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

Consolidated annual accounts for the year ended 31 December 2019, prepared in accordance with International Financial Reporting Standards (IFRS) adopted by the European Union

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

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

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

CONSOLIDATED BALANCE SHEETS AT 31 DECEMBER
(Thousands of Euros)

ASSETS	Note	31 December 2019	31 December 2018	EQUITY AND LIABILITIES	Note	31 December 2019	31 December 2018
				Issued capital	15	20,947	20,862
Goodwill	8	315,966	315,966	Share premium	15	241,011	229,953
Intangible assets	9	1,139,015	1,121,215	Legal reserve	15	4,172	4,151
Right of use	10	18,271	-	Other reserves	15	913,156	872,568
Property, plant and equipment	11	117,420	115,235	Valuation adjustments	15	(43,531)	(36,971)
Financial assets	12	103,184	142,316	Translation differences	15	38,522	23,512
Deferred tax assets	22	269,317	280,404	Profit (Loss) for year		105,909	77,674
NON-CURRENT ASSETS		**1,963,173**	**1,975,136**	**EQUITY**		**1,280,186**	**1,191,749**
				Deferred income	16	69,652	98,992
				Financial liabilities	17	492,593	546,070
				Non-current lease liabilities	10	11,280	-
				Deferred tax liabilities	22	127,540	134,877
				Retirement benefit obligations	20	79,429	70,645
				Provisions	19	32,806	39,393
				Other non-current liabilities	18	29,774	63,712
				NON-CURRENT LIABILITIES		**843,074**	**953,689**
Inventories	13	106,418	92,333				
Trade and other receivables	14	203,115	192,803	Financial liabilities	17	452	2,618
Current tax assets	22	39,888	38,878	Current Lease liabilities	10	7,327	-
Other current assets		8,212	4,086	Trade payables	18	222,478	191,019
Current investments	12	1,769	1,080	Current tax liabilities	22	14,903	14,286
Cash and cash equivalents		117,212	85,190	Other current liabilities	18	71,367	36,145
CURRENT ASSETS		**476,614**	**414,370**	**CURRENT LIABILITIES**		**316,527**	**244,068**
TOTAL ASSETS		**2,439,787**	**2,389,506**	**TOTAL LIABILITIES AND EQUITY**		**2,439,787**	**2,389,506**

The accompanying Notes 1 to 33 to the consolidated annual accounts and the Appendix are an integral part of the consolidated annual accounts as at 31 December 2019.

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

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

CONSOLIDATED INCOME STATEMENTS AT 31 DECEMBER
(Thousands of Euros)

	Note	2019	2018
Revenue	21	855,339	756,934
Other Income	21	55,318	54,047
Operating income		**910,657**	**810,981**
Procurements	21	(192,466)	(162,592)
Staff costs	21	(181,545)	(183,101)
Amortization and depreciation charge	9, 10 & 11	(129,426)	(90,180)
Net change in provisions	21	8,073	(14,452)
Other operating expenses		(254,517)	(251,470)
Net gains/(losses) on disposals of assets	21	(10,474)	441
Loss (Gain) on recognition (reversal) of impairment of property, plant and equipment, intangible assets and goodwill	9 & 11	(389)	(22,636)
Operating profit		**149,913**	**86,991**
Financial income	21	853	981
Financial expense	21	(14,812)	(5,563)
Exchange differences	21	(8,631)	(5,927)
Profit / Losses from financial instruments valuation	12 & 21	956	(1,508)
Profit /(loss) before taxes		**128,279**	**74,974**
Income tax	22	(22,370)	2,700
Net profit (loss) for the year attributable to the Parent Company		**105,909**	**77,674**
Earnings/(loss) per share (euro):	25		
A) Basic		0.61	0.45
B) Diluted		0.60	0.41

The accompanying Notes 1 to 33 to the consolidated annual accounts and the Appendix are an integral part of the consolidated annual accounts for the year ended 31 December 2019.

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

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

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

	Note	2019	2018
Profit/(loss) for the period		**105,909**	**77,674**
Other comprehensive income:			
Items that will not be reclassified to profit or loss			
Retirement benefit obligations	20	(9,065)	(1,110)
Corporate income tax on items that will not be reclassified	22	2,538	311
Fair value changes on Equity instruments with fair value with change in other comprehensive income	12	-	(12,957)
Total items that will not be reclassified to profit or loss		**(6,527)**	**(13,756)**
Items that may be reclassified subsequently to profit or loss			
Other changes in value		(33)	32
Exchange differences on translation of foreign currency	15	15,010	19,510
Total items that may be reclassified subsequently to profit or loss		**14,977**	**19,542**
Other comprehensive income for the period. net of taxes		**8,450**	**5,786**
Total comprehensive income for the period		**114,359**	**83,460**
Attributable to:			
- Owners of the parent		114,359	83,460
- Non-controlling interests		-	-
Total comprehensive income attributable to owners of the parent company arising on:			
Continuing operations		114,359	83,460
Discontinued operations		-	-

The accompanying Notes 1 to 33 to the consolidated annual accounts and the Appendix are an integral part of the consolidated annual accounts for the year ended 31 December 2019.

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

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

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

	Note	Share Capital	Share premium	Legal reserve	Other reserves	Valuation adjustments recognized in Equity	Exchange differences	Profit/(loss) attributable to parent company	Equity
Balance at 31 December 2017	**15**	**20,754**	**219,890**	**4,151**	**1,209,391**	**(20,547)**	**4,002**	**(303,961)**	**1,133,680**
Change in accounting policy		-	-	-	-	(2,700)	-	-	(2,700)
Total Net Equity restated at the beginning of the year	**15**	**20,754**	**219,890**	**4,151**	**1,209,391**	**(23,247)**	**4,002**	**(303,961)**	**1,130,980**
Distribution of profit		-	-	-	(303,961)	-	-	303,961	-
Dividends		108	10,063	-	(32,862)	-	-	-	(22,691)
Total comprehensive income for the period		-	-	-	-	(13,724)	19,510	77,674	83,460
Balance at 31 December 2018	**15**	**20,862**	**229,953**	**4,151**	**872,568**	**(36,971)**	**23,512**	**77,674**	**1,191,749**
Distribution of profit		-	-	21	77,653	-	-	(77,674)	-
Dividends		85	11,058	-	(35,292)	-	-	-	(24,149)
Treasury shares of Parent company		-	-	-	(1,773)	-	-	-	(1,773)
Total comprehensive income for the period		-	-	-	-	(6,560)	15,010	105,909	114,359
Balance at 31 December 2019	**15**	**20,947**	**241,011**	**4,172**	**913,156**	**(43,531)**	**38,522**	**105,909**	**1,280,186**

The accompanying Notes 1 to 33 to the consolidated annual accounts and the Appendix are an integral part of the consolidated annual accounts for the year ended 31 December 2019.

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

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

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

	Note	Period 2019	Period 2018
Cash flow			
Profit before tax		128,279	74,974
Amortization and depreciation charge	9 & 10 & 11	129,426	90,180
Impairment adjustments	9 & 11	389	22,636
Net variation of current provisions		-	15,761
Net profit/(loss) on disposals of assets	21	10,474	(441)
Financial income	21	(853)	(981)
Financial expense	21	14,812	5,563
Exchange differences	21	8,631	5,927
Fair value variation of financial instruments	21	(940)	1,508
Impacts of the Astrazeneca transaction:			
Allocation of deferred income Astrazeneca transaction	16 & 21	(29,954)	(31,376)
Change in the fair value of Astrazeneca financial asset	12 & 21	(51,829)	(51,036)
		208,435	**57,741**
Adjustments to changes in working capital			
Change in inventories	13	(15,569)	(17,622)
Changes in trade and other receivables	14	80,659	(21,572)
Changes in trade payables	18	26,118	46,673
Changes in other current assets		(2,712)	(3,177)
Changes in other current liabilities		2,611	(2,373)
Adjustments to changes in other non-current items:			
Other non-current assets and liabilities		(4,774)	3,130
		86,333	**5,059**
Cash inflows/(outflows) for income tax:		**(18,622)**	**5,435**
Net cash flows from operating activities (I)		**276,146**	**68,235**
Cash flows from investing activities			
Interest received		205	427
Investments:			
Intangible assets	9 & 18	(115,375)	(585,510)
Property, plant and equipment	11	(19,712)	(13,375)
Financial assets	12	(11,593)	(29)
Business combinations	7	-	(17,500)
Disposals:			
Intangible assets and property, plant and equipment	9 & 11	1	407
Financial assets	12	684	7,584
Business unit	3-b	1,188	-
Net cash flows from investing activities (II)		**(144,602)**	**(607,996)**
Cash flows from financing activities:			
Interest paid	17	(6,640)	(2,549)
Equity instruments:			
Dividends paid	24	(24,149)	(22,690)
Treasury shares	15	(1,773)	-
		522	-
Financial Instruments:			
Funds (refunds) from bank borrowings	17	(55,000)	48,925
Funds (refunds) from boncs and other financial instruments	17	-	247,145
Payments from lease agreements	10	(7,543)	-
Other		(5,938)	-
Net cash flows from financing activities (III)		**(100,521)**	**270,831**
Net change in cash and cash equivalents (I+II+III)		**31,023**	**(268,930)**
Cash and cash equivalents at the beginning of the period	**12**	**86,270**	**280,226**
Cash and cash equivalents at the end of the period	**12**	**117,293**	**86,270**

The accompanying Notes 1 to 33 to the consolidated annual accounts and the Appendix are an integral part of the consolidated annual accounts for the year ended 31 December 2019,

1. Group activities

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

The Parent company’s corporate purpose also includes:

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

b) Research into chemical and pharmaceutical ingredients and products.

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

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

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

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

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

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

a) Regulatory financial reporting framework applicable to the Group

Almirall Group’s consolidated annual accounts for the year ended 31 December 2019, which were obtained from the accounting records held by the Parent company and by the other companies composing the Group, were formally prepared by the Parent company’s directors on 21 February 2020.

These consolidated annual accounts were prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union, and take into account all the mandatory accounting policies and rules and measurement bases, the Spanish Commercial Code, the Spanish Companies Law and all other applicable Spanish corporate and commercial law. Accordingly, they present fairly the equity and financial position of the Almirall Group at 31 December 2019 and the results of its operations, the changes in consolidated equity, the changes in other consolidated comprehensive income and the consolidated cash flows at the Group in the year then ended.

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

However, since the accounting standards and measurement bases used to prepare the Group's consolidated annual accounts for 2019 may differ from those used by certain Group companies, the required adjustments and reclassifications were made on consolidation to unify them and to bring them into line with International Financial Reporting Standards.

The Group's consolidated annual accounts for 2018 were approved by the Parent company's shareholders at the General Meeting held on 8 May 2019. The Group's consolidated annual accounts for 2019 are awaiting approval by the Parent company's shareholders at the next General Meeting. However, the Parent company's Board of Directors considers that the aforementioned consolidated annual accounts will be approved without any changes.

b) Adoption of International Financial Reporting Standards

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

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

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

- To present the consolidated balance sheet on a current / non-current basis.
- To present the consolidated income statement by nature.
- To present the statement of cash flows using the indirect method.
- To present the income and expense in two separate statements: a consolidated income statement and a consolidated statement of comprehensive income.

As is detailed below, in 2019 new accounting standards (IAS/IFRS) and interpretations (IFRIC) have come into effect, Similarly, at the date of preparation of these consolidated annual accounts, new accounting standards (IAS/IFRS) and interpretations (IFRIC) have been published, which are set to come into effect for the accounting periods starting on or after 1 January 2020.

Mandatory standards, amendments and interpretations for all years starting 1 January 2019

IFRS 16 "Leases", IFRS 9 (Modification) "Advance payment component with negative compensation", IFRIC 23, "Uncertainty about the treatment of income tax", IAS 28 (Modification) "Long-term interests in associates and in joint ventures ", IAS 19 (Modification)" Modification, reduction or liquidation of the plan ", IAS 1 (Modification) and IAS 8 (Modification)" Definition of materiality (or relative importance)", IFRS Annual improvement plan. Cycle 2015 - 2017: IFRS 9 (Modification), IFRS 7 (Modification) and IAS 39 (Modification) "Reform on interest rate of reference".

These standards have been taken into account as of January 1, 2019, reflecting their impact on these consolidated annual accounts, which have not been significant except for:

IFRS 16 "Leases"

In January 2016, the IASB published this new standard, the result of a joint project with the FASB, which replaces IAS 17 "Leases".

This standard is applicable to annual periods beginning on January 1, 2019.

The Group has adopted IFRS 16 since January 1, 2019 applying the simplified transition approach and has not restated the comparative figures for fiscal year 2018, as permitted under the standard. The reclassifications and adjustments arising from the new lease rules are therefore recognized in the initial balance sheet on January 1, 2019.

Recognized adjustments in IFRS 16 adoption's

With the adoption of IFRS 16, the Group recognized lease liabilities in relation to leases that had previously been classified as "operating leases" under the principles of IAS 17 Leases. These liabilities were valued at the present value of the remaining lease payments, discounted using the incremental type of indebtedness of the lessee as of January 1, 2019. The weighted average incremental rate of indebtedness of the lessee applied to the lease liabilities on January 1, 2019 was 2,1% for buildings and 2,9% for transport elements.

For leases previously classified as financial leases, the Group recognized the carrying amount of the leased asset and the lease liability immediately before the transition as the carrying amount of the right-of-use asset and the lease liability on the application date initial. The valuation principles of IFRS 16 apply only after that date. The new valuations of the lease liabilities were recognized as adjustments to the corresponding right-of-use assets immediately after the initial application date. There were no valuation adjustments for residual value guarantees or variable lease payments based on an index or rate.

	2019 In thousand euros
Commitments for operating leases as at December 31st, 2018	24,386
(Less): Impact of the financial update of future payments on the date of initial application	(1,888)
Liability for leases booked as at January 1st, 2019	**22,498**
Of which:	
Liabilities for non-current leases	7,916
Liabilities for current leases	14,582
	22,498

The right-of-use for the assets were valued at an amount equal to the lease liability, adjusted by the amount of any advance payment or accrued in relation to that lease recognized in the balance sheet as of December 31, 2018. There were no onerous lease contracts that they would have required an adjustment to the assets by right of use on the date of initial application.

The recognized rights-of-use assets by types of assets are the following:

	31 December 2019 Thousand euros	1 January 2019 Thousand euros
Offices	12,166	16,285
Machinery	199	282
Vehicles	5,907	5,931
Total assets by right of use	**18,271**	**22,498**

Net profit after taxes has decreased by approximately 0.3 million euros in 2019 as a result of the adoption of the new rules. The EBITDA (from now on, understood as the calculation of the operating profit plus the headings of the consolidated profit and loss account of "Amortization", "Net change in provisions", "Net results from disposal of assets" and "Results from impairment of immobilized") of the Group has increased approximately 8 million euros, given that the operating lease payments were included in the EBITDA, but the amortization of the right-of-use assets and the interest on the lease liability are excluded from this measure. This impact has been assigned to the "Corporate management and results not allocated to other segments" segment, as it is not individually significant among the various segments of the Group.

Operating cash flows have increased and financing cash flows have decreased by approximately 7.5 million euros, since the reimbursement of the principal part of the lease liabilities is classified as cash flows from financing activities.

The Group's activities as lessor are not material and, therefore, there has not been a significant impact on the financial statements.

In applying IFRS 16 for the first time, the Group has used the following practical solutions allowed by the standard:

- the use of a discount rate for all lease portfolio with reasonably similar characteristics, mainly for transport elements
- previous assessments on whether leases are onerous
- the exclusion of the initial direct costs in the valuation of the asset by right of use on the date of initial application, and
- the retroactive action to determine the lease term when the contract contains options to extend or rescind the lease.

The Group has chosen not to re-evaluate whether a contract is, or contains, a lease on the date of initial application, Instead, for contracts signed before the transition date, the group relies on the evaluation it did applying IAS 17 and IFRIC 4 Determination of whether an Agreement Contains a Lease.

Group leasing activities and how they are accounted for

The Group rents several offices, machinery and transport elements. Rental contracts are normally made for fixed terms of 3 to 5 years, although they may have extension options as described below. Lease terms are negotiated on an individual basis and contain a range of different terms and conditions. Lease agreements do not contain covenants and cannot be used as a grant to obtain loans.

Until fiscal year 2018, rents of property, plant and equipment were classified as financial or operating leases. Payments made under operating leases (net of any incentive received from the lessor) were charged to the profit and loss on a straight-line basis over the term of the lease.

As of January 1, 2019, leases are recognized as an asset by right of use and the corresponding liability on the date on which the leased asset is available for use by the Group. Each lease payment is allocated between the liability and the financial expense. The financial expense is charged to the profit and loss during the term of the lease in such a way that it produces a constant periodic interest rate on the remaining balance of the liability for each year. The right-of-use asset is amortized over the useful life of the asset or the lease term, the smaller of the two, on a linear basis.

Assets and liabilities arising from a lease contract are initially valued on the basis of the present value. The lease liabilities include the net present value of the following lease payments:

- fixed payments (including essentially fixed payments), minus any incentive for lease receivable
- variable lease payments that depend on an index or type, and
- payment of penalties for rescission of the lease, if the lease term reflects the exercise by the lessee of that option.

Lease payments are discounted using the interest rate implicit in the lease contract. If that rate cannot be determined, the incremental type of indebtedness is used, being the rate that the lessee would have to pay to borrow the necessary funds to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

Given the nature of the assets by right of use, the initially recognized cost is essentially related to the initial valuation of the lease liability, generally not being the initial direct costs or restoration costs. Also, there are no variable lease payments other than those that depend on a type or rate, Payments associated with short-term leases and leases of low-value assets are recognized as an expense in profit and loss. Short-term leases are leases with a lease term of 12 months or less. Low-value assets include computer equipment and small items of office furniture.

IFRIC 23, "Uncertainty about the treatment of income tax"

This interpretation is applicable to annual periods beginning on or after January 1, 2019. The Group has adopted IFRIC 23 retroactively since January 1, 2019, restating the comparative figures for the 2018 financial year. Consequently, the reclassifications and adjustments that arise from said interpretation are therefore recognized in the balance sheet of December 31, 2018.

With the adoption of IFRIC 23, the Group has reclassified 8 million euros initially registered under "Long-term provisions" under "Other non-current liabilities" (Notes 18 and 19).

Standards, modifications and interpretations of existing standards that cannot be adopted in advance or that have not been adopted by the European Union

As of the date of signing of these condensed consolidated interim financial statements, the IASB and the IFRS Interpretations Committee had published the standards, modifications and interpretations detailed below that are pending adoption by the European Union:

IFRS 10 (Amendment) and IAS 28 (Amendment) "Sale or contribution of assets between an investor and its associates or joint ventures", IFRS 17 "Insurance contracts", IFRS 3 (Amendment) "Definition of a business", IFRS 9 (Amendment), IFRS 7 (Amendment) and IAS 39 (Amendment) “Reform of the reference interest rate”.

As indicated above, the Group has not considered the anticipated application of the Standards and interpretations described above, and in any case the Group is analyzing the impact that these new standards / modifications / interpretations may have on the Group's consolidated annual accounts, if adapted by the European Union.

c) Comparison of information

As indicated in section b) of this Note, effective January 1, 2019, the Group has adopted IFRS 16 Leases.

The Group has applied the simplified transition approach and has not restated the comparative figures for the year prior to the initial adoption. Additionally, as indicated in this Note, with effect January 1, 2019, the Group has adopted IFRIC 23 Uncertainty about the treatment of income tax by restating the comparative figures for the previous year. On the other hand, Almirall Group sold the subsidiary ThermiGen, LLC in March 2019.

All the above mentioned aspects should be taken into account when comparing the financial statements that are part of these consolidated annual accounts with those corresponding to the annual year ended December 31, 2018.

d) Functional currency

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

e) Estimates

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

In the Group's consolidated annual accounts for the year ended 31 December 2019, estimates by the Group's executives and consolidated entities, which were later approved by the Parent company’s directors, were used occasionally to quantify certain of the assets, liabilities, income, expenses and obligations reported herein. These estimates relate basically to the following:

- The impairment losses on certain items of property, plant and equipment, intangible assets and goodwill arising from the non-recovery of the carrying amount recognised on these assets (see Notes 5-d, 7-e, 8 and 9).

- The useful life of the intangible assets and property, plant and equipment (see Notes 5-b and 5-c).

- Assessment of the recovery of deferred tax assets (see Note 21).

- The fair value of certain unlisted financial assets (see Notes 5-j, 7-a and 11).

- Assessment of lawsuits, obligations and contingent assets and liabilities at year-end (see Notes 5-l and 25).

- Estimate of the appropriate write-downs for inventory obsolescence and impairment of accounts receivable (see Notes 5-f, 5-g and 5-k).

- Estimate of provisions for restructuring (Note 18).

- Determination of the assumptions required to calculate the actuarial liability for retirement benefit obligations in conjunction with an independent expert (see Note 5-l).

- Estimate of the liability relating to the cash-settled share-based payment arrangements (see Note 5-v).

