



HECHO RELEVANTE AB-BIOTICS, S.A.

20 de marzo de 2019

En virtud de lo previsto en el artículo 17 del Reglamento (UE) nº 596/2014 sobre abuso de mercado y en el artículo 228 del texto refundido de la Ley del Mercado de Valores, aprobado por el Real Decreto Legislativo 4/2015, de 23 de octubre, y disposiciones concordantes, así como en la Circular 6/2018 del Mercado Alternativo Bursátil (MAB), se pone a disposición del mercado la siguiente información relativa a AB-BIOTICS, S.A.:

Se pone a disposición del mercado la traducción al inglés de los documentos de memoria y análisis contenidos en la Información Financiera Anual publicada en el día de hoy por parte de la Compañía.

En caso de existir discrepancia, prevalece la versión en castellano.

Quedamos a su disposición para cuantas aclaraciones consideren oportunas.

En Barcelona, 20 de marzo de 2019

AB-BIOTICS, S.A.

Sergi Audivert Brugué

Director Ejecutivo

Miquel Àngel Bonachera Sierra

Director Ejecutivo

The next page translation of the above relevant fact is intended only for information purposes. In case of any discrepancies, the official Spanish version shall prevail.



According to the article 17 of the regulation (UE) nº 596/2014 about market abuse and in article 228 of the refunded text of the Stock Market law, approved by the Royal Legislative Decree 4/2015, in October 23, and concordant provisions, as well as in the Circular 6/2018 of Mercado Alternativo Bursátil (MAB) we notify the following information concerning to AB-BIOTICS, S.A:

The translation into English of the memory and analysis contained in the Annual Financial Information published today by the Company is made available to the market through this relevant fact.

If there is a discrepancy, the Spanish version prevails.

We remain at your disposal for any clarifications deemed appropriate

In Barcelona, march 20th, 2019

AB-BIOTICS, S.A.

Sergi Audivert Brugué

Executive Director

Miquel Àngel Bonachera Sierra

Executive Director

Barcelona, March the 20th, 2019

Dear Sir and Madam,

AB-BIOTICS, SA communicates the following information regarding the year 2018:

TABLE OF CONTENTS:

1. Shareholder letter
2. Individual annual accounts for 2018
3. Analysis of the 2018 financial statements
 - a) Analysis of the Results Account
 - b) Analysis of the Balance Sheet
4. Report on the organizational structure and internal control system

AB-BIOTICS, S.A.

Sergi Audivert Brugué

Executive Director

Miquel Àngel Bonachera Sierra

Executive Director



Barcelona, March the 20th, 2019



Founding Members and Executive Directors

Registre Mercantil de Barcelona, Volum 36557, secc. 8, Foli 82, Full B233983, CIF A63497473



2. Individual annual accounts for 2018

AB - BIOTICS S.A
Balance sheets
31st December 2018 and 31st December 2017
(Expressed in Euros)

<i>Assets</i>	<i>Note</i>	<i>31/12/2018</i>	<i>31/12/2017</i>
Intangible fixed assets	Note 5	6.430.397	6.290.457
Development costs		5.718.226	5.962.003
Patents, licenses, brands and analogous items		679.012	310.502
Software applications		21.159	17.952
Advances		12.000	-
Tangible fixed assets	Note 6	203.662	284.254
Technical facilities, machinery, implements, furniture and other tangible fixed assets		203.662	274.234
Fixed assets in progress and advances		-	10.020
Long-term financial investments	Note 12	668.512	683.074
Equity instruments		70.000	70.000
Loans to third parties		4.066	18.628
Debt securities		143.065	143.065
Other financial assets		451.381	451.381
Deferred tax assets		652.454	-
Total non-current assets		7.955.025	7.257.785
Inventories	Note 13	608.875	275.504
Goods for resale		155.840	4.090
Raw materials and other supplies		407.158	271.414
Advances made to suppliers		45.877	-
Trade debtors and other accounts receivable	Note 12	3.723.536	2.149.325
Customer receivables for sales and provisions of short-term services		3.499.898	1.954.695
Customers, Group companies and associates		20.217	-
Personnel		27.490	95.184
Current tax assets		23.736	19.407
Other loans with the Public Administrations		152.195	80.039
Short-term financial investments	Note 12	1.003.902	24.270
Equity instruments		979.632	-
Loans to companies		22.270	22.270
Other financial assets		2.000	2.000
Short-term accruals		93.707	32.644
Cash and cash equivalents	Note 14	1.769.239	2.430.472
Total current assets		7.199.259	4.912.215
Total assets		15.154.284	12.170.000

The notes attached form an integral part of the Annual Accounts.

AB - BIOTICS S.A
Balance sheets
31st December 2018 and 31st December 2017
(Expressed in Euros)

<i>Net Equity and Liabilities</i>	<i>Note</i>	<i>31/12/2018</i>	<i>31/12/2017</i>
Equity	Note 15	6.509.659	4.243.576
Capital			
Issued capital		629.413	629.413
Share premium		18.585.842	18.574.008
Reserves			
Legal and statutory reserves		4.394	4.394
Other reserves		25.781	25.781
Owns shares		(309.226)	(1.345.243)
Results of previous financial years			
Negative results of previous financial years		(13.644.777)	(12.749.996)
Result of the financial year		1.218.232	(894.781)
Adjustments for value change		(34.564)	-
Available-for-sale financial assets		(34.564)	-
Subsidies, donations and legacies received	Note 16	383.811	496.455
Total net equity		6.858.906	4.740.031
Long-term provisions		9.095	-
Long-term provision to personnel		9.095	-
Long-term debts	Note 18	3.150.568	3.481.233
Debts with credit institutions		47.234	310.980
Other financial liabilities		3.103.334	3.170.253
Deferred tax liabilities	Note 21	127.938	165.486
Long-term accruals	Nota 20	1.155.003	-
Total non-current liabilities		4.442.604	3.646.719
Short-term debts	Note 18	1.045.212	1.053.007
Debts with credit institutions		287.418	283.923
Other financial liabilities		757.794	769.084
Trade creditors and other accounts payable	Note 18	2.583.009	2.147.427
Short-term suppliers		1.033.584	685.311
Other creditors		1.307.356	1.155.392
Personnel (outstanding remunerations)		43.079	60.546
Other debts with the Public Administrations		154.901	141.478
Advances made by customers		44.089	104.700
Short-term accruals	Note 20	224.553	582.816
Total current liabilities		3.852.774	3.783.250
Total net equity and liabilities		15.154.284	12.170.000

The notes attached form an integral part of the Annual Accounts.

AB - BIOTICS S.A
Profit and Loss Accounts for the years ended
31st December 2018 and 31st December 2017
(Expressed in Euros)

	<i>Note</i>	<i>31/12/2018</i>	<i>31/12/2017</i>
Net turnover	Note 24	11.892.423	7.207.694
Sales		10.915.754	6.005.019
Service provisions		976.669	1.202.675
Self-constructed intangible assets		701.260	511.879
Supplies	Note 24	(7.279.846)	(4.013.741)
Consumption of merchandise		(4.451.587)	(2.187.714)
Consumption of raw materials and other consumable materials		(2.502.782)	(1.391.479)
Tasks performed by other companies		(325.477)	(434.548)
Other operating income		496.597	155.176
Non-core and other current operating income		423.470	83.774
Operating subsidies incorporated into the result of the financial year	Note 16	73.127	71.402
Personnel costs	Note 24	(1.839.288)	(1.674.353)
Wages, salaries and analogous items		(1.553.946)	(1.385.623)
Social charges		(285.342)	(288.730)
Other operating costs		(2.144.530)	(2.077.793)
External services		(1.980.493)	(1.763.630)
Taxes		(65.142)	(47.397)
Losses, impairment and variation of provisions due to trade transactions	Note 12	(98.895)	(266.766)
Depreciation of the fixed assets	Note 5 & 6	(1.190.478)	(1.137.277)
Allocation of subsidies of non-financial fixed assets and others	Note 16	136.275	103.458
Impairment and result due to disposals of the fixed assets	Note 24	500	216.369
Impairment and losses	Note 5 & 6	-	(200.000)
Results due to disposals and others	Note 5	500	416.369
Other results		39.352	172
Operating result		812.265	(708.416)
Financial income		7.861	20.417
From negotiable securities and other financial instruments		-	-
From third parties		7.861	20.417
Financial expenses		(202.401)	(189.723)
Due to debts with third parties		(202.401)	(189.723)
Exchange differences		(40.425)	(20.177)
Impairment and result due to disposals of the financial instruments		-	(26.254)
Impairment and losses	Note 10 & 12	-	(26.254)
Financial result		(234.965)	(215.737)
Result before taxes		577.300	(924.153)
Income tax	Note 21	640.932	29.372
Result of the financial year		1.218.232	(894.781)

The notes attached form an integral part of the Annual Accounts.

AB - BIOTICS S.A
Statement of Changes in Net Equity for the years ended
on 31st December 2018 and 2017

A) Statement of Recognised Income and Expenses for the years ended
on 31st December 2018 and 2017

(Expressed in Euros)

	<i>31/12/18</i>	<i>31/12/17</i>
Result of the profit and loss account	1.218.232	(894.781)
Income and expenses directly attributed to net equity		
Due to valuation of financial instruments		
Available-for-sale financial assets	(46.086)	-
Other incomes/expenses	11522	
Subsidies, donations and legacies	32.803	255.904
Tax effect	(8.201)	(63.976)
Total income and expenses directly attributed to net equity	(9.962)	191.928
Transfers to the profit and loss account		
Subsidies, donations and legacies	(136.275)	(103.458)
Tax effect	34.069	25.865
Total transfers to the profit and loss account	(102.206)	(77.594)
Total recognised income and expenses	1.106.064	(780.447)

The notes attached form an integral part of the Annual Accounts.

AB - BIOTICS S.A

**Statement of Changes in Net Equity
on 31st December 2018 and 2017**

B) Total Statement of Changes in Net Equity for the year ended 31 December 2018

(Expressed in Euros)

	Issued capital	Share premium	Reserves	Shares and holdings in own equity	Results of previous financial years	Result of the financial year	Adjustments for value changes	Subsidies, donations and legacies received	Total
Balance on 31st December 2017	629.413	18.574.008	30.175	(1.345.243)	(12.749.996)	(894.781)	-	496.455	4.740.031
Recognised income and expenses	-	-	-	-	-	1.218.232	(34.564)	(77.604)	1.106.064
Transactions with partners and owners									
Own shares sold	-	11.834	-	1.036.017	-	-	-	-	1.047.851
Application of the loss of the financial year									
Results of previous financial years	-	-	-	-	(894.781)	894.781	-	-	-
Other movements	-	-	-	-	-	-	-	(35.040)	(35.040)
Balance on 31th December 2018	629.413	18.585.842	30.175	(309.226)	(13.644.777)	1.218.232	(34.564)	383.811	6.858.906

The notes attached form an integral part of the Annual Accounts.

AB - BIOTICS S.A

**Statement of Changes in Net Equity
on 31st December 2018 and 2017**

B) Total Statement of Changes in Net Equity for the year ended on 31st December 2017
(Expressed in Euros)

	Issued capital	Share premium	Reserves	Shares and holdings in own equity	Results of previous financial years	Result of the financial year	Subsidies, donations and legacies received	Total
Balance on 31st December 2016	629.413	18.731.582	30.175	(1.456.263)	(6.761.068)	(5.988.928)	382.120	5.567.031
Recognised income and expenses	-	-	-	-	-	(894.781)	114.335	(780.446)
Transactions with partners and owners								
Own shares sold	-	-	-	111.020	-	-	-	111.020
Other movements	-	(157.574)	-	-	-	-	-	(157.574)
Application of the loss of the financial year								
Results of previous financial years	-	-	-	-	(5.988.928)	5.988.928	-	-
Balance on 31st December 2017	629.413	18.574.008	30.175	(1.345.243)	(12.749.996)	(894.781)	496.455	4.740.031

The notes attached form an integral part of the Annual Accounts.

AB - BIOTICS S.A

Statement of Cash Flows for the years ended on 31st December 2018 and 2017 (Expressed in Euros)

<i>Cash flows of the operating activities</i>	<i>31/12/2018</i>	<i>31/12/2017</i>
Result of the financial year before taxes	577.300	(924.153)
Adjustments of the result		
Depreciation of the fixed assets	1.190.478	1.137.277
Valuation adjustments due to impairment	98.895	493.020
Variation of provisions	-	50.000
Allocation of subsidies	(136.275)	(103.458)
Results due to write-offs and disposals of the fixed assets	-	(416.369)
Financial income	(7.861)	(20.417)
Financial expenses	202.401	189.723
Exchange differences	3.820	20.177
Other income and expenses	(355.189)	79.150
Changes in working capital		
Stocks	(287.494)	57.925
Debtors and accounts receivable	(1.790.497)	(1.176.869)
Other current assets	82.256	(44.732)
Creditors and other accounts payable	538.162	614.844
Other current liabilities	(60.611)	402.758
Other cash flows of the operating activities		
Payment of interests	(202.401)	(189.723)
Interest receipts	7.861	20.417
Other payments and receipts	1.102.700	-
Income Tax payments (receipts)		116.641
Cash flows of the operating activities	963.545	306.211
<i>Cash flows of the investment activities</i>		
Payments for investments		
Intangible fixed assets	(1.242.354)	(21.498)
Tangible fixed assets	(7.472)	(667.751)
Other financial assets	(1.025.717)	(189.940)
Divestment receipts		
Intangible fixed assets	-	757.720
Other financial assets	-	9.234
Cash flows of the investment activities	(2.275.543)	(112.235)
<i>Cash flows of the financing activities</i>		
Collections and payments for equity instruments		
Acquisition of instruments of own equity	(452.452)	(192.771)
Disposal of instruments of own equity	1.488.469	146.217
Subsidies, donations and legacies received	-	255.905
Collections and payments for financial liability instruments		
Issue		
Debts with Group and Associated companies	-	(6.210)
Others (CDTI)	393.713	708.089
Return and depreciation of		
Debts with credit institutions	(260.249)	(428.605)
Others (CDTI)	(518.715)	(934.372)
Cash flows of the financing activities	650.766	(451.747)
Net increase / decrease of cash or equivalents	(661.232)	(257.771)
Cash or equivalents at the start of the financial year	2.430.471	2.688.243
Cash or equivalents at the end of the financial year	1.769.239	2.430.472

The notes attached form an integral part of the Annual Accounts.

AB - BIOTICS S.A

Notes to the Annual Accounts for the year 2018

(1) Nature, Activities of the Company and Composition of the Group

AB-BIOTICS, S.A. (hereinafter referred as the Company) was incorporated in Spain on 23rd April 2004 as a public limited company (*sociedad anónima*). Its registered and tax domicile, according to the agreement dated 23rd June 2016 by the Shareholders' General Meeting, is located in the Esade-Creópolis building, avinguda de la Torre Blanca, number 57 (Sant Cugat del Vallès, Barcelona) for an indefinite period. The Company's object involves the research, development, innovation and production of biotechnological solutions which improve people's health and welfare. The marketing, distribution, export and import of any products related to the activities mentioned in the previous paragraph. The development, acquisition, transmission, transfer, exploitation and marketing of all types of intellectual and industrial property rights. The provision of healthcare services in the field of genetic analyses. The provision of any services in connection with the activities mentioned in the previous paragraphs.

AB-BIOTICS is an innovative company with its own know-how, which enables it to develop products with a high added value. And AB-BIOTICS is structured in the following business areas:

- (a) AB-BIOTICS INGREDIENTES FUNCIONALES: devoted to the development of probiotics and nutraceuticals;
- (b) AB-GENOTYPING: devoted to the genetic analyses for the preparation of pharmacogenetics studies, especially in the area of mental illnesses; and
- (c) AB-BIOTICS R&D OUTSOURCING: consultancy area which is in charge of the integral management of research projects for the food industry and the pharmaceutical industry, based on the obtaining of distinguishing and patentable biotechnological solutions which are of value for their customers.

AB-BIOTICS, S.A.'s shares are admitted to trading in the Alternative Stock Market.

