annual report 2006

natraceutical group

“At the forefront of the world's
biotechnology applied to nutrition”

“We turn ideas
into healthy realities”

At Natraceutical Group we provide solutions to the growing demand for healthier nutrition by investing in research and developing active / functional ingredients and nutritional complements to help improve our health and quality of life.

“Our essence: 100% natural”

Since the beginning, we have been producing functional food products based on 100% natural compounds. Fruit and vegetable extracts used in the foodstuffs, cosmetics and pharmaceutical sectors worldwide.

"R&D: our key goal"

As the leading biotechnology group in functional foodstuffs R&D, we work extensively in the field of technological innovation to further boost the progress of this sector in Europe.

“Unlimited growth”

Natraceutical Group has been growing steadily every year to become a global reference in the sector, with 6 production plants worldwide, commercial presence in 60 countries from all 5 continents and an ambitious internationalization strategy.

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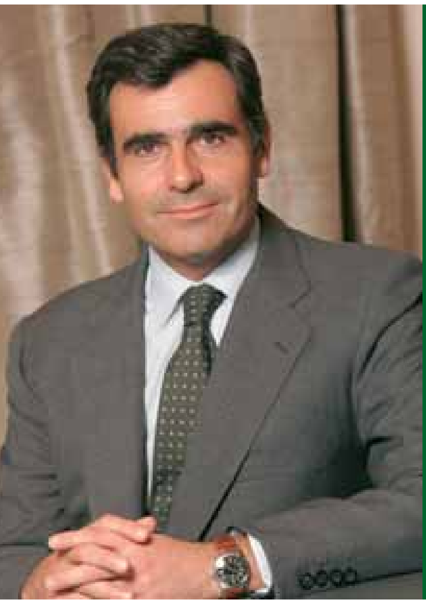
“Let food be our medicine”

Hipócrates, 400 AC

Letter from the President



Xavier Adserà Gebellí
President

Dear Shareholders,

Once more, I am addressing you to offer the company's report of last year's activities and accounts. I would like to take this opportunity to share with you the satisfaction and pride I draw from being at the helm of a strong company with excellent potential for growth. A company driven by a team of highly qualified professionals fully committed to the success of our enterprise.

The financial year that we are presenting below has been the year of consolidation of the company within the functional nutrition market, and which I do not hesitate to describe as successful. It has also been the time for Natraceutical Group to tackle new ways to achieve further growth and create value for those who, like you here, are placing their trust in us, and to ensure the optimization of all activity lines to further develop the business plan designed by the company.

Natraceutical Group has grown every year to become, in 2006, an international group that is exceedingly capable of leading the health food market, and a world reference for the high quality of its products, efficient processes and management, and the ability to adapt to the ever-changing market demands. Indeed, Natraceutical Group has greatly evolved over time. Today we have 6 production plants worldwide, we do business in 60 countries from all 5 continents, we offer over 500 references and specialities for the food, cosmetics and pharmaceutical sectors, and have over 1,000 active clients, including 8 of the world's leading 10 food companies, one of which is one of the leading brands in Europe's nutritional supplement sector.

This success has been achieved thanks largely to the attainment of two key goals in 2006: the consolidation of Natraceutical Group in the functional food sector, and the Group's penetration into a new business sector: nutritional supplements. This was made possible by the acquisition of Laboratoires Forté Pharma, a corporate operation that has enabled the Group to gain access with its R&D to the end consumer, and to open a new expansion front within a market that moves € 3,500 - € 5,000 million and enjoys growth rates of nearly 20% per year in Europe only.

In economic terms, and as a direct result of the aforementioned achievements, Natraceutical Group's profits rose to € 94 million, compared to € 49 million in 2005. That is, € 4.55 million in net profits (20% more than in 2005), while our EBITDA increased from € 4.2 million in 2005 to € 10 million in 2006. We have doubled our gross margins, and achieved excellent returns, with EBITDA reaching already 11% of the total turnover.

After generating € 4.55 million net and Natraceutical SA's capital increase in October 2006 (€ 62 million earmarked for financing part of Laboratoires Forté Pharma's acquisition), the consolidated balance sheet shows net worth of € 148 million, and net financial liabilities of € 75 million. Such a sound financial structure will enable us to tackle confidently any future challenges.

This excellent situation has been possible thanks to the philosophy that has steered Natraceutical Group since its conception. Our commitment to offering the best products to our customers, the highest returns to our shareholders and the best avenues for professional development to our staff, have turned our daily activity into a process of uninterrupted improvement with which everyone at Natraceutical Group fully identifies with.

Research and Development, and specifically product-related R&D, plays a key role in this process of constant improvement. The advances achieved by Natraceutical Group's R&D department have led our company to be at the forefront of the world's biotechnology applied to the food industry. Our successes in this field motivate us to continue our progress: we have applied for seven new patents in 2006, and for further new patents in the first quarter of 2007.

The constant advancement in R&D, a sound financial structure, our presence in new markets with great growth possibilities, the Group's consolidation in markets in which we are already operating, a broad and strong organic business structure that is capable of meeting market demands, a team of excellent professionals fully committed to the goals sought by the company, and the trust placed in us by our shareholders, cannot but make us look ahead with great optimism. Our optimism is further confirmed by the 2007 results to date, and the company is now forecasting an overall business turnover of up to € 160 million and EBITDA of € 16 million by the end of the year.

This is a great challenge indeed, but our motivation is just as great. Our goals for the future are firm: to continue growing in the area of functional ingredients and active ingredients by increasing our range of products, consolidating our international expansion and positioning ourselves in the nutritional supplement sector in countries such as Belgium, The Netherlands, Austria, Spain, Portugal and Italy within two years. On completion of this two-year process of consolidation, we would then move on to the British and German markets, which have many things in common with the US market, our end goal, in which the vitamin and nutritional supplement market is four times larger than Europe's. In addition, we have continued assessing the possibility of penetrating other market segments such as cosmetics, vitamins, phytotherapy and any other products and services that can help improve the health and quality of life of our customers. Our management team will continue working to ensure we make the most out of any opportunities that may come our way, scanning at all times all possibilities for international expansion that may arise. This is precisely the attitude that has led Natraceutical Group to become the global corporation that it is today.

All in all, following the appreciation of Natraceutical's securities in 2005 (41.55%) and market capitalization (€ 269 million at the end of said year), 2006 has been yet again a successful year in which the price of the company's shares have further increased 96.33% from € 1.09 to € 1.82 / share at the end of the financial year (including the effect of the capital increase performed in October 2006), with a market capitalization of € 598 million to December 31st.

In this report, we are sharing with you all the data and information related to the Group's progress during the year. In addition, we have recently created the Department of Shareholder Relations, which, from now on, will answer your information requests and enquiries, and will also be in charge of the preparation of all public information for market release.

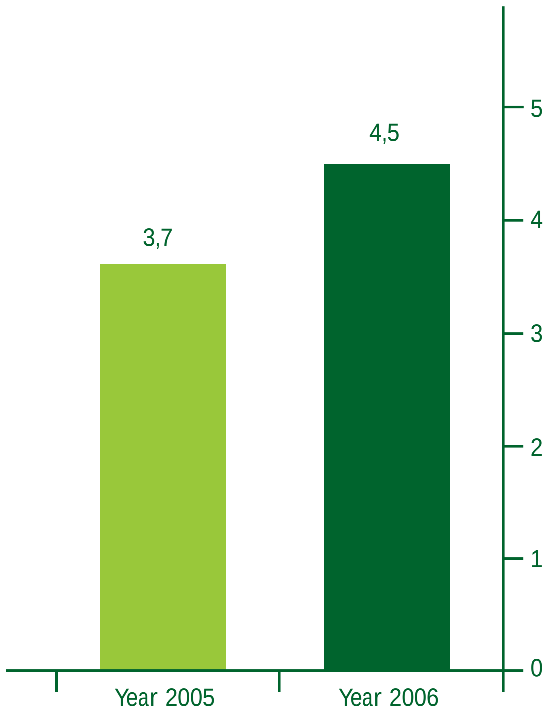
Finally, dear Shareholder, please allow me to share with you the satisfaction we all feel at Natraceutical Group for the work carried out throughout 2006, as well as our confidence for achieving all goals set for 2007. Natraceutical Group views the future with great optimism, with all the energy that flows from its youth, the professional qualities and skills of its staff, and the extensive experience gathered during all these years within a nascent yet promising sector. You can rest assured of our commitment and willingness to achieve, at the very least, the same growth and value-creation performance we have achieved to date.

We thank you for your valuable support.
Kind regards

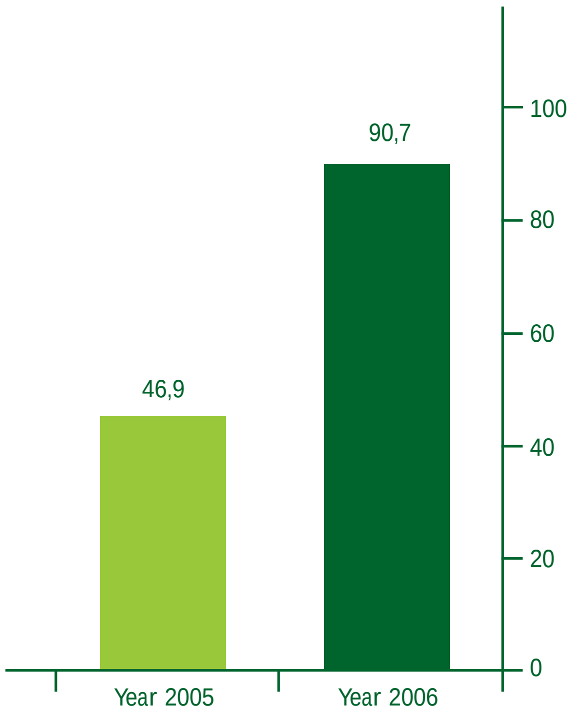
Xavier Adserà Gebellí
President
Valencia, May 2007

Main figures

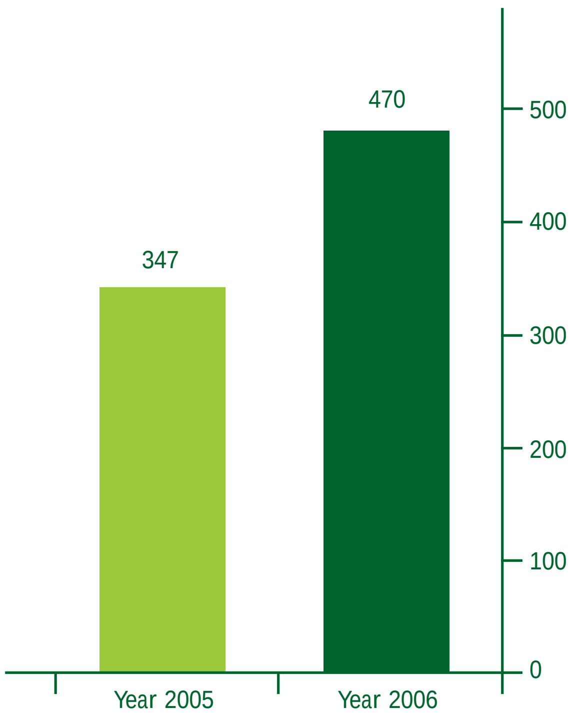
Net Performance
(€ Milion)



Business Turnover
(€ Milion)



Human Resources



Stock Market evolution

Following the 41.55% increase in the value of Natraceutical's securities and market capitalization of € 269 million in 2005, the price of the company's shares rose 96.33%, which led to a market capitalization of € 598 million at the end of the year.

Company Information

Natraceutical group - a short description

1. Introduction

Natraceutical Group is a biotechnology multinational with presence worldwide based in Valencia. Our group is Europe's leading reference in the Research & Development of functional / active ingredients and nutritional complements, all of which are naturally produced. The company operates in a sector that contributes greatly to traditional nutrition, with the goal of further preventing diseases and improving quality of life through nutrition.

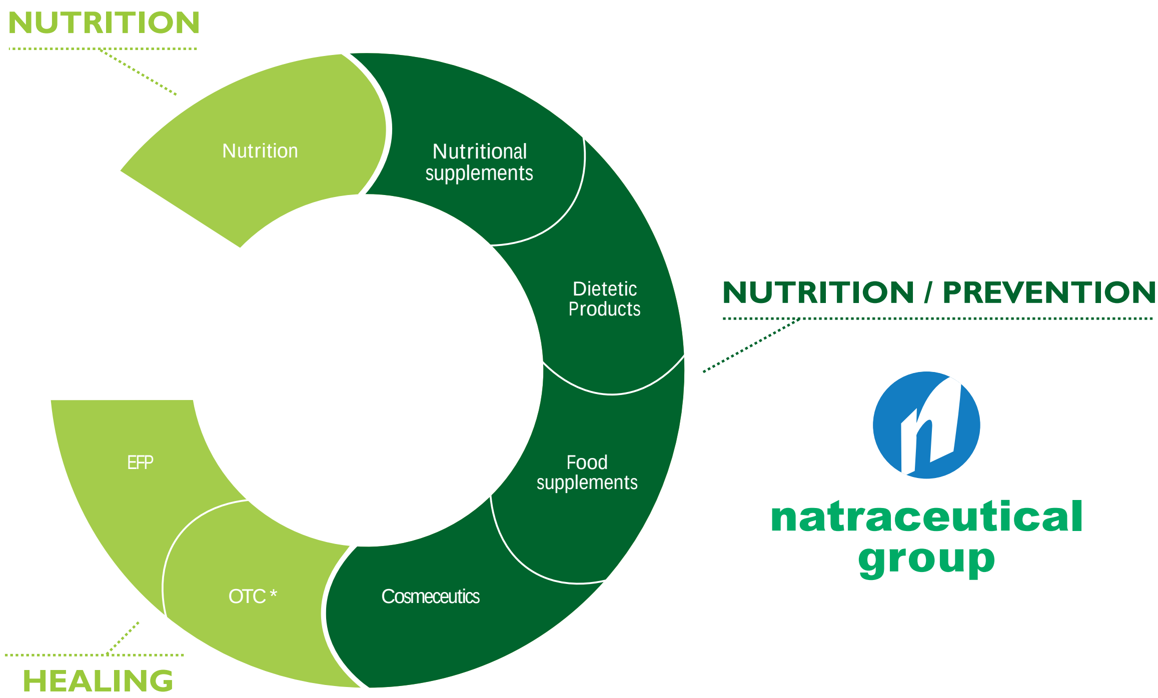
Natraceutical was established in 2002 and is currently made up of six industrial companies, which are: Natraceutical Industrial S.L.U., Obipektin A.G., Overseal Natural Ingredients Ltd., Exnama Ltda., Laboratoires Forté Pharma, S.A.M. y Kingfood Australia PTY Limited.

Natraceutical Industrial S.L.U.

Natraceutical has been operating for over 60 years carrying out research and development activities on active and nutraceutical ingredients through applied biotechnology processes for subsequent integration in functional food, cosmetics and pharmaceutical products. Natraceutical's products are created from natural compounds for the purposes of preventing disease and improving quality of life.

Natraceutical's range of products includes three distinct branches: refined shortening, caffeine, and functional ingredients, the developments of which are scientifically validated with clinical and pre-clinical tests by the company's clinical research department.

In addition, our research and development teams work directly with clients in collaboration projects, for the purpose of offering, apart from innovative products, the possibility of adapting ingredients to the needs and requirements of each client for further enhancing the composition of the end prodct.



Obipektin A.G.

Obipektin, a Swiss company established in 1936, owns two production plants in Switzerland and an office branch in Asia.

The Company produces and sells 100% natural vegetable / fruit pectins and powders. Obipektin's products are commonly used for making the production of jams, prepared fruit, drinks, confectionery and baby's food. In this particularly strict sector in terms of quality and safety, Obipektin has been well positioned as a leading reference for decades thanks to their commitment to continuous innovation and excellent, safe products. The company has successfully passed in 2006 all audits conducted by the SAS (Swiss Accreditation Service). As a result, it has obtained the ISO 17025:2005 certification in early 2007, as evidence of the high quality and trustworthiness of the company's analytical laboratory.

To produce these ingredients, the company uses several drying technologies, including the world's largest cold spray-drying tower (BIRS). With this process, the company produces tomato powder of a deep red colour and characteristic flavour, a leading product in the market. Obipektin also produces Frunity and Actisec™ fruit and vegetable powders (which include ingredients that help prevent cardiovascular diseases).

Overseal Natural Ingredients Ltd.

UK-based company Overseal has been operating since 1971 as a producer of natural colorants, yeasts, sweeteners (such as Talin®-the most powerful sweetener in the market), aromas and flavouring extracts.

These ingredients are used in a broad range of applications, including confectionery, prepared foods, beverages, desserts, cereals, snacks, and cosmetics. Overseal's R&D department collaborates closely with their end clients to ensure the correct application of ingredients to the end product.

Exnama Ltda.

Based in Manaus (Brazil), Exnama's business activities focus on the production and sale of alkaloids (caffeine). Located in the Amazonian jungle, Exnama is very close to the world's largest source of natural extracts. This is a key factor for the subsequent research and development activities conducted on active and nutraceutical ingredients at the Valencia Natraceutical production plan.

Laboratoires Forté Pharma, S.A.M.

Established in 1999 by Dr Yann Rougier, Forté Pharma manufactures and sells naturally sourced nutritional complements. The company currently operates in four different segments: health, slimming, phytotherapy and beauty. Forté Pharma is the third largest laboratory in the French nutritional complement market, as well as the leader in the French slimming segment, holding 20% of the overall market share.

In the last four years, the company has increased sales fivefold, and has begun the distribution of their products in other European countries, including Belgium, The Netherlands, Austria, Spain, Portugal and Italy. All combined, the company currently has a portfolio of 30 different products, and launches between 10 and 15 new products every year.

Kingfood Australia PTY Limited

Bought in February 2007, Kingfood specializes in the preparation and sale of ingredients and aromas for the foodstuffs sector, an activity it has been developing for over twenty years. In addition, the company has been distributing Natraceutical's natural colouring range in Australasia since 1988.

2. Natraceutical Group in the world

Natraceutical Group is today a multinational group with 470 staff that enjoys an active presence in over 60 countries. It owns several production plants in Spain, United Kingdom, Australia, Switzerland and Brazil, commercial branches in Europe, USA, and Asia Pacific, and worldwide distribution and retail networks. The Group has a combined portfolio of over 500 references and specialized products for the foodstuffs, cosmetic and pharmaceutical sectors. It is the world's leader in caffeine production, the leader in the British natural colorant market, the European leader in antioxidants, and the leading nutritional complement producer for the French slimming segment.

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NATRACEUTICAL INDUSTRIAL S.L.U
Autovía A3. Salida (Exit) 343 Camí de Torrent, s/n. Quart de Poblet Valencia - SPAIN

NATRACEUTICAL GROUP
Pl. América, 2, 9ª pl.
Valencia. SPAIN

overseal

OVERSEAL NATURAL INGREDIENTS LTD
Swadlincote Derbyshire DE12 6JX
UK

obipektin

OBIPEKTIN A.G.
Industriestrasse, 8
9220 Bischofszell, SWITZERLAND

Kirchbergstrasse, 215
3400 Burgdorf, SWITZERLAND

Cakefriends

CAKEFRIENDS AG.
Torgasse, 3
8001 Zurich, SWITZERLAND

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NATRACEUTICAL GROUP
UM Tower 24 th floor 9 Ramkamhaeng Rd
10250 Suanluang, Bamgkok. THAILAND

Exnama

EXNAMA LTDA.
Av.Buriti, 5391 Distrito Industrial
69075-000 Manaus, BRAZIL

FORTÉ PHARMA

LABORATOIRES FORTÉ PHARMA S.A.M
Le Patio Palace, 41Avenue Hector Otto
MONACO

KINGFOOD AUSTRALIA PTY LIMITED
9 Garling Road Kings Park NSW
2148 Sydney, AUSTRALIA

3. R&D&I

Nothing would be possible at Natraceutical Group without R&D&I. Since the establishment of our company, the conversion of ideas into wellbeing reality has been a constant feature. Therefore, around 20% of the company's staff works in this field. As a result, Natraceutical Group has become one of the world's leading references in research and development of naturally sourced functional / active ingredients and nutritional complements.

Natraceutical Group focuses a large part of their work on detecting the needs of their clients and the market. The results of this research are later applied to the preparation of new references that can provide specific solutions to any needs arising in the foodstuffs, cosmetics and pharmaceutical sectors.

The development of these ideas, concepts and products has represented over 35% of the 2006 business turnover, and 5-10 patent applications per year. In fact, Natraceutical is currently marketing successfully a dozen active compounds developed in house, and the corresponding active ingredients are used by their clients for the prevention of diseases.

The continuous advancement and further specialization of the R&D&I department, along with the acquisition of Laboratoires Forté Pharma, has also enabled the Group to use all their research power and to diversify its potential in this new area of activity: nutritional complements.

Apart from Natraceutical Group's in-house R&D&I activities, the company is also preparing new references in cooperation with their clients during the entire process of creation and launch of their own products.

To boost the R&D activities, in 2006 the company created a scientific committee formed by internationally recognized experts in the fields of medicine, metabolism, molecular biology and functional foodstuffs. In addition, the company has also entered into many collaboration agreements with leading international research centres to ensure further progress in the functional foodstuffs field.

An example of this is the Group's current collaboration with Biopolis, a biotech company partly owned by the CSIC (Spanish National Research Council), which works on the production and purification of microorganisms and by-products. Based on the outcomes of this cooperation, Natraceutical Group developed in 2006 a new ingredient that will add cocoa flavour to many pet food products in a healthier form, as it will not just contain a reduced concentration of caffeine and sugar but will also offer multiple functional properties that will further boost pet weight control.

In 2006, Natraceutical Group submitted a total of seven patents including Cocoanox, the cocoa powder product with the highest ORAC (Oxygen Radical Absorbance Capacity). This is a great leap forward in the functional foodstuffs field as, thanks to its high levels of natural polyphenols, this ingredient helps to prevent the outbreak of cardiovascular conditions.

The Company has also been the first in creating a new industrial application mechanism for Talin®, the natural ingredient with the highest sweetening power known to date. This new system enables easier, more convenient dosage and increases the potential for the use of said ingredient in confectionery and beverages.

4. Capital Ownership

Two new high-profile corporate shareholders have joined Natraceutical Group's shareholders in 2006: Grupo Nozar and bank Bilbao Bizkaia Kutxa (BBK), with a share of 5% the first one and 4,59% the second one. The involvement of these two new investors, which is connected with the company's growth and excellent business outlook, has further reinforced Natraceutical's capital. Natraceutical had sought to institutionalise its shareholding base and strengthening independent management by diversifying its main governing body with new corporate shareholders / members of the Board other than those appointed by Grupo Natra, main shareholder of Natraceutical Group.