- Estimation of the lease term (IFRS 16): when determining the lease term, management considers all the factors and circumstances that create an economic incentive to exercise an extension option, or not to exercise a rescission option. Extension options (or periods after termination options) are only included in the lease term if it is reasonably true that the lease is extended (or not terminated). In general, the Group relies on the financial projections it makes periodically to determine the reasonableness of exercising or not the extensions for the most significant contracts (mainly, the lease agreement of the head office as described in Note 27).

- Brexit: the United Kingdom formally left the European Union on January 31, 2020 and became an extra-EU country for the purposes of the European Union. A transition period has begun on February 1, 2020, that will end on December 31, 2020. Both parties (United Kingdom and EU) now have eleven months to negotiate the future relationship and trade agreements. The Group has carried out all the necessary actions to deal with a possible hard Brexit, so it is in a good position to make any possible agreement that is needed by January 1, 2021. Meanwhile, the pharmaceutical law of the EU as established in the “Acquis Communautaire” will continue to apply in the United Kingdom, which means that pharmaceutical companies can carry out their activities until the end of 2020. Additionally, as detailed in Note 21, the % of Group turnover in said market amounts to 3%.

Although these estimates were made on the basis of the best information available at 31 December 2019 on the events analysed, events that take place in the future might make it necessary to change these estimates (upwards or downwards) in coming years. Changes in accounting estimates would be applied prospectively in accordance with the requirements of IAS 8, recognising the effects of any changes in estimates in the related consolidated income statement.

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

a) Basis of consolidation

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

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

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

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

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

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

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

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

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

b) *Changes in the scope of consolidation*

In 2019, the following changes were made to the Group's composition, which have not had a significant effect on these annual accounts:

- On March 4, 2019, the Group reached an agreement with Celling Aesthetics LLC to sell the investee company Thermigen, LLC. The conditions to consider such agreement effective were met on March 29, 2019. The divestment has been carried out through the investee Almirall Aesthetics Inc, having a non-significant impact on these annual accounts, taking into account that the main assets it contributed said company were impaired as of December 31, 2018, as indicated in Notes 8 and 9 of the Group's consolidated annual accounts for the annual year ended December 31, 2018. As a result of said agreement, there were accounted for some loans and milestones in favor of the Group, as indicated in Note 12.

- On November 27, 2019, the investee company Almirall Aesthetics, Inc. was dissolved. As a result, accumulated translation differences have been transferred to the income statement, registering a loss of EUR 3.3 million in the heading Exchange differences of the income statement for the year.

In 2018, the following changes were made to the Group's composition, which have not had a significant effect on these consolidated annual accounts:

- Liquidation of the Almirall Production S.A.S. by its parent company Almirall S.A.S. on December 10, 2018.

These transactions involve reorganizations within the Group that do not originate results within the Group, but rather maintain the previous value of the assets and liabilities indicated.

4. Scrip dividend

At the formulation date of these consolidated annual accounts, the Board of Directors of Almirall, S.A. has agreed to propose in the Shareholders' meeting the distribution of a dividend, charged against reserves for an amount of EUR 35.4 million (equivalent to 0.203 euros per share). For the purpose of carrying out this dividend distribution, it is proposed to reuse the remuneration system for shareholders called "Scrip dividend", already implemented in 2019. In this way, its shareholders are offered an alternative that allows them to receive shares issued by the parent company without limiting their possibility of receiving in cash an amount equivalent to the payment of the dividend.

5. Accounting standards

The Group's consolidated annual accounts for the year ended 31 December 2019 were prepared by the directors of the Parent company in accordance with International Financial Reporting Standards (IFRS) as approved by the European Union, pursuant to Law 62/2003, of 30 December.

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

a) Goodwill

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

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

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

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

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

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

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

b) Intangible assets

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

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

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

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

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

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

Development costs-

a) In-house development

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

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

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

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

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

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

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

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

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

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

No significant capitalisation of internal development costs have been made in 2019 and 2018.

b) Separate acquisition

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

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

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

Intellectual property-

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

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

Computer software-

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

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

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

c) Property, plant and equipment

Property, plant and equipment are measured at cost (calculated on the basis of a separate acquisition or through a business combination).

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

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

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

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

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

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

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

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

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

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

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

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

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

The methodology used by the Almirall Group to carry out the impairment tests for development expenses (Note 9) not subject to amortization as they have not been yet commercialized for which signs of impairment have been detected, are based on projections detailed financial terms ranging from 10 to 17 years, depending on the asset) to which a probability of success of the project will be applied and a perpetual income will be estimated for the following years based on a growth rate depending on the expected remaining life of the products.

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

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

Cash generating Unit	**Intangible assets as of December 31, 2019** ***(euro thousand)***	**Hipotesis 2019 (*)**	**Hipotesis 2018 (*)**
Almirall LLC (formerly Aqua Pharmaceuticals, LLC)	Goodwill: - Intangible asset: 74,613	d.r.b.t.: 10.9% d.r.a.t.: 7.5% g.r.c.i.: (15)%	d.r.b.t.: 16.1% d.r.a.t.: 7.5% g.r.c.i.: (15)%
Almirall LLC ("Allergan portfolio")	Goodwill: - Intangible asset: 437,333	d.r.b.t.: 9.1% d.r.a.t.: 7.5% g.r.c.i.: (5)% - (15)%	d.r.b.t.: 9.6% d.r.a.t.: 7.5% g.r.c.i.: (20)%
Almirall Hermal GmbH	Goodwill: 227,743 Intangible asset: 4,757	d.r.b.t.: 10.9% d.r.a.t.: 7.5% g.r.c.i.: (2)%	d.r.b.t.: 11.1% d.r.a.t.: 7.5% g.r.c.i.: (2)%
Poli Group Pipeline Segment third parties	Intangible asset: P- 3058 1,116 P- 3074 16,960	d.r.b.t.: 12.6% d.r.a.t.: 9% g.r.c.i.: (15)%	d.r.b.t.: 12.4% d.r.a.t.: 9% g.r.c.i.: (15)%
Poli Group Pipeline Segment own network	Intangible asset: P- 3058 4,940 P- 3074 4,449	d.r.b.t.: 11.6% d.r.a.t.: 9% g.r.c.i.: (15)%	d.r.b.t.: 11.2% d.r.a.t.: 9% g.r.c.i.: (15)%
Poli Group Marketed Segment third parties	Goodwill: 45,416 Intangible asset: 218,769	d.r.b.t.: 9.3% d.r.a.t.: 7,5% g.r.c.i.: (1)%	d.r.b.t.: 12.2% d.r.a.t.: 7.5% g.r.c.i.: (1)%

Poli Group Marketed Segment own network	Goodwill: 7,400 Intangible asset: 48,278	d.r.b.t.: 10.0% d.r.a.t.: 7.5% g.r.c.i.: (-)%	d.r.b.t.: 10.3% d.r.a.t.: 7.5% g.r.c.i.: (-)%
Licence AstraZeneca	Intangible asset: 67,085	d.r.b.t.: 11.8% d.r.a.t.: 9.0% g.r.c.i.: (20)%	d.r.b.t.: 12.6% d.r.a.t.: 9.5% g.r.c.i.: (20)%
Licence Sun Pharma	Intangible asset: 87,883	d.r.b.t.: 13.6% d.r.a.t.: 9.0% g.r.c.i.: (-)%	d.r.b.t.: 11.8% d.r.a.t.: 9.5% g.r.c.i.: (-)%
Licence Athenex	Intangible asset: 44,275	d.r.b.t.: 11.8% d.r.a.t.: 9.0% g.r.c.i.: (15)%	d.r.b.t.: 10.5% d.r.a.t.: 9.5% g.r.c.i.: (15)%
Dermira	Intangible asset: 84,800	d.r.b.t.: 11.8% d.r.a.t.: 9.0% g.r.c.i.: (15)%	-
Other licenses	Intangible asset: 7,320	d.r.b.t.: 12.0% d.r.a.t.: 9.0% g.r.c.i.: (2)%	d.r.b.t.: 13.4% t.d.: 9.5% g.r.c.i.: (2)%

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

Gross average margins for these projected cash-generating units range between 59% and 95%.

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

The key variables in the impairment tests carried out by the Group relate mainly to the sales of each different medication, which are almost all currently at the marketing stage, and the discount rates applied. Using these variables (discount rate and cash flows) either before or after taxes does not represent a significant change to the results of the analysis carried out. These variables are based on historical experience weighted by outside information available. Changes in assumptions are based on the evidence obtained by the Group in accordance with the indicators applied.

Cash generating unit	Sensibility analysis	Impact (million euros)
Almirall LLC (formerly, Aqua Pharmaceuticals, LLC)	- Increase / Decrease estimated net sales by 10% - Increase / Decrease by 5 points in the growth rate - Increase / Decrease by 1 point in the discount rate	- 5 / (7) - 0 / (2) - 0 / (2)
Almirall LLC portfolio (“Allergan portfolio”)	- Increase / Decrease estimated net sales by 10% - Increase / Decrease by 5 points in the growth rate - Increase / Decrease by 1 point in the discount rate	- None - None - None
Poli Group Pipeline Segment sold by third parties	- Increase / Decrease estimated net sales by 10% - Increase / Decrease by 5 points in the growth rate - Increase / Decrease by 1 point in the discount rate	- None - None - None
Poli Group Pipeline Internal network segment	- Increase / Decrease estimated net sales by 10% - Increase / Decrease by 5 points in the growth rate	- None - None

	- Increase / Decrease by 1 point in the discount rate	- None
Poli Group Marketed Segment sold by third parties	- Increase / Decrease estimated net sales by 10% - Increase / Decrease by 5 points in the growth rate - Increase / Decrease by 1 point in the discount rate	- None - None - None
Poli Group Marketed Internal network segment	- Increase / Decrease estimated net sales by 10% - Increase / Decrease by 5 points in the growth rate - Increase / Decrease by 1 point in the discount rate	- None - None - None
Astrazeneca license	- Increase / Decrease estimated net sales by 10% - Increase / Decrease by 5 points in the growth rate - Increase / Decrease by 1 point in the discount rate	- None - None - None
Almirall Hermal GmbH	- Increase / Decrease estimated net sales by 10% - Increase / Decrease by 5 points in the growth rate - Increase / Decrease by 1 point in the discount rate	- None - None - None
Sun Pharma license	- Increase / Decrease estimated net sales by 10% - Increase / decrease by 5 points the probability of success - Increase / Decrease by 1 point in the discount rate	- None - None - None
Athenex license	- Increase / Decrease estimated net sales by 10% - Increase / decrease by 5 points the probability of success - Increase / Decrease by 1 point in the discount rate	- None - None - None
Dermira license	- Increase / Decrease estimated net sales by 10% - Increase / decrease by 5 points the probability of success - Increase / Decrease by 1 point in the discount rate	- None - None - None

e) Leases

The treatment of leases is detailed in Note 2-b), in the section of IFRS 16 "Leases", as well as in Note 10 their movements are detailed in the consolidated balance sheet.

The Group has applied IFRS 16 retroactively, but has chosen not to restate comparative information. As a result, the comparative information provided continues to be accounted for in accordance with the Group's previous accounting policy.

Accounting policy until December 31, 2018

Leases in which the Group acts as a lessee are classified as operating when they meet the conditions set forth in IAS 17, that is, when ownership of the leased asset and, substantially, all the risks and rewards that fall on the asset, are attributable to the landlord.

Payments for operating leases are charged to the profit and loss account on a linear basis during the lease period.

Leases of property, plant and equipment in which the lessee has substantially all the risks and rewards of ownership are classified as financial leases. Financial leases are capitalized, at the beginning of the lease, for the lower value between the fair value of the leased asset and the present value of the minimum lease payments.

Each payment for the lease is distributed between the liability and the financial burden. The corresponding lease obligations, net of financial charges, are included in long-term accounts payable. The part corresponding to the interest of the financial burden is charged to the profit and loss account during the lease period so that a constant periodic interest rate is obtained on the debt pending amortization in each period. Property, plant and equipment acquired through a financial lease is amortized during the shortest period between the useful life of the asset and the lease period.

As of December 31, 2018, the Group had no financial leases.

f) Inventories

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

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

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

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

g) Receivables from sales and services

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

h) Cash and cash equivalents

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

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

i) Financial instruments (excluding derivative financial instruments)

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

In the years ended 31 December 2019 and 2018, the measurement bases applied by the Group to its financial instruments were as follows:

Financial assets-

(i) Classification

As of January 1, 2018 and in accordance with the application of IFRS 9, the Group classifies its financial assets in the following valuation categories:

- those that are valued after fair value (either with changes in other comprehensive income or results), and

- those that are valued at amortized cost.

The classification depends on the business model of the entity to manage the financial assets and the contractual terms of the cash flows.

For assets valued at fair value, gains and losses will be recorded in profit or loss or other comprehensive income. For investments in equity instruments that are not held for trading, this will depend on whether the group made an irrevocable election at the time of initial recognition to account for the equity investment at fair value with changes in other comprehensive income.

(ii) Recognition and derecognition of accounts

Conventional purchases and sales of financial assets are recognized on the trading date, the date on which the Group agrees to buy or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets expire or are transferred and the Group has transferred substantially all the risks and benefits inherent to the property.

(iii) Valuation

At the time of initial recognition, the Group values a financial asset at its fair value plus, in the case of a financial asset other than at fair value through profit or loss (VRR), the transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets recorded at fair value through profit or loss are recognized as expenses in results.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely the payment of principal and interest.

Debt instruments

The subsequent valuation of the debt instruments depends on the group's business model to manage the asset and the characteristics of the cash flows of the asset. There are three valuation categories in which the group classifies its debt instruments:

- Amortized cost: The assets held for the collection of contractual cash flows when these cash flows represent only payments of principal and interest are valued at amortized cost. Interest income from these financial assets is included in financial income according to the effective interest rate method. Any gain or loss that arises when derecognized is recognized directly in profit or loss and is presented in other receivables / (losses) together with gains and losses from exchange differences. Impairment losses are presented as a separate item in the income statement,

- Fair value with changes in other comprehensive income: Assets held for the collection of contractual cash flows and for selling financial assets, when the cash flows of the assets represent only payments of principal and interest, are valued at value reasonable with changes in other comprehensive income. Movements in the carrying amount are carried to other comprehensive income, except for the recognition of gains or losses from impairment of value, ordinary income from interest and gains or losses from exchange differences that are recognized in profit or loss. When the financial asset is written off in accounts, the accumulated gain or loss previously recognized in other comprehensive income is reclassified from equity to profit and loss and recognized in other gains / (losses). Interest income from these financial assets is included in financial income according to the effective interest rate method. Gains and losses from exchange differences are presented in other gains and losses and the impairment expense is presented as a separate item in the income statement.

- Fair value with changes in results: Assets that do not meet the criterion for amortized cost or for fair value with changes in other comprehensive income are recognized at fair value through profit or loss. A gain or loss on an investment in debt that is recognized subsequent to fair value through profit or loss is recognized in income and is presented net in the income statement within other gains / (losses) in the year in which it arises.

Equity instruments

The Group subsequently values all investments in equity at fair value. When the Group's Management has chosen to present gains and losses in the fair value of investments in equity in other comprehensive income, there is no subsequent reclassification of gains and losses in fair value to results. Dividends from such investments continue to be recognized in profit or loss as other income when the company's right to receive payments is established.

Changes in the fair value of financial assets at fair value through profit or loss are recognized in other gains / (losses) in the income statement when applicable. Impairment losses (and reversals of impairment losses) on investments in equity measured at fair value with changes in other comprehensive income are not presented separately from other changes in fair value.

(iv) Impairment losses

As of January 1, 2018, the Group evaluates on a prospective basis the expected credit losses associated with its assets at amortized cost and at fair value with changes in other comprehensive income. The methodology applied to impairment of value depends on whether there has been a significant increase in credit risk.

For trade accounts receivable, the Group applies the simplified approach allowed by IFRS 9, which requires that the expected losses during its life be recognized from the initial recognition of accounts receivable, see note 14 for more details.

Financial liabilities-

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

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

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

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

The fair value of the liability component of a convertible bond is determined using a market interest rate for an equivalent non-convertible bond. This amount is recorded as a liability on the basis of amortized cost until it is extinguished with the conversion or maturity of the bonds. The rest of the income obtained is allocated to the conversion option that is recognized and included in the shareholders' equity, net of the effect of the income tax.

Financial debt is eliminated from the balance sheet when the obligation specified in the contract has been paid, cancelled or expired. The difference between the carrying amount of a financial liability that has been cancelled or assigned to another party and the consideration paid, including any assigned asset different from the cash or liability assumed, is recognized in the income statement as other financial income or expenses.

When the terms of a financial liability are renegotiated and the entity issues equity instruments to a creditor to extinguish all or part of the liability (debt swap for equity), a gain or loss is recognized in profit or loss for the difference between the carrying amount of the financial liability and the fair value of the equity instruments issued.

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

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

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

j) Derivative financial instruments and hedge accounting

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

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

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

Derivatives are initially recognized at fair value on the date on which the derivative contract is signed and subsequently they are revalued at their fair value on the date of each balance. The accounting for subsequent changes in fair value depends on whether the derivative has been designated as a hedging instrument and, if so, on the nature of the item being hedged. The group designates certain derivatives such as:

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

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

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

(i) Cash flow hedges that qualify for hedge accounting

The effective part of the changes in the fair value of the derivatives that are designated and qualify as cash flow hedges is recognized in the cash flow hedge reserve within equity. The loss or gain related to the ineffective part is recognized immediately in the result of the exercise within other gains / (losses).

When option contracts are used to hedge forecasted transactions, the Group designates only the intrinsic value of the option contract as the hedging instrument.

Gains or losses corresponding to the effective portion of the change in the intrinsic value of option contracts are recognized in the cash flow hedge reserve in equity. Changes in the time value of option contracts that are related to the hedged item ("aligned time value") are recognized within other comprehensive income in the hedge cost reserve in equity.

When forward contracts are used to hedge forecasted transactions, the Group generally designates only the change in the fair value of the forward contract related to the cash component as the hedging instrument. Gains or losses related to the effective portion of the change in the cash component of forward contracts are recognized in the cash flow hedge reserve in equity. The change in the term element of the contract related to the hedged item ("matured term element") is recognized in other comprehensive income in the reserve of hedge costs within equity, In some cases, the gains or losses corresponding to the effective part of the change in the fair value of the full-term contract are recognized in the cash flow hedge reserve in equity.

The amounts accumulated in equity are reclassified in the years in which the hedged item affects the income for the year, as follows:

- When the hedged item subsequently results in the recognition of a non-financial asset (such as inventories), both the deferred gains and losses on coverage and the deferred time value or the deferred forward points, if any, are included in the initial cost of the asset. Deferred amounts are recognized financially in the income for the year, since the hedged item affects the result (for example, through cost of sales).

- The gain or loss corresponding to the effective portion of the interest rate swaps covering variable rate loans is recognized in income within the financial expense at the same time as the interest expense on the covered loans.

The accounting for hedges, if considered as such, is interrupted when the hedging instrument expires, or is sold, terminated or exercised, or fails to meet the criteria for accounting for hedges. Any cumulative profit or loss corresponding to the hedging instrument that has been recorded in equity is maintained within equity until the anticipated transaction occurs. When the operation that is being hedged is not expected to occur, the accumulated net gains or losses recognized in equity are transferred to the net results of the period.

(ii) Net investment hedges

Hedges of net investments in businesses abroad are accounted for similarly to cash flow hedges.

Any gain or loss on the hedging instrument related to the effective portion of the hedge is recognized in other comprehensive income and accumulates in reserves in equity. The loss or gain relating to the ineffective part is recognized immediately in results within other gains / (losses).

Gains and losses accumulated in equity are reclassified to profit or loss when the business is partially disposed of abroad.

(iii) Derivatives that do not qualify for hedge accounting

Certain derivative instruments do not qualify for hedge accounting, Changes in the fair value of any derivative instrument that does not qualify for hedge accounting are recognized immediately in income and included in other gains / (losses),

At 2019 and 2018 there are no derivative financial instruments contracted that meet the requirements for hedge accounting (Note 17),

k) Provisions and contingencies

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

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

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

The Group's consolidated annual accounts include all the material provisions with respect to which it is considered that it is more likely than not that the obligation will have to be settled. Since the contingent liabilities did not arise from a business combination, they are not recognised, but rather detailed in Note 26.

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

Litigation and/or claims in process-

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

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

At the end of 2019 and 2018, a number of legal proceedings and claims had been initiated against the Group in the ordinary course of its business. The Company's legal advisers and directors consider that the provisions recognised are sufficient and that the outcome of litigation and claims will not have a material effect on the consolidated annual accounts for the years in which they are settled.

Provision for restructuring-

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

l) Cost of retirement benefits (or post-employment benefits)

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

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

The contingencies funded by the defined benefit plans are retirement and similar (death of spouse and death of parent), active life risks, death and disability for the employees hired prior to 30 June 2002 and consist of a pension calculated basically on the basis of the pensionable pay. The obligation assumed is covered by in-house provisions and there are no plan assets (see Note 20).

