# ALMIRALL, S.A.

Annual Accounts for the year ended
31 December 2019 and
Directors' Report

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

**Almirall, S.A.**

Balance sheet for the year ended 31 December

(Thousand euro)

| ASSETS | Note | 31 December 2019 | 31 December 2018 |
|---|---|---|---|
| **NON-CURRENT ASSETS** | | | |
| **Intangible assets** | 5 | 255,870 | 191,088 |
| **Property, plant and equipment** | 6 | 33,590 | 35,524 |
| **Long-term investments in group companies and associates** | 8 | 1,576,414 | 1,592,236 |
| **Long-term investments** | 9 | 98,931 | 137,206 |
| **Deferred tax assets** | 18 | 222,633 | 228,978 |
| **TOTAL NON -CURRENT ASSETS** | | **2,187,438** | **2,185,032** |
| **CURRENT ASSETS** | | | |
| **Inventories** | 10 | **56,489** | **51,527** |
| **Trade and other receivables** | | **100,920** | **86,207** |
| Trade receivables for sales and services rendered | 11 | 22,399 | 23,982 |
| Trade receivables, group companies and associates | 11 and 20 | 48,069 | 30,162 |
| Sundry accounts receivable | 11 | 151 | 208 |
| Personnel | 11 | 85 | 1 |
| Current tax assets | 18 | 23,483 | 22,401 |
| Other receivables with Public Administrations | 18 | 6,733 | 9,453 |
| **Short-term investments in group companies and associates** | 8 and 20 | **872** | **210** |
| **Short-term financial investments** | 9 | **55,540** | **88,299** |
| **Prepayment and accrued income** | | **3,666** | **796** |
| **Cash and cash equivalents** | | **89,288** | **55,671** |
| **TOTAL CURRENT ASSETS** | | **306,775** | **282,710** |
| **TOTAL ASSETS** | | **2,494,213** | **2,467,742** |

| LIABILITIES AND EQUITY | Note | 31 December 2019 | 31 December 2018 |
|---|---|---|---|
| **EQUITY** | | | |
| **Shareholders' funds** | | **1,371,791** | **1,206,185** |
| Share capital | 12 | 20,947 | 20,862 |
| Share premium | 12 | 246,285 | 235,226 |
| Legal reserve | 12 | 4,172 | 4,151 |
| Other reserves | 12 | 1,069,621 | 1,104,913 |
| Own shares and equity instruments | 12 | (1,773) | - |
| Prior-year results | 12 | (158,988) | (220,893) |
| Profit/(loss) for the year | | 191,527 | 61,926 |
| **Grants, donations and bequests received** | | **43** | **86** |
| **TOTAL EQUITY** | | **1,371,834** | **1,206,271** |
| **NON-CURRENT LIABILITIES** | | | |
| **Long-term provisions** | 14 | **38,678** | **35,068** |
| **Long-term payables** | | **484,296** | **588,994** |
| Debentures and other marketable securities | 15 | 229,245 | 223,745 |
| Bank borrowings | 15 | 229,133 | 298,925 |
| Derivatives | 15 | 19,082 | 23,400 |
| Other financial liabilities | 16 | 6,836 | 42,924 |
| **Deferred tax liabilities** | 18 | **25,481** | **24,124** |
| **Accruals and deferred income** | 13 | **72,269** | **102,632** |
| **NON-CURRENT LIABILITIES** | | **620,724** | **750,818** |
| **CURRENT LIABILITIES** | | | |
| **Short- term provision** | | **622** | **398** |
| **Short-term payables** | | **42,649** | **9,399** |
| Derivatives | 15 | - | 2,211 |
| Other financial liabilities | 16 | 42,649 | 7,188 |
| **Short-term payables to Group companies and associates** | 20 | **340,329** | **394,450** |
| **Trade and other payables** | | **118,055** | **106,406** |
| Trade payables | | 58,872 | 41,059 |
| Trade payables, Group companies and associates | 20 | 18,354 | 21,371 |
| Sundry payables | | 25,461 | 27,774 |
| Accrued wages and salaries | | 10,478 | 10,183 |
| Current tax liabilities | 18 | - | 1,770 |
| Other payables with Public Administrations | 18 | 4,890 | 4,249 |
| **TOTAL CURRENT LIABILITIES** | | **501,655** | **510,653** |
| **TOTAL LIABILITIES AND EQUITY** | | **2,494,213** | **2,467,742** |

The accompanying Notes 1 to 26 and the Appendix are an integral part of the annual accounts for the year ended 31 December 2019.

**ALMIRALL, S.A.**
Income statement for the year ended 31 December
(Thousand euro)

| | Note | Year 2019 | Year 2018 |
|---|---|---|---|
| Revenue | 19 | 607,849 | 432,094 |
| Changes in inventories of finished products and work in progress | 10 | 3,834 | 5,752 |
| Own work capitalised | 19 | - | - |
| Raw materials and consumables | 19 | (195,922) | (172,978) |
| Other operating income | 19 | 107,116 | 97,991 |
| Staff costs | 19 | (68,750) | (66,755) |
| Other operating expenses | 19 | (204,637) | (202,208) |
| Losses, impairment and variation in trade provisions | 19 | 255 | (537) |
| Fixed asset amortization/ depreciation | 5 and 6 | (28,239) | (24,799) |
| Release of non-financial asset grants and other | | 177 | 84 |
| Other losses in ordinary course of business | | - | - |
| Impairment and profit/(loss) on fixed asset disposals in group companies | 19 | (22,183) | 7,401 |
| **Operating profit/(loss)** | | **199,500** | **76,045** |
| Financial income | 19 | 724 | 167 |
| Financial expenses | 19 | (13,866) | (5,591) |
| Exchange differences | 19 | 1,548 | (86) |
| Impairment, profit /(loss) on disposals and change in fair value of financial instruments | | 7,513 | (1,232) |
| **Financial income/(expense)** | | **(4,081)** | **(6,742)** |
| **Profit /(loss) before taxes** | | **195,419** | **69,303** |
| Income taxes | 18 | (3,892) | (7,377) |
| **Profit/(loss) for the year** | | **191,527** | **61,926** |

The accompanying Notes 1 to 26 and the Appendix are an integral part of the annual accounts for the year ended 31 December 2019.

**Almirall, S.A.**

Statement of changes in equity for the year ended 31 December (Thousand euro)

A) STATEMENT OF RECOGNISED INCOME AND EXPENSE (Thousand euro)

| | Note | Year ended 31 December 2019 | Year ended 31 December 2018 |
|---|---|---|---|
| **RESULTS RECOGNISED IN THE INCOME STATEMENT (I)** | | **191,527** | **61,926** |
| **Income and expenses taken directly to equity** | | | |
| Grants, donations and bequests received | 12 | - | 24 |
| Tax effect | 18 | - | - |
| **Total income and expenses taken directly to equity (II)** | | **-** | **24** |
| **Transfers to the income statement:** | | | |
| Measurement of financial instruments | | - | 194 |
| Grants, donations and bequests received | 12 | (43) | (63) |
| Tax effect | 18 | - | (48) |
| **Total transfers to the income statement (III)** | | **(43)** | **83** |
| **Total recognised income and expense (I+II+III)** | | **191,484** | **62,033** |

The accompanying Notes 1 to 26 and the Appendix are an integral part of the annual accounts for the year ended 31 December 2019.

**Almirall, S.A.**
Statement of changes in equity for the year ended 31 December
(Thousand euro)

B) TOTAL STATEMENT OF CHANGES IN EQUITY (Thousand euro)

| | NOTE | Authorised capital | Share premium | Legal reserve | Other reserves | Own shares and equity instruments | Prior year results | Profit /(loss) for year | Value change adjustments | Grants, donations and bequests | Equity |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Balance at 31 December 2017** | **12** | **20,754** | **225,163** | **4,151** | **1,137,774** | **-** | **-** | **(220,893)** | **(146)** | **125** | **1,166,929** |
| Distribution of results | | - | - | - | - | - | (220,893) | 220,893 | - | - | - |
| Dividends | | 108 | 10,063 | - | (32,861) | - | - | - | - | - | (22,690) |
| Recognised income and expense | | - | - | - | - | - | | 61,926 | 146 | (39) | 62,032 |
| **Balance at 31 December 2018** | **12** | **20,862** | **235,226** | **4,151** | **1,104,913** | **-** | **(220,893)** | **61,926** | **-** | **86** | **1,206,271** |
| Distribution of results | | - | - | 21 | - | - | 61,905 | 61,926 | - | - | - |
| Dividends | | 85 | 11,059 | - | (35,292) | - | - | - | - | - | (24,149) |
| Recognised income and expense | | - | - | - | - | - | - | 191,527 | - | (43) | 191,484 |
| Transactions with own shares and equity instruments | | - | - | - | - | (1,773) | - | - | - | - | (1,773) |
| **Balance at 31 December 2019** | **12** | **20,947** | **246,285** | **4,172** | **1,069,621** | **(1,773)** | **(158,988)** | **191,527** | **-** | **43** | **1,371,834** |

The accompanying Notes 1 to 26 and the Appendix are an integral part of the annual accounts for the year ended 31 December 2019.

**ALMIRALL, S.A.**

Cash flow statement for the year ended 31 December (Thousand euro)

| | Note | Year ended 31 December 2019 | 2018 |
|---|---|---|---|
| **A) CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| **1. Profit/ (loss) for the year before tax** | | **195,419** | **69,303** |
| **2. Adjustments to results** | | **(162,318)** | **(42,600)** |
| Fixed asset amortization/ depreciation (+) | 5 & 6 | 28,239 | 24,799 |
| Value adjustments for impairment (+/-) | 5,8,10 & 11 | 14,606 | (9,224) |
| Change in allowances and provisions (+/-) | 14 & 19 | 4,301 | 26,374 |
| Release of grants (+/-) | | (177) | (83) |
| Profit/ (loss) on write-offs and disposals of financial instruments (+/-) | 19 | 8,064 | - |
| Profit//loss) on write-offs and disposals of fixed assets (+/-) | 19 | - | 900 |
| Financial income and dividends received (-) | 19 & 20 | (139,942) | (9,410) |
| Financial expenses (+) | 19 | 13,866 | 5,591 |
| Exchange differences (+/-) | 19 | (1,548) | 86 |
| Variation in the fair value of financial instruments (+/-) | 19 | (7,513) | 1,232 |
| Deferred income | | (409) | (409) |
| Inclusion of deferred income on the AstraZeneca transaction | 13 | (29,954) | (31,376) |
| Recognition of financial asset value not collected | 9 | (51,849) | (51,079) |
| **3. Changes in working capital** | | **107,376** | **17,122** |
| Inventories (+/-) | 10 | (5,204) | (12,308) |
| Debtors and other receivables (+/-) | 11 | (21,808) | (917) |
| Other current assets (+/-) | | 120,690 | 407 |
| Creditors and other payables (+/-) | | 13,699 | 29,940 |
| **4. Other cash flows from operating activities** | | **133,102** | **(2,014)** |
| Interest paid (-) | 19 | (6,037) | (2,281) |
| Dividends and interests received (+) | 20 | 139,218 | - |
| Interest received (+) | 19 | - | - |
| Corporate income tax collections/payments (+/-) | 18 | 970 | 8,354 |
| Other non-current assets and liabilities (+/-) | | (1,050) | (8,087) |
| **5. Cash flows from operating activities (+/-1+/-2+/-3+/-4)** | | **273,578** | **41,812** |
| **B) CASH FLOWS FROM INVESTING ACTIVITIES** | | | |
| **6. Payments for investments (-)** | | **(125,561)** | **(605,878)** |
| Group companies and associates | 8 | (27,694) | (503,482) |
| Intangible assets | 5 | (95,134) | (82,258) |
| Property, plant and equipment | 6 | (2,744) | (2,609) |
| Business unit | 16 | - | (17,500) |
| Other financial assets | 9 | 11 | (29) |
| **7. Collections from divestments (+)** | | **45,037** | **1,014** |
| Group companies and associates | 8 | 45,037 | - |
| Intangible assets | 5 - 8 | - | - |
| Property, plant and equipment | 6 | - | 5 |
| Other financial assets | 9 | - | 1,009 |
| **8. Cash flows from investing activities (7-6)** | | **(80,523)** | **(604,864)** |
| **C) CASH FLOWS FROM FINANCING ACTIVITIES** | | | |
| **9. Receipts and payments equity instruments** | | **(1,773)** | - |
| Acquisition own equity instruments | | (1,773) | |
| **10. Receipts and payments financial liability instruments** | | **(134,069)** | **419,831** |
| Issue | | 80,147 | 922,008 |
| Debentures and other marketable securities (+) | | - | 247,145 |
| Bank loans (+) | 15 | 80,147 | 549,262 |
| Payable to Group companies and associates (+) | | - | 125,508 |
| Other debts | | - | 93 |
| Return and repayment of: | | (214,216) | (502,176) |
| Non-convertible bonds repaid (-) | 15 | - | - |
| Bank loans (-) | | (150,000) | (500,000) |
| Payable to Group companies and associates (-) | | (55,595) | - |
| Other payables (-) | 16 | (8,620) | (2,176) |
| **11. Dividend payments and return on other equity instruments** | 3 | **(24,150)** | **(22,689)** |
| Dividends (-) | 3 | (24,150) | (22,689) |
| **12. Cash flows from financing activities (+/-9+/-10)** | | **(159,992)** | **397,142** |
| **D) EFFECT OF EXCHANGE RATE FLUCTUATIONS** | | **(446)** | **(2,055)** |
| **E) NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS (+/-5+/-8+/-11+/-D)** | | **32,617** | **(167,966)** |
| Cash and cash equivalents at beginning of the year | 4-e/ 9 | **56,671** | **224,637** |
| Cash and cash equivalents at end of the year | 4-e /9 | **89,288** | **56,671** |

The accompanying Notes 1 to 26 and the Appendix are an integral part of the annual accounts for the year ended 31 December 2019.

## 1. Company activities

The corporate purpose of Almirall, S.A. ("the Company") basically consists of the acquisition, manufacture, storage, sale and mediation in the sale of pharmaceutical specialities and products and all manner of raw materials used to prepare the aforementioned pharmaceutical specialities and products.

The Company'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.

d) The provision of prevention services of the companies and companies participating in the company under the provisions of article 15 of Royal Decree 39/1997, of January 17, which establishes the Regulation of Prevention Services, and regulations of developing. This activity may be regulated and developed in a joint manner for related companies and participants in it according to the provisions of article 21 of the aforementioned legal text. It is expressly stated that said activity is not subject to administrative authorization as established by law. Said activity may be subcontracted to other specialized entities under the provisions of article 15 of RD 39/1997.

e) Direct and manage the participation of the Company in the social capital of other entities, through the corresponding organization of personal and material means.

In accordance with the Company's Articles of Association, the corporate purpose may be carried on, in full or in part, directly by the 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 Company's corporate purpose.

Almirall, S.A. is the parent company of a corporate group and in accordance with current legislation is required to prepare consolidated annual accounts separately. The consolidated annual accounts for the year ended 31 December 2018 were prepared by the Directors on 22 February 2019. The consolidated annual accounts for the year ended 31 December 2018 were approved by the Company's shareholders at the General Meeting held on 8 May 2019. The operations of the Company and Group companies are managed on a consolidated basis. Therefore the Company's results and financial position should be assessed taking this relationship with Group companies into account (Notes 8 and 20).

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 located at Ronda General Mitre, 151, Barcelona (Spain).

## 2. Basis of presentation of the annual accounts

### Applicable financial reporting legislation

The Company's annual accounts for the year ended 31 December 2019, which were obtained from the accounting records held by the Company, were formally prepared by the Company's directors on 21 February 2020.

These annual accounts have been drawn up by the directors within the financial reporting framework applicable to the Company, which is contained in:

- The Code of Commerce, the Spanish Companies Act and other commercial legislation.
- The General Chart of Accounts approved by Royal Decree 1514/2007 together with Royal Decree 1159/2010 and Royal Decree 602/2016 which amends certain aspects of the General Chart of Accounts and its sectoral versions.
- The mandatory standards approved by the Spanish Institute of Auditors and Accountants in the development of the Chart of Accounts and complementary standards.
- Other applicable Spanish accounting legislation.

### Fair presentation

The accompanying annual accounts have been obtained from the Company's accounting records and are presented in accordance with the applicable financial reporting framework and, in particular, with accounting principles and methods contained therein, so as to present fairly the Company's equity, financial position, results, changes in equity and cash flows generated during the year.

### Non-mandatory accounting principles applied

No non-mandatory accounting principles have been applied. The Company's Directors have prepared these annual accounts taking into account all applicable mandatory accounting principles and standards that have a significant effect on the same. All mandatory principles have been applied.

### Critical measurement issues and estimates of uncertainty

When preparing these annual accounts, estimates made by the Company's Directors have been used in order to measure some assets, liabilities, income, expenses and commitments recognised in the accounts. These estimates basically relate to the following:

- The useful life of intangible assets and property, plant and equipment (Notes 4-a and 4-b).
- The evaluation of possible impairment losses on certain items of property, plant and equipment and intangible assets as a result of not recovering the carrying amount of such assets (Note 4-c).
- Assessment of the recoverability of deferred tax assets (Note 18).
- Evaluation of the technical and economic viability of the development projects in the pipeline that have been capitalised (Note 4-a).
- The fair value of certain non-listed financial assets (Note 4-f and 9).
- The recoverable amount of interests held in Group companies and the fair value of certain listed and unlisted financial assets (Notes 4-f and 4-k)
- Assessment of lawsuits, obligations and contingent assets and liabilities at year-end (Notes 4-j and 17).
- Estimate of the appropriate write-downs for bad debts, inventory obsolescence and sales returns (Notes 4-f, 4-h and 4-j).
- Estimate of the liability relating to the cash-settled share-based payment arrangements (Note 4-r).

Although these estimates have been prepared based on the best information available at year-end 31 December 2019, events may take place in the future that make it necessary to revise them up or down in coming years. Such revision would in any event be carried out prospectively.

**Negative working capital**

The Company has a negative working capital as of December 31, 2019 for an amount of EUR 194,880 thousand (EUR 227,943 thousand positive in 2018). However, the Administrators have formulated these annual accounts under the principle of continuity business taking into account that there is the implicit commitment of the majority shareholders to continue providing the necessary support for the future development of the Company.

