# ALMIRALL, S.A. and Subsidiaries
# (Almirall Group)

Consolidated annual accounts for the year ended 31 December 2016, prepared in accordance with International Financial Reporting Standards (IFRS) adopted by the European Union

*(Translation of a report originally issued in Spanish. In the event of discrepancy, the Spanish language version prevails).*

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**ALMIRALL, S.A.**
**and Subsidiaries (ALMIRALL GROUP)**

CONSOLIDATED BALANCE SHEETS AT 31 DECEMBER
(Thousands of Euros)

| ASSETS | Note | 31 December 2016 | 31 December 2015 | EQUITY AND LIABILITIES | Note | 31 December 2016 | 31 December 2015 |
|---|---|---|---|---|---|---|---|
| | | | | Issued capital | 14 | 20,754 | 20,754 |
| Goodwill | 8 | 432,765 | 347,310 | Share premium | 14 | 219,890 | 219,890 |
| Intangible assets | 9 | 992,996 | 412,693 | Legal reserve | 14 | 4,151 | 4,151 |
| Property, plant and equipment | 10 | 132,298 | 127,795 | Other reserves | 14 | 1,166,912 | 1,068,086 |
| Financial assets | 11 | 194,441 | 180,586 | Valuation adjustments | 14 | (19,878) | (14,143) |
| Deferred tax assets | 21 | 327,475 | 316,878 | Translation differences | 14 | 52,972 | 32,018 |
| **NON-CURRENT ASSETS** | | **2,079,975** | **1,385,262** | Profit (Loss) for year | | 75,479 | 131,826 |
| | | | | **EQUITY** | | **1,520,280** | **1,462,582** |
| | | | | Deferred income | 15 | 162,171 | 201,721 |
| | | | | Financial liabilities | 16 | 317,187 | 315,883 |
| | | | | Deferred tax liabilities | 21 | 233,403 | 125,416 |
| | | | | Retirement benefit obligations | 19 | 71,939 | 63,813 |
| | | | | Provisions | 18 | 17,792 | 18,526 |
| | | | | Other non-current liabilities | 17 | 124,171 | 42,848 |
| Inventories | 12 | 91,040 | 87,124 | **NON-CURRENT LIABILITIES** | | **926,663** | **768,207** |
| Trade and other receivables | 13 | 130,608 | 120,969 | | | | |
| Current tax assets | 21 | 45,543 | 67,603 | Financial liabilities | 16 | 3,843 | 3,835 |
| Other current assets | | 4,651 | 3,391 | Trade payables | | 237,261 | 225,306 |
| Current investments | 11 | 217,212 | 270,042 | Current tax liabilities | 21 | 23,681 | 9,863 |
| Cash and cash equivalents | | 249,499 | 597,954 | Other current liabilities | 17 | 106,800 | 62,552 |
| **CURRENT ASSETS** | | **738,553** | **1,147,083** | **CURRENT LIABILITIES** | | **371,585** | **301,556** |
| **TOTAL ASSETS** | | **2,818,528** | **2,532,345** | **TOTAL LIABILITIES AND EQUITY** | | **2,818,528** | **2,532,345** |

The accompanying Notes 1 to 32 to the consolidated annual accounts and the Appendix are an integral part of the consolidated annual accounts as at 31 December 2016

*(Translation of the consolidated annual accounts originally issued in Spanish. In the event of discrepancy, the Spanish language version prevails).*

**ALMIRALL, S.A.**
**and Subsidiaries (ALMIRALL GROUP)**

CONSOLIDATED INCOME STATEMENTS AT 31 DECEMBER
(Thousands of Euros)

| Continuing operations | Note | 2016 | 2015 |
|---|---|---|---|
| Revenue | 20 | 764,361 | 684,985 |
| Other income | 20 | 94,854 | 84,015 |
| **Operating income** | | **859,215** | **769,000** |
| Procurements | 20 | (162,771) | (150,787) |
| Staff costs | 20 | (227,769) | (188,381) |
| Amortisation and depreciation charge | 9 and 10 | (100,296) | (74,250) |
| Net change in valuation adjustments | 20 | (1,387) | (2,534) |
| Other operating expenses | 20 | (270,475) | (228,748) |
| Net gain (loss) on asset disposals | 20 | 30,089 | 44,217 |
| Loss (Gain) on recognition (reversal) of impairment of property, plant and equipment, intangible assets and goodwill | 9 | (15,000) | (241) |
| **Profit (Loss) from operations** | | **111,606** | **168,276** |
| Change to fair value in financial instruments | 20 | (3,709) | 19,527 |
| Financial income | 20 | 3,443 | 2,825 |
| Finance costs | 20 | (19,686) | (16,572) |
| Exchange gains (losses) | 20 | 983 | (1,420) |
| **Profit (Loss) before tax** | | **92,637** | **172,636** |
| Corporate income tax | 21 | (17,158) | (40,810) |
| **Net profit (loss) for the year attributable to the Parent** | | **75,479** | **131,826** |
| Earnings (Loss) per share (Euros): | 24 | | |
| A) Basic | | 0.44 | 0.76 |
| B) Diluted | | 0.44 | 0.76 |

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*(Translation of the consolidated annual accounts originally issued in Spanish. In the event of discrepancy, the Spanish language version prevails).*

**ALMIRALL, S.A.**
**and Subsidiaries (ALMIRALL GROUP)**

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED 31 DECEMBER
(Thousands of Euros)

| | Note | 2016 | 2015 |
|---|---|---|---|
| **Profit (Loss) for the year** | | **75,479** | **131,826** |
| **Other comprehensive income:** | | | |
| *Items that will not be reclassified to profit or loss* | | | |
| Retirement benefit obligations | 19 | (8,287) | 4,326 |
| Others | | 1,356 | (1,120) |
| Corporate income tax on items that will not be reclassified | 21 | 2,403 | (1,130) |
| **Items that will not be reclassified to profit or loss** | | **(4,528)** | **2,076** |
| *Items that may be reclassified subsequently to profit or loss* | | | |
| Change in value of financial assets available for sale | 11 and 14 | (1,711) | (1,367) |
| Gains (Losses) on translations of foreign currencies | 14 | 20,954 | 30,310 |
| Corporate income tax on items that will not be reclassified | 21 | 504 | (4,829) |
| **Total items that may be reclassified subsequently to profit or loss** | | **19,747** | **24,114** |
| **Other comprehensive income for the year, net of tax** | | **15,219** | **26,190** |
| **Total comprehensive income for the year** | | **90,698** | **158,016** |
| **Attributable to:** | | | |
| - Owners of the parent | | 90,698 | 158,016 |
| - Non-controlling interests | | - | - |
| **Total comprehensive income attributable to owners of the Parent company arising on:** | | | |
| - Continuing operations | | 90,698 | 158,016 |
| - Discontinued operations | | - | - |

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**ALMIRALL, S.A.**
**and Subsidiaries (ALMIRALL GROUP)**

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY IN THE YEARS ENDED 31 DECEMBER
(Thousands of Euros)

| | NOTE | Subscribed capital | Share premium | Legal reserve | Other reserves | Valuation adjustments recognised in equity | Translation differences | Profit (Loss) attributable to the Parent company | Equity |
|---|---|---|---|---|---|---|---|---|---|
| **Balance at 31 December 2014** | 14 | **20,754** | **219,890** | **4,093** | **654,715** | **(15,262)** | **6,947** | **448,429** | **1,339,566** |
| Distribution of profit | | - | - | 58 | 448,371 | - | - | (448,429) | - |
| Dividends | | - | - | - | (35,000) | - | - | - | (35,000) |
| Total comprehensive income for the year | | - | - | - | - | 1,119 | 25,071 | 131,826 | 158,016 |
| **Balance at 31 December 2015** | 14 | **20,754** | **219,890** | **4,151** | **1,068,086** | **(14,143)** | **32,018** | **131,826** | **1,462,582** |
| Distribution of profit | | - | - | - | 131,826 | - | - | (131,826) | - |
| Dividends | | - | - | - | (33,000) | - | - | - | (33,000) |
| Total comprehensive income for the year | | - | - | - | - | (5,735) | 20,954 | 75,479 | 90,698 |
| **Balance at 31 December 2016** | 14 | **20,754** | **219,890** | **4,151** | **1,166,912** | **(19,878)** | **52,972** | **75,479** | **1,520,280** |

The accompanying Notes 1 to 32 to the consolidated annual accounts and the Appendix are an integral part of the consolidated annual accounts for the year ended 31 December 2016.

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**ALMIRALL, S.A.**
**and Subsidiaries (ALMIRALL GROUP)**

CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED 31 DECEMBER
(Thousands of Euros)

| | Note | 2016 | 2015 |
|---|---|---|---|
| **Cash flows** | | | |
| Profit (Loss) before tax | | 92,637 | 172,636 |
| **Adjustments to profit or loss:** | | | |
| Charge for amortisation and depreciation | 9 and 10 | 100,296 | 74,250 |
| Net change in provisions and valuation adjustments | | (10,344) | 2,534 |
| Net profit (loss) for disposals of assets | 20 | (30,089) | (44,217) |
| Gains (Losses) on disposals of financial instruments | 11 and 20 | (2,195) | - |
| Financial income | 20 | (1,248) | (2,825) |
| Finance costs | 20 | 19,686 | 16,572 |
| Impairment losses | 9 and 10 | 15,000 | 186 |
| Change in the fair value of financial instruments | 20 | 3,709 | (19,527) |
| Changes in other non-current assets and liabilities | | (4,317) | (7,302) |
| **Effects of the AstraZeneca transaction:** | | | |
| Incorporation of deferred income of the AstraZeneca transaction | 15 and 20 | (38,206) | (33,535) |
| Change in the fair value of the AstraZeneca financial asset | 6 and 20 | (29,862) | 5,970 |
| | | **115,067** | **164,742** |
| **Adjustments to changes in working capital:** | 12 | (392) | (6,875) |
| Changes in inventories | 13 | 1,731 | 107,061 |
| Changes in trade and other receivables | | 24,623 | 8,135 |
| Changes in trade payables | | 5,098 | 4,479 |
| Changes in other current assets | 17 | (21,885) | (53,530) |
| Changes in other current liabilities | | | |
| **Adjustments to changes in other items:** | | | |
| Changes in other non-current liabilities | 17 and 19 | (488) | 1,969 |
| | | **8,687** | **61,239** |
| **Cash inflows (outflows) for tax:** | | **(18,698)** | **(55,097)** |
| **Net cash flows from operating activities (I)** | | 105,056 | 170,884 |
| **Cash flows from investing activities** | | | |
| Interest received | 20 | 1,248 | 2,825 |
| Investments: | | | |
| Intangible assets | 9 and 17 | (57,714) | (14,261) |
| Property, plant and equipment | | (24,372) | (12,510) |
| Financial assets | | (1,445) | (29,748) |
| Business combinations | 7 and 20 | (433,450) | (13,541) |
| Disposals: | | | |
| Intangible assets and property, plant and equipment | | 5,458 | 63,928 |
| Financial assets | 11 | 7,894 | 101 |
| Business unit | 3 | 45,175 | (2,344) |
| **Net cash flows from investing activities (II)** | | **(457,206)** | **(5,550)** |
| **Cash flows from financing activities** | | | |
| Interest paid | 20 | (15,208) | (15,365) |
| Equity instruments: | | | |
| Dividends paid | 14 | (33,000) | (35,000) |
| Liability instruments: | | | |
| Bank borrowings repaid | 16 | (927) | - |
| Net effect of non-convertible bond issue | 16 | - | (1,407) |
| **Net cash flows from financing activities (III)** | | **(49,135)** | **(51,772)** |
| **Net change in cash and cash equivalents (I+II+III))** | | **(401,285)** | **113,562** |
| **Cash and cash equivalents at the beginning of the year** | 11 | **867,996** | **754,434** |
| **Cash and cash equivalents at end of the year** | 11 | **466,711** | **867,996** |

The accompanying Notes 1 to 32 to the consolidated annual accounts and the Appendix are an integral part of the consolidated annual accounts for the year ended 31 December 2016.

## 1. Group activities

Almirall, S.A. is the Parent company of a corporate group ("Almirall Group"), which is made up of the subsidiaries listed in the accompanying Appendix to these consolidated annual accounts. Its corporate purpose is basically acquisition, manufacture, storage, marketing and representation in the sale of pharmaceutical specialities and products and all manner of raw materials used to prepare the aforementioned pharmaceutical specialities and products.

The Parent's corporate purpose also includes:

a) The acquisition, manufacture, storage, sale and mediation in the sale of cosmetics, chemical, biotechnological and diagnostic products for human, veterinary, agrochemical and food-industry use, as well as all manner of utensils, complements and accessories for the chemical, pharmaceutical and clinical industries.

b) Research into chemical and pharmaceutical ingredients and products.

c) The acquisition, sale, lease, subdivision and development of plots, land and properties of all kind, including the performance of construction work thereon and their disposal, in full, in part or under a condominium property arrangement.

In accordance with the Parent company's Articles of Association, the corporate purpose may be carried on, in full or in part, directly by the Parent company or indirectly through the ownership of shares, equity instruments or any other rights or interests in companies or other types of entity with or without legal personality, resident in Spain or abroad, engaging in activities that are identical or similar to those composing the Parent's corporate purpose.

Almirall, S.A. is a public limited liability company listed on the Spanish stock exchanges included in the Spanish electronic trading system (continual market). Its registered office is at Ronda General Mitre, 151 in Barcelona (Spain).

## 2. Basis of presentation of the consolidated annual accounts and basis of consolidation

### *a) Regulatory financial reporting framework applicable to the Group*

Almirall Group's consolidated annual accounts for the year ended 31 December 2016, which were obtained from the accounting records held by the Parent company and by the other companies composing the Group, were formally prepared by the Parent company's directors on 24 February 2017.

These consolidated annual accounts were prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union, and take into account all the mandatory accounting policies and rules and measurement bases, the Spanish Commercial Code, the Spanish Companies Law and all other applicable Spanish corporate and commercial law. Accordingly, they present fairly the equity and financial position of the Almirall Group at 31 December 2016 and the results of its operations, the changes in consolidated equity, the changes in other consolidated comprehensive income and the consolidated cash flows at the Group in the year then ended.

The consolidated annual accounts have been prepared on a cost basis, adjusted in the relevant record of financial instruments at fair value as required by the accounting standards.

However, since the accounting standards and measurement bases used to prepare the Group's consolidated annual accounts for 2016 may differ from those used by certain Group companies, the required adjustments and reclassifications were made on consolidation to unify them and to bring them into line with International Financial Reporting Standards.

The Group's consolidated annual accounts for 2015 were approved by the Parent company's shareholders at the General Meeting held on 6 May 2016. The Group's consolidated annual accounts for 2016 are awaiting approval by the Parent company's shareholders at the next General Meeting. However, the Parent's Board of Directors considers that the aforementioned consolidated annual accounts will be approved without any changes.

### b) *Adoption of International Financial Reporting Standards*

The consolidated annual accounts of the Almirall Group for the year ended 31 December 2005 were the first to be prepared in accordance with International Financial Reporting Standards pursuant to Regulation (EC) No. 1606/2002 of the European Parliament and of the Council dated 19 July 2002. The obligation to present consolidated annual accounts under EU-IFRSs was also transposed into Spanish law and is regulated by Final Provision XI of Law 62/2003, of 30 December, on fiscal, administrative and social order measures.

The main accounting standards and measurement bases adopted by the Almirall Group are disclosed in Note 5.

With respect to the application of IFRS, Almirall Group has decided to do the following:

- To present the balance sheet on a current / non-current basis.

- To present the income statement by nature.

- To present the statement of cash flows using the indirect method.

- To present the income and expense in two separate statements: an income statement and a consolidated statement of comprehensive income.

As is detailed below, in 2016 new accounting standards (IAS/IFRS) and interpretations (IFRIC) have come into effect. Similarly, at the date of preparation of these consolidated annual accounts, new accounting standards (IAS/IFRS) and interpretations (IFRIC) have been published, which are set to come into effect for the accounting periods starting on or after 1 January 2017.

*Mandatory standards, amendments and interpretations for all years starting 1 January 2016*

Annual improvements to the 2010-2012 IFRS cycle (amendments to IFRS 2 "Share-based payments", IFRS 3 "Business combinations", IFRS 8 "Operating segments", IAS 16 "Property, plant and equipment" and IAS 38 “Intangible Assets”, IAS 24 "Related party disclosures"), amended IAS 19 "Defined benefit plans: employee contributions." IAS 16 (amendment) and IAS 41 (amendment) “Agriculture: Bearer plants”, IFRS 11 (amendment) “Accounting for acquisitions of interests in joint operations”, IAS 16 (amendment) and IAS 38 “Clarification of acceptable methods of amortisation and depreciation”, Annual improvements to the 2012-2014 IFRS cycle (amendments to IFRS 5 “Non-current assets held for sale and interrupted activities”, IFRS 7 “Financial instruments: Information to be disclosed”, IAS 19 “Employee benefits”, IAS 34 “Intermediary financial information”), IAS 1 (amendment) “Initiative on information to be disclosed”, IAS 27 (amendment) “Equity method in separate financial statements”, and amendment to IFRS 10, IFRS 12 and IFRS 28 “Investment entities: applying the consolidation exception”.

These standards came into force for periods beginning on or after 1 January 2016. The effect of these standards has not been significant and has been reflected in these consolidated annual accounts.

*Standards, amendments and interpretations which have not yet come into effect but which may be adopted early in the years beginning on or after 1 January 2016:*

At the date of authorisation for issue of these consolidated annual accounts, the IASB and the IFRS Interpretations Committee had published the standards, amendments and interpretations detailed below, which have not come into force and, although these standards could be adopted earlier, the Group has decided against early adoption.

The Group has not considered early application of these amendments. The Group is analysing the effect of application of these new standards/amendments/interpretations to the Group's consolidated annual account. Based on the analysis of the application of these new standards/amendments/interpretations, they are not expected to have a significant effect on the Group's consolidated annual accounts.

*Standards, amendments and interpretations applied to existing standards that cannot be adopted early or have been adopted by the European Union at the date of preparation of these consolidated annual accounts:*

At the date of preparation of these consolidated annual accounts, the IASB and IFRS Interpretations Committee have published the standards, amendments and interpretations set out below, which have not yet been adopted by the European Union.

IFRS 10 (amendment) and IAS 28 (amendment) "Sale or contribution of assets between an investor and its associate or joint venture", IFRS 16 "Leases", IAS 7 (amendment) "Disclosure initiative", IAS 12 (amendment) "Recognition of deferred tax assets for unrealised losses", IFRS 15 (amendment) "Clarifications to IFRS 15 ""Revenue from contracts with customers", IFRS 2 (amendment) "Classification and measurement of share-based payment transactions", IFRS 4 (amendment) "Applying IFRS 9 "Financial instruments" with IFRS 4 "Insurance contracts". Annual improvements to the 2014-2016 IFRS cycle (amendments to IFRS 1, IFRS 12 and IAS 28), IAS 40 (amendment) "Transfers of investment property", IFRIC 22 "Foreign Currency Transactions and Advance Consideration".

The Group is analysing the effect of these new standards/amendments/interpretations on the Group's consolidated annual accounts, in case they are adopted by the European Union.

### *c) Functional currency*

These consolidated annual accounts are presented in euros since this is the currency of the primary economic area in which the Group operates. Foreign operations are recognised in accordance with the policies established in Note 5-t.

### *d) Comparison of information*

In accordance with Notes 3-b and 7 of the accompanying notes to the consolidated annual accounts, in February 2016, Almirall, S.A. acquired the total share capital of Poli Group Holding S.r.l., holding company of the Poli Group, which includes three operating companies (Taurus Pharma GbmH, Polichem S.A. and Polichem S.r.l.). In addition, the subsidiary of the Almirall Aesthetics Inc. Group acquired Thermigen LLC in February 2016 (which includes Thermigen Aesthetics LLC and, up to the date of their dissolution in December 2016, ThermiEye LLC and ThermiVA LLC, as stated in Note 3-b). In addition, the Almirall Group sold the subsidiary Almirall México, S.A. de C.V. in May 2016. These matters should be taken into account when comparing the figures of the balance sheets and consolidated income statements at 31 December 2016 and 31 December 2015.

### *e) Estimates made*

The consolidated results and determination of the consolidated equity are sensitive to the accounting principles and policies, measurement bases and estimates made by the Parent company's directors when preparing the consolidated annual accounts.

In the Group's consolidated annual accounts for the year ended 31 December 2016, estimates by the Group's executives and consolidated entities, which were later approved by the Parent company's directors, were used occasionally to quantify certain of the assets, liabilities, income, expenses and obligations reported herein. These estimates relate basically to the following:

- The measurement of the recovery of the goodwill (see Notes 5-d, 6-e and 8).
- The useful life of the intangible assets and property, plant and equipment (see Notes 5-b and 5-c).
- Assessment of the recovery of deferred tax assets (see Note 21).
- The impairment losses on certain items of property, plant and equipment, intangible assets and goodwill arising from the non-recovery of the carrying amount recognised on these assets (see Notes 5-d, 6-e and 8).
- The fair value of certain unlisted financial assets (see Notes 5-j, 6-a and 11).
- Assessment of lawsuits, obligations and contingent assets and liabilities at year-end (see Notes 5-l and 25).
- Estimate of the appropriate write-downs for inventory obsolescence, impairment of accounts receivable and sales returns (see Notes 5-g, 5-h and 5-l).
- Estimate of provisions for restructuring (Note 17).
- Determination of the assumptions required to calculate the actuarial liability for retirement benefit obligations in conjunction with an independent expert (see Note 5-m).
- Estimate of the liability relating to the cash-settled share-based payment arrangements (see Note 5-x).

Although these estimates were made on the basis of the best information available at 31 December 2016 on the events analysed, events that take place in the future might make it necessary to change these estimates (upwards or downwards) in coming years. Changes in accounting estimates would be applied prospectively in accordance with the requirements of IAS 8, recognising the effects of any changes in estimates in the related consolidated income statement.

## 3. Basis of consolidation and changes in the scope of consolidation

### *a) Basis of consolidation*

The accompanying consolidated annual accounts were prepared from the accounting records of Almirall, S.A. and of the companies under its control, whose annual accounts were prepared by the directors of the companies.

The subsidiaries of Almirall Group listed in the Appendix have been included in the scope of consolidation.

The subsidiaries are all companies over which the Group has effective control. The Group has effective control over a subsidiary when it is exposed or entitled to some variable remunerations as a result of its involvement in the subsidiary and it has an influential capacity over such remunerations by having the power to manage the subsidiary's relevant activities. Subsidiaries are consolidated from the date on which control is transferred to the Group. Subsidiaries cease to be consolidated from the date on which the Group no longer has control.

Almirall Group companies were fully consolidated because Almirall directly or indirectly holds more than 50% of the share capital of these companies and has effective control over them because it holds the majority of the voting power in their representation and decision-making bodies. Accordingly, all material balances and effects of the transactions between consolidated companies were eliminated on consolidation.

The results generated by the acquired entities in a year are consolidated by taking into consideration only results relating to the period between the date of acquisition and the year end. The results generated by entities disposed of during a year are only consolidated for the period running from the start of the year to the date of disposal.

Where necessary, the financial statements of the subsidiaries are adjusted so that the accounting policies used are the same as those applied by the Group's Parent company.

As soon as the Group ceases to have control the remaining holding in the entity is revalued at its fair value at the date that control is lost, recognising any gain or loss in profit or loss. The fair value is the initial carrying amount when subsequently recognising the remaining holding as an associate, joint venture or financial asset. Any amount recognised previously in other comprehensive income in relation to this entity is recognised as if the Group had directly sold the related assets or liabilities. This could mean that the amounts previously recognised in other comprehensive income are reclassified to profit or loss.

Also, the accompanying consolidated annual accounts do not include the tax effect that may arise as a result of including the results and reserves from these subsidiaries in the Parent’s equity since it is not considered that any reserves will be transferred that might give rise to further taxation pursuant to IAS 12.

The Appendix to these notes to the consolidated annual accounts details the subsidiaries and information thereon (including name, country of incorporation and proportion of ownership interest held by the Parent).

### b) *Changes in the scope of consolidation*

There were no changes in the scope of consolidation in 2015.

In 2016, the following changes have been made to the Group’s composition and scope of consolidation:

- With effect from 5 February 2016, Almirall, S.A., Parent company of the Group, acquired the total share capital of Poli Group Holding S.r.l.,, holding company of the Poli Group, which includes three operating companies (Taurus Pharma GmbH, Polichem S.A. and Polichem S.r.l.).

- With effect from 9 February 2016, on complying with all of the terms and conditions of the operation, via the subsidiary Almirall Aesthetics Inc., the Group acquired the total shares of ThermiGen LLC, which holds ThermiGen Aesthetics LLC, ThermiEye LLC and ThermiVA LLC.

- With effect from 3 May 2016, Almirall, S.A. and Almirall International, B.V. have signed a share purchase-sale contract with Grünenthal de México S.A. de C.V. and Grünenthal GmbH by virtue of which Almirall, S.A. and Almirall International, B.V. have agreed to sell the total shares of the subsidiary Almirall de México, S.A. de C.V. for EUR 28.5 million.

