2021 REPORT

Consolidated
Financial Statements

FAES FARMA

FAES FARMA

The Faes Farma Group is a pharmaceutical group with extensive international experience that researches, produces and markets pharmaceutical products, Healthcare products and raw materials. Since 2007, it has also been present in animal nutrition and health, through its Farm Faes subsidiaries.

faesfarma.com

March 2022

twitter.com/faesfarma

www.linkedin.com/company/faes-farma/

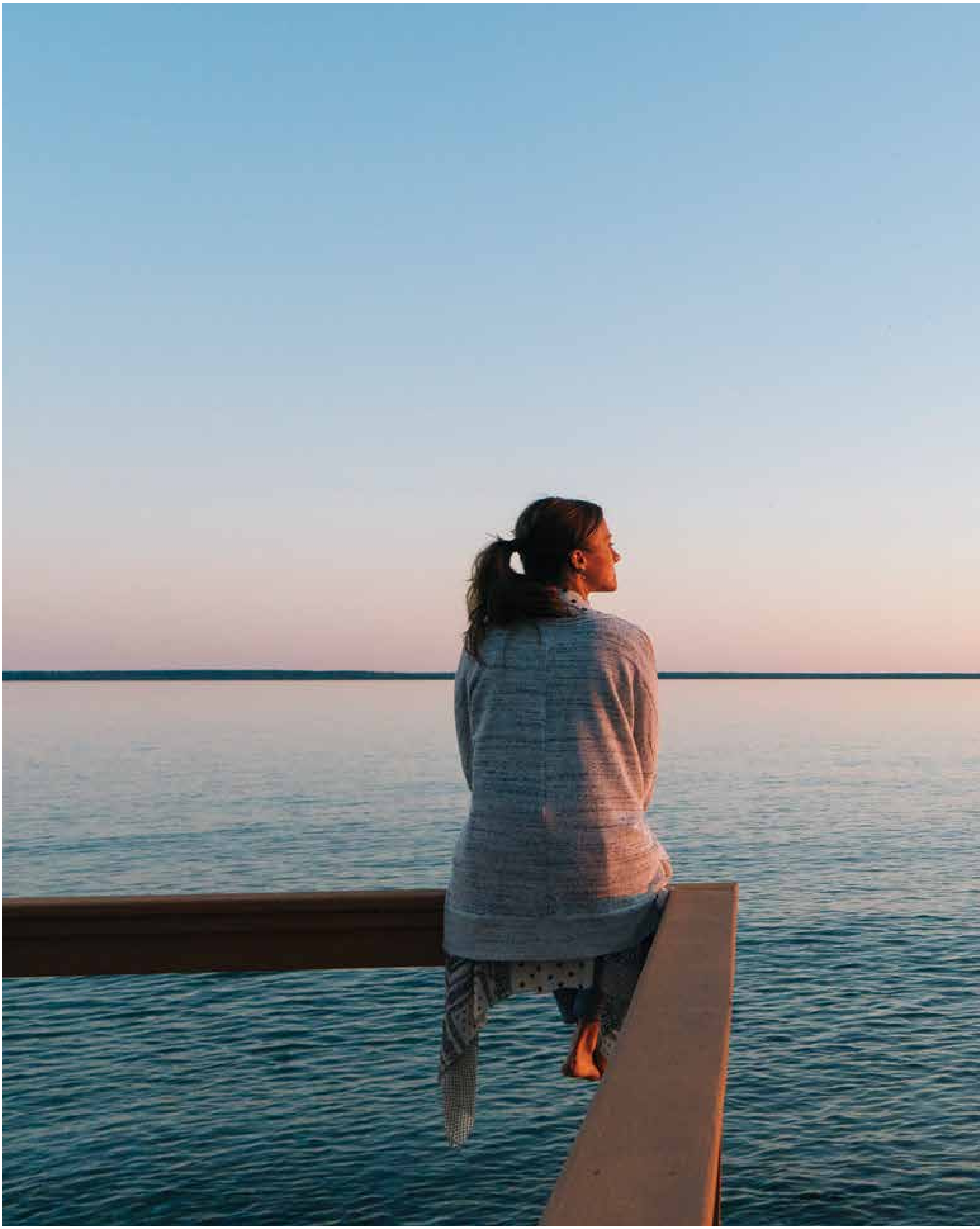
ORGANIZATION CHART

Board of directors:

