A LA COMISIÓN NACIONAL DEL MERCADO DE VALORES

Madrid, 24 de septiembre de 2018

En cumplimiento de los deberes de información previstos en el artículo 228 de la Ley del Mercado de Valores y del artículo 17 del Reglamento (UE) N.º 596/2014 del Parlamento Europeo y del Consejo, de 16 de abril, sobre abuso de mercado, Laboratorios Farmacéuticos ROVI, S.A. (en adelante, "ROVI") pone en conocimiento de la Comisión Nacional del Mercado de Valores el siguiente

HECHO RELEVANTE

ROVI adjunta información actualizada sobre sus negocios, situación financiera y factores de riesgo.

D. Juan López-Belmonte Encina
Consejero Delegado y Director General
Laboratorios Farmacéuticos Rovi, S.A.

In this document, “Rovi” and the “Company” refer to Laboratorios Farmacéuticos Rovi, S.A., the parent company of the Group. The “Group”, “we”, “us” and “our” refer to Laboratorios Farmacéuticos Rovi, S.A. and its consolidated subsidiaries as a whole.

FORWARD-LOOKING STATEMENTS

This document includes forward-looking statements that reflect our intentions, beliefs or current expectations and projections about our future results of operations, financial condition, liquidity, performance, prospects, anticipated growth, strategies, plans, opportunities, achievements, trends and the industry in which we operate. Forward-looking statements involve all matters that are not historical fact. We have tried to identify those forward-looking statements by using words such as “may”, “will”, “would”, “should”, “expect”, “intend”, “estimate”, “anticipate”, “project”, “future”, “potential”, “believe”, “seek”, “plan”, “continue”, “aim”, “objective”, “goal”, “strategy”, “target” and similar expressions or their negatives. Forward-looking statements may be found in the sections entitled “Risks Related to Our Business and Industry”, “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and “Business” in this document.

These forward-looking statements are subject to risks, uncertainties and assumptions and other factors that could cause our actual results of operations, financial condition, liquidity, performance, prospects, strategies or opportunities, as well as those of the markets we serve or intend to serve, to differ materially from those expressed in, or suggested by, these forward-looking statements. Important factors that could cause those differences include, but are not limited to:

- changes and trends in general economic conditions, the pharmaceutical sector as well as patient and consumer spending;
- changes in applicable laws or regulations, or the interpretations thereof, or actions of the Spanish, other European, United States and other governments and their respective regulatory agencies;
- regulatory pricing pressure in the countries in which we market our drugs, particularly in Spain;
- changes in governmental reimbursement schemes for prescription pharmaceuticals;
- the concentration of our operations in Spain and the general economic environment in Spain and the other countries in which we market our products and services;
- our reliance on sales of our flagship proprietary product, bemiparin;
- competitive pressure from products marketed by other pharmaceutical companies, including generics and biosimilars;
- our reliance on our out-licensing partners for the distribution of our proprietary products outside of Spain;
- our ability to discover new products and successfully complete the development of, obtain and maintain regulatory approval for, and successfully market, our pipeline products, including *Doria* and *Letrozole ISM*;
- our ability to replicate our preclinical findings relating to certain pipeline technologies in clinical trials;
- our reliance on third parties to conduct our preclinical studies and clinical trials and to perform other important tasks;
- our ability to generate the required chemistry, manufacturing and controls documentation in accordance with the specific requirements of the relevant regulatory authorities for approval of products developed with our sustained release injectable (“ISM”) technology;

- our ability to manufacture novel pharmaceutical products based on novel drug delivery technologies, such as the products based on our ISM technology;
- potential invalidation or circumvention of our patent rights by third parties;
- our ability to prevent disclosure of our trade secrets or other confidential information to third parties;
- our ability to in-license new products;
- our reliance on a limited number of suppliers and disruptions in our product supply chains;
- manufacturing delays and/or supply interruptions caused by accidents or equipment malfunctions;
- the loss of our ability to hire key personnel;
- the elimination of, or reduction in, available tax deductions and/or subsidies relating to research and development activities conducted in Spain;
- our ability to comply with tax laws;
- our reliance on certain customers for a significant portion of our revenues and cash flows;
- inventory theft and diversion;
- the failure of our computer systems, or those of our partners, contractors or consultants;
- the effects of potential product liability claims or recalls involving our products or products we market and sell; and
- changes in the mandatory public healthcare contribution scheme in Spain and certain other countries.

In light of these risks, uncertainties and assumptions, the forward-looking events described in this document may not occur. Additional risks that we may currently deem immaterial or that are not presently known to us could also cause the forward-looking events discussed in this document not to occur. Except as otherwise required by Spanish and other applicable securities law and regulations or by any applicable stock exchange regulations, we undertake no obligation to update publicly or revise publicly any forward-looking statements, whether as a result of new information, future events, changed circumstances or any other reason after the date of this document.

Given the uncertainty inherent in forward-looking statements, we caution prospective investors not to place undue reliance on these statements.

RISKS RELATING TO OUR BUSINESS AND INDUSTRY

We may be adversely affected by changes and trends in general economic conditions, the pharmaceutical sector as well as patient and consumer spending.

Our business depends to a significant extent on the continued growth of the healthcare market and, therefore, may be adversely affected by changes in the domestic as well as global political and economic environment. The global financial system began to experience difficulties in mid-2007. This resulted in severe dislocation of financial markets around the world, including Spain and the rest of Europe, significant declines in the values of nearly all asset classes and unprecedented levels of illiquidity in capital markets. After rapid economic growth since 2004, Spain entered into a severe economic crisis which led to a gross domestic product ("GDP") contraction between 2008 and 2013. Spain's economy began to grow again in 2014, experiencing a GDP increase of 1.4% due to better labor market prospects, strengthened confidence, lower economic uncertainty and falling energy prices (source: Spanish National Statistics Institute (*Instituto Nacional de Estadística* or "INE")). Real GDP expanded by 3.2%, 3.2% and 3.1% in 2015, 2016 and 2017, respectively (source: INE). Even if our pharmaceutical distribution business is less affected by general economic trends, a general decline in the purchasing power of patients and consumers and state healthcare policies that are increasingly focusing on cost-containment measures may negatively affect our business.

We also depend on market growth in the pharmaceutical distribution sector, which is primarily dependent on the development of sales volumes and the ability of pharmaceutical companies to market top-selling pharmaceuticals. In addition, our business depends on patient and consumer spending, in particular with regard to sales of over-the-counter products, which might be negatively affected during economic downturns or other periods of weaker consumer confidence. The market for prescription-only drugs is typically more stable and less dependent on general economic conditions since the purchase price for such drugs is generally reimbursed by the public health system. Nonetheless, we expect a reduction in public healthcare expenditure in Spain from 6.0% of GDP in 2017 to 5.8% in 2018, according to the Spanish Ministry of Health's draft budget plan, and a 1-4% growth rate in spending on medicine in Spain through 2021, as forecast by Quintiles IMS. Changes in general economic conditions, in the market volume of the pharmaceutical market as well as patient and consumer spending could have a material adverse effect on our business financial condition and results of operations.

We operate in a highly regulated industry and our failure to comply with, or changes to, laws, regulations or governmental practices in the markets in which we operate may adversely affect our ability to develop and market our products profitably.

All aspects of our business, including research, development, manufacturing, marketing, pricing, sales, litigation and intellectual property rights, are subject to extensive legislation and regulation including, among others, health, production, safety and environmental legislation and regulations, in all jurisdictions where we manufacture or sell our products. In particular, our manufacturing facilities and the manufacturing and supply activities performed therein must meet strict European Union and Spanish standards associated with the design, manufacturing, quality management and controls of each of our products. Our facilities must also comply with any other Spanish national, regional and municipal laws and regulations. Non-compliance (for example, the failure to hold a required municipal license) could result in closure of the facility and penalties. In many cases, we are also subject to regulatory standards applicable to the countries where the products we manufacture are sold, including guidelines of the U.S. Food and Drug Administration ("FDA").

All manufacturing facilities of medicinal products are subject to inspections, which could ultimately result in the temporary interruption of production, or more severe consequences such us product recall, destruction of inventory, loss of marketing authorization or even shutdown of a facility because of alleged or actual non-compliance or other deficiencies. In order to begin the marketing and sale of pharmaceutical products, we must submit a manufacturing dossier to the relevant regulatory authorities of the jurisdictions where the products are to be marketed and sold who will review the dossier for compliance with the relevant regulatory requirements prior to granting marketing authorization.

Moreover, we are required to comply with numerous additional regulations, including anti-money laundering, anti-bribery, anti-corruption and competition laws, as well as various regulations of national and international pharmaceutical manufacturers associations, among others. Our failure to comply with laws or regulations or any changes to such laws or regulations which are made in Spain or any other country in which we conduct our business

may adversely impact our business, financial condition and results of operations. In addition, our marketing partners for our proprietary and third-party products, which market such products outside of Spain, are also required to follow such laws and regulations. We can provide no assurance that they will not violate applicable laws and regulations, which could affect our reputation or result in liability to us.

In addition, applicable laws and regulations may also become less favorable in the future. Further, compliance with existing or new laws and regulations may become more complex and involve higher costs, and the increasing risk of non-compliance may give rise to civil liability, administrative orders, fines or even criminal charges. In addition, future changes in regulations may require us to incur higher investment and other costs to ensure implementation and compliance or may even force us to change our business practices. Any changes in such legislation or other applicable regulations (from health, environmental or other administrative authorities) may adversely impact our business, financial condition and results of operations.

Our employees may engage in misconduct or other improper activities, including noncompliance with regulatory standards and requirements, which could have a material adverse effect on our business.

We are exposed to the risk of employee fraud or other misconduct. Misconduct by employees could include intentional failures to comply with Good Manufacturing Practices ("GMP") (regulations of the FDA, the European Medicines Agency ("EMA") or similar regulations of other foreign regulatory authorities), to provide accurate information to the FDA, the EMA or other foreign regulatory authorities, to comply with required manufacturing standards, to comply with applicable healthcare fraud and abuse laws and regulations, to report financial information or data accurately or to disclose unauthorized activities to us. In particular, sales, marketing and business arrangements in the healthcare industry are subject to extensive laws and regulations intended to prevent fraud, kickbacks, self-dealing and other abusive practices. These laws and regulations may restrict or prohibit a wide range of pricing, discounting, marketing and promotion, sales commission, customer incentive programs and other business arrangements. Employee misconduct could also involve the improper use of information obtained in the course of clinical trials. Any of this could result in regulatory or criminal sanctions and serious harm to our reputation. Moreover, in our toll manufacturing and in-licensing businesses, we are generally required to adhere to certain standards, and if such standards are not met we could be held liable and our customers would generally have the right to terminate their toll manufacturing or in-licensing agreements with us. We have adopted and implemented an Internal Code of Conduct, but it is not always possible to identify and deter employee misconduct, and the precautions we take to detect and prevent this activity, such as employee training and enforcement of the Internal Code of Conduct, may not be effective in controlling unknown or unmanaged risks or losses or in protecting us from governmental investigations or other actions or lawsuits stemming from a failure to be in compliance with such laws or regulations. If any such actions are instituted against us, and we are not successful in defending ourselves or asserting our rights, those actions could have a material adverse effect on our business, financial condition or results of operations, including as the result of the imposition of significant fines or other sanctions.

We are subject to direct and indirect regulatory price pressures that may materially adversely affect our ability to maintain or increase the prices of our products.

Certain pharmaceutical products, including the agents and compounds marketed by us, are subject to direct and indirect price controls in Spain and other European Union markets in which our products are sold, which have adversely affected, and may continue to adversely affect, our ability to maintain or increase the prices of our products. In addition, the Spanish pharmaceutical industry in 2016 entered into a cooperation agreement with the Spanish government, which could have an indirect effect on prices. See "—We may be adversely affected by changes and trends in general economic conditions, the pharmaceutical sector as well as patient and consumer spending." Price decreases have been implemented in recent years in Spain and certain other European Union markets. The implementation of new or expanded direct or indirect price controls in any of the markets that we currently serve, or may serve in the future, could have a material adverse effect on our business, financial condition and results of operations.

In addition, in the United States, where prices are currently not regulated, a number of legislative and regulatory proposals aimed at changing the healthcare system have been made in recent years. While our products are not currently sold in the United States, we believe that there is significant potential for the sale of our pipeline products and services in the United States in the future. As a result, the implementation of new or expanded direct or indirect price controls in the United States could have a material adverse effect on our business, financial position or results of operations.

Our products may in the future become subject to reference pricing regimes in Spain and other European markets.

Sales of certain pharmaceutical products in Spain and many other countries in the European Union are subject to reference pricing regimes, which prescribe the maximum prices at which the competent national health authorities will cover the sales of particular categories of prescription pharmaceutical products within the relevant national health system. In Spain, the Ministry of Health, Social Services and Equality (*Ministerio de Sanidad, Servicios Sociales e Igualdad)* (the "Ministry of Health") sets reference prices for the pharmaceutical products. Covered pharmaceutical products are categorized on the basis of the active ingredient and the delivery method. Pharmaceutical products to be included in and covered by the Spanish national health system must meet objective health and economic criteria. The therapeutic benefit of each pharmaceutical must be established, and the price of each pharmaceutical must be comparable with the average price of identical or similar pharmaceutical products in the other Member States of the European Union. The Ministry of Health sets reference prices for drugs whose prices are regulated pursuant to Royal Legislative Decree 1/2015, approving the consolidated text of the Law on Guarantees and Rational Use of Medicines and Medical Devices (*Ley de garantías y uso racional de los medicamentos y productos sanitarios*) ("Law on Guarantees") and Royal Decree 177/2014, which regulates the reference-pricing system and the establishment of homogeneous groups of drugs in the national health system. Reference prices do not currently apply to most of our principal pharmaceutical products, although some of our licensed products are reflected in the reference prices lists. Moreover, we face the risk that other in-licensed and proprietary products, including *Becat*, are included in the reference pricing regime in the near future. If more of our proprietary or in-licensed products are included in the reference pricing regime in the future, it could have a material adverse effect on our business, financial condition and results of operations.

Our revenues are dependent on the level of reimbursement provided through governmental reimbursement schemes for prescription pharmaceuticals.

Sales of pharmaceutical products in Spain and many other countries in the European Union are subject to national reimbursement schemes, which prescribe the maximum prices at which the competent national health authorities will cover the sales of particular categories of prescription pharmaceutical products within the relevant national health system. In Spain, the Ministry of Health sets reimbursement prices for the pharmaceutical products that are dispensed by official prescription within the Spanish national health system (*Sistema Nacional de Salud*). The reimbursement prices for new pharmaceutical products in countries with reimbursement schemes must typically be negotiated with the competent health authorities in advance and could potentially result in lower price levels for our pharmaceutical products than could otherwise be obtained on the open market. Moreover, the national social security systems in Spain and other countries in which our products are sold are increasingly restrictive in granting and renewing reimbursement for pharmaceutical products. In Spain, every year certain pharmaceutical products are excluded from the reimbursement regime by the Ministry of Health and Consumption and the applicable reimbursement prices are reviewed biannually. Any changes to governmental policy or practices in Spain or other markets in which our products are sold that result in our current or future pharmaceutical products being removed from, or not being approved for, the relevant government reimbursement schemes or in decreased reimbursement prices for our pharmaceutical products could have a material adverse effect on our business, financial condition and results of operations.

Our operations are concentrated in Spain.

Our revenues (*importe neto de la cifra de negocios*) from sales in Spain amounted to €103.7 million, €195.8 million, €188.8 million and €163.2 million in the six months ended June 30, 2018, and in the years ended December 31, 2017, 2016 and 2015, respectively. The Spanish pharmaceutical market is highly regulated and has in the past come under increasing pricing constraints and other pressures. See "—We are subject to direct and indirect regulatory price pressures that may materially adversely affect our ability to maintain or increase the prices of our products." In addition, changes in the general economic conditions in Spain could also adversely affect demand for our products. Any decline in the demand for, or the prices of, our products in Spain could have a material adverse effect on our business, financial condition and results of operations.

A significant portion of our revenues are paid directly or indirectly by the Spanish and regional health authorities, and a failure by such authorities to make their payments on a timely basis may adversely affect our cash flows and working capital levels.

We rely on direct and indirect government payments, including from sales to Spanish and other governmental national and regional health authorities and public hospitals and clinics managed by such health authorities, and indirectly through government payments to pharmaceutical wholesalers and pharmacies. We have in the past experienced significant delays in collection from hospitals and clinics that form part of the regional health authorities in Spain, and we have suffered the effects of the failure of government agencies to make payments to other players in the healthcare industry.

Although public invoices are recorded daily through the Spanish FACe website, which electronically registers all invoices with Spanish government entities, we cannot assure you that payment collection delays from hospitals and clinics will not increase again, particularly if the funding of these hospitals and clinics is not supported by the appropriate governmental health agencies. We have in the past and could in the future experience delays in payments from regional authorities, but such debts are considered binding, and we sometimes address such delays through factoring agreements. Nonetheless, the failure to receive timely payments for the sale of our products negatively affects our cash flows and working capital levels and may require us to obtain more short-term financing than we would otherwise need, which could have a negative effect on our business, financial condition and results of operations.

We are subject to mandatory and other contributions to the public healthcare system in Spain and certain other countries.

We are currently subject to pricing deductions on the price of medicinal products financed by the Spanish healthcare system. The medicinal products affected by these measures and the amounts to be deducted from their prices are specified in Royal Decree-Law 8/2010, as modified by Royal Decree-Law 9/2011, pursuant to which we must apply a discount of 15% to products that are not protected by patents, a discount of 7.5% to patent-protected products and a discount of 4% to orphan drugs.

In addition, as a member of Farmaindustria, a Spanish association of the pharmaceutical industry, we are subject to a collaboration agreement entered into between Farmaindustria and the Spanish government in 2016. This agreement was renewed in December 2017. Pursuant to this agreement, in the event that public spending on non-generic drugs increases at a rate greater than the rate of increase of the middle-term Spanish gross domestic product index but lower than the real Spanish gross domestic product index, the Spanish pharmaceutical industry must reimburse the government through non-monetary means, such as commitments to increase research and development or industrial investments in Spain. In the event that public spending on non-generic drugs increases at a rate in excess of the rate of growth of the real Spanish gross domestic product, the pharmaceutical industry must also reimburse the government through monetary payments. Although public spending has been below the relevant thresholds since this agreement was signed in 2016, this agreement could nonetheless limit our operating revenues, and similar agreements could be entered into with respect to other markets in Europe or elsewhere.

Any increase in mandatory or other contributions in Spain or in other European countries, any change in the laws currently permitting reductions in such contributions or the adoption of mandatory contribution schemes in other markets that we may serve in the future could have a material adverse effect on our business, financial condition and results of operations.

A substantial portion of our revenues are generated by our flagship proprietary product, bemiparin.

A substantial portion of our revenues are generated by our flagship proprietary low molecular weight heparin ("LMWH"), bemiparin (marketed under the names *Hibor, Ivor, Zibor, Ivorat, Ivormax* and *Badyket*). We began marketing bemiparin in 1998, and it was our top-selling pharmaceutical product during each of the financial periods reviewed in this document. In the six months ended June 30, 2018 and in the years ended December 31, 2017, 2016 and 2015, our sales of bemiparin accounted for 33.0%, 30.4%, 30.0% and 30.5%, respectively, of our revenues. The principal patent protecting the active ingredient bemiparin in Spain and most European countries expires in 2019. Although we believe that the technical complexity of bemiparin and the lack of entry of competitors for other similar products with larger markets following patent expiration suggest that we may not face immediate strong competition to bemiparin from generics and biosimilars, we can provide no assurance that new competitors will not

in fact enter the market. Moreover, given the over-lapping patient profiles for bemiparin and *Becat*, sales of *Becat* or any other enoxaparin biosimilar that enters the market may negatively impact sales of bemiparin, particularly in Spain, both due to the effect on pricing of greater supply in the market, and because biosimilars often pull sales away from other products. The expiration of the principal patent for bemiparin and the potential entry of new competitors, such as generics and biosimilars, or a reduction in price associated with the loss of patent protection, could each lead to a decrease in our sales of bemiparin and could have a material adverse effect on our business, financial condition and results of operations.

We face substantial competition from products marketed by other pharmaceutical companies, including companies with greater financial resources.

Our products face competition from products with similar indications, including LMWHs that compete with bemiparin or our enoxaparin biosimilar, which is generally marketed under the name *Becat* (and which we refer to throughout this document as *Becat*, although it is also marketed as *Enoxaparina Rovi* and other names), and the key candidate products we hope to commercialize in the future, *Doria* and *Letrozole ISM*. In particular, oral coagulants, to the extent that their prices, as a result of the loss of patent protection or otherwise, are reduced or they otherwise increase in popularity, could represent significant competition for bemiparin and *Becat*.

In addition, certain of our competitors, including pharmaceutical and biotechnology companies, are actively engaged in the research and development of products that will compete with our existing products, including *Becat*, in the future. In the future, we expect that our products will compete with new pharmaceutical products currently in development, pharmaceutical products approved for other indications that may be approved for the same indications as those of our products, and pharmaceutical products approved for other indications that are used off-label for the same indications as those of our products. Our competitors' products may also be safer or more effective, less invasive, less expensive or more effectively marketed than our products. In particular, the appearance of new enoxaparin biosimilars in the market could present significant competition for *Becat*, leading to a reduction in prices and margins.

Many of our actual and potential competitors are large, well-known pharmaceutical, biotechnology and healthcare companies with significantly greater financial and other resources than us. Companies with more resources and larger research and development expenditures have a greater ability to fund clinical trials and other development work necessary for regulatory applications. These competitors may also be able to sustain for longer periods substantial reductions in the price of their products or services. In the event any of our larger competitors engage in pricing competition with us, our revenues may decline, which could have a material adverse effect on our results of operations.

In addition, the pharmaceutical industry is also characterized by continuous product development and technological change. Our products could, therefore, be rendered obsolete or uneconomical through the development of new products or technological advances in manufacturing or production by our competitors. It is also possible that our competitors will commercialize competing drugs or treatments before we or our collaboration partners can launch any products developed from our product candidates. We also anticipate that we will face increased competition in the future as new companies enter into our target markets. Such increased competition could adversely impact our business, financial condition and results of operations.

We are likely to face an increase in generic competition once the relevant patents or supplementary protection certificates ("SPCs") or exclusivity periods for our current principal pharmaceutical products expire, or once the exclusivity protection periods for competing products marketed by our direct competitors expire.

We own several patents granting us exclusive rights in several markets for our medicinal products. Such patents variously cover the relevant product, process or indication. At the same time, we rely on other companies' patents for medicinal products which are in-licensed by us from other companies ("in-licensed products"). Once the patent exclusivity periods for our proprietary and in-licensed products expire, we are likely to face strong competition from lower-priced generic pharmaceutical products. For example, the first of the patents related to our flagship product, bemiparin, expires in 2019. In addition, once the patent exclusivity periods for competing products marketed by our direct competitors expire, we could face more pressure to reduce the prices of our comparable products. Loss of patent protection for a product typically leads to a rapid loss of sales for that product, as lower-priced generic versions of that product become available. In the case of our products that contribute significantly to our sales or

our direct competitors' products that compete with our comparable products, the loss of patent exclusivity can have a material adverse effect on our results of operations.

We rely heavily on third parties to sell our proprietary products outside of Spain, and our efforts to build our own international sales force may not be successful.

We out-license certain proprietary products to third parties for sale in certain countries outside of Spain. In the six months ended June 30, 2018 and in the years ended December 31, 2017, 2016 and 2015, our revenues (*importe neto de la cifra de negocios*) from payments from such third parties amounted to €14.4 million, €25.1 million, €24.9 million and €24.7 million, respectively. This income stream from our out-licensing of proprietary products generates high margins, as the bulk of marketing and distribution costs associated with such sales are generally borne by the relevant third party licensee. Additional delays or costs can occur in instances in which we share control over the planning and execution of product development and marketing with collaborative partners or instances in which we rely on the marketing efforts of third parties, such as pharmaceutical companies to which we have out-licensed a pharmaceutical product developed by us for sale outside of Spain. Furthermore, the successful marketing of any new product or any new indication, formulation or brand extension for an existing product is subject to the effectiveness of our efforts to market such product to hospitals and physicians, its perceived advantages and disadvantages relative to competing products or treatments (including such product's relative cost) and its commercial acceptability. Any factors that decrease sales of our pharmaceutical products licensed to third parties, including the termination of our out-licensing arrangements or the inability or reluctance of such third parties to devote sufficient resources to the successful marketing of our out-licensed products, could therefore reduce our sales and have a material adverse effect on our business, financial condition and results of operations.

Moreover, by the end of 2017, we had already established subsidiaries to serve as sales offices in Germany, the United Kingdom, France and Italy and to lead our international marketing efforts for *Becat*, our enoxaparin biosimilar, which launched in Germany in September 2017, in the United Kingdom in March 2018, in Italy in April 2018 and in Spain in September 2018. Prior to 2017, we had no experience directly marketing in these countries. In addition, we launched *Becat* in France in September 2018 pursuant to an agreement with Biogaran. Although we are building off the experience and organizational structure of our well-established sales force in Spain, we may be unsuccessful in accessing these new markets and building the necessary relationships to sell *Becat* and other products that we may in the future market through our internal sales force. If we are unable to establish successful sales forces in these new markets, it could have a material adverse effect on our business, financial condition and results of operations.

The manufacture of our products and the manufacturing, filling and packaging services we provide are technically complex.

A significant portion of our revenues and operating margins are derived from the manufacture and sale of our proprietary products as well as from products manufactured or filling and packaging services provided to third parties at our manufacturing, filling and packaging facilities. In the six months ended June 30, 2018 and in the years ended December 31, 2017, 2016 and 2015, 15.7%, 22.2%, 21.4% and 25.3%, respectively, of our revenues (*importe neto de la cifra de negocios*) were accounted for by contract filling and packaging services provided by us to third parties. The manufacturing of these products and the provision of these services involve technically complex processes requiring specialized facilities, specific expertise and other production constraints.

In particular, the manufacture of bemiparin and our enoxaparin biosimilar *Becat* is highly complex as a result of the structural complexity of biologics. Precision is especially critical in the manufacture of LMWHs and biosimilars, given that even small variations in the manufacturing processes could potentially alter the medicine's safety and efficacy. Moreover, these manufacturing processes are subject to the risk that additional regulations could increase the complexity and cost of such manufacturing in the future. The complexity of these processes as well as strict company and regulatory standards for the manufacture of our products and the provision of our filling and packaging services subject us to manufacturing risks. The occurrence or suspected occurrence of production that is not in line with our specifications can lead to lost inventories, and in some cases product recalls, with consequential damage to our reputation and the risk of product liability. See "—Product liability claims or product recalls involving our products or products we distribute could have a material adverse effect on our business." The investigation and remediation of any identified problems can cause manufacturing delays, substantial expense, lost sales and the delay of new product launches. Furthermore, our ability to anticipate changes in technology and industrial requirements and to update our manufacturing facilities successfully and on a timely basis is, and will

continue to be, a significant factor in our ability to continue the growth of our toll manufacturing operations. We may not be able to maintain the same level of technological innovation as our competitors and may not achieve the necessary technological advances or to implement the industrial requirements necessary to allow us to remain competitive, in which case our manufacturing facilities could become outdated or obsolete.

In addition, although we believe we have adopted and maintain adequate safety precautions, if our facilities were to suffer a serious accident, equipment malfunction or other unexpected event (such as an earthquake, fire, explosion, flood, environmental accident or any other similar event), some or all of our manufacturing capacity could be jeopardized and our revenues and net profit would be materially adversely affected until we repaired or found a replacement for such facilities and/or machinery. While we maintain insurance coverage for property and inventory damage and have back-up manufacturing capacity for bemiparin and *Becat* at our Granada plant, any losses related to a serious accident, equipment malfunction or other unexpected event could exceed the amount of our coverage. In addition, the refurbishment or reconstruction of our manufacturing facilities or the construction of new facilities could be subject to regulatory approval by the competent health authorities of the jurisdictions in which they are located as well as the health authorities of some or all of the jurisdictions to which products from such facilities are exported, which could result in significant delays in the resumption of product manufacturing.

Our candidate products, including our lead candidate Doria, cannot be marketed unless we obtain and maintain regulatory approval.

Our activities, including research, preclinical testing, clinical trials and the manufacture and marketing of our candidate products, are subject to extensive regulation by numerous supranational, national and local governmental authorities in the European Union (including the EMA), the United States (including the FDA), and other jurisdictions. The EMA in the European Union and the FDA in the United States administer requirements covering the testing, approval, safety, effectiveness, manufacturing, labeling and marketing of prescription pharmaceuticals. In many cases, FDA requirements in particular have increased the amount of time and money necessary to develop new products and bring them to market in the United States. In addition, national regulators in many of the countries in which we market our products are also focused on pharmaceutical safety and effectiveness and, in many cases, cost reduction. The EMA, FDA and other national regulatory authorities have substantial discretion to require additional testing, to delay or withhold registration and marketing approval to revoke or suspend approvals of previously approved products, to mandate product recalls and to close manufacturing plants that do not operate in conformity with applicable manufacturing practices and/or other regulatory requirements or approvals. In particular, the identification of certain information may have compromised our Phase III clinical testing of *Doria*. While we are discussing this issue with the FDA and hope to maintain our current planned schedule for our Phase III testing, we can provide no assurance that the FDA will not require us to take actions that would cause a delay.

For example, the FDA or EMA may require us to conduct additional studies or trials or make significant changes to the existing clinical trials for *Doria* or other drug products either prior to or following approval, such as additional drug-drug interaction studies or safety or efficacy studies or trials, or they may object to elements of our clinical development program such as the number of subjects in our current clinical trials in the United States or Europe. In addition, approval policies, regulations or the type and amount of clinical data necessary to gain approval may change during the course of a product candidate's clinical development and may vary among jurisdictions, which may cause delays in the approval or result in a decision not to approve an application for regulatory approval. Despite the time and expense exerted, failure can occur at any stage. Applications for *Doria* or our other product candidates could fail to receive regulatory approval for many reasons, including but not limited to the following:

- the EMA, the FDA or other comparable foreign regulatory authorities may disagree with the design or implementation of our, or our collaboration partners', clinical studies;
- the population studied in clinical programs may not be sufficiently broad or representative to assure safety in the full population for which approval is sought;
- we may not achieve satisfactory results during the drug development phase of *Doria* or *Letrozole ISM*, or such results might not be in accordance with the requirements established in the relevant guidelines;
- the EMA, the FDA or comparable foreign regulatory authorities may disagree with the interpretation of data from quality by design product development, from the chemistry, manufacturing and control validation processes and development studies, or from preclinical studies or clinical studies;

- the EMA, the FDA or comparable foreign regulatory authorities may approve pharmaceutical products that are inferior to existing products in the market;

- approved indications for pharmaceutical products may vary among the EMA, the FDA or comparable foreign regulatory authorities and the indications approved by a specific regulatory authority could be substantially inferior to the indications approved by other regulatory authorities;

- the data collected from clinical studies of our product candidates may not be sufficient to support the submission of a new drug application, marketing authorization application, or other submission or to obtain regulatory approval in the United States, the European Economic Area ("EEA") or elsewhere;

- the EMA, the FDA or comparable foreign regulatory authorities may also inspect our manufacturing facilities at any time and the results of such inspections might be unfavorable;

- we, or our collaboration partners, may be unable to demonstrate to the EMA, the FDA or comparable foreign regulatory authorities that a product candidate's risk-benefit ratio for its proposed indication is acceptable;

- the EMA, the FDA or comparable foreign regulatory authorities may fail to approve the manufacturing processes, test procedures and specifications, or facilities of third-party manufacturers responsible for clinical and commercial supplies; and

- the approval policies or regulations of the EMA, the FDA or comparable foreign regulatory authorities may significantly change in a manner rendering our clinical data insufficient for approval.

The licensing procedure for new pharmaceutical products is complex and lengthy. The time it takes to obtain the necessary license for each product varies from country to country, but it typically ranges from between one and two years from the date of the application. In addition, if a license is granted, it may include limitations as to the use for which the product may be marketed. A marketed product is also subject to constant monitoring after the initial license is granted. The subsequent discovery of problems which were unknown at the time of the license application or failure to comply with regulatory requirements can result in restrictions being placed on the marketing of the product concerned or its withdrawal from the market, as well as legal penalties. We could also face penalties related to the marketing of off-label uses of our products. In addition, we are subject to rigorous official inspections in relation to the manufacture, labeling and distribution of our pharmaceutical products, which may become more onerous if and when certain of our candidate products and manufacturing facilities receive FDA approval. Significant changes in the regulatory, pharmacopoeial or quality guidelines may also occur during the development phase of an investigational product or during the marketing phase of an approved product, and such changes may produce delays in product approval or product supply or lead to the failure to obtain or renew the relevant marketing authorization. All these factors can increase the costs connected with the development of new products and increase the risk that new products cannot be marketed successfully.

If we or our collaboration partners do not succeed in obtaining regulatory approval of product candidates, or succeed only after delays, this could have a material effect on our ability to generate revenues. Delays in obtaining regulatory approvals may adversely affect the successful commercialization of *Doria* or any product that we or our collaboration partners develop, impose costly procedures on us or our collaboration partners, diminish any competitive advantages in the marketplace that we or our collaboration partners may attain and adversely affect our receipt of revenues or royalties.

Once the requisite regulatory approvals for new products or our manufacturing facilities are obtained, we must maintain such approvals as long as we intend to market our new products in each jurisdiction where approval is required. Our failure to obtain approval, significant delays in the approval process, or our failure to maintain approval in any jurisdiction where approval is required will prevent us from selling new products in that jurisdiction until approval is obtained or reinstated, if ever, which could have a material adverse effect on our business, financial condition and results of operations.

After regulatory approvals or licenses are obtained, the subsequent discovery of previously unknown manufacturing, quality control or regulatory documentation problems or failure to maintain compliance with the regulatory requirements may result in restrictions on the marketing of a product, revocation of the license,

withdrawal of the product from the market, seizures, injunctions, or criminal sanctions. Poor control of production processes by us or by any of our suppliers could lead to the introduction of contaminants or to inadvertent changes in the properties or stability of our product candidates that may not be detectable in final product testing, any of which could have a material adverse effect on our business, financial condition and results of operations.