The Company carries out prudent management of liquidity risk, by maintaining sufficient cash and cash equivalents to have sufficient capacity to meet future obligations. In addition, the Company has loans with Group companies for an amount of EUR 340,329 thousand (EUR 394,450 thousand in 2018), as indicated in note 20 of the annual accounts, due to centralized management of the treasury, and which classifies short-term but not with an imminent enforceability. In addition, the Parent Company Group also has a positive Working Capital at this date and a good financial situation. All of the above suggests that despite the fact that the Company has a negative working capital as of December 31, 2019, the Company's Administrators ensure the functioning of the operating company based on expectations of the continuity of the results.

## 3. Distribution of results

The proposed presentation of results included in the Company's annual accounts for the year ended 31 December 2019 and the proposed distribution of results for 2018 approved by the Shareholders at the General Meeting held on 8 May 2019 are as follows:

| | Thousands of Euros | |
|---|---|---|
| | 2019 | 2018 |
| **Basis of distribution:** | | |
| Profit for year | 191,527 | 61,926 |
| **Distribution:** | | |
| To legal reserve | 17 | 21 |
| To voluntary reserves | 32,522 | - |
| To dividends | - | - |
| To offset prior years' losses | 158,988 | 61,905 |
| **Total** | **191,527** | **61,926** |

The dividends paid by the Company in 2019 and 2018, which related to the dividends approved out of profit earned in the previous year, are as follows:

| | 2019 | | | 2018 | | |
|---|---|---|---|---|---|---|
| | % of nominal value | Euro per share | Amount in thousand euro | % of nominal value | Euro per share | Amount in thousand euro |
| Ordinary shares | 115% | 0.14 | 24,150 | 109% | 0.13 | 22,690 |
| **Total dividends paid** | **115%** | **0.14** | **24,150** | **109%** | **0.13** | **22,690** |

At the formulation date of these consolidated annual accounts, the Board of Directors of Almirall, S.A. has agreed to propose in the Shareholders' meeting the distribution of a dividend, charged against reserves for an amount of 35.3 million euros (equivalent to 0.203 euro per share). For the purpose of carrying out this dividend distribution, it is proposed to reuse the remuneration system for shareholders called "Script dividend", already implemented in 2018. In this way, its shareholders are offered an alternative that allows them to receive shares issued by the Company without limiting their possibility of receiving in cash an amount equivalent to the payment of the dividend (Note 26).

## 4. Accounting policies

### a) Intangible assets

As a general rule, intangible assets are initially carried at acquisition price or production cost. They are subsequently measured at cost less accumulated amortisation and if appropriate, any impairment losses (Note 4-c). These assets are amortised over their useful lives.

Intangible assets with a finite useful life are amortised over their 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 |
|---|---|
| Development expenses | 10% |
| Industrial property rights | 6%-10% |
| Computer software | 18-33% |

The Company recognises for accounting purposes any impairment loss on these assets using as a balancing entry the heading “impairment losses and profit/loss on disposal of fixed assets and investments in group companies”. Recognition of impairment losses and the reversal of prior year impairment losses is made, where applicable, using methods similar to the ones used for property, plant and equipment (Note 4-c).

*Development costs-*

The Company recognises research expenditure as an expense in the income statement.

The expenses incurred as a result of the development of new projects are recognised as assets when all the following conditions are met or can be evidenced:

I. It is technically possible to complete production of the drug 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. There is 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 drug which will result from the development or a market for its development. There is also evidence that its development will be useful to the Company 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 drug resulting from the development in progress.

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

The development of new drugs is subject to a high degree of uncertainty as a result of the protracted period of maturation thereof (usually several years) and of the technical results that are obtained during the various trial phases through which the development passes. 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 thresholds. Therefore, the Company 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 Company can consider that the conditions for capitalising development expenditure have been met.

When the amount delivered in Exchange of an intangible asset includes a contingent component, it will be considered within the carrying amount the best estimation of the present value of the contingent payment, except in the case that it is linked with a future event which will increase the profit or the economic profitability that this asset will provide, related to facts or circumstance not existing in the acquisition date. Likewise, applying the same criteria as per property, plant and equipment, the contingent payments that are dependent on magnitudes linked with the development of the activity, such as sales or profit for the year, they will be accounted for as an expense on the income statement as the events occur.

The capitalised development costs with a finite useful life which may be recognised as an asset are amortised from the product's regulatory approval on a straight-line basis over the period in which benefits are expected to be generated.

No significant capitalisation of internal development costs has been made in 2019.

*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 in the year in which these circumstances become known.

*Computer software-*

The Company recognises the costs incurred in the acquisition and development of computer programs in this account. Computer software maintenance costs are recognised in the income statement in the year in which they are incurred.

Computer software may be contained in a tangible asset or have physical substance and therefore include 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 its entry into service.

*Merger goodwill-*

Goodwill arose as a result of the difference between the carrying amount of the shares of Prodesfarma, S.A. and the carrying amount of this company at the time it was merged by absorption with the Company, after having allocated any other latent gains arising from intangible assets, property, plant and equipment and financial assets. Goodwill was fully amortised at the date of transition to the current general chart of accounts.

**b) Property, plant and equipment**

Items acquired of property, plant and equipment are measured at cost restated in accordance with the applicable legislation, including Royal Decree-Law 7/1996, of 7 June (Note 7). Subsequently, cost is adjusted for accumulated depreciation and impairment losses, if any, as described in Note 4.c.

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 an increase in property, plant and equipment, with the resulting de-recognition of the items replaced or renewed.

Periodic maintenance, upkeep and repair expenses are recognised in the income statement on an accrual basis as incurred.

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 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. Property, plant and equipment is generally depreciated on a straight-line basis over the estimated useful lives of the assets as follows:

| | Estimated useful life |
|---|---|
| Buildings | 33-50 |
| Plant and machinery | 8-12 |
| Other fixtures and tools | 8 - 12 |
| Furniture and laboratory equipment | 6-10 |
| Computer processing equipment: | 4-6 |
| Vehicles | 5-6.25 |

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

Environmental investments that include assets to be used on a lasting basis in the company's activities are classified under property, plant and equipment. They are carried at acquisition cost and are depreciated on a straight-line basis over their estimated useful lives.

**c) Impairment of intangible assets and property, plant and equipment**

At the year-end, the Company reviews the amounts of its property, plant and equipment and intangible assets to determine whether there is any indication of impairment. 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 Company calculates 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 year-end 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. The value in use has been calculated applying cash flows and a discount rate after taxes (d.r.a.t.). 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 (a circumstance that is not permitted in the case of goodwill), the carrying amount of the asset (or, if applicable, the assets included in the cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or, if applicable, assets included in the cash-generating unit) in prior years. Reversal of an impairment loss is recognised in the income statement immediately up to the above permitted limit.

In general, the methodology used by the Company for the impairment tests based on the value in use of the intangible assets affected by the cash generating units (CGUs) is based on the estimation of cash flow projections based on approved financial budgets. by the Directorate covering a period of 5 years. Cash flows beyond the 5-year period are extrapolated using the standard growth rates indicated below.

The methodology used by the Company to carry out the impairment tests of development expenses (Note 5) that are not subject to amortization due to the non-commencement of commercialization by associated product are based on detailed financial projections ranging from 10 to 17 years (depending on the expected useful life of the asset) to which a probability of success of the project is applied and a residual income is estimated for the following years based on a growth rate based on the type and age of the products based on experience with these.

The financial projections for each of the cash or asset generating units consist of the estimation of the net cash flows after taxes, determined from the estimated sales and gross margins and other costs foreseen for said cash generating unit. The projections are based on reasonable and well-founded hypothesis.

The main assumptions used in the impairment tests in the years ended 31 December 2019 and 2018 were as follows:

| CGU | Assets 31 December 2019 *(thousand euros)* | Hypothesis 2019 (*) | Hypothesis 2018 (*) |
|---|---|---|---|
| Sun Pharma license | Intangible asset: 87,883 | d,r,b,t,: 13.6%<br>d,r,a,t,: 9.5%<br>g,r,c,i,: (0%) | d,r,b,t,: 11.8%<br>d,r,a,t,: 9.5%<br>g,r,c,i,: (0%) |
| AstraZeneca license | Intangible asset: 47,328 | d,r,b,t,: 11.8%<br>d,r,a,t,: 9.5%<br>g,r,c,i,: (0%) | d,r,b,t,: 12.6%<br>d,r,a,t,: 9.5%<br>g,r,c,i,: (0%) |
| Dermira license | Intangible asset: 84,800 | d,r,b,t,: 11.8%<br>d,r,a,t,: 9 %<br>g,r,c,i,: (15%) | - |
| Athenex license | Intangible asset: 7,186 | d,r,b,t,: 11.8%<br>d,r,a,t,: 9%<br>g,r,c,i,: (15%) | d,r,b,t,: 10.5%<br>d,r,a,t,: 9.5%<br>g,r,c,i,: (15%) |

(*) Discount rate before taxes (d.r.b.t.), Discount rate after taxes (d.r.a.t.) and Growth rate for continual income (g.r.c.i.).

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 Almirall, S.A. relate mainly to the sales performance of each of the different drugs, both those marketed and those which are currently in the pipeline. For the latter, the outlook of the probability of success of the product in accordance with the results of the drug's various development phases is an additional key variable.

These variables are based on historical experience weighted by outside information available. Changes in assumptions are based on the evidence obtained by the Company on the basis of the performance of the indicators applied.

From the sensitivity analysis performed for each of the assets in the face of variations that are reasonably possible from the main key assumptions (increase / reduction of estimated net sales, probability of success and discount rate), no impact is derived.

### *d)* Leases

Leases in which Almirall, S.A. acts as the lessee are classified as operating leases when they meet the conditions of the General Chart of Accounts, i.e. when the ownership of the leased asset and substantially all the risks and rewards relating to the leased asset are allocable to the lessor, the related expense being recognised on an accruals basis in the income statement.

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 holds 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 long-term payables net of financial charges. The interest part of the financial charge is charged to the 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 Company does not have any finance leases at 31 December 2019 and 2018.

### *e)* Cash and cash equivalents

Cash deposited in the Company, demand deposits in financial institutions and financial investments convertible 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 Company's normal cash management policy are classified as cash and cash equivalents.

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

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

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

In 2019 and 2018, the measurement bases applied by the Company to its financial instruments were as follows:

*Financial assets-*

*Classification:*

The financial assets held by the Company are classified as:

- Loans and receivables: financial assets arising on the sale of assets or the provision of services in relation to the company's business operations, or financial assets not arising from business transactions, that are not equity or derivative instruments, from which collections arise in fixed or determinable amounts, and are not traded in an active market.

- Held-to-maturity investments: debt securities having fixed maturities and determinable collections that are traded in an active market and that the Company intends and has the capacity to hold to maturity.

- 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 (Note 9).

- Financial assets held for trading: acquired by the Company to generate a short-term benefit from fluctuations in their prices or from differences between their purchase and sale prices.

- Equity investments in group companies, associates and jointly-controlled entities: companies linked to the Company through a relationship of control are deemed to be Group companies; companies over which the Company exercises significant influence are associates. Additionally, jointly-controlled entities are companies controlled jointly under an agreement with one or more shareholders.

- Available for sale financial assets: this includes debt securities and equity instruments that are not classified in any of the above categories.

*Initial measurement:*

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.

For investments in the equity of group companies that grant control over the subsidiary, fees paid to legal advisors or other professionals in relation to the acquisition of the investment are taken directly to the income statement.

*Subsequent measurement and impairment losses*

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, 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 (i.e, equity instruments), gains and losses recognised directly in equity include any component related to exchange rate shifts.

Loans, receivables and investments held to maturity are measured at amortised cost. 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.

Investments in group companies, jointly-controlled companies and associates are measured at cost, less, if appropriate, accumulated valuation adjustments for impairment. These adjustments are calculated as the difference between the carrying amount and recoverable amount, understood as the higher of fair value less costs to sell and the present value of future cash flows from the investment. Unless better evidence is available of the recoverable amount, the investee's equity is taken into account, adjusted for any latent capital gains existing at the measurement date (including goodwill, if any).

At the year-end at least, the Company tests financial assets for impairment. Objective evidence of impairment is deemed to exist if the financial asset's recoverable amount is lower than its carrying amount. Impairment, when it arises, is recognised in the income statement.

*Financial liabilities-*

Financial liabilities are the Company's creditors and payables arising from the purchase of goods and services in the ordinary course of business, or financial liabilities not arising from business transactions that cannot be treated as derivative financial instruments.

Creditors and payables are initially carried at the fair value of the payment received, adjusted for directly attributable transaction costs. These liabilities are subsequently measured at amortised cost.

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 described in Note 4-i).

Trade payables are payment obligations for goods or services that have been acquired from suppliers during the ordinary course of business. Payables are classified as current liabilities if the payments fall due in one year or less (or fall due in the normal operating cycle, if longer). Otherwise they are presented 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 income statement over the term of the liability using the effective interest method.

Commissions paid on the arrangement of credit lines are recognised as debt transaction costs provided that it is probable that part or all the facility will be used. 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 be drawn down in full or in part.

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

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

Loans due within twelve months but whose long-term refinancing is assured at the Company's discretion, through existing long-term credit facilities, are classified as non-current liabilities.

### *g)* Derivative financial instruments and hedge accounting

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

The Company initially documents the relationship between the hedging instruments and hedged items and its risk management objectives and strategy for arranging various hedging transactions. The Company 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 accounting treatment of the hedges used by the Company is described below:

- Fair value hedges: 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. In this case, value changes in hedging instruments and hedged items attributable to the hedged risk, are recognised in the income statement.

- Cash flow 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. In this case, the portion of the gain or loss on the hedging instrument classed as an effective hedge is recognised provisionally in equity and is taken to the income statement in the same year in which the hedged transaction affects results, unless the hedge relates to a forecast transaction that ends in the recognition of a non-financial asset or liability, in which case the amounts reflected in equity are included in the cost of the asset or liability when it is acquired or assumed.

- Hedges of a net investment in a foreign operation: this type of hedges are used to cover the exchange rate risk on investments in subsidiaries and associates and are treated as fair value hedges for the exchange rate component.

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. At that time, any accumulated gain or loss on the hedging instrument which has been reflected in equity continues to be recognised 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.

The Company held no derivatives at 31 December 2019 and 2018.

### *h)* 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 Company carries out an evaluation of the net realisable value of inventories at the year-end and establishes the pertinent loss provision when they 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.

### *i)* Grants, donations and bequests

The Company accounts for grants, donations and bequests received as follows:

- Non-repayable capital grants, donations and bequests: these are measured at the fair value of the amount or asset granted, depending on whether or not they are monetary in nature. They are initially recognised in equity and are subsequently released to the income statement in proportion to the depreciation charged during the period on the asset for which the grant is awarded or, if applicable, when the asset is sold or adjusted for impairment, except where they are received from shareholders or owners, in which case they are taken directly to equity without recognising any income.

- Repayable grants: while they are considered to be repayable, they are recognised as liabilities.

- Operating grants: operating grants are credited to the income statement when they are extended unless they are used to finance the operating shortfall in future years in which case they are allocated to those years, If they are granted to finance specific expenditure, they are released to income as the expenses financed accrue.

### *j)* Provisions and contingencies

When preparing the annual accounts, the Company’s directors distinguish between:

- Provisions: creditor balances that cover present obligations deriving from past events, the settlement of which is likely to trigger an outflow of funds the amount or timing of which cannot be determined, and

- Contingent liabilities: possible obligations resulting from past events, the crystallisation of which is contingent upon the occurrence or otherwise of one or more future events that are beyond the Company's control.

The annual accounts reflect all significant provisions where the probability of the obligation having to be met is greater than the probability of its not having to be met. Contingent liabilities are not recognised in the annual accounts but are disclosed in Note 17, unless they are classed as remote.

Provisions are carried at the fair value of the best estimate possible of the amount necessary to settle or transfer the obligation, taking into account the information available on the event and its consequences. Any adjustments arising on the restatement of such provisions are reflected as a finance expense as it accrues.

The consideration receivable from a third party when the obligation is settled is recognised as an asset, provided there are no doubts that the consideration will be received, except in the event that there is a legal relationship through which a part of the risk has been transferred out as a result of which the Company is not liable, In this case, the consideration will be taken into account to estimate the amount of the relevant provision.

*On-going litigation and/or claims -*

The Company's business activities 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 Company 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 Company's interests and to the estimated future disbursements that the Comp0any might have to make. Consequently, it is necessary to use judgements and estimates with the assistance of the relevant legal advisers.

At year-end 2019 and 2018, a number of legal proceedings and claims had been initiated against the Company 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 annual accounts for the years in which they are settled.

*Provisions for product returns-*

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

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

*Provision for restructuring-*

The Company recognises the restructuring costs when it has 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.

***k)*** **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. Revenue is recognised at the fair value of the consideration received less discounts and taxes.

Sales revenue is recognised at the time the significant risks and rewards inherent in ownership of the asset sold are transferred to the buyer and current management or effective control over the asset does not continue.

Revenues from services are recognised on a percentage-of-completion basis at the balance sheet date, provided that the result of the transaction may be reliably estimated.

The Company classifies as revenue the dividends and interest obtained in its capacity as the parent company since it carries out three different kinds of operations. In other words, it is understood that revenues from the Company's different activities are taken into account in the calculation of revenues insofar as they are obtained on a regular and periodic basis and derive from the Company's economic cycle of production, marketing and rendering of services. The impairment losses on Equity investments and loans to related parties are classified as operating income as well.

Interest received on financial assets is recognised using the effective interest method and dividends are recognised when the shareholder's right to receive them is declared. Interest and dividends on financial assets accrued after the time of acquisition are recognised as income in the income statement.

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

The Company recognises 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. These agreements generally include multiple items and the revenue associated therewith must match the costs and the consideration to be paid by the Company. When assessing the accounting treatment for these transactions, the Company's directors consider the following matters:

- The economic substance of the transaction.
- The nature of the items forming the subject matter 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 Company 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 is 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, is recognised as revenue applying 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 taken to profit or loss under "Other operating income" in the accompanying income statement.

A portion of the revenue generated by the Company is obtained through the transfer of rights, the transfer to third parties of the use of product licences developed by the Company 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 supplies of the product in question between 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, the Company 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, and in exchange received some cash payments and other deferred payments based on certain future milestones. This operation has had the following effects in these annual accounts:

- <u>Sale of Eklira (aclidinium) and Duaklir (aclidinium and formoterol combination)</u>: 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 and to obtaining benchmark prices in certain countries with a 25-30% probability of occurring.