Furthermore, as it is explained in note 15, on 28th March 2018 a change in the Company's shareholding has occurred. The Company Kaneka Europe Holding Company, NV has acquired 26.86 % of the Company's shares, by purchasing shares from certain shareholders, and through the Company's treasury stock. On the date of making of these financial statements, the aforesaid company owns 37.77 % of the Company's shares.

As it is described in note 10, the Company owns holdings in dependent, associated and multi-group companies. Consequently, the Company is the controlling company of a group of companies in accordance with the legislation in force. Nevertheless, the Company does not submit consolidated annual accounts, due to the fact that both companies have not carried out transactions since they were incorporated and this circumstance does not offer a significant interest for the Company's true and fair image.

On 31th December 2018, it does not constitute a decision-making unit in accordance with the 13th Rule of the Rules on Making of Annual Accounts with other companies domiciled in Spain.

(2) Presentation rules

(a) True and fair image

The Annual Accounts have been made by consulting AB-BIOTICS S.A.'s accounting records. The financial statements have been prepared in accordance with the mercantile legislation in force, and with the rules established in the Spanish General Accounting Plan (*Plan General de Contabilidad*), with the aim of showing the true and fair image of the Company's equity and financial situation on 31th December 2018, and of the results of the Company's transactions, changes in its net equity and its cash flows corresponding to the years ended on the aforesaid dates.

The Directors of the company estimate that the annual accounts for the fiscal year 2018, which have been prepared on March 12, 2019, will be approved by the General Shareholders' Meeting without any modification.

(Continued)

AB - BIOTICS S.A**Notes to the Annual Accounts for the year 2018****(b) Comparison of information**

The Annual Accounts presents, for comparison purposes, each of the entries of the balance sheet, the profit and loss account, the statement of changes in net equity, the statement of cash flows and the report, as well as the figures of the year ended on 31st December 2018, the figures of the year ended on 31st December 2017, which were part of the annual accounts for 2017 approved by the General Shareholder's Meeting held 3rd August 2018.

(c) Functional currency and presentation currency

The annual accounts are presented in Euros, which is both the Company's functional and presentation currency.

(d) Critical aspects of the assessment and estimate of the relevant uncertainties and judgments in the application of accounting policies

The preparation of the annual accounts requires the application of relevant accounting estimates and the making of judgments, estimates and hypotheses in the application process of the Company's accounting policies. In this sense, below appears a summary of a detail about the aspects which have involved a higher degree of judgment, complexity, or of those aspects in which the hypotheses and estimates are significant for the preparation of the annual accounts.

(i) Relevant accounting estimates and hypotheses

There are no changes in any accounting estimates which are significant, and which affect the present financial year or future financial years. In the annual accounts some estimates made by the Company's Management have been occasionally used in order to quantify some of the assets, liabilities and commitments which are recorded therein. Basically, those estimates refer to:

- The useful life and the recoverable value of the intangible assets.
- Assessment of the recoverability of the deferred tax assets.
- Assessment of the technical and commercial viability of the development projects in progress.
- Estimate of the convenient provisions due to the insolvencies of accounts receivable and to the obsolescence of the stocks maintained.
- The assessment of the possible losses due to impairment of certain tangible and intangible assets, which derive from the non-recovery of the book value of those assets.
- Assessment of the recognition criterion of the income and the provisions of services in relation to agreements entered into with third parties for the license, co-development and co-promotion of products.

(Continued)

AB - BIOTICS S.A

Notes to the Annual Accounts for the year 2018

(ii) Estimate changes

Furthermore, despite the fact that the estimates made by the Company's Administrators have been calculated according to the best information available on 31st December 2018, it is possible that the events which may occur in the future oblige the Company to change those estimates in the next financial years. The effect of the changes –those changes derived from the adjustments to be carried out during the next financial years– on the annual accounts shall be recorded prospectively.

(3) Distribution of Results

The distribution of the Company's losses and reserves of the financial year ended on 31st December 2017, approved by the Shareholders' General Meeting on 3rd August 2018, has been the following:

	Euros
Bases of distribution	
Loss	(894.781)
Distribution	
To total results of prior years	(894.781)

The proposal on the distribution of the Company's profit of the financial year ended on 31st December 2018 and other Company's reserves to present to the Shareholders' General Meeting is the following:

	Euros
Bases of distribution	
Profit	1.218.232
Distribution	
Legal reserve	121.823
To losses of prior years	1.096.409
	1.218.232

On 31th December 2018 and on 31st December 2017, the amounts of the non-distributable reserves are the following:

	Euros	
	31/12/2018	31/12/2017
Non-distributable reserves:		
Legal reserve	4.394	4.394
Depreciated capital reserve	25.781	25.781
	30.175	30.175

On 31th December 2018 and on 31st December 2017 the amount of the share premium, the development expenses recorded in the balance sheet, the negative results of previous financial years and the own-shares reserves are non-distributable.

The profit directly attributed to the net equity cannot be distributed, either directly or indirectly.

(Continued)

(4) Rules of Record and Valuation**(a) Transactions, balances and flows in foreign currency****(i) Transactions, balances and flows in foreign currency**

The transactions in foreign currency have been converted into Euros by applying on the amount in foreign currency the spot exchange rate on the dates during which said transactions were made.

The monetary assets and the monetary liabilities in foreign currency have been converted into Euros by applying the existing exchange rate at the end of the financial year, while the non-monetary assets and liabilities measured at their historical cost have been converted by applying the exchange rate of the date during which the transactions took place.

In the presentation of the statement of cash flows, the flows from transactions in foreign currency have been converted into Euros by applying on the amount in foreign currency the spot exchange rate on the dates during which the said transactions took place.

The positive and negative differences revealed in the liquidation of the transactions in foreign currency, and in the conversion into Euros of monetary assets and liabilities denominated in a foreign currency, are recognised in results.

(b) Intangible fixed assets

The assets included in the tangible fixed assets are recorded at their acquisition price or at their production cost, by following the same principles as those established in the establishment of the production cost of the stocks. The capitalization of the production cost is made through the epigraph "Self constructed intangible assets" of the profit and loss account. The intangible fixed assets are presented in the balance sheet at their cost value less the amount of the depreciations and valuation adjustments due to impairment accumulated.

(i) Research and development

The expenses in connection with the research activities are recorded as expenses in the profit and loss account as they are incurred.

The Company capitalizes the development expenses incurred in a specific and individualized project which meet the following conditions:

- The outlay attributable to the making of the project can be measured reliably.
- The assignment, allocation and temporary distribution of the project costs are established clearly.
- There are sound reasons for believing in the technical success of the making of the project, both in case of direct exploitation, and in case of sale –to a third party– of the result of the project once it is finished, if a market exists.
- The economic-commercial profitability of the project is reasonably guaranteed.
- The financing for completing the making of the project, and the availability of the appropriate technical resources or otherwise for completing the project, or for using or selling the intangible assets, are reasonably guaranteed.

(Continued)

- There is the intention of completing the intangible assets, in order to use them or to sell them.

(ii) Software applications

The software applications acquired and generated by the company itself, including the development expenses of web pages, are recognised insofar as they meet the conditions established for development expenses. The outlays made for the development of a web page for promotional reasons, or for advertising the Company's products or services, are recognised as expenses at the time when they are incurred. The maintenance expenses of the software applications are carried to expenses at the time when they are incurred.

(iii) Subsequent costs

The subsequent costs incurred in the intangible fixed assets are recorded as expenses, unless the expected future economic benefits of the assets increase.

(iv) Useful life and Depreciations

The depreciation of the intangible fixed assets is made by distributing the depreciable amount on a systematic basis during these assets' useful life through the application of the following criteria:

	Depreciation method	Estimated years of useful life
Development	lineal	10
Patents and brands	lineal	10
Software applications	lineal	4

The research expenses are amortized on a linear basis since the date of activation, and the development expenses are amortized on a linear basis according to the evaluation of each project.

In this sense, depreciable amount means the acquisition cost less (if applicable) its residual value.

The Company considers that the residual value is void unless:

- There is a commitment, on the part of a third party, to purchase the assets at the end of their useful life.
- There is an active market for the intangible assets, and additionally:
 - o The residual value can be determined in relation to the said market; and
 - o The said market is likely to survive at the end of the useful life of these intangible assets.

The Company reviews the residual value, the useful life and the depreciation method of the intangible fixed assets at the end of every financial year. The changes in the initially-established criteria are recognised as an estimate change.

(Continued)

(v) Value impairment of fixed assets

The Company assesses and determines the valuation adjustments due to impairment and the reversals of the impairment losses regarding the value of the intangible fixed assets in accordance with the criteria mentioned in paragraph (d) Value impairment of non-financial assets subject to amortization or depreciation.

(c) Tangible fixed assets

(i) Initial recognition

The assets included in the tangible fixed assets are recorded at their acquisition price or at their production cost, by following the same principles as those established for determining the production cost of the stocks. The extra income obtained during the probationary and start-up period is recognised as a reduction in the costs incurred. The tangible fixed assets are presented in the balance sheet at their cost value less the amount of the depreciations and valuation adjustments due to impairment accumulated.

The capitalization of the production cost is made through the epigraph "Tasks performed by the company for its assets" of the profit and loss account.

The permanent investments made over immovable items rented by the Company by means of an operational lease are classified as tangible fixed assets. The investments are amortized during the lower term of their useful life or during the term of the lease.

(ii) Depreciations

The depreciation of the tangible fixed assets items is made by distributing their depreciable amount on a systematic basis over their useful life. In this sense, depreciable amount means their acquisition cost less their residual value. The Company determines the depreciation expense on an independent basis for each component, which has a significant cost in connection with the total cost of the item and a useful life that differs from the remainder of the element.

The depreciation of the tangible fixed assets items is determined by applying the criteria mentioned below:

	Depreciation method	Years of estimated useful life
Technical facilities and machinery	linear	12
Other facilities, implements	linear	5
Furniture	linear	10
Information-process equipment	linear	5
Transport elements	linear	8

The Company reviews the residual value, the useful life and the depreciation method of the tangible fixed assets at the end of each financial year. The changes in the initially-established criteria are recognised as an estimate change.

AB - BIOTICS S.A

Notes to the Annual Accounts for the year 2018

(iii) Subsequent costs

Subsequent to the initial recognition of the asset, only those costs incurred which involve an increase in its capacity or productivity, or the extension of its useful life, are capitalized; and the book value of the items replaced have to be written off. In this sense, the costs derived from the daily maintenance of the tangible fixed assets are recorded in results as they are incurred.

(iv) Value impairment of assets

The Company assesses and determines the valuation adjustments due to impairment and the reversals of the impairment losses regarding the value of the tangible fixed assets in accordance with the criteria mentioned in paragraph (d) Value impairment of non-financial assets subject to amortization or depreciation.

(d) Value impairment of non-financial assets subject to amortization or depreciation

On the one hand, the Company follows the criterion of assessing the existence of evidences which may reveal the potential value impairment of the non-financial assets subject to amortization or depreciation, with the aim of checking whether the book value of the said assets exceeds their recoverable value, which means the highest value between the fair value, less the sale costs and their value in use.

The impairment losses are recognised in the profit and loss account.

On the other hand, if the Company has reasonable doubts about the technical success or the economic-commercial profitability of the research and development projects in progress, the amounts recorded in the balance sheet are directly recognised in non-reversible losses derived from the intangible fixed assets of the profit and loss account.

The recoverable value shall be calculated for an individual asset, unless this asset does not generate cash inflows which are, to a large extent, independent from the cash inflows corresponding to other assets or groups of assets. If this is the case, the recoverable amount is determined for the cash-generating unit to which it belongs.

Notwithstanding the foregoing, if from the specific circumstances of the assets an irreversible loss is revealed, this loss is directly recognised in losses from the fixed assets of the profit and loss account.

(e) Leases

(i) Lessee' accounts

The leases which, at their beginning, substantially transfer to the Company all the risks and benefits attached to the ownership of the assets, are classified as financial leases, and in the opposite case, the leases are classified as operational leases.

- *Operational leases*

The lease payments under an operational lease, net of any incentives received, are recognised as expense on a straight-line basis over the lease term, unless a different systematic basis of distribution is more representative because it reflects the time pattern of the lease benefits more adequately.

(Continued)

AB - BIOTICS S.A**Notes to the Annual Accounts for the year 2018**

The contingent lease payments are recorded as expense when they are likely to be incurred.

(f) Financial instruments**(i) Classification and separation of financial instruments**

The financial instruments are classified at the time of their initial recognition as a financial asset, a financial liability or an equity instrument, in accordance with the substance of the contractual arrangement and with the definitions of financial asset, financial liability and equity instrument.

The Company classifies the financial instruments by different categories according to their characteristics and the Company's intentions at the time of their initial recognition.

(ii) Principles of compensation

A financial asset and a financial liability are compensated only when the Company has the enforceable right of compensating the amounts recognised and intends to liquidate the net amount, or to realize the asset and to settle the liability simultaneously.

(iii) Financial assets and liabilities held for trading

The financial assets and liabilities held for trading are those which are classified as 'held for trading' since the moment of their initial recognition.

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

- It is generated, acquired or issued mainly with the aim of selling it or re-acquiring it in the short term.
- It is part of a portfolio of identified financial instruments, which are managed together and for which there is evidence of a recent pattern of short-term profit-taking, or
- It is a derivative, except for a derivative which has been designated as a hedging instrument and meets the conditions to be effective, and it is not a financial guarantee contract.

The financial assets and liabilities held for trading are initially recognised at their fair value. The transaction costs directly attributable to the purchase or issue are recognised as an expense in the profit and loss account as they are incurred.

Subsequent to their initial recognition, they are recognised at their fair value by recording the variations in results. The fair value is not reduced by the transaction costs which may be incurred due to their possible sale or due to other type of disposal. The interests and dividends accrued are included in the entries depending on their nature.

(Continued)

AB - BIOTICS S.A

Notes to the Annual Accounts for the year 2018

(iv) Loans and receivables

The loans and receivables comprise trade and non-trade receivables with fixed or determinable payments that are not quoted in an active market, and differ from those classified in other categories of financial assets. These assets are initially recognised at their fair value, including the transaction costs incurred, and they are subsequently measured at their amortized cost, by using the effective interest rate method.

Nevertheless, the financial assets which have no established interest rate, which mature or are expected to be received in the short term, and for which the effect of discounting is immaterial, are measured at their nominal amount.

The Company measures the loans and receivables at their amortized cost provided that, in view of the contractual conditions, it is possible to make reliable estimates of the cash flows.

(v) Held-to-maturity investments

Held-to-maturity investments are debt securities with a fixed maturity date, fixed or determinable payments, which are quoted in an active market and which the Company effectively intends to, and has the ability to, hold until their maturity; and differ from those classified in other categories. The valuation criteria applicable to the financial instruments classified in this category are those applicable to loans and receivables.

(vi) Available-for-sale financial assets

The Company classifies in this category the acquisition of debt securities and equity instruments which do not meet the requirements needed to be classified in the previous categories.

The available-for-sale financial assets are initially recognised at their fair value plus the transaction costs directly attributable to the purchase.

Subsequent to their initial recognition, the financial assets classified in this category are measured at their fair value, by recognising the loss or gain in recognised income and expenses of the net equity, with the exception for the impairment losses and the exchange gains and losses of the debt instruments as explained in the paragraph a) Transactions, balances and flows in foreign currency. The amounts recognised in net equity are recognised in results at the time when the financial assets are written off due to (if applicable) an impairment loss. Nevertheless, the interests calculated by the effective interest rate method and the dividends are recognised in results.

(vii) Investments in group companies, associated companies and multi-group companies

Group companies mean those companies over which the Company, directly or indirectly through subsidiaries, holds control, in accordance with Article 42 of the Spanish Commercial Code (*Código de Comercio*), or when the companies are controlled by any means by one or several natural or legal persons who act jointly, or who are under a sole direction by virtue of agreements or bylaws.

Control means the power to manage the financial and operating policies of a company, with the aim of obtaining benefits from its activities, and the potential voting rights are in this sense considered to be exercisable or convertible at the end of the financial year and held by the Company or by third parties.

(Continued)

AB - BIOTICS S.A**Notes to the Annual Accounts for the year 2018**

Associated companies mean those over which the Company, directly or indirectly through subsidiaries, exercises a significant influence. This significant influence is the power to participate in the decisions regarding the financial and operating decisions of a company, but it does not involve the existence of control or joint control over it. In the assessment of the existence of significant influence, the potential voting rights exercisable or convertible are taken into consideration at the end of the financial year, and also the potential voting rights held by the Company or by another company.

