LABORATORIO REIG JOFRÉ, S.A.
and
AND SUBSIDIARIES

The Group's consolidated financial statements prepared in accordance with the International Financial Reporting Standards adopted by the European Union (EU-IFRS)

December 31, 2017

LABORATORIO REIG JOFRE, S.A. AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

AT DECEMBER 31, 2017 AND 2016

Consolidated Statement of Financial Position at December 31, 2017 and 201 66

(In Euros)

Asset	Note	31/12/2017	31/12/2016 Re-expressed	01/01/2016 Re-expressed
Goodwill	6	27,744,603	27,946,893	25,165,817
Other intangible assets	6	32,521,414	32,191,043	32,576,401
Property, plant and equipment	7	46,748,718	36,537,702	28,183,191
Available-for-sale assets	10	605,490	1,167,058	1,185,232
Other non-current financial assets	10	716,081	591,049	9,088,104
Deferred tax assets	23	13,762,867	11,838,829	15,351,894
Total non-current assets		**122,099,173**	**110,272,574**	**111,550,639**
Inventory	12	27,509,105	33,008,585	24,892,981
Trade and other receivables	10	35,161,239	36,048,884	34,318,332
Current tax assets		27	1,770	-
Other current financial assets	10	3,272,957	11,144,454	2,382,742
Other current assets	11	3,605,774	6,636,038	3,949,311
Cash and cash equivalents	13	11,688,831	8,181,654	9,440,170
Total current assets		**81,237,933**	**95,021,385**	**74,983,536**
Total assets		**203,337,106**	**205,293,959**	**186,534,175**

The accompanying report forms an integral part of the consolidated financial statements.

Consolidated Statement of Financial Position at December 31, 2017 and 2016

(In Euros)

Equity and Liabilities	Note	31/12/2017	31/12/2016 Re-expressed	01/01/2016 Re-expressed
Capital		32,076,589	31,607,110	126,428,440
Reserves		102,183,036	95,792,056	(5,053,286)
Treasury shares		(702,981)	(2,092,374)	(4,917,032)
Other equity instruments		19,400	638,193	-
Profit attributable to the Parent		8,828,435	7,676,288	8,749,701
Translation differences		(811,598)	(330,066)	436,893
Other comprehensive income from assets available for sale		12,169	(19,039)	8,978
Equity attributable to the Parent	14	**141,605,050**	**133,272,168**	**125,653,694**
Non-controlling ownership interests	16	(45,806)	(16,964)	1,344
Total shareholders' equity		**141,559,244**	**133,255,204**	**125,655,038**
Grants	17	145,375	210,254	102,496
Provisions	18	682,236	613,531	1,070,453
Financial liabilities Bank borrowings	19	9,478,644	11,989,392	4,520,937
Financial liabilities from financial leases	8, 19	7,612,622	5,244,334	5,828,683
Derivative financial instruments		-	-	273,998
Other financial liabilities	19	6,098,347	6,579,355	4,761,639
Deferred tax liability	23	3,293,605	3,346,745	3,768,083
Total non-current liabilities		**27,310,829**	**27,983,611**	**20,326,289**
Provisions	18	244,959	314,339	400,748
Financial liabilities Bank borrowings	19	4,728,595	12,692,240	6,720,668
Financial liabilities from financial leases	8, 19	1,351,019	592,771	586,042
Derivative financial instruments	19	-	101,110	-
Other financial liabilities	19	716,710	402,345	889,281
Trade and other payables	19	23,975,412	25,787,514	27,034,509
Current tax liabilities	23	972,079	1,652,749	2,321,162
Other current liabilities	20	2,478,259	2,512,076	2,600,438
Total current liabilities		**34,467,033**	**44,055,144**	**40,552,848**
Total equity and liabilities		**203,337,106**	**205,293,959**	**186,534,175**

The accompanying report forms an integral part of the consolidated financial statements.

Consolidated Income Statements for the years ended on December 31, 2017 and 2016

(In Euros)

	Note	31/12/2017	31/12/2016
Revenue	4	167,983,166	161,134,290
Changes in inventories of finished goods and work in progress		(108,495)	3,657,720
Work performed by the Group on non-current assets		3,743,101	342,806
Procurements	24	(63,970,940)	(65,024,011)
Other operating revenue		2,436,973	3,780,539
Expenses for employee benefits	24	(49,355,219)	(45,977,794)
Other operating expenses	24	(44,941,197)	(42,227,136)
Depreciation and amortization	6, 7	(6,829,299)	(5,946,361)
Allocation of grants for non-financial fixed assets and other	17	64,877	42,362
Impairment and loss on disposal of property, plant and equipment		(11,481)	1,965,542
Operating profit		**9,011,486**	**11,747,957**
Financial revenue		68,711	164,745
Financial expenses		(946,495)	(1,238,683)
Change in fair value of financial instruments	19	106,662	172,888
Impairment and loss on disposal of financial instruments	5	-	1,410,880
Exchange differences		(237,241)	(296,669)
Financial income	24	**(1,008,363)**	**213,161**
Results of companies measured by the equity method		-	-
Profit before tax from continuing operations		**8,003,123**	**11,961,118**
Income tax expense	23	807.905	(4,294,278)
Profit after tax from continuing operations		**8,811,028**	**7,666,840**
Consolidated profit for the year		**8,811,028**	**7,666,840**
Income attributable to the parent		8,828,435	7,676,288
Profit attributable to non-controlling interests	16	(17,407)	(9,448)
Earnings per share (basic and diluted)	15	0.14	0.12

The accompanying report forms an integral part of the consolidated financial statements.

Consolidated Comprehensive Income Statements for the years ended December 31, 2017 and 2016

(In Euros)

	31/12/2017	31/12/2016
Consolidated profit for the year	8,811,028	7,666,840
Other comprehensive income:		
Items to be reclassified to profit and loss		
Translation differences of financial statements in foreign operations	(481,532)	(766,959)
Available-for-sale financial assets	41,612	(37,356)
Tax effect	(10,404)	9,339
Other comprehensive income for the period, net of tax	**(450,324)**	**(794,976)**
Total comprehensive income for the year	**8,360,704**	**6,871,864**
Total comprehensive income attributable to the Parent	8,378,111	6,881,312
Total comprehensive income attributable to non-controlling interests	(17,407)	(9,448)

The accompanying report forms an integral part of the consolidated financial statements.

Consolidated statements of changes in equity for years ending December 31, 2017 and 2016

						Other comprehensive income				
In Euros	**Capital**	**Reserves**	**Treasury shares**	**Other equity instruments**	**Income attributable to the parent**	**Translation differences**	**Available-for-sale financial assets**	**Equity attributable to the Parent**	**Non-controlling interests**	**Shareholders' equity**
Balance at December 31, 2015	**126,428,440**	**(4,533,839)**	**(4,917,032)**	**-**	**8,749,701**	**436,893**	**8,978**	**126,173,141**	**1,344**	**126,174,485**
Adjustments for errors corresponding to 2015 and earlier		(519,447)						(519,447)		(519,447)
Balance at January 1, 2016	**126,428,440**	**(5,053,286)**	**(4,917,032)**	**-**	**8,749,701**	**436,893**	**8,978**	**125,653,694**	**1,344**	**125,655,038**
Profit for the year	-	-	-	-	7,676,288	-	-	7,676,288	(9,448)	7,666,840
Other comprehensive income	-	-	-	-	-	(766,959)	(28,017)	(794,976)	-	(794,976)
Total comprehensive income for the year	**-**	**-**	**-**	**-**	**7,676,288**	**(766,959)**	**(28,017)**	**6,881,312**	**(9,448)**	**6,871,864**
Dividends	-	-	-	-	-	-	-	-	(8,860)	(8,860)
Business combination	-	-	-	638,193	-	-	-	638,193	-	638,193
Reserves	-	8,749,701	-	-	(8,749,701)	-	-	-	-	-
Capital reduction	(94,821,330)	94,821,330	-	-	-	-	-	-	-	-
Net movement in treasury shares	-	(3,207,814)	2,824,658	-	-	-	-	(383,156)	-	(383,156)
Transactions with shareholders or owners	**(94,821,330)**	**100,363,217**	**2,824,658**	**638,193**	**(8,749,701)**	**-**	**-**	**255,037**	**(8,860)**	**246,177**
Balance at December 31, 2016	**31,607,110**	**95,309,931**	**(2,092,374)**	**638,193**	**7,676,288**	**(330,066)**	**(19,039)**	**132,790,043**	**(16,964)**	**132,773,079**
Adjustments for errors corresponding to 2016		482,125						482,125		482,125
Balance at January 1, 2017	**31,607,110**	**95,792,056**	**(2,092,374)**	**638,193**	**7,676,288**	**(330,066)**	**(19,039)**	**133,272,168**	**(16,964)**	**133,255,204**
Profit for the year	-	-	-	-	8,828,435	-	-	8,828,435	(17,407)	8,811,028
Other comprehensive income	-	-	-	-	-	(481,532)	31,208	(450,324)	-	(450,324)
Total comprehensive income for the year	**-**	**-**	**-**	**-**	**8,828,435**	**(481,532)**	**31,208**	**8,378,111**	**(17,407)**	**8,360,704**
Dividends	-	(50,102)	-	-	-	-	-	(50,102)	-	(50,102)
Payments based on equity instruments	-	-	-	(638,193)	-	-	-	(638,193)	-	(638,193)
Capital increase	469,479	(469,479)	-	-	-	-	-	-	-	-
Reserves	-	7,676,288	-	-	(7,676,288)	-	-	-	-	-
Net movement in treasury shares	-	(971,722)	1,389,393	-	-	-	-	417,671	-	417,671
Other movements	-	205,995	-	19,400	-	-	-	225,395	(11,435)	213,960
Transactions with shareholders or owners	**469,479**	**6,390,980**	**1,389,393**	**(618,793)**	**(7,676,288)**	**-**	**-**	**(45,229)**	**(11,435)**	**(56,664)**
Balance at December 31, 2017	**32,076,589**	**102,183,036**	**(702,981)**	**19,400**	**8,828,435**	**(811,598)**	**12,169**	**141,605,050**	**(45,806)**	**141,559,244**

The accompanying report forms an integral part of the consolidated financial statements.

Consolidated cash flow statements for the years ended on December 31, 2017 and 2016

In Euros	**31/12/2017**	**31/12/2016**
Cash flows from operating activities		
Profit before tax	8,003,123	11,961,118
Adjustments to income/loss		
Amortization	6,829,299	5,946,361
Impairment adjustments in property, plant and equipment	-	(1,965,542)
Impairment adjustments in trade receivables	55,865	(65,347)
Impairment adjustments in inventories	(137,044)	779,109
Change in provisions	(675)	(322,143)
Allocation of government grants to income	(64,879)	(42,362)
(Profit) / loss on disposal of fixed assets	11,481	-
Financial revenue	(68,711)	(164,745)
Financial expenses	946,495	1,238,683
Exchange differences	237,241	296,669
Change in fair value of financial instruments	106,662	(172,888)
Other income and expenses	(1,180,600)	-
Other adjustments to profit	(417,412)	(1,326,727)
Changes in working capital		
Changes in inventories	5,636,524	(8,873,015)
Change in trade and other receivables	2,031,780	(1,664,597)
Change in other assets	3,030,264	(2,678,429)
Change in trade and other payables	(2,010,674)	(1,583,410)
Change in other liabilities	(33,817)	(92,690)
Other flows from operating activities		
Interest payments	(946,495)	(1,238,683)
Interest charges	68,711	164,745
Corporate tax payments	(1,404,066)	(1,685,870)
Net cash generated by operating activities	**20,693,072**	**(1,489,763)**
Cash flows from investing activities		
Payments for investments		
Group companies	-	(1,187,436)
Property, plant and equipment	(16,950,196)	(10,723,397)
Intangible assets	(613,449)	(1,520,350)
Other financial assets	(438,300)	(223,023)
Receipts from disposals		
Property, plant and equipment	5,701	-
Intangible assets	15,301	-
Other financial assets	8,787,945	57,375
Net cash generated by investment activities	**(9,192,998)**	**(13,596,831)**
Cash flow from financing activities		
Receipts and payments for equity instruments		
Acquisition of the parent's equity instruments	(1,021,678)	(966,180)
Disposal of the parent's equity instruments	801.156	583,023
Receipts and payments for financial liability instruments		
Issue		
Bank borrowings and leasings	3,863,000	19,987,807
Other	623,396	1,669,349
Repayment and depreciation		
Bank borrowings and leasings	(11,515,068)	(6,547,780)
Other	(693,601)	(889,281)

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Dividend payments and remuneration of other equity instruments		
Dividends paid	(50,102)	(8,860)
Net cash generated by financing activities	**(7,992,897)**	**13,828,078**
Effect of changes in exchange rates on cash		
Net increase in cash and cash equivalents	**3,507,177**	**(1,258,516)**
Cash and cash equivalents at beginning of year	8,181,654	9,440,170
Cash and cash equivalents at year-end	11,688,831	8,181,654

The accompanying report forms an integral part of the consolidated financial statements.

1. General Information

Laboratorio Reig Jofre, S.A., (formerly Natraceutical, S.A.) (the Company or Parent) was incorporated on June 1, 1993, and its registered office is located in Sant Joan Despí (Barcelona), calle Gran Capità, 10.

Its corporate purpose is as follows:

- The preparation and research of active ingredients and nutraceutical ingredients from natural sources, specifically aimed at disease prevention or for use as nutritional supplements incorporated into products of daily consumption (functional foods). The obtaining of patents for such products and their benefits following their validation, for the subsequent cession of their use and commercialization to third parties.
- The preparation of chemical and food products based on vegetable products by physical and chemical means, as well as the commercialization, importation, exportation and, in general, all types of intermediation in the manufacture and commercialization of the same, their extracts or derivatives, as well as the operation of agricultural plantations and tropical products related to the above-mentioned activities.
- The manufacture, purchase and sale, research, development, innovation and registration, both nationally and internationally, of raw materials, pharmaceuticals, biotechnology products, nutritional supplements, health products, medical devices, cosmetics, pharmacy, food and other products related directly or indirectly to health, cosmetics and/or human or animal food.
- The above-mentioned activities, together with any other activities that are complementary to those which fall within the corporate purpose, may be undertaken by the Company, in whole or in part, directly and indirectly, through the ownership of shares in companies or interests in companies or entities with identical or similar corporate purposes, as well as through the transfer of rights, licensing and/or authorizations of any kind.

The Reig Jofre Group's main activities are:

- The manufacture of pharmaceutical products and specialties for marketing and for third-parties, and the undertaking of research and development studies for third-parties.
- The importing, exporting, purchasing wholesaling and retailing and exploitation of authorised food supplements and dietary and cosmetic products.

On June 26, 2014, the Boards of Directors of Natraceutical, S.A., (hereinafter, Natraceutical or the Absorbing Company) and Laboratorio Reig Jofre, S.A., (hereinafter Reig Jofre or the Absorbed Company), approved the merger between the two companies. The merger was effected through the takeover of Reig Jofre (acquired company), through the dissolution without liquidation thereof and the block transfer of all its assets to Natraceutical (acquiring company), which acquired, by universal succession, its rights and obligations. As the sole shareholder of the acquired company received 74% of the shares of the company resulting from the merger, Reig Jofre is considered the accounting acquirer, making this a "reverse" merger, which is characterized by the presentation, in accounting terms, of the legal acquired company as the accounting acquirer, and the legal acquiring company as the accounting acquiree. This structure allowed Natraceutical, S.A., (now called Laboratorio Reig Jofre, S.A.) to maintain its condition as a listed company.

On October 24, 2014, the respective shareholders' meetings approved the aforementioned merger, which for accounting purposes was recorded at December 31, 2014, when it was registered in the Companies Register. An exemption for the obligation to launch a takeover bid had been obtained previously from the National Stock Market Commission.

On October 24, 2014, the General Shareholders Meeting of Natraceutical, S.A., approve the change of the registered offices to the current offices of Laboratorio Reig Jofre, S.A., and the change of the corporate name from Natraceutical, S.A., to Laboratorio Reig Jofre, S.A.

On September 27, 2017, the governing body of "LABORATORIO REIG JOFRE, S.A." (Absorbing company), and the sole administrator of the companies, "LABORATORIO FARMACÉUTICO ORRAVÁN, S.L.U.", "LABORATORIO RAMÓN SALA, S.L.U.", "LABORATORIES MEDEA, S.A.U." and "FORTE PHARMA IBERICA, S.L." (Absorbed companies) agreed on the absorption of the latter four companies by the former. On December 19, 2017, the merger deed was registered with the Barcelona Companies Registry.

Laboratorio Reig Jofre, SA is the parent company of a group of subsidiaries (hereinafter the Group), which have been fully consolidated.

The information relative to the subsidiaries included in the scope of consolidation is detailed in Annex I.

The Group's main industrial facilities are located in Sant Joan Despí and Toledo (Spain) and Malmoe (Sweden).

2. Basis of presentation

The consolidated financial statements have been prepared from the accounting records of Laboratorio Reig Jofre, S.A., and the consolidated entities. The consolidated financial statements corresponding to the year ended on December 31, 2017 (FY 2017) have been prepared in accordance with International Financial Reporting Standards adopted by the European Union (IFRS-EU) and other applicable provisions of the regulatory financial information framework, in order to present a true image of the consolidated equity and the consolidated financial position of Laboratorio Reig Jofre, S.A. and subsidiaries at December 31, 2017, and the consolidated financial performance, cash flows and changes in consolidated equity for the year ended on the indicated date.

The Group adopted IFRS-EU on October 1, 2011, and on the same date applied IFRS 1 "First-time Adoption of International Financial Reporting Standards".

The directors of the Company consider that the consolidated financial statements for 2017, which were prepared on March 19, 2018, will be approved without modification by the General Shareholders Meeting.

a) Basis of preparation of the consolidated financial statements

The consolidated financial statements have been prepared using the historical cost basis, with the following exception:

- Derivative financial instruments and financial assets available for sale have been registered at fair value.

b) Comparative information

For comparative purposes, the consolidated financial statements present, in addition to the figures corresponding to 2017 and with each of the items of the consolidated balance sheet, the consolidated income statement, the consolidated cash flow statements, the consolidated statement of changes in equity and the consolidated report, the figures corresponding to the year ended on December 31, 2016 (FY 2016), which have been obtained through the consistent application of IFRS-EU. The figures presented for 2016 differ from the consolidated financial statements for 2016 approved by the General Shareholders' Meeting on June 8, 2017, as a result of the correction of errors detailed in note 2 b) i).

(i) Correction of errors

The Group has retroactively corrected an error in the accumulated depreciation of certain items of its fixed assets that should have been fully amortized prior to the beginning of 2015, an error in the capitalization of certain expenditures that had been recognized as accounts receivable with personnel but which did not meet the criteria established under the regulatory framework to be considered as an asset, and certain errors in the incorporation and elimination of assets and liabilities corresponding to certain of the subsidiaries in the consolidation process for 2016.