- "Sales-related payments": events related to reaching a certain level of sales. At 31 December 2019 there is a milestone pending to be collected amounting to 26 million euros. The most significant impact in financial year 2018 was the collection of a sales related milestone amounting to USD 35 million (EUR 31.5 million)

- "Potential payments": events related to the payment of royalties, which is linked to the sales obtained in each future year. Sales revenue is related to the sales variable based on sales reported by AstraZeneca at the end of the corresponding year.

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.

The main assumptions and considerations used by the independent experts to value the financial asset at 31 December 2019 are as follows:

- Estimated level of sales reached in a territory during a year.
- Discount rate: based on the country where the cash flows are obtained, giving an overall weighted average of approximately 10.5%.
- Probability of success allocated: it affects the valuations of the "milestones events" and "sales-related payments".

For the purpose of sensitivity analyses of variations considered reasonably possible with respect to the independent expert's appraisal made at 31 December 2019, the following should be taken into account:

- If the estimation of sales revenue for 2020 to 2035 is reduced/increased by 5% every year, the effect would be a reduction/increase of the financial asset by EUR (6.3)/6.3 million, respectively.

- 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 3.8/(3.6) million, respectively.

- If the probabilities assigned to "milestone events" and "sales-related payments" are reduced/increased by five percentage points, the effect would be a reduction/increase of the financial asset by EUR (1.8)/1.8 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 13), 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, the revenue recognition will be based on the future royalties, based on the real sales achieved.

### *l)* Foreign Currency Transactions

The Company's functional currency is the euro. Transactions in currencies other than the euro are thus deemed to be denominated in foreign currency and are carried at the exchange rates prevailing on the transaction dates.

At the year-end monetary assets and liabilities denominated in foreign currency are translated to euro at the exchange rate on the balance sheet date. Gains or losses are taken directly to the income statement in the period in which they arise.

### *m)* Related-party transactions

The Company carries out all its operations with related parties at market values (Note 20). In addition, transfer prices are adequately supported and therefore the Company's Directors consider that there are no significant risks arising from this issue that could give rise to material liabilities in the future.

### *n)* 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 temporary investment of specific loans is deducted from borrowing costs eligible for capitalisation until it is used in the qualifying assets.

Other borrowing costs are expensed currently in the income statement.

### *o)* Corporate income tax

Corporate income tax expense or income is made up of current tax expense or income and deferred tax expense or income. 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 2019 and 2018 are: Almirall, S.A., Laboratorios Almirall, S.L., Industrias Farmacéuticas Almirall, S.A., Laboratorios Tecnobío, S.A., Ranke Química, S.L. and Almirall Aesthetics, S.A. being the first of them the head of the tax group.

The current tax is the amount paid by the Company as a result of the corporate income tax assessments for the year, Tax credits and other tax breaks, excluding tax withholdings and payments on account, and available tax loss carryforwards offset in the current year reduce the current income tax expense.

Deferred tax expense or income relates to the recognition and cancellation of deferred tax assets and liabilities in accordance with the liability method. They include temporary differences identified as those amounts expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities and their tax bases, and available tax losses and tax credits. Such amounts are reflected by applying to the relevant temporary difference or credit the tax rate at which they are expected to be recovered or settled.

Deferred tax liabilities are recognised for all temporary taxable differences, barring those arising from the initial recognition of goodwill or other assets and liabilities in a transaction that does not affect either taxable income or the reported result and is not a business combination. Deferred tax assets are only recognised insofar as it is considered probable that the tax Group parented by the Company or the individual companies will have future taxable income to offset the temporary differences.

Deferred tax assets and liabilities, resulting from transactions charged or credited to equity accounts, are also accounted for with a balancing entry in equity.

In calculating its deferred tax assets whose recoverability is reasonably assured, the Company establishes a time limit for their compensation based on best estimates. In addition, on the basis of estimates of the taxable profit of each of the companies, the Company 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 carry forwards by the legally established deadlines (see Note 18). However, as the likelihood of recovery of these deferred tax assets, the Company has considered a period of up to 10 years and therefore, in recognising the asset, it has not taken into account those tax credits which, on the basis of estimates of future taxable profit, need a longer period of time, even if it is permitted under tax legislation, considering that it will not be a likely case of recovery within the 10-year period.

### *p)* Severance indemnities

In accordance with current legislation, the Company is required to pay severance to employees who, under certain conditions, are terminated. Accordingly, termination benefits that can be reasonably quantified are expensed in the year in which the related decision is taken and valid dismissal expectations are created vis-à-vis third parties.

### *q)* Environmental disclosures

Environmental assets are considered to be assets used on a continual basis in the transactions of the Company whose main purpose is to minimise the environmental effects and to protect and enhance the environment, including the reduction or elimination of any future pollution.

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

The Company depreciates these items on a straight-line basis over the remaining years of their estimated useful life.

### *r)* Share-based payment plans

On 14 February 2008, the Company's Board of Directors 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 Company undertakes to grant the executives long-term variable remuneration, settled in cash, tied to the price of the Company's shares, provided that certain requirements and conditions are met. The liability recognised in the accompanying balance sheet at 31 December 2019 and 2018 is detailed in Note 14.

### *s)* Equity

Share capital consists of ordinary shares.

The costs of issuing new shares or options are recognised directly in equity as a reduction in reserves.

If the Company acquires treasury shares, the consideration paid, including any directly attributable incremental costs, is deducted from equity until the shares are redeemed, reissued or sold. When these shares are sold or subsequently reissued, any amount received, net of any incremental directly attributable transaction costs, included in equity.

(Expressed in thousand euro)

## 5. Intangible assets

The movements in this heading on the balance sheet in 2019 and 2018 are as follows:

| | Industrial property | Merger goodwill | Computer software | Advances and property, plant and equipment in the course of construction | Total |
|---|---|---|---|---|---|
| **Cost** | | | | | |
| **At 31 December 2017** | **326,429** | **101,167** | **76,813** | **165,327** | **669,736** |
| Additions | 1,103 | - | 2,103 | 1,777 | 4,983 |
| Disposals | (946) | - | - | (62,200) | (63,147) |
| Transfers | 94,727 | - | 3,190 | (97,918) | - |
| **At 31 December 2018** | **421,313** | **101,167** | **82,106** | **6,986** | **611,572** |
| Additions | 704 | - | 1,201 | 94,437 | 96,342 |
| Disposals | (8,679) | - | - | - | (8,679) |
| Transfers | - | - | 1,497 | (1,497) | - |
| **At 31 December 2019** | **413,338** | **101,167** | **84,804** | **99,926** | **699,235** |
| **Accumulated amortisation** | | | | | |
| **At 31 December 2017** | **(180,050)** | **(101,167)** | **(58,543)** | **-** | **(339,760)** |
| Amortisation | (11,238) | - | (8,317) | - | (19,555) |
| Disposals | 641 | - | - | - | 641 |
| **At 31 December 2018** | **(190,647)** | **(101,167)** | **(66,860)** | **-** | **(358,674)** |
| Amortisation | (17,004) | - | (6,490) | - | (23,494) |
| Disposals | 614 | - | - | - | 614 |
| **At 31 December 2019** | **(207,037)** | **(101,167)** | **(73,350)** | **-** | **(381,555)** |
| **Impairment losses** | | | | | |
| **At 31 December 2017** | **(56,741)** | **-** | **(5,070)** | **(20,000)** | **(81,811)** |
| Impairment losses recognised in the year | - | - | - | - | - |
| Write-off impairment losses | - | - | - | 20,000 | 20,000 |
| **At 31 December 2018** | **(56,741)** | **-** | **(5,070)** | **-** | **(61,811)** |
| Impairment losses recognised in the year | - | - | - | - | - |
| Write-off impairment losses | - | - | - | - | - |
| **At 31 December 2019** | **(56,741)** | **-** | **(5,070)** | **-** | **(61,811)** |
| **Carrying amount** | | | | | |
| **At 31 December 2017** | **89,638** | **-** | **13,200** | **145,327** | **248,165** |
| Cost | 421,313 | 101,167 | 82,106 | 6,986 | 611,572 |
| Accumulated amortisation | (190,647) | (101,167) | (66,860) | - | (358,674) |
| Impairment losses | (56,741) | - | (5,070) | - | (61,811) |
| **At 31 December 2018** | **173,925** | **-** | **10,176** | **6,986** | **191,088** |
| Cost | 413,338 | 101,167 | 84,804 | 99,926 | 699,235 |
| Accumulated amortisation | (207,037) | (101,167) | (73,350) | - | (381,554) |
| Impairment losses | (56,741) | - | (5,070) | - | (61,811) |
| **At 31 December 2019** | **149,560** | **-** | **6,384** | **99,926** | **255,870** |

All the intangible assets described in the table above have a finite useful life. No assets have been pledged to secure debts.

The main additions to intangible assets during the financial year ending 31 December 2019 amounted to Euro 96.3 million and mainly corresponded to:

- On February 12, 2019 the Company signed an option agreement and license with Dermira to acquire the option of licensing exclusive rights for development and commercialization of Lebrikizumab for treatment of atopic dermatitis and other indications in Europe. As a consequence of said agreement, the Company made an up-front payment of USD 30 million (EUR 27 million). On June 25, 2019, the Company decided to exercise the option, and as a consequence paid USD 50 million (EUR 44 million) on July 9, 2019. Finally, in last quarter of 2019 the Company paid USD 15 million (EUR 13 million) following the observance of certain milestones related to phase III clinical trials.

  Additionally, following said agreement, the Company will be committed to make additional payments when reaching certain future milestones, including USD 15 million related to certain phase III clinical trials, and up to USD 85 million when reaching regulatory milestones and first commercial sales of lebrikizumab in Europe and payments for royalties of net sales with percentages from low double digit to low range of twenty.

- As a consequence of the agreement signed with Athenex on December 11, 2017 that granted an exclusive license to research, develop and sell in the Europe, including Russia, first-in-class topical treatment, currently at stage III of development, there were certain subsequent payments linked to compliance of certain research milestones for the product. As of December 31, 2019 there have been payments for the observance of said milestones amounting to 2.9 million euros (3.3 million USD).

Disposals of the financial year correspond to termination of agreement signed with Symatese, under which the latter granted an exclusive licence to Almirall for the global sale of a new range of facial fillers with hyaluronic acid, under which the Company paid 7.5 million euros in 2017. The loss have been registered in caption “Profit/loss on disposal or derecognition of intangible assets” (Note 19).

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 Company 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 (milestones marking the end of certain compulsory clinical trials and notification of the corresponding approvals by regulatory agencies, where it is highly likely that the approvals will be obtained as the project in question has had positive results at stage III), reviewed at their current value at its updated value at the date of acquisition, totalling EUR 111.6 million. This outstanding amount, modified by the interest accrued from the acquisition of this asset, was recognised under “Suppliers of assets” (Note 16), and includes the interest accrued up to year end. This licence was still in force as the licensed product is expected to be launched at the end of 2018 or the beginning of 2019 (at 31 December 2016 it was expected to be launched in 2018) following the notification received from the European Medicines Agency (EMA), after the corresponding permits for their sale have been obtained. In addition, based on the signed agreement, Sun Pharma had the right to receive future payments for regulatory, development and sales events as well as royalties for net sales based on certain milestones. A total of 30 million dollars (EUR 28.4 million) was paid in 2017.

As a result of the communication received by the European Medicines Agency (EMA) on November 14, 2017, by which the launch of the product tildrakizumab in the European markets was postponed to the end of 2018 due to an extension of the scope of the centers where the clinical trials that were being examined are carried out, the Company updated the analysis of the impairment test with the new business plan taking into account the new circumstances surrounding the launch of this product, which led to the recognition of an impairment loss of 20 million euros at 2017 year-end. Notwithstanding that, in August 2018 the Company reached an agreement with Sun Pharma to amend the conditions initially signed to adapt it to the new business plan taking into account the issues mentioned above, and modifying significantly the future payments to be made by the Company (mainly milestones and royalties. As a consequence, part of the cost recognized were canceled (62.2 million euros), that appear like disposals of the financial year 2018, with counterpart in “Asset suppliers” long and short term, amounting to 21.6 and 40.6 million euros respectively. Additionally, and after the approval by the European Medicines Agency (EMA) of the product launch on September 18, 2018 and review of the impairment test based on the new business plan taking into account the new value of the intangible asset adjusted and to the extent that the new business case allows the recovery of the value of the new asset, the impairment recorded in fiscal year 2017 (20 million euros) is reversed against the profit and loss account for the year 2018. The key assumptions and methodology of the test impairment are included in Note 4-c). During the fiscal year 2018 payments amounting to USD 27 million (EUR 22 million) were made by the Company. As of December 31, 2018, there are no outstanding amounts related to the acquisition of this license. The sensitivity analysis for this asset has no relevant impact.

The transfers for the year 2018 correspond to the license mentioned above with Sun Pharma, which, after approval by the EMA, has been transferred to Intellectual Property for a gross value of EUR 94.7 million euros. The product was released to the market during the month of November 2018.

At 31 December 2019 and 2018, fully-amortised intangible assets in use amounted to approximately EUR 83.8 million and EUR 75.2 million (not including goodwill), respectively.

The aggregate amount of the research and development expenditure recognised as an expense in the accompanying income statement for 2019 and 2018 totals EUR 83.1 and EUR 67.6 million, respectively. These amounts include the depreciation of the assets associated with R&D activities and the amortisation of the expenses incurred by Company personnel and by third parties. No development expenses were capitalised during 2019 and 2018.

At 31 December 2019 and 2018, there are no capitalised development expenses not subject to amortisation with a significant carrying amount, and no intangible assets with a significant carrying amount have been identified presenting indications of impairment. Nevertheless, the Company has tested its main intangible assets for impairment on the basis of calculations of value in use, in accordance with Note 4-c, and there is no need to increase impairment.

At 31 December 2019 and 2018, the impairment of Industrial Property relates, mainly, to the development and marketing rights of a respiratory product deemed fully impaired in an EUR 45 million (EUR 45 million at 31 December 2018) due to the strategic decision made in 2016 to discontinue selling this product.

These impairment losses were recognised under “Impairment and profit/loss on fixed asset disposals” on the accompanying income statement for 2019 and 2018 (Note 19).

(Expressed in thousand euro)

## 6. Property, plant and equipment

The changes in 2019 and 2018 in "Property, plant and equipment" in the accompanying balance sheet and the most significant information affecting this heading were as follows:

| | Land and buildings | Plant and machinery | Fixtures, fittings, tooling and furnishings | Other fixed assets | Payments on account and assets in course of construction | Total |
|---|---|---|---|---|---|---|
| **Cost** | | | | | | |
| **At 31 December 2017** | **26,449** | **7,019** | **123,403** | **15,127** | **829** | **172,827** |
| Additions | 3 | 570 | 1,598 | 633 | 682 | 3,483 |
| Disposals | (745) | (641) | (6,140) | (37) | - | (7,563) |
| Transfers | - | - | 323 | 474 | (797) | - |
| **At 31 December 2018** | **25,707** | **6,948** | **119,184** | **16,197** | **714** | **168,747** |
| Additions | - | 413 | 1,260 | 204 | 934 | 2,811 |
| Disposals | - | - | (448) | - | - | (448) |
| Transfers | - | 82 | 222 | - | (312) | - |
| **At 31 December 2019** | **25,707** | **7,443** | **120,215** | **16,409** | **1,336** | **171,110** |
| **Accumulated depreciation** | | | | | | |
| **At 31 December 2017** | **(6,185)** | **(4,800)** | **(109,984)** | **(13,943)** | **-** | **(134,912)** |
| Depreciation | (431) | (665) | (3,429) | (719) | - | (5,244) |
| Disposals | 197 | 641 | 6,058 | 37 | - | 6,933 |
| **At 31 December 2018** | **(6,419)** | **(4,824)** | **(107,355)** | **(14,625)** | **-** | **(133,223)** |
| Depreciation | (419) | (674) | (2,992) | (660) | - | (4,745) |
| Disposals | - | | 448 | - | - | 448 |
| **At 31 December 2019** | **(6,838)** | **(5,498)** | **(109,899)** | **(15,285)** | **-** | **(137,520)** |
| **Impairment losses** | | | | | | |
| **At 31 December 2017** | - | - | **(34)** | - | - | **(34)** |
| Impairment losses recognised in the year | **-** | **-** | 34 | - | - | 34 |
| **At 31 December 2018** | - | - | - | - | - | - |
| Impairment losses recognised in the year | **-** | **-** | **-** | **-** | **-** | **-** |
| **At 31 December 2019** | - | - | - | - | - | - |
| **Carrying amount** | | | | | | |
| **At 31 December 2017** | **20,264** | **2,219** | **13,385** | **1,184** | **829** | **37,881** |
| Cost | 25,707 | 6,948 | 119,181 | 16,197 | 714 | 168,747 |
| Accumulated depreciation | (6,419) | (4,824) | (107,355) | (14,625) | - | (133,223) |
| Impairment losses | - | - | - | - | - | - |
| **At 31 December 2018** | **19,288** | **2,124** | **11,826** | **1,572** | **714** | **35,524** |
| Cost | 25,707 | 7,443 | 120,215 | 16,409 | 1,336 | 171,110 |
| Accumulated depreciation | (6,838) | (5,498) | (109,899) | (15,285) | - | (137,520) |
| Impairment losses | - | - | - | - | - | - |
| **At 31 December 2019** | **18,869** | **1,945** | **10,316** | **1,124** | **1,336** | **33,590** |

Additions in 2019 and 2018 were due mainly to improvements at the production centres at chemical and pharmaceutical plants and at the Company's research and development facilities.

The disposals during 2018 corresponds mainly to the sale of a building owned by the Company with a net book value of 600 thousand euros, which generated a loss of 592 thousand euros.

(Expressed in thousand euro)

Fixed assets under construction at the 2019 and 2018 year-ends and transfers in those years relate mainly to investments in the aforementioned research facilities.

At 31 December 2019 and 2018 the Company does not have any impaired assets which are not in use.

Fully-depreciated property, plant and equipment at 31 December 2019 and 2018 amounted to approximately EUR 112 million and EUR 107 million, respectively.

The Company has a number of facilities held under operating leases (Note 7).

The Company has taken out insurance to cover possible risks affecting its property, plant and equipment and possible claims that could be brought in the ordinary course of business. The Company considers that the insurance policies provide adequate coverage for such risks.

The only commitments for the acquisition of assets are disclosed in Note 17.

There is no property, plant and equipment subject to guarantee.