Multi-group companies mean those which are jointly managed by the Company or by any of the group companies, including the controlling entities or natural persons, and one or several third parties outside the group.

The investments in group companies, associated companies and multi-group companies are initially recognised at their cost, which is equivalent to the fair value of the consideration delivered, including in the case of investments in associated and multi-group companies the transaction costs incurred, and they are subsequently measured at their cost, less the amount accumulated of the valuation adjustments due to impairment. The investments in group companies acquired before the 1st January 2010 include, in the acquisition cost, the transaction costs incurred.

(viii) Interests and dividends

The interests are recognised by the effective interest rate method.

The dividend income from investments in equity instruments are recognised when, once they are received, the rights have arisen for the Company. If the dividends distributed come unequivocally from results generated before the acquisition date because of the fact that amounts higher than the profit generated by the subsidiary have been distributed since the acquisition, they reduce the book value of the investment.

(ix) Write-off of financial assets

The financial assets are written off when the rights to receive cash flows related thereto have matured, or have been transferred, and the Company has substantially transferred the risks and profit derived from their ownership.

The write-off of a financial asset in its entirety involves the recognition of results due to the difference existing between its book value and the sum of the consideration received, net of transaction expenses, being the assets obtained or the liabilities assumed –and any loss or deferred gain– included in income and expenses recognised in net equity.

(x) Value impairment of financial assets

The Company follows the criterion of recording the appropriate valuation adjustments due to impairment of loans and receivables and debt instruments when there has been a reduction or delay in the future expected cash flows, motivated by the debtor's insolvency.

Furthermore, regarding equity instruments, there is value impairment when the lack of recoverability of the book value of the asset occurs because of a prolonged and significant decrease in its fair value. Anyway, the Company considers that the equity instruments have been impaired in value due to an 18-month fall and a fall of forty per cent of its price, without value recovery having occurred.

(Continued)

AB - BIOTICS S.A**Notes to the Annual Accounts for the year 2018**

Investments in group companies, associated companies and multi-group companies and equity instruments measured at their cost

The calculation of the impairment is determined as a result of the comparison between the book value of the investment and the recoverable value of the investment. The recoverable value means the highest value of the value in use or fair value less the sale costs.

In this sense, the value in use is calculated according to the Company's interest in the current value of the estimated cash flows from the ordinary activities and from the final disposal, or of the estimated flows expected to be received in the distribution of dividends and the final disposal of the investment.

Nevertheless, in certain cases, unless there is better evidence of the recoverable amount of the investment, in the estimate of the impairment of this type of assets the net equity of the investee company is taken into consideration, as adjusted (where appropriate) to the generally-accepted accounting principles and rules in the applicable Spanish regulations, corrected by the existing net unrealised capital gains at the valuation date. If the investee company creates a sub-group of companies, the net equity recorded in the consolidated annual accounts is taken into consideration, insofar as they are formulated or not, and in the opposite case, the equity in the individual annual accounts.

In this sense, the book value of the investment includes any monetary accounts receivable or payable, the liquidation of which is neither contemplated nor likely to occur in the foreseeable future, excluding the trade accounts.

In subsequent financial years the reversals of the value impairment are recognised insofar as there is an increase in the recoverable value, with the limit of the book value which the investment would have if the value impairment had not been recognised.

The loss or reversal of the impairment is recognised in the profit and loss account, with the exception for those cases in which the loss or reversal of the impairment has to be assigned to the net equity, as indicated in paragraph (f) Financial instruments.

The valuation adjustment due to value impairment of the investment is limited to the value of the investment, with the exception for those cases in which the Company has taken contractual, legal or implicit obligations, or for those cases in which the Company has made payments on behalf of the companies. In this latter case, a provision is recognised in accordance with the criteria stated in the paragraph.

The losses due to value impairment of the equity instruments measured at their cost are non-reversible, and this is why they are directly recorded against the value of the asset.

Value impairment of available-for-sale financial assets

With regard to the available-for-sale financial assets, the decrease in the fair value which has been directly recorded in income and expenses recognised in net equity is recognised in results when there is objective evidence of value impairment. The amount of the impairment loss recognised in results is calculated by the difference between the cost or amortized cost, less any impairment losses previously recognised in results, and the fair value.

The losses due to value impairment corresponding to investments in equity instruments are non-reversible. Once the impairment loss has been recognised, the subsequent increases in the fair value are recognised in net equity.

(Continued)

AB - BIOTICS S.A**Notes to the Annual Accounts for the year 2018**

The increase in the fair value of the debt instruments which can be objectively related to an event occurring after the recognition of the impairment is recorded against results up to the amount of the previously-recognised impairment loss, and the excess (where appropriate) is recorded against income and expenses recognised in equity.

(xi) Financial liabilities

The financial liabilities, including trade debtors and other accounts payable which are not classified as 'held for trading' or as financial liabilities at fair value with changes in the profit and loss account, are initially recognised at their fair value, less (where appropriate) the transaction costs which are directly attributable to the issue thereof. Subsequent to their initial recognition, the liabilities classified under this category are measured at their amortized cost by using the effective interest rate method.

Nevertheless, the financial assets which have no established interest rate, which mature or are expected to be received in the short term, and for which the effect of discounting is immaterial, are measured at their nominal value.

(xii) Deposits

The deposits received as a consequence of the leases are measured at the amount paid out, because the difference between the amount actually given and the fair value, according to the Management's estimates, is not significant.

(g) Instruments of own equity held by the Company and shares of the controlling company

The capital increases are recognised in own funds, provided that the registration in the Register of Companies has occurred before the preparation of the annual accounts; in the opposite case, the capital increases are presented in the epigraph "Short-term debts" of the balance sheet.

The capital reductions are recognised as a reduction in own funds when the decision to do so has been adopted by the Shareholders' General Meeting.

The acquisition –on the part of the Company– of equity instruments is presented at their acquisition cost separately, as a reduction in the own funds of the balance sheet. In the transactions made with equity instruments no results are recognised in the profit and loss account.

The acquisition of shares of the controlling company is recognised and measured by following what is stated in the sub-paragraph (f) "Financial instruments", and a reserve is recorded as required by the legislation in force.

The subsequent depreciation of the instruments generates a capital reduction by the amount of the nominal value of the said shares, and the positive or negative difference between the acquisition price and the nominal value of the shares is charged to, or paid to, the reserve accounts.

The transaction costs related to instruments of own equity, including the issue costs related to a business combination, are recorded as a reduction in the reserves, once any tax effects have been considered.

The dividends relating to equity instruments are recognised as a reduction in net equity as soon as they are approved by the Shareholders' General Meeting.

(Continued)

AB - BIOTICS S.A

Notes to the Annual Accounts for the year 2018

(h) Stocks

(i) General

The stocks are initially measured at their acquisition or production cost.

The acquisition cost includes the amount invoiced by the seller after deducting any discounts, reductions or other similar items, as well as the interests incorporated into the nominal value of the debits, plus the additional expenses incurred until the assets are ready for sale and other expenses directly attributable to the acquisition.

The discounts given by suppliers are recognised, at the time when the conditions determining its granting are likely to be met, as a reduction in the cost of the stocks which caused the said discounts, and the excess (where appropriate) is recorded as a reduction in the entry of supplies of the profit and loss account.

The returns of purchases are allocated as a lower value of the stocks being returned.

The advances with regard to stocks are recorded and measured at their cost.

The cost of raw materials and other supplies, the cost of the merchandise and the conversion cost are assigned to the stock units by applying the WAP method (weighted average price).

The cost value of the stocks is adjusted in those cases in which their cost exceeds their net realisable value. In this sense, net realisable value means:

- Regarding raw materials and other supplies, their replacement price. The Company does not recognise the valuation adjustment in those cases in which the finished goods –to which the raw materials and other supplies are incorporated– are expected to be disposed of at a value equivalent to their production cost or at a higher value;
- Regarding the merchandise and the finished goods, their estimated sale price, less the costs needed for the sale;

The previously-recognised valuation adjustment is reversed against results, if the circumstances which caused the reduction in the value have ceased to exist, or when there is clear evidence of an increase in the net realisable value as a result of a change in the economic circumstances. The reversal limit of the valuation adjustment is the lowest value of the cost and the new net realisable value of the stocks.

(i) Cash and other equivalent liquid assets

Cash and other equivalent liquid assets include the cash in hand and the sight bank deposits in credit institutions. This concept also includes other short-term investments of great liquidity provided that they are easily convertible into certain cash amounts and which are subject to an insignificant risk of value changes. In this sense, the investments with maturity dates of less than three months since their date of acquisition are included.

(j) Subsidies, donations and legacies

Subsidies, donations and legacies are recorded as income and expenses recognised in equity when (where appropriate) the official granting thereof is obtained, and when the conditions for the said granting have been met, or when there are no reasonable doubts about the receipt thereof.

(Continued)

AB - BIOTICS S.A**Notes to the Annual Accounts for the year 2018**

Monetary subsidies, donations and legacies are measured at the fair value of the amount granted, and non-monetary subsidies, donations and legacies are measured at the fair value of the asset received.

In subsequent financial years, subsidies, donations and legacies are assigned to results according to their purpose.

Capital subsidies are assigned to the result of the financial year in proportion to the depreciation corresponding to the assets they finance, or (where appropriate) when the disposal, write-off, or valuation adjustment occurs due to impairment of the said assets.

With regard to non-depreciable assets, the subsidy is assigned to the results of the financial year in which the disposal, write-off, or valuation adjustment occurs due to impairment of the said assets.

The amount of the valuation adjustment equivalent to the subsidized part is directly recorded as an irreversible loss of the assets against the value thereof.

The subsidies granted for financing specific expenses are assigned to income in the financial year in which the expenses financed are accrued.

The financial liabilities incorporating implicit aid in the form of lower-than-market interest rates are initially recognised at their fair value. The difference between this value –adjusted (where appropriate) by taking the issue costs of the financial liability into consideration– and the amount received is recorded as an official subsidy according to the nature of the subsidy granted.

(k) Provisions**(i) General criteria**

Provisions are recognised when the Company has a present obligation, either legal, contractual, implicit or tacit, as a result of a past event; it is probable that there is an outflow of resources embodying future economic benefits in order to settle the obligation; and a reliable estimate of the amount of the obligation can be made.

The amounts recognised in the balance sheet correspond to the best estimate –made on the closing date– of the outlays needed to settle the present obligation, once the risks and uncertainties related to the provision have been considered, and, when it is considered to be significant, the financial effect produced by the discount, provided that the outlays which are going to be made in each period can be determined reliably.

Isolated obligations are measured depending on the individual most likely outcome. If the obligation involves a relevant population of homogeneous entries, the obligation is measured by pondering the possible outcomes depending on their probabilities. If there is a continuous range of possible outcomes and every point of the range presents the same probability as the other points, the obligation is measured at the average amount.

Provisions do not include the tax effect, or the expected gains due to the disposal or abandonment of the assets.

Provisions are reversed against results when it is not probable that there is an outflow of resources to settle this obligation.

(Continued)

AB - BIOTICS S.A**Notes to the Annual Accounts for the year 2018****(ii) Provisions due to indemnities and restructurings**

The severance payments are recognised at the time when there is a detailed formal plan, and when a valid expectation that a cancellation of the employment relationship is going to occur has generated among the personnel, either because the plan is underway or because its main characteristics have been announced.

(I) Income from sale of goods and provision of services

The income from the sale of goods or services is recognised at the fair value of the consideration received, or to be received, from them. Cash discounts for prompt payment, volume discounts and other types of discounts, as well as the interests incorporated to the nominal amount of the loans, are recorded as a reduction thereof.

(i) Income from sales

The income from the sale of goods are recognised when the Company:

- Has transmitted to the purchaser the significant risks and benefits attached to the ownership of the goods;
- Does not retain any continuing managerial involvement of the goods sold to the degree usually associated with ownership, and does not retain any effective control over the goods sold;
- The amount of the income and the costs incurred, or to be incurred, can be measured reliably;
- The economic benefits associated with the sale are likely to be received; and
- The costs incurred, or to be incurred, related to the transaction can be measured reliably.

(ii) Provision of services

The income from the provision of services is recognised insofar as these services have been rendered.

(Continued)

AB - BIOTICS S.A

Notes to the Annual Accounts for the year 2018

(iii) Income from licenses

The Company has contracts subscribed with other companies of the sector, by means of which it assigns the license for the marketing of certain products, by guaranteeing the exclusivity of the supply for a specified period of time.

The income from the granting of product licenses to other companies in the sector is recorded in the epigraph "Non-core and other current operating income" according to the economic nature of the relevant contracts, on the basis of the following criteria:

- As a general criterion, if the consideration received is non-reimbursable, if it corresponds to the compensation of costs incurred before the execution of the contract, if there are no relevant future obligations assumed by the Company under conditions different from market conditions and if the risks and advantages attached to the asset are substantially transferred, the transaction is considered as income of the financial year in which the agreement occurs. Where such circumstances do not exist, the collection is recorded as deferred income during the validity term of the commitments established, during the remaining life of the product, or during the applicable period according to the particular circumstances of the agreements established.

Furthermore, the considerations associated with the compliance of certain technical or regulatory requirements (milestones) within the framework of the collaboration agreements with third parties are recognised as income in accordance with the same guidelines detailed in the previous paragraph.

(m) Income tax

The expense or income associated with the income tax comprises both the current tax and the deferred tax.

The assets or liabilities due to the current income tax are measured at the amounts expected to be paid to, or to be recovered from, the fiscal authorities, by using the regulations and tax rates applicable, or approved and to be published, on the closing date of the financial year.

The current or deferred income tax is recognised in results, unless it arises from a transaction or economic event which has been recognised in the same financial year or in a different financial year, against the net equity or from a business combination.

(i) Recognition of deferred tax liabilities

The Company recognises the deferred tax liabilities in all cases, unless they arise from the initial recognition of the goodwill, or from an asset or liability in a transaction which is not a business combination and on the date of the transaction it affects neither the book value nor the tax base.

(ii) Recognition of deferred tax assets

The Company recognises the conversion of a deferred tax asset into an account receivable before the Public Administration when it is payable in accordance with the applicable fiscal legislation. In this sense, the write-off of the deferred tax asset is recognised with a charge to expense from deferred income tax, and the account receivable with a credit to current income tax.

The Company recognises the payment obligation derived from the equity contribution as an operating expense with credit to the debt with the Public Administration when it is accrued in accordance with the Spanish Corporation Tax Law (*Ley del Impuesto Sobre Sociedades*).

Continued)

AB - BIOTICS S.A**Notes to the Annual Accounts for the year 2018**

Nevertheless, the assets arising from the initial recognition of assets or liabilities in a transaction which is not a business combination and on the date of the transaction it affects neither the book value nor the tax base, shall not be recognised.

In the absence of proof to the contrary, it shall not be considered as probable the fact that the Company has future fiscal profit when it is expected that its future recovery is going to occur in a period of more than ten years counted from the closing date of the financial year, without considering the nature of the deferred tax asset, or with regard to credits arising from deductions and other tax advantages pending application due to insufficient liability, when –after the activity has occurred, or after having obtained the yield generated by the right to make a deduction or a discount– there are reasonable doubts about the compliance of the requirements needed to make them effective.

The Company only recognises the deferred tax assets derived from compensable tax losses, insofar as it is probable that future fiscal profit are going to be obtained and these profit will compensate the deferred tax assets in a period not longer than the one established by the applicable fiscal legislation, with a maximum limit of ten years, unless there is evidence that its recovery is likely to occur in a longer period, when the fiscal legislation permits the compensation thereof in a longer period or does not establish any time limits with regard to such compensation.

On the contrary, it is considered as probable the fact that the Company has sufficient fiscal profit for recovering the deferred tax assets, provided that there are sufficient taxable temporary differences, related to the same fiscal authority and referred to the same taxpayer, which are expected to reverse in the same financial year as the expected reversal of the deductible temporary difference, or in financial years in which a tax loss arising from a deductible temporary difference, can be compensated with previous or subsequent profit. When the only future taxable profit arises from the existence of taxable temporary differences, the deferred tax assets derived from compensable tax losses are limited to 70 % of the amount of the deferred tax liabilities recognised.