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

The amount of the obligations assumed was calculated as follows:

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

− Actuarial assumptions: in 2019 and 2018 the main assumptions used in the actuarial valuation of the aforementioned obligations were as follows:

2019	Almirall Hermal, GmbH	Almirall, AG	Polichem, S.A.
Mortality tables	Heubeck 2018G	BVG 2015 GT	BVG 2015 GT
Discount rate	1,00%	0,20%	0,25%
Salary increase rate	2,25%	1,75%	1,00%
Benefit increase rate	1,75%	1,00%	0,00%
Turnover rate	3.00%	8,22%	-
Retirement age	63	64 - 65	64 - 65

2018	Almirall Hermal, GmbH	Almirall, AG	Polichem, S.A.
Mortality tables	Heubeck 2018G	BVG 2015 GT	BVG 2015 GT
Discount rate	1,75%	0,90%	0,90%
Salary increase rate	2,25%	1,75%	1,50%
Benefit increase rate	1,75%	0,00%	0,00%
Turnover rate	3,00%	8,31%	-
Retirement age	63	64 - 65	64 - 65

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

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

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

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

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

Defined contribution plans cover similar contingencies to those under the defined benefit plans described above for all employees. Contributions are made to non-related entities such as insurance companies and the amount recognised as an expense in this respect in 2019 and 2018 totals EUR 2.4 million and EUR 1.5 million, respectively.

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

m) Termination benefit costs

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

n) Government grants

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

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

o) Recognition of income and expense

Ordinary revenue is recognized when the control of a good or service is transferred to the customer (thus the concept of control replaces the previous concept of risks and benefit).

The Group recognizes its ordinary income when it satisfies an obligation through the transfer of goods or services committed to customers and is recorded for an amount that reflects the consideration that the Group expects it to pay.

In this regard, the Group recognizes ordinary income from contracts with customers based on a five-step model established in IFRS 15:

- Step 1. Identification of contracts with customers: A contract is defined as an agreement between two or more parties, which creates rights and obligations and establishes certain criteria that must be met for each contract. Contracts can be written, verbal or tacit by virtue of the usual commercial practices of a company.

- Step 2. Identification of separate performance obligations: A performance obligation is a promise in a contract with a customer for the transfer of a good or service.

- Step 3. Value of the price of the contract transaction: The price of the transaction is the amount of the consideration to which the Group expects to be entitled in exchange for the transfer of the goods or services promised to a customer, without taking into account the amounts charged on behalf of third parties. This consideration promised in a contract with a client may consist on a fixed amount, in a variable amount, or both.

- Step 4. Assignment of the transaction price to the separate execution obligations of the contract: In a contract that has more than one execution obligation, the Group distributes the transaction price among the execution obligation in amounts that represent the consideration to which the Group expects to have the right in exchange for fulfilling each execution obligation.

- Step 5. Recognition of ordinary income when (or as) the Group fulfils an execution obligation. The Group meets an execution obligation and recognizes income over time, if one of the following criteria is met:

a) The Group's execution does not create an asset with an alternative use for the Group, and the Group has an enforceable right to the payment of what has been executed to date.

b) The Group's execution creates or improves an asset that the client controls as the asset is created or improved.

c) The client at the same time receives and consumes the benefits provided by the execution of the Group as it carries it out.

For obligations where none of the indicated conditions is met, the income is recognized at the moment in which the execution obligation is fulfilled.

When the Group fulfills an obligation through the delivery of the promised goods or services, it creates a contractual asset for the amount of the consideration obtained with the contract.

When the amount of the good or service received by a customer exceeds the amount of income recognized, this generates a contractual liability.

The following is a detail of the main activities through which the Group generates operating income from contracts with customers, that are included in the caption “Revenues” from the consolidated profit and loss account :

(a) Long-term revenue contracts for licenses granted to different "partners" (business partners)

The Group has long-term contracts for licenses granted to the different "partners" (business partners) with the different countries where the Group markets its products, Derived from these contracts the following types of income will occur:

- Sales, either raw material or any product that has been modified in a production process. Given that this income component is differentiated from other components of the contracts, and that the price at which these transactions are made is a market price, similar to the way in which they were recorded under IAS 18. This income is recorded under the caption "Revenue", in line with previous years,

- Royalties to be collected linked to "partners" (business partners). The registration criteria followed under IAS 18 of recognition of them has been maintained. This income is recorded under the "Revenue" caption .

- Milestones related to the achievement of certain levels of sales. In general terms, the milestones associated to a contingent event, and as such, the registration is made on the date of achievement of the contingent milestone and related to sales already occurred. This income is recorded under the "Revenue" caption .

- Collections for assignments or sales of brands or intellectual property assimilable to products, either for a specific period or perpetually.

(b) *Income from sales of licenses for development and subsequent commercialization*

In the components of sales contracts where certain rights are transferred for the development and subsequent commercialization, and in which there is a significant continuous involvement during the period of development by the Group, the part of the initial charge assigned to that component (" upfront payment ") is deferred annually to the consolidated profit and loss account during the planned development period. This sale of the rights of a license, is an activity that the Group also performs with other companies, which, beyond involving continuous involvement by the Group during the period of development of the molecules, will generate income by milestones (milestones) and future royalties.

p) Corporate income tax and deferred tax assets and liabilities

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

Almirall, S.A. files consolidated tax returns as provided for in Title VII, Chapter VII of Legislative Royal Decree 4/2004 of 5 March, approving the Corporate Income Tax Law. The companies composing the tax group for 2019 are: Almirall, S.A., Laboratorios Almirall, S.L., Industrias Farmacéuticas Almirall, S.A., Laboratorios Tecnobío, S.A., Ranke Química, S.A. y Almirall Aesthetics, S.A., the first of which is the head of the tax group. Consequently, the consolidated income tax expense includes the benefits arising from the application of tax loss and tax credit carry forwards that would not have been recognised had the companies that make up the aforementioned tax group filed individual tax returns.

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

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

Deferred tax liabilities are the amounts to be paid in the future for income tax related to taxable temporary differences while deferred tax assets are the amounts to be recovered as income tax due to the existence of deductible temporary differences, compensable negative tax bases or deductions pending application. For these purposes, temporary difference is understood as the difference between the book value of assets and liabilities and their tax base. These amounts are measured at the tax rates that are expected to apply in the period when the asset is realised or the liability is settled. However, deferred taxes are not recognised if they arise from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction does not affect accounting profit (accounting loss) or taxable profit (tax loss).

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

q) Borrowing costs

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

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

Other borrowing costs are expensed currently in the income statement.

r) Foreign currency transactions

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

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

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

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

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

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

   - Assets and liabilities are translated at the exchange rates prevailing at the reporting date.
   - Income, expenses and cash flows are translated at the average exchange rates for the year.
   - Equity items are translated at the historical exchange rates.

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

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

s) Information on the environment

Assets of an environmental nature are considered assets that are used in a lasting manner in the activity of the Almirall Group companies, whose main purpose is the minimization of the environmental impact and the protection and improvement of the environment including the reduction or elimination of future pollution of the Group's operations. Note 30 details the annual cost as well as the investments and the net book value at the end of each year.

Likewise, the Group has photovoltaic panels in some of its production facilities, destined to the production of energy for its own consumption.

These assets are valued, like any fixed asset, at acquisition price or production cost.

Companies amortize said elements following the linear method, based on the estimated remaining useful life of the different elements.

t) Earnings per share

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

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

u) Consolidated statement of cash flows

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

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

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

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

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

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

v) Share-based payment systems for listed shares

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

Under the Plan, the Parent company undertakes to grant the executives long-term cash-settled variable remuneration tied to the price of the Parent company's shares, following the fulfilment of certain requirements and conditions, Note 28 provides a detail of the liability calculated in accordance with IFRS 2 at 31 December 2019 and 2018.

w) Share capital

Ordinary shares are classified as equity.

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

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

6. Changes in accounting policies

a) IFRS 16 Leases

In January 2016, the IASB published this new standard, the result of a joint project with the FASB, which repeals IAS 17 "Leases". Said rule enters into force on January 1, 2019. In notes 2-b) and 10, the first application impacts as well as the movements occurred in the year ended December 31, 2019 are detailed.

b) IFRIC 23 Uncertainty about the treatment of income tax

This interpretation is applicable to annual periods beginning on January 1, 2019. The Group has adopted IFRIC 23 retroactively since January 1, 2019, restating the comparative figures for the 2018 financial year. Consequently, the reclassifications and adjustments that arising from this interpretation are therefore recognized in the balance sheet of December 31, 2018. With the adoption of IFRIC 23, the Group has reclassified 8 million euros initially registered under the heading of "Long-term provisions" under the heading of " Other non-current liabilities ”(Notes 18 and 19).

7. Critical accounting judgements and estimates

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

a) Revenue recognition and fair value of outstanding revenue

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

- Non-refundable initial amounts.
- Receipts on attainment of certain milestones (development, business, etc,).
- Royalties.
- Calculation of the future price of supplying the product in question to each of the parties.

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

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

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

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

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

  - “Milestone events”: events related to the first launches and to obtaining benchmark prices in certain countries with a 25-30% probability of occurring.

  - “Sales-related payments”: events related to reaching a certain level of sales. At 31 December 2019 there is a milestone pending to be collected amounting to 26 million euros (30 million dolars).

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

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

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

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

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

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

  - If the discount rate used is reduced/increased by one percentage point, the effect would be an increase/reduction of the financial asset by EUR 3.8/(3.8) million, respectively.

- If the probabilities assigned to "milestone events" and "sales-related payments" are reduced/increased by five percentage points, the effect would be a reduction/increase of the financial asset by EUR (1.8)/1.8 million, respectively.

- <u>Sales of licences for development and the subsequent marketing</u>: of the components in the sales agreements which transferred certain rights for development and subsequent marketing, in which there is significant ongoing involvement over the development period by Almirall, the initial payment assigned to this component ("upfront payment") is recognised on a straight-line basis in the consolidated income statement over the expected development period (expected until 2021-2023, approximately) (see deferred income in Note 15), Once the product in question has been launched, an analysis is conducted of recognition of future royalties based on the date from which the amount thereof can be estimated reliably,

b) Measurement of intangible assets

Acquisition of developments in progress

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

Contingent payments in the purchase of marketing rights for certain products that are in the development phase, are capitalized when they are incurred to the extent that they respond to compliance with certain milestones (for example, obtaining regulatory approval), which comes to confirm the highest value of the asset in question. On the contrary, when the contingent payments are related to the execution of normal activities of the development phase that do not comply with the condition to capitalize or royalties on future sales, they will be recognized in the consolidated profit and loss account when they are incurred.

Deferred payments, when considered certain, are recognized as a liability at fair value.

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

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

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

At 31 December 2019 and 31 December 2018, certain litigations and claims arising from the ordinary course of their operations were ongoing against the consolidated companies. The Group's legal advisers and directors consider that the outcome of these litigation and claims will not have a material effect on the consolidated annual accounts for future years (see Note 26).

d) Deferred tax assets

In calculating its deferred tax assets whose recoverability is reasonably assured, the Group establishes a time limit for their compensation based on best estimates. In addition, on the basis of estimates of the taxable profit of each of the Group companies, the Group has determined the expected period over which the deferred tax assets will be realised, also taking into account the timing of deduction of the tax credit and tax loss carry forwards by the legally established deadlines (see Note 22). However, as the likelihood of recovery of these deferred tax assets, the Group has considered a period of up to 10 years and therefore, in recognising the asset, it has not taken into account those tax credits which, on the basis of estimates of future taxable profit, need a longer period of time, even if it is permitted under tax legislation, considering that it will not be a likely case of recovery within the 10-year period.

e) Impairment of goodwill and intangible assets

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

8. Goodwill

The changes in "Goodwill" in the consolidated balance sheets in 2019 and 2018 were as follows:

			Thousands of Euros				
	Balance at 31 December 2017	Additions	Exchange rate differences	Balance at 31 December 2018	Additions	Exchange rate differences	Balance at 31 December 2019
Almirall, S,A,	35,407	-	-	35,407	-	-	35,407
Almirall Hermal, GmbH	227,743	-	-	227,743	-	-	227,743
Poli Group	52,816	-	-	52,816	-	-	52,816
ThermiGen, LLC	25,849	(26,583)	734	-	-	-	-
Total	**341,815**	**(26,583)**	**734**	**315,966**	**-**	**-**	**315,966**

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

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

The goodwill of the Poli Group arose as a result of the difference existing between the acquisition cost of the shares of the Poli Group companies in February 2016 and the underlying carrying amount thereof at the acquisition date, having allocated the identifiable assets and liabilities a difference between their fair value and their carrying amount in the annual accounts of the companies acquired.

The goodwill of ThermiGen arose as a result of the difference existing between the acquisition cost of this company's shares in February 2016 and the underlying carrying amount thereof at the acquisition date, with the difference between its fair value and carrying amount having been allocated to the identifiable assets and liabilities in the Group's financial statements. The translation differences movement corresponding to the 2018 financial year were a consequence of the exchange rate effect when converting the goodwill corresponding to ThermiGen, LLC registered at the level of the subsidiary Almirall Aesthetics, Inc., to the presentation currency of the annual accounts consolidated, with the impact of an increase of 0.7 million euros. Additionally, in 2018, an impairment was made due to the loss of value of the entire goodwill of ThermiGen LLC, as explained in the impairment loss section of this note. Finally, said company has been disposed of in fiscal year 2019, as explained in Note 3-b).

Impairment losses

At 31 December 2019, the recoverable amount of all goodwill tested for impairment has been estimated on the basis of calculations of value in use as described in Note 5-d. With respect to the cash generating units these calculations use five-year cash flow projections based on financial budgets approved by management. Cash flows for more than the five year period are extrapolated using the estimated growth rates indicated in Note 5-d.

On September 21, 2018, the Group announced the search for strategic options for its aesthetic business, which was carried out through the subsidiary ThermiGen, LLC. At the close of fiscal year 2018, as a consequence of the operating performance of said subsidiary below what was expected as of the last quarter of the year and as a result of a low performance of new products developed internally and launched at that date, and the lack of synergies with the rest of the Group's business in the United States, the Group decided to carry out a review of the business plan foreseen for the coming years with respect to the one carried out at the end of the previous year (as well as the closing of the first half of 2018) on which the impairment test was based on the intangible assets (including goodwill) arising from the purchase of said subsidiary in 2016. The new business plan contemplated a significant reduction of the financial perspectives (both sales and of margins) for the next future years. From the update of the impairment test of the recoverable value of the assets assigned to this CGU based on the revised business plan on this subsidiary at the end 2018, and in accordance with the key assumptions indicated in Note 5 d), an impairment loss of EUR 75.2 million was recognized, corresponding to EUR 26.6 million of impairment of goodwill, EUR 43.8 million of impairment of intangible assets (Note 9) , EUR 2.2 million of impairment of property, plant and equipment (Note 11) and EUR 2.6 million of the inventory as of December 31, 2018 (Note 13). As explained in Note 3-c) this affiliate was divested in March 2019.

The impairment losses are recorded in “Impairment Losses on Property, Plant and Equipment, Intangible Assets and Goodwill” in the accompanying consolidated income state (Note 21).

At 31 December 2019, according to the estimates and projections available to the directors of the Parent company, except for the matter commented above regarding the cash-generating unit, the projected results and discounted cash flows of the other cash-generating units adequately support the value of the assets and the goodwill recognised.

The goodwill is allocated to subsidiaries except for the goodwill of Almirall, S.A. which is allocated to the Parent company.

The sensibility tests are detailed in note 5 d).

9. Intangible assets

The detail of the intangible assets in the accompanying consolidated balance sheets at 31 December 2019 and 2018 and of the changes therein is as follows:

	Patents and trademarks	Development expenditure	Computer software	Prepayments and assets under construction	Total
Cost					
At 31 December 2017	**1,371,361**	**82,781**	**87,056**	**186,686**	**1,727,884**
Additions	497,469	-	2,222	-	499,691
Disposals	(11,224)	-	(20)	(62,199)	(73,443)
Transfers	94,733	-	3,616	(96,216)	2,133
Exchange differences	24,473	781	56	988	26,298
At 31 December 2018	**1,976,812**	**83,562**	**92,930**	**29,259**	**2,182,563**

Additions	978	-	1,361	114,844	117,183
Disposals	(27,343)	-	(202)	-	(27,545)
Transfers	-	-	1,768	-	1,768
Exchange differences	15,976	754	(24)	803	17,509
Business combinations	(66,134)	-	(974)	-	(67,108)
At 31 December 2019	**1,900,289**	**84,316**	**94,859**	**144,906**	**2,224,370**
Accumulated amortization					
At 31 December 2017	**(621,029)**	**(121)**	**(66,352)**	**-**	**(687,502)**
Additions	(62,332)	-	(9,286)	-	(71,618)
Disposals	11,138	-	10	-	11,148
Transfers	-	-	-	-	-
Exchange differences	(1,393)	(355)	(44)	-	(1,792)
At 31 December 2018	**(673,616)**	**(476)**	**(75,672)**	**-**	**(749,764)**
Additions	(98,033)	-	(7,700)	-	(105,733)
Disposals	11,087	-	258	-	11,345
Transfers	-	-	-	-	-
Exchange differences	(685)	(367)	(5)	-	(1,057)
Business combinations	20,569	-	1,001	-	21,570
At 31 December 2019	**(740,678)**	**(843)**	**(82,118)**	**-**	**(823,639)**
Impairment losses					
At 31 December 2017	**(232,178)**	**(52,816)**	**(5,072)**	**(20,000)**	**(310,066)**
Impairment losses	(13,582)	-	-	20,000	6,418
Exchange differences	(7,936)	-	-	-	(7,936)
At 31 December 2018	**(253,696)**	**(52,816)**	**(5,072)**	**-**	**(311,584)**
Impairment losses	(262)	-	-	-	(262)
Disposals	8,200	-	-	-	8,200
Exchange differences	(3,608)	-	-	-	(3,608)
Business combinations	45,538	-	-	-	45,538
At 31 December 2019	**(203,828)**	**(52,816)**	**(5,072)**	**-**	**(261,716)**
Net book value					
Cost	1,976,812	83,562	92,930	29,259	2,182,563
Accumulated amortization	(673,616)	(476)	(75,672)	-	(749,764)
Impairment losses	(253,696)	(52,816)	(5,072)	-	(311,584)
At 31 December 2018	**1,049,500**	**30,270**	**12,186**	**29,259**	**1,121,215**
Cost	1,900,289	84,316	94,859	144,906	2,224,370
Accumulated amortization	(740,678)	(843)	(82,118)	-	(823,639)
Impairment losses	(203,828)	(52,816)	(5,072)	-	(261,716)
At 31 December 2019	**955,783**	**30,657**	**7,669**	**144,906**	**1,139,015**

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

In 2019, the main additions to intangible assets amounted to EUR 117 million mainly correspond to:

- As a result of the agreement signed with Athenex dated December 11, 2017, by which Almirall granted an exclusive license to investigate, develop and market in the United States of America and Europe, including Russia, a first-in-class topical treatment for actinic keratosis, in Phase III of development at that time, subsequent payments were derived associated with compliance with certain milestones of the product development phase. As of December 31, 2019, payments for the fulfillment of these milestones have been formalized in the amount of 17.3 million euros (20 million dollars).

- In February 12, 2019 Almirall announced an option and license agreement with Dermira under which Almirall has acquired an option to exclusively license rights to develop and commercialize lebrikizumab for the treatment of atopic dermatitis and certain other indications in Europe. As a consequence of this agreement Almirall did a first payment of 30 million dollars (27 million euros). In June 25, 2019 Almirall decided to exercise the option and paid 50 million dollars (approximately 44 million euros) in July 9, 2019. Finally during the last quarter of 2019 Almirall paid 15 million dollars (approximately 13 million euros) as a consequence of the conseqution of some milestones related to Phase III clinical studies.

  Additionally in this agreement Almirall will be obligated to make additional payments to Dermira upon the achievement of certain milestones, including $15 MM in connection with the initiation of certain Phase 3 clinical studies and up to $85 million dollars upon the achievement of regulatory milestones and the first commercial sale of lebrikizumab in Europe. In addition, Dermira will be entitled to receive milestone payments upon the achievement of certain thresholds for net sales of lebrikizumab in Europe, as well as royalty payments representing percentages of net sales that range from the low double-digits to the low twenties.

- On December 19, 2019, the Group signed an option agreement to acquire a pharmaceutical compound under development to Bioniz Therapeutics, Inc., a biopharmaceutical company based in Irvine, California (USA), which develops first-in-class peptide therapies, which inhibit selectively multiple cytokines to treat immuno-inflammatory diseases and T cell neoplasms. Under the terms of the agreement, the Group has made an initial payment of 15 million dollars (about 13 million euros) to Bioniz in exchange for the option to acquire the totality of the company's shares. After the availability of the results of the phase 1/2 study at LCCT, certain biomarker clinical data and the report of the End of Phase 2 meeting with the FDA, Almirall will have 60 days to exercise his option. If Almirall decides to exercise it, the company will make a payment for such exercise of 47 million dollars in different terms during the following years. Almirall will make additional payments once certain development, regulatory and commercial milestones are achieved.

In 2018, the main additions to intangible assets amounted to EUR500 million mainly related to:

- Following the Group's criteria when acquiring intangible assets with contingent payments subject to future events, these are accounted for in accordance with the accumulated cost model, As a result, the Industrial Property heading was increased by the present value of future payments (EUR 24.7 million), related to the acquisition of an exclusive license to commercialize two products for the reduction of cholesterol on date 21 of December 2017, subject to different milestones re-estimated at December 31, 2018, based on the evolution of sales in Spain of both products during the year.