## 7. Leases

At year-end 2019 and 2018, the Company has the following minimum lease liabilities under agreements currently in effect, excluding service charges, inflation and future rent reviews stipulated in the lease:

| | Thousand euro | |
|---|---|---|
| | 2019 | 2018 |
| Within one year | 13,411 | 9,298 |
| 2 to 5 years | 3,523 | 2,260 |
| Over 5 years | - | - |

Operating lease instalments recognised under expenses in 2019 and 2018 are as follows:

| | Thousand euro | |
|---|---|---|
| | 2019 | 2018 |
| Operating leases recognised in the income statement for the year | 11,740 | 10,306 |

The most significant lease contracts relate to buildings, vehicles and data-processing equipment. These include the lease contract for the Company's head office which is leased from the related company Grupo Corporativo Landon, S.L. (Note 20).

(Expressed in thousand euro)

## 8. Short and long-term investments in Group companies and associates

The changes in 2019 and 2018 in “Property, plant and equipment” in the accompanying balance sheet and the most significant information affecting this heading were as follows:

| | Thousand euro | | | | | |
|---|---|---|---|---|---|---|
| | Investments in Group companies | Impairment adjustments | Long-term loans to Group companies (Note 20) | Impairment adjustments | Total long-term | Short-term loans to group companies (Note 20) |
| **Balance at 31 December 2017** | **1,115,961** | **(132,152)** | **217,922** | **(100,799)** | **1,100,932** | **1,860** |
| Additions | 235,175 | (59,965) | 13,621 | (75,991) | 112,840 | 257,581 |
| Disposals | - | 124,258 | (5,898) | 2,524 | 120,883 | (1,650) |
| Transfers | 188,894 | (98,275) | 68,687 | 98,275 | 257,581 | (257,581) |
| **Balance at 31 December 2018** | **1,540,030** | **(166,135)** | **294,332** | **(75,991)** | **1,592,236** | **210** |
| Additions | 39,051 | (14,119) | 23,491 | - | 48,424 | 872 |
| Disposals | (169,844) | 150,634 | (45,037) | - | (64,246) | (210) |
| Transfers | 95,200 | (75,991) | (95,200) | 75,991 | - | - |
| **Balance at 31 December 2019** | **1,504,439** | **(105,610)** | **177,586** | **-** | **1,576,414** | **872** |

The additions recorded under the heading “Participations in Group companies” during the year relates mainly to the partners contribution in the amount of USD 12.5 million to the investee Almirall Inc. (USA) dated December 18, 2019 and the Almirall Aesthetics Inc loan capitalization amounting to 14.5 million dolars.

On November 27, 2019, the capitalization of the loan maintained with Almirall Aesthetics, Inc. (USA), accrued interest and its corresponding impairment, and therefore its transfer to participation and its corresponding deterioration, prior to the liquidation of said agreement was agreed investee company on the same date. On November 21, 2019, the recoverable value of its assets was assigned to the investee Almirall Inc. (USA), generating an impairment that is explained in the “Impairment losses” section of this note.

The additions recorded during the year 2018 related to the contributions of partners to the investee company Almirall Inc. (USA) for the amount of 25 and 250 million dollars (20.3 and 214.9 million euros) made on February 22 and September 20, 2018, respectively. The transfers corresponded to the capitalization of loans granted to Almirall Inc. (USA) for amounts of 188.9 and 40 million dollars (153.8 and 35 million euros) and interest, as explained in the following section of this note.

The detail and changes by entity in this caption in financial years 2019 and 2018 is as follows:

| | Thousand Euros | | | | | |
|---|---|---|---|---|---|---|
| | 2019 | | 2018 | | Additions / (Disposals) | |
| Company | Cost | Impairment | Cost | Impairment | Cost | Impairment |
| Laboratorios Almirall S,L | 4,110 | - | 4,110 | - | - | - |
| Laboratorios Tecnobio, S,A | 127 | - | 127 | - | - | - |
| Ranke Química, S,A | 10,840 | - | 10,840 | - | - | - |
| Industrias Farmacéuticas Almirall S,A | 41,982 | - | 41,982 | - | - | - |
| Almirall, A,G | 10,628 | - | 10,628 | - | - | - |
| Almirall, N,V, | 9 | - | 9 | - | - | - |
| Almirall International, B,V | 144,203 | (35,088) | 144,203 | (23,928) | - | (11,160) |
| Almirall Aesthetics, S,A | 261 | (22) | 261 | - | - | (22) |
| Almirall Hermal, GmbH | 359,270 | - | 359,270 | - | - | - |
| Almirall, GmbH | 1,485 | - | 1,485 | - | - | - |
| Almirall, ApS | 17 | - | 17 | - | - | - |
| Almirall, Spa | 967 | - | 967 | - | - | - |
| Almirall Inc, | 550,269 | (70,501) | 525,895 | (82,241) | 24,374 | 11,740 |
| Almirall Aesthetics Inc, | - | - | 59,966 | (59,966) | 14,677 | (14,677) |
| Poli Group Holding, SRL | 380,270 | - | 380,270 | - | - | - |
| **TOTAL** | 1,504,438 | (105,611) | 1,540,030 | (166,135) | 39,051 | (14,119) |

(Expressed in thousand euro)

The breakdown of information on Interests in group companies is included in the Appendix to these notes.

The investments in Group companies and other relevant information at 31 December 2019 and 2018 in Almirall Aesthetics, S.A. (which was dormant) is as follows:

| | |
|---|---|
| Name | Almirall Aesthetics, S.A. |
| Address | Spain (*) |
| Activity | Dormant |
| % interest | 100% |
| Carrying amount of interest (Group) | |
| Cost | 261 |
| Measurement adjustments | - |

(*) In January 31, 2020 the denomination has changed to Almirall Europa Derma, S.A.

*Long term loans to Group companies -*

The amount at 31 December 2019 and 2018 relates to:

- A loan granted on 16 December 2013 to the investee Almirall Inc. amounting to USD 201.5 million, maturing on 16 December 2020 which accrues interest at an annual rate of LIBOR at 1 year. During 2015 the conditions related to maturity of that contract were amended in order to provide stable and permanent long-term financing (forming part of the net investment in that investee) and a system of renewal at maturity was established, leading to its consideration as a net investment. The variation in the amount of the loan recognised in 2017 and 2016 is solely due to the effect of the updating of the exchange rate at the year-end (EUR 21.8 million) and the return of EUR 12.7 million (USD 14.9 million).

  On February 22, 2018, the amount of 188.9 million dollars (153.8 million euros) was capitalized, transferring this amount to the "Investments in Group companies" caption. On September 20, 2018, the same company was granted the amount of 290 million dollars through a short-term bridge loan maturing in March 2019 to finance the purchase of assets to Allergan by Almirall LLC (USA). 100% owned by Almirall Inc., which accrued an annual interest rate of 2.49%. On December 13, 2018, it was refinanced by transferring the amount of 250 million dollars (220 million euros) as long-term credit with a maturity of December 13, 2025 and accruing annual interest of 7%. The rest was capitalized through a contribution of partners of 40 million dollars (35 million euros). The losses corresponded only to the effect of updating the credit exchange rate at the end of the year (5.9 million euros). In addition, in 2018 a transfer of the impairment of the credit was made, as explained in the section on impairment losses of this note.

  During the financial year 2019 there have been returns of this credit for an amount of EUR 45 million, stated as disposals. Additions of the fiscal year correspond solely to the effect of the updating of the exchange rate at year-end (EUR 4.3 million).

- Loan granted on 26 January to the investee Almirall Aesthetics, Inc amounting to USD 62 million which accrues interest at an annual rate of 8%p.a. and matures on 16 January 2023 with an extension option of USD 18 million. On 18 November 2016 the loan contract signed in January 2016 was amended and extended to include an additional USD 12.5 million. The variation in the amount of the loan recognised during 2017 is solely due to the effect of the updating of the exchange rate at the year-end (EUR 8.6 million).

  During the financial year 2018, amendments to this credit agreement were made, thus providing an additional 12.2 million dollars (10.7 million euros), and the effect of the exchange rate update at the end of the year is 2.9 million euros, corresponding to the amount shown as an addition. In addition, during 2018, an impairment of 75.9 million euros was carried out, as explained in the section on impairment losses in this note.

During the financial year 2019 amendments to this credit agreement were made, thus providing an additional EUR 15.8 million. Rest of disposals of the financial year correspond solely to the effect of the updating of the Exchange rate at the year-end (EUR 3.4 million).

Transfers of the financial year 2019 correspond to the capitalization of the total credit and interests, previous to the dissolution of the investee Almrirall Aesthetics, Inc., as explained in the current note.

*Impairment losses-*

- During the financial year 2017 the business activity of the US subsidiary Aqua Pharmaceuticals, LLC (wholly owned by Almirall, Inc.) was adversely affected mainly for three reasons: a rebalance of inventories in the distribution channel; an inappropriate award of the US Patient Care Programme (PCP) resulting in an impairment of the Gross Sales/Net Sales relationship, and the recent launching of an Acticlate generic on the US market. Even though the Almirall, S.A. took important steps to mitigate the impacts, these relevant events, which were impacting the profit and loss account during 2017, required a review of the business plan for the following years, which was the basis for the impairment test on intangible assets (including goodwill) generated from the purchase of this subsidiary in 2013 at the end of the previous year (as well as the first half of the year 2017).The plan showed a significant reduction related to expected gains (in sales and also in gross profit) for the future years. In addition to the investment in Almirall Inc, there were receivables related to a Long-term loan granted to Almirall Inc on December 16, 2013 and, therefore, the net position with Aqua Pharmaceutical LLC was evaluated. As a result of the update of the impairment test based on the business plan reviewed on this subsidiary at the end of 2017, and in accordance with the new assumptions, an impairment loss of the total investment in Almirall Inc amounting EUR 101.8 million was recognised and an additional partial impairment totalling USD 120.9 million (EUR 100.8 million) of the Long-term loans to Group companies. During 2018, as a result of the capitalization of the credit, the impairment of the credit for the amount of 120.9 million dollars (98.3 million euros as of December 31, 2018) was transferred to the "Investments in Group companies" . The effect of the update of the exchange rate at the close of the 2018 fiscal year is 2.5 million euros, an amount shown as a disposal in the movement.

  As of December 31, 2018, and following the acquisition of assets by Almirall LLC (previously called Aqua Pharmaceutical LLC), the impairment test was updated based on the new business plan of the subsidiary, including the expected sales of the new portfolio acquired from Allergan by Almirall LLC (previously called Aqua Pharmaceutical LLC) and a reversal of impairment of the stake was recorded an amount of 117.9 million euros.

  As of December 31, 2019, impairment test was updated according to business plan of subsidiary Almirall LLC and registering a reversal of impairment of the stake amounting to 11.7 million euros (note 19).

- At the year-end 2018, as a result of the poor operating performance of the American subsidiary ThermiGen LLC (a wholly-owned subsidiary of Almirall Aesthetics, Inc.) below expectations as of the last quarter of the year and as a result of a Under the performance of the new products developed internally and launched at that date and the lack of synergies with the rest of the Group's business in the United States, the Company reviewed the business plan foreseen for the following years with respect to the one carried out in the closing of the previous fiscal year on which the impairment test of the Company's participation stemming from the purchase of said subsidiary in 2013 was based. As a result, the total value of the stake in Almirall Aesthetics Inc has deteriorated (59.9 million euros) and the impairment of the total value of the credit granted on 26 December 2016 for an amount of 87 million dollars (75.9 million euros).

  As of March 4th, 2019, Almirall Aesthetics Inc reached an agreement with Celling Aesthetics LLC for selling the subsidiary ThermiGen, LLC. The conditions for considering active said agreement were achieved on March 29, 2019. Divestment has been made through the subsidiary Almirall Aesthetics, Inc. having an impact not significant in this annual accounts, considering that the main assets were already deteriorated as of December 31, 2018.

  As of November 27th, 2019, the dissolution of the subsidiary Almirall Aesthetics, Inc. was agreed, and decided the assignation of the recoverable value of their assets to the subsidiary Almirall Inc. This agreement generated the transfer to Almirall Inc. of the accumulated value of Impairment of Loans to Impairment of the stake, and also additional impairment losses amounting to 14.7 million euros (Note 19).

- Additionally relating to the valuation of the stake in Almirall International B.V., as of December 31, 2019, the company registered impairment losses amounting to 11.2 million euros (Note 19) following the dividend collected from said affiliate amounting to 18 million euros. As of December 31, 2018 the company reverted part of the impairment amounting to 6,398 thousand of euros.

In general, the methodology used by Almirall, S.A. to update the impairment test is based on detailed financial projections for a finite five year period. The cash flows from next years are extrapolated using the standard growth rates stated below.

The recoverable amount is determined as the higher of fair value less cost to sell and value in use. In assessing value in use, 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.

The financial projections 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 and markedly conservative criteria in order to reduce future exposure to possible additional impairment in this cash-generating unit, made up of the aforementioned subsidiary as a whole.

The main assumptions used in updating the impairment test are as follows:

| Cash-Generating Unit or Asset | Assumption 2019 | Assumption 2018 |
|---|---|---|
| Almirall, Inc | d.r.b.t.: 9.02%-11.8%<br>d.r.a.t.: 7.5%<br>g.r.c.i.: 0% - (15)% | d.r.b.t.: 9.6%-16.6%<br>d.r.a.t.: 7.5%<br>g.r.c.i.: (15)%-(20)% |

Impairment losses are recognised under “Impairment and profit/(loss) on fixed asset disposals in group companies” in the accompanying income statements.

According to the estimates and projections available to the directors of the Company, except for the matter commented above, the projected results and discounted cash flows of the other cash-generating units adequately support the value of the rest of the investments recognised.

## 9. Long and short-term investments

***Long-term investments***

The detail of the balance of this heading in the balance sheets at 31 December 2019 and 2018 and of the changes therein in the years then ended is as follows:

| | Thousand euro | | | |
|---|---|---|---|---|
| | Long-term investment portfolio | Long-term loans and other financial assets | Deposits and guarantees given | Total long-term |
| **Balance at 31 December 2017** | **551** | **172,982** | **390** | **173,922** |
| Additions | - | 51,110 | - | 51,110 |
| Decreases | (539) | - | (3) | (542) |
| Transfers | | (87,286) | | (87,286) |
| **Balance at 31 December 2018** | **12** | **136,806** | **387** | **137,206** |
| Additions | - | 51,849 | - | 51,849 |
| Decreases | - | (36,280) | (10) | (36,290) |
| Transfers | - | (53,834) | - | (53,834) |
| **Balance at 31 December 2019** | **12** | **98,541** | **378** | **98,931** |

The caption "Financial assets - Long-term investment portfolio" on the accompanying balance sheet include the shareholding of 340,827 shares at 31 December 2017 (340,827 shares at 31 December 2016) in the Spanish biotechnology company AB-Biotics, S.A. listed on the Alternative Investment Market (AIM), representing 3.55% of the share capital. At 31 December 2017 the fair value amounts to EUR 539 thousand. During 2018 it was sold for an amount of 1 million euros. The result of said operation amounted to 276 thousands of euros.

The caption "Financial assets - Long-term loans and other financial assets" includes, mainly for the amount of 98,394 thousand euros (136,658 thousand euros as of December 31, 2018), the financial asset corresponding to the fair value of future payments to receive long-term payments from AstraZeneca as described in Note 4-k. The movement for fiscal year 2019 is mainly due, on the one hand, to the change in the fair value of the asset, assuming an increase of 51.9 million euros in said asset and (51.1 million at December 31, 2018), on the other hand, the decrease derived from the short-term transfer, based on the expectations of the time horizon of collection, of certain milestones receivable whose fair value at December 31, 2019 amounts to 53.8 million euros (87.3 million euros at December 31, 2018) and the decrease of the asset due to milestones and royalties collection amounting to 36.3 million euros (null in financial year 2018).

The revaluation of this financial asset at December 31, 2019 using the method used by the independent expert in the initial valuation, the asset has been estimated at EUR 152.2 million, recorded as non-current 98.4 million and as current 53.8 million (EUR 223.9 million at December 31,2018 recorded as non-current 136.7 million and as current 87.3 million). The change in value of this financial asset during 2019 is due to the accrual of the discount rate used in the estimation totalling EUR 3.5 million (EUR 0.3 million at 31 December 2018), the Euro/US dollar exchange rate difference totalling EUR 2.5 million (EUR 1.5 million at 31 December 2018), the financial revaluation which has resulted in an income totalling EUR 37.5 million (EUR 28.7 million at 31 December 2018), the re-estimation of projected flows and probabilities assigned to the different future events totalling EUR 8.4 million (EUR 20.5 million at 31 December 2018), and the decrease of asset due to milestones and royalties collection amounting to EUR 123.5 million (see details in “Short-term financial investments” in current note). As a result, the total amount of EUR 51.9 million of change of fair value, is recognised in “Other revenue” of the consolidated income statement of the corresponding year (EUR 51.1 million during 2018) (Note 19).

(Expressed in thousand euro)

***Short-term financial investments***

The detail of this heading in the balance sheets at 31 December 2019 and 2018 is as follows:

| | Thousand euro | |
|---|---|---|
| | 2019 | 2018 |
| Short-term investment portfolio | - | 1,000 |
| Short-term interest | 18 | 13 |
| Short-term credit | 53,834 | 87,286 |
| Derivatives financial assets (Note 15) | 1,687 | - |
| **Total** | **55,540** | **88,299** |

For the purpose of preparing the cash flow statement, the Company considers cash equivalents all highly liquid short-term investments (Note 4-e) that are readily convertible into given amounts of cash and are subject to an insignificant risk of changes in value. Accordingly, when preparing the cash flow statement for the year all short-term investments were included as cash equivalents since short-term bank deposits can be liquidated immediately at the Company's discretion without incurring a penalty. In this regard, the preparation of the Statement of Cash Flows for the year includes cash equivalents of current financial investments, corresponding to bank deposits with short-term maturities, liquids can be made immediately at the discretion of the Company without penalty, which at December 31, 2019 is void (1,000 thousand euros at December 31, 2018).

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

“Short-term credits” relates to the fair value of future payments to be received by AstraZeneca in the short term in accordance with the above and in Note 4-k of these annual accounts that are expected to be collected in a Time horizon of less than one year.

In April 5, 2019, the completion of a milestone for sales achievement was announced. Consequently, the Company will receive a total of 65 million dollars divided into two payments: 35 million dollars in April 2019 (31.2 million euros at the time of collection) and 30 million dollars in March 2020. The Movement of the year 2019 is mainly due, on the one hand, to the collection of 123.5 million euros (87.2 million euros current and 36.3 million euros non-current) (corresponding to the milestone mentioned for 31.2 million euros, to the collection of another milestone related to the commercial launch of Duaklir in the United States (81.8 million euros) and the remaining amount as royalties), and on the other hand to the decrease caused by transfer from long to short term, based on expectations of collection timings, of certain milestones to be collected which fair value at December 31, 2019 amount to 53.834 thousand euros (87.286 thousand euros at December 31, 2018).