With the aim of determining the future taxable profit, the Company takes into account the tax planning opportunities, provided that the Company intends to adopt them, or it is likely to adopt them.

(iii) Valuation of deferred tax assets and liabilities

The deferred tax assets and liabilities are measured at the tax bases applicable in the financial years in which the assets are expected to be realised, or the liabilities are expected to be settled, in accordance with the regulations and rates applicable, or approved and pending publication, and after having considered the tax consequences which shall arise from the way in which the Company expects to recover the assets, or to settle the liabilities.

(n) Classification of assets and liabilities as current and non-current

In the companies which have several operating cycles or in which there is a high professional judgment, the criteria determining the operating cycles shall be indicated.

The Company presents the balance sheet by classifying the assets and liabilities as current and non-current. In this sense, all current assets or liabilities shall meet the following criteria:

- The assets are classified as current when it is expected to realise them, or when they are intended to be sold or consumed, along the Company's normal operating cycle, when they are maintained mainly for negotiation purposes, when it is expected to realise them during the 12-month period occurring after the closing date, when they are cash or other equivalent liquid assets, with the exception for those cases in which they cannot be exchanged or used in order to settle a liability, at least during the twelve months subsequent to the closing date.

(Continued)

AB - BIOTICS S.A**Notes to the Annual Accounts for the year 2018**

- The liabilities are classified as current when they are expected to be settled during the Company's normal operating cycle, when they are maintained mainly for negotiation purposes, when they must be settled during the 12-month period subsequent to the closing date, or when the Company does not have an unconditional right to defer the settlement of the liabilities during the twelve months subsequent to the closing date.

(o) Environment

The elements of the tangible fixed assets acquired with the aim of being used for the Company's business on a lasting basis, with their purpose being the minimisation of the environmental impact and the protection and improvement of the environment, including the reduction in, or elimination of, the future pollution of the Company's future operations, are recognised as assets by applying valuation, presentation and breakdown criteria consistent with those mentioned in paragraph (c) "Tangible fixed assets".

(p) Transactions between group companies

The transactions between group companies, with the exception for those related to mergers, splits and non-monetary business contributions, are recognised at the fair value of the consideration given or received. The difference between the said value and the amount agreed is recorded according to the underlying economic substance.

AB - BIOTICS S.A

Notes to the Annual Accounts for the year 2018

(5) Intangible fixed assets

The composition and the movements recorded in the accounts included in “Intangible fixed assets” have been the following:

31/12/18	Euros				
	Development	Patents, licenses, brands and analogous items	Software applications	Advances	Total
Cost on 1 st January 2018	10.213.222	1.005.184	52.079	-	11.270.485
Acquisitions	701.261	528.223	1.700	12.000	1.243.184
Internally-generated acquisitions	-	-	-	-	-
Write-offs	-	-	(1.250)	-	(1.250)
Transfers	-	-	10.020	-	10.020
Cost on 31 th December 2018	10.914.483	1.533.407	62.549	12.000	12.522.439
Depreciation accumulated on 1 st January 2018	(4.071.219)	(494.682)	(34.127)	-	(4.600.028)
Depreciations	(945.038)	(159.713)	(7.683)	-	(1.112.434)
Write-offs	-	-	420	-	420
Depreciation accumulated on 31 th December 2018	(5.016.257)	(654.395)	(41.390)	-	(5.712.042)
Accumulated impairment of value on 1 st January 2018	(180.000)	(200.000)	-	-	(380.000)
Accumulated impairment of value on 31 th December 2018	(180.000)	(200.000)	-	-	(380.000)
Net book value on 31 th December 2018	5.718.226	679.012	21.159	12.000	6.430.397

31/12/17	Euros				
	Development	Patents, licenses, brands and analogous items	Software applications	Advances	Total
Cost on 1 st January 2017	10.300.929	1.018.746	42.057	-	11.361.732
Acquisitions	-	145.850	10.022	-	155.872
Internally-generated acquisitions	511.879	-	-	-	511.879
Write-offs	(599.586)	(159.412)	-	-	(758.998)
Cost on 31 th December 2017	10.213.222	1.005.184	52.079	-	11.270.485
Depreciation accumulated on 1 st January 2017	(3.656.255)	(272.384)	(29.829)	-	(3.958.468)
Depreciations	(751.939)	(303.166)	(4.298)	-	(1.059.403)
Write-offs	336.975	80.868	-	-	417.843
Depreciation accumulated on 31 th December 2017	(4.071.219)	(494.682)	(34.127)	-	(4.600.028)
Accumulated impairment of value on 1 st January 2017	(180.000)	-	-	-	(180.000)
Impairment losses	-	(200.000)	-	-	(200.000)
Accumulated impairment of value on 31 th December 2017	(180.000)	(200.000)	-	-	(380.000)
Net book value on 31 th December 2017	5.962.003	310.502	17.952	-	6.290.457

(Continued)

AB - BIOTICS S.A

Notes to the Annual Accounts for the year 2018

(a) General

During the year ended on 31st December 2018, the Company has carried out an important activity in terms of clinical studies with many of its probiotic products. Three studies have been completed with the probiotic Dentisani, and these studies have been the first ones performed with this new bacterium with specific anti-caries capacity. Furthermore, the study for the probiotic AB-GLUTEN has been finished, and the result of a study with the probiotic AB-DENTALC has been published in a poster of the Spanish Society of Probiotics and Prebiotics (known in Spanish as *SEPyP*). Furthermore, the Company has started several clinical studies, including the study for the probiotic AB-CYSCARE and the studies with the combination of the probiotic i3.1 with several specific fibres for the recovery of the intestinal microbiota in patients having ulcerative colitis and in HIV-positive patients. These two aforementioned studies are within the CHALLENGES collaboration programme (*programa RETOS de Colaboración*).

Furthermore, in the year ended on 31st December 2018, the Company has acquired the remaining 50 % of the patent rights for the product AB-Kolicare.

On 31st December 2017 the Company recognised an amount of Euros 200,000 as impairment of a license due to the fact that its progress did not meet the requirements of the commercial success guarantee established by the policies followed by the Company. During 2017, the results of the clinical study of AB Gen with Neurofarmagen performed in Korea were obtained. Furthermore, a second study to be performed in Italy and a clinical study to be performed in Madrid were started. The studies for this drug are made in different geographical locations in order to determine the applicability of psychiatric pharmacogenetics in other ethnic groups different from the Caucasian one, as well as in patient with a profile different from that of depressants. The development of the probiotic Dentisani was carried out, and it was concluded with a culturing study that it is effective when used as a preventive method for caries. As it is a practically new bacterium, some toxicity tests were performed and the paperwork needed for the carrying out of a new clinical study was started. There are some ongoing studies for developing advanced therapies with combinations of specific fibres ("fibres 2.0") in order to increase their effectiveness in the treatment of the inflammatory intestinal disease.

On 7th November 2017 the Company sold the product "AB-Fortis" to the group Frutaron. Thanks to this transaction, the Company recognised a benefit in the profit and loss account of the financial year ended on 31st December 2017, in the epigraph "Results due to disposals and other", amounting to Euros 416 thousand.

(Continued)

AB - BIOTICS S.A

Notes to the Annual Accounts for the year 2018

(b) Research and development

The capitalised amounts of research and development correspond to the following projects:

Description	Euros			
	31/12/2018			
	Cost	Depreciation accumulated	Valuation adjustments	Net
Internally-developed projects related to the genotyping family	2.441.754	(1.745.755)	(180.000)	515.999
Internally-developed projects related to the functional ingredients	5.853.926	(1.826.734)	-	4.027.192
Projects undertaken jointly with other companies	2.618.803	(1.443.768)	-	1.175.035
	10.914.483	(5.016.257)	(180.000)	5.718.226
31/12/2017				
Internally-developed projects related to the genotyping family	2.170.922	(1.507.125)	(180.000)	483.797
Internally-developed projects related to the functional ingredients	5.423.497	(1.325.015)	-	4.098.482
Projects undertaken jointly with other companies	2.618.803	(1.239.079)	-	1.379.724
	10.213.222	(4.071.219)	(180.000)	5.962.003

(c) Fully-depreciated goods

The cost of the intangible fixed assets which are fully depreciated and are still being used on 31th December 2018 and on 31st December 2017 is the following:

	Euros	
	31/12/2018	31/12/2017
Development	787.221	
Patents	8.145	6.469
Software applications	27.700	27.700
	823.066	34.169

(6) Tangible fixed assets

The composition and movements recorded in the accounts included in "Tangible fixed assets" have been the following:

(Continued)

AB - BIOTICS S.A

Notes to the Annual Accounts for the year 2018

	Euros			
	Technical facilities and machinery	Fixed assets in progress and advances	Other fixed assets	Total
31/12/18				
Cost on 1 st January 2018	716.530	10.020	68.668	795.218
Acquisitions	7.472	-	-	7.472
Transfers	-	(10.020)	-	(10.020)
Costs on 31 th December 2018	724.002	-	68.668	792.670
Depreciation accumulated on 1 st January 2018	(473.243)	-	(37.721)	(510.964)
Depreciations	(58.333)	-	(19.711)	(78.044)
Depreciation accumulated on 31 th December 2018	(531.576)	-	(57.432)	(589.008)
Net book value on 31 th December 2018	192.426	-	11.236	203.662

	Euros			
	Technical facilities and machinery	Fixed assets in progress and advances	Other fixed assets	Total
31/12/17				
Cost on 1 st January 2017	705.462	-	68.668	774.130
Acquisitions	11.478	10.020	-	21.498
Write-offs	(410)	-	-	(410)
Costs on 31 st December 2017	716.530	10.020	68.668	795.218
Depreciation accumulated on 1 st January 2017	(406.569)	-	(26.735)	(433.304)
Depreciations	(66.888)	-	(10.986)	(78)
Write-offs	214	-	-	214
Depreciation accumulated on 31 st December 2017	(473.243)	-	(37.721)	(510.964)
Net book value on 31 st December 2017	243.287	10.020	30.947	284.254

(Continued)

AB - BIOTICS S.A

Notes to the Annual Accounts for the year 2018

(a) Fully-depreciated goods

The cost of the elements of the tangible fixed assets which are fully depreciated and are still being used on 31th December 2018 and on 31st December 2017 is the following:

	Euros	
	31/12/2018	31/12/2017
Technical facilities and machinery	89.193	89.193

(b) Value impairment

On 31th December 2018 and on 31st December 2017 there are no value impairments over the tangible fixed assets, in accordance with the criteria established in note 4 (c).

(7) Financial leases – Lessee

On 31th December 2018 and on 31st December 2017 there are no assets contracted under the financial leasing regime.

No contingent payments due to financial leases have been recognised as expense. Furthermore, the Company estimates that it shall not receive any amounts due to non-cancellable financial subleases at the closing date of the financial year.

(8) Operational leases – Lessee

The Company leases from third parties certain transport elements and the buildings where it exercises its activities, under an operational leasing regime.

The amount of the payments of operational leases recognised as expenses is the following:

	Euros	
	31/12/2018	31/12/2017
Minimum lease payments	34.832	47.613

The minimum future payments due to non-cancellable operational leases are the following:

	Euros	
	31/12/2018	31/12/2017
Up to one year	23.950	22.028
Between one and five years	-	22.775
	23.950	44.803

(Continued)

AB - BIOTICS S.A**Notes to the Annual Accounts for the year 2018****(9) Policy and Risk Management****(a) Financial risk factors**

The Company's activities are exposed to several financial risks: the market risk (including the foreign exchange risk, the interest risk in the fair value, and the price risk), the credit risk, the liquidity risk and the interest rate risk in the cash flows. The Company's global risk management programme is focused on the uncertainty of financial markets, and tries to minimize the potential adverse effects on the Company's financial profitability.

The risk management is controlled by the Company's Financial Department in accordance with policies approved by the Board of Directors. This Department identifies, assesses and covers financial risks. The Board of Directors provides written policies for global risk management, as well as for particular issues such as the foreign exchange risk, the interest rate risk, the liquidity risk, the use of derivatives and non-derivatives, and the investment of the liquidity surplus.

(i) Credit risk

The Company has concentrations of credit risk. The Company has policies in force for guaranteeing that the wholesales of products are made to customers with an adequate credit history. The sales to retail customers are made by cash or by credit cards.

The valuation adjustment due to customers' insolvency, the review of individual balances on the basis of the customers' credit quality, the current market trends, and the historical analysis of aggregate insolvencies, is subject to a fair amount of discretion. With regard to the valuation adjustment derived from the aggregate analysis of the default history, a reduction in the volume of balances entails a reduction of the valuation adjustments, and vice versa.

(ii) Liquidity risk

The Company carries out a prudent management of the liquidity risk, based on the maintenance of sufficient cash and negotiable securities, the availability of financing by means of a sufficient amount of committed credit facilities and the capacity to settle market positions. Given the dynamic nature of the core businesses, the Company's Treasury Department has the objective of maintaining flexible financing through the availability of contracted credit lines.

The expected flows of collections and payments according to the treasury forecasts, and together with the existing liquidity level, are estimated to hedge any future needs in the short and medium term.

The Company presents a positive working balance, on the closing date of the annual accounts on 31st December 2018, of Euros 3,346 thousand (Euros 1,129 thousand on the closing date of the financial year ended on 31st December 2017). The equity situation on the presentation date of these annual accounts is favourable.

(iii) Interest rate risk in the cash flows and in the fair value

The Company's interest rate risk arises from the long-term external resources. The external resources issued at variable rates make the Company be exposed to the interest rate risk in the cash flows. The fixed-interest loans expose the Company to interest rate risks in the fair value. The Company's average interest among all the loans with credit institutions on the closing date of the financial year is a 5.38 % variable interest.

(Continued)

AB - BIOTICS S.A

Notes to the Annual Accounts for the year 2018

(10) Investments in equity instruments of group companies and associated companies

The detail about the investments in equity instruments of group companies and associated companies is the following:

	Euros	
	31/12/18	31/12/17
	Non-current	Non-current
Group companies		
Holdings	6.000	6.000
Valuation adjustments due to impairment	(6.000)	(6.000)
	-	-
Associated companies		
Holdings	106.108	106.108
Valuation adjustments due to impairment	(106.108)	(106.108)
	-	-

On 30th December 2014 the Company incorporated the company “Food Genomics, S.L.U.”, domiciled in Cerdanyola del Vallès. This company’s object is to carry out research and development activities in the field of biotechnology and genetics. This company’s share capital is Euros 3,000. All the holdings were subscribed by AB-BIOTICS, S.A. Additionally, AB-BIOTICS, S.A. started in 2014 the process of incorporation of a second subsidiary, AB-BIOTICS Research Services, S.L.U., which has a capital of Euros 3,000, the holdings of which were fully subscribed by AB-BIOTICS, S.A. This second subsidiary’s object, incorporated on 1st April 2015, is to manage specific RDI projects in the field of biotechnology. Both companies have carried out no activities since their incorporation and they are inactive. In this sense, by 31th December 2018, the Company communicated the cessation of business of these two companies, with the total cost of both holdings having been impaired during the financial year 2017.

Furthermore, the Company owns a 35.64 % interest in Nanomolecular Imaging Technologies Agrupación de Interés Económico with a value of Euros 106,108, which is fully impaired by 31th December 2018 and by 31st December 2017 because it is inactive.

(a) Holdings in associated companies

The information relating to holdings in associated companies is presented in Appendix I.

(Continued)

AB - BIOTICS S.A

Notes to the Annual Accounts for the year 2018

(11) Financial Assets classified by Categories**(a)** Classification of financial assets by categories

The classification of financial assets by categories and classes, as well as the comparison of fair value and book value is shown in Appendix II.

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

(12) Financial Investments and Trade Debtors**(a)** Financial investments in group companies and associated companies

On 31th December 2018 and on 31st December 2017 the Company recognised impairment with a value of Euros 20 thousand related to the existing balances receivable –at the end of the financial year– maintained with group companies which were inactive.