Following these new additions, Natraceutical Group's shareholders are now the following:

- Natra SA: 56%
- Nozar Group: 5%
- BBK: 4,59%
- BMS Promoción y Desarrollo SL: 3.4%
- Free-float: 31.01%

Year 2006 evolution

1. Main figures

Consolidated Balance Sheets (euros)

ASSETS	2006	2005
NON-CURRENT ASSETS:		
Goodwill	130,544,265	50,115,178
Other intangible assets	3,211,196	2,466,497
Property, plant and equipment	44,609,902	44,271,397
Investments accounted for using the equity method	728,998	44,271
Non-current financial assets	17,139,335	2,880,922
Deferred tax assets	8,081,069	4,205,595
Total non-current assets	204,314,765	104,004,260
CURRENT ASSETS:		
Inventories	34,462,414	32,299,769
Trade and other receivables	26,975,278	12,719,105
Other current financial assets	4,522,873	1,422,262
Current tax assets	5,111,031	1,562,500
Cash and cash equivalents	13,588,368	4,387,063
Total current assets	84,659,964	52,390,699
TOTAL ASSETS	288,974,729	156,394,959

LIABILITIES	2006	2005
EQUITY		
Share capital	32,871,395	24,653,546
Share premium	103,493,534	50,077,515
Reserves (retained earnings)	5,343,339	(35,541)
Reserves of fully consolidated companies	6,614,767	3,117,192
Reserves of companies accounted for using the equity method	(72,829)	(77,476)
Treasury shares	(6,321,850)	(3,571,440)
Translation differences	1,257,485	1,324,001
Profit for the year attributable to the Parent	4,549,061	3,757,368
Total equity	147,734,902	79,245,165
NON-CURRENT LIABILITIES:		
Non-current bank borrowings	70,116,342	40,427,152
Other non-current financial liabilities	11,701,504	1,610,884
Deferred tax liabilities	7,166,508	5,199,863
Long-term provisions	1,059,117	923,747
Other non-current liabilities	99,687	208,579
Total non-current liabilities	90,143,158	48,370,225
CURRENT LIABILITIES		
Bank borrowings	18,225,093	12,342,250
Trade and other payables	25,228,183	13,759,204
Current tax liabilities	2,214,674	806,892
Other current liabilities	5,428,719	1,871,223
Total current liabilities	51,096,669	28,779,569
TOTAL EQUITY AND LIABILITIES	288,974,729	156,394,959

Consolidated profit & loss statements (euros)

ASSETS	2006	2005
CONTINUING OPERATIONS:		
Revenue	90,761,773	46,981,166
+/- Changes in inventories of finished goods and work in progress inventories	(1,541,354)	3,345,557
Procurements	(45,083,498)	(29,463,752)
Gross profit	44,136,921	20,862,971
Other operating income	3,707,610	2,378,249
Staff costs	(17,577,116)	(9,725,345)
Depreciation and amortisation charge	(5,271,257)	(2,433,941)
Other operating expenses	(20,216,815)	(9,287,672)
Profit from operations	4,779,343	1,794,262
Results of companies accounted for using the equity method (Note 8)	92,062	4,647
Finance income	2,085,702	889,108
Finance costs	(4,223,500)	(1,601,682)
Exchange differences (gains and losses)	(556,421)	18,655
Proceeds from disposal of non-current assets	(294,028)	-
Asset impairment losses	(628,385)	(475,000)
Profit before tax	1,254,773	629,990
Income tax	3,294,289	3,127,378
Profit for the year	4,549,062	3,757,368
EARNINGS PER SHARE (BASIC AND DILUTED)	0.02	0.02

2. Main events

Natraceutical Group has experienced a great rate of growth in 2006 fuelled by a number of key milestones for the company, including the acquisition of Laboratoires Forté Pharma, which has enabled the Group to penetrate into a new activity sector (nutritional complements) and gain direct access to end consumers.

Following the completion of this operation, the company's stock market value increased 96.33% in 2006, which led to a € 598 million capital increase. As a result, Natraceutical Group has positioned itself highly in the analysis ranking of several investment institutions such as Ahorro Corporación, Banco Santander, Caja Madrid, Citigroup, Fortis and Ibersecurities, which have since been monitoring the group's stock market value and publishing research on the company's evolution.

Natraceutical has thus experienced an increase in corporate investors' interest in buying stock. As a result, the company was joined by BBK and Grupo Nozar in 2006, with shares worth 5% each.

The area of functional ingredients has been strongly boosted by the intense R&D&I activity carried out in 2006, which has led to the application of seven new patents and the creation of a scientific committee. Under the helm of Dr Daniel Ramon, Doctor in Biological Sciences and scientific researcher for the CSIC at the IATA (Spanish Institute of Agrochemistry and Food Technology), said committee is made up of internationally recognized scientists and researchers in charge of assessing the R&D avenues taken by Natraceutical Group, as well as of endorsing the creation of new projects by the company.

Finally, with the goals of further fostering the growth of Natraceutical Group and strengthening all business areas to be able to tackle confidently the company's future challenges, a new organisation structure has been implemented that is in accordance with the Group's new dimension and business progression.

Acquisition of Laboratoires Forté Pharma

Along the lines of international expansion, the Group's position was further strengthened by the acquisition of 100% of Monegasque company Laboratoires Forté Pharma in October 2006. This company specializes in the production of nutritional complements for the weight loss, health, beauty and phytotherapy sector, and is the French-market leader in weight control products. This acquisition is part of the development strategy to steer business toward direct supply to Natraceutical Group's end consumers.

In the last four years, Laboratoires Forté Pharma has increased sales fivefold, become the leader in the French weight loss segment and begun the distribution of their products in other European countries such as Belgium, The Netherlands, Austria, Italy, Spain and Portugal.

The Group announced the execution of a binding agreement for said acquisition in August 2006, and closed the operation in the second half of the year with a cost of € 82 million.

The acquisition was debt-free and fully paid up in cash. Natraceutical Group financed the operation partly with its own borrowing capacity and through capital increase. This capital increase, approved by the CNMV (Spanish Securities and Investments Board) on October 6th 2006, involved the issue of 82,178,486 new shares totalling € 61,633,486. On completion of the capital increase operation, fully taken up within the allocated term (October 10th - 24th 2006) there are now 328,713,946 shares in the market, and shareholder's equity has increased to € 32,871,395.

With these operations, the company gained access to the funds required for paying with their own resources up to 73% of the price agreed on for the acquisition of Laboratoires Forté Pharma (€ 82 million). The remaining 27% was financed with a syndicated loan of € 22 million.

The acquisition and integration of Laboratoires Forté Pharma has greatly advanced Natraceutical Group's business plan, which can now gain access to the nutritional supplement sector, an activity with great potential for growth that complements functional foodstuffs that enables the company to reach end consumers directly. This is, in short, a highly significant process of expansion and diversification of products and clients that further increases the Group's influence within the sector.

This operation is also part of the company's strategy for international expansion, which, in its first stage, will export the model successfully developed by Forté Pharma in France to countries where similar distribution networks are already operative, such as Spain, Portugal,

Holland, Italy, Austria and Belgium. The second stage will involve the introduction of said model in Germany and United Kingdom, where it will be tested prior to a future penetration into the US market, where the vitamin and nutritional complement market is four times larger than Europe's. This way, Natraceutical Group is set to move steadily forward in its project of consolidation as a European reference in the field of functional foodstuffs and nutritional complements worldwide.

Natraceutical Group will make great investments in marketing and advertising within the next two years to boost the company's penetration in all countries in which it is operative. In addition, the Group will also expand their product range with the purpose of reducing its heavy reliance on the current main line of activity (seasonally-driven weight loss and control products), which currently represents 60% of the portfolio, as most sales occur during the first half of the year.

Reinforcement of Ownership

Natraceutical Group's Board was further reinforced in the second half of the year with the arrival of new shareholder Bilbao Bizkaia Kutxa (BBK), following this banking institution's capital increase in the biotechnology group up to 4.58%. As a result, Natraceutical's Board was also strengthened from the corporate governance viewpoint, as BBK has become the first corporate shareholder with voting rights in the Board that does not own any stake in Grupo Natra, the biotechnology company's major shareholder.

In early October Grupo Nozar bought 5% of Natraceutical Group from Natra, S.A. This stake acquisition has further materialized the interest of the company in institutionalizing its shareholding base and further reinforcing the main governing body with corporate members other than owners of Grupo Natra.

Creation of Cake Friends AG

In November 2006, Natraceutical Group announced the signing of a strategic agreement with Panadoro Group for the development and commercialization of functional end products for the foodstuffs sector.

The operation makes perfect strategic sense for Natraceutical Group as it will lead the group to gaining access to end consumers and attaining a leadership position within the European functional foodstuffs market, which in turn will open new avenues toward future opportunities in the nutrition sector.

This partnership has led to the creation of a new concept of food franchise: Cakefriends AG. This is a revolutionary project within the food market, which is designed to offer catering solutions to society's increasing lifestyle nutrition demands for fast yet healthy food. Located in Zurich city centre, Cakefriends' flagship premises offers end consumers a broad range of functional nutrition products. These are high quality, fresh and tasty products developed from traditional recipes that also offer extra benefits: nutritional qualities and beneficial health effects. Cakefriends is a new space where consumers can get the latest information on these products and be the first to find out about its nutritional qualities.

New organizational structure

The integration of Laboratoires Forté Pharma in Natraceutical Group has led to the creation of a new organizational structure. The Group is now made up of two business units, and their corresponding managers are under the CEO's direct supervision:

- Functional Ingredients Division ("Business to Business"), integrated mainly by Natraceutical, Overseal, Obipektin, Exnama and Kingfood.

- Nutritional complements Division ("Business to Consumer"), integrated solely by Forté Pharma.

With this new organizational shift, Natraceutical Group has secured a structure that is capable of powering the growth forecasted for each business activity and secure further progress in their goal to become one of the leading references in the world's functional foodstuffs market.

3. Business evolution by activity line

The Natraceutical Group Holding has closed the financial year 2006 with earnings of € 94 million, compared with € 49 million in 2005. This increase was due to the inclusion, for the first time, in the consolidated accounts of a full year of activity of the Group's subsidiaries Overseal and Obipektin, as opposed to only six months in 2005. Earnings have also increased as a result of the organic growth of ordinary activities in all business areas, and the inclusion of two months of activity of Monegasque company Laboratoires Forté Pharma.

In 2006, the company's after-tax performance was € 4.55 million, compared with € 3.8 million in 2005. The Group's EBITDA rose from € 4.2 million in 2005 (9% of earnings) to € 10 million in 2006 (11% of earnings). Even though organic growth of business turnover reached 13% in 2006, payroll expenses and other operating expenses increased slightly less, which is the main reason behind the improvement of EBITDA margins in 2006.

Functional Ingredients Division:

Natraceutical Industrial S.L.U.

Within the framework of a reorganization of Natraceutical SA's activities to gain higher flexibility in the management of the company's resources, as well as a better use of the synergies created by the Group's organic growth and latest acquisitions, a non-cash contribution was made to the subsidiary Natraceutical Industrial, S.L.U. in June 2006. This contribution involved all business, industrial and R&D-related assets and liabilities. As a result, Natraceutical SA has become a mere shareholder of the subsidiaries, which are now in charge of developing the entire industrial, business and R&D activities.

As a result, Natraceutical SA's individual operating statement figures only include the business and industrial activity performed in the first half of 2006. The remaining 2006 activities are reflected in Natraceutical Industrial SLU's individual statements.

Performance was penalized by poor sales and margins in the functional ingredients / cocoa by-products and alkaloids activity (Natraceutical Industrial SLU's production plant (in Quart de Poblet, Valencia), which were lower than expected due to high production costs in relation to specific natural ingredients and integral deoiled cocoa. Therefore, the company has decided to redesign their activities in relation to said products. As for this business line, the company will focus their 2007 activities on additional products such as Cocoanox and other functional ingredients with which the Company is meeting expected sale, gross margin and performance targets.

Obipektin AG

Sales of pectin, fruit and vegetable powder rose 4.3%, due mainly to the increase in fruit powder sales. Total exports reached 90%. Overseal Natural Ingredients Ltd.

Overseal Natural Ingredients Ltd.

A highlight in 2006 was the positive evolution of sales in the natural colouring and flavouring section, which increased 15% over the previous year. In addition, gross percentage margins generated by these products remained steady, and particularly strong in the UK market.

Nutritional complements Division

Laboratoires Forté Pharma

Laboratoires Forté Pharma was bought by Natraceutical Group in November 2006.Therefore, only two business months of this company were included in the Group's 2006 consolidated accounts.

Laboratoires Forté Pharma's 2006 sales rose to € 48 million in 2006. Therefore, we expect that the integration of the Monegasque company in 2007 will result in the definitive consolidation of Natraceutical Group as the European reference in the fields of functional foodstuffs and nutritional complements.

4. R&D Activity

Throughout 2006, Natraceutical Group worked extensively in the fields of innovation, development and research.This has led to the creation of a scientific committee made up of internationally recognized researchers in several nutrition and health areas.

In 2006, Natraceutical Group has applied for seven new patents that will together lead to a great improvement in the company's economic and business performance in the short term.

1st patent: Organic Pectin

In February 2006, the Group released the patent for the production of the world's first organic pectin.This patent is part of a multinational project participated by the Group's R&D unit, along with organic-certified raw material manufacturers in developing countries. Natraceutical Group contributes to the project with their technological know-how and intellectual property rights for the production of organic pectin.

Pectin, with estimated worldwide production of approximately 35,000 tons / year, is a gelling ingredient, key for the preparation of many foodstuffs, such as beverages, milk products, desserts, jams and jellies. In addition, as it is a soluble fibre, it contributes to the improvement of intestinal traffic and is used in some instance as anti-diarrheic agents.

The production of organic-certified pectins was not possible until now. Natraceutical Group, thanks to the integration of their R&D team's efforts, has successfully developed this groundbreaking system for the production of this ingredient, which has been adapted to both the latest market trends and the company's strategy for production of increasingly healthier ingredients for the benefit of consumers.

Natraceutical Group currently produces approximately 1,100 tons of pectin, around 10% of the Group's overall turnover.The upward trend of growth of organic products, including developed pectins, is predicted to reach 20% in USA and 10% in the EU, with worldwide business turnover of € 30,000 million.The largest European consumers of organic products include Switzerland and United Kingdom, where the Group has a direct presence and is well positioned thanks to the production, distribution and commercial centres they run in said countries.

2nd patent: CocoanOX

The application for the CocoanOX patent was submitted in February 2006. CocoanOX is a type of cocoa powder with high polyphenol contents and the highest ORAC (Oxygen Radical Absorbance Capacity) antioxidant capacity in its class. It has been proven that polyphenols, as the antioxidant compounds found in cocoa are known, can help reduce the risk of contracting coronary diseases and cancer.

This patent features a higher concentration of polyphenols thanks to the process control conducted from raw material-source countries, where the Group has been recently investing in technology. In addition, we have achieved higher bioavailability, that is, easier absorption by the human body.These are the key features of the product, which ensure growing demand from large operators in the foodstuffs sector to meet the demands arising from consumer trends.

The International Society of Antioxidant in Nutrition and Health awarded Natraceutical Group the "Best Antioxidant Ingredient Development Award" for CocoanOX.The award ceremony was held in Malta in late 2006 during the 3rd Conference on Polyphenols in Nutrition and Health

3rd patent: Soluble Cocoa Fibre Alkalinization

In March 2006, Natraceutical Group patented the process of alkalinization of Soluble Cocoa Fibre, which enables for the first time the use of this fibre in milk by-products.

The importance of the process lies in the fact that it improves the conditions of alkalinization of soluble cocoa extract, rich in dietetic fibre, for the purpose of neutralizing its pH and using it in milk-based applications such as cocoa shake, which require near-neutral-pH ingredients.

The food fibre industry is one of the most dynamic in global terms. Only in the last year, 600 new products were registered in Europe and over 1,000 in the US that specify a high fibre content in their labels. In addition, the number of new products with fibre contents increases by 100% every year, which responds to the fact that 40% of Americans and 33% of Europeans seek fibre in the list of healthy ingredients on labels. Thus, over 15% of all products launched in the last 12 months that claim to contain fibre are classified as beverages, of which about half (7.5%) belong to the milk-based drink segment. In broad terms, the food fibre-ingredient market currently yields about € 150 million in Europe alone, with variable growth rates ranging from 8% to 16% per annum.

Pre-clinic assays conducted on Soluble Cocoa Fibre released by Natraceutical Group in 2006 show that regular consumption of this fibre has a significant effect on cholesterol / triglyceride levels and, therefore, help reduce the risk of suffering specific cardiopathies. This research has also provided evidence of the fact that Soluble Cocoa Fibre cuts down low-density cholesterol (aka LDL or "bad cholesterol") by up to 54%, and blood triglyceride levels up to 40%, compared with the control diet group. This data gives an idea of the potential of fibre to become a functional ingredient to help prevent cardiovascular health problems and, thus, a highly relevant market.

4th patent: CocoanOX-70

The application for the CCX-70 patent was submitted in May by Natraceutical Group. CCX-70 is a range of cocoa flavonoids that is six times stronger in antioxidant power than vitamin C, the highest level ever achieved to date, with the extra bonus of offering higher bioavailability, that is, easier absorption by the human body.

The main market for CCX-70 is the dietetic supplement and nutritional complement sector, in which this type of antioxidant is fast becoming one of the most promising consumer trends, with a market potential estimated to reach over € 670 million in 2007, and growth rates of over 12% according to research conducted by Business Insights.

CCX-70 antioxidant index or ORAC (Oxygen Radical Absorbance Capacity) is six times higher than that of Vitamin C, another popular antioxidant. Flavonoids (natural antioxidants belonging to the polyphenol family) are natural compounds that provide multiple health-boosting effects thanks to their antioxidant and free-radical removal properties. Scientific reference provides evidence of the health-boosting properties of cocoa flavonoids that, thanks to their antioxidant and anti-inflammatory action, has a beneficial effect on the factors that lead to specific cardiovascular diseases, such as LDL (aka "bad cholesterol)-reduction triggers and enhances high blood pressure control.

5th patent: Sterilization Method

The application for a new patent for a new clean sterilization system that maintains the natural features of foodstuffs was submitted in June.

Based on the use of Supercritical CO_2 (that is, CO_2 behaving as a liquid) this system removes bacteria from food without altering the raw material's properties or features.

Furthermore, this process enables product sterilization and extraction during the same procedure and without the need to reach high temperatures, which makes it a cost / energy-efficient operation. As a result, food products that undergo this process do not lose any of their natural characteristics and properties. Natraceutical Group is already applying this system to their cocoa by-products with high polyphenol content and is assessing the possibility of applying it to other raw materials.

The groundbreaking CO_2-based sterilization system opens a new field of food research and development, as hitherto high-temperature sterilization was one of most critical stages of the industrial production of specific molecules with biological activity on health. Thanks to this new system, extremely heat-sensitive molecules, such as antioxidants, can remain intact during the entire process (raw material to end ingredient) and provide all the possible health benefits.

6th patent: New colorant with vitamins C and E

The application for a patent of a new variety of food colorant developed by Natraceutical Group was submitted in September. This colorant includes antioxidants such as Vitamin C (ascorbic Acid) and Vitamin E (Alphatocopherol) along with other naturally-sourced colorants. This is a major breakthrough in the field, as this new colorant offers great nutritional benefits and provides efficient protection against cell-ageing caused by an excess of free radicals due to external factors including pollution, solar radiation or smoke inhalation.

This variety may be included in numerous food products such as beverages, milk-based foodstuffs and tinned food, to which it provides a source of natural colouring as well as nutritional benefits for consumers.

7th patent: New dosage system Talin®

The last patent submitted in 2006 describes a new industrial application mechanism for Talin®, a multifunctional ingredient used as flavour enhancer and sweetener for application in sweets, desserts and beverages.

Due to the high sweetening power of Talin®, the concentrations in which it is used industrially reach "parts per million" (ppm), which makes it difficult to use in specific cases. The new application system will improve dosage of the ingredient by attaching it to a food quality film that is easier to handle in industrial quantities.

The new industrial Talin® dosage improvement system will enable the positioning of this ingredient as one of most industrially versatile sweeteners in the market, greatly increasing the market potential of an ingredient that is already yielding € 2.5 million per year. This project is a product of the company's innovative line of research focused on seeking new systems to enable the application of functional ingredients to increased numbers of products. Such work would not be possible without close collaboration between the R&D departments of Natraceutical Group and the research departments of their end clients.

In 2006, Natraceutical Group received the "2006 Growth Strategy Leadership Award" from leading independent consultancy and market research firm Frost & Sullivan, in recognition of the strategic acquisition of Overseal Natural Ingredients Ltd. and the Group's penetration in the growing sweetener market with their product Talin®.

5. Significant events after the balance sheet date

Creation of Forté Pharma Ibérica

In January 2007, Natraceutical Group joined the Spanish pharmaceutical distribution sector thanks to the creation of Forté Pharma Ibérica. This is the first stage of Forté Pharma's international expansion project -the Monegasque company acquired by Natraceutical Group in 2006 that specializes in nutritional complements- to export its successful business model from France to the national market.

Barcelona-based company Forté Pharma Ibérica is fully owned by Natraceutical Group and has become the leading supplier of Forté Pharma's products in Southern Europe.

This operation was carried out following the agreement signed with Laboratorios Inibsa, by virtue of which Natraceutical Group bought a part of their sales units for distribution of Forté Pharma's products to Spanish pharmacies through the new subsidiary Forté Pharma Ibérica. The network is strongly backed by the experience gathered in the distribution of exactly the same products in Spain during the last two years. The agreement also provides for Laboratorios Inibsa's transfer of their well-established and active client portfolio, which will ensure product sales by Forté Pharma Ibérica right from day one.

Acquisition of Kingfood Australia

In February 2007, Natraceutical Group reached an agreement for the integration of Kingfood Australia PTY Limited, a company that has focused exclusively on the activities of preparation and commercialization of ingredients and aromas for the food industry for over twenty years. Kingfood has also been supplying Natraceutical's range of natural colourings in Australasia since 1998.

The operation, formalized in Sydney on February 28th, cost € 5.4 million, and will enable Natraceutical Group to further boost its presence in the Asia Pacific market.

With the acquisition of Kingfood Australia, Natraceutical Group considerably increases its level of penetration in the Australian and Asian markets, where they already have a commercial branch (Bangkok), 35 highly skilled specialists with extensive knowledge of Natraceutical products, own commercial network, a well-established client portfolio reaching annual turnover around € 10 million, as well as new products and additives for their portfolio. These products, recently launched, are manufactured at their own factory (4,000m2) which specializes in premixes (mixes of ingredients with several functionalities) including up

to 50 different ingredients and additives that enable the creation of custom mixes according to the needs and requirements of each client.

Kingfood Australia, which holds collaboration agreements with the world's leading aroma and additive companies, will be integrated into Natraceutical Group's functional ingredients division, and specifically in the natural colouring business activity, which grew 15% in 2006.

This acquisition is included in this Natraceutical Group division's 2007-2011 strategic plan, in which Australia and Asia are specified as markets with high potential for growth in the short and medium term. Australia is one of the most interesting countries for functional foodstuffs in this area, with market volumes reaching € 1 billion, annual growth exceeding 10%, a 28% increase in penetration of functional foodstuffs in Australian homes in 2006 according to Datamonitor.

Executive Presidency

On March 1st 2007, Mr Xavier Adserà took up the position of Chief Executive Officer of Natraceutical Group, which involves an increased involvement in the process of growth and development of the company. Mr Adserà had been Non-executive Officer of the Group since May 2005.

At the same time, as part of his new role in Natraceutical, the new CEO has acquired 5% of the parent company Natra, of which he has been a member of the Board since 2000, with the purpose of supporting the stable group of core investors who are driving the Group's business project, and are owners of 56% of Natraceutical.

Awards

On march 2007, the economical magazine *Dinero* awarded Xavier Adserà for his excellent performance at the helm of the company since he took over in May 2005.

During the first quarter of 2007, Natraceutical Group received two more awards for their excellent export and innovation activities. The Patente Alfil award was received from the Valencia Advanced Tertiary Federation's (FTACV) in recognition of Natraceutical Group's performance in the areas of R&D&I and industrial innovation protection.

The IMEX-Fortis award to the best performing export company was received from the Moneda Unica magazine, in recognition of Natraceutical Group's high export rates in 2006, which reached 95%.

6. Audits

In 2006, all Natraceutical Group production plants successfully passed all compulsory audits including the monitoring of the Quality Management System according to ISO standards, with no relevant non-conformity detected.

Furthermore, several client-commissioned audits were also successfully passed in 2006. As a result, Natraceutical SA's clients rest assured that their requirements are fully met in all stages of the supply chain's processes, as well as any other requirements laid out in currently applicable regulations and standards, including HACCP (Hazard Analysis and Critical Control Points).

