2012/2011	%
Methadone	drug addiction	23,962	22,497	1,465	6.5
Zanidip®/lercanidipine	hypertension	11,565	18,381	(6,816)	(37.1)
Zanextra®	hypertension	10,150	8,571	1,579	18.4
Hexa line	antibacterial	8,412	7,947	465	5.9
Neocodion®	cough	7,026	6,826	200	2.9
Urorec®	benign prostatic hyperplasia	6,577	3,543	3,034	85.6

Sales of Zanextra® (lercanidipine+enalapril), Urorec® (silodosin) and of methadone grow significantly. The medicines to treat winter maladies (the Hexa line of products, Neocodion® and Exomuc®) also performed well. Overall the sales of self-medication products in France are € 19.6 million, an increase of 7.5% over the preceding year.

GERMANY

Sales generated by our subsidiaries in Germany are € 70.9 million, an increase of 7.1% compared to the preceding year. The following table shows sales of the main products.

€ (thousands)	Indication	2012	2011	Change 2012/2011	%
Claversal®	ulcerative colitis	14,585	15,177	(592)	(3.9)
Zanipress®	hypertension	7,971	7,491	480	6.4
Ortoton®	muscle relaxant	6,434	5,819	615	10.6
Recosyn®/Suplasyn®	muscolo-skeletal	5,854	6,360	(506)	(8.0)
Mirfulan®	healing ointment	5,087	5,326	(239)	(4.5)
Lipotalon®	anti-inflammatory	5,018	5,244	(226)	(4.3)
Corifeo®	hypertension	4,996	3,661	1,335	36.5

Sales growth in Germany is to be attributed mainly to the good sales performance of Zanipress® (lercanidipine+enalapril), Ortoton® (metocarbamol), Corifeo® (lercanidipine) and Lopresor® (metoprolol). Furthermore, the six self-medication products acquired in April were added to the product portfolio in Germany. Overall, the sales of self-medication products in Germany are € 12.9 million, an increase of 30.6% over the preceding year, also as a result of the products acquired. Sales of the treatments for rare diseases are also growing in this market (+5.2%).

TURKEY

Sales in Turkey more than doubled following the acquisition in the last quarter of 2011 of the Turkish pharmaceutical company Dr. F. Frik İlaç and are of € 64.8 million. Yeni Recordati and Dr. F. Frik İlaç were merged during 2012 and the resulting company is now denominated Recordati İlaç. In Turkey Recordati's corporate products are already available on the market and they represent 23% of sales. Lercadip® (lercanidipine), with sales growth of 34.2%, and Procto-Glyvenol®, acquired during 2011, are performing well. During 2012 Urorec® (silodosin) and Zanipress® (lercanidipine+enalapril) were launched.

PORTUGAL

Revenue generated by our subsidiaries in Portugal is € 33.9 million, down by 1.4% mainly due to the overall contraction of the Portuguese pharmaceutical market and due to the termination of the Starlix® (nateglinide) license and decreasing Zanidip® (lercanidipine) sales (-31.4%).

€ (thousands)	2012	2011	Change 2012/2011	%
Prescription pharmaceuticals	31,451	31,923	(472)	(1.4)
Self-medication pharmaceuticals	2,438	2,437	1	0.0

Zanipress® (lercanidipine+enalapril), with sales growing by 6.9%, and Urorec® (silodosin) (+42.2%) are performing well as well as Livazo® (pitavastatin), launched during 2011 and already the third most important product in the Portuguese product portfolio.

SPAIN

Revenues in Spain are € 33.3 million, up by 4.5% compared to the preceding year mainly due to the good sales performance of Urorec® (silodosin) and of Zanipress® (lercanidipine+enalapril) as well as to sales of Livazo® (pitavastatin) launched in the second quarter 2011.

€ (thousands)	Indication	2012	2011	Change 2012/2011	%
Cidine®	gastroprokinetic	10,072	10,250	(178)	(1.7)
Livazo®	hypercholesterolemia	5,851	1,791	4,060	n.s.
Urorec®	benign prostatic hyperplasia	3,738	2,741	997	36.4
Zanipress®	hypertension	3,190	2,943	247	8.4
Dermatrans®	angina	2,299	2,468	(169)	(6.8)
Zanidip®/lercanidipina	hypertension	2,122	3,070	(948)	(30.9)

UNITED KINGDOM

Sales in the United Kingdom are € 5.6 million and consist mainly of sales of lercanidipine, which are decreasing significantly due to the competition from generic versions, and of products for the treatment of rare diseases. The latter now represent 68.6% of the British business.

OTHER WESTERN EUROPEAN COUNTRIES

Sales in other countries in Western Europe comprise sales of products for the treatment of rare diseases in a number of countries for a total of € 11.1 million (+13.7%), sales in Ireland recorded by Recordati Ireland of € 2.2 million, mainly generated by Zanidip® (lercanidipine), and sales in Greece reported by Recordati Hellas Pharmaceuticals of € 8.0 million. Sales in Greece grow by 10.2% thanks to the good performance of Lopresor® (metoprolol), and of Urorec® (silodosin) and of the re-launch of Lomexin® (fenticonazole) previously sold through a licensee.

RUSSIA AND OTHER CENTRAL AND EASTERN EUROPEAN COUNTRIES

Revenue generated in Russia and in the other countries within the Commonwealth of Independent States (C.I.S.) is € 50.6 million, up 37.2% over the preceding year. The best selling product in this area is Tergynan®, a medicine indicated for the treatment of gynecological infections, which recorded sales of € 22.1 million. The corporate products Procto-Glyvenol®, Lomexin® (fenticonazole), Urorec® (silodosin), Zanidip® (lercanidipine) and Coripren® (lercanidipine+enalapril) have already been launched in Russia generating initial sales of € 3.7 million. Furthermore, in November 2012 a portfolio of five OTC product lines was acquired in this market which recorded sales of € 2.6 million in the last month of the year. Revenues include pharmaceutical promotion services rendered to third parties for a total of € 3.1 million.

Sales generated by Herbacos Recordati in the Czech and Slovak Republics are € 14.5 million, a growth of 1.9% compared to the preceding year thanks to the good performance of Procto-Glyvenol®, Kentera® (oxybutynin) and Urorec® (silodosin) launched during 2011.

Recordati Polska started to market Procto-Glyvenol® in 2012. Furthermore, the Polish company Farma-Projekt was acquired in August as well as a portfolio of products which were marketed in Poland by the Romanian company Labormed. Altogether, sales in Poland during 2012 are € 6.9 million.

In Romania our subsidiary Recordati România started selling the corporate products Urorec® (silodosin), Lomexin® (fenticonazole) and Procto-Glyvenol® during 2011. Altogether, sales recorded during 2012 are € 2.3 million.

Sales in these markets of the specialty products indicated for the treatment of rare and orphan diseases amount to € 2.3 million and grow by 47.3%.

UNITED STATES OF AMERICA

The group's pharmaceutical business in the U.S.A. is dedicated exclusively to the marketing of products for the treatment of rare diseases. Sales in 2012 are € 7.4 million and consist of revenues from Carbaglu® (carglumic acid), indicated for the treatment of acute hyperammonaemia associated with NAGS deficiency, approved by the Food and Drug Administration (FDA) at the end of 2010. In January 2013 the acquisition from Lundbeck LLC of all rights pertaining to a portfolio of treatments for rare and other diseases, sold mainly in the U.S.A., was concluded. The main product is Panhematin® (haemin for injection) for the amelioration of recurrent attacks of acute intermittent porphyria. Other important drugs acquired are NeoProfen® (ibuprofen lysine injection) and Indocin® I.V. (indomethacin injection), indicated to close a clinically significant patent ductus arteriosus (PDA) in premature infants, and Cosmegen® (dactinomycin for injection) used mainly in the treatment of three rare cancers.

OTHER INTERNATIONAL SALES

Other international sales comprise revenues generated by the Group's international business through licensing agreements and exports. Included are the sales to and other revenues from our licensees for our corporate products, Bouchara Recordati's export sales, except those generated in the C.I.S. which are stated separately, and export sales realized by Orphan Europe worldwide excluding the U.S.A..

€ (thousands)	2012	2011	Change 2012/2011	%
Sales to international licensees	94,752	89,496	5,256	5.9
Bouchara Recordati (export sales)	31,704	27,005	4,699	17.4
Orphan Europe (sales to licensees and exports)	12,166	9,859	2,307	23.4
Other income	10,090	9,882	208	2.1
Total	**148,712**	**136,242**	**12,470**	**9.2**

Sales to international licensees grow by 5.9% thanks to the sales performance of the new products silodosin (+34.9%) and pitavastatin (+66.6%) to co-marketers and to licensees in countries where Recordati is not present directly. Sales of the fixed combination of lercanidipine and enalapril increase by 7.1%. We also wish to underline the good sales performance of our proprietary active ingredient flavoxate (+4.7%). Sales to licensees of fenticonazole are slightly down (-3.6%) as in some markets sales are now made directly by our subsidiaries following the termination of the licensee agreements. Sales of lercanidipine are down due to the competition on the market from generic versions of the molecule (-2.6%).

Sales outside France by our French subsidiary Bouchara Recordati are up by 17.4% mainly thanks to the good performance of the product portfolio sold mainly in the Maghreb area and in the other ex-French colonies in Asia and in Africa.

Sales of our treatments for rare diseases in countries where Orphan Europe does not have a direct presence are

growing by 23.4%. Sales of Carbaglu® generated in the U.S.A. are excluded because reported separately.

Other income refers to royalties and up-front payments related to license agreements and remain substantially unchanged compared to the preceding year.

PHARMACEUTICAL CHEMICALS

€ (thousands)	2012	%	2011	%	Change 2012/2011	%
Italy	2,797	9.0	3,166	11.1	(369)	(11.7)
Europe (Italy excluded)	11,040	35.7	9,985	35.1	1,055	10.6
America	9,027	29.2	9,168	32.3	(141)	(1.5)
Australasia	6,178	20.0	5,131	18.1	1,047	20.4
Africa	1,901	6.1	971	3.4	930	95.8
Total	**30,943**	**100.0**	**28,421**	**100.0**	**2,522**	**8.9**

Sales of pharmaceutical chemicals, which comprise active substances produced in the Campoverde d'Aprilia (Latina, Italy) plant, increase by 8.9% as compared to 2011, mainly due to a significant increase in sales volumes, mainly for the products verapamil, mebeverine, papaverine, dimenhydrinate, acyclovir and diphenhydramine, as well as to a positive foreign exchange effect.

HEALTH, SAFETY AND ENVIRONMENT

The Recordati group recognizes the management of the environment and safety at the workplace as one of its priorities.

Company policy is implemented through the careful organization of roles with regard to guaranteeing the safety and health of workers. A well-defined corporate organization combined with a systemic approach to the management of safety at the workplace ensures continuous improvement in management with the object of constantly reducing work-related and environmental risks.

In order to define an organization model specifically designed to address health and safety at the workplace, the Company has internal procedures in place to regulate these issues entitled “Procedures for Prevention Management, Accident Management and Medical Services” in which the internal Supervisory Body is directly involved.

The following common characteristics and measures for risk prevention are present within the system for the management of health, safety and the environment that the Recordati group employs in both its pharmaceutical chemicals and its pharmaceutical plants: risk assessment, training and information for workers, proper maintenance standards, environmental protection systems designed to minimize environmental impacts, appropriate emergency measures and compliance with local legislation on the subject. The group monitors and analyzes injuries and accidents that occur at the various production sites. The results of these analyses of industrial accidents are periodically submitted to the Internal Audit Committee. Recordati employs a systematic approach to the management of health, safety and the environment, and sets itself the specific objective not only of compliance with the various national regulations in force at different production sites, but also of continuous improvement in the management of these matters.

Risk assessment is the principal tool used in the safety management system. It is used to define risk control factors along with the relative measures for prevention and protection to be adopted or monitored in order to reduce the risk to the health and safety of workers. The updating of the risk assessment document is a continuous activity, it records the sequence of the actions undertaken to improve the working environment and the activities in progress, and it also includes assessments of new activities or changes made to the work process.

Training, information and awareness of the workers are considered to be fundamental prevention tools in all matters related to health, safety and the environment. Health and safety training programs are implemented to ensure adequate competency of everyone within the whole company organization. The goal is to increase the attention placed by personnel on risks and the prevention measures put in place in order to reduce accident rates caused by human error, which is the main cause of accidents at the company. Training and the dissemination of information on the organization of safety in the company is provided for all employees and, thanks to the use of remote training, the operational forces in the field are also systematically involved.

Maintenance is one of the key prevention activities. Equipment, plant and machinery are subject to regular maintenance programmes performed by both internal and external resources.

Out-sourcing to third party contractors is managed by special internal procedures which include the verification that the contractor is suitable and the sharing of the “Single Interference Risk Assessment Document” in order to reduce, and if possible eliminate, potential interferences between the work activities of external firms and the normal operations of the company.

Regarding the health and safety management system implemented by Recordati at its Milan site, a project is underway in order to qualify for the BS OHSAS 18001:07 certification.

Particular attention is placed on all aspects of an environmental nature, in order to protect the environment and to prevent any form of pollution.

All group production sites possess and maintain updated environmental authorizations required by local legislation related to protection of the environment.

The environmental factor is controlled and managed in the pharmaceutical chemicals plants within an environmental management system that is part of the general management system. It includes the organizational structure, planned activities, responsibilities, practices, procedures and resources to formulate, implement, review and maintain the company's environmental policies.

The environmental management system goes beyond carefully ensuring that laws and regulations for preventing potential incidents from occurring are complied with. It involves a programme of continuous improvement in corporate conduct towards the surrounding environment.

In June 2012 the Campoverde (Latina, Italy) plant passed an on-site inspection performed by the certifying body DNV (Det Norske Veritas), which renewed its certification of the environmental management system recognizing it as compliant with the UNI EN ISO 14001/04 standard.

FINANCIAL REVIEW

INCOME STATEMENT

The following table shows the profit and loss accounts, including their expression as a percent of sales and change versus 2011:

€ (thousands)	2012	% of revenue	2011	% of revenue	Change 2012/2011	%
Revenue	**828,317**	**100.0**	**762,036**	**100.0**	**66,281**	**8.7**
Cost of sales	(293,557)	(35.4)	(259,977)	(34.1)	(33,580)	12.9
Gross profit	**534,760**	**64.6**	**502,059**	**65.9**	**32,701**	**6.5**
Selling expenses	(250,566)	(30.3)	(232,160)	(30.5)	(18,406)	7.9
R&D expenses	(63,407)	(7.7)	(55,956)	(7.3)	(7,451)	13.3
G&A expenses	(45,486)	(5.5)	(45,386)	(6.0)	(100)	0.2
Other income (expense), net	(8,337)	(1.0)	(5,080)	(0.7)	(3,257)	64.1
Operating income	**166,964**	**20.2**	**163,477**	**21.5**	**3,487**	**2.1**
Financial income (expense), net	(6,626)	(0.8)	(3,465)	(0.5)	(3,161)	91.2
Pretax income	**160,338**	**19.4**	**160,012**	**21.0**	**326**	**0.2**
Provision for income taxes	(41,841)	(5.1)	(43,566)	(5.7)	1,725	(4.0)
Net income	**118,497**	**14.3**	**116,446**	**15.3**	**2,051**	**1.8**
Attributable to:						
Equity holders of the parent	118,484	14.3	116,434	15.3	2,050	1.8
Minority interests	13	0.0	12	0.0	1	8.3

In 2012 international revenues went from € 540.4 million to € 608.4 million, an increase of 12.6%, and represent 73.5% of total revenue. Their breakdown by geographic area is shown in the table below:

€ (thousands)	2012	%	2011	%
Europe (Italy excluded)	508,218	83.5	451,787	83.6
Australasia	40,614	6.7	37,776	7.0
Africa	30,366	5.0	26,822	5.0
America	29,221	4.8	24,048	4.4
Total	**608,419**	**100.0**	**540,433**	**100.0**

Gross profit is € 534.8 million with a margin of 64.6% on sales, a reduction compared to the preceding year due to the lower proportion of lercanidipine sales to total sales.

Selling expenses increase by 7.9% compared to the preceding year mainly due to the new marketing activities in Turkey, Russia and Poland.

R&D expenses, at € 63.4 million, an increase of 13.3% as compared to 2011 mainly due to the up-front payment

of € 5.0 million to Erytech for the acquisition of the rights to Graspa®.

Overall, labor cost in 2012 is € 205.7 million, an increase of 5.9% over 2011, while the cost per employee increases by 4.7%.

Personnel and other human resources data at 31 December 2012 and 2011 are shown in the following table:

	2012	2011
Employees at year-end	**3,369**	**3,207**
Average age	41	41
Average service (years)	7.0	6.8
Labor productivity:		
Labor cost on net sales	24.8%	25.5%
Sales per employee (€ thousands) [(a)]	264.8	246.6
Value added per employee (€ thousands) [(a)]	127.1	123.6

Labor cost includes wages, related charges and additional costs.
(a) Data per employee for both years are computed on the average number of personnel, 3,128 in 2012 and 3,091 in 2011.

The strengthening of our corporate organization continued in order to ensure the integration, monitoring and coordination of the foreign subsidiaries in accordance with our internationalization strategy. Personnel training and development represented a substantial portion of the Group's efforts also in 2012. In particular, investments were made for the training of medical representatives and researchers.

Other expenses net of other income at € 8.3 million include the € 2.4 million pay-back due to AIFA (the Italian medicines agency) in substitution for the 5% price reduction on selected products, costs associated with the acquisitions of a product portfolio in Russia, the pharmaceutical company Farma-Projekt in Poland and the portfolio of treatments for rare diseases in the U.S.A., for a total of € 2.3 million, as well as provisions for restructuring costs.

Net financial charges are € 6.6 million, an increase as compared to 2011 mainly due to higher level of indebtedness during the year and lower currency exchange gains compared to those realized the preceding year.

The effective tax rate during the year is 26.1%, a reduction compared to the preceding year.

Net income is € 118.5 million and increases by 1.8% compared to the preceding year.

FINANCIAL POSITION

The net financial position at 31 December 2012 records net debt of € 153.5 million compared to net debt of € 55.7 million at 31 December 2011.

€ (thousands)	31.12.2012	31.12.2011	Change 2012/2011	%
Cash and short-term financial investments	38,418	105,164	(66,746)	(63.5)
Bank overdrafts and short-term loans	(55,987)	(13,555)	(42,432)	313.0
Loans – due within one year[(1)]	(8,147)	(11,616)	3,469	(29.9)
Net liquid assets	(25,716)	79,993	(105,709)	(132.1)
Loans – due after one year[(1)]	(127,740)	(135,727)	7,987	(5.9)
Net financial position	**(153,456)**	**(55,734)**	**(97,722)**	**175.3**

[(1)] Includes change in fair value (fair value hedge).

During the year dividends were paid for an overall amount of € 60.0 million, of which € 21.3 million for the balance of the financial year 2011 dividend and € 38.7 for the interim financial year 2012 dividend.

Furthermore, significant investments were made for the international development of the Group. An amount of € 21.0 million were paid for the acquisition of six OTC products in Germany from Cilag GmbH International and McNeil GmbH & Co. oHG. € 14.3 million in all were paid for the acquisitions in Poland of the pharmaceutical company Farma-Projekt and a portfolio of products sold by Labormed. A portfolio of products in Russia and the other C.I.S. was acquired for an amount of € 66.7 million.

An amount of € 15.8 million was invested in property, plant and equipment, mainly involving the Milan headquarters and the production plants in Campoverde di Aprilia (Italy), in Saint Victor (Montluçon, France) and in Istanbul (Turkey).

Net working capital for operations at 31 December 2012 is € 117.2 million and is thus comprised:

€ (thousands)	31.12.2012	% of revenue	31.12.2011	% of revenue	Change 2012/2011	%
Trade receivables, net	155,359	18.8	141,231	18.5	14,128	10.0
Inventories	126,388	15.3	108,251	14.2	18,137	16.8
Other current assets	27,147	3.3	24,509	3.2	2,638	10.8
Current assets	**308,894**	**37.3**	**273,991**	**36.0**	**34,903**	**12.7**
Trade payables	106,926	12.9	98,678	12.9	8,248	8.4
Tax payable	9,789	1.2	12,091	1.6	(2,302)	(19.0)
Other current liabilities	74,986	9.1	80,496	10.6	(5,510)	(6.8)
Current liabilities	**191,701**	**23.1**	**191,265**	**25.1**	**436**	**0.2**
Net working capital for operations	**117,193**	**14.1**	**82,726**	**10.9**	**34,467**	**41.7**
Days of sales outstanding	65		72			
Inventories as % of cost of sales	42.3%		39.6%			

RELATED PARTY TRANSACTIONS

Tax assets include an amount of € 0.6 million, computed by Recordati S.p.A. based on estimated taxable income, receivable from the controlling company Fimei S.p.A. consequent to the participation in a tax consolidation grouping under tax laws in Italy.

Except for the above, 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.

SUBSIDIARIES OUTSIDE THE EUROPEAN UNION

Pursuant to articles 36 and 39 of the Financial Markets Regulation concerning the listing conditions of companies with subsidiaries of significant relevance in their consolidated accounts, established and regulated under the laws of countries outside the European Union, we point out that at 31 December 2012 the provisions of art. 36 of the Financial Markets Regulation apply to the subsidiary Recordati İlaç and that the conditions indicated in the abovementioned art. 36 are fulfilled.

SIGNIFICANT OPERATIONS, PUBLICATION REQUIREMENTS DEROGATION

The company has decided to avail itself, as from 20 December 2012, of the faculty of derogation of the requirements to publish the information documents prescribed in the event of significant operations involving mergers, spin-offs, capital increases through contribution in kind, acquisitions and disposals, pursuant to article 70, paragraph 8 and article 71, paragraph 1-bis of the Issuers' Regulations enacted by Consob under Resolution n. 11971/1999 and following modifications.

RECORDATI

FOURTH QUARTER 2012

€ (thousands)	IV quarter 2012	%	IV quarter 2011	%	Change 2012/2011	%
Revenue	**208,020**	**100.0**	**181,403**	**100.0**	**26,617**	**14.7**
Cost of sales	(74,828)	(36.0)	(63,132)	(34.8)	(11,696)	18.5
Gross profit	**133,192**	**64.0**	**118,271**	**65.2**	**14,921**	**12.6**
Selling expenses	(62,471)	(30.0)	(55,536)	(30.6)	(6,935)	12.5
R&D expenses	(18,951)	(9.1)	(11,995)	(6.6)	(6,956)	58.0
G&A expenses	(12,353)	(5.9)	(13,796)	(7.6)	1,443	(10.5)
Other income (expense), net	(4,849)	(2.3)	(2,371)	(1.3)	(2,478)	104.5
Operating income	**34,568**	**16.6**	**34,573**	**19.1**	**(5)**	**0.0**
Financial income (expense), net	(2,396)	(1.2)	(640)	(0.4)	(1,756)	274.4
Pretax income	**32,172**	**15.5**	**33,933**	**18.7**	**(1,761)**	**(5.2)**
Provision for income taxes	(6,790)	(3.3)	(9,529)	(5.3)	2,739	(28.7)
Net income	**25,382**	**12.2**	**24,404**	**13.5**	**978**	**4.0**
Attributable to:						
Equity holders of the parent	25,377	12.2	24,400	13.5	977	4.0
Minority interests	5	0.0	4	0.0	1	25.0

Revenues during the fourth quarter 2012 are € 208.0 million, an increase of 14.7% compared to the same period of the preceding year. Pharmaceutical sales are € 199.5 million, up by 14.0% compared to the fourth quarter 2011. Pharmaceutical chemicals revenue, at € 8.5 million, up by 33.8% compared to the same period of the preceding year.

Operating income is € 34.6 million, in line with that of the fourth quarter 2011, and at 16.6% of sales is lower than that of the preceding quarters due to non-recurring costs incurred referred mainly to the up-front payment of € 5.0 million to Erytech for the acquisition of the rights to Graspa®, booked to R&D expenses, and to the provision for costs associated with the restructuring of our sales organization in France.

Financial charges increase significantly due to the higher level of indebtedness and to currency exchange losses.

Net income increases by 4.0%, more than the increase in operating income due to a more favourable tax rate.

MAIN RISKS AND UNCERTAINTIES

The principal risk factors to which the Group is exposed are described below with an indication of the management strategies and policies pursued. They have been classified as follows:

- Risks associated with the external context
- Risks associated with strategy and operations
- Financial risks
- Legal and compliance risks

RISKS ASSOCIATED WITH THE EXTERNAL CONTEXT

Risks associated with changes in legislation and regulations governing the pharmaceutical sector

The pharmaceuticals sector is heavily regulated locally, nationally and internationally and this affects activities at all levels. Group sales consist mainly of products subject to medical prescription which are reimbursed by national healthcare services or other medical insurance schemes which are, however, prevalently of a public nature . While on the one hand this situation protects the Group from general economic trends, on the other it exposes it to changes in local legislation governing public spending on healthcare. For many years the Group has pursued a policy of diversifying and expanding its sales on several geographical markets in order to mitigate dependency on decisions by single national governments to control spending on pharmaceuticals. The pharmaceuticals sector is also exposed to national and international technical standards which regulate pharmaceutical research and development, production and promotion. The Group implements a policy to constantly monitor changes in regulations on all the markets on which it operates, with dedicated organisational units in the Parent Company and in subsidiaries designed to identify and rapidly adopt the most appropriate response strategies.

Risks associated with business expansion into emerging markets

The policies pursued by the Group include the expansion of operations in central and eastern European countries with the highest potential for development and the strongest growth rates. Operations in those countries could present risks associated with political, economic, currency, regulatory and fiscal instabilities or discontinuities. Recordati carefully assesses all growth opportunities in these countries in order to mitigate exposure to these uncertainties and where possible it prefers to acquire local companies with a smaller outlay of capital, rather than other companies that are more exposed to country risk.

Risks associated with market competition

The Group, like any company operating in the pharmaceuticals sector, is subject to competition from products which could determine a contraction in its market share. These consist of both new pharmaceuticals launched by competitors in the same therapeutic classes in which the Group is present and also generic versions of pharmaceuticals coming to market when patents expire. While the Group monitors the market continuously to detect the introduction of competing pharmaceuticals as soon as possible, it also manages risk by pursuing a policy to progressively diversify and broaden the range of its product portfolio in order to reduce dependency on a small number of strategic pharmaceuticals.

RISKS ASSOCIATED WITH STRATEGY AND OPERATIONS

Risks associated with the internationalization of the Group

The Group currently operates in a growing number of countries and is therefore subject to risks arising from the complexity of conducting operations in delocalized areas. In order to address this situation, the Group has put a management system in place with central units which integrate, monitor and co-ordinate the operations of local

units on which operational and marketing powers are conferred to be exercised in compliance with guidelines and within limits indicated by the Group.

Risks associated with the expiry of patents

The pharmaceuticals industry makes large investments in research and development and as a consequence it enjoys a high degree of protection on its intellectual properties. Therefore, the expiry of patents covering important pharmaceuticals in product portfolios and the consequent introduction onto the market of generic versions exposes companies to reductions in revenues which can be large. As far as the Group is concerned, the patent for lercanidipine, an important pharmaceutical in the product portfolio, expired at the beginning of 2010 in the main European countries. In order to counter the reduction in this product's sales as a result of competition from generic pharmaceuticals, the Group is pursuing a diversification strategy based on the launch of new products and the expansion of its operations onto new markets with high growth rates.

Risks associated with investments in research and development

The competitive positioning of the Group depends on the continuous development of its product portfolio through the research and development of new molecules and pharmaceutical products in which it invests a substantial part of its resources. Given the complexity and long periods involved in these initiatives, it is not possible to be certain that investments in research and development will always produce the expected results, because the research conducted may fail or the necessary authorisations to market products may not be obtained. In order to mitigate exposure to these risks, the Group constantly monitors the intermediate results generated at the various stages of the research and development process, in order to select and move forward only with the most reliable initiatives that have the highest probability of an economic return and success. Additionally, prudentially, the costs for investments in research and development are fully expensed in the accounting period in which they are incurred.

Risks associated with the launch of new products

A risk exists in the pharmaceuticals sector that delays in the development process, or in the issue of the necessary authorizations by regulatory authorities, may result in product launches occurring behind schedule with a consequent delay in the achievement of growth targets. In order to mitigate that risk Recordati pursues two policy lines. One is to broaden and balance its pipeline of products, implemented by acquiring pharmaceuticals that are already registered or are about to be registered, or of new products at different stages of development. The other is to pursue a plan of geographical diversification designed to limit dependence on the regulatory authorities of a single country.