Our research and development program for Letrozole ISM is based on preclinical research findings that have not yet been replicated in humans, or which could have limited applicability.

Our research and development program for *Letrozole ISM* is based on preclinical research findings. While preclinical studies in certain animals have produced encouraging results, *Letrozole ISM* has just started to be tested in clinical trials involving humans, and only preliminary results have been obtained. Because these are preliminary results, the complete profile for the first dose being tested has not yet been obtained. Following completion of further clinical testing, we could reach different conclusions with respect to the viability of the clinical use of the formulation, and results of the dose tested could significantly vary when tested in a larger number of subjects. Moreover, dose responsiveness, linearity and proportionality have not yet been evaluated. Furthermore, we are still working to resolve certain quality aspects of *Letrozole ISM* that are prerequisites to commencing the second stage of Phase I and further clinical trials, and the results of such efforts may not be satisfactory. Our preclinical research findings have not been sufficiently proven in humans and may not be as effective as alternative treatments, in which case *Letrozole ISM* may not be marketable or may be inferior to other products on the market. If this were the case, we may not be able to market *Letrozole ISM* successfully, or at all, which could have a material adverse effect on our business, results of operations and financial condition.

If serious adverse side effects are identified for any product candidate, we may need to abandon or limit our development of that product candidate, which may delay or prevent marketing approval, or, if approval has already been received for such product candidate, we may be required to take it off the market, include safety warnings or otherwise limit sales of such product.

Not all adverse effects of drugs can be predicted or anticipated. Serious unforeseen side effects from any of our product candidates could arise either during clinical development or, if already approved by regulatory authorities, after the approved product has been marketed. The results of future clinical studies may show that our product candidates cause undesirable or unacceptable side effects, which could interrupt, delay or halt clinical studies, and result in the delay of, or the failure to obtain, marketing approval from the FDA, the EMA and other regulatory authorities, or result in marketing approval from the FDA, the EMA and other regulatory authorities with restrictive label warnings or potential product liability claims. Moreover, as larger numbers of subjects are enrolled in advanced clinical studies for our product candidates or if our product candidates receive marketing approval, the risk that uncommon or low frequency but significant side effects are identified may increase. If any of our product candidates receive marketing approval and we or others later identify undesirable or unacceptable side effects caused by such products, any of the following could occur:

- regulatory authorities may require us to take our approved product off the market;
- regulatory authorities may require the addition of labelling statements, specific warnings, a contraindication or field alerts to physicians and pharmacies;
- we may be required to change the way the product is administered, conduct additional clinical studies or change the labelling of the product;
- we may be subject to limitations on how we may promote the product;
- sales of the product may decrease significantly;
- we may be subject to litigation or product liability claims; and/or
- our reputation may suffer.

Any of these events could prevent us from achieving or maintaining market acceptance of the affected product or could substantially increase commercialization costs and expenses, which in turn could have a material adverse effect on our business, financial condition and results of operations.

Interim and/or preliminary data from our clinical trials that we have announced, or that we may announce or publish from time to time, may change as more patient data become available and are subject to review and verification procedures that could result in material changes in the final data.

From time to time, we may publish interim or preliminary data from our clinical studies. The trials we complete are subject to the risk that one or more clinical outcomes initially observed may materially change as patient enrollment continues and/or more patient data become available. Preliminary data also remains subject to review and verification procedures that may result in the final data being materially different from the preliminary data we previously published. As a result, any interim and preliminary data should be viewed with caution until the final data are available. Material adverse changes in the final data could significantly harm our business prospects.

Our research and development efforts and, in particular, efforts in our ISM platform, may not succeed in developing new commercially successful products or product formulations or identifying new therapeutic indications for existing products.

Like other pharmaceutical and biotechnology companies, in order to remain competitive, we must continue to research, develop and launch new products or product formulations and to identify additional indications for our existing products. Our continued success is dependent on our pipeline of new products currently under development, as well as new products which we may be able to obtain through license or acquisition. To accomplish this, we must make ongoing, substantial expenditures, without any assurance that the efforts we are funding will result in commercially successful products. In the six months ended June 30, 2018 and in the years ended December 31, 2017, 2016 and 2015, we incurred expenditures of €16.8 million, €28.3 million, €17.5 million and €16.5 million, respectively, in connection with our research and development-related activities (*gastos totales de investigación y desarrollo)*. We must also commit substantial efforts, funds and other resources to recruiting and retaining high quality scientists and other personnel with pharmaceutical and biotechnology research and development expertise.

Our research and development activities are mainly focused on our ISM platform and, in particular, on our lead candidate *Doria*, which is in Phase III testing. In addition, we have a second product candidate, *Letrozole ISM*, which is currently in Phase I clinical testing. Our prospects will depend in part on our successful development, approval and commercialization of *Doria*, *Letrozole ISM* and other product candidates. The clinical and commercial success of *Doria*, *Letrozole ISM* and our other product candidates will depend on a number of factors, including the following:

- the outcome and successful execution of our product development process;
- the outcome and successful execution of our studies;
- whether our product candidates' safety, tolerability and efficacy profiles will be sufficient to obtain marketing approval from the EMA, the FDA and similar regulatory authorities;
- the performance of our CROs in conducting, monitoring and managing our preclinical and clinical programs;
- whether the EMA, the FDA or similar regulatory authorities require additional clinical trials prior to granting marketing approval for our product candidates;
- the prevalence and severity of adverse side effects of our product candidates;
- the timely receipt of necessary marketing approvals from the EMA, the FDA and similar regulatory authorities;
- our ability and that of our collaboration partners to successfully commercialize our product candidates, if approved for marketing and sale by the EMA, the FDA or similar regulatory authorities, including educating physicians and patients about the benefits, administration and use of such products;
- achieving and maintaining compliance with all applicable regulatory requirements;

- the acceptance of our product candidates as safe and effective by patients and the medical community;
- the availability, perceived advantages, relative cost, relative safety and relative efficacy of alternative and competing treatments;
- the effectiveness of any collaboration partners' marketing, sales and distribution strategies and operations;
- our ability to generate chemistry, manufacturing and controls data and to validate the manufacturing processes in accordance with the relevant guidelines, and our ability to adapt to future chemistry, manufacturing and controls requirements that might be applicable in the future;
- our ability to manufacture supplies of our products and to develop, validate and maintain commercially viable manufacturing processes that are compliant with current good manufacturing practice, or GMP, requirements;
- our ability to enforce intellectual property rights in and to our products;
- our ability to avoid third-party interference, opposition, derivation or similar proceedings with respect to our patent rights, and avoiding other challenges to our patent rights and patent infringement claims; and
- the maintenance of acceptable safety profiles of our product candidates following approval, if approved.

Many of these factors are beyond our control, including clinical development, the regulatory submission process and potential threats to our intellectual property rights.

The pharmaceutical development period from initiation of preclinical testing to regulatory approval typically takes many years and requires significant expenditures throughout the various phases of the development process. The cost of pharmaceutical development has increased significantly in recent years, while the success rate in developing marketable products has remained relatively low. Most candidate compounds that are the subject of preclinical testing never reach the marketing phase. Each phase of compound testing is highly regulated, and during each phase there is a substantial risk that we will encounter serious obstacles or will not achieve our goals, and accordingly we may abandon a product in which we have invested substantial amounts of time and funds. Before obtaining regulatory approvals for the commercial sale of each product under development, we must demonstrate design quality through pharmaceutical development, quality testing (chemistry, manufacturing and controls), non-clinical testing and clinical testing, that the product is of appropriate quality and is safe and effective for the indicated use. Clinical trials of any product under development, including those based on our ISM technology, may not demonstrate the quality, safety and efficacy required to result in an approvable or marketable product. A number of companies in the pharmaceutical, biopharmaceutical and biotechnology industries have suffered significant setbacks in advanced clinical trials due to lack of efficacy or adverse safety profiles, notwithstanding promising results in earlier studies, and we cannot be certain that we will not face similar setbacks. Even if our clinical trials are completed, the results may not be sufficient to obtain regulatory approval for our product candidates. In addition, regulatory authorities in Europe, the United States or other countries (including the Spanish Agency of Medicines and Sanitary Products (the "AIMPS"), the EMA, the FDA and other national health authorities) may require additional studies, which could result in increased costs and significant development and/or marketing delays, or the termination of a project if it would no longer be economically viable.

Moreover, we believe our Phase I clinical testing for *Letrozole ISM* is particularly vulnerable to the risk that the clinical testing results may not achieve the expected outcome given the early nature of the testing being performed. If we are unsuccessful in the Phase I clinical testing of *Letrozole ISM*, it may become especially challenging, or impossible, to continue to move such product candidate forward toward eventual marketing authorization.

The successful and timely completion of clinical trials is dependent upon, among other factors, enrolling a sufficient number of patient candidates. Patient enrollment is a significant factor in the timing of clinical trials and is affected by many factors, including the size and nature of the patient population, the proximity of patients to clinical sites, the eligibility criteria for the trial, the design of the clinical trial, competing clinical trials and clinicians' and patients' perceptions as to the potential advantages of the drug being studied in relation to other available therapies, including any new drugs or treatments that may be approved for the indications we are investigating. Delays in the completion of any clinical trial of our candidate products will increase our costs, slow

down our candidate products development and approval process and delay or potentially jeopardize our ability to commence product sales and generate revenue. In addition, many of the factors that cause, or lead to, a delay in the commencement or completion of clinical trials may also ultimately lead to the denial of regulatory approval of our pipeline products.

Conducting clinical trials in foreign countries presents additional risks that may delay completion of clinical trials. These risks include the failure of physicians or enrolled patients in foreign countries to adhere to clinical protocol as a result of differences in healthcare services or cultural customs, managing additional administrative burdens associated with foreign regulatory schemes, as well as political and economic risks relevant to such foreign countries. In addition, the EMA or the FDA may determine that the clinical trial results obtained in foreign subjects do not represent the safety and efficacy of a product candidate when administered to EEA or U.S. patients, and are thus not supportive of an application for a marketing authorization in the EEA or of an approval in the United States. As a result, the EMA or the FDA may not accept data from clinical trials conducted outside the EEA or the United States, respectively, and may require that we conduct additional clinical trials or obtain additional data before we can proceed with filing in the United States or a marketing authorization application in the EEA. The EMA or the FDA may even require conducting additional clinical trials in the EEA or the United States, respectively.

We must maintain a continuous flow of successful new products and successful new indications, formulations or brand extensions for existing products sufficient both to cover our substantial research and development costs to increase our sales and to offset declines in sales that may result from profitable products losing patent exclusivity or market share to competing products or therapies. Failure to do so in the short term or long term would have a material adverse effect on our business, financial condition and results of operations.

We are dependent on our patent and other intellectual property rights, and if our patent or other intellectual property rights are invalidated or circumvented, our business, financial condition and results of operations could be materially adversely affected.

Our success depends in part on our and our licensing partners' ability to protect trade secrets, apply for, obtain, maintain and enforce patents and operate without infringing upon the proprietary rights of others.

Patent protection is materially important to the successful marketing of our products in all jurisdictions in which we do business. Patents covering products that we have developed, acquired or licensed provide market exclusivity, which is essential to the success of our business. We seek patents covering each of our products in each of the markets where we intend to sell the products and where meaningful patent protection is available. Moreover, we rely on patents obtained and owned by our partners with respect to in-licensed products that we market. However, patent protection varies in its duration and scope from product to product and country to country.

The patent application process, also known as patent prosecution, is expensive and time-consuming, and we and our current or future licensors and licensees may not be able to prepare, file and prosecute all necessary or desirable patent applications at a reasonable cost or in a timely manner. It is also possible that we or our current licensors, or any future licensors or licensees, will fail to identify patentable aspects of inventions made in the course of development and commercialization activities before it is too late to obtain patent protection on them. Therefore, these and any of our patents and applications may not be prosecuted and enforced in a manner consistent with the best interests of our business. It is possible that there may be defects in the form, preparation or filing of our patents or patent applications, for example with respect to proper priority claims and inventorship, among others. If we or our current licensors or licensees, or any future licensors or licensees, fail to establish, maintain or protect such patents and other intellectual property rights, such rights may be reduced or eliminated. If our current licensors or licensees or any future licensors or licensees, are not fully cooperative or disagree with us as to the prosecution, maintenance or enforcement of any patent rights, such patent rights could be compromised. If there are material defects in the form, preparation or filing of our patents or patent applications, such patents or applications may be invalid and unenforceable. Any of these outcomes could impair our ability to prevent competition from third parties, which may materially adversely affect our business, financial condition and results of operations.

The degree of future protection of our proprietary rights, or those of our in-licensed products, is uncertain. Moreover, certain of our products are not protected by patents, and the patent protection of others may expire. The principal patent for bemiparin, our flagship product, expires in 2019. Although we believe that the technical complexity of bemiparin and the lack of entry of competitors for other similar products with larger markets following patent expiration suggest that we may not face immediate strong competition to bemiparin from generics

and biosimilars, the expiration of that patent and the potential entry of new competitors, such as generics, or a reduction in price associated with the loss of patent protection, could nonetheless have a material adverse effect on our business, results of operations and financial condition. In addition, the patent for *Absorcol* expired in April 2018, and a price reduction is expected in *Absorcol*. The patent for *Vytorin* expires in April 2019. Competitor products containing the same active ingredients as *Absorcol* and *Vytorin* have already begun commercialization in the market. Any loss of market share in respect of these products as a result of the foregoing may materially adversely affect our business, financial condition and results of operations.

In addition, patent protection may be unavailable or severely limited in some cases and may not adequately protect our rights or permit us to gain or keep our competitive advantage. For example:

- we might not have been the first to invent or the first to file the inventions covered by each of our pending patent applications and issued patents;
- others may independently develop similar or alternative technologies or duplicate any of our technologies;
- the patents of others may have an adverse effect on our business;
- any patents we obtain or our in-licensed issued patents may not encompass commercially viable products, may not provide us with any competitive advantages or may be challenged by third parties;
- any patents we obtain or our in-licensed issued patents may not be valid or enforceable; or
- we may not develop additional proprietary technologies that are patentable.

Even if we succeed in obtaining patents covering our products, third parties or government authorities may challenge or seek to invalidate or circumvent our patents and patent applications, and we must defend such patent rights successfully. We could also face competition from counterfeit products that are sold in violation of our patents and trademarks. We have been involved in patent litigation in the past, including related to products manufactured by us for third parties in our toll manufacturing business, and our patents (or those held by such third parties) may be challenged or we may have to pursue patent infringement actions against other parties in the future. With respect to intellectual property protection for our in-licensed products, we rely on the owners of such patents and SPCs to disclose to us any patent challenges they face, and we can provide no assurance that such disclosure is adequately made to us. Our ability to defend our intellectual property rights varies across jurisdictions. Patent litigation and other patent challenges are unpredictable, may be costly and we may be unable to successfully defend our patent rights or may fail to defend ourselves successfully in the event that a patent infringement claim is brought against us, which could deprive us of market exclusivity for a patented product. Moreover, success in one jurisdiction does not guarantee success in any other jurisdiction. Finally, in some cases, third party patents may prevent us from marketing and selling a product in a particular geographic area. If one or more of our proprietary or in-licensed products lose patent protection in profitable markets, sales of those products may decline significantly, which would materially adversely affect our business, financial condition and results of operations.

We rely on third parties to conduct our preclinical studies and clinical trials and to perform other important tasks.

We rely upon third-party contract research organizations ("CROs") to conduct, monitor and manage the majority of our preclinical and clinical programs. We rely on these parties for execution of these preclinical studies and clinical trials, and we control only certain aspects of their activities. Our reliance on CROs does not relieve us of our regulatory responsibilities, which are enforced by regulatory authorities through periodic inspections of study sponsors, principal investigators, trial sites and other contractors. If we or any of our CROs or vendors fail to comply with applicable regulations, the data generated in our preclinical studies and clinical trials may be deemed unreliable, and regulatory authorities may require us to perform additional preclinical studies and clinical trials before approving our marketing applications. We cannot guarantee that upon inspection by a given regulatory authority such regulatory authority will determine that all of our clinical trials comply with relevant regulations.

If any of our relationships with these third-party CROs terminates, we may not be able to enter into arrangements with alternative CROs or do so on commercially reasonable terms. Switching or adding additional CROs involves additional cost and time, and requires our management's time and focus. In addition, CROs may not

successfully carry out their contractual duties or obligations or may not meet expected deadlines, which could result in delay or termination of our clinical trials or failure to obtain regulatory approval or successful commercialization of our candidate products. If any of these risks occur, it could have a material adverse effect on our business, results of operations and financial condition.

If we are unable to prevent disclosure of our trade secrets or other confidential information to third parties, our competitive position may be impaired.

In addition to patents, we rely on trade secrets and proprietary know-how. We seek protection, in part, through confidentiality and proprietary information clauses in agreements with our collaboration partners, employees, consultants, outside scientific collaboration partners and sponsored researchers and other advisors. Although we generally require all of our employees, consultants, advisors and any third parties who have access to our proprietary know-how, information or technology to assign or grant similar rights to their inventions to us, and endeavor to execute confidentiality agreements with all such parties, we cannot be certain that we have executed such agreements with all parties who may have contributed to our intellectual property or who had access to our proprietary information, nor can we be certain that our agreements with such parties will not be breached. These agreements may not effectively prevent disclosure of confidential and proprietary information and may not provide an adequate remedy in the event of unauthorized use or disclosure of confidential and proprietary information. We cannot guarantee that our trade secrets and other confidential proprietary information will not be publicly disclosed or that competitors will not otherwise gain access to our trade secrets or independently develop substantially equivalent information and techniques. The failure to obtain or maintain trade secret protection could have a material adverse effect on our financial condition or results of operations.

The failure to secure new products or compounds for development and/or distribution, either through in-licensing or acquisition, may have an adverse impact on our future results.

Our future results will depend in significant part upon our ability to in-license or acquire new products or compounds for development and/or distribution, as well as to realize co-marketing rights that we have under an agreement with a partner. In the six months ended June 30, 2018 and in the years ended December 31, 2017, 2016 and 2015, 39.2%, 40.6%, 42.1% and 37.0%, respectively, of our revenues (*importe neto de la cifra de negocios*) were accounted for by in-licensed products. If our in-licensed products lose market share, suffer material price decreases or lose their patent exclusivity protection, or if any of our in-licensing agreements expire or are terminated, our ability to increase or maintain our current sales levels will depend, to a significant degree, on our ability to replace them with proprietary or additional in-licensed products. Moreover, from time to time we have had disputes with our in-licensing partners regarding our alleged non-compliance with the terms of our agreements. In addition, we may not be able to renew existing in-licensing agreements upon their expiration on commercially reasonable terms, if at all. In particular, the in-licensing agreement with respect to one of our principal products expires before the end of 2019, if not extended according to its terms. Our failure to in-license or acquire new products or compounds for development or to retain our currently in-licensed products on a commercially reasonable basis, or at all, could have a material adverse effect on our business, financial condition and results of operations.

Certain of our raw materials and product components are sourced from a small number of suppliers and any disruption in our product supply chain, including as a result of contamination of raw materials of biological origin, may result in us being unable to continue marketing or developing a product on a commercially viable basis.

We depend on a small number of suppliers to provide us with raw materials used in the production of the pharmaceutical products that we manufacture. We work closely with such suppliers and depend on them not only to provide raw materials and product components, but we also rely on their assistance when seeking marketing authorization for new products. We can provide no assurance that we will not face disruptions in the supply of key raw materials.

The clinical studies for the development and approval of our products depend on our ability to procure active ingredients, excipients and packaging materials from sources approved by regulatory authorities. As the marketing approval process requires manufacturers to specify their own proposed suppliers of active ingredients in their applications, regulatory approval of a new supplier would be required if active ingredients were no longer available from the specified supplier, or in the event we wish to add a new supplier. We are also subject to the risk that

suppliers will not be able to meet the quantities needed by us to meet market requirements, particularly in the context of any global shortage. Although we generally do not begin a clinical study unless we believe we have on hand, or will be able to manufacture, a sufficient supply of a product candidate to complete such study, any significant delay or discontinuity in the supply of a product candidate, or the raw material components thereof, for a clinical study due to the need to replace a third-party manufacturer could considerably delay completion of our clinical studies, product testing, and potential regulatory approval of our product candidates.

As noted above, we rely on a small number of suppliers for active ingredients for our products. For example, we obtain our supply of sodium heparin, the raw material of biological origin for our LMWH products, including bemiparin and *Becat*, from a very limited number of suppliers. With respect to bemiparin, we currently have four suppliers of sodium heparin, one of which in 2017 supplied more than half of our sodium heparin needs for bemiparin. With respect to *Becat*, we currently rely exclusively on two suppliers, and we are actively working to add additional approved suppliers. We have in the past and may in the future experience conflicts with our suppliers of sodium heparin. Because sodium heparin is produced from pig mucosa, other circumstances, such as major events, shortages or diseases affecting the global pig stock, such as another H1N1 or H3N2 (swine flu) or swine fever epidemic, have in the past and could in the future significantly impact and jeopardize our supply of sodium heparin and the supply of sodium heparin in the market generally. Any of these or other circumstances could lead to a significant increase in the price of sodium heparin, with a corresponding negative effect on our margins for both bemiparin and *Becat*.

We also rely on small numbers of suppliers to meet our needs for other components and ingredients, some of which have been specifically developed for our ISM products under development. For example, we rely on small numbers of suppliers to provide polymers, solvents, syringes and stoppers as primary packaging materials for our ISM products as well as for other products developed and/or manufactured by us. Although we seek to maintain sufficient inventory of syringes and the other components used in the production of our products to mitigate the risk of a shortage, we may be unable to obtain sufficient excipients, syringes or other components from another source if any of our key suppliers were to cease or interrupt production or otherwise fail to supply syringes and other components to us in sufficient quantities to enable us to satisfy demand for the development and registration of our products under development and for the manufacture of our other products or for products produced in connection with our toll manufacturing services. Due to regulatory requirements, it is not always possible to substitute excipients, syringes or other components, in particular for our for our ISM products in development. When possible, such substitution typically requires new regulatory approvals and can lead to significant delays.

We may also face the risk that raw materials supplied by our suppliers do not meet the required quality standards. For example, a supplier might detect a quality problem in the batches that have been delivered to us. Such quality issues can lead to a recall of the relevant medication delivered by us into the market or supplied for clinical trials. This could lead to significant delays, economic burden and even the interruption of the development program of the relevant product if under development or the commercial supply of an authorized product.

In many instances, our suppliers in turn source from various other suppliers, particularly suppliers dependent on raw materials sourced in China. There is no assurance that these suppliers will continue to be able to source adequate raw materials, to supply active ingredients to us on commercially viable terms, or at all, particularly in the context of any global shortage, or that these suppliers will be able to supply ingredients to us that meet regulatory requirements. We do not have any control over the process or timing of the acquisition of these raw materials by our third-party suppliers. If we were to experience any disruption in our supply chains or if prices of sodium heparin or other of our raw materials were to significantly increase, it could have a material adverse effect on our business, financial condition and results of operations.

The loss of or our inability to hire highly qualified senior management and scientific personnel could materially adversely affect our business.

We face intense competition for highly qualified scientific personnel from other companies, academic institutions, government entities and other organizations. We may not be able to successfully attract and retain such personnel due to the intense competition for qualified personnel among biotechnology, pharmaceutical and other businesses. Our industry has experienced a high rate of turnover of management personnel in recent years. If we are not able to attract, retain and motivate necessary personnel to accomplish our business objectives, we may experience constraints that will significantly impede the achievement of our development objectives, our ability to raise additional capital and our ability to implement our business strategy.

In addition, we rely on experienced senior management personnel, including our Chief Executive Officer, Juan López-Belmonte Encina. The loss of any such key personnel or the inability to attract and retain highly skilled employees required for our activities could have an adverse effect on our business as it could delay or prevent the successful development of our product pipeline, completion of our planned clinical trials or the commercialization of our product candidates.

We would be adversely affected by the elimination of or reductions in tax deductions and/or subsidies relating to research and development, or other changes in tax regulations.

Certain of our research and development activities have been and continue to be funded in part by government subsidies and supported by tax deductions. For example, for the year ended December 31, 2017, government subsidies related to research and development accounted for 4.5% of our total research and development-related expenditure and tax deductions related to research and development amounted to €5.1 million. There can be no guarantee that research and development expenses will continue to give rise to subsidies or will result in new tax deductions. Moreover, the relevant tax authorities could decide to disallow certain of these tax deductions, and generally the last five years of our tax returns are open for inspection. In the same sense, the granting authorities of subsidies or other forms of public funding could consider that the objectives of the aid have not been attained, or that the relevant conditions have been breached, and require us to refund the amounts received. The elimination of or reduction in subsidies or tax deductions related to research and development expenses would lead to a decline in our cash flows and working capital, and could require us to devote additional resources to scale back our research and development activities, which could have a material adverse effect on our business, financial condition and results of operations. Additionally, other changes in tax regulations could have a material adverse effect on our business, financial condition and results of operations.

We face risks related to tax compliance.

Due to our size and the complexity of our corporate structure, we face risks related to our compliance with applicable tax laws. Although we believe our income tax liabilities are reasonably estimated and accounted for in accordance with applicable laws and principles, failure to comply with all applicable tax rules could negatively affect our reputation, and we could be subject to tax audits, investigations and other claims, any of which could have a material adverse effect on our business, financial condition and results of operations.

We rely on certain customers for a significant portion of our revenues and cash flows.

We rely on certain customers for a significant portion of our revenues and cash flows. Historically, a significant proportion of our revenues were accounted for by pharmaceutical product sales to Spanish national and regional health authorities and public hospitals and clinics managed by such health authorities, as well as from filling and packaging services provided by us to a small number of customers, in particular Merck Sharp & Dohme (“MSD”) and Bioceuticals Arzneimittel. We expect our provision of products and services to such customers to continue to account for a significant portion of our revenues and cash flow in the near future. However, we cannot assure you that such customers will continue their business arrangements with us on comparable terms, or at all. If any of these arrangements are terminated or do not yield favorable results, it could have a material adverse effect on our business, results of operations and financial condition.

We face the risk of inventory theft and diversion, which could result in increased operating costs.

Many of our products are valuable, and their small size and packing render them particularly susceptible to theft and diversion in the course of fulfillment and distribution. If the good distribution practice security measures we use at our manufacturing centers and during the manufacturing process do not prevent significant inventory theft and diversion, our gross profit margins and results of operations may be harmed. Any of these developments, individually or in the aggregate, could have a material adverse effect on our business, financial condition and results of operations.

Our internal computer systems, or those of third-party contractors or consultants, may fail or suffer security breaches, which could result in a material disruption of our business.

Despite the implementation of security measures, our internal computer systems and those of third-party contractors and consultants are vulnerable to damage from computer viruses, unauthorized access, natural disasters, terrorism, war and telecommunication and electrical failures. While we have not experienced a material system

failure, accident or security breach to date, if such an event were to occur and cause interruptions in our operations, it could result in a material disruption of our business. For example, the loss of clinical trial data from completed or ongoing clinical trials for any of our product candidates could result in delays in our regulatory approval efforts, and the loss of research data could result in delays of our research and development efforts and it would be expensive to recover or reproduce the data. To the extent that any disruption or security breach results in a loss of or damage to our data or applications, or inappropriate disclosure of confidential or proprietary information, we could incur liability and the further development of our product candidates could be delayed, which could have a material adverse effect on our business, financial condition or results of operations.

In addition, our operations, including our research, development, manufacturing, accounting, storage, delivery and product tracing, are highly dependent on our information technology systems, the operation and maintenance of which we have outsourced to Atos SE. If Atos SE were to suffer a breakdown in its systems, we could experience significant disruptions affecting our research, development, manufacturing, accounting and billing processes, which could have a material adverse effect on our business, financial condition and results of operations.

The outsourcing of certain services can create a significant dependency on third parties, whose failure could adversely affect our ability to operate our business effectively.

We have entered into agreements with third parties for the provision of certain services that enable us to operate our business, including our payroll, accounting and information technology systems, the conduct of clinical trials, supply of raw materials and product components and the distribution and delivery of our products. If a third-party contractor or partner can no longer provide the service on the agreed basis, or at all, we may not be able to obtain the necessary regulatory approvals, or continue the development or marketing of our products as planned or on a commercially viable basis, if at all. Any failure by a third party on which we rely to perform the agreed upon services on a timely basis, or at all, could have a material adverse effect on our business, financial condition and results of operations.

We collect and process data as part of our daily business and the leakage of such data may violate laws and regulations which could result in fines and loss of reputation and customers.

We collect, store and use data in the ordinary course of our operations that is protected by data protection laws. Although we take precautions to protect customer, patient and other data in accordance with the privacy requirements provided for under applicable laws we may fail to do so and certain data may be leaked as a result of human error or technological failure or otherwise be used inappropriately. We also work with independent and third-party suppliers, partners, sales agents and service providers, and we cannot exclude that such third parties could also experience system failures involving the storage or transmission of proprietary information. Violation of data protection laws by us or one of our partners or suppliers may result in civil or administrative fines, criminal sanctions, reputational harm and customer losses and could have a material adverse effect on our business, financial condition and results of operations.

Product liability claims or product recalls involving our products or products we distribute could have a material adverse effect on our business.

Product liability constitutes a substantial commercial risk for us and one which could increase if our business expands into new markets, particularly in the United States (where the costs associated with product liability claims can be especially burdensome). Considerable sums in damages have been awarded in certain countries against pharmaceutical companies due to physical harm allegedly caused by the use of certain products (including prescription pharmaceuticals and medical devices such as syringes). For example, we may be sued if any product we develop allegedly causes injury or is found to be otherwise unsuitable during product testing, manufacturing, marketing or sale. Any such product liability claims may include allegations of defects in manufacturing, defects in design, a failure to warn of dangers inherent in the product, negligence, strict liability, and a breach of warranties. Claims could also be asserted under state consumer protection acts. Product liability claims may be expensive to defend and may result in judgments against us which are potentially punitive. If we cannot successfully defend ourselves against product liability claims, we may incur substantial liabilities or be required to limit commercialization of our product candidates. Even successful defense would require significant financial and management resources. Regardless of the merits or eventual outcome, liability claims may result in any of the following:

- decreased demand for our product candidates;
- injury to our reputation;
- withdrawal of clinical trial participants;
- costs to defend the related litigation;
- a diversion of management's time and our resources;
- substantial monetary awards to trial participants or patients;
- regulatory investigations, product recalls or withdrawals, or labeling, marketing or promotional restrictions;
- loss of revenue; and
- the inability to commercialize or co-promote our product candidates.

Certain pharmaceutical companies have recently had to withdraw products from the market as a result of large claims based on product liability. Although we are not currently involved in material proceedings arising from product liability, it is possible that such proceedings could be commenced in the future. While we believe that our product liability insurance coverage is consistent with industry practice and is sufficient to insure us against the immediate financial risk of successful claims based on product liability, we cannot assure you that this will be the case. Insurance coverage in the pharmaceutical industry is becoming more and more expensive. In addition, we may be unable to obtain or to retain insurance coverage on terms commercially acceptable to us, if at all, and the insurance available to us may not provide adequate protection against all potential risks.

Our use of chemicals and other substances could pose risks to employees as well as the environment.

We use several different chemicals and produce various chemical byproducts in conducting research and during the manufacturing process of our products. Although such use is carried out following strict internal and regulatory guidelines designed to mitigate risks, it is possible that misuse or accidents could occur that could cause harm to our employees or to the environment. Any such event, and any claims and liability resulting therefrom, could potentially exceed the limit of insurance cover taken out by us, which could have a material adverse effect on our business, financial condition and results of operations.

In addition, we are subject to specific environmental regulations governing, among other things, soil contamination, waste products, atmospheric and water emissions and management of chemical waste. We may become subject to claims by third parties or by the competent health authorities in connection with obligations imposed by these regulations, which could result in the payment of damages, the imposition of other sanctions and, in the worst case, the cessation or suspension of our operations.

There is no assurance that we will realize our operating revenue expectations or any other anticipated figures set forth in this document.

Our operating revenue expectations for 2018 included those set forth in this document rely on a number of important assumptions regarding future economic, competitive and other conditions, and our future operations and business decisions. Such assumptions, many of which are outside our control, include assumptions regarding economic growth, the continuation of our in-licensing and out-licensing agreements, the continuation of tax deductions and/or subsidies related to research and development activities conducted in Spain, actions of relevant government and other applicable regulatory bodies, the continued validity of our patents and those of our in-licensing partners and our business relationships with certain key suppliers and customers.

While we believe the assumptions which underlie our operating revenue expectations are reasonable, they are inherently subject to significant business, operational, economic and other risks and uncertainties, including those described elsewhere in this document, many of which are outside our control. If such assumptions prove to be incorrect, we may not be able to achieve some or all of our operating revenue expectations and other anticipated figures included in this document, which, among other things, could cause the price of our shares to decline. We can provide no assurance that we will be able to achieve our operating revenue expectations and other anticipated figures

included in this document. Actual results may vary significantly from our stated expectations. Such expectations should not be regarded as a forecast, guarantee or representation by us or any other person that we will achieve these expectations. See “Forward-Looking Statements.”

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion contains certain forward-looking statements that involve risks and uncertainties. Our future results could differ materially from those discussed below. Factors that could cause or contribute to such differences include, without limitation, those discussed in the sections entitled "Risks Relating to Our Business and Industry", "Forward-Looking Statements" and "Business" in this document.

Overview

We are a fully-integrated European specialty pharmaceutical company engaged in the research, development, manufacturing and marketing of pharmaceuticals and contrast imaging agents. We have leveraged our unparalleled know-how of the low molecular weight heparin or "LMWH" market to develop our two flagship products, bemiparin, which we directly market in Spain under the name *Hibor*, and our enoxaparin biosimilar *Becat*. We are also the partner of choice for global pharmaceutical players in Spain and market a diversified portfolio of both proprietary and in-licensed products through our approximately 250-person specialized sales force. Further, we utilize our state-of-the-art filling and packaging capabilities to provide a broad array of toll manufacturing value-added services to leading international pharmaceutical companies, including the manufacture of pre-filled syringes for which we are one of the leading global manufacturers in terms of annual number of units manufactured. In addition, we manufacture solid oral forms (tablets, coated tablets, hard capsules and sachets) using state-of-the-art roller compaction technology, and suppositories. Our research and development strategy is primarily focused on addressing currently unmet medical needs by expanding applications for our sustained release injectable ("ISM") technology, which currently has two clinical programs in various stages of development. In the six months ended June 30, 2018 and in the years ended December 31, 2017, 2016 and 2015, we generated revenues (*importe neto de la cifra de negocios*) of €146.3 million, €275.6 million, €265.2 million and €246.0 million, respectively, and profit (*resultado del ejercicio*) of €7.6 million, €17.2 million, €26.1 million and €19.8 million, respectively.