The 2006 accounts were audited by Deloitte S.L., expressing an unqualified opinion.

7. Stock Market Evolution

The acquisition was debt-free and fully paid up in cash. NatraceuticaGroup financed the operation partly with its own borrowing capacity and through capital increase. This capital increase, approved by the CNMV (Spanish Securities and Investments Board) on October 6th 2006, involved the issue of 82,178,486 new shares totalling € 61,633,486. On completion of the capital increase operation, fully taken up within the allocated term (October 10th - 24th 2006) there are now 328,713,946 shares in the market, and shareholder's equity has increased to € 32,871,395.

The company's stock market value increased 96.33% in 2006, increasing from € 1.09 to € 1.82 per share at the end of the year 2006 (including the effect of the capital increase performed in October 2006). To December 31st 2006, the company's market capitalization was set at € 598 million.

8. Environment

In 2006, Natraceutical Group further developed a line of investment focused on the improvement and maintenance of sustainable environmental management. The company, well aware of the impact of its activities on the environment, continued investing not only in waste management activities but also in cutting down and occasionally eliminating waste completely with the application of clean and environmentally-friendly technologies.

The company has also invested in the removal of organic solvents in all possible processes, water consumption reduction, waste recycling / reuse and replacement of old technologies by other most modern and cost-efficient technologies. All these activities will lead to a better use of resources and energy sources and to further reduction of the environmental impact.

Accordingly, in 2006, several activities were also carried out at Obipektin's plants for the purpose of minimizing environmental impact, reducing the risk of pollution, cutting down energy / drinking water consumption and waste production (including wastewater). This environmental commitment is further proved by the company's involvement in the Energy Agency for Industry (EnAW) for reduction of CO^2 emissions.

At the same time, Natraceutical Group has further boosted in-house / external staff training and awareness activities with the purpose of raising awareness on the importance of carrying out environmentally-friendly activities in all industrial and daily operations.

NTC SHARES	YEAR 2006	YEAR 2005
Shares issued at the end of the year	328.713.946	246.535.460
Own shares held at the end of the year	7.296.667	3.403.110
Higher share price	€ 2,09	€ 1,27
Lower share price	€ 1,09	€ 0,77
Share price at the end of year	€1,82	€ 1,09
Net profit	€ 4.549.062	€ 3.757.368
No instruments traded during the year	436.791.820	354.481.233
Market capitalisation	€ 598.000.000	€ 269.000.000

9. Quality

Quality Policy

Since October 2003, Natraceutical Group has been implementing a quality management system that meets all the requirements laid out by the ISO 9001:2000 standards. This certification applies to all activities carried out by the Group, from new product innovation and development to commercialization, and including all production stages, supplier-client relations, staff training and management commitment.

Natraceutical Group also passed successfully all quality audits conducted in the last financial years, including the monitoring of the Quality Management System and Kosher Certification, the latter required for operations in the Israeli market. The company also passed all client-commissioned quality (unqualified report). This is a key process, as clients can rest assured that their requirements are fully met throughout all stages of the supply chain's processes. Other systems, such as Knowledge Management and Balance Scorecard, are used to support the Total Quality Management process.

Natraceutical Group is fully committed to compliance with local / international laws.

Product Safety Policy

Natraceutical Group complies with all safety regulations and standards that guarantee the safety and quality of their products. Therefore, the group has implemented the HACCP system (Hazard Analysis and Critical Control Points) to which all staff is committed with the purpose of ensuring safe and harmless products. HACCP guarantees observance of legal regulations and good hygiene practices in all production and storage facilities. Product safety is guaranteed not only in the final stage: good practices and standards are strictly observed in all stages of the supply chain, from the raw-material stage to the final delivery of the end product.

The HACCP system is broadly accepted worldwide as a systematic and preventive approach to biological, chemical and physical hazards based on prevention and foresight instead of mere end-product checks.

10. Corporate Social Responsibility

Natraceutical Group and their clients

Quality for the Client

In 2006, all Natraceutical Group production plants successfully passed all compulsory audits including the monitoring of the Quality Management System according to ISO standards, with no relevant non-conformity detected.

Furthermore, several client-commissioned audits were also successfully passed in 2006. As a result, Natraceutical SA's clients rest assured that their requirements are fully met throughout all stages of the supply chain's processes, as well as any other requirements laid out in currently applicable regulations and standards, including HACCP (Hazard Analysis and Critical Control Points).

Data Protection

Natraceutical Group fully complies with the LORTAD Personal Data Protection and Automatic Treatment Act's principles and regulations (Spanish Organic Act 15/1999 of December 13th) as well as with its own Code of Conduct.

Natraceutical Group and its Staff

Job creation

The Group's staff rose from approximately 347 employees in 2005 to around 470 in 2006, over 20% of whom are engaged in research, development and innovation activities, which requires a high level of expertise and specialization.

The acquisition of Laboratoires Forté Pharma has led to 121 new staff, most of whom develop their professional activities in the commercial, marketing and R&D departments.

Management of Human Resources

Currently, Natraceutical Group's staff is made up of professionals from many countries in four different continents, who provide the company with broad awareness and knowledge of the world's leading markets. Most employees operate in Europe (Switzerland, Spain and UK) but also in the Ivory Coast, Brazil, USA and Thailand. The busiest industrial plants are in Valencia (Spain), Switzerland (two), UK and Brazil, with a total combined area of 250,000m^2.

Professional Training and Development

Natraceutical Group has all the occupational tools required to carry out efficient and dynamic knowledge-management activities with their staff. Therefore, the work carried out by all members of the staff is assessed and recognized, which in turn enables the company to foster creativity and enthusiasm among employees.

Natraceutical Group and its Shareholders

As for the company's relations with Shareholders, Natraceutical Group is committed to the principle of transparency of financial market activities and information. Therefore, the Group has adopted the appropriate resources to ensure the release of any information that may be relevant for investors, as well as its accuracy and truthfulness. To achieve this goal, the appropriate mechanisms have been made available to ensure all shareholders have access to identical information at the same point in time. This commitment was further reinforced in 2006 with the creation of the Investor Relations Department in charge of providing answers to the enquiries and requirements from shareholders, and preparing all reports and notices for public release.

By virtue of the recommendations laid out in the Aldama Report, the company releases information to the market swiftly, accurately and precisely, particularly any regular information or data that may be deemed relevant for investors. In addition, all shareholders may gain access to the company's financial data relevant facts and any other general or corporate governance-related data by visiting the group's website www.natraceutical.es, on page "Information for Shareholders and Investors".

As well, the Board is responsible for supplying the markets with all information in relation to the company's shareholding structure, any substantial changes or amendments to governance rules, and any major or portfolio-related operations

Furthermore, all regular financial information besides annual reports released to the market is prepared in accordance with the same professional principles and practices that govern the Annual Accounts. This information is reviewed by the Audit Committee prior to its release.

All regular financial statement-related information released to the public is reviewed by the Audit Committee prior to submission to the Board to ensure accuracy, truthfulness, clarity, and completeness.

Natraceutical Group in Society

Tribuna NTC

Natraceutical Group held the 1st Tribuna NTC on October 2nd 2006, a forum for presentation and debate of current issues on health and scientific research, focusing specifically on nutrition as a way to prevent disease and improve quality of life.

As a biotech group, leader in research and development in the sector of functional food, Natraceutical Group has launched Tribuna NTC with the aim of opening avenues of reflection regarding the increasing social demand for scientific research, wellness, quality of life, and food as a way to prevent disease.

The 1st Tribuna NTC's lead speaker was neurologist Dr Antonio Damaso (2005 Principe de Asturias Award). Participants in the ensuing debate included Natraceutical Group CEO, Mr Xavier Adserà, and Dr María José Rosselló, Director of the Human Nutrition and Dietetics Department at the Ramon Llull University.

Annual event Tribuna NTC reinforces Natraceutical Group's scientific and social commitment for development and public release of functional alternatives to traditional nutrition aiming at improving quality of life.

Future Outlook and Strategy

Following the end of the 2006 financial year, one of Natraceutical Group's goals for the following year is to become a leading world reference in the ingredient production field and consolidate as a European leader in the field of nutritional complements. The outlook is excellent thanks to the Group's strategic commitment to both business lines.

The 2007 budget submitted by the company anticipates earnings of up to € 160 million and EBITDA in the vicinity of € 16 million. Natraceutical Group expects to reach these figures with a growth strategy focused -for functional and active ingredients- on product portfolio increase and consolidation of the international expansion process.

Within the field of nutritional complements, Natraceutical is planning to launch an ambitious internationalization process to secure its penetration in countries such as Belgium, The Netherlands, Austria, Spain, Portugal and Italy within the next two years. The second stage of this process will focus on seeking further penetration into the British and German markets, both of which share many similarities with the US market, our end goal, where the vitamin and nutritional complement market is four times larger than Europe's.

Committed to export to other European countries Laboratoires Forté Pharma's successful business model, developed in France in the last four years, Natraceutical Group will make heavy investments in advertising and marketing actions within the next two years to ensure strong penetration in countries such as Spain. The company will also focus on increasing its range of products in order to reduce the heavy reliance on seasonal business lines (weight loss and slimming) with major volume turnovers occurring during the first half of the year which are currently representing 60% of the portfolio.

Natraceutical Group's business plan is clearly set out, with clear goals and a growth strategy that is increasingly consolidating year after year. Therefore, we are very optimistic about our future outlook.

Functional Foodstuffs Division

Product portfolio expansion

Based on R&D activities and development of innovative ingredients to meet the demand of the latest markets trends. Move from ingredient supplier to solution provider.

Increased presence in the world

Geographical expansion of the company in North America, Australia, Asia and emerging markets such as the Russian Federation and Eastern Europe, seeking to become a major global player.

Non-organic growth

Acquisitions, joint-ventures and strategic alliances with partner companies.

Nutritional Complement Division

Product portfolio expansion

Development of 4 activity segments: weight loss, phytotherapy, health and beauty.
Sales growth boosted by continuous release of new products - 10-15 new products per year.

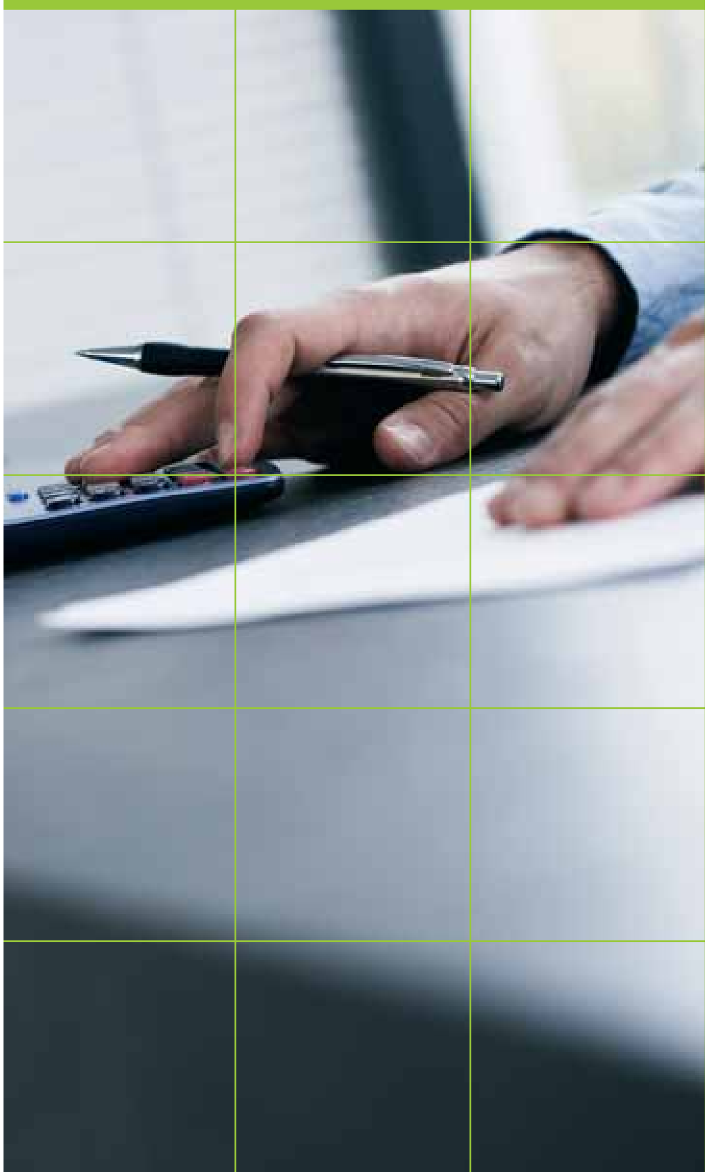
Growth in Spain

Creation of Forté Pharma Ibérica, involving the acquisition of a commercial network and client portfolio in Spain, and increased investment in advertising to establish the brand in our country.

Internationalization to neighbouring countries

Presence in new growing economies.
- First stage (2007-2008): Benelux, Italy, Portugal and Austria.
- Second stage (2009-2010): UK and Germany

Company Administration



Company Administration

According to the Regulations of the Board of Directors approved on 16 April 2003, the administration of Natraceutical is the responsibility of its Board of Directors The current regulations specify the principles for action by the Board of Directors, control its organisation and operation and set the standards of conduct for its members in order to achieve the greatest degree of efficiency possible.

The Board of Directors prepares an annual public report on company administration in compliance with the stipulations of Law 26/2003 of 17 July whereby Law 24/1988 of 28 July on the Securities Market and the revised wording of the Law on Limited Liability Companies and in the Ministerial Order of 26 December 2003 are modified.

This report is included in its entirety at www.natraceutical.es, and gives information relating to:

1. Shareholding

At the close of the 2006 financial year, the capital of Natraceutical Group was made up of 328,713,946 ordinary shares with a nominal value of 0.10 euros, fully subscribed to and paid up.The business capital is therefore 32,871,395 euros.

BUSINESS CAPITAL	32,871,395 euros
NUMBER OF SHARES	328,713,946
NOMINAL VALUE	0.10 euros

Shareholders with significant participations

Natra S.A. continues as the main shareholder of Natraceutical Group, although its participation was reduced from 61,45% to 55.79% during 2006. Natra S.A. controls a total of 183,379,569 shares.

Another three shareholders controlled significant participations in the capital of the Natraceutical Group as at 31 December :The Nozar Group, which owned 5%; Bilbao Bizkaia Kutxa (BBK), which controlled 4.59%; and BMS Promoción y Desarrollo, S.L. which had 3.4% of the shares.

The entry of the Nozar Group and the expansion of the participation of Bilbao Bizkaia Kutxa (BBK), which allowed Natraceutical's capital to be strengthened, deserve special mention. Natraceutical is interested in including more institutions in its shareholding base and strengthening its independence in management by diversifying its main administrative body with the inclusion of directors and shareholders from institutions unconnected with the Natra Group.

Significant shareholders as at 31 December 2006:

NATRA S.A.	56%
NOZAR GROUP	5%
BBK	4,59%
BMS PROMOCIÓN Y DESARROLLO S.L.	3,4%

Own portfolio

At the close of 31 December 2006, the Natraceutical Group owned 7,296,667 of its own shares, purchased at an average price of 0.87 euros during 2005 and 2006.

At the General Meeting of Shareholders held on 19 June 2006 the Board of Directors was authorised to purchase company shares directly or through companies in which a participation is held, with the limits and requirements laid down by the Law on Limited Liability Companies, the minimum and maximum limits being 0.5 and 5 euros, respectively. The Board of Directors has made use of this authorisation.

2. Board of Directors

Functions

The Board of Directors concentrates its activities on the general task of supervision and control by delegating the running of the company's ordinary business to the executive bodies and management team.

The guiding criterion for action by the Board of Directors is maximisation of the company's long-term value, while strictly respecting the ethical principles and values imposed by a responsible running of business.

During 2006 the Board of Directors met 10 times.

Composition

Adapting its size to the recommendations of the Standards for Sound Administration, the Board of Directors of Natraceutical, S.A. is made up of seven members, which allows efficient, participatory operation.

At the close of the last financial year, the Board was made up as follows:

POSITION		REPRESENTATIVE	STATUS
CHAIRMAN	XAVIER ADSERÁ GEBELLI		External director
CHIEF EXECUTIVE	JOSÉ VICENTE PONS ANDREU		Executive director
DIRECTOR	NATRA S.A.	MANUEL MORENO TARAZONA	Director holding or representing important shareholdings
DIRECTOR	JOSÉ MANUEL SERRA PERIS		Independent director
DIRECTOR	BMS PROMOCIÓN Y DESARROLLO, S.L.	JOSÉ LUIS NAVARRO FABRA	Director holding or representing important shareholdings
DIRECTOR	JUAN IGNACIO EGAÑA AZURMENDI		Director holding or representing important shareholdings
DIRECTOR	ALICIA VIVANCO GONZÁLEZ		Director holding or representing important shareholdings

At the meeting of the Board of Directors of 24 October 2006 it was decided to appoint the shareholder Alicia Vivanco, proposed by BBK, as a co-opted Director and she accepted the post.

The members of the Board of Directors do not have participations and/or responsibilities in the capital of companies with the same, similar or additional type of activity which constitutes the business aim of the Company, with the exception of positions which they hold in the administrative bodies of companies in the group to which Natraceutical, S.A.

Shareholdings of members of the Board of Directors

The members of the Board of Directors directly or indirectly owned 195,971,027 shares at the close of the 2006 financial year, 59.61% of the business capital, distributed individually as follows:

The Regulations of the Board govern situations of conflict of interest, the use of company assets, the use of non-public information, explotation of business operations to the benefit of a director of which he/she was aware through his/her status as such and compromise arrangements with directors or significant shareholders, but none of these matters arose during the 2006 financial year.

DIRECTOR	DIRECT SHARES	INDIRECT SHARES	%
NATRA S.A.	183.379.569	0	55,787
BMS PROMOCIÓN Y DESARROLLO, S.L.	6.891.733	4.239.517	3,386
JUAN IGNACIO EGAÑA AZURMENDI	1.450.761	0	0,441
JOSÉ VICENTE PONS ANDREU	7.776	0	0,002
ALICIA VIVANCO GONZÁLEZ	1.000	0	0,000
XAVIER ADSERÀ GEBELLÍ	427	244	0,000

Directors' remuneration

Payments due to Directors of the parent Company by way of expenses, wages and salaries during the 2006 financial year amounted to 357,000 euros. In addition, during 2006 certain Directors carried out executive functions, accruing payments of 760,000 euros (of which 120,0000 euros corresponded to salary bonuses in addition to those indicated above), which as at 31 December 2006 were pending to be payed and were recorded under the heading "Other current liabilities" in the consolidated balance sheet.

Similarly, as at 31 December 2006 there were no advance payments, pension, life insurance commitments or other kinds of obligations in connection with former and present members of the Board of Directors.

Operating rules

The Board of Directors is governed by the operating rules laid down in general by the Law on Limited Liability Companies for this body, by the Articles of Association and by the development rules for operations contained in the Regulations of the Board of Directors which are published on the webpage www.natraceutical.es, under the Company Administration section in "shareholders and investors information". This page also includes the complete wording of the Articles of Association.

During sessions of the Board, Directors are provided with information on the economic and financial situation of the company and the Group and the most important investment and disinvestment decisions and any relevant issue on the company's progress are examined. In addition to the information received during the sessions of the Board, Directors have the power to request any information which they consider necessary or suitable at any time for the sound performance of thei duties.

3. Audit Committee

During 2006 the Board of Directors was supported by the Audit Committee (this being the only delegated commission of the Board of Directors). This is not considered a company body but does constitute a tool in the service of the Board of Directors.

The Audit Committee is responsible for :

- Proposing the appointment of the Auditor, his/her conditions of service and, if necessary, the cancellation or extension of his/her mandate.
- Checking that internal audit procedures and the control systems are suitable.

- Reviewing his/her processes and conclusions with the external auditor.
- Supervising correct application of generally accepted accounting principles.

At present the Audit Committee does not have its own regulations and its operation is regulated by the stipulations of the Regulations of the Board of Directors.

Group auditors' fees

The members of the Audit Committee receive no fee for being members.

During the 2006 financial year, fees relating to annual auditing services provided for the different companies which make up the Natraceutical Group amounted to 275,000 euros, of which 44,000 euros were in respect of the chief auditor, 136,000 euros other companies linked to his/her organisation and 95,000 euros to other auditors. The chief auditor received 29,000 euros by way of fees for services other than auditing, as well as 43,000 euros by way of services provided by other firms linked to his/her organisation.

4. Appointments and Pay Commission

The main aim of the Appointments and Pay Commission, which meets at least twice a year, is to make proposals to the Board of Directors in connection with:

- The Group's pay policy at the highest level.
- The general pay policy lines of the Group and its subsidiaries.
- Recommendations to the Board of Directors regarding pay systems for administrators and participation by directors and employees in the Natraceutical's business capital for it to make to the General Meeting of Shareholders.
- Analysing operations with parties linked to the Company. In the event of an operation affecting a member of the Board, he/she must refrain from taking part in analysis thereof;
- The features and conditions of the Company share option plans and the directors and employees at whom they are aimed.

Members of the Appointments and Pay Commission do not receive any payment for their membership of the Commission.

5. General Meeting

Regulations of the General Meeting

The General Meeting of Shareholders of 28 June 2004 approved the text of the Regulations of the General Meeting of Shareholders. In accordance with the Law and the Articles of Association, the responsibilities of the General Meeting will be developed and the summoning and preparation of the Meeting will be regulated in these Regulations by specifying the shareholders' rights to information as well as their rights to attend and to delegate votes, quorums for constituting the Meeting and the holding thereof, with the powers of the Chair, order of shareholders' interventions, ballots and the system for adopting and documenting resolutions, publishing resolutions and the validity of the Regulations.

Information on attendance at the General Meeting of Shareholders

At the General Meeting of Shareholders held on 19 June 2006, the only one held during the financial year, 7.17% of shares were physically present and another 1.4% were represented. Therefore, 73.1% of the capital were represented at the meeting.

List of resolutions adopted by the General Meeting in 2006

The following resolutions were adopted at the General Meeting of Shareholders held on 19 June 2006:

- The Individual and Consolidated Annual Accounts for the 2005 financial year were approved.
- Application of the result for the financial year was approved, with 10% being earmarked for the legal reserve and the rest to offset negative results for previous years.
- It was decided to confirm Juan Ignacio Egaña Azurmendi, designated by coo-option, for a period of five years from the date that he was appointed by the Board of Directors on 10 January 2006.

- It was decided to appoint the company Deloitte, S.L. auditors for the 2006 financial year for both Natraceutical S.A. as parent company and for the consolidated group.
- The Board of Directors was authorised to purchase company shares directly or through companies in which a participation is held, with the limits and requirements laid down by the Law on Limited Liability Companies, the minimum and maximum limits being 0.5 and 5 euros, respectively.
- Modification of article 15 of the Articles of Association and article 5 of the Regulations of the General Meeting with regard to the extension of the period for publication of the announcement of the call to the General Meeting and the shareholders' right to request publication of a supplement to the call, including new points on the agenda, was agreed.
- Modification of article 29 of the Articles of Association with regard to the holding of meetings of the Board in various interactive rooms by audiovisual means was agreed.

Shareholders' rights

All shareholders who own one thousand or more shares registered in their name in the register of notes in a corresponding account at least five days in advance of the day on which the Meeting is to be held have the right to attend the General Meeting.

With regard to the General Meeting of Shareholders of 19 June 2006, the Board of Directors made all proposals made for approval by the General Meeting, if appropriate, available to shareholders prior to the meeting being held. All proposals were accepted by a favourable vote by an ample majority.