Risks associated with pharmacovigilance

The Group, as a holder of drug marketing authorizations, must comply with regulations on pharmacovigilance. These regulations require that holders of marketing authorizations submit to the regulatory bodies information regarding drug safety, within the time limits and in the manner established by these, with particular regard to adverse reactions. The ascertainment of serious adverse drug reactions can expose the Group to the risk of restrictions being placed on the prescription of a drug, and in the most serious cases, authorization to market the product can be revoked. In order to efficiently handle this risk and to comply with national regulations in the countries where the Group operates, Recordati has assigned specific pharmacovigilance responsibilities within its organizations and has put integrated systems in place to collect, assess, manage and submit the information required to the competent authorities. On the basis of currently available information there are no indications with regard to pharmacovigilance to suggest that critical situations exist for Group products.

Risks associated with the production process

The Group has production plants which produce both intermediate products and active ingredients and also finished pharmaceutical products. Production activities are carried out in strict compliance with internationally established Good Manufacturing Practices (GMP) implemented through Standard Operating Procedures applicable to the pharmaceutical sector, and are submitted to monitoring and inspection by national and international relevant authorities. The Group's production sites are provided with adequate structures and qualified personnel to ensure that the production of medicinal specialties and active ingredients is carried out in compliance with good manufacturing practices (GMP) and with specific internal procedures and rules in force. In particular, the Group's main production site in Campoverde di Aprilia (Italy) regularly passes successfully inspections carried out by the Food and Drug Administration (FDA) and other national and international authorities.

Risks associated with interruption of the production process

Production is by its nature exposed to potential risks of interruption which, if they were to have significant or long lasting effects – caused for example by natural disasters, the revocation of production permits and licenses, malfunctioning of plant and equipment, interruptions in the supply of important raw materials or energy –could have adverse consequences on the continuity and regularity of sales. In order to mitigate the effects of long lasting interruptions in production processes, the Group has an effective asset protection policy in place (through precise plant maintenance plans and adequate systems to automatically notice and put out fires) and has production plants with adequate capacity and flexibility to handle changed planning requirements. Furthermore, the Group uses only reliable suppliers, approved as complying with the relevant technical standards. It also constantly monitors the availability of raw materials and strategic excipients, in order to promptly identify potential local or worldwide "out-of-stock" situations and to take the necessary action (supply and/or production backups) to guarantee production autonomy. Furthermore, in order to reduce losses resulting from potential interruptions or damage to production cycles, the Group has taken out "All risk property" insurance policies which cover direct damages (such as damages to buildings, machines and goods) as well as indirect damages (such as loss of profit as a consequence of accidents).

Risks associated with health, safety and the environment

Chemical and pharmaceutical production is subject to obligations to comply with environmental, health and safety rules and regulations. To ensure the correct application of these rules and regulations, the Group has in place organizational units specifically dedicated to prevention, verification and continuous monitoring as regards compliance with the structural technical standards (related to equipment, plant, the workplace, chemical, physical and biological agents) in addition to activities regarding health surveillance, security vigilance, workers training and information and the procurement of documents and certificates required by law. In particular, the environmental management system of the Group's main production plant, located at Campoverde di Aprilia, obtained certification from the accredited international body DNV (Det Norske Veritas, Italy) of compliance with the UNI EN ISO 14001:1996 standard in 2003, which was subsequently confirmed with certification for the UNI EN ISO 14001:2004 standard.

Risks associated with the management of information technology resources and data security

Today's pervasiveness of information technology for the management of business and the necessary connection between company information systems and external information infrastructures (web and networks) exposes said systems to potential risks, both related to the availability, integrity and confidentiality of the data as well as to the availability and efficiency of the information systems. In order to guarantee effective operational continuity, the Group has implemented a disaster recovery and business continuity system which ensures the immediate replication of the principal legacy systems' workstations. Furthermore, the active safety of the company's data and software is guaranteed by multiple protection levels of a physical and logic nature, of both

servers and clients. Finally, the company is periodically submitted to VAPT (Vulnerability Assessment and Penetration Test) analysis. The outcome of this analysis has always shown the company's information systems to be adequately protected.

FINANCIAL RISKS

Credit Risk

Credit risk is exposure to potential losses resulting from commercial counterparties failing to meet their obligations. The Group closely controls its credit exposure through the allocation of credit limits to each single customer and an internal reporting system.

Interest Rate Risk

The Group raises funds using debt and invests excess cash in money market and other financial instruments. The fluctuation of market interest rates influences the cost and returns of the debt and investment instruments therefore affecting the Group's net financial charges. The Group's policy is to limit the risk arising from interest rate fluctuations by establishing fixed interest loans or variable interest loans perfectly hedged using derivative financial instruments for the sole purpose of minimizing such fluctuations and not for speculation. This hedging policy, combined with the low level of net debt, limits the Group's exposure to the risk of fluctuations in interest rates.

Foreign Currency Risk

The Group operates in an international context and has assets and transactions denominated in foreign currency other than euro. It is therefore exposed to risks of foreign currency fluctuations which can affect is operating results and the value of its equity. The diversification strategy enacted by the Group results in a progressive higher exposure to trade transactions in foreign currency with respect to the Group's business volume. The most significant part of financial assets and liabilities denominated in foreign currency are hedged with derivatives contracts entered into for the sole purpose of hedging and not for speculation.

Liquidity Risk

The liquidity risk to which the Group may be exposed is the inability to raise sufficient financial resources for its ongoing business and for the development of its industrial and commercial activities. The two main factors which determine the Group's liquidity are, on the one hand, the cash generated or absorbed by operations and by investments, and on the other, the expiry and renewal terms of debt or the degree of liquidity of financial investments and market conditions. The Group has at its disposal liquidity readily available for its operations and plentiful lines of credit granted by a number of leading Italian and international financial institutions. The terms and conditions of the Group's loans and its financial assets are set out in notes 17, 20 and 29 which address, respectively, short-term financial investments, cash and cash equivalents, loans and bank overdrafts. The Group believes that the funds and credit lines currently available, in addition to those generated by operations and financing activities, are enough to satisfy investment needs, working capital requirements and the repayment of debts at their natural due dates.

LEGAL AND COMPLIANCE RISKS

Risks associated with product liability

Despite careful compliance with standards and regulations, like any company operating in the pharmaceuticals sector, the Group could be exposed to risks of claims for damages caused by its pharmaceuticals. In order to meet those potential liabilities, the Group has taken out insurance policies to cover all the products marketed and under development. The maximum liability limits are considered adequate and are constantly monitored.

Risks associated with compliance

All operating and marketing activities performed by the Group, both in Italy and abroad, are performed in compliance with the legislation and regulations that apply in the geographical areas in which it operates, including national and international technical standards that apply to the pharmaceuticals sector which regulate pharmaceutical research and development, production, distribution and promotion. As concerns the regulation of drug promotion activities, the Group has formulated a set of ethical rules of conduct. All company personnel are continuously informed of those rules and monitoring, both internally and by independent certifiers, is performed constantly to ensure that they are properly observed. In compliance with Legislative Decree 231/2001 on the administrative liability of legal entities, the Italian companies in the Group have an "Organisation, Management and Control Model" that is continuously updated to comply with the latest amendments to the relevant legislation.

Risks associated with legal action

It is always possible that the Group may be required to meet costs resulting from litigation of various types. In these cases the Group may be called upon to pay extraordinary costs with consequences for operating and financial results. A detailed description of litigation in progress and the relative provisions made to meet future liabilities is given in notes 27 and 36 to the financial statements.

RECORDATI

SUBSEQUENT EVENTS AND BUSINESS OUTLOOK

On 18 January 2013 the acquisition of all rights concerning a portfolio of products indicated for the treatment of rare and other diseases and marketed mainly in the United States of America, from Lundbeck LLC. was concluded. The value of the transaction is of $ 100 million of which $ 80 million were paid at the closing.

On 12 February 2013 the company presented its financial targets for 2013 and its business plan to 2015. For 2013, targets are to achieve sales of more than € 920 million, operating income of more than € 185 million and net income of more than € 128 million. Objectives in the business plan are to achieve sales of between € 1.025 and € 1.075 million, operating income of between € 210 and € 220 million and net income of between € 140 and € 150 million in 2015.

Group consolidated sales during the first two months of 2013 are in line with the company's expectations for the whole year.

Milan, 7 March 2013

Giovanni Recordati
Chairman and Chief Executive Officer

RECORDATI

CONSOLIDATED FINANCIAL STATEMENTS

Recordati S.p.A and Subsidiaries
Consolidated Financial Statements at and for the year ended 31 December 2012

The consolidated financial statements are presented in accordance with the International Accounting Standards (IAS) and the International Financial reporting Standards (IFRS) issued or revised by the International Accounting Standards Board (IASB) and the interpretations of the International Financial Interpretation Reporting Committee (IFRIC) previously named Standing Interpretations Committee (SIC). The financial statements comply with the European Union's guidelines on the preparation of consolidated financial statements. The same accounting standards were used in the preparation of the financial statements at 31 December 2011.

RECORDATI

RECORDATI S.p.A. AND SUBSIDIARIES

CONSOLIDATED INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2012

INCOME STATEMENT

€ (thousands)	Note	2012	2011
Revenue	3	**828,317**	**762,036**
Cost of sales	4	(293,557)	(259,977)
Gross profit		**534,760**	**502,059**
Selling expenses	4	(250,566)	(232,160)
R&D expenses	4	(63,407)	(55,956)
G&A expenses	4	(45,486)	(45,386)
Other income (expense), net	4	(8,337)	(5,080)
Operating income		**166,964**	**163,477**
Financial income (expense), net	5	(6,626)	(3,465)
Pretax income		**160,338**	**160,012**
Provision for income taxes	6	(41,841)	(43,566)
Net income		**118,497**	**116,446**
Attributable to:			
Equity holders of the parent		118,484	116,434
Minority interests		13	12
Earnings per share			
Basic		€ 0.593	€ 0.584
Diluted		€ 0.560	€ 0.556

Earnings per share (EPS) are based on average shares outstanding during each year, 199,722,208 in 2012 and 199,369,542 in 2011, net of average treasury stock which amounted to 9.402.948 shares in 2012 and 9,755,614 shares in 2011.
Diluted earnings per share is calculated taking into account stock options granted to company personnel.

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RECORDATI S.p.A. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET AT 31 DECEMBER 2012

ASSETS

€ (thousands)	Note	31 December 2012	31 December 2011
Non-current assets			
Property, plant and equipment	7	59,972	55,397
Intangible assets	8	231,470	149,649
Goodwill	9	413,213	365,719
Other investments	10	6,925	1,977
Other non-current assets	11	3,788	1,282
Deferred tax assets	12	22,837	22,494
Total non-current assets		**738,205**	**596,518**
Current assets			
Inventories	13	126,388	108,251
Trade receivables	14	155,359	141,231
Other receivables	15	24,983	21,311
Other current assets	16	2,164	3,198
Fair value of hedging derivatives *(fair value hedge)*	20	1,371	1,791
Short-term financial investments, cash and cash equivalents	17	38,418	105,164
Total current assets		**348,683**	**380,946**
Total assets		**1,086,888**	**977,464**

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RECORDATI S.p.A. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET AT 31 DECEMBER 2012

EQUITY AND LIABILITIES

€ (thousands)	Note	31 December 2012	31 December 2011
Shareholders' equity			
Share capital		26,141	26,141
Additional paid-in capital		83,719	83,719
Treasury stock		(46,254)	(53,215)
Hedging reserve *(cash flow hedge)*		(4,983)	(4,227)
Translation reserve		(3,713)	(8,232)
Other reserves		26,326	26,600
Retained earnings		501,701	445,745
Net income for the year		118,484	116,434
Interim dividend		(40,077)	(38,525)
Group shareholders' equity	18	**661,344**	**594,440**
Minority interest	19	53	40
Shareholders' equity		**661,397**	**594,480**
Non-current liabilities			
Loans – due after one year	20	129,111	137,518
Staff leaving indemnities	21	17,862	16,692
Deferred tax liabilities	22	15,872	6,049
Other non-current liabilities	23	1,828	2,062
Total non-current liabilities		**164,673**	**162,321**
Current liabilities			
Trade payables	24	106,926	98,678
Other payables	25	53,984	58,335
Tax liabilities	26	9,789	12,091
Other current liabilities		458	348
Provisions	27	20,544	21,813
Fair value of hedging derivatives *(cash flow hedge)*	28	4,983	4,227
Loans – due within one year	20	8,147	11,616
Bank overdrafts and short-term loans	29	55,987	13,555
Total current liabilities		**260,818**	**220,663**
Total equity and liabilities		**1,086,888**	**977,464**

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RECORDATI S.p.A. AND SUBSIDIARIES

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2012

€ (thousands)	2012	2011
Net income for the year	118,497	116,446
Gains/(losses) on cash flow hedges	(756)	72
Gains/(losses) on translation of foreign financial statements	4,519	(7,640)
Other gains/(losses)	(1,533)	1,415
Income and expense for the year recognized directly in equity	**2,230**	**(6,153)**
Comprehensive income for the year	**120,727**	**110,293**
Attributable to:		
Equity holders of the parent	120,714	110,281
Minority interests	13	12

RECORDATI S.p.A. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN GROUP SHAREHOLDERS' EQUITY

€ (thousands)	Share capital	Add. paid-in capital	Treasury stock	Hedging reserve	Translation reserve	Other reserves	Retained earnings	Net income for the year	Interim dividend	Mino-rity in-terest	Total
Balance at 31.12.2010	**26,141**	**83,719**	**(52,579)**	**(4,299)**	**(592)**	**25,733**	**389,284**	**108,571**	**0**	**28**	**576,006**
Allocation of 2010 net income:											
- Dividends								(54,613)			(54,613)
- Retained earnings							53,958	(53,958)			
Change in the reserve for share based payments						(548)	2,289				1,741
Purchase of own shares			(15,872)								(15,872)
Sale of own shares			15,236				227				15,463
Interim dividend									(38,525)		(38,525)
Other changes							(13)				(13)
Comprehensive income for the year				72	(7,640)	1,415		116,434		12	110,293
Balance at 31.12.2011	**26,141**	**83,719**	**(53,215)**	**(4,227)**	**(8,232)**	**26,600**	**445,745**	**116,434**	**(38,525)**	**40**	**594,480**
Allocation of 2011 net income:											
- Dividends								(59,802)	38,525		(21,277)
- Retained earnings							56,632	(56,632)			
Change in the reserve for share based payments						1,259	624				1,883
Sale of own shares			6,961				(1,325)				5,636
Interim dividend									(40,077)		(40,077)
Other changes							25				25
Comprehensive income for the year				(756)	4,519	(1,533)		118,484		13	120,727
Balance at 31.12.2012	**26,141**	**83,719**	**(46,254)**	**(4,983)**	**(3,713)**	**26,326**	**501,701**	**118,484**	**(40,077)**	**53**	**661,397**

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RECORDATI S.p.A. AND SUBSIDIARIES

CONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2012

€ (thousands)	2012	2011
Operating activities		
Cash flow		
Net Income	118,497	116,446
Depreciation of property, plant and equipment	8,786	10,529
Amortization of intangible assets	15,961	13,736
Write-down of assets	2,045	0
Total cash flow	**145,289**	**140,711**
(Increase)/decrease in deferred tax assets	6	(2,273)
Increase/(decrease) in staff leaving indemnities	1,170	(2,602)
Increase/(decrease) in other non-current liabilities	(329)	1,806
	146,136	**137,642**
Changes in working capital		
Trade receivables	(11,447)	(6,866)
Inventories	(16,856)	(18,220)
Other receivables and other current assets	(2,379)	9,279
Trade payables	5,463	(3,902)
Tax liabilities	(2,332)	1,363
Other payables and other current liabilities	(4,564)	2,368
Provisions	(1,269)	(204)
Changes in working capital	**(33,384)**	**(16,182)**
Net cash from operating activities	**112,752**	**121,460**
Investing activities		
Net (investments)/disposals in property, plant and equipment	(13,322)	(9,647)
Net (investments)/disposals in intangible assets	(49,546)	(34,572)
Net (increase)/decrease in equity investments	(82,204) [(1)]	(63,875) [(2)]
Net (increase)/decrease in other equity investments	(4,948)	(5)
Net (increase)/decrease in other non-current receivables	(2,506)	1,221
Net cash used in investing activities	**(152,526)**	**(106,878)**
Financing activities		
Medium/long term loans	0	44,743
Net financial position of acquired companies	(2,695)	(10,905)
Re-payment of loans	(11,462)	(21,912)
Change in Treasury stock	5,636	(409)
Effect of application of IAS/IFRS	350	3,156
Other changes in equity	25	(13)
Dividends paid	(61,354)	(93,138)
Change in translation reserve	96	(2,669)
Net cash from/(used in) financing activities	**(69,404)**	**(81,147)**
Changes in short-term financial position	**(109,178)**	**(66,565)**
Short-term financial position at beginning of year *	91,609	158,174
Short-term financial position at end of period *	(17,569)	91,609

* Includes cash and cash equivalents net of bank overdrafts and short-term loans.

(1) Acquisition of **Accent (66,707)**: Working capital (6), Fixed Assets (49,642), Goodwill (26,976), Deferred tax assets (1), Deferred tax liabilities 9,918. Acquisition of **Farma-Projekt (15,497)**: Working capital (1,077), Cash and cash equivalents 2,694, Fixed assets (678), Goodwill (16,094), Medium and long-term loans 6, Deferred tax assets (348).

(2) Acquisition of **Dr. F. Frik Ilaç (63,860)**: Working capital (3,549), Cash and cash equivalents 10,905, Fixed assets (18,623), Goodwill (64,933), Medium and long-term loans 12,305, Termination indemnity and other benefits 35. Acquisition of **FIC** and **FIC Médical (15)**:Change in purchase price (15).

1. GENERAL

The consolidated financial statements at 31 December 2012 comprise Recordati S.p.A. (the Company) and subsidiaries controlled by the Company. The companies included in the consolidated accounts, the consolidation method applied, their percentage of ownership and a description of their activity are set out in attachment 1.

During 2012 the consolidation perimeter changed to include acquisitions and reorganizations made during the year. In August the acquisition of the Polish pharmaceutical company Farma-Projekt sp. z o.o., with the object of reinforcing the Group's direct presence in Poland where Recordati Polska sp. z o.o. was established in 2011, was concluded. The recognition of this company in the accounts is not yet definite, and could be subject to change, as allowed by IFRS 3, in view of the limited period of time elapsed and the need to assess the fair value of the assets and liabilities acquired. The profit and loss accounts of Farma-Projekt are consolidated as from 1 September 2012. The consolidated cash flow statement includes the balance sheet effect of the first consolidation at 31 August 2012. In November the Russian company Accent LLC, owner of the marketing rights to five well-known product lines in Russia and C.I.S., was acquired. The profit and loss accounts of Accent are consolidated as from 16 November 2012. The consolidated cash flow statement includes the balance sheet effect of the first consolidation at 15 November 2012. The recognition of this company in the accounts is not yet definite. During 2012 the two companies owned in Turkey were merged: Dr. F. Frik İlaç A.Ş. a pharmaceutical company acquired in September 2011, subsequently renamed Recordati İlaç A.Ş., incorporated Yeni Recordati A.Ş.. As prescribed by IFRS 3 during 2012 the acquisition of Dr. F. Frik İlaç A.Ş. was definitely recognized in the accounts. The provisional values assigned to its assets and liabilities in the 2011 accounts were confirmed. During the period the consolidation perimeter changed also due to the reorganization of the company structure in France which involved the incorporation of FIC S.a.s. in FIC Médical S.a.r.l.. Recordati Corporation was renamed Recordati Rare Diseases Inc..

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared in accordance with International Accounting Standards and International Financial Reporting Standards (IAS/IFRS) issued by the International Accounting Standards Board (IASB) and in compliance with the European Union's guidelines on the preparation of consolidated financial statements. The same accounting policies applied in the preparation of the consolidated financial statements at 31 December 2012 were used in the preparation of the financial statements at 31 December 2011.

No significant changes in accounting policies were applied in the preparation of the consolidated financial statements.

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

31 December 2011.

The financial statements have been prepared on the historical cost basis, except for the financial assets available for sale included under the line "Other investments", hedging derivatives (and the relative underlying hedged financial liability) for which their fair value has been applied as prescribed by IAS 39 and defined benefit plans for which the actuarial valuation was carried out as prescribed by IAS 19.

The preparation of the financial statements requires management to make estimates and assumptions that affect the reported amounts of revenues, expenses, assets, liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. If in the future such estimates and assumptions, which are based on management's best judgment at the date of the financial statements, deviate from the actual circumstances, the original estimates and assumptions will be modified as appropriate in the period in which the circumstances change.

The principal accounting policies adopted are set out below.

Basis of consolidation

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

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

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

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

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

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

The financial statements of foreign subsidiaries expressed in currencies other than Euro are translated into Euro as follows:

- Assets and liabilities, at year-end exchange rates;
- Shareholders' equity at historical exchange rates;
- Income and expense items at the average exchange rates for the year;
- The goodwill resulting from the acquisition of a foreign company is recognized in the currency of the country in question and translated at year-end exchange rates.

Translation differences arising from this process are shown in the consolidated statement of comprehensive income.

Balance sheet

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

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

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

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

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

Goodwill - Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary, associate or jointly controlled entity at the date of acquisition. Transaction costs associated with the aggregation of companies are not considered acquisition costs and are recognized as expenses in the year they are incurred. Goodwill is recognized as an asset and reviewed annually in order to determine any impairment loss.

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

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

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

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

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

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount. However, the increased carrying amount cannot exceed the carrying amount that would have been determined had no impairment loss been recognized. A reversal of an impairment loss is recognized as income immediately. Losses resulting from the impairment of goodwill cannot be reversed.

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

Other investments - Other investments are those described by IAS 39 as available-for-sale financial assets. They comprise equity instruments and are measured at fair value. If their market value is not available and their fair value cannot be reasonably determined, these investments are valued at cost and adjusted for loss of value (impairment) if required. The impairment cost is recognized in the income statement.

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

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

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

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

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

Non-current assets held for sale and discontinued operations - Comprise those components of an entity, whose operations and cash flows can be distinguished operationally and for financial reporting purposes, that either have been disposed of or that satisfy the criteria to be classified as held for sale.

A non-current asset (or disposal group) classified as held for sale is measured at the lower of fair value less costs to sell it and its carrying amount.

Non-current assets or disposal groups that are classified as held for sale are not depreciated.

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

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

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

Staff leaving indemnities - Employee benefits presented on the balance sheet are the result of valuations carried out as prescribed by IAS 19. The liability recognised in the balance sheet for post-employment benefit plans is the present value of the defined benefit obligation, as adjusted for unrecognised actuarial gains and losses and unrecognized past service cost. The present value of the defined benefit obligation is determined using the Projected Unit Credit Method.

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

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

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

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

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

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

immediately in net profit or loss.

The gain or loss from the change in fair value of a hedging instrument qualifying as a "cash flow hedge" is recognized in the consolidated statement of comprehensive income.

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

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

Foreign currencies - Transactions in currencies other than the Euro are initially recorded at the rates of exchange prevailing on the dates of the transactions. Monetary assets and liabilities denominated in such currencies are retranslated at the rates prevailing on the balance sheet date. Profits and losses arising on exchange are included in net profit or loss for the period. Non-monetary assets and liabilities recorded at the rates of exchange prevailing on the dates of the transactions are not retranslated on the balance sheet date.

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

Income statement

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

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

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

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

Non-reimbursable government grants - Government grants towards investment in plant are recognized as

income over the periods necessary to match them with the related costs and are stated in the balance sheet as deferred income. Research grants are booked on an accrual basis and are recognized in the income statement as other revenue.

Transactions involving share based payments – As prescribed by IFRS 2 stock option plans for the benefit of group employees are considered part of their remuneration, the cost of which is the fair value of the stock options at the date they are granted. This cost is recognized in the profit and loss linearly distributed over the vesting period and booked directly to equity.

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

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

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

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

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

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

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

3. REVENUE

Net revenue for the years 2012 and 2011 is € 828.3 million and € 762.0 million respectively and can be broken down as follows:

€ (thousands)	2012	2011	Change 2012/2011
Net sales	810,551	734,070	76,481
Royalties	4,045	5,714	(1,669)
Up-front payments	8,568	11,958	(3,390)
Other revenue	5,153	10,294	(5,141)
Total revenue	**828,317**	**762,036**	**66,281**

Please refer to the Review of Operations for the analysis of net sales.

Revenue from up-front payments refers to the licensing out of corporate products and in 2012 are mainly relative to agreements for the licensing of lercanidipine (€ 4.9 million), of pitavastatin (€ 1.5 million), of the lercanidipine+enalapril fixed combination (€ 0.8 million), and of silodosin (€ 0.8 million).

Other revenue includes commissions of € 1.9 million received by FIC Médical for promotion services rendered to third parties in the countries belonging to the Commonwealth of Independent States (C.I.S.) as well as profits received from Novartis Consumer Health, for an amount of e 1.2 million, resulting from sales of Procto-Glyvenol® realized during 2012 before the transfer to Recordati of the marketing authorizations for the product in the various countries had been completed.

4. OPERATING EXPENSES

Total operating expenses for the years 2012 and 2011 are € 661.4 million and € 598.6 million respectively and are analyzed by function as follows:

€ (thousands)	2012	2011	Change 2012/2011
Cost of sales	293,557	259,977	33,580
Selling expenses	250,566	232,160	18,406
Research and development expenses	63,407	55,956	7,451
General and administrative expenses	45,486	45,386	100
Other (income) expense, net	8,337	5,080	3,257
Total operating expenses	**661,353**	**598,559**	**62,794**

Labor cost in 2012 is € 205.7 million, an increase of 5.9% compared to 2011, and includes charges of € 1.9 million related to stock option plans determined in accordance with IFRS 2.

Depreciation and amortization charges are € 24.7 million. Depreciation of property, plant and equipment is € 8.8 million, down by € 1.7 million as compared to 2011, and amortization of intangibles is € 15.9 million, an increase of € 2.2 million compared to the preceding year.

The following table summarizes the most significant components of other income (expense) which comprises mainly non-recurring events, operations and matters which are not often repeated in the ordinary course of business.

€ (thousands)	2012	2011	Change 2012/2011
Amounts due to the Italian healthcare system	(2,406)	(2,223)	(183)
Personnel restructuring charges	(9,849)	(920)	(8,929)
Costs associated with acquisitions	(2,345)	(1,753)	(592)
Reversal of a provision	7,250	0	7,250
Write-downs	(2,045)	0	(2,045)
Others	1,058	(184)	1,242
Total other income (expense), net	**(8,337)**	**(5,080)**	**(3,257)**

The amounts due to the public healthcare system in Italy refer to the pay back due to the Italian medicines

agency (AIFA) in substitution for the 5% price reduction on selected products. This mechanism which was already applied during preceding years, was extended to 2012.

Personnel restructuring charges are to be attributed mainly to the restructuring of the sales force announced in France to take place in 2013 (€ 6.6 million).

Costs associated with the acquisitions refer to intermediation expenses, legal consultancy fees and taxes on transactions related to the product portfolio acquired in Russia (€ 1.3 million), to the acquisition of the Polish company Farma-Projekt (€ 0.4 million) and to the portfolio of products for the treatment of rare diseases acquired in the U.S.A. (€ 0.7 million).

An amount of € 7.3 million had been provided for in 2010 to cover the probability that certain events, defined in the agreement with the Merck group and relative to the sale of pitavastatin marketing rights in France and in Belgium, should happen. The probability of the event happening has been reconsidered and the provision reversed. € 2.0 million of write-downs of intangibles are also related to pitavastatin and are referred to the up-front payments for the product's marketing rights in Italy and in France

5. FINANCIAL INCOME AND EXPENSE

In 2012 and 2011 financial items recorded a net expense of € 6.6 million and € 3.5 million respectively which are comprised as follows:

€ (thousands)	2012	2011	Change 2012/2011
Exchange gains (losses)	679	2,126	(1,447)
Interest expense on loans	(7,179)	(6,757)	(422)
Net interest income (expense) on s/t financial position	397	1,686	(1,289)
Interest cost in respect of defined benefit plans	(523)	(520)	(3)
Total financial income (expense), net	**(6,626)**	**(3,465)**	**(3,161)**

The increase of interest expense on loans is to be attributed mainly to the loans on the balance sheet of the company Dr. F. Frik İlaç acquired in 2011 and to interest on the loan received from Centrobanca, the second tranche of which was received in March 2011, partly offset by the interest savings following repayment of a part of the long term senior unsecured notes privately placed in 2004 for an amount of € 15.0 million (see Note 20).