President	Mariano Ucar Angulo
Secretary of the Board of Directors	Gonzalo Fernández de Valderrama Iribarnegaray
Members of the Board of Directors	Iñigo Zavala Ortiz de la Torre Carmen Basagoiti Pastor Carlos de Alcocer Torra Francisco Javier Usaola García Belén Amatriain Corbi Mª Eugenia Zugaza Salazar

Executive team:

President	Mariano Ucar Angulo
General Managers	Francisco Quintanilla Guerra Gonzalo López Casanueva
General Subdirectors	Valentín Ruiz Unamunzaga Germán Fernández-Cano Díaz José Luis Díaz-Capote
Corporate Director	Helder Cassis
Directors	Isidro Hermo Blanco Isabel Eguidazu Urruticoechea Gonzalo Hernández Herrero Francisco Perelló Font Xavier Arnaud Alberto F. Fernández Fernández Carlos Gutierrez Agüero Irene Diez Merchan Mercedes Feo Onzain



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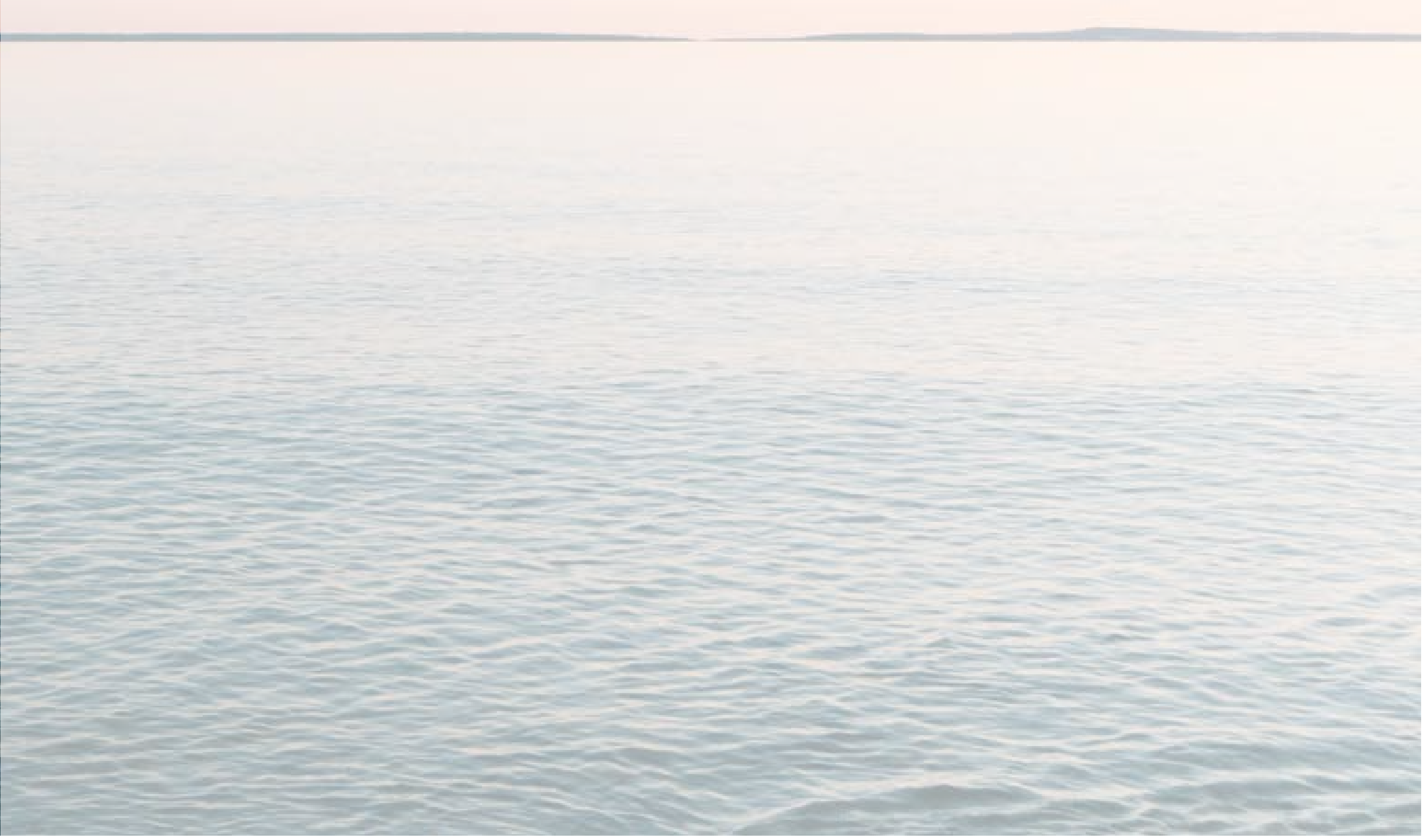