6. Company Administration Report

By the regular review of financial information by the Audit Committee beforehand, the inclusion of information on company administration on the company webpage, and the distribution of information to be dealt with at sessions of the Board of Directors prior to the meeting being held, the company is getting ready to comply with the new requirements of the Unified Code of Sound Company Administration.

Similarly, at the beginning of 2007, the company took another step in this regard by creating the Investor Relations Department, which will deal with shareholders' questions and their requests for information and will prepare public information to be distributed on the market.

The contents of Company Administration is included under the heading “Information for shareholders and investors” on the webpage www.natraceutical.es.

2006 Consolidated Annual Accounts / Audit Report

Deloitte.

Avda. de Aragón, 30
Edificio Europa
46021 Valencia
España

Tel.: +34 963 07 09 00
Fax: +34 963 07 09 60
www.deloitte.es

Translation of a report originally issued in Spanish based on our work performed in accordance with generally accepted auditing standards in Spain and of consolidated financial statements originally issued in Spanish and prepared in accordance with IFRSs as adopted by the European Union (see Notes 3 and 27). In the event of a discrepancy, the Spanish-language version prevails.

AUDITORS' REPORT ON CONSOLIDATED FINANCIAL STATEMENTS

To the Shareholders
of Natraceutical, S.A.:

1. We have audited the consolidated financial statements of Natraceutical, S.A. and Companies composing the Natraceutical Group comprising the consolidated balance sheet at 31 December 2006, and the related consolidated income statement, consolidated statement of changes in equity, consolidated cash flow statement and notes to the consolidated financial statements for the year then ended. The preparation of these consolidated financial statements is the responsibility of the Parent's directors. Our responsibility is to express an opinion on the consolidated financial statements taken as a whole based on our audit work performed in accordance with generally accepted auditing standards, which require examination, by means of selective tests, of the evidence supporting the consolidated financial statements and evaluation of their presentation, of the accounting policies applied and of the estimates made.

2. As required by corporate and commercial law, for comparison purposes the Parent's directors present, in addition to the consolidated figures for 2006 for each item in the consolidated balance sheet, consolidated income statement, consolidated statement of changes in equity, consolidated cash flow statement and notes to the consolidated financial statements, the figures for 2005. Our opinion refers only to the consolidated financial statements for 2006. On 25 April 2006, we issued our auditors' report on the 2005 consolidated financial statements, in which we expressed an unqualified opinion.

3. In our opinion, the accompanying consolidated financial statements for 2006 present fairly, in all material respects, the consolidated equity and consolidated financial position of Natraceutical, S.A. and Companies composing the Natraceutical Group at 31 December 2006, and the consolidated results of their operations, the changes in the consolidated equity and their consolidated cash flows for the year then ended, and contain the required information, sufficient for their proper interpretation and comprehension, in conformity with International Financial Reporting Standards as adopted by the European Union, applied on a basis consistent with that of the preceding year.

4. The accompanying consolidated directors' report for 2006 contains the explanations which the Parent's directors consider appropriate about the Group's situation, the evolution of its business and other matters, but is not an integral part of the consolidated financial statements. We have checked that the accounting information in the consolidated directors' report is consistent with that contained in the consolidated financial statements for 2006. Our work as auditors was confined to checking the consolidated directors' report with the aforementioned scope, and did not include a review of any information other than that drawn from the Companies' accounting records.

DELOITTE, S.L.
Registered in ROAC under no. S0692

M. Monferrer

Miguel Monferrer
18 of May 2007

Consolidated balance sheets at 31 December 2006 and 2005 (euros)

ASSETS	NOTES	2006	2005
NON-CURRENT ASSETS:			
Goodwill	5	130,544,265	50,115,178
Other intangible assets	6	3,211,196	2,466,497
Property, plant and equipment	7	44,609,902	44,271,397
Investments accounted for using the equity method	8	728,998	64,671
Non-current financial assets	9	17,139,335	2,880,922
Deferred tax assets	19	8,081,069	4,205,595
Total non-current assets		204,314,765	104,004,260
CURRENT ASSETS:			
Inventories	11	34,462,414	32,299,769
Trade and other receivables	9	26,975,278	12,719,105
Other current financial assets	10	4,522,873	1,422,262
Current tax assets	9	5,111,031	1,562,500
Cash and cash equivalents	9	13,588,638	4,387,063
Total current assets		84,659,964	52,390,699
TOTAL ASSETS		288,974,729	156,394,959

The accompanying Notes 1 to 27 are an integral part of the consolidated balance sheet at 31 December 2006.

LIABILITIES	NOTES	2006	2005
EQUITY			
Share capital	12	32,871395	24,653,546
Share premium	12	103,493,534	50,077,515
Reserves (retained earnings)	12	5,343,339	(35,541)
Reserves of fully consolidated companies	12	6,614,767	3,117,192
Reserves of companies accounted for using the equity method	12	(72,829)	(77,476)
Treasury shares	12	(6,321,850)	(3,571,440)
Translation differences	12	1,257,485	1,324,001
Profit for the year attributable to the Parent	12	4,549,061	3,757,368
Total equity		147,734,902	79,245,165
NON-CURRENT LIABILITIES:			
Non-current bank borrowings	14	70,116,342	40,427,152
Other non-current financial liabilities	16	11,710,504	1,610,884
Deferred tax liabilities	19	7,166,508	5,199,863
Long-term provisions	13	1,059,117	923,747
Other non-current liabilities	17	99,687	208,579
Total non-current liabilities		90,143,158	48,370,225
CURRENT LIABILITIES			
Bank borrowings	14	18,225,093	12,342,250
Trade and other payables		25,228,183	13,759,204
Current tax liabilities	18	2,214,674	806,892
Other current liabilities	16	5,428,719	1,871,223
Total current liabilities		51,096,669	28,779,569
TOTAL EQUITY AND LIABILITIES		288,974,729	156,394,959

The accompanying Notes 1 to 27 are an integral part of the consolidated balance sheet at 31 December 2006.

Consolidated income statements for the years ended 31 December 2006 and 2005 (euros)

	NOTES	2006	2005
CONTINUING OPERATIONS:			
Revenue	21	90,761,773	46,981,166
+/- Changes in inventories of finished goods and work in progress inventories		(1,541,354)	3,345,557
Procurements	20	(45,083,498)	29,463,752
Gross profit		44,136,921	20,862,971
Other operating income		3,707,610	2,378,249
Staff costs	20	(17,577,116)	(9,725,345)
Depreciation and amortisation charge		(5,271,257)	(2,433,941)
Other operating expenses	20	(20,216,815)	(9,287,672)
Profit from operations		4,779,343	1,794,262
Results of companies accounted for using the equity method (Note 8)		92,062	4,647
Finance income		2,085,702	889,108
Finance costs	20	(4,223,500)	(1,601,682)
Exchange differences (gains and losses)		(556,421)	18,655
Proceeds from disposal of non-current assets		(294,028)	
Asset impairment losses		(628,385)	(475,000)
Profit before tax		1,254,773	629,990
Income tax	18	3,294,289	3,127,378
Profit for the year		4,549,062	3,757,368
EARNINGS PER SHARE (BASIC AND DILUTED)	26	0,02	0,02

The accompanying Notes 1 to 27 are an integral part of the consolidated income statement for 2006.

Natraceutical, S.A. and companies composing the Natraceutical Group

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED 31 DECEMBER 2006 AND 2005

	Euros								
	Share Capital	Treasury Shares	Share Premium	Reserves (Retained Earnings)	Reserves of Fully Consolidated Companies	Reserves of Companies Accounted for Using the Equity Method	Translation Differences	Profit for the Year	Total Equity
Balances at 31 December 2004	18,490,160	-	16,178,889	(1,876,835)	1,369,499	(32,942)	(181,846)	3,580,806	37,527,731
Distribution of profit	-	-	-	1,877,647	1,747,693	(44,534)	-	(3,580,806)	-
Capital increase	6,163,386	-	33,898,626	-	-	-	-	-	40,062,012
Translation differences	-	-	-	-	-	-	1,505,847	-	1,505,847
Acquisition of treasury shares	-	(3,571,440)	-	-	-	-	-	-	(3,571,440)
Other	-	-	-	(36,353)	-	-	-	-	(36,353)
Net profit for 2005	-	-	-	-	-	-	-	3,757,368	3,757,368
Balances at 31 December 2005	24,653,546	(3,571,440)	50,077,515	(35,541)	3,117,192	(77,476)	1,324,001	3,757,368	79,245,165
Distribution of profit	-	-	-	674,181	3,078,540	4,647	-	(3,757,368)	-
Capital increase	8,217,849	-	53,416,019	-	-	-	-	-	61,633,868
Translation differences	-	-	-	-	-	-	(66,516)	-	(66,516)
Acquisition of treasury shares	-	(2,750,410)	-	-	-	-	-	-	(2,750,410)
Valuation adjustments	-	-	-	4,096,859	-	-	-	-	4,096,859
Exclusions from the scope of consolidation	-	-	-	607,840	419,035	-	-	-	1,026,875
Net profit for 2006	-	-	-	-	-	-	-	4,549,061	4,549,061
Balances at 31 December 2006	32,871,395	(6,321,850)	103,493,534	5,343,339	6,614,767	(72,829)	1,257,485	4,549,061	147,734,902

The accompanying Notes 1 to 27 are an integral part of the consolidated statement of changes in equity for 2006.

Natraceutical, S.A. and companies composing the Natraceutical Group (euros)

CONSOLIDATED CASH FLOW STATEMENTS
FOR THE YEARS ENDED 31 DECEMBER 2006 AND 2005 (euros)

	2006	2005
1. CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before tax and minority interests	1,254,773	629,990
Adjustments for:		
Depreciation of property, plant and equipment (+)	3,849,255	1,941,201
Amortisation of other intangible assets (+)	1,422,002	492,740
Net gains on disposal of non-current assets (+/-)	294,028	
Results of companies accounted for using the equity method (+)	(92,062)	(4,647)
Other non-monetary items (+)	159,501	(54,723)
Adjusted profit	6,887,497	3,004,561
Taxes paid	(74,459)	(402,907)
Increase / Decrease in current assets and liabilities		
Increase in inventories	(2,162,645)	(22,544,845)
Increase in accounts receivable	(14,256,173)	(8,453,053)
Increase in other current assets	(6,649,142)	(286,849)
Increase in accounts payable	22,317,100	17,506,979
Effect of translation differences	774,651	868,162
Total net cash flows from operating activities (1)	6,836,497	(10,307,952)
2. CASH FLOWS FROM INVESTING ACTIVITIES		
Investments (-):		
Subsidiaries, joint ventures and associates	(80,144,000)	(44,854,423)
Property, plant and equipment	(5,752,206)	(28,079,170)
Other intangible assets	(3,066,677)	(931,129)
Other financial assets	(10,161,554)	(854,477)
Other assets	33,228	(325,023)
	(99,091,209)	(75,044,222)
Disposals (+):		
Subsidiaries, joint ventures and associates	2,200,000	
Property, plant and equipment and intangible assets	2,759,310	283,952
	4,959,310	283,952
Total net cash flows from investing activities (2)	(94,131,899)	(74,760,270)

The accompanying Notes 1 to 27 are an integral part of the consolidated cash flow statement for 2006.

CONSOLIDATED CASH FLOW STATEMENTS
FOR THE YEARS ENDED 31 DECEMBER 2006 AND 2005

	2006	2005
3. CASH FLOWS FROM FINANCING ACTIVITIES		
Acquisition of treasury shares (-)	(4,096,142)	(3,571,440)
Disposal of treasury shares (+)	7,608,235	-
Repayment of bank borrowings (-)	-	-
	3,512,093	(3,571,440)
Obtainment of new bank borrowings (+)	29,689,190	39,258,737
Obtainment of other new financing (+)	1,661,224	4,433,974
Obtainment of non-refundable grants related to assets (+)	-	-
Capital issue (+)	61,633,868	40,062,012
	92,984,282	83,754,723
Total net cash flows from financing activities (3)	96,496,375	80,183,283
4. NET INCREASE IN CASH AND CASH EQUIVALENTS (1+2+3)	9,201,305	(4,884,939)
Cash and cash equivalents at beginning of year	4,387,063	9,272,002
Cash and cash equivalents at end of year	13,588,368	4,387,063

The accompanying Notes 1 to 27 are an integral part of the consolidated cash flow statement for 2006.

Consolidated Report

For the year ended 31 December 2006

1. Activities of the companies composing the Natraceutical Group

The Parent was incorporated on 1 June 1993, and its registered office is at Plaza América, no. 2, 9ª planta (Valencia). It engages mainly in the provision of management and administrative services as well as the manufacture and marketing of nutraceutical and other active ingredients, refined lard and caffeine.

The principal line of business of each of the companies composing the Natraceutical Group is specified below:

Company	Line of Business
Exnama-Extratos Naturais da Amazônia, Ltda.	Production and marketing of caffeine
Braes Holdings Ltd.	Ownership of investments in other companies
Braes Group Ltd.	Ownership of investments in other companies
Braes Group BV	Ownership of investments in other companies
Braes Esot Trustee Limited	Inactive
Overseal Natural Ingredients Ltd.	Manufacture of colouring, yeasts, aromas and flavours
Oversesal Color Inc.	Inactive
The Talin Co. Ltd.	Manufacture of sweeteners
Britannia Natural Products Ltd.	Inactive
Obipektin AG	Manufacture of pectins and natural fruit and vegetable extracts in powder form
Biópolis, S.L.	Development of micro-organisms and cellular metabolytes
Forté Pharma, SAM	Marketing of pharmacy and parapharmacy nutritional products
S.A. Laboratoires Forté Pharma, Benelux	Marketing of pharmacy and parapharmacy nutritional products
Forte Services, SAM	Provision of management and administrative services
Natraceutical Industrial, S.L.U.	Preparation and marketing of nutraceuticals and other active ingredients, refined lard and caffeine
Cakefriends, Ltd.	Marketing of functional foods

The subsidiary Exnama-Extratos Naturais da Amazônia, Ltda., whose registered office is located in Brazil, commenced operations in May 2002 and has made all its sales to a single customer. Also, a portion of the Parent's caffeine sales (until the date of contribution of the business line described in Note 2) are made to two business groups to which the aforementioned subsidiary's sales are made. In this respect, the sales made to these business groups accounted for 23% of the consolidated sales of the Natraceutical Group in 2006.

On 19 June, 2002 the Parent increased capital by EUR 7,464 thousand, which was fully subscribed by its shareholder Natra, S.A. through the contribution of the line of business consisting mainly of the preparation of nutraceutical and other active ingredients, thereby concentrating at Natraceutical, S.A. the research and manufacture of biotechnological products, mainly for use in relation to nutrition and cosmetics. Pursuant to Article 107 of Law 43/1995, of 27 December adapting certain tax provisions to European Community Directives and Regulations, the information relating to this contribution of line of business is disclosed in the notes to the 2002 financial statements of Natraceutical, S.A.

These companies form part of a higher consolidated group, the Natra Group, which engages mainly in the manufacture and marketing of chemical and food products, the operation of agricultural plantations and the exploitation of tropical products. The Group's Parent is Natra, S.A.

2. Subsidiaries and associates

The Group companies and associates that were fully consolidated or accounted for using the equity method together with information relating thereto at 31 December 2006, are as follows (unless otherwise indicated, the investees are audited by member firms of the Deloitte organisation in their respective countries):

	% of Ownership			
	Domiciled in	Direct	Indirect	Carrying Amount in Euros
Exnama-Extratos Naturais da Amazônia, Ltda.	Brazil	100%	-	7,113,799
Overseal Natural Ingredients Ltd.	United Kingdom	100%	-	46,509,661
Overseal Color Inc. (1)	USA	-	100%	-
The Talin Co. Ltd.	United Kingdom	-	100%	-
Britannia Natural Products Ltd. (1)	United Kingdom	-	100%	-
Obipektin AG	Switzerland	100%	-	30,500,000
Biópolis, S.L. (2)	Valencia	25%	-	554,164
Natraceutical Industrial, S.L.	Valencia	100%	-	35,370,108
Forte Pharma, SAM (3)	Monaco	-	100%	-
Forte Services, SAM (3)	Monaco	-	100%	10
S.A. Laboratoires Forte Pharma Benelux	Belgium	-	100%	-
Cakefriends Ltd.	United Kingdom	41,67%	-	280,042

(1) Not audited. (2) Audited by Carlos Florez Ariño. (3) Audited by Janick Rastello-Carmona and François Brych.

Pursuant to the applicable legislation, the Group companies listed in the preceding table are deemed to be subsidiaries, except for Biópolis, S.L., which is included in the scope of consolidation as an associate, since the Group has a significant influence over it as its representation in the Board of Directors is higher than 20%.

In 2006 certain subsidiaries were included in the scope of consolidation, due to their acquisition or incorporation by the Group through the following corporate transactions:

- On 6 April 2006 Natraceutical Industrial, S.L.U. was formed with share capital of EUR 3,200 subscribed in full by Natraceutical, S.A. On 8 June 2006 the Extraordinary General Meeting of this company resolved to carry out a capital increase amounting to EUR 34,969 thousand which was subscribed in full by Natraceutical, S.A. through the contribution of a business line described below. Following registration of the aforementioned capital increase in the Mercantile Register, Natraceutical, S.A. contributed tax assets amounting to EUR 2,282 thousand to that company.

The assets and liabilities contributed to Natraceutical Industrial, S.L.U., and the carrying amount at the date of the contribution at Natraceutical, S.A., were as follows

Assets	Euros	Liabilities	Euros
FIXED AND OTHER NONCURRENT ASSETS::			
Intangible assets	3,622,630		
Property, plant and equipment	18,133,274		
Non-current financial assets	951,859		
Total fixed and other noncurrent assets	22,707,763		
DEFERRED CHARGES	41,687	DEFERRED INCOME	126,511
CURRENT ASSETS	10,403,567	CURRENT LIABILITIES:	
Inventories	6,717,596	Payable to Group companies and associates	2,518,959
Accounts receivable	2,084	Trade payables	2,258,127
Accrual accounts			
Total current assets	17,123,247	Total current borrowings	4,777,086
TOTAL	39,872,697		4,903,597

The years in which Natraceutical, S.A. acquired the amortisable and depreciable assets contributed are as follows:

	Euros							
	Year of Addition							TOTAL
	2000	2001	2002	2003	2004	2005	2006	
Research and development expenditure	111,335	669,286	336,823	980,859	1,002,597	910,365	704,890	4,716,155
Intellectual property	251,362	-	31,895	41,461	34,520	84,754	106,302	550,294
Computer software	14,071	86,652	8,152	7,859	2,807	728	101,563	221,832
Land and buildings	3,459,209	-	95,695	400,738	-	46,423	-	4,002,065
Plant and machinery	8,352,836	2,460,168	1,020,035	2,391,533	63,706	3,608,526	62,894	17,959,698
Other fixtures, tools and furniture	378,263	45,761	30,036	194,145	118,368	99,600	109,907	976,080
Fired and other noncurrent assets in the course of construction	-	-	-	779,271	2,432,676	1,100,466	1,272,905	5,585,318

The increase in the carrying amount of the ownership interest in Natraceutical Industrial, S.L.U. was recognised in the books of Natraceutical, S.A.'s at the net carrying amount of the assets contributed, without any effect on profit for the year.

- On 2 November 2006, Natraceutical, S.A., through its subsidiary Obipektin AG, acquired all the shares of Forté Pharma Group for EUR 82,000 thousand. The expenses related to this transaction amount to EUR 1.389 thousand, approximately.

Also, the following corporate transactions took place in 2006:

- On 28 December 2006 the Parent disposed of all the shares of Natra, U.S. Inc. for an amount of EUR 2,200 thousand on credit to Natra Cacao, S.L. This credit, which matures in 2008, does not bear interest and is recognised under "Non-Current Financial Assets" in the accompanying consolidated balance sheet (see Note 9). This transaction gave rise to a profit of EUR 615 thousand which were recognised under "Other Operating Income" in the accompanying consolidated income statement.

- On 13 September 2006, the Annual General Meeting of Biópolis, S.L. resolved to increase share capital by EUR 1,666 thousand, which was subscribed by Natraceutical, S.A. in proportion to its ownership interest, i.e. EUR 416 thousand. At 31 December 2006, this corporate transaction had not yet been registered in the Mercantile Register.

- In 2006 the Braes Group carried out a restructuring with the aim of keeping active only the companies engaging in industrial activities. In this respect, on 31 October 2006, Natraceutical S.A. acquired the entire share capital of Braes Group BV from Braes Group Ltd. for EUR 33 million. In addition, on the same date, Natraceutical, S.A. acquired 100% of the shares of Obipektin AG from Braes Group BV for EUR 30.5 million. These corporate transactions have had no impact on equity or on the accompanying consolidated income statement for 2006. In 2007 Braes Holding Ltd., Braes Group Ltd. and Braes Group BV are likely to be liquidated and/or sold and were therefore excluded from the scope of consolidation. The inclusion of these companies in the scope of consolidation would not have had a material impact on the consolidated balance sheet or affected equity or the results for the year.

- On 31 October 2006 the Parent acquired 41.67% of Cakefriends Ltd in a joint venture project totalling EUR 280 thousand.

The date of the individual financial statements of the consolidated subsidiaries is 31 December 2006, in all cases.

3. Bases of presentation of the consolidated financial statements and basis of consolidation

Basis of presentation

The accompanying consolidated financial statements were prepared by the Parent's directors in accordance with International Financial Reporting Standards (IFRSs), as adopted by the European Union, in conformity with Regulation (EC) no. 1606/2002 of the European Parliament and of the Council. The accompanying consolidated financial statements and the individual financial statements of Natraceutical, S.A. and of the companies composing the Natraceutical Group will be submitted for the approval by the shareholders at the respective Annual General Meetings and it is considered that they will be approved without any changes. The consolidated financial statements for 2005, also prepared in accordance with International Financial Reporting Standards (IFRSs), were approved by the shareholders at the Annual General Meeting on 19 June 2006.

As indicated in Note 2, on 2 November 2006 the Forté Pharma Group was included in the scope of consolidation as a result of its acquisition. The 2006 consolidated income statement only includes the income and expenses of this subgroup from the date it was included in the scope of consolidation. Accordingly, the accompanying consolidated financial statements should be compared with those for 2005 in this context. The revenue and profit contributed by this subgroup amounted to EUR 4,128 thousand and EUR 279 thousand, respectively.

Also in August 2005 the Braes Group, upon its acquisition, was included in the scope of consolidation. The 2005 consolidated income statement only includes the income and expenses of this Group from the date it was included in the scope of consolidation. The revenue and profit contributed by this Group in 2005 and 2006 amounted to EUR 27,478 thousand and EUR 869 thousand and EUR 58,309 and EUR 4,025, respectively.

Responsibility for the information and for the estimates made

The information in these consolidated financial statements is the responsibility of the Parent's directors.

In the Group's consolidated financial statements for 2006 estimates were occasionally made by the Parent's directors in order to quantify certain of the assets, liabilities, income, expenses and commitments reported herein. These estimates relate basically to the following:

- The impairment losses on certain assets.
- The assumptions used in the actuarial calculation of post-employment benefit liabilities and commitments to the employees (see Notes 4-n and 20).
- The useful life of the property, plant and equipment and intangible assets (see Note 4-d).
- The fair value of certain unquoted assets.
- Provisions.

Although the aforementioned estimates were made on the basis of the best information available at 31 December 2006, on the events analysed, events that take place in the future might make it necessary to change these estimates (upwards or downwards) in coming years. If necessary, changes in accounting estimates would be applied prospectively in accordance with the requirements of IAS 8, recognising the effects of the change in estimates in the related consolidated income statements.