The change in the short-term net financial position is mainly due to the decrease in the average amount of resources invested and to the use of short-term lines of credit. The resources were used for the implementation of the acquisition strategy in place during 2012.

The change in fair value of hedging derivatives is negative by € 0.4 million and refers to the measurement of the cross-currency interest rate swap covering the series of long term senior unsecured notes privately placed in 2004 with the objective of eliminating the exchange risk linked to the *tranches* denominated in U.S. dollars and in pounds sterling. This amount is equivalent to the change in the fair value of the underlying debt as compared to its nominal value with a combined zero effect on the income statement as the transaction is perfectly hedged.

6. PROVISION FOR INCOME TAXES

The provision for income taxes amounts to € 41.8 million and includes income taxes levied on all consolidated companies as well as the Italian regional tax on production activities (IRAP) which is levied on all Italian companies.

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

	2012 %	2011 %
Standard income tax rate on pretax income of the parent company	27.5	27.5
Dividends from foreign subsidiaries	0.6	0.5
Consolidation effect	(4.9)	(4.3)
Other differences, net	0.4	0.8
Effective tax rate on income	**23.6**	**24.5**
IRAP	2.5	2.7
Effective tax rate, including IRAP	**26.1**	**27.2**

IRAP is levied only on the Italian companies and is computed applying a 4.10% rate to a broader taxable base calculated before the deduction of labour cost and interest.

7. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment, net of accumulated depreciation, amounts to € 60.0 million and € 55.4 million at 31 December 2012 and 2011 respectively. The composition and variation of property, plant and equipment are shown in the following table:

€ (thousands)	Land & buildings	Plant & machinery	Other equipment	Advances/ construction in progress	Total
Cost					
Balance at 31.12.11	45,716	167,458	47,886	3,747	264,807
Additions	76	4,057	2,298	9,370	15,801
Disposals	(2,445)	(1,093)	(1,577)	(182)	(5,297)
Changes in reporting entities	0	0	248	0	248
Other changes	219	3,827	1,595	(5,255)	386
Balance at 31.12.12	**43,566**	**174,249**	**50,450**	**7,680**	**275,945**
Accumulated depreciation					
Balance at 31.12.11	26,493	145,372	37,545	0	209,410
Depreciation for the year	1,404	4,901	2,481	0	8,786
Disposals	(124)	(1,054)	(1,445)	0	(2,623)
Changes in reporting entities	0	0	208	0	208
Other changes	8	134	50	0	192
Balance at 31.12.12	**27,781**	**149,353**	**38,839**	**0**	**215,973**
Carrying amount at					
31 December 2012	**15,785**	**24,896**	**11,611**	**7,680**	**59,972**
31 December 2011	19,223	22,086	10,341	3,747	55,397

Additions during 2012 of € 15.8 million refer mainly to investments made in the Milan production plant and headquarters for an amount of € 3.8 million, in the production plant in Campoverde di Aprilia (Italy) for an amount of € 5.5, in the production plant in Saint Victor (Montluçon, France) for an amount of € 2.3 million and in the Turkish production plant for an amount of € 2.3 million.

At 31 December 2012 no land or buildings are held under financial leases.

Changes in reporting entities arise from the consolidation of Farma-Projekt.

8. INTANGIBLE ASSETS

Intangible assets, net of accumulated amortization, at 31 December 2012 and 2011 amounted to € 231.5 million and € 149.6 million respectively. Their composition and variation are shown in the following table:

€ (thousands)	Patent rights and marketing authorizations	Distribution, license, trademark and similar rights	Other	Advance payments	Total
Cost					
Balance at 31.12.11	152,169	127,415	15,772	775	296,131
Additions	27,023	19,803	190	2,007	49,023
Write-downs	0	(2,045)	0	0	(2,045)
Disposals	(7)	(856)	(30)	(83)	(976)
Changes in reporting entities	49,666	876	22	135	50,699
Other changes	729	544	44	(350)	967
Balance at 31.12.12	**229,580**	**145,737**	**15,998**	**2,484**	**393,799**
Accumulated amortization					
Balance at 31.12.11	64,961	66,686	14,835	0	146,482
Amortization for the year	6,633	9,127	201	0	15,961
Disposals	(7)	(717)	(15)	0	(739)
Changes in reporting entities	25	376	19	0	420
Other changes	49	141	15	0	205
Balance at 31.12.12	**71,661**	**75,613**	**15,055**	**0**	**162,329**
Carrying amount at					
31 December 2012	**157,919**	**70,124**	**943**	**2,484**	**231,470**
31 December 2011	87,208	60,729	937	775	149,649

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

In April an amount of € 21.0 million was paid for the acquisition of the marketing authorizations, the trademarks and additional assets concerning six OTC pharmaceuticals in Germany from Cilag GmbH International and McNeil GmbH & Co. oHG. The products acquired are JHP-Rödler® (mint oil indicated for digestive disorder, headache, cough and cold), Betadorm® D (diphenhydramine HCl indicated for sleep disorders), Rhinopront® (pseudoephedrine+triprolidine indicated for rhinitis and head colds), Collomack® Topical (salicylic acid solution, an anti-corn preparation), Tirgon® (bisacodyl for constipation) and Xitix® (vitamin C lozenges to treat vitamin C deficiency).

In August a portfolio of products already marketed by Labormed in Poland was acquired for an amount of € 1.9 million.

In October the Italian Dentosan® oral care line of products was acquired from Cilag International GmbH for an amount of € 18.0 million.

The intangible assets of the company Accent LLC acquired in Russia, the overall value of which is € 49.6 million, are included under “Changes in reported entities”. Almost the entire value of these assets results from the allocation of the difference between the amount paid for the company and the book value of the assets. The amount allocated is based on the fair value of five proprietary product lines, consisting of OTC products and dietary supplements, in the acquired company’s product portfolio. The useful life of the products is estimated to be of 20 years. This estimate is based on knowledge of the market in which the company operates and takes into consideration the historical sales trend of the products.

Changes in reporting entities also includes intangible assets arising from the consolidation of Farma-Projekt for an amount of € 0.6 million.

9. GOODWILL

Goodwill at 31 December 2012 and 2011 amounted to € 413.2 million and € 365.7 million respectively and changed as follows:

€ (thousands)	Goodwill
Cost	
Balance at 31.12.11	403,383
Goodwill arising from the acquisition of Accent LLC	26,976
Goodwill arising from the acquisition of Farma-Projekt sp. z o.o.	16,094
Exchange rate adjustments	4,424
Balance at 31.12.12	**450,877**
Accumulated amortization	
Balance at 31.12.11	37,664
Changes during the year	0
Balance at 31.12.12	**37,664**
Carrying amount at	
31 December 2012	**413,213**
31 December 2011	365,719

As prescribed by IFRS 3 the allocation of the price paid for the acquisitions of Accent LLC and Farma-Projekt sp. z o.o. during 2012 was effected.

With the acquisition of the Russian company Accent the company acquired all rights to five product lines, comprising OTC products and dietary supplements, marketed in Russia. The measurement of the fair value of the company's assets and liabilities at the date of acquisition resulted in the identification of some intangible assets the carrying book value of which was below their fair value. Therefore, an amount of € 49.6 million of the difference between the amount paid and the book value of the assets and liabilities acquired was allocated to the aforesaid intangible assets to bring their value in line with their fair value (see Note 8), an amount of € 9.9 million to the relative deferred tax liabilities and an amount of € 27.0 million was allocated to goodwill. The allocation made is not yet definite, as allowed by IFRS 3. Goodwill recognized upon the acquisition of Accent is stated in local currency and its value was therefore adjusted to reflect the change in the exchange rate between the euro and the Russian rouble from the date of acquisition to year-end 2012.

In the case of Farma-Projekt the entire difference between the amount paid and the fair value of the acquired assets and liabilities was allocated to goodwill. The measurement of the fair value of the company's assets and liabilities at the date of acquisition did not result in the identification of any item to which allocate the amount paid the company. We believe that the value of the acquisition resides in its strategic nature as it allows the Group to reinforce its presence on the Polish market. However, also in this case, the allocation is not yet definite. Goodwill recognized upon the acquisition of Farma-Projekt is stated in local currency and its value was therefore adjusted to reflect the change in the exchange rate between the euro and the Polish zloty from the date of acquisition to year-end 2012.

As prescribed by IFRS 3, during the year the allocation of the purchase price of the Turkish company Dr. F. Frik İlaç acquired in September 2011 became definite. The measurement of the fair value of the assets and liabilities at the time of acquisition confirmed the values provisionally allocated in the 2011 financial accounts. The process led to the identification of some intangible assets the carrying book value of which

was below their fair value. Therefore, an amount of € 13.5 million of the difference between the amount paid and the book value of the assets and liabilities acquired was allocated to the aforesaid intangible assets and an amount of € 64.9 million was allocated to goodwill.

The exchange rate adjustments are related to the goodwill associated with the acquisitions made in countries having currencies different from the euro: goodwill was stated in local currency and is translated into euros for the preparation of the consolidated financial accounts using the year-end exchange rates. An overall increase of € 4.4 million resulted, to be attributed mainly to the acquisitions in Turkey (€ 3.8 million), in the Czech Republic (€ 0.3 million) and in Russia (€ 0.2 million).

Net goodwill at 31 December 2012, amounting to € 413.2 million, relates to the following acquisitions, which represent the same number of cash generating units:

- France (Doms Adrian and the companies belonging to the Bouchara group): € 45.8 million;
- Commonwealth of Independent States (FIC, FIC Médical and Accent): € 39.2 million;
- Germany (Merckle Recordati): € 48.8 million;
- Portugal (companies belonging to the Jaba group): € 32.8 million;
- Orphan drug business (the Orphan Europe group): € 110.6 million;
- Turkey (Yeni İlaç and Dr. F. Frik İlaç) : € 105.6 million;
- Czech Republic (Herbacos-Bofarma): € 14.1 million;
- Romania (ArtMed International): € 0.2 million;
- Poland (Farma-Projekt): € 16.1 million.

The acquisition of the Russian company Accent led to the identification of a new operational area, the Commonwealth of Independent States.

As reported in the preceding note 2 - *Summary of significant accounting policies* and as required by IFRS 3, goodwill is not amortized systematically but is subject to impairment tests to determine its recoverable value. Goodwill is allocated to the individual cash generating units identified on the basis of the business segments and the markets on which the companies acquired operate. A cash generating unit to which goodwill has been allocated shall be tested for impairment annually, and when there is any indication that it may be impaired, by comparing the carrying amount of the unit, including goodwill, with the recoverable amount of the unit. If the recoverable amount of the unit exceeds the carrying amount of the unit, the unit and the goodwill allocated to that unit is not impaired. If the carrying amount of the unit exceeds the recoverable amount of the unit, the entity must recognize an impairment loss.

The recoverable amount was determined by calculating the value in use of the individual cash generating units.

The main hypotheses used for calculating the value in use concern the discount rate, the expected operating cash flows during the period assumed for the calculation and the growth rate.

The average weighted cost of capital reflects current market valuations of the cost of money and the specific risk associated with the cash generating units. It was estimated at 10.09% before tax, with the exception of the cash generating unit resulting from the acquisitions in Turkey, estimated at 12.30% in order to take into account the peculiarities of this country.

Operating cash flow forecasts for the explicit period assumed for the calculation were taken from the 2013 budget and from the 2013-2015 business plan approved by the Board of Directors of the Parent Company on 6 February 2013.

The growth rates used for the period subsequent to the explicit forecast period were estimated on a prudent basis: 2.0% for all markets with the exception of the Czech Republic and Turkey estimated at 2.3% and 4.0% respectively.

The value in use, calculated according to the procedures described for each cash generating unit, was examined and approved by the Board of Directors. In all cases it was greater than the book value recognised in the financial statements at 31 December 2012 and therefore no loss in the value of goodwill was recognised. In particular, the value in use of most of the cash generating units resulted significantly greater than their book value, while the value in use of the units in Portugal and in Turkey, resulted slightly greater than their book value.

10. OTHER INVESTMENTS

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

€ (thousands)	Balance sheet value		Percentage of equity owned	
	31.12.12	31.12.11	31.12.12	31.12.11
Erytech Pharma S.A., France	5,000	-	n.a.	-
PureTech Ventures LLC, U.S.A.	1,472	1,472	11.3%	11.4%
Maxygen Inc., U.S.A.	51	121	n.s.	n.s.
Technogen Liquidating Trust, U.S.A.	94	94	n.s.	n.s.
Tecnofarmaci S.p.A., Italy	87	87	4.2%	4.2%
Consorzio C4T, Italy	78	78	n.s.	n.s.
Alavita Inc., U.S.A.	63	63	n.s.	n.s.
Codexis Inc., U.S.A.	9	21	n.s.	n.s.
Fluidigm Corp., U.S.A.	10	10	n.s.	n.s.
Others	61	31	n.s.	n.s.
Total equity investments	**6,925**	**1,977**		

During the year an investment was made in Erytech Pharma S.A., a late development stage French biopharmaceutical company focused on orphan oncology and rare diseases. The investment consists of a non interest bearing loan with compulsory conversion into shares during 2013.

The United States company PureTech Ventures LLC specialises in investments in start-up companies in the field of new therapies, medical devices and new research technologies.

11. OTHER NON CURRENT ASSETS

Receivables included in non-current assets at 31 December 2012 are € 3.8 million and refer mainly to guarantee deposits on rental and service contracts.

12. DEFERRED TAX ASSETS

Deferred tax assets at 31 December 2012 and 2011 amount to € 22.8 million and € 22.5 million respectively, an increase of € 0.3 million. The main deferred tax assets and their change in 2012 are analyzed below.

€ (thousands)	2012	2011
Balance at 1 January	22,494	20,221
Additions	6,289	7,992
Utilizations	(6,295)	(5,719)
Change in reporting entities	349	0
Balance at 31 December	**22,837**	**22,494**

€ (thousands)	Revaluation of intangible assets	Profit and loss temporary differences	Other	Total
Balance at 31.12.2011	3,640	9,975	8,879	22,494
Additions	0	4,840	1,449	6,289
Utilization	(1,719)	(4,508)	(68)	(6,295)
Change in reporting entities	0	292	57	349
Balance at 31.12.2012	**1,921**	**10,599**	**10,317**	**22,837**

"Other" deferred tax assets refers mainly to temporary differences arising from the elimination of unrealized gains on intercompany transactions.

13. INVENTORIES

Inventories at 31 December 2012 and 2011 amount to € 126.4 million and € 108.3 million respectively, net of their respective obsolescence provisions of € 3.8 million and € 3.2 million. Composition of inventories is as follows:

€ (thousands)	31.12.2012	31.12.2011	Change 2012/2011
Raw materials and supplies	31,716	27,612	4,104
Intermediates and work-in-process	17,188	17,568	(380)
Finished goods	77,484	63,071	14,413
Total inventories	**126,388**	**108,251**	**18,137**

The increase in inventories is mainly due to the higher volumes of corporate products as well as to the consolidation of Farma-Projekt (€ 1.3 million) and to inventories of the new product portfolios acquired during 2012.

14. TRADE RECEIVABLES

Trade accounts receivable at 31 December 2012 and 2011 amount to € 155.4 million and € 141.2 million respectively. These are shown net of the allowance for doubtful accounts which at 31 December 2012 is € 10.8 million (€ 11.8 million at 31 December 2011) and is considered to be sufficient to cover potential losses of certain receivables which, due to the nature of the customers in question or the destination markets, may be difficult to collect. Average days of sales outstanding are 65, an improvement over those at 31 December 2011. Trade receivables on the acquisition balance sheet of Farma-Projekt are € 2.7 million.

15. OTHER RECEIVABLES

Other receivables amount to € 25.0 million (€ 21.3 million at 31 December 2011) and their breakdown is as follows:

€ (thousands)	31.12.2012	31.12.2011	Change 2012/2011
Tax receivable	18,588	13,814	4,774
Balances due from employees and agents	2,682	1,581	1,101
Other	3,713	5,916	(2,203)
Total other receivables	**24,983**	**21,311**	**3,672**

Tax receivable comprises value added tax (VAT) receivable (€ 12.9 million) and advance payments of income tax exceeding those required. Receivables from employees and agents comprise advances on expense accounts and other credits. The decrease in the "other" line is due to the collection of the last installment due related to the Swedish Orphan settlement (€ 1.5 million). Included in this line are advances paid to suppliers and other parties and to computed credits under licensing-in agreements.

16. OTHER CURRENT ASSETS

At 31 December 2012 other current assets amount to € 2.2 million (€ 3.2 million at 31 December 2011) and relate mainly to prepaid expenses.

17. SHORT TERM FINANCIAL INVESTMENTS, CASH AND CASH EQUIVALENTS

A break down is shown in the following table.

€ (thousands)	31.12.2012	31.12.2011	Change 2012/2011
Short term time deposits	1,221	58,574	(57,353)
Deposits in bank current accounts	37,154	46,555	(9,401)
Cash on hand	43	35	8
Total short term financial investments, cash and cash equivalents	**38,418**	**105,164**	**(66,746)**

The reduction in cash is to be attributed mainly to the payment of dividends (€ 60.0 million), to the acquisitions of Farma-Projekt in Poland (€ 12.5 million) and of Accent in Russia (€ 66.7 million) and to the acquisition of intangible assets (€ 49.0 million).

Short term time deposits have maturities of six months or less.

At 31 December 2012 cash and cash equivalents are denominated in euro (23.0 million), in U.S. dollars (4.0 million, mainly in the U.S. subsidiary Recordati Rare Diseases), in pounds sterling (1.9 million, mainly in the UK subsidiary Recordati Pharmaceuticals Ltd.) and in Turkish lira (6.3 million in the Turkish subsidiary Recordati İlaç).

18. SHAREHOLDERS' EQUITY

Share capital – At 31 December 2012 the issued and fully paid share capital consists of 209,125,156 ordinary shares with a par value of € 0.125 each for a total of € 26,140,644.50 and remains unchanged compared to the preceding year.

As at 31 December 2012 the Company has two stock option plans in favor of certain group employees in place, the 2006-2009 plan, under which options granted on three occasions are still outstanding, and the 2010-2013 plan, under which options were granted on 9 February 2011 and on 8 May 2012. The strike price of the options is the average of the parent company's listed share price during the 30 days prior to the grant date. The stock options granted under the 2006-2009 plan are vested over a period of four years and those not exercised within the fifth year of the date of grant expire. The stock options granted under the 2010-2013 plan are vested over a period of five years and those not exercised within the eighth year of the date of grant expire. Options cannot be exercised if the employee leaves the company before they are vested.

Stock options outstanding at 31 December 2012 are analyzed in the following table.

	Strike price (€)	Options outstanding at 1.1.2012	Options granted during 2012	Options exercised during 2012	Options cancelled or expired	Options outstanding at 31.12.2012
Date of grant						
29 October 2008	4.0730	1,973,750	0	(743,750)	(42,500)	1,187,500
11 February 2009	3.8940	110,000	0	(5,000)	(30,000)	75,000
27 October 2009	4.8700	3,043,750	0	(531,250)	(105,000)	2,407,500
9 February 2011	6.7505	4,280,000	0	0	(520,000)	3,760,000
8 May 2012	5.3070	-	4,650,000	0	(140,000)	4,510,000
Total		**9,407,500**	**4,650,000**	**(1,280,000)**	**(837,500)**	**11,940,000**

Additional paid-in capital – At 31 December 2012 additional paid-in capital is € 83.7 million, unchanged compared to the preceding year.

Treasury stock – At 31 December 2012, 8,505,790 shares are held as treasury stock and decrease by 1,280,000 shares compared to those held at 31 December 2011. The change is due to the sale of 1,280,000 shares, for an amount realized of € 5.6 million, to service the exercise of options granted to company employees under the 2006-2009 stock option plan. The total cost incurred for the purchase of current treasury stock is € 46.3 million and the average purchase price per share is € 5.44.

Hedging reserve – In accordance with IAS 39 the € 5.0 million liability arising from the measurement at fair value at 31 December 2012 of interest rate swaps qualifying as a cash flow hedge is recognized directly in equity as a hedging reserve.

Other reserves – These amount to € 26.3 million at 31 December 2012 and include the statutory reserve of the parent company in the amount of € 5.2 million, reserves for grants received for a total of € 15.4 million and reserves for amounts booked directly to equity in application of IFRS 2 of € 4.3 million and in application of IAS 19, recognized in the statement of comprehensive income, of € 1.4 million.

Retained earnings and net income for the year – These amount to € 501.7 million at 31 December 2012 and increase by € 56.0 million as compared to 31 December 2011. Net income for the year is € 118.5 million, an increase of 1.8% compared to the € 116.4 million 2011 net income.

The shareholders' equity of the Italian companies includes untaxed reserves of € 101.1 million, net of € 16.6 million withholding tax already paid, and their distribution is subject to taxation under fiscal law. In accordance with IAS 12 deferred taxes are not recognized on these reserves until their distribution is resolved.

Interim dividend – During the year the Board of Directors of Recordati S.p.A. resolved to distribute an interim dividend for 2012 of € 0.20 per share, for a total amount of € 40.1 million.

19. MINORITY INTEREST

All consolidated companies are 100% owned except for the Italian subsidiary of Orphan Europe which is 99% owned.

20. LOANS

At 31 December 2012 and 2011, medium and long-term loans include:

€ (thousands)	31.12.2012	31.12.2011
Loans granted to Recordati S.p.A.:		
Loan granted by Centrobanca, at variable interest rate covered by an interest rate swap, repayable in semi-annual installments starting 2012 through 2022	*67,961	74.759
Loans granted by the Ministry of Economic Development repayable in annual installments through 2013, at an annual interest rate of 3.30% during the amortization period (2004-2013) and at 0.825% before that	139	274
Loans granted to other Group companies:		
Loan granted to Dr. F. Frik İlaç by Citibank, at variable interest rate, repaid in 2012	0	2,722
Loan granted to Dr. F. Frik İlaç by Vakifbank, at variable interest rate, repayable by 2014	2,123	3,806
Various loans granted to Dr. F. Frik İlaç repaid in 2012	0	19
Various loans granted to Recordati España S.L. repayable by 2013	127	253
Various loans granted to Farma-Projekt sp. z z.o. repayable by 2013	2	-
Loan granted by Komercni Banka to Herbacos Recordati, at variable interest rate, repaid in 2012	0	36
Guaranteed senior notes issued by Recordati S.A. (Luxembourg) privately placed with international institutional investors: € 15 million at a fixed interest rate of 4.52% repaid in 2011 $ 40 million at a fixed interest rate of 5.50% due 2014 € 26 million at a fixed interest rate of 5.02% due 2014 £ 5 million at a fixed interest rate of 6.09% due 2014	**65,535	65,474
Total amortized cost of loans	**135,887**	**147,343**
Portion due within one year	8,147	11,616
Change in the fair value of the portion due within one year	0	0
Total loans in current liabilities	**8,147**	**11,616**
Portion due after one year	127,740	135,727
Change in the fair value of the portion due after one year	1,371	1,791
Total loans in non-current liabilities	**129,111**	**137,518**

* Net of direct issue costs of € 0.2 million amortized using the effective interest method.
** Net of direct issue costs of € 0.1 million amortized using the effective interest method.

The average effective interest rate at 31 December 2012, applying the rates resulting from the interest rate swaps, is 4.05%.

At 31 December 2012, the repayment schedule of long-term debt due after 31 December 2013 is as follows:

€ (thousands)	
2014	73,415
2015	6,818
2016	6,818
2017	6,818
2018 and subsequent years	33,871
Total	**127,740**

On 30 November 2010 the Parent Company undersigned a loan agreement with Centrobanca to fund a three year research and development program. The loan, for which Centrobanca received funding from the European Investment Bank, amounts to € 75.0 million, of which € 30 million were cashed in 2010 and € 45 million in the first quarter 2011, net of expenses of € 0.3 million. The main terms and conditions provide for variable interest rate and a duration of 12 years with semi-annual repayments of capital from June 2012 through December 2022. In June 2012 the loan was covered with an interest rate swap, qualifying as a cash flow hedge, effectively converting the interest charges on the debt from variable to a fixed rate of 2.575%. The measurement at fair value of the swap at 31 December 2012 generated a liability of € 1.1 million recognized directly in equity and stated as a current liability (see Note 28). During 2012 the first two installments were repaid for a total of € 6.8 million. The loan agreement includes the following financial covenants which, if not met, could lead to a request for immediate repayment of the loan:

- the ratio of consolidated net debt to consolidated net equity must be less than 0.75;
- the ratio of consolidated net debt to EBITDA (for a period of twelve consecutive months) must be less than 3.00 to 1.00;
- the ratio of EBITDA to consolidated net interest expense (for a period of twelve consecutive months) must exceed 3.00 to 1.00.

For the year ended 31 December 2012 the above conditions were amply fulfilled.

The series of guaranteed senior notes issued at the end of 2004 by Recordati S.A. (Luxembourg) comprises *tranches* in various currencies at fixed interest rates. The *tranches* denominated in currencies other than the Euro have been covered with a cross-currency interest rate swap effectively converting the whole debt into Euro at a variable interest rate equivalent to the Euribor 6 months rate plus a spread. The *tranches* denominated in Euro have been covered with an interest rate swap effectively converting the interest charges on the debt from fixed to variable at the same abovementioned conditions. The measurement at fair value of the swaps at 31 December 2012 generated an asset of € 1.4 million, an amount equivalent to the increase in the fair value of the underlying debt. This amount is recognized in the balance sheet as an increase of debt and under current assets as 'Fair value of hedging derivatives *(fair value hedge)*'.

The total amount of the notes was simultaneously covered with a further interest rate swap, qualifying as a cash flow hedge, to fix a range within which the interest rate can fluctuate in order to optimize the cost of financing for the duration of the notes. At 31 December 2012 the upper and lower limits of the range are 4.14% and 4.85% respectively. The € 3.9 million fair value of the cash flow hedge is recognized directly in equity and stated as a current liability (see Note 28).

The derivative instruments and the hedged items are linked and the Group does not intend to terminate or modify them independently from each other.

The note and guarantee agreement covering the guaranteed senior notes includes the following financial covenants which, if not met, could lead to a request for immediate repayment of the notes:

- consolidated net worth at any time must not be less than the sum of € 170,0 million plus 25% of consolidated net earnings for each fiscal year;
- the ratio of consolidated net debt as of the last day of any fiscal quarter to EBITDA for the period of four fiscal quarters then ended must be less than 3.00 to 1.00;
- the ratio of EBIT to consolidated net interest expense for any period of four fiscal quarters must exceed 3.00 to 1.00.

At each quarter end starting 31 December 2004 the above conditions were amply fulfilled.

21. STAFF LEAVING INDEMNITIES

This provision at 31 December 2012 and 2011 is € 17.9 million and € 16.7 million respectively and reflects the Group's obligation towards its employees determined in accordance with IAS 19. The roll forward of this fund is as follows:

€ (thousands)	2012	2011
Balance at 1 January	16,692	19,259
Additions	708	1,019
Utilization	(1,690)	(1,465)
Changes in reporting entities	0	35
Change in fair value	2,152	(2,156)
Balance at 31 December	**17,862**	**16,692**

The main part of this liability is to be attributed to the staff leaving indemnity fund (TFR, *trattamento fine rapporto*) in the Italian companies. The value of this fund at 31 December 2012 as measured in accordance with IAS 19 amounts to € 13.1 million. The remaining part of this provision comprises employee benefit plans in the French subsidiary Laboratoires Bouchara Recordati (€ 3.1 million), in the German subsidiary Recordati Pharma (€ 0.6 million) and in Orphan Europe (€ 0.5 million). The fair value calculation made using actuarial parameters updated at 31 December 2012 determined an adjustment of € 2.2 million compared to the value of the funds at 31 December 2011 which is recognized in the statement of comprehensive income net of the tax effect.

22. DEFERRED TAX LIABILITIES

Deferred tax liabilities at 31 December 2012 and 2011 are € 15.9 million and € 6.0 million respectively, and changed as follows:

€ (thousands)	2012	2011
Balance at 1 January	6,049	5,699
Additions	568	556
Utilization	(663)	(206)
Changes in reporting entities	9,918	0
Balance at 31 December	**15,872**	**6,049**

The increase of € 9.8 million compared to the preceding year is almost entirely to be attributed to the acquisition of the company Accent LLC and is included under the line "Changes in reporting entities". The amount refers to the deferred tax liabilities on the € 49.6 million allocated to the intangible assets acquired.

At 31 December 2012 no deferred tax liabilities were calculated on subsidiaries' undistributed earnings because no significant additional tax would have to be paid by the group in the event of these dividend distributions as they are essentially exempt from dual income taxation.