As a result of the correction of errors indicated in the previous section, the Group has re-expressed the comparative figures of the consolidated balance sheet at December 31, 2016, as detailed below:

Consolidated		Consolidated

	accounts prepared 2016	*Adjustments*	*accounts re-expressed 2016*
Patents, trademarks and licenses	*24,879,896*	*(30,480)*	*24,849,416*
Development	*1,138,945*	*137,136*	*1,276,081*
Software	*162,342*	*2*	*162,344*
Other intangible assets	*32,084,385*	*106,658*	*32,191,043*
Plant and machinery	*14,833,366*	*(455,592)*	*14,377,774*
Other fixtures, tools and furniture	*3,494,290*	*(841)*	*3,493,449*
Other property, plant and equipment	*317,281*	*(6,290)*	*310,991*
Property, plant and equipment	*37,000,425*	*(462,723)*	*36,537,702*
Deferred tax assets	*11,795,175*	*43,654*	*11,838,829*
Total non-current assets	***110,584,985***	***(312,411)***	***110,272,574***
Other	*245,308*	*(26,246)*	*219,062*
Other current assets	*6,662,284*	*(26,246)*	*6,636,038*
Total current assets	***95,047,631***	***(26,246)***	***95,021,385***
Total assets	***205,632,616***	***(338,657)***	***205,293,959***
Other financial liabilities	*6,880,690*	*(301,335)*	*6,579,355*
Total non-current liabilities	***28,284,946***	***(301,335)***	***27,983,611***
Reserves	*95,829,378*	*(37,322)*	*95,792,056*
Total shareholders' equity	***133,292,526***	***(37,322)***	***133,255,204***
Total equity and liabilities	***205,632,616***	***(338,657)***	***205,293,959***

Similarly, the Group has re-expressed the figures corresponding to the opening balances of the first comparative year presented, that is, the balances at January 1, 2016, as detailed below:

	Balance at January 1, 2016	*Adjustments*	*Balances re-expressed at January 1, 2016*
Patents, trademarks and licenses	*25,250,036*	*(30,480)*	*25,219,556*
Software	*277,633*	*2*	*277,635*
Other intangible assets	*32.606.879*	*(30,478)*	*32,576,401*
Plant and machinery	*10,334,585*	*(455,592)*	*9,878,993*
Other fixtures, tools and furniture	*3,255,281*	*(841)*	*3,254,440*
Other property, plant and equipment	*313,927*	*(6,290)*	*307,637*
Property, plant and equipment	*28,645,914*	*(462,723)*	*28,183,191*
Total non-current assets	***112,043,840***	***(493,201)***	***111,550,639***
Other	*418,437*	*(26,246)*	*392,191*
Other current assets	*3,975,557*	*(26,246)*	*3,949,311*
Total current assets	***75,009,782***	***(26,246)***	***74,983,536***
Total assets	***187,053,622***	***(519,447)***	***186,534,175***
Reserves	*(4,533,839)*	*(519,447)*	*(5,053,286)*
Total shareholders' equity	***126,174,485***	***(519,447)***	***125,655,038***
Total equity and liabilities	***187,053,622***	***(519,447)***	***186,534,175***

c) Relevant accounting estimates and assumptions, relevant judgements in the application of accounting policies and changes in estimates

The preparation of the consolidated financial statements under IFRS-EU requires the application of relevant accounting estimates and judgements, estimates and assumptions in the process of applying the Group's accounting policies. Thus, there follows a summary of a breakdown of the aspects that have required a greater degree of judgement, complexity or in which the assumptions and estimates are significant to the preparation of the consolidated financial statements:

- Assessment of the recoverability of tax credits, including tax loss carryforwards and rights of deduction. Deferred tax assets are recognized to the extent that taxable profits are to be available in the future against which to charge the temporary differences, based on management assumptions relative to the amount and the schedule for the payment of future tax profits (see note 3 (q) and 23).

- The assumptions used to test the impairment of non-current assets and goodwill: impairment tests are carried out annually in the relevant cash generating units, based on future, risk-adjusted cash flows and the discounting of the appropriate interest rates. The key assumptions used are specified in note 6. The assumptions relative to the future cash flows adjusted to risk and discount rates are based on business forecasts and are, therefore, inherently subjective. Future events could cause a change in the assumptions, with a consequent adverse effect on the Groups' future results income. To the extent that has been considered significant, a sensitivity analysis for the effect of the changes in these assumptions and the effect on the recoverable value of the cash-generating unit (CGU) has been revealed. The measurements indicate the existence of sufficient margin, and as such it is unlikely that a reasonably possible change in any of the key assumptions gives rise to an impairment of the corresponding goodwill.

- Useful lives of plant, property and equipment and intangible assets: the estimated useful lives assigned to each category of plant, property and equipment and intangible assets are specified in notes 3 (f) and 3 (g). Although the estimates are calculated by the Group's management based on the best information available at December 31, 2017, it is possible that future events require changes in these estimates in subsequent years. Given the large number of individual items of property, plant and equipment, it is not considered likely that a reasonably possible change in the assumptions trigger a significant adverse effect.

- The impairment loss due to customer insolvencies: the revision of individual balances based on the creditworthiness of customers, current market trends and the aggregate historical analysis of insolvencies implies a high degree of judgement. In relation to the write down derived from the aggregate analysis of the historical experience of bad debt, a reduction in the volume of the balances implies a decrease in write downs, and vice versa (see note 3 (j) (viii) and 11).

- The estimate of net realizable value of inventories: In order to allocate appropriate impairment losses.

There have been no changes in the judgements used in previous years relating to the existing uncertainties.

Furthermore, although the estimates effected by the Company's Directors have been calculated in accordance with the best information available at December 31, 2017, it is possible that events that may occur in the future require their amendment in the coming years. The effect on the consolidated financial statements of the amendments which, when applicable, are derived from the adjustments to be effected in the coming years would be registered prospectively.

d) Standards and interpretations issued that are not effective at January 1st, 2017 and which the Group expects to adopt as of January 1, 2018, or later (they have not been adopted in advance)

- IFRS 9 Financial instruments. Effective for years beginning on or after January 1, 2018.

- IFRS 15 Income from customer contracts and Clarifications for IFRS 15. Effective date for years beginning on or after January 1, 2018.

- IFRS 16 Leases. Effective for years beginning on or after January 1, 2019.

- Classification and valuation of transactions with share-based payments. Effective for years beginning on or after January 1, 2018. **Pending adoption by the EU.**

- IFRIC 22 Foreign currency transactions and advances. Effective for years beginning on or after January 1, 2018. **Pending adoption by the EU.**

- Annual improvement project 2014-2016. Effective for years beginning on or after January 1, 2017 and 2018.

- IFRIC 23 Uncertainty over Income Tax Treatments. The entity must apply the standard in its first IFRS financial statements for periods beginning on or after January 1, 2019. **Pending adoption by the EU.**

- Annual improvement project 2015/2017. The entity must apply the standard in its first IFRS financial statements for periods beginning on or after January 1, 2019. **Pending adoption by the EU.**

- Modifications, reductions and liquidations of defined benefit plans. The entity must apply the standard in its first IFRS financial statements for periods beginning on or after January 1, 2019. **Pending adoption by the EU.**

The Group has initiated the analysis of the impacts of IFRS 16 "Leases", which establishes that the assets must be recognised in the consolidated statement of financial position in accordance with the right of use, and the liabilities derived from operating lease agreements (with the exception of short-term lease agreements and those that have low value assets). Furthermore, it will change the criteria for the recording of lease expenses, which will be recorded as an expense for asset amortization and financial expense for the revaluation of the lease liability.

The Group is gathering the necessary data from its operating lease agreements (see impact in the current consolidated income statement in Note 24), which mainly correspond to office and transport element leases, in order to evaluate the corresponding impacts.

The Group is analyzing the potential impacts of the application of the remaining standards and consider that their application will not have a significant impact on the consolidated financial statements. The standards will be applied by the Group to the consolidated financial statements as of their corresponding effective dates.

3. Accounting principles

a) Subsidiaries

Subsidiaries are understood as those companies over which the Company, directly or indirectly, exercises control. The Company controls a subsidiary when its involvement in the same is exposed, or when it has the right to variable returns and has the capacity to influence these returns through the power it exercises over the same. The Company has such power when it has substantive rights in force which provide it with the ability to direct the relevant activities. The Company is exposed, or has the right, to variable returns for its involvement in the subsidiary when the returns obtained for such involvement vary in accordance with the company's economic performance.

Information on the subsidiaries included in the Group's consolidation is included in Annex I.

The revenues, expenses and cash flows of the subsidiaries are included in the consolidated financial statements from the date of acquisition, understood as that on which the Group effectively obtains control of the same. Subsidiaries are de-consolidated as of the date on which control is lost.

Transactions and balances with Group companies and unrealized profits or losses have been eliminated on consolidation.

The accounting policies of the subsidiaries have been adapted to the Group's accounting policies for transactions and other events which, being similar, have occurred in similar circumstances.

The financial statements of the subsidiaries used in the consolidation process refer to the same presentation date and the same period as those of the Parent.

b) Non-controlling interests

Non-controlling interests are presented in the consolidated equity separately from the equity imputed to the Parent’s shareholders. Non-controlling interests in the consolidated income statement and the consolidated comprehensive income for the year are also presented separately in the consolidated income statement and the consolidated statement of comprehensive income.

The Group's interest and the non-controlling interests in the consolidated income statement, consolidated comprehensive income and the changes in equity of the subsidiaries, having taken into account the adjustments and eliminations resulting from consolidation, is determined in accordance with the ownership shares at year-end, without considering the possible exercise or conversion of potential voting rights and after discounting the effect of dividends, agreed or not, from preferential shares with cumulative rights which have been classified in equity accounts.

c) Business combinations

The Group has applied the exemption under IFRS 1 "First-time Adoption of International Financial Reporting Standards”, and as such only the business combinations effected after October 1, 2011, the transition date to IFRS-EU, have been recorded using the purchase method. Acquisitions of entities prior to this date were registered in accordance with the previous GAAP, after considering the necessary corrections and adjustments at the transition date.

The Group has applied IFRS 3 "Business Combinations”, revised in 2008, to transactions carried out as of October 1, 2011.

The Groups uses the acquisition method for the accounting of business combinations.

The acquisition date is the date on which the Group obtains control of the acquired business.

The consideration paid for the business combination is determined at the date of acquisition by the sum of the fair values of the assets delivered, the liabilities incurred or assumed, the equity instruments issued and any contingent consideration that depends on future events or the fulfilment of certain conditions in exchange for control of the acquired business.

The consideration paid excludes any disbursement which is not part of the exchange for the acquired business. The acquisition-related costs are recognised as expenses as they are incurred.

At the acquisition date, the Group recognizes the assets acquired and liabilities assumed at fair value. Liabilities assumed include contingent liabilities to the extent that they represent present obligations arising from past events and their fair value can be measured reliably.

Non-current assets or disposable groups of items that are classified as held for sale, liabilities for long-term employee benefits, transactions based on equity payments, deferred tax assets and liabilities and intangible assets arising from the acquisition of previously-granted rights are exempt from the application of this criterion.

The assets and liabilities assumed are classified and designated for further measurement on the basis of contractual agreements, economic conditions, financial and operating policies and other conditions existing at the acquisition date, except for leases and insurance.

The excess between the consideration delivered and the net amount of the assets acquired and the liabilities assumed, less the value allocated to the non-controlling interests, is recorded as goodwill. Where applicable, the defect, after measuring the amount of the consideration paid, the value assigned to non-controlling interests and the identification and measurement of the net assets acquired, is recognized in income.

d) Joint arrangements

Joint agreements are considered agreements in which there is a contractual agreement to share control over an economic activity, in such a manner that the decisions about the relevant activities require the unanimous consent of the Group and the other participants or operators. The assessment of the existence of joint control is carried out considering the definition of control relative to subsidiaries.

e) Transactions and balances in foreign currency

(i) Functional and presentation currency

The consolidated financial statements are presented in Euros, rounded up to the nearest Euro, which is the Parent's functional and presentation currency.

(ii) Transactions, balances and flows in foreign currency

Transactions in foreign currencies have been converted into Euros applying the spot exchange rates between the functional currency and the foreign currency on the transaction dates.

Monetary assets and liabilities denominated in foreign currencies are converted into Euros applying the rate existing at year end, while non-monetary assets and liabilities valued at historical cost are translated applying the exchange rate corresponding to the date on which the transaction occurred. Finally, conversion to Euros of non-monetary assets measured at fair value has been effected with the application of the exchange rate on the date on which the quantification was carried out.

In the presentation of the consolidated cash flow statement, flows from foreign currency transactions are translated into Euros at the exchange rates prevailing at the date on which they were produced. The effect of the changes in exchange rates on cash and cash equivalents denominated in foreign currency are presented separately in the cash flow statement as "Effect of exchange differences on cash".

The differences observed in the settlement of foreign currency transactions and the translation into Euros of assets and liabilities denominated in foreign currencies are recognized in income.

(iii) Conversion of foreign operations

The conversion to Euros of foreign operations whose functional currency is not that of a hyper-inflationary country has been carried out by applying the following criteria:

- The assets and liabilities, including the goodwill and the adjustments to net assets derived from the acquisition of businesses, including the comparative balances, are converted to the exchange rates prevailing on the balance sheet date;
- Revenues and expenses, including comparative balances, are translated at the average exchange rate for the year. This method does not differ significantly from the application of the exchange rate corresponding to the date of the transaction;
- The exchange differences resulting from the application of the previous criteria are recognised in exchange differences on other comprehensive income.

f) Property, plant and equipment

(i) Initial recognition

Property, plant and equipments is recognized at cost or imputed cost, less accumulated depreciation and, where applicable, accumulated impairment loss.

On October 1, 2011, the Group applied the exemption relative to fair value or remeasurement as imputed cost under IFRS 1 First-time Adoption of International Financial Reporting Standards.

(ii) Amortization

Depreciation of property, plant and equipment is effected by systematically allocating the depreciable amount over the service life. For these purposes, the depreciable amount is understood as the acquisition cost less the residual value. The Group determines the depreciation cost independently for each item which has a cost that is significant in relation to the total cost of the item and a service life other than that of the rest of the item's components.

Depreciation of property, plant and equipment is determined by applying the criteria listed below:

	Amortization method	Estimated service life
Buildings and constructions	Straight line	33.33
Plant and machinery	Straight line	10
Other fixtures, tools and furniture	Straight line	6.66-10
Other property, plant and equipment	Straight line	4-10

The Group reviews residual values, service lives and the depreciation method of the property, plant and equipment at the end of each year. Amendments to the criteria initially established are recognized as changes to estimations.

Subsequent costs

After initial recognition of the asset, only those costs that will generate future economic benefits that can be classified as probable and the amount of these costs can be measured reliably are capitalized. In this sense, the costs derived from the daily maintenance of property, plant and equipment are registered as they are incurred.

(iii) Impairment of assets

The Group measures and determines impairment losses and reversals of impairment losses of property, plant and equipment in accordance with the criteria described in section (h) below.

g) Intangible assets

(i) Goodwill

Goodwill arises from business combinations, corresponding to the excess existing between the consideration delivered and the net amount of the assets acquired and the liabilities assumed, less the value allocated to the non-controlling interests.

Goodwill is not amortized, but is tested for impairment an annual, or shorter term, basis if there are indications of a potential loss of asset value. For this purpose, the goodwill acquired in the business combination is allocated to each of the cash-generating units (CGU), or groups of cash generating units, that are expected to benefit from the combination's synergies, and the criteria referred to in section (h) below are applied. Following the initial recognition, goodwill is measured at its cost less accumulated impairment losses.

(ii) Internally generated intangible assets

Any expenses incurred during the research phase of projects are recognized as an expense when incurred.

Costs related to development activities are capitalized from the time the product approval is obtained, provided that the following conditions are met:

- The Group is in possession of technical studies justifying the feasibility of the production process;
- The Group holds a commitment to complete the production of the asset in order that is in a condition to be sold or used internally;
- The asset will generate sufficient profit;

- The Group has the technical and financial resources to complete the development of the asset and has developed budgetary control and analytical accounting systems that enable the monitoring of the budgeted costs, the amendments introduced and the costs actually charged to the individual projects.

The cost of the assets generated internally by the Group is determined following the same principles as those used in determining the production cost of inventories. Production costs are capitalized through the payment of the costs imputable to the asset in the accounts in “Work performed by the Group for its non-current assets" in the consolidated income statement.

(iii) Patents, trademarks and licenses

Patents, trademarks and licenses are initially recorded at acquisition cost and relate mainly to the registration of trademarks and pharmaceutical specialities acquired from third parties.

(iv) Service life and amortizations

For each intangible asset acquired, the Group assesses whether the useful life is finite or indefinite. For this purpose, an intangible asset is understood as having an indefinite useful life when there is no foreseeable limit to the period during which it is to generate net cash flows.

Intangible assets with indefinite service lives are not amortized, but are tested for impairment an annual, or shorter term, basis if there are indications of a potential loss of value.

Intangible assets with finite service lives are amortized by systematically allocating the depreciable amount the service life by applying the following criteria:

	Amortization method	Estimated service life
Development	Straight line	5
Patents, trademarks and licenses	Straight line	10
Client portfolio	Straight line	11
Software	Straight line	3

For these purposes, the depreciable amount is understood as the acquisition or attributed cost less the residual value.

The Group reviews residual values, service lives and the depreciation method of the intangible assets at the end of each year. Amendments to the criteria initially established are recognized as changes to estimations.

(v) Impairment of assets

The Group measures and determines impairment losses and reversals of impairment losses of intangible assets in accordance with the criteria described in section (h) below.

h) Impairment of non-financial assets subject to amortization or depreciation

The Group's policy is to evaluate the existence of evidence that may point to the potential impairment of the non-financial assets subject to amortization or depreciation, in order to verify whether the carrying value of the assets exceeds their recoverable value.

The Group also, and independently of the existence of any indication of impairment, checks, at least on an annual basis, the potential impairment that may affect the goodwill, as well as the intangible assets that are not yet available for use.

The recoverable value of assets is the higher of the fair value less sales costs and the value in use. The value in use of assets is determined by the expected future cash flows from the use of the asset, the expectations relative to possible variations in the amount or timing of the flows, the time value of money, the price for bearing the uncertainty inherent in the asset and other factors that market participants would consider in assessing future cash flows related to the asset.

Negative differences resulting from the comparison of the book values of the assets with their recoverable amounts are recognized in income.

The recoverable value must be calculated for individual assets, except when the asset generates cash inputs that are, on the whole, independent of those corresponding to other assets or groups of assets. In such cases, the recoverable amount is determined for the cash-generating unit (CGU) to which it belongs.

Initially, losses related to the impairment of the CGU reduce, where appropriate, the value of the allocated goodwill and, subsequently, the CGU's remaining assets. They are pro rata in accordance with the carrying value of each of the assets, with the limit for each being the greater of the fair value less disposal costs or disposal by other means, the value in use and zero.

At each reporting date, the Group assesses whether there are any indications that an impairment loss recognized in prior years has ceased to exist or may have decreased. Goodwill impairment losses are not reversible. Impairment losses on other assets are only reversible if there has been a change in the estimates used to determine the recoverable amount.

The reversal of the impairment loss is credited to income. Nevertheless, the reversal of the loss cannot increase the carrying amount of an asset above the carrying amount that it would have had, net of depreciation, had no impairment loss been recorded.

The amount corresponding to the reversion of the impairment of a CGU is allocated among the assets of the same, except for goodwill, and prorated in accordance with the carrying value of the assets, with the limit per asset being the lower of the recoverable value and the book value, net of depreciation, that would have been reflected if no impairment had been registered.

i) Leases

(i) Classification of leases

The Group classifies contracts which initially substantially transfer the assets' risks and rewards of ownership to the lessee as finance leases. Otherwise, the contracts are classified as operating leases.

(ii) Lessee accounting

The Group has the right to use certain assets under lease agreements.

- Finance leases

  At the beginning of the lease term, the Group recognizes an asset and a liability at the lower of the fair value of the leased property or the present value of the minimum lease payments. Initial direct costs are included as higher asset value. Minimum payments are divided between the finance charge and the reduction of outstanding debt. Financial expenses are charged to the consolidated income statement by applying the effective interest rate method.

  The accounting principles applied to the assets used by the Group by virtue of the signing of leasing contracts classified as financial are the same as those detailed in section (f) Property, plant and equipment.

- Operating leases

  Payments under operating leases, net of the incentives received, are recognized as expenses on a straight line basis over the lease term, unless another systematic basis of allocation is more representative by virtue of a more appropriate reflection of the time pattern of the lease's profit.

j) Financial Instruments

(i) *Classification of financial instruments*

Financial instruments are classified on initial recognition as financial assets, financial liabilities or equity instruments, in accordance with the substance of the contractual arrangement and the definitions of a financial asset, a financial liability and an equity instrument in IAS 32 "Financial Instruments: Presentation".

Financial instruments are recognized when the Group becomes a party to the contract or legal transaction in accordance with the provisions thereof.

For the purpose of measurement, financial instruments are classed in the categories of financial assets and liabilities at fair value through profit and loss, separating those which are designated initially from those held for trading, loans and accounts receivable, held-to-maturity investments, financial assets available for sale and financial liabilities at amortized cost. The classification in the previous categories is based on the nature of the instrument and the Group's intentions at the time of initial recognition.