Our diversified portfolio of more than 40 principal marketed products has a strong patent position and is anchored by bemiparin. In the year ended December 31, 2017, bemiparin accounted for €83.9 million in revenues (or 30.4% of our revenues for the year) and, as of June 30, 2018, bemiparin was marketed by our international licensing partners in 56 countries outside of Spain, was registered and pending launch in four additional other countries and was awaiting approval in 14 additional countries.

We directly market all of our products in Spain and Portugal and have recently begun expanding elsewhere in Europe. Since 2014, we have expanded our direct sales efforts internationally, opening sales offices in Germany, the United Kingdom, Italy and France, initially to focus on marketing *Becat*. We started the commercialization of *Becat* in September 2017 and, as of the date of this document, we directly market *Becat* in Germany, the United Kingdom, Italy and Spain, and indirectly in France pursuant to an agreement with Biogaran. We have been approved to directly market *Becat* in three additional countries, are approved for out-licensed marketing in 19 countries, and are pending approval for out-licensing in 46 additional countries. We have already signed out-licensing agreements with respect to 45 countries to distribute *Becat*, including an agreement with Hikma with respect to the Middle East and North Africa, and another agreement with Sandoz with respect to 14 countries/regions. Sales of *Becat* amounted to €8.9 million in the six months ended June 30, 2018. We expect *Becat* will be the core driver of our future growth in the coming years, and that the international direct marketing sales network we are establishing for *Becat* will form the basis of our European specialty pharmaceutical business and ISM platform, which we expect to drive growth in the long term.

Our specialized sales force is currently composed of approximately 250 highly-trained personnel, located mainly in Spain, and in Germany, the United Kingdom, Italy, France and Portugal. We have a diverse portfolio of proprietary and in-licensed pharmaceutical products focused on nine key therapeutic franchises centered on significant unmet medical needs. These nine key therapeutic franchises, organized around the expertise of our sales force, are "cardiovascular", "osteoarticular", "respiratory", "urology", "contrast imaging", "anesthesia/pain relief", "central nervous system", "endocrinology" and "primary care." Leveraging our existing sales channels and strong brand name, we also market over-the-counter and other non-prescription pharmaceutical products.

With regard to our manufacturing activities, we have six manufacturing plants, including four full-scale plants and two pilot plants, where we manufacture our proprietary products, and we also provide a wide range of services to other companies under toll manufacturing agreements, including product manufacturing, syringe filling,

packaging and running clinical trials. We have an injectables filling and packaging plant in San Sebastian de los Reyes, and we are one of the leading global manufacturers of pre-filled syringes in terms of number of units manufactured annually, with annual production capacity of approximately 120 million syringes and 60 million vials. We also have a manufacturing plant in Madrid, with annual production capacity of 150 million syringes and 150 million suppositories, and an additional plant in Alcala de Henares, with annual production capacity of three billion tablets, 300 million hard capsules and 30 million sachets. In addition, we have a state-of-the-art manufacturing plant in Granada, Spain, focused on our bemiparin and enoxaparin production, with an annual production capacity of 120 billion international units ("MUI") and risperidone and letrozole plants in Madrid, with annual production capacities of 220 thousand syringes each.

In our toll manufacturing business, we have successfully capitalized on our manufacturing expertise through the provision of high value-added contract product manufacturing, syringe filling and packaging services to leading international pharmaceutical companies, including Novartis, Sanofi-Pasteur, Grifols and MSD, among others. In the year ended December 31, 2017, we produced products that were sold in over 40 countries, and international sales accounted for 80.2% of our toll manufacturing revenues. We believe our solid experience and differentiated manufacturing capabilities in injectables and oral forms drive significant barriers to entry in our toll manufacturing business.

Our research and development activities are a key element of our operations. They are primarily focused on our ISM technology and are designed to balance risks and rewards by focusing on approved well-established products with clinically validated efficacy and safety profiles. We believe our ISM technology has the potential for wide applicability across multiple drug candidates and can provide differentiated delivery solutions for established drugs where there is a large unmet need. In connection with our ISM technology we are developing *Doria*, an atypical antipsychotic pharmaceutical approved for the treatment of schizophrenia, currently in Phase III clinical trials, and long-acting *Letrozole ISM* for breast cancer, currently in Phase I clinical trials. We view these candidates as particularly promising in potentially addressing significant medical needs. In the six months ended June 30, 2018 and in the years ended December 31, 2017, 2016 and 2015, we incurred research and development expenses (*gastos de investigación y desarrollo*) of €16.8 million, €28.3 million, €17.5 million and €16.5 million, respectively. We consider that our ISM technology platform involves a different business model than our other activities, with a different risk profile given the focus on already approved compounds, and with the potential for international growth, including Europe and the United States. As a result, we expect to continue to focus on our ISM technology and consider how best to develop and grow our ISM platform in the future in light of its characteristics.

Key Factors Affecting our Results of Operations

Our results of operations are affected by a number of factors, including the following.

Sales of our flagship proprietary product, bemiparin, and increasingly going forward, sales of our enoxaparin biosimilar, Becat

A substantial portion of our income is generated by our flagship proprietary LMWH, bemiparin (marketed under the names *Hibor*, *Ivor*, *Zibor, Ivorat, Ivormax* and *Badyket*). We began marketing bemiparin in Spain in 1998, and it has been our top-selling pharmaceutical product during each of the financial periods reviewed in this document. In the six months ended June 30, 2018 and in the years ended December 31, 2017, 2016 and 2015, our sales of bemiparin accounted for 33.0%, 30.4%, 30.0% and 30.5%, respectively, of our total revenues (*importe neto de la cifra de negocios*), and any change in our sales of bemiparin affects our revenues and cash flows. In addition, our sales of bemiparin outside of Spain are dependent on the marketing efforts of our international licensing partners and any factors that affect bemiparin sales by our international licensing partners could affect our total sales of goods.

Going forward, we expect to be increasingly focused on the commercialization of our enoxaparin biosimilar, *Becat*, in key markets in Europe and elsewhere. As of the date of this document, we directly market *Becat* in Germany, the United Kingdom, Italy and Spain, and indirectly in France pursuant to an agreement with Biogaran. We have been approved to directly market *Becat* in three additional countries, are approved for out-licensed marketing in 19 countries, and are pending approval for out-licensing in 46 additional countries. We have already signed out-licensing agreements with respect to 45 countries to distribute *Becat*, including an agreement with Hikma with respect to the Middle East and North Africa, and another agreement with Sandoz with respect to 14 countries/regions.

Developing and marketing new products

We invest substantial time, effort and financial resources in research and development to maintain a pipeline of marketable proprietary products. In the six months ended June 30, 2018 and in the years ended December 31, 2017, 2016 and 2015, we incurred expenses of €16.8 million, €28.3 million, €17.5 million and €16.5 million, respectively, in connection with our research and development-related activities (*gastos totales de investigación y desarollo*), which were allocated to various line items of our consolidated income statement, based on the nature of the expenses. These expenses increased in the year ended December 31, 2017 primarily due to the preparation and beginning of the Phase III trial for *Doria*, which began in May 2017, and the Phase I trial for *Letrozole ISM*, which began in November 2017. We expect average research and development expenses to be approximately €32 million per year over the 2017-2019 period, of which €30 million we expect to relate to our ISM platform, and €22 million per year over the 2020-2021 period, nearly all of which we expect to relate to our ISM platform. Moreover, with respect to *Letrozole ISM*, these estimates of future research and development expenses do not include clinical testing beyond the current Phase I.

We expect our total financing needs for our ISM platform to be approximately €150 million through 2021, which we expect to finance through internal cash flow generation, debt capacity and other sources of financing such as bank debt or debt or equity capital markets transactions. We can provide no assurance that our future research and development and other expenses related to our ISM platform will not exceed these estimates, and we expect that they will exceed these estimates if the Phase I clinical tests of *Letrozole ISM* are successful and further clinical trials for that product are undertaken. The drug development period from initiation of preclinical testing to regulatory approval typically takes many years and requires significant expenditures throughout the various phases of the development process, with no assurance of success. In addition, even a successfully developed product is subject to regulatory approval and market acceptance. The approval process typically ranges from one to two years from the date of application, and is subject to numerous risks and uncertainties. Our ability to maintain or increase our income in the future depends significantly on our success in developing new products, obtaining and maintaining regulatory approvals in respect of such products, the competitive environment and our ability to successfully market such products, none of which can be assured.

Licensing or acquisition of development and/or distribution rights to new products

We have obtained distribution licenses in Spain for a number of products developed by third parties, which have allowed us to increase our sales and therefore our revenues. In the six months ended June 30, 2018 and in the years ended December 31, 2017, 2016 and 2015, 39.2%, 40.6%, 42.1% and 37.0%, respectively, of our revenues (*importe neto de la cifra de negocios*) were accounted for by products that we in-licensed from other pharmaceutical companies. For example, we license *Vytorin*, *Orvatez*, *Absorcol* and *Exxiv* from Merck Sharp & Dohme ("MSD"). We also license *Hirobriz Breezhaler*, *Ulunar Breezhaler* and *Neparvis* from Novartis, *Volutsa* from Astellas Pharma and *Medicebran* and *Medikinet* from Medice. Our long-term results may depend in significant part upon our success in in-licensing or acquiring development and/or distribution rights to new pharmaceutical products from other companies, which cannot be assured. In 2018, the patent expired on the active ingredient ezetimibe, and a price reduction in *Absorcol* is expected. See "Business—Patent Portfolio" for additional information regarding patents covering the products that we market.

Government payments and other key customers

We receive direct and indirect government payments, including from sales to Spanish and other governmental national and regional health authorities and public hospitals and clinics managed by such health authorities, and indirectly through government payments to pharmaceutical wholesalers and pharmacies. Our results of operations have been in the past and could be in the future affected by late payment on the part of public authorities, and we are subject to the risk of changes in applicable legislation aimed to contain pharmaceutical expense. The use of price controls and reference prices, and the prioritization of generic products, have in the past and could in the future each affect our results of operations.

Moreover, certain of our toll manufacturing customers account for a significant portion of our revenues and cash flows. In the six months ended June 30, 2018 and in the years ended December 31, 2017, 2016 and 2015, 7.1%, 9.4%, 11.2% and 12.8%, respectively, of our revenues (*importe neto de la cifra de negocios*) were accounted for by toll manufacturing services provided by us to two customers, MSD and Bioceuticals Arzneimittel, and we

expect our provision of products and services to such customers to continue to account for a significant portion of our revenue and cash flow in the near future.

Key suppliers

A small number of suppliers provides us with raw materials used in the production of the pharmaceutical products that we manufacture. Although we seek to maintain extensive inventory of raw materials, syringes, packaging materials and other components in order to mitigate the risk of a shortage, we may be unable to obtain sufficient syringes or other components from another source if any of our key suppliers were to cease or interrupt production or otherwise fail to supply syringes and other components to us in sufficient quantities to enable us to satisfy demand for our products and toll manufacturing services. Moreover, our suppliers could require us to renegotiate the conditions under which such components are supplied, leading to increases in our costs.

Key Factors Affecting the Comparability of our Financial Condition and Results of Operations

As a result of the following factors, our financial condition and results of operations as of and for certain of the financial periods discussed in this document may not be directly comparable with our financial condition and results of operations as of and for other financial periods discussed herein or future financial periods.

Entry into force of new financial standards

International Financial Reporting Standards ("IFRS") 15

According to IFRS 15 "Revenue from contracts with customers", revenue is recognized when a customer obtains control of the good or service sold, which is when the customer is able to both direct the use of and obtain the benefits from the good or service. IFRS 15 includes new guidance to determine whether revenue should be recognized over time or at a specific point in time, which requires management judgment.

We have adopted IFRS 15 using the cumulative effect method, in which the cumulative effect of applying the new standard is recognized only from the date of initial application, which was January 1, 2018. Accordingly, the information presented as of and for the six months ended June 30, 2018 has been reported in accordance with IFRS 15; however, information presented as of and for the year ended December 31, 2017 has not been restated and is presented, as previously reported, under IAS 18, IAS 11 and related interpretations.

The following table sets forth the impacts of adopting IFRS 15 on our interim statement of financial position as of June 30, 2018. The adoption of IFRS 15 has not had a material effect on our interim income statement or on our interim statement of cash flows for the six months ended June 30, 2018, and it has had no impact on the accounting for our assets as of June 30, 2018. However, the adoption of IFRS 15 has had the following impacts on our liabilities as of June 30, 2018:

	As at June 30, 2018		
	Amounts without adoption of IFRS 15	**Adjustments**	**As reported**
	(thousands of euros)		
Equity:			
Total equity	**193,114**	**–**	**193,114**
Liabilities:			
Non-current liabilities	**27,942**	**–**	**27,942**
Financial debt	19,389	–	19,389
Deferred income tax liabilities	937	–	937
Contract liabilities	–	3,710	3,710
Deferred income	7,616	(3,710)	3,906
Current liabilities	**91,191**	**–**	**91,191**
Financial debts	19,069	–	19,069
Trade and other payables	67,528	3,805	71,333
Contract liabilities	–	76	76

	As at June 30, 2018		
	Amounts without adoption of IFRS 15	Adjustments	As reported
	(thousands of euros)		
Deferred income	789	(76)	713
Provisions for other liabilities and charges	3,805	(3,805)	–
Total equity and liabilities	**312,247**	**–**	**312,247**

IFRS 9

IFRS 9 "Financial Instruments" addresses the classification, measurement and recognition of financial assets and liabilities. IFRS 9 is effective for financial reporting periods beginning on or after January 1, 2018. This standard replaces IAS 39 "Financial Instruments: Recognition and Measurement". The adoption of IFRS 9 has not had a significant effect on our financial statements.

IFRS 16

According to IFRS 16 "Leases", which replaces IAS 17 "Leases", when accounting for leases it will be necessary, as a general rule, to recognize leases in the statement of financial position and measure lease liabilities. IFRS 16 will be applicable to periods beginning on or after January 1, 2019, and early adoption is permitted. Although we have not yet adopted this standard, an initial qualitative assessment has been carried out to measure the potential impact on our financial statements. A detailed assessment has not been completed. The actual impact of applying IFRS 16 to our financial statements will depend on future economic conditions, including our borrowing levels at January 1, 2019, the composition of our lease portfolio on such date and on our latest assessment of whether we will exercise any lease renewal options and the extent to which we choose to use practical expedients and recognition exemptions. Thus far, the most significant impact identified is that we will recognize new assets and liabilities for our operating leases of manufacturing facilities, buildings and vehicles. In addition, the nature of expenses related to those leases will change as IFRS 16 replaces the straight-line depreciation of operating leases expenses with a depreciation charge for right-of-use assets and interest expense on lease liabilities. We plan to apply IFRS 16 initially on January 1, 2019 using a modified retrospective approach. Therefore, the cumulative effect of adopting IFRS 16 will be recognized as an adjustment to the opening balance of retained earnings at January 1, 2019, with no restatement of comparative information.

Enervit Nutrition joint venture

In March 2016, we and Enervit announced our intention to create a joint venture, Enervit Nutrition, S.L., for the distribution of nutritional and other non-pharmacological products in Spain and Portugal. As of June 30, 2018, we had a 51% interest in this joint venture. In July 2018, we sold to Enervit a 1% interest in Enervit Nutrition, such that Enervit Nutrition is currently 50% held by each company. We record our share of this joint venture under the share of profit of a joint venture line item on our consolidated income statement. In addition, in the year ended December 31, 2016 we recorded €4.0 million of other income (*otros ingresos*) related to the creation of Enervit Nutrition. Moreover, prior to forming this joint venture, we already had been distributing some Enervit products, in particular the EnerZone line of products based on the principles of The Zone Diet, under a previously signed agreement with Enervit. As a result, through the first quarter of 2016 we recorded such sales as over-the-counter sales. Subsequently, all such sales have been attributed to the joint venture.

Critical Accounting Policies

Our financial statements and the accompanying notes thereto contain information that is pertinent to the discussion and analysis of our results of operations and financial condition set forth below. The preparation of financial statements in conformity with IFRS requires our management to make estimates and assumptions that affect the reported amount of assets, liabilities, revenues and expenses, and the related disclosure of contingent assets and liabilities. Estimates are evaluated based on available information and experience. Actual results could differ from these estimates under different assumptions or conditions. We believe that, in particular, the critical accounting policies and estimates discussed below involve significant management judgment due to the sensitivity

of the methods and assumptions necessary in determining the related asset, liability, revenue and expense amounts. For a detailed description of our significant accounting policies, see Note 2 to the audited consolidated annual accounts of the Company as of and for the year ended December 31, 2017 prepared in accordance with IFRS (the "2017 Consolidated Financial Statements").

Recoverability of intangible assets

We recorded assets with indefinite useful life under trademarks and licenses (*marcas comerciales y licencias de vida útil indefinida*) within intangible assets on our consolidated statement of financial position in the amount of €5.4 million at each of June 30, 2018 and December 31, 2017, 2016 and 2015. We review these assets for indications of impairment on an annual basis, although we have not recorded any such impairment to date. We determine the recoverable value of such assets by projecting the relevant forecasted cash flows for the subsequent five years (four years in 2015 and 2016).

Accounting for research and development expenses

We recognize research expenditure as an expense when incurred. Costs related to a given development project are recognized as intangible assets once the following requirements are met: (a) it is technically possible to complete the production of the intangible asset to be available for use or sale; (b) we intend to complete the intangible asset to be used or sold; (c) there is capacity to use or sell the intangible asset; (d) it is possible to show evidence of how the intangible asset will generate probable economic benefits in the future; (e) there are the proper technical, financial or other resources available to complete the development and to use or sell the intangible asset; and (f) it is possible to measure reliably the expenditure attributable to the intangible asset during development. We consider that this test has been met when a drug has been approved for marketing by the health authorities in the case of new products developed under patent, or, in the case of biosimilars or generics, when the application for marketing authorization is filed. We consider this test to have been met for *Becat* since the last quarter of 2014, when we filed an application with the EMA for marketing authorization. As such, from that time until enoxaparin biosimilar began to be sold in September 2017, all related expenses were capitalized. These assets have a useful life of 20 years, which is consistent with the term of pharmaceutical product patents. We expect to have a positive return on this product over such period. For our other products in our research and development pipeline, we consider that the rules for capitalization of such expenses have not yet been met.

Recording deferred tax assets

We recognize deferred tax assets and tax credits when they are likely to materialize in lower corporate income tax payments in the future. In order to determine the maximum amount that can be recognized in relation to the future tax effect of these items, we consider only the estimated future results of subsidiaries whose track record clearly indicates future profits and for which sufficiently reliable estimates may be made.

Although estimates have been made using the best information available on the events analyzed at each period ended, future events may require such estimates to be adjusted (upwards or downwards) in reporting periods. This would be done prospectively by applying IAS 8, recognizing the effects of the change in estimates in our consolidated income statement.

Recognition of revenue from sales of goods

We recognize revenue from the sale of goods when the goods are made available to other pharmaceutical companies that have purchased such goods or at the time of the delivery directly to our customers. IFRS 15 states that an entity that grants the right to return the product should recognize (a) the revenue for the transferred products in the amount of consideration to which the entity expects to be entitled, (b) a refund liability and (c) an asset for its right to recover products. We recognize our revenues net of estimated returns at the date of sale, together with the required refund liability. We do not recognize an asset for the related right to recover products because, based on experience and the type of products sold, goods returned to us cannot be re-sold and consequently do not form part of our inventories.

The amount of revenue recognized is adjusted for expected returns, which are estimated considering the average return rates over recent years. We believe that, based on historical experience, the level of product returns is unlikely to be material during a typical financial period. For example, in the year ended December 31, 2017, revenue

was recognized with a corresponding provision for estimated returns recorded against income, which amounted to €0.7 million (or 0.3% of our total sales of goods (*venta de bienes*)) for the year.

Discounts granted to governmental customers are recorded as a deduction from revenue at the time the related revenues are recorded. When necessary, a liability is recorded and calculated on the basis of historical experience which requires the use of judgment. As such, our revenues from sales to customers are subject to adjustments for rebates, refunds and returns, and such revenues are only recorded when it is it is highly probable that a significant reversal in the amounts of such revenues will not occur.

Recognition of revenue from sales of services (toll manufacturing)

Our revenues from sales of services, principally related to our toll manufacturing activities, consist of revenues from manufacturing and packaging services provided to third parties. These revenues are only recorded once control of the relevant manufactured or packaged goods transfers to the relevant client, when performance obligations are substantially satisfied and when the manufactured or packaged goods are made available to such clients.

Recognition of revenue from sales of services with distribution licenses (out-licensing)

Occasionally we grant licenses to other pharmaceutical companies to sell our products on an exclusive or semi-exclusive basis in a specific territory. Under such out-licensing agreements, we generally also agree to manufacture the relevant pharmaceutical product for the customer. Under such agreements, we collect a single down-payment for the transfer of the license, which is either non-refundable or may be refundable under very strict terms if the product is finally not authorized for distribution in a specific territory. In these contracts signed with third parties, whereby we grant distribution licenses, the obligations arising from the granting of these licenses are always linked to the obligation to supply and manufacture the relevant product, and no other entity may manufacture such product. As our customers cannot benefit from the license without our manufacturing services, the license and the manufacturing services are considered inseparable, and as such we account for the license and the manufacturing service as a single performance obligation.

Additionally, pursuant to these out-licensing agreements we generally have an enforceable right to payment for performance completed in the event that the customer or another party terminates the contract for reasons other than our failure to perform as promised. Consequently, we recognize revenue over time and defer revenues from the granting of product distribution licenses over the units produced.

Principal Consolidated Income Statement Line Items

The following is a brief description of the principal line items of our consolidated income statement.

Revenues

Revenues include (a) revenue from our sales of our proprietary and in-licensed pharmaceutical products, contrast imaging agents and other hospital products and non-prescription pharmaceutical products (sales of goods), (b) toll manufacturing and packaging services provided to third parties (sale of services or "toll manufacturing") and (c), to a significantly lesser extent, the granting of exclusive distribution licenses for products to other companies (revenues from distribution licenses).

The following table presents, for each of the periods indicated, the breakdown of our revenues by source, together with the percentage of our revenues represented by such source of revenues in each such period:

	Year ended December 31,						Six months ended June 30,			
	2015		2016		2017		2017		2018	
	(thousands of euros, except percentages)									
Sales of goods (*Venta de bienes*)	183,507	74.6%	208,365	78.6%	214,309	77.7%	107,808	77.7%	123,230	84.2%
Sale of services (*Prestación de servicios*)	62,333	25.3%	56,632	21.4%	61,099	22.2%	30,863	22.2%	23,041	15.8%
Revenues from distribution licenses	169	0.1%	169	0.1%	241	0.1%	88	0.1%	38	–

	Year ended December 31,						Six months ended June 30,			
	2015		2016		2017		2017		2018	
	(thousands of euros, except percentages)									
(*Ingresos por concesión de licencias de distribución*).....										
Revenues (*Importe neto de la cifra de negocio*).....	**246,009**	**100.0%**	**265,166**	**100.0%**	**275,649**	**100.0%**	**138,759**	**100.0%**	**146,309**	**100.0%**

Sales of goods

The following table presents, for each of the periods indicated, our sales of goods by product category together with the percentage of our total sales of goods represented by such product category:

	Year ended December 31,						Six months ended June 30,			
	2015		2016		2017		2017		2018	
	(thousands of euros, except percentages)									
Prescription pharmaceutical products (*Especialidades farmacéuticas*).....	150,486	82.0%	177,262	85.0%	183,166	85.5%	91,436	84.8%	106,681	86.6%
Contrast agents and other hospital products (*Agentes de contraste y otros productos hospitalarios*)	26,312	14.3%	27,906	13.4%	28,541	13.3%	14,805	13.8%	15,334	12.4%
Non-prescription pharmaceutical products (*Productos de libre dispensación*)(2).....	6,147	3.4%	2,003	1.0%	1,800	0.8%	1,130	1.0%	742	0.6%
Other (*Otros*)(1)	562	0.3%	1,194	0.6%	802	0.4%	437	0.4%	473	0.4%
Total sales of goods (*Total venta de bienes*)	**183,507**	**100.0%**	**208,365**	**100.0%**	**214,309**	**100.0%**	**107,808**	**100.0%**	**123,230**	**100.0%**

(1) Includes primarily sales of non-pharmaceutical aesthetic products.

(2) Until March 31, 2016, this caption included mainly sales of nutritional products.

The following table presents, for each of the periods indicated, sales of our principal pharmaceutical products, together with the percentage of our total sales of pharmaceutical products represented by such product in each such period:

	Year ended December 31,						Six months ended June 30,			
	2015		2016		2017		2017		2018	
	(thousands of euros, except percentages)									
Bemiparin	75,137	49.9%	79,671	44.9%	83,855	45.8%	42,596	46.6%	48,309	45.3%
Becat	–	n.m.	–	n.m.	1,486	0.8%	–	n.m.	8,930	8.4%
Vytorin, *Orvatez* and *Absorcol*	24,280	16.1%	33,487	18.9%	39,423	21.5%	18,957	20.7%	19,593	18.4%
Hirobiz Breezhaler and *Ulunar Breezhaler*	7,459	5.0%	12,232	6.9%	14,298	7.8%	7,038	7.7%	7,700	7.2%
Volutsa	3,208	2.1%	6,910	3.9%	9,000	4.9%	4,275	4.7%	5,353	5.0%
Medicebran and *Medikinet*	7,406	4.9%	7,556	4.3%	7,529	4.1%	4,067	4.4%	3,944	3.7%
Neparvis	–	n.m.	172	0.1%	4,697	2.6%	1,520	1.7%	5,897	5.5%
Corlentor	13,410	8.9%	13,831	7.8%	2,547	1.4%	2,559	2.8%	–	n.m.
Exxiv	5,940	3.9%	5,435	3.1%	3,591	2.0%	2,263	2.5%	1,201	1.1%
Thymanax	7,352	4.9%	5,439	3.1%	3,944	2.2%	2,247	2.5%	–	n.m.
Sintrom	3,348	2.2%	12,372	7.0%	11,834	6.5%	5,885	6.4%	5,829	5.5%
Other products(1)	13,324	8.9%	13,664	7.7%	15,641	8.5%	7,457	8.1%	7,995	7.5%
Discounts to national health system	(10,378)	(6.9)%	(13,507)	(7.6)%	(14,679)	(8.0)%	(7,428)	(8.1)%	(8,070)	(7.6)%
Total sales of prescription pharmaceutical products (*Total especialidades farmacéuticas*)	**150,486**	**100.0%**	**177,262**	**100.0%**	**183,166**	**100.0%**	**91,436**	**100.0%**	**106,681**	**100.0%**

(1) Other products include sales of *Osseor*, *Bertanel*, *Rhodogil*, *Prinivil*, *Tryptizol*, *Ameride* and *Glufan*. In the fourth quarter of 2018, we expect to stop distributing Merus Labs products.

The following table presents, for each of the periods indicated, our proprietary and in-licensed product sales together with the percentage of our total sales of goods represented by such products:

	Year ended December 31,						Six months ended June 30,			
	2015		2016		2017		2017		2018	
	(thousands of euros, except percentages)									
Proprietary	92,590	50.5%	96,778	46.4%	102,485	47.8%	51,180	47.5%	65,935	53.5%
In-licensed	90,917	49.5%	111,587	53.6%	111,824	52.2%	56,628	52.5%	57,295	46.5%
Total sales of goods (*Total venta de bienes*)	**183,507**	**100.0%**	**208,365**	**100.0%**	**214,309**	**100.0%**	**107,808**	**100.0%**	**123,230**	**100.0%**

The following table presents, for each of the periods indicated, our revenues by geographic distribution together with the percentage of our operating revenues by such geographic distribution for such period:

	Year ended December 31,						Six months ended June 30,			
	2015		2016		2017		2017		2018	
	(thousands of euros, except percentages)									
Spain	163,239	66.4%	188,803	71.2%	195,797	71.0%	98,235	70.8%	103,729	70.9%
International	82,770	33.6%	76,363	28.8%	79,852	29.0%	40,524	29.2%	42,580	29.1%
Revenues (*Importe neto de la cifra de negocios*)	**246,009**	**100.0%**	**265,166**	**100.0%**	**275,649**	**100.0%**	**138,759**	**100.0%**	**146,309**	**100.0%**

Sale of services

Sale of services, or toll manufacturing, consists of revenues from our toll manufacturing and packaging services provided to third parties.

Cost of sales

Cost of sales includes changes in inventories of finished goods and work in progress, as well as raw materials and consumables used.

Employee benefit expenses

Employee benefit expense includes all wages and salaries (including salaries and bonuses payable to our sales force), social security costs and defined-contribution pension plans. Research and development expenses related to wages and salaries of relevant employees are also recorded under this caption.

Non-current self-constructed assets

Non-current self-constructed assets consist of internally generated additions to assets related to the development of low-molecular-weight heparin, biosimilar to enoxaparin, sales of which commenced in 2017.

Other operating expenses

Other operating expenses consist of research and development costs to the extent not capitalized, advertising costs, services from third parties, supplies, transport and warehouse expenses, repair and maintenance costs, operating leases, other taxes and certain other operating expenses.

Amortization

Amortization includes the amortization of intangible assets and the depreciation of tangible assets.

Recognition of government grants on non-financial non-current assets and other

Recognition of government grants on non-financial non-current assets and other, includes income from government grants and subsidies related to our business. Grants relating to costs (including amortization and interests) are included in the deferred revenues/deferred income caption of our statement of financial position and recognized over the period necessary to match them with their corresponding costs (including amortization and interests).

Other income

In the year ended December 31, 2016, other income consisted of income recorded in connection with the creation of our joint venture with Enervit. We did not record other income in the other periods discussed herein.

Finance income

Finance income consists principally of interest income on our bank deposits and, to a lesser extent, gains on derivatives and other financial assets. It includes also interest relating to pending invoices due for collection from public administrations, which amounts have been subject to court decisions.

Finance costs

Finance costs consists principally of interest expense on our borrowings from regional governments and financial institutions and, if applicable, to a lesser extent, exchange losses and costs on other financial assets.

Finance costs–net

Finance costs–net consists of finance costs less finance income.

Share of profit of a joint venture

Share of profit of a joint venture consists of our share in joint ventures in which we hold interests. As of June 30, 2018, we had a 50% interest in the joint venture of Alentia Biotech, S.L., and a 51% interest in the joint venture of Enervit Nutrition, S.L. In July 2018, we sold to Enervit a 1% interest in Enervit Nutrition, such that Enervit Nutrition is currently 50% held by each company.

Income tax

The corporate income tax rate in Spain was 28% in 2015 and 25% during each of the years 2016 and 2017. Under Spanish tax law, we are currently able to take advantage of certain tax deductions relating to research and

development activities. At June 30, 2018, we had deferred taxes of €13.2 million that we expect to be able to apply to future periods, of which €8.8 million consisted of research and development-related tax credits and €2.9 million related to the capitalization of tax loss carryforwards (negative tax bases).

Our effective tax rate (the percentage resulting from dividing income tax by profit before income tax) was 1.6% in the year ended December 31, 2017, 6.4% in the year ended December 31, 2016 and 5.2% in the year ended December 31, 2015.

For the six months ended June 30, 2018, our effective tax rate was negative 7.4%, generating an income tax benefit of €0.5 million, compared to 8.6% in the first half of 2017 (income tax expense of €1.5 million). This improvement in the effective tax rate was due to the increase in the capitalization of research and development deductions and negative tax bases from Frosst Ibérica. While the *Doria* Phase III trial is ongoing, increasing our research and development expenses, we expect a beneficial effective tax rate to be applicable over the coming years, which would cause our income tax to be positive income. Nonetheless, when our research and development expenses are normalized after completion of the *Doria* Phase III trial, we expect the effective tax rate to be in mid-single digits in the subsequent years.

Results of Operations

Six months ended June 30, 2018 compared with the six months ended June 30, 2017

The following table sets forth our consolidated income statements for the six month periods ended June 30, 2018 and 2017 together with the percentage of revenues represented by each line item.

	Six months ended June 30,				
	2017		2018		2018/2017 % change
	(thousands of euros, except percentages)				
Revenues (*Importe neto de la cifra de negocios*)	138,759	100.0%	146,309	100.0%	5.4%
Changes in inventories of finished goods and work in progress (*Variación de existencias de productos terminados y en curso, de fabricación*)	9,435	6.8%	8,719	6.0%	(7.6)%
Raw materials and consumables used (*Aprovisionamientos*)	(64,675)	46.6%	(70,662)	48.3%	9.3%
Employee benefit expenses (*Gastos de personal*)	(31,846)	23.0%	(36,266)	24.8%	13.9%
Other operating expenses (*Otros gastos de explotación*)	(28,426)	20.5%	(35,513)	24.3%	24.9%
Amortization (*Amortizaciones*)	(5,918)	4.3%	(5,858)	4.0%	(1.0)%
Recognition of government grants on non-financial non-current assets and other (*Imputación de subvenciones de inmovilizado no financiero y otras*)	681	0.5%	754	0.5%	10.7%
Operating profit (*Resultado de explotación*)	**18,010**	**13.0%**	**7,483**	**5.1%**	**(58.5)%**
Finance income (*Ingresos financieros*)	57	n.m.	7	n.m.	(87.7)%
Finance costs (*Gastos financieros*)	(544)	0.4%	(438)	0.3%	(19.5)%
Finance costs – net (*Resultado financiero*)	**(487)**	**0.4%**	**(431)**	**0.3%**	**(11.5)%**
Share of profit of a joint venture (*Participación en el resultado de negocios conjuntos*)	(289)	0.2%	(25)	n.m.	(91.3)%
Profit before income tax (*Resultado*	**17,234**	**12.4%**	**7,027**	**4.8%**	**(59.2)%**

	Six months ended June 30,				
	2017		2018		2018/2017 % change
	(thousands of euros, except percentages)				
***antes de impuestos*)**					
Income tax (*Impuestos sobre beneficios*).....	(1,477)	1.1%	523	0.4%	n.m.
Profit for the year/Profit for the period (*Resultado del ejercicio*).....	**15,757**	**11.4%**	**7,550**	**5.2%**	**(52.1)%**

Revenues. Revenues (*importe neto de la cifra de negocios*) increased 5.4% to €146.3 million in the six months ended June 30, 2018 from €138.8 million in the six months ended June 30, 2017, principally due to growth in our specialty pharmaceutical business (sales of goods), where sales rose 14.3%.