The heading of “Assets for financial derivatives” corresponds to the asset generated as a result of the “Equity Swap” mentioned in Note 15.

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

- Loans and receivables: this heading mainly includes loans granted, collection of which is for a fixed or determinable amount and which are not listed on an active market.

- Held-for-trading financial assets: the Company considers that this category includes financial investments restated through profit or loss and the financial derivatives that do not qualify for hedge accounting. The Company has no assets of this kind at year-end 2019 and 2018.

- 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, and nor have they been acquired for such purpose, the above ownership interest acquired in AB-Biotics, S.A. (up to its sale, they also included the ownership interest in Ironwood Pharmaceuticals Inc.).

- Financial assets at fair value through profit or loss: this heading includes part of the non-current receivable for recognition of the business sale described in Note 4-k.

- Financial assets held to maturity: this category includes fixed-income investments mainly in Eurodeposits, foreign currency deposits and repos.

(Expressed in thousand euro)

The detail of current and non-current financial assets available for sale, held to maturity or at fair value through profit or loss is as follows:

| | Thousand euro | |
|---|---|---|
| | 2019 | 2018 |
| Loans and receivables | 143 | 143 |
| Held-to-maturity financial assets | 412 | 1,418 |
| Financial assets at fair value through profit or loss | 153,916 | 223,944 |
| **Total** | **154,471** | **225,505** |

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

- Fixed income securities: where these are unlisted securities or mature 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.

- 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 probabilised 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 2019, the Company has updated the calculation of the fair value, reviewing the estimated probability 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 51.9 million effect in the income statement (EUR 51.1 million at 31 December 2018) (Note 19).

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

In addition, the bank accounts included in the Cash headings have not been mostly remunerated during the annual years ended December 31, 2019 and 2018.

## 10. Inventories

At 31 December 2019 and 2018 this heading breaks down as follows:

| | Thousand euro | |
|---|---|---|
| | 2019 | 2018 |
| Goods purchased for resale | 13,136 | 10,445 |
| Raw materials and packaging | 14,414 | 16,267 |
| Work in progress | 5,424 | 4,833 |
| Finished products | 27,267 | 23,782 |
| Advanced payment to suppliers | 290 | - |
| Measurement adjustment (Note 19) | (4,042) | (3,800) |
| **Total** | **56,489** | **51,527** |

The changes in the impairment allowance for Inventories are detailed in Note 19.

There were no commitments to purchase inventories involving significant amounts at 31 December 2019 and 2018.

No inventories have been pledged as security. Advanced payments to suppliers

The Company has taken out a number of insurance policies to cover risks relating to inventories. The coverage provided by these policies is considered to be sufficient.

(Expressed in thousand euro)

## 11. Trade and other receivables

At 31 December 2019 and 2018 this heading breaks down as follows:

| | Thousand euro | |
|---|---|---|
| | 2019 | 2018 |
| Trade receivables for sales and services rendered | 23,247 | 24,585 |
| Trade receivables, group companies and associates (Note 20) | 48,069 | 30,162 |
| Sundry accounts receivable | 151 | 208 |
| Personnel | 85 | 1 |
| Current tax assets and other receivables with the public administrations (Note 18) | 30,216 | 31,854 |
| Measurement adjustment (Note 19) | (848) | (603) |
| **Total** | **100,920** | **86,207** |

Total overdue balances provided at 31 December 2019 and 2018 amount to EUR 848 thousand and EUR 603 thousand, respectively.

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

At 31 December 2019 the percentage of receivables from public administrations related to the hospital business as a percentage of the total trade receivable balance for sales and services stands at 13.2 % (9.4% at year-end 2018).

No trade receivable balances have been pledged as security.

The Company 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 movement in the allowance for impairment of receivables is included in Note 19.

The balances receivable are recognised at their nominal value which is not significantly different from fair value.

The trade receivable balance in foreign currency amounts to EUR 18.1 million in 2019 (EUR 11.3 million at year-end 2018).

## 12. Equity

### *Share capital*

At 31 December 2019 the parent company's share capital consists of 174,554,820 shares with a nominal value of 0.12 euros each, fully subscribed and paid up (173,853,667 shares a nominal value as at 31 December 2018).

On June 12, 2019, 701,153 new shares of the Parent Company, from the scrip dividend, are admitted to trading on the stock exchanges of Barcelona, Madrid, Bilbao and Valencia. These shares are representative of the holders of 29.84% of the free allocation rights that chose to receive new shares instead of cash. As a consequence, the share capital of the Parent Company after the capital increase was increased by 84,138.36 euros, reaching 31 December 2019 to 20,946,578.40 euros (represented by 174,554,820 shares).

At 31 December 2019 and 2018, all the Company's shares were listed on the Spanish stock exchanges, there being no restrictions on their free transferability. Also, pre-emption rights and purchase and sale options have been granted to the Company's ultimate shareholders in respect of the shares of one of the shareholders in accordance with the agreement entered into on 28 May 2007.

(Expressed in thousand euro)

The shareholders with significant direct or indirect ownership interests in the share capital of Almirall, S.A., of more than 3% of the share capital, of which the Company is aware, in accordance with the information contained in the official records of the Spanish National Securities Market Commission (CNMV) at 31 December 2019 and 2018, are as follows:

| *Name of direct holder of the ownership interest* | % interest 31/12/2019 | % interest 31/12/2018 |
|---|---|---|
| Grupo Plafin, S.A. | 40.9% | 41.1% |
| Grupo Corporativo Landon, S.L. | 18.8% | 25.2% |
| Scopia Capital | - | 4.0% |
| ***Total*** | **59.7%** | **70.3%** |

At 31 December 2019 and 2018 the Company is unaware of other ownership interests of 3% or more in the Company's share capital or voting rights or of interests lower than the established percentage but that permit significant influence to be exercised.

***Legal Reserve***

The legal reserve may be used to increase capital in an amount equal to the portion of the balance that exceeds 10% of capital after the increase. 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.

The balance of this item at 31 December 2019 and 2018 amounted to EUR 4,172 and EUR 4,151 thousand respectively.

***Share premium***

The Spanish Companies Act expressly permits the share premium account balance to be used to increase capital and provides no specific limitation with respect to the availability of that balance.

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

During 2019 as a result of the increase in capital due to the flexible dividend, this reserve has increased by the difference between the nominal value of the shares and the equivalent value to the dividend, which amounts to EUR 11,058 thousand. The balance under this heading amounts to EUR 246,285 thousand at 31 December 2019 (EUR 235,226 at 31 December 2018).

***Other reserves***

The breakdown of this account for the years ended 31 December 2019 and 2018 is as follows:

| | Thousand euro | |
|---|---|---|
| | 2019 | 2018 |
| Voluntary reserves | 1,028,470 | 1,063,762 |
| Canary Islands investment reserve | 3,485 | 3,485 |
| Redeemed capital reserve | 30,539 | 30,539 |
| Revaluation reserve | 2,539 | 2,539 |
| Merger reserve | 4,588 | 4,588 |
| **Total other reserves** | **1,069,621** | **1,104,913** |

(Expressed in thousand euro)

***Canary Islands investment reserve***

Pursuant to Law 19/1994, the Company began to avail itself of the tax incentives established therein, appropriating a portion of the profit earned by the permanent 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 2019 and 31 December 2018 the balance of this reserve included in "Other Reserves" is EUR 3,485 thousand.

***Redeemed capital reserve***

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 2019 and 2018 amounted to EUR 30,539 thousand.

**Revaluation reserves**

In accordance with mercantile legislation, the Company restated its fixed assets in 1996. The balance may be used, without the accrual of taxes, to offset book losses, including losses brought forward and current-year or future losses, as well as to increase share capital. As from 1 January 2007 (once 10 years have elapsed as from the date of the balance sheet in which the restatements were presented) it may be appropriated to freely distributable, provided the monetary gain has been realised. The capital gain will be deemed to have been realised in an amount equal to the depreciation that has been charged in the accounts or when the restated assets have been transferred or written off.

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

The balance of the Company's "Revaluation reserve" amounts to EUR 2,539 thousand at December 31, 2019 and is available.

***Liquidity contract***

The Company maintains a liquidity contract with a financial intermediary, effective as of March 4, 2019, with the objective of increase and stability in the share price of the Company, within the limits established by the General Meeting of Shareholders and by current regulations, in particular, Circular 1/2017, of April 26, of the National Securities Market Commission, on liquidity contracts. Said contract assumes that the Parent Company owns, at December 31, 2019, treasury stock representing 0.07% of the share capital (it did not have its own shares at December 31, 2018) and a global nominal value of EUR 13.7 thousand and which have been registered in accordance Spanish Gaaps. The average acquisition price of these shares has been 15.54 EUR per share. The shares of the Parent Company in its possession are intended to negotiate in the market.

## 13. Accruals and deferred income

At 31 December 2019 and 2018 the balance and movement in this heading are as follows:

| | Thousand euro |
|---|---|
| **Balance at 31 December 2017** | **134,417** |
| Taken to results (Note 19) | (31,785) |
| **Balance at 31 December 2018** | **102,632** |
| Taken to results (Note 19) | (30,363) |
| **Balance at 31 December 2019** | **72,269** |

The main component of the balances at 31 December 2019 and 31 December 2018 set out above consist of amounts of the initially non-reimbursable collections related to the operation with AstraZeneca described in Note 4-k not recognised in profit or loss, totalling EUR 69.6 million and EUR 99.6 million, respectively.

(Expressed in thousand euro)

During the years 2019 and 2018, the movement of the heading is mainly due to the imputation of the initial non-refundable charges of the said operation.

In 2019 and 2018, the Company has not signed any agreements which imply any deferred income in addition to the deferred income stated in Note 5 of these notes to the annual accounts.

## 14. Long-term provisions

The changes in 2019 and 2018 in "Provisions" in the accompanying balance sheet are as follows:

| | 2019 | | | 2018 | | |
|---|---|---|---|---|---|---|
| | Provision for returns | Other provisions | Total | Provision for returns | Other provisions | Total |
| **Balance at 1 January** | **4,250** | **30,818** | **35,068** | **3,770** | **30,188** | **33,958** |
| Additions for the year | | 7,525 | 7,525 | 480 | 6,331 | 6,811 |
| Derecognition | (350) | (2,491) | (2,841) | - | (5,906) | (5,906) |
| Transfers | | (1,074) | (1,074) | - | 205 | 205 |
| **Balance at 31 December** | **3,900** | **34,778** | **38,678** | **4,250** | **30,818** | **35,068** |

***Provision for returns***

The provision for product returns relates to amounts recognised to cover the possible 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 4-j.

***Other Provisions***

The amount of other provisions relates mainly to the remuneration long-term (see note 4-r), and the additions for the year correspond mainly to allocations for said provision. Additionally, this heading includes the estimate made by the Company of the disbursements that it should make in the future to meet other liabilities arising from the nature of its activity. Withdrawals for the current fiscal year correspond mainly to payments made and reversals of said provision.

Additionally, the balance of other provisions includes the liabilities related to the restructuring processes and activities that the Company has carried out. Reversals of this provision include reversals of said provision.

## 15. Financial debts

The detail of the bank borrowings and other financial liabilities at 31 December 2019 is as follows:

| | Limit | Amount drawn down | Current | Non-current | | |
|---|---|---|---|---|---|---|
| | | | | 2021 | Limit | |
| Credit lines | 250,000 | - | - | - | - | - |
| Bank loans (*) | 270,000 | 229,133 | - | 5,000 | 224,133 | 229,133 |
| Obligations (*) | 250,000 | 229,245 | - | 229,245 | - | 229,245 |
| Derivatives | - | 19,082 | - | 19,082 | - | 19,082 |
| **Total at 31 December 2019** | **770,000** | **477,460** | **-** | **253,327** | **224,133** | **477,460** |

(Expressed in thousand euro)

The detail of the bank borrowings and other financial liabilities at 31 December 2018 is as follows:

| | Limit | Amount drawn down | Current | Non-current 2020 | Limit | |
|---|---|---|---|---|---|---|
| Credit lines | 250,000 | 150,000 | - | - | 150,000 | 150,000 |
| Bank loans (*) | 150,000 | 148,925 | - | - | 148,925 | 148,925 |
| Obligations (**) | 250,000 | 223,745 | - | - | 223,745 | 223,745 |
| Derivatives | - | 25,611 | 2,211 | - | 23,400 | 23,400 |
| **Total at 31 December 2018** | **650,000** | **548,281** | **2,211** | **-** | **546,070** | **546,070** |

(*) Amount from the nominal amount of senior syndicated loan amounting to 150,000 thousand euros netted of the issuance costs pending to be recognized to profit and loss following effective interest rate method and 80,000 thousand euros coming from European Investment Bank (EIB) at December 31, 2019.

(**) Amount from nominal amount of senior level bond amounting to 250,000 thousand euros netted of the issuance costs pending to be recognized to profit and loss following effective interest rate method.

***Debts with credit institutions***

In 2017, the Parent company entered into an agreement for a revolving credit line for a maximum of EUR 250 million for four years, which accrues an average interest of less than 1%. Said credit line was totally repaid during 2019. At 31 December 2018 this was classified as non-current as the Company should not have the obligation to return the disposed amount of EUR 150 million since the due date (24 February 2021). Under the agreement, the Company is required to comply with various covenants including, mainly, the requirement to comply with a specific "Net financial Debt Ratio/EBITDA (from now on understood as the calculation of "Operating Profit" plus Profit and Loss statement epigraphs "Fixed asset amortization/ depreciation", "Losses, impairment and variation in trade provisions" and "Impairment and profit/(loss) on fixed asset disposals and in group companies")", which is considered as complied at December 31, 2019.

On December 4, 2018, the Parent Company formalized an unsecured senior syndicated loan "Club Bank Deal" led by BBVA for EUR 150 million (with a single maturity on December 14, 2023) and accruing interest 2.1% annual payable semi-annually. Within the contract of this credit line, the Parent Company is obliged to comply with a series of covenants, among which the fulfilment of a certain "Net Financial Debt / EBITDA Ratio" stands out. Said "covenant" has been considered fulfilled as of December 31, 2019.

On March 27, 2019, the Parent Company formalized a loan with the European Investment Bank (EIB) for an amount of up to 120 million euros, to finance its research and development efforts, with the aim of offering cutting-edge innovation and therapies differentiated in the area of medical dermatology. The first tranche of 80 million euros was granted on April 17, 2019, with a fixed interest of 1.35% and 32 equal capital amortizations between April 17, 2021 and April 17, 2029, this being the maturity latest. Under the agreement, the Company is required to comply with various covenants including, mainly, the requirement to comply with a specific "Net financial Debt Ratio/EBITDA and "Indebtedness of subsidiaries/ consolidatedEBITDA", that are considered as complied at December 31, 2019.

***Convertible Bond***

On December 4, 2018 a simple unsecured senior-level bond issue with final maturity on December 14, 2021 was also formalized for an aggregate nominal amount of 250 million euros, eventually convertible into or exchangeable for ordinary shares of the parent company to be approved by the General Shareholders' Meeting before June 30, 2019. The Bonds bear a fixed annual interest of 0.25% payable semiannually. Once the convertibility conditions have been met, the Bonds have become convertible bonds at the option of the Noteholders at a conversion price set at 18.1776 Euros per share, after applying a conversion premium of 27.5% on the weighted average price of the ordinary shares of the Parent during the period between the opening and closing of the market on the day of the prospectus. This conversion price is subject to customary adjustment formulas in accordance with the terms and conditions of the Bonds. The Parent Company will deliver newly issued or existing shares (decision that will correspond to the Parent Company) each time the bondholders exercise their conversion rights. In the event that the Board Agreements have been proposed but not approved by the General Meeting before June 30, 2019 or the Board Agreements have been proposed and approved by the General Meeting before June 30, 2019 but the rest of the Convertibility Conditions were not fulfilled within the terms indicated in the terms and conditions, subject to prior notification to the bondholders, the company could have decided to amortize in full, but not in part, the Bonds, for the greater value between (i) 102% of the nominal value of the Bonds, plus accrued interest, or (ii) 102% of the listed price of the Bonds, plus interest accrued. Additionally, in the event that the bondholders are not notified of the modification of the Bonds within the terms provided in the terms and conditions and provided that the Parent Company had not notified the early amortization of the Bonds in accordance with the preceding paragraph, each bondholder could, subject to prior notice, request the amortization of its Bonds for the greater value between (i) 102% of the nominal value of the Bonds plus accrued interest, or (ii) 102% of the listed price of the Bonds, plus interest accrued. Likewise, at any time, each bondholder may, subject to prior notification for a specific period of time, request the amortization of his Bonds, at their nominal value plus accrued interest, in the event of a change of control in the Issuer or to reduce its floating capital below certain limits and, if any of these events occurred prior to the Modification Date, for the greater value between the nominal value of the Bonds plus the interest accrued, or the price of the Bonds, plus interest accrued.

For this bond issue, the fair value of the derivative financial instruments embedded in the host instrument (the financial liability for the bond) was first determined. The value of the initial recognition of the host instrument was determined on a residual basis after deducting from the total amount of the instrument, the fair value assigned to the derivative financial instruments.

Within the derivative financial instrument, the following options with a significant value that required the separation of the host contract were identified (among others whose value was estimated close to zero both at the beginning and at the closing date of the period):

- Conversion option: once the Transformation Option was exercised by the Shareholders' Meeting (fact actually announced before the CNMV on June 17, 2019), the bonds are convertible into Almirall shares at the option of the holders of the Bonds (this is a purchase option purchased by the holders of the bonds and sold by Almirall) at a conversion price of 18.1776 euros per share (this price is subject to anti-dilution adjustments). If the exchange for all the bonds takes place, a total of 13,753,191 shares will be delivered. The swap could take place in newly issued shares or in existing shares at the discretion of Almirall. Because, within the scenarios of adjustment of the price of conversion into shares, there are mechanisms whose nature implies that presentation as equity is not adequate, this option represents a derivative financial instrument separable from the host contract (financial liability) for the Group.