(ii) *Offsetting principles*

Financial assets and financial liabilities are offset only when the Group has the enforceable right to legally offset the recognized amounts and intends to settle on a net basis or to realize the asset and settle the liability simultaneously.

(iii) *Financial assets and liabilities at fair value through profit or loss*

Financial assets and liabilities at fair value through profit or loss are those that are classified as held for trading or which have been designated from the time of their initial recognition.

A financial asset or financial liability is classified as held for trading if:

- It is acquired or incurred principally for the purpose of selling or repurchasing in the near future;
- In the initial recognition, it forms part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking; or
- It is a derivative (except for a derivative that is a designated and effective hedging instrument or a derivative that is a financial guarantee contract).

Financial assets and liabilities at fair value through profit or loss are initially recognised at their fair value. The operation costs directly attributable to the purchase or issue are recognised as expenses as they are incurred.

Subsequent to their initial recognition, they are recognized at fair value and any changes are registered in results. The fair value is not reduced by transaction costs that may be incurred on sale or disposal by other means.

(iv) *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted on an active market other than those classified in other financial asset categories. These assets are initially recognized at fair value, including transaction costs, and subsequently measured at amortized cost using the effective interest rate.

(v) *Available-for-sale financial assets*

The Group classifies non-derivative financial instruments that are designated as such or which do not comply with requirements for inclusion in the above categories in this category.

Financial assets available for sale are initially recognised at fair value plus the operation costs directly attributable to the acquisition.

After initial recognition, financial assets classified in this category are measured at fair value, the gain or loss recognized in other comprehensive income in shareholders' equity, except for impairment losses. The amounts recognized in other comprehensive income are recognized in income when the financial assets are de-registered and, where applicable, there is impairment loss.

(vi) *Fair value*

To determine the fair value of financial assets or liabilities, the Group uses, to the extent possible, market data. Based on the factors used for measurement, the fair values are ranked in accordance with the following levels:

- Level 1: quoted prices (unadjusted) in existing markets for assets or liabilities that are identical to those that are being considered.
- Level 2: factors other than the prices considered in Level 1 that are derived directly from the asset or liability in question, such as those that may arise directly from the price.
- Level 3: factors which are not based on data obtained directly from the market.

In those cases in which the factors employed to determine the fair value of an asset or a liability are included in different hierarchical levels, the fair value is determined entirely on the significant component located in the lowest hierarchical level.

(vii) *Amortized cost*

The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus, as applicable, the cumulative amortisation using the effective interest rate method of any difference between that initial value and the maturity amount, and minus any reduction for impairment or uncollectability.

(viii) *Impairment of financial assets measured at amortized cost*

The amount of the loss impairment of financial assets measured at amortised cost is the difference between the financial asset’s carrying amount and the present value of estimated effective future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset’s original effective interest rate. For financial assets at a variable interest rate, the effective interest rate corresponding to the measurement date under the contractual terms it is used.

The Group recognizes the impairment losses and defaults on loans and other receivables and debt instruments by recording an allowance account for financial assets. When the impairment loss and default are considered irreversible, the book value is eliminated against the amount in the allowance account.

Impairment loss is recognized against income and is reversible in subsequent years if the decrease can be objectively related to an event subsequent to its recognition. However, the reversal of the loss is limited to the amortized cost that would have corresponded to the assets if the impairment loss had not been registered. The reversal of the loss is recognized against the amount in the allowance account.

The Group reviews the recoverability of customer balances individually, in accordance with the credit quality of the same, current market trends and historical analysis of insolvencies at an aggregate level.

Balances for sales corresponding to Public Administrations are not subject to impairment due to late payment as the Directors do not consider a payment period in excess of one year.

(ix) *Impairment of financial assets available for sale*

In the case of financial assets available for sale, the reduction in the fair value has been recorded directly in other comprehensive income in equity. It is recognized in income when there is objective evidence of impairment, even though the financial asset has not been de-recognised in the consolidated statement of financial position. The amount of the impairment recognised in income is calculated as the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss previously recognised in income.

The impairment losses corresponding to investments in equity instruments are not reversible, and as such they are registered directly against the asset and not as a corrective provision.

The increase in the fair value of debt instruments, which may be objectively related to an event subsequent to the recognition of the impairment, is credited to income up to the amount of the previously-recognised impairment and the excess, where applicable, which is credited to the other comprehensive income in equity.

(x) *De-recognition of financial assets*

The Group applies the financial asset de-registration criteria to a part of a financial asset or a part of a group of similar financial assets or to a financial asset or a group of similar financial assets.

Financial assets are de-recognised when the rights to receive the associated cash flows have matured or have been transferred and the Group has substantially transferred all risks and rewards of ownership.

The de-recognition of a financial asset in its entirety implies the recognition of profit from the difference between the carrying amount and the sum of the consideration received, net of transaction costs, including the assets obtained or liabilities assumed and any deferred gain or loss in other comprehensive income.

(xi) *Financial liabilities*

Financial liabilities, including trade and other payables, which are not classified as at fair value through the income statement, are initially recognized at fair value less, where applicable, any transaction costs that are directly attributable to the issue thereof. Subsequent to initial recognition, liabilities classified under this category are measured at amortized cost using the effective interest rate.

(xii) *De-recognition and changes in financial liabilities*

The Group de-registers financial liabilities or a part of the same when it has fulfilled the obligation under the liability or is legally released from the primary responsibility for the liability, either by virtue of a judicial process or by the creditor.

k) Inventory

Inventories are measured at the lower of the acquisition or production cost and net realizable value.

The acquisition cost includes the amount invoiced by the vendor after deducting any discounts or other similar items and interest included in the par value of the debts, together additional expenses incurred until the goods are made available for sale and any others directly attributable to the acquisition, as well as non-recoverable indirect taxes.

The estimate of the products that will be returned in relation to sales for which the customers hold the right of return, net of the effect of any reduction in the value thereof, is recognized as inventory on consignment at the time of sale.

Discounts from providers are recognized when it is probable that they will comply with the conditions governing their concession as a reduction of the cost of the inventories from which they arose and the excess, if any, as a reduction of the procurements item in the consolidated income statement.

The production cost of inventories includes the purchase price of raw materials and other consumables and the costs directly related to the units produced, as well as systematically-calculated part of the indirect, variable or fixed costs incurred during their transformation. The allocation of fixed overhead costs is performed in accordance with the normal production capacity or real production, whichever is the greater of the two.

The cost of raw materials and other procurements, the cost of goods and the cost of processing are allocated to the different SKUs using the weighted average price method.

The Group uses the same cost formula for all inventories having a similar nature and use within the Group.

The cost value of inventories is subject to impairment charged to income in cases in which the cost exceeds the realizable net value. For these purposes, net realizable value is understood as:

- Raw materials and other supplies: replacement cost. Notwithstanding the foregoing, the Group does not make adjustments in cases where it is expected that the finished products to which the raw materials and other supplies are incorporated are to be disposed of for value equal to or greater than their production cost;
- Goods and finished products: the estimated sales price, less the any necessary sales costs;
- Unfinished products: the estimated sales price of the corresponding finished products, less the any estimated costs for the completion of production and those related to their sale.

The reduction in the value previously recognised is reversed against profit if the circumstances that caused the reduction have ceased to exist or when there is clear evidence of an increase in the net realizable value as a consequence of a change in the economic circumstances. The reversal of the decrease in value is limited to the lower of the cost and new net realizable value of the inventories.

l) Cash and cash equivalents

Cash and cash equivalents include cash on hand and demand deposits with banks. This concept also includes other short-term, highly-liquid investments, provided that they are easily convertible into certain amounts of cash and they are subject to an insignificant risk of changes in value. For this purpose, investments with maturities of less than three months as of the date of acquisition are included.

The Group classifies cash flows corresponding to interest received and paid as operating activities, and dividends received and paid as investment and financing activities, respectively.

m) Government grants

Government grants are recognized when there is reasonable assurance of compliance with the conditions attached to the granting and payment of the same.

(i) Capital subsidies

Capital subsidies granted in the form of monetary assets are credited to "Subsidies" in the consolidated statement of financial position, and they are charged to “Other operating income" in the consolidated income statement as the corresponding financed assets are amortized.

(ii) Revenue grants

Operating grants are recognized as income and credited to "Other operating income” in the consolidated income statement.

n) Short-term employee benefits

The Group recognizes the expected cost of short-term remuneration in the form of paid leave, the rights to which are accumulated as the employees render the services that grant them the right to perceive the same. If the permissions are not cumulative, the expenditure is recognized as the permissions occur.

The Group recognizes the expected cost of profit-sharing or incentive plans when it has a present, legal or implicit obligation resulting from past events and when the value of the obligation can be reliably estimated.

o) Provisions

Provisions are recognised when the Group has a present obligation, either legal or implicit, as a result of past events, an outgoing of resources incorporating future economic profits is likely in order to settle the obligation, and the amount of the obligation can be reliably estimated.

The amounts recognized in the consolidated balance sheet correspond to the best estimate at the closing date of the expenditure required to settle the present obligation, once considered the risks and uncertainties related to the provision and, where significant, the financial effect produced by the discount, provided that the disbursements to be made in each period can be reliably determined. The discount rate is determined before taxes, considering the time value of money and the specific risks that have not been considered in the future flows related to the provision.

The financial effect of the provisions is recognized as interest expense in the consolidated results.

Provisions are reversed when an outflow of resources to settle the obligation is not considered probable. The reversal is charged against the item in results in which the corresponding expenditure was registered and the excess, where applicable, is recognised in "Other operating income” in the consolidated income statement.

p) Revenue recognition

Income from the sale of goods or services is recognized at the fair value of the consideration received or receivable derived from the same. Discounts for prompt payment, volume or other types of discounts, as well as interest compounded into the nominal amount of the credits, are recorded as a reduction of the same.

Discounts granted to clients are recognized at the moment in which it is probable that the conditions that may determine their concession as a reduction in income from sales are met.

(i) *Sale of goods*

The Group is dedicated to the marketing of proprietary pharmaceutical specialties and licensed products in the areas of dermatology, women's care, respiratory, anti-infective, paediatrics and consumer healthcare products, as well as the marketing of nutraceutical products. It also has manufacturing activities for third parties specialized in the sterile injectable products, lyophilised products, penicillanic antibiotics and cephalosporins.

Revenue from the sale of goods is recognized when the Group:

- Transfers the risks and rewards of ownership of the goods to the buyer;
- There remains no implication in the current management of the goods sold, to the degree usually accepted with ownership, and there is no effective control of the same;
- The amount of the revenue and costs incurred or to be incurred can be measured reliably; and
- It is probable that the profits associated with the transaction will be received.

The Group sells certain goods, in relation to which the buyer acquires rights of return. In such cases, the sale of the goods is recognized at the time when the above conditions are met and it is possible to make a reliable estimate of the amount of the returns, in accordance with experience and other relevant factors. The estimated reimbursements are recorded against revenue and credited to the provision for sales returns, and the estimated cost value corresponding to the goods that are estimated to be returned, net of the effect of any reduction in value., is recognised as inventory on consignment.

(ii) *Provision of services*

Revenue derived from the provision of services is recognised considering the degree of completion of the provision at the balance sheet date, provided that the outcome of the transaction can be estimated reliably. This circumstance occurs when the amount of revenue, the degree of implementation, the costs already incurred and those to be incurred can be reliably measured and it is probable that the economic profits of the service are to be received.

(iii) *Interest and dividends*

Interest is recognized by the method of effective interest rate, which is the rate that equals the book value of a financial instrument with estimated effective cash flows over the expected life of the instrument, based on the corresponding contractual conditions and without considering future credit risk losses.

Dividend income from investments in equity instruments is recognized in income when the rights have arisen in favour of the Group upon its perception.

q) Capital Gains Tax

Expenses or income derived from corporate tax includes both current tax and deferred tax.

Current tax is the amount payable or recoverable in the concept of capital gains tax on the consolidated profit or tax loss for the year. Current tax assets and liabilities are measured at the amount expected to be paid or recovered from the tax authorities, using the regulations and rates that are applicable or which have practically been approved at year end.

Deferred taxes liabilities are the amounts payable in the future as taxes related to taxable timing differences, while deferred tax assets are the amounts to be recovered in the concept of tax on earnings due to the existence of deductible timing differences, compensable loss carryforwards or deductions pending application. For this purpose, temporary difference is understood as the difference between the book value of the assets and liabilities and their tax base.

Current or deferred corporate tax is recognized in earnings, except when it arises from a transaction or financial event which is recognized in the same year or in a different year in equity, or from a business combination.

(i) *Recognition of deferred tax liabilities*

The Group recognizes deferred tax liabilities in all cases, except when:

- when they arise from the initial recognition of the goodwill or of an asset or a liability in a transaction other than a business combination that, at the time of the transaction, affects neither the accounting profit nor the tax base;
- they correspond to differences relating to investments in subsidiaries, associates and joint ventures over which the Group has control at the time of the reversal and a future reversal is unlikely.

(ii) *Recognition of deferred tax assets*

The Group recognizes deferred tax assets whenever:

- it is likely that future taxable profits will be sufficient to offset the deferred tax assets, or when the applicable tax law provides for the possibility of the future conversion of deferred tax assets into an enforceable credit against the Public Administration. Notwithstanding, active that arise from the initial recognition of assets or liabilities in a transaction other than a business combination that, at the time of the transaction, affects neither the accounting profit nor the tax base, are not recognisable;
- they correspond to temporary differences related to investments in subsidiaries, associates and joint businesses to the extent that the temporary differences will reverse in the foreseeable future and are expected to generate positive future taxable income to offset the differences.

It is considered probable that the Group has sufficient taxable profit to recover the deferred tax assets, provided that there are sufficient taxable timing differences related to the same taxation authority and the same taxable subject, the reversal of which is expected in the same tax year as the reversal of the deductible timing differences or in fiscal years in which a tax loss arising from a deductible timing difference may be carried back or forward. When the only future tax gains are to derive from the existence of taxable temporary differences, deferred tax assets arising from tax loss carryforwards are limited to 70% of the amount of the deferred tax liabilities recognized.

In order to determine future taxable income, the Group takes into account the tax planning opportunities, providing it intends to adopt them or it is likely that they are to be adopted.

(iii) *Measurement of deferred tax assets and liabilities*

Deferred tax assets and liabilities are measured at the tax rates that are to be applied in the periods in which the asset or the liability is to be realised, based on the regulations and rates which have been approved or which are pending approval and after having considered the tax consequences derived from the manner in which the Group expects to recover the assets or settle the liabilities. For this purpose, the Group has considered the deduction for reversal of temporary measures developed in the thirty-seventh transitional provision of Law 27/2014, of

November 27, on Corporate Income Tax, as an adjustment to the tax rate applicable to the deductible temporary difference associated with the non-deductibility of the amortization carried out in 2013 and 2014 and the updating of the balances of Law 16/2012 of December 27.

At year-end, the Group reviews the book value of deferred tax assets in order to reduce the same to the extent that the existence of sufficient future taxable income against which they can be offset is unlikely.

Deferred tax assets that do not meet the above conditions are not recognized in the consolidated statement of financial position. At year-end, the Group reconsiders whether the conditions have been met to recognize deferred tax assets that had not previously been recognized.

(iv) Offsetting and classification

The Group only offsets current tax assets and liabilities if there is a legal right before the tax authorities and when the Company intends to settle the debts resulting from the net amount or to capitalize the assets and settle the debts simultaneously.

The Group only offsets corporate deferred tax assets and liabilities if there is a legal right to offset them before the tax authorities and the assets and liabilities correspond to the same taxation authority, and to the same tax payer of different taxable subjects who intend to liquidate or write-off the current tax assets and liabilities at their net amount or write-off the assets and liquidate the liabilities simultaneously in each of the future years in which the liquidation or recovery of significant amounts of deferred tax assets or liabilities is expected.

Deferred tax assets and liabilities are recognized in the consolidated statement of financial position as non-current assets or liabilities, irrespective of the date of realization or settlement.

r) Distributions to shareholders

Dividends, whether satisfied in cash or in kind, are recognized as a reduction in equity upon their approval by the General Shareholders Meeting.

For distributions in kind, either in the form of non-monetary assets, business, investments in other entities or disposal groups, which are proportional for all the Company's shareholders, the liability is recognized on the date indicated above, measured at the fair value of the assets to be delivered.

The fair value of the liability is reviewed and adjusted at each reporting date and settlement date against equity. On the settlement date, the difference between the book value of the assets transferred and the liability in the consolidated income statement is recognized.

s) Segment Reporting

An operating segment is a Group component that carries out business activities from which it may earn revenues and incur expenses, whose operating results are regularly reviewed by the Group's Maximum Decision-Making Authority (MDMA) in order to make decisions about the resources to be allocated to the segment, assess its performance and in relation to which separate financial information is available. The Group MDMA's management is based on two segments, as indicated in note 4.

t) Classification of assets and liabilities between current and non-current

The Group presents the consolidated financial statements classifying assets and liabilities as current and non-current. To these effects, current assets or liabilities meet the following criteria:

- Assets are classified as current when they are expected to be realized or intended for sale or consumption during the normal operating cycle of the Group, are held primarily for trading purposes, they are expected to be realized within twelve months after the closing date or they are cash or cash equivalents, except in those cases where they cannot be exchanged or used to settle a liability, at least within the twelve months subsequent to the closing date.
- Liabilities are classified as current when they are expected to be settled during the normal operating cycle of the Group, are held primarily for trading purposes, they are expected to be settled within twelve months

after the closing date or when the Group does not hold the unconditional right to defer the settlement of the liabilities during the twelve months subsequent to the closing date.

- Financial liabilities are classified as current when they must be settled within the twelve months after the closing although the original term is for a period longer than twelve months and there is a refinancing or restructuring agreement for long-term payments that has concluded subsequent to the closing date or prior to the preparation of the consolidated financial statements.

Derivative financial instruments that are not held for trading are classified as current or non-current, in accordance with their maturity or periodic settlement.

u) Environment

The Company takes measures to prevent, reduce or repair any damage which, as a result of its activities, may have an environmental impact.

The expenses incurred in environmental activities are recognized as "Other operating expenses" in the period in which they are incurred.

Property, plant and equipment acquired in order to be used permanently in the activity and whose main purpose is to minimize environmental impact and to protect and improve the environment, including the reduction or elimination of future contamination generated by the Group's operations are recognized as assets through the application of measurement, presentation and disclosure criteria that are consistent with those mentioned in paragraph (f) above.

4. Segment Reporting

The Group is internally organized into business units based on the countries in which it operates. Management is focused on two business segments, corresponding to "Sale of pharmaceutical products" and "Sale of nutritional supplements."

The "Sale of pharmaceutical products" segment includes the manufacturing and marketing of products for third parties, research and development, and others. The "Sale of nutritional supplements" segment includes the importing, exporting, purchasing wholesaling and retailing and exploitation of authorised food supplements and dietary and cosmetic products.

a) Geographical Information

In presenting geographical information, the segment's revenues are determined using the customers' geographical location as criterion. The segment's assets are determined in accordance with the geographical location of the same.