(b) Financial investments

The detail about the financial investments is the following:

	Euros			
	31/12/18		31/12/17	
	Non-current	Current	Non-current	Current
Associated				
Loans	4.066	33.091	18.628	41.919
Non-associated				
Equity instruments	70.000	979.632	70.000	-
Debt securities	143.065	-	143.065	-
Deposits and sureties	433.381	2.000	433.381	2.000
Others	18.000	-	18.000	-
Total	668.512	1.014.723	683.074	43.919

During the year 2018 the Company has invested in a fund from a bank institution with a value of Euros 300 thousand. Furthermore, the Company has contracted a bond fund and a variable yield fund with a value of Euros 475 thousand and Euros 205 thousand, respectively. All these investments have been recorded in the epigraph “Equity instruments” of the current assets on 31th December 2018.

The Company has recorded, on 31th December 2018, in the current assets, an amount of Euros 11 thousand (Euros 20 thousand on 31st December 2017), as well as an amount of Euros 4 thousand (Euros 19 thousand on 31st December 2017) in the non-current assets at the amount receivable related to loans granted –during the financial year 2012– to its employees for the financing of the acquisition of the Company’s shares.

The amount recorded in the epigraph “debt securities” of non-current assets was given as a guarantee for the obtaining of an aid from the Spanish Ministry of Industry, Energy and Tourism in the financial year 2015.

During the year 2017, and as a guarantee for the loans related to the research and development projects made, the Company made a Euros 211 thousand deposit in a bank institution.

(Continued)

AB - BIOTICS S.A

Notes to the Annual Accounts for the year 2018

(c) Trade debtors and other accounts receivable

The detail about the trade debtors and other accounts receivable is the following:

	Euros	
	31/12/2018	31/12/2017
	Current	Current
<i>Associated</i>		
Customers	20.217	-
<i>Related</i>		
Customers	23.915	-
<i>Non-associated</i>		
Customers	5.706.239	4.175.042
Personnel	27.490	95.184
Public administrations due to corporation tax (note 21)	23.736	19.407
Other loans with the Public Administrations	152.195	80.039
Valuation adjustments due to impairment	(2.230.256)	(2.220.347)
Total	3.723.536	2.149.325

(Continued)

AB - BIOTICS S.A

Notes to the Annual Accounts for the year 2018

(d) Value impairment

The following is the analysis of the movements in the allowance accounts representing the impairment losses resulting from the credit risk of financial assets measured at their amortized cost:

	Euros		
	31/12/2018		
	Loans	Customers	Total
<i>Non-current</i>			
Balance on 1 st January 2018	(349.075)	-	(349.075)
Balance on 31 th June 2018	(349.075)	-	(349.075)
<i>Current</i>			
Balance on 1 st January 2018	(20.254)	(2.220.347)	(2.240.601)
Impairment	-	(129.745)	(129.745)
Eliminations against the balance item	14.739	88.986	103.725
Reversals	-	30.850	30.850
Balance on 31 th December 2018	(5.515)	(2.230.256)	(2.235.771)

	Euros		
	31/12/2017		
	Loans	Customers	Total
<i>Non-current</i>			
Balance on 1 st January 2017	(349.075)	-	(349.075)
Balance on 31 st December 2017	(349.075)	-	(349.075)
<i>Current</i>			
Balance on 1 st January 2017	-	(1.953.581)	(1.953.581)
Impairment	(20.254)	(266.766)	(287.020)
Balance on 31 st December 2017	(20.254)	(2.220.347)	(2.240.601)

During the year 2017, the Company recognised an impairment due to accounts receivable with a value of euros 267 thousand, mainly related to the sales of the year made to a sole customer outside Spain. Nevertheless, the Company's Management is taking all steps considered to be appropriate for its recoverability.

On 2nd March 2012 the Company granted a Euros 349,000 loan to the company Sociedad Nanomolecular Imaging Technologies Agrupación de Interés Económico for the purpose of developing a technological project. On 31th December 2018 and on 31st December 2017 the said loan is fully impaired.

(Continued)

AB - BIOTICS S.A

Notes to the Annual Accounts for the year 2018

(e) Amounts denominated in a foreign currency

The detail about the monetary financial assets denominated in a foreign currency is the following:

2018	Euros	
	US Dollar	Total
Trade debtors and other accounts receivable		
Customer receivables for sales and short-term services	166.889	166.889
Total current financial assets	166.889	166.889
Total financial assets	166.889	166.889

2017	Euros	
	US Dollar	Total
Trade debtors and other accounts receivable		
Customer receivables for sales and short-term services	126.127	126.127
Total current financial assets	126.127	126.127
Total financial assets	126.127	126.127

(13) Inventories

(a) General

The detail about the epigraph of inventories is the following:

	Euros	
	31/12/18	31/12/17
Production and distribution business		
Trade	155.840	4.090
Raw materials and other supplies	407.158	271.414
Advances	45.877	-
	608.875	275.504

There have been no valuation adjustments due to impairment during the year ended on 31th December 2018 and 2017.

There are no firm commitments of sales and purchases, or futures contracts or options contracts.

(Continued)

AB - BIOTICS S.A**Notes to the Annual Accounts for the year 2018**

There are no circumstances affecting the ownership or availability of the stocks.

(14) Cash and Other Equivalent Liquid Assets

The detail about the epigraph “cash and other equivalent liquid assets” is the following:

	Euros	
	31/12/18	31/12/17
Cash and banks	1.769.239	2.430.472

(15) Own funds

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

(a) Capital

On 31st December 2018 and on 31st December 2017 AB-BIOTICS, S.A.’s share capital was represented by 12,588,259 shares, with a nominal value of 0.05 euros each, fully paid-up, admitted to trading in the Alternative Stock Market.

On 18th December 2012 a capital increase with a value of Euros 4,309,881.40 was made with the issue of 2,004,596 shares with a nominal value of 0.05 euros each, and a EUR 2.10 premium.

On 25th September 2013 a capital increase with a value of Euros 1,123,738 was made with the issue of 522,699 shares with a nominal value of 0.05 euros each, and a EUR 2.10 premium.

On 27th September 2016 the share capital was increased by a total of 2,992,087 shares with a nominal value of EUR 0.05 each, and with a share premium of EUR 1.55 each. The total amount, fully subscribed and paid-up, amounted to Euros 4,787,339.20.

The balance of the own-shares accounts on 31st December 2018 is made up of 131,983 shares, which represents a 1.048 % percentage of all the Company’s shares. On 31st December 2017, there was a total of 595,852 shares which represented a 4.7 % percentage of all the Company’s shares. In accordance with the legal requirement, an unavailable reserve with the same amount has been created.

On 28th March 2018 there was a sale of a total of 3,089,633 shares from several relevant shareholders and administrators of the Company, as well as by means of its treasury stock, to Kaneka Europe Holding Company NV. As a result of this operation, Kaneka Europe Holding Company NV started to have a considerable 26.86 % interest in the Company. On the presentation date of these annual accounts, the said company’s interest is 37.77 %. The number of shares acquired from the treasury stock amounts to a total of 500,000 shares. Within the framework of this agreement of sale and purchase of shares, Kaneka undertakes to make a Euros 490,000 investment in the development of the Company’s products.

(Continued)

AB - BIOTICS S.A

Notes to the Annual Accounts for the year 2018

The shareholders with a significant ownership regarding the entity's capital, whether direct or indirect ownership, are detailed below, as well as the Administrators having more than 1 % of the share capital

	31/12/18	31/12/17
	Ownership percentage	Ownership percentage
Kaneka Europe Holding Company HV	37,77%	- %
D. Miquel Àngel Bonachera Sierra	9,91%	10,11%
D. Sergi Audivert Brugué	9,91%	10,11%
D. Luis Sánchez Lafuente (*)	10,15%	7,63%
Seed Capital fund, S.L.	- %	5,26%
Capital MAB, FCR de Régimen Simplificado	- %	3,29%
INFEMA, S.A.	- %	1,50%
Gestión y Administración Mobiliaria, S.A.	- %	5,16%
Corporación Ivamonsa, S.A.	- %	5,16%
	67,74%	48,22%

(*) He indirectly owns an additional 1,28 % (0,92 % on December 2017) percentage through the –company Biolittletec, S.L. and Laboratorios Neusc, S.A.

(b) Share premium

This reserve is not an unrestricted reserve.

(c) Reserves

(i) Legal reserve

The legal reserve has been created in accordance with Article 274 of the Recast Text of the Capital Corporations Law (*Texto Refundido de la Ley de Sociedades de Capital*), which establishes that, in all cases, an amount equivalent to 10 per cent of the profit of the financial year shall be assigned to this reserve, until it reaches, at least, 20 per cent of the share capital.

This reserve cannot be distributed and, if used to compensate losses in case that there are no other sufficient available reserves for this purpose, it shall be replenished with future profit.

(ii) Depreciated capital reserve

The depreciated capital reserve has been created in accordance with Article 335 of the Recast Text of the Capital Corporations Law (*Texto Refundido de la Ley de Sociedades de Capital*) (332 for Limited Liability Companies), which establishes that, when the reduction is made with charge to profits, or to free reserves, or by means of the depreciation of the shares acquired by the Company free of charge, the amount of the nominal value of the shares depreciated, or the amount of the decrease in the nominal value of the shares, shall be assigned to a reserve, which shall only be used in accordance with the same requirements as those established for reductions in share capital.

(Continued)

AB - BIOTICS S.A

Notes to the Annual Accounts for the year 2018

(16) Subsidies, Donations and Legacies Received

The movement of non-returnable subsidies, donations and legacies received is the following:

	Euros	
	31/12/2018	31/12/2017
Balance on 1 st January	496.455	382.120
Subsidies granted during the financial year	32.803	255.904
Tax effect of the subsidies granted during the financial year	(8.201)	(63.975)
Other movements	(35.040)	
Transfers to the profit and loss account	(136.275)	(103.458)
Tax effect	34.069	25.864
Balance on 31 th December 2018 and on 31 st December 2017	383.811	496.455

The amount of the subsidies recorded in the balance sheet fully corresponds to the implicit interest subsidised by the granting of zero-interest loans for the financing of research and development projects.

The following is the detail about the amounts recognised in the profit and loss account according to subsidy type:

	Euros	
	31/12/18	31/12//2017
Capital subsidies	136.275	103.458
Operating subsidies	73.127	71.402
	209.402	174.860

(17) Financial Liabilities classified by Categories**(a) Classification of financial liabilities by categories**

The classification of financial liabilities by categories and types is shown in the Appendix III.

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

(Continued)

AB - BIOTICS S.A

Notes to the Annual Accounts for the year 2018

(18) Financial Debts and Trade Creditors**(a) Debts**

The detail about debts is the following:

	Euros			
	31/12/18		31/12/17	
	Non-current	Current	Non-current	Current
<i>Associated</i>				
Others	-	9.847	-	9.847
<i>Non-associated</i>				
Debts with credit institutions	47.234	287.418	310.980	283.923
Debts	3.103.334	647.947	3.170.253	659.237
Sureties and deposits received	-	100.000	-	100.000
Total	3.150.568	1.045.212	3.481.233	1.053.007

The amounts recorded in the epigraph “Debts with credit institutions” correspond to loans granted by various financial entities, which accrue a market interest rate.

The Company has been granted several loans in connection to R&D projects, awarded by several Public Bodies. These loans are recognised in the epigraph “Other financial liabilities” on 31th December 2018 and on 31st December 2017, the values of which are Euros 3,714 thousand and Euros 3,830 thousand, respectively.

(b) Trade Creditors and Other Accounts Payable

The detail about trade creditors and other accounts payable is the following:

	Euros	
	31/12/2018	31/12/2017
	Current	Current
<i>Non-associated</i>		
Suppliers	1.033.584	685.311
Creditors	1.307.356	1.155.392
Personnel	43.079	60.546
Other debts with Public Administrations	154.901	141.478
Advances made by customers	44.089	104.700
Total	2.583.009	2.147.427

(Continued)

AB - BIOTICS S.A

Notes to the Annual Accounts for the year 2018

(c) Classification by maturity

The classification by maturity of financial assets is shown in the Appendix IV.

(19) **Information on the average period of payment to suppliers. Third additional provision. “Duty of information” of the Spanish Law 15/2010, of 5th July**

The information on the average period of payment to suppliers is presented below:

	31/12/18	31/12/17
	Days	
Average period of payment to suppliers	79	72
Ratio of operations paid	56	55
Ratio of outstanding operations	190	145
	Amount in euros	
Total payments made	9.769.348	5.560.763
Total outstanding payments	2.063.303	1.300.832

(20) **Accruals**

The detail about the epigraph “accruals” is the following:

	Euros		
	31/12/2018	31/12/2018	31/12/2017
	Non-current	Current	Current
Anticipated income	1.155.003	224.553	582.816

During March 2018, the Company has signed an exclusive license agreement with regard to particular products for a period of 7 years in the territories of Japan and North America with the company Kaneka Americas Holding, Inc., and on 31st October 2017 an amount of Euros 350,000 as advance to the said agreement has been received. Furthermore, the Company, during April 2018, has received an additional amount of Euros 900 thousand in connection with the aforementioned contract. The amounts receipt for a total Euros 1,250 thousand will be accrued over the term of the agreement. In this contract, a remuneration in favour of the Company has been established according to the royalties calculated on the basis of the sales made in respect of the licensed products.

(Continued)

AB - BIOTICS S.A

Notes to the Annual Accounts for the year 2018

(21) Tax situation

The detail about the balances with Public Administrations is the following:

	Euros			
	31/12/2018		31/12/2017	
	Non-current	Current	Non-current	Current
Assets				
Deferred tax assets	652.454	-	-	-
Current tax assets	-	23.736	-	19.407
Value added tax and analogous [taxes]	-	152.195	-	80.039
	652.454	175.931	-	99.446
Liabilities				
Deferred tax liabilities	127.938	-	165.486	-
Social Security	-	40.254	-	19.108
Withholding taxes	-	114.647	-	122.370
	127.938	154.901	165.486	141.478

On 25th January 2018, the Company has received a communication requirement from the Spanish Tax Authority, in relation to the period of December 2015 with regard to the value added tax. On 10th April 2018, the Company has received a Resolution agreement in relation to the VAT checking process of the period of December 2015. The resolution is favourable for the Company, so the Tax Authority has returned an amount of Euros 40 thousand and the corresponding interests amounting to Euros 2 thousand. Furthermore, during the financial year 2017, a VAT checking process in relation to the period of November 2015 finished, and it ended in a favourable way for the Company because the Public Administration returned the VAT amount which had motivated the inspection actions (that is to say, it returned Euros 356 thousand to the Company), as well as the corresponding financial interests (that is to say, an amount of Euros 11 thousand).

Additionally, the Company's last four financial years are open for inspection with regard to all the corresponding applicable taxes. In the opinion of the Company's Administrators, and in the opinion of its fiscal advisors, there are no fiscal contingencies of considerable amounts which may arise, in case of inspection, from different possible interpretations of the fiscal rules applicable to the transactions made by the Company.

Nevertheless, the Tax Authority's right to check or investigate the negative tax bases compensated or to be compensated, the deductions due to double taxation, and the deductions for incentivizing the carrying out of certain activities applied or to be applied, prescribes after 10 years counted from the day subsequent to that in which the term –the period set for submitting the relevant statement or self-assessment corresponding to the tax period in which the right to its compensation or application arose– finishes. Once the said term has passed, the Company must prove the negative tax bases or deductions by showing the assessment or self-assessment and the accounting records, and with accreditation of its deposit during the aforementioned term in the Register of Companies.

(Continued)

AB - BIOTICS S.A

Notes to the Annual Accounts for the year 2018

(a) Income tax

The conciliation between the net amount of income and expenses of the financial year and the tax base is detailed in Appendix V.

The detail about the expense/(income) due to income tax in the profit and loss account is detailed in Appendix VI

During the year 2017, the Company monetized several deductions amounting to Euros 117 thousand.

The following is the detail about the deferred tax assets and liabilities classified by types of assets and liabilities:

	Euros		
	Assets	Liabilities	
	31/12/2018	31/12/2018	31/12/2017
Available-for-sale financial assets	11.522	-	-
Capital subsidies	-	(127.938)	(165.486)
Credits for tax Loss Carryforwards	640.932	-	-
Total assets/liabilities	652.454	(127.938)	(165.486)

The majority of the deferred tax liabilities have a realisation period of more than 12 months.