- Effective September 21, 2018, the Group acquired, through the subsidiary Almirall LLC, a portfolio of five products from the Medical Dermatology division in the United States (which belonged to Allergan Sales, LLC and Allergan Pharmaceuticals International Limited ("Allergan")) composed of four mature and growing products for acne and dermatosis, and a new innovative product (SeysaraTM (sarecicline)), for the oral treatment of acne. The consideration for this transaction consisted of an initial cash payment of USD 550 million (EUR 472.7 million, of which EUR 460.7 million correspond to the acquired portfolio and the rest to acquired stocks (see Note 13)) carried out on September 21, 2018, together with a subsequent increase in the price of USD 12 million (EUR 10.3 million) after meeting the milestone related to the regulatory approval of the product "SeysaraTM (sarecicline)" on 2 October of 2018 by the FDA and a contingent consideration ("earn-out") that can reach about USD 100 million payable in the first quarter of 2022, mainly based on compliance with a certain amount of sales of said portfolio acquired in 2021. The method used to determine the fair value of the contingent consideration (determined at EUR 0 million) has consisted of the deration of the possible payment scenarios to be performed in 2022, weighted by the probability of occurrence assigned for the future event considered to be close to zero. The fair value at the date of acquisition of the assets acquired has been determined basically using valuation techniques and has been carried out by an independent expert.

At the beginning of the second half of 2016, the pre-conditions of the agreement signed with Sun Pharmaceutical Industries Ltd, (Sun Pharma), in accordance with which the company granted an exclusive licence to trade, develop, manufacture and sell a compound to treat chronic plaque psoriasis in 44 European countries to Almirall, S.A., were met. The Group recognised a total intangible asset for EUR 156.9 million corresponding to the sum of the payment made for EUR 45.3 million and the current value of the future payments subject to different bureaucratic events and studies which are almost certain to occur (milestones marking the end of certain compulsory clinical trials and notification of the corresponding approvals by regulatory agencies, where it is highly likely that the approvals will be obtained as the project in question has had positive results at Phase III), reviewed at their update value at its updated value at the date of acquisition, totalling EUR 111.6 million. This outstanding amount, modified by the interest accrued from the acquisition of this asset, was recognised under “Suppliers of assets” (Note 17) and included the interest accrued up to year end. This licence was in course as it was expected to be launched at the end of 2018 or the beginning of 2019 (at 31 December 2016 it was expected to be launched in 2018) following the notification received from the European Medicines Agency (EMA), after the corresponding permits for their sale have been obtained. In addition, based on the signed agreement, Sun Pharma may receive future payments for regulatory, development and sales events as well as royalties for net sales based on certain milestones. A total of 30 million dollars (EUR 28.4 million) were paid in 2017.

As a result of the communication received by the European Medicines Agency (EMA) on November 14, 2017, by which the launch of the product tildrakizumab in the European markets was postponed to the end of 2018 due to an extension of the scope of the centers where the clinical trials that were being examined are carried out, the Company updated the analysis of the deterioration test with the new business plan taking into account the new circumstances surrounding the launch of this product, which led to the recognition of an impairment loss of 20 million euros. As a result of the postponement mentioned above and the departure of biosimilar products in the year 2018, a fact that has a negative impact on the generation of the value of the product, on August 23, 2018 an addendum to the initial contract signed in 2016 was signed, in which is agreed the change of the economic amount of several conditions initially established that imply a reduction of the amounts associated with the upfront payment (including future payments subject to compliance with certain bureaucratic milestones), and increase in the scaling of percentages on sales and milestones associated with future sales. As a result, the corresponding part of the cost of said intangible recognized in 2016 (EUR 62.2 million) was written off in line with the associated liability pending payment included under the heading of "Long and short-term fixed assets", amounting to EUR 21.6 and 40.6 million, respectively. Additionally, and after the approval by the European Medicines Agency (EMA) of the product launch on September 18, 2018 and review of the impairment test based on the new business plan taking into account the new value of the intangible asset adjusted and to the extent that the new business case allows the recovery of the value of the new asset, the impairment recorded in fiscal year 2017 is reversed against the profit and loss account for the year 2018. The key assumptions and methodology of the test impairment are included in Note 5 d). As of December 31, 2018, there were no outstanding amounts related to the acquisition of this license.

The impairment losses recognised in 2019 are mainly due to the termination of the agreement signed with Symatese, whereby it granted Almirall an exclusive license for the worldwide commercialization of a new range of facial fillers with hyaluronic acid, for which the Group paid EUR 7.5 million in 2017. The loss has been recorded in its entirety under the heading “Net results from disposal of assets” (Note 21).

The impacts recorded in “Business combinations” for the year 2019 are due to the sale of the investee company Thermigen LLC (Note 3-c).

The translation differences for 2019 are mainly due to the evolution of the exchange rate of the US dollar, mainly linked to the portfolio of 5 products specialized in the treatment of acne, psoriasis and dermatosis, which belonged to Allergan Sales, LLC and Allergan Pharmaceuticals International Limited (“Allergan”) acquired on September 21, 2018 for an amount of 471.2 million euros (equivalent to 548 million dollars).

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

Impairment losses are recorded under "Impairment losses on property, plant and equipment, intangible assets and goodwill" in the accompanying consolidated income statement.

The key hypotheses and methodology of the impairment test are included in Note 5 d).

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

	2019	2018
Other acquired development costs	3,192	2,805
Development costs acquired as a result of the acquisition of control of Polichem Group,	27,465	27,465
Licences and other marketing rights as a result of the acquisition of control of Almirall Hermal, GmbH	4,757	6,215
Product technology a result of the acquisition of control of Almirall LLC (formerly, Aqua Pharmaceuticals, LLC)	74,613	81,339
Licences and other marketing rights as a result of the acquisition of control of Polichem Group	267,047	287,776
Licences and other marketing rights as a result of the sales agreement with AstraZeneca	67,085	75,474
Licences and other marketing rights as a result of the sales agreement with Sun Pharma	87,883	94,132
Licences and other marketing rights as a result of the sales agreement with Allergan	437,333	471,219
Other Licences and other marketing rights	17,065	33,345
Total Intellectual Property and Development Expenditure	**986,440**	**1,079,770**

The aggregate amount of the research and development expenditure recognised as an expense in the accompanying consolidated income statement for 2019 and 2018 was approximately EUR 92.2 million and EUR 87.6 million, respectively. These amounts include the depreciation of the assets associated with R&D activities and the amortisation of the expenses incurred by Group personnel and by third parties.

At 31 December 2019 and 31 December 2018, there are no internal capitalised R&D expenses.

"Intellectual Property" includes mainly the following intangible assets:

- Licences and other marketing rights resulting from the takeover of Almirall Hermal, GmbH for EUR 4.8 million at 31 December 2019 (EUR 6.2 million at 31 December 2018).

- Technology acquired from Almirall LLC (formerly, Aqua Pharmaceuticals, LLC) in 2013. This technology was assigned to each product and is defined as a set of intangible assets which basically include product formulation and the value of trademarks or brand names and patents or sales licences and which are grouped together insofar as they are considered to be inter-related, they have no value on a stand-alone basis or they are expected to have the same useful life. The useful lives of the intangible assets acquired were estimated at 15 years. The changes in the year correspond to amortisation of EUR 8.3 million in 2019 (EUR 5 million in 2018) and to the revaluation of EUR 1.6 million (EUR 9.8 million in 2018) for its translation to the presentation currency of the consolidated annual accounts. In addition, in 2018 there has been a reversal of part of the impairment recognised for the loss of value of this subsidiary's intangible assets in 2017, as explained in the section on impairment losses of this note.

- Intangible assets acquired from Poli Grupo in 2016 for an amount of EUR 428.4 million, mainly related to product technology and development expenses. This technology, assigned to each product, was defined as a set of intangible assets that basically includes the formulation of the product, the value of trademarks or trade names and patents or marketing licenses, and that were grouped together as they were considered to be interrelated, they had no value on their own and were expected to have the same lifespan. The estimated value of said product technology amounted to 348.2 million euros with an estimated useful life of 14-18 years. At December 31, 209 the amount is EUR 267 million . The movement for the year corresponds to the amortization of the year 2019 for EUR 20.7 million (EUR 20.7 million in the year 2018), which net book value amounts to EUR 267 million as of December 31, 2019. The total development expenses (EUR 80.2 million at the initial time) corresponded to the pipeline of acquired products that were in progress until the commercialization of the associated products and on which there was an impairment in 2017 leaving the asset for an amount of EUR 27.5 million (which coincides with the value at December 31, 2019).

- Intangible assets acquired from Thermigen LLC in 2016 for an amount of EUR 64.2 million, mainly relating to "Intellectual Property" (EUR 46.0 million with an estimated useful life of 13 years), "Distribution Agreement exclusive "(EUR 12.7 million with an estimated useful life of 5 years) and" Relations with customers" for which consumable sales are made on a recurring basis, once they have purchased the medical equipment (EUR 5.1 million with an estimated useful life of 9 years). These assets were totally impaired in 2018 as a consequence of the loss of value of the intangible assets of said subsidiary for 43.8 million euros, as explained in Note 8.

- Portfolio of 5 products specialized in the treatment of acne, psoriasis and dermatosis, which belonged to Allergan Sales, LLC and Allergan Pharmaceuticals International Limited ("Allergan") was acquired on September 21, 2018 for an amount of EUR 471.2 million corresponding to trademarks, intellectual property, regulatory approval documents, and licenses to exclusively distribute dermatological products in the United States with an estimated useful life of 4-14 years. As explained in this same note, the net book value at the end of 2019 amounts to EUR 437.3 million (EUR 471,2 million in 2018). The movement of the year corresponds to the amortization of 2019 for the amount of EUR 42.8 million euros and to the revaluation as a consequence of its conversion to the presentation currency of the consolidated annual accounts for a value of EUR 9.8 million (EUR 7,6 million during 2018).

Impairment losses

The Group has prepared the corresponding impairment tests for the main intangible assets, both those that are ongoing and current, Note 5 d) shows the main key assumptions used for the impairment tests, as well as the corresponding sensitivity analysis,

The detail of the impairment losses on intangible assets in 2019 and 2018 included in “Impairment Losses” in the above table and of the changes therein is as follows:

	Thousands of Euros								
	Balance at 31 December 2017	Additions	Disposals	Balance at 31 December 2018	Additions	Disposals	Business combinations	Translation differences	Balance at 31 December 2019
Intellectual property	232,178	13,582	7,936	253,696	262	(8,200)	(45,538)	3,608	**203,828**
Development expenditure	52,816	-	-	52,816	-	-	-	-	**52,816**
Computer applications	5,072	-	-	5,072	-	-	-	-	**5,072**
Intangible and non-current assets	20,000	(20,000)	-	-	-	-	-	-	**-**
Total impairment losses	**310,066**	**(6,418)**	**7,936**	**311,584**	**262**	**(8,200)**	**(45,538)**	**3,608**	**261,716**

The movements of the 2019 exercise correspond to:

- Withdrawals are due to the expiration of a license agreement whose net book value at year-end 2018 was zero, so no loss has been recorded in the consolidated profit and loss account.

- The impacts recorded in “Business combination” are due to the sale of the investee company Thermigen LLC as explained in Note 3-b.

The movements in 2018 exercise correspond to:

- Reversal of impairment of technology acquired from Almirall LLC (formerly, Aqua Pharmaceuticals, LLC) for a total of EUR 29.9 million, based on the impairment test mentioned in Note 8. This reversal was derived from the improvement of the Indirect costs imputed in the projections made after incorporating the portfolio acquired from Allergan (since it is synergistic with the structure already existing in that subsidiary).

- Impairment of intangible assets acquired from ThermiGen LLC in the amount of EUR 43.8 million, explained in Note 8.

- Reversal of impairment on intangible assets in progress linked to the license with Sun Pharma, as described in this note.

As of December 31, 2019 and as a result of the impairment tests carried out and indicated in Note 5 d), the amount of impairment of the Industrial Property corresponds mainly to:

- Impairment of the development rights and sale of a product of the respiratory area totalling EUR 45 million (EUR 45 million at 31 December 2018) due to the strategic decision made in 2016 to not sell this product.

- Impairment of the technology acquired from Almirall LLC (formerly, Aqua Pharmaceuticals LLC) in 2013 allocated to each product and defined as a group of intangible assets totalling EUR 134.5 million (EUR 131.9 million in 2018).

- Impairment of development expenses acquired as a result of the takeover of the Polichem Group following the decision to terminate the research activities for both projects in the US and one of them in Europe. Details are as follow:

    - P 3058 (Onicomicosis) impaired by an amount of 7 million euros

    - P 3073 (Nail Psoriasis) impaired by an amount of 45.7 million euros

The impairment losses generated have been recognised under "Impairment Losses on Property, Plant and Equipment, Intangible Assets and Goodwill" in the accompanying consolidated income statements for 2019 and 2018.

10. Rights of use

The changes in "Rights of use" in the consolidated balance sheet in 2019 is as follows:

	Buildings	Machinery	Vehicles	Total
Cost				
At 1 January 2019	**16,285**	**282**	**5,931**	**22,498**
Additions	157	17	3,417	3,591
Disposals	-	-	(468)	(468)
Exchange differences	28	-	16	44
At 31 December 2019	**16,470**	**299**	**8,896**	**25,665**
Accumulated depreciation				
At 1 January 2019	-	-	-	-
Additions	(4,293)	(100)	(3,470)	(7,863)
Disposals	-	-	487	487
Exchange differences	(12)	-	(6)	(18)
At 31 December 2019	**(4,305)**	**(100)**	**(2,989)**	**(7,394)**
Net carrying amount				
At 1 January 2019	**16,285**	**282**	**5,931**	**22,498**
Cost	16,470	299	8,896	25,665
Accumulated depreciation	(4,305)	(100)	(2,989)	(7,394)
At 31 December 2019	**12,165**	**199**	**5,907**	**18,271**

As explained in Note 2-b), this heading arises as a result of the first application of IFRS 16 and includes the assets corresponding to the lease contracts that are mainly due to leases of offices and transport elements.

The additions for the year correspond mainly to the renewal of vehicle contracts of the Group's commercial networks.

The payments made in the year 2019 for leases amounted to 7,543 thousand euros.

The detail of the lease liabilities as of December 31, 2019 is as follows, along with their future maturities:

	Amount at 1 January 2019	**Amount at 31 December 2019**
Lease liabilities		
Current	7,916	7,327
Non current	14,582	11,280
Total	**22,498**	**18,607**

	Thousand Euros				
		Non current			
	Current	2021	2022	Rest	Total
Leases liabilities	7,327	5,641	4,696	943	11,280

11. Property, plant and equipment

The changes in "Property, Plant and Equipment" in the consolidated balance sheets in 2019 and 2018 were as follows:

	Land and buildings	**Plant and machinery**	**Other fixtures, tools and furniture**	**Other property, plant and equipment**	**Prepayments and assets under construction**	**Total**
Cost						
At 31 December 2017	**104,435**	**97,112**	**274,451**	**21,964**	**8,657**	**506,619**
Additions	-	2,659	3,552	878	6,288	13,377
Disposals	(13,677)	(8,684)	(24,794)	(411)	-	(47,566)
Transfers	4,492	1,902	5,025	536	(10,187)	1,768
Exchange differences	96	(100)	262	80	1	339
At 31 December 2018	**95,346**	**92,889**	**258,496**	**23,047**	**4,759**	**474,537**
Additions	130	2,687	3,670	688	12,537	19,712
Disposals	-	(318)	(1,208)	(201)	-	(1,727)
Transfers	-	741	1,486	69	(4,063)	(1,767)
Exchange differences	37	-	40	41	644	762
Business Combinations	-	(392)	(4,625)	(510)	15	(5,512)
At 31 December 2019	**95,513**	**95,607**	**257,859**	**23,134**	**13,892**	**486,005**
Accumulated amortization						
At 31 December 2017	**(46,133)**	**(64,506)**	**(244,406)**	**(19,507)**	**-**	**(374,552)**
Additions	(2,127)	(3,235)	(9,633)	(3,567)	-	(18,562)
Disposals	7,530	8,421	21,907	386	-	38,244

Transfers	(4,019)	-	-	-	-	(4,019)
Exchange differences	(49)	1	(129)	1,997	-	1,820
At 31 December 2018	**(44,798)**	**(59,319)**	**(232,261)**	**(20,691)**	**-**	**(357,069)**
Additions	(2,017)	(3,495)	(9,261)	(1,057)	-	(15,830)
Disposals	-	259	733	173	-	1,165
Transfers	-	-	-	-	-	-
Exchange differences	(29)	-	(27)	(69)	-	(125)
Business Combinations	123	-	2,854	425	-	3,402
At 31 December 2019	**(46,721)**	**(62,555)**	**(237,962)**	**(21,219)**	**-**	**(368,457)**
Impairment losses						
At 31 December 2017	**(3,750)**	**-**	**-**	**-**	**-**	**(3,750)**
Impairment losses	3,750	-	(2,233)	-	-	1,517
Exchange differences	-	-	-	-	-	-
At 31 December 2018	**-**	**-**	**(2,233)**	**-**	**-**	**(2,233)**
Impairment losses	-	(3)	(110)	(15)	-	(128)
Disposals	-	-	2,233	-	-	2,233
Exchange differences	-	-	-	-	-	-
Business Combinations	-	-	-	-	-	-
At 31 December 2019	**-**	**(3)**	**(110)**	**(15)**	**-**	**(128)**
Net book value						
Cost	95,346	92,889	258,496	23,047	4,759	474,537
Accumulated amortization	(44,798)	(59,319)	(232,261)	(20,691)	-	(357,069)
Impairment losses	-	-	(2,233)	-	-	(2,233)
At 31 December 2018	**50,548**	**33,570**	**24,002**	**2,356**	**4,759**	**115,235**
Cost	95,513	95,607	257,859	23,134	13,892	486,005
Accumulated amortization	(46,721)	(62,555)	(237,962)	(21,219)	-	(368,457)
Impairment losses	-	(3)	(110)	(15)	-	(128)
At 31 December 2019	**48,792**	**33,049**	**19,787**	**1,900**	**13,892**	**117,420**

The additions in 2019 and 2018 were due mainly to improvements at the production centres at chemical and pharmaceutical plants and at the Group's research and development centres.

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

The transfers of property, plant and equipment in the course of construction made by the Group in the years ended 31 December 2019 and 2018 relate mainly to the transfer of investment projects at the production centres that came into service during these years.

Disposals in 2018 related to the divestment of various non-strategic assets. On the one hand, in September 2018, the sale of the offices where the subsidiary Polichem S.A. was located, for a value of EUR 5.3 million became effective. On the other hand, in November 2018 the building where part of the productive facilities (currently in disuse) were located in the past was sold for a value of EUR 0.8 million. This last asset was impaired, which is why it has been canceled for an amount of EUR 3.8 million euros, taking into account in the net result of the sale of this fixed asset, with a charge under the heading "Net profits / (Losses)", by disposition of assets "in the consolidated income statement (Note 21). Additionally, the tangible assets where the subsidiary ThermiGen LLC was located, as explained in Note 8, were also impaired. During 2019, no impairment charges or reversals made on property, plant and equipment occurred.

As of December 31, 2019 and 2018, the net book value of property, plant and equipment owned by subsidiaries located in foreign countries amounts to 20.3 and 20.9 million euros, respectively, of which 19 million are in the company Almirall Hermal, GmbH located in Germany, being insignificant in the rest of the countries.

The Group has a number of facilities held under operating leases (see Note 10).

The impacts recorded in “Business combination” are due to the sale of the investee company Thermigen LLC as explained in Note 3-b.

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

The only commitments for the acquisition of assets are disclosed in Note 26.

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

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

As detailed in Note 5 i), as of January 1, 2018, in accordance with the application of IFRS 9, the Group classifies its financial assets in the following valuation categories:

- those that are valued after fair value (either with changes in other comprehensive income or results), and

- those that are valued at amortized cost.

In this sense, this classification is distributed as follows:

- Financial assets measured at fair value through profit or loss: these assets do not meet the criteria to be classified at amortized cost in accordance with IFRS 9 because their cash flows do not only represent principal and interest payments. As a result, this heading includes the balances receivable derived from the recognition of the sale of business to Astrazeneca described in Note 7, as well as those derivative financial instruments that do not meet the necessary requirements to be considered hedges.

- Financial assets measured at fair value through changes in other comprehensive income: equity instruments are considered included in this heading, as is the case of the shares in AB-Biotics, S.A. and in Suneva Medical Inc., (which were disposed of and valued at fair value, respectively, in the year ended December 31, 2018).

- Financial assets valued at amortized cost: this caption includes fixed income investments made through euro deposits, deposits in foreign currency and repos, mainly. At the date of initial application, the Group's business model is to maintain these investments to collect contractual cash flows that represent only principal and interest payments on the principal amount.