In addition, the following company operations were carried out in 2016 with no effect on the Group’s scope of consolidation:

- On 25 November 2016, Taurus Pharma GmbH was acquired by Almirall Hermal GmbH, which acquired the total shares held by Poli Group Holding, S.r.l.

- On 12 December 2016, ThermiEye LLC and ThermiVA LLC were dissolved. The business activities of these companies have been transferred to ThermiGen Aesthetics, LLC.

Note 7 of the accompanying notes to the consolidated annual accounts states the total amount of consideration allocated to the identified assets and liabilities of the companies acquired in 2016 and the resulting goodwill.

Regarding the sale of the subsidiary Almirall de México, S.A. de C.V., after derecognising the existing assets and liabilities used for the business from the balance sheet (EUR 10.4 million), as set out below, and following the transfer of the exchange differences arising since the company's incorporation which have been recognised in Equity (losses totalling EUR 6.9 million (Note 14)) to date, the result totalling EUR 11,249 thousand has been recognised in "Net gains/(losses) for disposal of assets" of the consolidated income statement at 31 December 2016 (Note 20).

Set out below is a breakdown of the assets and liabilities of Almirall de México, S.A. de C.V. at the date of their disposal:

| | **Thousands of euros** |
|---|---|
| Intangible assets | 47 |
| Property, plant and equipment | 104 |
| Financial assets | 25 |
| Deferred tax assets | 1,733 |
| **Non-current assets** | **1,909** |
| Inventories | 3,542 |
| Trade and other receivables | 4,224 |
| Cash | 2,551 |
| **Current assets** | **10,317** |
| **Total assets** | **12,226** |
| **Non-current liabilities** | **(351)** |
| **Current liabilities** | **(1,480)** |
| **Total liabilities** | **(1,831)** |
| **Net** | **10,395** |

In addition, as a result of this sale of shares, an agreement has been made to assign the rights to sell in Mexico the trademarks of several of Almirall's products previously sold by Almirall de México, S.A. de C.V. At the date of this agreement, Almirall has received an initial non-refundable payment (an upfront payment) of EUR 10 million. Future payments of up to EUR 10 million were agreed for certain milestones consisting of some studies and other administrative procedures to be made within a period of not more than 18 months from the effective date, and settlement of these payments is expected to be close to 100%. As this sale is for a licence where the sale rights were transferred, both the initial part allocated to this component ("upfront payment" totalling EUR 10 million) and the amount subject to the compliance of certain milestones to be met within a period of not more than 18 months (a further EUR 10 million) has been recognised directly as income in the consolidated income statement as part of the sale of the subsidiary Almirall de México, S.A de C.V. (in "Net gains/(losses) for disposal of assets"). At 31 December 2016, only EUR 0.8 million remains outstanding for these milestones and therefore the effect on the Almirall Group's cash has been a net cash inflow totalling EUR 45.2 million in 2016.

## 4. Distribution of the Parent company's profit

The distribution of the profit included in the Parent company's annual accounts for the years ended 31 December 2016 and 2015 is as follows:

| | Thousands of Euros | |
|---|---|---|
| | 2016 | 2015 |
| **Basis of distribution:** | | |
| Profit for year | 50,001 | 76,217 |
| **Distribution:** | | |
| To the legal reserve | - | - |
| To voluntary reserves | 17,001 | 43,217 |
| Dividends | 33,000 | 33,000 |
| To offset prior years' losses | - | - |
| **Total** | **50,001** | **76,217** |

The proposed distribution of profit for 2015 was approved by the shareholders at the General Meeting on 6 May 2016.

## 5. Accounting standards

The Group's consolidated annual accounts for the year ended 31 December 2016 were prepared by the directors of the Parent Company in accordance with International Financial Reporting Standards (IFRS) as approved by the European Union, pursuant to Law 62/2003, of 30 December.

The principal measurement bases used in preparing these consolidated annual accounts, in accordance with International Financial Reporting Standards as adopted by the European Union and with the Interpretations in force at the reporting date, were as follows:

### a) *Goodwill*

The goodwill earned on business combinations represents the excess of the consideration delivered over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary at the combination date.

Any excess of the cost of equity instruments representing the capital of acquired subsidiaries over their corresponding underlying carrying amounts, adjusted at the date of first time consolidation, is allocated as follows:

- If it is attributable to specific assets and liabilities of the companies acquired: by increasing the value of the assets (or reducing the value of the liabilities) that have a higher (lower) market value than the respective carrying amounts and have a similar method of recognition to the methods used for the Group's same assets (liabilities): amortisation and depreciation, accrual method of accounting, etc.

- If it is attributable to certain intangible assets: by recognising it explicitly in the consolidated balance sheet provided that the fair value at the date of acquisition can be measured reliably.

- The remaining amount is recognised as goodwill, which is allocated to one or more specific cash-generating units.

- Goodwill acquired from 1 January 2004 onwards is carried at the consideration delivered while goodwill prior to that date is continued to be recognised at its carrying amount. In both cases, at least at the end of each reporting period (or earlier if there is any indication of impairment), goodwill is tested for impairment (i.e. a reduction in its recoverable amount to below its carrying amount) and, if there is any impairment, the goodwill is written down with a charge to “Impairment Losses on Property, Plant and Equipment, Intangible Assets and Goodwill” in the consolidated income statement, since IFRS 3 does not permit the amortisation of goodwill. An impairment loss recognised for goodwill may not be reversed in a subsequent period (see Note 5-d).

- On disposal of a subsidiary, the attributable amount of goodwill is included in the calculation of the gain or loss on disposal.

***b) Intangible assets***

Intangible assets are initially recognised at acquisition cost (separately or through a business combination) or production cost and are subsequently measured at cost less any accumulated amortisation and any accumulated impairment losses.

They can have indefinite useful lives when, based on analysis of all the relevant factors, it is concluded that there is no foreseeable limit to the period over which the asset is expected to generate net cash flows for the consolidated companies - or a finite useful life in all other cases.

Intangible assets with indefinite useful lives are not amortised, but rather at the end of each reporting period the consolidated companies review the remaining useful lives of the assets in order to ensure that they are still indefinite or to take the appropriate steps where they are not.

Intangible assets with finite useful lives are amortised over the useful life, using methods similar to those used to depreciate property, plant and equipment. The amortisation rates, which were determined on the basis of the average years of estimated useful life of the assets, are basically as follows:

| | Annual rate |
|---|---|
| Intellectual property | 6%-10% |
| Computer applications | 18%-33% |

The consolidated companies recognise any impairment loss on the carrying amount of these assets with a charge to “Impairment Losses on Property, Plant and Equipment, Intangible Assets and Goodwill" in the consolidated income statement. Impairment losses are recognised and reversed from prior years, where applicable, using methods similar to the ones used for property, plant and equipment (see Note 5-d).

*Development costs-*

*a) In-house development*

Expenditure on research activities is recognised as an expense in the year in which it is incurred.

The expenditure incurred internally as a result of the development of new drugs by the Group is only capitalised when all the following conditions are met or can be demonstrated:

I. It is technically possible to complete production of the medication so that it can be made available for use or for sale.

II. There is an intention to finish developing the drugs in question for use or for sale.

III. The Group has the capacity to use or sell the drug.

IV. The asset will generate future economic benefits. There is evidence that there is a market for the medication which will generate development or a market for its development. There is also evidence that its development will be useful to the Group in the event that it is going to be used in house.

V. Adequate technical, financial and other resources are available to complete development and use or sell the medication resulting from the development in progress.

VI. The ability to measure reliably the payment attributable to the aforementioned development up until its completion.

Developing new medicines is highly uncertain due to the lengthy maturity period (which is usually several years) and the technical results obtained during the different trial phases of development. Development may be abandoned at one of the various stages either because the product has failed to meet medical or regulatory standards or it does not meet the required profit level. Therefore, the Group considers that there is no longer uncertainty when the developed product has been approved by the competent authorities in a reference market. From then on the Group can consider that the conditions for capitalising development expenditure have been achieved.

The Group also capitalises development expenditure incurred on supplementary studies (or related to molecule combination) for a specific purpose already approved for sale by the corresponding regulatory body which have not yet been approved as a supplementary study or combination.

The development costs with a finite useful life that are gradually capitalised to assets are amortised from the regulatory approval of the product on a straight-line basis over the period in which benefits are expected to be obtained.

No significant capitalisation of internal development costs has been made in 2016 and 2015.

*b) Separate acquisition*

A research and development project in progress acquired separately or through a business combination is always capitalised in accordance with Paragraph 25 of IAS 38 since the price paid for the acquisition reflects the probability of expected future economic benefits of the asset flowing to the Group, i.e. the price paid reflects the probability of the aforementioned project's success. When the Group acquires intangible assets with contingent payments subject to future events, it records them in line with the aggregate cost method and it recognises them in assets as the costs of the associated intangible are incurred.

The development costs acquired with a finite useful life are amortised from the time of the product's regulatory approval (i.e. when the intellectual property rights are transferred) on a straight-line basis over the period in which benefits are expected to be obtained.

Development costs (internal and acquired) previously recognised as an expense are not recognised as an asset in a subsequent period.

*Intellectual property-*

Patents, trademarks and product production, sale and/or distribution licences are initially recognised at the cost of purchase (separate or through a business combination) and are amortised over the estimated useful lives of the related products (on a straight-line basis) up to a limit of the duration of the licensing agreements entered into with third parties. These periods do not usually exceed ten years.

The expenses incurred in development of intellectual property that is not economically feasible are recognised in full in the income statement for the year in which these circumstances become known.

*Computer software-*

The Group records the acquisition and development of computer programs in this account. Maintenance costs for computer programs are recognised with a charge to the consolidated income statement for the year in which they are incurred.

Computer software may be contained in a tangible asset or have physical substance and, therefore, incorporate both tangible and intangible elements. These assets will be recognised as property, plant and equipment if they constitute an integral part of the related tangible asset, which cannot operate without that specific software.

Computer software is amortised on a straight-line basis over a period of between three to six years from the entry into service of each software application.

### c) *Property, plant and equipment*

Property, plant and equipment are measured at cost (calculated on the basis of a separate acquisition or through a business combination), and are revalued in the case of Spanish companies pursuant to sundry legislation including Royal Decree-Law 7/1996, of 7 June.

Replacements or renewals of complete items that lead to a lengthening of the useful lives of the assets or to an increase in their economic capacity are recognised as additions to property, plant and equipment. The items replaced or renewed are derecognised from the accounting records.

Based on the accrual method of accounting, the periodic maintenance, upkeep and repair costs are expensed currently.

Property, plant and equipment in the course of construction are transferred to property, plant and equipment in use at the end of the related development period.

The annual depreciation charge is recognised in the consolidated income statement and is basically based on the depreciation rates calculated over the years of estimated useful life. The land on which the buildings and other structures stand is considered to have an indefinite useful life and, therefore, it is not depreciated. The detail of the average useful lives of the various items is as follows:

| | Useful life (years) |
|---|---|
| Buildings | 33-50 |
| Plant and machinery | 8-12 |
| Other fixtures and tools | 3-12 |
| Furniture and laboratory equipment | 6-10 |
| Data processing equipment | 4-6 |
| Vehicles | 5-6.25 |

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

### *d) Impairment of property, plant and equipment, intangible assets and goodwill*

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets might have suffered an impairment loss. If there is an indication of impairment, the recoverable amount of the asset is calculated in order to determine the extent of the impairment loss (if any). Where the asset itself does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Any intangible assets that have not been amortised are tested for impairment at least at the end of each year and prior to year end if there are indications of impairment.

The recoverable amount is determined as the higher of fair value less cost of sale and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which estimates of future cash flows have not been adjusted. As indicated below, the Group assessed the discount rate and considered that it was reasonable.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in the consolidated income statement.

Where an impairment loss subsequently reverses (not permitted for goodwill), the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. Reversal of an impairment loss is recognised in the consolidated income statement immediately up to the above permitted limit.

Note 5-a states when goodwill is tested for impairment. The test is composed of three steps: Firstly, the recoverable amount of the goodwill specifically allocated to cash-generating units is assessed (wherever possible). Secondly, the loss attributable to the assets included in the cash-generating unit is assessed and any impairment thereon is recognised in accordance with the above. Thirdly the recoverable amount of unallocated goodwill is assessed, including all the associated cash-generating units. An impairment loss recognised for goodwill must not be reversed in a subsequent period (see Note 5-a).

The methodology used by the Almirall Group to test for impairment of Development Expenses (Note 9) not subject to depreciation/amortisation given that the relevant medication has not begun to be sold and for those intangible assets regarding which indications of impairment have been observed, is based on detailed financial projections for a period of five years, by estimating continual income for subsequent years on the basis of a growth rate according to the type and age of the products.

The financial projections for each cash-generating unit or asset consist of an estimation of the net cash flows after taxes, calculated on the basis of an estimation of gross sales and margins and other costs projected for the cash-generating unit. The projections are based on reasonable and supported assumptions.

The main assumptions used in the impairment tests in the years ended 31 December 2016 and 2015 were as follows:

| Cash-Generating Unit or Asset | Accounting assets at 31 December 2016 *(thousands of euros)* | Hypothesis 2016 (*) | Hypothesis 2015 (*) |
|---|---|---|---|
| Aqua Pharmaceuticals, LLC | Goodwill: 87,234<br>Intangible asset: 258,533 | d.r.: 8%<br>g.r.c.i.: 0% | d.r.: 8%<br>g.r.c.i.: 2% |
| Almirall Hermal GmbH | Goodwill: 227,743<br>Intangible asset: 22,384 | d.r.: 8%<br>g.r.c.i.: (2%) | d.r.: 8%<br>g.r.c.i.: (2%) |
| Poli Group Pipeline<br>Segment sold by third parties | Goodwill: -<br>Intangible asset: 65,200 | d.r.: 9%<br>g.r.c.i.: (3%) | -<br>- |
| Poli Group Pipeline<br>Internal network segment | Goodwill: -<br>Intangible asset: 15,000 | d.r.: 9%<br>g.r.c.i.: (3%) | -<br>- |
| Poli Group Marketed<br>Segment sold by third parties | Goodwill: 45,416<br>Intangible asset: 310,214 | d.r.: 8%<br>g.r.c.i.: (2%) | -<br>- |
| Poli Group Marketed<br>Internal network segment | Goodwill: 7,400<br>Intangible asset: 18,984 | d.r.: 8%<br>g.r.c.i.: (2%) | -<br>- |
| ThermiGen | Goodwill: 29,565<br>Intangible asset: 59,633 | d.r.: 8%<br>g.r.c.i.: (2%) | -<br>- |
| Other licences | Intangible asset: 28,341 | d.r.: 9,5%<br>g.r.c.i.: (5%)-(10%) | d.r.: 10,5%<br>g.r.c.i.: (5%)-(10%) |

(*) Discount rate after taxes (d.r.) and Growth rate for continual income (g.r.c.i.).

Gross average margins for these projected cash-generating units range between 55% and 94%.

Management calculates the budgeted gross margin based on past performance and how they expect the market will perform.

The key variables in the impairment tests carried out by the Group relate mainly to the sales of each different medication, which are almost all currently at the marketing stage, and the discount rates applied. Using these variables (discount rate and cash flows) either before or after taxes does not represent a significant change to the results of the analysis carried out.

These variables are based on historical experience weighted by outside information available. Changes in assumptions are based on the evidence obtained by the Group in accordance with the indicators applied.

### e) Leases

Leases in which the Group acts as the lessee are classified as operating leases when they meet the conditions of IAS 17, i.e. when the ownership of the leased asset and substantially all the risks and rewards relating to the leased asset are attributable to the lessor.

Operating lease payments are charged to the income statement on a straight- line basis over the lease period.

Leases of property, plant and equipment where the lessee retains substantially all the risks and rewards of ownership are classed as finance leases. Finance leases are capitalised at inception of the lease at the lower of fair value of the leased asset and the present value of the minimum lease payments.

Each lease payment is distributed between the liability and the financial charge. The corresponding lease obligations are included under the long-term payables net of finance charges. The interest part of the financial charge is charged to the consolidated income statement over the term of the lease in order to obtain a consistent regular rate of interest on the debt repayable in each period. Property, plant and equipment acquired under finance leases are depreciated over the lower of their useful lives and the lease period.

The Group does not have any finance leases at 31 December 2016 and 2015.

### f) Non-current assets classified as held for sale

Non-current assets classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell.

Non-current assets are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset is available for immediate sale in its present condition.

At 31 December 2016 and 31 December 2015, the Group did not have any non-current assets held for sale for significant amounts.

### g) Inventories

Inventories are stated at the lower of acquisition or production cost and net realisable value. Production cost comprises direct materials and, where applicable, direct labour costs and production overheads, including the costs that have been incurred in bringing the inventories to their present location and condition at the point of sale.

Trade discounts, rebates and other similar items are deducted in determining the acquisition cost.

Cost is calculated using the weighted average cost method. The net realisable value is an estimate of the selling price less all estimated costs to completion and the costs incurred in the marketing, sales and distribution processes.

The Group assesses the net realisable value of the inventories at the end of each period and recognises the appropriate loss if the inventories are overstated. When the circumstances that previously caused the decline in value no longer exist or when there is clear evidence of an increase in net realisable value due to a change in economic circumstances, the valuation adjustment is reversed.

### h) *Receivables from sales and services*

Trade receivable balances are initially recognised at fair value and subsequently measured at amortised cost. At the end of each reporting period the recoverable amount of trade receivables is calculated and the carrying amount is reduced, where necessary, by the required adjustments to cover the balances which are in situations that are classified as doubtful debts.

### i) *Cash and cash equivalents*

Cash deposited in the Group, demand deposits in financial institutions and financial investments converted into cash (short-term highly liquid investments), with a maturity of no more than three months from the date of acquisition, which do not have any significant risk of change in value and which form part of the Group's normal cash management policy Is classified as cash and cash equivalents.

For the purposes of the statement of cash flows "Cash and Cash Equivalents" is considered to be the Company's cash and short-term bank deposits that can be liquidated immediately at the Group's discretion without incurring any penalty. They are recognised under "Current Financial Assets" in the accompanying consolidated balance sheet. The carrying amount of these assets is close to their fair value.

### j) *Financial instruments (excluding derivative financial instruments)*

Financial assets and liabilities are recognised in the Group's consolidated balance sheet when the Group becomes a party to the contractual provisions of the financial instrument.

In the years ended 31 December 2016 and 2015, the measurement bases applied by the Group to its financial instruments were as follows:

*Financial assets-*

Financial assets are initially recognised at the fair value of the consideration given plus any directly attributable transaction costs, except in the case of financial assets at fair value through profit or loss.

The financial assets held by the Group companies are classified as:

- Loans and receivables generated by the Group: financial assets generated by Group companies in exchange for cash, goods or services received directly from a debtor. They are subsequently measured at amortised cost using the effective interest method.

- Financial assets held to maturity: asset collections for a fixed or determinable amount which have a fixed date of maturity. The Group expresses its intention and capacity to keep these assets in its possession from the time they are purchased through to maturity. They are subsequently measured at amortised cost using the effective interest method.

- Financial assets at fair value through profit or loss: financial assets whose returns are managed and evaluated in accordance with fair value criteria. They are initially recognised as such based on the specific characteristics of the asset (see Note 6).

- Financial assets held for trading: acquired by the Group to generate a short-term benefit from fluctuations in their prices or from differences between their purchase and sale prices. The Group does not have this type of asset at 31 December 2016 and 2015.

- Available-for-sale financial assets: these include securities not held for trading purposes that are not classified as held-to-maturity investments and equity instruments issued by entities other than the subsidiaries, associates and jointly controlled entities.

Held-for-trading financial assets and available-for-sale financial assets are carried at fair value on subsequent measurement dates. In the case of held-for-trading financial assets, gains and losses from changes in the fair value are recognised in profit or loss for the year. In the case of available-for-sale financial assets, the gains and losses from changes in fair value are recognised directly in equity until the asset is disposed of or it is determined that it has become impaired, at which time the cumulative gains or losses previously recognised in equity are recognised in net profit or loss for the year. For non-monetary financial assets classified as available for sale (e.g., equity instruments), gains and losses recognised directly in equity include any component related to exchange rate shifts.

The effective interest rate is the discount rate that exactly matches the carrying amount of a financial instrument to all its estimated cash flows for every item over its residual life. For fixed-rate financial instruments, the effective rate of interest is the contractual interest rate at the date of acquisition plus any fees that, because of their nature, may be likened to an interest rate. In the case of floating-rate financial instruments, the effective interest rate is the rate of return prevailing for all items until the date of first review of the reference interest rate.

The Group companies state deposits and guarantees at acquisition cost and/or at the amounts paid.

Holdings representing the capital of unlisted companies whose market values cannot be measured reliably are recognised at acquisition cost less any corresponding accumulated impairment losses. Similarly, the Group companies and associates not included in the scope of consolidation because they are dormant and/or immaterial are carried at acquisition cost less any accumulated impairment losses.

Impairment losses (i.e. cost higher than market or fair value at year end) are recognised under “valuation adjustments” in Financial Assets (see Note 11).

*Financial liabilities-*

Trade payables are payment obligations for goods or services that have been acquired from suppliers during the ordinary course of business. Current liabilities mature within twelve months or less. Any payables maturing beyond this date are classed as non-current liabilities.

The trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

Financial liabilities are recognised initially at fair value less any transaction costs incurred. Financial liabilities are subsequently measured at amortised cost. Any gain (loss) between the funds obtained (net of the costs required to obtain them) and the repayment amount is recognised in the consolidated income statement over the term of the liability using the effective interest method.

Fees paid for credit lines are recognised as transaction costs of the liability provided that it is probable that the credit line will be drawn down in part on in full. Otherwise, the fees are deferred until funds are drawn down. Fees are capitalised as an advance for liquidity services and are amortised over the period of the credit availability to the extent that it is not probable that the credit line will not be drawn down in full or in part.

The loans with subsidised or zero interest rates are forms of government aid. These loans are recognised at the fair value of the financing received and the differences arising between the fair value and the nominal value of the financing received are treated as a grant.

*Classification of financial assets and liabilities as current or non-current-*

In the accompanying consolidated balance sheets, financial assets and liabilities maturing within no more than twelve months of the consolidated balance sheet date are classified as current, while those maturing after more than twelve months are classified as non-current.

*Impairment losses*

*(a) Assets at amortised cost / Assets held to maturity*

At each balance sheet date, the Group assesses whether there is objective evidence of impairment losses with respect to a financial asset or group of financial assets. A financial asset or a group of financial assets is impaired and impairment losses are incurred if and only if there is objective evidence of impairment as a result of one or more events occurring after the initial recognition of the asset (a ‘loss event’) and that loss event (or events) has /have an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Evidence of impairment losses can include indications that debtors or a group of debtors is experiencing major financial difficulties, defaults or delays in the payment of interest or the principal, the probability that they will be involved in bankruptcy proceedings or any other financial restructuring and when observable data point to the existence of a measurable fall in future estimated cash flows, such as changes in payment terms or business terms which match defaults.

For loans and receivables and assets held for sale, the loss is measured as the difference between the carrying amount of the asset and the present value of the estimated future cash flows (not taking into consideration any future impairment losses that have not been incurred), discounted at the original effective interest rate of the financial asset.

If, subsequently, an impairment loss diminishes, and this reduction can be objectively attributed to an event occurring after the impairment loss was recognised (such as an improvement in the debtor’s credit quality), the previously recognised impairment is recognised in the consolidated income statement.

*(b) Available for sale assets*

At the end of each period, the Group assesses whether there is any objective evidence of impairment of a financial asset or group of financial assets. In the case of investments in equity instruments classified as available for sale, a significant or prolonged decline in the fair value of the instrument to below its cost is considered evidence that the asset has become impaired. If there this type of evidence exists for available-for-sale financial assets, the cumulative loss, determined as the difference between acquisition cost and current fair value, less any impairment losses previously recognised in the income statement on the financial asset, is eliminated from equity and recognised in the income statement. Impairment losses recognised in the consolidated income statement on equity instruments are not reversed in the future.

***k) Derivative financial instruments and hedge accounting***

The Group's activities expose it mainly to foreign currency risk on the marketing of products through franchisees and subsidiaries in countries with a currency other than the Euro, and interest rate risk on the borrowings arranged by the Parent company.

The Group initially documents the relationship between the hedging instruments and hedged items and its risk management objectives and strategy for arranging various hedging transactions. The Group also documents their initial and subsequent assessments as to whether the derivatives used in the hedges are highly effective for offsetting the changes in the fair value or cash flows of the hedged items.

The total fair value of a hedging derivative is classified as a non-current asset or liability if the time remaining to maturity of the hedged item is more than 12 months and as a current asset or liability if the time remaining to maturity of the hedged item is less than 12 months. Derivatives that do not qualify for hedge accounting are classified as current assets or liabilities.