The breakdown of the main figures expressed by geographic areas for the years ended December 31, 2017 and 2016 are as follows:

	Venta de productos farmacéuticos		**Venta de complementos nutricionales**		**Total**	
En euros	**31/12/2017**	**31/12/2016**	**31/12/2017**	**31/12/2016**	**31/12/2017**	**31/12/2016**
Importe neto de la cifra de negocios						
España	68.894.423	63.393.408	3.235.817	3.378.939	72.130.240	66.772.347
Unión Europea	46.017.313	46.988.416	21.263.682	22.574.324	67.280.995	69.562.740
Resto de Europa	3.292.129	3.170.677	51.972	-	3.344.101	3.170.677
Africa	2.070.283	3.647.300	755.568	426.014	2.825.851	4.073.314
América	3.854.889	3.319.300	150.620	207.726	4.005.509	3.527.026
Asia	14.643.699	11.354.404	158.582	346.209	14.802.281	11.700.613
Oceanía	3.307.970	2.327.573	286.219	-	3.594.189	2.327.573
	142.080.706	**134.201.078**	**25.902.460**	**26.933.212**	**167.983.166**	**161.134.290**

The breakdown of non-current assets expressed by geographical area is as follows:

	Sale of pharmaceuticals		Sale of nutritional supplements	
	31/12/2017	**31/12/2016**	**31/12/2017**	**31/12/2016**
Non-current assets				
Domestic				
Property, plant and equipment	46,228,451	36,599,103	-	1,532
Intangible assets	31,486,337	30,570,373	-	-
Rest of European Union				
Property, plant and equipment	425,854	342,217	495	1,186
Intangible assets	9,928,346	10,609,451	-	-
Other European countries				
Property, plant and equipment	-	-	93,918	56,387
Intangible assets	-	-	18,851,335	18,836,726
	88,068,988	**78,121,144**	**18,945,748**	**18,895,830**

b) Information on corporate expenses

The consolidated Income Statements for the years ended on December 31, 2017 and 2016 include expenses which are considered corporate. The breakdown is as follows:

In Euros	**31/12/2017**	**31/12/2016**
Personnel expenses	4,542,097	4,024,884
Other operating expenses	3,004,786	3,476,805
TOTAL	**7,546,883**	**7,501,689**

c) Main customer or product

There are no significant customers, products or services that need to be differentiated.

5. Business combinations

On May 30, 2016, the parent acquired 100% of Oryzon Genomics Diagnostics, SL, which owns 50% of Geadic Biotech, AIE (of which the Company held 50% prior to the acquisition). Geadic Biotech is a biotechnology company which owns GynEC®-DX, the first in vitro molecular diagnostic test for the early diagnosis of endometrial cancer, based on the detection of biomarkers in endometrial aspirate.

The acquisition was instrumentalized through the payment in cash of 1,196,010 Euros and the delivery of 221,518 shares in the parent, valued at 638,193 Euros.

The breakdown of the consideration delivered, of the fair value of the net assets acquired and the goodwill is as follows:

Consideration granted	*In Euros*
Cash paid	1,196,010
Settlement of pre-existing relationships (note 18)	(221,188)
Equity instruments delivered	638,193
Total consideration granted	**1,613,015**

Fair value of prior investment in the business	1,410,880
Fair value of net assets acquired	(7,553)
Goodwill (note 6)	**3,031,448**

The amounts recognized by significant classes at the date of acquisition of the assets, liabilities and contingent liabilities were as follows:

	In Euros	
	Fair value	**Previous carrying amount**
Brands (note 6)	161,971	161,971
Other intangible assets (note 6)	488,280	488,280
Property, plant and equipment (note 7)	97,198	97,198
Non-current financial assets	53,191	53,191
Deferred tax assets	131,373	131,373
Inventory	21,698	21,698
Trade and other receivables	608	608
Current tax assets	2,498	2,498
Other current financial assets	65,000	65,000
Other current assets	8,298	8,298
Cash and cash equivalents	8,574	8,574
Total assets	**1,038,689**	**1,038,689**
Deferred tax liabilities	(37,530)	(37,530)
Other financial liabilities	(964,638)	(964,638)
Trade and other payables	(39,746)	(39,746)
Other current liabilities	(4,328)	(4,328)
Total liabilities	**(1,046,242)**	**(1,046,242)**
Total net assets acquired	**(7,553)**	**(7,553)**

6. Intangible assets

The composition and changes in the accounts included in intangible assets during the years ended on December 31, 2017 and 2016 are as follows:

In Euros	Goodwill	Customer base	Development	Concessions	Software	Patents, trademarks and licenses	Total
Cost							
Balance at January 1, 2016	**25,165,817**	**7,253,000**	**2,338,416**	**981**	**1,950,970**	**42,149,432**	**78,858,616**
Registrations	-	46,012	438,859	-	98,013	937,466	1,520,350
Business combination	3,031,448	-	462,238	-	26,042	161,971	3,681,699
Transfers (note 7)	-	-	100,000	-	8,860	-	108,860
De-recognitions	-	-	(245,431)	-	(9,170)	-	(254,601)
Translation differences	(250,372)	-	-	-	(9,030)	(699,426)	(958,828)
Balance at December 31, 2016	**27,946,893**	**7,299,012**	**3,094,082**	**981**	**2,065,685**	**42,549,443**	**82,956,096**
Registrations	-	-	461,996	-	128,635	22,818	613,449
Business Combinations	-	-	-	-	-	-	-
Transfers (note 7)	-	-	954,168	-	606,345	684,760	2,245,273
De-recognitions	(14,728)	-	(247,982)	-	(9,449)	(25,000)	(297,159)
Translation differences	(187,562)	-	(4,342)	-	(6,765)	(180,901)	(379,570)
Balance at December 31, 2017	**27,744,603**	**7,299,012**	**4,257,922**	**981**	**2,784,451**	**43,051,120**	**85,138,089**
Depreciation							
Balance at January 1, 2016	**-**	**(659,364)**	**(1,715,706)**	**(981)**	**(1,673,337)**	**(16,807,334)**	**(20,856,722)**
Amortisation for the year	-	(736,446)	(347,726)	-	(247,820)	(878,219)	(2,210,211)
Translation differences	-	-	-	-	8,646	108,068	116,714
De-recognitions	-	-	245,431	-	9,170	-	254,601
Balance at December 31, 2016	**-**	**(1,395,810)**	**(1,818,001)**	**(981)**	**(1,903,341)**	**(17,577,485)**	**(22,695,618)**
Amortisation for the year	-	(659,364)	(562,826)	-	(153,488)	(976,438)	(2,352,116)
Translation differences	-	-	-	-	6,680	17,581	24,261
Transfers	-	-	-	-	-	-	-
De-recognitions	-	-	247,411	-	9,449	17,083	273,943
Balance at December 31, 2017	**-**	**(2,055,174)**	**(2,133,416)**	**(981)**	**(2,040,700)**	**(18,519,259)**	**(24,749,530)**
Impairment							
Balance at December 31, 2016	**-**	**-**	**-**	**-**	**-**	**(122,542)**	**(122,542)**
Balance at December 31, 2017	**-**	**-**	**-**	**-**	**-**	**(122,542)**	**(122,542)**
Carrying amount							
Balance at December 31, 2016	**27,946,893**	**5,903,202**	**1,276,081**	**-**	**162,344**	**24,849,416**	**60,137,936**
Balance at December 31, 2017	**27,744,603**	**5,243,838**	**2,124,506**	**-**	**743,751**	**24,409,319**	**60,266,017**

"Patents, trademarks and licenses" includes amounts paid for the right to manufacture and market pharmaceutical products, as well as patent registration costs and the payment for rights to the co-development of a product with another pharmaceutical company. This section includes an amount of 18,461 thousand Euros, corresponding to the "Forte Pharma" brand acquired in the business combination effected in 2014, and whose useful life is indefinite.

Recognitions registered during 2017 correspond, mainly, to the activation of product development and the acquisition of software for the improvement of document management. The registrations during 2016 corresponded mainly to the acquisition of licenses for the sale of dermatological products in the UK.

The R&D expenses recognized as expenses in 2017 and 2016 are included in note 24.

a) Goodwill and impairment analysis by CGU

The composition and changes in the goodwill are as follows:

In Euros

Cash Generating Unit	31/12/2016	Other movements	Translation differences	31/12/2017
Laboratorio Farmacéutico Orraván, S.L	14,729	(14,729)	-	-
Bioglán A.B.	6,338,234	-	(187,561)	6,150,673
Natraceutical, S.A.	18,562,482	-	-	18,562,482
Oryzon Genomics Diagnóstico, S.L.	3,031,448	-	-	3,031,448
	27,946,893	**-**	**-**	**27,744,603**

Cash Generating Unit	31/12/2015	Business combinations	Translation differences	31/12/2016
Laboratorio Farmacéutico Orraván, S.L	14,729	-	-	14,729
Bioglán A.B.	6,588,606	-	(250,372)	6,338,234
Natraceutical, S.A.	18,562,482	-	-	18,562,482
Oryzon Genomics Diagnóstico, S.L.	-	3,031,448	-	3,031,448
	25,165,817	3,031,448	(250,372)	**27,946,893**

The goodwill of Laboratorio Farmacéutico Orraván, S.L., Bioglán, A.B., and Oryzon Genomics Diagnóstico, S.L., corresponds to the pharmaceutical products segment, whilst that of Natraceutical, S.A., corresponds to the nutritional supplements segment.

The most significant goodwill within the pharmaceutical products segment comes from Bioglan, AB and includes the premium paid by that company on the carrying value of the dermatological products manufacturing and marketing business which was acquired in 2009.

The goodwill of Natraceutical, S.A., corresponds to the goodwill arising in 2014 during the reverse merger process described in Note 1.

For the purpose of carrying out impairment testing, the goodwill has been allocated to the Group's cash-generating units (CGU) in accordance with the country of operation, which represents the lowest level to which the goodwill is allocated and is monitored for internal management purposes by the Group's management.

The recoverable amount from a cash generating unit (CGU) is determined based on value in use calculations. These calculations use cash flow projections based on financial budgets approved by management and which cover a 5-year period. Cash flows beyond the five-year period are extrapolated using the estimated growth rates indicated below.

The key assumptions used in the calculations of the Bioglán, A.B., impairment test during the years ended on December 31, 2017 and 2016, are as follows:

In percentage	**31/12/2017**	**31/12/2016**
Bioglán, A.B.		
Gross margin on sales	59.2%	57.8%
Average growth rate	2%	2%
Discount rate	8.21%	9.85%
Discount rate after taxes	6.74%	7.5%

The key assumptions used in the calculations of the Natraceutical, S.A., impairment test during the years ended on December 31, 2017 and 2016, are as follows:

In percentage	**31/12/2017**	**31/12/2016**
Natraceutical, S.A.		
Gross margin on sales	70.3%	70.0%
Average growth rate	1.7%	2.0%
Discount rate	6.95%	6.53%
Discount rate after taxes	6.9%	6.5%

The key assumptions used in the calculations of the Oryzon Genomics Diagnóstico, S.L., impairment test during the year ended on December 31, 2017, are as follows:

In percentage	**31/12/2017**
Oryzon Genomics Diagnostico, SL	
Gross margin on sales	46.67%
Average growth rate	2.0%
Discount rate	8.6%
Discount rate after taxes	8.0%

The Group has determined the budgeted gross margin based on past performance and expectations of market development. The weighted average growth rates are consistent with the forecasts included in industry reports. The discount rates used are pre-tax and reflect specific risks relating to the relevant segments.

During the years ended on December 31, 2017 and 2016, no impairment loss was recognised for the goodwill.

As the recoverable amount for the UGE Bioglan A.B. is much higher than the net book value of the net assets of the same, no specific information of the sensitivity analysis of the impairment test is included.

In relation to reasonably possible changes in the key assumptions used by the Management to determine the recoverable value of the CGU Natraceutical, S.A., increases of up to one point in the discount rate employed would mean that the recoverable value would still be higher than the carrying amount of said CGU.

b) Fully depreciated assets

The cost of the intangible assets that are fully amortised and still in use at December 31, 2017 and 2016 is as follows:

In Euros	**31/12/2017**	**31/12/2016**
Patents, trademarks and licenses	20,409,060	20,926,952
Software	2,896,221	2,686,036
Development	1,701,325	1,701,325
Administrative concessions	981	981
Other property, plant and equipment	9.340	-
	25,016,927	**25,315,923**

7. Property, plant and equipment

The composition and changes in the accounts included in property, plant and equipment during the years ended on December 31, 2017 and 2016 are shown on Annex II.

The registrations from the years ended on December 31, 2017 and 2016 relate mainly to the acquisition of plant and machinery needed to improve the productive capacity of the Group's factories, mainly in Sant Joan Despi (Barcelona) and Toledo, and which include new freeze-drying machinery and certain works to prepare the facilities for the FDA audit.

a) Property, Plant and Equipment subject to Guarantees

As collateral for a loan held with the Institut Català de Finances, the Company took a real estate mortgage on the property in which the factory is located in Toledo. These properties were transferred during the year ended on September 30, 2014, to Reig Jofre Investments, S.L., at their market value (in accordance with the report of an independent expert), amounting to 4,723,000 Euros, through the distribution of a dividend in kind. The transaction did not include the liabilities associated with the property and which were not transferred. Subsequently, the Company leased, for its own use for a period of 10 years and at an monthly rent of 36 thousand Euros, to be updated in accordance with the CPI (without the inclusion of a multiplier), the buildings transmitted to Reig Jofre Investments, SL. The lease contract, which may be renewed by agreement between the parties with notice before its completion, includes a purchase option at market value plus a 7% spread. The Company's Directors evaluated the lease of the building, and have concluded that was an operating lease. This loan, with a maturity in November 2016, was settled during 2016. At December 31, 2015, the outstanding principal corresponding to the loan amounted to 523,904 Euros.

At December 31, 2017, there are no items of property, plant and machinery subject to guarantees.

b) Fully depreciated assets

The cost of the property, plant and equipment that is fully amortised and still in use at December 31, 2017 and 2016 is as follows:

In Euros	**31/12/2017**	**31/12/2016**
Plant and machinery	14,195,287	10,886,441
Other fixtures, tools and furniture	6,590,816	6,080,157
Other property, plant and equipment	1,618,154	1,325,704
	22,404,258	**18,292,302**

c) Insurance

The Group has contracted several insurance policies to cover the risks to which the property, plant and equipment is subject. The coverage of these policies is considered sufficient.

d) Impairment

The impairment recorded in the "Land" and "Buildings" refers to the impairment losses corresponding to two leased industrial warehouses located in Sant Joan Despi. The adjustment was calculated as the difference between the net book value of these properties and their fair value less sales costs. The fair value was determined during 2016 by the valuation of the property by an independent expert, the company Risc Valor, S.L., resulting in a value of 8,038,300 Euros. Consequently, the impairment was been partially reversed, by the amount of 1,965,542 Euros.

e) Methodology for estimating the fair value of tangible assets

The fair value of real assets corresponding to the dividend paid in kind and the two industrial buildings in Sant Joan Despi were calculated by value comparison approach, taking samples of similar warehouses in the municipality near to the property, which corresponds to level 2 of the hierarchy established by IFRS 13.

8. Finance leases

The Group has the following asset classes contracted under leasing agreements:

In Euros

	Land	Buildings	Plant and machinery	Total
Cost	6,471,640	5,128,360	3,863,000	15,463,000
Accumulated depreciation and impairment losses	(1,156,059)	(2,636,064)	-	(3,792,123)
Net book value at December 31, 2017	**5,315,581**	**2,492,296**	**3,863,000**	**11,670,877**

	Land	Buildings	Plant and machinery	Total
Cost	6,471,640	5,128,360		11,600,000
Accumulated depreciation and impairment losses	(1,156,059)	(2,405,641)	-	(3,561,700)
Net book value at December 31, 2016	**5,315,581**	**2,722,719**	**-**	**8,038,300**

The most relevant lease contract corresponds to an industrial building in Sant Joan Despi, and was signed on July 30, 2010, with a cash cost of 11,600 thousand Euros, a duration of 15 years and a monthly fee of 70 thousands of Euros. This contract includes a purchase option equivalent to a monthly quota. The remaining lease agreements correspond to machinery, and have a duration of 5 years.

The breakdown of the minimum payments and current value of finance lease liabilities, by maturity, is as follows:

	31/12/2017	31/12/2016

In Euros	**Minimum payments**	**Current value**	**Minimum payments**	**Current value**
Up to 1 year	1,754,666	1,351,018	788,542	582,771
Between one and five years	6,712,353	5,654,508	3,154,168	2,582,180
More than five years	2,148,958	1,958,115	2,842,078	2,662,154
Total minimum payments and current value	**10,615,977**	**8,963,641**	**6,784,788**	**5,837,105**
Less current part	(1,754,666)	(1,351,019)	(788,542)	(592,771)
Total non-current	**8,861,311**	**7,612,622**	**5,996,246**	**5,244,334**

9. Operating leases

As mentioned in note 7, the Group has leased, for its own use for a period of 10 years and at a monthly rent of 36 thousand Euros, to be updated in accordance with the CPI, the buildings in which the Toledo factory transmitted to Reig Jofre Investments, SL, is located. The lease contract, which may be renewed by agreement between the parties with notice before its completion, includes a purchase option at market value plus a spread.

The remaining operating leases correspond mainly to car rental and to a warehouse in Sant Joan Despi, for an annual amount of 200 thousand Euros, updateable in accordance with the CPI and with maturity in October 2026.

The amount of operating lease payments recognized as expenses is as follows:

In Euros	**31/12/2017**	**31/12/2016**
Lease expenses (note 24)	3,152,351	2,976,901

The future minimum payments for non-cancellable operating leases are as follows:

In Euros	**31/12/2017**	**31/12/2016**
Up to 1 year	2,489,169	2,456,342
Between one and five years	5,214,185	6,093,460
More than five years	1,783,190	3,218,602
	9,486,544	11,768,404

10. Financial assets

The classification of financial assets by category and class is as follows:

In Euros	**31/12/2017**	**31/12/2016**
Loans and Receivables		
Deposits and guarantees	124,352	143,803
Loans	591,729	441,729
Other financial assets	-	5,517
Available-for-sale assets		
Equity instruments	605,490	1,167,058
Total non-current financial assets	**1,321,571**	**1,758,107**

In Euros	**31/12/2017**	**31/12/2016**
Loans and Receivables		
Loans	2,112,923	10,625,070
Deposits and guarantees	393,626	480,871
Other financial assets	729,247	1,063
Trade and other receivables	35,161,239	36,048,884
Available-for-sale assets		
Equity instruments	37,161	37,450
Total current financial assets	**38,434,196**	**47,193,338**

The book value of financial assets does not differ significantly from their fair value.

10.1 Loans and receivables

a) Loans

Short-term “Loans" at December 31, 2016, corresponds mainly to the consideration pending payment received by Natraceutical S.A., in relation to the sale of a subsidiary in July 2013. The loan matured on June 30, 2017, and accrued interest equal to 1-month Euribor plus a spread of 2%. In the current financial year, this loan has been collected.

The heading "Long-term loans" includes two loans for an amount of 526 thousand Euros that will be capitalized in the future as soon as deeds for the capital increase of the debtor companies are granted.

Short-term “Loans" at December 31, 2017 also includes a fully-impaired loan granted to Reig Jofre Investments, S.L. for 1,929,510 Euros (1,945,070 Euros at December 31, 2016).

b) Deposits and guarantees

"Deposits and guarantees" corresponds to the amounts delivered to lessors as collateral for the leases maintained. These amounts are presented at their paid value, which does not significantly differ from their fair value.

c) Trade and other receivables

The breakdown of trade and other receivables is as follows:

In Euros	**31/12/2017**	**31/12/2016**
Customer receivables for sales and provision of services	37,661,959	38,463,703
Personnel	-	60,318
Less valuation adjustments from bad debts	(2,500,720)	(2,475,137)
Total	**35,161,239**	**36,048,884**

The breakdown of the seniority of the debt is included in note 27 (b). The movement of impairment loss through uncollectability is as follows:

In Euros	**31/12/2017**	**31/12/2016**
Balance at beginning of year	(2,475,137)	(2,540,484)
Allocations	(138,032)	(27,934)
Reversals	82,176	93,281
Applications	30,273	-
Balance at end of year	**(2,500,720)**	**(2,475,137)**

10.2 Available-for-sale assets

"Equity instruments" mainly includes publicly traded shares and cash deposits in mutual funds available for sale, measured at fair (official listing prices), whose changes in value are recorded in equity.

11. Other current assets

The breakdown of "Other current assets" included in the consolidated statements of financial position is as follows:

In Euros	**31/12/2017**	**31/12/2016**
Prepaid insurance expenses	4,626	5,254
Prepaid lease expenses	173,094	39,118
Value added tax and similar	2,810,887	6,372,604
Other	617,167	219,062
Total	**3,605,774**	**6,636,038**

12. Inventory

The breakdown of inventories is as follows:

In Euros	**31/12/2017**	**31/12/2016**
Production and distribution business		
Sales personnel	2,611,902	3,498,685
Raw and ancillary materials	11,062,531	15,155,563
Semi-finished products	3,726,328	4,614,038
Finished products	10,825,247	11,083,783
Impairment adjustments	(716,813)	(1,343,484)
	27,509,105	**33,008,585**

The breakdown of the impairment losses and reversals in the consolidated income statement is as follows:

In Euros	**31/12/2017**	**31/12/2016**
Production and distribution business		
Finished products	137,044	(779,109)
	137,044	**(779,109)**

The Group companies have contracted several insurance policies to cover the risks to which the inventories are subject. The coverage of these policies is considered sufficient.