Non-current

The detail of the balance of the non-current financial assets in the consolidated balance sheets at 31 December 2019 and 2018 and of the changes therein in the years then ended is as follows:

	Thousands of Euros			
	Long-term equity instruments	Deposits and guarantees	Non-current loans and other financial assets	Total

Balance at 31 December 2017	**12,969**	**6,567**	**172,423**	**191,959**
Additions or allocations	-	4	241	245
Disposals	(539)	(750)	-	(1,289)
Transfers	-	-	(87,286)	(87,286)
Exchange differences	324	53	198	575
Value adjustments	(12,957)	-	-	(12,957)
Changes in fair value (Note 21)	-	-	51,036	51,036
Others	203	(390)	220	33
Balance at 31 December 2018	**-**	**5,484**	**136,832**	**142,316**
Additions or allocations	-	15	221	236
Disposals	-	(4,536)	(55)	(4,591)
Transfers	-	-	(82,972)	(82,972)
Exchange differences	-	76	40	116
Value adjustments	-	-	(3,675)	(3,675)
Changes in fair value (Note 20)	-	-	51,829	51,829
Changes to the scope of consolidation	-	(75)	-	(75)
Balance at 30 June 2019	**-**	**964**	**102,220**	**103,184**

The caption "Financial assets – Non-current loans and other financial assets" includes, mainly for the amount of EUR 98,394 thousand (EUR 136,658 thousand as of December 31, 2018), the financial asset corresponding to the fair value of future payments to receive long-term payments from AstraZeneca as described in Note 7. On April 5, 2019, the achievement of a milestone for sales achievement was announced. Consequently, the Group will receive a total of 65 million dollars divided into two payments: 35 million dollars in April 2019 (EUR 31.2 million at the time of collection) and 30 million dollars in March 2020. The movement for fiscal year 2019 is mainly due, on the one hand, to the change in the fair value of the asset, assuming an increase of EUR 51,829 thousand in said asset and, on the other hand, the decrease derived from the short-term transfer, based on the expectations of the time horizon of collection for an amount EUR 90,093 thousand (of which at December 31, 2019 it was pending to be collected an amount of EUR 53.8 million (Note 14).

The fair value update of said financial asset as of December 31, 2019 was carried out using the same method used by the independent expert in the initial valuation, with an amount of EUR 53.8 million being registered in the short term and EUR 98.4 million (EUR 87.3 and 136.6 million, respectively, as of December 31, 2018). The change in value of this financial asset during the year ended December 31, 2019 is due on the one hand to the fluctuation of the Euro / US dollar exchange rate amounting to EUR 2.5 million, the update of the rate of discount used for an amount of EUR 3.5 million, the financial update that has led to an income of EUR 37.5 million, as well as the re-estimation of expected flows and probabilities assigned to the different future milestones for the amount of EUR 8.4 million and, finally, reduction of the asset for the collection of milestones and royalties for a total of EUR 123.5 million (which are due to the collection of the milestone mentioned above (EUR 31.2 million), the collection of another milestone related to the commercial launch of Duaklir in the United States (EUR 81.8 million) at December 31 2018 registered in the caption “Other debtors” (Note 14). As a consequence, the total amount of EUR 51.8 million of fair value change is recorded under the heading "Other income" of the consolidated income statement for the year ended December 31, 2019 (Note 21).

Additionally, "Non-current loans" includes the amounts to be received by the Group in relation to the loans granted to the buyer of Thermigen LLC, Celling Aesthetics LLC (and other related companies), as mentioned in note 3-b). These loans amounted to a total of 13 million dollars, accrue a market interest and have maturities no later than December 31, 2019. However, as a result of various delays in the initial payment schedule, the Group has proceeded to recognize a loss under the heading of “Credit impairment losses” (Note 21) for an amount of EUR 6.6 million (EUR 3.7 million long term loans and EUR 2.9 million short term) and has recognized the remaining amount (EUR 3.6 million) as non-current, which has been reclassified from current financial assets as of December 31, 2019.

The movements of the "Financial assets - Long-term equity instruments" caption in the accompanying consolidated balance sheet mainly correspond to:

- Disposal of all the shares that the Group had of the Spanish biotechnology company AB-Biotics, S.A. (representing 3,55% of the share capital), a company that is listed on the Alternative Stock Market (MAB). This participation was valued at fair value (EUR 539 thousand at December 31, 2017), and it has been sold for an amount of EUR 1 million.

- Change in the fair value of the participation in the share capital through the subsidiary Almirall Inc., in 6,137 shares of the company Suneva Medical Inc. representing 0.01% of its share capital (5.49% at December 31) of 2017), for an acquisition cost of 15 million US dollars at the time of acquisition. At December 31, 2018, the Group valued this investment at fair value, based on the entry of new shareholders in the month of June 2018, so that Almirall's share has been practically diluted, resulting in a fair value close to zero, which meant a decrease in value amounting to EUR 8,551 thousand (equivalent to 10 million USD). In accordance with the provisions of IFRS 9 for this type of equity instruments, said loss of value has been recorded with a charge to Other comprehensive income.

- Change in the fair value of the participation in Dermelle LLC, which was generated on April 23, 2017 as a result of the conversion of a loan held by the subsidiary Almirall Inc. with that entity, representing 9% of its capital Social, In view of the impossibility for the Group to have access to the updated financial data of said entity and based on an assessment obtained from an independent third party, the Group has determined that its fair value is close to zero and has proceeded to record a loss of value for the entire investment, In accordance with the provisions of IFRS 9 for this type of equity instruments, the loss was recorded with a charge to other comprehensive income, amounting to EUR 4.4 million (equivalent to 5.2 million USD),

Current (financial assets and other cash equivalents)-

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

	Thousands of Euros	
	31/12/2019	**31/12/2018**
Short term investments	18	1,000
Short term deposits	-	-
Short term guarantees	64	80
Total equivalent to cash	**82**	**1,080**
Derivative financial instruments (Note 17)	1,687	-
Short term deposits	-	-
Total no equivalent to cash	**1,687**	**-**
Total current financial assets	**1,769**	**1,080**

In accordance with the provisions of IAS 7, for the purposes of preparing the Statement of Cash Flows, the Group considers as equivalent means to cash all those short-term investments of high liquidity that are easily convertible into determined amounts of cash, being subject to an insignificant risk of changes in value (see Note 5-i). In this sense, in the preparation of the Statement of Cash Flows for the year, cash equivalents of current financial investments corresponding to bank deposits with short-term maturities have been included as liquid can be made immediately at the Group's discretion without penalty, which as of December 31, 2019 amounts to EUR 82 thousand (EUR 1,080 thousand as of December 31, 2018).

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

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

	Thousands of Euros	
	31/12/2019	31/12/2018
Loans and receivables	4,790	5,484
Financial assets at fair value through profit or loss (Financial Assets with AZ)(*)	98,394	136,658
Financial assets at fair value through profit or loss (Note 17)	1,687	174
Held-to-maturity financial assets	82	1,080
Total	**104,953**	**143,396**

(*) Includes mainly the non-current part of the fair value of the future payments receivable from AstraZeneca, As of December 31, 2019 and 2018. As at December 31 2019 short term amounts were booked in "Other Debtors" by an amount of EUR 53.8 million (EUR 87.3 million at December 31, 2018), see Note 14.

In accordance with the hierarchy levels established by IFRS 13 and indicated in Note 31, the financial assets for which their fair value is estimated are Level 1 (equity instruments in listed companies), 2 (derivative financial instruments) and 3 (equity instruments in unlisted companies).

Additionally, the bank accounts included in the Cash captions have not been mostly remunerated during the annual periods ended December 31, 2019 and 2018.

Finally, as in the previous year, as of December 31, 2019, there are no companies that are inactive and / or outside the scope of the consolidation.

13. Inventories

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

	Thousands of Euros	
	31/12/2019	31/12/2018
Raw materials and packaging	35,656	36,853
Work in progress	15,297	12,875
Goods held for resale and finished products	70,030	64,003
Advances to suppliers	422	95
Write-downs of inventories	(14,987)	(21,493)
Total	**106,418**	**92,333**

The changes in the impairment allowance for Inventories is included in Note 21. None of the inventories have been pledged as security. There are no commitments to purchase inventories involving significant amounts at 31 December 2019 and 31 December 2018.

14. Trade and other receivables

The detail of "Trade and other receivables" at 31 December 2019 and 31 December 2018 is as follows:

	Thousands of Euros	
	31/12/2019	31/12/2018
Trade receivables for sales and services	156,280	125,111
Other receivables	56,703	90,351
Write-downs of accounts receivable	(9,868)	(22,659)
Total receivables	**203,115**	**192,803**

The heading "Other debtors" as of December 31, 2019 mainly includes EUR 53.8 million corresponding to the fair value of future payments to be received in the short term by AstraZeneca, as described in Note 7-a Note 12 of these consolidated annual accounts (EUR 87.3 million at December 31, 2018 in the short term).

At 31 December 2019 and 31 December 2018 the overdue balances written down amount to EUR 9,868 thousand and EUR 22,659 thousand, respectively. The decrease is mainly due as the Group has performed a write off related to all the amounts due more than two years amounting to EUR 15,885 thousand . In addition, as a result of the first application of the "expected loss" model (simplified approach) provided in IFRS 9 (Note 5-i), the Group has recognized a correction for impairment on the balances of financial assets (Trade debtors) of EUR 1,530 thousand at December 31, 2019 (EUR 3,230 thousand as of December 31, 2018).

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

At December 31, 2019 the percentage of receivables from public authorities related to the hospital business as a percentage of the total trade receivable balance for sales and services stands at 2.0% (1.9% at December 31 2018).

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

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

The trade receivable balance denominated in foreign currency amounts to EUR 110,419 thousand at the end of 2019 and EUR 79,589 thousand at the end of 2018. In view of the associated amounts and maturities the potential impact for the exchange rate fluctuations that may arise are not considered significant.

15. Equity

Share capital-

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

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

At 31 December 2019 and 2018, all the Parent's shares were listed on the Spanish stock exchanges. The articles of association do not lay down any restrictions on their transferability. Also, pre-emption rights and purchase and sale options have been granted to the ultimate shareholders of the Parent in respect of the shares of one of the aforementioned shareholders in accordance with the agreement entered into on 28 May 2007.

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

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

At 31 December 2019 and 31 December 2018, the Parent is unaware of other ownership interests over 3% in the Parent's share capital or any voting rights held at the Parent company under 3% that permit significant influence to be exercised.

Legal reserve-

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

EUR 4,172 thousand disclosed under this heading at 31 December 2019 relates to the balance of the legal reserve of the Parent company (EUR 4,151 thousand at 31 December 2018).

Share premium-

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

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

As a result of the increase in capital due to the flexible dividend, this reserve has increased by the difference between the nominal value of the shares and the equivalent value to the dividend, which amounts to EUR 11,058 thousand. The balance under this heading amounts to EUR 241,011 thousand at 31 December 2019 (EUR 229,953 thousand at 31 December 2018).

Other reserves-

The detail is as follows:

	Thousand euro	
	31/12/2019	**31/12/2018**
Canary Islands investment reserves	3,485	3,485
Redeemed capital reserve	30,539	30,539
Merger reserve	4,588	4,588
Other reserves	876,317	833,956
Treasury shares	(1,773)	-
Total other reserves	**913,156**	**872,568**

The "Other reserves" caption includes the "Revaluation reserve" of the Parent Company as of December 31, 2019, which amounts to EUR 2,539 thousand (EUR 2,539 thousand as of December 31, 2018) and is available.

Canary Islands investment reserve-

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

At 31 December 2019 and 31 December 2018 the balance of this reserve included in "Other Reserves of the Parent Company" is EUR 3,485 thousand.

Redeemed capital reserves-

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

The balance of this reserve at 31 December 2019 and 31 December 2018 amounted to EUR 30,539 thousand.

Liquidity contract

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

Valuation adjustments and others-

The amount of this caption EUR (43,534) thousand at 31 December 2019 and EUR (36,971) thousand at 31 December 2018, mainly relates to:

- Net accumulated actuarial losses for recalculations of the valuations of retirement benefit obligations due to variations in the calculation hypotheses: EUR (30,776) thousand at 31 December 2019 and EUR (24,249) thousand at 31 December 2018.

- Financial assets valued at fair value with changes in other comprehensive income: as explained in Note 12, according to the application of IFRS 9, the Group has recorded impairment losses on the Suneva investees under this heading, Medical Inc and Dermelle LLC. The amount recorded at 31 december 2019 and 2018 is EUR (10.092) thousand.

Translation differences-

This heading in the accompanying consolidated balance sheet includes the net amount of the exchange differences arising in the translation to the Group's presentation currency of the assets and liabilities of the companies that operate in a different functional currency. The detail of "Translation Differences" by company in 2019 and 2018 is as follows:

	Thousand euro	
	31/12/2019	**31/12/2018**
Almirall Limited (UK)	(737)	(1,283)
Almirall, A.G.	225	100
Almirall SP, Z.O.O.	(79)	(95)
Almirall Aps	(5)	(4)
Almirall Inc / Almirall LLC (EEUU)	37,062	33,075
Almirall Aesthetics, Inc / ThermiGen	-	(6,011)
Polichem, S.A.	2,056	(2,270)
Total translation differences	**38,522**	**23,512**

The movement of the financial year ending 31 December 2019 and 2018 has been as follows:

The movement of the translation differences generated in 2019 is due to the variation due to exchange rate differences of EUR 21.8 million and the transfer to the "Exchange differences" heading of the amount loss account of EUR 6.8 million (Note 21) and earnings for the year corresponding to the liquidation of the investee Almirall Aesthetics Inc., as explained in note 3-b). The movement of the translation differences generated in 2018 was entirely due to the variation due to exchange rate differences.

	Thousand euro
Balance at 31 December 2017	**4,002**
Exchange differences variation	19,510
Transfer to profit and loss account	-
Balance at 31 December 2018	**23,512**
Exchange differences variation	21,800
Transfer to profit and loss account	(6,790)
Balance at 31 December 2019	**38,522**

16. Deferred income

At 31 December 2019 and 31 December 2018, the detail of "Deferred Income" is as follows:

	Thousand euro
Balance at 31 December 2017	**130,368**
Allocated to profit and loss (Note 21)	(31,376)
Other movements	-
Balance at 31 December 2018	**98,992**
Allocated to profit and loss (Note 21)	(29,954)
Other movements	614
Balance at 31 December 2019	**69,652**

The main component of the balances at 31 December 2019 and 2018 set out above consist of amounts of the initially non-reimbursable collections described in Note 7-a. The initial collections for the AstraZeneca rights transfer agreements yet to be taken to the income statement at 31 December 2019 are valued at EUR 69,7 million (EUR 99 million at 31 December 2018). Deferred income is taken to the income statement on a straight-line basis over the estimated time the development phase will last. At 31 December 2019, and in accordance with IFRS15 as detailed in Note 2, the "Revenues" caption in the income statement includes EUR 29,954 thousand relating to the allocation of the deferred income for the established development plan (EUR 31,376 thousand in December 31, 2018).

In 2019 and 2018, the Group has not signed any agreements which imply any deferred income in addition to the deferred income stated in Note 7 of these notes to the consolidated annual accounts.

17. Financial liabilities

As detailed in Note 5 i), as of January 1, 2018, in accordance with the application of IFRS 9, the Group classifies its financial liabilities in the following valuation categories:

- those that are valued after fair value (either with changes in other comprehensive income or results), and

- those that are valued at amortized cost.

In this sense the classification is as follows:

- Financial liabilities measured at fair value through profit or loss: included in this heading are liabilities related to bonds and other marketable securities issued that the Group may purchase in the short term based on changes in value, portfolio of financial instruments jointly identified and managed for which there is evidence of recent actions to obtain short-term gains, or derivative financial instruments, provided that it is not a financial guarantee contract or has been designated as hedging instruments. At December 31, 2019, the Group maintains the following financial instruments: equity swap on shares of Almirall, S.A. and the issuance of a Convertible Bond of which we attach detail below. At December 31, 2018, it maintained these same instruments and, in addition, a forward exchange rate hedge that was cancelled in June 2019.
- Financial liabilities valued at amortized cost: this heading mainly includes revolving lines of credit, On the date of initial application, the group's business model is to maintain these loans to pay contractual cash flows that represent only principal and interest payments on the principal amount,

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

	Limit	Amount drawn down (*)	Current	Non-current			
				2021	2022	Subsequent years	Total
Credit lines	269,583	15,133	-	15,133	-	-	15,133
Loans with credit institutions	230,000	229,133	-	5,000	10,000	214,133	229,133
Obligations	250,000	229,245	-	229,245	-	-	229,245
Liabilities for derivative financial instruments	N/A	19,082	-	19,082	-	-	19,082
Accrued interest payable	N/A	452	452	-	-	-	-
Total at 31 December 2019	**749,583**	**493,045**	**452**	**268,460**	**10,000**	**214,133**	**492,593**

(*) Amount drawn down netted of the issuance costs

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

	Limit	Amount drawn down (*)	Current	Non-current			
				2020	2021	Subsequent years	Total
Credit lines	263,105	150,000	-	-	150,000	-	150,000
Loans with credit institutions	150,000	148,925	-	-	-	148,925	148,925
Obligations	250,000	223,745	-	-	223,745	-	223,745
Liabilities for derivative financial instruments	N/A	25,611	2,211	-	23,400	-	23,400
Accrued interest payable	N/A	407	407	-	-	-	-
Total at 31 December 2018	**663,105**	**548,688**	**2,618**	**-**	**397,145**	**148,925**	**546,070**

(*) Amount drawn down netted of the issuance costs

The average cost of the debt for the fiscal years ended on December 31, 2019 and 2018 was 0.98% and 0.87% respectively,

Debts with credit institutions-

In 2017, the Parent company entered into an agreement for a revolving credit line for a maximum of EUR 250 million for four years, which accrues an average interest of less than 1%. Unless the Group fails to comply with any covenants of the agreement, it is not required to return the amount drawn down, which, at 31 December 2019 and totals EUR 0 million (EUR 150 million in 2018), until the policy matures and therefore it has been classified as long term.

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

On March 27, 2019, the Parent Company formalized a loan with the European Investment Bank (EIB) for an amount of up to 120 million euros, to finance its research and development efforts, with the aim of offering cutting-edge innovation and therapies differentiated in the area of medical dermatology. The first tranche of 80 million euros was granted on April 17, 2019, with a fixed interest of 1.35% and 32 equal capital amortizations between April 17, 2021 and April 17, 2029, this being the maturity latest.

Convertible Bond-

On December 4, 2018 a simple unsecured senior-level bond issue with final maturity on December 14, 2021 was also formalized for an aggregate nominal amount of 250 million euros, eventually convertible into or exchangeable for ordinary shares of the parent company to be approved by the General Shareholders' Meeting before June 30, 2019. The Bonds bear a fixed annual interest of 0.25% payable semiannually. Once the convertibility conditions have been met, the Bonds have become convertible bonds at the option of the Noteholders at a conversion price set at 18,1776 Euros per share, after applying a conversion premium of 27.5% on the weighted average price of the ordinary shares of the Parent during the period between the opening and closing of the market on the day of the prospectus. This conversion price is subject to customary adjustment formulas in accordance with the terms and conditions of the Bonds. The Parent Company will deliver newly issued or existing shares (decision that will correspond to the Parent Company) each time the bondholders exercise their conversion rights. In the event that the Board Agreements have been proposed but not approved by the General Meeting before June 30, 2019 or the Board Agreements have been proposed and approved by the General Meeting before June 30, 2019 but the rest of the Convertibility Conditions were not fulfilled within the terms indicated in the terms and conditions, subject to prior notification to the bondholders, the company could have decided to amortize in full, but not in part, the Bonds, for the greater value between (i) 102% of the nominal value of the Bonds, plus accrued interest, or (ii) 102% of the listed price of the Bonds, plus interest accrued. Additionally, in the event that the bondholders are not notified of the modification of the Bonds within the terms provided in the terms and conditions and provided that the Parent Company had not notified the early amortization of the Bonds in accordance with the preceding paragraph, each bondholder could, subject to prior notice, request the amortization of its Bonds for the greater value between (i) 102% of the nominal value of the Bonds plus accrued interest, or (ii) 102% of the listed price of the Bonds, plus interest accrued. Likewise, at any time, each bondholder may, subject to prior notification for a specific period of time, request the amortization of his Bonds, at their nominal value plus accrued interest, in the event of a change of control in the Issuer or to reduce its floating capital below certain limits and, if any of these events occurred prior to the Modification Date, for the greater value between the nominal value of the Bonds plus the interest accrued, or the price of the Bonds. , plus interest accrued.

For this bond issue, in accordance with IFRS 9, the fair value of the derivative financial instruments embedded in the host instrument (the financial liability for the bond) was first determined. The value of the initial recognition of the host instrument was determined on a residual basis after deducting from the total amount of the instrument, the fair value assigned to the derivative financial instruments.

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

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

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

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

  b) As of the day on which 2 years and 21 days have elapsed since the Issue Date (that is, as of January 4, 2021, inclusive), the aggregate market value of the underlying shares for each bond, during a certain period of time exceeds 125 thousand euros (that is, taking into account that each bond corresponds to 5,501 shares to an exchange of 18,776 euros per share, if the share price of Almirall SA exceeds 22,722 euros per share).

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

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

The change in the fair value of these options is recorded in the income statement between the time of initial recognition and the valuation made at the time of closing, until they expire. For the annual year ended on December 31, 2019, the impact on the Group's income statement has amounted to 4.3 million euros in profit (Note 21). The Group has accounted for both options at their net worth, as allowed by IFRS 9.