Sales of goods (*venta de bienes*) accounted for 84.2% and 77.7% of revenues (*importe neto de la cifra de negocios*) in the six months ended June 30, 2018 and 2017, respectively. Sales of prescription pharmaceutical products (*especialidades farmacéuticas*) increased 16.7% to €106.7 million in the six months ended June 30, 2018 from €91.4 million in the six months ended June 30, 2017, as discussed in further detail below.

Sales of bemiparin increased 13.4% to €48.3 million in the six months ended June 30, 2018 from €42.6 million in the six months ended June 30, 2017. Sales of bemiparin in Spain (*Hibor*) increased by 16.3% to €33.9 million in the six months ended June 30, 2018 from €29.1 million in the six months ended June 30, 2017, while international sales of bemiparin increased 7.1% to €14.4 million in the six months ended June 30, 2018 from €13.5 million in the six months ended June 30, 2017.

Sales of *Becat* were €8.9 million in the six months ended June 30, 2018, 86% of which corresponds to sales in Germany and 11% of which corresponds to sales in Italy. *Becat* was launched in Germany in September 2017, in the United Kingdom in March 2018, in Italy in April 2018, in Spain in September 2018 and in France in September 2018 (pursuant to an agreement with Biogaran), and as such there were no sales in the six months ended June 30, 2017.

Sales of *Vytorin*, *Orvatez* and *Absorcol* increased by 3.4% to €19.6 million in the six months ended June 30, 2018 from €19.0 million in the six months ended June 30, 2017. Sales of *Hirobriz Breezhaler* and *Ulunar Breezhaler* increased 9.4% to €7.7 million in the six months ended June 30, 2018 from €7.0 million in the six months ended June 30, 2017. Sales of *Volutsa* increased 25.2% to €5.4 million in the six months ended June 30, 2018 from €4.3 million in the six months ended June 30, 2017. Sales of *Medicebran* and *Medikinet* decreased 3.0% to €3.9 million in the six months ended June 30, 2018 from €4.1 million in the six months ended June 30, 2017. Sales of *Neparvis* increased 288.0% to €5.9 million in the six months ended June, 2018 from €1.5 million in the six months ended June 30, 2017. Sales of *Exxiv* decreased 46.9% to €1.2 million in the six months ended June 30, 2018 from €2.3 million in the six months ended June 30, 2017, mainly due to a continued deceleration in the COX-2 market.

Sales of contrast agents and other hospital products (*agentes de contraste y otros productos hospitalarios*) increased 3.6% to €15.3 million in the six months ended June 30, 2018 from €14.8 million in the six months ended June 30, 2017. Sales of non-prescription pharmaceutical products (*productos de libre dispensación*) and other (*otros*) decreased by 22.4% to €1.2 million in the six months ended June 30, 2018 from €1.6 million in the six months ended June 30, 2017.

International sales increased by 5.1% to €42.6 million in the six months ended June 30, 2018 from €40.5 million in the six months ended June 30, 2017, primarily due to an increase in international sales of Bemiparin and the launch of *Becat*, which was launched in Germany in September 2017 in the United Kingdom in March 2018, in Italy in April 2018, in Spain in September 2018 and in France in September 2018 (pursuant to an agreement with Biogaran). International sales represented 29.1% of revenues (*importe neto de la cifra de negocios*) in the six months ended June 30, 2018, representing a 0.1 percentage point fall compared with the six months ended June 30, 2017.

Sale of services (*prestación de servicios*) accounted for 15.8% and 22.2% of revenues (*importe neto de la cifra de negocios*) in the six months ended June 30, 2018 and 2017, respectively. Sale of services (*prestación de*

servicios) decreased 25.3% to €23.0 million in the six months ended June 30, 2018 from €30.9 million in the six months ended June 30, 2017, principally due to a decline in the injectables business compared with the six months ended June 30, 2017, when exceptionally large volumes were manufactured for some customers.

Changes in inventories of finished goods and *work in progress* and *raw materials and consumables used.* Changes in inventories of finished goods and work in progress *(variación de existencias de productos terminados y en curso, de fabricación)* and raw materials and consumables used *(aprovisionamientos)* increased 12.1% to €61.9 million in the six months ended June 30, 2018 from €55.2 million in the six months ended June 30, 2017, primarily due to a shift in our revenue mix during the six months ended June 30, 2018 away from toll manufacturing, in particular syringe filling, which have higher gross margins.

Employee benefit expenses. Employee benefit expenses (*gastos de personal*) increased 13.9% to €36.3 million in the six months ended June 30, 2018 from €31.8 million in the six months ended June 30, 2017, principally due to our international expansion. Employee benefit expenses include expenses related to research and development activities (*gastos relacionados con investigación y desarrollo*) amounting to €4.9 million in the six months ended June 30, 2018 and €4.4 million in the six months ended June 30, 2017.

Other operating expenses. Other operating expenses (*otros gastos de explotación*) increased 24.9% to €35.5 million in the six months ended June 30, 2018 from €28.4 million in the six months ended June 30, 2017, principally due to increased expenses related to our international sales offices. This line includes expenses related to research and development activities (*gastos relacionados con investigación y desarrollo*) amounting to €11.8 million in the six months ended June 30, 2018 and €5.0 million in the six months ended June 30, 2017.

Amortization. Amortization (*amortizaciones*) was €5.9 million in both the six months ended June 30, 2018 and the six months ended June 30, 2017.

Recognition of government grants on non-financial non-current assets and other. Recognition of government grants on non-financial non-current assets and other (*imputación de subvenciones de inmovilizado no financiero y otras*) increased 10.7% to €0.8 million in the six months ended June 30, 2018, and from €0.7 million in the six months ended June 30, 2017.

Operating profit. As a result of the foregoing, operating profit (*resultado de explotación*) decreased 58.5% to €7.5 million in the six months ended June 30, 2018 from €18.0 million in the six months ended June 30, 2017.

Finance income. Finance income (*ingresos financieros*) decreased 87.7% to €7 thousand in the six months ended June 30, 2018 from €57 thousand in the six months ended June 30, 2017.

Finance costs. Finance costs (*gastos financieros*) decreased 19.5% to €0.4 million in the six months ended June 30, 2018 from €0.5 million in the six months ended June 30, 2017.

Share of profit of a joint venture. Losses recorded under share of profit of a joint venture (*participación en el resultado de negocios conjuntos*) decreased 91.3% to €25 thousand in the six months ended June 30, 2018 from €289 thousand in the six months ended June 30, 2017.

Profit before income tax. As a result of the foregoing, profit before income tax (*resultado antes de impuestos*) decreased 59.2% to €7.0 million in the six months ended June 30, 2018 from €17.2 million in the six months ended June 30, 2017.

Income tax. The effective tax rate was negative 7.4% in the six months ended June 30, 2018, generating an income tax benefit (*impuestos sobre beneficios*) of €0.5 million, compared with a rate of 8.6% in the six months ended June 30, 2017 (resulting in an income tax expense (*impuestos sobre beneficios*) of €1.5 million). This improvement in the effective tax rate is due to the increase in the capitalization of research and development deductions and negative tax bases from Frosst Ibérica. As of June 30, 2018, Frosst Iberica's negative tax bases amounted to €35.1 million, of which €1.5 million was intended to be used in our 2017 income tax and €0.7 million was intended to be used in the six months ended June 30, 2018.

Profit for the period. As a result of the foregoing, profit for the period (*resultado del periodo*) decreased 52.1% to €7.6 million in the six months ended June 30, 2018 from €15.8 million in the six months ended June 30, 2017.

Year ended December 31, 2017 compared with the year ended December 31, 2016

The following table sets forth our consolidated income statements for the years ended December 31, 2017 and 2016, together with the percentage of revenues represented by each line item.

	Year ended December 31,				
	2016		2017		2017/2016 % change
	(thousands of euros, except as otherwise stated)				
Revenues (*Importe neto de la cifra de negocios*)	265,166	100.0%	275,649	100.0%	4.0%
Changes in inventories of finished goods and work in progress (*Variación de existencias de productos terminados y en curso, de fabricación*)	(196)	0.1%	8,873	3.2%	n.m.
Raw materials and consumables used (*Aprovisionamientos*)	(111,828)	42.2%	(119,065)	43.2%	6.5%
Employee benefit expenses (*Gastos de personal*)	(60,465)	22.8%	(63,990)	23.2%	5.8%
Non-current self-constructed assets (*Trabajos efectuados por el Grupo para activos no corrientes*)	–	n.m.	2,057	0.7%	n.m.
Other operating expenses (*Otros gastos de explotación*)	(58,916)	22.2%	(74,809)	27.1%	27.0%
Amortization (*Amortizaciones*)	(11,023)	4.2%	(11,479)	4.2%	4.1%
Recognition of government grants on non-financial non-current assets and other (*Imputación de subvenciones de inmovilizado no financiero y otras*)	1,565	0.6%	1,773	0.6%	13.3%
Other income (*Otros ingresos*)	3,997	1.5%	–	–	n.m.
Operating profit (*Resultado de explotación*)	**28,300**	10.7%	**19,009**	6.9%	**(32.8)%**
Finance income (*Ingresos financieros*)	426	0.2%	93	n.m.	(78.2)%
Finance costs (*Gastos financieros*)	(915)	0.3%	(1,013)	0.4%	10.7%
Finance costs – net (*Resultado financiero*)	**(489)**	0.2%	**(920)**	0.3%	**88.1%**
Share of profit of a joint venture (*Participación en el resultado de negocios conjuntos*)	71	n.m.	(567)	0.2%	(898.6)%
Profit before income tax (*Resultado antes de impuestos*)	**27,882**	10.5%	**17,522**	6.4%	**(37.2)%**
Income tax (*Impuestos sobre beneficios*)	(1,793)	0.7%	(281)	0.1%	(84.3)%
Profit for the year (*Resultado del ejercicio*)	**26,089**	9.8%	**17,241**	6.3%	**(33.9)%**

Revenues. Revenues (*importe neto de la cifra de negocios*) increased 4.0% to €275.6 million in the year ended December 31, 2017 from €265.2 million in the year ended December 31, 2016, principally due to a 7.9% increase in sale of services (*prestación de servicios*) (toll manufacturing), as well as a 2.9% increase in sales of goods.

Sales of goods (*venta de bienes*) accounted for 77.7% and 78.6% of revenues (*importe neto de la cifra de negocios*) in the years ended December 31, 2017 and 2016, respectively. Sales of goods (*venta de bienes*) increased 2.9% to €214.3 million in the year ended December 31, 2017 from €208.4 million in the year ended December 31, 2016 primarily due to a 3.3% increase in the sales of pharmaceutical products (especialidades farmacéuticas) from €177.3 million in the year ended December 31, 2016 to €183.2 million in the year ended December 31, 2017, and a

2.3% decrease in the sales of contrast agents and other hospital products (*agentes de contraste y otros productos hospitalarios*) from €27.9 million in the year ended December 31, 2016 to €28.5 million in the year ended December 31, 2017.

Sales of bemiparin increased 5.3% to €83.9 million in the year ended December 31, 2017 from €79.7 million in the year ended December 31, 2016. Sales of bemiparin in Spain (*Hibor*) increased by 7.4% to €58.8 million in the year ended December 31, 2017 from €54.7 million in the year ended December 31, 2016, while international sales of bemiparin increased 0.6% to €25.1 million in the year ended December 31, 2017 from €24.9 million in the year ended December 31, 2016.

Sales of *Vytorin*, *Orvatez* and *Absorcol* increased by 17.7% to €39.4 million in the year ended December 31, 2017 from €33.5 million in the year ended December 31, 2016. Sales of *Hirobriz Breezhaler* and *Ulunar Breezhaler* increased 16.9% to €14.3 million in the year ended December 31, 2017 from €12.2 million in the year ended December 31, 2016. Sales of *Volutsa* increased 30.2% to €9.0 million in the year ended December 31, 2017 from €6.9 million in the year ended December 31, 2016. Sales of *Medicebran* and *Medikinet* decreased 0.4% to €7.5 million in the year ended December 31, 2017 from €7.6 million in the year ended December 31, 2016. Sales of *Neparvis*, which was launched in December 2016, were €4.7 million in the year ended December 31, 2017. Sales of *Corlentor* decreased 81.6% to €2.5 million in the year ended December 31, 2017 from €13.8 million in the year ended December 31, 2016 due to the discontinuation of marketing after the first half of 2017. Sales of *Exxiv* decreased 33.9% to €3.6 million in the year ended December 31, 2017 from €5.4 million in the year ended December 31, 2016, mainly due to a continued deceleration of the COX-2 market. Sales of *Thymanax* decreased by 27.5% to €3.9 million in the year ended December 31, 2017 from €5.4 million in the year ended December 31, 2016 in part due to the discontinuation of our marketing agreement with Laboratoires Servier with respect to this product in November 2017.

Sales of contrast agents and other hospital products (*agentes de contraste y otros productos hospitalarios*) increased 2.3% to €28.5 million in the year ended December 31, 2017 from €27.9 million in the year ended December 31, 2016. Sales of non-prescription pharmaceutical products (*productos de libre dispensación*) and other (*otros*) decreased by 18.6% to €2.6 million in the year ended December 31, 2017 from €3.2 million in the year ended December 31, 2016. In the year ended December 31, 2017, over-the-counter sales did not include Enerzone product sales, while €0.5 million were included in the year ended December 31, 2016 prior to the creation of the joint venture with Enervit for the distribution of nutritional products in Spain and Portugal.

International sales increased by 4.6% to €79.9 million in the year ended December 31, 2017 from €76.4 million in the year ended December 31, 2016, primarily due to an increase in international toll manufacturing sales and the beginning of enoxaparin biosimilar sales in Germany in September 2017.

Sale of services (*prestación de servicios*) increased by 7.9% to €61.1 million in the year ended December 31, 2017 from €56.6 million in the year ended December 31, 2016, primarily due to strong performance of our injectables business, where revenue increased 13.2% as a result of higher volumes manufactured for some customers, and the contribution of the Frosst Iberica plant, where revenue increased 1.5%.

Cost of sales. Cost of sales (*coste de ventas*) decreased 1.6% to €110.2 million in the year ended December 31, 2017 from €112.0 million in the year ended December 31, 2016, principally due to an increase in our toll manufacturing business, in particular injectables, as well as an increase of bemiparin sales, both of which have high gross margins and low cost of sales.

Employee benefit expenses. Employee benefit expenses (*gastos de personal*) increased 5.8% to €64.0 million in the year ended December 31, 2017 from €60.5 million in the year ended December 31, 2016, principally due to a €2.7 million increase in wages and salaries (*sueldos y salarios*), which in turn was driven by higher headcount, with an average of 1,177 employees in the year ended December 31, 2017, compared to 1,126 employees in the year ended December 31, 2016, and a related €0.8 million increase in social security costs (*gasto de seguridad social*). Employee benefit expenses include expenses related to research and development activities (*gastos de investigación y desarrollo*) amounting to €7.2 million in the year ended December 31, 2017 and €6.1 million in the year ended December 31, 2016.

Non-current self-constructed assets. Non-current self-constructed assets (*trabajos efectuados por el Grupo para activos no corrientes*) were €2.1 million in the year ended December 31, 2017 compared with zero in the year ended December 31, 2016.

Other operating expenses. Other operating expenses (*otros gastos de explotación*) increased 27.0% to €74.8 million in the year ended December 31, 2017 from €58.9 million in the year ended December 31, 2016, principally due to a €9.6 million increase in research and development expenses (*gastos de investigación y desarrollo*) included in other operating expenses. The below table sets forth our other operating expenses during the years ended December 31, 2017 and 2016.

	For the year ended December 31,	
	2017	2016
	(thousands of euros)	
Advertising costs (*Costes de publicidad*)	17,468	16,488
Services from third parties (*Servicios profesionales independientes*)	5,926	5,801
Supplies (*Suministros*)	9,890	8,412
Transport and warehouse expenses (*Gastos de transporte y aprovisionamiento*)	2,488	2,540
Repairs and maintenance (*Reparaciones y conservacion*)	3,612	3,327
Operating leases (*Arrendamientos operativos*)	3,137	3,186
Other taxes (*Tributos*)	1,021	781
Other operating expenses(1) (*Otros gastos de explotacion*)	31,267	18,381
Total	**74,809**	**58,916**

(1) Other operating expenses includes expenses related to research and development activities (*gastos de investigación y desarrollo*) amounting to €21.0 million in the year ended December 31, 2017 and €11.4 million in the year ended December 31, 2016.

Amortization. Amortization (*amortizaciones*) increased 4.1% to €11.5 million in the year ended December 31, 2017 from €11.0 million in the year ended December 31, 2016, principally due to a €0.4 million increase in the amortization charges of intangible assets and a €0.1 million increase in the amortization charges of property, plant and equipment.

Recognition of government grants on non-financial non-current assets and other. Recognition of government grants on non-financial non-current assets and other (*imputación de subvenciones de inmovilizado no financiero y otras*) increased by 13.3% to €1.8 million in the year ended December 31, 2017 from €1.6 million in the year ended December 31, 2016.

Other income. We had no other income (*otros ingresos*) in the year ended December 31, 2017, compared with €4.0 million of other income (*otros ingresos*) in the year ended December 31, 2016. This income was related to the creation of a joint venture between Rovi and Enervit, S.R.L. for the distribution of nutritional products in Spain and Portugal.

Operating profit. As a result of the foregoing, operating profit (*resultado de explotación*) decreased 32.8% to €19.0 million in the year ended December 31, 2017, from €28.3 million in the year ended December 31, 2016.

Finance income. Finance income (*ingresos financieros*) decreased 78.2% to €0.1 million in the year ended December 31, 2017 from €0.4 million in the year ended December 31, 2016, principally due to a reduction in the year ended December 31, 2017 of interest relating to pending invoices due for collection from public administrations, which amounts have been subject to court decisions.

Finance costs. Finance costs (*gastos financieros*) increased 10.7% to €1.0 million in the year ended December 31, 2017 from €0.9 million in the year ended December 31, 2016, principally due to the increase in banking debt as a result of the new €20 million loan incurred in the year ended December 31, 2017.

Share of profit of a joint venture. Share of profit of a joint venture (*participación en el resultado de negocios conjuntos*) was €0.1 million in the year ended December 31, 2016 compared with losses of €0.6 million in the year ended December 31, 2017.

Profit before income tax. As a result of the foregoing, profit before income tax (*resultado antes de impuestos*) decreased 37.2% to €17.5 million in the year ended December 31, 2017 from €27.9 million in the year ended December 31, 2016.

Income tax. Income tax expense (*impuestos sobre beneficios*) was €0.3 million in the year ended December 31, 2017, an 84.3% decrease compared with €1.8 million in the year ended December 31, 2016. Our effective tax rate in the year ended December 31, 2017 was 1.6%, compared with 6.4% in the year ended December 31, 2016 as a result of the deduction for existing research and development expenses and the capitalization of negative tax bases from Frosst Iberica in the year ended December 31, 2017. As of December 31, 2017, Frosst Iberica had a negative tax base of €35.1 million, of which €1.5 million was intended to be used for the 2017 income tax due.

Profit for the year. As a result of the foregoing, profit for the year (*resultado del ejercicio*) decreased 33.9% to €17.2 million in the year ended December 31, 2017 from €26.1 million in the year ended December 31, 2016.

Year ended December 31, 2016 compared with the year ended December 31, 2015

The following table sets forth our consolidated income statements for the years ended December 31, 2016 and 2015, together with the percentage of revenues represented by each line item.

	Year ended December 31,				
	2015		2016		2016/2015 % change
	(thousands of euros, except otherwise stated)				
Revenues (*Importe neto de la cifra de negocios*)	246,009	100.0%	265,166	100.0%	7.8%
Changes in inventories of finished goods and work in progress (*Variación de existencias de productos terminados y en curso, de fabricación*)	(10,797)	4.4%	(196)	0.1%	(98.2)%
Raw *materials* and consumables used (*Aprovisionamientos*)	(86,278)	35.1%	(111,828)	42.2%	29.6%
Employee benefit expenses (*Gastos de personal*)	(61,769)	25.1%	(60,465)	22.8%	(2.1)%
Other operating expenses (*Otros gastos de explotación*)	(56,361)	22.9%	(58,916)	22.2%	4.5%
Amortization (*Amortizaciones*)	(9,975)	4.1%	(11,023)	4.2%	10.5%
Recognition of government grants on non-financial non-current assets and other (*Imputación de subvenciones de inmovilizado no financiero y otras*)	1,013	0.4%	1,565	0.6%	54.5%
Other income (*Otros ingresos*)	–	n.m.	3,997	1.5%	n.m.
Operating profit (*Resultado de explotación*)	**21,842**	**8.9%**	**28,300**	**10.7%**	**29.6%**
Finance income (*Ingresos financieros*)	837	0.3%	426	0.2%	(49.1)%
Finance costs (*Gastos financieros*)	(1,781)	0.7%	(915)	0.3%	(48.6)%
Finance costs – net (*Resultado financiero*)	**(944)**	**0.4%**	**(489)**	**0.2%**	**(48.2)%**
Share of profit of a joint venture (*Participación en el resultado de negocios conjuntos*)	–	–	71	–	n.m.
Profit before income tax (*Resultado antes de impuestos*)	**20,898**	**8.5%**	**27,882**	**10.5%**	**33.4%**
Income tax (*Impuestos sobre beneficios*)	(1,089)	0.4%	(1,793)	0.7%	64.6%
Profit for the year (*Resultado del ejercicio*)	**19,809**	**8.1%**	**26,089**	**9.8%**	**31.7%**

Revenues. Revenues (*importe neto de la cifra de negocios*) increased 7.8% to €265.2 million in the year ended December 31, 2016 from €246.0 million in the year ended December 31, 2015, principally due to a 13.5% increase in sales of goods (*venta de bienes*), which were partially offset by a 9.1% decrease in sale of services (*prestación de servicios*) (toll manufacturing).

Sales of goods (*venta de bienes*) accounted for 78.6% and 74.6% of revenues (*importe neto de la cifra de negocios*) in the years ended December 31, 2016 and 2015, respectively. Sales of goods (*venta de bienes*) increased 13.5% to €208.4 million in the year ended December 31, 2016 from €183.5 million in the year ended December 31, 2015, primarily attributable to a 17.8% increase in sales of pharmaceutical products (*especialidades farmacéuticas*) from €150.5 million in the year ended December 31, 2015 to €177.3 million in the year ended December 31, 2016, and a 6.1% increase in the sales of contrast agents and other hospital products (*agentes de contraste y otros productos hospitalarios*) from €26.3 million in the year ended December 31, 2015 to €27.9 million in the year ended December 31, 2016.

Sales of bemiparin increased 6.0% to €79.7 million in the year ended December 31, 2016 from €75.1 million in the year ended December 31, 2015. Sales of bemiparin in Spain (*Hibor*) increased by 8.6% to €54.7 million in the year ended December 31, 2016 from €50.4 million in the year ended December 31, 2015. International sales of bemiparin increased 0.7% to €24.9 million in the year ended December 31, 2016 from €24.7 million in the year ended December 31, 2015, mainly attributable to the launching of the product in two new countries, Argentina and the Philippines, in the year ended December 31, 2016.

Sales of *Vytorin*, *Orvatez* and *Absorcol* increased by 37.9% to €33.5 million in the year ended December 31, 2016 from €24.3 million in the year ended December 31, 2015. Sales of *Hirobriz Breezhaler* and *Ulunar Breezhaler* increased 64.0% to €12.2 million in the year ended December 31, 2016 from €7.5 million in the year ended December 31, 2015. Sales of *Volutsa* increased 115.4% to €6.9 million in the year ended December 31, 2016 from €3.2 million in the year ended December 31, 2015. Sales of *Medicebran* and *Medikinet* increased 2.0% to €7.6 million in the year ended December 31, 2016 from €7.4 million in the year ended December 31, 2015. Sales of *Corlentor* increased 3.1% to €13.8 million in the year ended December 31, 2016 from €13.4 million in the year ended December 31, 2015. Sales of *Exxiv* decreased 8.5% to €5.4 million in the year ended December 31, 2016 from €5.9 million in the year ended December 31, 2015, mainly due to a continued deceleration of the COX-2 market. Sales of *Thymanax* decreased by 26.0% to €5.4 million in the year ended December 31, 2016 from €7.4 million in the year ended December 31, 2015.

Sales of contrast agents and other hospital products (*agentes de contraste y otros productos hospitalarios*) increased 6.1% to €27.9 million in the year ended December 31, 2016 from €26.3 million in the year ended December 31, 2015. Sales of over-the-counter pharmaceutical products and other decreased by 52.3% to €3.2 million in the year ended December 31, 2016 from €6.7 million in the year ended December 31, 2015. In the year ended December 31, 2016, over-the-counter sales only include first quarter sales of Enerzone products as a result of the creation of the joint venture with Enervit for the distribution of nutritional products in Spain and Portugal.

International sales decreased by 7.7% to €76.4 million in the year ended December 31, 2016 from €82.8 million in the year ended December 31, 2015, primarily due to the deceleration of the toll manufacturing business, where most sales are linked to international markets.

Sale of services (*prestación de servicios*) decreased by 9.1% to €56.6 million in the year ended December 31, 2016 from €62.3 million in the year ended December 31, 2015, primarily due to a decline in revenues of €5.1 million related to our Frosst Iberica plant to €25.8 million in the year ended December 31, 2016, from €30.9 million in the year ended December 31, 2015, due to lower production levels for MSD as a result of the initial expiration of our contract with such company on March 31, 2015. In addition, revenues from our injectables plant decreased €0.6 million.

Cost of sales. Cost of sales (c*oste de ventas*) increased 15.4% to €112.0 million in the year ended December 31, 2016 from €97.1 million in the year ended December 31, 2015, principally due to an increase in the sales of *Sintrom*, to €12.4 million in the year ended December 31, 2016 from €3.3 million in the year ended December 31, 2015, partially offset by a reduction in bemiparin raw material costs.

Employee benefit expenses. Employee benefit expenses (*gastos de personal*) decreased 2.1% to €60.5 million in the year ended December 31, 2016 from €61.8 million in the year ended December 31, 2015, principally due to a €1.5 million decrease in wages and salaries (*sueldos y salarios*) despite an increase in the average number of employees to 1,126 in the year ended December 31, 2016 from 1,102 in the year ended December 31, 2015. Employee benefit expenses include expenses related to research and development activities (*gastos relacionados con investigación y desarollo*) amounting to €6.1 million in the year ended December 31, 2016 and €6.8 million in the year ended December 31, 2015.

Other operating expenses. Other operating expenses (*otros gastos de explotación*) increased 4.5% to €58.9 million in the year ended December 31, 2016 from €56.4 million in the year ended December 31, 2015. Although advertising costs decreased to €16.5 million in the year ended December 31, 2016 due to products launched in the year ended December 31, 2015 such as *Hirobriz, Ulunar, Volutsa* and *Orvatez*, which added expenses of €3.3 million in the year ended December 31, 2015, other operating expenses (*otros gastos de explotación*) increased from €13.3 million in the year ended December 31, 2015 to €18.4 million in the year ended December 31, 2016 because of the higher research and development costs included in this caption. The below table sets forth our other operating expenses during the years ended December 31, 2016 and 2015.

	For the year ended December 31,	
	2016	2015
	(thousands of euros)	
Advertising costs (*Costes de publicidad*)	16,488	20,958
Services from third parties (*Servicios profesionales independientes*)	5,801	4,567
Supplies (*Suministros*)	8,412	7,982
Transport and warehouse expenses (*Gastos de transporte y almacenamiento)*	2,540	2,302
Repairs and maintenance (*Reparaciones y conservación*)	3,327	2,578
Operating leases (*Arrendamientos operativos*)	3,186	3,670
Other taxes (*Tributos*)	781	994
Other operating expenses (*Otros gastos de explotación*)(1)	18,381	13,310
Total	**58,916**	**56,361**

(1) Other operating expenses includes expenses related to research and development activities (*gastos de investigación y desarrollo*) amounting to €11.4 million in the year ended December 31, 2016 and €9.6 million in the year ended December 31, 2015.

Amortization. Amortization (*amortizaciones*) increased 10.5% to €11.0 million in the year ended December 31, 2016 from €10.0 million in the year ended December 31, 2015, principally due to a €0.6 million increase in the depreciation charges for property, plant and equipment and a €0.4 million increase in the amortization charges of intangible assets.

Recognition of government grants on non-financial non-current assets and other. Recognition of government grants on non-financial non-current assets and other (*imputación de subvenciones de inmovilizado no financiero y otras*) increased by 54.5% to €1.6 million in the year ended December 31, 2016 from €1.0 million in the year ended December 31, 2015.

Other income. Other income (*otros ingresos*) was €4.0 million in the year ended December 31, 2016, compared with zero in the year ended December 31, 2015. This income was related to the creation of a joint venture between us and Enervit for the distribution of nutritional products in Spain and Portugal.

Operating profit. As a result of the foregoing, operating profit (*resultado de explotación*) increased 29.6% to €28.3 million in the year ended December 31, 2016 from €21.8 million in the year ended December 31, 2015.

Finance income. Finance income (*ingresos financieros*) decreased 49.1% to €0.4 million in the year ended December 31, 2016 from €0.8 million in the year ended December 31, 2015, principally due to positive returns on specific financial investments related to the exchange rate recorded in the year ended December 31, 2015.

Finance costs. Finance costs (g*astos financieros*) decreased 48.6% to €0.9 million in the year ended December 31, 2016 from €1.8 million in the year ended December 31, 2015, principally due to the recognition at fair value of reimbursable loans granted by government entities at 0% interest rates.

Share of profit of a joint venture. Share of profit of a joint venture (*participación en el resultado de negocios conjuntos*) was zero in the year ended December 31, 2015, compared with €0.1 million in the year ended December 31, 2016. This change was primarily due to the formation of our joint venture with Enervit in March 2016.

Profit before income tax. As a result of the foregoing, profit before income tax (*resultado antes de impuestos*) increased 33.4% to €27.9 million in the year ended December 31, 2016 from €20.9 million in the year ended December 31, 2015.

Income tax. Our income tax expense (*impuestos sobre beneficios*) decreased 64.6% to €1.8 million in the year ended December 31, 2016 from €1.1 million in the year ended December 31, 2015. In the year ended December 31, 2016, our effective tax rate increased 1.2 percentage points, from 5.2% in the year ended December 31, 2015 to 6.4% in the year ended December 31, 2016, principally due to the deduction of existing research and development expenses and the capitalization of negative tax bases of Frosst Ibérica. As of December 31, 2016, negative tax bases for Frosst Iberica amounted to €36.7 million, of which €1.6 million were used in our 2016 income tax.

Profit for the year. As a result of the foregoing, profit for the year (*resultado del ejercicio*) increased 31.7% to €26.1 million in the year ended December 31, 2016 from €19.8 million in the year ended December 31, 2015.

Analysis of Unaudited Alternative Performance Measures

We present below a period-to-period comparison of certain financial measures and unaudited alternative performance measures ("APMs"), including adjusted EBITDA for our specialty pharma business ("Specialty pharma adjusted EBITDA"), capital expenditures for each of our specialty pharma and ISM platform businesses, and net research and development costs (which we define as research and development costs net of research and development-related revenues), other sales, general and administrative expenses ("other SG&A"), adjusted EBITDA, adjusted EBITDA margin and adjusted gross profit, each of which our management uses to evaluate our performance. These APMs are derived from our consolidated income statement or our accounting records. We have presented these APMs because we believe these measures will assist in the understanding of our results of operations by providing additional information on what we consider to be the principal drivers of our results of operations. These APMs should be viewed as supplemental to the performance measures presented in our financial statements. Our APMs are not prepared in accordance with IFRS, and investors are cautioned not to place undue reliance on this information. In addition, such APMs, as calculated by us, may be different from similarly titled information reported by other companies.