Matters arising from the transition to IFRSs

IFRS 1 establishes certain alternatives, in specific cases, that may be used in the preparation of the financial and accounting information at the date of transition. The alternatives chosen by the Natraceutical Group are as follows:

- At the date of transition, property, plant and equipment are stated at depreciated cost, except for certain plots of land, which were adjusted to fair value, which was used as the attributed cost at that date.
- Goodwill and other assets and liabilities acquired in business combinations that occurred prior to 1 January 2004, were not re-calculated retrospectively, pursuant to IFRS 3.
- The cumulative translation differences for all foreign operations were deemed to be zero at the date of transition.

Basis of consolidation

These consolidated financial statements were prepared on the basis of the accounting records kept by the Parent and by the other Group companies. However, since the accounting principles and measurement bases used in preparing the consolidated financial statements for 2006 (IFRSs) differ from those used by the Group companies (local standards), the required adjustments and reclassifications were made on consolidation to unify the policies and methods used and to make them compliant with International Financial Reporting Standards.

"Subsidiaries" are defined as companies over which the Parent has the capacity to exercise effective control; control is presumed to exist when the Company has the power to govern the financial and operating policies of an investee so as to obtain benefits from its activities. Control is presumed to exist when the Parent owns directly or indirectly half or more of the voting power of the investee or, even if this percentage is lower, when, for example, there are agreements with other shareholders of the investee that give the Parent control.

The financial statements of the subsidiaries are fully consolidated with those of the Parent. Accordingly, all material balances and effects of the transactions between consolidated companies are eliminated on consolidation.

From 1 January 2004, the date of the Group's transition to IFRSs, the assets, liabilities and contingent liabilities of a subsidiary have been measured at their fair values at the date of acquisition. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognised as goodwill. Any deficiency of the cost of acquisition below the fair values of the identifiable net assets acquired (i.e. a discount on acquisition) is credited to profit and loss on the acquisition date.

The subsidiaries and information relating thereto are shown in Notes 1 and 2.

Associates are companies over which the Company is in a position to exercise significant influence, but not effective control, usually because it holds -directly or indirectly- 20% or more of the voting power of the investee.

Investments in associates are accounted for using the equity method, i.e. at the Group's share of net assets of the investee, after taking into account the dividends received therefrom and other equity eliminations (in the case of transactions with an associate, the related profits and losses are eliminated to the extent of the Group's interest in the associate) less any accumulated impairment losses on the individual investments.

Relevant information on the associate included in the scope of consolidation is disclosed in Notes 1 and 2.

4. Accounting policies

The principal accounting policies and measurement bases used by the Parent in preparing the accompanying consolidated financial statements, in accordance with International Financial Reporting Standards (IFRSs), as adopted by the European Union, were as follows:

Functional currency

These consolidated financial statements are presented in euros, since this is the currency in which most of the Group's transactions are performed. Foreign operations are recognised in accordance with the policies established in Note 4-u.

Goodwill

As indicated in Note 3, the Natraceutical Group did not apply IFRS 3 retrospectively to business combinations that occurred before 1 January 2004. Accordingly, the goodwill arising on the acquisition of Exnama-Extractos Naturais da Amazônia, Ltda. continues to be recognised at the amount at which it had been recognised under Spanish GAAP and was tested for impairment at the date of transition.

The goodwill assigned to Exnama-Extractos Naturais da Amazônia, Ltda. arose as a result of the positive difference on consolidation between the cost of the shares of the subsidiary Exnama-Extratos Naturais da Amazônia, Ltda. contributed by Natra, S.A. in 2002 and their underlying carrying amount at the date on which they were included in the Parent's balance sheet. The value of these shares and of the remaining non-monetary assets and liabilities was ratified by Asesoramiento y Valoraciones, S.A., an independent valuer appointed by the Mercantile Registrar of Valencia, as provided for by Article 231 of the consolidated Corporations Law.

The goodwill arising on the acquisition of the Braes Group and Forte Pharma represents the excess of the cost of acquisition over the Natraceutical Group's interest in the fair value of the identifiable assets and liabilities of the these groups. The identifiable assets and liabilities, which were recognised at the date of acquisition, are measured at their fair value at that date.

Goodwill is recognised as an intangible asset under "Goodwill" in the balance sheet. At the end of each reporting period it is reviewed for impairment (i.e. a reduction in its recoverable amount to below its carrying amount) and any impairment is written down with a charge to "Net Impairment Losses" in the consolidated income statement.

An impairment loss recognised for goodwill must not be reversed in a subsequent period.

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

When within the 12 months after the date of acquisition additional information becomes available that helps to estimate the amounts assigned to identifiable assets and liabilities, these amounts and the amount allocated to goodwill are adjusted, to the extent that they do not increase the carrying amount of the goodwill to an amount exceeding its recoverable amount. Otherwise, such adjustments to identifiable assets and liabilities are recognised as income or expenses. Where the purchase price of the related investment is variable on the basis of the fulfilment of future events, goodwill is accounted for on the basis of the best estimate with the information available and is adjusted, if appropriate, within the 12 months following the acquisition.

As explained in Note 4-u, goodwill arising in the acquisition of companies with a functional currency other than the euro is translated to euros at the exchange rates prevailing at the date of the balance sheet.

Intangible assets

The other intangible assets are identifiable non-monetary assets without physical substance which arise as a result of a legal transaction or which are developed internally by the consolidated companies. Only assets whose cost can be estimated reasonably objectively and from which the consolidated companies consider it probable that future economic benefits will be generated are recognised, except for those acquired in a business combination, which are recognised as assets at their fair value on the date of acquisition, provided this amount can be determined reliably.

Intangible assets are recognised initially at acquisition or production cost and are subsequently measured at cost less any accumulated amortisation and any accumulated impairment losses.

Research and development expenditure

Research is original and planned investigation undertaken with the prospect of gaining new scientific or technological knowledge and understanding.

Development is the application of research findings or other scientific knowledge to a plan or design for the production of new or substantially improved materials, products, methods, processes or systems before the start of commercial production or use.

The development activities of the Natraceutical Group are internally generated intangible assets. To assess whether an internally generated intangible asset meets the criteria for recognition, the Group classifies the generation of the asset into:

- A research phase: the phase in which the Group cannot demonstrate that an intangible asset exists that will generate probable future economic benefits, i.e. expenditure incurred until a prototype is obtained. Therefore the expenditure is recognised as an expense when it is incurred.
- A development phase: the more advanced phases of the project, in which the entity can, in some instances, identify an intangible asset and demonstrate that it will generate probable future economic benefits.

Development expenditure is recognised only if all of the following conditions are met:

- An identifiable asset is created.
- It is probable that the asset created will generate future economic benefits.
- The development cost of the asset can be measured reliably.

These assets are amortised at an annual rate of 20%, once the project has been completed.

The development work performed by the Group is reflected at accumulated cost (external costs plus in-house costs determined on the basis of manufacturing costs allocated using hourly absorption rates similar to those used for inventory measurement). Development expenditure in 2006 amounted to approximately EUR 214 thousand.

Concessions, patents, licences and trademarks

Concessions, patents, licences, trademarks and the like are accounted for at the amounts paid for the acquisition of title to or the right to use these items, or for the expenses incurred in registration of the proprietary rights developed by the companies, and the account balance is amortised on a straight-line basis at an annual rate of between 15% and 20%.

Computer software

Computer software is recognised at the amount paid for the acquisition of title to or the right to use computer programmes and is amortised at annual rate of between 25% and 33%.

Property, plant and equipment

Property, plant and equipment are stated at acquisition cost, less any accumulated depreciation and any recognised impairment losses. Those acquired prior to 1996 are carried at cost revalued pursuant to Royal Decree 7/1996, of 7 June. This amount is accepted by IFRS 1 as the value of reference at the date of transition.

The revaluation surpluses or net increases in value resulting from revaluation are depreciated over the tax periods in the remaining useful lives of the revalued assets.

As a result of the contribution of a business line by Natra, S.A. in 1993 in the incorporation of the Parent, the land contributed was measured at market value, as permitted by Law 29/1991. At 2006 year-end the effect of this revaluation amounted to EUR 353 thousand.

On the date of transition to IFRSs, the Group elected to measure certain plots of land (on which certain Group companies carry on their production activities) at fair value, as provided for in IFRS 1, and used this fair value as the attributed cost on that date. This value was determined on the date of transition on the basis of appraisals undertaken by independent valuers. Subsequent to the transition date, the Group opted to measure these assets in the same manner as its other assets, using the cost model.

The costs of expansion, modernisation, or improvements leading to increased productivity, capacity or efficiency or to a lengthening of the useful lives of the assets are capitalised.

Repairs that do not lead to a lengthening of the useful lives and maintenance expenses are charged to income in the year in which they are incurred.

Group work on non-current assets is recognised at accumulated cost (external costs plus in-house costs, determined on the basis of in-house warehouse materials consumption and manufacturing costs allocated using hourly absorption rates similar to those used for inventory measurement). This work amounted to approximately EUR 532 thousand in 2006.

Depreciation is calculated, using the straight-line method, on the basis of the acquisition cost of the assets less their residual value; the land on which the buildings and other structures stand has an indefinite useful life and, therefore, is not depreciated.

The period property, plant and equipment depreciation charge is recognised in the consolidated income statement on the basis of the following years of useful life:

	Useful Life
Buildings	15 - 33
Plant and machinery	8 - 12
Other fixtures, tools and furniture	5 - 12
Other items of property, plant and equipment	4 - 10

Property, plant and equipment in the course of construction basically for production purposes are carried at cost, less any recognised impairment losses. Depreciation of these assets commences when the assets are ready for their intended use.

The Parent's directors consider that the carrying amount of the assets does not exceed their market value, calculated on the basis of the future discounted cash flows that the assets will generate.

Impairment of property, plant and equipment and intangible assets excluding goodwill

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

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

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

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

Leases

In operating leases, the ownership of the leased asset and substantially all the risks and rewards relating to the leased assets remain with the lessor. Lease expenses are charged to income on a straight-line basis.

Inventories

This heading in the consolidated balance sheet reflects the assets that the consolidated companies:

- Hold for sale in the ordinary course of their business.
- Are in the processing of producing, constructing or developing for that purpose.
- Expect to consume in the production process or in the provision of services

Inventories are stated at the lower of acquisition or production cost and net realisable value.

The cost of raw materials and other supplies is calculated by using the weighted average cost formula.

On a general basis, the Group measures finished goods and work in progress at average production cost, which includes materials, labour and direct and indirect manufacturing expenses.

The Company assesses the net realisable value of the inventories at the end of each period and recognises the appropriate loss if the inventories are overstated. When the circumstances that previously caused inventories to be written down no longer exist or when there is clear evidence of an increase in net realisable value because of changed economic circumstances, the amount of the write-down is reversed.

Financial assets

Financial assets are initially recognised at acquisition cost. The Group classifies its financial assets in three categories:

1. Held-to-maturity investments: financial assets with fixed or determinable payments and fixed maturity that the Group has the positive intention and ability to hold from the date of purchase to the date of maturity.
2. Originated loans and receivables: financial assets originated by the companies in exchange for supplying cash, goods or services directly to a debtor.
3. Available-for-sale financial assets: these include securities acquired that are not held for trading purposes and are not classified as held-to maturity investments or financial assets at fair value through profit or loss, as defined in IAS 39, paragraphs 9 and 11 a.

Available-for-sale financial assets are measured at fair value at subsequent measurement dates. Unlisted investments are measured at cost because there is insufficient information to calculate their fair value. Gains and losses from changes in fair value are recognised directly in equity until the asset is disposed of or it is determined that it has become impaired, at which time the cumulative gains or losses previously recognised in equity are recognised in the net profit for the year.

Held-to-maturity investments and originated loans and receivables are measured at amortised cost, and the interest income is recognised in profit or loss on the basis of the effective interest rate (IRR). The amortised cost is understood to be the initial cost minus principal repayments, plus or minus the cumulative amortisation of any difference between that initial amount and the maturity amount, and minus any reduction for impairment or uncollectibility

The effective interest rate is the discount rate that exactly matches the net carrying amount of a financial instrument to all its estimated cash flows of all kinds through its residual life. For fixed rate financial instruments, the effective interest rate coincides with the contractual interest rate established on the acquisition date plus, where applicable, the fees that, because of their nature, can be equated with a rate of interest. In the case of floating rate financial instruments, the effective interest rate coincides with the rate of return prevailing in all connections until the date on which the reference interest rate is to be revised for the first time.

In the accompanying consolidated balance sheet, financial assets maturing within no more than 12 months are classified as current assets and those maturing within more than 12 months are classified as non-current assets.

Equity and financial liabilities

Financial liabilities and equity instruments are classified in accordance with the content and the substance of the contractual arrangements. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities

Held-to-maturity financial liabilities are measured at amortised cost using the effective interest method.

Both current and non-current debts have been recognised at fair value adjusted for directly attributable transaction costs and, subsequent to initial recognition, they will be measured at amortised cost, using the effective interest method.

Derivative financial instruments and hedge accounting

The Group's activities expose it mainly to the following financial risks: changes in the foreign exchange rates of the currencies in which it operates and changes in interest rates. To hedge this exposure, the Group uses foreign exchange forward contracts and other financial instruments aimed at converting floating interest rates into fixed interest rates. Hedging derivatives are arranged on the basis of the prevailing market conditions, management objectives and the specific features of the factors giving rise to financial risks. Changes in the market value of these financial instruments arising in the course of their useful life are recognised in the consolidated income statement at the same rate as the hedged transactions. Accordingly, the effects of these transactions are allocated to income using the same method as that used to recognise the income and expenses derived from the underlying transaction

To manage its financial risks, the Group monitors and controls them through a financial risk committee, which analyses the situation in the financial markets, the status of existing transactions and hedges and the decisions that have been taken or that might be taken. The changes in fair value of the derivative financial instruments designated as hedges are recognised as follows:

1. In a fair value hedge, which is a hedge of the exposure to changes in fair value of a recognised asset or liability, changes in the fair value of both the hedging instruments and the hedged items, as far as the type of hedged risk is concerned, are recognised directly in the consolidated income statement.

2. In cash flow hedges, changes in value arising in the effective portion of the hedge instruments are recognised provisionally in equity. If the cash flow hedge of a firm commitment or forecasted transaction results in the recognition of a non-financial asset or a non-financial liability, then, at the time the asset or liability is recognised, the associated gains or losses on the derivative that had previously been recognised in equity are included in the initial measurement of the asset or liability. Conversely, for hedges that do not result in recognition of an asset or a liability, amounts deferred in equity are recognised in the income statement in the same period in which the hedged item affects net profit or loss.

Changes in value relating to the ineffective portion of cash flow hedges and of hedges of a net investment in a foreign operation are recognised directly in the consolidated income statement.

Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting are recognised in income statement as they arise.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting. At that time, any cumulative gain or loss on the hedging instrument recognised in equity is retained in equity until the forecasted transaction occurs. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is transferred to net profit or loss for the year.

Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not carried at fair value with unrealised gains or losses reported in the income statement.

The market value of the various financial instruments is calculated as follows:

1. The market value of derivatives listed on an organised market is their market price at year-end.
2. The Group values derivatives that are not traded on an organised market on the basis of assumptions based on market conditions at year-end. Specifically, the market value of interest rate swaps is calculated as the value adjusted to market interest rates of the swap rate spread. Forward foreign exchange contracts are measured by discounting future cash flows calculated on the basis of the forward exchange rates prevailing at year-end.

Translation method

The accompanying consolidated financial statements were prepared by using the general translation method established in IAS 21 for foreign subsidiaries (exchange rate prevailing at the balance sheet date).

Based on this method, all the items in the financial statements were translated to the exchange rates prevailing at the balance sheet date, except for equity items, which were translated at the historical exchange rates and income statement items, which were translated at the exchange rates prevailing on the dates the related transactions were performed or at the weighted average exchange rates.

In accordance with IAS 21, application of the year-end exchange rate method means that the effect of translating to euros the foreign subsidiaries' balance sheets and income statements denominated in foreign currencies is included under the heading "Equity - Translation Differences" in the accompanying consolidated balance sheet.

Shares of the Parent

All the shares of the Parent at 31 December 2006, represented 2.22% of the issued share capital at that date. They are recognised at acquisition cost and are deducted from equity.

Share-based payment

The Group makes equity-settled and cash-settled share-based payments to certain employees and members of the Board of Directors (depending in each case on the contractual terms and conditions) and has met the requirements of IFRS 2.

Equity-settled share-based payments are measured at fair value of the options issued at the date of grant. This fair value is expensed on a straight-line basis over the vesting period, based on the Group's estimate of the shares that will eventually vest, with a credit to equity. Fair value of the options is measured using the market prices available on the measurement date, taking into account the characteristics of the related plan.

A liability equal to the portion of the goods or services received is recognised at the current fair value determined at each balance sheet date for cash-settled share-based payments.

Retirement benefit obligations

A foreign subsidiary has defined retirement benefit obligations to its employees, instrumented through pension plans, which have been externalised. The Natraceutical Group recognises the related expense as it vests over the working life of its employees, on the basis of independent actuarial studies for the calculation of the obligation at year-end. The provision recognised in this connection represents the present value of the defined benefit obligation, reduced by the market value of the plan assets. When the market value of the plan assets is higher than the present value of the obligation, the net asset is not recognised in the balance sheet unless it is virtually certain that it will be recovered.

Termination benefits

Under the legislation in force in each case, the Spanish consolidated companies and certain of the Group companies domiciled in other countries are required to pay termination benefits to employees terminated without just cause. There are no redundancy plans making it necessary to record a provision in this connection.

Provisions for restructuring costs are recognised when the Group has a detailed formal plan for the restructuring that has been communicated to affected parties. The Natraceutical Group does not foresee any significant employee terminations and, accordingly, the accompanying consolidated balance sheet does not include any provision in this connection.

Provisions

When preparing the financial statements of the consolidated companies, their respective directors made a distinction between:

- Provisions: credit balances covering present obligations at the balance sheet date arising from past events which could give rise to a loss for the companies, which is certain as to its nature but uncertain as to its amount and/or timing.
- Contingent liabilities: possible obligations that arise from past events and whose existence will be confirmed only by the occurrence or non occurrence of one or more future events not wholly within the control of the consolidated companies.

Provisions are recognised when it is considered that it is more likely than not that the obligation will have to be settled. Contingent liabilities are not recognised in the consolidated financial statements, but rather are disclosed, as required by IAS 37. At 31 December 2006, no material provisions or contingent liabilities had been estimated.

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

Government grants

The Group accounts for the grants it receives as follows:

- Non-refundable grants related to assets. These grants, which are measured at the amount granted, are treated as deferred income, and taken to income in proportion to the period depreciation on the assets concerned.
- Grants related to income. These grants are recognised as income under the heading "Other Operating Income" in the consolidated income statement.

The directors consider that the Group has been meeting the requirements for the award of these grants.

Revenue and expenses

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents the amounts receivable for the goods and services provided in the normal course of business, net of discounts, VAT and other sales-related taxes.

Sales of goods are recognised when all the risks and rewards of ownership have been transferred.

Revenue associated with the rendering of services is also recognised by reference to the stage of completion of the transaction at the balance sheet date, provided the outcome of the transaction can be estimated reliably.

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

Expense recognition

An expense is recognised in the income statement when there is a decrease in the future economic benefits related to a reduction of an asset, or an increase in a liability, which can be measured reliably. This means that an expense is recognised simultaneously to the recording of the increase in a liability or the reduction of an asset.

An expense is recognised immediately when a disbursement does not give rise to future economic benefits or when the requirements for recognition as an asset are not met.

Also, an expense is recognised when a liability is incurred and no asset is recognised, as in the case of a liability relating to a guarantee.

Income tax

The expense for Spanish corporation tax and similar taxes applicable to the consolidated foreign companies is recognised in the consolidated income statement, unless it arises from a transaction whose results are recognised directly in equity, in which case, the related tax is recognised in the consolidated statement of changes in equity.

The current income tax expense is calculated by aggregating the current tax arising from the application of the tax rate to the taxable profit (tax loss) for the year, after deducting the tax credits allowable for tax purposes, plus the change in deferred tax assets and liabilities.

Deferred tax assets and liabilities include temporary differences measured at the amount expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities and their tax bases, and tax loss and tax credit carryforwards. These amounts are measured at the tax rates that are expected to apply in the period when the asset is realised or the liability is settled.

Deferred tax liabilities are recognised for all taxable temporary differences, unless the temporary difference arises from the initial recognition of goodwill.

The deferred tax assets and liabilities recognised are reassessed at each balance sheet date in order to ascertain whether they still exist, and the appropriate adjustments are made on the basis of the findings of the analyses performed.

Earnings per share

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

Diluted earnings per share are calculated by dividing net profit or loss attributable to ordinary shareholders adjusted by the effect attributable to the dilutive potential ordinary shares by the weighted average number of ordinary shares outstanding during the year, adjusted by the weighted average number of ordinary shares that would have been outstanding assuming the conversion of all the potential ordinary shares into ordinary shares of the Company. For these purposes, it is considered that the shares are converted at the beginning of the year or at the date of issue of the potential ordinary shares, if the latter were issued during the current period.

Foreign currency transactions and balances

The Group's functional currency is the euro. Accordingly, all balances and transactions in currencies other than the euro are deemed to be "foreign currency transactions".

Transactions in currencies other than the euro are translated to euros at the exchange rates prevailing at the date of the transaction. At each balance sheet date, monetary assets and liabilities denominated in foreign currencies are translated to euros at the rates prevailing on the balance sheet date or at the hedged exchange rate. Any resulting gains or losses at year-end are recognised in the income statement.

In order to hedge its exposure to certain foreign exchange risks, the Group enters into forward contracts and options (see below for details of the Group's accounting policies in respect of such derivative financial instruments).

On consolidation, the balances of the financial statements of consolidated companies whose functional currency is not the euro are translated to euros as follows:

- Assets and liabilities are translated to euros at the exchange rate prevailing on the balance sheet date.
- Income and expense items are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly.
- Equity is translated at the historical exchange rates (taken to be those at the date of transition).

Any translation differences arising are classified separately as equity. Such translation differences are recognised as income or as expenses in the year in which the foreign operation is disposed of.

Goodwill and fair value adjustments arising on the acquisition of a foreign company are treated as assets and liabilities of the foreign company and translated at the closing rate. The Group has elected to treat goodwill and fair value adjustments arising on acquisitions before the date of transition to IFRSs as euro denominated assets and liabilities.

Consolidated cash flow statement

The following terms are used in the consolidated cash flow statement, which was prepared using the indirect method, with the meanings specified:

- Cash flows: inflows and outflows of cash and cash equivalents, which are short-term, highly liquid investments that are subject to an insignificant risk of changes in value.
- Operating activities: the principal revenue-producing activities of the consolidated Group companies and other activities that are not investing or financing activities.
- Investing activities: the acquisition and disposal of long-term assets and other investments not included in cash and cash equivalents.
- Financing activities: activities that result in changes in the size and composition of the equity and borrowings of the Company that are not operating activities.

Information on the environment

Property, plant and equipment aimed at minimising environmental impact or improving the environment are measured at acquisition cost. The costs of expansion, modernisation or improvements leading to increased productivity, capacity or efficiency or to a lengthening of the useful lives of the assets are capitalised. Repair, upkeep and maintenance expenses are charged to income in the year in which they are incurred.

The expenses incurred in connection with environmental activities or the management of the environmental impact of the Group's operations are recognised on an accrual basis, i.e. when the actual flow of the related goods and services occurs, regardless of when the resulting monetary or financial flow arises.