The Group opted to designate these instruments wherever possible (i.e. if they comply with the requirements of IAS 39) as hedging instruments in hedging relationships. In accordance with IAS 39 financial derivatives qualify for hedge accounting when they necessarily hedge one of the following three types of exposure:

- Variations in the value of assets and liabilities due to shifts in prices, interest rates and/or exchange rates to which the position or balance to be hedged is subject ("fair value hedges").

- Fluctuations in estimated cash flows arising on financial assets and liabilities, obligations and transactions forecast and highly probable that an entity is planning to carry out ("cash flow hedges").

- The net investment in a foreign operation ("hedge of a net investment in a foreign operation").

Similarly, it has to efficiently eliminate the risk inherent in the asset or position hedged during the entire forecast hedging period and it has to be adequately documented that the financial derivative was arranged specifically to hedge certain balances or transactions and the manner in which such efficient hedging is to be achieved and measured.

Under IAS 39, a financial instrument must be recognised as an asset or as a liability at fair value and changes in fair value must be recognised in the consolidated income statement for the year, unless, opting for hedge accounting, the effective portion of the hedging relationship has to be recognised in equity (cash flow hedges and hedges of a net investment in a foreign subsidiary).

Hedging instruments cease to qualify for hedge accounting when they fall due or are sold, end or are exercised or cease to meet the relevant criteria. Any accumulated gain or loss on the hedging instrument which has been reflected in equity continues to be reflected in equity until the forecast transaction takes place. When the transaction hedged is not expected to take place, any accumulated net gains or losses recognised in equity are transferred to net profit or loss for the year.

At the end of 2016 and 2015 there are no derivative financial instruments.

### *l) Provisions and contingencies*

When preparing the consolidated annual accounts, the directors made a distinction between:

- Provisions: credit balances covering present obligations at the balance sheet date arising from past events which could give rise to an outflow of economic resources, which is certain as to its nature but uncertain as to its amount and/or timing; and

- Contingent liabilities: possible obligations resulting from past events, the future materialisation of which is contingent upon the occurrence or otherwise of one or more events out of the consolidated companies' control.

The Group's consolidated annual accounts include all the material provisions with respect to which it is considered that it is more likely than not that the obligation will have to be settled. Since the contingent liabilities did not arise from a business combination, they are not recognised, but rather detailed in Note 25.

Provisions, which are quantified on the basis of the best information available on the consequences of the event giving rise to them and are reviewed and adjusted at the end of each year, are used to cater for the specific and probable risks for which they were originally recognised. Provisions are fully or partially reversed when these risks cease to exist or are reduced.

*Litigation and/or claims in process-*

The Group's business activities are carried on in a highly regulated industry (healthcare legislation, intellectual property, etc.) and, therefore, its business is at risk of potential lawsuits.

The claims and lawsuits to which the Group is subject are, in general, complex and, therefore, they are subject to a high degree of uncertainty, both in relation to an outcome detrimental to the Group's interests and to the estimated future disbursements that the Group might have to make. Consequently, it is necessary to use judgements and estimates, with the assistance of the relevant legal advisers.

At the end of 2016 and 2015, a number of legal proceedings and claims had been initiated against the Group in the ordinary course of its business. The Company's legal advisers and directors consider that the provisions recognised are sufficient and that the outcome of litigation and claims will not have a material effect on the consolidated annual accounts for the years in which they are settled.

*Provisions for product returns-*

The provisions for product returns are recognised at the selling date of the related products to cover losses for returns that will be made in the future, at the directors' best estimate of the expenditure required to settle the Group's liability. This estimate is made on the basis of the Group's historical experience of product returns in previous years.

Since a very significant portion of these returns will be made within more than twelve months, they are classified as non-current items.

*Provision for restructuring-*

The Group recognises the restructuring costs when they have detailed plans to begin restructuring which extend to the following at least: the business activities involved, the main locations affected, the functions and approximate number of the employees who will receive an indemnity following the discontinuance of their services, the payments to be carried out, the possible dates on which the detailed plans will be implemented and a valid expectation has been created among those affected, either because the plans have been started up or they have been informed of their main characteristics.

### *m) Cost of retirement benefits (or post-employment benefits)*

The Group companies Almirall Hermal, GmbH, Almirall AG and Polichem, S.A. (in the group since 2016) have retirement benefit obligations (or post-employment benefit obligations). The obligations of Almirall AG and Polichem, S.A. are not material with respect to the Group's consolidated annual accounts. The obligations assumed by Almirall Hermal GmbH are funded by two defined benefit plans, a defined contribution plan with employer contributions and two defined contribution plans with employee contributions.

A defined contribution plan is a pension plan under which the Group pays fixed contributions into a fund. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. A defined benefit plan is a pension plan that does not fulfil the definition of a defined contribution plan. Defined benefit plans generally lay down the amount of the benefit that will be received by an employee on retirement, normally on the basis of one or more factors such as age, years of service or remuneration.

The contingencies funded by the defined benefit plans are retirement and similar (death of spouse and death of parent), active life risks, death and disability for the employees hired prior to 30 June 2002 and consist of a pension calculated basically on the basis of the pensionable pay. The obligation assumed is covered by in-house provisions and there are no plan assets (see Note 19).

The liability recognised in the balance sheet in connection with defined benefit pension plans is the present value of the defined benefit obligations at the reporting date. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting estimated future cash outflows at interest rates on high quality Government bonds denominated in the same currency in which the benefits will be paid and having similar maturities to those of the respective obligations. In those countries where there is no developed market for such bonds, the market rates on government bonds are used.

The amount of the obligations assumed was calculated as follows:

− Calculation method: the actuarial valuations were calculated using the Projected Unit Credit method. Pension liabilities are measured on the basis of the present value of the benefits to which the employees are entitled, bearing in mind the employees' years of service and the time remaining until retirement.

− Actuarial assumptions. In 2016 and 2015 the main assumptions used in the actuarial valuation of the aforementioned obligations were as follows:

| 2016 | Almirall Hermal, GmbH | Almirall, AG | Polichem, S.A. |
|---|---|---|---|
| Mortality tables | Heubeck 2005G | BVG 2015 GT | BVG 2015 GT |
| Discount rate | 1.80% | 0.65% | 0.70% |
| Salary increase rate | 2.25% | 1.75% | 1.50% |
| Benefit increase rate | 1.75% | 0.00% | 0.00% |
| Turnover rate | 3.00% | 9.91% | - |
| Retirement age | 62 - 63 | 64 - 65 | 64 - 65 |

| 2015 | Almirall Hermal, GmbH | Almirall, AG |
|---|---|---|
| Mortality tables | Heubeck 2005G | BVG 2010 GT |
| Discount rate | 2.56% | 0.85% |
| Salary increase rate | 2.25% | 1.75% |
| Benefit increase rate | 1.75% | 0.00% |
| Turnover rate | 3.00% | 9.96% |
| Retirement age | 62 - 63 | 64 - 65 |

Actuarial gains and losses that arise from adjustments applied due to experience and changes in the actuarial assumptions used are charged and credited to equity in other comprehensive income in the period in which they arise.

Past service costs result from the changes to the benefits offered under a defined benefit plan. This may entail an improvement or curtailment of the benefits covered by the plan.

IAS 19 requires past service costs to be recognised directly in the consolidated income statement for the year in which the plan is amended. The entity recognises an expense when the change entails an improvement in the benefits (positive past service cost) and income when benefits are reduced (negative past service cost).

The effect of new benefits included in a defined benefit plan has an immediate impact on the income statement. Benefit costs which have not yet accrued in the vesting period cannot be deferred.

The discount rates used in the calculation are determined based on actuarial advisory services in accordance with the statistics published and experience in each territory.

Defined contribution plans cover similar contingencies to those under the defined benefit plans described above for all employees. Contributions are made to non-related entities such as insurance companies and the amount recognised as an expense in this respect in 2016 and 2015 totals EUR 2.0 million and EUR 2.3 million, respectively.

The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit costs when they vest.

### *n) Termination benefit costs*

Termination benefits are payable when the Group decides to terminate an employment contract before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises these benefits when it has demonstrably undertaken to terminate current employees' employment in accordance with a formal detailed plan that cannot be withdrawn. When a redundancy offer is made to employees, the termination benefits are measured on the basis of the number of employees that are expected to take the offer up. Benefits not falling due within 12 months of the balance sheet date are discounted to present value.

### *o) Government grants*

Government grants to cover current costs are recognised as income once all the conditions attaching to them have been fulfilled over the periods necessary to match them with the related costs and are deducted in reporting the related expense.

Government grants related to property, plant and equipment are treated as deferred income and are recognised in profit or loss over the expected useful lives of the assets concerned.

### *p) Recognition of income and expense*

Income and expenses are recorded on an accruals basis, i.e. in the period in which the income or expense deriving from the goods or services in question is earned or incurred rather than the period in which the monetary or financial flow is actually received or disbursed.

Revenues are carried at the fair value of the consideration received or receivable and represent the amounts receivable on the assets sold, net of discounts, returns and VAT. Revenues are recognised when they can be reliably measured; it is probable that the company will receive future economic benefits and when certain conditions are met for each of the Group's activities described below. The Group bases its estimates for estimating the provision for returns on historical results, taking into account the type of customer, the type of transaction and the specific circumstances of each agreement.

However, in accordance with the accounting principles established in the IFRS Conceptual Framework, the Group recognises accrued income and all the necessary associated expenses. Sales of goods are recognised when the assets are delivered and title thereto has been transferred.

Interest income is accrued on a time proportion basis, by reference to the principal outstanding and the effective interest method applicable, which is the rate that exactly discounts estimated future cash flows over the expected life of the financial asset from that asset's carrying amount.

Dividend income from non-consolidated investments is recognised when the shareholder's rights to receive payment have been established, i.e. when the shareholders at the Annual General Meetings of the investees approve the distribution of the related dividend.

*Recognition of licensing, joint development, joint promotion and other similar transactions-*

The Group companies recognise the revenue received for the assignment of product licences, joint development, joint promotion and other similar transactions on the basis of the economic substance of the related agreements (See also Note 6-a). These agreements generally include multiple items and the revenue associated therewith must match the costs and the consideration to be paid by the Group. When assessing the accounting treatment for these transactions, the Group's directors consider the following matters:

- The economic substance of the transaction.
- The nature of the items subject of the transaction (disbursements, asset swaps, etc.).
- Measurement and allocation on the basis of the fair value of each of the items relating to the consideration.
- Transfer of the significant risks and rewards arising from ownership of the goods and assumption of future obligations.

As a general rule, if the consideration received is non-refundable, relates to compensation for costs incurred prior to the execution of the agreement or there are no significant future obligations assumed by the Group under non-market conditions and substantially all the risks and rewards of ownership of the asset are transferred, the transaction is considered to be revenue for the year in which the agreement was executed. If these circumstances do not arise, the collection is recognised as deferred income within the period over which the obligations established remain effective or the remaining useful life of the product or the applicable period based on the circumstances of the particular agreement established.

The consideration tied to the fulfilment of certain technical or regulatory requirements (milestones) under the framework of cooperation agreements with third parties, are recognised as revenue in accordance with the same rules as those detailed in the method for revenue recognition in the case of the initial consideration described above.

The aforementioned consideration is recognised when it is allocated to profit or loss under "Other Income" in the accompanying consolidated income statement.

***q) Corporate income tax and deferred tax assets and liabilities***

The Spanish income tax expense and similar taxes applicable to the consolidated foreign operations are recognised in the consolidated income statement unless they arise from a transaction whose results are recognised directly in equity, in which case the related tax is also recognised in equity.

Almirall, S.A. files consolidated tax returns as provided for in Title VII, Chapter VII of Legislative Royal Decree 4/2004 of 5 March, approving the Corporate Income Tax Law. The companies composing the tax group for 2016 and 2015 are: Almirall, S.A., Laboratorios Almofarma, S.L., Laboratorio Temis Farma, S.L., Laboratorios Berenguer-Infale, S.L., Industrias Farmacéuticas Almirall, S.A., Laboratorio Omega Farmacéutica, S.L., Laboratorios Tecnobío, S.A., Laboratorios Miralfarma, S.L., Alprofarma, S.L., Pantofarma, S.L., Laboratorios Farmacéuticos Romofarm, S.L., Ranke Química, S.L. and Almirall Europa, S.A. and Almirall, S.A. which is the head of the tax group. Consequently, the consolidated income tax expense includes the benefits arising from the application of tax loss and tax credit carryforwards that would not have been recognised had the companies that make up the aforementioned tax group filed individual tax returns.

The income tax expense represents the sum of the current tax expense and the changes in recognised deferred tax assets and liabilities.

The current income tax expense is calculated on the basis of taxable profit for the year. The taxable profit differs from the net profit shown in the consolidated income statement because it excludes income or expenses that are taxable or deductible in other years and also excludes items that will never become taxable or deductible. The Group's current tax liability (or if the case, asset) is calculated using tax rates that have been approved or almost approved by the date of the consolidated balance sheet. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred tax assets and liabilities are recognised using the liability method for temporary differences measured at the amount expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities and their tax bases, and tax loss and tax credit carryforwards. These amounts are measured at the tax rates that are expected to apply in the period when the asset is realised or the liability is settled. However, deferred taxes are not recognised if they arise from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction does not affect accounting profit (accounting loss) or taxable profit (tax loss).

Deferred tax assets for temporary differences and other deferred tax assets (tax loss carryforwards and tax credit carryforwards) are only recognised to the extent that it is considered probable that the consolidated companies will have sufficient taxable profits in the future against which the deferred tax asset can be utilised. At each accounting close, deferred tax assets and liabilities are analysed to ensure that they remain valid. Any necessary adjustments arising out of the analyses are made accordingly.

### r) Discontinued operations

A discontinued operation is a line of business or geographical area that is material and may be considered separate from the rest of the Group, and which has been disposed of or classified as held for sale. Its activities and cash flows can be clearly differentiated from the rest of the Group for operating and financial reporting purposes. The income and expenses of the discontinued operations and the non-current assets (or disposable group) held for sale are presented separately in the consolidated balance sheet and consolidated income statement.

Accordingly, the Group only presents information on discontinued operations separately when they are material.

At 31 December 2016 and 2015 there are no non-current assets (or disposable group) which comply with the requirements to be considered as held for sale. In addition, during the financial years ending at these dates, no component of the Group has been interrupted or discontinued.

### s) Borrowing costs

General and specific borrowing costs which are directly attributable to the acquisition, construction or production of qualifying assets, which are those assets that necessarily require a substantial period of time before they are ready for forecast use or sale, are added to the cost of such assets until the assets are substantially ready for their intended use or sale.

Financial income obtained on the short-term investment of specific loans is deducted from eligible borrowing costs for capitalisation until it is used by the qualifying assets.

Other borrowing costs are expensed currently in the income statement.

### t) *Foreign currency transactions*

The Group's presentation currency is the Euro. All balances and transactions denominated in currencies other than the Euro are therefore foreign currency balances and transactions.

Balances in foreign currencies are translated to euros in two consecutive stages:

1. Translation of foreign currencies to the subsidiaries' functional currencies:

   Foreign currencies transactions performed by consolidated companies are initially recognised in their respective annual accounts at the equivalent value in their functional currencies based on the exchange rates prevailing at the date of the respective transactions. Subsequently, for the purpose of their presentation in the separate annual accounts, the consolidated companies translate the receivable or payable balances in foreign currencies to their functional currencies using the exchange rates prevailing at the balance sheet date. Any exchange differences are charged and/or credited to their income statements.

2. Translation to euros of balances held in the functional currencies of the subsidiaries whose functional currency is not the Euro.

   The balances in the annual accounts of consolidated companies whose functional currency is not the Euro are translated to Euro as follows:

   - Assets and liabilities are translated at the exchange rates prevailing at the reporting date.

   - Income, expenses and cash flows are translated at the average exchange rates for the year.

   - Equity items are translated at the historical exchange rates.

Adjustments to goodwill and to the fair value arising on the acquisition of a foreign operation are considered to be assets and liabilities of the foreign operation and are translated at the year-end exchange rate. Differences arising in the translation process are included under “Equity - Translation Differences” in the statement of other comprehensive income. Such translation differences are recognised as income or expense in the period in which the investment is made or sold.

For consolidation purposes, translation differences arising from converting any net investment in foreign business or financial debts and other financial instruments designated as cover of these investments are recognised in another global result. When a foreign business is sold or any financial debt which forms part of the net investment is paid, the related translation differences are reclassified in the result of the financial year as part of the gain or loss from the sale.

### u) *Information on the environment*

Environmental assets are considered to be assets used on a continual basis in the transactions of the Almirall Group companies whose main purpose is to minimise the environmental effects and to protect and enhance the environment, including the reduction or elimination of any pollution caused by the Group’s operations in the future.

These assets, like any other tangible assets, are measured at acquisition or production cost revalued in accordance with the applicable legislation, including Royal Decree-Law 7/1996, of 7 June.

The companies depreciate these items on a straight-line basis over the remaining years of estimated useful life of these assets.

### v) *Earnings per share*

Basic earnings per share are calculated by dividing net profit or loss attributable to the Parent by the weighted average number of ordinary shares outstanding during the year, excluding the average number of treasury shares held during the year.

Diluted earnings per share are calculated by dividing the net profit for the year attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the year, adjusted by the weighted average number of ordinary shares that would have been issued if all the potential ordinary shares were to be converted into ordinary shares of the Parent company. Therefore, conversion is deemed to take place at the start of the period or when the potential ordinary shares are issued, where they have become outstanding during the period in question.

### w) *Consolidated statement of cash flows*

The following expressions are used with the following meaning in the consolidated statement of cash flows:

- Cash flows: inflows and outflows of cash and cash equivalents, understood as short-term highly liquid investments with a low risk of shifts in value.

- Operating activities: the company's ordinary activities and other activities that cannot be classified as investment or finance activity.

- Investment activities: acquisition, sale or disposal of long-term assets and other investments not included in cash and equivalents.

- Financing activities: activities that, not forming part of the operating activities, result in changes in the size and composition of equity and liabilities.

For the purpose of calculating the consolidated statement of cash flows, "Cash and Cash Equivalents" is considered to include the Group's cash and short-term bank deposits that can be liquidated immediately at the Group's discretion without a penalty being applied and are recognised under "Current financial investments" in the accompanying consolidated balance sheet. The carrying amount of these assets approximates their fair value.

### x) *Share-based payment systems for listed shares*

On 14 February 2008, the Board of Directors of the Parent company approved, for certain executives, a long-term variable remuneration plan tied to the Company's share price or Stock Equivalent Units Plan ("the SEUS Plan") which was approved by the shareholders at the Annual General Meeting on 9 May 2008.

Under the Plan, the Parent company undertakes to grant the executives long-term cash-settled variable remuneration tied to the price of the Parent company's shares, following the fulfilment of certain requirements and conditions. Note 27 provides a detail of the liability calculated in accordance with IFRS 2 at 31 December 2016 and 2015.

### y) *Share capital*

Ordinary shares are classified as equity. The incremental costs directly attributable to the issue of new shares or options are recognised in equity as a deduction in the income obtained, net of any tax.

When a Group entity acquires corporate shares (i.e. treasury shares), the consideration paid, including any directly attributable incremental cost (net of income tax), is deducted from the equity attributable to the aforementioned shareholders until they are settled, re-issued or disposed of. When these items are subsequently re-issued, all of the amounts received net of any directly attributable incremental cost of the transaction and the corresponding effects of any income tax are included in the equity attributable to the holders of these equity instruments and the Company.

## 6. Critical accounting judgements and estimates

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are considered reasonable under the circumstances.

### *a) Revenue recognition and fair value of outstanding revenue*

A portion of the revenue generated by the Group is obtained through the transfer of rights, the transfer to third parties of the use of product licences developed by Almirall Group and third-party access to products under development. The agreements upon which these licensing or access arrangements are based are usually of a complex nature and include concepts such as:

- Non-refundable initial amounts.

- Receipts on attainment of certain milestones (development, business, etc.),

- Royalties.

- Calculation of the future price of supplying the product in question to each of the parties.

A detailed analysis is required of each component of the agreements and of the agreements as a whole in order to accurately calculate how much of each item to recognise in profit or loss.

As a result of the operation with AstraZeneca UK Limited on 1 November 2014, Almirall, S.A. entered into an agreement with AstraZeneca UK Limited. Under the agreement it transferred the rights to part of its respiratory franchise, which included various components, receiving in exchange some cash payments and other deferred payments on complying with certain future milestones.

This operation has had the following effects in these consolidated annual accounts:

- Sale of Eklira (aclidinium) and Duaklir (aclidinium and formoterol combination): recorded in 2014 as a business sale (transfer of assets or rights, etc. together with the employees, which would form a business unit and not have any significant future commitments or obligations for Almirall). This operation was recognised at the fair value of the agreed considerations (the portion of the initial payment allocated plus the corresponding fair value of the potential future payments from milestones, sales and royalties), derecognising the existing assets from the consolidated balance sheet for the purpose of the business. The profit (loss) of the business was recognised under "Other Income" in the income statement for 2014.

  As a result of this operation, a financial asset was generated, valued at fair value at year end with changes to the results, and formed by the following components of future collection established in the sale agreement in relation to the future development of the sales activity of the Eklira business unit:

  - "Milestone events": events related to the first launches of certain countries.

  - "Sales-related payments": events related to reaching a certain level of sales.

  - "Potential payments": events related to the payment of royalties.

The fair value of this transaction was calculated by independent experts Ernst & Young. The fair value was calculated on the basis of discounted cash flows adjusted for the probable success of certain risks associated at different stages of the products. The discounted cash flow method estimates the future cash flows of the asset (translated from USD to euros at the exchange rate based on the range agreed in the agreement) and the cash flows during the estimated marketing period, taking into account the maturity of the patent, adjusted for estimated probability of success. These probablised cash flows are discounted at a rate which reflects the current returns required by the market and the specific risks of the asset.

Regarding the revaluation of this financial asset at 31 December 2016 using the method used by the independent expert in the initial valuation, the asset has been estimated at EUR 168.4 million, fully recorded as non-current (see Note 13). The change in value of this financial asset during 2016 (the value of the asset at 31 December 2015 totalled EUR 163.2 million) is due to the payment from the event expected for 2016 (totalling EUR 24.7 million), at the accrual of the discount rate used in the estimation, the difference in the euro/USD exchange rate and the re-estimation of projected flows and probabilities assigned to the different future events (EUR 29.9 million of change of fair value, recognised in “Other revenue” of the consolidated 2016 income statement).

The main assumptions and considerations used by the independent experts to value the financial asset at 31 December 2016 are as follows:

- Estimated period of cash flows: up to 2035.
- Discount rate: based on the country where the cash flows are obtained, giving an overall weighted average of approximately 11.5%.
- Probability of success allocated: it affects the valuations of the “milestones events” and “sales-related payments”.

For the purpose of sensitivity analyses of the independent expert's appraisal made at 31 December 2016, the following should be taken into account:

- If the discount rate used is reduced/increased by one percentage point, the effect would be an increase/reduction of the financial asset by EUR 6.0/ (5.6) million, respectively.

- If the estimation of sales revenue for 2019 to 2035 is reduced/increased by 5% every year, the effect would be a reduction/increase of the financial asset by EUR (6.9)/6.9 million, respectively.

- Sales of licences for development and the subsequent marketing: of the components in the sales agreements which transferred certain rights for development and subsequent marketing, in which there is significant ongoing involvement over the development period by Almirall, the initial payment assigned to this component (“upfront payment”) is recognised on a straight-line basis in the consolidated income statement over the expected development period (expected until 2021-2023, approximately) (see deferred income in Note 15), recognising, in addition, the income of future milestones in the development stage as they are achieved (which is the date from which they are expected to be collected). Once the product in question has been launched, an analysis is conducted of recognition of future royalties based on the date from which the amount thereof can be estimated reliably, taking into account the final level of future involvement of Almirall in their marketing processes.

***b) Measurement of intangible assets***

*Acquisition of developments in progress*

The Group obtained rights to market certain products at the development stage (see Note 9), which meet the criteria for capitalisation upon initial recognition under IFRS (see Note 5-b). These assets will be amortised on the basis of the respective useful lives of the related products from the date that they obtain regulatory approval. At the end of the reporting period, the Group assesses the recoverability of these assets through positive future cash flows based on the best estimates of the Group's technical and financial managers and, therefore, a discounted cash flow model that envisages a degree of uncertainty in the various possible scenarios must be taken into consideration. A change in the assumptions used to measure the estimated cash flows (changes in interest rates, regulatory amendments, final approval of forecast regulated prices competition from other products, etc.) could reduce the realisable value of the aforementioned assets (see Note 9).

***c) Provision for contingent liabilities (lawsuits, etc.)***

The business activities of the Group take place in a highly regulated industry (healthcare legislation, intellectual property, etc.), exposing it to potential lawsuits as a result.

The claims and lawsuits to which the Group is exposed are generally complex and, therefore, there is a high degree of uncertainty as to whether there will be an outcome that is detrimental to the Group's interests and to the estimated potential future disbursements that the Group might have to pay. Consequently, it is necessary to use judgements and estimates with the assistance of the relevant legal advisers.

At 31 December 2016 and 31 December 2015, certain litigations and claims arising from the ordinary course of their operations were ongoing against the consolidated companies. The Group's legal advisers and directors consider that the outcome of these litigation and claims will not have a material effect on the consolidated annual accounts for future years (see Note 25).