The following table presents, for the periods indicated, certain of our consolidated income statement line items and our adjusted gross profit, research and development expenses, other SG&A, adjusted EBIT and adjusted EBITDA, together with the percentage of revenues represented by such line items, as calculated by us:

	Year ended December 31,						Six months ended June 30,			
	2015		2016		2017		2017		2018	
	(thousands of euros, except percentages)									
Revenues (*Importe neto de la cifra de negocio)*	246,009	100.0%	265,166	100.0%	275,649	100.0%	138,759	100.0%	146,309	100.0%
Recognition of government grants on non-financial non-current assets and other (*Imputación de subvenciones de inmovilizado no financiero y otras*)	1,013	0.4%	1,565	0.6%	1,773	0.6%	681	0.5%	754	0.5%
Total	**247,022**	**100.4%**	**266,731**	**100.6%**	**277,422**	**100.6%**	**139,440**	**100.5%**	**147,063**	**100.5%**
Cost of sales (*Coste de ventas*)(1)	(97,075)	39.5%	(112,024)	42.2%	(110,192)	40.0%	(55,240)	39.8%	(61,943)	42.3%

	Year ended December 31,						Six months ended June 30,			
	2015		2016		2017		2017		2018	
	(thousands of euros, except percentages)									
Adjusted gross profit	**149,947**	**61.0%**	**154,707**	**58.3%**	**167,230**	**60.7%**	**84,200**	**60.7%**	**85,120**	**58.2%**
Research and development expenses (*Gastos totales de investigación y desarollo/Gastos en I+D)*	(16,451)	6.7%	(17,481)	6.6%	(28,251)	10.2%	(9,357)	6.7%	(16,769)	11.5%
Other SG&A (*Otros gastos generales*)(2)	(101,679)	41.3%	(101,900)	38.4%	(108,491)	39.4%	(50,915)	36.7%	(52,374)	35.8%
Other income (*Otros ingresos*)(3)	–	n.m.	3,997	1.5%	–	n.m.	–	n.m.	–	n.m.
Other expenses (*Otros gastos*)(4)	–	n.m.	–	n.m.	–	n.m.	–	n.m.	(2,636)	1.8%
Share of profit/(loss) of a joint venture (*Participación en el resultado de negocios conjuntos*)	–	–	71	–	(567)	0.2%	(289)	0.2%	(25)	–
Adjusted EBITDA(5)	**31,817**	**12.9%**	**39,394**	**14.9%**	**29,921**	**10.9%**	**23,639**	**17.0%**	**13,316**	**9.1%**
Amortization (*Amortización)*	(9,975)	4.1%	(11,023)	4.2%	(11,479)	4.2%	(5,918)	4.3%	(5,858)	4.0%
Adjusted EBIT(6)	**21,842**	**8.9%**	**28,371**	**10.7%**	**18,442**	**6.7%**	**17,721**	**12.8%**	**7,458**	**5.1%**
Finance costs-net (*Resultado financiero*)	(944)	0.4%	(489)	0.2%	(920)	0.3%	(487)	0.4%	(431)	0.3%
Income tax (*Impuesto sobre beneficios*)	(1,089)	0.4%	(1,793)	0.7%	(281)	0.1%	(1,477)	1.1%	523	0.4%
Profit for the year/period (*Resultado del ejercicio/periodo)*	**19,809**	**8.1%**	**26,089**	**9.8%**	**17,241**	**6.3%**	**15,757**	**11.4%**	**7,550**	**5.2%**

(1) Cost of sales includes changes in inventories of finished goods and work in progress and raw materials and consumables used.

(2) We calculate other SG&A as other operating expenses (excluding other operating expenses related to research and development and other operating expenses included in the other expenses caption) plus employee benefit expenses (excluding employee benefit expenses related to research and development and employee benefit expenses included in the other expenses caption) plus non-current self-constructed assets.

(3) Other income consists of income recorded in connection with the creation of our joint venture with Enervit.

(4) Other expenses for the six months ended June 30, 2018 includes non-recurring expenses related to the study and analysis of potential corporate operations, amounting to €1,542 thousand and a substantial change to Frosst Ibérica employees' working conditions, amounting to €1,094 thousand.

(5) We calculate, and this table presents, adjusted EBITDA as profit for the year, or period, before income tax, finance costs-net and amortization (which includes both depreciation and amortization of tangible and intangible assets). In our financial results that we published prior to June 30, 2018, we used an adjusted EBITDA that included share of profit/(loss) of a joint venture.

(6) We calculate, and this table presents, adjusted EBIT as adjusted EBITDA less amortization (which includes both depreciation and amortization of tangible and intangible assets). In our financial results that we published prior to June 30, 2018, we used an adjusted EBIT that included share of profit/(loss) of a joint venture.

The following tables present Specialty pharma adjusted EBITDA and capital expenditures for each of our specialty pharma and ISM platform businesses, in each case for each of the years ended December 31, 2017, 2016 and 2015.

	Year ended December 31,		
	2015	2016	2017
	(thousands of euros)		
Adjusted EBITDA	**31,817**	**39,394**	**29,921**

	Year ended December 31,		
	2015	2016	2017
	(thousands of euros)		
R&D revenues (*Ingresos relacionados con investigación y desarrollo*)	(444)	(985)	(1,265)
R&D expenses (*Gastos totales de investigación y desarrollo*)	16,451	17,481	28,251
R&D costs – Net	**16,007**	**16,496**	**26,986**
Other income (*Otros ingresos*)	–	**(3,997)**	–
Specialty pharma adjusted EBITDA	**47,824**	**51,893**	**56,907**

	Year ended December 31,		
	2015	2016	2017
	(thousands of euros)		
Capital expenditures(1)	19,901	18,076	19,944
Specialty pharma	17,428	17,111	18,809
ISM platform	2,473	965	1,135

(1) Capital expenditures consists of purchases of intangible assets and purchases of property, plant and equipment included in the consolidated statements of cash flows.

Research and development expenses

Research and development expenses increased 79.2% to €16.8 million in the six months ended June 30, 2018 from €9.4 million in the six months ended June 30, 2017, mainly due to the development of the *Doria* Phase III trial and the *Letrozole ISM* Phase I trial. Research and development expenses increased 61.7% to €28.3 million in the year ended December 31, 2017, from €17.5 million in the year ended December 31, 2016, mainly due to the preparation and beginning of the *Doria* Phase III trial and the *Letrozole ISM* Phase I trial. Research and development expenses increased 6.1% to €17.5 million in the year ended December 31, 2016 from €16.5 million in the year ended December 31, 2015, primarily due to the preparation of the *Doria* Phase III trial and the performing of development activities for the formulation of the *Doria* Phase III trial and the *Letrozole ISM* Phase I trial, and in particular due to a delay in the start of the *Doria* Phase II trial as a result of several meetings held with the FDA and EMA regarding the design of such trials.

We calculate research and development expenses as other operating expenses related to research and development plus employee benefit expenses related to research and development. We believe research and development expenses are a useful measure of our performance because it provides information regarding operating expenses devoted to our research and development activities.

The table below presents a reconciliation of research and development expenses to other operating expenses and employee benefit expenses for the periods presented.

	Year ended December 31,			Six months ended June 30,	
	2015	2016	2017	2017	2018
	(thousands of euros)				
Other operating expenses (***Otros gastos de explotación***)	**56,361**	**58,916**	**74,809**	**28,426**	**35,513**
Other operating expenses related to R&D (*Gastos relacionados con I+D*)	9,623	11,391	21,033	4,951	11,837
Other operating expenses not related to R&D (*Gastos no relacionados con I+D*)	46,738	47,525	53,776	23,475	22,134
Other non-recurring operating expenses (*Otros gastos de explotación no recurrentes*)	–	–	–	–	1,542
Employee benefit expenses (***Gastos de personal***)	**61,769**	**60,465**	**63,990**	**31,846**	**36,266**
Employee benefit expenses related to R&D (*Gastos de personal relacionados con I+D*)	6,828	6,090	7,218	4,406	4,932
Employee benefit expenses not related to R&D (*Gastos de personal no relacionados con I+D*)	54,941	54,375	56,772	27,440	30,240

	Year ended December 31,			Six months ended June 30,	
	2015	2016	2017	2017	2018
	(thousands of euros)				
Other non-recurring employee benefit expenses (*Otros gastos de personal no recurrentes*)	–	–	–	–	1,094
Research and Development expenses (*Gastos totales de investigación y desarrollo*)(1)	**16,451**	**17,481**	**28,251**	**9,357**	**16,769**

(1) Includes the sum of other operating expenses related to R&D and employee benefit expenses related to R&D.

Other SG&A

Other SG&A (*otros gastos generales*) increased 2.9% to €52.4 million in the six months ended June 30, 2018 from €50.9 million in the six months ended June 30, 2017, mainly due to expenses related to our international subsidiaries, which amounted to €2.6 million in the six months ended June 30, 2018 compared to €0.2 million in the six months ended June 30, 2017. These international subsidiaries, in Germany, the United Kingdom, France, Italy and Portugal, are initially focused on the marketing of *Becat*. Other SG&A (*otros gastos generales*) increased 6.5% to €108.5 million in the year ended December 31, 2017, from €101.9 million in the year ended December 31, 2016, mainly due to the launches of *Neparvis* and *Mysimba*, which added expenses of €4.5 million, as well as international expenses of €1.6 million and the start of activity in our San Sebastian de los Reyes plant. Other SG&A (*otros gastos generales*) increased 0.2% to €101.9 million in the year ended December 31, 2016 from €101.7 million in the year ended December 31, 2015, primarily due to the launches of Hirobriz, Ulunar, *Volutsa* and *Oravetz* in the year ended December 31, 2015, which added expenses of €3.3 million in that year.

We calculate other SG&A as other operating expenses (excluding other operating expenses related to research and development and other expenses related to non-recurring operating expenses) plus employee benefit expenses (excluding employee benefit expenses related to research and development and other expenses related to non-recurring employee benefit expenses) plus non-recurrent self-constructed assets. We believe other SG&A is useful as a measure of our performance because it provides information regarding operating expenses, other than operating expenses devoted to research and development.

The table below presents a reconciliation of other SG&A to other operating expenses and employee benefit expenses for the periods presented.

	Year ended December 31,			Six months ended June 30,	
	2015	2016	2017	2017	2018
	(thousands of euros)				
Other operating expenses (***Otros Gastos de explotación***)	**56,361**	**58,916**	**74,809**	**28,426**	**35,513**
Other operating expenses related to R&D (*Gastos relacionados con I+D*)	9,623	11,391	21,033	4,951	11,837
Other operating expenses not related to R&D (*Gastos no relacionados con I+D*)	46,738	47,525	53,776	23,475	22,134
Other non-recurring operating expenses (*Otros gastos de explotación no recurrentes*)	–	–	–	–	1,542
Employee benefit expenses (***Gastos de personal***)	**61,769**	**60,465**	**63,990**	**31,846**	**36,266**
Employee benefit expenses related to R&D (*Gastos de personal relacionados con I+D)*	6,828	6,090	7,218	4,406	4,932
Employee benefit expenses not related to R&D (*Gastos no relacionados con I+D*)	54,941	54,375	56,772	27,440	30,240
Other non-recurring employee benefit expenses (*Otros gastos de personal no recurrentes*)	–	–	–	–	1,094
Non-current self-constructed assets (***Trabajos efectuados por el Grupo para activos no corrientes***)	**–**	**–**	**(2,057)**	**–**	**–**
Other SG&A *(Otros gastos generales)*(1)	**101,679**	**101,900**	**108,491**	**50,915**	**52,374**

(1) Includes other operating expenses not related to R&D, employee benefit expenses not related to R&D and non-current self-constructed assets.

Other expenses

In the six months ended June 30, 2018, adjusted EBITDA was affected by non-recurring expenses of €2.6 million, €1.5 million of which were related to the study and analysis of potential corporate operations, while €1.1 million were linked to a substantial change in our labor agreement with Frosst Ibérica employees related to the removal of catering services, for which the employees were compensated with a sum similar to the costs that we would have incurred over the subsequent five-year period.

We calculate other expenses as the sum of other non-recurring operating expenses plus other non-recurring employee benefit expenses. We believe other expenses is a useful measure of our performance because it provides information regarding other non-recurring operating and employee benefit expenses.

The table below presents, for each of the periods presented, a reconciliation of other expenses.

	Year ended December 31,			Six months ended June 30,	
	2015	2016	2017	2017	2018
	(thousands of euros)				
Other non-recurring operating expenses (*Otros gastos de explotación no recurrentes*)	–	–	–	–	1,542
Other non-recurring employee benefit expenses (*Otros gastos de personal no recurrentes*)	–	–	–	–	1,094
Other expenses	–	–	–	–	**2,636**

Adjusted EBITDA

Adjusted EBITDA decreased 43.7% to €13.3 million in the six months ended June 30, 2018 from €23.6 million in the six months ended June 30, 2017, reflecting a 7.9 percentage point decline in our adjusted EBITDA margin to 9.1% in the six months ended June 30, 2018 from 17.0% in the six months ended June 30, 2017, mainly due to the impact of higher research and development costs. We calculate our adjusted EBITDA margin, as adjusted EBITDA divided by revenues and believe it is useful as a measure of our operating profitability. Adjusted EBITDA decreased 24.0% to €29.9 million in the year ended December 31, 2017, from €39.4 million in the year ended December 31, 2016, reflecting a 4.0 percentage point fall in our adjusted EBITDA margin, which was 10.9% in the year ended December 31, 2017 compared with 14.9% in the year ended December 31, 2016, mainly due to the impact of higher research and development expenses as described above. Adjusted EBITDA increased 23.8% to €39.4 million in the year ended December 31, 2016 from €31.8 million in the year ended December 31, 2015, reflecting a 2.0 percentage point increase in our adjusted EBITDA margin to 14.9% in the year ended December 31, 2016 from 12.9% in the year ended December 31, 2015, mainly due to the positive impact of non-recurring revenue of €4.0 million as a result of the joint venture we created with Enervit.

We calculate adjusted EBITDA as profit for the year, or period, before income tax, finance costs-net and amortization (which includes both depreciation and amortization of tangible and intangible assets). We publish adjusted EBITDA figures in connection with the annual and quarterly financial information that we release. In our financial results published prior to June 30, 2018, we used an adjusted EBITDA that included share of profit/(loss) of a joint venture. We believe adjusted EBITDA is useful as a measure of our performance because it provides information for analyzing profitability (before income tax, net finance costs, amortization and depreciation) by approximating the operating flows that generate cash. It is also a measure that is widely used by the investment community in appraising companies' performance.

The table below presents, for each of the periods presented, a reconciliation of adjusted EBITDA and adjusted EBITDA margin to profit for the year, or period:

	Year ended December 31,			Six months ended June 30,	
	2015	2016	2017	2017	2018
	(thousands of euros)				
Profit for the year/Profit for the period (*Resultado del ejercicio/Resultado del periodo*)	19,809	26,089	17,241	15,757	7,550
Income tax (*Impuesto sobre beneficios*)	1,089	1,793	281	1,477	(523)
Finance costs-net (*Resultado financiero*)	944	489	920	487	431
Amortization (*Amortizaciones*)	9,975	11,023	11,479	5,918	5,858
Adjusted EBITDA	**31,817**	**39,394**	**29,921**	**23,639**	**13,316**
Revenues (*Importe neto de la cifra de negocio*)	246,009	265,166	275,649	138,759	146,309
Adjusted EBITDA margin	**12.9%**	**14.9%**	**10.9%**	**17.0%**	**9.1%**

Specialty pharma adjusted EBITDA

We calculate specialty pharma adjusted EBITDA as adjusted EBITDA, less revenues from research and development activities, plus research and development expenses, less other income. We believe specialty pharma adjusted EBITDA is a useful measure of our performance because it provides adjusted EBITDA for just our specialty pharma business, which is currently our main revenue-generating business.

The table below presents, for each of the years presented, a reconciliation of specialty pharma adjusted EBITDA to profit for the year.

	Year ended December 31,		
	2015	2016	2017
	(thousands of euros)		
Profit for the year (*Resultado del ejercicio*)	19,809	26,089	17,241
Income tax (*Impuestos sobre beneficios*)	1,089	1,793	281
Finance costs – Net (*Resultado financiero*)	944	489	920
Amortization (*Amortizaciones*)	9,975	11,023	11,479
Adjusted EBITDA	**31,817**	**39,394**	**29,921**
R&D revenues (*Ingresos relacionados con investigación y desarrollo*)	(444)	(985)	(1,265)
R&D expenses (*Gastos totales de investigación y desarrollo*)	16,451	17,481	28,251
R&D costs – Net	**16,007**	**16,496**	**26,986**
Other income (*Otros ingresos*)	–	**(3,997)**	–
Specialty pharma adjusted EBITDA	**47,824**	**51,893**	**56,907**

Adjusted EBIT

Adjusted EBIT decreased 57.9% to €7.5 million in the six months ended June 30, 2018 from €17.7 million in the six months ended June 30, 2017, reflecting a 7.7 percentage point decrease in our adjusted EBIT margin to 5.1% in the six months ended June 30, 2018 from 12.8% in the six months ended June 30, 2017, mainly due to the impact of higher research and development costs. We calculate our adjusted EBIT margin, as adjusted EBIT divided by revenues and believe it is useful as a measure of our operating profitability. Adjusted EBIT decreased 35.0% to €18.4 million in the year ended December 31, 2017, from €28.4 million in the year ended December 31, 2016, reflecting a 4.0 percentage point decline in our adjusted EBIT margin, which declined to 6.7% in the year ended December 31, 2017 from 10.7% in the year ended December 31, 2016, mainly due to the impact of higher research and development expenses. Adjusted EBIT increased 29.9% to €28.4 million in the year ended December 31, 2016 from €21.8 million in the year ended December 31, 2015, reflecting a 1.8 percentage point increase in our adjusted EBIT margin to 10.7% in the year ended December 31, 2016 from 8.9% in the year ended December 31, 2015, primarily due to the positive impact of non-recurring revenue of €4.0 million as a result of the joint venture we created with Enervit. We calculate adjusted EBIT as adjusted EBITDA less amortization (which includes both depreciation and amortization of tangible and intangible assets).

The table below presents, for each of the periods indicated, a reconciliation of adjusted EBIT and adjusted EBIT margin to profit for the year, or period:

	Year ended December 31,			Six months ended June 30,	
	2015	2016	2017	2017	2018
	(thousands of euros)				
Profit for the year/Profit for the period (*Resultado del ejercicio/Resultado del periodo*)	19,809	26,089	17,241	15,757	7,550
Income tax (*Impuesto sobre beneficios*)	1,089	1,793	281	1,477	(523)
Finance costs-net (*Resultado financiero*)	944	489	920	487	431
Adjusted EBIT	**21,842**	**28,371**	**18,442**	**17,721**	**7,458**
Revenues (*Importe neto de la cifra de negocio*)	246,009	265,166	275,649	138,759	146,309
Adjusted EBIT margin	**8.9%**	**10.7%**	**6.7%**	**12.8%**	**5.1%**

Adjusted gross profit

We calculate adjusted gross profit as revenues plus recognition of government grants on non-financial non-current assets and other, less cost of sales. We believe adjusted gross profit is a useful measure of our performance because it provides information about our income net of cost of sales.

The table below presents, for each of the periods presented, a reconciliation of adjusted gross profit:

	Year ended December 31,			Six months ended June 30,	
	2015	2016	2017	2017	2018
	(thousands of euros)				
Revenues (*Importe neto de la cifra de negocio*)	246,009	265,166	275,649	138,759	146,309
Recognition of government grants on non-financial non-current assets and other (*Imputación de subvenciones de inmovilizado no financiero y otras*)	1,013	1,565	1,773	681	754
Total	**247,022**	**266,731**	**277,422**	**139,440**	**147,063**
Cost of sales (*Coste de ventas*)(1)	(97,075)	(112,024)	(110,192)	(55,240)	(61,943)
Adjusted gross profit	**149,947**	**154,707**	**167,230**	**84,200**	**85,120**

Net research and development costs

We calculate net research and development expenses as research and development costs net of research and development-related revenues. We believe net research and development costs is a useful measure of our performance because it provides information about our research and development costs net of related revenues.

The table below presents, for each of the periods presented, a reconciliation of net research and development costs:

	Year ended December 31,		
	2015	2016	2017
	(thousands of euros)		
R&D revenues (*Ingresos relacionados con investigación y desarrollo*)	(444)	(985)	(1,265)
R&D expenses (*Gastos totales de investigación y desarrollo*)	16,451	17,481	28,251
R&D costs - Net	**16,007**	**16,496**	**26,986**

Net debt

We calculate net debt as available-for-sale financial assets / equity securities, plus deposits, plus cash and cash equivalents, minus short term and long term financial debt. We believe net debt is a useful measure of our performance because it provides information about our capital structure.

The table below presents, for each of the periods presented, a reconciliation of net debt:

	Year ended December 31,			Six months ended June 30,
	2015	2016	2017	2018
	(thousands of euros)			
Available-for-sale financial assets/Equity securities (*Activos financieros disponibles para la venta/Valores de renta variable*)	70	70	69	69
Deposits (*Depósitos)*	1,389	1,359	1,374	1,386
Cash and cash equivalents (*Efectivo y equivalentes al efectivo*)	29,251	41,378	40,700	29,966
Non-current liabilities (***Pasivos no corrientes***)**:**				
Financial debt (*Deuda financiera*)	(32,631)	(20,828)	(27,029)	(19,389)
Current liabilities (***Pasivos corrientes***)**:**				
Financial debt (*Deuda financiera*)	(10,147)	(12,966)	(16,208)	(19,069)
Net debt	**(12,068)**	**9,013**	**(1,094)**	**(7,037)**

Liquidity and Capital Resources

Liquidity

Our principal liquidity and capital requirements consist of the following:

- costs relating to the operations of our business, including working capital for payroll, raw materials purchases and research and development, manufacturing and overhead expenses; and
- capital expenditures relating to our operations and the costs associated with the in-licensing of new products.

Historically, we have financed our liquidity and capital requirements primarily through internally generated cash flows, bank loans and government subsidized loans.

Historical cash flows

The following tables set forth our cash flow information for the periods indicated.

	Year ended December 31,			Six months ended June 30,	
	2015	2016	2017	2017	2018
	(thousands of euros)				
Cash flows generated from/(used in) operating activities (*Flujo de efectivo de las actividades de explotación*)					
Profit before income tax (*Beneficios antes de impuestos*)	20,898	27,882	17,522	17,234	7,027
Adjustments for non-monetary transactions (*Ajustes de partidas que no implican movimientos de tesorería*)					
Amortization (*Amortizaciones*)	9,975	11,023	11,479	5,918	5,858
Interest income (*Ingresos por intereses*)	(837)	(426)	(93)	(57)	(7)
Impairment/Valuation allowance (*Correcciones valorativas por deterio*)	(2,013)	1,864	(1,437)	499	2,226

	Year ended December 31,			Six months ended June 30,	
	2015	2016	2017	2017	2018
	(thousands of euros)				
Interest expense (*Gastos por intereses*)	1,781	(915)	1,013	544	438
Net changes in provisions (*Variación neta de provisiones*)	470	381	630	178	–
Grant on non-financial assets and income from distribution licenses (*Subvención de inmovilizado no financiero e ingresos por licencias de distribución*)	(638)	(1,847)	(2,012)	(763)	(792)
Profit from creation of joint venture (*Resultado por constitución de negocio conjunto*)	–	(3,997)	–	–	–
Share of the profit of joint ventures (*Participación en el resultado de negocios conjuntos*)	–	(71)	567	289	25
Changes in working capital (*Cambios en capital circulante*):					
Trade and other receivables (*Clientes y otras cuentas a cobrar*)	6,508	4,131	3,534	276	(7,068)
Inventories (*Existencias*)	5,041	(4,940)	(6,454)	(6,628)	(18,234)
Trade and other payables (*Proveedores y otras cuentas a pagar*)	(9,276)	13,505	(6,910)	(16,013)	8,854
Other Collections and payments (*Otros cobros y pagos*):					
Proceeds from distribution licenses/ Contract liabilities (*Cobros por licencias de distribución*)	110	505	87	87	2,910
Interest paid (*Intereses pagados*)	(645)	–	–	–	–
Income tax cash flow (*Flujo de efectivo por impuestos*)	(1,982)	(3,399)	113	87	(2,074)
Net cash generated from/(used in) operating activities (*Flujos netos de efectivo generados (utilizados) en las actividades de explotación*)	**29,392**	**45,526**	**18,039**	**1,651**	**(837)**
Cash flows generated from/(used in) investing activities (*Flujo de efectivo por actividades de inversion*):					
Purchases of intangible assets (*Adquisición de activos intangibles*)	(3,657)	(8,396)	(5,012)	(2,448)	(369)
Purchases of property, plant and equipment (*Adquisición de inmovilizado material*)	(16,244)	(9,680)	(14,932)	(2,694)	(4,695)
Proceeds from sale of property, plant and equipment (*Venta de inmovilizado material*)	41	43	25	–	12
Investment in a joint venture (*Inversión en negocio conjunto*)	(170)	(3)	–	–	–
Proceeds from sale of shares in joint venture (*Venta de participaciones de negocio conjunto*)	–	1,000	450	450	–
Interest received (*Intereses cobrados*)	776	738	285	48	95
Net cash flows generated from/(used in) investing activities (*Flujos netos de efectivo (utilizados) generados en actividades de inversión*)	**(19,254)**	**(16,298)**	**(19,184)**	**(4,644)**	**(4,957)**
Cash flows generated from/(used in) financing activities (*Flujo de efectivo por actividades de financiación*):					
Repayments of financial debt (*Pago de deuda financiera*)	(5,671)	(10,274)	(13,084)	(6,522)	(6,677)
Proceeds from financial debt (*Deuda financiera recibida*)	11,607	797	22,350	21,882	1,933

	Year ended December 31,			Six months ended June 30,	
	2015	2016	2017	2017	2018
	(thousands of euros)				
Interest paid (*Intereses pagados*)	–	(230)	(253)	(127)	(103)
Purchase of treasury shares (*Compra de acciones propias*)	(6,546)	(987)	(532)	(264)	(490)
Reissue of treasury shares (*Reemisión de acciones propias*)	1,398	446	1,011	768	397
Dividends paid (*Dividendos pagados*)	(8,346)	(6,853)	(9,025)	–	–
Net cash generated from/(used in) financing activities (*Flujos netos de efectivo generados en actividades de financiación*)	**(7,558)**	**(17,101)**	**467**	**15,737**	**(4,940)**
Net (decrease)/increase in cash and cash equivalents (*Variación neta de efectivo y equivalentes*)	2,580	12,127	(678)	12,744	(10,734)
Cash and cash equivalents at beginning of the year (*Efectivo y equivalentes al inicio del ejercicio*)	26,671	29,251	41,378	41,378	40,700
Cash and cash equivalents at end of the year (*Efectivo y equivalentes al final del ejercicio*)	**29,251**	**41,378**	**40,700**	**54,122**	**29,966**

Net cash generated from/(used in) operating activities

Net cash used in operating activities (*flujos netos de efectivo generados en las actividades de explotación*) was €0.8 million in the six months ended June 30, 2018 compared with net cash generated from operating activities of €1.7 million in the six months ended June 30, 2017. The evolution was driven by changes in working capital, with trade and other payables generating €8.9 million of cash in the six months ended June 30, 2018 compared to a use of €16.0 million in the six months ended June 30, 2017. This change was partly offset by greater use of cash for inventories (*existencias*), which increased to €18.2 million used in in the six months ended June 30, 2018 from €6.6 million in the six months ended June 30, 2017.

Net cash generated from operating activities (*flujos netos de efectivo generados en las actividades de explotación*) decreased to €18.0 million in the year ended December 31, 2017 from €45.5 million in the year ended December 31, 2016. The decrease was primarily attributable to the €10.4 million decrease in profit before income tax (*resultado antes de impuestos*) in the year ended December 31, 2017 described above. Change in working capital was another significant factor in the decrease, with €6.9 million of cash used for trade and other payables (*proveedores y otras cuentas a pagar*) in the year ended December 31, 2017 compared to €3.5 million of cash generated from trade and other receivables (*clientes y otras cuentas a cobrar*) in the year ended December 31, 2016.

Net cash generated from operating activities (*flujos netos de efectivo generados en las actividades de explotación*) increased to €45.5 million in the year ended December 31, 2016 compared with €29.4 million in the year ended December 31, 2015. This change was in part attributable to the €7.0 million increase in profit before income tax (*beneficios antes de impuestos*) in the year ended December 31, 2016 described above and an increase in non-cash adjustments for impairment (*correcciones valorativas por deterio*) (a positive adjustment of €1.9 million in the year ended December 31, 2016 compared to a negative adjustment of €2.0 million in the year ended December 31, 2015), partly offset by a negative €4.1 million non-cash adjustment for profit from creation of a joint venture (*resultado por constitución de negocio conjunto*) in the year ended December 31, 2016. Change in working capital also contributed to the increase in net cash generated, with €13.5 million of cash generated from trade and other payables (*proveedores y otras cuentas a pagar*) in the year ended December 31, 2016 compared to €9.3 million of cash used in the year ended December 31, 2015. This impact was partly offset by changes in inventories (*existencias*), which used €5.0 million in the year ended December 31, 2016 after generating €5.0 million in the year ended December 31, 2015 and changes in trade and other receivables (*clientes y otras cuentas a cobrar*), which generated €4.1 million in the year ended December 31, 2016 down from €6.5 million in the year ended December 31, 2015.

Net cash flows generated from/(used in) investing activities

Net cash flows used in investing activities (*flujos netos de efectivo utilizados en actividades de inversión*) increased to €5.0 million in the six months ended June 30, 2018 from €4.6 million in the six months ended June 30, 2017. The increase was principally due to the proceeds from the sale of shares of the joint venture Enevit Nutrition in the first half of 2017.

Net cash used in investing activities (*flujos netos de efectivo utilizados en actividades de inversión)* increased to €19.2 million in the year ended December 31, 2017 from €16.3 million in the year ended December 31, 2016. The increase was principally attributable to purchases of property, plant and equipment, partially offset by the reduction in purchases of intangible assets.

Net cash used in investing activities (*flujos netos de efectivo utilizados en actividades de inversión*) decreased to €16.3 million in the year ended December 31, 2016 from €19.3 million in the year ended December 31, 2015. The decrease was principally due to lower purchases of property, plant and equipment partially offset by additional purchases of intangible assets.

For additional information regarding our investing activities, see "—Capital expenditures."

Net cash flows generated from/(used in) financing activities

Net cash flows used in financing activities (*flujos netos de efectivo utilizados en actividades de financiación***)** was €4.9 million in the six months ended June 30, 2018 compared with net cash generated from financing activities (f*lujo de efectivo por actividades de financiación*) of €15.7 million in the six months ended June 30, 2017. This change was principally attributable to a loan of €20.0 million granted to us in the six months ended June 30, 2017.

Net cash generated from financing activities (*flujos netos de efectivo generados en actividades de financiación***)** was €0.5 million in the year ended December 31, 2017 compared with net cash used in financing activities (*flujos netos de efectivo utilizados en actividades de financiación***)** of €17.1 million in the year ended December 31, 2016. This change was principally attributable to a loan of €20.0 million granted to us in the three months ended March 31, 2017, partially offset by a €2.8 million increase in repayment of financial debt and a €2.2 million increase in our dividend paid in the year ended December 31, 2017 compared with the year ended December 31, 2016.

Net cash used in financing activities (*flujos netos de efectivo utilizados en actividades de financiación***)** was €17.1 million in the year ended December 31, 2016 compared with net cash used in financing activities (*flujos netos de efectivo utilizados en actividades de financiación***)** of €7.6 million in the year ended December 31, 2015. This change was principally attributable to the increase of our bank borrowings by €10 million in the year ended December 31, 2015.

Operating working capital

We define operating working capital as trade and other receivables, plus inventories less trade and other payables. We believe that we have sufficient working capital for the next 12 months from the date of this document, although we cannot assure you that this will be the case.

The following table presents, as of the dates indicated, the balances of our trade and other receivables plus inventories less trade and other payables:

	At December 31,			At June 30,
	2015	2016	2017	2018
	(thousands of euros)			
Operating working capital				
Trade and other receivables (*Clientes y otras cuentas a cobrar*)	57,028	53,842	49,747	57,152
Of which, trade receivables (*Clientes*)	46,692	46,850	42,830	53,225
Inventories (*Existencias*)	63,859	67,386	75,492	91,422
Of which, raw materials and other consumables (*Materias primas y otros*	19,431	19,759	22,117	33,769

	At December 31,			At June 30,
	2015	2016	2017	2018
	(thousands of euros)			
aprovisionamientos)				
Of which, work in progress and semi-finished goods (*Productos en curso y semiterminados*)	17,646	15,722	25,404	26,072
Of which, finished goods produced internally (*Productos terminados – fabricación propia*)	10,726	12,454	11,645	19,696
Of which, marketing products. Commercial products (*Comerciales*)	16,056	19,451	16,326	11,885
Trade and other payables (*Proveedores y otras cuentas a pagar*)	45,742	59,852	52,942	71,333
Of which, trade payables (*Proveedores*)	36,982	50,221	42,129	50,970
Total	**75,145**	**61,376**	**72,297**	**77,241**

The average receivables, average payables and average inventory rotation periods set forth in text and tables below are the results of quotients of balance sheet figures, which include value added tax ("VAT") obligations, divided by income statement-derived figures, which do not include VAT obligations, resulting in longer average periods than would have been obtained if such average periods were calculated using comparable data.

Operating working capital as of June 30, 2018 and December 31, 2017

Trade and other receivables. Trade and other receivables (c*lientes y otras cuentas a cobrar*) increased €7.4 million between December 31, 2017 and June 30, 2018 primarily due to the increase in sales during the first six months of 2018. Our average receivables period (calculated as (a) the total trade receivables at the end of a period, divided by (b) the quotient of (i) our revenues from sales of goods, sale of services for such period divided by (ii) the number of days in such period) increased to 64 days at June 30, 2018 from 54 days at December 31, 2017, primarily due to our entry into a non-recourse factoring agreement in December 2017 whereby we received amounts due from customers other than the public administrations (*partidas vencidas con clientes, no pertencientes a la administración pública* (*Seguridad Social v Otras Organismos Públicos*)) for a total of €6.0 million.

Our trade and other receivables are comprised of receivables due primarily from wholesalers, toll manufacturing clients (mainly multi-national pharmaceutical companies), health providers (social security clients, hospitals and clinics that participate in the Spanish national health system), out-licensing partners and pharmacies.

As of June 30, 2018 the total debt of social security and public administrations (*saldo a cobrar de la Seguridad Social y Organismos Públicos*) with us amounted to €5.2 million (€5.7 million at December 31, 2017), of which €3.7 million related to Spain (€4.0 million at December 31, 2017) and €1.5 million related to Portugal (€1.7 million at December 31, 2017).

Inventories. Inventories (e*xistencias*) increased €15.9 million between December 31, 2017 and June 30, 2018, mainly due to higher heparin inventories in the first six months of 2018. Our average inventory rotation period for inventories (calculated as (a) the total inventories at the end of a period, divided by (b) the quotient of (i) our revenues for such period divided by (ii) the number of days in such period) increased to 112 days at June 30, 2018 from 100 days at December 31, 2017.

Trade and other payables. Trade and other payables (*proveedores y otras cuentas a pagar*) increased €18.4 million between December 31, 2017 and June 30, 2018, primarily due to (i) a normal-course increase in our purchases of commercial products; (ii) the effect of the entry into force of new international financial accounting standards which have led to the classification of certain liabilities as trade payables included in the provision for other liabilities and charges caption at December 31, 2017; and (iii) the recognition of a €6.0 million dividend in the first half of 2018, which had not yet been paid at the end of the period. Our average payables period (calculated as (a) the total trade payables at the end of a period, divided by (b) the quotient of (i) raw materials and consumables used plus advertising costs, services from third parties, supplies, transportation, repair and maintenance costs and other expenses for such period divided by (ii) the number of days in such period) increased to 86 days at June 30,

2018 from 79 days at December 31, 2017. We believe this difference is accounted for by cyclical forces that provide for a shorter payable period at the end of the year.