- Cancellation option: the Parent Company may, after the "Modification Date", amortize in advance, in full, but not in part, the bonds at their nominal value plus interest accrued and not paid if:

    a) At any time, 15% or less of the aggregate face value of the bonds issued remains outstanding.

    b) As of the day on which 2 years and 21 days have elapsed since the Issue Date (that is, as of January 4, 2021, inclusive), the aggregate market value of the underlying shares for each bond, during a certain period of time exceeds 125 thousand euros (that is, taking into account that each bond corresponds to 5,501 shares to an exchange of 18.776 euros per share, if the share price of Almirall SA exceeds 22.722 euros per share ).

With respect to this option purchased by Almirall, given that the nominal value of the bonds (plus their respective accrued interest) would not be "approximately equal" to the amortized cost plus the value of the derivative financial instrument mentioned above, this cancellation option anticipated would not be closely related to the host contract and would be separable from it.

At the time of initial recognition (December 14, 2018), these options were valued at 23.4 million euros, classified under the heading of "Liabilities for derivative financial instruments" of this same Note and remaining 226.6 million euros. remaining euros as a component of the host bonus. As of December 31, 2019, the fair value of these options amounts to 19.1 million euros.

The change in the fair value of these options is recorded in the income statement between the time of initial recognition and the valuation made at the time of closing, until they expire. For the annual year ended on December 31, 2019, the impact on the Company's income statement has amounted to 4.3 million euros in profit (Note 19). The Company has accounted for both options at their net worth.

The valuation of both options has been carried out by an independent expert, using standard valuation methodologies of derivative financial instruments and in accordance with Spanish Gaap.

The component of the host bond, meanwhile, once discounted issuance expenses (amounting to 2.9 million euros), is recorded at amortized cost using the effective interest method.

(Expressed in thousand euro)

***Financial derivative instruments***

On May 10, 2018, the Ordinary General Shareholders' Meeting approved the execution of a swap transaction of interest and shares ("Equity swap"). This operation was made effective through a contract dated May 11, 2018 with Banco Santander, S.A., by which the Company must pay a variable interest to the bank as a compensation and Banco Santander, S.A. commits, as acquirer of underlying common shares of Almirall S.A. (with a maximum nominal limit of 2.95% of the share capital (5,102,058 shares) or EUR 50 million, and with a term of 24 months), to deliver the dividend received for its investment in Almirall S,A, and sell the shares of the Company to the company itself at expiration date.

As a result, under the heading "Liabilities for derivative financial instruments", the fair value of the derivative corresponding to the difference between the fair value of the underlying asset (2,510,952 shares equivalent to EUR 35.1 million, corresponding 1.4% of the share capital of the Parent Company) and the acquisition cost thereof for Banco Santander, which as of December 31, 2019 amounted to 1.7 million euros of capital gains (Note 9), while at December 31, 2018 it amounted to 2.2 million euros of latent capital loss. It is considered that the value of the derivative of the option that would imply the acquisition of the total of the maximum shares (EUR 50 million) would not be significant at the closing date. Said derivative, when it does not comply with the accounting coverage requirements, is recorded with changes in value in the profit and loss account (Note 19).

Additionally, under certain conditions in which the fair value is lower than 85% of the cost value, the Group must partially settle this debt with the bank (thereby reducing the fair value of the derivative). For this reason, the Group has chosen to classify this asset/liability as current.

At December 31, 2018 Almirall, S.A. maintained a liability of 0.7 million euros corresponding to a forward exchange rate hedge. This forward has been renewed several times during 2019, and settled on June 28, 2019 for 4.5 million euros. The impact generated in the profit and loss account by the interest rate differentials between the euro and the US dollar is detailed in Note 19.

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

## 16. Other long-term and short-term financial liabilities

The detail at 31 December 2019 and 2018 is as follows:

| | Thousand euro | | | | | |
|---|---|---|---|---|---|---|
| | Current | Non-Current | | | | |
| | | 2021 | 2022 | 2023 | Other | Total |
| Research-related loans | 3,655 | 2,243 | 2,048 | 1,543 | 1,002 | 6,836 |
| Payables for purchases of non-current assets | 38,542 | - | - | - | - | - |
| Accrued interest | 452 | | | | | - |
| **Total at 31 December 2019** | **42,649** | **2,243** | **2,048** | **1,543** | **1,002** | **6,836** |

| | Thousand euro | | | | | |
|---|---|---|---|---|---|---|
| | Current | Non-Current | | | | |
| | | 2020 | 2021 | 2022 | Other | Total |
| Research-related loans | 3,259 | 2,467 | 2,243 | 2,026 | 2,737 | 9,473 |
| Payables for purchases of non-current assets | 2,196 | 33,451 | - | - | - | 33,451 |
| Accrued interest | 409 | - | - | - | - | - |
| Other long-term payables | 1,324 | - | - | - | - | - |
| **Total at 31 December 2018** | **7,188** | **35,918** | **2,243** | **2,026** | **2,736** | **42,924** |

The research-related loans relate to the interest-free loans granted by the Ministry of Science and Technology to promote research and are presented as described in Note 4-f. The grant of these loans is subject to compliance with certain conditions concerning investments and expenses. These loans mature in the period 2020 to 2026.

Payables for non-current asset purchases in 2019 and 2018 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 2019 included the current payables for the agreement with AstraZeneca, for an amount of EUR 35 million ( EUR 33.4 Million as at December 31, 2018) which correspond to the equivalent value in euros of the current value of future pending payments for the purchase of the aforementioned license that will be due in 2020.

Other long terms payable heading of as of December 31, 2018, as a result of the transaction with AstraZeneca described in Note 4-k, the Company had recorded an amount of 1.3 million euros for the amount payable for the expenses that the Company assumed in relation to development, launch and commercialization costs.

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

## 17. Commitments entered into, contingent liabilities and contingent assets

### a) *Commitments entered into*

As a result of the research and development activities carried out by the Company, firm agreements for approximately EUR 29 million and EUR 3.5 million were entered into at 31 December 2019 and 2018 in relation to the performance of those activities which should be paid in future years. There were no commitments to purchase property, plant and equipment for significant amounts at 31 December 2019 and 2018.

The lease commitments entered into by the Company are detailed in Note 7.

The Company has arranged several guarantees with the public administration and third parties amounting to EUR 11,395 thousand at 31 December 2019 (EUR 12,095 thousand at 31 December 2018).

### b) *Contingent liabilities*

There are no significant contingent liabilities at the date of preparation of these annual accounts that might result in significant cash outlays.

### c) *Contingent assets*

As a result of the operation with AstraZeneca described in Note 4-k, the Company is entitled to receive a payment of certain amounts for milestones related to certain regulatory and commercial events.

## 18. Tax situation

### Consolidated Tax Group

Almirall, S.A. files consolidated tax returns as provided for in Title VII, Chapter VI of Law 27/2014 of 27 November, for the Corporate Income Tax. The companies composing the tax group for 2019 and 2018 are: Almirall, S.A., Laboratorios Almirall, S.L., Industrias Farmacéuticas Almirall, S.A., Laboratorios Tecnobío, S.A., Ranke Química, S.L. and Almiral Aesthetics, S.A. being the first of them the head of the tax group. Consequently, Almirall, S.A. is the responsible in front of tax authorities for the declaration, payment and presentation of Corporate Income Tax.

*Years open to tax inspections-*

In July 2016, the tax authorities notified Almirall, S.A., in its capacity as the 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.

(Expressed in thousand euro)

The inspection actions ended with the signing of minutes in compliance on July 27, 2018, without deriving a significant amounts.

In May 2019, the tax authorities notified Almirall, S.A. the initiation of a review of verification and investigation of the Corporate Income Tax of the financial year 2014.

As a result of the inspection, the returns of the Parent and the companies in the Spanish tax group headed by it, are open to review by the tax authorities for the years 2014 to 2019 for corporate income tax and 2016 to 2019 for the other taxes applicable to them.

Generally, due to the possible different interpretations to which tax legislation lends itself, future inspections that may be carried out by the tax authorities for the years open to inspection may give rise to tax liabilities, whose amount cannot be currently quantified in an objective manner. However, the Company's directors consider that the possibility of any material liability arising in this connection other than those already recognised is remote.

**Tax refundable and payable**

The detail of current tax refundable and payable at 31 December 2019 and 2018 is as follows:

| | Thousand euro | |
|---|---|---|
| | 31/12/2019 | 31/12/2018 |
| VAT receivable | 6,733 | 8,794 |
| Income tax receivable | 23,483 | 22,401 |
| Sundry taxes receivable | - | 659 |
| **Total balances receivable** | **30,216** | **31,854** |
| VAT payable | - | 497 |
| Foreign VAT payable | 2,049 | 2.059 |
| Income tax payable | - | 1.070 |
| Personal income tax withholdings | 1,970 | 1.398 |
| Social security payable | 862 | 1.006 |
| Sundry taxes receivable | 8 | (11) |
| **Total balances payable** | **4,890** | **6,019** |

"Corporate income tax receivable" includes tax refundable for 2019 and 2018.

**Income tax recognised-**

The reconciliation of the accounting results and tax base for 2019 and 2018 is as follows:

| | Thousand euro | |
|---|---|---|
| | 2019 | 2018 |
| Profit /(loss) before taxes | 195,419 | 69,303 |
| Permanent differences: | | |
| Increase | 35,783 | 143,416 |
| Decrease | (326,388) | (171,176) |
| Temporary differences | | |
| Increase | 6,630 | 32,445 |
| Decrease | (16,123) | (44,830) |
| **Gross taxable income** | **(104,678)** | **29,159** |
| Offsetting of tax-loss carry forwards | - | (7,930) |
| **Tax base** | **(104,678)** | **21,229** |

(Expressed in thousand euro)

The reduced taxable profit resulting from permanent differences in 2019 and 2018 is a result basically of the reduction of the taxable profit relating to proceeds from the disposal of intangible assets, to the exemption for double imposition of received dividend, and to the reversal of impairments, whilst the increase mainly corresponds to the different treatment for tax purposes of certain expenses arising in these years.

Additionally, the detail of income tax recognised in the income statement and in equity in 2019 and 2018 is as follows:

| | Thousand euro | |
|---|---|---|
| | Expense /(income) | |
| | 2019 | 2018 |
| *Income tax:* | | |
| **- Recognised in the income statement** | **3,892** | **7,377** |
| Current corporate income tax | - | 1,170 |
| Deferred corporate income tax | 2,463 | 6,131 |
| Foreign tax | 1,429 | 76 |
| **- Recognised in equity** | - | **-** |
| **Total** | **3,892** | **7,377** |

**Reconciliation of the accounting results to the tax base-**

The reconciliation of the corporate income tax expense resulting from the application of the standard tax rate in force to the income tax expense recognised is as follows:

| | Thousand euro | |
|---|---|---|
| | 2019 | 2018 |
| Profit /(loss) before taxes | 195,419 | 69,303 |
| Permanent differences: | | |
| Increase | 35,783 | 143,416 |
| Decrease | (326,388) | (171,176) |
| Adjusted accounting results | (95,186) | 41,543 |
| Tax rate | 25% | 25% |
| **Gross tax** | **-** | **10,386** |
| Tax credits: | | |
| -Tax credits and other consolidation adjustments | (310) | (1,458) |
| Income tax paid abroad | 1,429 | 76 |
| Regularisation of deferred tax assets and liabilities | - | - |
| Effect of tax consolidation | 2,373 | - |
| Offset of tax losses | - | (1,982) |
| Other | 400 | 355 |
| **Income tax expense (income) accrued** | **3,892** | **7,377** |

The Corporate Income Tax expense is the result of applying the tax rate of 25% on the taxable base (it is null in 2019 due to a negative taxable base). No deductions were applied in financial year 2019 and the retentions and advance payments have amounted to 19,349 thousand euros (20,705 thousand euros in fiscal year 2018). The amount to be returned from tax authorities amount to 23,483 thousand euros at December 31, 2019 (22,401 at December 31, 2018). Said amount is the result from advance payments made during the financial year 2019 and the monetization of deductions according to art. 39.2 of LIS, amounting to 4,134 thousand euros (3,040 thousand euros in 2018).

(Expressed in thousand euro)

The detail, by nature and amount, of the tax incentives applied in 2018 and 2018 and of those not yet applied at 31 December 2019 and 2018 is as follows:

| Nature | Year generated | Thousand euros | | | |
|---|---|---|---|---|---|
| | | 2019 | | 2018 | |
| | | Offset | Available for offset | Offset | Available for offset |
| Research and development | | | | | |
| | 2007 | | 25,550 | 1,997 | 25,550 |
| | 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 | | 28,660 | | 28,660 |
| | 2014 | | 23,685 | | 23,685 |
| | 2015 | | 14,840 | | 14,840 |
| | 2016 | | 12,259 | | 12,259 |
| | 2017 | | 10,209 | 3,806 | 10,209 |
| | 2018 | 5,219 | 9,230 | | 14,449 |
| | 2019 | | 20,184 | | |
| | | **5,219** | **309,655** | **5,803** | **294,690** |
| Technological innovation | 2012 | - | 1,077 | - | 1,077 |
| | 2013 | - | 1,439 | - | 1,439 |
| | 2014 | - | 701 | - | 701 |
| | | - | **3,217** | - | **3,217** |
| International double taxation | 2016 | - | - | - | - |
| | 2017 | - | - | - | - |
| | 2018 | - | - | 1,883 | - |
| | 2019 | - | 913 | 76 | - |
| | | **-** | **913** | **1,960** | **-** |
| Re-investment of extraordinary income | 2012 | - | 55 | - | 55 |
| | 2013 | - | 2 | - | 2 |
| | 2014 | - | 10 | - | 10 |
| | | **-** | **67** | **-** | **67** |
| Donations | 2016 | - | - | - | - |
| | 2017 | - | - | 98 | - |
| | 2018 | - | - | 56 | - |
| | 2019 | - | 35 | - | - |
| | | **-** | **35** | **154** | **-** |
| Temporary measures | 2016 | - | - | - | - |
| | 2017 | - | - | 219 | - |
| | 2018 | - | - | 37 | - |
| | 2019 | - | 26 | - | - |
| | | **-** | **26** | **257** | **-** |
| **Total tax incentives attested** | | **5,219** | **313,913** | **8,174** | **297,974** |
| | | | **194,161** | | **199,042** |

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 Company will generate each year will exceed 10% of tax payable.

(Expressed in thousand euro)

**Deferred tax**

The detail of deferred taxes recognised in both years is as follows:

| | 2019 | | 2018 | |
|---|---|---|---|---|
| | Accumulated differences in tax bases | Accumulated effect tax payable | Accumulated differences in tax bases | Accumulated effect tax payable |
| Amortisation of intangible assets | 95,644 | 23,911 | 93,913 | 23,478 |
| Provisions | 18,246 | 4,561 | 25,828 | 6,458 |
| Deductions pending application | - | 194,161 | - | 199,042 |
| **Total deferred tax assets** | | **222,633** | | **228,978** |
| Unrestricted amortisation/depreciation R,D, 27/84, 2/85, 3/93 | 21,836 | 5,459 | 25,954 | 6,488 |
| Amortisation of goodwill | 80,030 | 20,007 | 70,426 | 17,607 |
| Other | 57 | 14 | 115 | 29 |
| **Deferred tax liabilities** | | **25,481** | | **24,124** |

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

| | **2019** | **2018** |
|---|---|---|
| Deferred tax assets | 222,633 | 228,978 |
| Deferred tax liabilities | (25,481) | (24,124) |
| **Deferred tax assets (net)** | **197,153** | **204,854** |

The gross movement in deferred tax is as follows:

| | **2019** | **2018** |
|---|---|---|
| At 1 January | 204,854 | 213,854 |
| (Charged)/credited to income statement | (7,701) | (9,000) |
| Tax (charged)/ credited directly to equity | - | - |
| **At 31 December** | **197,153** | **204,854** |

These deferred tax assets were recognised in the balance sheet as the 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 Group’s restructuring.

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

(Expressed in thousand euro)

## 19. Income and expense

### Revenue

The detail, by business and geographical area, of revenue for the year is as follows:

| | Thousand euro | |
|---|---|---|
| | **2019** | **2018** |
| Spain | 243,867 | 244,134 |
| Exports | 224,764 | 178,717 |
| Income from shareholdings in Group companies (Note 20) | 139,218 | 9,243 |
| **Total** | **607,849** | **432,094** |

| | Thousand euro | |
|---|---|---|
| | **2019** | **2018** |
| Sale through own network | 402,838 | 365,905 |
| Sale through licensees | 45,943 | 35,499 |
| Income from shareholdings in Group companies (Note 20) | 139,218 | 9,243 |
| Other | 19,850 | 21,447 |
| **Total** | **607,849** | **432,094** |

### Other operating income

| | Thousand euro | |
|---|---|---|
| | **2019** | **2018** |
| Income from sales/product marketing licenses | 3,125 | 1,001 |
| Other income - Group companies (Note 20) | 19,758 | 12,383 |
| Other | 84,234 | 84,607 |
| **Total** | **107,116** | **97,991** |

The first four items detailed above refer basically to other income relating to sales/assignment of marketing rights for proprietary research products which were accounted for as indicated in Note 4-K.

Other for 2019 mainly includes:

- Income amounting to EUR 30 million relating to the time-apportionment to results of the non-reimbursable amount initially received (Note 13) (EUR 31.4 million in 2018).
- Net income amounting to EUR 51.9 million due to the change in fair value of the financial asset deriving from the AstraZeneca transaction (Note 4-k) (EUR 51.1 million in 2018).