***d) Deferred tax assets***

In calculating its deferred tax assets whose recoverability is reasonably assured, the Group establishes a deadline for their compensation based on best estimates. In addition, on the basis of estimates of the taxable profit of each of the Group companies, the Group has determined the expected period over which the deferred tax assets will be realised, also taking into account the timing of deduction of the tax credit and tax loss carryforwards by the legally established deadlines (see Note 21).

***e) Impairment of goodwill***

The calculation of potential impairment losses on goodwill requires judgements and estimates to be made on the recoverable amount. These judgements and estimates relate mainly to the calculation of the cash flows associated with the relevant cash generating units and to certain assumptions in relation to the interest rates used to discount the cash flows (see Notes 5-d and 8). Other assumptions used to analyse the recoverable amount of goodwill could give rise to other considerations in the impairment of goodwill.

## 7. Business combinations

There were no business combinations in 2015. Agreements were made in 2015 for the purchase of some companies, which materialised after the year end, with the takeover occurring at the beginning of 2016. These purchases, which were effective in 2016, are summarised below:

*Acquisition of the Poli Group*

On 5 February 2016, the Group acquired the total shares of the holding company Poli Group Holding S.r.l. via the Parent company Almirall, S.A. after all of the statutory and antitrust requirements were met and having taken over the company at such date. On this date, Poli Group Holding S.r.l. owned the total shares of Taurus Pharma GmbH, Polichem S.A. and Polichem S.r.l. (hereinafter referred to as the Poli Group). The assets, liabilities, income and expenses of these companies have been consolidated by global integration from the date of the takeover.

As the acquisition was made on 5 February 2016, the value of the company's assets and liabilities is incorporated in the consolidated balance sheet with effect from 31 January 2016. The net result of this acquisition in the consolidated income statement of the year totals €9.9 million (after the corresponding consolidation adjustments).

Poli Group has a wide-ranging portfolio of its own well-established drugs, which are mainly for dermatology and are supplemented by a strong portfolio of gynaecological and respiratory products, the latter being promoted by distributors. The headquarters of the Parent company of this group is in Lugano (Switzerland).

The following table summarises the total consideration of the operation and the fair values of the acquired assets, assumed liabilities and the resulting goodwill:

**Consideration**

| | **Thousands of Euros** |
|---|---|
| Initial cash payment | 423,436 |
| Adjustment outstanding price | (1,651) |
| Fair value of the contingent consideration | 17,200 |
| **Total transferred consideration** | **438,975** |
| Fair value of the acquired net assets | 386,159 |
| **Resulting goodwill** | **52,816** |

The consideration of the operation consists of an initial cash payment totalling EUR 423.4 million made on 5 February 2016 together with a subsequent negative price adjustment of EUR 1.6 million, and the fair value of EUR 17.2 million at the date of the takeover corresponding to the contingent consideration payable in the future which may amount up to EUR 25 million, depending, mainly, on whether certain levels of the net sales figure of the acquired group for 2017 and 2018 are met. The method used to determine the fair value of the contingent consideration (calculated at EUR 17.2 million) has consisted of considering the possible scenarios of the payments to be made each year, weighted at the likelihood of occurrence assigned to each future milestone considered, all discounted at the same discount rate associated with the valuation of the whole business.

At 31 December 2016, the fair value of the contingent consideration has been reviewed based on the scenarios of the payments to be made and the likelihood that these milestones will occur, generating an expense of EUR 3.3 million recognised in "Gains/(Losses) for variation of the fair value of financial instruments". In addition, in 2016, the amount outstanding due to the price adjustment shown in the previous table has been collected.

The assets and liabilities arising from the acquisition of the Poli Group are as follows:

| | Acquired value (effect 31 January 2016) | | |
|---|---|---|---|
| *In thousands of euros* | Fair value | Amount in local books | Revaluation |
| Cash and cash equivalents | 47,303 | 47,303 | - |
| Property, plant and equipment (Note 10) | 5,000 | 5,000 | - |
| Intangible assets (Note 9) | 428,431 | - | 428,431 |
| Remaining working capital | 9,658 | 9,658 | - |
| Deferred tax assets/(liabilities) (Note 21) | (104,233) | 2,303 | (106,536) |
| **Total acquired identifiable net assets** | **386,159** | **64,264** | **321,895** |
| Total acquisition price paid in cash in 2016 (*) | 421,785 | | |
| Cash and cash equivalents | (47,303) | | |
| **Cash outflow in the acquisition in 2016** | **374,482** | | |

(*) Includes the price adjustment stated in the above table, which has been collected in 2016.

The costs related to the acquisition have totalled EUR 4,604 thousand, of which EUR 611 thousand have been charged to “Other operating expenses” in the consolidated income statement for the financial year ending 31 December 2016, whilst EUR 3,993 thousand were already recorded in the consolidated income statement of the financial year ending 31 December 2015.

The fair value at the acquisition date of the assets and liabilities of the acquired business has been calculated using, mainly, valuation methods which have been executed by an independent expert. The valuation methods used have consisted of analysing discounted cash flows which generate the identified assets of the Poli Group.

As a result of this valuation, intangible assets totalling EUR 428.4 million corresponding, mainly, to product technology and development expenses, have been identified. This technology, assigned to each product, is defined as a group of intangible assets which mainly include product formulation, value of the trademarks or brand names and marketing patents or licences, which are grouped according to how much they are regarded as being inter-linked, do not have any value themselves and are expected to have the same useful life. This product technology has an estimated value of EUR 348.2 million and an estimated useful life of between 14 and 18 years. The total development expenses (EUR 80.2 million) correspond to the pipeline of acquired products in progress until the associated products are put up for sale.

The goodwill, which is mainly generated as a balancing entry for the recognition of the deferred tax liability corresponding to the higher fair value allocated to the acquired net assets with respect to their tax values, is supported by the valuation of the whole acquired business.

If the Poli Group had been consolidated since 1 January 2016, the effect in the consolidated income statement would have been further amounts of pro-forma ordinary income totalling EUR 5.9 million and net profits totalling EUR 0.8 million (prior to consolidation adjustments).

At the date of preparation of these consolidated annual accounts, the price assigned to the acquisition of Poli Group is considered final.

*Acquisition of ThermiGen LLC*

On 9 February 2016, the Group acquired the total shares of ThermiGen LLC, which owns the total shares of ThermiGen Aesthetics LLC, ThermiEye LLC and ThermiVA LLC (ThermiGen) via the subsidiary Almirall Aesthetics Inc after complying with all of the terms and conditions of the operation and having taken over the company at such date. The assets, liabilities, income and expenses of these companies have been consolidated by global integration from the date of the takeover. As the acquisition was made on 9 February 2016, the value of the company’s assets and liabilities is incorporated in the consolidated balance sheet with effect from 31 January 2016. The net result of this in the consolidated income statement of the year totals EUR (8.2) thousand (after the corresponding consolidation adjustments).

ThermiGen is a private cosmetic medicine technology group, which leads in the development and production of energy systems regulated by thermistors for plastic surgery and cosmetic dermatological applications. The group's headquarters are located in Dallas, Texas (USA).

The total consideration of the transaction and the fair values of the acquired assets and assumed liabilities as well as the resulting goodwill are as follows:

**Consideration**

| | Thousands of US Dollars | Thousands of Euros (***) |
|---|---|---|
| Cash payment (*) | 68,349 | 62,688 |
| Outstanding payment (**) | 10,000 | 9,172 |
| Contingent consideration | - | - |
| **Total transferred consideration** | **78,349** | **71,860** |
| Fair value of the acquired net assets | 47,260 | 43,346 |
| **Resulting goodwill** | **31,089** | **28,514** |

(*) Of the amount paid, US Dollars 7,500 thousand was paid in 2015, whilst US Dollars 60,849 thousand has been paid in 2016.

(**) In accordance with the share purchase-sale agreement, the Group had deposited this amount in a specific bank account in its name, as a guarantee for the purchaser of the commitments acquired in this agreement. At 31 December 2016, a total of US Dollars 10,000 thousand is outstanding (Note 11).

(***) Data converted into presentation currency (€) using the exchange rate at the date of the operation.

The consideration of the operation consists of an initial cash payment of US Dollars 7.5 million made on 18 September 2015, and a payment of US Dollars 60.8 million made on 9 February 2016 as well as an outstanding part payable to the vendor totalling US Dollars 10 million, which have been deposited in a bank account as a guarantee of the compliance of certain commitments.

The assets and liabilities arising from the acquisition of ThermiGen are as follows:

| | Acquired value (effect 31 January 2016) | | |
|---|---|---|---|
| *In thousands of euros* | Fair value | Amount in local books | Revaluation |
| Cash and cash equivalents | 8,848 | 8,848 | - |
| Property, plant and equipment (Note 10) | 1,996 | 1,996 | - |
| Intangible assets (Note 9) | 64,187 | 450 | 63,737 |
| Inventory | 3,948 | 3,077 | 871 |
| Trade and other receivables | 1,994 | 1,994 | - |
| Other assets | 1,284 | 1,284 | - |
| Financial debt | (14,128) | (14,128) | - |
| Trade and other payables | (1,588) | (1,588) | - |
| Other contingent liabilities | (582) | (582) | - |
| Deferred tax assets/(liabilities) (Note 21) | (22,613) | - | (22,613) |
| **Total acquired identifiable net assets** | **43,346** | **1,351** | **41,995** |
| Total acquisition price in cash in 2016 (*) | 55,809 | | |
| Cash and cash equivalents | (8,848) | | |
| **Cash outflow in the acquisition in 2016** | **46,961** | | |

(*) The amount includes the balancing entry in thousands of euros (at the exchange rate of the date on which the payment was made) of US Dollars 60,849 thousand which, in accordance with the table above, has been paid in 2016.

The costs related to the acquisition have totalled EUR 1,313 thousand, which have been charged to “Other operating expenses” in the consolidated income statement for the financial year ending 31 December 2016.

The fair value at the date of acquisition of the assets and liabilities of the acquired business has been determined using, mainly, valuation methods, which have been executed by an independent expert. The valuation method used has consisted of an analysis of discounted cash flows which generate the identified assets of ThermiGen and based on methodologies generally applicable for each type of asset.

As a result of this valuation, intangible assets totalling EUR 64.2 million have been identified corresponding, mainly, to “Intellectual property” (EUR 46.0 million with an estimated useful life of 13 years), and “Agreement of exclusive distribution” (EUR 12.7 million with an estimated useful life of five years) and “Relations with customers” regarding which recurring sales of consumables are made once the customers have purchased the medical equipment (EUR 5.1 million with an estimated useful life of nine years).

The goodwill, which is mainly generated as a balancing entry for the recognition of the deferred tax liability corresponding to the higher fair value allocated to the acquired net assets with respect to their tax values, is supported by the valuation of the whole acquired business.

If ThermiGen had been consolidated since 1 January 2016, the effect on the consolidated income statement would have been further amounts of pro-forma ordinary income totalling EUR 1.6 million and net profits totalling US Dollars 0.5 million (prior to consolidation adjustments).

At the date of preparation of the consolidated annual accounts, the price assigned to the acquisition of ThermiGen is considered final.

## 8. Goodwill

The changes in "Goodwill" in the consolidated balance sheets in 2016 and 2015 were as follows:

| | Thousands of Euros | | | | | | |
|---|---|---|---|---|---|---|---|
| | Balance at 31 December 2014 | Additions | Changes | Balance at 31 December 2015 | Additions | Changes | Balance at 31 December 2016 |
| Almirall, S.A. | 35,407 | - | - | 35,407 | - | - | 35,407 |
| Almirall Hermal, GmbH | 227,743 | - | - | 227,743 | - | - | 227,743 |
| Aqua Pharmaceuticals LLC | 75,619 | - | 8,541 | 84,160 | - | 3,074 | 87,234 |
| Poli Group (Note 7) | - | - | - | - | 52,816 | - | 52,816 |
| ThermiGen, LLC (Note 7) | - | - | - | - | 28,514 | 1,051 | 29,565 |
| **Total** | 338,769 | - | 8,541 | 347,310 | 81,330 | 4,125 | 432,765 |

The goodwill of Almirall, S.A., the net value of which amounts to EUR 35.4 million, arose in 1997 as a result of the difference between the carrying amount of the shares of Prodesfarma, S.A. and the underlying carrying amount of this company at the time of the merger by absorption thereof by the Parent, after having allocated any unrealised gains arising from property, plant and equipment and financial assets.

The goodwill on Almirall Hermal, GmbH arose in 2007 as a result of the difference between the acquisition cost of the shares of the Hermal Group companies and the underlying carrying amount thereof at the acquisition date, having allocated the identifiable assets and liabilities a difference between their fair value and their carrying amount in the annual accounts of the companies acquired. This goodwill has been allocated to the cash-generating unit formed by Almirall Hermal, GmbH as a whole in accordance with the segmentation and follow-up financial reporting policies of Almirall Group management.

The goodwill of Aqua Pharmaceuticals was the difference between the acquisition value of the shares of this company and their underlying carrying amount at the acquisition date, after allocation to the identifiable assets and liabilities of the differences between their fair value and carrying amount in the company's annual accounts. The changes in 2016 and 2015 are a result of the effect of the exchange rate on translating this goodwill recorded at the level of the subsidiary Almirall Inc. to the presentation currency of the consolidated statements. The effect amounted to EUR 3.1 and 8.5 million, respectively.

The goodwill of the Poli Group arose as a result of the difference existing between the acquisition cost of the shares of the Poli Group companies in February 2016 and the underlying carrying amount thereof at the acquisition date, with the difference between their fair values and carrying amounts having been allocated to the identifiable assets and liabilities in the acquired companies' financial statements (See Note 7).

The goodwill of ThermiGen arose as a result of the difference existing between the acquisition cost of this company's shares in February 2016 and the underlying carrying amount thereof at the acquisition date, with the difference between its fair value and carrying amount having been allocated to the identifiable assets and liabilities in the Group's financial statements (See Note 7).

At 31 December 2016 (and at 31 December 2015), the recoverable amount of all goodwill tested for impairment has been estimated on the basis of calculations of value in use as described in Note 5-d. These calculations use five-year cash flow projections based on financial budgets approved by management. Cash flows for more than the five year period are extrapolated using the estimated growth rates indicated in Note 5-d. According to the estimates and projections available to the directors of the Parent, the projected results and discounted cash flows of the corresponding cash-generating unit adequately support the carrying amount of the goodwill.

The goodwill is allocated to subsidiaries except for the goodwill of Almirall, S.A. which is allocated to the Parent company. For all goodwill tested for impairment, if the recoverable amount of all goodwill calculated on the basis of value in use is subject to a sensitivity analysis for a 5% decrease in estimated sales, the rate of growth would fall by one percentage point and the discount rate would increase by one percentage point, which would not make any significant additional impairment necessary.

## 9. Intangible assets

The detail of the intangible assets in the accompanying consolidated balance sheets at 31 December 2016 and 2015 and of the changes therein is as follows:

| | Intellectual property | Development expenditure | Computer applications | Advances and non-current assets in the course of construction | Total |
|---|---|---|---|---|---|
| **Cost** | | | | | |
| **At 31 December 2014** | **961,969** | **18,810** | **59,543** | **9,890** | **1,050,212** |
| Additions | 12,825 | - | 3,909 | 4,337 | 21,071 |
| Disposals | (71,882) | (15,000) | (1,744) | - | (88,626) |
| Transfers | - | 1 | 7,938 | (7,939) | - |
| Translation differences | 33,181 | 203 | 15 | - | 33,399 |
| **At 31 December 2015** | **936,093** | **4,014** | **69,661** | **6,288** | **1,016,056** |
| Additions | 7,082 | - | 7,437 | 156,923 | 171,442 |
| Disposals | (19,425) | (2,341) | (441) | - | (22,207) |
| Transfers | - | - | 4,589 | (151) | 4,438 |
| Translation differences | 15,224 | 394 | 61 | - | 15,679 |
| Exclusions from the scope of consolidation (Note 3b) | - | - | (118) | - | (118) |
| Business combinations (Note 7) | 410,113 | 82,585 | 243 | - | 492,941 |
| **At 31 December 2016** | **1,349,087** | **84,652** | **81,432** | **163,060** | **1,678,231** |
| **Accumulated amortisation** | | | | | |
| **At 31 December 2014** | (445,628) | (796) | (39,699) | - | (486,123) |
| Amortisation charge | (50,211) | - | (7,833) | - | (58,044) |
| Disposals | 17,554 | 310 | 514 | - | 18,378 |
| Translation differences | (2,105) | 5 | (11) | - | (2,111) |
| **At 31 December 2015** | **(480,390)** | **(481)** | **(47,029)** | **-** | **(527,900)** |
| Amortisation charge | (73,135) | (305) | (9,105) | - | (82,545) |
| Disposals | 8,060 | - | 135 | - | 8,195 |
| Translation differences | (356) | (164) | (12) | | (532) |
| Exclusions from the scope of consolidation (Note 3b) | - | - | 71 | - | 71 |
| Business combinations (Note 7) | (284) | - | (39) | - | (323) |
| **At 31 December 2016** | **(546,105)** | **(950)** | **(55,979)** | **-** | **(603,034)** |
| **Impairment losses** | | | | | |
| **At 31 December 2014** | (100,150) | (14,170) | (5,349) | - | (119,669) |
| Impairment losses recognised in the year | (241) | - | - | - | (241) |
| Impairment losses reversed in the year | 30,000 | 14,170 | 277 | - | 44,447 |
| **At 31 December 2015** | **(70,391)** | **-** | **(5,072)** | **-** | **(75,463)** |
| Impairment losses recognised in the year | (15,000) | - | - | - | (15,000) |
| Impairment losses reversed in the year | 8,262 | - | - | - | 8,262 |
| **At 31 December 2016** | **(77,129)** | **-** | **(5,072)** | **-** | **(82,201)** |

| | Intellectual property | Development expenditure | Computer applications | Advances and non-current assets in the course of construction | Total |
|---|---|---|---|---|---|
| **Carrying amount** | | | | | |
| Cost | 936,093 | 4,014 | 69,661 | 6,288 | 1,016,056 |
| Accumulated amortisation | (480,390) | (481) | (47,029) | - | (527,900) |
| Impairment losses | (70,391) | - | (5,072) | - | (75,463) |
| **At 31 December 2015** | **385,312** | **3.533** | **17,560** | **6,288** | **412,693** |
| Cost | 1,349,087 | 84,652 | 81,432 | 163,060 | 1,678,231 |
| Accumulated amortisation | (546,105) | (950) | (55,979) | - | (603,034) |
| Impairment losses | (77,129) | - | (5,072) | - | (82,201) |
| **At 31 December 2016** | **725,853** | **83,702** | **20,381** | **163,060** | **992,996** |

Most of the above intangible assets have finite useful lives and have been acquired from third parties or as part of a business combination and none of the assets have been pledged as security.

The main additions to other intangible assets during the financial year ending 31 December 2016 have been generated from the business combinations explained in Note 7 above and the acquisition stated in the following paragraph.

At the beginning of the second half of 2016, the pre-conditions of the agreement signed with Sun Pharmaceutical Industries Ltd, (Sun Pharma), in accordance with which the company granted an exclusive licence to trade, develop, manufacture and sell a compound to treat chronic plaque psoriasis in 44 European countries to Almirall, S.A., were met. The Group has recognised a total intangible asset for EUR 156.9 thousand corresponding to the sum of the payment made for EUR 45.3 million and the current value of the future payments subject to different bureaucratic events and studies which are almost certain to occur, reviewed at their current value, totalling EUR 111.6 million. This outstanding amount, modified by the interest accrued from the acquisition of this asset, is recognised under “Suppliers of assets” (Note 17), and includes the interest accrued up to year end. This licence is still in force as the licensed product is expected to be launched in 2018 after the corresponding permits for their sale have been obtained. In addition, based on the signed agreement, Sun Pharma may receive future payments for regulatory, development and sales events as well as royalties for net sales based on certain milestones.

In 2015, the Group acquired marketing rights and know-how for two products of the dermatological area for a total of EUR 10 million. The disposals recognised in this year correspond mainly to the sale of the development and selling rights of a product of the gastrointestinal therapeutic area totalling EUR 60 million and the sale of the development and selling rights for a product of the dermatological area for EUR 7 million. The effect of these disposals has been recognised in “Net profit (loss) for disposals of assets” of the consolidated income statement for the 2015 financial year (see Note 20).

The detail of the main headings under "Intangible Assets" (Intellectual property and development expenditure) is, by carrying amount, as follows:

| | 2016 | 2015 |
|---|---|---|
| Development costs acquired as a result of the acquisition of control of Aqua Pharmaceuticals | 2,087 | 2,014 |
| Other acquired development costs | 1,796 | 1,519 |
| Licences and other marketing rights as a result of the acquisition of control of Almirall Hermal, GmbH. | 22,384 | 34,051 |
| Product technology as a result of the acquisition of control of Aqua Pharmaceuticals | 256,446 | 268,027 |
| Other licences and other marketing rights | 57,811 | 83,234 |
| Development costs acquired as a result of the acquisition of control of Polichem Group | 80,200 | - |
| Licences and other marketing rights as a result of the acquisition of control of Polichem Group | 329,198 | - |
| Intellectual property, relations with clients and exclusive distribution agreement as a result of the acquisition of control of TermiGen | 59,633 | - |
| **Total Industrial Property and Development Expenditure** | **809,555** | **388,845** |

In 2015, a licence agreement for the future sale of the Kappaproct product in Europe which had been impaired at 31 December 2014, has been derecognised in “R&D Expenses”. This agreement was signed with Index Pharmaceutical during phase III of the development of the medication. During this phase, as the results of the clinical tests carried out have shown, the product could be sold and therefore it was derecognised.

The aggregate amount of the research and development expenditure recognised as an expense in the accompanying consolidated income statement for 2016 and 2015 was approximately EUR 98.3 million and EUR 66.3 million, respectively. These amounts include the depreciation of the assets associated with R&D activities and the amortisation of the expenses incurred by Group personnel and by third parties.

At 31 December 2016, there are no capitalised R&D expenses not subject to amortisation with a significant carrying amount, and no intangible assets with indications of impairment have been identified. Nevertheless, the Group has carried out the corresponding impairment test for its main intangible assets on the basis of the calculations of value in use, in accordance with Note 5-d, and there is no need for any impairment increases.

For these intangible assets, if the recoverable amount calculated on the basis of the value in use is submitted to a sensitivity analysis for a 5% decrease in estimated sales or the growth rate falls by one percentage point, or the discount rate increases by one percentage point, a significant additional impairment would be generated on the asset’s carrying amount.

"Intellectual Property" includes mainly the following intangible assets:

- Licences and other marketing rights resulting from the takeover of Almirall Hermal, GmbH for EUR 22 million at 31 December 2016 (EUR 34 million at 31 December 2015).

- Marketing rights over various dermatological products acquired from Shire in 2007. This agreement entailed a payment of EUR 136 million. At 31 December 2016 the carrying amount totals EUR 10 million (EUR 20 million at 31 December 2015).

- Technology acquired from Aqua Pharmaceuticals in 2013. This technology was assigned to each product and is defined as a set of intangible assets which basically include product formulation and the value of trademarks or brand names and patents or sales licences and which are grouped together insofar as they are considered to be inter-related, they have no value on a stand-alone basis or they are expected to have the same useful life. The useful lives of the intangible assets acquired were estimated at 15 years. The changes in the year correspond to amortisation of EUR (20.3) million (the same amount as 2015) and to the revaluation of EUR 8.8 million (EUR 29.2 million in 2015) for its translation to the presentation currency of the consolidated annual accounts.

- Additions for business combinations explained in Note 7, of Poli Group and ThemiGen, which have been effective at the beginning of 2016.

*Impairment losses*

The detail of the impairment losses on intangible assets in 2016 and 2015 included in “Impairment Losses” in the above table and of the changes therein is as follows:

| | Thousands of Euros | | | | | | |
|---|---|---|---|---|---|---|---|
| | Balance at 31 December 2014 | Additions | Disposals | Balance at 31 December 2015 | Additions | Disposals | Balance at 31 December 2016 |
| Intellectual property | 100,150 | 241 | (30,000) | 70,391 | 15,000 | (8,262) | 77,129 |
| Development expenditure | 14,170 | - | (14,170) | - | - | - | - |
| Computer applications | 5,349 | - | (277) | 5,072 | - | - | 5,072 |
| **Total impairment losses** | **119,669** | **241** | **(44,447)** | **75,463** | **15,000** | **(8,262)** | **82,201** |

At 31 December 2016, the total impairment of Industrial Property corresponds, mainly, to the total impairment of the development rights and sale of a product of the respiratory area totalling EUR 45 million (EUR 30 million at 31 December 2015) due to the strategic decision made in 2016 to not sell this product. The impairment losses generated have been recognised under “Impairment Losses on Property, Plant and Equipment, Intangible Assets and Goodwill” in the accompanying consolidated income statements for 2016 and 2015.