13. Cash and cash equivalents

The breakdown of cash and cash equivalents is as follows:

In Euros	**31/12/2017**	**31/12/2016**
Cash and banks	11,688,831	8,181,654
Total	**11,688,831**	**8,181,654**

14. Shareholders' equity

The composition and changes in the consolidated equity are presented in the consolidated statement of changes in equity.

a) Capital

At December 31, 2017 and 2016, the issued capital consists of 64,153,178 and 63,214,220 ordinary nominative shares, respectively, with a par value of 0,5 Euros each, fully-subscribed and paid in. All shares of the share capital bear equal rights. There are no ongoing capital increases or authorised capital increases pending execution.

On June 8, 2017, the Ordinary and Extraordinary General Shareholders' Meeting approved the "Flexible Dividend Reig Jofré" plan, and for which a capital increase to be charged against reserves was approved. The outstanding shares were granted a free allocation right, and a commitment to repurchase such rights by company was approved. On July 20, 2017, following completion of the negotiation period, the Board of Directors established the definitive increase in the Company's share capital at 469,479 Euros, through the issuance of 938,958 new shares, each with the same value and economic and political rights as the outstanding ordinary shares. In compliance with the Purchase Commitment, the Company has disbursed the sum of 50,101.90 Euros in consideration for the acquisition of free subscription rights from its shareholders, and a total of 500,000 Euros have been repurchased by the Company.
1,065,998 free allocation rights at a unitary value of 0.047 Euros. As a result of the above, the Company's share capital has been established at the amount of 32,076,589 Euros, represented by 64,153,178 shares of 0.50 Euros par value each.

In order to create a voluntary reserve, on June 22, 2016 the Ordinary and Extraordinary General Shareholders' Meeting approved the reduction of the parent's share capital by an amount of 94,821,330 Euros through the reduction of the par value of all the 63,214,220 nominative shares representing the Company's share capital by 1.50 Euros each, resulting in a new par value for each share of 0.50 Euros. As a result of the above, the Company's share capital was established at the amount of 31,607,110 Euros, represented by 63,214,220 shares of 0.50 Euros par value each.

The Company's shares are publicly traded.

At December 31, 2017, the companies that hold a shareholding exceeding 10% correspond to Reig Jofre Investments Ltd., which holds 73.06% of the shares in the Company, and Natra, S.A., which holds 11.99% of the shares in the Company (74.00% and 12.96%, respectively, at December 31, 2016).

The Group manages its capital to ensure that its investees can continue to operate under the principle of going concern. In turn, the Group is committed to maintaining leverage levels consistent with the objectives of growth, solvency and profitability.

b) Reserves

The breakdown of reserves is as follows:

In Euros	**31/12/2017**	**31/12/2016**
Legal reserve	7,508,789	7,508,789
Revaluation reserve	437,003	437,003
Voluntary reserves	94,237,244	87,846,264
	102,183,036	**95,792,056**

Legal Reserve

The legal reserve has been provisioned under Article 274 of the Revised Text of the Corporate Enterprises Act, which establishes that, in all cases, an amount equal to 10 percent of the year's profit shall be allocated to the legal reserve, up to the amount at which such reserve is equivalent to at least 20 percent of the share capital.

It cannot be distributed and if it is used to offset losses, in the event that there are not sufficient alternative reserves available for this purpose, it must be replenished with future profits.

At December 31, 2017 and 2016, the Company has allocated this reserve in excess of the minimum limit as established in the Revised Text of the Corporate Enterprises Act.

Other comprehensive income

The composition and changes in the accounts included in “Other comprehensive income” during the years ended on December 31, 2017 and 2016 are presented in the consolidated statement of changes in equity.

c) Treasury stock

During 2017, the parent purchased a total of 309,337 treasury shares for the amount of 1,021,679 Euros and deregistered 451,914 shares for the amount of 2,411,071 Euros.

At December 31, 2017, the Company holds 212,844 treasury shares acquired at an average price of 3.3 Euros per share, approximately, and its composition is as follows:

	31/12/2017		
		Euros	
	Number	Nominal	Cost
Laboratorio Reig Jofre, S.A.	212,844	106,1422	702,981

During 2016, the parent purchased a total of 301,204 treasury shares for the amount of 966,180 Euros and sold 182,609 shares for the amount of 583,023 Euros.

At December 31, 2016, the Company held 355.421 treasury shares acquired at an average price of 5.89 Euros per share, approximately, and their composition was as follows:

	31/12/2016		
		Euros	
	Number	Nominal	Cost
Laboratorio Reig Jofre, S.A.	355,421	177,711	2,092,374

d) Other equity instruments

The balance at December 31, 2017 corresponds to the accrued part of the share options delivered to certain Group personnel. The amount at December 31, 2016 corresponds in its entirety to the delivery of 221,518 shares in the parent, valued at 638,193 Euros, for the purchase of Oryzon Genomics Diagnóstico, S.L. (see note 5).

e) Distribution of profit

The results of the Parent and the subsidiaries are applied in the manner agreed upon by the respective General Shareholders Meetings.

The distribution of the Parent's results corresponding to the year ended on December 31, 2016, and approved by the Company's shareholders on June 8, 2017 was as follows:

	31/12/2016
Basis of distribution	
Profit for the year	680,124.25
	680,124.25
Distribution	
Voluntary reserves	680,124.25
	680,124.25

The proposed distribution of Parent's profit for the year ended December 31, 2017 to be submitted to the General Shareholders' Meeting is as follows:

	31/12/2017
Basis of distribution	
Profit for the year	9,232,129.20
	9,232,129.20
Distribution	
Voluntary reserves	9,232,129.20
	9,232,129.20

15. Earnings per share

Basic earnings per share are calculated by dividing the profit attributable to holders of the parent's equity instruments between the weighted average number of outstanding ordinary shares during the years, excluding treasury shares.

The breakdown of the calculation of basic earnings per share is as follows:

	31/12/2017	31/12/2016
Income of the year attributable to shareholders of the parent company (in Euros)	8,828,435	7,676,288
Weighted average of outstanding ordinary shares	63,130,237	62,934,122
Basic earnings per share (in Euros per share)	**0.14**	**0.12**

Diluted earnings per share are calculated by dividing the profit attributable to holders of the parent's equity instruments between the weighted average number of outstanding ordinary shares for all the dilutive effects inherent to potential ordinary shares. At December 31, 2017 and 2016, earnings per basic and diluted shares are the same, due to the absence of significant potential dilutive effects.

The weighted average of outstanding ordinary shares was determined as follows:

	31/12/2017	31/12/2016
Outstanding ordinary shares at beginning of year	62,857,088	62,977,394
Effect of treasury shares	273,149	(43,272)
Weighted average number of ordinary shares outstanding at the end of the year	**63,130,237**	**62,934,122**

16. Non-controlling interests

The composition and movement of non-controlling interests at December 31, 2017, are as follows:

In Euros	**31/12/2016**	**Profit for the year**	**Other movements**	**31/12/2017**
Laboratorios Medea, S.A	297	-	(297)	-
Laboratorio Farmacéutico Orraván, S.L	11,137	-	(11,137)	-
Reig Jofre Europe PTE. LTD.	(28,398)	(17,407)	(1)	(45,806)
Total	**(16,964)**	**(17,407)**	**(11,435)**	**(45,806)**

The composition and movement of non-controlling interests at December 31, 2016, are as follows:

In Euros	**31/12/2015**	**Profit for the year**	**Dividends**	**31/12/2016**
Laboratorios Medea, S.A	196	235	(134)	297
Laboratorio Farmacéutico Orraván, S.L	10,552	9,311	(8,726)	11,137
Reig Jofre Europe PTE. LTD.	(9,404)	(18,994)	-	(28,398)
Total	**1,344**	**(9,448)**	**(8,860)**	**(16,964)**

During FY 2015, the Company carried out a capital increase in Reig Jofre UK Limited amounting to 4,055,900 pounds sterling, by means of which it gave entry into the share capital to a partner (Compañia Española de Financiación del Desarrollo, Cofides, S.A.), with a 49% interest. Given the nature of the contract between the parties, the transaction was recognized for accounting purposes as a financing transaction and not as an equity transaction. As such the Group recorded the liability corresponding to the current value of the best estimate of the payable amount, amounting to 2,808,374 Euros.

17. Grants

The changes in non-repayable grants, subject to conditions attached to the concession of the same, are as follows:

In Euros	**31/12/2017**	**31/12/2016**

Balance at beginning of year	210,254	102,496
Grants granted during the year	-	150,120
Grants recognized in income	(64,879)	(42,362)
Balance at end of year	**145,375**	**210,254**

Part of the amount reflected in this heading corresponds to a grant awarded in October 2008 by the Ministry of Industry, Tourism and Trade for an initial amount of 403,000 Euros and destined for use in an energy-efficiency project in a freeze-drying process.

18. Provisions

The breakdown of provisions is as follows:

	Non-current	
	31/12/2017	**31/12/2016**
In Euros		
Provision for post-employment compensation	682,236	613,531
Total non-current provisions	**682,236**	**613,531**

	Current	
	31/12/2017	**31/12/2016**
In Euros		
Provision for other liabilities	54,959	85,284
Provisions for other business operations	190,000	229,055
Total current provisions	**244,959**	**314,339**

"Provisions for other business operations" comprises provisions for sales returns.

The changes in provisions are as follows:

In Euros	**Provisions for other business operations**	**Tax provision**	**Provision for post-employment compensation**	**Provision for other liabilities**	**Total**
Balance at December 31, 2015	**380,000**	**360,555**	**502,005**	**228,641**	**1,471,201**
Net provision	(20,000)	-	48,037	77,831	105,868
Payments	(130,945)	(360,555)	-	-	(491,500)
Financial effect	-	-	9,036	-	9,036

De-recognitions	-	-	-	(221,188)	(221,188)
Translation differences	-	-	54,453	-	54,453
Balance at December 31, 2016	**229,055**	**-**	**613,531**	**85,284**	**927,870**
Net provision	10,000	-	68,705	34,211	112,916
Payments	-	-	-	(32,268)	(32,268)
De-recognitions	(49,055)	-	-	(32,268)	(81,323)
Translation differences	-	-	-	-	-
Balance at December 31, 2017	**190,000**	**-**	**682,236**	**54,959**	**927,195**

19. Financial liabilities

The classification of financial liabilities by category and class, as well as comparison of the fair value and book value, is as follows:

	31/12/2017				
	At amortized costs or cost				**At fair value**
In Euros	**Carrying amount**		**Fair value**		
	Non-current	Current	Non-current	Current	Current
Liabilities at fair value through profit or loss					
Derivative financial instruments	-	-	-	-	-
Debits and payables					
Bank borrowings	9,478,644	4,728,595	9,478,644	4,728,595	-
Finance leases	7,612,622	1,351,019	7,612,622	1,351,019	-
Other financial liabilities	6,098,347	716,710	5,961,242	716,710	-
Trade and other payables	-	23,975,413	-	23,975,413	-
Total	**23,189,613**	**30,771,737**	**23,052,508**	**30,771,737**	**-**

	31/12/2016				
	At amortized costs or cost				**At fair value**
In Euros	**Carrying amount**		**Fair value**		
	Non-current	Current	Non-current	Current	Non-current
Liabilities at fair value through profit or loss					
Derivative financial instruments	-	-	-	-	101,110
Debits and payables					
Bank borrowings	11,989,392	12,692,240	11,989,392	12,692,240	-
Finance leases	5,244,334	592,771	5,244,334	592,771	-

Other financial liabilities	6,579,355	402,345	6,743,585	402,345	-
Trade and other payables	-	25,787,514	-	25,787,514	-
Total	**23,813,081**	**39,474,870**	**23,977,311**	**39,474,870**	**101,110**

a) Liabilities at fair value through profit or loss

The Group has used variable to fixed interest rate swaps to minimize the risk of any interest rate fluctuations arising mainly from its bank loans, which matured on July 31, 2017. During the year ended on December 31, 2017, the change in the fair value of the mentioned derivatives was 106,662 Euros (172,888 Euros at December 31, 2016).

The financial derivatives are measured in accordance with the observable market data (Level 2 in the fair value hierarchy), by the method of discounted cash flows from the contract.
The breakdown of the derivative financial instruments is as follows:

	31/12/2017		**31/12/2016**	
In Euros	**Notional amount**	**Fair value**	**Notional amount**	**Fair value**
Interest rate derivatives				
Interest rate swap	-	-	5,894,613	101,110
Total	**-**	**-**	**5,894,613**	**101,110**

b) Debits and payables

The Group's main debts correspond to:

- During the three-month financial period ended on December 31, 2014, the Group obtained a bank loan amounting to 2,750,000 Euros in total. The final maturity of the mentioned credit, with an outstanding balance of 1,829,345 Euros at December 31, 2017 (2,276,585 Euros at December 31, 2016) and which accrues interest at the market rate, is November 2021.
- In addition to the previous loans, the Group also has two bank loans amounting to 10,600,000 Euros. These loans outstanding at December 31, 2017, have their final maturities in March 2019 and January 2023 and accrue interest at market rates and Euribor +1.8, respectively. At December 31, 2017 and 2016, the balance pending amortization amounts to 10,159,777 Euros and 10.283.128 Euros, respectively.
- Bank credit facilities with a credit limit of 24,760,000 Euros (22,623,265 Euros at December 31, 2016), of which 2,213,613 Euros had been employed at December 31, 2017 (9,062,747 Euros at December 31, 2016). These discount lines accrue market interest rates.
- Recourse factoring arrangement to finance the Nutritional Supplements Division's operating activities. This factoring accrues interest at 3-month Euribor plus 0.5%. The balance at December 31, 2017 and 2016, of the factoring is 0 Euros and 1,076,141 Euros, respectively.
- Financial leases include several contracts granted by banks at market interest rates for the financing of property and plant and machinery for the Group's production plants. As mentioned in Note 8, the most relevant lease contract corresponds to an industrial building in Sant Joan Despí, and was signed on July 30, 2010, with a cash cost of 11,600 thousand Euros and a duration of 15 years.

- Various loans from CDTI, the value of which at December 31, 2017, was 1,475,239 Euros (1,166,772 Euros at December 31, 2016), with a final maturity in 2024. These loans have accrued interest at a rate of zero or less than 1%.
- A loan from the Ministry of Industry maturing in 2024 and with an interest rate of 3.95%: at December 31, 2017, and 2016, the balance pending amortization was 374,370 Euros and 427,851 Euros, respectively.

The breakdown of trade and other payables is as follows:

In Euros	**31/12/2017**	**31/12/2016**
Suppliers	15,061,089	16,310,903
Creditors	4,706,663	5,816,111
Personnel	4,207,661	3,660,500
Total	**23,975,413**	**25,787,514**

The maturities of the other financial liabilities are as follows:

In Euros	**31/12/2017**	**31/12/2016**
Up to 1 year	30,771,737	39,575,980
One to two years	4,544,777	3,676,553
Three to five years	15,881,800	10,730,683
More than five years	2,763,036	9,707,180
Total financial liabilities	**53,961,350**	**63,690,396**

The conciliation of the cash flows arising from the financing activities with the corresponding liabilities in the consolidated statement of financial position in 2017 is as follows:

	Balance at 01/01/2017	**Cash flow (index)**	**Interest paid**	**Accrued interest**	**Other**	**Balance at 31/12/2017**
Bank borrowings	30,518,737	(7,652,068)	(398,135)	398,135	304,211	23,170,880
Other financial liabilities	7,082,810	(70,205)	(548,360)	548,360	(197,548)	6,815,057
Total	**37,601,547**	**(7,722,273)**	**(946,495)**	**946,495**	**106,663**	**29,985,937**

20. Other current liabilities

The breakdown of other current liabilities is as follows:

In Euros	**31/12/2017**	**31/12/2016**
Value added tax and similar	92,127	246,262
Social Security	1,646,551	1,420,667
Witholdings	732,574	714,690
Customer advances	7,007	-
Other	-	130,457
Total	**2,478,259**	**2,512,076**

21. Contingencies

At December 31, 2017 and 2016, the Group has extended the following guarantees:

		In Euros	
Creditor	**Guarantee**	**31/12/2017**	**31/12/2016**
Ministry of Science and Technology	Industrial research project	341,111	3,027
Pharmaceutical industry	Other	38,265	38,265
State Treasury	Alcohol inspection	499,280	488,584
State Treasury	Sugar production	7,425	7,425
State Treasury	Alcohol inspection	44,029	44,029
Ministry of Science and Technology	Loan	227,634	227,634
Tax Agency	Other	88,195	88,195
Toledo City Council	Municipal capital gain	507,646	490,573
Social Security Treasury	Other	3,851	3,851
Ministry of Economy and Competitiveness	Other	29,993	29,993
Other	Other	72,103	72,103
		1,859,532	**1,493,679**

The Group does not expect significant liabilities to arise as a result of the guarantees granted.

22. Information on the average payment period to suppliers. Third additional provision "Duty of Disclosure" of Law 15/2010 of 5 July

	31/12/2017	**31/12/2016**
	Days	
Average supplier payment term	69	72
Ratio of operations paid	71	73
Ratio of operations pending payment	70	69

The information on deferred payments to suppliers by the consolidated Spanish companies is presented below:

	Amount in Euros	
Total payments effected	72,130,952	90,307,437
Total outstanding payments	11,651,838	16,537,918

23. Capital Gains Tax

At December 31, 2017, the parent company consolidates taxation with Reig Jofre Investments, SL, head of the tax group. At December 31, 2016, the parent company and the subsidiaries Laboratorios Medea, SA, Laboratorio Farmacéutico Orravan, SL, Laboratorio Ramon Sala, SL and Forte Pharma Iberica, SLU, consolidated taxation with Reig Jofre Investments, SL, head of the tax group. The tax rate for capital gains tax applicable in Spain is 25%, 22% in Sweden, 20% in UK and 33.3% in France.