23. OTHER NON-CURRENT LIABILITIES

Other non-current liabilities as at 31 December 2012 are € 1.8 million and refer entirely to the outstanding portion of the price paid for the acquisition of the new Polish company Farma-Projekt, calculated according to the agreements. The € 2.1 million liability at 31 December 2011 referred entirely to the outstanding portion of the price paid for the acquisition of Dr. F. Frik İlaç and due in 2013 is now included under current liabilities.

24. TRADE PAYABLES

Trade accounts payable, which are entirely of a commercial nature and include allocations for invoices to be received, at 31 December 2012 and 2011 amount to € 106.9 million and € 98.7 million respectively. The consolidation of Farma-Projekt accounts for € 2.8 million.

25. OTHER PAYABLES

Other accounts payable at 31 December 2012 and 2011 amount to € 54.0 million and € 58.3 million respectively. Their composition is as follows:

€ (thousands)	31.12.2012	31.12.2011	Change 2012/2011
Personnel	18,326	18,559	(233)
Social security	12,323	12,261	62
Agents	972	602	370
Balance due for the acquisition of equity	2,614	9,788	(7,174)
Balance due for the acquisition of marketing rights	0	118	(118)
Other	19,749	17,007	2,742
Total other payables	**53,984**	**58,335**	**(4,351)**

The balance due for the acquisition of equity comprises € 1.2 million due for the acquisition of Farma-Projekt, as per the agreements, and € 1.4 million due for the acquisition of Dr. F. Frik İlaç. The balance due for the acquisition of the Turkish company was recalculated during 2012 following agreement on the interpretation of some contractual clauses: the overall amount due at 31 December 2011 was reduced to € 8.4 million, of which € 7.0 million were paid during the year and € 1.4 million will be paid during 2013. The amount due for the acquisition of Orphan Europe, following the settlement with Swedish Orphan (€ 0.6 million) was also settled in 2012.

The line "Other" includes € 3.8 million to be paid to the "Krankenkassen" (German healthcare schemes), and € 4.2 million which results from a mandatory discount on the retail selling price of reimbursed medicines to be paid to the Italian regional healthcare systems (the discount is of 1.83% during the first half of the year and of 4.1% during the second half).

26. TAX LIABILITIES

Tax liabilities at 31 December 2012 and 2011 amount to € 9.8 million and € 12.1 million respectively and include tax provisions computed by the companies on the basis of estimated taxable income, net of tax advances already paid, and withholding taxes payable.

27. PROVISIONS

Provisions in place at 31 December 2012 amount to € 20.5 million overall and include tax provisions and other provisions for future contingencies which are uncertain as to timing and value. The following tables contain their composition and changes.

€ (thousands)	31.12.2012	31.12.2011	Change 2012/2011
Tax	4,695	3,248	1,447
Other	15,849	18,565	(2,716)
Total provisions	**20,544**	**21,813**	**(1,269)**

Changes in provisions are as follows:

€ (thousands)	2012	2011
Balance at 1 January	21,813	21,413
Additions	10,373	3,949
Changes in reporting entities	0	604
Utilization	(11,642)	(4,153)
Balance at 31 December	**20,544**	**21,813**

The additions during the year are related mainly to the estimated € 6.6 million cost of the announced restructuring of the sales force in France expected to take place in 2013.

The utilization line includes the reversal of the € 7.3 million provided for in 2010 to cover the probability that certain events, defined in the agreement with the Merck group and relative to the sale of pitavastatin marketing rights in France and in Belgium, should happen. The probability of the event happening has been reconsidered and thus the provision was reversed.

28. FAIR VALUE OF HEDGING DERIVATIVES

The interest rate swaps covering the cash flows related to medium and long-term loans measured at fair value at 31 December 2012 give rise to a € 5.0 million liability which represents the unrealized benefit of paying the current expected future rates instead of the rates agreed for the duration of the loans. The liability refers to an interest rate swap defining a collar which limits the fluctuation of the interest rates payable on the guaranteed senior notes issued by Recordati S.A. Chemical & Pharmaceutical Company (€ 3.9 million) and to the interest rate swap covering the loan granted by Centrobanca (€ 1.1 million).

29. BANK OVERDRAFTS AND SHORT-TERM LOANS

Bank overdrafts and short-term loans at 31 December 2012 are € 56.0 million and comprise mainly overdrafts and temporary use of lines of credit. The increase of € 42.4 million compared to 31 December 2011 is due to the financing requirements related to the acquisitions concluded towards the end of the year. The consolidation of Farma-Projekt accounts for € 2.9 million.

30. ACQUISITION OF A SUBSIDIARY

During the year the Group acquired 100% of the shares of two companies: in August the Polish company Farma-Projekt sp. z o.o. was acquired and in November the acquisition of the Russian company Accent LLC and the marketing rights to its five product lines was concluded. The following table summarizes the effects of the consolidation of the newly acquired company, already commented in the preceding notes.

FARMA-PROJEKT SP. Z O.O.

€ (thousands)	Book value	Fair value adjustments	Fair value of assets and liabilities acquired
Non-current assets			
Property, plant and equipment	40	0	40
Intangible assets	638	0	638
Deferred tax assets	348	0	348
Current assets			
Inventories	1,281	0	1,281
Trade receivables	2,681	0	2,681
Other receivables	10	0	10
Tax receivable	101	0	101
Other current assets	105	0	105
Short-term financial investments, cash and cash equivalents	91	0	91
Non-current liabilities			
Loans – due after one year	(6)	0	(6)
Current liabilities			
Trade payables	(2,785)	0	(2,785)
Other payables	(293)	0	(293)
Tax liabilities	(23)	0	(23)
Bank overdrafts and short-term loans	(2,785)	0	(2,785)
	(597)	**0**	**(597)**
Goodwill			16,094
Cost of the acquisition			**15,497**

Regarding the company Farma-Projekt the entire difference between the cost of acquisition and the carrying value of the assets and liabilities acquired was allocated to goodwill. The measurement of the fair value of the company's assets and liabilities at the date of acquisition did not result in the identification of any item to which allocate the cost of the company. We believe that the value of the acquisition resides in its strategic nature as it allows the Group to reinforce its presence on the Polish market. As allowed by IFRS 3, the allocation is, however, not yet definite.

ACCENT LLC

€ (thousands)	Book value	Fair value adjustments	Fair value of assets and liabilities acquired
Non-current assets			
Intangible assets	51	49,591	49,642
Deferred tax assets	1	0	1
Current assets			
Other receivables	43	0	43
Non-current liabilities			
Deferred tax liabilities	0	(9,918)	(9,918)
Current liabilities			
Other payables	(30)	0	(30)
Tax liabilities	(7)	0	(7)
	58	**39,673**	**39,731**
Goodwill			26,976
Cost of the acquisition			**66,707**

The allocation of the price paid in excess of the book value of the assets and liabilities acquired was made by attributing an amount of € 49.6 million to some proprietary products in the portfolio with a useful life which was estimated to be 20 years. The residual amount which, net of the € 9.9 million tax effect related to the fair value of intangible assets, is of € 27.0 million and was allocated to goodwill taking into account the strategic nature of the business acquired within the Group's objectives to expand into international markets with high growth rates. The allocation of the cost of acquisition is not yet definite, as allowed under IFRS 3.

31. FAIR VALUE OF FINANCIAL INSTRUMENTS

As prescribed by IFRS 7 hereunder are stated the balance sheet values and fair values at 31 December 2012 of financial assets and liabilities:

€ (thousands)	Book value	Fair value
Financial assets		
Short-term financial investments, cash and cash equivalents	38,418	38,418
Trade receivables	155,359	155,359
Equity investments	6,925	6,925
Other receivables	24,983	24,983
Hedging derivatives *(fair value hedge)*	1,371	1,371
Financial liabilities		
Borrowings		
- loans at fixed interest rates covered with interest rate swaps	66,906	66,906
- loans at variable interest rates	2,252	2,252
- loans at fixed interest rates	139	97
- loans at variable interest rates covered with interest rate swaps	67,961	66,417
Trade payables	106,926	106,926
Other payables	63,773	63,773
Hedging derivatives *(cash flow hedge)*	4,983	4,983
Bank overdrafts and short-term loans	55,987	55,987

The hedging instruments and the fixed interest loans and variable interest loans converted into fixed interest loans by interest rate swaps are booked at fair value. The book value of the remaining assets and liabilities is equivalent to their fair value inasmuch as they are short-term assets and liabilities or are variable interest rate loans or fixed interest loans converted into variable interest rate loans by interest rate swaps.

32. DISCLOSURE OF FINANACIAL RISKS

The Group constantly monitors the financial risks to which it is exposed in order to take immediate mitigating action when necessary. The objective of group financial policy is to achieve a balanced and prudent financial structure in order to fund growth, both organic and through business expansion.

As prescribed by IFRS 7 the main financial risks to which the Group is exposed are hereby disclosed.

Credit Risk – The Group closely controls its credit exposure through the allocation of credit limits to each single customer and an internal reporting system. At 31 December 2012 the credit exposure is not critical due to the large number of customers, their geographical distribution and the average amount of each account receivable. In particular, at 31 December 2012, total trade receivables of € 166.1 million include € 18.4 million of receivables overdue by more than 90 days. Of these, € 5.5 million are receivables from Italian public hospitals which, despite their very long payment times, do not represent a significant risk situation. An allowance for doubtful accounts of € 10.8 million, which is considered to be sufficient to cover potential losses on collection, is in place.

Interest Rate Risk – The Group raises funds using debt and invests excess cash in money market and other financial instruments. The fluctuation of market interest rates influences the cost and returns of the debt and investment instruments therefore affecting the Group's net financial charges. The Group's policy is to limit the risk arising from interest rate fluctuations by establishing fixed interest loans or variable interest loans covered by derivative financial instruments, which are used to hedge risk and are never of a speculative

nature, to minimize such fluctuations, as described in note 20. As a result of this policy and considering the current amount of net debt, it is believed that the change in current interest rates would not have a significant impact on net financial expenses.

Foreign Currency Risk – The Group is exposed to foreign currency exchange rate fluctuations which can affect its operating results and the value of its equity. In particular, the group is exposed to exchange rate fluctuations on its trade balances denominated in currencies other than the euro. As at 31 December 2012 group positions in these currencies are the following:
net receivables in Turkish lira of 45.7 million;
net receivables in Russian roubles of 159.9 million;
net receivables in Romanian ron of 10.4 million;
net receivables in Polish zloty of 5.5 million;
net payables in pounds sterling of 14.2 million;
net payables in U.S. dollars of 13.9 million;
net payables in Japanese yen of 533.7 million.

Some of the group companies are located outside the European Monetary Union and their income statements and balance sheets are converted from their local currencies into euro. At 31 December 2012 the net equity values of these companies are denominated mainly in U.S. dollars (21.5 million), in pounds sterling (15.1 million), in Swiss francs (2.1 million), in Turkish lira (34.6 million), in Czech crowns (246.3 million), in Romanian ron (6.4 million) and in Russian roubles (1,644.2 million). The effect of exchange rate variations on the conversion of these values is recognized in the consolidated statement of comprehensive income and booked to the translation reserve in shareholders' equity which, at 31 December 2012, is negative by € 3.7 million.

Liquidity Risk – The liquidity risk to which the Group may be exposed is the inability to raise sufficient financial resources for the its ongoing business and for the development of its industrial and commercial activities. The two main factors which determine the Group's liquidity are, on the one hand, the cash generated or absorbed by operations and by investments, and on the other, the expiry and renewal terms of debt or the degree of liquidity of financial investments and market conditions. At 31 December 2012 the group has at its disposal a supply of liquidity readily available for its operations and plentiful lines of credit granted by a number of leading Italian and international financial institutions. The terms and conditions of the Group's financial assets and its loans are set out in notes 17, 20 and 29 which address, respectively, short-term financial investments, cash and cash equivalents, loans and bank overdrafts. The Group believes that the funds and credit lines currently available, in addition to those generated by operations and financing activities, are enough to satisfy investment needs, working capital requirements and the repayment of debts at their natural due dates.

33. OPERATING SEGMENTS

The financial information reported by line of business and by geographical area, in compliance with IFRS 8 – *Operating segments*, is prepared using the same accounting principles and reporting standards used for the preparation and disclosure of the Group consolidated financial statements.

Following the acquisition of Orphan Europe two main business segments can be identified, the pharmaceutical segment and the orphan drugs segment. The following table shows financial information for these two business segments as at 31 December 2012 and includes comparative data.

€ (thousands)	Pharmaceutical segment*	Orphan drugs segment	Non-allocated	Consolidated accounts
2012				
Revenues	752,394	75,923	-	828,317
Expenses	(606,044)	(55,309)	-	(661,353)
Operating income	**146,350**	**20,614**	-	**166,964**
2011				
Revenues	692,717	69,319	-	762,036
Expenses	(550,018)	(48,541)	-	(598,559)
Operating income	**142,699**	**20,778**	**-**	**163,477**

* Includes the pharmaceutical chemicals operations

€ (thousands)	Pharmaceutical segment*	Orphan drugs segment	Non-allocated **	Consolidated accounts
31 December 2012				
Non-current assets	615,189	116,091	6,925	738,205
Inventories	118,753	7,635	-	126,388
Trade receivables	138,648	16,711	-	155,359
Other current assets	22,658	4,489	1,371	28,518
Short-term investments, cash and cash equivalents	-	-	38,418	38,418
Total assets	**895,248**	**144,926**	**46,714**	**1,086,888**
Non-current liabilities	34,921	641	129,111	164,673
Current liabilities	177,581	14,120	69,117	260,818
Total liabilities	**212,502**	**14,761**	**198,228**	**425,491**
Net capital employed	**682,746**	**130,165**		
31 December 2011				
Non-current assets	477,179	117,362	1,977	596,518
Inventories	101,917	6,334	-	108,251
Trade receivables	123,675	17,556	-	141,231
Other current assets	19,141	5,368	1,791	26,300
Short-term investments, cash and cash equivalents	-	-	105,164	105,164
Total assets	**721,912**	**146,620**	**108,932**	**977,464**
Non-current liabilities	24,336	467	137,518	162,321
Current liabilities	175,831	15,434	29,398	220,663
Total liabilities	**200,167**	**15,901**	**166,916**	**382,984**
Net capital employed	**521,745**	**130,719**		

* Includes the pharmaceutical chemicals operations.

** Non-allocated amounts include: other equity investments, short-term investments, cash and cash equivalents, loans, hedging instruments, bank overdrafts and short-term loans.

The pharmaceutical chemicals operations are considered part of the pharmaceutical segment as they are prevalently dedicated to the production of active ingredients for this business, both from a strategic and organizational point of view.

The following table presents net revenues by geographic area:

€ (thousands)	2012	2011	Change 2012/2011
Europe	728,116	673,390	54,726
of which Italy	*219,898*	*221,603*	*(1,705)*
Australasia	40,614	37,776	2,838
America	30,366	26,822	3,544
Africa	29,221	24,048	5,173
Total revenue	**828,317**	**762,036**	**66,281**

The Group's production facilities are located almost exclusively in Europe and therefore non-current assets and Group investments are located for the most part in this area.

34. NET FINANCIAL POSITION

The following table summarizes the Company's net financial position:

€ (thousands)	31.12.2012	31.12.2011	Change 2012/2011
Deposits in bank current accounts and cash on hand	37,197	46,590	(9,393)
Short-term time deposits	1,221	58,574	(57,353)
Short-term investments	0	0	0
Liquid assets	**38,418**	**105,164**	**(66,746)**
Bank overdrafts and short-term loans	(55,987)	(13,555)	(42,432)
Loans - due within one year	(8,147)	(11,616)	3,469
Loan notes issued [(1)]	0	0	0
Short term borrowings	**(64,134)**	**(25,171)**	**(38,963)**
Net current financial position	**(25,716)**	**79,993**	**(105,709)**
Loans - due after one year	(62,205)	(70,253)	8,048
Loan notes issued [(1)]	(65,535)	(65,474)	(61)
Non-current loans	**(127,740)**	**(135,727)**	**7,987**
Net financial position	**(153,456)**	**(55,734)**	**(97,722)**

[(1)] Includes change in fair value (fair value hedge).

35. RECONCILIATION BETWEEN THE PARENT COMPANY'S SHAREHOLDERS' EQUITY AND NET INCOME AND GROUP CONSOLIDATED SHAREHOLDERS' EQUITY AND NET INCOME

The reconciliation between the parent company's shareholders' equity and net income and the Group consolidated shareholders' equity and net income is as follows:

€ (thousands)	Shareholders' equity		Net income for the year	
	31.12.2012	31.12.2011	2012	2011
Recordati S.p.A.	336,357	307,644	85,032	78,462
Consolidation adjustments:				
Margin in inventories	(30,439)	(26,095)	(4,344)	(5,559)
Related deferred tax	9,599	8,204	1,395	1,750
Other adjustments	(125)	(45)	(685)	(561)
Retained earnings of consolidated subsidiaries at beginning of the year, net of amounts already booked by Recordati S.p.A.	247,591	214,733		
Net income for the year of consolidated subsidiaries, net of amounts already booked by Recordati S.p.A.	102,074	98,231	102,074	98,231
Dividends received from consolidated subsidiaries			(64,988)	(55,889)
Translation adjustments	(3,713)	(8,232)		
Consolidated financial statements	**661,344**	**594,440**	**118,484**	**116,434**

36. LITIGATION AND CONTINGENT LIABILITIES

The parent company and some subsidiaries are party to certain legal actions, the outcomes of which are not expected to result in any significant liability.

On 29 September 2006 the Company received a notice of tax assessment from the Internal Revenue Service stating certain additional taxes for the fiscal year 2003 in the amount of: corporate tax of € 2.3 million, IRAP of € 0.2 million and VAT of € 0.1 million and additional tax liabilities of € 2.6 million. The Company believed no amount was due as it considered the assessment flawed both from a legitimacy as well as a substantive point of view, and was supported in its position by professional opinion. An appeal was therefore filed with the Provincial Tax Commission of Milan. The first degree judgement before the Provincial Tax Commission was concluded partially in the Company's favour with decision n. 539/33/07 dated 11 October 2007, filed on 16 October 2007. An appeal was filed against that judgment with the Regional Tax Commission of Milan firstly by the Milan office of the Tax Authorities with notice served on 8 November 2008 and secondly by the Company with notice served on 7 January 2009. With a decision dated June 10, 2009 n. 139/32/09, filed on November 27, 2009 the Regional Tax Commission of Milan rejected the interlocutory appeal presented by the Company and accepted the principal appeal of the *Agenzia delle Entrate di Milano* (Inland Revenue of Milan). On the basis of that decision, the claims included in the above mentioned tax assessment for the year 2003 have been essentially fully confirmed and the Company has paid all amounts due. On 26 May 2010 the Company appealed that decision before the *Corte suprema di cassazione* (Supreme Court of Cassation).

On 26 January 2011 the Frankfurt court issued a judgement of first instance on the lawsuit which was filed by Innova Pharma against Bayer Healthcare following the termination of the Octegra® license agreement, unilaterally decided by Bayer on the basis of a contractual interpretation which the company deemed arbitrary. Innova Pharma, which considers the termination invalid, took legal action to obtain compensation for the damages incurred. The abovementioned judgement rejected Innova Pharma's claim considering Bayer's unilateral termination valid. The company decided to appeal the court's decision and on 25 October 2011 last the Frankfurt Court of Appeal confirmed the judgement of first instance issued on 26 January 2011 which considered Bayer's unilateral termination of its agreement with Innova Pharma regarding Octegra®

valid. Bayer then convened Innova Pharma before the Frankfurt Court requesting the payment of penalties as additional remedy to the resolution. Innova Pharma, considering Bayer's requests unfounded, filed its entry of appearance. In December 2012 the parties agreed to a settlement under which Innova Pharma paid Bayer € 0.3 million which represents a third of the of the penalties requested plus a third of the legal expenses.

RECORDATI

RECORDATI S.p.A. AND SUBSIDIARIES

SUBSIDIARIES INCLUDED IN THE CONSOLIDATED ACCOUNTS AT 31 DECEMBER 2012

ATTACHMENT 1.

Consolidated Companies	Head Office	Share Capital	Currency	Consolidation Method
RECORDATI S.P.A. *Development, production, marketing and sales of pharmaceuticals and pharmaceutical chemicals*	Italy	26,140,644.50	Euro	Line-by-line
RECOFARMA S.R.L. *Dormant, holds pharmaceutical marketing rights*	Italy	1,258,400.00	Euro	Line-by-line
INNOVA PHARMA S.P.A. *Marketing and sales of pharmaceuticals*	Italy	1,920,000.00	Euro	Line-by-line
RECORDATI ESPAÑA S.L. *Development, production, marketing and sales of pharmaceuticals*	Spain	238,966,000.00	Euro	Line-by-line
RECORDATI S.A. Chemical and Pharmaceutical Company *Holding company*	Luxembourg	82,500,000.00	Euro	Line-by-line
BOUCHARA RECORDATI S.A.S. *Development, production, marketing and sales of pharmaceuticals*	France	4,600,000.00	Euro	Line-by-line
RECORDATI PORTUGUESA LDA *Dormant*	Portugal	24,940.00	Euro	Line-by-line
FARMARECORD LTDA *Dormant, holds pharmaceutical marketing rights in Brazil*	Brazil	166.00	BRL	Line-by-line
RECORDATI RARE DISEASES INC.* *Development, production, marketing and sales of pharmaceuticals*	U.S.A.	11,979,138.00	USD	Line-by-line
RECORDATI IRELAND LTD *Development, production, marketing and sales of pharmaceuticals*	Ireland	200,000.00	Euro	Line-by-line
RECORDATI S.A. *Provision of services, holds pharmaceutical marketing rights*	Switzerland	2,000,000.00	CHF	Line-by-line
LABORATOIRES BOUCHARA RECORDATI S.A.S. *Development, production, marketing and sales of pharmaceuticals*	France	14,000,000.00	Euro	Line-by-line
RECORDATI PHARMA GmbH *Marketing and sales of pharmaceuticals*	Germany	600,000.00	Euro	Line-by-line
RECORDATI PHARMACEUTICALS LTD *Marketing and sales of pharmaceuticals*	United Kingdom	15,000,000.00	GBP	Line-by-line
RECORDATI HELLAS PHARMACEUTICALS S.A. *Marketing and sales of pharmaceuticals*	Greece	13,900,000.00	Euro	Line-by-line
JABA RECORDATI S.A. *Marketing and sales of pharmaceuticals*	Portugal	2,000,000.00	Euro	Line-by-line
JABAFARMA PRODUTOS FARMACÊUTICOS S.A. *Marketing of pharmaceuticals*	Portugal	50,000.00	Euro	Line-by-line
BONAFARMA PRODUTOS FARMACÊUTICOS S.A. *Marketing of pharmaceuticals*	Portugal	50,000.00	Euro	Line-by-line
RECORDATI ORPHAN DRUGS S.A.S. *Holding company*	France	57,000,000.00	Euro	Line-by-line
ORPHAN EUROPE SWITZERLAND GmbH *Marketing and sales of pharmaceuticals*	Switzerland	20,000.00	CHF	Line-by-line
ORPHAN EUROPE MIDDLE EAST FZ LLC *Marketing and sales of pharmaceuticals*	United Arab Emirates	100,000.00	AED	Line-by-line

Consolidated Companies	Head Office	Share Capital	Currency	Consolidation Method
ORPHAN EUROPE NORDIC A.B. *Marketing and sales of pharmaceuticals*	Sweden	100,000.00	SEK	Line-by-line
ORPHAN EUROPE PORTUGAL LDA *Marketing and sales of pharmaceuticals*	Portugal	5,000.00	Euro	Line-by-line
ORPHAN EUROPE S.A.R.L. *Development, production, marketing and sales of pharmaceuticals*	France	320,000.00	Euro	Line-by-line
ORPHAN EUROPE UNITED KINGDOM LTD *Marketing and sales of pharmaceuticals*	United Kingdom	50,000.00	GBP	Line-by-line
ORPHAN EUROPE GERMANY GmbH *Marketing and sales of pharmaceuticals*	Germany	25,600.00	Euro	Line-by-line
ORPHAN EUROPE SPAIN S.L. *Marketing and sales of pharmaceuticals*	Spain	1,775,065.49	Euro	Line-by-line
ORPHAN EUROPE ITALY S.R.L. *Marketing and sales of pharmaceuticals*	Italy	40,000.00	Euro	Line-by-line
ORPHAN EUROPE BENELUX BVBA *Marketing and sales of pharmaceuticals*	Belgium	18,600.00	Euro	Line-by-line
FIC MEDICAL S.A.R.L. ** *Marketing of pharmaceuticals*	France	173,700.00	Euro	Line-by-line
HERBACOS RECORDATI s.r.o. *Development, production, marketing and sales of pharmaceuticals*	Czech Republic	25,600,000.00	CZK	Line-by-line
RECORDATI SK s.r.o. *Marketing and sales of pharmaceuticals*	Slovakia	33,193.92	Euro	Line-by-line
RUSFIC LLC *Marketing and sales of pharmaceuticals*	Russian Federation	3,560,000.00	RUB	Line-by-line
RECOFARMA ILAÇ Ve Hammaddeleri Sanayi Ve Ticaret L.Ş. *Marketing of pharmaceuticals*	Turkey	5,000.00	TRY	Line-by-line
RECORDATI ROMÂNIA S.R.L. *Marketing and sales of pharmaceuticals*	Romania	5,000,000.00	RON	Line-by-line
RECORDATI İLAÇ Sanayi Ve Ticaret A.Ş.*** *Development, production, marketing and sales of pharmaceuticals*	Turkey	80,875,367.00	TRY	Line-by-line
RECORDATI POLSKA Sp. z o.o.**** *Marketing and sales of pharmaceuticals*	Poland	400,000.00	PLN	Line-by-line
FARMA-PROJEKT Sp. z o.o.***** *Marketing and sales of pharmaceuticals*	Poland	3,360,000.00	PLN	Line-by-line
ACCENT LLC.****** *Holds pharmaceutical marketing rights*	Russian Federation	20,000.00	RUB	Line-by-line

* Recordati Corporation renamed Recordati Rare Diseases Inc. during 2012
** Incorporated FIC S.A.S. during 2012
*** Acquired in 2011, consolidated from 1 October 2011. In 2012 Dr. F. Frik Ilaç renamed Recordati Ilaç and incorporated Yeni Recordati Ilaç.
**** Established in 2011.
***** Acquired in 2012, P&L consolidated from 1 September 2012.
****** Acquired in 2012, P&L consolidated from 16 November 2012.