Operating working capital as of December 31, 2017 and December 31, 2016

Trade and other receivables. Trade and other receivables (*clientes y otras cuentas a cobrar*) decreased €4.1 million between December 31, 2016 and December 31, 2017 primarily due to a decrease in sales in our injectables toll manufacturing business during the last two months of 2017. Our average receivables period (calculated as explained above) decreased to 54 days at December 31, 2017 from 62 days at December 31, 2016. In both December 2017 and 2016 we entered into non-recourse factoring agreements in which we received amounts due from customers other than the public administrations (*partidas vencidas con clientes, no pertencientes a la administración pública* (*Seguridad Social v Otras Organismos Públicos*)) for a total of €6.0 million in the year ended December 31, 2017 and €6.3 million in the year ended December 31, 2016.

As of December 31, 2017, the total debt of social security and public administrations (*saldo a cobrar de la Seguridad Social y Organismos Públicos*) with us amounted to €5.7 million (€6.0 million at December 31, 2016), of which €4.0 million related to Spain (€4.9 million at December 31, 2016) and €1.7 million related to Portugal (€1.1 million at December 31, 2016).

Inventories. Inventories (*existencias*) increased €8.1 million between December 31, 2016 and December 31, 2017, primarily driven by an increase in our sodium heparin inventories in the year ended December 31, 2017. Our average inventory rotation period for inventories (calculated as explained above) increased to 100 days at December 31, 2017 from 93 days at December 31, 2016.

Trade and other payables. Trade and other payables (*proveedores y otras cuentas a pagar*) decreased €6.9 million between December 31, 2016 and December 31, 2017, primarily due to higher purchase of raw materials used in our toll manufacturing business, as well as to expenses related to the launch of new products in 2016. Our average payables period (calculated as explained above) decreased to 79 days at December 31, 2017 from 107 days at December 31, 2016 primarily due to higher purchase of raw materials used in our toll manufacturing business, as well as to expenses related to the launch of new products in 2016.

Operating working capital as of December 31, 2016 and 2015

Trade and other receivables. Trade and other receivables (*clientes y otras cuentas a cobrar*) decreased €3.2 million between December 31, 2016 and December 31, 2015 primarily due to the receipt of government grants that were awarded in the year ended December 31, 2015 and received in the year ended December 31, 2016. Our average receivables period decreased to 62 days at December 31, 2016 from 67 days at December 31, 2015. In both December 2016 and 2015 we entered into non-recourse factoring agreements in which we received proceeds related to amounts due from public administrations for a total of €6.3 million in 2016 and €6.1 million in 2015.

As of December 31, 2016, the total debt of social security and public administrations (*saldo a cobrar de la Seguridad Social y Organismos Públicos*) with us amounted to €6.0 million of which €4.9 million related to Spain and €1.1 million related to Portugal. As of December 31 2015, the total debt of social security and public administrations (*saldo a cobrar de la Seguridad Social y Organismos Públicos*) with us amounted to €1.2 million. In the fourth quarter of 2015, we signed a non-recourse factoring agreement for the amount of €6.1 million, whereby we received the monetary value of the invoices issued to the Spanish and Portuguese public authorities before December 18, 2015.

Inventories. Inventories (*existencias*) increased €3.5 million between December 31, 2015 and December 31, 2016 primarily due to an increase in our sodium heparin inventories in the year ended December 31, 2016. Our average inventory rotation period for inventories (calculated as explained above) decreased to 93 days at December 31, 2016 from 95 days at December 31, 2015.

Trade and other payables. Trade and other payables (*proveedores y otras cuentas a pagar*) increased €14.1 million between December 31, 2015 and December 31, 2016, primarily due to higher purchases of raw materials used in our toll manufacturing business and to expenses related to the launch of new products in 2016. Our average payables period (calculated as explained above) increased to 107 days at December 31, 2016 from 95 days at December 31, 2015 primarily due to higher purchases of raw materials used in our toll manufacturing business and to expenses related to the launch of new products in 2016.

Financial indebtedness

At June 30, 2018, we had financial indebtedness (*deuda financiera*) of €38.5 million compared with financial indebtedness (*deuda financiera*) of €43.2 million at December 31, 2017. The table below sets forth our financial indebtedness as of June 30, 2018 and December 31, 2017, 2016 and 2015.

	At December 31,			At June 30,
	2015	2016	2017	2018
	(thousands of euros)			
Financial indebtedness (*Deuda financiera*)	42,778	33,794	43,237	38,458

Debt with public administrations, which is 0% interest rate debt, represented 32.6% of our financial debt (*deuda financiera*) as of June 30, 2018, compared with 28.4% as of December 31, 2017. Bank borrowings represent the balance of our financial indebtedness. Between December 31, 2017 and June 30, 2018, our bank borrowings (*deuda con entidades de crédito*) decreased by €5.0 million due to repayments of debt.

On December 21, 2017, we announced that the European Investment Bank had granted us a loan of €45 million to support our research, development and innovation initiatives focused on the prolonged release of drugs, including preclinical and clinical trials, that are aimed toward the development of new treatments for cancer and central nervous system diseases. We may draw down on this amount during a period of 24 months from signing. As of June 30, 2018 we had not drawn down any amount under this loan; subsequently, we drew down €5 million under this loan. The loan matures in 2029, provides a three-year grace period and has other favorable financial conditions.

For more details about our financial debt, see note 18 to our 2017 Consolidated Financial Statements.

For more information regarding our debt maturities, see "—Other contractual obligations."

Capital expenditures

The following table presents our capital expenditures by type for 2015, 2016 and 2017 and the six months ended June 30, 2017 and 2018. Capital expenditures consists of purchases of intangible assets and purchases of property, plant and equipment included in the consolidated statements of cash flows.

	Year ended December 31,			Six months ended June 30,	
	2015	2016	2017	2017	2018
	(thousands of euros)				
Madrid plant	1,788	1,634	1,745	392	466
Alcala de Henares plant.....	3,740	2,598	3,778	244	1,203
Granada plant	1,503	634	1,636	132	1,165
San Sebastian de los Reyes plant.....	6,122	3,240	4,815	1,124	945
ISM plants(1).....	2,473	965	1,135	517	471
Investments in maintenance and other.....	4,275	9,003	6,835	2,733	814
Total	**19,901**	**18,076**	**19,944**	**5,142**	**5,064**

(1) ISM plants includes our Risperidone and Letrozole plants in Madrid.

Acquisition of Bertex Pharma GmbH

We may have future payment commitments related to our 2007 agreement to acquire Bertex Pharma GmbH, through which we acquired our ISM technology. The purchase agreement provides for various payments based on the successful completion of clinical trials for the development of ISM products and their subsequent marketing, including fixed payments of €200-300 thousand for internally developed products at the end of each of Phase I, Phase II and Phase III trials, as well as at the beginning of marketing. If, alternatively, development and marketing are undertaken by third parties, we are obligated under the purchase agreement to pay 5% of revenues received related to such product, net of production costs and overheads.

Other contractual obligations

The following table presents the maturity profile of our contractual obligations as of December 31, 2017. It does not include payments under the purchase agreement for Bertex Pharma GmbH, as described above under "—Acquisition of Bertex Pharma GmbH."

	Payments due by period			
	Total	**2018**	**2019-2020**	**2021 and beyond**
	(thousands of euros)			
Bank borrowings (*deudas con entidades de crédito*)	30,938	13,222	17,716	–
Debt with government entities (*deudas con organismos oficiales*)	12,299	2,986	3,181	6,132
Operating lease obligations(1)	1,629	1,050	579	–
Total	**44,866**	**17,258**	**21,476**	**6,132**

(1) Operating lease obligations include principally our payment obligations under vehicle leases. See "—Off-balance sheet arrangements."

Contingent commitments

In March 2016 we signed a call option with Enervit that can be exercised during June 2018, whereby we guaranteed a call option of 1% of the shares of our joint venture, Enervit Nutrition, S.L., for a value of €50 thousand. Enervit exercised this right in July 2018.

Off-balance sheet arrangements

In the ordinary course of activities, in order to manage our transactions and financing, we have carried out certain transactions that are not included on our statement of financial position, such as operating leases. Our objective is to optimize the financing costs that are involved in determined financial transactions and, therefore, on certain occasions, we have chosen operating leases rather than the acquisition of assets. The minimum future payments to be made for non-cancellable operating leases (*pagos minimos futuros a pagar por arrendamientos operativos no cancelables*) at December 31, 2017 were €1.6 million (compared with €1.0 million at December 31, 2016), of which €1.0 million are related to maturities with less than one year (€1.0 million with less than one year at December 31, 2016).

Quantitative and Qualitative Disclosure About Market Risk

Interest rate risk

At June 30, 2018, we had €38.5 million in financial debt, of which €1.6 million bears interest at a floating rate. Borrowings entered into on variable rates expose us to cash flow interest rate risk, while borrowings entered into on fixed rates expose our Group to fair value interest rate risk. Our general policy is to maintain the larger part of our borrowings in fixed rate instruments. We do not currently hedge any of our interest rate risk. Our interest rate risk is limited given that a significant portion of our debt consists of refundable advances from government entities at 0% interest rates.

Raw material price risk

We face risks related to fluctuations in the prices of sodium heparin, our main raw material, and other packaging materials that we use in manufacturing, in particular sodium heparin used in our production of bemiparin and *Becat*.

Foreign exchange risk

We consider our foreign exchange risk to be low because (a) virtually all of our assets and liabilities are in euros; (b) a majority of the transactions with foreign parties are carried out in euros; and (c) we occasionally enter into transactions for significant amounts in currencies other than the euro, but they are usually hedged by exchange rate insurance contracts.

Price risk

We are exposed to price risk for equity securities because of investments held by us that are classified as available for sale on our consolidated statement of financial position. To manage our price risk arising from investments in equity securities, we diversify our portfolio. The portfolio is diversified in accordance with our internally established limits. We do not use derivatives to hedge price risk. At June 30, 2018, December 31, 2017, 2016 and 2015, a change of 10% in the listed price of equity securities would have had no material effect on our statement of financial position.

Outlook

We expect a mid-single-digit growth rate in our operating revenue for 2018, aided by expected sales of between €20 million and €30 million of our new enoxaparin biosimilar, *Becat*. We expect sales of *Becat* to grow in the high single digits annually in the mid-term.

We expect our main growth drivers during 2018 to be sales of bemiparin, *Becat* and of our existing portfolio of specialty pharmaceuticals, new product distribution licenses and new contracts in the toll manufacturing area. We also expect to stop distributing Merus Labs products (*Sintrom*, *Salagen*, *Cordiplast* and *Estraderm*) during the fourth quarter of 2018. In 2019, the principal patent for bemiparin expires. In the longer term, we expect our main growth drivers to be *Doria*, which is currently in Phase III clinical trials, and *Becat*.

Our ability to meet the operating revenue expectations set forth above depends on numerous factors and is subject to risks, uncertainties and assumptions and other factors, many of which are outside our control, that could cause our actual results of operations to differ materially from those expressed above. If such assumptions prove to be incorrect, we may not be able to achieve our operating revenue expectations. See “Forward-looking Statements” and “Risks Relating to Our Business and Industry—There is no assurance that we will realize our operating revenue expectations or any other anticipated figures set forth in this document.”

BUSINESS

Overview

We are a fully-integrated European specialty pharmaceutical company engaged in the research, development, manufacturing and marketing of pharmaceuticals and contrast imaging agents. We have leveraged our unparalleled know-how of the low molecular weight heparin or "LMWH" market to develop our two flagship products, bemiparin, which we directly market in Spain under the name *Hibor*, and our enoxaparin biosimilar *Becat*. We are also the partner of choice for global pharmaceutical players in Spain and market a diversified portfolio of both proprietary and in-licensed products through our approximately 250-person specialized sales force. Further, we utilize our state-of-the-art filling and packaging capabilities to provide a broad array of toll manufacturing value-added services to leading international pharmaceutical companies, including the manufacture of pre-filled syringes for which we are one of the leading global manufacturers in terms of annual number of units manufactured. In addition, we manufacture solid oral forms (tablets, coated tablets, hard capsules and sachets) using state-of-the-art roller compaction technology, and suppositories. Our research and development strategy is primarily focused on addressing currently unmet medical needs by expanding applications for our sustained release injectable ("ISM") technology, which currently has two clinical programs in various stages of development. In the six months ended June 30, 2018 and in the years ended December 31, 2017, 2016 and 2015, we generated revenues (*importe neto de la cifra de negocios*) of €146.3 million, €275.6 million, €265.2 million and €246.0 million, respectively, and profit (*resultado del ejercicio*) of €7.6 million, €17.2 million, €26.1 million and €19.8 million, respectively.

Our diversified portfolio of more than 40 principal marketed products has a strong patent position and is anchored by bemiparin. In the year ended December 31, 2017, bemiparin accounted for €83.9 million in revenues (or 30.4% of our revenues for the year) and, as of June 30, 2018, bemiparin was marketed by our international licensing partners in 56 countries outside of Spain, was registered and pending launch in four additional other countries and was awaiting approval in 14 additional countries.

We directly market all of our products in Spain and Portugal and have recently begun expanding elsewhere in Europe. Since 2014, we have expanded our direct sales efforts internationally, opening sales offices in Germany, the United Kingdom, Italy and France, initially to focus on marketing *Becat*. We started the commercialization of *Becat* in September 2017 and, as of the date of this document, we directly market *Becat* in Germany, the United Kingdom, Italy and Spain, and indirectly in France pursuant to an agreement with Biogaran. We have been approved to directly market *Becat* in three additional countries, are approved for out-licensed marketing in 19 countries, and are pending approval for out-licensing in 46 additional countries. We have already signed out-licensing agreements with respect to 45 countries to distribute *Becat*, including an agreement with Hikma with respect to the Middle East and North Africa, and another agreement with Sandoz with respect to 14 countries/regions. Sales of *Becat* amounted to €8.9 million in the six months ended June 30, 2018. We expect *Becat* will be the core driver of our future growth in the coming years, and that the international direct marketing sales network we are establishing for *Becat* will form the basis of our European specialty pharmaceutical business and ISM platform, which we expect to drive growth in the long term.

Our specialized sales force is currently composed of approximately 250 highly-trained personnel, located mainly in Spain, and in Germany, the United Kingdom, Italy, France and Portugal. We have a diverse portfolio of proprietary and in-licensed pharmaceutical products focused on nine key therapeutic franchises centered on significant unmet medical needs. These nine key therapeutic franchises, organized around the expertise of our sales force, are "cardiovascular", "osteoarticular", "respiratory", "urology", "contrast imaging", "anesthesia/pain relief", "central nervous system", "endocrinology" and "primary care." Leveraging our existing sales channels and strong brand name, we also market over-the-counter and other non-prescription pharmaceutical products.

With regard to our manufacturing activities, we have six manufacturing plants, including four full-scale plants and two pilot plants, where we manufacture our proprietary products, and we also provide a wide range of services to other companies under toll manufacturing agreements, including product manufacturing, syringe filling, packaging and running clinical trials. We have an injectables filling and packaging plant in San Sebastian de los Reyes, and we are one of the leading global manufacturers of pre-filled syringes in terms of number of units manufactured annually, with annual production capacity of approximately 120 million syringes and 60 million vials. We also have a manufacturing plant in Madrid, with annual production capacity of 150 million syringes and 150 million suppositories, and an additional plant in Alcala de Henares, with annual production capacity of three billion tablets, 300 million hard capsules and 30 million sachets. In addition, we have a state-of-the-art manufacturing plant

in Granada, Spain, focused on our bemiparin and enoxaparin production, with an annual production capacity of 120 billion international units ("MUI") and risperidone and letrozole plants in Madrid, with annual production capacities of 220 thousand syringes each.

In our toll manufacturing business, we have successfully capitalized on our manufacturing expertise through the provision of high value-added contract product manufacturing, syringe filling and packaging services to leading international pharmaceutical companies, including Novartis, Sanofi-Pasteur, Grifols and MSD, among others. In the year ended December 31 2017, we produced products that were sold in over 40 countries, and international sales accounted for 80.2% of our toll manufacturing revenues. We believe our solid experience and differentiated manufacturing capabilities in injectables and oral forms drive significant barriers to entry in our toll manufacturing business.

Our research and development activities are a key element of our operations. They are primarily focused on our ISM technology and are designed to balance risks and rewards by focusing on approved well-established products with clinically validated efficacy and safety profiles. We believe our ISM technology has the potential for wide applicability across multiple drug candidates and can provide differentiated delivery solutions for established drugs where there is a large unmet need. In connection with our ISM technology we are developing *Doria*, an atypical antipsychotic pharmaceutical approved for the treatment of schizophrenia, currently in Phase III clinical trials, and long-acting *Letrozole ISM* for breast cancer, currently in Phase I clinical trials. We view these candidates as particularly promising in potentially addressing significant medical needs. In the six months ended June 30, 2018 and in the years ended December 31, 2017, 2016 and 2015, we incurred research and development expenses (*gastos de investigación y desarrollo*) of €16.8 million, €28.3 million, €17.5 million and €16.5 million, respectively. We consider that our ISM technology platform involves a different business model than our other activities, with a different risk profile given the focus on already approved compounds, and with the potential for international growth, including Europe and the United States. As a result, we expect to continue to focus on our ISM technology and consider how best to develop and grow our ISM platform in the future in light of its characteristics.

History

We were founded in Madrid in 1946 and acquired in 1949 by the López-Belmonte family. Until 1981, our business consisted primarily of the marketing and distribution in Spain of in-licensed specialty pharmaceutical products from international pharmaceutical companies and the marketing of certain proprietary heparin-based products, including sodium heparin in the 1950s and 1960s and calcium heparin in the 1970s and 1980s. Leveraging our experience with heparin-based products and a clearly identified market demand, we began researching LMWHs, eventually leading to our development of bemiparin, the active ingredient for our leading LMWH product, *Hibor*. In June 1998, we introduced *Hibor* into the Spanish market and in 2003 we obtained regulatory approval for bemiparin in several other European markets. As of June 30, 2018, bemiparin was approved for sale in 60 countries outside of Spain and had been launched in 56 of these countries.

Following our strategic decision to develop a manufacturing capacity sufficient for our own needs and the provision of toll manufacturing services to third parties, in 1994, we obtained our Good Manufacturing Practice ("GMP") certification for our manufacturing, filling and packaging facilities, and shortly thereafter we commenced offering high value-added contract syringe filling and packaging services to leading international pharmaceutical companies. As of the date of this document, we now have one of the largest injectables manufacturing footprints in Europe in terms of annual number of units manufactured. In the 2000s, building off our experience with directly marketing *Hibor* in Spain, through in-licensing agreements with leading companies such as Novartis and MSD, we built a portfolio of specialty pharmaceutical products which we have marketed through our sales force in Spain and Portugal.

More recently, we have turned our focus toward our enoxaparin biosimilar *Becat* and developing our international sales force. In 2017, we successfully completed the decentralized procedure to apply for authorization to market *Becat* in 26 countries of the European Union and began marketing in Germany in September 2017, in the United Kingdom in March 2018, in Italy in April 2018, in Spain in September 2018 and in France in September 2018 (pursuant to an agreement with Biogaran). We have been approved to directly market *Becat* in three additional countries, are approved for out-licensed marketing in 19 countries, and are pending approval for out-licensing in 46 additional countries. We have already signed out-licensing agreements with respect to 45 countries to distribute *Becat*, including an agreement with Hikma with respect to the Middle East and North Africa, and another agreement

with Sandoz with respect to 14 countries/regions. In addition, in 2017, we started a Phase III trial, "PRISMA-3", of *Doria*, with the recruitment of the first patient, and a Phase I trial, "LISA-1", of *Letrozole ISM*.

Key Company Highlights

We believe that the following factors distinguish us and contribute to our strong competitive position:

Well-balanced European specialty pharmaceutical company with three diversified growth drivers

Our specialty pharmaceuticals business comprises (a) our leading proprietary LMWH franchise, anchored by bemiparin and, increasingly, our enoxaparin biosimilar, *Becat*, (b) our leading Spanish specialty pharmaceutical business, which we aim to expand to our other European sales offices in the coming years, and (c) our high-value-added toll manufacturing business.

Leading proprietary LMWH franchise

Bemiparin, which is marketed as *Hibor* in Spain, is our internally developed flagship heparin product. We have been engaged in the development of heparin-based drugs for over 70 years. *Hibor* is the second-leading LMWH in Spain, with an approximately 32% market share as of June 2018, according to IQVIA. Outside Spain, bemiparin is marketed in 56 countries through out-licensing agreements, and registration is pending in 14 additional countries. Bemiparin sales grew at a CAGR of 5.6% in the three years ended December 31, 2017. Bemiparin sales amounted to €83.9 million, €79.7 million and €75.1 million in the years ended December 31, 2017, 2016 and 2015, respectively, comprised of sales in Spain of €58.8 million, €54.7 million and €50.4 million, respectively, and stable international sales of €25 million in each of the three years ended December 31, 2017.

Bemiparin is the only second-generation LMWH, and it is clinically differentiated from Sanofi's enoxaparin, which is currently the leading LMWH in terms of sales. We are vertically integrated, with our own LMWH manufacturing plant in Granada, Spain, which supports our strong positioning in the LMWH market. Bemiparin is a clinically differentiated treatment that is applicable to a wider therapeutic window than other LMWH products. Bemiparin, thanks to its strong pharmacological profile, is the only second-generation LMWH that provides effective 24-hour coverage with a once-daily dose in all patient profiles, regardless of their risk level. Bemiparin is distributed through an established international network supported by contracts with leading local pharmaceutical distributors, some of which have been in place for many years.

We believe we are well positioned for long-term leadership in the LMWH market, in which we aim to become one of Europe's top players. We believe our vertical integration and unparalleled knowledge of the LMWH market, with over 70 years of experience, provide us with privileged competitive positioning, which allows us to offer a more price-competitive product, uphold best-in-class quality standards and have a faster response-to-market. We launched our internally developed enoxaparin biosimilar *Becat* in Germany in September 2017, in the United Kingdom in March 2018, in Italy in April 2018, in Spain in September 2018 and in France in September 2018 (pursuant to an agreement with Biogaran). We have established subsidiaries to serve as sales offices in Germany, the United Kingdom, Italy, France and Portugal. Additionally, we plan to establish another subsidiary in Poland and aim to launch *Becat* in these other European markets before the end of the first quarter of 2019. We consider these seven countries to be key markets, as they represent approximately 75% of the European enoxaparin market, according to IQVIA. We believe our expanding sales network provides a pan-European infrastructure that has the potential to be leveraged for further growth of our heparin franchise and broader portfolio. We have quickly grown our sales of *Becat*, from €4.1 million in the three months ended March 31, 2018, to €4.8 million in the three months ended June 30, 2018, representing growth of 17.0% quarter-on-quarter. As of the date of this document, we directly market *Becat* in Germany, the United Kingdom, Italy and Spain, and indirectly in France pursuant to an agreement with Biogaran. We have been approved to directly market *Becat* in three additional countries, are approved for out-licensed marketing in 19 countries, and are pending approval for out-licensing in 46 additional countries. We have already signed out-licensing agreements with respect to 45 countries to distribute *Becat*, including an agreement with Hikma with respect to the Middle East and North Africa, and another agreement with Sandoz with respect to 14 countries/regions.

We expect the future growth of our LMWH franchise to be driven by three strategic goals. We aim to grow our market share of bemiparin in Spain and abroad, while realizing increasing substitution of *Becat* for existing enoxaparin products and launching *Becat* in additional markets across Europe.

Leading Spanish specialty pharmaceutical business

Our leadership in the Spanish specialty pharmaceuticals market positions us as a partner of choice for global pharmaceutical companies looking to market their products in Spain. Since 1946, we have been present in the Spanish pharmaceuticals market, where we have established our reputation based on a well-known portfolio of proprietary products, anchored by bemiparin. As of the date of this document, we have a portfolio of sixteen proprietary products and 27 in-licensed products. We have one of the largest specialty pharmaceuticals sales forces in Spain, with approximately 250 employees. Moreover, we have strong knowledge of the Spanish regulatory framework with respect to pharmaceutical sales.

We have a broad portfolio of innovative products, and a proven track record, as evidenced by 14 new products in-licensed in the last ten years. Our familiarity with national regulatory phases, pricing and product reimbursement schemes, adds value to our clients, and we have an attractive portfolio of in-licensing contracts, some of which have been in place for many years. Moreover, we have a strong patent protection portfolio. See "—Patent Portfolio" for further information regarding patent protection for the products that we market.

The following table sets forth the principal brands in Spain of the principal in-licensed products that we market as of the date of this document, together with our in-licensing partner and the year we initially signed the relevant in-licensing agreement.

Principal brand in Spain	In-licensing partner	Year
Iomeron	Bracco Imaging S.p.A.	1996
Iopamiro	Bracco Imaging S.p.A.	1986
Sonovue	Bracco International B.V.	2002
Multihance	Bracco International B.V.	2005
Prohance	Bracco Imaging S.p.A.	1999
Osseor	Les Laboratoires Servier	2006
Exxiv	MSD	2008
Bertanel	Ebewe Pharma	2010
Vytorin	MSD	2011
Absorcol	MSD	2011
Medikinet	Medice	2013
Medicebran	Medice	2013
Hirobriz Breezhaler	Novartis	2014
Ulunar Breezhaler	Novartis	2014
Volutsa	Astellas	2015
Orvatez	MSD	2015
Neparvis	Novartis	2016
Mysimba	Orexygen	2017
Sintrom	Merus Labs	2015

We expect growth in our in-licensing business to be driven by three strategic goals. We aim to increasingly leverage our leadership position in Spain, to maintain strong sales performance and operational excellence, and to secure new in-licensing opportunities with global players in specialty therapeutic areas.

High-value-added toll manufacturing services

Through our toll manufacturing business, we provide pre-filled syringes and manufacturing of oral forms and suppositories to leading global pharmaceutical companies. We have a customer-oriented business model, offering high-value-added services, in particular with respect to the manufacture of pre-filled syringes. We have differentiated capabilities with respect to both injectables and oral forms, which we believe drives significant barriers to entry. Our portfolio of toll manufacturing agreements, some of which have been in place for many years, provides a degree of revenue visibility with respect to this business. Revenues from toll manufacturing represented 22.2% of our total revenues in the year ended December 31, 2017, and revenues associated with products destined for sale outside Spain accounted for 80.2% of toll manufacturing revenues in such year. In 2017, we produced products that were sold in over 40 countries. We have a strong regulatory track record with respect to our manufacturing plants, with multiple GMP and FDA approvals. We have two injectables plants, and we are global

leaders in the manufacture of pre-filled syringes, one of our fastest growing products. Moreover, we have a plant for solid forms, which has a long tradition in the manufacturing of pharmaceutical products and which uses the most advanced technology for the manufacturing of oral forms (tablets, coated tablets, hard capsules and sachets).

We expect growth in our toll manufacturing business to be driven by two strategic goals. We aim to drive volume growth from existing customers and to secure additional toll manufacturing customers to take advantage of strong economies of scale.

Research and development activities underpinning key future growth drivers

Our research and development activities are expected to be an important driver of our future growth. We have proven research and development capabilities, having successfully developed and launched products such as our flagship LMWH bemiparin, and the recently launched enoxaparin biosimilar *Becat*, which we led through clinical testing and the national registration process in Europe. Our research and development efforts in recent years have revolved mainly around our sustained release injectable ("ISM") technology, and we believe our current product candidates in these areas, *Doria* and *Letrozole ISM*, which are in Phase III and Phase I clinical trials, respectively, have significant potential to drive our growth going forward, once required regulatory approvals are obtained.

We developed our versatile ISM technology in-house and believe it has strong potential for out-licensing. We have a broad patent portfolio of more than 440 granted patents and 94 pending patent applications. We concentrate our research and development efforts on improving posology for already approved compounds, which we believe allows us to strike an appropriate risk/reward balance in our research and development activities. We have developed a strategy for the protection of our proprietary technology and new pharmaceutical and biotechnological developments by seeking patent protection for all aspects associated with the development of our core technologies, including active compounds, methods of compound delivery, therapeutic uses of an active compound, delivery kits, delivery devices and pharmaceutical formulations. Finally, we believe that our ample manufacturing capabilities, with multiple FDA and GMP approvals, provide strong support to our research and development initiatives.

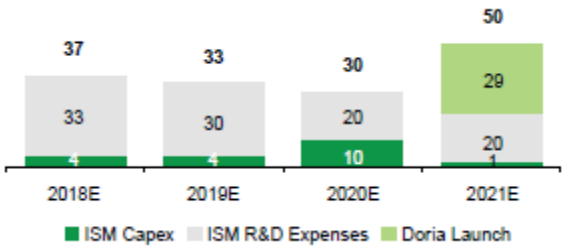
Proprietary ISM technology platform opens up new avenues of growth

Our ISM technology is an internally developed and patented innovative drug-release platform, which allows for the sustained release of compounds administered by injection. We believe the following key aspects will contribute to the success of our ISM technology:

- highly efficient drug retention;
- excellent stability of the active substance;
- high level of control of the initial release of the drug;
- avoidance of refrigerated storage;
- flexible posology of one to six months;
- patent protection until 2033.

Our ISM technology was developed with a view to overcome the disadvantages of existing prolonged-release oral or injectable formulations by providing greater simplicity, efficacy and stability. We believe that there is the potential for wide applicability of our ISM technology to new chronic therapeutic areas, including psychiatry and oncology, and that our vertical integration and expertise in pre-filled syringe manufacturing puts us in a strong position to take advantage of our patent-protected ISM technology.

The chart below sets out our anticipated financing requirements for our ISM technology platform through 2021, which we expect to finance through internal cash flow generation, debt capacity and other sources of financing such as bank debt or debt or equity capital markets transactions. Our actual financing requirements may vary from these estimates. See "Forward-looking Statements."



Doria

Our lead candidate from our ISM platform is *Doria*, our proprietary risperidone long acting injectable ("LAI"), which is in Phase III testing. *Doria* leverages our ISM technology with the proven efficacy and safety of risperidone, which has shown clinical outcomes. Its unique pharmacological profile has shown therapeutic plasma levels from two hours following injection, with a once-monthly injection and without the need for loading doses or oral supplementation. Patients administered with *Doria* are medically supervised, which has been shown to improve compliance and reduce hospitalization and relapse rates, as well as reducing the risk of accidental or deliberate overdose. We believe that *Doria*, if approved, will be well positioned to capture a share of an attractive market, in which approximately 20.1% of U.S. and EU schizophrenia patients are treated with oral risperidone according to IMS Midas in 2017. LAIs are increasingly becoming the gold standard in the treatment of schizophrenia, and they have benefits compared with oral antipsychotics in terms of cost. *Doria* is currently in Phase III clinical testing, in which we are targeting PANSS (positive and negative syndrome scale) reduction from day four. In May 2018, we announced that an independent data monitoring committee had reviewed the interim results of the Phase III trial and recommended continuing the clinical trial without the need to increase the number of patients. We expect to receive the final Phase III data readout at the end of the second quarter of 2019. If the review of the chemistry, manufacturing and controls package and the results of these clinical studies are positive, we expect to submit new drug and marketing authorization applications for *Doria* in the second half of 2019, utilizing the Section 505(b)(2) pathway, potentially allowing for expedited FDA approval based on prior approval of risperidone. See "—Our ISM Platform—*Doria*" and "Risks Relating to Our Business and Industry—Our candidate products, including our lead candidate *Doria*, cannot be marketed unless we obtain and maintain regulatory approval."

We believe that *Doria*, if approved, will be well positioned to enter an attractive schizophrenia market with strong growth prospects. Schizophrenia is a chronic and progressive disease, and strict compliance with treatment plans is needed to avoid relapses. Schizophrenia affects 21 million people worldwide according to the Epidemiology data-Kantar Health Epi Database. According to Kantar Health epidemiology data as of 2015, the number of schizophrenia patients in the United States, United Kingdom, Germany, Spain, France and Italy, combined, is expected to increase 12% from 3.2 million in 2013 to 3.6 million in 2035. According to Kantar Health, in 2035 the U.S. market is expected to represent more than half of such forecast 3.6 million patients. In 2017, the United States was the largest schizophrenia LAI market worldwide, with 2017 sales of US$3.3 billion according to IMS in 2017. According to IMS Midas, the U.S. schizophrenia injectables market grew at a CAGR of 34.3% between 2011 and 2017. The second largest schizophrenia LAI injectable market was Europe, with the group of countries consisting of France, Germany, Italy, Spain and the United Kingdom (collectively, "Top 5 Europe") growing at a 15.1% CAGR from 2011 to 2017, reaching a value of US$1.0 billion. LAI penetration is still low with market shares in terms of units of 12.5% in the United States and 20.7% in Top 5 Europe, according to Datamonitor in 2018. We believe the LAI schizophrenia market is highly attractive, with a large and growing market in terms of both units and value, with a high treatment switch rate and an addressable U.S. market of hospital psychiatrists to target.

Letrozole ISM

Letrozole ISM is a LAI aromatase inhibitor to treat hormone-dependent breast cancer. *Letrozole ISM* is currently in Phase I clinical testing. We believe that hormone receptor-targeting drugs offer a unique opportunity to leverage our ISM platform. According to Datamonitor in 2017, the hormone receptor-positive (HR+) breast cancer market in the United States, Japan, the United Kingdom, Germany, Spain, France and Italy, combined, is expected to grow 16.7% between 2015 and 2024. *Letrozole ISM* is designed to treat hormone-dependent breast cancer with the aromatase inhibitor letrozole, which blocks the production of estrogen in post-menopausal women. Aromatase inhibitor therapy is currently delivered through once-daily oral medication, and research suggests that failures in

long-term adherence may represent an area limiting optimal treatment. *Letrozole ISM* has been designed to be, at least a three-month injection, with a target of six months, and we believe it has the potential to meaningfully disrupt the market and improve patient outcomes. Early discontinuation of and non-adherence to hormone therapy are common and associated with increased mortality, presenting an opportunity for *Letrozole ISM* to enhance treatment and gain market share. Moreover, we believe that sustained lower effective doses, compared to oral treatment, could reduce adverse side effects, such as bone mass loss, pain and dyslipidemia, due to lower exposure to the drug. We believe that this improved safety profile, if sustained in our clinical trials, has the potential to positively impact treatment adherence.