The valuation of both options has been carried out by an independent expert, using standard valuation methodologies of derivative financial instruments and in accordance with the provisions of IFRS 13 and IFRS 9.

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

Financial derivative instruments-

On May 10, 2018, the Ordinary General Shareholders' Meeting approved the execution of a swap transaction of interest and shares ("Equity swap"). This operation was made effective through a contract dated May 11, 2018 with Banco Santander, S.A., by which Almirall S.A. must pay a variable interest to the bank as a compensation and Banco Santander, S.A. commits, as acquirer of underlying common shares of Almirall S.A. (with a maximum nominal limit of 2,95% of the share capital (5,102,058 shares) or EUR 50 million, and with a term of 24 months), to deliver the dividend received for its investment in Almirall S,A, and sell the shares of Almirall, S.A. to the company itself at expiration date.

As a result, under the heading "Liabilities for derivative financial instruments", the fair value of the derivative corresponding to the difference between the fair value of the underlying asset (2,510,952 shares equivalent to EUR 35.1 million, corresponding 1,4% of the share capital of the Parent Company) and the acquisition cost thereof for Banco Santander, which as of December 31, 2018 amounted to 1,5 million euros. It is considered that the value of the derivative of the option that would imply the acquisition of the total of the maximum shares (EUR 50 million) would not be significant at the closing date. Said derivative, when it does not comply with the accounting coverage requirements, is recorded with changes in value in the profit and loss account (Note 21).

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

At December 31, 2018 Almirall, S.A. maintained a liability of 0.7 million euros corresponding to a forward exchange rate hedge. This forward has been renewed several times during 2019, and settled on June 28, 2019 for 4.5 million euros. The impact generated in the profit and loss account by the interest rate differentials between the euro and the US dollar is detailed in Note 21.

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

The accrued interest payable at 31 December 2019 amounts to EUR 407 thousand (EUR 407 thousand at 31 December 2018).

In application of IAS 7, the reconciliation of the cash flows arising from the financing activities with the corresponding liabilities of initial and final financial position is included below, separating the movements that represent Cash flows from those that do not.

	Balance 01.01.2019	Effective flows	Interest paid	Accrued interest	Changes in fair value	Balance 31.12.2019
Credit lines	150,000	(134,867)	-	-	-	15,133
Loans with credit institutions	148,925	80,000	-	208	-	229,133
Obligations	223,745	-	-	5,500	-	229,245
	522,670	**(54,867)**	**-**	**5,708**	**-**	**473,511**
Liabilities for derivative instruments	25,611	(5,938)	-	-	(591)	19,082
Accrued interest payments	407	-	(6,640)	6,685	-	452
Total Financial liabilities	**548,688**	**(60,805)**	**(6,640)**	**12,393**	**(591)**	**493,045**

	Balance 01.01.2018	Effective flows	Interest paid	Accrued interest	Changes in fair value	Balance 31.12.2018
Credit lines	250,000	(100,000)	-	-	-	150,000
Loans with credit institutions	-	148,925	-	-	-	148,925
Obligations	-	223,745	-	-	-	223,745
	250,000	**272,670**	**-**	**-**	**-**	**522,670**
Liabilities for derivative instruments	-	23,400	-	-	2,211	25,611
Accrued interest payments	72	-	(2,549)	2,884	-	407
Total Financial liabilities	**250,072**	**296,070**	**(2,549)**	**2,884**	**2,211**	**548,688**

18. <u>Other liabilities</u>

a) Trade payables

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

	Thousand euro	
	31/12/2019	31/12/2018
Suppliers	87,730	68,927
Payables	134,748	122,092
Total accounts payable short term	**222,478**	**191,019**

b) Other liabilities

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

	Thousand euro				
	Current	Non-current			
		2021	2022	Subsequent years	Total
Research related loans	3,655	2,243	2,048	2,544	6,835
Payables on purchases of assets	40,391	-	-	-	-
Wages and salaries payable	26,654	5,243	5,229	4,485	14,957
Long term tax liabilities (Note 2-b)	-	-	-	7,981	7,981
Other liabilities	667	-	-	1	1
Total at 31 December 2019	**71,367**	**7,486**	**7,277**	**15,011**	**29,774**

	Thousand euro				
	Current	Non-current			
		2020	2021	Subsequent years	Total
Research related loans	3,259	2,467	2,243	4,763	9,473
Payables on purchases of assets	3,584	33,451	-	-	33,451
Wages and salaries payable	27,883	286	921	7,309	8,516
Long term tax liabilities (Note 2-b)	-	-	-	7,905	7,905
Other liabilities	1,419	-	4,367	-	4,367
Total at 31 December 2018	**36,145**	**36,204**	**7,531**	**19,977**	**63,712**

The research-related loans relate to the interest-free loans granted by the Ministry of Science and Technology to promote research. They are presented in accordance with Note 5-i. These loans are granted subject to the fulfilment of certain investments and levels of expenditure over the years that they are granted. They mature between 2020 and 2026.

Payables for non-current asset purchases in 2019 and 2018 relate mainly to the outstanding payments for the acquisition of goods, products and marketing licences made in the year and in prior years. The balance at 31 December 2019 included the current payables for the agreement with AstraZeneca, for an amount of EUR 35 million (EUR 33.4 Million as at December 31, 2018) which correspond to the equivalent value in euros of the current value of future pending payments for the purchase of the aforementioned license.

At 31 December 2019 and 2018 the balance of "Wages and Salaries Payable" includes, mainly, the outstanding balances with the personnel corresponding to the accrued parts of the extra payments, as well as the bonus for the Group's objectives.

As a result of the application of IFRIC 23 “Uncertainty regarding income tax treatments” (Note 2), as of December 31, 2019 it has been classified as “Long-term tax liabilities” EUR 7,981 thousand (EUR 7,905 thousand as of December 31, 2018).

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

19. Provisions

The changes in 2019 and 2018 in "Provisions" in the accompanying consolidated balance sheets were as follows:

	Thousand Euros	
	2019	**2018**
Balance at 1 January	**39,393**	**50,572**
Additions or charge for the year	89	2,714
Disposals or transfers	(6,676)	(5,988)
First application CINIIF 23 (Note 2-b)	-	(7,905)
Saldo a 31 de diciembre	**32,806**	**39,393**

Relates mainly to the provision for non-current remunerations (see Note 5-v) and the estimate made by the Group of the future payments required by it to settle other liabilities arising as a result of the nature of its business.

20. Retirement benefit obligations

The changes in "Retirement Benefit Obligations" in the accompanying consolidated balance sheets in 2019 and 2018 are as follows:

	Thousands of Euros
Balance at 31 December 2017	**71,157**
Additions	660
Cancelations	(1,172)
Balance at 31 December 2018	**70,645**
Additions	11,713
Cancelations	(2,965)
Translation differences	36
Balance at 31 December 2019	**79,429**

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

The changes in the defined benefit obligations are as follows:

	2019	2018
At 1 January	**70,645**	**71,157**
Current service costs	74	380
Borrowing costs	1,201	884
Contributions of plan participants	(72)	(35)
Actuarial gains/(losses)	9,065	1,110
Benefits paid	(1,770)	(1,856)
Other changes	286	(995)
At 31 December	**79,429**	**70,645**

The actuarial losses recognised relate mainly to the effect of the variation in the discount rate used in the actuarial calculations in 2019 and 2018.

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

	2019	2018
Current service costs	74	380
Borrowing costs	1,201	884
Others	242	(441)
Total (included under staff costs)	**1,517**	**823**

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

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

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

21. INCOME AND EXPENSE

Revenue

The detail, by business line, of revenue in 2019 and 2018 is as follows:

	Thousands of Euros	
	2019	2018
Sales through own network	717,799	618,259
Sales through licensees	110,984	110,590
Corporate management and revenue not allocated to other segments	26,556	28,085
Total Revenue	**855,339**	**756,934**

	Thousands of Euros	
	2019	2018
Product sales income	808,052	714,895
Royalties income	9,108	6,035
Income from up-front payments (Note 16)	29,954	31,376
Income from other up-front payments	8,225	4,628
Total Revenue	**855,339**	**756,934**

The detail of revenue, by geographical area, in 2019 and 2018 is as follows:

	Euro Thousand	
	Period 2019	**Period 2018**
Spain	243,156	244,856
Europe and Middle East	357,417	325,949
America, Asia and Africa	228,210	158,044
Corporate management and revenue not allocated to other segments	26,556	28,085
Revenue	**855,339**	**756,934**

The main countries where the revenues come, in 2019 and 2018 are:

	2019	2018
Spain	28%	32%
United States	20%	15%
Germany	18%	20%
Italy	6%	6%
France	2%	3%
United Kingdom	3%	3%
Other	23%	21%
Total Revenue	**100%**	**100%**

Other income-

	2019	2018
Income from AstraZeneca agreement (Note 12)	51,829	51,036
Re-invoicing of services rendered to AstraZeneca	1,012	1,589
Other	2,477	1,432
Total	**55,318**	**54,047**

Procurements-

The detail of "Procurements" is as follows:

	Thousands of Euros	
	31/12/2019	31/12/2018
Purchases	199,718	142,979
Changes in inventories of goods held for resale, finished products and work in progress	(8,449)	10,552
Changes in inventories of raw materials and other consumables	1,197	9,061
Total	**192,466**	**162,592**

Staff costs

The detail of "Staff Costs" is as follows:

	Thousands of Euros	
	2019	2018
Wages and salaries	146,105	146,324
Social Security payable by the Company	24,090	22,828
Termination benefit costs	(669)	2,485
Other employee benefit costs	12,019	11,464
Total	**181,545**	**183,101**

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

	Period 2019			Period 2018		
	Male	**Female**	**Total**	**Male**	**Female**	**Total**
Board member	1	-	1	1	-	1
Senior management	32	13	45	35	11	46
Middle management	147	111	258	155	124	279
Technical personnel	473	585	1,058	481	575	1,056
Administrative personnel	167	243	410	150	258	408
Other	-	1	1	-	1	1
Total	**820**	**953**	**1,773**	**822**	**969**	**1,791**

The average number of employees in 2019 with a 33% or higher disability is 10 people (11 people in 2018).

At the end of 2019 and 2018 the headcount is as follows:

	31 December 2019			31 December 2018		
	Male	**Female**	**Total**	**Male**	**Female**	**Total**
Board member	1	-	1	1	-	1
Senior management	32	13	45	33	12	45
Middle management	148	108	256	151	119	270
Technical personnel	472	587	1,059	483	605	1,088
Administrative personnel	169	236	405	154	246	400
Other	-	1	1	-	1	1
Total	**822**	**945**	**1,767**	**822**	**983**	**1,805**

The number of employees at the end of 2019 with a 33% or higher disability is 10 people (11 people in December 31 of 2018).

At 31 December 2019 and 2018, 259 and 269 Group employees, respectively, were engaged in research and development activities.

Other operating expenses-

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

	Thousands of Euros	
	2019	2018
R&D activities	47,715	40,129
Rental fees and royalties	16,602	19,442
Repair and upkeep expenses	18,579	18,909
Independent professional services	33,125	42,563
Transport	9,041	20,634
Insurance premiums	2,379	3,236
Banking and similar services	540	2,381
Congresses and other promotional activities	77,895	65,681
Utilities	4,288	4,257
Other services	42,551	33,025
Other taxes	1,802	1,213
Total	**254,517**	**251,470**

Within the heading "Other services" are included grants amounting to EUR 788 thousand in 2019 (EUR 602 thousand in 2018).

Net change in valuation adjustments

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

	Thousands of Euros	
	2019	2018
Change in valuation adjustment for bad debts	1,658	(3,104)
Change in valuation adjustment of inventories	6,094	(10,555)
Change in other current provisions	321	(793)
Total	**8,073**	**(14,452)**

Net gain (loss) on asset disposals-

The detail of the net gain (loss) on disposals of non-current assets in 2019 and 2018 is as follows:

	Thousands of Euros			
	2019		2018	
	Profit	Loss	Profit	Loss
On disposal or de-recognition of intangible assets	761	(8,097)	-	(548)
On disposal or de-recognition of property, plant and equipment	93	(48)	2,424	(1,435)
Impact of Business combination	-	(3,183)		
	854	**(11,328)**	**2,424**	**(1,983)**
Net gain (loss) on disposals of assets	**(10,474)**		**441**	

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

Finance income and expense-

The detail of net finance income and expense in 2019 and 2018 is as follows:

	Euro Thousand			
	Period 2019		**Period 2018**	
	Profit	**Loss**	**Profit**	**Loss**
Variation in the fair value of financial instruments	7,513	-	-	(1,508)
Financial expenses for bonds (Note 17)	-	(6,125)	-	(75)
Other financial income (expense)	853	(8,687)	442	(5,488)
Income for disposals of financial instruments (Note 12)	-	-	539	-
Valuation adjustments on financial assets (Note 12)	-	(6,557)	-	-
Exchange differences	10,469	(19,100)	11,025	(16,952)
	18,835	**(40,469)**	**12,006**	**(24,023)**
Financial result	**(21,634)**		**(12,017)**	

During 2019 expense recorded under the heading "Variation in the fair value of financial derivatives" relates mainly to the update of the fair value of the Equity swap and the derivative associated to the Convertible Bond explained in Note 16. In 2018 this caption included the fair value of the Equity Swap and the result of the sale of the shares of AB Biotics described in Note 12.

The caption "Other financial income (expense)" includes the financial expenses originated as a consequence of the bank loans and loans to other companies, also it is included the impact on the financial update for those liabilities that are booked at amortized cost, with the exception of the one corresponding to the convertible bond, which is included in the caption "Financial expenses for bonds" (EUR 5.5 million in 2019).

Under the heading "Exchange differences", it has been booked an amount of EUR 3.3 million related to the dissolution of the affiliate company Almirall Aesthetics Inc., see Note 3-b.

Loss (Gain) on recognition (reversal) of impairment of property, plant and equipment, intangible assets and goodwill

In 2018, the heading "Loss (Gain) on recognition (reversal) of impairment of property, plant and equipment, intangible assets and goodwill " included the impairment related to the goodwill of ThermiGen LLC for an amount of 26.6 million euros (Note 8), the impairment of the industrial property acquired to ThermiGen LLC for the amount of 43.8 million (Note 9), the impairment of the fixed assets affected by the operation for an amount of 2.2 million euros (Note 11) and the impairment of the inventories of 2.6 million euros (Note 13), with the total amount in the consolidated income statement amounting to 75.2 million euros.

Additionally, it was also included the reversal of the impairment of certain technology acquired to Almirall LLC (formerly, Aqua Pharmaceuticals LLC) in the amount of 29.9 million euros (Note 9), and the reversal of the impairment of development rights and commercialization of a compound for the treatment of psoriasis for an amount of 20 million euros (Note 9).

Transactions denominated in foreign currency-

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

	Amount in Euros (thousands)			
	Expense		Income	
	2019	2018	2019	2018
Australian Dollar	15	23	-	-
Canadian Dollar	1	28	165	77
Swiss Franc	2,906	6,237	12,976	7,881
Czech Koruna	22	35	1,389	1,174
Danish Krone	1,668	2,855	5,676	960
Pound Sterling	16,917	13,419	31,575	25,959
Hungarian Forint	52	40	577	608
Japanese Yen	426	6,069	4,111	3,630
Kenyan Shilling	17	-	-	-
Mexican Peso	13	4	-	-
Norwegian Krone	390	429	1,225	1,216
Polish Zloty	739	890	3,957	2,950
Renminbi	-	235	-	-
Swedish Krona	419	693	3,451	3,331
US dollar	114,558	101,502	195,311	119,910

Auditors' remuneration-

In 2019 and 2018 the fees for audit and other services provided by the Group's auditor, PricewaterhouseCoopers Auditores, S.L. or by other companies in the PwC network were as follows (in thousands of euros):

Description	2019		
	Annual accounts audit	Tax advise	Other Services
PricewaterhouseCoopers Auditores, S,L,	236	-	41
Other PwC entities	356	167	47
	592	**167**	**88**

(*) Other services done by PricewaterhouseCoopers Auditores, S.L. related to agreed upon procedures,

Description	2018		
	Annual accounts audit	Tax advise	Other Services
PricewaterhouseCoopers Auditores, S,L,	271	-	47
Other PwC entities	353	176	20
	624	**176**	**67**

(*) Other services done by PricewaterhouseCoopers Auditores, S.L. related to agreed upon procedures,

22. Tax situation

Consolidated Tax Group-

Almirall, S.A. files consolidated tax returns as provided for in Title VII, Chapter VII of Legislative Royal Decree 4/2004 of 5 March, approving the Corporation Tax Law. The companies composing the tax group for 2019 are: Almirall, S.A., Laboratorios Almirall, S.L., Industrias Farmacéuticas Almirall, S.L., Laboratorios Tecnobío, S.A., Ranke Química, S.A. and Almirall Aesthetics, S.A., acting with Almirall, S.A. as the Parent company. Consequently, the consolidated corporate tax expense includes those advantages derived from the use of negative tax bases and deductions pending application that would not have been recorded in the case of individual taxation of the companies that make up the aforementioned tax group.

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

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

Year subject to tax inspection -

Parent Company and the Spanish tax group companies of which the Parent Company of the Group is headquarters, are open to inspection for the years 2014 to 2019 for the Corporate Tax and from the years 2016 to 2019 for the rest of taxes that are applicable to them. In this sense Almirall S.A. during 2019 received a notification related to a general inspection for 2014.

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

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

During the year 2019, the following inspection procedures were communicated in relation to the following foreign companies of the group, which as of the date of formulation of these consolidated annual accounts are still in progress:

- Almirall SAS (France) in relation to the 2016 and 2017 fiscal years, relating to Corporate Income Tax, Value Added Tax, as well as Withholdings and Income on account of the Income Tax of Individuals.
- Almirall LLC (USA) in relation to the period between January 2016 and March 2019 (both included), related to the Value Added Tax (Sales and Use Tax) of the State of Pennsylvania.

During 2018, the following inspection procedures were communicated in relation to the following foreign companies of the group, which as of the date of formulation of these consolidated annual accounts are still ongoing:

- Almirall AG (Switzerland). Federal inspection in relation to the years 2013, 2014, 2015 and 2016.

- Almirall Inc and investee companies (United States). In relation to the 2014, 2015 and 2017 fiscal years related to Corporation Tax.

The following inspections were reported during fiscal year 2019 and have been completed without generating significant liabilities:

- Polichem S.A. branch in Switzerland, in relation to the 2014, 2015, 2016 and 2017 fiscal years, related to Value Added Tax.
- Almirall Inc and investee companies (United States). State inspection of the state of California in relation to fiscal years 2015, 2016 and 2017.

The following inspections that were reported during fiscal year 2018 have been completed without generating significant liabilities:

- Almirall AG (Switzerland). Cantonal inspection in relation to the years 2015, 2016 and 2017.
- Almirall AG (Switzerland). In relation to the 2014, 2015, 2016 and 2017 fiscal years related to Value Added Tax.
- Almirall Ltd (Great Britain). In relation to the periods from October 2014 to October 2018 relating to Value Added Tax.
- Almirall Aesthetics Inc and investee companies (United States). Federal inspection of a general nature in relation to 2016.
- Almirall NV (Belgium). General inspection in relation to the 2016 and 2017 fiscal years.

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

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

Tax receivables and payables-

The detail of the current tax receivables and payables at 31 December 2019 and 2018 is as follows:

	Thousand euro	
	31/12/2019	**31/12/2018**
VAT refundable	8,345	11,142
Corporate income tax refundable	31,546	27,726
Other receivables	(3)	10
Total receivables	**39,888**	**38,878**
VAT payable	3,493	3,823
Personal income tax withholdings payable	3,508	2,568
Social security payable	2,351	2,547
Corporate income tax payable	5,551	5,348
Total payables	**14,903**	**14,286**

The debit balances for corporate taxes are mainly due to the tax refund forecast for the Spanish consolidated perimeter for the current year.

Income tax recognized-

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

	Thousands of Euro Expense/ (Income)	
	2019	**2018**
Income Tax:		
-Recognised in the income statement	22,370	(2,700)
-Recognised in equity	(2,538)	(311)
Total	**19,832**	**(3,011)**

Reconciliation of the accounting profit to the taxable profit-

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

	Thousands of Euros	
	2019	**2018**
Consolidated profit (loss) before tax	128,279	74,974
Permanent differences:		
- Of individual companies		
Increase	39,186	246,278
Decrease	(400,646)	(273,759)
- Consolidation adjustments		
Increase	197,127	192,666
Decrease	(22,686)	(207,787)
Adjusted accounting profit (loss)	(58,739)	32,372
Tax rate	25%	25%
Gross tax payable (refundable)	**-**	**8,093**
Tax credits:		
Tax credit used in the year and other consolidation adjustments	(310)	(1,500)
Income tax of Almirall, S,A, paid abroad	1,429	76
Deferred tax assets and liabilities regularization	10,326	(22,090)
Credits for negative tax bases regularization	-	(1,982)
Corporate Income tax from foreing affiliates	9.112	
Other	400	304
Theoretical income tax expense	**20,957**	**(17,099)**
Effect of different tax rates between countries	1,161	6,013
Other movements	252	8,386
Expense/ (Income) accrued for corporate income tax	**22,370**	**(2,700)**

The origin of the permanent differences in the individual companies of the 2019 and 2018 fiscal years relates mainly to the different tax treatment of certain expenses accrued in said fiscal years. The decrease in the base due to permanent differences in the year 2019 has its origin, basically, due to the reduction in the tax base of those income from the transfer of intangible assets, to reversals of impairment losses on subsidiaries and the distribution of dividends between Almirall S.A. and some of its subsidiaries. The decrease in the base due to permanent differences in the year 2018 were origin, basically, due to the reduction in the tax base of those income from the transfer of intangible assets as well as reversals of impairment losses, while the increases related basically to the different tax treatment of impairment losses.