Consolidated companies	PERCENTAGE OF OWNERSHIP									
	Recordati S.p.A. *(Parent)*	Recordati S.A. *(Lux)*	Recordati Pharma GmbH	Bouchara Recordati S.A.S.	Recordati España S.L.	Recordati Orphan Drugs S.A.S.	Orphan Europe S.A.R.L.	Herbacos Recordati s.r.o.	Recordati Ilaç A.Ş.	Total
RECOFARMA S.R.L.	100.00%									100.00%
INNOVA PHARMA S.P.A.	100.00%									100.00%
RECORDATI ESPAÑA S.L.	68.447%	31.553%								100.00%
RECORDATI S.A. Chemical and Pharmaceutical Company	100.00%									100.00%
BOUCHARA RECORDATI S.A.S.	99.94%	0.06%								100.00%
RECORDATI PORTUGUESA LDA	98.00%	2.00%								100.00%
FARMARECORD LTDA		100.00%								100.00%
RECORDATI RARE DISEASES INC.*		100.00%								100.00%
RECORDATI IRELAND LTD		100.00%								100.00%
RECORDATI S.A.		100.00%								100.00%
LABORATOIRES BOUCHARA RECORDATI S.A.S.				100.00%						100.00%
RECORDATI PHARMA GmbH		55.00%			45.00%					100.00%
RECORDATI PHARMACEUTICALS LTD	3.33%	96.67%								100.00%
RECORDATI HELLAS PHARMACEUTICALS S.A.	0.68%	99.32%								100.00%
JABA RECORDATI S.A.					100.00%					100.00%
JABAFARMA PRODUTOS FARMACÊUTICOS S.A.					100.00%					100.00%
BONAFARMA PRODUTOS FARMACÊUTICOS S.A.					100.00%					100.00%
RECORDATI ORPHAN DRUGS S.A.S.		90.00%	10.00%							100.00%
ORPHAN EUROPE SWITZERLAND GmbH						100.00%				100.00%
ORPHAN EUROPE MIDDLE EAST FZ LLC						100.00%				100.00%
ORPHAN EUROPE NORDIC A.B.						100.00%				100.00%
ORPHAN EUROPE PORTUGAL LDA						100.00%				100.00%
ORPHAN EUROPE S.A.R.L.						100.00%				100.00%

Consolidated companies	PERCENTAGE OF OWNERSHIP									
	Recordati S.p.A. *(Parent)*	Recordati S.A. *(Lux)*	Recordati Pharma GmbH	Bouchara Recordati S.A.S.	Recordati España S.L.	Recordati Orphan Drugs S.A.S.	Orphan Europe S.A.R.L.	Herbacos Recordati s.r.o.	Recordati Ilaç A.Ş.	Total
ORPHAN EUROPE UNITED KINGDOM LTD							100.00%			100.00%
ORPHAN EUROPE GERMANY GmbH							100.00%			100.00%
ORPHAN EUROPE SPAIN S.L.							100.00%			100.00%
ORPHAN EUROPE ITALY S.R.L.							99.00%			99.00%
ORPHAN EUROPE BENELUX BVBA						99.46%	0.54%			100.00%
FIC MEDICAL S.A.R.L.**				100.00%						100.00%
HERBACOS RECORDATI s.r.o.	0.08%	99.92%								100.00%
RECORDATI SK s.r.o.								100.00%		100.00%
RUSFIC LLC				100.00%						100.00%
RECOFARMA ILAÇ Ve Hammaddeleri Sanayi Ve Ticaret L.Ş.									100.00%	100.00%
RECORDATI ROMÂNIA S.R.L.		100.00%								100.00%
RECORDATI İLAÇ Sanayi Ve Ticaret A.Ş.***					100.00%					100.00%
RECORDATI POLSKA Sp. z o.o.****	100.00%									100.00%
FARMA-PROJEKT Sp. z o.o.*****	100.00%									100.00%
ACCENT LLC ******		100.00%								100.00%

* Recordati Corporation renamed Recordati Rare Diseases Inc. during 2012
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**** Established in 2011.
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RECORDATI

RECORDATI S.p.A. AND SUBSIDIARIES

DISCLOSURE OF AUDITORS' FEES FOR ACCOUNTING AUDITS AND OTHER SERVICES

ATTACHMENT 2.

Type of service	Provider of the service	Recipient	Fees Amounts in €
Accounting audit	Auditor of Parent Company	Parent Company	72,045
Accounting audit	Auditor of Parent Company	Subsidiaries	7,900
Accounting audit	Network of auditor of Parent Company	Subsidiaries	307,443
Due diligence	Network of auditor of Parent Company	Parent Company	193,500
Due diligence	Network of auditor of Parent Company	Subsidiaries	42,808
Tax compliance	Network of auditor of Parent Company	Subsidiaries	24,690
Signature on returns and attestations	Auditor of Parent Company	Parent Company	36,600
Signature on returns and attestations	Network of auditor of Parent Company	Subsidiaries	7,850
Other services	Network of auditor of Parent Company	Subsidiaries	3,000

RECORDATI S.p.A. AND SUBSIDIARIES

ATTESTATION IN RESPECT OF THE CONSOLIDATED FINANCIAL STATEMENTS UNDER ARTICLE 154-BIS OF LEGISLATIVE DECREE 58/98

1. The undersigned, Giovanni Recordati, in his capacity as the Chief Executive Officer of the Company, and Fritz Squindo, as the Manager responsible for the preparation of the Company's financial statements, pursuant to the provisions or Article 154-*bis*, clauses 3 and 4, of Legislative Decree no. 58 of 1998, hereby attest:

- the adequacy with respect to the Company structure,
- and the effective application,

of the administrative and accounting procedures applied in the preparation of the Company's consolidated financial statements at and for the year ended 31 December 2012.

2. The undersigned moreover attest that:

2.1. the consolidated financial statements at 31 December 2012:

- have been prepared in accordance with the International Financial Reporting Standards, as endorsed by the European Union through Regulation (EC) 1606/2002 of the European Parliament and Counsel, dated 19 July 2002;
- correspond to the amounts shown in the Company's accounts, books and records; and
- provide a fair and correct representation of the financial conditions, results of operations and cash flows of the Company and its consolidated subsidiaries.

2.2. The report on operations includes a reliable operating and financial review of the Company and of the Group as well as a description of the main risks and uncertainties to which they are exposed.

Milan, 7 March 2013

Signed by
Giovanni Recordati
Chief Executive Officer

Signed by
Fritz Squindo
Manager responsible for preparing
the company's financial reports

PROPOSED 2012 ANNUAL REPORT

Review of operations

To Our Shareholders,

The Annual Report of the Parent Company for the year ended 31st December 2012, which we submit to you for your approval, reports net income of € 85,032,199, an increase of € 6,570,217 compared to the previous year.

Important results were achieved in 2012 with regard to the growth and internationalization of the Group: in August the acquisition of 100% of the share capital of Farma-Projekt Sp. z.o.o, a Polish pharmaceutical company located in Krakow, was successfully concluded; in November the acquisition was completed of the rights to OTC pharmaceuticals and dietary supplements for marketing in Russia by the local subsidiary RUSFIC LLC located in Moscow; in December an agreement was signed for the acquisition of rights regarding a portfolio of products for the treatment of rare diseases and other disorders, marketed mainly in the United States of America, which was successfully concluded at the beginning of 2013 as reported in the section on subsequent events.

As concerns the internationalization policy, the expansion of centralized units continued in order to guarantee the integration, monitoring and co-ordination of foreign subsidiaries.

The review of operations in the consolidated annual report attached to this report may be consulted for further information on operations and growth strategies.

The income statement is given below with the classification of costs by function.

€ (thousands)	2012	% of revenue	2011	% of revenue	Change 2012/2011	%
Net revenues	**273,357**	**100.0**	**268,018**	**100.0**	**5,339**	**2.0**
Cost of sales	(135,052)	(49.4)	(127,746)	(47.7)	(7,306)	5.7
Gross profit	**138,305**	**50.6**	**140,272**	**52.3**	**(1,967)**	**(1.4)**
Selling expenses	(49,334)	(18.0)	(49,114)	(18.3)	(220)	0.4
R&D expenses	(24,517)	(9.0)	(26,755)	(10.0)	2,238	(8.4)
G&A expenses	(19,930)	(7.3)	(19,898)	(7.4)	(32)	0.2
Other income (expense), net	(5,174)	(1.9)	(863)	(0.3)	(4,311)	n.s.
Operating income	**39,350**	**14.4**	**43,642**	**16.3**	**(4,292)**	**(9.8)**
Financial income (expense), net	(5,665)	(2.1)	(5,555)	(2.1)	(110)	2.0
Dividends	64,988	23.8	55,889	20.9	9,099	16.3
Pretax income	**98,673**	**36.1**	**93,976**	**35.1**	**4,697**	**5.0**
Provision for income taxes	(13,641)	(5.0)	(15,514)	(5.8)	1,873	(12.1)
Net income	**85,032**	**31.1**	**78,462**	**29.3**	**6,570**	**8.4**

Net revenues increased by 2% compared to the same period in the previous year.

Sales of specialty pharmaceuticals in Italy contracted by 1.4% compared to the year before, due to up-front payments of € 5.3 million received in 2011 from our licensees for the launch of the lercanidipine-enalapril fixed

combination in Italy.
As concerns the sales performance of prescription products, growth was recorded for Cardicor® (bisoprolol), a beta blocker indicated for the treatment of chronic and stable, from moderate to serious cardiac insufficiency together with good progress by sales of Urorec® (silodosin) and Zanipril® (lercanidipine+enalapril), launched in the second quarter of 2011, while the contraction in sales of Peptazol®, Zanedip® and Rextat® was due to competition from generic versions.

Self-medication specialty pharmaceuticals grew by 4.6% compared to the previous year, the result in particular of growth in sales of Proctolyn® (anti-hemorrhoids) and the continuous growth of Alovex™, indicated for the treatment of mouth ulcers, which consolidated its position as the leading product for this disorder. Growth was also recorded for sales of Eumill® (single dose eye drops) which, together with Imidazyl®, is maintaining Recordati's leadership in the collyrium market. The Dentosan® line of oral hygiene products entered the portfolio of self-medication products in the last quarter of 2012.

Sales of pharmaceutical chemicals, consisting of active ingredients produced at the Campoverde di Aprilia plant, increased by 8.9% compared to 2011, mainly due to a significant increase in volumes of sales for the following products: verapamil, mebeverine, papaverine, dimenhydrinate, aciclovir and diphenhydramine, and also to a favorable exchange rate.

Selling expenses, which include the impact of new legislation that came into force in 2010 that involves a charge borne by producers equal to 1.83% (4.1% in the second half of 2012) of the price to the public net of VAT, increased slightly compared to the year before, due in particular to the more severe regulations introduced in the second half just mentioned.

Total R&D costs amounted to € 24,517 thousand, a decrease of 8.4% compared to expenses incurred in the previous year.

General and administrative expenses were practically unchanged compared to 2011.

Other net expenses of € 5,174 thousand incurred included € 2,233 thousand of the pay-back due to AIFA (Italian Medicines Agency) in place of the 5% price reduction on some selected products. Furthermore, other expenses relate to company reorganization costs and accessory costs incurred for acquisitions. Other income, however, relates to the reversal of prior year provisions.

Operating income was € 39,350 thousand, down by 9.8% compared to the year before, due to the changes reported above; it amounted to 14.4% of revenues.

Net finance charges were € 5,665 thousand, a slight increase compared to 2011.

Tax as a percentage of pretax income was down compared to the year before, mainly due to the increase in dividends received from subsidiaries.

A brief summary is given below of the net financial position, while further details are given in item 42 of the notes to the financial statements.

€ (thousands)	31.12.2012	31.12.2011	Change 2012/2011
Cash and cash equivalents and current receivables	59,875	67,447	(7,572)
Short-term borrowings	(196,308)	(123,587)	(72,721)
Net current financial position	**(136,433)**	**(56,140)**	**(80,293)**
Loans and receivables due after one year	19,408	20,639	(1,231)
Borrowings – due after one year	(128,123)	(160,481)	32,358
Net financial position	**(245,148)**	**(195,982)**	**(49,166)**

Dividends were paid during the year totaling € 60 million, of which € 21.3 million for the balance on the dividend relating to 2011 and € 38.7 million as an interim dividend relating to 2012.
Furthermore, the reduction in the net financial position relates to investments in subsidiaries for the capitalization of the subsidiary Recordati S.A. Luxembourg, which purchased a product portfolio in Russia, and for the acquisition in Poland of Farma-Projekt Sp. z.o.o. It also relates to the acquisition of the Dentosan® product line.

OTHER INFORMATION

Treasury stock consisting of 1,280,000 shares was sold during the year for € 5,636 thousand, following the exercise of stock option rights by Group employees.
The Company held treasury stock consisting of 8,505,790 shares at 31st December 2012 accounting for 4.07% of the share capital.

The section "Principal risks and uncertainties" in the review of operations in the consolidated annual report attached to this report may be consulted for an analysis and description of the principal risks and uncertainties to which the Company is exposed pursuant to paragraphs 1 and 2 of article 2428 of the Italian Civil Code.

The information required under paragraph three, point 6-*bis* of Art. 2428 of the Italian Civil Code concerning the Company's objectives and policies in respect of financial risk management is fully reported in the notes to the financial statements.

In compliance with the requirements contained in Art. 4, paragraph 7 of the Regulation on related-party transactions adopted with Consob Resolution 17221 of 12th March 2010 and subsequent amendments, the Company reports that it has adopted "Regulations for related-party transactions", the full text of which is available on the Company website at www.recordati.it (in the "Corporate Governance" section).

The Company has a secondary headquarters at 4 Via Mediana Cisterna, Campoverde di Aprilia (Latina).

Shares held by directors, statutory auditors, general managers and other key management personnel are reported in the Remuneration Report published in accordance with Art. 123-*ter* of the Consolidated Finance Act.

In compliance with Art. 37, paragraph two of the Markets Regulations adopted with Consob deliberation No. 16191 of 29th October 2007 as subsequently amended, we report that, although Recordati S.p.A. is controlled by Fimei Finanziaria Industriale Mobiliare ed Immobiliare S.p.A., it is not subject to management and co-ordination by that company within the meaning of articles 2497 *et seq* of the Italian Civil Code. This is because Fimei Finanziaria Industriale Mobiliare ed Immobiliare S.p.A. is a mere financial holding company with no operations of any kind and it does not exert any influence or conduct any activities which might affect the management decisions and organization of Recordati S.p.A..

The Corporate Governance Report pursuant to article 123 *bis* of Legislative Decree 58/98, which contains information pursuant to article 89 *bis* of the Issuers' Regulations, may be consulted on the Company website

at www.recordati.it, in the section "Corporate Governance".

INTERCOMPANY TRANSACTIONS AND RELATED ISSUES

At 31st December 2012, intercompany accounts with Group companies and the parent company Fimei S.p.A. consisted of payables of € 222,305 thousand and receivables of € 108,265 thousand. The most significant items are as follows:

- receivables of € 20,622 thousand for loans granted to Group companies;
- payables of € 106,759 thousand for loans received from Group companies;
- trade receivables of € 36,226 thousand from subsidiaries;
- trade payables to subsidiaries of € 11,890 thousand;
- receivables of € 50,129 thousand from subsidiaries for the management of the centralized cash pooling treasury system;
- payables of € 100,552 thousand to subsidiaries for the management of the centralized cash pooling treasury system and for accounts held for them.

Sales and services to Group companies in 2012 amounted to € 122,424 thousand.
Dividends were received during the year as follows: € 45,000 thousand from Recordati S.A. Chemical & Pharmaceutical Company and € 19,988 thousand from Bouchara Recordati S.a.s.

Tax receivables include those from the parent company Fimei S.p.A. amounting to € 574 thousand, which relate to the tax credit for the year calculated on the basis of estimated taxable income. That credit was transferred by the Company to the parent company as a consequence of opting for tax consolidation in accordance with articles 117 to 128 of Presidential Decree 917/1986 as amended by Legislative Decree 344/2003.

The following summary is set out in the table below in compliance with Consob deliberation No. 15519 of 27th July 2006:

Percentage of transactions with related parties € (thousands)	Total	Related parties Amount	 %
Percentage of transactions or positions in the balance sheet with related parties			
Trade receivables and other	78,202	37,514	47.97
Long-term financial assets	19,465	19,408	99.71
Short-term financial assets	51,343	51,343	100
Trade payables and other	73,961	13,166	17.8
Other non-current liabilities	1,828	1,828	100
Long-term financial liabilities	128,123	66,980	52.28
Short-term financial liabilities	196,307	140,331	71.49
Percentage of transactions or positions in the income statement with related parties			
Revenue	275,811	122,424	44.39
Income from investments	64,988	64,988	100
Costs of purchases and service provision	165,127	8,302	5.03
Financial income/(expense), net	(5,665)	(3,712)	65.53

Transactions and positions with related parties as a percentage of cash flows is basically the same as that for the income statement items because the transactions are conducted under normal market conditions.

SIGNIFICANT TRANSACTIONS, EXCEPTION TO DISCLOSURE OBLIGATIONS

The Company decided to take advantage, with effect from 20th December 2012, of the rights not to comply with obligations to publish the reports required when significant extraordinary operations are performed consisting of mergers, demergers, share capital increases through contributions in kind, acquisitions and disposals, in accordance with Art. 70, paragraph 8 and with Art. 71, paragraph 1-*bis* of the Issuers' Regulations issued by Consob with Resolution No. 11971/1999 and subsequent amendments.

SUBSEQUENT EVENTS AND BUSINESS OUTLOOK

The implementation of company policies, operations at the beginning of the current year, the potential of our products, the financial strength of the Company and the managerial capacities of our personnel lead us to forecast a positive result again in 2013, despite the general slowdown in the economy in Europe and the impact of the measures to contain spending on pharmaceuticals.
In January 2013 the acquisition was successfully concluded of all the rights relating to a product portfolio for the treatment of rare diseases and other disorders, which will be marketed in the United States of America by the subsidiary Recordati Rare Diseases Inc.

Milan, 7th March 2013

on behalf of the Board of Directors

The Chairman

Ing. Giovanni Recordati

RECORDATI S.p.A.
INCOME STATEMENTS FOR THE YEARS ENDED
31ST DECEMBER 2012 AND 31ST DECEMBER 2011

Income Statement

Amounts in euro	Notes	2012	2011
Revenue	3	**273,150,523**	**267,457,514**
Other revenues and income	4	2,660,429	4,785,334
Total revenue		**275,810,952**	**272,242,848**
Raw materials costs	5	(100,018,492)	(94,419,202)
Personnel costs	6	(68,170,300)	(67,909,564)
Amortization	7	(7,517,788)	(7,894,522)
Other operating expenses	8	(65,108,885)	(62,925,789)
Changes in inventories	9	4,354,764	4,548,023
Operating income		**39,350,251**	**43,641,794**
Income from investments	10	64,988,000	55,889,000
Financial income (expense), net	11	(5,664,799)	(5,554,674)
Pretax income		**98,673,452**	**93,976,120**
Provision for income taxes	12	(13,641,253)	(15,514,138)
Net income for the year		**85,032,199**	**78,461,982**

Earnings per share		
Basic	0.426	0.394
Diluted	0.402	0.374

Basic earnings per share is calculated on average shares outstanding in the relative periods, consisting of 199,722,208 shares in 2012 and 199,369,542 in 2011. The figures are calculated net of average treasury stock held, which amounted to 9,402,948 shares in 2012 and 9,755,614 shares in 2011.
Diluted earnings per share is calculated taking into account stock options granted to employees.

RECORDATI S.p.A.

BALANCE SHEETS at 31st DECEMBER 2012 and at 31st DECEMBER 2011

Assets

Amounts in euro	Notes	31st December 2012	31st December 2011	
Non-current assets				
Property, plant and equipment	13	40,075,289	35,944,001	
Intangible assets	14	33,670,461	17,531,101	
Investments	15	473,532,993	417,054,241	
Loans and receivables	16	19,464,544	20,695,715	*
Deferred tax assets	17	3,386,000	4,869,889	
Total non-current assets		**570,129,287**	**496,094,947**	
Current assets				
Inventories	18	50,925,414	46,570,650	
Trade receivables	19	72,976,030	54,335,809	
Other receivables	20	5,226,378	3,700,843	
Other current assets	21	263,353	318,736	
Fair value of hedging derivatives (fair value hedges)	25	1,370,598	1,791,371	
Other short-term receivables	22	51,343,356	31,928,423	*
Short-term financial investments, cash and cash equivalents	23	8,531,918	35,519,366	
Total current assets		**190,637,047**	**174,165,198**	
Total assets		**760,766,334**	**670,260,145**	

* € 583,449 restated for comparison purposes.

RECORDATI S.p.A.

BALANCE SHEETS at 31st DECEMBER 2012 and at 31st DECEMBER 2011

Equity and Liabilities

Amounts in euro	Notes	31st December 2012	31st December 2011
Equity			
Share capital	24	26,140,645	26,140,645
Additional paid-in capital	24	83,718,523	83,718,523
Treasury shares	24	(46,254,125)	(53,214,711)
Statutory reserve	24	5,228,129	5,228,129
Other reserves	24	219,967,202	203,232,183
Revaluation reserve	24	2,602,229	2,602,229
Interim dividend	24	(40,077,373)	(38,525,218)
Net profit for the year	24	85,032,199	78,461,982
Total shareholders' equity		**336,357,429**	**307,643,762**
Non-current liabilities			
Loans	25	128,123,109	160,481,008
Staff leaving indemnities	26	11,321,144	10,759,236
Deferred tax liabilities	27	1,629,296	2,058,636
Other non-current liabilities	28	1,827,574	0
Total non-current liabilities		**142,901,123**	**173,298,880**
Current liabilities			
Trade payables	29	53,956,772	36,417,250
Other payables	30	17,909,227	14,961,134
Tax liabilities	31	2,046,759	3,661,973
Other current liabilities	32	48,044	63,853
Provisions	33	6,256,856	6,399,298
Fair value of hedging derivatives (cash flow hedges)	34	4,982,747	4,227,201
Loans – due within one year	35	6,957,178	6,952,738
Bank overdrafts and short-term loans	36	49,019,696	528,494
Other short-term borrowings	37	140,330,503	116,105,562
Total current liabilities		**281,507,782**	**189,317,503**
Total equity and liabilities		**760,766,334**	**670,260,145**

RECORDATI S.p.A.

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEARS ENDED 31ST DECEMBER 2012 AND 31ST DECEMBER 2011

€ (thousands)	2012	2011
Net income for the year	**85,032**	**78,462**
Gains/(losses) on cash flow hedges	(755)	72
Valuation of the personnel leaving indemnity fund pursuant to IAS 19	(1,126)	326
Income (expense) for the year recognized directly in equity	**(1,881)**	**398**
Comprehensive income for the year	**83,151**	**78,860**

RECORDATI S.p.A.

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

€ (thousands)	Share capital	Addition-al paid-in capital	Treasury shares	Statutory reserve	Other reserves	Fair value hedging instruments	IAS compli-ance reserve	Revaluation reserves	Interim dividend	Net (loss)/ income for the year	Total
Balance at 31st December 2010	**26,141**	**83,718**	**(52,579)**	**5,228**	**103,137**	**(4,299)**	**89,310**	**2,602**	**0**	**67,892**	**321,150**
Allocation of 2010 net income as per shareholders' resolution of 13.4.2011:											
to reserves					13,279					(13,279)	0
dividends to shareholders										(54,613)	(54,613)
Purchase of treasury stock			(15,872)								(15,872)
Sales of treasury stock			15,236		226						15,462
Dividends expired					2						2
Interim dividends									(38,525)		(38,525)
Comprehensive income for the year						72	326			78,462	78,860
IAS compliance at 31st December 2011 – Stock options							1,180				1,180
Balance at 31st December 2011	**26,141**	**83,718**	**(53,215)**	**5,228**	**116,644**	**(4,227)**	**90,816**	**2,602**	**(38,525)**	**78,462**	**307,644**
Allocation of 2011 net income as per shareholders' resolution of 19.4.2012:											
to reserves					18,661					(18,661)	0
dividends to shareholders									38,525	(59,801)	(21,276)
Sales of treasury stock			6,961		(1,325)						5,636
Dividends expired					3						3
Interim dividends									(40,077)		(40,077)
Comprehensive income for the year						(755)	(1,126)			85,032	83,151
IAS compliance at 31st December 2012 – Stock options							1,276				1,276
Balance at 31st December 2012	**26,141**	**83,718**	**(46,254)**	**5,228**	**133,983**	**(4,982)**	**90,966**	**2,602**	**(40,077)**	**85,032**	**336,357**

RECORDATI S.p.A.

CASH FLOW STATEMENT FOR THE YEARS ENDED 31ST DECEMBER 2012 AND 31ST DECEMBER 2011

€ (thousands)	2012	2011
Operating activities		
Net income	85,032	78,462
Income from investments	(64,988)	(55,889)
Depreciation of property, plant and equipment	5,102	5,642
Amortization of intangible assets	2,417	2,253
(Increase)/decrease in deferred tax liabilities	1,054	2,257
Increase/(decrease) in staff leaving indemnities	562	(899)
Other provisions	(142)	(1,006)
Increase/(decrease) in other non-current liabilities	1,828	0
Dividends received	64,988	55,889
Trade receivables	(18,640)	(2,743)
Other receivables and other current assets	(1,470)	6,073
Inventories	(4,355)	(4,548)
Trade payables	17,540	977
Other payables and other current liabilities	2,932	(7,896)
Tax liabilities	(1,615)	1,744
Net cash from operating activities	**90,245**	**80,316**
Investing activities		
Net (investments)/disposals in property, plant and equipment	(9,233)	(6,419)
Net (investments)/disposals in intangible assets	(18,556)	(523)
Net (increase)/decrease in equity investments	(56,479)	(89,957)
Net (increase)/decrease in other non-current assets	1,231	(20,639) **
Net cash used in investing activities	**(83,037)**	**(117,538)**
Financing activities		
Loans – due after one year	0	69,759
Dividends paid	(61,353)	(93,138)
(Purchase)/sale of treasury stock	5,636	(410)
Effect on shareholders' equity of application of IAS/IFRS	153	1,508
Repayment of loans	(31,933)	(15,130)
Net cash from/(used in) financing activities	**(87,497)**	**(37,411)**
Changes in short-term financial position	**(80,289)**	**(74,633)**
Short-term financial position at beginning of year *	(49,186)	25,447
Short-term financial position at end-of-year *	(129,475)	(49,186) **

* Includes the total of other short-term loans, short-term financial investments and cash and cash equivalents, bank overdrafts and other short-term borrowings excluding the current portion of medium and long-term loans.

** € 583,449 restated for comparison purposes.

RECORDATI S.p.A.
NOTES TO THE SEPARATE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST DECEMBER 2012

1. GENERAL

The separate annual financial statements comprise the income statement, the balance sheet, the statement of comprehensive income, the statement of changes in shareholders' equity the cash flow statement and these notes to the financial statements. In compliance with Legislative Decree No. 38 of 28th February 2005, – in exercising the options provided for by Art. 5 of Regulation (EC) No. 1606/2002 of the European Parliament and Council of 19th July 2002 concerning international accounting standards – the separate company financial statements have been prepared by applying the international accounting standards (IAS/IFRS) issued or revised by the International Accounting Standards Board and homologated by the European Union and also the regulations issued in implementation of Art. 9 of Legislative Decree No. 38/2005. The "IAS/IFRS" are intended as including all the interpretations of the International Financial Reporting Interpretation Committee ("IFRIC"), previously named the Standing Interpretations Committee ("SIC").
The presentation adopted by the Company for the income statement in the separate annual financial statements classifies revenues and expenses by nature. The distinction between the principle of current and non-current was adopted for the presentation of assets and liabilities in the balance sheet.
These financial statements are presented in euro (€) and all amounts in the notes to the statements are rounded to the nearest thousand euro unless otherwise stated.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared on a historical cost basis, except for hedging derivatives (and the relative underlying hedged financial liability) for which their fair value has been applied and except for defined benefit plans for which the actuarial valuation was performed as prescribed by IAS 19.

The principal accounting policies adopted are set out below.

Balance sheet

Property, plant and equipment - Property, plant and equipment is stated at historical cost less accumulated depreciation and any recognized impairment loss. Subsequent costs are only capitalized when it is probable that the future economic benefits will flow to the Company. The costs for ordinary maintenance and repairs are recognized through profit and loss at the time at which they are incurred.

The carrying amount of property, plant and equipment is subject to impairment testing to measure any loss in value when events or situations occur which indicate that the carrying amount of the assets can no longer be recovered (see paragraph on impairment).
Depreciation is computed on a straight-line basis using rates which are held to be representative of the estimated useful life of the assets:

Industrial buildings	2.5% - 5.5%
Plant & machinery	10% - 17.5%
Other equipment	12% - 40%

The depreciation of an asset begins when it is installed and is ready for use or, in the case of self-constructed assets, when the assets has been completed and is ready for use.
The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the

sales proceeds and the carrying amount of the asset and it is recognized through profit of loss for the period.

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

Impairment - At each balance sheet date, the Company reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs.
The recoverable amount is the greater of net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pretax discount rate that reflects current market assessments of the time value of the money and the risks specific to the asset.
If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. Impairment losses are recognized as an expense immediately.
Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized. A reversal of an impairment loss is recognized as income immediately.

Investments in subsidiaries – Investments in subsidiaries are recognized at cost of acquisition adjusted for impairment.
Positive differences arising at the time of purchase between the acquisition cost and the quota of the equity at present values held in the subsidiary attributable to the Company are therefore included in the carrying amount of the investment.
Investments in subsidiaries are subject to impairment testing annually or more frequently if necessary in order to test for possible loss of value. Where evidence exists that the value of these investments has been impaired, this is recognized through profit or loss as an impairment loss. Where an impairment loss subsequently reverses or reduces, this is recognized in the income statement as a reversal of impairment within the limits of the cost of acquisition.

Receivables (included in non-current assets) - Receivables are stated at their nominal value and reduced for impairment losses.

Inventories - Inventories are stated at the lower of cost or market value, where the market value of raw materials and subsidiaries is their substitution cost while that related to finished goods and work-in-process is their net realizable value.
Inventories of raw materials and supplies are valued at their average weighted acquisition cost including costs incurred in bringing the inventories to their location and condition at year-end.
Inventories of work-in-process and finished goods are measured at their average weighted manufacturing cost which includes the cost of raw materials, consumables, direct labor and indirect costs of production, exclusive of general expenses.
Inventories are written-down if the market value is lower than cost as described above or in the case of obsolescence resulting from slow moving stocks.