Sound financial policy supported by strong track record

We believe that our strong track record is evidence of our sound financial policy. In the years ended December 31, 2017, 2016 and 2015, our revenues (*importe neto de la cifra de negocios*), including subsidies (*imputación de subvenciones e inmovilizado no financiero y otras*), were €277.4 million, €266.7 million and €247.0 million, respectively, representing growth at a CAGR of 6.0%. Revenues in our specialty pharmaceuticals business grew at a CAGR of 5.9% and represented over 99% of our revenues over this period.

Our adjusted EBITDA was €30 million, €39 million and €32 million in the years ended December 31, 2017, 2016 and 2015, respectively, representing double-digit adjusted EBITDA margins in each of these years.

With respect to our statement of financial position, at December 31, 2017 we had financial indebtedness (*deuda financiera*) of €43.2 million, 28.4% of which debt was 0% interest rate debt with public administrations, compared with cash and cash equivalents (*efectivo y equivalentes al efectivo*) of €40.7 million. Our net debt at December 31, 2017 was €1.1 million. Our policy is to maintain a solid financial policy going forward.

Proven track record in creating value for shareholders

Our chief executive officer, Juan López-Belmonte Encina, our chief financial officer, Javier López-Belmonte Encina, and our head of corporate development, Iván López-Belmonte Encina, have led the Company since shortly before our initial public offering in 2007.

Since our initial public offering in 2007, our senior management team has demonstrated a proven track record of growth and value creation, and we have increased our market capitalization to €799 million as of September 18, 2018, or 69%. Our senior management team has led us through significant developments and milestones in recent years, such as a strategic agreement with MSD in 2009, our in-licensing agreements signed with MSD, Novartis and Medice in 2011-2013, the registration process in Europe for *Becat* beginning in 2014, the completion of Phase II clinical testing for *Doria* and the acquisition of our injectables plant in San Sebastian de los Reyes in 2015, our in-licensing agreement with Novartis for the marketing of *Neparvis* in 2016, and our launch of *Becat* in Germany in 2017, in the United Kingdom, in Italy in 2018, in Spain in September 2018 and in France in September 2018 (pursuant to an agreement with Biogaran). We expect to rely on our proven senior management team to continue growing our business in the coming years.

Description of Our Business

We are a fully-integrated European specialty pharmaceutical company engaged in the research, development, manufacturing and marketing of pharmaceuticals and contrast imaging agents. We have a diversified portfolio of products, both proprietary and in-licensed products, that we market mainly in Spain, and increasingly in Europe through our sales offices in Germany, the United Kingdom, France, Italy and Portugal, through our approximately 250-person specialized sales force, calling on specialist physicians, hospitals and pharmacies, as well as through out-licensing agreements with local partners. Our product portfolio is anchored by our proprietary LMWH, bemiparin, and we have more than 40 principal marketed products across nine core franchises, with fourteen new products launched in the last ten years, including our enoxaparin biosimilar *Becat*. We manufacture the active biological ingredients bemiparin and enoxaparin and the injectable pharmaceutical products developed by our in-house research team. In addition, we utilize our state-of-the-art filling and packaging capabilities to provide a broad array of toll manufacturing services to leading international pharmaceutical companies. We believe we are one of the leading global manufacturers of pre-filled syringes in terms of annual number of units manufactured. In addition, we manufacture solid oral forms (tablets, coated tablets, hard capsules and sachets), using state-of-the-art roller compaction technology, as well as suppositories. We also have two clinical programs in our ISM research and

development pipeline focused on attractive market opportunities, with other candidate products in various stages of development. Our research and development strategy is primarily focused on addressing currently unmet medical needs by expanding applications for our ISM technology.

Product portfolio

Our product portfolio is anchored by our flagship product, our proprietary LMWH, bemiparin, which, in the year ended December 31, 2017, accounted for €83.9 million, or 30.4% of our revenues. In addition, we have recently launched *Becat*, our enoxaparin biosimilar, in Germany, the United Kingdom, Italy, Spain and France. Over the past several years we also have in-licensed, typically on a co-marketing basis, several products for a number of therapeutic indications, including symptomatic chronic heart failure with reduced ejection fraction, chronic obstructive pulmonary diseases ("COPD"), hypercholesterolemia, attention deficit hyperactivity disorder ("ADHD"), benign prostatic hyperplasia and osteoporosis, muscle and joint pain relief, among others, which in the year ended December 31, 2017 collectively accounted for €111.8 million, or 40.6% of our revenues (*importe neto de la cifra de negocios*). In addition, we market Bracco's line of contrast imaging agents and other products prescribed in hospitals and several over-the-counter pharmaceutical products to take advantage of our existing sales channels and strong brand name and to further increase and diversify our revenues.

Specialty pharmaceutical products

The following table sets forth the nine principal specialty pharmaceutical products currently marketed by us, including their principal brands in Spain, respective active ingredients, therapeutic applications, dates of product launch (in Spain unless otherwise indicated) and information on product origin.

Principal brand in Spain	Product active ingredient	Therapeutic application	Date of product launch	Comments
Hibor	Bemiparin	VTE/Hemodialysis/ Thrombosis prophylaxis	June 1998	Internally developed, registered in Spain in April 1998
Becat	Enoxaparin biosimilar	VTE/Hemodialysis/ Thrombosis prophylaxis	September 2017	Internally developed, launched in Germany in September 2017, in the United Kingdom in March 2018, in Italy in April 2018, in Spain in September 2018 and in France in September 2018 (pursuant to an agreement with Biogaran)
Neparvis	Sacubitril/ Valsartan	Symptomatic chronic heart failure with reduced ejection fraction	December 2016	In-licensed from Novartis in December 2016
Absorcol/ Vytorin/ Orvatez	Ezetimide	Hypocholesterolenia	January 2011	In-licensed from MSD since January 2011 (Absorcol and Vytorin) and since June 2015 (*Orvatez*)
Hirobriz Breezhaler/ Ulunar Breezhaler	Indacaterol Maleato	Chronic obstructive pulmonary diseases	December 2014	In-licensed from Novartis in December 2014
Volutsa	Solifenacin Succinate	Storage system symptoms	January 2015	In-licensed from Astellas in October 2014
Medikinet/ Medicebran	Methylphendate hydrochloride	Attention deficit hyperactivity disorder	December 2013	In-licensed from Medice in December 2013
Exxiv	Etoricoxib	Arthritis	July 2008	In-licensed from MSD in April 2008

Hibor/Ivor/Zibor/Ivorat/Ivormax/Badyket (*bemiparin*). Bemiparin, our flagship product and proprietary second generation LMWH, was launched in Spain in June 1998, in certain countries in Central America in 2002 and in certain other European markets in 2003. Bemiparin has the lowest mean molecular weight (3600 Da), the longest half-life (5.3 hours) and the largest anti-Xa:anti-Iia activity ratio (8:1) of all LMWHs. We believe these properties,

which justified designation as the first second generation LMWH, give bemiparin a more favorable efficacy to safety ratio than other currently marketed LMWHs.

Bemiparin, like other LMWHs, is administered by subcutaneous injection (typically into a skin fold at the waist), and is indicated for the treatment of venous thromboembolism ("VTE"), which includes both deep vein thrombosis ("DVT") and pulmonary embolism ("PE"). DVT is a condition marked by the formation of a thrombus within a deep vein (such as the leg or pelvis) that may be accompanied by such symptoms as chronic swelling and pain, and that is potentially life threatening if left untreated. Dislodgment of the thrombus results in PE or the embolism of a pulmonary artery or one of its branches that, if left untreated, can result in labored breathing, chest pain, fainting, rapid heart rate, cyanosis, shock, and sometimes death. Bemiparin exerts its therapeutic effect by inhibiting the blood clotting cascade (mainly through the inhibition of factor Xa).

Bemiparin is approved either as a prophylaxis for, or treatment of, VTE. Bemiparin is also approved for use as an anticoagulant for patients undergoing hemodialysis. It is administered through the dialysis machine at the start of the treatment and works to prevent the formation of clots in the plasma during dialysis.

Bemiparin requires a lower volume of diluent for subcutaneous administration in comparison to other LMWHs, which may generally result in less pain and a lower occurrence of adverse local reactions (e.g., bruising) at the site of injection, and it requires only one dose compared with two doses of its leading competitor, enoxaparin. As the chart below illustrates, bemiparin has a highly differentiated, more flexible approved administration schedule in comparison to other LMWHs. Similar to other currently marketed LMWHs, bemiparin can be administered within a relatively short pre-surgery window for either general or orthopedic surgery, albeit within a much wider window in high risk patients (2 hours before surgery compared with 12 hours for most of the competitors). However, bemiparin is unique in that it is also approved for administration shortly after (6 hours) general or orthopedic surgery, positioning the product to benefit from a growing trend in out-patient surgical procedures.

LMWH	Dosing and approved timing for start of prophylaxis for general surgery (moderate risk)	Dosing and approved timing for start of prophylaxis for orthopedic surgery (high risk)
Bemiparin	2,500 IU/24h: Started 2 hours before or 6 hours after surgery	3,500 IU/24h: Started 2 hours before or 6 hours after surgery
Dalteparin	2,500 IU/24h: Started between 2 and 4 hours before surgery	5,000 IU/24h: Started between 2 and 4 hours before surgery
Enoxaparin	2,000 IU/24h (20 mg): Started 2 hours before surgery	4,000 IU/24h (40 mg): Started 12 hours before surgery
Nadroparin	2,850 IU/24h (0.3 ml): Started between 2 and 4 hours before surgery	2,850 to 5,700 IU/24h (0.3 ml to 0.6 ml)[(1)]: Started 12 hours before surgery
Tinzaparin	3,500 IU/24h: Started 2 hours before surgery	4,500 IU/24h[(2)] or 50 IU/kg/day[(3)]: Started 12 hours[(2)] or 2 hours[(3)] before surgery

Source: Spanish Catalogue of Medicinal products, 2006. Administration profile may differ in other European countries.

(1) Dose adjusted to body weight: less than 70 kg: from pre-operative period until third day, 2,850 anti-Xa IU (0.3 ml), and 3,800 anti-Xa IU (0.4 ml) from the fourth day; greater than 70 kg: from pre-operative period until third day, 3,800 anti-Xa IU (0.4 ml), and 5,700 anti-Xa IU (0.6 ml) from the fourth day.

(2) For patients with a body weight between 60 and 90 kg.

(3) For patients with a body weight less than 60 kg or greater than 90 kg.

Bemiparin is the only LMWH developed in Spain, and, in 2017, it represented approximately 28.9% of sales in the Spanish LMWH market, according to IMS.

We have entered into strategic partnerships with other pharmaceutical companies for marketing bemiparin outside of Spain. Bemiparin has been approved for distribution in 60 countries outside of Spain and launched in 56 of these countries, including the Austria, Greece, Czech Republic, Italy, Russia, Jordan, Turkey, China, Brazil and Argentina, among others and is pending registration in 14 additional countries, including South Africa, Iran, Indonesia, Malaysia, Thailand and Vietnam, among others. We typically enter into license arrangements with leading locally-based pharmaceutical companies in each country where the license is being granted in order to position our product as a strong alternative to other LMWHs marketed in the country. We believe this strategy has

allowed us to capture important market share in the countries where we license bemiparin. See "—Sales and marketing—International distribution" for a list of our international licensing partners and the countries in which they market bemiparin.

Bemiparin is protected by numerous patents. The principal patent protects the active ingredient bemiparin in Spain and most European countries and is set to expire in 2019. Although we believe that the technical complexity of bemiparin and the lack of entry of competitors for other similar products with larger markets following patent expiration suggest that we may not face immediate strong competition to bemiparin from generics and biosimilars, we can provide no assurance that the expiration of this patent will not lead to the entry of new competitors, such as generics or biosimilars, or a reduction in price. See "Risks Relating to Our Business and Industry—We are likely to face an increase in generic competition once the relevant patents or supplementary protection certificates ("SPCs") or exclusivity periods for our current principal pharmaceutical products expire, or once the exclusivity protection periods for competing products marketed by our direct competitors expire."

Becat and *Crusia (enoxaparin biosimilar). Becat* is our proprietary enoxaparin biosimilar, which we began marketing in Germany in September 2017, in the United Kingdom in March 2018, in Italy in April 2018, in Spain in September 2018 and in France in September 2018 (pursuant to an agreement with Biogaran). We have been approved to directly market *Becat* in three additional countries, are approved for out-licensed marketing in 19 countries, and are pending approval for out-licensing in 46 additional countries as of the date of this document. We have already signed out-licensing agreements with respect to 45 countries to distribute *Becat*, including an agreement with Hikma with respect to the Middle East and North Africa, and another agreement with Sandoz with respect to 14 countries/regions. Global View Research estimates that in 2016 the global anticoagulant and antithrombotic market totaled US$29.6 billion. Sales of *Becat* were €8.9 million in the six months ended June 30, 2018.

We applied to the European health authorities for marketing authorization of *Becat* in 2014. In February 2015, the evaluation process to obtain marketing authorization for a low-molecular-weight heparin, enoxaparin biosimilar, commenced in Europe. In 2016, it continued to progress as previously anticipated and, in March 2017, the decentralized procedure for registration of medicines in 26 European Union countries was completed successfully with Germany as the reference member state.

We are currently in the national phase of the registration process. The national phase is expected to conclude with the granting of the marketing authorization by each of the respective competent national authorities. As of June 30, 2018, national registration had been approved for *Becat* in Germany, France, United Kingdom, Italy, Spain, Portugal, Belgium, Finland, Norway, Sweden, Austria, Hungary, Slovenia, Estonia, Latvia, Slovakia, Bulgaria, Romania, Croatia, Czech Republic and Denmark.

We have two brands approved for our enoxaparin biosimilar, *Becat* and *Crusia*, and are considering following a double strategy in the distribution of the enoxaparin biosimilar with direct presence in some countries and partnerships with domestic or international players in other countries through out-licensing agreements. In the last three years, we established subsidiaries to serve as sales offices in Germany, the United Kingdom, France and Italy. Additionally, we plan to establish another subsidiary in Poland and aim to launch Becat in these other European markets before the end of the first quarter of 2019. Together with Spain and Portugal, these countries represent approximately 75% of the European enoxaparin market, according to IQVIA. In markets in which we expect to have a direct presence, we expect to have our own sales force. In countries where we partner with third parties, we believe there is potential to reach agreements based on up-front fees, royalties and/or milestones. We are also in advanced negotiations with a potential partner in the United States for the marketing of *Becat*. If and when an agreement is reached, we expect to use our European information for the resubmission to the FDA.

We aim to be one of the top players in Europe in the biosimilars market, building on having the first enoxaparin biosimilar to receive marketing authorization in Europe. Following launch in September 2017, *Becat* sales in the year ended December 31, 2017 amounted to €1.5 million, compared with €0.2 million in sales in the year ended December 31, 2016, according to IMS, for an enoxaparin biosimilar launched in September 2017 by Shenzhen Techdow, a Chinese company. We believe that our vertical integration, deep knowledge of LMWH products and strong presence in the LMWH market give us significant competitive advantages.

Neparvis. We have marketed *Neparvis* since December 2016 pursuant to an agreement with Novartis. *Neparvis*, which is equivalent to the Novartis-marketed product *Entresto*, is indicated in adult patients for treatment

of symptomatic chronic heart failure with reduced ejection fraction (the proportion of blood leaving the heart). According to IMS Health, approximately 280,000 patients suffer from this disease annually in Spain. Sales of *Neparvis* were €4.7 million in the year ended December 31, 2017.

Heart failure is a chronic and progressive condition, which impacts approximately 500,000 patients in Spain and is the leading cause of hospitalization of all heart diseases. About half of people with heart failure have heart failure with reduced ejection fraction, also known as HfrEF or systolic HF. Reduced ejection fraction means the heart does not contract with enough force, so less blood is pumped out. Heart failure presents a major and growing health-economic burden, accounting for approximately 115,000 hospital admissions each year according to the Spanish Cardiology Society ("RECALCAR"), and is the main cardiopathic cause of mortality, followed by myocardial infarction according to RECALCAR.

Neparvis is a twice-a-day medicine that reduces the strain on the failing heart. It works by enhancing protective neurohormonal systems (the natriuretic peptide system) while simultaneously inhibiting the harmful effects of an overactive renin-angiotensin-aldosterone system ("RAAS"), compared with other heart failure medicines that only block the harmful effects of an overactive RAAS. *Neparvis* contains the neprilysin inhibitor sacubitril and the angiotensin receptor blocker valsartan. *Neparvis* is usually administered in conjunction with other heart failure therapies, in place of an angiotensin converting enzyme inhibitor or an angiotensin II receptor blocker.

Neparvis is indicated in Spain to reduce the risk of cardiovascular death and hospitalization for heart failure in patients with chronic heart failure (NYHA Class II-IV) and reduced ejection fraction. As set forth in the below charts, according to a PARADIGM study, sacubitril/valsartan (*Neparvis*/*Entresto*) was superior to *Enalapril*, the current pharmacological standard, in reducing the risk of cardiovascular disease-death and in reducing the risk of first heart failure hospitalization.

Absorcol, Vytorin and Orvatez (ezetimibe). In January 2011, we entered into a co-marketing agreement with MSD for the distribution of *Absorcol* and *Vytorin*, and in June 2015 we entered into a co-marketing agreement with MSD for the distribution of *Orvatez*. These drugs are used as an adjunctive therapy to diet in patients with hypocholesterolemia. In the second quarter of 2018, the active principle ezetimbe went out of patent and the price of *Absorcol* was reduced. Likewise, generics formulated with ezetimbe and sumvastatin have recently begun marketing, and as a result the price of *Vytorin* has been reduced to be competitive. However, *Vytorin* is patent-protected until April 2019 and we are evaluating means of protecting our licensing rights. According to IMS, the hypocholesterolemia market in Spain amounted to approximately €494 million in 2017, an increase of 3.1% compared with 2016. Sales of these products have steadily grown since 2011, with €39.4 million in sales in the year ended December 31, 2017, a 17.7% increase compared with 2016.

Hirobriz Breezhaler and Ulunar Breezhaler (indacaterol maleate). We have marketed both *Hirobriz Breezhaler* and *Ulunar Breezhaler* since the end of 2014 through an in-licensing agreement with Novartis. The active substances in *Hirobriz Breezhaler* and *Ulunar Breezhaler* are long-acting bronchodilators, which are indicated for the maintenance treatment of COPD in adult patients and administered by inhalation through the Breezhaler device. According to IMS, the market amounted to 16 million units in 2017, an increase of 2.0% compared with 2016. Sales of *Hirobriz Breezhaler* and *Ulunar Breezhaler* were €14.3 million in the year ended December 31, 2017, a 16.9% increase compared with the year ended December 31, 2016.

Volutsa (solifenacin succinate). We have marketed *Volutsa* since 2015 pursuant to an agreement with Astellas Pharma. *Volutsa* is indicated for the treatment of moderate to severe storage systems symptoms, including urgency and increased micturition frequency, and voiding symptoms associated with benign prostatic hyperplasia (BPH) in men who are not responding adequately to monotherapy treatment. According to IMS, the BPH market amounted to approximately €195 million in 2017, an increase of 4.7% compared with 2016.

Medikinet and Medicebran (methylphenidate hydrochloride). We have distributed *Medikinet* and *Medicebran* in Spain since December 2013 pursuant to an exclusive agreement with Medice. *Medikinet* and *Medicebran* are indicated for the treatment of ADHD in children and adolescents. According to IMS, the ADHD market in Spain amounted to approximately two million units in 2017, an increase of 1.4% compared to 2016.

Exxiv (etoricoxib). We have marketed *Exxiv* in Spain since 2008 pursuant to an agreement with MSD. *Exxiv* is a selective COX-2 inhibitor, a type of non-steroidal anti-inflammatory drug (NSAID), indicated for the symptomatic relief of arthritis, rheumatoid arthritis, ankylosing spondylitis and the pain and inflammation associated with acute gouty arthritis, as well as the moderate short-term pain associated with dental surgery. According to IMS, the NSAID market amounted to approximately €55 million in 2017, a decrease of 17.3% compared with 2016.

Discontinued products. During 2017, we discontinued the marketing in Spain of *Corlentor*, a specialty product for the treatment of chronic stable angina and chronic heart failure, which was in-licensed from Servier, and *Thymanax*, an anti-depressant. In the fourth quarter of 2018, we expect to stop distributing *Sintrom*, *Salagen*, *Cordiplast* and *Estraderm*, which we currently distribute under an agreement with Merus Labs.

Contrast imaging agents and other hospital-based products

We market several products that are used on-site in hospitals and clinical settings, including contrast imaging agents and products for imaging procedures such as computed tomography, magnetic resonance and ultrasound. The following table sets forth the principal contrast imaging agents and other hospital-based products marketed by us, including their principal brands in Spain, respective active ingredients, therapeutic application, date of product registration in Spain and information on product origin.

Principal brand in Spain	Product active ingredient	Therapeutic application	Date of product registration	Comments
Iomeron.....	Iomeprol	Non-ionic contrast imaging agent	February 1996	In-licensed from Bracco Imaging S.p.A. ("Bracco Imaging") in May 1990
Iopamiro	Iopamidol	Non-ionic contrast imaging agent	September 1987	In-licensed from Bracco Imaging in January 1986
Fibrilin.....	Sodium heparin	Flush/lock of catheters (sanitary product/non-pharmaceutical)	November 2001	Internally developed, registered in November 2001
Fibrilin Salino.....	Sodium chloride	Wash of peripheral IV lines (sanitary product/non-pharmaceutical)	August 2014	In-licensed from Medefil Inc. in March 2007
Sonovue.....	Sulfur hexafluoride	Ultrasound contrast imaging agent	October 2001	In-licensed from Bracco International B.V. in 2000
Multihance.....	Gadobenate dimeglumine	MRI contrast imaging agent	September 2004 (vials); May 2012 (syringes)	In-licensed from Bracco International B.V. in January 1999
Prohance.....	Gadoteridol	MRI contrast imaging agent	December 1998 (vials);	In-licensed from Bracco Imaging in January 1999

Principal brand in Spain	Product active ingredient	Therapeutic application	Date of product registration	Comments
Sodium heparin Rovi.....	Sodium heparin	Prophylaxis of DVT; myocardial infarction treatment	December 2001 (syringes) June 1991	Internally developed and registered in 1991
EmpowerCTA.....	N/A	Contrast injection system	December 2008	In-licensed from Bracco Injeenering in January 2014
EmpowerMR.....	N/A	Contrast injection system	March 2009	In-licensed from Bracco Injeenering in January 2014
CT Expres.....	N/A	Contrast injection system	November 2013	In-licensed from Bracco Injeenering in January 2014

Iomeron (iomeprol) and Iopamiro (iopamidol). *Iomeron and Iopamiro*, which we in-licensed from Bracco Imaging in May 1994 and January 1986, respectively, and registered in February 1996 and September 1987, respectively, are both non-ionic contrast imaging agents that can be injected into the bloodstream and make blood vessels and other body parts visible to modern imaging systems such as CT/MDCT scanners. Our sales of *Iomeron* and *Iopamiro* amounted to €12.3 million and €2.9 million, respectively, in the year ended December 31, 2017. The patent exclusivity period for *Iomeron* expires in 2019. Patent protection for *Iopamiro* has expired or is otherwise not available.

Fibrilin (sodium heparin). *Fibrilin*, an internally-developed product that we registered and launched in November 2001, is indicated for prevention of fibrin clot formation in peripheral or central catheters. Our sales of *Fibrilin* amounted to €3.8 million in the year ended December 31, 2017. Patent protection is not available for *Fibrilin*.

Fibrilin Salino (sodium chloride). *Fibrilin Salino*, which we in-licensed from Medefil, Inc. in March 2007 and re-registered in August 2014, is a sanitary product indicated for sanitizing peripheral intravenous lines. Sales of *Fibrilin Salino* amounted to €0.1 million in the year ended December 31, 2017.

Sonovue (sulfur hexafluoride). *Sonovue*, which we in-licensed from Bracco Imaging in 2000, registered in October 2001 and launched in January 2002, is a sonogram contrast imaging agent that is injected into the bloodstream and enhances ultrasound imaging to detect both cardiac irregularities and general imaging pathologies. Sales of *Sonovue* amounted to €2.1 million in the year ended December 31, 2017. The patent exclusivity period for *Sonovue* expired in 2014.

Multihance (gadobenate dimeglumine) and Prohance (gadoteridol). *Multihance* and *Prohance*, which we in-licensed from Bracco Imaging in January 1999, first registered in September 2004 and December 1998, respectively, and launched in February 2005 and December 2001, respectively, are magnetic resonance imaging ("MRI") contrast imaging agents for injection into the bloodstream to enhance MRI imaging. Our sales of *Prohance* and *Multihance* amounted to €2.3 million and €0.8 million, respectively, in the year ended December 31, 2017. In November 2017, the EMA restricted marketing of lineal gadolinium based contrast imaging agents for MRIs, leading to a large decline in its sales. Nonetheless, *Multihance* was permitted to be used exclusively in the liver application. The patent exclusivity period for *Multihance* expired in 2012. Patent protection is not available for *Prohance*.

Sodium heparin Rovi is our proprietary sodium heparin product initially registered and launched in June 1991 and re-launched by us in 2015. *Sodium heparin Rovi* is indicated for prophylaxis of DVT and treatment of myocardial infarction. Our sales of *Sodium heparin Rovi* amounted to €1.6 million in the year ended December 31, 2017. Patent protection is not available for *Sodium heparin Rovi*.

EmpowerCTA, EmpowerMR and CT Expres. *EmpowerCTA, EmpowerMR and CT Expres*, which we in-licensed from Bracco Injeenering in January 2014, are contrast injection systems. Sales of these products together amounted to €1.9 million in the year ended December 31, 2017.

Over-the-counter products

We market several in-licensed over the counter products, including Perspirex antiperspirant. In March 2016, we and Enervit announced that we were setting up a joint venture, Enervit Nutrition, for the distribution of nutritional

and other non-pharmacological products in Spain and Portugal. Among the products that Enervit Nutrition will market, we had already been distributing some of them, in particular the EnerZone line of products based on the principles of The Zone Diet, under a previously signed agreement with Enervit. In July 2018, Enervit exercised its purchase option over 1% of our joint venture Envervit Nutrition, of which it already held 49% of the share capital, in accordance with our initial agreement reached with Enervit in March 2016. As a result, we and Enverit each hold 50% of the share capital of Enervit Nutrition.

Specialty pharmaceutical product research and development

Although our research and development activities are currently focused on our ISM technology (see "—Our research and development process" below), we also undertake research and development activities in the areas of glycomics and multi-layer technologies for urethral catheters.

Glycomics. Glycomics is the study and profiling of the sugars that compose a cell, including glycosaminoglycans ("GAG"), which, in addition to their role in regulating blood coagulation, are involved in processes like cell growth, immune response and inflammation. To carry out these functions, GAG interact with numerous proteins. Glycomics studies provide valuable information in this respect, since they allow the receptors that take part in the interaction with each type of GAG to be determined.

The degree of specialization and knowledge that we have attained in this area allows us to consider expanding the applications, indications and alternative mechanisms of action for heparin-derived products and other glycosaminoglycans, based on both anticoagulant and non-anticoagulant activity.

As a result of our effort and investment in this area, we have developed an enoxaparin biosimilar, *Becat*. See "—Specialty pharmaceutical products—*Becat and Crusia (enoxaparin biosimilar)*" above. We continue to explore other opportunities in the glycomics space, and in particular projects that are intended to reinforce the vertical integration and the efficiency of the manufacturing process of enoxaparin and bemiparin.

*Urethral catheter*s. One of the most important aspects in the use of stents and urethral catheters is the high prevalence of bacteria that, in some cases, may cause urinary tract infections resulting in clinical symptoms and complications, including severe sepsis and death. At present, the incidence of urinary tract infection is still very high, as biofilm formation makes it difficult to eradicate microorganisms with antibiotics.

We are conducting the preclinical development of our multilayer technology, which uses polymeric materials to form a bioerodible system that depends on the urease positive bacterial metabolism. We believe it provides significant advantages over current options, such as decreasing bacterial adhesion, facilitating biofilm elimination, reducing the appearance of encrustations and, to a large extent, preventing catheter blockage.

We now have a portfolio of 46 international patent applications in this area, and believe there is significant room for growth, given that this technology is intended as a platform for future development.

Manufacturing, filling and packaging

With respect to our injectables capabilities, we have state-of-the-art product manufacturing, filling, inspection and packaging facilities that we operate with a high degree of efficiency, quality and safety. In addition, we have successfully capitalized on the available manufacturing capacity of our facilities through the provision of high value-added contract filling and packaging services to leading international pharmaceutical companies with which we maintain strong historical customer relationships. We are one of the leading global manufacturers of pre-filled syringes and vials in terms of numbers of units manufactured annually.

Our facilities provide us with sufficient manufacturing, filling and packaging capacity to supply our distribution requirements for our flagship LMWH, bemiparin, in Spain and internationally, with marketing in 56 countries worldwide, as well as our distribution requirements for the other injectable pharmaceutical products we market in Spain, Portugal and elsewhere in Europe.

On March 7, 2017, the decentralized procedure for registration of *Becat* in 26 countries was completed successfully. *Becat* is manufactured internally as part of our vertical integration strategy and has an estimated potential global sales volume of over 500 million syringes per year, according to figures reported by Sanofi.

Currently we have six manufacturing facilities, including four full-scale plants and two pilot plants. The table below sets forth the geographic location of each manufacturing facility, its size and its approximate installed annual production capacity. See "—Property, Plant and Equipment" for further information regarding our manufacturing facilities.

Plant	Type of manufacturing	Size (in square meters)	Approximate installed annual production capacity
Madrid, Spain	Syringe and suppository filling	18,400	150 million syringes 150 million suppositories
San Sebastian de los Reyes, Spain	Syringe and vial filling	35,000	120 million syringes 60 million vials
Alcala de Henares, Spain	Tablets, hard capsules and sachets	83,000	3 billion tablets 300 million hard capsules 30 million sachets
Granada, Spain	Bemiparin and enoxaparin	9,160	120 billion MUI
Madrid, Spain	Risperidone	160	220 thousand syringes
Madrid, Spain	Letrozole	130	220 thousand syringes

Bemiparin and enoxaparin biosimilar manufacturing

We operate a dedicated bemiparin and enoxaparin biosimilar manufacturing facility in Granada, Spain, with aggregate annual production capacity of 120 billion MUI (equivalent to 1,200 kilograms). We manufacture the active ingredient for our proprietary bemiparin-based products as well as *Becat* at this facility.

Risperidone and letrozole manufacturing

We also have two smaller facilities in Madrid, Spain, for the manufacture of risperidone and letrozole, respectively, which are adjacent to our Madrid facility. Each of these facilities has aggregate annual capacity of approximately 220 thousand syringes.

Toll manufacturing

Through our sales of services or toll manufacturing business, we provide pre-filled syringes and manufacturing of oral forms and suppositories to leading global pharmaceutical companies, including Novartis, Crucell, Sanofi-Pasteur and Grifols. For the year ended December 31, 2017, our sales of services or toll manufacturing (*prestacion de servicios*) business had revenues (*importe neto de la cifra de negocios*) of €61.1 million, an increase of 7.9% compared with revenues (*importe neto de la cifra de negocios*) for the year ended December 31, 2016. Revenues from sales of services or toll manufacturing represented 22.2% of our total revenues (*importe neto de la cifra de negocios*) for the year ended December 31, 2017, and international sales accounted for 80.2% of sales of services or toll manufacturing (*prestacion de servicios*) revenues in the year ended December 31, 2017. In 2017, we produced products that were sold in over 40 countries. We expect a decline of 10-20% in revenues from toll manufacturing in 2018 compared with 2017.

In order to meet the demands of our toll manufacturing business, we operate a syringe and suppository filling and packaging facility in Madrid, Spain, with annual production capacity of approximately 150 million syringes and 150 million suppositories. We also have a terminal sterilization facility for products requiring terminal sterilization such as water for injection and contrast media. In our Frosst Iberica plant in Alcala de Henares, Spain, which we purchased from MSD in 2010, we have annual production capacity of approximately three billion tablets, 300 million hard capsules and 30 million sachets. In our injectables plant in San Sebastian de los Reyes, Spain, which we purchased in 2015 from Crucell Spain, S.A., we have annual production capacity of approximately 120 million syringes and 60 million vials.

In our primary Madrid plant, we operate three syringe filling lines in our filling and packaging facilities. Our three filling machines can process a total of approximately 600 syringes per minute. Our two inspection machines can process a total of approximately 400 syringes per minute. Our three labeling machines can process a total of approximately 600 syringes per minute, and our four blistering machines package a total of approximately 780

syringes per minute. Our filling, labeling and blistering equipment is highly flexible, with capacity to process multiple syringe volumes and various needle lengths. We also have the capacity to significantly increase our pre-filled syringe manufacturing capacity at a relatively modest cost, given that we have most of the requisite certifications and licenses.

In each of our syringe and suppository filling lines, we are not constrained by any particular batch size. During the filling process, batches undergo continuous quality monitoring by line operators and computer-based diagnostics. Additionally, a pre-determined number of units are quality tested on an hourly basis to ensure that quality levels are maintained during batch processing. After a batch is processed in our sterile filling area, it is passed to our inspection area, followed by our packaging areas, where the filled units are processed in one of our four blistering machines. The packaged units are then passed to our boxing facilities where they are prepared for distribution.

In our plant in San Sebastian de los Reyes, we operate a high-speed pre-filled syringe line with a capacity of 600 syringes per minute and a vial line with a capacity of 200 vials per minute. After the filling and inspection phase, an additional machine with capacity of 600 syringes per minute can process the blistering, cartoning and boxing phases.