### Raw materials and consumables

This heading is analysed below:

| | Thousand euro | |
|---|---|---|
| | **2019** | **2018** |
| Purchases | 146,847 | 133,476 |
| Changes in inventories of raw materials and other consumables | 1,853 | (5,810) |
| Changes in inventories of goods for resale | (2,690) | (745) |
| Inventory impairment | 242 | (881) |
| Subcontracted work | 49,670 | 46,938 |
| **Total** | **195,922** | **172,978** |

The detail of "Inventory impairment" and the movement in the measurement adjustment is as follows:

| | Thousand euro |
|---|---|
| | Inventory impairment (Note 10) |
| **Balance at 31 December 2017** | **4,681** |
| Appropriation | 7,555 |
| Application | (8,436) |
| Cancellation | - |
| **Balance at 31 December 2018** | **3,800** |
| Appropriation | 5,925 |
| Application | (5,683) |
| Cancellation | - |
| **Balance at 31 December 2019** | **4,042** |

The detail, by origin, of the purchases made by the Company in 2019 and 2018 is as follows (thousand euro):

| | 2019 | | | 2018 | | |
|---|---|---|---|---|---|---|
| | Spain | Intra-Community | Imports | Spain | Intra-Community | Imports |
| Purchases | 40,468 | 99,696 | 6,713 | 46,302 | 80,584 | 6,590 |
| **Total** | **146,847** | | | **133,476** | | |

### Staff costs

The detail of "Staff Costs" is as follows:

| | Thousand euro | |
|---|---|---|
| | 2019 | 2018 |
| Wages and salaries | 56,726 | 53,394 |
| Employer's Social Security contributions | 8,572 | 8,193 |
| Severance payments | (395) | 1,321 |
| Other employee welfare expenses | 3,847 | 3,847 |
| **Total** | **68,750** | **66,755** |

(Expressed in thousand euro)

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

| | 2019 | | | 2018 | | |
|---|---|---|---|---|---|---|
| | Men | Women | Total | Men | Women | Total |
| Managing directors | 1 | - | 1 | 1 | - | 1 |
| Directors | 21 | 11 | 32 | 22 | 9 | 31 |
| Managers | 62 | 59 | 122 | 61 | 56 | 117 |
| Technicians | 145 | 218 | 363 | 140 | 207 | 347 |
| Administrative | 23 | 45 | 68 | 22 | 53 | 75 |
| Other | - | 1 | 1 | - | 1 | 1 |
| **Total** | **253** | **334** | **587** | **246** | **326** | **572** |

The average of employees during 2019 with a 33% or higher disability is 1 people (one technical employee) (3 employees during 2018).

The number of employees at the year-end 2019 is as follows:

| | 2019 | | |
|---|---|---|---|
| | Men | Women | Total |
| Managing directors | 1 | - | 1 |
| Directors | 21 | 11 | 32 |
| Managers | 65 | 58 | 123 |
| Technicians | 143 | 220 | 363 |
| Administrative | 23 | 44 | 67 |
| Other | - | 1 | 1 |
| **Total** | **253** | **334** | **587** |

The number of employees at the year-end 2018 is as follows:

| | 2018 | | |
|---|---|---|---|
| | Men | Women | Total |
| Managing directors | 1 | - | 1 |
| Directors | 21 | 10 | 31 |
| Managers | 60 | 54 | 114 |
| Technicians | 140 | 219 | 359 |
| Administrative | 22 | 48 | 70 |
| Other | - | 1 | 1 |
| **Total** | **244** | **332** | **576** |

The number of employees at the end of 2019 with a 33% or higher disability is 1 people (one technical employee) (3 employees at year-end 2018).

(Expressed in thousand euro)

**Other operating expenses**

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

| | Thousand euro | |
|---|---|---|
| | 2019 | 2018 |
| R+D | 38,930 | 26,815 |
| Rent and charges | 16,459 | 12,643 |
| Repair and upkeep | 8,743 | 8,773 |
| Independent professional services | 11,631 | 17,304 |
| Services received from Group (Note 20) | 69,652 | 62,606 |
| Vehicles | 2,471 | 3,153 |
| Insurance premiums | 1,364 | 1,442 |
| Banking and similar services | 279 | 1,744 |
| Utilities | 1,214 | 1,288 |
| Other services | 53,526 | 66,407 |
| Other taxes | 368 | 31 |
| **Total** | **204,637** | **202,208** |

**Losses, impairment and variation in trade provisions**

The detail of "Losses, impairment and change in allowances and provisions" in the accompanying income statement and of changes in trade provisions is as follows:

| | Thousand euro | |
|---|---|---|
| | 2019 | 2018 |
| Change in measurement adjustment for bad debts (Note 11) | (245) | 43 |
| Change in other trade provisions | 500 | (580) |
| **Total** | **255** | **(537)** |

The change in the bad debt allowance is as follows:

| | Thousand euro |
|---|---|
| | Bad debt allowance (Note 11) |
| **Balance at 31 December 2017** | **646** |
| Change in measurement adjustments | - |
| Appropriation | (43) |
| **Balance at 31 December 2018** | **603** |
| Change in measurement adjustments | 848 |
| Appropriation | (603) |
| **Balance at 31 December 2019** | **848** |

**Impairment and profit/(loss) on disposals of fixed assets and investments in Group companies**

The detail of "Impairment and profit/loss on disposals of fixed assets and investments in group companies" in 2019 and 2018 is as follows:

| | Thousand euro | | | |
|---|---|---|---|---|
| | 2019 | | 2018 | |
| | Profit | Loss | Profit | Loss |
| Profit/loss on disposal or derecognition of intangible assets (Note 5) | - | (8,065) | - | (307) |
| Profit/loss on disposal or derecognition of property, plant and equipment | 1 | - | - | (592) |
| Impairment of intangible assets (Note 5) | - | - | 20,000 | - |
| Impairment Company Almirall Inc. (Note 8) | - | - | - | (75,991) |
| Impairment of investments in Group companies (Note 8) | 11,740 | (25,869) | 124,258 | (59,966) |
| | **11,741** | **(33,934)** | **144,258** | **(136,857)** |
| **Impairment and profit/(loss) on disposals of fixed assets and investments in Group companies** | **(22,183)** | | **7,401** | |

Impairment profits of investments in Group companies relates to the impairment reversal of the investee company Almirall Inc and the impairment losses relates to the deterioration made for Almirall Aesthetics, Inc. for an amount of 14.7 million euros and for Almirall International BV for 11,2 million euros (Note 8)

**Financial income and expenses**

The detail of "Financial income/(expense)", "Impairment and profit/loss on disposals and changes in the fair value of financial instruments" and "Exchange differences" in 2019 and 2018 is as follows:

| | Thousands of Euros | | | |
|---|---|---|---|---|
| | 2019 | | 2018 | |
| | Income | Expense | Income | Expense |
| Other income and similar interest | 724 | - | 167 | - |
| Change to fair value in financial instruments | 7,513 | - | 276 | (1,508) |
| Financial expenses for obligations (Note 15) | - | (6,125) | - | (75) |
| Finance and similar costs | - | (7,741) | - | (5,516) |
| Exchange differences | 7,685 | (6,137) | 11,361 | (11,447) |
| | **15,922** | **(20,003)** | **11,804** | **(18,546)** |
| | **(4,081)** | | **(6,742)** | |

Under the heading "Variation in the fair value of financial derivatives" corresponds to the update of the fair value of the Equity swap explained in Notes 15 and the result of the convertible bond impact described also in Note 15. In 2018 it was included the update of the fair value of the Equity swap and the sale of the shares of AB Biotics described in Note 9.

"Financial expenses for obligations " include financial expenses for interest regarding the issuing of convertible bonds (Note 15).

**Foreign Currency Transactions**

During the years ended 2019 and 2018 the Company carried out the following transaction in foreign currency:

| | Thousands of Euros | | | |
|---|---|---|---|---|
| | Expense | | Income | |
| | 2019 | 2018 | 2019 | 2018 |
| Japanese Yen | 5,028 | 3,243 | 4,111 | 2,321 |
| US dollar | 23,597 | 20,427 | 48,421 | 4,163 |
| Mexican Peso | 7 | 39 | - | - |
| Danish Krone | 5,910 | 3,771 | 5,298 | 5,031 |
| Sterling Pounds | 13,308 | 8,210 | 17,748 | 16,465 |
| Swedish Krona | 44 | 17 | - | - |
| Polish Zloty | 1,078 | 986 | 3,045 | 2,705 |
| Swiss Franc | 3,817 | 3,002 | 6,328 | 5,072 |
| Hungarian Forint | 20 | 4 | (7) | (8) |
| Canadian Dollar | - | 23 | - | - |
| Austalian Dollar | 13 | - | - | - |

**Auditor fees**

In 2019 and 2018 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 (thousand euro):

The detailed services provided by year are as follows:

| Description | 2019 | | |
|---|---|---|---|
| | Annual accounts audit | Tax consultancy | Other services |
| PricewaterhouseCoopers Auditores, S.L. | 214 | - | 41 |
| Other companies PwC network | - | - | 31 |
| | **214** | **-** | **72** |

| Description | 2018 | | |
|---|---|---|---|
| | Annual accounts audit | Tax consultancy | Other services |
| PricewaterhouseCoopers Auditores, S.L. | 246 | - | 36 (*) |
| Other companies PwC network | - | 15 | 20 |
| | **246** | **15** | **56** |

(*) Other services rendered by PricewaterhouseCoopers Auditores, S.L. corresponds to Agreed procedures reports.

(Expressed in thousand euro)

## 20. <u>Balances and transactions with related parties</u>

*Transactions-*

During 2019 the Company carried out the following transactions with Group companies:

| Revenues | Sales | Other operating income | Financial income (interests and dividends) | Total |
|---|---|---|---|---|
| Almirall, AG | 6,328 | 1 | - | 6,330 |
| Almiral ApS | 5,298 | 2 | - | 5,300 |
| Almirall Limited | 17,748 | 112 | - | 17,860 |
| Almirall, B,V, | 7,469 | 2 | - | 2 |
| Almirall International B,V, | - | - | 18,000 | 25,469 |
| Almirall S,A,S | 9,714 | 321 | - | 10,035 |
| Almirall SpA | 28,387 | 192 | - | 28,579 |
| Almirall Hermal GmbH | 63,549 | 2,191 | 40,000 | 105,740 |
| Almirall-Productos Farmacéuticos, Lda, | 4,592 | 2 | - | 4,594 |
| Almirall, N,V, | 2,350 | 2 | - | 2,352 |
| Almirall Sp, z o,o | - | 1 | - | 1 |
| Almirall Inc, (USA) | - | - | 13,471 | 13,471 |
| Industrias Farmacéuticas Almirall, S,A, | - | 730 | 23,000 | 23,730 |
| Ranke Química, S,A, | - | 165 | 9,000 | 9,165 |
| Laboratorios Almirall S,L, | - | 1,015 | 7,000 | 8,015 |
| Laboratorios Tecnobío, S,A, | - | 4 | 1,000 | 1,004 |
| Polichem S,A, (Suiaza-Lugano) | 1,607 | 6,521 | - | 8,127 |
| Almirall LLC | 12,857 | 8,181 | - | 21,038 |
| Almirall Gmbh | - | - | 2,000 | 2,000 |
| Thermigen LLC (USA) | - | 35 | - | 35 |
| Poli Group Holding SRL | - | - | 19,000 | 19,000 |
| Polichem SRL | - | - | 8 | 8 |
| Almirall Aesthetics Inc (USA) | - | 282 | 6,739 | 7,020 |
| **Total** | **159,898** | **19,758** | **139,218** | **318,875** |

| Expenses | Purchases | Services received | Financial expenses | Total |
|---|---|---|---|---|
| Almirall, AG | - | 3,470 | 3 | 3,473 |
| Almirall ApS | - | 4,284 | - | 4,284 |
| Almirall Limited | - | 4,086 | 82 | 4,168 |
| Almirall B.V | - | 1,639 | - | 1,639 |
| Almirall S.A.S | - | (416) | - | (416) |
| Almirall SpA | - | 7,999 | - | 7,999 |
| Almirall Hermal, GmbH | 16,332 | 25,483 | - | 41,815 |
| Almirall-Productos Farmacéuticos, Lda. | - | 1,123 | - | 1,123 |
| Almirall Sp. Z.o.o | - | 907 | - | 907 |
| Almirall LLC (USA) | - | 23 | - | 23 |
| Industrias Farmacéuticas Almirall S.A | 41,038 | 3,738 | - | 44,776 |
| Ranke Química, S.A | 17,398 | 867 | - | 18,265 |
| Laboratorios Almirall S.L | - | 14,653 | - | 14,653 |
| Laboratorios Tecnobio, S.A | - | 3 | - | 3 |
| Polichem S.A (Suiaza-Lugano) | 1,150 | - | - | 1,150 |
| Almirall Aesthetics S.A | - | 0 | - | 0 |
| Almirall NV | - | 1,795 | - | 1,795 |
| **Total** | **75,918** | **69,652** | **85** | **145,655** |

(Expressed in thousand euro)

During 2018 the Company carried out the following transactions with Group companies:

| **Revenues** | **Sales** | **Other operating income** | **Financial income** | **Total** |
|---|---|---|---|---|
| Almirall, AG | 15,175 | 10 | - | 15,185 |
| Almiral ApS | 5,031 | - | - | 5,031 |
| Almirall Limited | 16,465 | 166 | - | 16,631 |
| Almirall, B,V, | 1,950 | - | - | 1,950 |
| Almirall S,A,S | 10,559 | 2,421 | - | 9,176 |
| Almirall SpA | 26,243 | 27 | - | 26,270 |
| Almirall Hermal GmbH | 42,720 | 11 | - | 42,731 |
| Almirall-Productos Farmacéuticos, Lda, | 4,320 | - | - | 4,320 |
| Almirall, N,V, | 2,298 | - | - | 2,298 |
| Almirall Inc, (USA) | - | - | 3,786 | 3,786 |
| Aqua Pharmaceuticals Holdings, Inc | - | 4,514 | - | 4,514 |
| Industrias Farmacéuticas Almirall, S,A, | - | 685 | - | 685 |
| Ranke Química, S,A, | - | 158 | - | 158 |
| Laboratorios Almirall S,L, | - | 1,009 | - | 1,009 |
| Laboratorios Tecnobío, S,A, | - | 4 | - | 4 |
| Polichem S,A, (Suiaza-Lugano) | 9 | 3,263 | - | 3,272 |
| Thermigen LLC (USA) | - | 116 | - | 116 |
| Almirall Aesthetics Inc (USA) | - | - | 5,457 | 5,457 |
| **Total** | **124,770** | **12,383** | **9,243** | **142,593** |

| **Expenses** | **Purchases** | **Services received** | **Financial expenses** | **Total** |
|---|---|---|---|---|
| Almirall, AG | - | 2,708 | 10 | 2,718 |
| Almirall ApS | - | 3,627 | - | 3,627 |
| Almirall Limited | - | 2,803 | 58 | 2,861 |
| Almirall B,V | - | 1,779 | - | 1,779 |
| Almirall S,A,S | - | 1,777 | - | (2,027) |
| Almirall SpA | - | 8,497 | - | 8,497 |
| Almirall Hermal, GmbH | 15,346 | 21,466 | - | 36,812 |
| Almirall-Productos Farmacéuticos, Lda, | - | 1,045 | - | 1,045 |
| Almirall Sp, Z,o,o | - | 805 | - | 805 |
| Industrias Farmacéuticas Almirall S,A | 39,537 | 3,694 | - | 43,231 |
| Ranke Química, S,A | 18,817 | (737) | - | 18,080 |
| Laboratorios Almirall S,L | - | 14,315 | - | 14,315 |
| Laboratorios Tecnobio, S,A | - | 12 | - | 12 |
| Polichem S,A (Suiaza-Lugano) | 94 | - | - | 94 |
| Thermigen LCC (USA) | - | 63 | - | 63 |
| Almirall NV | - | 754 | - | 754 |
| **Total** | **73,794** | **62,606** | **68** | **132,666** |

Expenses related to purchases and services received by the Company basically relate to supply contracts with Group companies and expenses connected with the marketing of products of foreign subsidiaries with their own sales network.

Sales revenues relate mainly to the supply of products to foreign subsidiaries and the rendering of administrative and management support services to subsidiaries.

As mentioned in Note 4-k the Company classifies dividends and interest obtained in its capacity as the parent company as revenues (interest amounting to EUR 20,210 thousand in 2019 and EUR 9,243 thousand in 2018). And EUR 119,008 thousand related to dividends in 2019. In 2018 no dividends were received.

Dividend income received in 2019 and 2018 relates to the distribution made by investees as follows:

| | Thousand euro | |
|---|---|---|
| Dividend income | 2019 | 2018 |
| Almirall Gmbh | 2,000 | - |
| Almirall International B.V | 18,000 | - |
| Almirall Hermal Gmbh | 40,000 | - |
| Industrias Farmacéuticas Almirall, S.A. | 23,000 | - |
| Laboratorios Almirall, S.L. | 7,000 | - |
| Laboratorios Tecnobio, S.A. | 1,000 | - |
| Poli Group Holding SRL | 19,000 | - |
| Polichem SRL | 8 | - |
| Ranke Química, S.A. | 9,000 | - |
| **Total** | **119,008** | **-** |

At 31 December 2019 and 2018 the balances of intercompany transactions break down as follows:

*Debtor balances-*

| Group Companies | Thousands of Euros | | | |
|---|---|---|---|---|
| | 2019 | | 2018 | |
| | Trade balance | Financial balance (Note 8) | Trade balance | Financial balance (Note 8) |
| Almirall N.V. | 402 | - | 459 | - |
| Almirall-Produtos Farmacéuticos, Lda. | 804 | - | 196 | - |
| Laboratorios Almirall S.L. (*) | - | - | - | 210 |
| Almirall, B.V. holanda | 1,328 | - | 1,126 | - |
| Almirall SpA Italia | 4,559 | - | 3,866 | - |
| Almirall S.A.S. francia | 1,358 | - | 1,313 | - |
| Almirall, AG | 1,227 | 872 | 1,107 | - |
| Almirall Limited UK | 5,633 | - | 3,087 | - |
| Almirall Hermal GmbH | 16,419 | - | 9,024 | - |
| Almirall Limited Canadá | - | - | - | - |
| Almirall ApS Nordics | 732 | - | 516 | - |
| Almirall Inc. (USA) | 507 | 177,586 | 2,236 | 218,341 |
| Aqua Pharmaceuticals Holdings, Inc | 14,098 | - | 5,872 | - |
| Almirall Gmbh | - | - | - | - |
| Polichem S.A. (Suiza – Lugano) | 1,002 | - | 390 | - |
| Almirall Aesthetics Inc (USA) | - | - | 204 | - |
| Thermigen LLC (USA) | - | - | 766 | - |
| **Total** | **48,069** | **178,457** | **30,162** | **218,551** |

(Expressed in thousand euro)

*Creditor balances:*

| Group companies | Thousand euros | | | |
|---|---|---|---|---|
| | 2019 | | 2018 | |
| | Comercial | Financial | Comercial | Financial |
| Laboratorio Almirall S.L. | - | 13,206 | - | 19,911 |
| Laboratorios Tecnobío, S.A. | - | 1,405 | - | 2,408 |
| Industrias Farmacéuticas Almirall, S.A. | 5 | 18,671 | - | 37,373 |
| Ranke Química, S.A. | - | 3,591 | - | 11,709 |
| Almirall N.V. | 622 | 2,874 | 353 | 3,320 |
| Almiral ApS | 925 | - | 336 | - |
| Almirall-Produtos Farmacéuticos, Lda. | 227 | 4,016 | 4 | 3,814 |
| Almirall, B.V. | 305 | 7,426 | 1,302 | 6,027 |
| Almirall GmbH | - | 1,796 | - | 3,936 |
| Almirall SpA | (280) | 55,988 | 1,486 | 70,505 |
| Almirall S.A.S. | 3,377 | 34,849 | 2,193 | 34,573 |
| Almirall, AG | 1,771 | - | 373 | 3,711 |
| Almirall Sp. z o.o | (111) | - | 78 | - |
| Almirall Limited | 1,311 | 13,709 | 427 | 9,963 |
| Almirall Hermal GmbH | 10,125 | 82,394 | 10,031 | 88,073 |
| Almirall Aestethics S.A. | - | 188 | - | 105 |
| Thermigen LLC (USA) | 77 | - | 63 | - |
| Aqua Pharmaceuticals Holdings, Inc | - | - | 4,706 | - |
| Polichem S.A. (Suiza-Lugano) | - | 95,236 | 19 | 75,343 |
| Polichem SRL (Italia) | - | 3,750 | - | 5,263 |
| Poligroup Holding SRL (Italia) | - | 1,229 | - | 18,416 |
| **Total** | **18,354** | **340,329** | **21,371** | **394,450** |

**Balances and transactions with other related parties**

In 2019 and 2018 the Company performed the following related-party transactions, giving rise to the following balances at 31 December 2019 and 2018:

| Other related parties | Concept | Year | Thousands of Euros | |
|---|---|---|---|---|
| | | | Transactions – Income/ (Expense) | Balances - Debit / (Credit) |
| Grupo Corporativo Landon, S.L. | Leases | 2019 | (2,935) | - |
| | | 2018 | (2,843) | (4) |
| Grupo Corporativo Landon, S.L. | Rebilling works | 2019 | - | - |
| | | 2018 | 203 | - |
| Grupo Corporativo Landon, S.L. | Others | 2019 | (55) | - |
| | | 2018 | - | - |

The Company's headquarters are rented from Grupo Corporativo Landon S.L. under a contract maturing in 2023 (Note 7).