Trade receivables - Trade receivables are stated at their nominal value as reduced by appropriate allowances for estimated irrecoverable amounts.
Cash and cash equivalents - Cash in banks on demand and highly liquid investments.

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

Loans - Interest-bearing loans are recorded at the proceeds received, net of direct issue costs.
Subsequently, loans are measured using the amortized cost method as prescribed by IAS 39. The amortized cost is the amount of the liability on initial recognition net of capital repayments and transaction costs amortized using the effective interest rate method.
If the loans are hedged using derivative instruments qualifying as "fair value hedges", in accordance with IAS 39, these loans are measured at fair value as are their related derivative instruments.

Staff leaving indemnities - Employee benefits presented in the balance sheet are the result of valuations carried out as prescribed by IAS 19. The liabilities recognized in the balance sheet for post-employment benefit plans represent the present value of the defined benefit obligation, as adjusted for unrecognized actuarial gains and losses and unrecognized past service cost. The present value of the defined benefit obligation is determined using the Projected Unit Credit Method. All actuarial gains and losses are recognized directly in the schedule of gains and losses stated in equity. Until 31st December 2006 the staff leaving indemnities of Italian companies were considered defined benefit plans. The regulations governing those indemnities were amended by Law 296 of 27 December 2006 (2007 Finance Act) and subsequent amendments made in early 2007. In view of those changes and for companies with at least 50 employees in particular, those indemnities are only to be treated as defined benefit plans for the amounts that matured prior to 1st January 2007 (and not yet paid at the balance sheet date), while subsequent to that date they are treated as a defined contribution plan.

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

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

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

Derivative financial instruments - The Company uses derivative financial instruments to hedge its risks associated with interest rate and foreign currency fluctuations. Such derivatives are measured at fair value at the end of each reporting period.
Hedging relationships are of two types, "fair value hedge" or "cash flow hedge". A "fair value hedge" is a hedge of the exposure to changes in the fair value of an asset or liability that is already recognized in the balance sheet. A "cash flow hedge" is a hedge of the exposure to variability in cash flows relating to a recognized asset or liability or to a forecasted transaction.
The gain or loss from the change in fair value of a derivative instrument qualifying as a "fair value hedge" is recognized immediately through profit or loss. At the same time, the carrying amount of the hedged item is adjusted for the corresponding gain or loss since the inception of the hedge, which also is recognized immediately through profit or loss.
The gain or loss from the change in fair value of a hedging instrument qualifying as a "cash flow hedge" is recognized directly in equity.
The gain or loss from the change in fair value of a derivative financial instrument which does not qualify as a hedging instrument is recognized immediately through profit or loss.

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

Foreign currencies - Transactions in currencies other than the euro are initially recorded at the rates of exchange prevailing on the dates of the transactions. Monetary assets and liabilities denominated in such currencies are retranslated at the rates prevailing on the balance sheet date. Profits and losses arising on exchange are included in profit or loss for the period. Non-monetary assets and liabilities recorded at the rates of exchange prevailing on the dates of the transactions are not translated on the balance sheet date.

Income Statement

The expenses are presented in the income statement "by nature". The choice of this method of presentation is based on the nature of the Company as both a holding and an operating company. The objective is to both optimize and simplify general accounting practices and all the relative compliance activity required by Italian tax regulations.

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

Research and development expenses - All research costs are expensed in the income statement in the year in which they are incurred in accordance with IAS 38. IAS 38 also prescribes that development costs must be capitalized if technical and commercial feasibility of the asset for development or sale have been established. Regulatory and other uncertainties inherent in the development of new products are so high that the guidelines for capitalization under IAS 38 are not met so that development costs are expensed as incurred during the year.
Research and development costs include amounts due under collaboration agreements with third parties.

Non-reimbursable government grants - Government grants towards investment in plant are recognized as income over the periods necessary to match them with the related costs and are stated in the balance sheet as deferred income. Non-reimbursable government grants, including those for research, are booked to the income statement on an accrual basis within the item "other revenue".

Share based payment transactions – According to IFRS 2, stock option plans for employees constitute a part of the remuneration of the beneficiaries, the cost of which is given by the fair value of the options on the grant date. It is recognized through profit and loss at constant rates over the period between the grant and the vesting date, with the balancing entry recognized directly in equity.

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

Taxation - Income tax expense represents the sum of the tax currently payable and deferred tax.
The tax currently payable is based on taxable profit for the year and tax rates in force at the date of the balance sheet are applied.
Deferred tax is the tax expected to be payable or recoverable on temporary differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax basis used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilized. Such assets and liabilities are not recognized if the temporary difference arises from goodwill.

Deferred tax is calculated at the tax rates that are expected to apply to the period when the liability is settled or the asset realized. Deferred tax is charged or credited through profit or loss, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.
Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

Earnings per share - Earnings per share is the net income for the period attributable to ordinary shareholders divided by the weighted average number of ordinary shares outstanding during the period.
Diluted earnings per share is calculated by adjusting the average weighted number of outstanding shares for the effects of all the potential dilutive ordinary shares.

3. REVENUE

In 2012 this amounted to € 273,151 thousand (€ 267,458 thousand in 2011) and was composed as follows:

€ (thousands)	2012	2011	Change 2012/2011
Net sales	267,192	256,250	10,942
Royalties and up-front payments	547	5,692	(5,145)
Revenue from services	5,412	5,516	(104)
Total revenue	**273,151**	**267,458**	**5,693**

Net sales revenues are composed as follows:

€ (thousands)	2012		2011	
	Italy	Abroad	Italy	Abroad
Pharmaceuticals	167,317	68,867	163,621	64,159
Pharmaceutical chemicals	2,162	28,148	2,259	25,255
Other	698	0	956	0
Total revenue for net sales	**170,177**	**97,015**	**166,836**	**89,414**

Revenues from pharmaceuticals in Italy were € 167.3 million, an increase of € 3.7 million compared to the year before. Prescription pharmaceuticals grew by € 2.5 million, due in particular to growth in sales of Cardicor®, Urorec® and Zanipril® and notwithstanding the contraction in sales of Peptazol®, Zanedip® and Rextat®, due to competition from generic versions. Self-medication specialties grew by € 1.2 million due to growth in sales of Proctolyn®, Alovex™ and Eumill®. Furthermore, the Dentosan® line of oral hygiene products entered the portfolio of self-medication specialties in the last quarter of 2012. The review of operations may be consulted for further information on products.

Sales abroad also showed growth on the year before in both the pharma sector, up by 7.3%, and in the chemicals sector which recorded growth of 8% on the various products sold.

Net sales revenues included € 116,769 thousand (€ 114,435 thousand in 2011) for sales of products to subsidiaries:

€ (thousands)	2012	2011	Change 2012/2011
Recordati Ireland Ltd.	61,220	60,666	554
Innova Pharma S.p.A.	48,080	50,650	(2,570)
Laboratoires Bouchara Recordati S.a.s.	272	232	40
Recordati España S.L.	76	305	(229)
Jaba Recordati S.A.	2,931	2,160	771
Recordati Pharma GmbH	2,763	117	2,646
Recordati Ilaç	451	305	146
Orphan Europe Sarl	976	0	976
Total	**116,769**	**114,435**	**2,334**

Sales in both years to the subsidiary Jaba Recordati S.A. related to a licensing and distribution contract for the specialty pharmaceutical TransAct® LAT.

Sales in both years to the subsidiary Recordati Pharma GmbH relate to supplies of the product Lipotalon®.
All commercial transactions with subsidiaries took place under normal market conditions.

Revenues for royalties, up-front payments and services are composed as follows:

€ (thousands)	2012	2011	Change 2012/2011
Services and royalties to subsidiaries:			
Orphan Europe Italy S.r.l.	40	40	0
Innova Pharma S.p.A.	697	1,050	(353)
Recordati Ireland Ltd.	2,084	2,185	(101)
Laboratoires Bouchara Recordati S.a.s.	1,265	1,350	(85)
Recordati Pharma GmbH	394	408	(14)
Recordati España S.L.	337	289	48
Jaba Recordati S.A.	383	323	60
Recordati Ilaç	287	191	96
Recordati Hellas Pharmaceuticals S.A.	84	95	(11)
Herbacos Recordati sro	20	10	10
Recordati Romania S.r.l.	5	0	5
Total services and royalties to subsidiaries	**5,596**	**5,941**	**(345)**
Services and royalties to third parties			
Royalties and up-front payments	363	5,267	(4,904)
Total services and royalties to third parties	**363**	**5,267**	**(4,904)**
Total revenue from services and Royalties	**5,959**	**11,208**	**(5,249)**

The revenues from services to subsidiaries related principally to the "Group Service Agreement" for services performed on behalf of subsidiaries during the year.
Proceeds from Laboratoires Bouchara Recordati S.a.s. included royalties amounting to € 497 thousand.
The reduction in royalties and up-front payments was due to milestones received in 2011 for licensing contracts for the fixed combination of lercanidipine with enalapril.

4. OTHER REVENUES AND INCOME

Other revenues amounted to € 2,660 thousand in 2012, compared to € 4,785 thousand in 2011. They include charging employees for the use of hired cars, other indemnities, non-recurring income, exceptional receivables and gains on the sale of non-current assets.
The item also included € 16 thousand for government grants for plant, € 80 thousand for income from property investments and € 13 thousand for charging for services provided to the parent Company FIMEI S.p.A..

Details of grants received for investments recognized in the income statement are given below for the last five years.

€ (thousands)	
2008	76
2009	48
2010	20
2011	17
2012	16
Total	**177**

Income from property investments includes the rent of properties to the parent Company Fimei S.p.A. amounting to € 8 thousand, the rent of premises at the Milan site to Innova Pharma S.p.A. amounting to € 12 thousand and the rent of part of the offices in via Marostica in Milano to Orphan Europe Italy S.r.l. for € 29 thousand.

5. RAW MATERIALS COSTS

This is composed as follows:

€ (thousands)	2012	2011	Change 2012/2011
Raw materials:			
from licensing-in agreements	56,071	60,898	(4,827)
from other	29,423	19,420	10,003
	85,494	80,318	5,176
Goods for resale	1,952	1,323	629
Packaging materials	6,230	7,472	(1,242)
Others and consumables	6,342	5,306	1,036
Total	**100,018**	**94,419**	**5,599**

The increase in purchases of raw materials, goods and other materials is due to growth in sales and volumes of production.
Purchases of raw materials from others includes € 3,741 thousand for purchases from Recordati Ireland Ltd and € 4,343 thousand of purchases from Innova Pharma S.p.A..

6. LABOR COSTS

Labor costs were composed as follows:

€ (thousands)	2012	2011	Change 2012/2011
Wages and salaries	47,507	47,165	342
Social security costs	15,434	15,380	54
Salary resulting from stock option plans	1,276	1,180	96
Other costs	3,953	4,185	(232)
Total personnel costs	**68,170**	**67,910**	**260**

The expense for stock option plans is a result of the application of IFRS 2, which requires the valuation of those options as a component of the wages of the beneficiaries and recognition of the cost determined in that manner in the income statement.

Other costs include the portions of the leaving indemnity charges for the year destined to pension funds in accordance with the legislation introduced by Law 296 of 27th December 2006.

Average labor force figures for the Company are as follows:

	2012	2011	Change 2012/2011
Executives	62	64	(2)
Office workers	577	567	10
Manual workers	300	286	14
Total	**939**	**917**	**22**

7. DEPRECIATION AND AMORTIZATION

This is composed as follows:

Amortization of intangible assets

€ (thousands)	2012	2011	Change 2012/2011
Patent rights and marketing authorizations	435	435	0
Distribution, license, trademark and similar rights	1,981	1,815	166
Others	1	2	(1)
Total	**2,417**	**2,252**	**165**

Depreciation of property, plant and equipment

€ (thousands)	2012	2011	Change 2012/2011
Industrial buildings	1,129	1,122	7
Light constructions	15	16	(1)
General plant	532	522	10
Accelerated depreciation machinery	1,314	1,416	(102)
Normal depreciation machinery	1,111	1,759	(648)
Miscellaneous laboratory equipment	471	377	94
Office furnishings and machines	108	121	(13)
Electronic equipment	384	273	111
Motor vehicles	21	16	5
Vehicles for internal transport	16	21	(5)
Total	**5,101**	**5,643**	**(542)**

8. OTHER OPERATING EXPENSES

Other operating expenses were composed as follows:

€ (thousands)	2012	2011	Change 2012/2011
Pay-back and discount of 1.83%-4.1% (2nd Half 2012) to be reimbursed to Regions	5,061	4,157	904
Meetings and scientific publications, market surveys and expenses for medical and scientific communications and advertising	10,706	11,462	(756)
Clinical and pharmacological trials and professional advice	5,766	9,838	(4,072)
Sales commissions to agents and depositories	4,917	4,313	604
Transport and storage	2,784	2,710	74
Utilities and similar (motor fuel, gas, water, etc.)	6,165	4,488	1,677
Destruction of industrial waste and cleaning	2,013	1,944	69
Maintenance	3,127	2,963	164
insurance premiums	454	561	(107)
Directors' fees	695	678	17
Statutory auditors' fees	125	125	0
Sundry labor costs	6,029	4,852	1,177
Legal, judiciary and notary expenses	472	526	(54)
Sundry services	3,264	2,487	777
Postal and telecommunications expenses	523	497	26
External processing	3,936	4,497	(561)
Royalties payable	78	84	(6)
Rents payable	335	68	267
Car hire expenses	2,829	2,805	24
Provisions	439	372	67
Membership fees	394	483	(89)
Prior year expenses	27	323	(296)
Sundry taxation	1,543	1,104	439
Other operating expenses	3,427	1,589	1,838
Total	**65,109**	**62,926**	**2,183**

The pay-back expense of € 5,061 thousand relates to the € 2,233 thousand due to the Italian national healthcare system in substitution for the 5% price reduction on some selected products. That measure, initially introduced for the period 1st March 2007 – 29th February 2008, was subsequently repeated and is currently in force. The amount is calculated on the sales of products performed in 2011. Furthermore, with regard to the entry into force of Law 122 of 30th July 2010, article 11 establishes a charge borne by producers amounting to 1.83% (4.1% in the second half of 2012) of the price to the public net of VAT. This total, amounting to € 2,828 thousand, is the sum of the amount paid in the first half of 2012 and the provision charge of € 2,112 thousand made for the second half, net of a reversal of the provision amounting to € 260 thousand.

Commissions paid to agents included commissions to Recordati Rare Diseases for sales in the USA of pharmaceutical chemicals amounting to € 68 thousand.

Expenses for sundry services included the auditors' fees.
Details of that remuneration are provided in Attachment 5 in compliance with Art. 149-*duodecies* of the Consob Issuers' Regulations.

Details are given in the relevant parts of the Remuneration Report (published in accordance with Art. 123-*ter* of the Consolidated Finance Act) of the following: the remuneration of directors, statutory auditors, general managers and other key management personnel; the shares held in the Company by those persons; the stock option rights granted to them.

No use was made of finance lease assets in 2012.

External processing included work performed by Laboratoires Bouchara Recordati amounting to € 45 thousand.
Other operating expenses included accessory costs incurred for acquisitions which cannot be capitalized. They also comprised services received from the parent company FIMEI S.p.A. amounting to € 2 thousand and from the subsidiary Recordati S.A. Chiasso amounting to € 106 thousand.

Provision charges of € 439 thousand relate to an estimate of the risk attached to legal actions concerning labor and redundancies.

The item "sundry taxation" amounting to € 1,543 thousand (€ 1,104 thousand in 2011) relates to the following:

€ (thousands)	2012	2011	Change 2012/2011
Contribution under Decree Law 269/2003	275	200	75
Government license tax	660	442	218
Municipal taxes	351	263	88
Stamp duties and similar	10	10	0
Non-deductible taxes	42	39	3
Sundry taxes	205	150	55
Total	**1,543**	**1,104**	**439**

In compliance with Decree Law 269 of 30th September converted into Law 326 of 24th November 2003, a contribution was paid in April amounting to 5% of the expenses incurred in the previous year for advertising activities, self certified by the Company in accordance with the law.
Taxes for government licenses are attributable to the maintenance and changes to registrations for ethical and self-medication products and to the registrations of new products.

9. CHANGES IN INVENTORIES

Details of changes in inventories are as follows:

€ (thousands)	2012	2011	Change 2012/2011
Raw materials	765	778	(13)
Supplies	253	661	(408)
Intermediates and work-in-process	435	(553)	988
Finished goods	2,902	3,662	(760)
Total	**4,355**	**4,548**	**(193)**

10. INCOME FROM INVESTMENTS

Income from investments amounted to € 64,988 thousand (€ 55,889 thousand in 2011) and related to subsidiaries.
This income consisted of dividends declared and received from Bouchara Recordati S.a.s. (€ 19,988 thousand) and from Recordati S.A. Chemical & Pharmaceutical Company (€ 45,000 thousand).

11. FINANCIAL INCOME/(EXPENSE)

Net financial income/(expense) showed net expense of € 5,665 thousand in 2012 (€ 5,555 thousand in 2011). The main items are summarized in the table below.

€ (thousands)	2012	2011	Change 2012/2011
Foreign exchange gains (losses)	403	(370)	773
Revaluations of personnel leaving indemnity advances	1	1	0
Interest income from subsidiaries	3,145	1,084	2,061
Interest expense payable to subsidiaries	(6,857)	(5,750)	(1,107)
Interest expense on loans	(1,778)	(1,804)	26
Net interest on short-term financial positions	208	2,021	(1,813)
Bank charges	(327)	(285)	(42)
Interest cost in respect of defined benefit plans (IAS 19)	(460)	(452)	(8)
Change in fair value of hedging derivatives	(1,042)	627	(1,669)
Change in fair value of hedged items	1,042	(627)	1,669
Total	**(5,665)**	**(5,555)**	**110**

The balance on foreign exchange differences in 2012 represented a gain of € 403 thousand compared to a loss of € 370 thousand in 2011. The gain for the year consisted of € 275 thousand for the cost of transactions concluded during the year and of a gain of € 678 thousand resulting from the valuation at 31st December 2012 of assets and liabilities in foreign currency. Art. 2426, point 8-*bis* is therefore applicable to that income, by which, if net income arises from the foreign exchange valuation performed at the end of the year, that amount is allocated to a special reserve that is not distributable until the gain is actually realized.

Interest income from subsidiaries is as follows:

€ (thousands)	2012	2011	Change 2012/2011
Jaba Recordati S.A.	98	63	35
Bouchara Recordati S.a.s.	424	296	128
Recordati S.A. – Luxembourg	16	71	(55)
Recordati Pharma GmbH	351	0	351
Recordati Ilaç	2,197	632	1,565
Fic Médical S.a.r.l.	19	4	15
Recordati Ireland Ltd.	19	18	1
Recordati Polska Sp. z.o.o.	13	0	13
Farma-Projekt Sp. z.o.o	8	0	8
Total	**3,145**	**1,084**	**2,061**

Interest income relates to loans granted to subsidiaries during the year (€ 2,218 thousand) and to the centralized cash pooling treasury system in operation at the Parent Company since 2007, on the basis of which monthly interest receivable and payable is recognized at market rates (€ 927 thousand).
A short-term loan (€ 500,000) and a long-term loan (TRY 40,000,000) to Yeni Recordati Ilaç were outstanding at 31st December together with two short-term loans to Recordati Polska (€ 317 thousand) and to Farma-Projekt (€ 368 thousand).

Interest expense paid to subsidiaries is as follows:

€ (thousands)	2012	2011	Change 2012/2011
Fic Médical S.a.r.l.	1	1	0
Recordati España S.L.	1,446	906	540
Laboratoires Bouchara Recordati Sas	300	132	168
Innova Pharma S.p.A.	148	63	85
Recordati S.A. – Luxembourg	3,704	4,051	(347)
Recofarma S.r.l.	35	52	(17)
Jaba Recordati S.A.	1	8	(7)
Recordati Ireland Ltd.	188	89	99
Orphan Europe Spain S.L.	6	0	6
Orphan Europe United Kingdom Ltd.	7	0	7
Orphan Europe Sarl	293	158	135
Recordati Pharma GmbH	30	39	(9)
Recordati Pharmaceutical Ltd.	346	140	206
Recordati Rare Diseases	289	105	184
Recordati S.A. - Switzerland	6	0	6
Bouchara Recordati s.a.s.	0	1	(1)
Orphan Europe Germany GmbH	29	5	24
Herbacos Recordati Sro	7	0	7
Orphan Europe Italy S.r.l.	21	0	21
Total	**6,857**	**5,750**	**1,107**

Interest expense relates to loans granted by subsidiaries during the year (€ 1,587 thousand), to the centralized cash pooling treasury system amounting to € 1,796 thousand and to the interest of € 3,474 thousand paid to Recordati S.A., described below.

Interest payable to the Luxembourg subsidiary Recordati S.A. includes € 3,474 thousand in relation to an intercompany loan agreed at the end of 2004 on the basis of an issue of debt performed by our subsidiary with institutional international investors. The loan is structured in a number of tranches and is also in foreign currency at a fixed rate.

The following is reported with regard to other financial income/ (expense):

- interest expense in respect of defined benefit plans (leaving indemnities) relates to the interest cost component of the adjustment to the relative provision in compliance with IAS 19;

- the fair value changes in hedging derivatives relate to the valuation of a "cross-currency interest rate swap" for the intercompany loan concluded at the end of 2004 designed to eliminate currency risk for loans denominated in United States dollars and the UK pound sterling. This amount reflects the change in the fair value of the underlying debt with respect to its nominal value, with no effect in the income statement. It is recognized as a fair value hedge.

12. TAXES

Taxes recognized in the income statement are composed as follows:

€ (thousands)	2012	2011	Change 2012/2011
Current taxation:			
IRES (corporation tax)	9,050	10,068	(1,018)
IRAP (regional tax on production)	3,110	3,313	(203)
Total current taxation	**12,160**	**13,381**	**(1,221)**
Deferred taxation:			
Movement in deferred tax assets/liabilities, net	(620)	(507)	(113)
Use of prior years deferred tax assets/liabilities, net	2,101	2,640	(539)
Total deferred taxes	**1,481**	**2,133**	**(652)**
Total	**13,641**	**15,514**	**(1,873)**

Provisions for taxes were made on the basis of estimated taxable income.

The movement in deferred tax assets/liabilities of € 620 thousand is composed as follows:

	2012		2011	
	Temporary differences	Tax Effect	Temporary differences	Tax Effect
DEFERRED TAX ASSETS				
- Provisions	(439)	(121)	(648)	(178)
- Costs relating to future years	(1,805)	(496)	(673)	(185)
- Write-down of inventories	0	0	(522)	(144)
TOTAL	**(2,244)**	**(617)**	**(1,843)**	**(507)**
DEFERRED TAX LIABILITIES				
- IAS personnel leaving indemnity valuation	(11)	(3)	0	0
TOTAL				**0**
DEFERRED TAX ASSETS/LIABILITIES, NET		**(620)**		**(507)**

Note 17 may be consulted for information on the use of deferred tax assets amounting to € 2,101 thousand.

The reconciliation between the current tax rate for income tax levied on the Company and the actual tax rate incurred is as follows.

	2012 %	2011 %
The tax rate applicable for IRES (corporate income tax) purposes	27.5	27.5
Dividends from subsidiaries	(17.2)	(15.5)
Contributions to congresses	0.7	0.7
Economic Growth legislation (ACE) impact	(0.3)	0
Impact of partial deductibility of IRAP(regional tax on production) from IRES	(0.5)	(0.1)
Other differences, net	0.2	0.2
The tax rate applicable for IRES (corporate income tax) purposes	**10.4**	**12.8**
IRAP (regional tax on production)	3.4	3.7
Tax rate on pretax income	**13.8**	**16.5**

IRAP as a percentage of pretax profit was 3.4% because the tax is calculated on a different tax basis which also includes the cost of labor, interest and some extraordinary items.

13. PROPERTY, PLANT AND EQUIPMENT

Property plant and equipment, net of accumulated depreciation at 31st December 2012 and 2011 amounted to € 40,075 thousand and € 35,944 thousand respectively. Changes in this item are given below.

€ (thousands)	Property and buildings	Plant and machinery	Other fixtures	Construction in progress	Total property, plant and equipment
Cost of acquisition					
Balance at 31.12.11	35,850	132,902	30,154	3,704	202,610
Additions	71	1,744	802	6,649	9,266
Write-downs	0	0	0	0	0
Disposals	0	(1,033)	(63)	0	(1,096)
Reclassifications	68	1,923	691	(2,682)	0
Balance at 31.12.12	**35,989**	**135,536**	**31,584**	**7,671**	**210,780**
Accumulated depreciation					
Balance at 31.12.11	23,238	117,635	25,793	0	166,666
Depreciation	1,144	2,958	1,000	0	5,102
Disposals	0	(1,000)	(63)	0	(1,063)
Reclassifications	0	0	0	0	0
Balance at 31.12.12	**24,382**	**119,593**	**26,730**	**0**	**170,705**
Carrying amount					
At 31st December 2012	**11,607**	**15,943**	**4,854**	**7,671**	**40,075**
At 31st December 2011	12,612	15,267	4,361	3,704	35,944

The additions of € 9,266 thousand in 2012 relate to investments in the Milan plant and headquarters of € 3,799 thousand and to various investments in the production facilities at the Campoverde di Aprilia plant amounting to € 5,467 thousand.
These included investments for a new blister packaging line in Milan and for plant for the production of tribenoside at Campoverde.

Depreciation for the year amounted to € 5,102 thousand and was calculated on all depreciable assets, using rates which are held to be representative of the estimated useful life of the assets.

14. INTANGIBLE ASSETS

Intangible assets net of accumulated amortization at 31st December 2012 and 2011 amounted to € 33,670 and € 17,531 respectively. Changes in this item are given below.

€ (thousands)	Patent rights and marketing authorizations	Concessions, licenses, brands and similar rights	Others	Assets under construction and advances	Total intangible assets
Cost of acquisition					
Balance at 31.12.11	30,575	20,609	13,244	430	64,858
Additions	0	18,187	0	369	18,556
Write-downs	0	0	0	0	0
Disposals	0	0	0	0	0
Reclassifications	0	349	0	(349)	0
Balance at 31.12.12	**30,575**	**39,145**	**13,244**	**450**	**83,414**
Accumulated amortization					
Balance at 31.12.11	24,808	9,276	13,243	0	47,327
Amortization	435	1,981	1	0	2,417
Disposals	0	0	0	0	0
Reclassifications	0	0	0	0	0
Balance at 31.12.12	**25,243**	**11,257**	**13,244**	**0**	**49,744**
Carrying amount					
At 31st December 2012	**5,332**	**27,888**	**0**	**450**	**33,670**
At 31st December 2011	5,767	11,333	1	430	17,531

The increase in intangible assets of € 18,556 thousand relates mainly to the acquisition of a line of oral hygiene products sold under the Dentosan® brand.
All intangible assets have a defined useful life and are amortized over a period not exceeding 20 years.

15. INVESTMENTS

Investments amounted to € 473,533 thousand at 31st December 2012, up by € 56,479 thousand compared to 2011, as shown in the table in Attachment 1. The percentage of ownership and the number of shares or quotas possessed are reported in Attachment 2.
A comparison between the carrying amount of investments in subsidiaries and their valuation using the equity method, in accordance with Art. 2426 of the Italian Civil Code, is reported in Attachment 3.

IAS 27 - *Consolidated and separate financial statements* - requires recognition of investments in subsidiaries according to the cost method or, as an alternative, using the fair value in accordance with IAS 39. Recordati S.p.A. has adopted the cost criterion and therefore, where there are indications that part or all of the cost cannot be recovered, the carrying amount must be reduced to the relative recoverable amount, in compliance with IAS 36 – Impairment of assets. Where that impairment subsequently reverses or reduces, the carrying amount is increased to the amount of the new estimate of the recoverable amount which, however, cannot exceed the original cost. For the calculation of reversals for investments in companies that are not listed and that is where no reliable market value (fair value less costs to sell) can be determined, the recoverable amount has been defined as the value in use, intended as the present value of the estimated cash flows from it based on the expected results of the investments and the estimated amount of a hypothetical "ultimate disposal". The expected results forecast in the business plans of each investment were taken into consideration in the calculation of the value in use, increased by their "terminal value" appropriately adjusted to take account of risks and uncertainties intrinsic to the assumptions on which the plans were based. Those results and the "terminal value" were discounted to present values by applying the current cost of capital of the companies in compliance with the method recommended in IAS 36. Application of the methodology described did not give rise to any impairment, nor to any reversal of impairment recognized in prior years.