We have positioned ourselves to capitalize on the growing trend of pharmaceutical companies outsourcing manufacturing processes, particularly with respect to pre-filled syringes. We offer a complete range of syringe and suppository filling and packaging solutions, including filling and packaging of high-end injectables (such as flu vaccines); re-labeling and repackaging existing stock; and providing filling, packaging, testing and monitoring services for small-run orders pursuant to clinical trials in the case of high-value products such as biotech biosimilars.

Because we are not limited by batch size, we are able to service different sizes of orders. Our batch size flexibility allows us to process both very large and relatively small orders efficiently. We also fill small orders, such as for clinical trials, which may require only a few thousand or few hundred units. In addition, due to the flexibility and efficiency we have developed in our batch processing, we are generally able to deliver the finished product within four weeks from the date an order is placed.

Our complete filling, inspection and packaging operations allow us to provide a wide range of additional value-added services to our customers, including manufacturing process development, analytical services and regulatory data. We support our partners along the full life cycle of their products and also reserve capacity in the event of unanticipated increases in product demand, including offering back-up injectable services at our San Sebastian de los Reyes plant.

Our customers include several international pharmaceutical companies such as Sanofi-Pasteur, Stada. Seqirus, MSD, Johnson & Johnson and Pfizer, among others. In the six months ended June 30, 2018, and in the years ended December 31, 2017, 2016 and 2015, we generated €23.0 million, €61.1 million, €56.6 million and €62.3 million, respectively, in sales from our sales of services or toll manufacturing, filling and packaging services (*prestación de servicios*). Our state-of-the-art facilities and high quality product offering have allowed us to provide a premium service for our customers while we have been able to develop strong production efficiencies with a tightly controlled cost structure.

Manufacturing facilities improvements

We plan to continue to develop our operational synergies and expand the scope of value-added services we offer to our toll manufacturing customers. We are currently upgrading our filling, inspection and packaging capabilities in our San Sebastian de los Reyes plant, and our injectable packaging capacity in our Alcala de Henares plant. Development of these production processes will allow us to provide additional flexibility and extra capacity to cover growth in our LMWH products, in particular *Becat*, and to offer value-added services to current and potential new customers in toll manufacturing. We are also reorganizing the future activities in our San Sebastian de los Reyes to increase the level of vertical integration in the API production as well as preparing the site to be certified by the FDA.

Certifications and authorizations

We currently hold the certifications and authorizations required in practice to carry out our operations, including the European GMP certification, authorization from the Medicines and Healthcare products Regulatory Agency, as

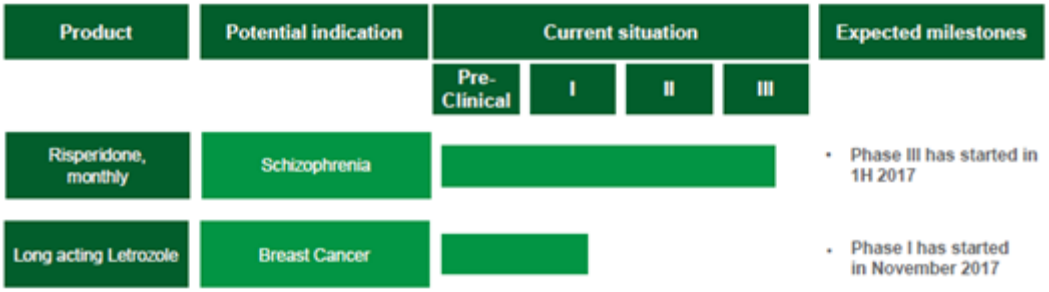
well as equivalent authorizations in certain other countries. Some issues regarding the validity or the need for additional permits may ordinarily occur in the course of a complex business such as ours. For example, it is conceivable that a public body considers, after review of a given activity, that an additional permit is needed, or that a current permit must be amended because it does not fully cover the activity as currently carried out. In such a case, such public body may contemplate suspending the activities of the affected facilities pending regularization or imposing administrative penalties. Nonetheless, in the case of Rovi our activities are well known by the relevant public authorities, and we are subject to constant and stringent regulatory requirements. We have received no indication from any public authority that any permit may be lacking.

Our plant in Alcala de Henares is approved by authorities in Europe, the United States, Japan, Mexico, Brazil, South Korea, Kenya, Belarus and the Gulf states. Our plant in Madrid is approved by authorities in Europe, the United States, Brazil, South Korea and Russia. Our plant in San Sebastian de los Reyes is approved by authorities in Europe and by the Spanish Agency for Medicines and Sanitary Products. Our plant in Granada is approved by authorities in Europe, Brazil and was inspected successfully by the FDA. Our risperidone and letrozole plants in Madrid were approved by authorities in 2013 and 2017, respectively.

Our ISM platform

Our research and development platform is based primarily on our sustained release injectable technology, or ISM. Our ISM research and development activities, which are designed to balance risks and rewards by focusing on sustained release injectable applications for approved well-established products with clinically validated efficacy and safety profiles, are a key element of our operations. In the six months ended June 30, 2018 and in the years ended December 31, 2017, 2016 and 2015, we incurred research and development expenses (*gastos de investigación y desarrollo*) of €16.8 million, €28.3 million, €17.5 million and €16.5 million, respectively, the vast majority of which related to our ISM platform.

Our research and development platform is based primarily on our sustained release injectable technology, or ISM. We have one product candidate, *Doria*, in Phase III clinical trials, another product candidate, *Letrozole ISM*, in Phase I clinical trials, and a promising portfolio of product candidates at earlier developmental stages. Our key product candidates and their respective stages of development at the date of this document are set forth in the following chart and are described in further detail below.



ISM technology

Drug administration has a direct effect on its efficacy, as it affects factors such as concentration, absorption, exposure and treatment adherence. Research in this field allows factors like active substance degradation to be minimized, the prevention of side effects and an increase in clinical efficacy, due to a drug's capacity to act with the appropriate dose and to improve patient compliance. We have developed a research and development pipeline in the field of extended release using ISM technology, which is protected by patents until 2033.

ISM is packaged in a kit with two separate syringes. The active compound and the carrier polymer are stored in solid state and the solvent for reconstitution is stored in liquid state in a second syringe. When the solid material is combined with the liquid phase, a polymer solution containing drug particles in suspension is formed. When the suspension is injected into the body, the carrier polymer hardens and the active compound is retained within the polymer matrix inside the body in the form of particles and is gradually released into the body fluids, reducing the number of injections required for treatment.

Our extended release injectable technology is derived from our acquisition from Bertex Pharma GmbH in 2007 of assets related to the ISM technology. ISM is a technology that allows long lasting delivery of parenterally administered compounds with the advantage of reducing variability, enhancing stability, as well as improving clinical use and minimizing the number of required doses, which we believe can result in improvement in patient compliance and patient comfort.

ISM technology is designed to overcome many of the difficulties associated with extended-release oral or parenteral formulations and has certain advantages, such as being easier to administer, with highly-efficient drug retention, greater stability of the active substance and better control of the initial release of the drug, especially when clinically relevant drug exposure is required within the first moments after the injection. ISM technology reduces volume in comparison with other long-acting technologies, leading to a reduction in variability and initial impact, a less painful injection and less resistance. With the use of ISM technology, refrigerated storage of products can be avoided, decreasing costs and increasing shelf life.

We consider that our ISM platform involves a different business model than our other activities, with a different risk profile given the focus on already approved compounds, and with the potential for international growth, including Europe and the United States. As a result, we expect to continue to focus on our ISM technology and consider how best to develop and grow our ISM platform in the future in light of its characteristics.

Doria

We have made significant progress in developing the first candidate of our ISM technology for the extended release of risperidone, *Doria*, a second-generation antipsychotic medicine for the treatment of schizophrenia.

Our injectable form of risperidone provides clinically relevant active compound concentrations during the first hours after the injection, without the need of concomitant oral administration or additional dosing schedules to achieve the required plasma levels. Advantages associated with our antipsychotic formulation include a fast onset of action, a simplified switch from oral antipsychotics to *Doria* and improved physical stability as the active ingredient and polymer are stored as solids. Risperidone is the most-used atypical antipsychotic pharmaceutical in the treatment of schizophrenia. These results are subject to further confirmation in our Phase III trial as described further below.

In November 2016, the results of the Phase I trial "PRISMA-1" were published in the medical journal *International Clinical Psychopharmacology*. These results showed that *Doria* was safe and well tolerated, providing an extended release of risperidone over the four-week period covered by the dose, without the need to include oral supplements, reaching therapeutic levels in plasma as from the first day of treatment.

Likewise, the Phase II clinical trial of *Doria*, "PRISMA-2", concluded successfully and the final favorable results were presented on March 13, 2016 at the 24th European Congress of Psychiatry and published in 2017 in the journal *International Clinical Psychopharmacology*. The PRISMA-2 was an open parallel Phase II clinical trial carried out at four centers in the United States. The main objective of this trial was to assess the safety and pharmacokinetic profile of multiple intramuscular doses of *Doria* in 67 patients with stable schizophrenia. The PRISMA-2 study also showed that *Doria* reaches therapeutic levels in plasma as from the first eight hours after the drug is administered, without the need for any loading dose or oral risperidone supplement, and provides extended release over the four-week period covered by the dose, irrespective of whether it is injected in the gluteus or deltoid. It also was demonstrated that *Doria* is stable at room temperature. As a result of PRISMA-2, dosages of 75mg and 100mg and a target population with acutely exacerbated schizophrenia were selected for the Phase III trial.

The FDA and the EMA reviewed the results of PRISMA-2, together with the data from previous studies and the proposed Phase III program. In February 2016, we discussed the proposed Phase III program with the FDA at an end-of-Phase II meeting, and in April 2016, we met with the EMA at a scientific advisory meeting. The FDA, through a Special Protocol Assessment, proceeded to make a more in-depth evaluation of the study protocol for the Phase III "PRISMA-3" clinical trial. We made applications for approval of the clinical trial in December 2016, and PRISMA-3 began in the second quarter of 2017. In May 2018, we announced that an independent data monitoring committee had reviewed the interim results of PRISMA-3 and recommended to continue the clinical trial without the need to increase the number of patients. In addition, we are planning a comparative bioavailability study versus oral risperdal.

A pre-submission meeting with the FDA is expected to be held not less than three months prior to the submission of the *Doria* dossier for approval. The meeting is intended to present the full package of data, including the chemistry, manufacturing and controls data, to the FDA to seek the FDA's approval of the scope of data in the *Doria* dossier to be submitted for approval. This meeting is expected in the second or third quarter of 2019. See "Risks Relating to Our Business and Industry—Our candidate products, including our lead candidate *Doria*, cannot be marketed unless we obtain and maintain regulatory approval."

If the review of the chemistry, manufacturing and controls package and the results of these clinical studies are positive, we expect to submit new drug and marketing authorization applications for *Doria* in the second half of 2019. We are actively considering submitting our new drug application for *Doria* under Section 505(b)(2) of the United States Federal Food, Drug, and Cosmetic Act, which may provide a potentially more expeditious pathway to FDA approval based on prior approval of risperidone. Consequently, we expect to obtain a therapeutic indication for *Doria* for the treatment of schizophrenia from the FDA. We also believe that the EMA could grant a therapeutic indication for *Doria* for the treatment of acute exacerbation of schizophrenia after the filing of a hybrid application under Article 10(3) - Directive 2001/83/EC through a centralized procedure.

Letrozole ISM

In December 2016, we obtained written response from the FDA with respect to a pre-investigational new drug ("IND") application to discuss our proposed clinical development of *Letrozole ISM*, LAI aromatase inhibitor to treat hormone-dependent breast cancer. In 2017, we submitted an investigational medicinal product dossier ("IMPD") in the European Union and we commenced the first Phase I clinical trial in the second half of 2017.

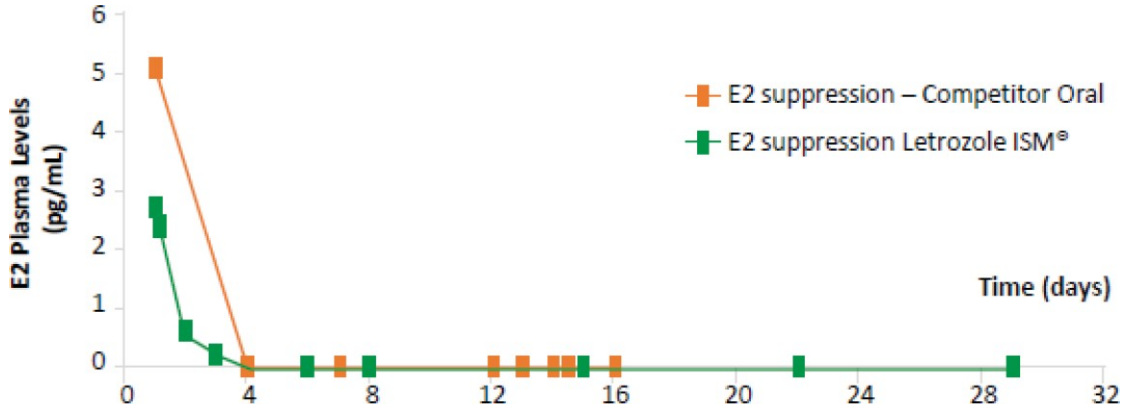
Our Phase I clinical trial for *Letrozole ISM*, "LISA-1", aims to obtain a long-term injectable formulation of letrozole and its inclusion in the market for maintenance treatment in breast cancer for post-menopausal women. We believe *Letrozole ISM* is the first injectable form of an aromatase inhibitor, with decreased dose frequency, reduced health care costs and improved therapeutic compliance. LISA-1 is designed as an open-label, single dose escalation clinical trial, the object of which is to define the pharmacokinetic and pharmacodynamic profile of *Letrozole ISM* at different single-dose levels in healthy post-menopausal women.

Letrozole ISM is targeting a six-month LAI, and preliminary Phase I data, shown in the first graph below, already suggests that *Letrozole ISM* may obtain a superior clinical outcome in breast cancer compared to oral daily hormone suppression treatment.

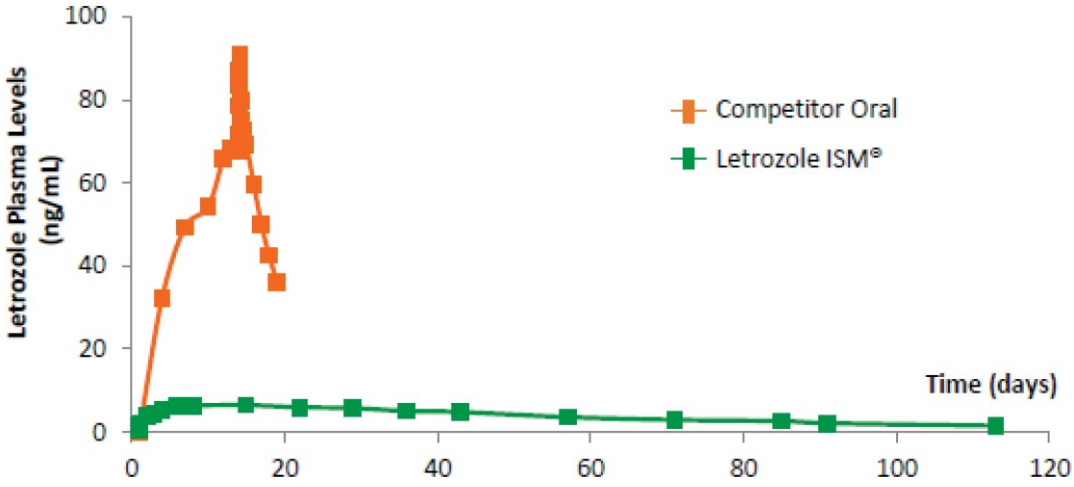
As shown in the second graph below, *Letrozole ISM* has demonstrated in Phase I testing high relative consistency of plasma levels compared to oral daily hormone suppression treatment, which suggests the development potential of this product and in the potential for expedited clinical trials.

Because these are preliminary results, the complete profile for the first dose being tested has not yet been obtained. Following completion of further clinical testing, we could reach different conclusions with respect to the viability of the clinical use of the formulation, and results could vary significantly when tested in a larger number of subjects.

RAPID AND SUSTAINED ESTROGEN SUPPRESSION WITH LOWER DOSES



RAPID AND SUSTAINED LETROZOLE PLASMA LEVELS



Breast cancer is the main cause of cancer-related death in European women, affecting 110 out of 100,000 women. *Letrozole ISM* is design to treat hormone-dependent breast cancer through the aromatase inhibitor letrozole, which blocks the production of estrogen in post-menopausal women. Aromatase inhibitor therapy is currently delivered through once-daily oral medication, and research suggests that failures in long-term adherence may represent an area limiting optimal treatment. Early discontinuation and non-adherence with hormone therapy are common and associated with increased mortality, presenting a market opportunity for *Letrozole ISM*.

Our research and development process

The pharmaceutical development process from initiation of preclinical testing to regulatory approval typically takes many years and requires significant expenditures throughout the various phases of development. Each phase of product candidate development is subject to significant regulation through a course of several non-clinical and clinical trials conducted to demonstrate the quality, safety and efficacy of the product candidate. We have built our research and development pipeline with a particular emphasis on the development of new therapeutic indications and new delivery technologies for approved well-established products with clinically validated efficacy and safety profiles, which, we believe, can accelerate the clinical research and pharmaceutical approval process, reduce the time commitment and financial cost and increase the likelihood of product acceptance by regulatory authorities. The following paragraphs describe the phases of the research and development processes.

Preclinical testing

Compounds identified to have therapeutic potential are subjected to expanded study of their pharmacological and biological properties in order to assess their potential therapeutic profiles. A series of laboratory and animal tests is conducted to confirm the pharmacokinetics, metabolism and elimination of the compound as well as its safety before application for human testing. Because of our emphasis on validated compounds, we are typically able to accelerate the preclinical testing process.

Clinical testing

The clinical testing phase is aimed at confirming a compound's therapeutic effect in human beings as well as its safety. Clinical trials are conducted pursuant to good clinical practice guidelines to determine the safety, tolerance level, absorption, metabolism and excretion of the pharmaceutical as well as to determine its therapeutic effectiveness. Clinical trials take place in three successive phases, with progression to the successive phase only after successful completion of the prior phase.

In Phase I clinical trials, low doses of the candidate compound are administered to healthy volunteers to evaluate human physical responses, to determine the compound pharmacokinetics and detect any possible adverse effects. In Phase Ib/II clinical trials, the candidate compound is tested on a small number of patients suffering from the pathology for which the candidate compound is indicated to measure its safety and make a preliminary assessment of its level of effectiveness and, if the candidate compound is safe and effective, to determine the

optimal dose. Finally, Phase III clinical trials are aimed at confirming the effectiveness in a large number of patients and confirming the safety of the candidate compound following prolonged use.

Our clinical trials are actively managed by our research and development department, often working closely with contract research organizations ("CROs") with which we have established relationships. We contract certain non-core research and development activities to CROs that manage certain aspects of our research and development processes, including the administration of clinical trials, the provision of experimental laboratories, data collection and other complementary services.

Sales and marketing

Our sales force

We have a highly-trained, well-qualified and specialized sales and marketing staff that has been a key factor in increasing our sales in nearly all of our product lines for the past three years. In 2010, our sales forces consisted of approximately 170 people, which grew by 50 additional people in 2011 and by 30 additional people in 2015, such that as of June 30, 2018, our sales force consisted of approximately 250 people. The average age of our sales personnel is approximately 45 years with average industry experience of 19 years.

Our sales and marketing structure covers Spain, Portugal, Germany, the United Kingdom, Italy and France. Most of our sales and marketing team is based in Spain, while in the rest of the European countries, on the structure is supported by key account managers responsible for tenders and large clients. In Spain, our sales force comprises specialized teams focused on specific product groups and target audiences. We internally evaluate the structure of our sales force and the organization of our sales network on an ongoing basis. We believe the strategies implemented have helped us develop valuable marketing and sales efficiencies and significantly increase the effectiveness of our sales force.

International distribution

To maximize product value and minimize the costs and risks associated with direct distribution outside Spain, we follow a two-fold strategy of distribution through local partners and through our affiliates.

Distribution through local partners. We enter into strategic partnerships with other pharmaceutical companies for the marketing of our flagship LMWH product, bemiparin, outside of Spain. We currently have ongoing strategic partnerships with Vianex in Greece, Dem Ilac in Turkey, Hikma in the Middle East and North African countries, Iberma in Morocco, EMS in Brazil, divisions of the Menarini Group in Central America and in Central and Eastern European countries (such as the Czech Republic, Lithuania, Latvia, Estonia, Russia and Belarus). Gerot Lannach in Austria, Gobbi Novag in Argentina, Stada in Asian Pacific countries and Hi-Nice in China, among others.

We have successfully obtained regulatory approval for marketing bemiparin in 60 countries outside of Spain, and launched in 56 of those countries. International sales of bemiparin amounted to €25.1 million in the year ended December 31, 2017, representing 30% of total bemiparin sales during the year.

Direct distribution through our affiliates. Following approval of our enoxaparin biosimilar *Becat* in Europe in March 2017, we opened sales offices in Germany, the United Kingdom, Italy and France. *Becat* was launched in Germany in September 2017, in the United Kingdom in March 2018, in Italy in April 2018, in Spain in September 2018 and in France in September 2018 (pursuant to an agreement with Biogaran). While our international sales offices are currently focused on the marketing of *Becat*, we expect to expand these to sales of other ISM products in the future.

We have two brands approved for our enoxaparin biosimilar, *Becat* and *Crusia*, and are considering following a double strategy in their distribution through direct presence in some countries, such as those in which we have opened sales offices, and partnerships with domestic or international players in other countries through out-licensing agreements. In addition, we may consider following both approaches in certain countries while we establish a sales presence. We are also in advanced negotiations with a potential partner in the United States for the marketing of *Becat*. If and when an agreement is reached, we expect to use our European information for the resubmission to the FDA.

Supply

We obtain raw materials and other supplies for our manufacturing operations from a small number of key suppliers with whom we have developed strong professional relationships.

The principal raw material for the manufacture of our two proprietary LMWH, bemiparin and *Becat*, is sodium heparin, a pork intestine derivative. We have relationships with four different suppliers for sodium heparin, each of which is approved in our bemiparin registration dossier and two of which are approved in our *Becat* registration dossier. We believe this redundancy in supply gives us a competitive advantage in negotiating supply rates and reduces the potential risk of supply shortages for our manufacture of bemiparin and *Becat*. We also aim to maintain an annual reserve stock of sodium heparin as well as other raw materials necessary for the manufacture of our finished products based on LMWH, which helps ensure we can meet our production needs in the event of a disruption in supply or in the event that we switch from one approved supplier to another.

The principal primary packaging materials for our parenteral products include plastic syringes, vials and needles We obtain substantially all of our supply for syringes, vials and needles from BD Medical and Nuova OMPI Pharmaceutical Systems. We do not manufacture glass. With respect to our toll manufacturing activities, we obtain supplies of the active compounds to be filled and packaged, in most cases, directly from the pharmaceutical company for which we are performing filling and packaging services. For certain smaller customers, we actively source materials.

In addition, we have well-established relationships with suppliers for our packaging materials, diagnostic and analytic equipment and supplies, and for spare parts and equipment for our manufacturing equipment.

Organizational structure

We base our operations on three pillars of growth: sales and marketing, manufacturing and research and development. Each aspect of our business benefits from the support of our centralized functions including our Chief Executive Officer, Finance, Legal, Human Resources and Regulatory. To focus our resources on the operation of our business more effectively, we have outsourced certain functions to other companies, including our accounting to Ayming España, S.A., our payroll to Kep Jam, S.L. and information technology systems management to Atos SE. Consequently, our information technology systems servers and data backup are all located off-site. We incurred aggregate expenses of €1.3 million with Ayming España, S.A., Kep Jam, S.L. and Atos SE, collectively, for services rendered to us in the year ended December 31, 2017.

Property, Plant and Equipment

Our corporate headquarters are located in Madrid, Spain. We lease certain of our facilities in Madrid from a company controlled by Juan López Belmonte and his sons, among other shareholders.

Our manufacturing, filling and packaging facilities located in Madrid, Spain and Granada, Spain are described above under "—Manufacturing, filling and packaging."

In 2017, we opened new offices in Pozuelo de Alarcon, in Madrid, where our management team, marketing and commercial areas and other central services moved. We also operate sales offices in Spain, Portugal, Germany, the United Kingdom, Italy and France.

Employees

Our labor force requires a high degree of specialization and expertise, from our manufacturing team to our sales network. We have a dedicated internal training staff that focuses on employee development. Our research and development staff are all highly qualified, trained professionals with high levels of expertise in their respective research specialties.

Our official operating language is English, which allows us to service the needs of our multinational clientele. As of June 30, 2018, we had 1,199 employees. The average age of our employees is 43.

The following table shows the number of our employees by functional area as of June 30, 2018.

Function	As of June 30, 2018
Manufacturing	648
Research and development	143
Sales network	309
Central services	99
Total	1,199

We believe that we have good employee relations. Over the past three years we have not had any work stoppages and we have not been involved in any labor disputes.

We are subject to collective bargaining agreements in Spain, particularly for workers in the chemical and pharmaceutical industries. Under these agreements salary scales relevant to the industry are established and revised annually, typically providing for salary increases based on increases in the consumer price index in Spain.

Patent Portfolio

We have a broad patent portfolio with more than 440 granted patents and 94 pending patent applications. We have developed a strategy for the protection of our proprietary technology and new pharmaceutical and biotechnological developments by seeking patent protection for all aspects associated with the development of our core technologies, including active compounds, methods of compound delivery, therapeutic uses of an active compound, delivery kits, delivery devices and pharmaceutical formulations.

The below table sets forth the principal products marketed by us, the relevant active ingredients and their patent expiration dates (as included in the official public register of the Spanish Patent and Trademark Office). This information and the current protection of these patent rights are subject to changes resulting from challenges to their validity from third parties, applications for and granting of SPCs, divisional patent applications and any other changes in circumstances that may affect the duration and/or scope of protection of such rights.

Product	Active Ingredients	Patent Expiry
Hibor	bemiparin	2019
Orvatez	ezetimibe and atorvastatin	2017 (1)
Vytorin	ezetimibe and simvastatin	2019
Neparvis	sacubitrile/valsartan	2030
Medikinet	methylphenidate	2025
Hirobriz	indacaterol	2024
Ulunar	indacaterol and glicopyrronium	2027
Volutsa	tamsulosin and solifenacin	2019 (2)
Absorcol	ezetimibe	2018
Iomeron	iomeprol	2019

(1) According to our internal data, Orvatez benefits from market exclusivity data until 2024.
(2) According to our internal data, Volutsa benefits from market exclusivity data until 2023.

ISM technology

Our most important family of patents protects our ISM technology in various jurisdictions. These patents, which are tied to the relevant active ingredient, will expire from 2030 to 2033, respectively, depending on the active ingredient.

ISM technology is designed for the development of injectable sustained release systems, and has enabled the development of the following new lines of research.

ISM for the central nervous system. The first candidate selected for this application is risperidone and its active metabolites such as paliperidone, together with its salts, chemical derivatives and polymorphic forms. Our ISM formulations have the advantage of preventing an initial burst after obtaining the injection, enabling release in a

sustained manner, thereby obtaining improved *in vivo* activity values compared with current technology. Having obtained these positive values, our specific protection plan for the intellectual property rights regarding the results of this project has included the application of several international Patent Cooperation Treaty ("PCT") applications aimed at the protection of our specific formulations with respect to dosage use for the treatment of various central nervous system diseases.

ISM in oncology. In this area, we selected letrozole and anastrozole as candidates given that they are leading active ingredients in the adjuvant treatment of hormone-dependent breast cancer in post-menopausal women. Accordingly, we have undertaken a new line of research aimed at oncological therapies. We believe that the development of extended release formulations represents a breakthrough, given that they enable the total necessary dose to be reduced, extending the duration of each dose and the number of administrations. As such, we believe this technology can have a positive impact on the patient's treatment experience. We have approximately 30 international patent applications pending with respect to our proprietary *Letrozole ISM*.

Other key patents

Another important family of patents protects our proprietary LMWH, bemiparin. We have been granted patents for bemiparin in Spain, Italy, France, the United Kingdom, Ireland, Germany, Austria, Belgium, Denmark, Finland, Holland, Greece, Portugal, Switzerland, Sweden, Lichtenstein, Mexico, and the United States, with patents pending in Japan and Brazil. The principal patent for bemiparin will expire in 2019. Although we believe that the technical complexity of bemiparin and the lack of entry of competitors for other similar products with larger markets following patent expiration suggest that we may not face immediate strong competition to bemiparin from generics and biosimilars, we can provide no assurance that the expiration of this patent will not lead to the entry of new competitors, such as generics, or a reduction in price.

Finally, we are firmly committed to urethral catheter technology, and we protect with patents various formulations and devices related to this area. We have been granted a patent family protecting several polymeric formulations for urethral catheters.

Our intellectual property staff

We have a highly skilled intellectual property ("IP") staff which constantly monitors all patent applications published and related scientific literature. Our IP staff also carries out market studies to detect potential threats to our patent portfolio.

Our IP staff participates in project meetings and carries out ongoing reviews of our patent portfolio and research and development progress to determine when new patent applications should be generated to protect the continuing phases of our pharmaceutical and biotechnological development process. Our IP staff also endeavors to ensure that any necessary patent application is filed before we or our research and development partners publish any related research.

Trademarks and Domains

We have a broad portfolio of trademarks and domain names. As of June 30, 2018, we owned approximately 390 registered trademarks in more than 90 countries, and we owned 120 domain names. Our general trademark policy is to first request a Spanish or European Community trademark and then use such trademark as a basis for international registration. We believe this policy helps strengthen our branding position internationally. Our most important trademarks include *Hibor, Ivor, Zibor, Ivorat, Ivormax, Fitoladius, Glufan, Fibrilin, Rovi, Arovi, Crusia, Becat* and *Losmina*, as well as our trademarks for our ISM technology, including *Doria*.

Registration

The registration of pharmaceutical products with the relevant health authorities is a complex process which is mandatory for marketing and distributing of pharmaceutical products.

We have a successful track record of obtaining the necessary registrations for marketing our products in international markets. We have obtained 306 registrations for marketing bemiparin in 61 countries (including Spain), entirely based on the work of our in-house staff. Bemiparin is currently in the registration process in eight additional countries. Additionally, we have obtained 250 registrations for marketing our enoxaparin biosimilar,

Becat, in 23 countries (including Spain). Our enoxaparin biosimilar is currently in the registration process in an additional 13 countries.

In-Licensing Agreements

Over the past several years we also have in-licensed, typically on a co-marketing basis, certain products for a number of therapeutic indications, including symptomatic chronic heart failure with reduced ejection fraction, COPD, hypercholesterolemia, ADHD, benign prostatic hyperplasia and osteoporosis, muscle and joint pain relief and stable angina, among others, which in-licensed products in the year ended December 31, 2017 collectively accounted for €111.8 million, or 40.6% of our revenues (*importe neto de la cifra de negocios*). In addition, we market Bracco's line of contrast imaging agents and other products prescribed in hospitals and several over-the-counter pharmaceutical products to take advantage of our existing sales channels and strong brand name and to further increase and diversify our revenues.

Our in-licensing agreements typically run for fixed terms of up to ten years, and are automatically renewed unless terminated by either party. Our in-licensing agreements in most cases provide us with exclusive marketing, sales, promotion and distribution rights within Spain and, in some instances, Portugal, as well as use of relevant trademarks, and restrict our marketing of the relevant product outside the designated territory. Moreover, these agreements typically prohibit us, without the relevant partner's consent, from distributing or selling products in the relevant territory that may compete with the relevant in-licensed products. Under these agreements we agree to use our commercially reasonable efforts to market, sell, promote and distribute the relevant product and to endeavor to meet certain sales targets at certain minimum prices. We typically pay in-licensing fees to our partners and earn a portion of the revenues generated by products actually sold by us.

Out-Licensing Agreements

We have various out-licensing agreements, in particular with respect to bemiparin. In the year ended December 31, 2017, revenues related to our out-licensing agreements amounted to €25.1 million, or 9.1% of our revenues.

Our out-licensing agreements run for fixed terms of five to 12 years and, in most cases, are automatically renewed unless terminated by either party. Under our out-licensing agreements, we sell finished products directly to our distributors and grant exclusive, or semi-exclusive, distribution rights within different countries to a specific partner. Consequently, these distributors cannot, without our consent, market any products in the relevant territory which may compete with the relevant out-licensed products. Under these agreements, we agree to devote our efforts to supply the products as they are ordered by the distributors from time to time. While such agreements typically do not include a royalty component, the distributors pay us the transfer prices established in the out-licensing agreement, except in various agreements in which the prices are determined by applying a discount, to be agreed annually between us and the relevant distributor, from the customer price. In both cases, we usually reserve the right to amend the prices of the products according to different criteria. Typically we receive an up-front payment when entering into an out-licensing agreement, which we recognize on a linear pro-rata basis over the stated duration of the agreement. For example, for a ten-year contract we would recognize 10% of the value of such up-front payment each year.

Insurance

We maintain insurance policies that we consider sufficient to protect us against potential damage and liabilities incurred in the ordinary course of our business. As of the date of this document, we maintain insurance policies covering civil liability (including for product liability claims), damage to our property and other material assets, business interruption insurance and the liability of our directors and officers. We also ensure our clinical trials. Our general civil liability insurance covers us for damages for up to approximately €10 million per claim and €20 million per year, depending on the risk and type of asset or property insured. Our directors' and officers' civil liability insurance covers up to €10 million per claim and per year. Our business interruption insurance provides coverage for approximately €32 million.

Litigation

We are not currently subject to any legal claims or administrative proceedings that we believe that, if decided adversely to us, would be likely to have a material effect on our business, financial condition or results of operations. In the course of our operating history, we have not been required to make any significant payments

pursuant to judicial judgments entered against us. We have not recorded any provisions in connection with claims against us.

Data Protection

We believe we comply with the relevant Spanish, European and other applicable regulatory requirements and have implemented appropriate data protection procedures and protocols to protect against the threat of security breaches or to alleviate problems caused by any such breaches. However, the effectiveness of any data protection system cannot be guaranteed with complete certainty.