The following are all the amounts and reversal periods accredited by the Company with regard to tax deductions to be applied:

Year	Euros		Final year
	31/12/2018	31/12/2017	
2006	18.243	18.243	2022
2007	108.898	108.898	2023
2008	47.263	47.263	2024
2009	108.482	108.482	2025
2010	400.908	400.908	2026
2011	421.436	421.436	2027
2012	215.410	215.410	2028
2015	272.586	272.586	2033
2016	303.906	303.906	2034
2017	203.675	203.675	2035
	2.100.807	2.100.807	

(Continued)

AB - BIOTICS S.A**Notes to the Annual Accounts for the year 2018**

The Company has the following tax loss carry forwards to be compensated:

Year	Euros	
	31/12/2018	31/12/2017
2008	-	26.835
2011	376.400	967.086
2012	3.587.857	3.587.857
2013	2.477.791	2.477.791
2014	2.188.796	2.188.796
2015	1.136.459	1.136.459
2016	2.895.638	2.895.638
2017	661.568	-
	13.324.509	13.280.462

The Company, according the assumptions and business plan for the next years, has considered probable to recognize as a deferred tax asset for an amount of Euros 640 thousand related to the tax losses carry forwards o be offset.

(22)

Environmental Information

Given the Company's activity, it has no environmental responsibilities, expenses, assets or provisions and contingencies which may be significant with regard to its equity, financial situation and results. For this reason, no specific breakdowns are included in this report with regard to information on environmental issues.

Currently there are no environmental contingencies which may be incurred by the Company, and if there were any, they would be covered by a liability insurance, which covers this type of contingencies (among others).

(Continued)

AB - BIOTICS S.A

Notes to the Annual Accounts for the year 2018

(23) Balances and Transactions with Related Parties**(a) Balances with related parties**

The following is the detail about debit and credit balances with group companies, related companies and multi-group companies, and with associated parties, including the key management personnel, the Directors and the main characteristics thereof:

31/12/2018	Euros		
	Directors	Other related parties	Total
Trade debtors and other accounts receivable			
Customer receivables for sales and short-term services	-	44.132	44.132
Advances made to personnel	5.772	-	5.772
Short-term investments in group companies and related companies	-	-	-
Loans to companies	-	22.270	22.270
Total current assets	5.772	66.402	72.174
Total assets	5.772	66.402	72.174
Short-term debts			
Other financial liabilities		(9.847)	(9.847)
Trade creditors and other accounts payable			
Personnel	(24.213)		(24.213)
Different creditors	-	-	-
Total current liabilities	(24.213)	(9.847)	(34.060)
Total liabilities	(24.213)	(9.847)	(34.060)

(Continued)

AB - BIOTICS S.A

Notes to the Annual Accounts for the year 2018

31/12/2017	Euros		
	Directors	Other related parties	Total
Trade debtors and other accounts receivable			
Customer receivables for sales and short-term services	-	-	-
Advances made to personnel	60.000	-	60.000
Short-term investments in group companies and associated companies	-	-	-
Loans to companies	-	22.270	22.270
Total current assets	60.000	22.270	82.270
Total assets	60.000	22.270	82.270
Short-term debts			
Other financial liabilities	-	(9.847)	(9.847)
Trade creditors and other accounts payable			
Different creditors	-	(19.486)	(19.486)
Total current liabilities	-	(29.333)	(29.333)
Total liabilities	-	(29.333)	(29.333)

Furthermore, on 31th December 2018 there is a total balance of Euros 764 thousand in the epigraph “Short-term and long-term accruals” corresponding to the accrual of the advance payment of the license agreement with Kaneka (see note 20). In reference to this accrual of this amount, it is expected to recognize as income a total amount of 178 thousand euros each year for the duration of the contract.

(b) Company's transactions with related parties

The following are the amounts of the Company's transactions with related parties:

31/12/2018	Directors	Other related parties	Total
Income			
Sales		84.685	84.685
Other operating income	-	135.901	135.901
Total income	-	220.586	220.586
Expenses			
Personnel costs	(521.984)	-	(521.984)
Total expenses	(521.984)	-	(521.984)

(Continued)

AB - BIOTICS S.A

Notes to the Annual Accounts for the year 2018

31/12/2017	Directors	Other related parties	Total
Expenses			
Other services received	-	(66.440)	(66.440)
Personnel costs	(350.798)	(141.879)	(492.677)
Total expenses	(417.238)	(208.319)	(559.117)

The amount included in the epigraph "Other operating income" corresponds to the transactions due to operations with the company Kaneka Americas Holding Inc, and Kaneka Europe Holding Company NV.

(c) Information on the Company's Administrators and key management personnel

During the year ended on 31th December 2018, the members of the Board of Directors have received a total of Euros 522 thousand (Euros 351 thousand in the year ended on 31th December 2017). Of these amounts, due to their executive functions, the Directors have received a total of Euros 457 thousand (Euros 278 thousand in the year ended on 31th December 2017)

The Key Management, on 31th December 2018 and on 31th December 2017, is made up of two members who are part of the Board of Directors. During the financial year 2017, there was a change in the Company's General Management, and these tasks were assumed by one of the members of the Board of Directors.

Furthermore, the Company has contracted obligations relating to pensions and life insurances in respect of former or current Administrators of the Company. The amount of the premium paid in respect of Directors' and Officers' liability insurance during the year ended on 31th December 2018 has amounted to Euros 3,540 (Euros 5,308 in the year ended on 31th December 2017).

(d) Situations of conflict of interests regarding the Directors

The Company's Directors and the persons associated thereto have not incurred any situation of conflict of interests which would have to be communicated in accordance with Article 229 of the Recast Text of the Capital Corporations Law (*Texto Refundido de la Ley de Sociedades de Capital*).

(24) **Income and expenses**

(a) Net turnover

The detail about turnover classified by categories of activities and geographical markets is shown in Appendix VII

(Continued)

AB - BIOTICS S.A

Notes to the Annual Accounts for the year 2018

(b) Supplies

The following is the detail about the consumption of merchandise, raw materials and other supplies:

	Euros	
	31/12/18	31/12/17
Consumption of merchandise		
National purchases	1.986.368	2.150.996
Intra-Community purchases	2.348.896	-
Import purchases	268.073	-
Discounts and returns of purchases	-	(189)
Variation of stocks	(151.750)	36.907
	4.451.587	2.187.714
Consumption of raw materials and others		
National purchases	203.127	1.370.460
Intra-Community purchases	2.372.128	-
Import purchases	63.271	-
Variation of stocks	(135.744)	21.019
	2.502.782	1.391.479
	6.954.369	3.579.193

(c) Social Security Costs and Provisions

The detail about social security costs and provisions is the following:

	Euros	
	31/12/18	31/12/17
Social security costs		
Social Security payable by the company	272.657	253.849
Other social expenses	12.685	34.881
	285.342	288.730

(Continued)

AB - BIOTICS S.A**Notes to the Annual Accounts for the year 2018****(d) Transactions denominated in a foreign currency**

The following is the detail about the income and expenses denominated in a foreign currency:

		Euros	
		31/12/2018	31/12/2017
Income			
Net sales		343.658	315.719
Provision of services		29.239	21.233
		372.897	336.952
Expenses			
Other services received		(47.622)	(100.653)
		(47.622)	(100.653)

(25) Information about employees

The following is the average number of employees of the Company during the years ended on 31th December 2018 and 2017, broken down according to categories:

		Number	
		31/12/18	31/12/17
Directors		6	9
Directors with executive functions		2	2
Technicians		15	18
Administrative assistants		7	6
		30	35

The following is the gender distribution of the personnel and the Administrators at the end of the year ended on 31th December 2018 and for the year ended on 31st December 2017:

		Number			
		31/12/18		31/12/17	
		Women	Men	Women	Men
Directors		-	6	-	7
Officers		-	2	-	2
Technicians		11	6	8	10
Administrative assistants		6	2	4	2
		17	16	12	21

On 31th December 2018 and on 31st December 2017 there is no personnel engaged who have a disability equivalent to, or higher than, 33 %.

(Continued)

AB - BIOTICS S.A

Notes to the Annual Accounts for the year 2018

(26) Audit fees

The auditing company KPMG Auditores, S.L. has yielded, from the Company's annual accounts, fees corresponding to professional services during the year ended on 31th December 2018 and during the year ended on 31st December 2017, according to the following detail:

	Euros	
	31/12/2018	31/12/2017
Audit Services	20.800	20.500
Accounting verification services	26.216	11.000
	47.016	31.500

The amounts included in the preceding table include all the fees relating to services rendered during the year ended on 31th December 2018 and during the year ended on 31st December 2017, regardless of their invoice dates.

(Continued)

AB - BIOTICS S.A.
Information on Associated Companies
for the year ended on 31st December 2018
(Expressed in Euros)

Name	Domicile	Activity	Auditor	% of interest	Capital	Reserves	Total equity
Nanomolecular Imaging Technologies Agrupación de Interés Económico	Nanomolecular Imaging Technologies Agrupación de Interés Económico	Development of new diagnosis, prognosis and therapeutic products in the field of diseases		NA	35,64%	297.722	(288.038)
							<u>9.684</u>
							<u>9.684</u>

This appendix forms an integral part of the note 10 to the Annual Accounts, in conjunction with which it should be read.

AB - BIOTICS S.A.
Information on Associated Companies
for the year ended on 31st December 2017
(Expressed in Euros)

Name	Domicile	Activity	Auditor	% of interest	Capital	Reserves	Total equity
Nanomolecular Imaging Technologies Agrupación de Interés Económico	CL Baldiri Reixac 6, Barcelona	Development of new diagnosis, prognosis and therapeutic products in the field of diseases		NA	35,64%	297.722	(288.038)
							<u>9.684</u>
							<u>9.684</u>

This appendix forms an integral part of the note 10 to the Annual Accounts, in conjunction with which it should be read.

AB - BIOTICS S.A.

Detail about Financial Assets classified by Categories
For the year ended on 31st December 2018
(Expressed in Euros)

	Euros				
	Non-current		Current		
	Book value	Total	Book value	Fair value	Total
31/12/2018					
<i>Other assets at fair value with changes in the profit and loss account</i>					
Equity instruments	-	-	-	-	-
Unquoted	70.000	70.000	-	-	-
Total	70.000	70.000	-	-	-
<i>Assets held for trading</i>					
Debt securities	-	-	-	-	-
Unquoted	143.065	143.065	-	-	-
Total	143.065	143.065	-	-	-
<i>Loans and accounts receivable</i>					
Loans					
Fixed rate	4.066	4.066	33.091	-	33.091
Deposits and sureties	433.381	433.381	2.000	-	2.000
Other financial assets	18.000	18.000	-	-	-
Customer receivables for sales and services	-	-	3.520.115	-	3.520.115
Other accounts receivables	-	-	16.669	-	16.669
Total	455.447	455.447	3.571.875	-	3.571.875
<i>Available-for-sale assets</i>					
Equity instruments					
Quoted	-	-	-	979.632	979.632
Total	-	-	-	979.632	979.632
Total financial assets	668.512	668.512	3.571.875	979.632	4.551.507

This appendix forms an integral part of the note 11 to the Annual Accounts, in conjunction with which it should be read.

AB - BIOTICS S.A.

Detail about Financial Assets classified by Categories
For the year ended on 31st December 2017
(Expressed in Euros)

	Euros				
	Non-current		Current		
	Book value	Total	Book value	Fair value	Total
31/12/2017					
<i>Other assets at fair value with changes in the profit and loss account</i>					
Equity instruments			-	-	-
Unquoted	70.000	70.000	-	-	-
Total	70.000	70.000	-	-	-
<i>Held-to-maturity investments</i>					
Debt securities	-	-	-	-	-
Unquoted	143.065	143.065	-	-	-
<i>Loans and accounts receivable</i>					
Loans					
Fixed rate	18.628	18.628	41.919	-	41.919
Deposits and sureties	433.381	433.381	2.000	-	2.000
Other financial assets	18.000	18.000	-	-	-
Customer receivables for sales and services	-	-	1.954.695	-	1.954.695
Other accounts receivables	-	-	75.535	-	75.535
Total	613.074	613.074	2.074.149	-	2.074.149
<i>Available-for-sale assets</i>					
Total	-	-	-	-	-
Total financial assets	683.074	683.074	2.074.149	-	2.074.149

This appendix forms an integral part of the note 11 to the Annual Accounts, in conjunction with which it should be read.

AB - BIOTICS S.A.

Detail about Financial Liabilities classified by Categories
For the year ended on 31st December 2018
(Expressed in Euros)

31/12/2018	Euros			
	Non-current		Current	
	At amortized cost or cost		At amortized cost or cost	
	Book value	Total	Book value	Total
<i>Debits and accounts payable</i>				
Debts with credit institutions				
Variable rate	47.234	47.234	287.418	287.418
Other financial liabilities	3.103.334	3.103.334	757.794	757.794
Trade creditors and other accounts payable				
Suppliers	-	-	1.033.584	1.033.584
Other accounts payable	-	-	1.350.405	1.350.405
Total financial liabilities	3.150.568	3.150.568	3.429.201	3.429.201

This appendix forms an integral part of the note 17 to the Annual Accounts, in conjunction with which it should be read.

AB - BIOTICS S.A.

**Detail about Financial Liabilities classified by Categories
for the year ended on 31st December 2017
(Expressed in Euros)**

	Euros			
	Non-current		Current	
	At amortized cost or cost		At amortized cost or cost	
	Book value	Total	Book value	Total
31/12/17				
<i>Debits and accounts payable</i>				
Debts with credit institutions				
Variable rate	310.980	310.980	283.923	283.923
Other financial liabilities	3.170.253	3.170.253	769.084	769.084
Trade creditors and other accounts payable				
Suppliers	-	-	685.311	685.311
Other accounts payable	-	-	1.215.938	1.215.938
Total financial liabilities	3.481.233	3.481.233	2.954.256	2.954.256

This appendix forms an integral part of the note 17 to the Annual Accounts, in conjunction with which it should be read.

AB - BIOTICS S.A.

**Classification of Financial Liabilities by Maturity
for the financial year ended on 31st December 2018
(Expressed in Euros)**

	Euros							
	31/12/2018							
	2019	2020	2021	2022	2023	Subsequent years	Less current part	Total non-current
Debts								
Debts with credits institutions	287.418	37.759	9.475	-	-	-	(287.418)	47.234
Other financial liabilities	757.794	466.201	439.803	424.678	402.970	1.369.682	(757.794)	3.103.333
Trade creditors and other accounts payable								
Suppliers	1.033.584	-	-	-	-	-	(1.033.584)	-
Different creditors	1.307.356	-	-	-	-	-	(1.307.356)	-
Personnel	43.079	-	-	-	-	-	(43.079)	-
Advances made by customers	44.089	-	-	-	-	-	(44.089)	-
Total financial liabilities	3.473.320	503.960	449.279	424.678	402.970	1.369.682	(3.473.320)	3.150.568

This appendix forms an integral part of the note 18 to the Annual Accounts, in conjunction with which it should be read.

AB - BIOTICS S.A.

**Classification of Financial Liabilities by Maturity
for the financial year ended on 31st December 2017
(Expressed in Euros)**

	Euros							
	31/12/17							
	2018	2019	2020	2021	2022	Subsequent years	Less current part	Total non-current
Debts								
Debts with credits institutions	283.923	251.791	47.365	11.824	-	-	(283.923)	310.980
Other financial liabilities	769.084	482.047	424.295	384.605	347.212	1.532.094	(769.084)	3.170.253
Trade creditors and other accounts payable								
Suppliers	685.311	-	-	-	-	-	(685.311)	-
Different creditors	1.155.392	-	-	-	-	-	(1.155.392)	-
Personnel	60.546	-	-	-	-	-	(60.546)	-
Advances made by customers	104.700	-	-	-	-	-	(104.700)	-
Total financial liabilities	3.058.956	733.838	471.660	396.429	347.212	1.532.094	(3.058.956)	3.481.233

This appendix forms an integral part of the note 18 to the Annual Accounts, in conjunction with which it should be read.

AB - BIOTICS S.A.