5. Goodwill

The changes in this heading in the accompanying consolidated balance sheet in 2006 and 2005 were as follows:

	Euros
Balance at 1 January 2005	5,325,426
Inclusions in the scope of consolidation	44,789,752
Balance at 31 December 2005	50,115,178
Translation differences	1,477,899
Inclusions in the scope of consolidation	79,096,131
Exclusions from the scope of consolidation	(144,943)
Balance at 31 December 2006	130,544,265

In 2006 the new goodwill arising in the consolidation is a result of the acquisition of Forté Pharma Group and Cakefriends Ltd.The detail of the net assets acquired is as follows:

	Euros
Other intangible assets	84,338
Property, plant and equipment	608,960
Other non-current assets	124,552
Deferred tax assets	35,301
Inventories	653,162
Trade and other receivables	9,884,711
Other current financial assets	2,944,589
Other current assets	1,408,581
Cash and cash equivalents	3,243,568
Bank borrowings and other financial liabilities	(1,754,180)
Provisions and other non-current liabilities	(492,212)
Trade and other payables	(8,575,935)
Other current liabilities	(3,736,399)
	4,429,036

As indicated in Note 2, the acquisition cost of Forté Pharma Group was EUR 83 million, thus generating goodwill of EUR 79 million.This transaction gave rise to a net cash outflow of EUR 80,144 thousand.

The detail, by cash-generating unit, of the total goodwill at 31 December 2006, is as follows:

	Euros
Forté Pharma, SAM	78,959,968
Overseal Natural Ingredients Ltd.	37,711,425
Obipektin AG	7,380,016
Exnama-Extratos Naturais da Amazônia, Ltda.	6,368,393
Cakefriends, Ltd	124,463
	130,544,265

On the basis of the economic and financial estimates and projections prepared by the Group's directors, the forecasted cash flows attributable to these cash-generating units or groups of units, to which the goodwill has been allocated will make it possible to recover the carrying amount of the goodwill recognised at 31 December 2006.

6. Other intangible assets

The changes in "Other Intangible Assets" and in the related accumulated amortisation in 2006 and 2005 were as follows:

	Euros					
	Balance at 31/12/05	Inclusions in the Scope of Consolidation	Additions or Charge for the Year	Disposals	Translation Differences	Balance at 31/12/06
COST:						
Development expenditure	3,286,241	474,826	1,648,200	(1,593,937)	-	3,815,330
Intellectual property	443,992	164,764	216,962	-	-	825,718
Computer software	203,772	105,888	965,005	-	-	1,274,665
Provision	-	(106,714)	-	-	-	(106,714)
Total cost	3,934,005	638,764	2,830,167	(1,593,937)	-	5,809,000
ACCUMULATED AMORTISATION:						
Development expenditure	(1,049,195)	(474,826)	(1,067,303)	799,653	(1,875)	(1,793,546)
Intellectual property	(258,967)	(84,855)	(19,021)	-	-	(362,843)
Computer software	(159,346)	(101,888)	(180,181)	-	-	(441,415)
Total accumulated amortisation	(1,467,508)	(661,569)	(1,266,505)	799,653	1,875	(2,597,804)
Carrying amount	2,466,497					3,211,196

	Euros		
	Balance at 31/12/04	Additions or Charge for the Year	Balance at 31/12/05
COST:			
Development expenditure	2,450,956	835,285	3,286,241
Intellectual property	359,238	84,754	443,992
Computer software	192,682	11,090	203,772
Total cost	3,002,876	931,129	3,934,005
ACCUMULATED AMORTISATION:			
Development expenditure	(583,184)	(466,011)	(1,049,195)
Intellectual property	(256,566)	(2,401)	(258,967)
Computer software	(135,018)	(24,328)	(159,346)
Total accumulated amortisation	(974,768)	(492,740)	(1,467,508)
Carrying amount	2,028,108		2,466,497

The development expenditure additions relate to projects conducted by the Group as part of its policy to maintain growth rates and competitiveness levels. Of the balance of the heading development expenditure, EUR 1,261 thousand relate to projects that have been completed successfully and are being amortised at the established percentage rate, although as yet they have not reached the expected sales volume. Also, EUR 537 thousand relate to projects that have been completed recently or will be completed in the first few months of 2007 and the remaining EUR 439 thousand relate to projects at the development stage.

The research expenditure charged to the accompanying 2006 consolidated income statement totalled EUR 546 thousand. Of the Group's intangible assets, at 31 December 2006, certain assets with a cost and accumulated amortisation amounting to EUR 1,919 thousand had been fully amortised.

7. Property, plant and equipment

The changes in 2006 and 2005 in the heading "Property, Plant and Equipment" and in the related accumulated depreciation and impairment losses were as follows:

	Euros						
	Balance at 31/12/05	Inclusions in the Scope of Consolidation	Additions or Charge for the Year	Exclusions and Disposals	Transfers	Translation Differences	Balance at 31/12/06
COST:							
Land and buildings	32,970,394	-	338,283	(219,408)	-	(781,991)	32,307,278
Plant and machinery	60,636,809	-	1,645,961	(1,854,081)	3,073,190	(1,181,309)	62,320,570
Other fixtures, tools and furniture	1,174,215	849,946	413,967	(69,936)	-	(8,139)	2,360,053
Advances and property, plant and equipment in the course of construction	4,124,343	-	2,510,413	(152,868)	(3,073,190)	(155)	3,408,543
Other items of property, plant and equipment	1,408,138	-	215,808	(111,754)	-	(10,752)	1,501,440
Total cost	100,313,899	849,946	5,124,432	(2,408,047)	-	(1,982,346)	101,897,84
ACCUMULATED DEPRECIATION:							
Buildings	(13,073,687)	(31,127)	(627,688)	166,270	-	370,807	(13,195,425)
Plant and machinery	(41,219,622)	223,234	(3,068,142)	1,379,867	-	978,674	(41,705,989)
Other fixtures, tools and furniture	(623,229)	(474,49)	(134,283)	54,326	-	(26,774)	(1,204,909)
Other items of property, plant and equipment	(1,125,964)	60,671	(174,639)	47,137	-	11,136	(1,181,659)
Total accumulated depreciation	(56,042,502)	(222,171)	(4,004,752)	1,647,600	-	1,333,843	(57,287,982)
Carrying amount	44,271,397	627,775	1,119,680	(760,447)	-	(648,503)	44,609,902

	Euros						
	Balance at 31/12/04	Inclusions in the Scope of Consolidation	Additions or Charge for the Year	Exclusions and Disposals	Transfers	Translation Differences	Balance at 31/12/05
COST:							
Land and buildings	5,695,934	26,871,365	268,308	(28,619)	33,954	129,452	32,970,394
Plant and machinery	16,439,069	39,752,892	1,105,789	(730,446)	3,434,268	635,237	60,636,809
Other fixtures, tools and furniture	584,733	494,891	80,581	-	-	14,010	1,174,215
Advances and property, plant and equipment in the course of construction	4,393,806	-	3,198,622	-	(3,468,222)	137	4,124,343
Other items of property, plant and equipment	266,256	1,045,744	113,334	(17,033)	-	(163)	1,408,138
Total cost	27,379,798	68,164,892	4,766,634	(776,098)	-	778,673	100,313,899
ACCUMULATED DEPRECIATION:							
Buildings	(1,163,856)	(11,574,238)	(374,189)	28,422	-	10,174	(13,073,687)
Plant and machinery	(7,993,135)	(32,097,025)	(1,409,214)	448,230	-	(168,478)	(41,219,622)
Other fixtures, tools and furniture	(250,149)	(289,947)	(79,834)	-	-	(3,299)	(623,229)
Other items of property, plant and equipment	(177,607)	(891,146)	(77,964)	15,494	-	5,259	(1,125,964)
Total accumulated depreciation	(9,584,747)	(44,852,356)	(1,941,201)	492,146	-	(156,344)	(56,042,502)
Carrying amount	17,795,051						44,271,397

As indicated in Note 4-d, the Group revalued its property, plant and equipment pursuant to Royal Decree-Law 7/1996, of 7 June. The accounts affected by this revaluation and the net effect thereof on property, plant and equipment at 31 December 2006, were as follows:

	Euros
Land	391,562
Buildings	97,665
	489,227

The effect of the revaluation on the 2006 depreciation charge amounted to EUR 22 thousand.

Under the heading "Property, plant and equipment" in the consolidated balance sheet at 31 December 2006 items with a cost and accumulated depreciation amounting to approximately EUR 40,327 thousand had been fully depreciated.

The Group has taken out insurance policies to cover the possible risks to which its property, plant and equipment are subject. At 31 December 2006, the carrying amount of the property, plant and equipment was covered substantially in full by these policies.

8. Investments accounted for using the equity method

The balance of the heading "Investments Accounted for Using the Equity Method" on the asset side of the accompanying consolidated balance sheets relates in full to the investment in the following companies:

	Euros	
Company	2006	2005
Biópolis, S.L.	573,419	64,671
Cakefriends Ltd.	155,579	-
	728,998	64,671

The changes in "Property, Plant and Equipment" in the consolidated balance sheet in 2006 were as follows:

	2006
Beginning balance	64,671
Inclusions in the scope of consolidation	572,265
Share of results for the year of companies accounted for using the equity method	92,062
Ending balance	728,998

9. Financial assets and cash and cash equivalents

Financial asset balances included in the accompanying consolidated balance sheets are summarised as follows:

	Euros			
	2006		2005	
	Non-Current	Current	Non-Current	Current
Available-for-sale financial assets	9,775,751	-	1,500,000	-
Held-to-maturity investments	7,363,584	-	1,380,922	-
Trade and other receivables	-	26,975,278	-	12,719,105
Current tax assets	-	5,111,031	-	1,562,500
Cash and cash equivalents	-	13,588,368	-	4,387,063
	17,139,335	45,674,677	2,880,922	18,668,668

Available-for-sale financial assets

The investments in the following companies, not included in the scope of consolidation are recognised in "Available-For-Sale Financial Assets" (see Note 2):

Company	Euros
Panadoro Group AG	1,500,000
Braes Holding Ltd.	2,789,441
Braes Group Ltd.	221,047
Braes Group BV	5,265,263
	9,775,751

These companies also have accounts receivable and payable from and to the Group amounting to EUR 3,287 thousand and EUR 10,531 thousand, respectively and are recognised under "Trade And Other Receivables" and "Other Non-Current Financial Liabilities" in the accompanying consolidated balance sheet on 31 of December 2006. These balances mature in the short term and do not accrue any interest.

Non-current held-to-maturity investments

The balance of this heading relates to the financing granted to third parties for the development of a joint venture project amounting to EUR 810 thousand, to the loan granted to a Group company for the sale of the shares of Natra, U.S. Inc. (see Note 2) and to the measurement of financial instruments amounting to EUR 4,355 thousand (see Note 15).

Trade and other receivables

The average credit period taken on sales of goods is approximately 68 days. No interest is charged on the receivables.

The balance of this heading is shown net of an allowance for estimated irrecoverable amounts from the sale of goods of EUR 979 thousand (EUR 325 thousand in 2005). This allowance has been determined by reference to past default experience and a specific analysis of each debtor.

The Parent´s directors consider that the carrying amount of trade and other receivables approximates their fair value.

Current tax assets

"Current Tax Assets" includes tax receivables and tax loss carryforwards amounting to EUR 992 thousand (see Note 18).

Cash and cash equivalents

This heading includes mainly the Group's cash and short-term bank deposits with an original maturity of three months or less. The carrying amount of these assets approximates their fair value and the assets earn interest at a market rate.

Credit risk

The Group's principal financial assets are cash and cash equivalents, trade and other receivables and investments, which represent the Group's maximum exposure to credit risk in relation to financial assets.

The Group's credit risk is primarily attributable to its trade receivables and bank borrowings. The amounts presented in the balance sheet are net of allowances for doubtful debts, estimated by the Parent's directors based on prior experience and their assessment of the current economic environment.

The credit risk on liquid funds and derivative financial instruments is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

10. Other current financial assets

The detail of the balance of this heading in the consolidated balance sheets at 31 December 2006 and 2005 is as follows:

	Euros	
	2006	2005
Sundry accounts receivable	1,108,751	1,001,873
Current financial assets	3,414,122	420,389
	4,522,873	1,422,262

The current financial assets include, basically, short term bank deposits with maturity of three months or more, which earn interest at a market rate.

11. Inventories

The detail of inventories at 31 December 2006 and 2005, is as follows:

	Euros	
	2006	2005
Merchandise	490,176	308,188
Raw materials and supplies	13,340,012	10,659,866
Work in progress	5,385,622	7,970,419
Finished goods	17,366,651	14,967,778
Advances to suppliers	-	78,381
Provisions	(2,120,048)	(1,684,863)
Total	34,462,413	32,299,769

The heading "Work in Progress" includes EUR 1,344 thousand relating to innovative products based on cocoa extracts, production and marketing of which commenced at the end of 2004. Given the pace of sales attained in 2005 and 2006, it is considered that a substantial portion of these inventories will be realised in over 12 months. However, based on the past experience of recent months and the opportunities arising in the market, the Parent's directors consider that the performance of this new product range will be in line with the established plans.

At 31 December 2006, the Group companies had firm purchase and sale commitments for raw materials and finished goods amounting to EUR 4,585 thousand and EUR 9,332 thousand, respectively. Also, the subsidiary Exnama-Extratos Naturais da Amazônia, Ltda. has a two-year sale agreement with its only customer, which was renewed until 2007, with one year left before expiry, for approximately USD 1.11 million.

12. Equity

Share capital

At its meeting of 26 September 2006, the Parent's Board of Directors, acting by virtue of the power conferred on it by the shareholders at the Annual General Meeting of 29 June 2005, resolved to increase capital by EUR 8,217,849 through the issuance of 82,178,486 new shares of EUR 0,10 par value and a share premium of EUR 0,65 per share each, At 31 December 2006, the capital increase had been subscribed and paid in full.

Following this capital increase, the Parent's share capital at 31 December 2006, was represented by 328,713,946 fully subscribed and paid common shares of EUR 0,10 each.

In 2002 the Parent's shares were admitted for listing on the Spanish Computerised Trading System (New Market Segment) on the Madrid, Valencia, Barcelona and Bilbao Stock Exchanges.

At 31 December 2006, Natra, S.A. was the only company with an ownership interest of over 10%, since it owned 55,79% of the Parent's shares.

Share premium

The consolidated Corporations Law expressly permits the use of the share premium account balance to increase capital and does not establish any specific restrictions as to its use.

Revaluation reserve

The tax authorities have reviewed and approved the balance of the "Revaluation Reserve Royal Decree-Law 7/1996, of 7 June" account, which amounts to EUR 437 thousand, This balance can be used, free of tax, to offset accounting losses (both prior years' accumulated losses and current year losses) or losses which might arise in the future, and to increase share capital, From 1 January 2007 the balance of this account can be taken to unrestricted reserves, provided that the monetary surplus has been realised, The surplus will be deemed to have been realised in respect of the portion on which depreciation has been taken for accounting purposes or when the revalued assets have been transferred or derecognised.

If this balance were used in a manner other than that provided for in Royal Decree-Law 7/1996, it would be subject to tax.

Legal reserve

Under the Consolidated Spanish Companies Law, 10% of net profit for each year must be transferred to the legal reserve until the balance of this reserve reaches at least 20% of the share capital. At 31 December 2006 and 2005, the balance of this reserve amounted to EUR 691 thousand and EUR 643 thousand, respectively.

The legal reserve can be used to increase capital provided that the remaining reserve balance does not fall below 10% of the increased share capital amount, Otherwise, until the legal reserve exceeds 20% of share capital, it can only be used to offset losses, provided that sufficient other reserves are not available for this purpose.

Treasury shares

At 31 December 2006, the Parent held 7,296,667 treasury shares, acquired for an average price of approximately EUR 0,87,The par value of the treasury shares represents 2,22% of share capital,The changes in "Treasury Shares" in 2006 were as follows (in thousands of euros):

	Euros
Balance at 31 December 2004	-
Additions	3,571,440
Balance at 31 December 2005	**3,571,440**
Additions 6,702,645	6,702,645
Disposals	(3,952,235)
Balance at 31 December 2006	**6,321,850**

The Parent acquired treasury shares by virtue of the resolution adopted by the shareholders at the Annual General Meeting of 29 June 2005, authorising the Board of Directors to purchase treasury shares at pre-established minimum and maximum prices, without any specific purpose.

In November 2006 the Company had acquired from Natra, S,A, 2,465,355 shares at EUR 1,12 per share.

Other restricted reserves

"Reserves (Retained Earnings)" includes a restricted reserve for the redenomination of share capital to euros, with a balance of EUR 54.

The Parent's individual balance sheet includes a restricted reserve for treasury shares of EUR 2,406 thousand as required by current legislation.This reserve coincides with the carrying amount of the treasury shares.

In relation to the individual financial statements of the consolidated companies, until the balances of "Start-up Costs" and "Research and Development Expenditure" have been fully amortised, no profits may be distributed unless the balance of the unrestricted reserves is at least equal to the amount of the unamortised balances of these headings, which in these accounts amount to EUR 4,396 thousand.

Reserves of fully consolidated companies and companies accounted for using the equity method

The detail, by company, of the heading "Equity - Reserves of Fully Consolidated Companies" is as follows:

	Euros	
Company	2006	2005
Exnama-Extratos Naturais da Amazônia Ltda.	4,117,948	3,007,397
Obipektin, A.G.	1,585,259	-
Overseal Natural Ingredients Colors Ltd.	872,654	-
The Talin Co. Ltd.	63,531	-
Overseal Color Inc.	(27,452)	-
Britannia Natural Products Ltd.	2,827	-
Natra U.S. Inc.	-	109,795
	6,614,767	3,117,192

The "Reserves of Companies Accounted for Using the Equity Method" relate in full to Biópolis, S.L.

Translation differences

The detail, by company, of the heading "Equity - Translation Differences" is as follows:

	Euros	
Company	2006	2005
Exnama-Extratos Naturais da Amazônia Ltda.	1,773,670	1,415,041
Overseal Natural Ingredients Ltd.	577,381	(85,508)
Oversesal Color Inc.	136,641	(32,815)
The Talin Co. Ltd.	(13,249)	(11,841)
Britannia Natural Products Ltd.	(2,243)	(2,256)
Obipektin AG	(1,214,715)	(88,338)
Natra U.S. Inc.	-	(109,276)
Braes Holding Ltd.	-	(14,119)
Braes Group Ltd.	-	253,086
Braes Esot Trustee Limited	-	27
	1,257,485	1,324,001

Distribution of the Parent's profit

The Parent's directors propose the following distribution of the individual profit for 2006:

	Euros
Legal reserve	223,289
Offset of accumulated losses	357,084
Voluntary reserve	1,652,521
	2,232,894

13. Provisions

The changes in 2006 and 2005 in the balance of this heading in the consolidated balance sheet were as follows:

	Euros	
	Complemento de Pensiones	Otras Provisiones
Balance at 31 December 2005	893,388	30,359
Inclusions in the scope of consolidation	-	106,212
Period provision charged to income		
Staff costs (Note 20)	272,602	189,861
Provisions used:		
Payments to retired employees and early retirees with a charge to internal provisions	(404,506)	-
Translation differences	(28,799)	-
Balance at 31 December 2006	732,685	326,432

	Euros		
	Provision for Supplementary Pension Payments	Provision for Restructuring Costs	Other Provisions
Balance at 31 December 2004	-	-	-
Inclusions in the scope of consolidation	958,385	321,523	-
Period provision charged to income			
Staff costs (Note 21)	-	-	30,359
Provisions used:			
Payment of restructuring costs	-	(321,523)	-
Payments to retired employees and early retirees with a charge to internal provisions	(64,997)	-	-
Balance at 31 December 2005	893,388	-	30,359

The information on the actuarial liabilities and defined benefit plan assets at 31 December 2006 and 2005, is as follows (see Note 4-n):

	Euros	
	2006	2005
Present value of the obligation	8,690,024	9,319,559
Market value of plan assets	(8,559,960)	(8,426,171)
	130,064	893,388

The plan assets do not include financial instruments issued by the Group or property, plant and equipment owned by the Group.

The main assumptions used in the actuarial studies conducted to determine the provisions required to meet the obligations in question are CPI growth of 2% and a discount rate of 3.75%.

14. Bank borrowings and other financial liabilities

The detail, by maturity, of the bank borrowings is as follows:

	Euros					
	2007	2008	2009	2010	2011 y Siguientes	TOTAL
Bank loans	1,708,422	8,946,287	11,649,338	11,525,408	37,995,309	71,824,764
Credit facilities	10,321,937	-	-	-	-	10,321,937
Import financing	5,761,281	-	-	-	-	5,761,281
Discounted bills and notes	9,487	-	-	-	-	9,487
Unmatured accrued interest	423,966	-	-	-	-	423,966
Total	18,225,093	8,946,287	11,649,338	11,525,408	37,995,309	88,341,435

Bank loans include two syndicated loans for EUR 62 million obtained to finance in part the acquisition of Group companies.

In accordance with the customary terms and conditions of transactions of this nature, the Group is obliged to achieve certain financial ratios and levels. Some of these ratios had not been attained at 2006 year-end, although the banks participating in this financing arrangement agreed to permit this.

All the shares of the subsidiaries Natraceutical Industrial, S.L.U., Overseal Natural Ingredients Ltd. and Obipektin A.G. were pledged as security for these loans.

Non-current bank borrowings bear interest ranging from 4.23 % to 5.79 %.

At 31 December 2006, the Group companies had been granted credit facilities, import and export financing and note and bill discounting facilities with limits of EUR 11,930 thousand, EUR 10,301 thousand and EUR 680 thousand, respectively.

Loans of EUR 259 thousand are guaranteed by Natra, S.A.

Foreign currency loans and credits are recognised at their equivalent euro value at each year-end, calculated at the exchange rates prevailing at 31 December 2006. At that date, these amounts were not material.

15. Financial instruments

The detail of the value of the derivative financial instruments at 31 December 2006, is as follows:

	Euros	
	Non-Current	
	Assets (Note 9)	Liabilities (Note 16)
INTEREST RATE HEDGES:		
- Cash flow hedges		
- Interest rate swap	765,758	12,582
- Collar	-	648
DERIVATIVES ON TREASURY SHARES:		
- Equity swap	3,588,886	-
	4,354,644	13,230

The detail, by maturity, of the assets and liabilities relating to derivative financial instruments arranged by the Group and outstanding at 31 December 2006, is as follows:

	Euros				
	2008	2011	2012	2013	TOTAL
HEDGING DERIVATIVES:					
- Cash flow hedges					
- Interest rate swaps	(12,582)	-	683,913	81,845	753,176
- Collar	-	(648)	-	-	(648)
DERIVATIVES ON TREASURY SHARES:					
- Equity swap	-	-	3,588,886	-	3,588,886
	(12,582)	(648)	4,272,799	81,845	4,341,414

The Group uses foreign exchange hedges to mitigate the possible adverse effect that changes in exchange rates might have on transactions and loans in currencies other than the functional currency of certain Group companies.

The nominal amount of the liabilities hedged by foreign exchange hedges is as follows:

Type of Hedge	US Dollars	Canadian Dollars
Cash flow hedge	2,084,329	293

Also, the Group performs interest rate hedging transactions in accordance with its risk management policy. The purpose of these transactions is to mitigate the effect that changes in interest rates could have on the future cash flow of credit facilities and loans tied to floating interest rates.

The nominal value of the liabilities hedged by interest rate cash flow hedges is EUR 52,500 thousand.

16. Other financial liabilities

Other non-current financial liabilities

The breakdown of the balance of this non-current liability account in the accompanying consolidated balance sheets is as follows:

	Euros	
	2006	2005
Payable to Group companies (Note 9)	10,531,411	-
Other payables	1,156,863	1,593,122
Measurement of financial instruments (Note 15)	13,230	17,762
	11,701,504	1,610,884

"Other Payables" includes interest-free financing from C.D.T.I. (Centro para el Desarrollo Tecnológico Industrial) totalling EUR 105 thousand, which matures progressively until 2009. Additionally, EUR 536 thousand relate to the amount drawn down against a EUR 2,847 thousand loan from Instituto Valenciano de Finanzas for the enlargement of the Parent's production facilities. This loan has periodic maturity dates between 2007 and 2014 and bears interest at a market rate. Furthermore, Instituto Valenciano de Finanzas granted certain grants at the aforementioned interest rate.