1 LETTER FROM THE CEO

Ladies and Gentlemen, Shareholders,

I am pleased to present the Faes Farma Group's Integrated Annual Report 2021. The information contained herein is a transparent summary of all the policies and actions carried out by the Group during the past financial year to achieve the objective that, year after year, we share with you and the rest of the firm's stakeholders: to generate value.

Before I begin, I would first of all like to remember those most affected by the pandemic that has been with us for so many months now, those who have left us or who have suffered from the disease and their families. I would also like to highlight the work carried out by an extraordinary team of people and express my deepest gratitude to the more than 1,600 people currently working in the Faes Farma Group, for their commitment, effort, personal sacrifice and responsibility.

Looking in detail at the context in which we have lived, the positive progress in the pandemic following the widespread vaccination campaign and high immunity has allowed us to predict its end, with the consequent improvement in the economy, prospects which, to some extent, have been frustrated by the invasion of Ukraine and a war which, as I write this letter, continues with the regrettable loss of human lives and population displacement and the consequent negative global effect on many industries, not to mention rising energy and raw materials prices.

In short, these first months of 2022 are proving to be convulsive, with uncertainties affecting all sectors to a greater or lesser extent. In the case of the Faes Farma Group, our presence in the countries in conflict is minimal. However, we cannot ignore the fact that we will be affected by the increase in fuel prices and in those of the primary sector products that we use for production at Faes Farma.

For the Faes Farma Group, present as we are in two essential sectors, pharmaceuticals and animal nutrition, both of which have been somewhat less affected by the pandemic, the 2021 financial year could be described as a good one, based on the figures published. Once again, for the seventh year in a row, our group achieved record figures, both in terms of sales volume and revenues, as well as in terms of net profit.

Turnover exceeded EUR 398 million, 4.8% more than the previous year, an increase in gross terms of EUR 18 million, thanks to the good performance of several areas, as we shall see below. The total amount of revenue has risen to EUR 428 million, which is 4.2% higher than the figure achieved in 2020.

With these good figures, the Group achieved a historical EBITDA or gross operating profit of EUR 114 million, up +6.3% on the previous year. EBIT is also growing strongly at a rate of 8.7%, and exceeded 94 million by 31 December 2021.

EBIT (Profit before tax) increased by +10.7% to EUR 94 million and our firm commitment to boost investments and to develop our R&D&I activity allowed us to apply various tax deductions that helped Consolidated Profit to grow by +13.4% to EUR 83 million.

As I said earlier, these figures are the highest in our long history. Since 1933, Faes Farma has been dedicated to caring for people for 88 years, with a special focus on the development of new medicines that improve patient's quality of life. This is the philosophy with which the company was created and all of us who form part of this firm feel equally as committed to achieving this objective as we did on day one.

We must also highlight the strength of our Balance Sheet, which is and will be one of the strategic priorities of those of us who lead this Group. Faes Farma has a good level of liquidity, with no debt, a situation that has allowed us to undertake inorganic growth investments and which will also help us to continue to address and study new possibilities to make this company larger and more profitable, expanding our business within and beyond our borders. Of course, the same can be said about our research activity, which has been going on for decades and which has characterised our decisions, and about our organic Capex, especially in the Group's industrial facilities in our five manufacturing plants in the Iberian Peninsula, and in our sixth plant in Guatemala, which we acquired in the first quarter of 2021.

Our balance sheet shows very positive indicators, such as the fact that more than 84% of the balance sheet is financed with our own funds, which amount to EUR 538 million, a working capital of more than EUR 214 million, accounting for 33% of the balance sheet, and a liquidity of more than EUR 70 million. All these numbers are highlighted by the analysts and experts who follow us and cover us on the stock markets.