**Conciliation between the net amount of income and expenses of the financial year and the tax base
for the year ended on 31st December 2018
(Expressed in Euros)**

31/12/2018	Euros			
	Profit and loss account			Total
	Increases	Decreases	Net	
Balance of income and expenses for the financial year	-	-	1.218.232	1.218.232
Corporation Tax	-	-	(640.932)	(640.932)
Profit/(Losses) before taxes	-	-	577.300	577.300
Permanent differences	90.221		90.221	90.221
Temporary differences		50.000	(50.000)	(50.000)
Tax base (Fiscal result)			617.521	617.521

This appendix forms an integral part of the note 21 to the Annual Accounts, in conjunction with which it should be read.

AB - BIOTICS S.A.

**Conciliation between the net amount of income and expenses of the financial year and the tax base
for the year ended on 31st December 2017
(Expressed in Euros)**

31/12/2017	Euros		
	Profit and loss account		
	Increases	Decreases	Net
			Total
Balance of income and expenses for the financial year			(894.781)
Corporation Tax			(29.372)
Profit/(Losses) before taxes			(924.153)
Permanent differences	212.586		212.586
Temporary differences	50.000		50.000
Tax base (Fiscal result)	-	-	(661.568)

This appendix forms an integral part of the note 21 to the Annual Accounts, in conjunction with which it should be read.

AB - BIOTICS S.A.

**Expense/(income) due to income tax in the profit and loss account
for the year ended on 31st December 2018
(Expressed in Euros)**

2018

	Euros	
	Profit and loss account	Total
Balance of income and expenses for the financial year	(577.300)	(577.300)
Corporation Tax	(144.325)	(144.325)
Non-deductible expenses	(10.055)	(10.055)
Tax losses carryforward applied not recognizes previously	154.380	154.380
Tax losses carryforward recognized originated in previous years	(640.932)	(640.932)
Income Tax	(640.932)	(640.932)

This appendix forms an integral part of the note 21 to the Annual Accounts, in conjunction with which it should be read.

AB - BIOTICS S.A.

**Expense/(income) due to income tax in the profit and loss account
for the year ended on 31st December 2017
(Expressed in Euros)**

2017

	Euros	
	Profit and loss account	Total
Balance of income and expenses for the financial year	924.153	924.153
Tax deductions of previous financial years	(116.641)	(116.641)
Decreases in deferred tax assets	87.269	87.269
Income Tax	(29.372)	(29.372)

This appendix forms an integral part of the note 21 to the Annual Accounts, in conjunction with which it should be read.

AB - BIOTICS S.A.

**Detail of the net turnover classified by categories of activities and geographical markets
for the years ended on 31th December 2018 and 2017
(Expressed in Euros)**

	National		Rest of the European Union		Rest of the world		Total	
	2018	2017	2018	2017	2018	2017	2018	2017
Income from sale of goods	1.022.515	1.044.344	4.950.950	2.588.550	4.942.289	2.372.125	10.915.754	6.005.019
Income from provision of services	144.918	177.509	406.332	366.161	425.419	659.005	976.669	1.202.675
	1.167.433	1.221.853	5.357.282	2.954.711	5.367.708	3.031.130	11.892.423	7.207.694

This appendix forms an integral part of the note 24 to the Annual Accounts, in conjunction with which it should be read.

AB - BIOTICS S.A.

Management Report

For the year 2018

1. BUSINESS EVOLUTION

In 2018 AB-BIOTICS is consolidated its business and turned into profitability. The Company earned Euros 1,2 million net profit and achieved Euros 2 million EBITDA - operating result deducting the depreciations – as compared to the Euros 0,4 million for 2017 (460% growth respect 2017). The Company has increased its sales from Euros 7,2 million in 2017 up to Euros 11,9 million in 2018 (65% sales growth).

The management indicators continue having a positive evolution as compared to previous financial years, as indicated by the fact that this is the first year where the Company has reported net profit at the bottom line with Euros 1,2 million respect negative loss experience from 2017 (Euros 895 thousand).

Although the Company sales have increased 65% in 2018 respect 2017, gross margin has grown only 44% due to the effect of Russia, which has a significantly lower margin than other regions and it has also become main market for the Company representing 20% of its sales.

Despite of such significant growth in sales our operating expenses and personnel cost continues practically unchanged with Euros 4 million in 2018 respect Euros 3,7 million in 2018 which validates the business scalability and supports the significant improvement at the bottom line.

AB-BIOTICS' exports have grown by 80%, and the national sales represent only 9,9% as compared to 17,05 % of 2017. Sales embody new big markets as those of Russia and China. Furthermore, in order to promote its business in the US, the Company has signed a license contract with the Japanese multinational company Kaneka Corporation, (4118:JP, KNFK:US) in order to develop the probiotics business in the US, Canada and Japan. Furthermore, the Japanese Company announced the acquisition of 26.86 % of AB-BIOTICS' capital in the stock market; subsequently, its interest increased up to 37,77 %. The income generated by Kaneka during 2018 represented Euros 221 thousand for AB-BIOTICS.

The risk management is controlled by the Company's Financial Department in accordance with policies approved by the Board of Directors. The Company has concentrations of credit risk, and there are policies in force to guarantee that the wholesales of products are made to customers with an appropriate credit history.

The Company's interest rate risk arises from the external resources in the long term. The external resources issued at variable rates expose the Company to interest rate risk of the cash flows. The fixed-interest loans expose the Company to interest rate risks of fair value. The Company's average interest among all the loans with credit institutions at the end of the financial year is a 4.70 % variable interest.

2. SITUATION OF THE COMPANY

The results in 2018 shows a favourable evolution, with an increasing trend resulting from the existing agreements and the additional business which the commercial/industrial partner Kaneka will provide in the new markets (the US, Canada and Japan), in which operations will started right after the summer.

In the Functional Ingredients Area in which all products are based in the technology of Probiotic Microorganisms, the Company has been present in the most relevant commercial and scientific events in the sector worldwide (Vitafoods, Supply Side West and Probiota Americas); the same has occurred in the Genetics area (International meeting on Personalized Medicine in Psychiatry), in which the technological innovations and the new scientific data –those which make the Company's products be among the global leaders in their sector– have been presented.

AB - BIOTICS S.A

Management Report

For the year 2018

The Probiotics area (Functional Ingredients) is being the driver of the Company's income with a remarkable success of new launches and new markets. Currently it represents 92 % of recurring sales, and 87 % of the Company's contribution margin. We have reached a total of 135 product approval (as opposed to the 98 registers approved on 31st December 2017), which guarantees Company sales growth for 2019.

For its part, the precision medicine system (Neurofarmagen) continues being a high potential technology on which the Company focuses its strategy of generating solid scientific documentation. The Company has consolidated 3 new markets: Argentina, South Korea and Sweden. The commercial focus is still to develop operations in the US where product to be launched within 2019. Kaneka does not contribute to the precision medicine business (Neurofarmagen) because the license signed by both companies is only focused on the probiotics business.

3. FORESEEABLE EVOLUTION OF THE COMPANY

The Company clearly maintains the objective of sustainable growth and generates positive cash-flows. Nevertheless, it does not rule out the idea of developing an investment plan with two aims:

- a. Maximize the sales growth: the probiotics market is growing very fast, and although AB-BIOTICS is above the average if compared to other companies in the sector, our Company is also smaller, and its portfolio has a great potential thanks to a diversified range of products with their own clinical documentation. There is still way ahead, and the growth drivers and our capacity to maximize them should be considered.
- b. Increase the products' clinical documentation. Currently the probiotics' clinical documentation represents a main competitive factor. A greater scientific validation will be necessary in order to be more competitive in the long term.

The current data make us foresee a sales growth and a result in line with what has occurred so far; nevertheless, the Company will make the market know about any strategic plans which our Board of Directors may approve.

4. RESEARCH AND DEVELOPMENT ACTIVITIES

The Company's nature, intensive in research and development for the creation of its products, has originated a capitalization of Euros 701 thousand in 2018, which allows the Company to move forward in its process of incorporating new products to the market, and of laying the foundations for new launches.

5. INFORMATION ON PAYMENT TO SUPPLIERS

The average period of payment to suppliers is 79 days. The Company has implemented internal processes to adjust the payment process and to reduce the period of payment of the outstanding operations.

6. SUBSEQUENT EVENTS

There is no subsequent events relevant to be mentioned from 31th December 2018.

7. OWN SHARES

On 31th December 2018, the Company had a treasury stock of 131,983 shares, valued at Euros 309 thousand.

3. Analysis of the 2018 financial statements

In this section, an analysis is carried out, examining the financial situation of AB-BIOTICS in the year 2018 as well as its evolution with respect to the previous year.

The strategic orientation adopted by the Company in previous years, that consisted of implementing a competitive strategy focused on products and markets, as well as the entry of the commercial partner Kaneka Americas Holding in the Japanese and North American market, has had a great positive impact on the accounts of the Company, significantly improving both the growth in sales and its corresponding indicators.

The Net Business Turnover increased by 65% in the 2018 fiscal year, reaching 11.892 thousand euros, and obtained a positive EBITDA of 2.002 thousand euros.

The gross margin reached 44% of total revenues, and the company's operating expenses (personnel costs and operating expenses) continued in line with the previous year despite the significant increase in sales.

Management indicators continue to show a positive evolution compared to previous financial years, as it is demonstrated by the fact that this is the first year in which the company has reported profits.

The result of 2018, showing 1.218 thousand euros, enters positive results that are far above the figures of prior years.

The figures for the year 2018 only confirm the company's consolidation, with a growing trend expected for the coming years due to the existing agreements signed, which are expected to formalize in the coming years, and due to the business that the partner Kaneka will generate in markets such as the US, Canada and Japan.

a) Analysis of the Results Account

As mentioned above, the Company's strategy in recent years, the entry of Kaneka, as well as the consolidation of agreements signed in prior years, have allowed the Company's turnover to increase significantly with respect to the preceding year (65%), reaching 11.8 million euros compared to the 7.2 million Net Turnover of the previous year.

During the first semester of 2018, AB-BIOTICS signed an agreement with the company Kaneka Americas Holding, whereby Holding became a part of the Company, being granted an exclusive marketing license for manufacturing, import, fermentation, use, sale and offering of certain products of the AB-BIOTICS pipeline in Japan and North America. At present, Kaneka has a 37.77% stake in the Company's capital stock.



Profit and loss account (in € x 000)	2017	2018	Annual change in € x 000	Annual change in %
Net Business Turnover	7.208	11.892	4.685	65%
Other operating revenues	84	423	340	405%
Operating subsidies	71	73	2	3%
Work carried out for fixed assets	512	701	189	37%
Total revenues	7.874	13.090	5.216	66%
Supplies	4.014	7.280	3.266	81%
Gross margin	3.860	5.810	1.950	51%
Staff costs	1.674	1.839	165	10%
Other operating expenses	2.078	2.145	67	3%
Allocation of subsidies	103	136	33	32%
Other results	0	39	39	22913%
EBITDA	212	2.002	1.791	-846%
Amortization of fixed assets	1.137	1.190	53	5%
Impairment and result from disposals of fixed assets	216	1	-216	-100%
Operating income	(708)	812	1.521	215%
Financial result	(216)	(235)	-19	9%
Result before taxes	(924)	577	1.502	162%
Profit taxes	29	641	612	2110%
Result of the year	(895)	1.218	2.114	236%

Within the Net Business Turnover, the increase in the sales line is highlighted which rises substantially from the previous year, by 82%, reaching 10.9 million euros that are represented mostly by sales of probiotics such as AB-KOLICARE, I3.1, AB DIGEST, AB-LIFE and AB-INTIMUS.

INCN (in thousand euros)	2017	2018
Sales	6.005	10.916
Provision of services	1.203	977
INCN (in thousand euros)	7.208	11.892

Considering the effect of activations or subsidies, the total revenues reach 13.090 thousand euros (also including miscellaneous income and other current income, part of which correspond to operations carried out with Kaneka).

In terms of business lines, the Company continues to increase the sale of products in the Probiotics area, noting an 80% increase compared to the previous year, which accounts for more than 90% of the total Net Business Turnover in fiscal year 2018. For its part, the area of Precision Medicine Neuropharmagen sees its participation reduced compared to the year 2017, reaching 764 thousand euros.

As the Probiotics area is leading, the revenues of the company illustrate a remarkable success drawing from new launches and new markets. The Company has accomplished a total of 135 approved registrations in the area of Probiotics (in contrast



to the 98 approved registrations on December the 31th, 2017), which will enable the growth of sales for the year 2019.

INCEN (in thousand euros)	2017	2018
Probiotics	6.190	11.128
Sales	5.927	10.893
Provision of services	262	236
Precision Medicine NeuroPharmagen	1.018	764
Sales	78	23
Provision of services	940	741
INCEN (in thousand euros)	7.208	11.892

Of the 11.128 thousand euros generated by the Probiotics area, 27% comes from the sale of the product AB-KOLICARE, followed by I3.1 and AB-DIGEST (both contributing 16% respectively).

During the fiscal year 2018, both in the area of Probiotics and in the area of Genetics, the Company has been present in the most important commercial and scientific events of the sector all over the world.

For its part, the precision medicine system (Neuropharmagen) continues to be a high potential technology in which the Company focuses its strategy on generating solid scientific documentation. The Company has consolidated 3 new markets: Argentina, South Korea and Sweden.

With respect to the fiscal year 2017, exports have grown by 80%, representing 90% of the Net Business Turnover, while domestic sales represented only 9.8%.

INCEN (in thousand euros)	2017	2018
National	1.262	1.167
Rest of the world	5.946	10.725
INCEN (in thousand euros)	7.208	11.892

INCEN (in thousand euros)	2017	2018
ASIA-PACIFIC	1.146	2.534
EUROPE	4.216	6.525
LATIN AMERICA	931	2.079
MIDDLE EAST & NORTH AFRICA	516	77
USA & CANADA	399	678
INCEN (in thousand euros)	7.208	11.892

The growth in Asia-Pacific and Latin America stands out (121% and 123% respectively, compared to the previous year), opening new markets such as Russia and China.



Furthermore, as it has been published in the market, to promote the business in the US, the Company has closed a license agreement with Kaneka Americas Holding in 2018 at a commercial level for the sale and marketing of strategic products of AB-BIOTICS in the North American market and Japan, thus accelerating the penetration in these markets whose results are expected to be relevant for the Company as of 2020.

Functional Ingredients (INCN in thousand euros)	2017	2018
ASIA-PACIFIC	939	2.521
EUROPE	3.706	6.030
LATIN AMERICA	736	1.888
MIDDLE EAST & NORTH AFRICA	409	11
USA & CANADA	399	678
Total Functional Ingredients (INCN in thousand euros)	6.190	11.128
Precision Medicine NeuroPharmagen (INCN in thousand euros)	2017	2018
ASIA-PACIFIC	207	13
EUROPE	510	495
LATIN AMERICA	195	191
MIDDLE EAST & NORTH AFRICA	106	66
USA & CANADA		
Total Precision Medicine NeuroPharmagen (INCN in thousand euros)	1.018	764
Total INCN (in thousand euros)	7.208	11.892

Supplies have increased significantly compared to the previous year (by 81%) in line with the increase in sales, reaching 7.280 thousand euros compared to 4.014 thousand euros in 2017.

The gross margin increased by 51% compared to the preceding year, accounting for 44% of total revenues.

The fiscal year 2018 continues to reflect the cost reduction, initiated in the year 2017, mainly thanks to implemented personnel restructuring and the outsourcing of the laboratory, which means that the R&D process is no longer carried out internally, and thus reducing further costs. Therefore, despite the increase in activity in the 2018 financial year, personnel and operating expenses remain similar to those of the previous year.

With all the above, Ebitda shows a notable improvement, reaching 2.002 thousand euros (212 thousand euros in the previous period).

The impairment losses and gains and losses on disposal of fixed assets, amounting to 216 thousand euros in the year 2017, included, among others, the amounts derived



from the sale of the probiotic AB-FORTIS to Frutaron (published in the market in November of 2017), as well as the deterioration of a license.