Also, in 2001 Compañía Española de Financiamiento de Desarrollo, S.A. (COFIDES) granted a loan in US dollars to the subsidiary Exnama-Extratos Naturais da Amazôina Ltda. for an equivalent euro amount at 31 December 2006, of EUR 516 thousand, which will be repaid in ten half-yearly instalments from 5 January 2005 to July 2009.

Other current liabilities

The breakdown of the balance of this current liability account in the accompanying consolidated balance sheets is as follows:

	Euros	
	2006	2005
Remuneration payable	1,621,519	239,073
Payable to fixed asset suppliers	149,065	961,194
Other payables	3,658,135	670,956
	5,428,719	1,871,223

17. Other non-current liabilities - Grants related to assets

The changes in 2006 and 2005 in this heading in the accompanying consolidated balance sheets were as follows:

	Euros	
	2006	2005
Beginning balance	208,579	263,302
Transfer to profit for the year	(108,892)	(54,723)
Ending balance	**99,687**	**208,579**

18. Tax matters

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

	Euros	
	2006	2005
Consolidated profit before tax	1,254,773	629,990
Non-deductible expenses and non-computable income:		
Individual companies	784,599	(420,098)
Consolidation adjustments	(668,896)	(291,175)
Adjusted accounting profit	1,370,476	(81,283)
Gross tax calculated at the tax rate in force in each country	1,017,228	451,229
Offset of unrecognised tax losses	(22,493)	-
Tax credits taken	(909,000)	-
Tax losses recognised	(992,024)	(1,051,195)
Tax credits recognised	(2,388,000)	(1,879,865)
Adjustment of income tax expense due to a change in the applicable tax rate	-	(647,547)
Accrued income tax expense (income)	(3,294,289)	(3,127,378)

The various consolidated foreign subsidiaries calculate the income tax expense and the tax charge relating to the various taxes applicable to them in accordance with the applicable legislation and the tax rates in force in their respective countries.

The breakdown of the headings "Deferred Tax Assets" and "Deferred Tax Liabilities" in the accompanying consolidated balance sheets at 31 December 2006 and 2005, is as follows:

	Euros			
	Deferred Tax Assets		Deferred Tax Liabilities	
	2006	2005	2006	2005
Accelerated depreciation	-	-	15,789	18,391
Asset revaluation	2,282,618	-	1,287,755	1,288,971
Non-deductible expenses	908,603	1,003,758	-	-
Measurement of financial derivatives	4,631	-	1,524,140	-
Financial goodwill of foreign companies	-	-	955,601	502,947
Tax loss and tax credit carryforwards	5,847,375	3,201,837	-	-
Other	29,866	-	3,383,222	3,389,654
	9,073,093	4,205,595	7,166,507	5,199,963

As described in Note 1, in 2002 the Parent increased capital through the contribution of a line of business. Some of the assets were contributed at market value, which resulted in a revaluation thereof, giving rise to a deferral of the income tax charge because of differences between the carrying amounts of the assets and their tax bases. The deferred tax liability recorded in this connection amounted to EUR 952 thousand (15%), pursuant to Transitional Provision Three of Law 24/2001, of December 27, on Tax, Administrative, Labour and Social Security Measures and to Article 36 Ter of Corporation Tax Law 43/1995, which stipulates that the proceeds from the disposal of such assets qualify for a reinvestment tax credit. The aforementioned tax liability amounts to EUR 952 thousand.

In 2005 the Group recognised a deferred tax liability of EUR 3,390 thousand as a result of the temporary differences arising from the conversion of the financial statements of the subsidiary Obipektin AG to IFRSs. Most of these differences relate to differences in asset measurement bases.

The Group did not recognise the deferred tax liability arising from the temporary differences associated with retained earnings of subsidiaries, since it considered that it is in a position to control the timing of the reversal of these temporary differences and it is probable that such differences will not reverse at short term.

Current Spanish corporation tax legislation provides certain tax incentives to encourage research and development, protection of the environment, employee training and export activity. The detail of the tax credits aimed at encouraging these activities that can be deducted by the Group in future years is as follows:

Year Earned	Transaction	Amount (Euros)	Last Year for Deduction
2001	R&D and technological innovation	49,771	2016
2002	R&D and technological innovation	16,326	2017
2003	R&D and technological innovation	354,658	2018
2004	R&D and technological innovation	380,873	2019
2005	R&D and technological innovation	212,331	2020
2006	R&D and technological innovation	175,942	2021
2001	Export activities	125,190	2011
2005	Export activities	1,189,640	2015
2006	Export activities	1,626,043	2016
2003	Employee training	568	2013
2004	Employee training	5,678	2014
2005	Employee training	5,810	2015
2006	Employee training	3,646	2016
2004	Reinvestment	69,266	2019
2005	Reinvestment	3,200	2020

Furthermore, in 2004, 2005 and 2006, the Parent earned the following tax credits

Year		Euros	
Year Earned	Year Deducted	Income Reinvested	Amount of Tax Credit
2004	2004	2,175,704	435,141
2005	2005	16,000	3,200
2006	2006	2,953,530	590,706
		5,145,234	1,029,047

The reinvestments were made in 2004, 2005 and 2006 in equity investments in other companies and in property, plant and equipment and intangible assets. The reinvestment tax credit deducted at 31 December 2006 amounted to EUR 591 thousand, leaving the amount of EUR 904 thousand not yet deducted at the end of 2006.

Of the total unused tax credits, an amount of EUR 3,905 thousand was recognised on the asset side of the accompanying balance sheet for 2006 under "Deferred Tax Assets". Of this amount, EUR 2,388 thousand was accounted for in 2006 with a credit to the year's income statement.

At 31 December 2006, the Group had unused tax loss carryforwards arising in the year amounting to EUR 992 thousand. However, the Group recognised the tax asset related thereto, calculated at the new tax rate for the coming years, under "Current Tax Assets" on the asset side of the accompanying consolidated balance sheet.

Under current Spanish legislation, the tax loss of a given year can be carried forward for offset against the profits of the immediately following 15 years. However, the amount ultimately qualifying for offset, as well as the tax credits still to be deducted, might be modified as a result of review by the tax inspection authorities of the years in which the losses arose.

In recognising the above-mentioned tax assets and assessing their recoverability in the legal time limits, the directors of the Parent considered, on the basis of the business plans drawn up, that sufficient profits and income from non-operating activities will be generated in coming years.

Also, the subsidiary Exnama-Extratos Naturais da Amazônia, Ltda. is exempt from 75% of Brazilian income tax until 2012. Since 1 February 2003, it has also been exempt from PIS (Brazilian social integration programme tax) and from COFINS (contribution to Brazilian social security financing) in relation to all sales of goods within the Manaus free trade zone. This subsidiary also qualifies for tax incentives relating to IPI (Brazilian tax on industrialised goods) and ICMS (Brazilian tax on sales and services) until 2013.

The Parent is currently having 1999 to 2001 for corporation tax and June 2000 to December 2001 for VAT and personal and non-resident income tax withholdings audited by the tax inspection authorities. No additional material liabilities are expected to arise as a result of this tax audit. The other Group companies have the last five years open for review for income tax and the last four years for all the other taxes applicable to them.

19. Balances and transactions with Group companies, associates and related companies

The Parent has a current account agreement with its shareholder Natra, S.A. This account does not have any limit or maturity date and bears interest at a rate equal to average annual 90-day Euribor + 1%.

The detail of the short-term balances payable to and collectible from Natra Group companies, included under the headings "Trade and Other Payables" and "Trade and Other Receivables" in the accompanying consolidated balance sheet is as follows:

Company	Euros Accounts Payable	Euros Accounts Receivable
Natra, S.A.	12,524	777,008
Torre Oria, S.L.	1,946	-
Natra Cacao, S.L.	-	1,610,350
Zahor Francia S.A.S.	-	62,859
Natra US	558,396	-
Apra, S.L.	66,281	-
Natra CI	-	896
	639,147	2,451,113

Also, the Group has receivables and payables with Natraceutical Group companies that were not included in the scope of consolidation (see Note 9).

The transactions carried out with Natra Group companies in 2006 were as follows:

	Euros
INCOME:	
Sales	3,464,827
EXPENSES:	
Purchases	484,025
Other services	578,637
Interest	131,758

Sales to Group companies in 2006 include an amount of EUR 1,505 thousand relating to product in progress (see Note 11) in relation to which the Group acquired a commitment to supplement the required tonnes, at no cost to the buyer, until certain levels of production yield were achieved.

A company related to a director of the Parent provided services to the Group in 2006 amounting to EUR 914 thousand.

At 31 December 2006, the detail of the carrying amount of the assets and liabilities contributed in the non-monetary contribution in 2002 (see Note 1) which remained in the balance sheet at 31 December 2005, is as follows:

	Euros
Other facilities and facilities in progress	252,739
90% investment in Exnama - Extratos Naturais da Amazônia, Ltda.	7,113,799
Long-term loans	-
Deferred tax liability	(966,262)
	6,400,276

The amounts in the foregoing table differ from the initial contribution due to the disposal of certain plots of land in 2004 (which were derecognised together with the related deferred taxes) and to fully amortised R&D expenditure.

The items received as a result of the non-monetary contribution were measured at the carrying amount at which they had been stated in the balance sheet of the contributing company, except for the shares of the subsidiary Exnama-Extratos Naturais da Amazônia, Ltda., which were measured at market value following the ratification of this value by Asesoramiento y Valoraciones, S.A., an independent valuer appointed by the Mercantile Registrar of Valencia, as provided for by Article 231 of the consolidated Corporations Law. The increase with respect to the carrying amount at the contributing company amounted to EUR 5,608 thousand.

20. Revenue and expense recognition

Procurements

The breakdown of the balance of "Procurements" on the debit side of the accompanying 2006 and 2005 consolidated income statements is as follows:

	Euros	
	2006	2005
Purchases of merchandise, raw materials and other procurements	46,929,670	31,152,849
Other external expenses	390,208	460,966
Changes in inventories	(2,236,380)	(2,150,063)
	45,083,498	29,463,752

Staff costs

The breakdown of the balance of the heading "Staff Costs" on the debit side of the accompanying 2006 and 2005 consolidated income statements is as follows:

	Euros	
	2006	2005
Wages and salaries	13,444,470	7,646,550
Social security costs	2,591,345	1,571,815
Termination benefit costs	1,291	1,176
Expenses arising from share-based payments (Note 13)	189,861	30,359
Pension plans	204,887	108,583
Other employee benefit costs	1,145,262	366,862
	17,577,116	9,725,345

The average number of employees at the Group in 2006 and 2005, which includes the consolidated companies' average headcount from the date of consolidation, by category, was as follows:

	Average Number of Employees	
	2006	2005
Executives	23	15
Clerical staff	57	36
Manufacturing personnel	220	129
Sales personnel	114	18
Laboratory staff	56	35
	470	233

Share-based payments

A share option plan was approved by the Parent's shareholders at the Annual General Meeting held on 29 June 2005. The detail of the beneficiaries and options assigned in the various periods in which the options can be exercised is as follows:

	Number of Shares			
Beneficiaries	2008	2010	2012	TOTAL
Directors	780,000	812,500	845,000	2,437,500
Executives	525,000	670,000	790,000	1,985,000
	1,305,000	1,482,500	1,635,000	4,422,500

The option's exercise prices at each exercise date are EUR 1.05, EUR 1.10 and EUR 1.17, respectively. The expense incurred in this connection in 2006 amounted to EUR 190 thousand and is recognised under the heading "Staff Costs" in the accompanying consolidated income statement.

On 30 March 2006, the Parent arranged a swap transaction with a bank to cover the aforementioned share option plan. Under the related agreement, the Parent undertook to buy on maturity a maximum of 4,422,500 shares. The acquisition price was set at EUR 1.29 per share. This price was modified on 26 October 2006 to EUR 1.55 per share and the number of shares was increased to 5,896,667. The new shares had not been delivered at the date of accounting close 2006.

As consideration, the bank receives interest on the notional amount of the transaction, which the Parent recognises as finance costs on an accrual basis. The amount of EUR 174,196 is included under this heading in the accompanying consolidated income statement. The Parent will collect any dividends paid.

Since the risks inherent to the performance of the share price of the aforementioned treasury shares with respect to the previous price per share and the economic rights thereof continue to be assumed by the Parent, this transaction was recognised, as a reflection of the rights and obligations held under the agreement, as "Treasury Shares" and "Non-Current Bank Borrowings" in the accompanying consolidated balance sheet for an amount of EUR 4,745 thousand.

Other operating expenses

The breakdown of the balance of "Other Operating Expenses" on the debit side of the accompanying 2006 and 2005 consolidated income statements is as follows:

	Euros	
	2006	2005
Outside services	20,194,142	8,657,184
Taxes other than income tax	128,988	148,859
Changes in operating provisions	(106,315)	481,629
	20,216,815	9,287,672

The balance of the account "Independent Professional Services" under the heading "Outside Services" in the accompanying consolidated income statement includes the fees for financial audit services provided to the various Group companies amounting to EUR 275 thousand, of which EUR 44 thousand relate to the principal auditor, EUR 136 thousand to other companies related to the principal auditor and EUR 95 thousand to other auditors. This account also includes the fees relating to other services provided by the principal auditor amounting to EUR 29 thousand and to services provided by other firms related to the principal auditor amounting to EUR 43 thousand.

Finance costs

The finance costs relate mainly to the interest expenses incurred in 2006 on the financing obtained measured at market value.

Foreign currency transactions

The foreign currency transactions performed in 2006 were as follows:

	euros
INCOME:	
Sales	58,526,690
Other operating income	778,941
Interest	146,098
EXPENSES:	
Procurements	37,751,171
Outside services	14,781,165
Staff costs	12,427,710
Interest	228,452
NON-CURRENT ASSET ADDITIONS	1,771,602

Most of these transactions were performed in pounds sterling and US dollars.

21. Segment reporting

Segment reporting is structured on a primary basis by business segment and on a secondary basis by geographical segment.

The business lines were established on the basis of the Group's organisational structure at 2006 year-end, taking into account, on the one hand, the nature of the goods and, on the other, the customer segments at which they are targeted, These business lines differ from those defined in the 2005 financial statements since the Group has changed its organisational structure after the acquisition of the Forté Farma Group, For this reason, the information relating to 2005 is presented solely for comparison purposes.

Income and expenses that cannot be specifically attributed to any operating line or that are the result of decisions affecting the Group as a whole are attributed to a "Corporate Unit".

Segment information about these businesses is presented below:

	Euros							
	Functional Ingredients		Nutritional Supplements		Other		Total	
	2006	2005	2006	2005	2006	2005	2006	2005
REVENUE:								
External sales	86,632,974	46,981,166	4,128,798	-	-	-	90,761,772	46,981,166
Other operating income	3,707,610	1,794,262	-	-	-	583,987	3,707,610	2,378,249
RESULT:								
RProfit (loss) from operations	3,965,479	1,856,847	813,864	-	-	(62,585)	4,779,343	1,794,262
Result of companies accounted for using the equity method	92,062	4,647	-	-	-	-	92,062	4,647
Finance income (*)	-	-	-	-	-	-	2,085,702	889,108
Finance costs (*)	-	-	-	-	-	-	(4,223,500)	(1,601,682)
Exchange differences (*)	-	-	-	-	-	-	(556,421)	18,655
Gain/Loss on disposal of non-current assets	(294,028)	-	-	-	-	-	(294,028)	-
Asset impairment losses	(373,118)	(475,000)	(180,267)	-	(75,000)	-	(628,385)	(475,000)
Profit/Loss before tax	-	-	-	-	-	-	1,254,773	629,990
Income tax	-	-	-	-	-	-	3,294,289	3,127,378
BALANCE SHEET:								
ASSETS:								
Segment assets	272,595,543	156,243,587	15,630,955	-	19,233	86,701	288,245,731	156,330,288
Investments accounted for using the equity method	-	-	-	-	-	-	728,998	64,671
Total assets							288,974,729	156,394,959
LIABILITIES								
Segment liabilities	126,120,844	16,334,288	14,927,002	-	191,981	103,030	141,239,827	16,437,318
Corporate liabilities	-	-	-	-	-	-	147,734,902	60,712,472
Total liabilities							288,974,729	77,149,790

(*) Corporate unit results.

The breakdown of certain of the Group's consolidated balances based on the geographical location of the companies that gave rise to them is as follows:

	Euros					
	Revenue		Profit (Loss) before Tax		Total Assets	
	2006	2005	2006	2005	2006	2005
Americas	8,944,167	11,055,982	222,166	1,351,997	5,480,095	10,419,403
Europe	81,817,608	35,925,184	1,032,606	(722,007)	283,494,633	145,975,556
	90,761,775	46,981,166	1,254,772	629,990	288,974,728	156,394,959

22. Contingent liabilities

In 2006 and 2005 the directors of the Natraceutical Group did not identify any material contingent liabilities.

23. Remuneration and other benefits of the directors

The remuneration of all kinds earned by the Parent's directors in 2006 amounted to EUR 357 thousand. Also, some of the Parent´s directors have discharged key management functions for which they have earned remunerations amounted to EUR 760 thousand (of which EUR 120 thousand refer to additional bonus) that are still outstanding and are recognised under "Other Current Liabilities" in the accompanying consolidated balance sheet. At 31 December 2006, there were no advances, pension commitments, life insurance policies or any other obligations to current or former Board members.

Also, as explained in Note 20, in 2006 the implementation of a share option plan for members of the Parent's Board of Directors was approved.

Pursuant to Article 127 ter.4 of the Spanish Corporations Law, introduced by Law 26/2003, of 17 July, which amended Securities Market Law 24/1988, of 28 July, and the consolidated Corporations Law, in order to reinforce the transparency of corporations, the members of the Board informed the Parent that they do not sit on the Boards of Directors of, hold direct or indirect ownership interests in or discharge duties, as independent professional or as employees, at companies engaging in an activity that is identical, similar or supplementary to that which constitutes the corporate purpose of the Group companies, except for situations relating to investees of Natra, S.A. or Natraceutical, S.A. In particular the positions and functions are the following:

Director/Representative	Company	Position or Functions
Xavier Adserá Gebellí		
	Natra, S.A.	Director
José Vicente Pons Andreu		
	Natraceutical Industrial, S.L.U.	Individual representing the director Natraceutical, S.A.
	Torre Oria, S.L.	Individual representing the director Natraceutical, S.A.
	Forte Pharma Ibérica, S.L.	Individual representing the director Natraceutical, S.A.
	Braes Group BV	Director
	Braes Holdings Ltd.	Director
	Braes Group Ltd.	Director
	Biopolis, S.L.	Director
	Braes Esot Trustee Limited	Director
	Overseal Natural Ingredients Ltd.	Director
	Obipektin AG	Director
	Panadoro Group AG	Director
	Cakefriends, Ltd.	Director
Juan Ignacio Egaña Azurmendi		
	Natra, S.A.	Director
	Natra Cacao, S.L.	Director
	Zahor, S.A.	Individual representing the director Txocal Oñati, S.L.
	Txocal Oñati, S.L.	Individual representing the director Natra Cacao, S.L.
	Zahor Holding France SAS	Director
	Chocolaterie Jacali NV	Individual representing the director Txocal Oñati, S.L.
	Txocal Belgium NV	Individual representing the director Txocal Oñati, S.L.
Manuel Moreno Tarazona		
	Natra Cacao, S.L.	Individual representing the director Madbull, S.L.
	Natra, S.A.	Individual representing the Chairman Madbull, S.L.
	Torre Oria, S.L.	Individual representing the director Natra, S.A.
	Zahor, S.A.	Individual representing the director Natra, S.A.
	Txocal Oñati, S.L.	Individual representing the Chairman Natra, S.A.
Natra, S.A.		
	Torre Oria, S.L.	Director
	Zahor, S.A.	Director
	Txocal Oñati, S.L.	Chairman
BMS Promoción y Desarrollo, S.L.		
	Natra, S.A.	Director

In addition to any indirect investments that the directors and the individuals representing them might hold in the investees of Natraceutical, S.A., the following directors hold direct ownership interests in Natra, S.A.:

Director	% of Ownership Interest
Xavier Adserá Gebellí	0,15%
BMS Promoción y Desarrollo, S.L.	13,77%
Juan Ignacio Egaña Azurmendi	1,13%

24. Remuneration of senior executives

Seniors executives are considered to be ten individuals who discharge key management functions and were appointed as such by the Parent. These senior executives also participate in strategic and tactical decision-making through the Management Committee.

The remuneration earned by senior executives (where, applicable, since they joined the company) amounted to EUR 991 thousand and is classified under the heading "Staff Costs" in the accompanying 2006 consolidated income statement. This amount does not include the emoluments received by the members of Natraceutical, S.A.'s Board of Directors with executive responsibilities.

Also, as described in Note 20, certain executives are beneficiaries of the Natraceutical, S.A. share option plan.

There are no guarantee or golden parachute clauses, in the event of termination or changes, in the employment contracts of senior executives, including the Group's executive directors.

25. Other information

Information on the environment

With respect to environmental matters, the Group has implemented waste water and fertilizer treatment systems which enable it to minimise possible impacts on the environment.

The detail of the environmental assets included under "Property, Plant and Equipment" in the consolidated balance sheet at 31 December 2006, is as follows:

	Euros		
	Cost	Accumulated Depreciation	Net
Waste water and fertilizer treatment	416,011	(198,268)	217,743
Waste water purification	543,104	(146,537)	396,567
Reduction of atmospheric emissions	172,712	(26,469)	146,243
Gas scrubbing	4,814	-	4,814
Filtering	-	-	-
Other	304,042	-	304,042
	1,440,683	(371,274)	1,811,957

The expenses incurred in 2006 in relation to the protection and improvement of the environment, mostly in connection with waste management, amounted to EUR 141 thousand.

The consolidated balance sheet at 31 December 2006, does not include any provision for possible environmental contingencies since the directors consider that there are no contingencies in this connection. Additionally, the Group has taken out insurance policies to cover possible involuntary contingencies that might arise as a result of the impact of its normal business activities on the environment.

Contribution of the companies to the consolidated profit/loss

The contribution of each of the consolidated companies to the consolidated profit/loss, after tax and consolidation adjustments, is as follows:

Company	Euros
Natraceutical, S.A.	2,296,836
Natraceutical, S.L.	(1,881,610)
Exnama-Extratos Naturais da Amazônia Ltda.	140,313
Obipektin, A.G.	1,035,691
Overseal Natural Ingredients Colors Ltd.	2,743,149
The Talin Co. Ltd.	(81,330)
Forte Services, SAM	278,951
Biópolis, S.L.	17,062
	4,549,062

26. Earnings per share

The reconciliation of the weighted average number of ordinary shares at 31 December 2006 and 2005, using the calculation of earnings per share, is as follows:

	2006	2005
Shares issued at year-end	328,713,946	246,535,460
Treasury shares at year-end	5,825,500	3,403,110
Average number of treasury shares	4,615,805	581,634
Average number of shares outstanding	283,008,898	215,136,894

Basic earnings per share in 2006 and 2005 were determined as follows:

	2006	2005
Net profit (euros)	4,549,062	3,757,368
Average number of shares outstanding	283,008,898	215,136,894
Basic earnings per share (euros)	0,02	0,02

At 31 December 2006 and 2005, diluted earnings per share coincided with basic earnings per share.

27. Explanation added for translation to English

These consolidated financial statements are presented on the basis of IFRSs, as adopted by the European Union. Certain accounting practices applied by the Group that conform with IFRSs may not conform with other generally accepted accounting principles.