The increase in the permanent differences of the year 2019 derived from the consolidation adjustments relates mainly to certain valuation corrections on equity instruments of the subsidiaries of the Parent Company and Almirall Inc as well as the elimination of dividends distributed between subsidiaries and the parent company. The increase for the year 2018 related mainly to certain valuation corrections on equity instruments of the subsidiaries of Almirall Inc as a result of the reversal of the impairments explained in Note 8.

The decrease in the permanent differences of the fiscal year 2019 derived from the consolidation adjustments correspond mainly to certain valuation corrections on equity instruments of the Almirall Aesthetics Inc and ThermiGen subsidiaries, prior to their dissolution and disposal, respectively, as explained in the Note 3-b. The decrease in fiscal year 2018 corresponded mainly to certain valuation adjustments on equity instruments of Almirall Aesthetics INC subsidiaries of the impairments explained in Note 8.

The amount of the deductions applied and / or adjusted during the year 2019 corresponds to the partial monetization of the deduction for research and development generated in the year 2018. The amount of 2018 corresponded to the application of 1,997 thousand euros of the deductions for activities of research and development pending application generated in fiscal year 2007 and partial monetization of the deduction for research and development generated in fiscal year 2017.

The detail of the tax incentives recognised in 2019 and 2018 and the amounts not yet recognised at 31 December 2019 and 2018 and is as follows:

Nature	Year earned	Miles de Euros			
		2019		2018	
		Offset	Available for offset	Offset	Available for offset
Research and development	2007	-	25,550	1,997	25,550
	2008	-	34,841	-	34,841
	2009	-	26,883	-	26,883
	2010	-	34,628	-	34,628
	2011	-	35,845	-	35,845
	2012	-	32,841	-	32,841
	2013	-	28,660	-	28,660
	2014	-	23,685	-	23,685
	2015	-	14,840	-	14,840
	2016	-	12,259	-	12,259
	2017	-	10,209	3,806	10,209
	2018	5,219	9,230	-	14,449
	2019	-	20,184	-	-
		5,219	**309,655**	**5,803**	**294,690**
Innovations in technology	2012	-	1,077	-	1,077
	2013	-	1,439	-	1,439
	2014	-	701	-	701
		-	**3,217**	**-**	**3,217**
International double taxation	2017	-	-	1,883	-
	2018	-	-	76	-
	2019	-	913	-	-
		-	**913**	**1,959**	**-**
Re-investment of extraordinary income	2012	-	55	-	55
	2013	-	2	-	2
	2014	-	10	-	10

		-	**67**	**-**	**67**
Donations	2017	-	-	98	-
	2018	-	-	56	-
	2019	-	35	-	-
		-	**35**	**154**	**-**
Tempory measures	2017	-	-	219	-
	2018	-	-	37	-
	2019	-	26	-	-
		-	**26**	**256**	**-**
Total reported tax incentives		**5,219**	**313,913**	**8,172**	**297,974**
Total deferred tax assets recognised in balance sheet			**194,161**		**199,042**

Currently the application of deductions to avoid double international taxation pending application has no temporary limit. However, the current Corporate Tax legislation establishes 50% of the full tax rate as the limit of application.

On the other hand, the time limit for the application of deductions for scientific research and technological innovation activities is 18 years since its generation, being subject to the limit of application to 50% of the tax rate in accordance with the legislation current, to the extent that it is foreseen that the deduction generated each year by the Parent will exceed 10% of the full installment.

However this term is reduced to 15 immediate and successive years from its generation for those amounts not deducted corresponding to the rest of deductions.

Deferred taxes-

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

	Thousand Euros	
	31/12/2019	**31/12/2018**
Deferred tax assets	269,317	280,403
Deferred tax liabilities	(127,540)	(134,876)
Deferred tax assets (net)	**141.777**	**145.527**

The gross changes in the deferred taxes are as follows:

	Thousand Euros	
	2019	**2018**
At January 1st	145,527	128,512
Credit to profit or loss	(10,422)	13,664
Partial monetization R&D tax credits	4,134	3,040
Tax (charged) refunded directly to equity	2,538	311
A 31 de diciembre	**141,777**	**145,527**

In accordance with current tax legislation in the countries in which the consolidated entities are located, in 2019 and 2018 certain temporary differences have arisen which should be taken into account when quantifying the corresponding income tax expense. The detail of deferred taxes recognised in both years is as follows:

	Miles de Euros			
	2019		2018	
	Accumulated differences in taxable profit (tax loss)	Accumulated effect on tax payable	Accumulated differences in the taxable profit (tax loss)	Accumulated effect on tax payable
Deferred tax assets:				
Amortisation and depreciation of non-current assets	140,287	33,536	146,796	32,329
Write-offs	70,963	17,842	95,495	23,932
Retirement benefit obligations	48,645	14,265	40,386	11,832
Measurement of inventories	19,707	5,855	30,047	8,966
Other	4,124	1,059	14,386	3,550
	283,726	**72,557**	**327,110**	**80,609**
Tax credits:				
Tax loss carryforwards	8,739	2,599	2,698	752
Tax credit carryforwards	-	194,161	-	199,042
Total deferred tax assets and tax relief:		**269,317**		**280,403**
Deferred tax liabilities:				
Accelerated amortisation/depreciation (Royal Decree 27/84, Royal Decree 2/85, Royal Decree 3/93)	23,341	5,834	28,066	6,988
Assets held under finance leases	4,171	1,043	4,673	1,168
Capitalisation in intangible assets	2,222	559	2,223	1,044
Assignment of capital gains to assets in business combinations	293,581	78,855	322,701	85,984
Amortisation of goodwill	115,438	30,630	105,835	28,229
Tax effect of reversal of subsidiary portfolio provisions	16,508	5,353	16,508	5,353
Other	20,429	5,266	32,475	6,110
Deferred tax liabilities		**127,540**		**134,876**

The deferred tax assets indicated above, totalling EUR 269,317 thousand, are mainly from Almirall, S.A., which reports a total of EUR 222,633 thousand in deferred tax assets in its annual accounts at 31 December 2019 (mainly due to the deductions pending application stated above). These deferred tax assets were recognised in the consolidated balance sheet the Parent company's directors consider that it is probable that these assets will be recovered in full within 10 years in line with their best estimates of future profit. The basis of the estimated future profit underpinning this analysis was as follows:

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

- Estimated additional effects expected in profit or loss over the coming years as a result of the expected future investments/acquisitions at medium term and taking into account the relevant investments made in 2019. Estimated target returns and the probability of achieving them were also considered.

During fiscal year 2018, an amount of Euros 23,221 thousand were capitalized as deferred tax assets due to temporary differences of Almirall LLC (formerly Aqua Pharmaceuticals, LLP) due that the Group has no doubts about its future recoverability, taking into account sales projections and results in based on the events that occurred during the year (see Note 9). As of December 31, 2019 EUR 18,647 thousand remains capitalized as those projections are still valid.

23. Business and geographical segments

Segmentation criteria

Set out below is a description of the main criteria used to separate the Group's segment reporting in the consolidated annual accounts for the years ended 31 December 2019 and 2018.

The business segments detailed in this note are those for which the financial information is available in the Group and on which the preparation of the reports is based and whose results are reviewed on a monthly basis by the Group Management (Management Committee) in order to the taking operational decisions, decide on the resources that should be allocated to each segment and evaluate their performance.

Business segments:

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

a) Sales through own network.

b) Sales through licensees.

c) Research and development activities.

d) Therapeutic dermatological products in the US.

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

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

In this sense, the professional judgments used by the Group to consider that the activity of "Research and development" and "Corporate Management and Results not Allocated ssigned to Other Segments", are based on the fact that the expenses and income information of those segments are not taken in the decision making in the rest of the segments, they are analyzed separately by the highest authority of the Group in the decision-making process in order to decide on the resources to be allocated to said activity.

In the case of the segment called "Research and development activity", although revenue from ordinary activities does not normally occur, its breakdown is fundamental for the Group's understanding since said activity is considered absolutely key and strategic in the market in which the Group operates. On the other hand, the resources allocated to this component are based on an analysis that is totally independent from the rest of the Group's components.

On the other hand, the segment of "Corporate management and results not allocated to other segments" groups those revenues and expenses that, given their nature, are not directly related to the rest of the segments detailed and are not assignable to these, since they are not directly related to the business areas. The figures broken down in this segment are mainly derived from the corporate assets broken down below, from the expenses associated with the Group's production centers, as well as from all expenses not included in the operating result. In this sense, the Group considers that the effort that would be necessary in the event of disaggregating said expenses in the rest of the segments, would require absolutely arbitrary distribution guidelines and would not address the way in which the Group's organizational structure is established, which is the basis on which the financial information is broken down internally.

Basis and methodology of segment reporting by business-

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

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

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

The revenues received by the Group as a result of the agreements indicated in Note 7 have been assigned, if possible, on the basis of the business segment directly related to the territories or activity associated with those agreements, irrespective of whether they relate to amounts received for milestones or initial disbursements recognised on a deferred basis in the consolidated income statement, mainly in the own network sales and licensee segments and research and development activities. However, the change to fair value of the assets generated from the sale operation with AstraZeneca has been included in the segment “Corporate management and results not allocated to other segments” as it is an operation that is analyzed and monitored at a corporate level independently of the rest of the segments, as it is not related to the recurring business.

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

The expenses of each segment are determined on the basis of the expenses deriving from its operating activities and which are directly attributable to it, including "Procurements", "Staff costs”, "Amortisation and Depreciation " and "Other Operating Costs". The amounts recognised as “Procurements" in each of the segments include, in addition to the acquisition cost of materials, the costs allocated to them by the Group in the manufacturing process (such as staff costs and amortisation and depreciation, among others). These costs are included in the “Adjustments and reclassification” segment. Therefore, they are eliminated from the profit and loss of the Group companies for consolidation purposes.

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

As mentioned before the expenses that are not directly attributable to a business segment are not distributed and are assigned to the segment "corporate management and results not assigned to other segments", because this is how Management does the decision-making of the Group analyzes the reporting information and makes decisions about the resources to invest in each segment.

The amortization assigned to the segment "Corporate management and results not allocated to other segments" is the one related to those assets linked to both the company's production centers and the Group's headquarters. These amortizations are considered non-assignable expenses to the business segments related to commercialization criteria, since they are not directly attributable to any of the established segments and therefore the Management does not take them into account in making decisions that affect them.

On the other hand, impairment losses are, in general terms, broken down into the segment in which the asset subject of the valuation adjustment is assigned.

With respect to the restructuring costs, being non-recurring expenses, being decided by the Management and having a marked strategic nature, it is not considered appropriate (and in fact it is not done in any of the internal analyzes) to include them in any of the other segments given that they would invalidate the conclusions that any user of financial information would reach regarding their profitability.

With respect to the general and administrative expenses included in the segment "Corporate management and results not allocated to other segments", find below the causes that lead the Management not to impute them to the rest segments:

- Costs linked to the Group's production centers and which are not directly attributable to manufacturing.

- Costs linked to the head office, the shared services centers and support areas that mainly include the expenses of the Human Resources, Finance and General Operations departments ("Marketing", "Market Access" and "Global Medical Affairs")). These costs are difficult to attribute to the rest of the segments as they would be, on the one hand, under a totally subjective criterion and, on the other hand, would not be in accordance with the way that the Group Management evaluates the profitability of the other segments.

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

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

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

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

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

Additionally, the main assets that are included in the segment "Corporate management and results not allocated to other segments" are:

- Almirall, S.A. Goodwill: originated in 1997 as a result of the merger with Prodesfarma S.A.. As indicated in note 8 of this consolidated report, given its structural nature in the current configuration of the Group and not being able to be assigned in an objective manner to any other specific segment, it was decided to include it in the segment "Corporate management and results not allocated to other segments ".

- Intangible assets mainly related to the agreements with Dermira and Athenex for the licenses mentioned in note 9 of the accompanying consolidated accounts, as well as other assets of lower value that correspond mainly to patents and computer software.

- Intangible assets mainly related to license is in progress acquired as a consequence of the control of Polichem Group as explained in note 9 of the accompanying consolidated accounts.

- Property, plant and equipment linked to the Group's production centers, to Headquarters and to shared service centers, consistently with the allocation of expenses in the segmented profit and loss account.

- Financial assets related to the agreement with AstraZeneca as indicated in note 12 of the attached consolidated report, in line with the allocation of the income in the segmented profit and loss account.

- Deferred tax assets related to the Spanish tax consolidation group as detailed in note 22 of the attached consolidated annual accounts, as well as deferred tax assets generated in Almirall Hermal, GmbH, and holding companies such as Almirall Aesthetics , Inc. and Almirall, Inc.

  These assets have not been assigned to any other business segment since their analysis, being assets of holding companies or companies that are separated into several segments, is carried out according to the territories where the corresponding tax regulations are applicable and not such as the primary distribution of the segment note is broken down.

- Inventories whose references are not directly assignable to any business segment since they do not correspond to any finished product but mainly to raw materials, materials and semi-finished products whose destination is not yet known.
- Current financial investments and cash and other liquid assets correspond mainly to the amount of "Cash Pooling" to which all of the integrated companies are housed within the Group's consolidation perimeter, with the exception of Almirall LLC (formerly, Aqua Pharmaceuticals, LLC) (included in the segment US Dermatology) and the recent acquisitions of Poli Group and ThermiGen (included in the marketing segments through its own network and licensees to the corresponding extent). These assets derived from cash pooling are managed jointly from the central office.

Segment reporting-Segment reporting by business-

Income statement for the year ended 31 December 2019 by segment

	Sales through own network	Sales through licensees	Research and development activity	Dermatology in the US	Corporate management and results not allocated to other segments	Adjustments and reclassifications	Total
Revenue	539,616	110,984	925	178,183	25,631	-	855,339
Procurements	(162,375)	(32,025)	(298)	(27,268)	(28,978)	58,478	(192,466)
Gross margin	**377,241**	**78,959**	**627**	**150,915**	**(3,347)**	**58,478**	**662,873**
Other income	-	-	1,012	687	53,619	-	55,318
Staff costs	(60,834)	(1,463)	(24,472)	(18,083)	(45,746)	(30,947)	(181,545)
Amortisation/depreciation	(35,521)	(9,124)	(5,793)	(52,152)	(16,317)	(10,519)	(129,426)
Net change in provisions, allowances and write-offs	-	-	-	-	1,979	6,094	8,073
Other operating costs	(83,640)	(4,753)	(61,657)	(34,754)	(37,837)	(23,106)	(245,747)
Profit from operations (*)	**197,246**	**63,619**	**(90,283)**	**46,613**	**(47,649)**	**-**	**169,546**
Gains (losses) on sales of non-current assets/other	-	(800)	(500)	(17,200)	(744)	-	(19,244)
Staff restructuring costs	-	-	-	-	-	-	-
Impairment losses	-	-	-	-	(389)	-	(389)
Financial profit (loss)	-	-	-	(594)	(21,040)	-	(21,634)
Profit (loss) before tax	**197,246**	**62,819**	**(90,783)**	**28,819**	**(69,822)**	**-**	**128,279**
Income tax	-	-	-	(7,398)	(14,972)	-	(22,370)
Net results attributable to Parent company	**197,246**	**62, 819**	**(90,783)**	**21,421**	**(84,794)**	**-**	**105,909**

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

Assets at 31 December 2019 by segment

ACTIVO	Sales through own network	Sales through licensees	Research and development activity	Dermatology in the US	Corporate management and results not allocated to other segments	Total
Goodwill	227,743	52,816	-	-	35,407	315,966
Intangible assets	235,507	218,769	-	518,399	166,340	1,139,015
Rights-of-use assets	5,067	206	-	811	12,187	18,271
Property, plant and equipment	298	-	28,257	405	88,460	117,420
Financial assets	193	45,522	-	315	57,154	103,184
Deferred tax assets	3,368	8,261	-	18,647	239,041	269,317
NON-CURRENT ASSETS	**472,176**	**325,574**	**28,257**	**538,577**	**598,589**	**1,963,173**
Inventories	51,109	4,866	-	17,270	33,173	106,418
Trade and other receivables	35,122	26,645	-	97,241	44,107	203,115
Current tax assets	2,054	128	-	-	37,706	39,888
Other current assets	627	46	-	3,609	3,930	8,212
Current financial investments	-	-	-	-	1,769	1,769
Cash and other liquid assets	-	-	-	20,204	97,008	117,212
CURRENT ASSETS	**88,912**	**31,685**	**-**	**138,324**	**217,693**	**476,614**
TOTAL ASSETS	**561,088**	**357,259**	**28,257**	**676,901**	**816,282**	**2,439,787**

Income statement for the year ended 31 December 2018 by segment

	Sales through own network	Sales through licensees	Research and development activity	Dermatology in the US	Corporate management and results not allocated to other segments	Adjustments and reclassifications	Total
Revenue	508,382	110,590	2,151	109,877	25,934	-	756,934
Procurements	(149,257)	(32,611)	-	(20,960)	(22,054)	62,290	(162,592)
Gross margin	**359,125**	**77,979**	**2,151**	**88,,917**	**3,880**	**62,290**	**594,342**
Other income	216	421	-	589	52,821	-	54,047
Staff costs	(55,524)	(1,364)	(24,352)	(25,716)	(46,770)	(29,375)	(183,101)
Amortisation/depreciation	(30,987)	(10,096)	(7,190)	(22,624)	(9,145)	(10,138)	(90,180)
Net change in provisions, allowances and write-offs	-	-	-	(3,618)	(3,634)	(7,200)	(14,452)
Other operating costs	(80,813)	(6,170)	(56,018)	(48,522)	(44,370)	(15,577)	(251,470)
Profit from operations (*)	**192,017**	**60,770**	**(85,409)**	**(10,974)**	**(47,218)**	**-**	**109,186**
Gains (losses) on sales of non-current assets/other	-	-	-	-	441	-	441
Staff restructuring costs	-	-	-	-	-	-	-
Impairment losses	-	-	-	(42,636)	20,000	-	(22,636)
Financial profit (loss)	-	-	-	(2,003)	(10,014)	-	(12,017)
Profit (loss) before tax	**192,017**	**60,770**	**(85,409)**	**(55,613)**	**(36,791)**	**-**	**74,974**
Income tax	-	-	-	31,693	(28,993)	-	2,700
Net results attributable to Parent company	**192,017**	**60,770**	**(85,409)**	**(23,920)**	**(65,784)**	**-**	**77,674**

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

Assets at 31 December 2018 by segment

ASSETS	**Sales through own network**	**Sales through licensees**	**Research and development activity**	**Dermatology in the US**	**Corporate management and results not allocated to other segments**	**Total**
Goodwill	235,143	45,416	-	-	35,407	315,966
Intangible assets	147,565	234,987	-	567,558	171,105	1,121,215
Property, plant and equipment	408	-	30,635	1,478	82,714	115,235
Financial assets	225	19	-	384	141,688	142,316
Deferred tax assets	3,548	9,262	-	23,236	244,358	280,404
NON-CURRENT ASSETS	**386,889**	**289,684**	**30,635**	**592,656**	**675,272**	**1,975,136**
Inventories	47,549	3,547	-	15,317	25,920	92,333
Trade and other receivables	30,219	22,482	-	53,211	86,891	192,803
Current tax assets	1,674	17	-	4,888	32,299	38,878
Other current assets	445	34	-	2,520	1,087	4,086
Current financial assets	-	-	-	-	1,080	1,080
Cash and cash equivalents	-	599	-	21,307	63,284	85,190
CURRENT ASSETS	**79,887**	**26,679**	**-**	**97,243**	**210,560**	**414,370**
TOTAL ASSETS	**466,776**	**316,363**	**30,635**	**689,899**	**885,832**	**2,389,506**

The detail of non-current assets located abroad is included in Note 111,

Additions to non-current assets by segment in the year ended 31 December 2019

	Sales through own network	Sales through licensees	Research and development activity	Dermatology in the US	Corporate management and results not allocated to other segments	Total
Total additions to non-current assets	74,398	-	1,033	14,897	25,838	**116,166**

Additions to non-current assets by segment in the year ended 31 December 2018

	Sales through own network	Sales through licensees	Research and development activity	Dermatology in the US	Corporate management and results not allocated to other segments	Total
Total additions to non-current assets	24,773	-	4,543	471,045	12,707	513,068

Revenue by therapeutic area-

Set out below is a detail of the contribution to revenue of the Group's main therapeutic areas in 2019 and 2018:

	Thousands of Euros	
	2019	**2018**
Respiratory	86,798	83,221
Gastrointestinal and Metabolism	117,109	116,606
Dermatology	381,519	306,794
CNS	65,563	61,708
Osteomuscular	30,879	33,755
Cardiovascular	61,115	66,002
Other specialist therapies	112,356	88,848
Total	**855,339**	**756,934**

Revenue by geographical area in 2019 and 2018 is detailed in Note 21.