Details of changes in investments are given in the table contained in Attachment 1 and the consolidated financial statements may be consulted for further information on the increases that occurred during the year.

As in the past, relations with subsidiaries continued satisfactorily with the following changes occurring during the year:

- Recordati S.A. Chemical and Pharmaceutical Company – Luxembourg – Share Capital € 82,500,000. Percentage ownership of 100%. The value of the investment increased during the year by € 40 million, following a payment into capital account made to finance the acquisition of the indirectly controlled subsidiary Accent LLC. The year 2012 ended with a profit of € 55,868 thousand (€ 46,335 thousand in 2011). The profit for the year was due mainly to the receipt of dividends of € 55,869 thousand. The shareholders' equity of the company at 31.12.2012 amounted to € 332,212 thousand.

- Recordati S.A. Chemical and Pharmaceutical Company holds investments in the following companies:

  - Farmarecord Ltda. – San Paolo, Brazil – Share Capital denominated in Real amounting to 166.00. Percentage ownership of 100%. The company is dormant and holds pharmaceutical marketing rights in Brazil. Its shareholders' equity at 31.12.2012 amounted to Real 851,040.

  - Recordati España S.L. – Madrid, Spain – Percentage ownership of 31.55%.

  - Recordati Rare Diseases Inc (formerly Recordati Corporation) – Cranford, (New Jersey), United States - Share Capital US$ 11,979,138. Percentage ownership of 100%. The company ended 2012 with a loss of US$ 324,894 and shareholders' equity of US$ 21,482,441.

  - Recordati Portuguesa Lda - Porto Salvo, Portugal - Percentage ownership of 2%.

  - Bouchara Recordati S.a.s. – Levallois-Perret, France – Percentage ownership of 0.06%.

  - Recordati Ireland Ltd. – Ringaskiddy (Cork) Ireland – Share Capital € 200,000. Percentage ownership of 100%. The company performs development, production, marketing and sales of pharmaceuticals.

Net sales in 2012 amounted to € 166,263 thousand (€ 154,963 thousand in 2011).
In 2012 the company earned a net profit of € 52,558 thousand (€ 55,509 thousand in 2011). The shareholders' equity at 31.12.2012 amounted to € 120,693 thousand.

- Recordati S.A. – Chiasso, Switzerland – Share Capital Sw.Fr. 2,000,000. Percentage ownership of 100%.
  The company performs services as part of the Group's marketing functions. In 2012 the company recorded a loss for the year of Sw. Fr. 29,765. Shareholders' equity at 31.12.2012 amounted to Sw. Fr. 2,064,072.

- Recordati Pharmaceuticals Ltd. – Henley-on-Thames - United Kingdom - Share Capital GBP 15,000,000. Percentage ownership of 96.67%. The company performs sales of pharmaceuticals. In 2012 the company recorded net profit of GBP 406,643.
  Shareholders' equity at 31.12.2012 amounted to GBP 15,055,910.

- Recordati Hellas Pharmaceuticals S.A. – K. Chalandri, Athens Greece – Share Capital € 13,900,000. Percentage ownership of 99.32%. The company performs marketing and sales of pharmaceuticals. In 2012 the company earned a net profit of € 1,980 thousand. The shareholders' equity at 31.12.2012 amounted to € 4,308 thousand.

- Recordati Orphan Drugs S.a.s. - Paris La Defense, France - Share Capital € 57,000,000. Percentage ownership of 90%. The company earned net profit of € 7,536 thousand. Shareholders' equity at 31.12.2012 amounted to € 70,771 thousand.

- Herbacos Recordati Sro - Pardubice, Czech Rep. - Share Capital CZK 25,600,000 - Percentage ownership of 99.92%. Herbacos is a pharmaceutical company with an established presence on the Czech and Slovakian markets where it markets pharmaceuticals belonging to various treatment areas. The year ended with a net profit of CZK 77,298 thousand. The shareholders' equity of the company at 31.12.2012 amounted to CZK 163,736 thousand.

- Recordati România S.r.l. – Bucharest, Romania - Share Capital Ron 5,000,000. Percentage ownership of 100%. The company, control of which was acquired during the course of 2010, earned a profit of Ron 131,235. Shareholders' equity at 31.12.2012 amounted to Ron 6,371,250.

- Recordati Pharma GmbH (formerly Merckle Recordati GmbH) - Ulm, Germany - Share Capital € 600,000, Percentage ownership of 55%. The company performs marketing and sales of pharmaceuticals. It generated sales in 2012 of € 64,927 thousand (€ 60,489 in 2011) and earned a net profit of € 9,450 thousand (€ 11,014 thousand in 2011). The shareholders' equity of the company at 31.12.2012 amounted to € 109,294 thousand.

- Accent LLC – Moscow, Russian Federation – Share Capital RUB 20,000. Percentage ownership of 100%. The company holds pharmaceutical marketing rights. The year 2012 ended with a net profit of RUB 810,934, while shareholders' equity at 31.12.2012 amounted to RUB 969,248.

- Recofarma S.r.l. – Milan, Italy - Share Capital € 1,258,400. Percentage ownership of 100%. The company ceased its marketing operations for pharmaceutical chemicals in 2006. In 2012 the company earned a net profit of € 23 thousand (€ 34 thousand in 2011). The shareholders' equity of the company at 31.12.2012 amounted to € 3,510 thousand.

- Innova Pharma S.p.A. – Milan, Italy – Share Capital € 1,920,000. Percentage ownership of 100%. In 2012 the company continued its marketing operations for specialty pharmaceuticals in Italy. The company generated sales during the year of € 88,225 thousand (€ 89,480 thousand in 2011) and

earned a profit of € 5,536 thousand (€ 5,652 thousand in 2011). The shareholders' equity of the company at 31.12.2012 amounted to € 19,067 thousand.

- Recordati España S.L. – Madrid, Spain - Share capital € 238,966,000. Percentage ownership of 68.45%. The company performs development, production and sales of pharmaceuticals. With net sales for the year of € 31,197 thousand (€ 28,059 thousand in 2011) the company earned a profit of € 6,359 thousand (€ 904 thousand in 2011). The shareholders' equity of the company at 31.12.2012 amounted to € 278,539 thousand.

  Recordati España S.L. holds investments in the following companies:

  - Recordati Pharma GmbH (formerly Merckle Recordati GmbH) – Ulm, Germany - Share Capital € 600,000. Percentage ownership of 45%.

  - Jaba Recordati S.A. - Porto Salvo, Portugal - Share Capital € 2,000,000. Percentage ownership of 100%. The company performs wholesale marketing of pharmaceuticals. With net sales for the year of € 34,735 thousand, the company recorded a loss of € 1,517 thousand. The shareholders' equity of the company at 31.12.2012 amounted to € 3,343 thousand.

  - Jabafarma Produtos Farmacêuticos S.A. - Porto Salvo, Portugal - Share Capital € 50,000. Percentage ownership of 100%. The company performs marketing of ethical specialty pharmaceutical products through its own distribution network. The year ended with a net profit of € 119 thousand. The shareholders' equity of the company at 31.12.2012 amounted to € 151 thousand.

  - Bonafarma Produtos Farmacêuticos S.A. - Porto Salvo, Portugal - Share Capital € 50,000. Percentage ownership of 100%. The company performs marketing of generic pharmaceutical products through its own distribution network. The year ended with a net profit of € 341 thousand. The shareholders' equity of the company at 31.12.2012 amounted to € 728 thousand.

  - Recordati Ilaç (formerly Dr. F. Frik Ilaç) - Esenyurt, Istanbul, Turkey - Share Capital TRY 80,875,367. Percentage ownership of 100%. The company performs production and sales of pharmaceuticals and it merged Yeni Recordati Ilaç into it during the year. On a merged basis the two companies incurred a loss of TRY 2,301 thousand. Shareholders' equity at 31.12.2012 amounted to TRY 40,988 thousand.

- Bouchara Recordati S.a.s. - Levallois-Perret, France - Share Capital € 4,600,000. Percentage ownership of 99.94%.
  Bouchara Recordati performed development, production and sales of pharmaceuticals in 2012. The year 2012 ended with a net profit of € 20,331 thousand (€ 20,198 thousand in 2011). The shareholders' equity of the company at 31.12.2012 amounted to € 26,377 thousand.

  Bouchara Recordati S.a.s. holds investments in the following companies:

  - Laboratoires Bouchara Recordati S.a.s. - Levallois-Perret, France - Share Capital € 14,000,000. Percentage ownership of 100%. The company performs production, marketing and sales of pharmaceuticals. It generated sales in 2012 of € 179,970 thousand and earned a net profit of € 3,894 thousand (€ 11,071 thousand in 2011). The shareholders' equity of the company at 31.12.2012 amounted to € 19,449 thousand.

  - FIC Medical Sarl – Levallois - Perret, France - Share Capital € 173,700. Percentage ownership of 100%. The company performs advertising in the pharmaceuticals sector. It

merged FIC S.a.s. into it during the year. It incurred a loss in 2012 of € 430 thousand. The shareholders' equity of the company at 31.12.2012 amounted to € 611 thousand.

- Rusfic LLC. - Moscow, Russian Federation - Share Capital RUB 3,560,000. Percentage ownership 100%. The company earned a net profit of RUB 24,390 thousand. Shareholders' equity at 31.12.2012 amounted to RUB 55,732 thousand.

- Recordati Portuguesa Lda. - Porto Salvo, Portugal - Share Capital € 24,940. Percentage ownership of 98%. The company ceased marketing and sales operations for pharmaceuticals in 2003. The shareholders' equity of the company at 31.12.2012 amounted to € 41 thousand.

- Recordati Pharmaceuticals Ltd. – Henley-On-Thames, United Kingdom - Share Capital GBP 15,000,000. Percentage ownership of 3.33%.

- Recordati Hellas Pharmaceuticals S.A. - K. Chalandri, Athens, Greece - Share Capital € 13,900,000. Percentage ownership 0.68%.

- Recordati Polska sp. Z.o.o – Warsaw, Poland – Share Capital PNL 400,000. Percentage ownership of 100%.

- Farma-Projekt Sp. z.o.o. – Krakow, Poland – Share Capital PLN 3,360,000. Percentage ownership of 100%. This company, which was acquired during the year, carries out pharmaceutical marketing activities.

- Herbacos Recordati Sro – Pardubice, Czech Rep. – Share Capital CZK 25,600,000. Percentage ownership of 0.08%.

All the investments reported are in share capital with voting rights.

16. OTHER NON-CURRENT ASSETS

Non-current receivables at 31st December 2012 amounted to € 19,465 thousand (€ 20,696 thousand at 31st December 2011) and related mainly to a long-term loan (€ 19,408 thousand) of Try 40,000,000 granted to Recordati Ilaç and due in 2016. A long-term loan granted to Dr. F. Frik Ilac (Try 9,000,000 amounting to € 3,684 thousand), also due in 2016, was repaid early during the year.

17. DEFERRED TAX ASSETS

At 31st December 2012 these amounted to € 3,386 thousand (€ 4,870 thousand at 31st December 2011), a decrease of € 1,484 thousand.

The main deferred tax assets and changes in them are analyzed in the two tables below

€ (thousands)	2012	2011
Balance at 1st January	4,870	7,003
Additions	617	507
Utilization	(2,101)	(2,640)
Balance at 31st December	**3,386**	**4,870**

€ (thousands)	Intangible asset reversals	Provisions	Inventory write-downs	Others	Total
Balance at 1st January	3,641	897	145	187	4,870
Addition	0	121	0	496	617
Utilization	(1,720)	(187)	(10)	(184)	(2,101)
Balance at 31st December	**1,921**	**831**	**135**	**499**	**3,386**

The utilization of € 1,720 thousand relates to amortization charges for intangible assets revalued in 2005 under Law 226 of 23.12.2005.

18. INVENTORIES

Inventories at 31st December 2012 and 2011 amounted to € 50,925 thousand and € 46,571 thousand respectively, as shown in the following table:

€ (thousands)	31.12.2012	31.12.2011	Change 2012/2011
Raw materials, ancillary materials, consumables and supplies	11,194	10,176	1,018
Intermediates and work-in-process	12,501	12,067	434
Finished goods	27,230	24,328	2,902
Total	**50,925**	**46,571**	**4,354**

The increase in inventories compared to 31st December 2012 is attributable changes in volumes of sales and production.

19. TRADE RECEIVABLES

Trade receivables at 31st December 2012 and 2011 amounted to €72,976 thousand and € 54,336 thousand respectively as shown below:

€ (thousands)	31.12.2012	31.12.2011	Change 2012/2011
Trade receivables from subsidiaries	36,226	27,019	9,207
Trade receivables from others:			
Italy	31,755	23,863	7,892
Abroad	5,547	4,141	1,406
	73,528	**55,023**	**18,505**
Less:			
Allowance for doubtful accounts	(468)	(603)	135
Allowance for interest on arrears on doubtful accounts	(84)	(84)	0
Total trade receivables	**72,976**	**54,336**	**18,640**

Exposure calculated on receivables from others stood at 83 days outstanding at 31st December 2012.

The adjustment of receivables in non-euro currencies resulted in the recognition of negative exchange rate differences of € 59 thousand. The receivables are recognized net of those adjustments.

Trade receivables from Group companies arose from the supply of goods and services and are composed as follows:

€ (thousands)	31.12.2012	31.12.2011	Change 2012/2011
Innova Pharma S.p.A.	16,620	15,258	1,362
Recordati Ireland Ltd.	16,719	9,846	6,873
Laboratoires Bouchara Recordati S.a.s.	360	584	(224)
Jaba Recordati S.A.	570	847	(277)
Recordati Pharma GmbH	815	192	623
Recordati España S.L.	117	131	(14)
Recordati Ilaç	262	119	143
Orphan Europe Italy Srl	20	12	8
Recordati Hellas Pharmaceuticals S.A.	29	38	(9)
Herbacos Recordati S.A.	8	(8)	16
Recordati S.A. Chemical & Pharmaceutical	54	0	54
Bouchara Recordati S.a.s.	296	0	296
Orphan Europe Sarl	355	0	355
Fic Medical Sarl	4	0	4
Recordati Romania Srl	(4)	0	(4)
Recordati Polska	1	0	1
Total	**36,226**	**27,019**	**9,207**

The changes compared to the previous year are considered transitory and are related to automated netting procedures for outstanding intercompany positions, by which intercompany items are automatically offset against each other each month and the relative balances settled.

Changes in the allowance for doubtful accounts are as follows:

€ (thousands)	2012	2011
Balance at 1st January	603	1,536
Utilization for losses on receivables	(135)	(18)
Utilization of excess provision	0	(915)
Balance at 31st December	**468**	**603**

The allowance is considered appropriate in relation to potential risks of insolvency.

Changes in the allowance for interest on arrears on doubtful accounts are as follows:

€ (thousands)	2012	2011
Balance at 1st January	84	84
Utilization for the year	0	0
Balance at 31st December	**84**	**84**

The balance at 31st December 2012, amounting to € 84 thousand, fully covers the amount for the relative receivables.

The composition of the principal receivables in foreign currency is as follows:

	31.12.2012		31.12.2011	
	Currency	€(000)	Currency	€(000)
Receivables in US$	3,543,655	2,744	3,220,054	2,385
Receivables in GBP	20,900	26	19,950	23

20. OTHER RECEIVABLES

Other receivables amounted to € 5,226 thousand (€ 3,701 thousand at 31st December 2011). The composition is given in the table below.

€ (thousands)	31.12.2012	31.12.2011	Change 2012/2011
Tax income	1,622	1,482	140
From parent companies	17	20	(3)
From subsidiaries	697	378	319
Advances to employees and agents	1,133	291	842
Other	1,757	1,530	227
Total other receivables	**5,226**	**3,701**	**1,525**

Tax receivables at 31st December 2012 amounted to € 1,622 thousand (€ 1,482 thousand in 2011). They were composed as follows:

€ (thousands)	31.12.2012	31.12.2011	Change 2012/2011
Receivables from Fimei S.p.A. for IRES (corporate income tax)	574	0	574
Other non-current tax assets IRAP (regional tax on production)	103	0	103
Refund requested from tax authorities	43	52	(9)
Receivables from the tax authorities for VAT	788	1,299	(511)
Tax credit for scientific research	52	0	52
Receivables for foreign VAT tax authorities	61	120	(59)
Sundry items	1	11	(10)
Total tax receivables	**1,622**	**1,482**	**140**

Tax assets receivable from the parent company Fimei S.p.A relate to taxes prepaid on account in excess of taxes for the year calculated on the basis of estimated taxable income. Those assets were transferred by the Recordati S.p.A. to the parent company as a consequence of opting for tax consolidation in accordance with articles 117 to 128 of Presidential Decree 917/1986 as amended by Legislative Decree 344/2003.
Assets for current taxation consist of amounts prepaid on account in excess of the IRAP (local production tax) due for the year.
The VAT credit consisted of the balance for December 2012 and the VAT refund applied for on 18th October 2007 in relation to VAT on motor vehicles.
The tax credit for scientific research is that provided for by article 1 of the Decree Law of 13th May 2011 for companies that fund research projects in universities and public research institutions. The total benefit amounted to € 155 thousand.

Other receivables from parent companies amounted to € 17 thousand and relate to sundry charges.

Receivables from subsidiaries were composed as follows:

€ (thousands)	31.12.2012	31.12.2011	Change 2012/2011
Recofarma S.r.l.	1	1	0
Innova Pharma S.p.A.	213	246	(33)
Laboratoires Bouchara Recordati S.a.s.	169	131	38
Recordati Rare Diseases	296	0	296
Recordati Ireland Ltd.	18	0	18
Total	**697**	**378**	**319**

The receivables from Innova Pharma relate to VAT transferred as part of Group procedures.
The receivables from Laboratoires Bouchara Recordati relate to royalties income.
The receivables from Recordati Rare Diseases related to costs incurred on behalf of that company.

Balances due from employees and agents at 31st December 2012 and 2011 amounted to € 1,133 thousand and € 291 thousand respectively. They consisted of advances to employees, expense accounts for medical representatives and loans granted to employees who exercised stock option rights amounting to € 754 thousand for the purchase of 163,750 shares resulting from the options granted on 29th October 2008 and 27th October 2009.

Receivables from others amounted to € 1,758 thousand at 31st December 2012 (€ 1,530 thousand at 31st December 2011) and included receivables from suppliers for advances and refunds due.

21. OTHER CURRENT ASSETS

These amounted to € 263 thousand (€ 319 thousand at 31st December 2011) and related mainly to prepaid expenses. They consisted of prepayments on insurance policies and advance payments for periodic market research services.

22. OTHER SHORT-TERM RECEIVABLES

Other short-term receivables all consist of amounts due from subsidiaries as follows:

€ (thousands)	31.12.2012	31.12.2011	Change 2012/2011
Bouchara Recordati S.a.s.	21,390	18,884	2,506
Jaba Recordati S.A.	1,008	8,346	(7,338)
Recordati Pharma GmbH	16,861	0	16,861
Recordati S.A. – Luxembourg	9,236	54	9,182
FIC S.a.s.	1,564	3	1,561
Yeni Recordati Ilaç	508	4,641	(4,133)
Recordati Ireland Ltd.	70	0	70
Recordati Polska sp. z.o.o.	330	0	330
Farma-Projekt sp. z.o.o.	376	0	376
Total	**51,343**	**31,928**	**19,415**

These receivables are attributable to a cash pooling treasury system in operation at the Parent Company and to loans granted to Recordati Ilaç, Recordati Polska and Farma-Projekt. Interest is paid on these receivables at short-term market rates.

23. SHORT-TERM FINANCIAL INVESTMENTS, CASH AND CASH EQUIVALENTS

These are composed as shown in the following table.

€ (thousands)	31.12.2012	31.12.2011	Change 2012/2011
Deposits in bank current accounts	8,527	35,514	(26,987)
Cash on hand	5	5	0
Total	**8,532**	**35,519**	**(26,987)**

Cash and cash equivalents at 31st December 2012 consisted of current accounts and short-term bank deposits.

24. SHAREHOLDERS' EQUITY

A summary of the changes in the shareholders' equity accounts is reported in the relative statement. Following the entry into force of Legislative Decree 6/2003, which amended the Italian Civil Code, the table contained in Attachment 4 was introduced which gives the composition of reserves on the basis of availability for use and distribution.

Share capital - The share capital at 31st December 2012, amounting to € 26,140,644.50, is fully paid up and consists of 209,125,156 ordinary shares with a par value of € 0.125 each.
It remained unchanged during 2012.

At 31st December 2012 the company had two stock option plans in place in favor of certain Group employees, the 2006-2009 plan under which three different valid options were granted and the 2010-2013 plan under which options were granted on 9th February 2011 and 8th May 2012. The exercise price of the options is the average of the Company's listed share price during the 30 days prior to the grant date. Options granted under the 2006-2009 plan are vested over a period of four years and options not exercised within the fifth year of the date of grant expire. Stock options granted under the 2010-2013 plan are vested over a period of five years and options not exercised within the eighth year of the date of grant expire. Options cannot be exercised if the employee leaves the company before they are vested.

Details of stock options outstanding at 31st December 2012 are given in the table below.

	Strike price (€)	Options outstanding at 1.1.2012	Options granted during 2012	Options exercised during 2012	Options cancelled and expired	Options outstanding at 31.12.2012
Grant date						
29th October 2008	4.0730	1,973,750	0	(743,750)	(42,500)	1,187,500
11th February 2009	3.8940	110,000	0	(5,000)	(30,000)	75,000
27th October 2009	4.8700	3,043,750	0	(531,250)	(105,000)	2,407,500
9th February 2011	6.7505	4,280,000	0	0	(520,000)	3,760,000
8th May 2012	5.3070	-	4,650,000	0	(140,000)	4,510,000
Total		**9,407,500**	**4,650,000**	**(1,280,000)**	**(837,500)**	**11,940,000**

Additional paid-in capital
Additional paid-in capital at 31st December 2012 amounted to € 83,718,523 and was unchanged compared to 31st December 2011.

The adoption of international accounting standards resulted in the elimination of revaluation reserves amounting to € 68,644 thousand. The tax obligation on these (untaxed – taxation suspended) was transferred to the additional paid-in capital reserve.

Treasury stock
At 31st December 2012 this amounted to € 46,254 thousand, consisting of 8,505,790 treasury shares held in portfolio.
The decrease during the year was of € 6,961 thousand, due to the disposal of 1,280,000 shares for use in the 2006-2009 stock option plan.

Statutory reserve
This amounted to € 5,228 thousand and was unchanged compared to 31st December 2011, because the limit set by Art. 2430 of the Italian Civil Code had been reached.

Other reserves
Other reserves totaled € 219,967 thousand. Details are as follows:

€ (thousands)	31.12.2012	31.12.2011	Change 2012/2011
Extraordinary reserve	112,545	95,205	17,340
Reserve under Art. 13 Par. 6 of Legislative Decree 124/1993	99	99	0
Extraordinary VAT concession reserve	517	517	0
Research and investment grants	17,191	17,191	0
Non-distributable reserve for investments in southern Italy	3,632	3,632	0
International accounting standards reserve	90,966	90,816	150
Total	**224,950**	**207,460**	**17,490**
Fair value derivative instruments	(4,983)	(4,227)	(756)
Total other reserves	**219,967**	**203,233**	**16,734**

Extraordinary reserve

At 31st December 2012 and 2011 this amounted to € 112,545 thousand and € 95,205 thousand respectively. The increase is the result of the allocation of part of 2011 profit amounting to € 18,661 thousand and of dividends not paid and expired amounting to € 3 thousand.
Following the assignment of treasury stock to Group employees who exercised options under stock option plans, a difference arose between the amount paid by the employees and the carrying amount of that treasury stock. That difference of € 1,324 thousand was recognized as a deduction from the extraordinary reserve in compliance with international accounting standards.

Reserve under Art. 13, paragraph 6 of Legislative Decree 124/93
This amounted to € 99 thousand at 31st December 2012 and remained unchanged compared to the previous year.

Extraordinary VAT concession reserve
This reserve (Laws 675/1977, 526/1982, 130/1983 and 64/1986), amounting to € 517 thousand, relates to special VAT allowances on investments and is unchanged compared to the previous year.

Research and investment grants
These amount to € 17,191 thousand and are unchanged compared to the previous year.
The grants are subject to taxation if they are used for purposes other than to cover losses, which, however, is not planned by the Company. The assets corresponding to the grants received from the Ministry of Industry and Commerce (formerly Asmez) have been mainly fully depreciated.

Non-distributable reserve for investments in southern Italy
This amounted to € 3,632 thousand and remained unchanged compared to the previous year.

International accounting standards reserve
This amounted to € 90,966 thousand (€ 90,816 thousand at 31st December 2011) and is composed as follows:

€ (thousands)	31.12.2012	31.12.2011	Change 2012/2011
Reversal of fixed asset revaluations	40,477	40,477	0
Revaluation of investments	43,054	43,054	0
Inventories	463	463	0
Personnel leaving indemnities	336	1,462	(1,126)
Stock options	6,636	5,360	1,276
Total	**90,966**	**90,816**	**150**

Changes that occurred in the items in 2012 included the following:

- the valuation of the personnel leaving indemnities provision in accordance with IAS 19 generated a reserve which amounted to € 336 thousand at 31st December 2012;
- the amount of € 6,636 thousand relates to the personnel expense for stock options issued and granted after 7th November 2002 and not yet exercised, valued in accordance with IFRS 2.

Revaluation reserve
This amounted to € 2,602 thousand (unchanged compared to 2011) and consisted of revaluation balances within the meaning of Law 413/1991.

Untaxed (suspended taxation) reserves at 31st December 2012 amounted to € 87,826 thousand and consisted of € 15,964 thousand of reserves for grants received net of the taxed portion, € 517 thousand of the VAT concession reserve and € 99 thousand of the reserve formed pursuant to the Law regulating pension funds and € 71,246 of the revaluation reserves net of the substitute taxes. Revaluation reserves amounting to € 68,644 thousand were eliminated in compliance with international accounting standards and the non-taxability was transferred to the additional paid-in capital reserve. No deferred tax provisions were recognized in respect of those reserves, because, in accordance with IAS 12, these deferred tax provisions are recognized in the year in which the distribution is declared.

25. LOANS

The composition of medium and long-term loans at 31st December 2012 and 2011 is shown below.

€ (thousands)	31.12.2012	31.12.2011	Change 2012/2011
Loan granted by the Ministry of Industry and Commerce repayable in annual installments through 2013, at an annual interest rate of 3.30% during the amortization period (2004-2013) and at 0.825% before that.	139	274	(135)
Loan granted by Centrobanca at a floating interest rate repayable in six monthly installments by 2022.	68,182	75,000	(6,818)
Loan received from Recordati S.A. (Luxembourg) granted on the basis of a long-term debt issue concluded by that subsidiary with institutional investors.	65,609	65,609	0
Loan received from Recordati España S.L. repayable on 19/4/2016 and repaid in advance during the year.	0	25,000	(25,000)
Total amortized cost of loans	**133,930**	**165,883**	**(31,953)**
Portion due within one year	(6,957)	(6,953)	(4)
Portion due after one year	**126,973**	**158,930**	**(31,957)**
Change in the fair value of loans	1,371	1,791	(420)
Expenses relating to Centrobanca loans	(221)	(240)	19
Total	**128,123**	**160,481**	**(32,358)**

The repayment schedules for the portions of the medium and long-term loans due after 31st December 2013 are as follows:

€ (thousands)	
2014	72,427
2015	6,818
2016	6,818
2017	6,818
2018	6,818
2019 and after	27,274
Total	**126,973**

On 30th November 2010, the Company signed a loan contract with Centrobanca, for a three year program of investments in Research & Development. The loan, which Centrobanca funded through a loan from the European Investment Bank, amounted to € 75.0 million, net of expenses of € 0.3 million, of which € 30 million was disbursed in 2010 and € 45 million in 2011. The main terms and conditions were, a variable interest rate and a duration of 12 years with repayment in semi-annual installments of the principal from June 2012 and through December 2022. In June 2012 the loan was hedged by an

interest rate swap (a cash flow hedge), which transformed the whole debt to a fixed interest rate of 2.575%. The € 1,120 thousand fair value of the cash flow hedge was recognized directly as a deduction from equity and stated as a current liability (see Note 34). The loan contract contains financial covenants which, if not complied with, may result in the immediate call of the loan. The financial covenants are as follows:

- the ratio of consolidated net debt to consolidated shareholders' equity must be less than 0.75;
- the ratio of consolidated net debt to EBITDA (for a period of twelve consecutive months) must be less than 3.00 to 1.00;
- the ratio of EBITDA to consolidated net interest expense (for a period of twelve consecutive months) must exceed 3.00 to 1.00.