In addition, in 2016, Industrial Property totalling EUR 8.2 million corresponding to some licences whose cost was fully impaired have been derecognised.

In 2016, no reversals of impairment losses have been made against the consolidated income statement. The reversal of impairment losses recorded in 2015 was mainly due to the sale of development rights and the sale of a product of the gastrointestinal therapeutic area.

## 10. Property, plant and equipment

The changes in "Property, Plant and Equipment" in the consolidated balance sheets in 2016 and 2015 were as follows:

| | Land and buildings | Plant and machinery | Other fixtures, tools and furniture | Other items of property, plant and equipment | Advances and property, plant and equipment in the course of construction | Total |
|---|---|---|---|---|---|---|
| **Cost** | | | | | | |
| **At 31 December 2014** | **98,385** | **93,003** | **251,492** | **18,353** | **5,700** | **466,933** |
| Additions | 393 | 1,133 | 5,492 | 922 | 4,546 | 12,486 |
| Disposals | (260) | (1,930) | (2,032) | (630) | (5) | (4,857) |
| Transfers | 288 | 700 | 4,229 | 263 | (5,480) | - |
| Translation differences | 28 | 1 | 47 | 20 | - | 96 |
| **At 31 December 2015** | **98,834** | **92,907** | **259,228** | **18,928** | **4,761** | **474,658** |
| Additions | 257 | 1,334 | 8,893 | 1,675 | 8,930 | 21,089 |
| Disposals | (12) | (296) | (3,108) | (390) | - | (3,806) |
| Transfers | 155 | 1,057 | 2,423 | 276 | (8,349) | (4,438) |
| Translation differences | 67 | (2) | (462) | 57 | - | (340) |
| Scope of consolidation (Note 3b) | - | - | (423) | (88) | - | (511) |
| Business combinations (Note 7) | 4,854 | - | 2,143 | 270 | - | 7,267 |
| **At 31 December 2016** | **104,155** | **95,000** | **268,694** | **20,728** | **5,342** | **493,919** |
| **Accumulated depreciation** | | | | | | |
| **At 31 December 2014** | **(39,146)** | **(56,484)** | **(219,744)** | **(15,628)** | **-** | **(331,002)** |
| Depreciation charge | (2,136) | (3,599) | (9,109) | (1,362) | - | (16,206) |
| Disposals | (76) | 1,904 | 1,795 | 414 | - | 4,037 |
| Transfers | - | - | - | - | - | - |
| Translation differences | 12 | - | 30 | 16 | - | 58 |
| **At 31 December 2015** | **(41,346)** | **(58,179)** | **(227,028)** | **(16,560)** | **-** | **(343,113)** |
| Depreciation charge | (2,450) | (3,443) | (10,100) | (1,758) | - | (17,751) |
| Disposals | (93) | 289 | 2,453 | 289 | - | 2,938 |
| Transfers | - | - | - | - | - | - |
| Translation differences | (14) | 1 | (47) | (20) | - | (80) |
| Scope of consolidation (Note 3b) | - | - | 318 | 88 | - | 406 |
| Business combinations (Note 7) | - | - | (218) | (53) | - | (271) |
| **At 31 December 2016** | **(43,903)** | **(61,332)** | **(234,622)** | **(18,014)** | **-** | **(357,871)** |
| **Impairment losses** | | | | | | |
| **At 31 December 2014** | **(3,804)** | - | - | - | - | **(3,804)** |
| Impairment losses | 54 | - | - | - | - | 54 |
| **At 31 December 2015** | **(3,750)** | - | - | - | - | **(3,750)** |
| Impairment losses | - | - | - | - | - | - |
| **At 31 December 2016** | **(3,750)** | - | - | - | - | **(3,750)** |
| **Carrying amount** | | | | | | |
| Cost | 98,834 | 92,907 | 259,228 | 18,928 | 4,761 | **474,658** |
| Accumulated depreciation | (41,346) | (58,179) | (227,028) | (16,560) | - | **(343,113)** |
| Impairment losses | (3,750) | - | - | - | - | **(3,750)** |
| **At 31 December 2015** | **53,379** | **34,728** | **32,200** | **2,368** | **4,761** | **127,795** |
| Cost | 104,155 | 95,000 | 268,694 | 20,728 | 5,342 | 493,919 |
| Accumulated depreciation | (43,903) | (61,332) | (234,622) | (18,014) | - | (357,871) |
| Impairment losses | (3,750) | - | - | - | - | (3,750) |
| **At 31 December 2016** | **56,502** | **33,668** | **34,072** | **2,714** | **5,342** | **132,298** |

The additions in 2016 and 2015 were due mainly to improvements at the production centres at chemical and pharmaceutical plants and at the Group's research and development centres.

At 31 December 2016 and 2015 the Group does not have any impaired assets which are not in use.

The transfers of property, plant and equipment in the course of construction made by the Group in the years ended 31 December 2016 and 2015 relate mainly to the transfer of investment projects at the production centres that came into service during these years. In 2016, a total of EUR 4,438 thousand of property, plant and equipment has been transferred to intangible assets.

In 2015, the Group reversed impairment losses that amounted to 54 thousand Euros. In 2016, the Group has not reversed any impairment losses on property, plant and equipment. At 31 December 2016 and 2015, losses for impairment of property, plant and equipment correspond mainly to plant which is not in use.

At 31 December 2016 and 31 December 2015 the carrying amount of property, plant and equipment owned by the subsidiaries located abroad totals EUR 33.0 million and EUR 25.8 million, respectively.

The Group has a number of facilities held under operating leases (see Note 20).

The Group has formalised insurance policies to cover the possible risks to which certain property, plant and equipment are subject and the possible claims that may be filed in relation to the performance of its operations. These policies are understood to provide sufficient coverage of the risks to which such assets are subject.

The only commitments for the acquisition of assets are disclosed in Note 25.

None of the property, plant and equipment is held as security for a mortgage loan.

## 11. Non-current/current financial assets, other cash equivalents and other current assets

### Non-current

The detail of the balance of the non-current financial assets in the consolidated balance sheets at 31 December 2016 and 2015 and of the changes therein in the years then ended is as follows:

| | Thousands of euros | | | | | |
|---|---|---|---|---|---|---|
| | Investments in Group companies and associates | Long-term equity instruments | Deposits and guarantees given | Assets at fair value through profit or loss | Write-downs | Total |
| **Balance at 31 December 2013** | **52** | **9,324** | **766** | **169,220** | **(203)** | **179,159** |
| Additions or charge for the year | - | 20,593 | 367 | 9,034 | - | 29,994 |
| Disposals/Decrease in value | - | (1,367) | - | (6,100) | - | (7,467) |
| Short-term transfer | - | - | - | (21,100) | - | (21,100) |
| **Balance at 31 December 2014** | **52** | **28,550** | **1,133** | **151,054** | **(203)** | **180,586** |
| Additions or charge for the year | 8 | 887 | 4,844 | 26,450 | - | 32,189 |
| Disposals/Decrease in value | - | (8,032) | (101) | | - | (8,133) |
| Short-term transfer | - | - | - | - | - | - |
| Changes to the scope of consolidation | - | (6,630) | 795 | (4,366) | - | (10,201) |
| **Balance at 31 December 2015** | **60** | **14,775** | **6,671** | **173,138** | **(203)** | **194,441** |

"Financial Assets - Long-term Investments" on the accompanying consolidated balance sheet include:

- Shareholding of 340,827 shares in the Spanish biotechnology company AB-Biotics, S.A. listed on the Alternative Investment Market (AIM) at 31 December 2016 (same number of shares as at 31 December 2015), representing 3.55% of the share capital. At 31 December 2016 the fair value amounts to EUR 545 thousand (EUR 675 thousand at 31 December 2015).

- Public debt securities of Autonomous Community agencies in the Canary Islands recognised for a total of EUR 12 thousand by the Group at 31 December 2016 (same amount as in 2015) matured in accordance with the requirements of Law 19/1994, of 6 July 1994, which should be held for a continuous period of five years. The effect of the possible impairment of this caption is not considered to be significant.

- Shareholding by means of the subsidiary Almirall Inc. of 6,137,479 shares in Suneva Medical Inc, representing 5.49% (6.25% at 31 December 2015) of its share capital for a total of US Dollars 15 million.

- In September 2015, an agreement was reached between Almirall Inc. and the shareholders of ThemiGen, LLC, in accordance with which, Almirall Inc. acquired a minority shareholding in ThermiGen, LLC for US Dollars 5 million, which represented 7.7% of the shares issued by the company, and paid US Dollars 2.5 million in exchange for the purchase option rights to acquire up to 100% of the company (Note 7). As this transaction has been completed in February 2016, the cost of this shareholding has been included in the transferred consideration of the business combination, as stated in Note 7.

- Finally, at 31 December 2015, 681,819 shares, representing 0.72% of the share capital of Ironwood Pharmaceuticals, were recorded, whose fair value at this date (based on the listed price) amounted to EUR 7,282 thousand. These shares have been sold in July and August 2016, giving rise to a cash inflow of EUR 7,894 thousand. The result of this sale, after reclassification of the valuation adjustments, has totalled EUR 2.2 million, which has been recognised under “Financial income” (Note 20).

The caption “Financial Assets – Non-current Credits and Other Financial Assets” mainly includes the financial asset corresponding to the fair value of future non-current receivables by AstraZeneca in accordance with Note 6 of the accompanying consolidated annual accounts (EUR 168,386 thousand at 31 December 2016 and EUR 142,150 thousand at 31 December 2015). As stated in this Note, in 2016 the payments for events and changes in fair value of the asset. Based on the expectations on the timing of the collection of these payments, in 2016, no amount has been transferred in the short term (EUR 21,100 thousand was transferred in 2015, which have been collected in 2016).

In addition, a loan with ThermiGen, LLC for USD 5 million at a 4% interest rate was recorded at the end of 2015 under “Non-current Credits and Other Financial Assets”. This loan is related to the acquisition by the subsidiary Almirall Inc. of a minority interest in ThermiGen, LLC totalling USD 5 million, which represents 7.7% of the shares issued by the company, and the payment of USD 2.5 million in exchange for the purchase option rights to acquire up to 100% of this company. As this operation has been effective in 2016, the loan associated with the acquisition has been eliminated in the consolidated accounts as ThermiGen has joined the scope of consolidation in the 2016 financial year (see Note 7).

In addition, in 2016, a total of USD 5,000 thousand (EUR 4,743 thousand) was recognised under “Deposits and guarantees furnished” which, together with another amount recorded as current (approximately USD 5,000 thousand equal to EUR 4,743 thousand), correspond to a deposit made in a specific bank account as a guarantee for the purchaser of the commitments acquired in the contract of purchase-sale of ThemiGen (See Note 7).

**Current (financial assets and other cash equivalents)-**

The detail of current financial assets in the consolidated balance sheets is as follows:

| | Thousands of euros | |
|---|---|---|
| | 31/12/2016 | 31/12/2015 |
| Short-term investments | 210,017 | 269,829 |
| Short-term deposits | 7,079 | 173 |
| Short-term guarantees | 116 | 40 |
| **Total** | **217,212** | **270,042** |

In accordance with IAS 7, for the purpose of preparing the statement of cash flows, the Group considers cash equivalents as the highly liquid short-term investments (see Note 5-i) that are readily convertible into given amounts of cash and are subject to an insignificant risk of changes in value. Accordingly, when preparing the statement of cash flows for the year all of the current financial assets were considered as cash equivalents since the bank deposits at short term can be liquidated immediately at the Group's discretion without incurring a penalty.

There are no restrictions on the availability of cash and equivalents.

The Group’s investments in financial instruments are classified as follows:

- Held-for-trading financial assets: the Group considers that this category includes financial assets adjusted through profit or loss and the financial derivatives that do not qualify for hedge accounting. The Group has no assets of this kind at the end of 2016 and 2015.

- Available-for-sale financial assets: these are considered to include the investments in fixed-income or equity funds since they do not form part of an investment portfolio with short-term profit-taking, nor have they been acquired for such purpose; the above ownership interests acquired in AB-Biotics, S.A. and in Suneva Medical Inc. (up to their sale, they also included the ownership interest in Ironwood Pharmaceuticals Inc.).

- Held-to-maturity financial assets: this category includes fixed-income investments mainly in Euro deposits, foreign currency deposits and repos.

- Financial assets at fair value through profit or loss: it includes the non-current and current receivable for recognition of the business sale described in Note 6.

The detail of the current and non-current available-for-sale financial assets and held to maturity or at fair value with changes to results is as follows:

| | Thousands of Euros | |
|---|---|---|
| | 31/12/2016 | 31/12/2015 |
| Loans and receivables | 11,336 | 8,914 |
| Available-for-sale financial assets | 14,775 | 28,550 |
| Financial assets at fair value through profit or loss (*) | 168,386 | 142,150 |
| Held-to-maturity financial assets | 217,096 | 271,014 |
| **Total** | **411,593** | **450,628** |

(*) Includes only the non-current part of the fair value of the future payments receivable from AstraZeneca. At 31 December 2016, no amount is recorded as current for this concept (at 31 December 2015, EUR 21.100 was classified in “Receivables” as current” (see Note 13)).

The fair value of the applicable financial instruments is calculated on the basis of the following rules:

- Fixed-income securities: where these are unlisted or mature securities within no more than six months, fair value is calculated on the basis of acquisition cost plus the related accrued interest, calculated using the internal rate of return.

- Ownership interests in other companies: The fair value of the ownership interest in AB-Biotics, S.A. was obtained from the price of this company’s shares on the national Alternative Investment Market at 31 December 2016 and 31 December 2015. The fair value at 31 December 2015 of the shares held in Suneva Medical Inc and ThermiGen LLC has been estimated on the basis of the acquisition cost at the moment of the purchase of these companies in July and September 2015, respectively. At 31 December 2015, the fair value of the shares held in Ironwood Pharmaceuticals, Inc was obtained from the listed value of the company’s shares in the US market at such date adjusted by the exchange rate at year end. The total interest held in Ironwood Pharmaceuticals, Inc has been sold in 2016, as stated in this same Note.

- Other financial assets: The fair value of "Financial Assets at Fair Value through Profit or Loss" was calculated using the discounted cash flow method adjusted for the probability of success of certain risk at different stages of the products. The discounted cash flow method estimates the future cash flows of the asset (translated from dollars to euros at the exchange rate based on the range agreed in the agreement) and the cash flows during the estimated marketing period, taking into account the maturity of the patent adjusted for estimated probability of success. These probablised cash flows are discounted at a rate which reflects the current returns required by the market and the specific risks of the asset. (Note 6). At 31 December 2016, the Group has updated the calculation of the fair value, reviewing the estimated likelihood of success based on the latest information available on the market as well as the exchange rate fluctuation and the financial effect, which resulted in a EUR 29.9 thousand effect in the consolidated income statement (Note 20), which includes the profit generated in 2016 for the variation of the fair value of the part which was recorded in the short term for this concept at the end of the prior year (EUR 3.6 million).

There are no significant differences between the carrying value and fair value of these assets.

Also, the bank accounts included under "Cash" include basically interest earned at average annual rates of 0.17% and 0.29% in the years ended 31 December 2016 and 2015, respectively.

Finally, as in the previous year, the Group companies and associates excluded from the scope of consolidation because they are dormant and/or insignificant and the information thereon for the years ended 31 December 2016 and 2015 are as follows:

| | 2016 | 2015 |
|---|---|---|
| Name | Almirall Aesthetics, S.A.(*) | Almirall Europa, S.A. |
| Management | Spain | Spain |
| Activity | Dormant | Dormant |
| % of interest held | 100% | 100% |
| Carrying amount of interest (Group) | | |
| Cost | 61 | 61 |
| Write-down | - | - |

(*) In 2016 its corporate name has changed from Almirall Europa, S.A. to Almirall Aesthetics, S.A.

In 2015, the following new companies were set up, which were not included in the scope of consolidation as they have been inactive in 2015:

- Almirall Aesthetics Inc, wholly owned by Almirall S.A. with a share capital of 1 dollar (set up on 30 November 2015, it did not carry on any activities in 2015).

- Almirall Skin LLC, wholly owned by Almirall Aesthetics Inc. with a share capital of 1 dollar (set up on 30 November 2015, it did not carry on any activities in 2015).

In 2016, Sociedad Almirall Aesthetics Inc. has joined the scope of consolidation and owns the total shares of ThemiGen. Almirall Skin, LLC has merged with ThermiGen as part of the purchase operation carried out via the subsidiary Almirall Aesthetics Inc. (see Note 7).

## 12. Inventories

The detail of "Inventories" at 31 December 2016 and 31 December 2015 is as follows:

| | Thousands of Euros | |
|---|---|---|
| | 31/12/2016 | 31/12/2015 |
| Raw materials and packaging | 29,604 | 31,940 |
| Work in progress | 11,182 | 12,861 |
| Goods held for resale and finished products | 60,824 | 52,678 |
| Write-downs of inventories (Note 20) | (10,570) | (10,355) |
| **Total** | **91,040** | **87,124** |

The changes in the impairment allowance for Inventories is included in Note 20.

None of the inventories have been pledged as security.

There are no commitments to purchase inventories involving significant amounts at 31 December 2016 and 31 December 2015.

## 13. Trade and other receivables

The detail of "Trade and Other Receivables" at 31 December 2016 and 31 December 2015 is as follows:

| | Thousands of Euros | |
|---|---|---|
| | 31/12/2016 | 31/12/2015 |
| Trade receivables for sales and services | 135,388 | 103,196 |
| Other receivables | 5,812 | 24,141 |
| Write-downs of accounts receivable (Note 20) | (10,592) | (6,368) |
| **Total receivables** | **130,608** | **120,969** |

At 31 December 2015 "Other Receivables" included, mainly, EUR 21.1 million corresponding to the fair value of short-term receivables from AstraZeneca as described in Note 6-a of these consolidated annual accounts (at 31 December 2016 no amount was recorded in the short term for this concept).

At 31 December 2016 and 31 December 2015 the overdue balances written down amount to EUR 10,592 thousand and EUR 6,368 thousand, respectively.

The Group's large customer base means that there is no credit risk concentration with respect to trade receivables.

At 31 December 2016 the percentage of receivables from public authorities related to the hospital business as a percentage of the total trade receivable balance for sales and services stands at 3% (11% at 31 December 2015).

None of the trade receivable balances have been pledged as security.

The Group carries out individual analyses of overdue trade receivables to identify possible risks of insolvency. On the basis of this analysis, it establishes a provision for bad debts. The changes in the write downs of receivables are included in Note 20.

The balance receivables are stated at their nominal value and they are not significantly different from their fair value.

The trade receivable balance denominated in foreign currency amounts to EUR 71,433 thousand at the end of 2016 and EUR 66,931 thousand at the end of 2015. In view of the associated amounts and maturities the potential impact for the exchange rate fluctuations that may arise are not considered significant.

## 14. Equity

**Share capital-**

At 31 December 2016 the Parent's share capital consists of 172,951,120 shares with a par value of EUR 0.12 each, fully subscribed and paid in (172,951,120 shares with a par value of EUR 0.12 each at 31 December 2015).

At 31 December 2016 and 2015, all the Parent's shares were listed on the Spanish stock exchanges. The articles of association do not lay down any restrictions on their transferability. Also, pre-emption rights and purchase and sale options have been granted to the ultimate shareholders of the Parent in respect of the shares of one of the aforementioned shareholders in accordance with the agreement entered into on 28 May 2007.

The shareholders with significant direct or indirect ownership interests in the share capital of Almirall, S.A. of over 3% of the share capital which are known to the Parent company, in accordance with the information contained in the official records of the Spanish National Securities Market Commission (CNMV) at 31 December 2016 and 31 December 2015, are as follows:

| Name or company name of direct holder of the ownership interest | 2016 % of ownership of the Almirall Group | 2015 % of ownership in Almirall Group |
|---|---|---|
| Grupo Plafin, S.A. | 41.3% | 41.3% |
| Todasa, S.A. | 25.3% | 25.3% |
| Wellington Management Group, LLP | 4.0% | < 3% |
| OrbiMed | 3.6% | < 3% |
| **Total** | **74.2%** | **66.6%** |

At 31 December 2016 and 31 December 2015, the Parent is unaware of other ownership interests over 3% in the Parent's share capital or any voting rights held at the Parent company under 3% that permit significant influence to be exercised.

**Redeemed capital reserves-**

Under the Spanish Companies Law, this reserve may be used based on the conditions required for reductions of share capital.

The balance of this reserve at 31 December 2016 and 31 December 2015 amounted to EUR 30,539 thousand.

**Legal reserve-**

The legal reserve can be used to increase capital in the part of its balance that exceeds 10% of the capital already increased. Otherwise, until it exceeds 20% of share capital and provided there are no sufficient available reserves, the legal reserve may only be used to offset losses.

EUR 4,151 thousand disclosed under this heading at 31 December 2016 relates to the balance of the legal reserve of the Parent company (EUR 4,151 thousand at 31 December 2015).

**Share premium-**

The Spanish Companies Law expressly permits the share premium account balance to be used to increase capital and it does not provide any specific restrictions on the availability of the balance.

In 2007, as a result of various transactions in the framework of the admission to listing of all the Parent's shares on the Spanish stock exchanges, the share premium balance increased by EUR 105,800 thousand.

The balance under this heading amounts to EUR 219,890 thousand at 31 December 2016 (the same amount at 31 December 2015).

**Canary Islands investment reserve-**

Pursuant to Law 19/1994, the Parent began to avail itself of the tax incentives established therein, appropriating a portion of the profit earned by the establishment in the Canary Islands to the Canary Islands investment reserve which is restricted to the extent that the resulting assets must remain at the company.

At 31 December 2016 and 31 December 2015 the balance of this reserve included in "Other Reserves of the Parent Company" is EUR 3,485 thousand.

**Revaluation reserve-**

Pursuant to corporate and commercial legislation, the Parent revalued its non-current assets in 1996. This balance, net of any tax incurred, may be used to offset prior years' losses and the loss for the current year or any losses that might arise and any capital increases, From 1 January 2007 (once 10 years have elapsed from the date of the balance sheet in which the revaluation was recognised) it may be appropriated to unrestricted reserves provided the monetary gain has been realised. The capital gain will be deemed to have been realised in an amount equal to the depreciation or amortisation that has been charged or when the revalued assets have been transferred or written off.

Should the balance in this account be used for any purpose other than those defined by Royal Decree-Law 7/1996, the balance will be taxable.

The restricted balance of the Parent company's "Revaluation Reserve" at 31 December 2016 amounts to EUR 2,539 thousand (the same amount at 31 December 2015).

**Other reserves-**

The detail is as follows:

| | Thousands of Euros | |
|---|---|---|
| | 31/12/2016 | 31/12/2015 |
| Canary Islands investment reserves | 3,485 | 3,485 |
| Redeemed capital reserve | 30,539 | 30,539 |
| Revaluation reserve | 2,539 | 2,539 |
| Merger reserve | 4,588 | 4,588 |
| Other reserves | 1,125,761 | 1,026,935 |
| **Total other reserves** | **1,166,912** | **1,068,086** |

**Valuation adjustments and others-**

The amount of this caption EUR (19,878) thousand at 31 December 2016 and EUR (14,143) thousand at 31 December 2015, mainly relates to:

- Net accumulated actuarial losses for recalculations of the valuations of retirement benefit obligations due to variations in the calculation hypotheses: EUR (22,845) thousand at 31 December 2016 and EUR (16,972) thousand at 31 December 2015.

- Accumulated balance for changes in the fair value of financial assets held for sale: EUR (141) thousand at 31 December 2016 and EUR 1,067 thousand at 31 December 2015. As a result of the sale of Ironwood's shares (Note 11), carried out in 2016, a capital gain recorded as valuation adjustments for a total of EUR 2.2 million associated with these shares has been transferred to the income statement (Note 20).

**Translation differences-**

This heading in the accompanying consolidated balance sheet includes the net amount of the exchange differences arising in the translation to the Group's presentation currency of the assets and liabilities of the companies that operate in a different functional currency.

The detail of “Translation Differences” by company in 2016 and 2015 is as follows:

| | Thousands of Euros | |
|---|---|---|
| | 31/12/2016 | 31/12/2015 |
| Almirall Limited (UK) | (567) | 337 |
| Almirall, A.G. | 480 | 523 |
| Almirall SP, Z.O.O. | (130) | (75) |
| Almirall, S.A. de C.V. subgroup | - | (6,013) |
| Almirall Aps | 6 | (2) |
| Almirall Limited (Canada) | 26 | (225) |
| Almirall Inc/Aqua Pharmaceuticals (US) | 50,213 | 37,473 |
| Almirall Aesthetics, Inc | 2,622 | - |
| ThermiGen subgroup | (417) | - |
| Poli subgroup | 739 | - |
| **Total translation differences** | **52,972** | **32,018** |

The movement of the financial year ending 31 December 2016 has been as follows:

| | Thousands of Euros |
|---|---|
| **Balance at 31 December 2015** | **32,018** |
| Variation due to exchange differences | 14,045 |
| Transfer to profit and loss | 6,909 |
| **Balance at 31 December 2016** | **52,972** |

The transfer of the translation differences to the results of the year is due to the sale of the subsidiary Almirall de México, S.A. de C.V. (Note 3-b).