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

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

In 2019 and 2018 the amounts accrued by executives who are not members of the Company's Board of Directors for all items (salaries, bonuses, per diems, benefits in kind, compensation, incentive plans and social security contributions) totalled EUR 4,859 thousand and EUR 3,938 thousand, respectively.

This includes the remuneration accrued by Company managers, paid and not paid, by the Company in 2019 and 2018 in respect of multi-year incentive and loyalty plans and the SEUS Plan (Note 4-r) amounting to EUR 1,002 thousand and EUR 1,446 thousand, respectively. The year-end balance of the provision for such plans amounts to EUR 3,578 thousand in 2019 (EUR 2,635 thousand in 2018).

At 31 December 2019 and 2018, there were no other pension commitments with Executives.

In 2019 and 2018 the amount accrued by the current and former members of the Board of Directors for all types of remuneration (salaries, bonuses, per diems, benefits in kind, life insurance plans, compensation, incentive plans and social security contributions) totalled EUR 3,968 thousand and EUR 2,117 thousand, respectively, There are life insurance policies accrued amounting to EUR 17.8 thousand (EUR 14.1 thousand in 2018).

In 2019 and 2018, insurance premiums for civil liability totalling EUR 111 thousand and EUR 104 thousand have accrued, which cover possible damages caused whilst members of the Board of Directors and Senior Management carried out the duties as such.

This includes the remuneration accrued by the Board of Directors, paid and not paid, by the Company in 2019 and 2018 in respect of multi-year incentive and loyalty plans and the SEUS Plan amounting to EUR 971 thousand EUR 1,637 thousand, respectively, The year-end balance of the provision for such plans amounts to EUR 3,544 thousand in 2019 (EUR 2,366 thousand in 2018).

At 31 December 2019 and 2018, there were no other pension commitments with the current and former members of the Company's Board of Directors.

The members of the Company's Board of Directors and Senior Management have received no shares or options during the year and nor have they exercised any options and nor do they have options which have not yet been exercised.

## 22. Other disclosures concerning the Board of Directors

As part of the duty to avoid conflicts with the Company's interests, during the year the directors who have held positions on the Board of Directors have discharged the obligations set forth in Article 228 of the Spanish Companies Act. Additionally, they and parties related to them have not come under the provisions concerning conflicts of interest set out in Article 229 of this Act, except where the pertinent authorisation was obtained.

## 23. Information regarding the environment

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

The Company's property, plant and equipment include certain environmentally friendly assets (smoke abatement, underfloor drainage, etc.). The carrying amount of the assets is approximately EUR 338 thousand and EUR 368 thousand at 31 December 2019 and 2018, respectively. Additionally the new additions of these assets during the year 2019 amount to EUR 61 thousand ( EUR 0.8 million in 2018).

The income statements for 2019 and 2018 include expenses related to protection of the environment amounting to EUR 497 thousand and EUR 290 thousand, respectively.

The Company'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.

## 24. Exposure to risk and capital management

The Company'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 Company's overall risk management program is focused on the uncertainty of the financial markets and it seeks to minimize the potential adverse effect on its financial profitability.

Risk management is carried out by the 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

During the first quarter of 2017, the company signed a new credit line for 4 years, enabled for a maximum amount of 250 million euros at a fixed interest rate, with the average of said rate of 0.81%, so the Company is not exposed to interest rate volatility. As of the closing date of 2019, the company had arranged the entire amount of this credit facility. At the closing date 2018, the company had 150 million euros disposed.

In September 2018, the parent company signed a temporary loan of 400 million euros with a fixed interest rate of 1.25%. This loan was canceled in December 2018 and was refinanced, on the one hand, with a syndicated loan of 150 million euros with a fixed rate of 2.1% and, on the other hand, with the issuance of convertible bonds (250 million euros). of euros), also at a fixed interest rate of 0.250%. When dealing with all types of financing with a fixed interest rate, the Company is not exposed to interest rate volatility.

Finally, in March 2019, the parent company formalized a loan with the European Investment Bank (EIB) for up to 120 million euros, to finance its research and development efforts, with the aim of offering cutting-edge innovation and differentiated therapies in the area of medical dermatology. The first tranche of 80 million euros was granted on April 17, 2019, at a fixed interest rate of 1.35%.

**Foreign currency risk**

The Company 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 deal agreements with Athenex, Dermira or the recent option agreement with Bioniz, 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 US, UK, Poland, Switzerland and Denmark. The most relevant currency which the Group is operating is the US dollar.

During 2018, the loan that the Company had with the subsidiary Almirall, Inc in USD was cancelled, capitalizing the remaining amount to be returned. On the other hand, and to finance part of the purchase of the Allergan portfolio, a new loan was made with the subsidiary Almirall, Inc in USD. This loan has been covered with exchange insurance to minimize the exchange rate risk. As of December 31, 2019 there is no exchange insurance contracted.

Finally, the loan existing with the subsidiary Almirall Aesthetics, Inc. in USD was capitalized linked to the dissolution of said subsidiary in November 2019.

**Liquidity risk**

The Company 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 Company 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.

**Credit risk**

The Company 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. In relation to the credit risk impairments, the Company 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 Company does not have any significant credit risk exposure since it places cash and arranges derivatives with highly solvent entities.

**Capital management**

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

The Company periodically reviews the capital structure on the basis of a five-year strategic plan that establishes the guidelines concerning investment and financing, At 31 December 2019 and 2018 the leverage ratios were as follows (thousand euro):

| | 31 December 2019 | 31 December 2018 |
|---|---|---|
| Bank borrowings | 229,133 | 298,925 |
| Bonds and other negotiable securities | 248,327 | 247,145 |
| Cash and cash equivalents | (89,288) | (56,671) |
| **Net debt** | **388,171** | **489,399** |
| Equity | 1,371,834 | 1,206,271 |
| Share capital | 20,947 | 20,862 |
| **Leveraging ratio**(1) | **28%** | **41%** |

(1) 1) On the basis of the calculation used by the Company to determine the leverage ratio (not including "Other financial liabilities" included in Note 16).

## 25. Information on delays in payments to suppliers

The supplier payment periods in force at the Company comply with the limits 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 year-end 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** | |
|---|---|---|
| | **2019** | **2018** |
| | **Days** | **Days** |
| Average supplier payment period | 43 | 40 |
| Ratio operations paid | 45 | 40 |
| Ratio operations pending payment | 25 | 50 |
| **Total payments made** | **507,801** | **480,562** |
| **Total payments pending** | **46,188** | **48,193** |

This balance relates to the suppliers which, by nature were trade creditors for goods and services supplied.

The average payment period for 2019 and 2018 stood at 43 and 40 days, respectively.

## 26. Subsequent events

At the date of formulation of these annual accounts, the Board of Directors of the Company has agreed to propose to the General Shareholders' Meeting the distribution of a dividend charged to unrestricted reserves for an amount of 35.3 million euros (equivalent to 0.203 euro per share). For the purpose of realizing this dividend distribution, it is proposed to reuse the system of compensation for shareholders called "Flexible Dividend", already applied in 2018. In this way, its shareholders are offered an alternative that allows them to receive liberated shares. of the Company without limiting its possibility to receive in cash an amount equivalent to the payment of the dividend as indicated in Note 3.

**APPENDIX: INFORMATION ON INVESTEES DIRECT AND INDIRECT**

| | Thousand euros | | | | | | |
|---|---|---|---|---|---|---|---|
| Name | Laboratorios Almirall, S.L. | Laboratorios Tecnobio, S.A. | Industrias Farmacéuticas Almirall, S.A. | Ranke Química, S.A. | Almirall Internacional, BV | Almirall, NV | Almirall - Productos Farmacêuticos, Lda. |
| Managment | España | España | España | España | Holanda | Bélgica | Portugal |
| Activity | Servicios de mediación | Servicios de mediación | Fabricación de especialidades | Fabricación de materias primas | Holding internacional | Laboratorio farmacéutico | Laboratorio farmacéutico |
| **31 December 2019** | | | | | | | |
| % 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 | Global Integration | Global Integration | Global Integration | Global Integration | Global Integration | Global Integration | Global Integration |
| Share Capital | 120 | 61 | 1,200 | 1,200 | 52,602 | 1,203 | 1,500 |
| Reserves | 6,954 | 348 | 45,220 | 17,217 | 49,673 | 2,132 | 2,081 |
| Net profit (loss) for the year | 372 | 126 | 3,476 | 1,211 | 5,329 | 36 | 64 |
| Carrying amount of interest | 4,112 | 127 | 41,982 | 10,840 | 120,276 | 9 | - |
| - Cost | 4,112 | 127 | 41,982 | 10,840 | 144,203 | 9 | - |
| - Measurement adjustments | - | - | - | - | (35,088) | - | - |
| **31 December 2018** | | | | | | | |
| % 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 | Global Integration | Global Integration | Global Integration | Global Integration | Global Integration | Global Integration | Global Integration |
| Share Capital | 120 | 61 | 1,200 | 1,200 | 52,602 | 1,203 | 1,500 |
| Reserves | 13,540 | 1,348 | 64,740 | 25,151 | 61,275 | 2,031 | 1,813 |
| Net profit (loss) for the year | 414 | 0 | 3,480 | 1,066 | 6,905 | 101 | 267 |
| Carrying amount of interest | 4,112 | 127 | 41,982 | 10,840 | 120,276 | 9 | - |
| - Cost | - | 127 | 41,982 | 10,840 | 144,203 | 9 | - |
| - Measurement adjustments | - | - | - | - | (23,927) | - | - |

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.

**APPENDIX: INFORMATION ON INVESTEES DIRECT AND INDIRECT**

| | Thousand euros | | | | | | |
|---|---|---|---|---|---|---|---|
| Name | Almirall, BV | Almirall Aesthetics S.A. | Almirall Limited | Subgrupo Almirall, S.A.S. (**) | Almirall SP, Z.O.O. | Almirall GmbH | Almirall, AG |
| Management | Holanda | España | Reino Unido | Francia | Polonia | Austria | Suiza |
| Activity | Servicios de mediación | Servicios de mediación | Laboratorio farmacéutico | Laboratorio farmacéutico | Comercialización especialidades farmacéuticas | Laboratorio farmacéutico | Gestión de licencias y comercialización de materias primas. |
| **31 December 2019** | | | | | | | |
| % interest held | | | | | | | |
| - Directly | - | - | - | - | - | 100% | 100% |
| - Indirectly | 100% | 100% | 100% | 100% | 100% | - | - |
| % voting rights | 100% | 100% | 100% | 100% | 100% | 100% | 100% |
| Consolidation method | Global Integration | Global Integration | Global Integration | Global Integration | Global Integration | Global Integration | Global Integration |
| Share Capital | 4,000 | 61 | 571 | 12,527 | 12 | 36 | 901 |
| Reserves | 2,221 | 178 | 10,165 | 18,349 | 1,445 | 1,653 | 2,463 |
| Net profit (loss) for the year | 365 | - | 705 | 1,564 | 96 | 198 | 64 |
| Carrying amount of interest | - | 261 | - | - | - | 1,485 | 10,628 |
| - Cost | - | 261 | - | - | - | 1,485 | 10,628 |
| - Measurement adjustments | - | - | - | - | - | - | - |
| **31 December 2018** | | | | | | | |
| % interest held | | | | | | | |
| - Directly | - | - | - | - | - | 100% | 100% |
| - Indirectly | 100% | 100% | 100% | 100% | 100% | - | - |
| % voting rights | 100% | 100% | 100% | 100% | 100% | 100% | 100% |
| Consolidation method | Global Integration | Global Integration | Global Integration | Global Integration | Global Integration | Global Integration | Global Integration |
| Share Capital | 4,000 | 61 | 563 | 12,527 | 14 | 36 | 652 |
| Reserves | 2,102 | 113 | 8,401 | 16,314 | 1,476 | 3,443 | 2,037 |
| Net profit (loss) for the year | 119 | 44 | 1,228 | 1,301 | 2 | 210 | 1,163 |
| Carrying amount of interest | - | 261 | - | - | - | 1,485 | 10,628 |
| - Cost | - | 261 | - | - | - | 1,485 | 10,628 |
| - Measurement adjustments | - | - | - | - | - | - | - |

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.

(**)Includes the Companies Almirall, SAS y Almirall Production SAS.

**APPENDIX: INFORMATION ON INVESTEES DIRECT AND INDIRECT**

| | Thousand euros | | | | |
|---|---|---|---|---|---|
| Name | Almirall SpA | Almirall Hermal, GmbH | Almirall Aps | Almirall Inc | Subgrupo (*) Almirall US |
| Management | Italia | Alemania | Dinamarca | USA | USA |
| Activity | Laboratorio farmacéutico | Laboratorio farmacéutico | Laboratorio farmacéutico | Laboratorio farmacéutico | Laboratorio farmacéutico |
| **31 December 2019** | | | | | |
| % interest held | | | | | |
| - Directly | - | 100% | 100% | 100% | - |
| - Indirectly | 100% | - | - | - | 100% |
| % voting rights | 100% | 100% | 100% | 100% | 100% |
| Consolidation method | Global Integration | Global Integration | Global Integration | Global Integration | Global Integration |
| Share Capital | 8,640 | 25 | 17 | - | - |
| Reserves | 37,189 | 12,922 | 2,328 | 478,915 | 319,477 |
| Net profit (loss) for the year | 2,664 | 24,411 | 147 | 58,340 | 13,520 |
| Carrying amount of interest | 967 | 359,270 | 17 | 479,766 | - |
| - Cost | 967 | 359,270 | 17 | 550,267 | 508,496 |
| - Measurement adjustments | - | - | - | (70,501) | - |
| **31 December 2018** | | | | | |
| % interest held | | | | | |
| - Directly | - | 100% | 100% | 100% | - |
| - Indirectly | 100% | - | - | - | 100% |
| % voting rights | 100% | 100% | 100% | 100% | 100% |
| Consolidation method | Global Integration | Global Integration | Global Integration | Global Integration | Global Integration |
| Share Capital | 8,640 | 25 | 17 | - | - |
| Reserves | 52,632 | 60,999 | 2,193 | 362,778 | 286,680 |
| Net profit (loss) for the year | 3,557 | 22,098 | 136 | 82,374 | 27,584 |
| Carrying amount of interest | 967 | 359,270 | 17 | 443,652 | - |
| - Cost | 967 | 359,270 | 17 | 525,893 | 508,496 |
| - Measurement adjustments | - | - | - | (82,241) | (70,427) |

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.
(*) Includes the Companies holding Aqua Pharmaceutical Holdings Inc and Almirall LLC (called Aqua Pharmaceuticals LLC).

**APPENDIX: INFORMATION ON INVESTEES DIRECT AND INDIRECT**

| | Thousand euros | | | | |
|---|---|---|---|---|---|
| Name | ThermiGen LLC | Almirall Aesthetics Inc | Poli Group Holding, S.R.L. | Polichem, S.A. | Polichem, S.R.L. |
| Management | Estados Unidos | USA | Italia | Luxemburgo/ Suiza/China | Italia |
| Activity | Estética | Holding | Holding | Laboratorio farmacéutico | Laboratorio farmacéutico |
| **31 December 2018** | | | | | |
| % interest held | | | | | |
| - Directly | - | - | 100% | - | - |
| - Indirectly | - | - | - | 100% | 99,6% |
| % voting rights | - | - | 100% | 100% | 100% |
| Consolidation method | - | - | Global Integration | Global Integration | Global Integration |
| Share Capital | - | - | 31 | 1,351 | 540 |
| Reserves | - | - | 44,824 | 106,547 | 3,447 |
| Net profit (loss) for the year | - | - | 2,046 | 20,804 | 776 |
| Carrying amount of interest | - | - | 380,270 | - | - |
| - Cost | - | - | 380,270 | - | - |
| - Measurement adjustments | - | - | - | - | - |
| **31 December 2017** | | | | | |
| % interest held | | | | | |
| - Directly | - | 100% | 100% | - | - |
| - Indirectly | 100% | - | - | 100% | 99,6% |
| % voting rights | 100% | 100% | 100% | 100% | 100% |
| Consolidation method | Global Integration | Global Integration | Global Integration | Global Integration | Global Integration |
| Share Capital | 28,386 | 226 | 31 | 1,374 | 540 |
| Reserves | (32,662) | 53,724 | 63,967 | 82,494 | 4,428 |
| Net profit (loss) for the year | (20,925) | (122,803) | (143) | 19,556 | 1,018 |
| Carrying amount of interest | - | - | 380,270 | - | - |
| - Cost | - | 59,966 | 380,270 | - | - |
| - Measurement adjustments | - | (59,966) | - | - | - |

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.