

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 coordination 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 Fimeì 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 Fimeì 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	31 st December 2012	31 st 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.

Equity and Liabilities

Amounts in euro	Notes	31 st December 2012	31 st 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	Additional paid-in capital	Treasury shares	Statutory reserve	Other reserves	Fair value hedging instruments	IAS compliance 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 31 st 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 31 st 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 or 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% (2 nd 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 31 st 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 31 st 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 1 st 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 1 st 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 1 st 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 1 st 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 Fimeì 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 Fimeì 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						
29 th October 2008	4.0730	1,973,750	0	(743,750)	(42,500)	1,187,500
11 th February 2009	3.8940	110,000	0	(5,000)	(30,000)	75,000
27 th October 2009	4.8700	3,043,750	0	(531,250)	(105,000)	2,407,500
9 th February 2011	6.7505	4,280,000	0	0	(520,000)	3,760,000
8 th 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 1 st 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 1 st 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
<i>of which Italy</i>	<i>170,924</i>	<i>173,152</i>	<i>(2,228)</i>
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.
STATEMENT OF CHANGES IN INVESTMENTS

Attachment 1

€ (thousands)	Balance at 31 st Dec 2011	Share capital sales and redemptions	Acquisitions subscriptions	Write-downs (-) Write-backs (+)	Balance at 31 st 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.
SUMMARY STATEMENT OF INVESTMENTS

Attachment 2

€ (thousands)	Balance at 31 st 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
	473,533		
TOTAL	473,533		

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

€ (thousands)	31.12.2012	%	Corresponding	Carrying	Valuation		
	Share capital	Ownership	pro-rata equity (A)	amount (B)	Art. 2426 (C)		
	Equity	Profit (loss)					
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.
DETAILS OF ITEMS IN SHAREHOLDERS' EQUITY

Attachment 4

€ (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.

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

the Manager responsible
for preparing the Company's financial reports

Giovanni Recordati

Fritz Squindo