The outcome of the excellent development of the Company during this year is manifested in the result of 2018, obtaining profits amounting to 1.218 thousand euros, a figure far removed from the negative result of the preceding year.

b) Analysis of the Balance Sheet

The following is the balance sheet for the year 2018 compared to the previous year:



Balance (thousands of euros)	2017	2018
A) NON-CURRENT ASSET	7.258	7.955
Intangible assets	6.290	6.430
Tangible fixed assets	284	204
Long-term financial investments	683	669
Deferred tax assets	0	652
B) ACTIVE CURRENT	4.912	7.199
Stock	276	609
Trade and other receivables	2.149	3.724
Short-term financial investments	24	1.004
Short-term accruals	33	94
Cash and other liquid assets	2.430	1.769
TOTAL ASSETS	12.170	15.154
A) NET WORTH	4.740	6.859
A-1) Own funds	4.244	6.510
Capital	629	629
Issue premium	18.574	18.586
Reserves	30	30
(Own stocks and shares)	-1.345	-309
Result of the year	-895	1.218
Result of the preceding business year	-12.750	-13.645
A-2) Adjustments for value change	0	-35
A-3) Grants, donations and bequests received	496	384
B) NON-CURRENT LIABILITIES	3.647	4.443
Long-term provisions	0	9
Long term debts	3.481	3.151
Deferred tax liabilities	165	128
Long-term accruals	0	1.155
C) CURRENT LIABILITIES	3.783	3.853
Short term debts	1.053	1.045
Trade creditors	2.147	2.583
Short-term accruals	583	225
TOTAL PN AND LIABILITIES (A + B + C)	12.170	15.154

In general terms, the 2018 balance increased by 24% with respect to 2017, amounting to 15.154 thousand euros and presenting a positive Development Fund of 3.346 thousand euros.



Comments on the Asset Side of the Balance Sheet

Non-current assets

Non-current assets increased by 9.6% in 2018 (7.955 thousand euros) with respect to 2017 (7.258 thousand euros), mainly as a result of the increase in intangible assets and deferred tax assets.

Intangible assets represent 80% of non-current assets, with the research and development heading being the most important, accounting for approximately 88% of intangible assets.

During the fiscal year 2018, the Company has carried out an important activity in terms of clinical studies with many of its probiotic products. Three studies have been completed with the probiotic DENTISANI. In addition, the study for the probiotic AB-GLUTEN has been finalized, initiating new clinical studies. More new clinical trials are launched for the probiotic AB-CYSCARE and for a combination of the probiotic i3.1 with several specific fibers to recover the intestinal microbiota in patients with ulcerative colitis and in HIV patients.

Likewise, in 2018, the Company acquired the remaining 50% of the patent rights for the AB-KOLICARE product.

The total of non-current assets accounts for approximately 52% of the Total Balance, reducing its weight compared to the previous year (59%).

Active Current

Current assets in this period have increased significantly compared to the previous year (46%), reaching 7.199 thousand euros in the year 2018, as a result of the increase in inventory items, debtors and treasury.

Comments on the Liability Side of the Balance Sheet

Net Worth

The Net worth increased by 45% to reach 6.859 thousand euros as a consequence of the result of the year (with a positive value of 1.218 thousand euros) and the sale of Company treasury shares to Kaneka.

Non-current Liabilities

Non-current liabilities increased by 22% in this period, mainly due to the increase in long-term accruals, reaching a figure of 4.443 thousand euros.



Long-term accruals include an upfront payment related to the license agreement signed with Kaneka that will be accrued during the period of validity of the said agreement (7 years).

Current Liabilities

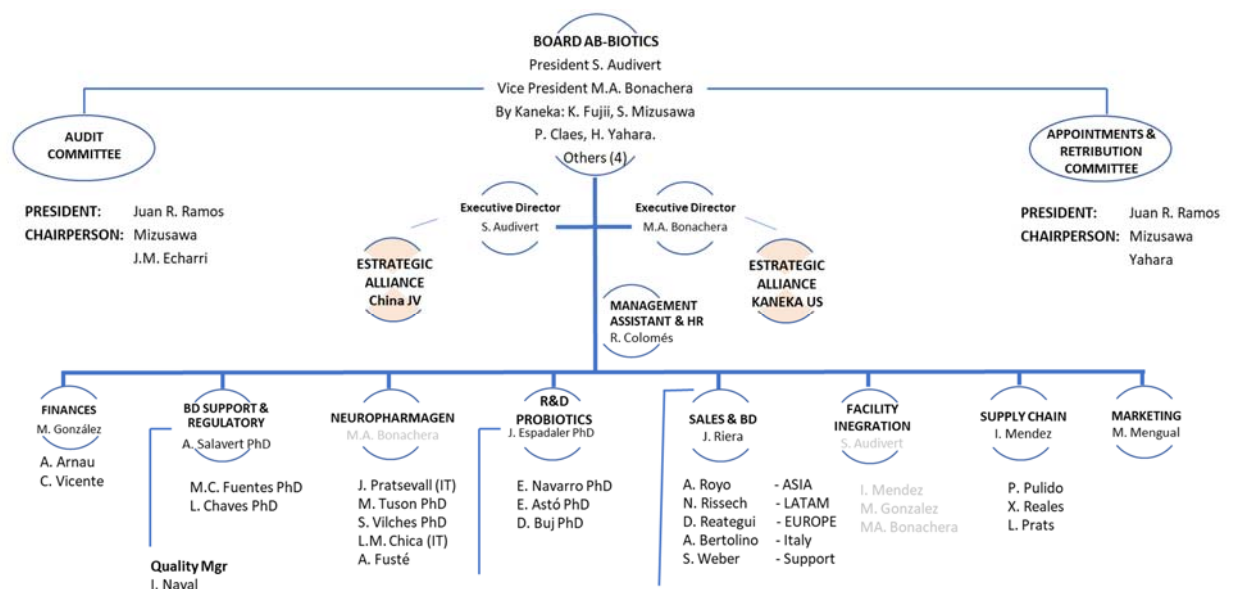
Current liabilities reached 3.853 thousand euros in 2018, demonstrating an increase in the commercial creditors with respect to the previous year.

4. Report on the organizational structure and internal control system

AB-Biotics, S.A has reviewed its board of directors, adapting it to the information published after relevant events in the Market regarding change in Company shareholders structure. Likewise, the organization chart of the Group remains the same.

The following is the new report on the organizational structure and the internal control system applied by the Company to comply with the disclosure requirements established by the market in accordance with Circular 6/2018 of the Alternative Stock Market (ASM):

1. ORGANIZATIONAL STRUCTURE





The Board of Directors is most responsible for the existence of internal control mechanisms and systems, both directly and through the Audit Committee, which is in control of the Finance Department.

The Board of Directors is made up of nine members and the Audit Committee is attended by three counselors. The company also disposes of an Appointments and Remuneration Committee.

The Board of Directors of the Company consists of:

- Mr. Miquel Àngel Bonachera Sierra as Executive Director and Vice-Chairman of the Board of Directors.
- Mr. Sergi Audibert Brugué as Executive Director and Chairman of the Board of Directors.
- Juan Ramón Ramos Raich as Independent Director and member of the Audit Committee Chairman.
- Mr. José María Echarri Torres, as Independent Director and member of the Audit Committee.
- Mr. Philip Claes as a Proprietary Director proposed by Kaneka Europe Holdings.
- Mr. Hitoshi Yahara as a Proprietary Director proposed by Kaneka Europe Holdings.
- Mr. Kazuhiko Fujii as a Proprietary Director proposed by Kaneka Europe Holdings.
- Mr. Shinji Mizusawa as a Proprietary Director proposed by Kaneka Europe Holdings.
- Mr. Agustí Vilajoana Mas as an Independent Director.

The Audit Committee is made up of:

1. President: Mr. Joan Ramón Ramos Raich
2. Spokesperson: Mr. Shinji Mizusawa
3. Spokesperson: Mr. José María Echarri Torres.
4. Non-Board Secretary: Mr. José María de Paz. Non-Board Vice-secretary: Mr. Pablo Fernández Cortijo

The Audit Committee was constituted on August the 23th, 2018. Its powers are regulated by the Regulations of the Board of Directors, among which are highlighted for the purposes of this report:

- External audit. Analysis with the auditors of the Company the most significant elements of the internal control system, writing of the report on the independence of the accounts auditor and proposing the appointment of auditors to the Board of Directors. The Regulations of the Board of Directors establish the powers of the Audit Committee in relation to the information and internal control systems in the following manner:



It is the responsibility of the Board of Directors together with the Audit Committee to design, implement and operate the adequate internal control systems in order to guarantee compliance with the disclosure requirements of public information, general as well as financial, and particularly regarding the market.

As established in Article 6 of the Regulations of the Board of Directors of AB-Biotics, SA, and in accordance with the Law on Capital Companies, the Board of Directors may not delegate the decision-making powers referred to in the article 249 bis of the Capital Companies Act, or the prevailing provisions at that time, nor specifically arrange the following:

- a) The approval of the strategic or business plan.
- b) The management objectives and annual budgets.
- c) The investment and financing policy.
- d) The dividend policy.
- e) The approval, prior the report of the Audit Committee, of the operations that the Company or the companies of its group conduct with counselors, under the terms of articles 229 and 230 of the Capital Companies Law, or with shareholders, individually or in concert with others, of a significant stake, including shareholders represented on the board of directors of the company or of other companies where applicable, or that are part of the same group or with persons related to them. The directors affected or who represent or are related to the affected shareholders must abstain from participating in the deliberation and voting of the agreement in question. Only transactions that simultaneously meet the following three characteristics will be exempt from this approval:
 - a. That they are to be carried out under contracts whose conditions are standardized and applied en masse to a large number of clients,
 - b. That they are to be implemented at prices or rates established with general character by whoever acts as supplier of the good or service in question
 - c. That its amount does not exceed one percent of the annual income of the Company.

Furthermore, due to the importance of the matters, the Council establishes the following specific guidelines for action:

1. Regarding the annual accounts and the management report:
 - a. As a legally non-delegable matter, the Board of Directors will draw up the annual accounts and the management report, both individual and consolidated.
 - b. The Board of Directors will request from those who have intervened in the preparation of the accounts, the reports, explanations and clarifications that it deems appropriate and necessary
 - c. The members of the Board of Directors, obliged by Law to sign individually with their signature the accounts formulated by the Council, shall ensure that they have actively examined and contrasted



the reports, explanations and clarifications provided, and shall formulate in writing the observations they deem appropriate, which will be included in minutes.

At the regular quarterly meetings of the Council, the follow-up of the Company's financial information will be discussed, for which purpose the provisional or periodic closings imposed by the applicable or deemed appropriate regulations will be prepared.

2. Regarding the Stock Markets:

- a. As a general rule, the Board of Directors will develop all the functions that are imposed on the Company by the current rules of the Stock Markets in general and of the Alternative Stock Market in particular as well as the functions that may be imposed in the future.
- b. In a particular way, the Board will be in charge of fulfilling the functions that the applicable rules impose in matters of information and transparency, price formation and updating of the Internal Code of Conduct.

Likewise, Article 26 establishes the following:

3. Without prejudice to the other functions attributed by the corporate statutes or the present regulations of the Board of Directors, or those that are entrusted at any time by the Board of Directors, the Audit Committee will have the following functions:
 - a. Inform the general meeting of shareholders about the issues that arise in relation to matters that fall within the competence of the committee
 - b. Supervise the effectiveness of the company's internal control, internal audit, if any, or risk management systems, including fiscal ones, as well as discuss with the auditor any significant weaknesses in the internal control system detected in the process of the audit.
 - c. Supervise the process of preparation and presentation of mandatory financial information.
 - d. Submitting to the Board of Directors proposals for the selection, appointment, re-election and replacement of the external auditor, as well as the conditions of their engagement and regularly collecting information on the audit plan and its execution, as well as preserving its independence in the implementation of its functions.
 - e. Establish working relations with the external auditor to receive information on issues that may jeopardize their independence, for their examination by the Commission, and any other related to the process of developing the accounts auditing, as well as other scheduled communications within the legislation of accounts auditing and within the norms of the audit. In any case, they must receive annually a declaration of the independence of the external auditors that are in relation to the in directly or indirectly linked entity or entities, as well as the information of the additionally provided services of any kind and the corresponding fees received from these entities by the external



auditor or by the persons or entities linked to it in accordance with the provisions of the legislation on account auditing.

- f. Issue annually, prior to the issuing of the accounts audit report, a report in which an opinion on the independence of the account auditor will be expressed. This report must contain, in any case, the evaluation of the provision of additional services referred to in the previous letter, individually considered, as a whole and distinct from the legal audit and the in relation to the independence regime or the regulations audit regulator.
- g. Inform, beforehand, the Board of Directors on all the matters foreseen in the Law, the corporate statutes and within the regulations of the Board in particular, on:
 - h. 1.º the financial information that the company must periodically publish,
 - 2.º the creation or acquisition of shares in special purpose entities or domiciled entities in countries or territories that are considered to be tax havens and
 - 3.º operations with related parties.

The audit committee will not exercise the functions envisaged in this letter when they are attributed by statute to another committee and this committee is composed only of non-executive directors and of at least two independent directors, one of whom must be the Chairman.

- i. Contact and dialogue with the nominated Advisor of the Company in relation to matters of its financial competence.
- j. Exercise functions of the control body of the Internal Code of Conduct.

Likewise, Article 28 of the Regulations of the Board of Directors establishes:

The Board of Directors considers the communication to the market to be of special relevance, institutionally channeled by the Alternative Stock Market promoted by Stock Exchanges and Spanish Stock Exchanges.

The Board will present and communicate to the governing bodies of the Alternative Stock Market not only the documents and information that are strictly mandatory according to the applicable regulations, but also those that provide greater transparency to shareholders and potential investors, which may influence the price, induce relevant changes in the shareholding of the Company and cause amendments to this Regulation and the Internal Code of Conduct.

Through the Executive Direction they are responsible for the elaboration of the financial statements and relevant information.



Company CFO has direct interaction/dependence with Audit Committee in close collaboration with the Company's Executive Direction, performing support tasks for the audit and managing the daily relationship for the control and supervision of the internal control systems.

DEPARTMENT OF FINANCE AND INVESTOR RELATIONS

The Economic and Financial Department together with the Executive Management are responsible for preparing the financial statements and information of the Company for presentation to the Audit Committee and for subsequent formulation by the Board of Directors.

Periodically, follow-up reports on the activity of the Company are prepared and presented to the Board of Directors.

From the financial management in periodic meetings, the monitoring is established regarding all the areas of the Company to have information on the execution of all the projects. It likewise conducts the monitoring of the budgets assigned to the different areas of the company.

The finance team proposes to the Executive Board the closures and monitoring of the monthly evolution of the Company, identifies deviations and proposes corrective measures to comply with the forecasts presented.

Beyond the functions of the auditor, as external account auditor, the company does not outsource processes of elaboration of public information.

The company has an ERP system for accounting and logistics management, in which the financial information is generated which the Company provides to the market. Likewise, the Company carries out an analytical accounting of the states of the Company.

The Company is aware of the risks arising from possible deviations due to the operational risk in the execution of the agreements carried out, as well as the risk of temporary expansion in the growth of the aforementioned sales, expenses and investments in general, therefore to mitigate these risks, detailed monthly closings available to the Board of Directors of the Company are conducted to maintain a constant control over the different relevant variables made accessible to the market and its shareholders.

The information supplied to the market as well is regulated by an internal as well as an external validation procedure, amongst which the nominated advisor for communicating Material Events (Hechos Relevantes) to the market.

INTERNAL CONTROL SYSTEM



The bodies responsible for supervising the effectiveness of the internal control systems for complying with the required disclosure rules by the market fall to the Audit Committee and to the Board of Directors as a last resort.

The Executive Directorate validates the correct presentation of the financial information, as well as any other information not merely economic that could be generated.

The account books follow the regulations set by the Spanish GAAP and the financial statements of the Company, both semiannual and annual, and are reviewed both by the Audit Committee and by the external auditor of the company with a corresponding report.

The Audit Committee controls and supervises the risk identification process concerning the financial information and proposes elements of improvement within the established processes.

The Board of Directors is ultimately responsible for establishing the internal control policies concerning the information, all with the collaboration of external audit services, financial statements, as well as projections and elements that by their nature or by their impact may be relevant to the Company which are reviewed by the external auditors of the Company.

The account auditor of the Company is expected to attend the meetings of the Audit Committee in order to report the results of the work carried out and to disclose the internal control elements or weaknesses that the audit control has been able to identify, as well as the recommendations to reduce the impact of the aforementioned elements.