Those ratios were fully complied with by a broad margin for the year ended 2012.

The loan from Recordati S.A. (Luxembourg) is composed as follows:

Currency	Value in euro	Fixed rate	Year due
€ 26,000,000	26,000,000.00	5.705	2014
$ 40,000,000	32,310,177.75	5.225	2014
GBP 5,000,000	7,299,270.07	6.295	2014

This loan was granted on the basis of an issue of long-term debt concluded by Recordati S.A. Luxembourg with institutional investors and guaranteed at the same time by Recordati S.p.A..

That debt, issued at the end of 2004, comprises tranches in various currencies at fixed interest rates. The tranches denominated in currencies other than the euro have been covered with a cross-currency interest rate swap effectively converting the whole debt into euro at a variable interest rate equivalent to the Euribor 6 months rate plus a spread. The tranches denominated in euro have been hedged with an interest rate swap effectively converting the interest charges on the debt from fixed to variable at the same above mentioned conditions. The measurement at fair value of the swaps at 31st December 2012 generated a liability of € 1,371 thousand, an amount equivalent to the decrease in the fair value of the underlying debt with respect to its nominal value. This amount is recognized in the balance sheet as a decrease of debt within current liabilities as "Fair value of hedging derivatives (fair value hedge)".
A further interest rate swap contract was entered into at the same time, qualifying as a cash flow hedge, to fix a range within which the interest rate can fluctuate in order to optimize the cost of financing for the life of the debt. At 31st December 2012 the lower and upper limits of the range were 4.14% and 4.85%. respectively. The € 3,863 thousand fair value of the cash flow hedge was recognized directly as a deduction in equity and stated as a current liability (see Note 34).
The derivative instruments and the hedged items are linked and the Company does not intend to terminate or modify them independently from each other.

A loan of € 25,000 thousand received from Recordati España S.L. with a due date of 19th April 2016 was repaid in advance during the year.

26. STAFF LEAVING INDEMNITIES

The balance at 31st December 2012 was € 11,321 thousand (€ 10,759 thousand at 31st December 2011). Changes in the item were as follows:

€ (thousands)	2012	2011
Balance at 1st January	10,759	11,658
Additions during the year	460	452
Utilization for the year	(1,334)	(861)
Change in fair value of the personnel leaving indemnity fund (IAS 19)	1,436	(490)
Balance at 31st December	**11,321**	**10,759**

The valuation of the personnel leaving indemnity fund in accordance with IAS 19 generated a liability at 31st December 2012 of € 11,321 thousand. The calculation made, which used actuarial parameters updated at 31st December 2012, generated a greater liability and resulted in the recognition of an adjustment of € 1,436 thousand and the recognition of an equal amount (gross of deferred taxation) in the statement of comprehensive income in accordance with the relative accounting standard.

27. DEFERRED TAX LIABILITIES

Deferred tax liabilities amounted to € 1,629 thousand (€ 2,059 thousand at 31st December 2011).

Changes are reported in the table below.

€ (thousands)	2012	2011
Balance at 1st January	2,059	1,935
Additions	0	124
Utilization	(430)	0
Balance at 31st December	**1,629**	**2,059**

The balance at 31st December 2012 was composed of deferred tax liabilities in respect of the personnel leaving indemnity calculated on the basis of IAS 19 using actuarial parameters updated at year-end and in respect of an adjustment in the value of investments in accordance with international accounting standards.

28. OTHER NON-CURRENT LIABILITIES

These amounted to € 1,828 thousand (€ 0 thousand in 2011). They consisted of installments to be paid in 2014, 2015 and 2016 totaling PLN 7,500,000 in relation to the acquisition of the company Farma-Projekt.

29. TRADE PAYABLES

Trade accounts payable, which are entirely of a business nature and include end-of-year provisions for invoices to be received, amounted at 31st December 2012 and 2011 to € 53,957 thousand and € 36,417 thousand, respectively.
Balances at 31st December 2012 and 2011 were as follows:

€ (thousands)	31.12.2012	31.12.2011	Change 2012/2011
Suppliers, subsidiaries	11,890	1,005	10,885
Suppliers, Italy	23,059	18,540	4,519
Suppliers, Italy for invoices to be received	6,531	6,175	356
Suppliers, abroad	10,471	9,837	634
Suppliers, abroad for invoices to be received	2,006	860	1,146
Total trade payables	**53,957**	**36,417**	**17,540**

Details for subsidiaries are as follows:

€ (thousands)	31.12.2012	31.12.2011	Change 2012/2011
Recordati Corporation	31	13	18
Laboratoires Bouchara Recordati S.a.s.	194	245	(51)
Innova Pharma S.p.A.	5,463	684	4,779
Recofarma S.r.l.	121	69	52
Recordati Ireland Ltd.	5,877	(6)	5,883
Bouchara Recordati S.a.s.	1	0	1
Recordati S.A. Chemical and Pharmaceutical	17	0	17
Orphan Europe Sarl	158	0	158
Recordati Ilaç	10	0	10
FIC Medical Sarl	1	0	1
Recordati S.A.	9	0	9
Jaba Recordati S.A.	8	0	8
Total payables to subsidiaries	**11,890**	**1,005**	**10,885**

There were no concentrations of large debts to a single or a small number of suppliers.

The adjustment of trade payables in non-euro currencies resulted in the recognition of net positive exchange rate differences of € 237 thousand.
The largest trade payables in foreign currency were as follows:

	31.12.2012		31.12.2011	
	Currency	€(000)	Currency	€(000)
Payables in US$	1,092,828	1,064	1,966,513	1,699
Payables in GBP	62,099	85	52,085	71
Payables in CHF	79,617	69	78,988	68

30. OTHER PAYABLES

At 31st December 2012, other accounts payable amounted to € 17,909 thousand (€ 14,961 thousand at 31st December 2011). They were composed as follows:

€ (thousands)	31.12.2012	31.12.2011	Change 2012/2011
Payables to third parties	1,277	0	1,277
Employees	5,743	6,625	(882)
Social security	5,255	5,506	(251)
Commissions to agents	971	603	368
Other	4,663	2,227	2,436
Total other payables	**17,909**	**14,961**	**2,948**

Payables to third parties related to PLN 5,000,000 for the acquisition of the company Pharma Projekt.

Amounts due to employees include amounts accrued and not paid, vacations not taken and bonuses for presence and for achieving objectives.

Social security payables not only include contribution expenses for those periods but also the amount due to pension institutes for December.

Amounts payable to agents include € 194 thousand in commissions for foreign agents.

Other payables include directors' remuneration accrued at 31st December (€ 484 thousand), credit notes to be issued (€ 7 thousand), payables for the debt to Regions pursuant to Law 122 of 30th July 2010 amounting to € 2,302 thousand and the liability relating to the part of the interim dividend not yet paid to shareholders at year-end (€ 1,341 thousand).

31. TAX LIABILITIES

Tax liabilities at 31st December 2012 amounted to € 2,047 thousand (€ 3,662 thousand at 31st December 2011).

€ (thousands)	31.12.2012	31.12.2011	Change 2012/2011
Liabilities payable to Fimei S.p.A.	0	1,556	(1,556)
Liabilities for current taxation	0	405	(405)
Liabilities for employee withholding taxes	1,984	1,632	352
Liabilities for self-employed withholding taxes	41	67	(26)
Other tax liabilities	22	2	20
Total tax liabilities	**2,047**	**3,662**	**(1,615)**

32. OTHER CURRENT LIABILITIES

Other current liabilities amounted to € 48 thousand (€ 64 thousand in 2011) and consist of liabilities for grants for investment received between 1998 and 2003 and carried over into subsequent years in relation to the residual useful life of the assets to which they relate.

33. PROVISIONS

These consist of tax and other provisions as reported in the table below.

€ (thousands)	31.12.2012	31.12.2011	Change 2012/2011
Tax	3,135	2,947	188
Other risks	3,122	3,452	(330)
Total provisions	**6,257**	**6,399**	**(142)**

The change in the provision for other risks is due to utilizations of € 769 thousand and additional provisions of € 439 thousand.
Utilizations related mainly to the conclusion of labor litigation cases and the utilization of the provision for pharmaceutical overspend.
Additions on the other hand related to probable notice indemnities regarding employees and provisions for labor litigation.

34. FAIR VALUE OF HEDGING DERIVATIVES (CASH FLOW HEDGES)

The interest rate swaps to hedge cash flows relating to medium and long-term loans measured at fair value at 31st December 2012 gave rise to a € 4,983 thousand liability which represents the unrealized benefit of paying the current expected future rates instead of the rates agreed for the duration of the loans.

That liability just mentioned is recognized in shareholders' equity within the "Fair value derivatives reserve".

35. LOANS – DUE WITHIN ONE YEAR

The portions of medium and long-term loans due within one year at 31st December 2012 and 2011 were composed as follows:

€ (thousands)	31.12.2012	31.12.2011	Change 2012/2011
Loan granted by the Ministry of Industry and Commerce repayable in annual installments through 2013, at an annual interest rate of 3.30% during the amortization period (2004-2013) and at 0.825% before that.	139	135	4
Loan granted for research by Centrobanca at a floating interest rate repayable in six monthly installments by 2022.	6,818	6,818	0
Portion due within one year	6,957	6,953	4
Change in the fair value of loans	0	0	0
Total	**6,957**	**6,953**	**4**

36. BANK OVERDRAFTS AND SHORT-TERM LOANS

Bank overdrafts and short-term loans at 31st December 2012 and 2011 amounted to € 49,020 thousand and € 528 thousand respectively.

€ (thousands)	31.12.2012	31.12.2011	Change 2012/2011
Current account overdrafts	48,979	381	48,598
Interest on long-term loans	41	147	(106)
Total	**49,020**	**528**	**48,492**

The reduction in cash and cash equivalents is due mainly to dividend payouts (€ 60 million), new acquisitions in Poland (€ 13 million), an increase in the investment in Recordati S.A. Luxembourg (€ 40 million) and to the acquisition of the Dentosan® product line (€ 18 million).

37. OTHER SHORT-TERM PAYABLES

The balance on other short-term payables consisted entirely of amounts due to subsidiaries as follows:

€ (thousands)	31.12.2012	31.12.2011	Change 2012/2011
Recordati S.A. – Luxembourg	3,890	13,114	(9,224)
Recofarma S.r.l.	3,491	3,534	(43)
Innova Pharma S.p.A.	12,388	7,007	5,381
Laboratoires Bouchara Recordati S.a.s.	19,779	20,228	(449)
Herbacos Recordati S.r.o.	1,507	0	1,507
Recordati España S.L.	40,187	42,599	(2,412)
Orphan Europe Germany GmbH	3,131	2,168	963
Orphan Europe Sarl	17,055	17,642	(587)
Recordati S.A. – Switzerland	1,249	0	1,249
Recordati Rare Diseases	15,551	105	15,446
Recordati Pharma GmbH	0	8,955	(8,955)
Orphan Europe United Kingdom Ltd.	1,232	0	1,232
Orphan Europe Spain S.L.	944	0	944
Orphan Europe Italy S.r.l.	3,194	0	3,194
Recordati Ireland Ltd.	169	260	(91)
Recordati Pharmaceutical Ltd.	16,564	282	16,282
FIC Médical S.a.r.l.	0	212	(212)
Total	**140,331**	**116,106**	**24,225**

The amount due to Recordati S.A. Luxembourg relates of which € 3,676 thousand to interest on a long-term loan granted on the basis of a long-term debt issue concluded by that subsidiary with institutional investors (see Note 25).

Payables to other subsidiaries relate to the centralized cash pooling treasury system and to loans received from them.

In detail outstanding loans existed at 31st December 2012 from the following:

- Recordati S.A. for CHF 1,500,000 amounting to € 1,243 thousand;
- Herbacos Recordati for € 1,500 thousand;
- Orphan Europe United Kingdom for GBP 1,000,000 amounting to € 1,225 thousand;
- Recordati Rare Diseases Inc. for US.$ 20,000,000 amounting to € 15,158 thousand;
- Recordati Pharmaceutical Ltd. for GBP 13,000,000 amounting to € 15,929 thousand.

38. FAIR VALUE OF FINANCIAL INSTRUMENTS

As prescribed by IFRS 7, a comparison of the carrying amounts at 31st December 2012 and the fair values of financial assets and liabilities is given below.

€ (thousands)	Carrying amount	Fair value
Financial assets		
Other short-term receivables	51,343	51,343
Short-term financial investments, cash and cash equivalents	8,531	8,531
Trade receivables	72,976	72,976
Other receivables	5,226	5,226
Fair value of hedging derivatives (fair value hedges)	1,371	1,371
Financial liabilities		
Loans		
- loans at fixed interest rates	139	97
- loans at variable interest rates	60,023	60,023
- loans at variable rates hedged by IRS	67,961	66,417
Trade payables	53,957	53,957
Other payables	19,959	19,959
Fair value of hedging derivatives (cash flow hedges)	4,983	4,983
Bank overdrafts and short-term loans	49,020	49,020
Other short-term borrowings	140,331	140,331

Derivative instruments and fixed rate loans hedged by interest rate swaps are recognized at fair value. Other financial assets and liabilities are carried at fair value because they are short-term assets and liabilities or variable rate loans.

39. DISCLOSURE OF FINANCIAL RISKS

The Company constantly monitors the financial risks to which it is exposed in order to take immediate mitigating action when necessary. Financial policies are designed to achieve a balanced and prudent structure as a basic condition for funding internal and external growth.

As prescribed by IFRS 7, the main financial risks to which the Company is exposed are hereby disclosed.

Liquidity risk

The liquidity risk to which the Company may be exposed is the inability to raise sufficient financial resources for its ongoing business and for the development of its industrial and commercial activities.
The two main factors which determine the Company's liquidity are, on the one hand, the resources

generated or absorbed by operations and by investments, and on the other, the expiry and renewal terms of debt or the degree of liquidity of financial investments and market conditions.
The terms and conditions of the Company's loans and its financial assets are set out in notes 23, 25 and 36, which address short-term financial investments, cash and cash equivalents, loans and bank overdrafts, respectively.
The Company believes that the funds and credit lines currently available, in addition to those generated by operations and financing activities, are enough to satisfy investment needs, working capital requirements and the repayment of debts on their natural due dates.

Credit risk

The Company closely controls its credit exposure through the allocation of credit limits to each single customer and an internal reporting system. At 31st December 2012, the credit exposure was not critical due to the large number of customers, their geographical distribution and the average amount of each account receivable. More specifically at 31st December 2012 gross trade receivables, inclusive of those receivable from subsidiaries, totaled € 73,528 thousand and the relative allowance for doubtful accounts of € 552 thousand recognized is considered to be sufficient in relation to the risk of insolvencies.

Interest rate risk

The Company raises funds using debt and invests excess cash in money market funds and other financial instruments. The fluctuation of market interest rates influences the cost and returns of the debt and investment instruments, which therefore affect the Group's net financial charges.
The Company's policy is to limit the risk arising from interest rate fluctuations by establishing fixed interest rate loans or variable interest rate loans hedged by derivative contracts designed to minimize such fluctuations, as described in Note 25. As a result of this policy and considering the current amount of net debt, it is believed that changes in current interest rates would not have a significant impact on net financial expenses.

Foreign currency risk

The Company is exposed to foreign currency fluctuations which can affect its operating results.
In particular, the Company is exposed to foreign currency fluctuations on its international sales denominated in currencies other than the euro, such as U.S. Dollars, Japanese Yen, GB Pounds and Swiss Francs. The net exposure to these currencies is, however, marginal when compared to the company's volumes of business.

40. SEGMENT REPORTING

Reporting by business segment and geographical area, presented in compliance with IFRS 8 – *Operating segments* – has been performed according to the same accounting policies employed in the presentation of the consolidated financial statements of the Group where, following the acquisition of Orphan Europe, two main segments have been identified: the pharmaceuticals segment and the orphan pharmaceuticals segment, which relates to the whole of Orphan Europe. Consequently the only business segment that exists for Recordati S.p.A. is the pharmaceuticals segment. Furthermore, the pharmaceutical chemicals business is considered an integral part of the pharmaceuticals segment because from an organizational and strategic viewpoint it is involved principally in the production of the active ingredients required to produce pharmaceuticals.

The following table presents net revenues by geographic area:

€ (thousands)	2012	2011	Change 2012/2011
Europe	255,866	251,813	4,053
of which Italy	*170,924*	*173,152*	*(2,228)*
Australasia	6,356	5,506	850
The Americas	9,028	9,168	(140)
Africa	1,901	971	930
Total	**273,151**	**267,458**	**5,693**

41. LITIGATION AND CONTINGENT LIABILITIES

The Company is party to certain legal actions, the outcomes of which are not expected to result in any significant liability.

On 29th September 2006 a notice of tax assessment was served on the Company by the Milan office of the Tax Authorities relating to the fiscal year 2003. It was assessed for additional taxation as follows: corporate tax of € 2.3 million, IRAP (regional production tax) of € 0.2 million and VAT of € 0.1 million and the imposition of fines of € 2.6 million. The Company believed no amount was due and considered the assessment flawed both from a legitimacy as well as a substantive point of view, and is supported in its position by professional opinion. An appeal was therefore filed with the Provincial Tax Commission of Milan. The first instance judgment before the Provincial Tax Commission was concluded partially in the Company's favor with decision No. 539/33/07 dated 11th October 2007, filed on 16th October 2007. An appeal was subsequently filed against that judgment with the Regional Tax Commission of Milan, firstly by the Milan office 6 of the Tax Authorities with notice served on 8th November 2008 and secondly by the Company with notice served on 7th January 2009. With judgment No. 139/32/09 of 10th June 2009, filed on 27th November 2009, section 32 of the Regional Tax Commission of Milan rejected the interlocutory appeal filed by the company and accepted the principal appeal of the Milan office 6 of the Tax Authorities. As a result of that judgment the claims contained in the aforementioned tax assessment relating to the tax year 2003 were confirmed in their entirety and the Company paid the full amount due. On 26th May 2010, the Company appealed that decision before the Supreme Court of Cassation.

42. NET FINANCIAL POSITION

The following summary is set out in the table below in compliance with Consob deliberation No. 15519 of 27th July 2006:

€ (thousands)	31.12.2012	31.12.2011	Change 2012/2011
Deposits in bank current accounts and cash on hand	8,532	35,519	(26,987)
Short-term loans to Group companies	51,343	31,928	19,415
Cash and cash equivalents and current receivables	**59,875**	**67,447**	**(7,572)**
Bank overdrafts and short-term loans	(49,020)	(528)	(48,492)
Loans – due within one year	(6,957)	(6,953)	(4)
Short-term borrowings from Group Companies	(140,331)	(116,106)	(24,225)
Short-term borrowings	**(196,308)**	**(123,587)**	**(72,721)**
Net current financial position	**(136,433)**	**(56,140)**	**(80,293)**
Loans and receivables – due after one year	19,408	20,639	(1,231)
Borrowings – due after one year	(128,123)	(160,481)	32,358
Net financial position	**(245,148)**	**(195,982)**	**(49,166)**

43. NON-RECURRING SIGNIFICANT EVENTS AND TRANSACTIONS

In compliance with Consob communication of 28th July 2006 a summary is given in the table below of the main events, transactions and actions which are non-recurring and which do not repeat frequently in the usual course of business. The overall net effect of such occurrences on the profit and loss, balance sheet and cash flow of the Company is not significant.

€ (thousands)	2012	2011	Change 2012/2011
Provision for the AIFA (Italian Medicines Agency) budget overspend	0	(372)	372
Provisions for expenses related to the return of expired pharmaceuticals	(200)	(350)	150
Settlements and risks relating to litigation with former employees	(1,794)	(308)	(1,486)
Adjustment to provision for legal actions	0	531	(531)
Total non-recurring operating expense	**(1,994)**	**(499)**	**(1,495)**

44. ATYPICAL AND/OR UNUSUAL TRANSACTIONS

In compliance with Consob communication of 28th July 2006, the Company performed no atypical and/or unusual transactions in 2012, as defined in that same communication, according to which atypical and/or unusual transactions are those which because of their significance or importance, the nature of the counterparties, the content of the transaction, the way in which the transfer price is decided and the timing of the event (close to the end of the financial year) might give rise to doubts concerning: the accuracy and completeness of the information in the financial statements, a conflict of interests, the security of the company's assets, the protection of the interests of non-controlling shareholders.

RECORDATI S.p.A. Attachment 1

STATEMENT OF CHANGES IN INVESTMENTS

€ (thousands)	Balance at 31st Dec 2011	Share capital sales and redemptions	Acquisitions subscriptions	Write-downs (-) Write-backs (+)	Balance at 31st Dec 2012
Investments in subsidiaries					
Recordati S.A. – Luxembourg	177,586	-	40,000	-	217,586
Recordati España S.L. – Spain	180,537	-	-	-	180,537
Recofarma S.r.l. – Milan	1,852	-	-	-	1,852
Innova Pharma S.p.A. – Milan	1,733	-	-	-	1,733
Recordati Portuguesa LDA – Portugal	78	-	-	-	78
Bouchara Recordati S.a.s. – France	54,249	-	-	-	54,249
Recordati Pharmaceuticals Ltd. – United Kingdom	752	-	-	-	752
Recordati Hellas Pharmaceuticals S.A. – Greece	95	-	-	-	95
Recordati Polska Sp.z.oo – Poland	5	-	89	-	94
Herbacos Recordati s.r.o. – Czech Republic	0	-	15	-	15
Farma-Projekt Sp. z.o.o. - Poland	0	-	16,375	-	16,375
	416,887	**0**	**56,479**	**0**	**473,366**
Investments in other companies:					
Tecnofarmaci S.p.A. – Pomezia (Rome)	87	-	-	-	87
SPA Ricerche ed Education S.r.l. – Milan	0	-	-	-	0
Sifir S.p.A. – Reggio Emilia	0	-	-	-	0
Consorzio Dafne – Reggello (FI)	2	-	-	-	2
Consorzio Nazionale Imballaggi – Rome	0	-	-	-	0
Consorzio C4T – Pomezia (Rome)	78	-	-	-	78
	167	**0**	**0**	**0**	**167**
TOTAL	**417,054**	**0**	**56,479**	**0**	**473,533**

RECORDATI S.p.A. Attachment 2

SUMMARY STATEMENT OF INVESTMENTS

€ (thousands)	Balance at 31st Dec 2012	Percentage ownership	Number of shares or quotas possessed
Investments in subsidiaries			
Recordati S.A. – Luxembourg	217,586	100.00	82,500,000
Recordati España S.L. – Spain	180,537	68.45	1,635,660
Recofarma S.r.l. – Milan	1,852	100.00	1
Innova Pharma S.p.A. – Milan	1,733	100.00	960,000
Bouchara – Recordati S.a.s. – France	54,249	99.94	9,994
Recordati Portuguesa LDA – Portugal	78	98.00	1
Recordati Pharmaceuticals Ltd. – United Kingdom	752	3.33	500,000
Recordati Hellas Pharmaceuticals S.A. – Greece	95	0.68	9,500
Recordati Polska Sp. Zo.o – Poland	94	100.00	100
Herbacos Recordati s.r.o. – Czech Republic	15	0.08	1
Farma-Projekt Sp. z.o.o. - Poland	16,375	100.00	67,200
	473,366		
Investments in other companies:			
Tecnofarmaci S.p.A. – Pomezia (Rome)	87	4.18	79,500
Sifir S.p.A. – Reggio Emilia	0	0.04	1,304
Consorzio Dafne – Reggello (FI)	2	1.26	1
Consorzio C4T – Pomezia (Rome)	78	0.23	1,300
Consorzio Nazionale Imballaggi – Rome	0	n.s.	1
TOTAL	**473,533**		

COMPARISON BETWEEN THE CARRYING AMOUNT OF INVESTMENTS IN SUBSIDIARIES AND THEIR VALUATION USING THE EQUITY METHOD

€ (thousands)	Share capital	31.12.2012 Equity	Profit (loss)	% Ownership	Corresponding pro-rata equity (A)	Carrying amount (B)	Valuation Art. 2426 (C)
Investments							
Recordati S.A. – Luxembourg	82,500	332,212	55,868	100.00	332,212	217,586	511,938
Recordati España S.L. - Spain	238,966	278,539	6,359	68.447	190,652	180,537	189,527
Bouchara Recordati S.a.s. – France	4,600	26,377	20,331	99.94	26,361	54,249	78,570
Recordati Portuguesa LDA – Portugal	25	41	(10)	98.00	40	78	42
Recofarma S.r.l. – Milan	1,258	3,510	23	100.00	3,510	1,852	3,509
Innova Pharma S.p.A. – Milan	1,920	19,067	5,536	100.00	19,067	1,733	19,120
Recordati Pharmaceuticals Ltd. – United Kingdom	18,380	18,449	499	3.33	614	752	610
Recordati Hellas S.A – Greece	13,900	4,308	1,980	0.68	29	95	28
Recordati Polska	98	(102)	(181)	100.00	(102)	94	(102)
Farma-Projekt	825	35	(247)	100.00	35	16,375	16,162
Herbacos Recordati	1,018	6,510	3,073	0.08	5	15	184
	363,490	**688,946**	**93,231**		**572,424**	**473,366**	**819,318**

Difference A-B	**99,058**
Surplus C-B	**345,952**

RECORDATI S.p.A. Attachment 4

DETAILS OF ITEMS IN SHAREHOLDERS' EQUITY

€ (thousands)	Amount	Possibility of use	Amount available	Amount distributable without tax effects	Amount distributable with tax effects	Notes
Share capital	26,141					
Additional paid-in capital reserve	83,718	A B C	83,718	15,074	68,644	1
Revaluation reserve	2,602	A B C	2,602	0	2,602	
Statutory reserve	5,228	B				
By-law reserves	0					
Treasury stock reserve	(46,254)		(46,254)	(46,254)		
Other reserves						
Extraordinary reserve	112,545	A B C	111,867	111,867	0	2
Reserve under Art. 13 Par. 6 of Legislative Decree 124/1993	99	A B C	99	0	99	
Research and investment grants	17,191	A B C	17,191	1,227	15,964	3
Extraordinary VAT concession reserve	517	A B C	517	0	517	
Southern Italy investment fund	3,632					
IAS reserve	85,983	A B C	85,983	85,983		
Interim dividend	(40,077)		(40,077)	(40,077)		
Profit (loss) for the year	85,032	A B C	85,032	85,032		
Total shareholders' equity	**336,357**		**300,678**	**212,852**	**87,826**	

Legend:

A for share capital increase
B to replenish losses
C to distribute to shareholders

Notes:

1 The additional paid-in capital reserve may be distributed when the statutory reserve has reached one fifth of the share capital.
2 The extraordinary reserve may not be distributed below the amount of € 678 thousand pursuant to Art.2426 point 8-*bis* of the Civil Code (see item 12).
3 The research and investment grant reserve has already been subject to taxation of € 1,227 thousand.

RECORDATI S.p.A. Attachment 5

DISCLOSURE OF AUDITORS' FEES FOR ACCOUNTING AUDITS AND OTHER SERVICES

Amounts in euro

Type of service	Provider of the service	Remuneration
Accounting audit	Auditor of Parent Company	72.045
Due diligence	Network of auditor of Parent Company	193.500
Attestation services	Auditor of Parent Company	36.600

ATTESTATION IN RESPECT OF THE FINANCIAL STATEMENTS UNDER ARTICLE 154-*BIS* OF LEGISLATIVE DECREE 58/98

1. The undersigned, Giovanni Recordati, in his capacity as the Chief Executive Officer of the Company, and Fritz Squindo, as the Manager responsible for the preparation of the financial statements of Recordati S.p.A., pursuant to the provisions or article 154-*bis*, clauses 3 and 4, of Legislative Decree No. 58 of 1998, hereby attest

- the adequacy with respect to the Company structure and
- the effective application,

of the administrative and accounting procedures applied in the preparation of the separate company financial statements for the financial year 2012.

2. They also attest that:

2.1 the separate financial statements at and for the year ended 31st December 2012:

- have been prepared in accordance with the international accounting standards, recognized by the European Union pursuant to Regulation (EC) 1606/2002 of the European Parliament and Counsel, dated 19th July 2002;
- correspond to the amounts shown in the Company's accounts, books and records;
- provide a fair and correct representation of the financial conditions, results of operations and cash flows of the Company.

2.2 The report on operations includes a reliable operating and financial review of the Company as well as a description of the main risks and uncertainties to which it is exposed.

Milan, 7th March 2013

Chief Executive Officer — *Giovanni Recordati*

the Manager responsible for preparing the Company's financial reports — *Fritz Squindo*