## 15. Deferred income

At 31 December 2016 and 31 December 2015, the detail of "Deferred Income" is as follows:

| | Thousands of Euros |
|---|---|
| **Balance at 31 December 2014** | **235,256** |
| Recognised in profit or loss (Note 20) | (33,535) |
| **Balance at 31 December 2015** | **201,721** |
| Other disposals | (1,344) |
| Recognised in profit or loss (Note 20) | (38,206) |
| **Balance at 31 December 2016** | **162,171** |

The main component of the balances at 31 December 2016 and 31 December 2015 set out above consist of amounts of the initially non-reimbursable collections related to the operation with AstraZeneca described in Note 6-a not recognised in profit or loss, totalling EUR 162 million and EUR 201 million, respectively.

During the year ending 31 December 2016, the end dates of two preclinical programmes have been brought forward and therefore the total corresponding deferred income has been directly allocated to the results of 2016.

In 2016, the Group has not signed any agreements which imply any deferred income in addition to the deferred income stated in Note 6 of these notes to the consolidated annual accounts.

## 16. Financial liabilities

Mainly for the purpose of financing the investment made in the USA (in the subsidiary Aqua Pharmaceuticals), in March 2014, the Parent Company issued non-convertible senior bonds for an aggregate nominal amount of up to EUR 325 million maturing in 2021. Obligations bear interest at a fixed annual rate of 4.625% payable on a half-yearly basis. As a result of this issuance, the Company is subject to a series of covenants including the fulfilment of "ratio debt" which sets the maximum level of debt permitted for the Parent and the limitation of asset sales that will not permit the sale of assets unless a significant part of this sale is used to repay the debt or to purchase new assets within twelve months. As a result of the sale operation to Astrazeneca in November 2014 summarised in Note 6, the cash flows of which were not reinvested in a period of less than one year, in November 2015, the Company made an offer to repurchase these non-convertible bonds, as a result of which debt was repurchased for the sum of EUR 1.5 million of nominal value at the same value.

The list value of this issuance of non-convertible bonds at 31 December 2016 is 103.6 (104.2-105.4 at 31 December 2015).

At the date of preparation of these consolidated annual accounts, the directors consider that all of the aforementioned obligations have been fulfilled.

At 31 December 2016 the total interest payable is EUR 16,268 thousand, which corresponds to the interest accrued on the non-convertible bonds (EUR 16,250 thousand in 2015, also corresponding to the interest incurred on non-convertible bonds). The accrued interest payable at 31 December 2016 amounts to EUR 3,843 thousand at 31 December 2016 (EUR 3,835 thousand at 31 December 2015). Under the terms and conditions of these non-convertible bonds, the Group may cancel the bonds before their due date as established in the initial agreement, with penalty costs based on the period between the date of early cancellation and the date of termination according to the initial agreement.

The following subsidiaries act as guarantors for the total principal of the non-convertible bonds issued: Ranke Química, S.A., Industrias Farmacéuticas Almirall, S.A., Almirall S.p.A. (Italy), Almirall Hermal GmbH and Aqua Pharmaceuticals LLC.

The Group also entered into an agreement for a credit line of EUR 25 million in March 2014, from which no amount has been drawn down. The interest rate for this loan is Euribor plus a spread on an arm's length basis. The spread is subject to change in the future based on certain financial ratios.

The detail of the bank borrowings and other financial liabilities at 31 December 2016 is as follows:

| | | | | Non-current | | |
|---|---|---|---|---|---|---|
| | Limit | Amount drawn down | Current | 2018 | Subsequent years | Total |
| Credit lines | 25,000 | - | - | - | - | - |
| Obligations (*) | N/A | 317,187 | - | - | 317,187 | 317,187 |
| Accrued interest payable | - | 3,843 | 3,843 | - | - | - |
| **Total at 31 December 2016** | **25,000** | **321,030** | **3,843** | **-** | **317,187** | **317,187** |

(*) The balance is based on the nominal balance of the non-convertible bonds issued for EUR 325,000 thousand less EUR 1,450 thousand of the bonds amortised in 2015, less related issuance costs to be allocated to the income statement in line with the effective interest rate method.

The detail of the bank borrowings and other financial liabilities at 31 December 2015 is as follows:

| | Limit | Amount drawn down | Current | Non-current | | |
|---|---|---|---|---|---|---|
| | | | | 2017 | Subsequent years | Total |
| Credit lines | 25,000 | - | - | - | - | - |
| Obligations (*) | N/A | 315,883 | - | - | 315,883 | 315,883 |
| Accrued interest payable | - | 3,835 | 3,835 | - | - | - |
| **Total at 31 December 2015** | **25,000** | **319,718** | **3,835** | **-** | **315,883** | **315,883** |

(*) The balance is based on the nominal balance of the non-convertible bonds issued for EUR 325,000 less EUR 1,450 thousand of the bonds amortised in 2015, less related issuance costs to be allocated to the income statement in line with the effective interest rate method

The bank borrowings bore fixed interest of 4.625% during the years ended 31 December 2016 and 31 December 2015.

## 17. Other liabilities

The detail at 31 December 2016 and 2015 is as follows:

| | Thousands of Euros | | | | | |
|---|---|---|---|---|---|---|
| | Current | Non-current | | | | |
| | | 2018 | 2019 | 2020 | Remainder | Total |
| Research-related loans | 7,500 | 2,043 | 2,519 | 2,456 | 6,924 | 13,941 |
| Payables for purchases of non-current assets | 49,304 | 45,965 | 16,221 | 3,883 | 1,350 | 67,419 |
| Wages and salaries payable (Note 20) | 43,186 | 2,675 | 684 | 305 | - | 3,664 |
| Advances and guarantees received | 6,593 | - | - | - | 4,742 | 4,743 |
| Other liabilities | 217 | 34,404 | - | - | - | 34,404 |
| **Total at 31 December 2016** | **106,800** | **85,087** | **19,424** | **6,644** | **13,016** | **124,171** |

| | Thousands of euros | | | | | |
|---|---|---|---|---|---|---|
| | Current | Non-current | | | | |
| | | 2017 | 2018 | 2019 | Subsequent years | Total |
| Research-related loans | 13,783 | 1,849 | 2,566 | 3,198 | 9,515 | 17,128 |
| Payables for purchases of non-current assets | 6,055 | - | - | - | - | - |
| Wages and salaries payable (Note 20) | 42,575 | 2,169 | 1,298 | 1,657 | - | 5,124 |
| Advances and guarantees received | - | - | - | - | - | - |
| Other liabilities | 139 | 20,596 | - | - | - | 20,596 |
| **Total at 31 December 2015** | **62,552** | **24,614** | **3,864** | **4,855** | **9,515** | **42,848** |

The research-related loans relate to the interest-free loans granted by the Ministry of Science and Technology to promote research. They are presented in accordance with Note 5-i. These loans are granted subject to the fulfilment of certain investments and levels of expenditure over the years that they are granted. They mature between 2017 and 2025.

Payables for non-current asset purchases in 2016 and 2015 relate mainly to the outstanding payments for the acquisition of goods, products and marketing licences made in the year and in prior years. The balance at 31 December 2016 includes the part which is reimbursable for the agreement reached with Sun Pharma in the short and long term totalling EUR 46.3 million and EUR 67.4 million, respectively, which corresponds to the balancing entry in euros of the current value at 31 December 2016 of the future outstanding payments totalling USD 132 million for the purchase of the licence referred to (see Note 9).

At 31 December 2016 the balance of "Wages and Salaries Payable" includes EUR 14.225 thousand (EUR 8,786 thousand at 31 December 2015) relating to the outstanding amount generated from the employee restructuring processes carried out during the past years. The outstanding amount at the end of 2016 indicated above includes the severance pay totalling EUR 5.9 million generated as a result of the employee restructuring plan notified in November 2016.

At 31 December 2016 and 2015, as a result of the AstraZeneca transaction described in Note 6, the Group recognised an amount of EUR 21.4 million (EUR 20.6 million at 31 December 2015) for costs payable by the Group. In addition, the non-current part of the contingent consideration payable in the future in relation to the takeover of the Poli Group is included, which is based on, mainly, the compliance of certain levels of the Group's net sales, as stated in Note 7.

There are no differences between the fair value of the liabilities and the amount recognised.

## 18. Provisions

The changes in 2016 and 2015 in "Provisions" in the accompanying consolidated balance sheets were as follows:

| | 2016 | | | 2015 | | |
|---|---|---|---|---|---|---|
| | Provision for returns | Other provisions | Total | Provision for returns | Other provisions | Total |
| **Balance at 1 January** | **7,705** | **10,821** | **18,526** | **12,606** | **13,641** | **26,247** |
| Additions or charge for the year | - | 1,816 | 1,816 | - | - | - |
| Disposals or transfers | (2,550) | - | (2,550) | (4,901) | (2,820) | (7,721) |
| **Balance at 31 December** | **5,155** | **12,637** | **17,792** | **7,705** | **10,821** | **18,526** |

*Provisions for returns-*

The provision for product returns relates to amounts recognised to cover the losses due to returns that may arise in the future as a result of sales made this year or in previous years. This provision was calculated as described in Note 5-k.

*Other provisions-*

"Other Provisions" relates to the provision for non-current remunerations (see Note 5-x) and the estimate made by the Group of the future payments required by it to settle other liabilities arising as a result of the nature of its business. The main changes in 2015 related to the reclassification of a portion of the non-current costs payable on the French subsidiary's restructuring plan as current.

## 19. Retirement benefit obligations

The changes in "Retirement Benefit Obligations" in the accompanying consolidated balance sheets in 2016 and 2015 are as follows:

| | Thousands of Euros |
|---|---|
| **Balance at 31 December 2014** | **66,688** |
| Additions | 899 |
| Derecognitions | (3,774) |
| **Balance at 31 December 2015** | **63,813** |
| Additions | 7,548 |
| Derecognitions | (572) |
| Business combinations (Note 7) | 1,150 |
| **Balance at 31 December 2016** | **71,939** |

In 2016 the retirement benefit obligations correspond to the subsidiaries Almirall Hermal, GmbH, Almirall, AG and Polichem, S.A. (the first two in 2015) and to non-financed plans (there are no plan assets).

The changes in the defined benefit obligations are as follows:

| | 2016 | 2015 |
|---|---|---|
| **At 1 January** | **63,813** | **66,688** |
| Current service costs | 975 | 1,265 |
| Borrowing costs | 1,546 | 1,345 |
| Contributions of plan participants | - | - |
| Actuarial gains/(losses) | 8,287 | (4,326) |
| Benefits paid | - | (1,500) |
| Exclusions from the scope of consolidation | (364) | - |
| Other changes | (3,468) | 341 |
| Business combinations | 1,150 | - |
| **At 31 December** | **71,939** | **63,813** |

The actuarial losses recognised relate mainly to the effect of the decrease in the discount rate used in the actuarial calculations in 2016 (increase in 2015).

The amounts recognised in the consolidated income statement are as follows:

| | 2016 | 2015 |
|---|---|---|
| Current service costs | 975 | 1,265 |
| Borrowing costs | 1,546 | 1,345 |
| Others | (3,070) | - |
| **Total (included under staff costs)** | **(549)** | **2,610** |

The sensitivity to changes in the main assumptions weighted as follows would not have a significant effect on the total pension liability.

| | **Changes in assumptions** |
|---|---|
| Discount rate | Increase/Decrease of 0.5% |
| Inflation rate | Increase/Decrease of 0.5% |
| Salary increase rate | Increase/Decrease of 0.5% |
| Mortality rates | Increase after one year |

Such variations in the assumptions are reasonable in light of those indicated in actuarial reports. Additionally, the Group has assessed that the assumptions are reasonable for the Group companies affected (Almirall Hermal, GmbH, Almirall, AG and Polichem, S.A.).

## 20. Income and expense

### Revenue

The detail, by business line, of revenue in 2016 and 2015 is as follows:

| | Thousands of Euros | |
|---|---|---|
| | 2016 | 2015 |
| Sales through own network | 651,478 | 622,109 |
| Sales through licensees | 85,091 | 40,325 |
| Corporate management and revenue not allocated to other segments | 27,792 | 22,551 |
| **Total** | **764,361** | **684,985** |

The detail of revenue, by geographical area, in 2016 and 2015 is as follows:

| | Thousands of Euros | |
|---|---|---|
| | 2016 | 2015 |
| Spain | 193,649 | 221,035 |
| Europe and the Middle East | 290,795 | 248,019 |
| America, Asia and Africa | 252,124 | 193,380 |
| Corporate management and revenue not allocated to other segments | 27,793 | 22,551 |
| **Total** | **764,361** | **684,985** |

**Other income-**

| | 2016 | 2015 |
|---|---|---|
| Income from marketing agreements (deferred income recognised in profit or loss) (Note 15) | 38,206 | 33,535 |
| Joint promotion agreements and collaboration in product promotion | - | 4,240 |
| Income from AstraZeneca agreement (Note 6-a and 11) | 29,862 | 31,471 |
| Re-invoicing of services rendered to AstraZeneca | 4,423 | 9,693 |
| Other | 22,363 | 5,076 |
| **Total** | **94,854** | **84,015** |

During 2016 the caption "Others" mainly includes EUR 9.0 million of "up-front payments" related to different distribution agreements signed by the Group. It also includes EUR 6.3 million in royalties generated from agreements signed by the Group (EUR 0.4 million during 2015).

**Procurements-**

The detail of "Procurements" is as follows:

| | Thousands of Euros | |
|---|---|---|
| | 31/12/2016 | 31/12/2015 |
| Purchases | 167,117 | 145,525 |
| Changes in inventories of raw materials and other consumables | 2,121 | 2,582 |
| Changes in inventories of goods held for resale, finished products and work in progress | (6,467) | 2,680 |
| **Total** | **162,771** | **150,787** |

**Staff costs**

The detail of "Staff Costs" is as follows:

| | Thousands of Euros | |
|---|---|---|
| | 2016 | 2015 |
| Wages and salaries | 156,482 | 137,375 |
| Social Security payable by the Company | 24,335 | 23,750 |
| Termination benefit costs | 30,419 | 12,463 |
| Other employee benefit costs | 16,533 | 14,793 |
| **Total** | **227,769** | **188,381** |

The average number of employees of the Group by category and gender during the year is as follows:

| | 2016 | | | 2015 | | |
|---|---|---|---|---|---|---|
| | Men | Women | Total | Men | Women | Total |
| Senior management | 58 | 12 | 70 | 39 | 4 | 43 |
| Middle management | 162 | 122 | 284 | 161 | 107 | 268 |
| Technical personnel | 475 | 671 | 1,146 | 465 | 599 | 1,064 |
| Administrative personnel | 172 | 246 | 418 | 173 | 253 | 426 |
| Other | 4 | 1 | 5 | 3 | 1 | 4 |
| **Total** | **871** | **1,052** | **1,923** | **841** | **964** | **1,805** |

The average number of employees in 2016 with a 33% or higher disability is 17 persons (six technical employees, 10 administrative employees and one under the category "Other").

At the end of 2016 and 2015 the headcount is as follows:

| | 2016 | | | 2015 | | |
|---|---|---|---|---|---|---|
| | Men | Women | Total | Men | Women | Total |
| Senior management | 59 | 13 | 72 | 55 | 8 | 63 |
| Middle management | 149 | 105 | 254 | 159 | 114 | 273 |
| Technical personnel | 452 | 614 | 1,066 | 478 | 642 | 1,120 |
| Administrative personnel | 166 | 216 | 382 | 171 | 249 | 420 |
| Other | 3 | 1 | 4 | 9 | 4 | 13 |
| **Total** | **829** | **949** | **1,778** | **872** | **1,017** | **1,889** |

The number of employees at the end of 2016 with a 33% or higher disability is 12 persons (three technical employees, eight administrative employees and one under the category "Other").

At 31 December 2016 and 2015, 288 and 260 Group employees, respectively, were engaged in research and development activities.

**Other operating expenses-**

The detail of "Other Operating Expenses" is as follows:

| | Thousands of Euros | |
|---|---|---|
| | 2016 | 2015 |
| Rentals and royalties | 27,991 | 28,781 |
| Repair and upkeep expenses | 15,656 | 16,385 |
| Independent professional services | 86,816 | 42,979 |
| Transport | 25,754 | 21,673 |
| Insurance premiums | 2,936 | 3,046 |
| Banking and similar services | 457 | 414 |
| Utilities | 4,654 | 5,343 |
| Other services | 103,676 | 108,958 |
| Taxes other than income tax | 2,535 | 1,169 |
| **Total** | **270,475** | **228,748** |

**Operating leases-**

The rental costs incurred in 2016 and 2015 were as follows:

| | Thousands of Euros | |
|---|---|---|
| | 2016 | 2015 |
| Operating leases recognised in profit (loss) for the year | 12,122 | 12,950 |

At the consolidated balance sheet date, the maturity of the Group's future minimum lease payment obligations under irrevocable operating leases was as follows:

| | Thousands of Euros | |
|---|---|---|
| | 2016 | 2015 |
| Within one year | 2,908 | 6,235 |
| 2 to 5 years | 4,809 | 8,188 |

The assets related to lease obligations and the average term of the lease agreements are as follows:

| | Average lease term (years) |
|---|---|
| **Leased assets:** | |
| Buildings | 5 |
| Office equipment | 4 |
| Transport equipment | 4 |

**Net change in valuation adjustments**

The detail of “Net Change in Valuation Adjustments” in the accompanying consolidated income statements and of the changes in the short-term provisions is as follows:

| | Thousands of Euros | |
|---|---|---|
| | 2016 | 2015 |
| Change in valuation adjustment for bad debts | (2,998) | (2,783) |
| Change in valuation adjustment of inventories | 1,051 | 1,019 |
| Change in other current provisions | 560 | (770) |
| **Total** | **(1,387)** | **(2,534)** |

**Net gain (loss) on asset disposals-**

The detail of the net gain (loss) on disposals of non-current assets in 2016 and 2015 is as follows:

| | Thousands of Euros | | | |
|---|---|---|---|---|
| | 2016 | | 2015 | |
| | Income | Expense | Income | Expense |
| On disposal or derecognition of intangible assets (Note 9) | - | (1,066) | 48,320 | (3,920) |
| On disposal or derecognition of property, plant and equipment | 31 | (125) | 41 | (225) |
| On disposal of Almirall México, S.A. de C.V. (Note 3-b) | 31,249 | - | - | - |
| | **31,280** | **(1,191)** | **48,361** | **(4,145)** |
| **Net gain (loss) on disposals of assets** | **30,089** | | **44,217** | |

The amount included under "Net Gain (Loss) on Disposals of Assets" relates to the amount resulting on the sale of the intangible assets described in Note 9 of these consolidated annual accounts.

The amount included under "Net Gain (Loss) on Disposal of Almirall México, S.A. de C.V." relates to the amount resulting on the sale of the subsidiary of Almirall México, S.A. de C.V.", which is explained in Note 3-b of these consolidated annual accounts.

**Finance income and expense-**

The detail of net finance income (expense) in 2016 and 2015 is as follows:

| | Thousands of Euros | | | |
|---|---|---|---|---|
| | 2016 | | 2015 | |
| | Income | Expense | Income | Expense |
| Change to fair value in financial instruments | - | (3,709) | 19,527 | - |
| Financial expenses for non-convertible bonds (note 16) | - | (16,268) | - | (16,250) |
| Other income (expense) on marketable securities | 859 | (3,418) | 1,705 | (335) |
| Other income and similar interest | 389 | - | 1,135 | - |
| Income for disposals of financial instruments (Note 11) | 2,195 | - | - | - |
| Finance and similar costs | - | - | - | (2) |
| Exchange differences | 5,949 | (4,966) | 6,455 | (7,875) |
| | **9,392** | **(28,361)** | **28,822** | **(24,462)** |
| **Financial profit (loss)** | **(18,969)** | | **4,360** | |

In 2016, "Changes of fair value in financial instruments" include the re-estimate at year end of the contingent consideration payable (earn-out) for the acquisition of Poli Group, as stated in Note 7. In 2015, "Changes of fair value in financial instruments" included basically the effect of the contingent consideration adjusted at the 2015 year end for acquisitions carried out in the past, which has been paid at the beginning of 2016 (EUR 12,007 thousand).

"Financial expenses for non-convertible bonds" include financial expenses for interest accrued in 2016 and 2015 regarding the issuing of non-convertible bonds made in 2014 (Note 16), and the effect arising from the costs related to financing in accordance with the effective interest rate method during the contracted financing period totalling EUR 1.3 million in 2016 (EUR 1.2 million in 2015).

**Transactions denominated in foreign currency-**

The detail of the transactions carried out in foreign currency is:

| | Amount in Euros (thousands) | | | |
|---|---|---|---|---|
| | Expense | | Income | |
| | 2016 | 2015 | 2016 | 2015 |
| Australian Dollar | 1 | 1 | - | - |
| Canadian Dollar | 36 | 459 | - | 150 |
| Swiss Franc | 19,745 | 9,444 | 7,697 | 7,370 |
| Czech Koruna | 74 | 45 | 1,712 | 1,493 |
| Danish Krone | 1,962 | 2,685 | 824 | 1,306 |
| Pound Sterling | 19,962 | 23,265 | 30,345 | 36,030 |
| Hungarian Forint | 33 | 39 | 527 | 453 |
| Japanese Yen | 6,374 | 5,103 | 2,743 | 4,395 |
| Mexican Peso | 2,784 | 13,602 | 5,232 | 19,691 |
| Norwegian Krone | 381 | 350 | 776 | 1,344 |
| Polish Zloty | 1,773 | 1,914 | 4,238 | 3,455 |
| Swedish Krona | 444 | 854 | 3,381 | 3,816 |
| US dollar | 112,322 | 104,977 | 177,819 | 163,636 |

**Auditors' remuneration-**

In 2016 and 2015 the fees for audit and other services provided by the Group's auditor, PricewaterhouseCoopers Auditores, S.L. or by other companies in the PwC network were as follows (in thousands of euros):

| Description | Services provided by the auditor and by related companies | |
|---|---|---|
| | 2016 | 2015 |
| Audit services | 725 | 591 |
| Other attestation services | 29 | 67 |
| **Total audit and related services** | **754** | **658** |
| Other services | 854 | 934 |
| **Total other professional services** | **854** | **934** |

## 21. Tax situation

**Consolidated Tax Group-**

Almirall, S.A. files consolidated tax returns (group 77/98) as provided for in Title VII, Chapter VII of Legislative Royal Decree 4/2004 of 5 March, approving the Corporation Tax Law. The companies composing the tax group for 2016 and 2015 were: Almirall, S.A., Laboratorios Almofarma, S.L., Pantofarma, S.L., Laboratorio Temis Farma, S.L., Laboratorios Berenguer-Infale, S.L., Industrias Farmacéuticas Almirall, S.L., Laboratorio Omega Farmacéutica, S.L., Laboratorios Tecnobío, S.A., Laboratorios Miralfarma, S.L., Alprofarma, S.A., Laboratorios Farmacéuticos Romofarm, S.L., Ranke Química, S.A. and Almirall Europa, S.A., with Almirall, S.A. as the Parent. Consequently, Almirall, S.A. has a legal obligation for the preparation, payment and submission of the income tax return.

Income tax is calculated on the basis of accounting profit, determined by application of the applicable financial reporting framework, which does not necessarily coincide with the taxable profit.

The Group's other subsidiaries file separate tax returns in accordance with the tax legislation in force in each country.

**Years open for review by the tax authorities-**

In July 2016, the tax authorities notified Almirall, S.A., in its capacity as representative of the tax group, of the initiation of a review of Corporate Income Tax (tax consolidation regime) for 2011, 2012 and 2013 and Value Added Tax, Withholdings and advance tax payments on income from capital, Withholdings and advance tax payments on employment/professional income, Withholdings and advance tax payments on lease income and Withholdings and advance tax payments on non-residents for the period June 2012 to December 2013.

Consequently, the Parent and the companies in the Spanish tax group headed by it have 2011 to 2016 open for review by the tax authorities for income tax and 2012 to 2016 for the other taxes applicable to them.

During 2016 the following reviews have been started by the tax authorities with the foreign companies of the group indicated, which at the date of preparation of these annual accounts are still ongoing:

- Almirall Hermal GmbH (Germany), for 2009, 2010, 2011, 2012 and 2013, in relation to Corporate Income Tax, Value Added Tax and Withholdings and advance tax payments on account of Personal Income Tax.

- Almirall GmbH (Austria), for 2012, 2013, and 2014, in relation to Corporate Income Tax and Value Added Tax.

A review was started by the tax authorities during 2016 on the following foreign companies of the group, which concluded in 2016 with no significant amounts arising as a result.

- Almirall BV (Holland), for 2015, in relation to Withholdings and advance tax payments on account of Personal Income Tax.

- Almirall SAS (France), for 2013, 2014 and 2015, in relation to Intrastat.

- Almirall SAS (France), for 2015, in relation to the levy on drug promotion expenses.

For the Group's foreign companies, their applicable taxes for the corresponding years are open to inspection in each of the local jurisdictions.