On November 27, 2014, Law 27/2014, of 27 November, on corporate income tax, was approved, establishing a general decrease in the tax rate from 30% to 28% for 2015 and to 25% as of 2016. Notwithstanding, a deduction for reversal of temporary measures was incorporated in order to neutralize the reduction in the tax rate for taxpayers who have been affected by the 30% limitation of the deduction of depreciation or who have benefited from the updating of balances, two measures provided for in Law 16/2012 of December 27, giving rise to the adoption of various tax measures aimed at consolidating public finances and boosting economic activity. The rules for the application of negative tax bases have also been changed, with the elimination of the time limit. Nevertheless, as of 2017 a quantitative limitation in 70 percent of the tax base prior to its compensation is to be introduced, with a minimum amount of 1 million Euros (60% in 2016) admitted. Subsequently, RDL 3/2016 has introduced amendments to Law 27/2014, including amendments relative to tax periods beginning on or after January 1, 2016, establishing the reduction of the quantitative limitation to 25 percent of the taxable base prior to its compensation, provided that the net turnover is at least 60 million Euros, whilst maintaining the minimum amount of 1 million Euros.

a) Income tax expense

The breakdown of the income tax expense is as follows:

In Euros	**31/12/2017**	**31/12/2016**
Current tax		
For the year	1,922,293	2,675,488
Tax credits	(942,587)	(1,429,403)
	979,706	**1,246,085**
Deferred Taxes		
Origination and reversal of temporary differences	(318,589)	(463,148)
Other movements	159,171	-
Reversal of the provision for the amortization of goodwill	80,850	(72,818)
Deferred tax assets from losses in consolidated companies	(1,709,043)	3,584,159
	(807,905)	**4,294,278**

b) Reconciliation between the accounting and tax income

The relationship between corporate tax expense and profit from the continuing activities is as follows:

In Euros	**31/12/2017**	**31/12/2016**
Profit for the year before tax	8,003,123	11,961,118
25% Tax	2,000,781	2,990,280
Effect of differences in tax rates	(66,641)	34,372
Permanent differences	114.959	(344,250)
Other movements	(1,051)	-
Tax credits and relief for the year	(1,600,000)	(1,429,403)
Unrecognized tax credits	395,827	536,298
Recognition / (Increase) of recognized deferred tax assets	(1,651,780)	2,506,981
Expense / (income) from income tax	**(807,905)**	**4,294,278**

c) Years open for inspection

The Group's Spanish companies have the following years open to inspection for the main applicable taxes by the tax authorities:

Tax	**Years open**
Corporate tax	2013-2017
Value Added Tax	2014-2017
Personal Income Tax	2014-2017
Customs revenue	2014-2017
Investment income	2014-2017
Tax on Economic Activities	2014-2017
Social Security	2014-2017
Alcohol tax	2014-2017

As a result, among other factors, such as different interpretations of existing tax legislation, additional liabilities may arise as a result of an inspection. Notwithstanding, the parent Company's Directors consider that such liabilities, if any, would not significantly affect the consolidated financial statements.

d) Deferred tax assets and liabilities recognized

The breakdown of deferred tax assets and liabilities by asset and liability type is as follows:

	31/12/2017			31/12/2016		
In Euros	**Assets**	**Liabilities**	**Net**	**Assets**	**Liabilities**	**Net**
Goodwill	21,390	(1,360,831)	(1,339,441)	94,556	(1,394,412)	(1,299,856)
Intangible assets	-	(2,762,270)	(2,762,270)	-	(2,987,463)	(2,987,463)
Accelerated depreciation	-	(571,283)	(571,283)	-	(694,794)	(694,794)
Available-for-sale financial assets	-	(3,282)	(3,282)	7,121	-	7,121
Leased assets	-	(60,736)	(60,736)	-	(103,337)	(103,337)
Provisions	464,018	-	464,018	445,367	-	445,367
Disposal of properties in Toledo	-	(727,825)	(727,825)	-	(727,825)	(727,825)
Revaluation	67,368	-	67,368	102,808	-	102,808
Monetary adjustment	111,113	-	111,113	111,113	-	111,113
Non-deductible amortization	121,379	-	121,379	169,152	-	169,152
Inventory margin	75,495	-	75,495	75,495	-	75,495
Credit loss carryforwards and tax credits	15,094,726	-	15,094,726	13,394,303	-	13,394,303
Net assets and liabilities	**15,955,489**	**(5,486,227)**	**10,469,262**	**14,399,915**	**(5,907,831)**	**8,492,084**

Deferred tax assets and liabilities are presented in the consolidated statement of financial position and are offset to the extent that there is a legal right to offset before the tax authorities and the assets and liabilities correspond to the same tax authority. The breakdown is as follows:

Assets (In Euros)	31/12/2017	31/12/2016
Goodwill	13,707	94,556
Available-for-sale financial assets	-	7,121
Provisions	463.954	445,367
Revaluation	67,368	102,808
Monetary adjustment	111,113	111,113
Non-deductible amortization	121,379	169,152
Inventory margin	75,495	75,495
Credit loss carryforwards	14,308,817	12,396,702
Subtotal assets	**15,157,833**	**13,402,314**
Intangible assets	(31,904)	(37,529)
Accelerated depreciation	(569,787)	(694,794)
Available-for-sale financial assets	(4,713)	-
Leased assets	(60,737)	(103,337)
Disposal of properties in Toledo	(727,825)	(727,825)
Subtotal liabilities	**(1,394,966)**	**(1,563,485)**
Total assets	**13,762,867**	**11,838,829**
Liabilities		
Goodwill	1,353,148)	(1,394,412)
Intangible assets	(2,730,366)	(2,949,934)
Subtotal liabilities	**(4,083,514)**	**(4,344,346)**

Credit loss carryforwards	789,909	997,601
Subtotal assets	**789,909**	**997,601**
Total liabilities	**3,293,605)**	**(3,346,745)**

e) Movement in deferred tax balances

The changes in deferred tax assets and liabilities during the years ended on December 31, 2017 and 2016, are as follows:

	31/12/2017					
In Euros	**December 31, 2016**	**Recognized in profit / loss**	**Recognized in Equity**	**Translation differences**	**Other movements**	**December 31, 2017**
Goodwill	(1,299,856)	(80,850)	-	41,265	-	(1,339,441)
Intangible assets	(2,987,463)	225,193	-		-	(2,762,270)
Accelerated depreciation R&D	-	-	-	-	-	-
Accelerated depreciation	(694,794)	123,511	-	-	-	(571,283)
Available-for-sale financial assets	7,121	-	(10,403)	-	-	(3,282)
Leased assets	(103,337)	42,600	-	-	-	(60,737)
Provisions	445,367	10,498	-	8,153	-	464,018
Disposal of properties in Toledo	(727,825)	-	-	-	-	(727,825)
Revaluation	102,808	(35,440)	-	-	-	67,368
Monetary adjustment	111,113	-	-	-	-	111,113
Non-deductible amortization	169,152	(47,773)	-	-	-	121,379
Inventory margin	75,495	-	-	-	-	75,495
Credit loss carryforwards and tax credits	13,394,303	1,709,043	-	(3,194)	(5,426)	15,094,726
Net assets and liabilities	**8,492,084**	**1,946,782**	**(10,403)**	**46,224**	**(5,426)**	**10,469,261**

	31/12/2016					
In Euros	**December 31, 2015**	**Recognized in profit / loss**	**Recognized in Equity**	**Translation differences**	**Business combinations**	**December 31, 2016**
Goodwill	(1,427,755)	72,818	-	55,081	-	(1,299,856)
Intangible assets	(3,169,502)	219,569	-	-	(37,530)	(2,987,463)

Accelerated depreciation	-	-	-	-	-	-
Available-for-sale financial assets	(1,003,816)	309,022	-	-	-	(694,794)
Leased assets	(2,218)	-	9,339	-	-	7,121
Provision for losses Geadic Biotech, AIE	(163,868)	60,531	-	-	-	(103,337)
Provisions	338,031	107,336	-	-	-	445,367
Disposal of properties in Toledo	(650,843)	(76,982)	-	-	-	(727,825)
Revaluation	185,909	(83,101)	-	-	-	102,808
Monetary adjustment	111,113	-	-	-	-	111,113
Non-deductible amortization	242,379	(73,227)	-	-	-	169,152
Inventory margin	75,495	-	-	-	-	75,495
Credit loss carryforwards	17,048,886	(3,584,159)	-	(245,451)	175,027	13,394,303
Net assets and liabilities	**11,583,811**	**(3,048,193)**	**9,339**	**(190,370)**	**137,497**	**8,492,084**

Deferred tax assets generated by tax losses that are pending application are recognized to the extent that it is probable that sufficient future taxable income against which to offset the asset will be generated.

At December 31, 2017, the balance of deferred tax assets in the consolidated statement of financial position includes credit loss carryforwards amounting to 15,094,726 Euros (13.350.649 Euros at December 31, 2016).

	31/12/2017	**31/12/2016**
Laboratorio Reig Jofre, S.A.	14,284,564	12,432,676
Bioglán, A.B.	562,737	786,600
Orizon Genomics Diagnóstico, S.L.	247,425	131,373
	15,094,726	**13,350,649**

There is no time limit to the offsetting of credit loss carryforwards, while unused tax credits expire between 2018 and 2023. The Parent's Directors consider their recovery in subsequent years to be probable, based on the business plans prepared by management of the companies that compose the consolidated tax group in Spain. As a result of the investments undertaken, an increase in sales is foreseen, as well as the maintenance of operating margins at minimum levels similar to those at present, which in turn will facilitate the absorption of these tax credits over the next 10 years.

At 31 December 2017, the Group has not recognised the tax loss carryforwards and retentions amounting to 8,558 thousand Euros derived from the parent and from Forté Pharma Ibérica, S.L., as deferred tax assets. (9,130 thousand Euros in unused tax credits as of December 31, 2016).

The breakdown of the deferred tax assets and liabilities with a capitalization or reversal period of more than 12 months is as follows:

In Euros	**31/12/2017**	**31/12/2016**
Deferred tax assets related to temporary differences	853,095	964,511
Credit loss carryforwards	15,094,726	15,811,792
Total assets	**15,947,821**	**16,737,238**
Deferred tax liabilities	**(5,646,007)**	**(5,972,788)**

Net	**10,301,814**	**10,764,450**

24. Revenue and expenses

a) Procurements

This heading comprises purchases and changes in inventories, the cost of goods sold and other discounts associated with the purchases of such goods.

The breakdown of the procurements is as follows:

In Euros	**31/12/2017**	**31/12/2016**
Consumption of goods		
Domestic purchases	13,812,736	7,098,487
Intra-community acquisitions	2,829,593	10,269,764
Import purchases	58,950	139,216
Changes in inventories	718,823	(811,672)
	17,420,102	16,695,795
Consumption of raw materials and other		
Domestic purchases	21,540,359	19,188,344
Intra-community acquisitions	9,640,470	14,455,772
Import purchases	10,945,356	17,475,020
Discounts and rebates for purchases	(9,695)	-
Changes in inventories	4,367,887	(3,138,444)
	46,484,378	47,980,692
Work performed by other companies	66,460	347,524
	63,970,940	**65,024,011**

b) Expenses for employee benefits

The breakdown of expenses for employee benefits is as follows:

In Euros	**31/12/2017**	**31/12/2016**
Wages and salaries	37,726,420	34,857,418
Social Security paid by the company	11,048,475	10,028,852
Other employee benefit costs	580,324	1,091,524
	49,355,219	**45,977,794**

c) Other operating expenses

The breakdown of other operating expenses is as follows:

In Euros	**31/12/2017**	**31/12/2016**
Independent professional services	8,062,907	9,334,769

Advertising, publicity and public relations	5,478,755	6,501,638
Leases (note 9)	3,152,351	2,976,901
Repairs and maintenance	3,401,993	2,954,676
Environmental expenses (note 25)	212,351	172,098
Transport	1,903,916	2,195,824
Insurance premiums and commissions	766,186	975,498
Supplies and other services	2,679,412	2,709,392
Research and development expenses (note 6)	3,692,229	3,298,290
Taxes	640,452	758,948
Losses, impairment and changes in provisions	69,608	(65,347)
Other operating expenses	14,881,038	10,414,449
	44,941,197	**42,227,136**

d) Financial income

The breakdown of the financial income is as follows:

In Euros	**31/12/2017**	**31/12/2016**
Financial revenue	68,711	164,745
Financial debt expenses	(402,060)	(213,178)
Financial leasing finance expenses	(210,302)	(216,098)
Financial expenses for derivative interests	(101,006)	(178,981)
Other finance expenses	(233.127)	(630,426)
Impairment and loss on disposal of financial instruments	-	1,410,880
Change in fair value of financial instruments (note 19)	106,662	172,888
Exchange differences	(237,241)	(296,669)
	(1,008,363)	**213,161**

25. Other information

a) Information on employees

The average number of employees in the Group during the years ended on December 31, 2017 and 2016, by category, is as follows:

	Average number	
	31/12/2017	**31/12/2016**
Managerial staff	34	31
Professionals, technicians and similar	268	288
Administrative employees	69	67
Rest of salaried staff	594	517
Total	**965**	**903**

The gender distribution of the Group's staff by categories and of the Company's Directors at December 31, 2017 and 2016, is as follows:

	31/12/2017		31/12/2016	
	Women	**Men**	**Women**	**Men**
Directors	2	6	2	6
Managerial staff	15	23	13	20
Professionals, technicians and similar	201	79	189	92
Administrative employees	54	18	49	17
Rest of salaried staff	291	292	287	260
Total	**563**	**418**	**540**	**395**

The average number of employees in the Company with a disability equal to or greater than 33% (or local equivalent) during the years 2017 and 2016, by category, is as follows:

	Average number	
	31/12/2017	**31/12/2016**
Professionals, technicians and similar	2	7
Administrative employees	2	2
Rest of salaried staff	12	2
Total	**16**	**11**

b) Audit fees

The auditors KPMG Auditores, S.L., have accrued fees for professional services provided during the years ended on December 31, 2017 and 2016 as follows:

In Euros	**31/12/2017**	**31/12/2016**
Audit services	93,050	87,500
Total	**93,050**	**87,500**

The amounts indicated in the table below include the total fees relative to the services provided during the years ended at December 31, 2017, and 2016, independently of when they were invoiced.

During the years ended on December 31, 2017 and 2016, other companies from the KPMG group have invoiced the Group the following sums for professional services:

In Euros	**31/12/2017**	**31/12/2016**
Others services	-	15,000
Total	**-**	**15,000**

During the years ended on December 31, 2017 and 2016, other companies affiliated to KPMG International have accrued fees for professional services in the following amounts:

In Euros	**31/12/2017**	**31/12/2016**
Audit services	50,533	48,500
Others services	-	-
Total	**50,533**	**48,500**

During the years ended on December 31, 2017 and 2016, other auditors have accrued fees for professional services in the following amounts:

In Euros	**31/12/2017**	**31/12/2016**
Audit services	35,744	40,744
Others services	3,800	-
Total	**39,544**	**40,744**

c) Environmental Information

Expenses incurred by the Group in environmental protection and improvement corresponding to the cleaning of productive waste during the year ended on December 31, 2017 amounted to 212,351 Euros (172,098 Euros at December 31 2016).

26. Related parties

a) Balances with related parties

Short-term “Loans" (note 10.1 (a)) includes a loan granted to Reig Jofre Investments, S.L. for 1,929,510 Euros (1,945,070 Euros at December 31, 2016).

The item "Trade and other payables and receivables" includes a debit balance amounting to 2.105 Euros (394 Euros at December 31, 2016) to be received from Reig Jofre Investments, S.L.

The amount included in "Current tax liabilities" reflects the balance payable by the Group to Reig Jofre Investments, S.L., resulting from the tax consolidation.

The item "Trade and other payables" includes, at December 31, 2016, a credit balance amounting to 43,350 Euros payable by the Group to Reig Jofre Investments, S.L.

b) Transactions with related parties

During the years ended on December 31, 2017, and 2016, the Group carried out the following transactions with related parties, which correspond fully to Reig Jofre Investments, S.L.

In Euros	**31/12/2017**	**31/12/2016**
Other operating revenue	11,031	323,270
Financial revenue	-	26,613
Total revenue	**11,031**	**349,883**
Lease expenses	859,876	581,206
Services received	272,500	260,000
Other operating expenses	11,006	-
Total expenses	**1,143,382**	**841,206**

All transactions with related parties are effected at market prices.

c) Information regarding the Company's Directors and Senior Management

During 2017, remuneration has been accrued in favour of the Directors amounting to 415,900 Euros (334,150 Euros at December 31, 2016) in the concept of salaries and wages, and 318,000 Euros (304,000 Euros at December 31, 2016) in the concept of remuneration of the Directors.

During 2017, remuneration has been accrued in favour of the parent's senior management staff amounting to 742,870 Euros (637,505 Euros at December 31, 2016).

At December 31, 2017 and 2016, no advances or loans have been granted to members of the Board of Directors. No guarantees have been extended by the Group companies on behalf of the members of their management bodies; neither have any obligations been contracted in relation to pensions in favour of such members.

During 2017 and 2016, civil liability insurance premiums amounting to 21,230 Euros have been paid for damages caused by acts or omissions in the exercise of the position.

d) Conflicts of interest involving the directors of the Parent

The Company's Directors and the people related to the same have not incurred in any conflict of interest that has required communication, in accordance with the provisions of Article 229 of the Revised Text of the Corporate Enterprises Act (TRLSC).

27. Risk policy and management

The Group's activities are exposed to various financial risks: market risk (including foreign exchange risk), credit risk, liquidity risk and interest rate risk in the cash flows. The Group's global risk management programme focuses on the uncertainty of the financial markets and aims to minimise potential adverse effects on the Group's financial performance. The Group uses derivatives to hedge certain risks.

Risk management is controlled and centralized by the Group in accordance with policies approved by the Board of Directors. The parent's financial department assesses and hedges financial risks in close collaboration with the Group's operating units. The Board approves policies for global risk management, as well as for specific areas such as foreign exchange risk, interest rate risk, liquidity risk, use of derivative and non-derivative instruments and investment of excess liquidity.

a) Market risk

The Group is therefore exposed to currency risk on the transactions performed by it in foreign currencies, particularly in relation to the US dollar, the Swedish krona and the pound sterling. The exchange rate risk arises from future commercial transactions, in which the recognised assets and liabilities are denominated in a currency other than the companies' functional currency.

In the years ended December 31, 2017 and 2016, the Group carried out the following transactions in foreign currency:

	31/12/2017					
In Euros	**US Dollar**	**Swedish Krona**	**Euros**	**Pound sterling**	**Other**	**Total**
Sales	8,579,819	92,040	2,631,900	1,642,546	453,531	13,399,837
Total sales	**8,579,819**	**92,040**	**2,631,900**	**1,642,546**	**453,531**	**13,399,837**
Purchases	(7,551,404)	(140,958)	(2,397,225)	(1,611,757)	(260,883)	(11,962,226)
Total purchases	**(7,551,404)**	**(140,958)**	**(2,397,225)**	**(1,611,757)**	**(260,883)**	**(11,962,226)**

	31/12/2016					
In Euros	**US Dollar**	**Swedish Krona**	**Euros**	**Pound sterling**	**Other**	**Total**
Sales	6,787,512	554,600	1,079,386	2,678,533	744,339	11,844,370
Total sales	**6,787,512**	**554,600**	**1,079,386**	**2,678,533**	**744,339**	**11,844,370**
Purchases	(8,306,043)	(1,282)	(2,270,091)	(1,935,244)	(289,849)	(12,802,509)
Total purchases	**(8,306,043)**	**(1,282)**	**(2,270,091)**	**(1,935,244)**	**(289,849)**	**(12,802,509)**

On December 31, 2017 and 2016, if the Euro had depreciated / appreciated by 10% in relation to the American dollar, the British pound or the Swedish krona, whilst the other remained variables constant, the consolidated profit after tax would not have been modified by a significant amount.

The breakdown of the Group's exposure to exchange rate risk at December 31, 2017 and 2016 is detailed below. The attached tables reflect the carrying value of the Group's financial instruments or classes of financial instruments denominated in foreign currency (currency other than the functional currency):

	31/12/2017					
In Euros	**US Dollar**	**Swedish Krona**	**Euros**	**Pound sterling**	**Other**	**Total**
Trade receivables	2,038,884	90,297	-	669,551	472,567	3,271,298
Cash and cash equivalents	902	-	311,543	8,794	295	321,534
Total current assets	**2,039,786**	**90,297**	**311,543**	**678,345**	**472,862**	**3,592,832**
Short-term suppliers	436,000	76,059	956,095	1,356	2,531	3,551,066
Total current liabilities	**436,000**	**76,059**	**956,095**	**1,356**	**2,531**	**3,551,066**

	31/12/2016					
In Euros	**US Dollar**	**Swedish Krona**	**Euros**	**Pound sterling**	**Other**	**Total**
Trade receivables	1,054,495	54,305	193,499	334,098	115,232	2,363,235
Cash and cash equivalents	677,779	138,236	-	514,036	-	1,330,051
Total current assets	**1,732,274**	**192,541**	**193,499**	**848,134**	**115,232**	**3,693,286**
Short-term suppliers	1,669,230	763,677	879,780	214,402	23,977	2,412,503
Total current liabilities	**1,669,230**	**763,677**	**879,780**	**214,402**	**23,977**	**2,412,503**

b) Credit risk

The Group has no significant concentrations of credit risk. The Group has policies to ensure that sales are made to customers with an appropriate credit history. The Group has policies to limit the amount of risk to which it is exposed from banks.