Valencia, 22 March 2007

Consolidated Management Report

for the year ended 31 December 2006

1. Main events

In 2006, Natraceutical Group acquired the French nutritional supplements company Laboratoires Forté Pharma, in a transaction that will enable it to reach the end consumer with its own products for the first time, thereby taking a step forward in the value chain in addition to speeding up its growth even further.

Additionally, of particular note was the intense activity in the area of innovation, development and research, with the creation of a scientific committee made up of internationally renowned researchers from various fields of nutrition and health, and the publication of seven new patents during the year.

Acquisition of Forté Pharma

In August 2006, the entering into of a binding agreement for the acquisition of all the shares of Laboratoires Forté Pharma, a French nutritional supplement company, for EUR 82 million was announced. This transaction will once again permit an acceleration of growth at the Natraceutical Group and, what is more important for the Group, allow it to reach the end consumer with proprietary products, thereby lengthening the value chain.

The Group closed the transaction in the second half of 2006. The acquisition was performed on a debt-free basis and Natraceutical, which paid in cash, financed the transaction with a portion of its borrowing capacity and through a capital increase. This method, already employed in the Group's previous acquisition, affords the Group sufficient additional financial capacity to meet the new projects for organic growth and maintain appropriate debt ratios.

Laboratoires Forté Pharma develops nutritional supplements mainly for the slimming, health and beauty market segments. During the last four years the company has multiplied its sales five-fold, become slimming supplement segment leader in France and has commenced the distribution of its products in other European countries such as Belgium and Italy, in addition to Spain, where many of its products were already being marketed.

Basically the company has three product ranges:

- The **slimming** segment is made up of a range of products that aid slimming in all the phases of the process (the initial process through to maintenance), presented in various galenic formats.
- The **health** segment has a range of supplements for use in forwarding solutions to the symptoms of, inter alia, the menopause, joint pain, sight problems or stress.
- While the **beauty** segment consists mainly of sun protection and anti-aging products.

The inclusion of Laboratoires Forté Pharma in the Natraceutical Group will represent the ultimate consolidation of the Group as a European benchmark in the field of functional diet and nutritional supplements, thereby lengthening its value chain through to the end consumer. The Natraceutical Group is specialised in the extraction, production and marketing of natural pectins, fruit and vegetable powders, natural colourants and ingredients, active ingredients and functional vegetable extracts mainly for customers in the foods industry. These customers use them mainly as additives to their products to convert them into functional foods, i.e., into foods which, if consumed on a regular basis are beneficial to health. Also, Laboratoires Forté Pharma purchases active ingredients, with which it produces the food supplements that it sells directly to the end consumer. The purpose of its end products is also to provide health benefits to consumers.

The acquisition of Laboratoires Forté Pharma enables the Natraceutical Group to:

- Penetrate a new business sector, complementary to the functional foods segment, and access the end consumer directly with its R&D
- Broaden its product range by 32 items.
- Have its own sales network, regularly visiting more than 6,000 points of sale in France and other European countries.
- Achieve greater flexibility in the launching of new products.
- Enlarge its R&D+I department.
- Launch its developments along two channels at the same time: nutritional supplements and dietary products.

Innovation and patents

In 2006 the following patents were presented:

In February, Natraceutical S. A. presented the patent for the production of the world's first organic pectin, through Obipektin. This patent is part of a multinational project in which the Group's R&D team is involved, along with raw material producers that hold organic certification in developing countries. The Natraceutical Group's role in the project is to provide the technological know how and the intellectual property rights to produce the organic pectin.

The Natraceutical Group currently produces approximately 1,100 tonnes of pectin, which represents around 10% of the Group's billings. The growth trend in organic products, among which figure the pectins developed, has been estimated for 2006 at around 20% in North America and 10% in the EU, with a total estimated volume of business worldwide of EUR 30,000 million. Among the European countries with the highest levels of consumption are Switzerland and the UK, countries in which the Natraceutical Group has direct and long-established involvement through its main production, distribution and sales centres.

Pectins, the worldwide production of which is estimated at approximately 35,000 Tn per year, are an ingredient that has a gellifying function which is essential to the preparation of large quantities of foodstuffs such as drinks, dairy products, desserts, jams and jellies. In addition, since it is a soluble fibre, it contributes to improved digestion and in certain cases is used as an antidiarrheic agent.

Until now it has not been possible to produce pectins with organic certification. The Natraceutical Group, through the integration of the endeavours of its R&D team, has managed to develop this innovative method per obtaining this ingredient which meets both the new trends in the market and the company's strategy of preparing ever healthier ingredients for the consumer.

Also in February, the Natraceutical Group applied for a patent for CocoanOX, a cocoa powder with a high polyphenol content which has the highest antioxidant index or ORAC (Oxygen Radical Absorbance Capacity) in its category. Polyphenols, as the antioxidising compounds contained in cocoa are known, have been demonstrated to help reduce the risk of contracting coronary illnesses and cancer.

The increased concentration of polyphenols, achieved due to the control of the processes in the countries of origin of the raw material -where the Natraceutical Group has been investing in the implementation of technology- and the ease of absorption thereof by the human body (bioavailability), are the key elements of a product that will be in increasing demand from the major players in the food industry in order to respond to consumer trends

In March, the Natraceutical Group applied to patent the process that enables the alkalinisation of soluble cocoa fibre, giving rise to the first soluble fibre wholly derived from cocoa which will be included in the entire range of milk-based food products. The Group, which has already commenced industrial production of this product, is currently working on the design of applications to which it can be incorporated with strategic companies from the food industry.

The importance of the process lies in the fact that it permits the enhancement of the conditions for alkalinisation of the soluble cocoa extract, rich in dietary fibre, in order to neutralise its pH, thus allowing it to be used in milk-based applications. These products, such as chocolate milkshake, require their ingredients to have a pH close to neutral.

The dietary fibres market is one of the most dynamic in the world. During 2006, close to 600 new products were registered in Europe and more than 1,000 in the US, which claim on their labelling to have a high fibre content. Going beyond the figure for the introduction of dietary fibre, we find growth of close to 100% in the number of launches of this type of product, which respond to the fact that the claim "rich in fibre" appears as the health claim most sought by 40% of Americans and 33% of Europeans. Accordingly, of the total of products launched in the market during the last twelve months and a fibre claiming content, more than 15% are included in the drinks category, and approximately half of this number, i.e. 7.5% belong to the milk-based drink sector. Broadly speaking, the market for dietary fibre as an ingredient currently moves EUR 150 million in Europe alone, with variable rates of growth that range from 8 to 16% annually. This figure represents a volume of business, when we consider the end food product instead of the ingredients, of billions of euros.

The pre-clinical trails using soluble cocoa fibre indicate that the regular consumption of this fibre has a significant effect on levels of cholesterol and triglycerides and, therefore, on the reduction of the risk of suffering certain heart diseases. These studies have demonstrated that soluble cocoa fibre reduces low-level cholesterol (also called LDL or "bad" cholesterol) by up to 54%, and the level of blood triglycerides by up to 40%, as compared with the control diet group. These data demonstrate its high potential to become a functional ingredient to aid the prevention of cardiovascular health problems.

In May, the Natraceutical Group applied for its fourth patent of 2006, CocoanOX 70% (CCX 70), a range of cocoa-derived flavonoids with a high content of this type of antioxidant of up to 70%, the highest content figure achieved until now, with the additional advantage of greater bioavailability, or ease of absorption by the human body.

The main market niche for CCX-70 is the dietary and nutritional supplements sector, where this type of antioxidant has been showing some of the most promising consumption trends and which has an estimated prospective market of more than EUR 670 million for 2007, with growth rates surpassing 12%, according to Business insights data.

CCX-70 has an antioxidant index or ORAC (Oxygen Radical Absorbance Capacity), which can be six times higher than that of vitamin C, another well-known antioxidant. Flavonoids (natural antioxidants belonging to the polyphenol family) are natural compounds with multiple beneficial health effects due to their antioxidant and free-radical eliminating properties. Scientific documentation supports the health-giving properties of cocoa flavonoids which, due to their antioxidant and anti-inflammatory properties have a beneficial effect on the factors that trigger certain cardiovascular diseases, such as reducing the level of LDL (the so-called "bad" cholesterol) and contributing to controlling blood pressure in hypertension sufferers.

In June the application for the fifth patent of 2006 was presented, a clean new method of sterilisation based on the use of supercritical CO2 (i.e., which behaves like a liquid), which permits the elimination of bacteria from food without altering the properties and characteristics of the raw material. Also, in raw materials high in fat, this process permits sterilisation and defatting (extraction) of the product in the same operation, with the concomitant cost savings.

Under atmospheric conditions CO^2 (carbon dioxide) is an inert gas, although under conditions approaching the critical point it behaves like a liquid. Therefore, it is a highly suitable solvent for performing operations such as extraction or sterilisation. It is considered as a GRAS solvent (generally recognised as safe and suitable for use in food products) enabling sterilised ingredients to be obtained, i.e. microbiologically safe ingredients. Once the critical conditions disappear, the CO^2 returns to a gaseous state, and the new method patented by the Natraceutical Group does not therefore leave any type of residue.

The method also enables sterilisation and extraction without the need for reaching high temperatures which allows this new process to be applied in the preservation of thermolabile functional compounds, i.e., unstable compounds that become altered and degraded due to the action of heat. Accordingly, foodstuffs that undergo this process retain all their natural characteristics and properties unaltered. The Natraceutical Group already applies this method to its cocoa-derived products, with a high polyphenol content, and its use with other raw materials is being studied. This innovation opens up a new field in foods research and development, since up until now high-temperature sterilisation was one of the critical stages in the industrial obtainment of certain molecules that biologically affect human health. As a result of the new system, extremely heat-sensitive molecules, such as antioxidants, can be kept at optimal conditions from raw material to end ingredient, ensuring their beneficial effects on the body.

The Natraceutical Group applied for its sixth patent of the year in September, a new variety of food colourant developed by the Group which contains antioxidants such as vitamin C (ascorbic acid) and vitamin E (tocopherol) together with naturally obtained colourants. Antioxidants play a key role in the neutralisation of potentially harmful free radicals. Both vitamin C and vitamin E form part of a balanced diet, but modern life has led to the abandonment of healthy eating habits and to the abuse of fast food, thereby hindering the achievement of the daily recommended intake of these compounds.

The excess of free radicals produced by external factors such as, inter alia, pollution, solar radiation and fumes, can be mitigated by using antioxidants. Therefore, the new variety of colourant patented by the Natraceutical Group becomes an effective protection against cell aging. Various advanced emulsification systems and decomposing and migration processes have been designed to obtain the new variety of natural colourant. This variety can be used in numerous food products such as drinks, milk-based products and tinned foods, providing these products with a natural source of colour in addition to nutritional benefits for the consumer.

Lastly, in December, the Natraceutical Group presented its seventh patent of the year. It consisted of a new industrial method to improve the dosing of Talin, a multifunctional ingredient used as a flavour enhancer and a sweetener, which can be used in confectionary, desserts, drinks, table-top sweeteners and even dental health products.

The sweetening strength of Talin, between 2,000 and 3,000 times stronger than sugar, means that the concentrations used at industrial level are measured in parts per million (ppm), thereby making its use in certain cases difficult. The new application system improves the dosing of the ingredient through the introduction of a film fit for human consumption and easily handled at industrial level.

This new venture will position Talin as one of the most industrially versatile sweeteners and it will greatly increase the market potential of an ingredient that has currently achieved EUR 2.5 million of annual sales.

The project arose as a result of an innovative line of research by the company based on the search for new methods to allow the application of functional ingredients to a greater number of products, and is the fruit of the close working relationship between the R&D departments of the Natraceutical Group and its end customers.

Capital increase at Natraceutical, S.A.

On 6 October 2006 Natraceutical, S.A. obtained authorisation from the Spanish National Securities Market Commission (CNMV) to increase capital by EUR 61,633,868 through the issuance of 82,178,486 new shares.

Following the capital increase, which was subscribed in full in the established period (10 to 24 October 2006), share capital amounted to EUR 32,871,395 and consisted of 328,713,947 shares.

The stock market capitalisation rose from EUR 348 million before the increase (taking EUR 1.41 as the closing reference price on 31 August 2006) to EUR 598 million at 31 December 2006 (taking EUR 1.82 as the closing reference price on 31 December 2006).

The aim of the transaction was to obtain the necessary funds to finance 73% of the price agreed on for the acquisition of Forte Pharma (EUR 82 million) with equity. The remaining 27% (EUR 22 million) was financed through a syndicated loan.

Financial indicators

The most noteworthy indicator in relation to this period was the grant of a syndicated loan of EUR 62 million on 31 October. On the one hand this loan served to finance the transaction to acquire Forté Pharma, amounting to EUR 22 million, and on the other, to renegotiate the existing syndicated loan from 2005, used to finance the acquisition of the Braes Group for an amount of EUR 40 million. The aforementioned loan matures in seven years.

Audits

In 2006 all the Natraceutical Group's production plants successfully passed all the audits to which they were subject, including most notably the Quality Management System follow-up audit pursuant to the ISO standard, which was passed without any significant qualifications.

Various audits by Natraceutical, S.A.'s customers were also satisfactorily passed in 2006. Consequently, Natraceutical's customers ensure, on the basis of these audits, that their requirements are met throughout the supply chain processes and that the applicable regulations, such as Good Manufacturing Practices (GMP) and Analysis of Risks and Critical Control Points, are complied with.

Strategic agreements

In November 2006, the Natraceutical Group and the Panadoro Group, a joint venture focused on the development of functional end products for the food industry, joined forces to innovate in the foodstuff market with the creation of a new food franchise concept: CAKEFRIENDS AG. Natraceutical has a 42% interest in the new company and the Panadoro Group Ltd 58%.

CAKEFRIENDS' flagship store will open in mid-2007 and will be located in the centre of Zurich. It will offer the end consumer a wide variety of functional foodstuffs (products developed on the basis of traditional recipes, with excellent quality, freshness and flavour, and a major value added: nutritive qualities and beneficial effects for various bodily functions). A new space to keep up-to-date with the latest innovations in these types of products, and be the first to test their nutritional qualities.

Natraceutical's involvement in the creation of CAKEFRIENDS AG forms past of the Company's objective of strengthening its strategy for obtaining direct access to the end consumer (B2C), boosting the growing market for functional foods in Europe and opening up new channels towards the nutrition of the future.

CAKEFRIENDS came about in response to our society's new lifestyle habits, which increasingly demand a fast yet healthy diet. Thus, at a point midway between traditional eating and fast food and casual dining arose fast casual, flavoursome and healthy foods for rapid and easy consumption.

The environment

In 2006 the policy of making investments focused on the maintenance and improvement of environmental and sustainable management was implemented once again. Aware of the impact of its business activities on the environment, Natraceutical, S.A. continues to invest not only in managing but also reducing its waste levels and, in certain cases, it has totally eliminated such waste by adopting "clean" technologies that respect the environment. This factor was especially taken into account in the design of the two new production lines.

The Company invested in the elimination of organic solvents for processes in which this was possible, in the reduction of water consumption, in the recycling and re-use of waste and in the replacement of old technologies with more modern and efficient technologies, resulting in improved use of resources and energy and in the minimisation of environmental impact.

Simultaneously, Natraceutical, S.A. has increased the training and awareness of its personnel and other external partners in relation to the importance of carrying out environmentally-friendly activities in both industrial operations and daily life.

International presence

The Natraceutical Group operates in more than 60 companies through our direct sales network, distributors and agents. It should be highlighted in this connection that there is now a sales office in Asia and greater presence in the US through a direct sales force and various distributors specialising in each of the Group's product families. In addition, Natraceutical, S.A. has exhibited at all the most important industry trade fairs in Europe and the US.

Other organisational matters

The inclusion of Forté Pharma in the Natraceutical Group brought with it the creation of a new organisational structure. Basically, the Group is currently composed of two business units that report directly to the managing director: the functional ingredients division (B2B), consisting mainly of Natraceutical, Overseal and Obipektin and the nutritional supplements division (B2C), composing Forté Pharma. The number of persons cooperating with the Group has increased from approximately 233 in 2005 to some 470 in 2006. There are no other material matters referring to the staff.

Main risks and uncertainties

Natraceutical, S.A. has identified the risks that affect its business and has established an internal control system for each risk. The main types of risk identified and managed by the Company are summarised as follows:

- Material risk: relates to risk of possible damage to goods belonging to or under the control of the Company.
- Third-party liability: relates to liability that might arise from personal and material damage as well as harm to third parties pursuant to current legislation as a result of events arising from the activities carried on by the Company.
- Loss of profit: relates to losses arising from discontinuation or interruption of business activity or as a consequence of material damage, extraordinary or catastrophic risks or risks attributable to suppliers.
- Financial risk: relates to the risk arising from changes in exchange or interest rates or from credit risk affecting the Company's liquidity.

2. Business performance by line of activity

The Natraceutical Group, the leading European biotechnological holding in the field of research and development of functional ingredients, active ingredients and nutritional supplements, closed 2006 with revenue of EUR 91 million, as compared with EUR 47 million in 2005. This increase arose due to the inclusion in the 2006 consolidated financial statements of a complete year of activity of the subsidiaries Overseal and Obipektin (as compared with six months of inclusion of their business activities in 2005), the organic growth of the ordinary activities of the various business lines and the inclusion of two months of activity of Laboratoires Forte Pharma, acquired in November 2006.

In terms of profit after tax, the Company obtained EUR 4.55 million net profit in 2006 as compared with EUR 3.8 million obtained in 2005. By business line, of particular note was the favourable performance of the sales of the natural colourant and flavourings line, with an increase of 15%, and maintenance of the gross percentage margins on these products. Special mention should be made of the strength of the UK market. Sales of pectins and fruit and vegetable powders grew by 4.3%, with the growth of sales of powdered fruit being most notable. The figure for exports in this business line reached 90%.

However, the Group's earnings suffered adversely due to the cocoa- and alkaloid-derived functional ingredients line located at the factory of Quart de Poblet (Valencia), where the Company had lower-than-expected sales and tighter margins than anticipated due to high production costs in relation to certain natural ingredients and unrefined defatted cocoa and, as a result, the Company has decided to reconsider the activities in these products. In relation to this business line, in 2007 the Company will focus activity on the other functional ingredients which are indeed meeting their forecast sales, gross margin and profitability objectives.

The profit from operations (EBITDA) generated by the Natraceutical Group increased from EUR 4.2 million in 2005 (9% of revenue) to EUR 10 million in 2006 (11% of revenue).

Outlook

The acquisition and integration of Forté Pharma represents a step forward in our business plan and entails a major diversification in the Group's products and customers enabling us to reach the end consumer. The Group has thus progressed considerably in its consolidation as a European benchmark in the field of functional foods and nutritional supplements.

The new acquisition increases the Group's headcount to more than 470 employees, with production plants totalling more than 250,000 m^2 of space in Valencia, Switzerland (two plants), the United Kingdom and Brazil.

Use of financial instruments by the Natraceutical Group

As a result of the performance of its business activities and operations, the Natraceutical Group is exposed to, inter alia, financial risks such as interest rate and foreign exchange risk. Therefore, the Natraceutical Group's Financial Risk Committee identifies, assesses and manages the interest rate and foreign exchange rate risk associated with the transactions of the Group companies.

The Natraceutical Group and its individual companies are habitually exposed to two types of financial risk:

1. Interest rate risk arising on financing denominated in euros and at a floating interest rate (due to the potential changes in the cash flows associated with the interest payments on borrowings due to changes in interest rates).
2. Foreign exchange risk arising on assets and liabilities denominated in a currency other than the euro, originated in commercial transactions (due to the potential changes in foreign currency denominated cash flows from, or fair value of, these transactions as a result of changes in exchange rates).

The Natraceutical Group manages the two types of risk stated above and any others that might arise by arranging hedges using derivative financial instruments in order to minimise or limit the impact of potential changes in the price of raw materials, interest rates and foreign exchange rates.

No financial instruments exist other than those described in these notes.

3. Significant events after the balance sheet date

In February 2007 Natraceutical Group reached an agreement to integrate Kingfood Australia PTY Limited, a company which for more than 20 years has specialised in the preparation and marketing of ingredients and aromas for the food industry and has been the distributor, since 1998, of Natraceutical's range of natural colourants in that area.

The transaction, which amounted to EUR 5.4 million, was formalised on 28 February in Sydney, and enables the Group to strengthen its focus on the Asia Pacific market.

Kingfood Australia closed 2006 with billings of EUR 9 million, annual growth of more than 20% during the last three years and projected billings of EUR 10 million for year-end 2006.

With the acquisition of Kingfood Australia, the Natraceutical Group has considerably increased its penetration of the Asian and Australian markets, where it already has a sales office located in Bangkok, in addition to incorporating a workforce of 35 highly qualified employees with knowledge of Natraceutical's products, its own commercial network, an established customer base with annual sales of around EUR 10 million and new products and additives for its product portfolio, prepared in its own newly-opened production unit covering more than 4,000 m2, specialised in premixes (mixtures of ingredients with various functions) of up to 50 different ingredients and additives, enabling tailored mixes to be created for each customer.

Kingfood Australia PTY Ltd., which has cooperation agreements with the world's leading aroma and additive companies, will be integrated in the Natraceutical Group's functional ingredients division, and more specifically in the natural colourant business line, which in 2006 grew by 15%.The acquisition lies within the 2007-2011 strategic plan of this Natraceutical division, in which the Australian and Asian markets are defined as having short- and medium-term growth potential. Australia is one of the most interesting niche markets for functional food in the area, with a market volume estimated at EUR 1 billion, annual growth rates of more than 10% and an increased penetration of functional foods in Australian homes of 28% in 2006 (source: Datamonitor).

Another significant event after the balance sheet date was that Xavier Adserà, until now the non-executive chairman of the Natraceutical Group since he accepted the position in May 2005, took on the position as Natraceutical`s executive chairman on 1 March, which will entail his greater involvement in the Company's development and growth process.

Acquisition of Parent treasury shares

5,950,100 shares with a par value of EUR 595,010 were acquired in 2006, representing 1.81% of the share capital at 31 December 2006. The other disclosures required in this connection are included in the notes to the consolidated financial statements.

In November 2006, Natraceutical S.A. sold a total of 3.5 million treasury shares it had recently acquired to the market, which generated net cash between the purchase and sale transactions and therefore a gain before tax of EUR 3.6 million.This gain was recognised in the Company's individual income statement under "Gain on Transactions with Treasury Shares and Debentures"; however, in the Group's consolidated financial statements, and in accordance with International Accounting Standards, this gain on the sale of treasury shares is not recognised as such in the income statement and in addition to the treasury shares that Natraceutical, S.A. owns in order to cover its managers and directors' loyalty plan, the Company has 1.4 million unrestricted treasury shares, at an average cost of EUR 1.12 per share.No subsidiaries hold any shares of or investments in the Parent. The treasury shares are owned by Natraceutical, S.A., the Parent of the Group.

4. Authorisation for issue of the consolidated financial statements and Director´s report

These consolidated financial statements and director´s report were authorised for issue by the Board of Directors at its meeting held on 22 March 2007, for submission for approval by the shareholders at the Annual General Meeting. These consolidated financial statements, which consist of a consolidated balance sheet, consolidated income statement, notes to the consolidated financial statements and director´s report were signed on each page by the Secretary of the Board, and all the directors signed this last page below:

D. Xavier Adserà Gebellí
Chairman

BMS PROMOCIÓN Y DESARROLLO, S.L.
represented by
D. José Luis Navarro Fabra
Director

D. Juan Ignacio Egaña Azurmendi
Director

Doña Alicia Vivanco González
Director

D. José Manuel Serra Peris
Director

NATRA, S.A.
represented by
D. Manuel Moreno Tarazona
Director

D. José Vicente Pons Andreu
Director

D. Maria José Busutil Santos
Non-Director Secretary

Legal deposit

www.natraceutical.es
Pl. de América, 2 - 9ª pl.
46004 Valencia (Spain)

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