The Group considers that the probability of any effective payment to the tax authorities arising from the above reviews or any other significant issues are remote.

Generally, in view of the varying interpretations that can be made of the applicable tax legislation, the outcome of the tax audits of the open years that are being or could be conducted by the tax authorities in the future could give rise to tax liabilities which cannot be objectively quantified at the present time. However, the directors of the Parent consider that the possibility of any material liability arising in this connection other than those already recognised is remote.

**Tax receivables and payables-**

The detail of the current tax receivables and payables at 31 December 2016 and 2015 is as follows:

| | Thousands of Euros | |
|---|---|---|
| | 31/12/2016 | 31/12/2015 |
| VAT refundable | 10,838 | 7,683 |
| Income tax refundable | 31,056 | 54,503 |
| Other receivables | 3,649 | 5,417 |
| **Total balances receivable** | **45,543** | **67,603** |
| Tax payable | 2,451 | 50 |
| VAT payable | 4,069 | 2,643 |
| Personal income tax withholdings | 5,568 | 2,157 |
| Social security payable | 4,206 | 3,278 |
| Income tax payable | 7,387 | 1,735 |
| **Total balances payable** | **23,681** | **9,863** |

"Income Tax Refundable" includes the tax refundable for 2016 and 2015 relating to the consolidated Spanish tax group led by the Parent Almirall, S.A., which has been refunded at the date of these consolidated annual accounts.

**Income tax recognised-**

The detail of the income tax recognised in the consolidated income statement and in equity in 2016 and 2015 is as follows:

| | Thousands of Euros Expense (income) | |
|---|---|---|
| | 2016 | 2015 |
| Income tax: | | |
| - Recognised in the income statement | 17,158 | 40,810 |
| - Recognised in equity | (2,907) | 5,959 |
| **Total** | **14,251** | **46,769** |

**Reconciliation of the accounting profit to the taxable profit-**

The reconciliation of the income tax expense payable at the standard rate of tax in force in Spain to the income tax expense recognised is as follows:

| | Thousands of Euros | |
|---|---|---|
| | **2016** | **2015** |
| Consolidated profit (loss) before tax (continuing operations) | 92,637 | 172,636 |
| Permanent differences: | | |
| - Of individual companies | | |
| Increase | 18,746 | 13,868 |
| Decrease | (75,875) | (64,703) |
| - Consolidation adjustments | | |
| Increase | 99,044 | 9,619 |
| Decrease | (8,590) | (14,886) |
| Adjusted accounting profit (loss) | 125,962 | 116,533 |
| Tax rate | 25% | 28% |
| **Gross tax payable (refundable)** | **31,491** | **32,629** |
| Tax credits: | | |
| Tax credit used in the year and other consolidation adjustments | (1,697) | (2,504) |
| Income tax of Almirall, S.A. paid abroad | 3,145 | 1,506 |
| Adjustment of deferred tax assets and liabilities | - | 2,858 |
| **Underlying tax expense payable (refundable)** | **32,939** | **34,490** |
| Effect of different tax rates between countries | 7,175 | 4,770 |
| Other changes | (22,956) | 1,551 |
| **Income tax expense (revenue)** | **17,158** | **40,810** |

The reduced taxable profit resulting from permanent differences of the individual companies in 2016 and 2015 is a result basically of the reduction of the taxable profit relating to proceeds from the transfer of intangible assets whilst the increase mainly corresponds to the different recognition for accounting purposes of certain expenses arising in these years.

The increase of permanent differences in 2016 arising from the consolidation adjustments mainly correspond to the elimination of results generated within the consolidated group and the taxation in 2016 of certain adjustments on equity instruments of subsidiaries which had generated negative permanent differences for consolidation adjustments in prior years.

“Other movements” in 2016 mainly correspond to (i) a reversal of a deferred tax liability recognised in prior years as a result of changes to tax laws (EUR 10,336 thousand), and (ii) the deferred tax from the capitalisation of R&D expenses of Polichem, S.A. for statutory purposes (for consolidated purposes, they are allocated directly to the consolidated income statement).

The detail of the tax incentives recognised in 2016 and 2015 and the amounts not yet recognised at 31 December 2016 and 31 December 2015 is as follows:

| Nature | Year earned | Thousands of Euros | | | |
|---|---|---|---|---|---|
| | | 2016 | | 2015 | |
| | | Offset | Available for offset | Offset | Available for offset |
| Research and development | 2007 | 1,290 | 30,121 | 853 | 31,411 |
| | 2008 | - | 34,841 | - | 34,841 |
| | 2009 | - | 26,883 | - | 26,883 |
| | 2010 | - | 34,628 | - | 34,628 |
| | 2011 | - | 35,845 | - | 35,845 |
| | 2012 | - | 32,841 | - | 32,841 |
| | 2013 | - | 28,923 | - | 28,923 |
| | 2014 | - | 23,387 | - | 23,387 |
| | 2015 | - | 12,247 | - | 12,247 |
| | 2016 | - | 14,039 | - | - |
| | | **1,290** | **273,755** | **853** | **261,006** |
| Innovations in technology | 2012 | - | 965 | - | 965 |
| | 2013 | - | 1,302 | - | 1,302 |
| | 2014 | - | 701 | - | 666 |
| | | **-** | **2,968** | **-** | **2,933** |
| International double taxation | 2012 | - | - | - | - |
| | 2013 | - | - | - | - |
| | 2014 | - | - | - | - |
| | 2015 | - | - | 504 | - |
| | 2016 | 1,258 | - | - | - |
| | | **1,258** | **-** | **504** | **-** |
| Re-investment of extraordinary income | 2012 | - | 55 | - | 55 |
| | 2013 | - | 2 | - | 2 |
| | 2014 | - | 10 | - | 10 |
| | | **-** | **67** | **-** | **67** |
| Donations | 2012 | - | - | - | - |
| | 2013 | - | - | - | - |
| | 2014 | - | - | - | - |
| | 2015 | - | - | 114 | - |
| | 2016 | 145 | - | - | - |
| | | **145** | **-** | **114** | **-** |
| Temporary measures | 2015 | - | **-** | 139 | **-** |
| | 2016 | 255 | **-** | - | **-** |
| | | **255** | **-** | **139** | **-** |
| **Total reported tax incentives** | | **2,948** | **276,790** | **1,610** | **264,006** |
| **Total deferred tax assets recognised in balance sheet** | | | **251,305** | | **251,759** |

The deadline for recognition of tax credit carryforwards is 18 years from the date earned. These tax assets may only be recognised in relation to 50% of the tax payable in accordance with current legislation, if legislation establishes that the tax credit which the Parent Company shall generate each year shall exceed 10% of its tax liability before tax credits.

**Deferred taxes-**

A detail of deferred tax assets and liabilities is as follows:

| | 2016 | 2015 |
|---|---|---|
| Deferred tax assets | 327,475 | 316,878 |
| Deferred tax liabilities | (233,403) | (125,416) |
| **Deferred tax assets (net)** | **94,072** | **191,462** |

The gross changes in the deferred taxes are as follows:

| | 2016 | 2015 |
|---|---|---|
| At 1 January | 191,462 | 211,961 |
| Credit to profit or loss | 28,852 | (19,779) |
| Tax (charged) refunded directly to equity | 2,907 | (720) |
| Business combinations (Note 7) | (129,149) | - |
| **At 31 December** | **94,072** | **191,462** |

In accordance with current tax legislation in the countries in which the consolidated entities are located, in 2016 and 2015 certain temporary differences have arisen which should be taken into account when quantifying the corresponding income tax expense. The detail of deferred taxes recognised in both years is as follows:

| | Thousands of Euros | | | |
|---|---|---|---|---|
| | 2016 | | 2015 | |
| | Accumulated differences in taxable profit (tax loss) | Accumulated effect on tax payable | Accumulated differences in the taxable profit (tax loss) | Accumulated effect on tax payable |
| **Deferred tax assets:** | | | | |
| Amortisation and depreciation of non-current assets | 119,698 | 30,756 | 82,765 | 22,398 |
| Write-offs | 95,016 | 26,638 | 99,247 | 26,412 |
| Retirement benefit obligations | 41,064 | 12,052 | 31,383 | 9,213 |
| Measurement of inventories | 3,835 | 1,761 | 11,648 | 4,080 |
| Other | 6,577 | 2,192 | 6,390 | 2,335 |
| | **266,190** | **73,399** | **231,434** | **64,438** |
| **Tax assets:** | | | | |
| Tax loss carryforwards | 20,808 | 2,771 | - | - |
| Tax credit carryforwards | - | 251,305 | - | 251,759 |
| **Total deferred tax assets and tax relief:** | | **327,475** | | **316,197** |
| **Deferred tax liabilities:** | | | | |
| Accelerated amortisation/depreciation (Royal Decree 27/84, Royal Decree 2/85, Royal Decree 3/93) | 40,769 | 10,344 | 43,566 | 11,135 |
| Assets held under finance leases | 5,677 | 1,419 | 6,179 | 1,545 |
| Capitalisation in intangible assets | 6,156 | 1,848 | 7,934 | 2,381 |
| Gains recognised in assets | 701,025 | 186,799 | 241,221 | 68,772 |
| Amortisation of goodwill | 86,627 | 23,427 | 77,024 | 21,026 |
| Tax effect of reversal of write-offs to investments (subsidiaries) | 16,507 | 5,352 | 50,960 | 15,688 |
| Other | 21,367 | 4,214 | 23,979 | 4,869 |
| **Deferred tax liabilities** | | **233,403** | | **125,416** |

The deferred tax assets indicated above, totalling EUR 327,475 thousand, are mainly from Almirall, S.A., which reports a total of EUR 283,474 thousand in deferred tax assets in its annual accounts at 31 December 2016 (mainly due to the deductions pending application stated above). These deferred tax assets were recognised in the consolidated balance sheet the Parent company's directors consider that it is probable that these assets will be recovered in full within 10 years in line with their best estimates of future profit. The basis of the estimated future profit underpinning this analysis was as follows:

- Projections of estimated profit of the consolidated Spanish tax group over the next five years (extrapolated up to 10 years) based on the product portfolio and current group structure. This projection took into account sustained increases in future profit, the result mainly of expected growth in sales of the products in the Group's portfolio as well as significant synergies which are expected as a result of the restructuring of the Group.

- Estimated additional effects expected in profit or loss over the coming years as a result of the expected future investments/acquisitions at medium term and taking into account the relevant investments made in 2016. Estimated target returns and the probability of achieving them were also considered.

The increase in deferred tax liabilities is mainly due to the deferred tax liabilities included for the business combinations made in 2016 (Note 7).

## 22. Business and geographical segments

### Segmentation criteria

Set out below is a description of the main criteria used to separate the Group's segment reporting in the consolidated annual accounts for the years ended 31 December 2016 and 2015.

*Business segments:*

The business lines described below were established based on the organisational structure of the Group. They form the basis of primary segment reporting.

a) Sales through own network.

b) Sales through licensees.

c) Research and development activities.

d) Therapeutic dermatological products in the US.

e) Corporate management and results not allocated to other segments.

The operating segments reported in these accompanying notes are those whose income, profit (loss) and/or assets exceed 10% of the corresponding figure for the Group. Therefore, “Corporate Management and Results not Allocated to Other Segments" includes income and expense not directly related which are allocated to lines of business and relate mainly to the Group's corporate assets and production centres.

### Basis and methodology of segment reporting by business-

The segment information reported below is based on the reports prepared by Group management and is generated through information based on the Group's consolidated accounting information.

For the purposes of calculating information by segment in the consolidated income statement, the consolidated balances of each segment have been taken into account, following the allocation of the pertinent consolidation adjustments to each segment. The allocation of consolidation adjustments has been taken into account for the purposes of segment reporting in the consolidated balance sheets.

Segment revenues, including “Revenue" and "Other Income" relate to those directly attributable to the segment.

The revenues received by the Group as a result of the agreements indicated in Note 6 have been assigned, if possible, on the basis of the business segment directly related to the territories or activity associated with those agreements, irrespective of whether they relate to amounts received for milestones or initial disbursements recognised on a deferred basis in the consolidated income statement, mainly in the own network sales and licensee segments and research and development activities. However, the change to fair value of the assets generated from the sale operation with AstraZeneca has been included in the segment “Corporate management and results not assigned to other segments”.

Revenue recognised on the R&D segment relates to expenses re-invoiced to third parties for that activity.

The expenses of each segment are determined on the basis of the expenses deriving from its operating activities and which are directly attributable to it, including "Procurements", "Staff costs", "Amortisation and Depreciation Charge" and "Other Operating Costs." The amounts recognised as "Procurements" in each of the segments include, in addition to the acquisition cost of materials, the costs allocated to them by the Group in the manufacturing process (such as staff costs and amortisation and depreciation, among others). These costs are included in the "Corporate Management and Results not assigned to other Segments" segment. Therefore, they are eliminated from the profit or loss of the Group companies for consolidation purposes.

The expenses taken into account in each of the segments, as described above, do not include amortisation or depreciation, restructuring costs, impairment losses or general administrative expenses relating to general services that are not directly allocated to each business segment and, therefore, they have not been distributed.

The Group does not disclose information on relevant clients by segment in the consolidated annual accounts or finance expense and the income tax expense by segment as this information is not used by the Board of Directors to make the Group's management decisions. Information on significant customers is not used as none of them individually accounts for more than 10% of the Group's revenue.

Tangible assets (property, plant and equipment, inventories, etc.) were assigned to segments on the basis of the end use of each segment, irrespective of their geographical location.

Intangible assets (goodwill, intangible assets, etc.) were allocated on the basis of the cash generating unit, ensuring the recovery of the value of those assets. Goodwill was allocated as follows:

- Almirall, S.A.: allocated to the "Corporate Management and Results not allocated to Other Segments" segment given its structural nature in the Group's current make-up and the fact that it cannot be assigned to any segment in particular, as detailed in Note 8.
- Almirall Hermal, GmbH: allocated to the "Own Network Marketing" segment since the main cash generating unit with respect to the aforementioned goodwill is this segment.
- Aqua Pharmaceuticals: allocated to the "Dermatology in the US" segment since the main cash generating unit with respect to the aforementioned goodwill is this segment (Note 8).
- Poli Group: The assets, income and expenses have been distributed between the segment "Sales by own network" and "Sales by licence holders" in line with the Cash-Generating Units used for the purpose of the impairment tests stated in Note 5-d.
- ThermiGen: It has been assigned to the segment of "Dermatology area in the USA".

The Group has no criteria in place for distributing equity or liabilities by segment and therefore there is no detail of that information. In addition, certain balance sheet items, including current and non-current financial assets held by the Group, cash and cash equivalents and other less significant items, are considered to be linked to the "Corporate Management and Results not allocated to Other Segments" segment.

**Segment reporting-**

*Segment reporting by business-*

*Income statement for the year ended 31 December 2016 by segment*

| | Sales through own network | Sales through licensees | Research and development activity | Dermatology in the US | Corporate management and results not allocated to other segments | Adjustments and reclassifications | Total |
|---|---|---|---|---|---|---|---|
| Revenue | 448,118 | 90,892 | - | 203,394 | 21,957 | - | 764,361 |
| Procurements | (143,912) | (29,384) | - | (27,938) | (16,886) | 55,349 | (162,771) |
| **Gross margin** | **304,206** | **61,508** | **-** | **175,456** | **5,071** | **55,349** | **601,590** |
| Other income | 1,839 | 49,210 | 9,014 | 2,914 | 31,877 | - | 94,854 |
| Staff costs | (59,283) | (4,810) | (20,175) | (44,149) | (72,775) | - | (201,192) |
| Amortisation/depreciation | (31,344) | (11,725) | (6,655) | (27,658) | (22,914) | - | (100,296) |
| Net change in provisions, allowances and write-offs | 235 | 329 | - | (4,466) | 2,515 | - | (1,387) |
| Other operating costs | (78,750) | (10,185) | (71,453) | (58,789) | (51,298) | - | (270,475) |
| **Profit from operations (*)** | **136,903** | **84,327** | **(89,269)** | **43,308** | **(107,524)** | **55,349** | **123,094** |
| Gains (losses) on sales of non-current assets/other | - | - | - | (350) | 30,439 | - | 30,089 |
| Staff restructuring costs | - | - | - | - | (26,577) | - | (26,577) |
| Impairment losses | - | - | (15,000) | - | - | - | (15,000) |
| Financial profit (loss) | - | - | - | (16,846) | (2,123) | - | (18,969) |
| **Profit (loss) before tax** | **136,903** | **84,327** | **(104,269)** | **26,112** | **(105,785)** | **55,349** | **92,637** |
| Income tax | (1,747) | (2,441) | - | (11,897) | (1,073) | - | (17,158) |
| **Net results attributable to Parent company** | **135,156** | **81,886** | **(104,269)** | **14,215** | **(106,858)** | **55,349** | **75,479** |

(*) Before results for sale of assets/others, impairment and staff restructuring costs.

*Assets at 31 December 2016 by segment*

| ASSETS | Sales through own network | Sales through licensees | Research and development activity | Dermatology in the US | Corporate management and results not allocated to other segments | Total |
|---|---|---|---|---|---|---|
| Goodwill | 235,143 | 45,391 | - | 116,727 | 35,504 | 432,765 |
| Intangible assets | 89,849 | 375,414 | 6 | 327,666 | 200,061 | 992,996 |
| Property, plant and equipment | 418 | 4,676 | 35,471 | 7,732 | 84,001 | 132,298 |
| Financial assets | 162 | 17 | - | 1,252 | 193,010 | 194,441 |
| Deferred tax assets | 3,208 | 2,384 | - | 16,068 | 305,815 | 327,475 |
| **NON-CURRENT ASSETS** | **328,780** | **427,882** | **35,477** | **469,445** | **818,391** | **2,079,975** |
| Inventories | 32,956 | 1,632 | - | 17,048 | 39,404 | 91,040 |
| Trade and other receivables | 36,610 | 23,768 | 916 | 64,237 | 5,077 | 130,608 |
| Current tax assets | 2,091 | 88 | - | - | 43,364 | 45,543 |
| Other current assets | 982 | 449 | - | 1,999 | 1,221 | 4,651 |
| Current financial assets | - | 69,676 | - | 9,487 | 138,049 | 217,212 |
| Cash and cash equivalents | 21,932 | 4,481 | - | 75,064 | 148,022 | 249,499 |
| **CURRENT ASSETS** | **94,571** | **100,094** | **916** | **167,835** | **375,137** | **738,553** |
| **TOTAL ASSETS** | **423,351** | **527,976** | **36,393** | **637,280** | **1,193,528** | **2,818,528** |

The goodwill allocated to Almirall Hermal GmbH is detailed in Note 8 to these consolidated annual accounts The goodwill is allocated to the sales through own network segment since acquisition of this company includes production and marketing activity.

The detail of non-current assets located abroad is included in Note 10.

*Additions to non-current assets by segment in the year ended 31 December 2016*

| | Sales through own network | Sales through licensees | Research and development activity | Dermatology in the US | Corporate management and results not allocated to other segments | Total |
|---|---|---|---|---|---|---|
| Total additions to non-current assets | 222,516 | 362,495 | 7,042 | 70,442 | 30,245 | **692,740** |

*Income statement for the year ended 31 December 2015 by segment*

| | Sales through own network | Sales through licensees | Research and development activity | Dermatology in the US | Corporate management and results not allocated to other segments | Adjustments and reclassifications | Total |
|---|---|---|---|---|---|---|---|
| Revenue | 472,053 | 40,132 | - | 150,010 | 22,790 | - | 684,985 |
| Procurements | (159,954) | (12,638) | - | (13,609) | (18,993) | 54,407 | (150,787) |
| **Gross margin** | **312,099** | **27,494** | **-** | **136,401** | **3,797** | **54,407** | **534,198** |
| Other income | 4,195 | 65,394 | 14,174 | 385 | (133) | - | 84,015 |
| Amortisation/depreciation | (60,008) | - | (30,541) | (22,118) | (75,714) | - | 188,381 |
| Amortisation/depreciation | (27,378) | - | (6,713) | (20,400) | (19,759) | - | (74,250) |
| Net change in provisions, allowances and write-offs | - | - | - | (3,704) | 1,170 | - | (2,534) |
| Other operating costs | (82,911) | (3,202) | (36,889) | (36,224) | (70,219) | - | (229,445) |
| **Profit from operations (*)** | **145,997** | **89,686** | **(59,969)** | **54,340** | **(160,858)** | **54,407** | **123,603** |
| Gains (Losses) on sales of non-current assets/other | - | - | - | - | 44,914 | - | 44,914 |
| Impairment losses | (241) | - | - | - | - | - | (241) |
| Financial profit (loss) | - | - | - | (16,572) | 20,932 | - | 4,360 |
| **Profit (loss) before tax** | **145,756** | **89,686** | **(59,969)** | **37,768** | **(95,012)** | **54,407** | **172,636** |
| Income tax | - | - | - | (16,300) | (24,510) | - | (40,810) |
| **Net results attributable to Parent company** | **145,756** | **89,686** | **(59,969)** | **21,468** | **(119,522)** | **54,407** | **131,826** |

(*) Before results for sale of assets/others and impairment

*Assets at 31 December 2015 by segment*

| ASSETS | Sales through own network | Sales through licensees | Research and development activity | Dermatology in the US | Corporate management and results not allocated to other segments | Total |
|---|---|---|---|---|---|---|
| Goodwill | 227,743 | - | - | 84,160 | 35,407 | 347,310 |
| Intangible assets | 83,017 | - | 15,008 | 280,041 | 34,627 | 412,693 |
| Property, plant and equipment | 759 | - | 37,592 | 131 | 89,313 | 127,795 |
| Financial assets | 161 | - | - | 425 | 180,000 | 180,586 |
| Deferred tax assets | 4,875 | - | - | 10,318 | 301,685 | 316,878 |
| **NON-CURRENT ASSETS** | **316,555** | **-** | **52,600** | **375,075** | **641,032** | **1,385,262** |
| Inventories | 42,316 | 7,416 | - | 6,649 | 30,743 | 87,124 |
| Trade and other receivables | 39,009 | 28,464 | 1,385 | 38,927 | 13,184 | 120,969 |
| Current tax assets | 4,668 | - | - | - | 62,936 | 67,603 |
| Other current assets | 768 | - | - | 1,950 | 673 | 3,391 |
| Current financial assets | - | - | - | - | 270,042 | 270,042 |
| Cash and cash equivalents | - | - | - | 48,266 | 549,688 | 597,954 |
| **CURRENT ASSETS** | **86,761** | **35,880** | **1,385** | **95,792** | **927,265** | **1,147,083** |
| **TOTAL ASSETS** | **403,316** | **35,880** | **53,985** | **470,867** | **1,568,297** | **2,532,345** |

The goodwill allocated to Almirall Hermal GmbH is detailed in Note 8 to these consolidated annual accounts The goodwill is allocated to the sales through own network segment since acquisition of this company includes production and marketing activity.

The detail of non-current assets located abroad is included in Note 10.

*Additions to non-current assets by segment in the year ended 31 December 2015*

| | Sales through own network | Sales through licensees | Research and development activity | Dermatology in the US | Corporate management and results not allocated to other segments | Total |
|---|---|---|---|---|---|---|
| Total additions to non-current assets | 412 | - | 7,345 | 32,160 | 16,271 | **56,188** |

**Revenue by therapeutic area-**

Set out below is a detail of the contribution to revenue of the Group's main therapeutic areas in 2016 and 2015:

| | Thousands of Euros | |
|---|---|---|
| | **2016** | **2015** |
| Respiratory | 65,591 | 104,964 |
| Gastrointestinal and Metabolism | 115,163 | 122,830 |
| Dermatology | 389,847 | 295,113 |
| CNS | 60,825 | 54,273 |
| Osteomuscular | 34,679 | 41,127 |
| Cardiovascular | 26,497 | 27,332 |
| Other specialist therapies | 71,759 | 39,346 |
| **Total** | **764,361** | **684,985** |

Revenue, by geographical area, in 2016 and 2015 is detailed in Note 20.

## 23. Dividends paid by the Parent company

The dividends paid by the Parent company in 2016 and 2015, which related to the dividends approved out of profit earned in the previous year, are as follows:

| | 2016 | | | 2015 | | |
|---|---|---|---|---|---|---|
| | **% of nominal amount** | **Earnings per share (Euros)** | **Amount (Thousands of Euros)** | **% of nominal amount** | **Earnings per share (Euros)** | **Amount (Thousands of Euros)** |
| Ordinary shares | 158% | 0.19 | 33,000 | 167% | 0.20 | 35,000 |
| **Total dividend paid** | **158%** | **0.19** | **33,000** | **167%** | **0.20** | **35,000** |

## 24. Earnings per share

**Basic earnings per share**

Basic earnings per share are calculated by dividing net profit or loss attributable to the Parent company by the weighted average number of ordinary shares outstanding during the year, excluding the average number of treasury shares held during the year. Diluted earnings per share are calculated by dividing the net profit for the year attributable to ordinary shareholders by the weighted number of ordinary shares outstanding during the year, adjusted by the weighted average number of ordinary shares that would have been outstanding assuming the conversion of all the potential ordinary shares into ordinary shares of the Parent company. For these purposes, conversion is deemed to take place at the start of the period or when the potentially dilutive ordinary shares are issued, where they have become outstanding during the period in question.