The breakdown of the Group's exposure to credit risk at December 31, 2017 and 2016 is detailed below. The attached tables reflect the analysis of the financial assets by the dates of the remaining maturities:

In Euros	**Interest rate**	**Maturity**	**31/12/2017**	**31/12/2016**
Loans	2%	2019	591,729	441,729
Other financial assets	0.6% - 3.5%	2018 - 2026	124,352	149,320
Total non-current assets			**716,081**	**591,049**
Trade and other receivables	-	2018	35,161,239	36,048,884
Other financial assets	0.15% - 3.5%	2018	3,272,957	11,107,004
Current tax assets	-	2018	27	1,770
Other assets	-	2018	3,605,774	6,636,038
Cash and cash equivalents	-	-	11,688,831	8,181,654
Total current assets			**53,728,828**	**61,975,350**

The yield generated by these financial assets during the year ended on December 31, 2017, was 68,711 Euros (164,745 Euros at December 31, 2017).

The distribution of trade and other receivables at the date of the Consolidated Statement of Financial Position by geographic region is as follows:

In Euros	**31/12/2017**	**31/12/2016**
Spain	22,086,305	22,035,686
Rest of Europe	10,790,993	9,320,550
Asia	890,291	2,975,943
America	807,273	722,604
Africa	344,812	828,246
Oceania	241,565	165,855
	35,161,239	**36,048,884**

Commercial loans are initially measured at their nominal value and value adjustments are effected as deemed necessary in accordance with the risk of insolvency, i.e., for those loans with a certain age or for those which, due to their specific circumstances, are considered to be doubtful accounts.

The seniority of the unimpaired trade and other receivables at the date of the Consolidated Statement of Financial Position is as follows:

In Euros	**31/12/2017**	**31/12/2016**
Active	27,116,602	27,448,169
0-30 days	1,990,697	4,410,678
31-90 days	1,094,085	1,398,214
91-181 days	2,075,418	1,735,138
181-365 days	1,453,062	640,532
More than 365 days	1,431,376	416,153
	35,161,239	**36,048,884**

At December 31, 2017, the Group has allocated valuation adjustments for uncollectible trade receivables and other receivables for the amount of 2,500,720 Euros (2,475,137 Euros at December 31, 2016).

Sovereign risk with Spanish public authorities for outstanding balances for sales at December 31, 2017 and 2016 amounts to 1,465,021 Euros and 1,310,512 Euros, respectively.

The sum of the balances of the 10 largest customers amounts to 11,097,820 Euros at December 31, 2017 (10,169,407 Euros at December 31, 2016).

c) Liquidity risk

The Group conducts prudent liquidity risk management, based on maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the capacity to close out market positions. Given the dynamic nature of the underlying businesses, the Group's Financial Department aims to maintain flexibility in funding through the availability of credit facilities.

The breakdown of the Group's exposure to liquidity risk at December 31, 2017 and 2016 is detailed below. The attached tables reflect the analysis of the estimated future payments of the financial assets by the contractual dates of the remaining maturities:

	31/12/2017						
In Euros	**Book value**	**Contractual cash flows**	**Up to 1 year**	**1 to 2 years**	**2 to 3 years**	**3 to 5 years**	**More than 5 years**
Bank borrowings	14,207,239	14,207,239	4,728,595	2,459,053	2,470,510	4,549,081	-
Finance leases	8,963,641	8,963,641	1,351,019	1,383,740	1,416,440	2,854,328	1,958,114
Derivative financial instruments	-	-	-			-	-
Other financial liabilities	6,815,057	6,815,057	716,710	1,090,736	3,343,530	859,159	804,922
Trade and other payables	23,975,413	23,975,413	23,975,413	-	-	-	-
	53,961,350	**53,961,350**	**30,771,737**	**4,933,529**	**7,230,480**	**8,262,568**	**2,763,036**

	31/12/2016						
In Euros	**Book value**	**Contractual cash flows**	**Up to 1 year**	**1 to 2 years**	**2 to 3 years**	**3 to 5 years**	**More than 5 years**
Bank borrowings	24,681,632	25,349,948	12,874,740	2,679,573	2,592,886	5,105,586	2,097,163
Finance leases	5,837,105	6,784,788	788,542	788,542	788,542	1,577,084	2,842,078
Derivative financial instruments	101,110	101,110	101,110	-	-	-	-
Other financial liabilities	6,981,700	6,981,700	516,383	567,278	586,784	799,671	4,511,584
Trade and other payables	25,787,514	25,787,514	25,787,514	-	-	-	-
	63,389,061	**65,005,060**	**40,068,289**	**4,035,393**	**3,968,212**	**7,482,341**	**9,450,825**

d) Interest rate risk in cash flows and fair value

As the Group does not possess significant interest-bearing assets during long periods, income and cash flows the Group's operating activities are not significantly affected by the changes in market interest rates.

The Group's interest rate risk arises from long-term borrowings. Borrowings underwritten at variable rates expose the Group to cash flow interest rate risk. The funding is subject to a variable rate. As a result, the Group is exposed to interest rate risk on operating cash flows.

The Group manages the interest rate risk of the cash flows using floating to fixed interest rate swaps. These interest rate swaps have the economic effect of converting borrowings at variable interest rates to fixed rates. Generally, the Group obtains long-term borrowings at a variable rate and swaps them to fixed rates which are generally lower than those that would be available if the Group had obtained the borrowings directly fixed interest rates. Under the interest rate swaps, the Group agrees with other parties to exchange, at certain intervals (usually monthly), the difference between the fixed interests and the floating interests calculated on the basis of the contracted notional principals.

If, during the years ended December 31, 2017 and 2016, interest rates had been 50 basis points higher or lower, whilst the other remained variables constant, the consolidated profit after tax would not have been modified by a significant amount.

e) Fair Value Hierarchy

The following table details the financial instruments at fair value, by levels and in accordance with the measurement method. The hierarchy of levels defined by the applicable regulations is as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets and liabilities.
- Level 2: data other than the quoted prices included in Level 1, that are observable for the asset or liability, either directly (i.e. prices) or indirectly (i.e., derived from prices).
- Level 3: Significant unobservable inputs for the asset or liability.

The level in the fair value hierarchy within which the fair value measurement is categorized in its entirety is determined on the basis of the lowest level variable that is relevant to the fair value measurement in its entirety. For this purpose, the relevance of a variable is assessed with respect to the totality of the measurement at fair value. If a fair value measurement uses observable variables that require significant adjustment based on unobservable inputs, the measurement is Level 3. Assessing the relevance of a particular variable in order to measure the fair value measurement in its entirety requires judgement and the consideration of specific factors to the asset or liability.

The breakdown of the financial instruments measured at fair value of assets and liabilities of the consolidated statement of financial position in accordance with IFRS 13 is as follows:

	31/12/2017			
In Euros	**Fair value**	**Level 1**	**Level 2**	**Level 3**
Equity instruments	605,490	36,312	569,178	-
Non-current assets	**605,490**	**36,312**	**569,178**	**-**
Equity instruments	37,161	-	37,161	-
Current assets	**37,161**	**-**	**37,161**	**-**
Derivative financial instruments	-	-	-	-
Current liabilities	**-**	**-**	**-**	**-**

	31/12/2016			
In Euros	**Fair value**	**Level 1**	**Level 2**	**Level 3**
Equity instruments	1,167,058	725,212	441,846	-
Non-current assets	**1,167,058**	**725,212**	**441,846**	**-**
Equity instruments	37,450	-	37,450	-
Current assets	**37,450**	**-**	**37,450**	**-**
Derivative financial instruments	(273,998)	-	(273,998)	-
Non-current assets	**(273,998)**	**-**	**(273,998)**	**-**

The derivative financial instruments corresponded to interest rate swaps and were measured by discounting the contract's cash flows. They were calculated using interest rates in line with the projected flows published on the date of measurement. The discount rate included the Group's own credit risk.

The fair value of unlisted instruments, bank loans, creditors under finance leases and other non-current financial assets and liabilities is estimated by discounting future cash flows using the rates available for debts with similar conditions, credit risk and maturities, and is very similar to the book value (see note 19).

28. Events after closure

From December 31, 2017 until the date of preparation of these Consolidated Financial Statements, there have been no significant events.

ANNEX 1- Breakdown of the subsidiaries at December 31, 2017

Corporate name	Registered office	Activity	Auditor	% of direct ownership	% of indirect ownership
Bioglán, A.B.	Box 503 10, 20213, Malmoe (Sweden)	Manufacturing, marketing and research of pharmaceutical specialties	KPMG AB	100.00%	-
Laboratoires Forte Pharma, SAM	Monaco	Marketing of nutritional pharmaceutical and pharmacy products	KPMG GLD & Associés	73.20%	26.80%
Forte Services, SAM	Monaco	Provision of management and administration services	KPMG GLD & Associés	100.00%	-
S.A., Laboratoires Forte Pharma Benelux	Belgium	Marketing of nutritional pharmaceutical and pharmacy products	Unaudited	-	100.00%
Laboratoires Forte Pharma UK Ltd.	United Kingdom	Marketing of nutritional pharmaceutical and pharmacy products	Unaudited	-	100.00%
Reig Jofre UK Limited	United Kingdom	Marketing of pharmaceutical products	Unaudited	51.00%	-
Reig Jofre Europe PTE. LTD.	Singapore	Marketing of pharmaceutical products	Unaudited	60.00%	-
Oryzon Genomics Diagnóstico, S.L.	Cornellà de Llobregat (Barcelona), calle Sant Ferran 74	Research, development and other health activities	Unaudited	100.00%	-
Geadic Biotec AIE	C/Gran Capità 10, Sant Joan Despí (Barcelona)	Research, development and other health activities	Unaudited	50.00%	50.00%
Syna Therapeutic, S.L.	Cornellà del Llobregat (Barcelona), Calle de San Ferran 74	Research, development and other health activities	Unaudited	50.00%	-

This Annex forms part of note 1 to the consolidated financial statements.

ANNEX 1- Breakdown of the subsidiaries at December 31, 2016

Corporate name	Registered office	Activity	Auditor	% of direct ownership	% of indirect ownership
Laboratorios Medea, S.A.	C/Gran Capità 10, Sant Joan Despí (Barcelona)	Sale of pharmaceutical specialties and biological products.	KPMG Auditores, S.L.	99.99%	-
Laboratorio Farmacéutico Orraván, S.L.	C/Gran Capità 10, Sant Joan Despí (Barcelona)	Marketing of pharmaceuticals and chemicals	KPMG Auditores, S.L.	99.70%	-
Laboratorio Ramón Sala, S.L.	C/Gran Capità 10, Sant Joan Despí (Barcelona)	Manufacture and sale of pharmaceuticals and chemicals	Unaudited	-	100.00%
Bioglán, A.B.	Box 503 10, 20213, Malmoe (Sweden)	Manufacturing, marketing and research of pharmaceutical specialties	KPMG AB	100.00%	-
Laboratoires Forte Pharma, SAM	Monaco	Marketing of nutritional pharmaceutical and pharmacy products	KPMG GLD & Associés	73.20%	26.80%
Forte Services, SAM	Monaco	Provision of management and administration services	KPMG GLD & Associés	100.00%	-
Forte Pharma Ibérica, S.L.U.	Barcelona	Marketing of nutritional pharmaceutical and pharmacy products	Unaudited	100.00%	-
S.A., Laboratoires Forte Pharma Benelux	Belgium	Marketing of nutritional pharmaceutical and pharmacy products	Unaudited	-	100.00%
Laboratoires Forte Pharma UK Ltd.	United Kingdom	Marketing of nutritional pharmaceutical and pharmacy products	Unaudited	-	100.00%
Reig Jofre UK Limited	United Kingdom	Marketing of pharmaceutical products	Unaudited	51.00%	-
Reig Jofre Europe PTE. LTD.	Singapore	Marketing of pharmaceutical products	Unaudited	60.00%	-
Geadic Biotec AIE	C/Gran Capità 10, Sant Joan Despí (Barcelona)	Research, development and other health activities	Unaudited	50.00%	50.00%
Oryzon Genomics Diagnóstico, S.L.	Cornellà de Llobregat (Barcelona), calle Sant Ferran 74	Research, development and other health activities	Unaudited	100.00%	-

This Annex forms part of note 1 to the consolidated financial statements.

ANNEX II - Changes in property, plant and machinery corresponding to the years ended on December 31, 2017 and 2016 (in Euros)

In Euros	Land	Buildings	Plant and machinery	Other fixtures, tools and furniture	Other property, plant and equipment	Unfinished PP&E	Total
Balance at January 1, 2016	**6,471,640**	**5,717,563**	**32,160,955**	**10,153,903**	**1,773,850**	**8,063,149**	**64,341,060**
Registrations	-	2,070	863,620	218,780	138,098	8,923,209	10,145,777
Business combination	-	0	63,089	27,392	6,717	-	97,198
Transfers (note 6)	-	21,700	6,250,692	698,897	2,620	(7,082,769)	(108,860)
Translation differences	-	(6,528)	(5,506)	(21,543)	-	(219)	(33,796)
Balance at December 31, 2016	**6,471,640**	**5,734,805**	**39,332,850**	**11,077,429**	**1,921,285**	**9,903,370**	**74,441,379**
Registrations	-	6,329	4,680,615	280,131	153,944	11,829,177	16,950,196
Transfers (note 6)	-	8,700	8,289,409	521,842	64,523	(11,129,748)	(2,245,274)
Translation differences	-	(4,890)	81,702	99,162	-	(207,288)	(31,314)
De-recognitions	-	-	(45,620)	(62,161)	-	-	(107,781)
Balance at December 31, 2017	**6,471,640**	**5,744,944**	**52,338,956**	**11,916,403**	**2,139,752**	**10,395,511**	**89,007,206**
Depreciation							
Balance at January 1, 2016	**-**	**(1,472,527)**	**(22,281,962)**	**(6,899,463)**	**(1,466,213)**	**-**	**(32,120,165)**
Amortisation for the year	-	(215,075)	(2,677,443)	(699,549)	(144,083)	-	(3,736,150)
Translation differences	-	5,437	4,329	15,034	-	-	24,800
Balance at December 31, 2016	**-**	**(1,682,165)**	**(24,955,076)**	**(7,583,978)**	**(1,610,296)**	**-**	**(35,831,515)**
Amortisation for the year	-	(214,470)	(3,322,824)	(791,037)	(148,852)	-	(4,477,183)
Transfers to Reserves	-	-	-	-	-	-	0
Translation differences	-	4,289	(22,821)	42,386	-	-	23,854
De-recognitions	-	-	36,356	62,162	-	-	98,518
Balance at December 31, 2017	**-**	**(1,892,346)**	**(28,264,365)**	**(8,270,467)**	**(1,759,148)**	**-**	**(40,186,326)**
Impairment							
Balance at January 1, 2016	**(2,252,635)**	**(1,785,069)**	**-**	**-**	**-**	**-**	**(4,037,704)**
Reversal for the year	1,096,576	868,966	-	-	-	-	1,965,542
Balance at December 31, 2016	**(1,156,059)**	**(916,103)**	**-**	**-**	**-**	**-**	**(2,072,162)**
Balance at December 31, 2017	**(1,156,059)**	**(916,103)**	**-**	**-**	**-**	**-**	**(2,072,162)**
Carrying amount							
At 31 December, 2016	**5,315,581**	**3,136,537**	**14,377,774**	**3,493,451**	**310,989**	**9,903,370**	**36,537,702**
At December 31, 2017	**5,315,581**	**2,936,495**	**24,074,591**	**3,645,936**	**380,604**	**10,395,511**	**46,748,718**

This Annex forms part of note 7 to the consolidated financial statements.

The directors of Laboratorio Reig Jofre, SA, assembled on March 19, 2018 and in compliance with the requirements of Article 253 of the Revised Text of the Corporate Enterprises Act and of Article 37 of the Commercial Code, proceed to prepare the Consolidated Financial Statements and the Management Report of the financial year from January 1, 2017 and December 31, 2017. The consolidated financial statements and the consolidated management report are comprised of the attached documents preceding this writing.

Signatories:

Reig Jofre Investments, SL (represented by Isabel Reig López)	Ignasi Biosca Reig
Alejandro García Reig	Anton Costas Comesaña
Maria Luisa Francolí Plaza	Ramon Gomis i de Barbarà
Ramiro Martinez-Pardo del Valle	Emilio Moraleda Martínez
Adolf Rousaud Viñas (Non-executive Secretary)	

Consolidated Management Report for the year ended on December 31, 2017

REIG JOFRE

Consolidated Management Report for the year ended on December 31, 2017

As of January 1, 2015, the new Laboratorio Reig Jofre, S.A. (hereinafter, the "Company") is the result of the merger of the pharmaceutical company Laboratorio Reig Jofre, S.A., by the listed Spanish company Natraceutical, S.A., leader in Europe in the field of nutritional supplements sold in pharmacies through its brand Forté Pharma.

The merger enabled the resultant company to become the 5th Spanish pharmaceutical company listed on the Spanish stock market in terms of turnover.

The new Reig Jofre is a pharmaceutical group whose activity is focused on the research, development, manufacture and marketing of medicines and nutritional supplements, and on the specialized manufacturing for third parties.

Two major synergies that have arisen from the merger have been the diversification of the product portfolio with OTC medicines and nutritional supplements, and the access to new markets through the Company's own sales networks.

- **Research areas**

Reig Jofre's R&D team is composed of technicians with ample experience in the following areas of research:

1. Bioequivalence studies.
2. Clinical pharmacokinetics and bioavailability studies.
3. Drug interaction studies.
4. Preclinical pharmacokinetics.
5. Preclinical toxicokinetics.
6. Analysis and identification of metabolites.

Based on this experience, and with a specialized emphasis on the therapeutic areas of dermatology, gynaecology and respiration, the R&D team focuses its activity on:

1. Development of new pharmaceutical products or variations on known active ingredients in order to modify their release, improve their dosage and obtain new routes of administration or indications.

2. Development of generic specialties for licensing to third parties, maintaining manufacturing in the Group's production facilities.

With regard to dosage forms, Reig Jofre combines the strengths of its R&D team with a high-end production capacity in three areas of high added-value:

1. Penicillanic antibiotics in all dosage forms (vials with sterile powder, oral forms, envelopes and syrups).
2. Cephalosporin antibiotics in vials with sterile powder.
3. Lyophilized vials for all types of active ingredients, by means of:
   a) Thermal analysis in lyophilization.
   b) Application of DSC (differential scanning calorimetry), FDM (lyophilization microscope) and DTA-ER (differential thermal analysis and electrical resistance) techniques.
   c) Development and optimization of lyophilization recipes in pilot plant.
   d) Industrial scale process.
   e) Applications in generics, proteins, monoclonal antibodies, vaccines, etc.

The Group also has extensive development and production strength in:

1. Liquid dosage forms: oral and topical solutions in ampoules and sterile vials, syrups, liquids in single-dose sachets and swabs.
2. Semi-solid forms: ointments, emulsions, micro-emulsions, and creams.
3. Solid oral dosage forms: capsules, tablets, coated tablets and lozenges.

Finally, Reig Jofre's R&D team has extensive experience in coordinating and conducting preclinical and clinical (Phase I-IV) ADMET studies required for the development both of proprietary products and of third-party products.

To this end, Reig Jofre has a mass spectrometry (LC_MS/MS) service that is mainly specialized in bioanalysis and covered by a "Good Laboratory Practice" (GLP) certification.

- **Regulatory Services**

As an added-value service which complements the R&D projects developed for third-parties, Reig Jofre has a technical team with extensive experience in the regulatory field on a worldwide level, and especially in Europe and USA. The team offers:

1. Preparation of registration dossiers for presentation in EU and non-EU countries in SENs and e-CTD formats using specific software.

2. Experience in registration processes at European level, via domestic mutual recognition or decentralized procedures. Regulatory support, from the presentation of the registration to the approval of the drug by answering the allegations requested by the various regulatory authorities, including post-approval regulatory work, such as presenting variations or renewals.

3. The possibility to design the development of products for third-parties, in accordance with the ICH Q8 standards and to prepare the presentation of the commercialization authorization application.

- **Manufacturing**

Thanks to high production and technology standards maintained in its manufacturing plants in Spain and Sweden, in addition to manufacturing its own products, Reig Jofre also manufactures products for parties, these being large multinational laboratories and local companies. Reig Jofre manufactures for a hundred customers in fifty countries worldwide, mainly in its three areas of expertise:

- Penicillanic antibiotics in all dosage forms (vials with sterile powder, oral forms, envelopes and syrups).
- Cephalosporin antibiotics in vials with sterile powder.
- Lyophilized vials for all types of active ingredients.