24. Dividends paid by the Parent company

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

	2019			2018		
	% of nominal amount	Euros per share	Amount (in € thousands)	% of nominal amount	% of nominal amount	% of nominal amount
Ordinary shares	169%	0.203	35,292	158%	0.19	33,000
Total dividends paid	**169%**	**0.203**	**35,292**	**158%**	**0.19**	**33,000**
Dividends charged against profit/(loss)	169%	0.203	35,292	158%	0.19	33,000

The dividend payment of 2019 was instrumented as a flexible dividend in which the shareholders were offered the right to choose between receiving new issued shares of Parent Company or the amount in cash equivalent to the dividend. The payment in cash was choose for 70.2% of the rights (which has meant a disbursement of EUR 24.1 million) and the remaining 29.8% was opted to receive new shares at the nominal unit value that have been issued as capital increase (Note 15). The dividend payment of 2018 was also instrumented as a flexible dividend being the payment in cash a 71.3% of the rights (which meant a disbursement of EUR 22.7 million) and the remaining 28,7% opted to receive new shares at the nominal unit value that were issued as capital increase .

25. Earnings per share

Basic earnings per share

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

For these purposes, it should be taken into account that the diluted profit per share considers the potential shares that the Parent Company should issue according to the exchange price of the convertible bond (see Note 17), that is, 13,753,191 shares, given that The bond has effectively become convertible on June 25, 2019. Accordingly:

	2019	**2018**
Net income for the year (euro thousands)	105,909	77,674
Average ordinary shares number available (*)	174,128	174,128
Weighted average diluted shares number (**)	187,881	187,881
Basic earnings per share (euros)	**0.61**	**0.45**
Diluted earnings per share (euros)	**0.60**	**0.41**

(*) Number of shares issued deducted from treasury shares (in thousands)

(**) Average number of ordinary shares available plus potential shares associated with derivative financial instruments convertible in shares (in thousands)

As described in Note 15, as a result of the capital increase released through which the flexible dividend program was implemented, 701,153 new shares of the Parent Company have been created and were admitted to trading on June 12, 2019. During the annual year ended December 31, 2018, 902,547 new shares of the Parent Company were created and were listed on June 14, 2018.
In accordance with the provisions of IAS 33, these capital increases have resulted in an adjustment of the profit per share corresponding to the 2018 financial year included in the consolidated annual accounts and have been taken into account in the calculation of the basic and diluted profit per share corresponding to the fiscal year. ended December 31, 2019.

Finally, the calculation of the consolidated profit per diluted share considers the consolidated profit for the year attributable to the Parent Company, excluding the expense accrued by the financial instruments convertible into shares, net of their tax effect.

26. Commitments acquired, contingent liabilities and contingent assets

a) Commitments acquired

As a result of the research and development activities carried out by the Group, firm agreements for approximately EUR 31.1 million were entered into at 31 December 2019 (EUR 4.3 million in 2018) in relation to the performance of the above research and development activities which would be paid in future years.

There are no commitments to purchase property, plant and equipment for significant amounts at 31 December 2019 and 2018.

The Group's lease obligations are detailed in Note 10.

b) Contingent liabilities

There are no other contingent liabilities in addition to the ones included in this consolidated annual accounts (contingent payments for acquisition of intangible assets (See Note 9)).

c) Contingent assets

As a result of the operation with AstraZeneca described in Note 7-a, the Group is entitled to receive a payment of certain amounts for milestones related to certain regulatory and commercial events.

27. Related-party transactions

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

Balances and transactions with other related parties

In 2019 and 2018 the Group companies performed the following related-party transactions. The balances in this respect at 31 December 2019 and 2018 were as follows:

Related party	Description	Year	Thousand euro	
			Transactions - Income/(Expense)	Debtor/(Creditor) Balance
Grupo Corporativo Landon, S.L.	Leases	2019	(2,935)	-
		2018	(2,843)	(4)
Grupo Corporativo Landon, S.L.	Reinvoicing of works	2019	-	-
		2018	203	-
Grupo Corporativo Landon, S.L.	Other	2019	(55)	-
		2018	-	-

The Group's headquarters are leased to the Landon Corporate Group. S.L., through a contract expiring in 2017, which has been renewed under the same conditions in February 2018 and is tacitly renewed annually by both parties.
The related party transactions are carried out on an arm's-length basis.

28. Remuneration of the Board of Directors and Executives

In 2019 and 2018 the amount earned by the current and former members of the Parent company's Board of Directors for all types of remuneration (salaries, bonuses, per diems, remuneration in kind, life insurance plans, indemnities, incentive plans and social security contributions) amounted to EUR 3,968 thousand and EUR 2,117 thousand, respectively. The life insurance policies amount to EUR 17.8 thousand (EUR 14.1 thousand in 2018).

In 2019, insurance premiums for civil liability totalling EUR 111 thousand have been accrued (EUR 104 thousand at 31 December 2018), which cover possible damages caused whilst members of the Board of Directors and Top Management carried out the duties of their offices.

Additionally the remuneration earned, paid or not paid, to the Parent company's Board of Directors for multi-year incentive and loyalty plans, and SEUS plans amounting to EUR 971 thousand and EUR 1,637 thousand in 2019 and 2018, respectively. The ending balance of the provision for these plans amounts to EUR 3,544 thousand in 2019 (EUR 2,366 thousand in 2018).

At 31 December 2019 and 2018, there were no other pension obligations to the current and former members of the Board of Directors of the Parent company.

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

In 2019 and 2018 the amounts earned by executives who are not members of the Parent's Board of Directors for all items (salaries, bonuses, per diems, remuneration in kind, compensation, incentive plans and social security contributions) totalled EUR 5,251 thousand and EUR 3,938 thousand, respectively.

For incentive and loyalty plans that cover more than one year and SEUS plans (see Note 5-x) the remuneration earned amounted to EUR 1,002 thousand and EUR 1,446 in 2019 and 2018, respectively. The ending balance of the provision for these plans amounts to EUR 3,578 thousand in 2019 (EUR 2,635 thousand in 2018).

At 31 December 2019 and 2018, the Group did not have any other pension obligations to executives.

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

29. Directors: other disclosures

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

30. Information on the environment

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

The Almirall Group’s property, plant and equipment include certain environmentally friendly assets (smoke abatement, underfloor drainage, etc.). The carrying amount of the assets is approximately EUR 2.8 million and EUR 2 million at 31 December 2019 and 2018, respectively. Additionally during the year 2019 we have done investments amounting to EUR 0.6 million (EUR 0.8 million).

The consolidated income statements for 2019 and 2018 include expenses related to protection of the environment amounting to EUR 1.3 million and EUR 0.9 million, respectively.

The Group has made investments in photovoltaic panels intended for the production of electricity for self-consumption amounting to 66 thousand euros, whose net book value at December 31, 2019 amounts to 859 thousand euros (825 thousand euros at December 31, 2018). The income statement for fiscal year 2019 includes expenses related to the maintenance of said plates amounting to 9 thousand euros (2 thousand euros in 2018), related amortization expenses amounting to 32 thousand euros (22 thousand euros in 2018) and expenses for electricity taxes amounting to 0.3 thousand euros (1 thousand euros in 2018).

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

31. Exposure to risk and capital management

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

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

Interest rate risk

During the first quarter of 2017, the parent company signed a new 4-year line of credit, enabled for a maximum disposition of 250 million euros at a fixed interest rate, the average of said rate was 0.81%, so the Group is not exposed to interest rate volatility. At the closing date of 2019, the Group had no disposed amount of this financing, while at the end of 2018 150 million euros were arranged.

In September 2018, the parent company signed a temporary loan of 400 million euros at a fixed interest rate of 1.25%. This loan was canceled in December 2018 and was refinanced, on the one hand, with a syndicated loan of 150 million euros at a fixed rate of 2.1% and, on the other hand, with the issuance of Convertible Bonds (250 million euros), also at a fixed interest rate of 0.25%. Since it is all about financing at a fixed interest rate, the Group is not exposed to interest rate volatility.

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

Foreign currency risk

The Group is exposed to foreign currency risk on certain transactions arising from its business. The risk relates mainly to revenue received in US dollars for sales of finished goods, payments received for the operation carried out with AstraZeneca, payments in US dollars received as a result of the deal agreements with Athenex, Dermira or the recent option agreement with Bioniz, payments in US dollars for clinical trials, raw material purchases and royalty payments in yen and collections and payments made in local currency by the subsidiaries in the US, UK, Poland, Switzerland and Denmark. The most relevant currency which the Group is operating is the US dollar.

The Group analyzes quarterly the forecasts of collections and payments in currency as well as the evolution and trend of the same. During the last years, the Group has reduced its exposure to risk by exchange rate in those commercial transactions of greater volume, by contracting timely exchange insurance to cover payments in yen for the purchase of raw materials, and to cover cash receipts in USD for collections as well as the anticipated payment in USD for the purchase of Allergan's portfolio done in September 2018.

The Parent Company of the Group was a borrower with the subsidiary Almirall, Inc., this loan was not covered because the forecasts of the evolution of the dollar were favourable and the coverage supposed a cash outflow of the amount of the revaluation.

On the other hand, and to finance part of the purchase of the Allergan portfolio, during 2018 a new loan was made with the subsidiary Almirall, Inc in USD. This loan was done to cover with exchange insurance in order to minimize the exchange rate risk by closing the position as explained in Note 17. As of December 31, 2019 there is no exchange insurance contracted.

Finally, there was another loan with the Almirall Aesthetics Inc subsidiary that was considered a net investment abroad, accounting for such exchange differences against the Conversion differences heading. As a consequence of the dissolution of said subsidiary company in November 2019, the accumulated exchange differences have been reclassified to the heading of Exchange differences of the income statement, as explained in Note 21.

Liquidity risk

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

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

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

The financing instruments include a series of “covenants” that in case of default would imply the immediate enforceability of said financial liabilities. The Group periodically evaluates said compliance (as well as future compliance expectations in order to, where appropriate, be able to take corrective measures). As of December 31, 2019, all complied covenants are considered, as mentioned in Note 17.

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

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

The forecast of the liquidity reserve at December 31,2019 would be as follows:

	2020	**2021 and following years**
Cash and other equivalent liquid assets	117,212	-
Current financial liabilities	82	-
Credit lines committed with bank entities not used	255,317	-
Total	**372,611**	-

The following table presents an analysis of the Group's financial liabilities that are settled for a net amount grouped according to due dates, considering the remaining period at the balance sheet date until the contractual maturity date. The amounts shown in the table correspond to the contractual undiscounted cash flows. The payable within 12 months are equivalent to the book values of the same, given that the effect of the discount is not significant.

	Menos de 1 año	Entre 1 y 2 años	Entre 2 y 5 años	Más de 5 años
A 31 de diciembre de 2019				
Préstamos con entidades de crédito	452	20,133	30,000	194,133
Derivados financieros de negociación	-	19,082	-	-
Obligaciones	-	229,245	-	-
Acreedores comerciales y otras cuentas a pagar	222,478	-	-	-
Total	**222,930**	**268,460**	**30,000**	**194,133**
A 31 de diciembre de 2018				
Préstamos con entidades de crédito	407	-	546,270	-
Derivados financieros de negociación	2,221	-	23,400	-
Acreedores comerciales y otras cuentas a pagar	191,019	-	-	-
Total	**193,647**	-	**569,670**	-

Fair value measurement

Disclosure of measurement of assets and liabilities at fair value should use the hierarchy defined in IFRS 13:
- Level 1. Quoted price (unadjusted) in active markets for identical assets and liabilities.
- Level 2. Inputs other than quoted price included within level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3. Inputs for the asset or liability that are not based on observable market data.

The detail of the Group's assets and liabilities at fair value using the levels above at 31 December 2019 and 2018 is as follows (in thousands of euros):

2019	**Level 1**	**Level 2**	**Level 3**
Assets			
Available-for-sale financial assets	-	-	-
Financial assets at fair value through profit or loss (*)	-	1,687	98,394
Total activos	**-**	**1,687**	**98,394**
Liabilities			
Financial liabilities at fair value with changes in the result (Note 17)	-	19,082	-
Total pasivos	**-**	**19,082**	**-**

2018	**Nivel 1**	**Nivel 2**	**Nivel 3**
Assets			
Available-for-sale financial assets	-	-	-
Financial assets at fair value through profit or loss (*)	-	-	136,658

Total activos	**-**	**-**	**136,658**
Liabilities			
Financial liabilities at fair value with changes in the result (Note 17)	-	2,211	-
Total pasivos	**-**	**2,211**	**-**

Credit risk

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

Allowances are recognised for the total amounts that cannot be collected once all the relevant collection management efforts have been made. The balance of the allowance recognised in this connection at 31 December 2019 and 2018 were EUR 9,868 thousand and EUR 22,659 thousand, respectively (Note 14).

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

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

Capital management

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

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

At 31 December 2019 and 2018 the leverage ratios were as follows (in thousands of euros):

	31 December 2019	31 December 2018
Financial liabilities	493,045	548,688
Retirement benefit obligations	79,429	70,645
Cash and cash equivalents	(117,294)	(86,270)
Net debt	**455,180**	**533,063**
Equity	1,280,186	1,191,749
Share capital	20,947	20,862
Leverage ratio(1)	**35.6%**	**44.7%**

(1) On the basis of the calculation used by the Group to determine the leverage ratio (not including "Other Financial Liabilities" included in Note 18 neither lease liabilities included in Note 10),

32. Information on delays in payments to suppliers

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

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

	Number of days	
	2019	**2018**
	Days	**Days**
Average payment period	44	41
Ratio of paid operations	45	40
Ratio of outstanding operations	26	49
Total payments made	**536,503**	**506,092**
Total outstanding payments	**49,719**	**51,043**

This balance relates to the suppliers of the Spanish companies in the Group, specifically trade payables for goods and services received. The average payment period for these companies was 44 days in 2019 (41 days in 2018).

33. Subsequent events

At the formulation date of these consolidated annual accounts, the Board of Directors of Almirall, S.A. has agreed to propose in the Shareholders' meeting the distribution of a dividend, charged against reserves for an amount of 35.4 million euros (equivalent to 0.203 euros per share). For the purpose of carrying out this dividend distribution, it is proposed to reuse the remuneration system for shareholders called "Scrip dividend", already implemented in 2019. In this way, its shareholders are offered an alternative that allows them to receive shares issued by the parent company without limiting their possibility of receiving in cash an amount equivalent to the payment of the dividend as explained in Note 4.

APPENDIX: INFORMATION ON GROUP COMPANIES

	Thousands of Euros						
Name	Laboratorios Almirall, S.L.	Laboratorios Tecnobio, S.A.	Industrias Farmacéuticas Almirall, S.A.	Ranke Química, S.A.	Almirall International BV	Almirall NV	Almirall - Productos Farmacêuticos, Lda
Management	Spain	Spain	Spain	Spain	Holland	Belgium	Portugal
Activity	Intermediary services	Intermediary services	Manufacture of specialties	Manufacture of Raw Materials	Holding	Pharmaceutical Laboratory	Pharmaceutical Laboratory
31 December 2019							
% interest held							
- Directly	100%	100%	100%	100%	100%	0,01%	-
- Indirectly	-	-	-	-	-	99,99%	100%
% voting rights	100%	100%	100%	100%	100%	100%	100%
Consolidation method	Full consolidation	Full consolidation	Full consolidation	Full consolidation	Full consolidation	Full consolidation	Full consolidation
Share capital	120	61	1,200	1,200	52,602	1,203	1,500
Reserves	6,954	348	45,220	17,217	49,673	2,132	2,081
Net profit (loss) for the year	372	126	3,476	1,211	5,329	36	64
31 December 2018							
% interest held							
- Directly	100%	100%	100%	100%	100%	0,01%	-
- Indirectly	-	-	-	-	-	99,99%	100%
% voting rights	100%	100%	100%	100%	100%	100%	100%
Consolidation method	Full consolidation	Full consolidation	Full consolidation	Full consolidation	Full consolidation	Full consolidation	Full consolidation
Share capital	120	61	1,200	1,200	52,602	1,203	1,500
Reserves	13,540	1,348	64,740	25,151	61,275	2,031	1,813
Net profit (loss) for the year	414	-	3,480	1,066	6,905	101	267

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

APPENDIX: INFORMATION ON GROUP COMPANIES

	Thousands of Euros						
Name	Almirall BV	Almirall Aesthetics S.A. (**)	Almirall Limited	Subgrupo Almirall SAS (*)	Almirall SP ZOO	Almirall GmbH	Almirall AG
Management	Holland	Spain	United Kingdom	France	Polland	Austria	Switzerland
Activity	Pharmaceutical Laboratory	Marketing of aesthetics products	Pharmaceutical Laboratory	Pharmaceutical Laboratory	Pharmaceutical Laboratory	Pharmaceutical Laboratory	Pharmaceutical Laboratory
31 December 2019							
% interest held							
- Directly	-	-	-	-	-	100%	100%
- Indirectly	100%	100%	100%	100%	100%	-	-
% voting rights	100%	100%	100%	100%	100%	100%	100%
Consolidation method	Full consolidation	Full consolidation	Full consolidation	Full consolidation	Full consolidation	Full consolidation	Full consolidation
Share capital	4,000	61	571	12,527	12	36	901
Reserves	2,221	178	10,165	18,349	1,445	1,653	2,463
Net profit (loss) for the year	365	-	705	1,564	96	198	64
31 December 2018							
% interest held							
- Directly	-	-	-	-	-	100%	100%
- Indirectly	100%	100%	100%	100%	100%	-	-
% voting rights	100%	100%	100%	100%	100%	100%	100%
Consolidation method	Full consolidation	Full consolidation	Full consolidation	Full consolidation	Full consolidation	Full consolidation	Full consolidation
Share capital	4,000	61	563	12,527	14	36	652
Reserves	2,102	113	8,401	16,314	1,476	3,443	2,037
Net profit (loss) for the year	119	44	1,228	1,301	2	210	1,163

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

(*)Including subsidiaries Almirall SAS and Almirall Production SAS, this liquidated in December 2018

(**) On January 31st this company changed its legal name to Almirall Europa Derma, S.A.

APPENDIX: INFORMATION ON GROUP COMPANIES

	Thousands of Euros		
Name	Polichem, S.A.	Polichem, S.R.L.	Almirall Aesthetics. Inc (Nota 2-b)
Management	Luxemburg/Switerland/China	Italy	Estados Unidos
Activity	Pharmaceutical Laboratory	Pharmaceutical laboratory	Holding
31 December 2019			
% interest held			
- Directly	-	-	-
- Indirectly	100%	99,60%	-
% voting rights	100%	100%	-
Consolidation method	Full consolidation	Full consolidation	-
Share capital	1.351	540	-
Reserves	106.547	3.447	-
Net profit (loss) for the year	20.804	776	-
31 December 2018			
% interest held			
- Directly	-	-	100%
- Indirectly	100%	99,60%	-
% voting rights	100%	100,00%	100%
Consolidation method	Full consolidation	Full consolidation	Full consolidation
Share capital	1,374	540	226
Reserves	82,494	4,428	53,724
Net profit (loss) for the year	19,556	1,018	(122,803)

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

APPENDIX: INFORMATION ON GROUP COMPANIES

	Miles de Euros						
Name	Almirall SpA	Almirall Hermal, GmbH	Almirall Aps	Almirall Inc	Subgroup (*) Almirall US	ThermiGen LLC	Poli Group Holding, S.R.L.
Management	Italy	Germany	Denmark	United States	United States	United States	Italy
Activity	Pharmaceutical Laboratory	Pharmaceutical Laboratory	Pharmaceutical Laboratory	Holding	Pharmaceutical Laboratory	Aesthetics	Holding
31 December 2019							
% interest held							
- Directly	-	100%	100%	100%	-	-	100%
- Indirectly	100%	-	-	-	100%	100%	-
% voting rights	100%	100%	100%	100%	100%	100%	100%
Consolidation method	Full Consolidation	Full Consolidation	Full Consolidation	Full Consolidation	Full Consolidation	Full Consolidation	Full Consolidation
Share capital	8,640	25	17	-	-	-	31
Reserves	37,189	12,922	2,328	478,915	319,477	-	44,824
Net profit (loss) for the year	2,664	24,411	147	58,340	13,520	-	2,046
31 December 2018							
% interest held							
- Directly	-	100%	100%	100%	-	-	100%
- Indirectly	100%	-	-	-	100%	100%	-
% voting rights	100%	100%	100%	100%	100%	100%	100%
Consolidation method	Full Consolidation	Full Consolidation	Full Consolidation	Full Consolidation	Full Consolidation	Full Consolidation	Full Consolidation
Share capital	8,640	25	17	-	-	28,386	31
Reserves	52,632	60,999	2,193	362,778	286,680	(32,662)	63,997
Net profit (loss) for the year	3,557	22,098	136	82,374	27,584	(20,925)	(143)

Note: All information on the companies has been obtained from their separate annual accounts. Therefore it does not reflect the effect that would apply from consolidating the investments. Excluding unconsolidated dormant companies.
(*) Includes Aqua Pharmaceuticals Holding and Almirall LLC (formerly named Aqua Pharmaceuticals LLC).