Accordingly:

| | 2016 | 2015 |
|---|---|---|
| Net profit (loss) for the year (thousands of euros) | 75,479 | 131,826 |
| Weighted average number of shares outstanding (Thousands of shares) | 172,951 | 172,951 |
| **Basic earnings per share (euros)** | **0.44** | **0.76** |

In 2016 and 2015 there were no changes in the shares outstanding.

## 25. Commitments acquired, contingent liabilities and contingent assets

### *a) Commitments acquired*

As a result of the research and development activities carried out by the Group, firm agreements for approximately EUR 0.6 million and EUR 0.4 million were entered into at 31 December 2016 and 2015 in relation to the performance of the above research and development activities which would be paid in future years.

There are no commitments to purchase property, plant and equipment for significant amounts at 31 December 2016 and 2015.

The Group's lease obligations are detailed in Note 20.

### *b) Contingent liabilities*

There were no other contingent liabilities at the date of authorisation for issue of these consolidated annual accounts that might result in significant cash outlays.

### *c) Contingent assets*

As a result of the operation with AstraZeneca described in Note 6-a, the Group is entitled to receive a payment of certain amounts for milestones related to certain regulatory and commercial events.

## 26. Related-party transactions

Transactions between the Parent and its subsidiaries, which are related parties, have been eliminated on consolidation and are not therefore disclosed in this Note. Transactions between the Parent and its subsidiaries are disclosed in the separate annual accounts.

*Balances and transactions with other related parties*

In 2016 and 2015 the Group companies performed the following related-party transactions. The balances in this respect at 31 December 2016 and 2015 were as follows:

| | | | Thousands of Euros | |
|---|---|---|---|---|
| Related party | Transaction | Year | Transactions - Income (Expense) | Balance receivable (payable) |
| Grupo Corporativo Landon, S.L. | Leases | 2016 | (2,617) | (218) |
| | | 2015 | (2,625) | - |
| Grupo Corporativo Landon, S.L. | Re-invoicing of projects | 2016 | 246 | 24 |
| | | 2015 | 253 | 172 |

The Group's headquarters are rented from Grupo Corporativo Landon, S.L. under a lease which runs out in 2017.

The related party transactions are carried out on an arm's-length basis.

## 27. Remuneration of the Board of Directors and Executives

The Group considers the members of the Management Committee who are not members of the Board of Directors as executives for the purpose of the consolidated annual accounts.

In 2016 and 2015 the amounts earned by executives who are not members of the Parent's Board of Directors for all items (salaries, bonuses, per diems, remuneration in kind, compensation, incentive plans and social security contributions) totalled EUR 3,757 thousand and EUR 3,610 thousand, respectively.

The above amounts include remuneration paid and payable to the Group's executives. For incentive and loyalty plans that cover more than one year and SEUS plans (see Note 5-x) the remuneration earned amounted to EUR 524 and EUR 684 thousand in 2016 and 2015, respectively. The ending balance of the provision for these plans amounts to EUR 3,027 thousand in 2016 (EUR 6,274 thousand in 2015).

At 31 December 2016 and 2015, the Group did not have any other pension obligations to executives.

In 2016 and 2015 the amount earned by the current and former members of the Parent company's Board of Directors for all types of remuneration (salaries, bonuses, per diems, remuneration in kind, life insurance plans, indemnities, incentive plans and social security contributions) amounted to EUR 2,780 thousand and EUR 3,055 thousand, respectively. The life insurance policies amount to EUR 14.5 thousand (EUR 13.6 thousand in 2015).

In 2016, insurance premiums for civil liability totalling EUR 95.7 thousand have been accrued, which cover possible damages caused whilst members of the Board of Directors and Top Management carried out the duties of their offices.

The amount indicated above includes the remuneration paid and payable by the Parent company's Board of Directors for multi-year incentive and loyalty plans, and SEUS plans amounting to EUR 314 thousand and EUR 495 thousand in 2016 and 2015, respectively. The ending balance of the provision for these plans amounts to EUR 1,816 thousand in 2016 (EUR 2,751 thousand in 2015).

At 31 December 2016 and 2015, there were no other pension obligations to the current and former members of the Board of Directors of the Parent company.

The members of the Group's Board of Directors and Senior Management have not received any shares or share options in the year and they have not exercised any options and do not have any options which have not yet been exercised.

## 28. Directors: other disclosures

The directors have a duty not to become involved in situations that constitute a conflict of the Parent company's interest. Accordingly the directors on the Board met all the obligations foreseen in Article 228 of the consolidated Spanish Companies Law. The directors and any related parties thereto were not involved in any situations that constituted a conflict of interest envisaged in Article 229 of this law except where the relevant authorisation was obtained.

## 29. Information on the environment

The Group companies adopted the relevant environmental measures in order to comply with prevailing legislation in this connection.

The Almirall Group's property, plant and equipment include certain environmentally friendly assets (smoke abatement, underfloor drainage, etc.). The carrying amount of the assets is approximately EUR 1.7 million and EUR 0.3 million at 31 December 2016 and 2015, respectively.

The consolidated income statements for 2016 and 2015 include expenses related to protection of the environment amounting to EUR 1.3 million and EUR 1.1 million, respectively.

The Parent's directors consider that the measures adopted adequately cover all the possible requirements and, therefore, there are no environmental risks or contingencies. Grants or income have not been received in connection with these activities.

## 30. Exposure to risk and capital management

The Group's business is exposed to certain financial risk: market risk (including foreign currency risk, interest rate risk and price risk), credit risk and liquidity risk. The Group's overall risk management program is focused on the uncertainty of the financial markets and it seeks to minimise the potential adverse effect on its financial profitability.

Risk management is carried out by the Group's Treasury Department, which identifies, assesses and hedges financial risks in accordance with the policies approved by the Board of Directors. The Board provides written policies for overall risk management and written policies covering specific areas such as foreign currency risk, interest rate risk, and liquidity risk, use of derivatives and non-derivatives and investment of surplus liquidity.

***Interest rate risk***

At the beginning of 2014 the Group's Parent company issued high-yield bonds at a fixed rate of interest of 4.625% and in 2016 the situation has not changed, therefore, it is not exposed to any fluctuations in interest rates. The credit rating obtained with the issue in 2014 was Ba2/BB.

In 2016 the Group has maintained the credit lines which it had in 2015 and one credit line remains with a maximum draw down amount of EUR 25 million, regarding which there is no interest rate hedge.

***Foreign currency risk***

The Group is exposed to foreign currency risk on certain transactions arising from its business. The risk relates mainly to revenue received in US dollars for sales of finished goods, payments received for the operation carried out with AstraZeneca, payments in US dollars received as a result of the agreement with Sun Pharmaceutical Industries Ltd., payments in US dollars for clinical trials, raw material purchases and royalty payments in yen and collections and payments made in local currency by the subsidiaries in the UK, Poland, Switzerland, Denmark and the US.

As can be seen from the information stated in Note 20 in relation to Transactions made in foreign currency, the main currency which the Group has operated in is the US dollar.

In the case of collections the foreign currency risk represents 32.64% of revenue and other income, and in the case of payments 31.78% of procurements and other operating costs.

The Group analyses foreseeable collections and payments in foreign currency and the performance and trend thereof on a quarterly basis. In 2016 the Group reduced its exposure to foreign currency risk on higher-volume commercial transactions by arranging foreign currency hedges to hedge payments in yen for purchases of raw materials and to hedge cash inflows and outflows in USD, mainly in respect of collections and payments (at 31 December 2016 there were no significant insurance contracts). Similarly, cash surpluses in foreign currency have been sold in order to avoid exposure to the volatility of the currency market and its resulting effect on the income statement.

The Group's Parent company has taken out two intercompany loans with Almirall, Inc. and Almirall Aesthetics, Inc., both in USD. These loans have not been covered as they are regarded as additional value of the net investment abroad and, consequently, the translation differences generated from this moment have been recognised in "Equity – Translation Differences", without affecting the consolidated income statement.

In addition, to calibrate the sensitivity of the exchange rate of the foreign currency, we should take into account that a 5% variation upwards or downwards of the exchange rate of the euro to the US dollar (major foreign currency) would have implied that the pre-tax consolidated result would have decreased by EUR 1.5 million/increased by EUR 1.7 million, respectively.

***Liquidity risk***

The Group calculates its cash requirements using two fundamental forecasting systems that differ in terms of time scale.

On the one hand, a one-year monthly cash budget based on the projected annual accounts for the current year, whose variations are analysed on a monthly basis. On the other, projections at 24 months, which are updated monthly.

Cash surpluses are generally invested in very short-term financial assets in reputable financial entities.

The Group manages its liquidity risk prudently, maintaining sufficient cash and marketable securities and arranging credit facilities to cater for the projected needs.

Lastly, medium- and long-term liquidity planning and management is based on the Group's five-year Strategic Plan.

The notes on financial instruments (Note 11) and financial liabilities (Note 17) include the time limit for the settlement of cash assets and liabilities.

**Fair value measurement**

Disclosure of measurement of assets and liabilities at fair value should use the hierarchy defined in IFRS 7:

Level 1. Quoted price (unadjusted) in active markets for identical assets and liabilities.

Level 2. Inputs other than quoted price included within level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3. Inputs for the asset or liability that are not based on observable market data.

The detail of the Group's assets and liabilities at fair value using the levels above at 31 December 2016 and 2015 is as follows (in thousands of euros):

| **2016** | **Level 1** | **Level 2** | **Level 3** |
|---|---|---|---|
| Assets | | | |
| Available-for-sale financial assets | 545 | - | - |
| Financial assets at fair value through profit or loss (*) | - | - | 168,386 |
| **Total assets** | **545** | **-** | **168,386** |
| Liabilities | (**) - | - | - |
| **Total liabilities** | **-** | **-** | **-** |

(*) including the non-current and current amounts arising on the AstraZeneca transaction (see Note 11).
(**) The listing value of the issuance of non-convertible bonds (nominal value of EUR 323,550 thousand) at 31 December 2016 was 103.6.

| **2015** | **Level 1** | **Level 2** | **Level 3** |
|---|---|---|---|
| Assets | | | |
| Available-for-sale financial assets | 7,957 | - | - |
| Financial assets at fair value through profit or loss (*) | - | - | 163,350 |
| **Total assets** | **7,957** | **-** | **163,350** |
| Liabilities | (**) - | - | - |
| **Total liabilities** | **-** | **-** | **-** |

(*) including the non-current and current amounts arising on the AstraZeneca transaction (see Note 11).
(**) The listing value of the issuance of non-convertible bonds (nominal value of EUR 323,550 thousand) at 31 December 2015 was 104.2-105.4.

***Credit risk***

The Group manages the credit risk of its accounts receivable on a case-by-case basis. For preventative purposes, there are credit limits on sales to wholesalers, pharmacies and local licensees. In view of the relatively reduced weight of hospital sales, collection management is performed directly after the transaction once the receivable has become due.

Allowances are recognised for the total amounts that cannot be collected once all the relevant collection management efforts have been made. The balance of the allowance recognised in this connection at 31 December 2016 and 2015 were EUR 10,592 thousand and EUR 6,368 thousand, respectively (Note 13).

The Group mitigates the credit risk relating to financial assets by investing mainly in very short-term floating-rate instruments at banks with a high credit rating.

The Group does not have any significant credit risk exposure since it places cash and arranges derivatives with highly solvent entities.

**Capital management**

The Group manages its capital to guarantee the continuity of the activities of the Group companies while maximising shareholders' returns through an optimum debt-equity ratio.

The Group periodically reviews the shareholding structure on the basis of a five-year strategic plan that establishes the guidelines concerning investment and financing requirements.

At 31 December 2016 and 2015 the leverage ratios were as follows (in thousands of euros):

| | 31 December 2016 | 31 December 2015 |
|---|---|---|
| Financial liabilities | 321,030 | 319,718 |
| Retirement benefit obligations | 71,939 | 63,813 |
| Cash and cash equivalents | (466,711) | (867,996) |
| **Net debt** | **(73,742)** | **(484,465)** |
| Equity | 1,520,280 | 1,462,582 |
| Share capital | 20,754 | 20,754 |
| **Leverage ratio**(1) | **(5%)** | **(33%)** |

(1) On the basis of the calculation used by the Group to determine the leverage ratio (not including "Other Financial Liabilities" included in Note 17).

## 31. Information on delays in payments to suppliers

The supplier payment periods in force at the Spanish companies in the Groupcomply with the boundaries established in Law 15/2010, of 5 July, on amendments to Law 3/2004 to combat non-payment in commercial transactions. The aforementioned law envisages a maximum payment period of 60 days.

The detail of payments made on commercial transactions in the year that are outstanding at the end of the year with respect to the maximum terms allowed by Law 15/2010 and in accordance with the State Official Gazette published on 4 February 2016, is as follows:

| | **Number of days** | |
|---|---|---|
| | **2016** | **2015** |
| | **Days** | **Days** |
| Average payment period | 57 | 44 |
| Ratio of paid operations | 58 | 45 |
| Ratio of outstanding operations | 25 | 30 |
| **Total payments made** | **251,933** | **292,758** |
| **Total outstanding payments** | **12,094** | **29,349** |

This balance relates to the suppliers of the Spanish companies in the Group. Specifically trade payables for goods and services received. The average payment period for these companies was 57 days in 2016 (44 days in 2015).

## 32. Events after the reporting period

From 31 December 2016 up to the preparation of these consolidated annual accounts, no relevant events worthy of mention have occurred.

| | Thousands of Euros | | | | | | |
|---|---|---|---|---|---|---|---|
| Name | Laboratorios Miralfarma, S.L. | Laboratorio Omega Farmacéutica, S.L. | Laboratorios Farmacéuticos Romofarm, S.L. | Laboratorios Almofarma S.L. | Laboratorios Temis Farma, S.L. | Alprofarma, S.L. | Laboratorios Tecnobio, S.A. |
| Management | Spain | Spain | Spain | Spain | Spain | Spain | Spain |
| Activity | Intermediary services | Intermediary services | Intermediary services | Intermediary services | Intermediary services | Intermediary services | Intermediary services |
| **31 December 2016** | | | | | | | |
| % interest held | | | | | | | |
| - Directly | 100% | 100% | 100% | 100% | 100% | 100% | 100% |
| - Indirectly | - | - | - | - | - | - | - |
| % voting rights | 100% | 100% | 100% | 100% | 100% | 100% | 100% |
| Consolidation method | Full consolidation | Full consolidation | Full consolidation | Full consolidation | Full consolidation | Full consolidation | Full consolidation |
| Share capital | 120 | 120 | 60 | 120 | 120 | 60 | 61 |
| Reserves | 1,997 | 2,735 | 2,057 | 1,023 | 2,246 | 60 | 1,424 |
| Net profit (loss) for the year | 2 | 103 | - | 20 | 114 | 4 | 33 |
| **31 December 2015** | | | | | | | |
| % interest held | | | | | | | |
| - Directly | 100% | 100% | 100% | 100% | 100% | 100% | 100% |
| - Indirectly | - | - | - | - | - | - | - |
| % voting rights | 100% | 100% | 100% | 100% | 100% | 100% | 100% |
| Consolidation method | Full consolidation | Full consolidation | Full consolidation | Full consolidation | Full consolidation | Full consolidation | Full consolidation |
| Share capital | 120 | 120 | 60 | 120 | 120 | 60 | 61 |
| Reserves | 1,995 | 2,694 | 2,057 | 1,036 | 2,175 | 61 | 1,433 |
| Net profit (loss) for the year | 3 | 41 | - | (14) | 71 | (4) | (9) |

Note: All information on the companies has been obtained from their separate annual accounts. Therefore it does not reflect the effect that would apply from consolidating the investments. Excluding unconsolidated dormant companies.

| | Thousands of Euros | | | | | | |
|---|---|---|---|---|---|---|---|
| Name | Laboratorios Berenguer-Infale, S.L. | Pantofarma, S.L. | Industrias Farmacéuticas Almirall, S.A. | Ranke Química, S.A. | Almirall Internacional, B.V. | Almirall, N.V. | Almirall - Productos Farmacêuticos, Lda. |
| Management | Spain | Spain | Spain | Spain | Netherlands | Belgium | Portugal |
| Activity | Intermediary services | Intermediary services | Manufacturer of specialities | Manufacture of raw materials | International holding company | Pharmaceutical laboratory | Pharmaceutical laboratory |
| **31 December 2016** | | | | | | | |
| % interest held | | | | | | | |
| - Directly | 100% | 100% | 100% | 100% | 100% | 0.01% | - |
| - Indirectly | - | - | - | - | - | 99.99% | 100% |
| % voting rights | 100% | 100% | 100% | 100% | 100% | 100% | 100% |
| Consolidation method | Full consolidation | Full consolidation | Full consolidation | Full consolidation | Full consolidation | Full consolidation | Full consolidation |
| Share capital | 120 | 360 | 1,200 | 1,200 | 52,602 | 1,203 | 1,500 |
| Reserves | 1,301 | 1,000 | 59,890 | 23,152 | 36,521 | 1.763 | 1,260 |
| Net profit (loss) for the year | 28 | 70 | 2,630 | 821 | 19,675 | 121 | 310 |
| **31 December 2015** | | | | | | | |
| % interest held | | | | | | | |
| - Directly | 100% | 100% | 100% | 100% | 100% | 0.01% | - |
| - Indirectly | - | - | - | - | - | 99.99% | 100% |
| % voting rights | 100% | 100% | 100% | 100% | 100% | 100% | 100% |
| Consolidation method | Full consolidation | Full consolidation | Full consolidation | Full consolidation | Full consolidation | Full consolidation | Full consolidation |
| Share capital | 120 | 360 | 1,200 | 1,200 | 52,602 | 1,203 | 1,500 |
| Reserves | 1,294 | 855 | 57,910 | 22,544 | 53,577 | 1,664 | 1,094 |
| Net profit (loss) for the year | 7 | 55 | 1,980 | 608 | 12,198 | 99 | 166 |

Note: All information on the companies has been obtained from their separate annual accounts. Therefore it does not reflect the effect that would apply from consolidating the investments. Excluding unconsolidated dormant companies.

| | Thousands of Euros | | | | | | |
|---|---|---|---|---|---|---|---|
| Name<br>Management<br>Activity | Almirall, BV<br>Netherlands<br>Intermediary services | Almirall S.A. de C.V.<br>Mexico (*)<br>Pharmaceutical laboratory | Almirall Limited<br>United Kingdom<br>Pharmaceutical laboratory | Subgrupo Almirall, S.A.S. (**)<br>France<br>Pharmaceutical laboratory | Almirall SP, Z.O.O.<br>Poland<br>Sale of pharmaceutical specialities | Almirall GmbH<br>Austria<br>Pharmaceutical laboratory | Almirall, AG<br>Switzerland<br>Management of licences and sale of raw materials. |
| **31 December 2016** | | | | | | | |
| % interest held | | | | | | | |
| - Directly | - | - | - | - | - | 100% | 100% |
| - Indirectly | 100% | - | 100% | 100% | 100% | - | - |
| % voting rights | 100% | - | 100% | 100% | 100% | 100% | 100% |
| Consolidation method | Full consolidation | - | Full consolidation | Full consolidation | Full consolidation | Full consolidation | Full consolidation |
| Share capital | 4,000 | - | 563 | 1,257 | 14 | 36 | 652 |
| Reserves | 2,025 | - | 6,776 | (2,708) | 1,379 | 3,024 | 1,169 |
| Net profit (loss) for the year | 121 | - | 993 | - | 36 | 240 | 4,087 |
| **31 December 2015** | | | | | | | |
| % interest held | | | | | | | |
| - Directly | - | 0.74% | - | - | - | 100% | 100% |
| - Indirectly | 100% | 99.26% | 100% | 100% | 100% | - | - |
| % voting rights | 100% | 100% | 100% | 100% | 100% | 100% | 100% |
| Consolidation method | Full consolidation | Full consolidation | Full consolidation | Full consolidation | Full consolidation | Full consolidation | Full consolidation |
| Share capital | 4,000 | 22,878 | 563 | 12,527 | 14 | 36 | 652 |
| Reserves | 1,167 | (1,708) | 6,608 | 90 | 1,377 | 2,859 | 1,905 |
| Net profit (loss) for the year | 858 | 150 | 1,396 | 11,970 | 57 | 165 | (692) |

Note: All information on the companies has been obtained from their separate annual accounts. Therefore it does not reflect the effect that would apply from consolidating the investments. Excluding unconsolidated dormant companies.

(*) This company has been sold in 2016, as indicated in Note 6.
(**) Includes the subsidiaries Almirall, SAS and Almirall Production SAS.

| | Thousands of Euros | | | | | |
|---|---|---|---|---|---|---|
| Name | Almirall SpA | Almirall Hermal, GmbH | Almirall Aps | Almirall Limited | Almirall Inc | Subgroup (****) Aqua |
| Management | Italy | Germany | Denmark | Canada (***) | USA | Pharmaceuticals |
| Activity | Pharmaceutical laboratory | Pharmaceutical laboratory | Pharmaceutical laboratory | Pharmaceutical laboratory | International holding | Pharmaceutical laboratory |
| 31 December 2016 | | | | | | |
| % interest held | | | | | | |
| - Directly | - | 100% | 100% | - | 100% | - |
| - Indirectly | 100% | - | - | - | - | 100% |
| % voting rights | 100% | 100% | 100% | - | 100% | 100% |
| Consolidation method | Full consolidation | Full consolidation | Full consolidation | - | Full consolidation | Full consolidation |
| Share capital | 8,640 | 25 | 17 | - | (4,622) | (58,559) |
| Reserves | 45,783 | 69,312 | 2,039 | - | 100,937 | 132,061 |
| Net profit (loss) for the year | 3,082 | 9,084 | 228 | - | (7,236) | 36,802 |
| 31 December 2015 | | | | | | |
| % interest held | | | | | | |
| - Directly | - | 100% | 100% | 100% | 100% | - |
| - Indirectly | 100% | - | - | - | - | 100% |
| % voting rights | 100% | 100% | 100% | 100% | 100% | 100% |
| Consolidation method | Full consolidation | Full consolidation | Full consolidation | Full consolidation | Full consolidation | Full consolidation |
| Share capital | 8,640 | 25 | 17 | 516 | (4,622) | (58,559) |
| Reserves | 34,813 | 61,657 | 1,780 | 1,234 | 84,757 | 86,573 |
| Net profit (loss) for the year | 5,555 | 13,405 | 250 | 318 | 13,145 | 34,576 |

Note: All information on the companies has been obtained from their separate annual accounts. Therefore it does not reflect the effect that would apply from consolidating the investments. Excluding unconsolidated dormant companies.

(***) This company has been dissolved in 2016.
(****)Includes the holding companies Aqua Pharmaceutical Holdings Inc, Aqua Pharmaceuticals Intermediate Holdings Inc and Aqua Pharmaceuticals LLC.

## APPENDIX: INFORMATION ON GROUP COMPANIES 5/5

| | Thousands of Euros | | | | | | |
|---|---|---|---|---|---|---|---|
| Name | ThermiGen LLC | ThermiAesthetics LLC | Taurus Pharma GmbH | Poli Group Holding, S.R.L. | Polichem, S.A. | Polichem, S.R.L. | Almirall Aesthetics, Inc |
| Management | USA | USA | Germany | Italy | Luxembourg/ Switzerland/ China | Italy | USA |
| Activity | Cosmetic surgery | Cosmetic surgery | Pharmaceutical laboratory | Holding | Pharmaceutical laboratory | Pharmaceutical laboratory | Holding |
| **31 December 2016** | | | | | | | |
| % interest held | | | | | | | |
| - Directly | - | - | - | 100% | - | - | 100% |
| - Indirectly | 100% | 100% | 100% | - | 100% | 99,6% | - |
| % voting rights | 100% | 100% | 100% | 100% | 100% | 100% | 100% |
| Consolidation method | Full consolidation | Full consolidation | Full consolidation | Full consolidation | Full consolidation | Full consolidation | Full consolidation |
| Share capital | 5,331 | 250 | 60 | 31 | 1,374 | 540 | 226 |
| Reserves | (4,130) | 36,550 | 2,057 | 2,254 | 59,159 | 2,315 | 32,978 |
| Net profit (loss) for the year | (3,814) | (1,557) | - | 61,691 | 7,858 | 927 | (1,405) |
| **31 December 2015** | | | | | | | |
| % interest held | | | | | | | |
| - Directly | - | - | - | - | - | - | - |
| - Indirectly | - | - | - | - | - | - | - |
| % voting rights | - | - | - | - | - | - | - |
| Consolidation method | - | - | - | - | - | - | - |
| Share capital | - | - | - | - | - | - | - |
| Reserves | - | - | - | - | - | - | - |
| Net profit (loss) for the year | - | - | - | - | - | - | - |

Note: All information on the companies has been obtained from their separate annual accounts. Therefore it does not reflect the effect that would apply from consolidating the investments. Excluding unconsolidated dormant companies.