As well as:

- Ampoules and vials in sterile liquid forms.
- Liquids: oral and topical solutions, syrups, liquids in single-dose sachets and swabs.
- Semi-solids, ointments, emulsions, micro-emulsions, creams.
- Oral solids: capsules, tablets, coated tablets and lozenges.

With proven experience and a solid scientific focus, Reig Jofre specializes in the stabilization of active ingredients for the manufacture of injectable lyophilized products, as well as in the design and development of release systems to the improve the effectiveness of bio-molecules.

I. Strategy

Reig Jofre's development vectors are based on four strategic pillars, which should ensure the Group's long-term growth and profitability, as well as the generation of value for all its stakeholders:

- **R&D**

The development of new indications and/or dosage forms of known active compounds, generic drugs with special focus on beta-lactam antibiotics and lyophilised injectables, topical dermatological products, OTCs and the extension of the Forté Pharma nutritional supplements range. Similarly, the identification of collaborative projects with start-ups and research in biotechnology.

- **Internationalization**

Formalization of agreements with licensees in markets in which the Company does not have a direct presence for the marketing of prescription drugs, OTCs, health products, cosmetics and the Forté Pharma range of nutritional supplements, which were developed by the R&D team (out licensing).

- **Specialty products under own brands**

Marketing of the entire range of proprietary products in countries in which there is direct presence through medical, pharmaceutical and hospital channels and the active pursuit of strategic marketing opportunities (in licensing).

- **Manufacturing and regulatory advice services**

Specialized manufacturing for third parties in the Company's four plants in Spain and Sweden, with a special focus on penicillanic antibiotics in all dosage formats, cephalosporin antibiotics in vials, dermatological creams and, especially, lyophilized vials, including biotech.

We provide high-quality processes, with a strong scientific approach based on the design of experiments.

II. Business performance

The 2017 turnover and profitability figures reflect a favourable progression in line with the future growth prospects.

Reig Jofre closed 2017 with ordinary revenue of 167.9 million Euros, representing an increase of 4.3% compared to the previous year.

The pharmaceutical product sales division accounted for 84.6% of sales and grew by 5.9%, thanks to the advancement of the four units of which it is comprised: antibiotics, injectables and lyophilizes +6.2%; dermatology +5%, respiratory-ENT +14%. In contrast, the nutritional supplements division has suffered a decrease of 3.8%.

Thanks to a significant effort in the containment of manufacturing costs and to the fruits of economies of scale, it has been possible to maintain the gross margin in relation to the previous year. This increase in revenue has enabled the absorption of the increased staff and operating costs, and to register an EBITDA in line with that of the previous year. The significant increase in operating costs has been caused by a determined investment policy to deal with ongoing industrial and commercial growth projects, which included an increase in the workforce, the expansion of productive capacity and increased investments in R&D.

The decrease in the operating income and the income before taxes with respect to the previous year is due to the fact that two impairment reversals were registered during the previous year, without which we would have registered a profit before taxes very similar to that of this year. It is worth mentioning the decrease in financial expenses during a period of heavy investment, thanks to a very efficient cash management policy.

Reig Jofre closed 2017 with a consolidated result of 8.81 million Euros, an increase of 15% compared to the previous year, as a result of the aforementioned policies and a favourable tax effect produced by greater deductions in R&D and the partial reversal of the negative effect produced the previous year by the deterioration of tax credits.

It is considered that there are no risks and uncertainties that may affect the future development of the Group, except those which are inherent to its sector.

III. Investments and financial structure

During 2017, Reig Jofre confirmed its firm commitment to its four strategic pillars: R&D, strengthening its product portfolio in its therapeutic areas of interest, internationalization and increased competitiveness in the productive capacity.

In this regard, the Group has increased its investments (capex) in its production facilities and R&D projects and other intangibles, which rose from 12.2 million Euros in 2016 to 17.5 million Euros at the end of 2017. Particularly relevant were the investments in the production capacity in Spain aimed at supporting expansion in Asia (Japan and Indonesia) and, during a second phase, in the US market.

Reig Jofre closed 2017 with 57% of its revenue being generated outside Spain. As part of its continuous internalization effort, the Group regularly operates in 67 countries around the world through a network of some 130 business partners. It is worth noting the growth of sales in Asia, which represents 9% of the group's total sales. In 2017, European markets concentrated 85% of revenue, while countries in the rest of the world contributed 15%.

With regard to the strengthening of its product portfolio, Reig Jofre has obtained approval for 52 marketing authorizations for proprietary antibiotic/injectable molecules in 28 international markets. Additionally, the Group has 100 registration processes in progress, with approval expected during the coming one to three years

Reig Jofre ended the year with a net debt of 18.30 million Euros, 1.15 times its EBITDA, and maintains a clear commitment to growth, both organically and through possible investment opportunities.

IV. Business performance

The Group's future prospects are optimistic, with a strong focus on investment in R&D and the launch of proprietary products, as well as export growth.

It is considered that there are no risks and uncertainties that may affect the future development of the Group, except those which are inherent to its sector.

The Company has identified opportunities for organic and inorganic growth in its 4 strategic pillars:

1. R&D
2. Internationalization
3. Reinforcement of the product portfolio
4. Increase of competitiveness in production capacity

As a result of a more efficient cash management policy, the financial situation has improved. With a level of debt of 1.16 times EBITDA, the Group has as relevant growth and financing potential. The cash position amounts to 11.7 million Euros, which gives an idea of the Company's margin when addressing the medium-term investment plan that has been designed.

Other matters

Subsequent to year-end 2017, there have been no noteworthy aspects that have had an impact on the consolidated financial statements.

As mentioned in the 2017 consolidated financial statements, at December 31, 2017, the Company possessed a total of 212,844 treasury shares, having made purchases of a total of 309,337 treasury shares and sales of a total of 451,914 treasury shares during FY 2017.

V. Stock Market Information

On December 31, 2014, the merger by the takeover of Laboratorio Reig Jofre, S.A., by Natraceutical, S.A., was registered with the Valencia Companies Registry. As a result of the merger, and as agreed by the Natraceutical, S.A., Extraordinary General Shareholders Meeting held on October 24, 2014, Natraceutical, S.A., changed its corporate name to "Laboratorio Reig Jofre, S.A.”. Nevertheless, neither the Company’s tax identification number (*NIF*), which remains A-96.184.882, nor the identification number of the Company’s shares (*ISIN*), which remains the ES0165359011, were modified.

Since January 13, 2015, Natraceutical S.A., now denominated Laboratorio Reig Jofre, S.A., have been listed under the “RJF” ticker code.

As a consequence of the takeover of Laboratorio Reig Jofre, S.A., Natraceutical, S.A., issued 935,570,462 new shares, resulting in the number of outstanding shares following the merger of both companies reaching 1,264,284,408.

On July 29, 2015, the reverse split agreement relative to all the Company’s shares, in the proportion of one new share for each twenty pre-existing shares, was approved, effective at September 22, 2015. As a consequence, on December 31, 2015, the subscribed share capital amounted to 63,214,220 ordinary, nominative shares with a par value of 2.00 Euros each, all fully subscribed and paid-in.

In order to create a voluntary reserve, on June 22, 2016 the Ordinary and Extraordinary General Shareholders' Meeting approved the reduction of the parent’s share capital by an amount of 94,821,330 Euros through the reduction of the par value of all the 63,214,220 nominative shares representing the Company’s share capital by 1.50 Euros each, resulting in a new par value for each share of 0.50 Euros.

On September 27, 2017, the Board of Directors of "LABORATORIO REIG JOFRE, S.A." (Absorbing company), and the sole administrator of the absorbed companies, "LABORATORIO FARMACÉUTICO ORRAVÁN, S.L.U.", "LABORATORIO RAMÓN SALA, S.L.U.", "LABORATORIES MEDEA, S.A.U." and "FORTE PHARMA IBERICA, S.L." (Absorbed companies) agreed on the absorption of the latter four companies by the former. On December 19, 2017, the merger deed was registered with the Barcelona Companies Registry. The merger has been undertaken out in order to optimize administrative processes, structures and the sales area.

On June 8, 2017, the Ordinary and Extraordinary General Shareholders' Meeting approved the "Flexible Dividend Reig Jofré" plan, and for which a capital increase to be charged against reserves was approved. The outstanding shares were granted a free allocation right, and a commitment to repurchase such rights by company was approved. On July 20, 2017, following completion of the negotiation period, the Board of Directors established the definitive increase in the Company's share capital at 469,479 Euros, through the issuance of 938,958 new shares, each with the same value and economic and political rights as the outstanding ordinary shares. In compliance with the Purchase Commitment, the Company has disbursed the sum of 50,101.90 Euros in consideration for the acquisition of free allocation rights from its shareholders, and a total of 1,065,998 free allocation rights have been repurchased by the Company at a unitary value of 0.047 Euros. As a result of the above, the Company's share capital has been established at the amount of 32,076,589 Euros, represented by 64,153,178 shares of 0.50 Euros par value each.

On February 26, 2018, the Company's Board agreed to propose the continuity of the shareholder remuneration policy through the "Flexible Dividend Reig Jofre" plan to the General Shareholders' Meeting.

VI. Non-financial information

1. Environmental commitment

At Laboratorio Reig Jofre, we are strongly committed to an appropriate environmental management policy through the sustainable development of our activity. We are aware of the importance of developing a corporate environmental respect and awareness policy and of impressing its relevance on those in our surroundings. This environmental policy is based on guaranteeing a responsible use of resources and investments in improvements to our facilities in order to guarantee a more sustainable planet.

Laboratorio Reig Jofre has a department with exclusive responsibility for aspects related to environmental management, as well as those aspects related to occupational safety and health throughout the entire Group. This department assumes the corresponding legal obligations, as well as developing its own initiatives for a more efficient use of the materials related to the daily activity.

Acting responsibly with the environment, reducing consumption, reusing materials and recycling waste is doubly beneficial: on the one hand, it helps to take care of the environment in which Reig Jofre's activities take place, thus avoiding compromising future generations, and on the other hand it is enables the company to be more economically profitable; to do more with less.

In this way, a reduction in the environmental impact derived from the development, manufacture and distribution of pharmaceutical products and the process of making them available to society is not only compatible with the growth of the business, but also favours it.

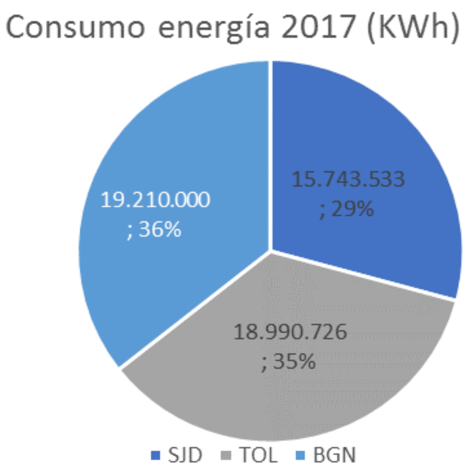
In order to determine Reig Jofre's current position with regard to the environment, the consumption of packaging materials and the consumption of electricity, natural gas, water and gasoline of the vehicles owned by Reig Jofre has been quantified. Likewise, the amount of waste generated, its typology and its disposal system has also been analyzed. And, finally, the cost derived from environmental protection, corresponding to the treatment of waste and emissions, and the prevention and environmental management cost have been quantified.

The most important environmental impact data of the three production plants that the Group has in Spain and Sweden are highlighted below:

1.1. Energy consumption in 2017

In 2017, electric power accounted for approximately 60% of total energy consumption, with the remaining 40% corresponding to natural gas. The three plants had similar consumption

	SJD (KWh)	TOL (KWh)	BGN (KWh)	RJF GROUP (KWh)
Electricity	9,943,915	11,622,716	12,210,000	33,776,631
Gas	5,799,618	7,368,010	7,000,000	20,167,628
TOTAL	**15,743,533**	**18,990,726**	**19,210,000**	**53,944,259**



1.2. Water consumption in 2017

In should be noted that water consumption is closely related to the production volume, as a significant part of the water consumed takes the form of raw material and as process water.

The rainwater is collected in SJD and stored in a fire-fighting tank.

	SJD (m^3)	TOL (m^3)	BGN (m^3)	RJF GROUP (m^3)
Subterranean	-	51,600	-	51,600
Municipal Network	76,202	1,687	4,659	82,548
TOTAL	**76,202**	**53,287**	**4,659**	**134,148**

1.3. Acknowledgments

In recognition of its commitment to the environment, in November 2016 Reig Jofre received the SIGRE II Medicines and Environment Awards pharmaceutical industry award, in the "Most innovative idea in packaging prevention" category.

This award was granted for the change in raw materials employed in the packaging for pharmaceutical presentations, resulting in a reduction in weight and, consequently, in the waste generated, which in turn translates into a reduction in the environmental impact. Average savings in weight of 6% have been obtained in all the cardboard boxes used since the change was implemented at the beginning of 2017.

2. Human Resources and Social Commitment

Since its founding, Reig Jofre has been very aware that the most essential asset for its future is its workforce. That is why one of the Group's main objectives is to provide the best possible work environment through a policy of equality, non-discrimination and conciliation.

Social commitment is part of the very DNA of Reig Jofre, whose raison d'être is to improve the health and well-being of people by providing innovative, safe and quality products.

The main data related to social impact in 2017 are highlighted below:

2.1. With employees

At December 31, 2017, Reig Jofre is composed of a well-balanced team in terms of gender, with a slight majority of women (57%), and with a predominant age group of between 30-50 years.

At the end of 2017, the majority of the employment contracts were for indefinite terms, representing 67.5% of the total, compared to 32.5% fixed-term contracts.

The growth of the organization in recent years has allowed for the creation of numerous jobs; specifically, there have been 47 additions during 2017.

Diversity is a source of wealth and Reig Jofre ensures it is managed correctly by taking into account gender, age, nationality and functional diversity. The company has an Equality Committee and anti-mobbing (non-legally binding) and anti-sexual harassment (including measures against victimization and measures against concealment) protocols.

If we look at diversity in terms of nationalities, at the end of 2017 Reig Jofre's team was made up of people from 14 different countries.

Gender equality is a reality in terms of the proportions of men and women in the workforce, but the actions of Reig Jofre go further, ensuring that the base salary for everybody is the same in accordance with the professional category to which they belong, and that the same training and professional development opportunities are offered to all.

Reig Jofre has held, even before the LISMI law came into force, a firm commitment to the inclusion of people with functional diversity into the labour market. At the end of 2017, 15 workers with functional diversity are perfectly integrated into the workforce, representing 2.10% of the total and exceeding the minimum required by law. Additionally, there are alternative measures in place, including collaboration with specialized work centres in the surrounding area, such as Tecsalsa, Fundación DAU and l'Associació Humanitària Doctor Josep Trueta, among others, to which some activities, such as enveloping letters, packaging of products, the management non-hazardous waste and cleaning, are subcontracted.

The training received by the employees of the Group's different offices during 2017 corresponded to 22.5h per person on average.

In the field of occupational safety and health, the Group ensures initial and periodic training and a safe and hygienic work environment is provided, in accordance with the applicable regulations.

Each plant has a Health and Safety Committee that meets regularly every quarter to review the training, accidents, pending items and the results of the studies, and its agreements and planned actions are recorded. Periodic medical check-ups (annual and voluntary) are carried out and health personnel are available in the manufacturing facilities.

2.2. With the promotion of health

In relation to employees, activities aimed at promoting a healthy lifestyle are organized in all the Group's venues. Reig Jofre's commitment to promoting the health of society in general is part of the Group's raison d'être, whose mission is to provide innovative, safe and quality health products.

The Company holds the mandatory certification of compliance with the Good Manufacturing Practices (GMP) for pharmaceutical products. Nevertheless, in order to obtain first quality products and ensure the health and safety of the end consumers, the entire value chain must be taken into account, with each supplier and customer (distributors, pharmacies, commercial partners, etc.) subject to audit.

Likewise, Reig Jofre also periodically submits to its clients' audits, in relation to matters such as quality, health and safety, environmental management and working conditions.

Additionally, the Group interacts with its external stakeholders, such as health professionals and final consumers, through different digital portals, with the aim of facilitating the updating of knowledge in key therapeutic areas and contributing to ongoing training.

2.3. With our communities

Reig Jofre has assumed the commitment as a company to produce a positive impact on the communities with which it interacts, as have the company's employees, who participate by collaborating and making it possible for events such as the annual blood donation days to be a success.

Antibiotics are one of the Group's strategic pillars and, as part of its commitment to ensuring that all of society has access to them, it makes donations of antibiotics to Gambia each year. In 2017, Amoxicillin Ardine EFG tablets and sachets were donated.

Reig Jofre is committed to research and development as one of its growth axes, and also collaborates with the health ecosystem in order to promote innovation, favour the transfer of technologies and the creation and progress of domestic start.ups. Consequently, RJF actively participates with associations of companies such as CataloniaBio and Farmaindustria, with the strategic committee of Vall d'Hebron Institute of Research (VHIR), with the patronages of the Institut d'Investigació i Innovació Parc Taulí (I3PT) and the Eurecat technology centers group. Additionally, in 2017 the company collaborated with two entrepreneurship centres: IQS TechFactory and Ship2B, a recently-created platform focused on accelerating projects with high social impact. In this sense, the Group has collaborated economically and has contributed the knowledge of members of its workforce, who have acted as mentors to these entrepreneurs.

Reig Jofre is convinced that in order to promote innovation in our country and to solve the health challenges faced by our society, it is necessary to collaborate with educational centres and to help in the training of professionals of the future. Consequently, the company has entered into agreements with different universities, such as the UB, UAB, IESE, UPF, UOC, UPC and the UCM, in order to provide interns and doctoral students with access to equipment, facilities, knowledge and mentoring from the Group's employees, who act as tutors. Additionally, in 2017 the Group opened its doors twice to the students of IESE and UB, who were provided with a guided tour of the company and shown the processes involved in the development and manufacture of pharmaceutical products.

2.4. With human rights

Reig Jofre has a transparent system through which information can be transmitted confidentially and the impacts on human rights addressed. The Group has an anti-mobbing protocol (non-legally binding) and an anti-sexual harassment protocol (which includes measures against victimization and measures against concealment), and the

Group's management team has been instructed in how to act in accordance with such procedures.

3. Corporate Social Responsibility and Risks

As a listed company, Reig Jofre is fully committed to a policy of transparent communication towards its stakeholders. With this objective, on January 19, 2017 the Company's Board of Directors approved the Communication and Contacts with Shareholders, Investors, Analysts and Voting Advisors Policy, in accordance with the general principles of mandatory compliance in the applicable legislation and the Group's internal regulations: truthfulness, equal treatment, protection of the rights and legitimate interests of all shareholders, maintenance and promotion of communication channels and tools between the Group and its stakeholders and continuous and permanent information.

Reig Jofre adheres to Farmaindustria's Pharmaceutical Industry Code of Good Practices, in which a commitment to transparency functions as means to ensure that a series of regulations and activities are developed in accordance with the strictest ethical principles of professionalism and responsibility.

Compliance with the principles set out in the Code makes it possible to ensure that the information provided within the context of the promotion of prescription drugs is complete, immediate and truthful, working in benefit of the Health Administration's interests, those of the pharmaceutical industry and the protection and improvement of public health. The activities or materials linked to the promotion, as well as the interrelationships with the Healthcare Professionals, Healthcare Organizations and Patient Organizations, must contribute, by virtue of their content or their nature, to boost confidence in the pharmaceutical industry.

VII. Payments to suppliers

The information on deferred payments to suppliers by the consolidated Spanish companies in 2017 is presented below:

	31/12/2017	31/12/2016

	Days	
Average supplier payment term	69	72
Ratio of operations paid	71	73
Ratio of operations pending payment	70	69
	Amount in Euros	
Total payments effected	72,130,952	90,307,437
Total outstanding payments	11,651,838	16,537,918

VIII. Corporate Governance

The 2017 Annual Corporate Governance Report was approved by the Company's Board of Directors at its Meeting, and is available in both the Company's and in the *CNMV*'s websites: (www.reigjofre.com) and (www.cnmv.es), respectively.