Not forgetting our strategic growth lever, which I mentioned earlier, M&A operations, the purchase of companies. In this regard, it is worth mentioning the acquisition of Global Farma in March 2021, a subsidiary located in Guatemala with a direct presence not only in that country but also in El Salvador, Nicaragua, Honduras, Costa Rica, Panama and the Dominican Republic, which strengthens our presence in Latin America and reaffirms our objective of being a benchmark company in the region. This operation is a continuation of our previous acquisition in Latin America, the BCN Group with subsidiaries in Colombia, Ecuador, Peru and Chile, an integration which in turn led to a notable growth of the business which began years ago with various subsidiaries in this geographic area and is already reflected in our income statement and which we expect to grow in the coming years.

I would particularly like to highlight in this statement the evolution of the investment in our new pharmaceutical production plant in Vizcaya, the construction of which is progressing at a good pace and according to plan. This is an exciting project that will allow us to take a step forward by practically tripling current production to meet future demand and will also help to generate new employment and activity.

A major investment that we plan to have completed by 2023 and operational by 2024 and which will represent a significant qualitative as well as quantitative leap forward.

In terms of business activity, the Group's Pharma Spain Division remains the main source of revenue, accounting for 40% of global turnover, with a figure of more than EUR 159 million at the end of 2021, with Hidroferol (our Vitamin D brand, Calcifediol) standing out as our main product, and with notable growth prospects.

Bilaxten, another of the company's star products, ranks second in terms of revenues in the Spanish market for Faes Farma. However, if the total revenues generated by the bilastine molecule are taken into account as a whole, its relevance in the Group's accounts is significantly increased by the fact that we have extended the business to those countries where we have our own presence and in the international sphere thanks to the licensing agreements we have signed for its distribution. This also gives Faes Farma a global presence and recognition as a brand.

The "Alliances" area is growing due to the influence of bilastine and is breaking new ground with the negotiation of licences for other strategic molecules, in particular calcifediol and mesalazine. As a whole, and this is very relevant in the current circumstances, this area also stands out for its high margins in terms of in-house production and research. "Alliances" exceeded EUR 79 million in revenues and is showing a year-on-year growth trend.

We cannot fail to mention here the "International" Division, which is consolidating its position as a business with significant organic growth and also as an excellent platform on which to base increases in current and future sales from the two inorganic operations carried out in recent years in Latin America, which have already been mentioned above. It has exceeded EUR 89 million in terms of turnover and includes both direct exports and the sales of our subsidiaries and, in the medium and long term, it has a clear potential for development, something we look forward to with expectation.

In Animal Nutrition, the business and geographical diversification strategy that we embarked on in 2007 with the acquisition of Ingaso Farm, and our subsequent acquisitions of Tecnovit and AT Capselos, which gave us significant commercial strength, has been projected to reach a revenue volume of EUR 60 million in 2021. In recent years, our leadership in piglets has been complemented by our expansion into other segments such as ruminants, poultry, sows and aquaculture, allowing us to diversify our sources of income. At present, the Group's animal nutrition and health area (Farm Faes) has three animal nutrition production plants that complement each other and have important synergies.

To reinforce growth in this area, we are working on a project to build a new production plant in Huesca dedicated to special feeds for piglets, and we have in fact set up a new subsidiary to develop this activity. Another new investment that will strengthen and boost our business and confirm our message of growth and leadership.

Another aspect of which we should be particularly proud of in this organisation, is the growth in our workforce, in what has been and is a complex period from an economic and social point of view. Faes Farma has increased its number of employees year on year to 1,626 by the end of 2021. In addition, the growth of the workforce is done in compliance with the strictest criteria of gender diversity, as 54% of our staff are women, the majority of our contracts are permanent, and our workforce is highly trained.

During the financial year 2022, we will continue to make progress on our most important projects. The people who work in the Group are our greatest asset, which is why we will continue to promote a comprehensive human resources system with the aim of attracting and retaining our most valuable asset, as well as fostering and developing all the talent that already exists in our organisation.

In addition, I would like to make special mention of our unwavering commitment to the highest ethical standards through the continuous improvement of our compliance systems. The Group is fully committed to Sustainability (better known as ESG) as a way of understanding and managing the business. We constantly work to promote sustainable development by establishing environmental, social, governance and ethical commitments that meet the expectations of our stakeholders, ensure responsible business management, promote sustainable development and contribute to the creation of value for our stakeholders as a whole. Evidence of this is the approval in 2021 of our Corporate Sustainability Policy and the preparation of an ESG strategy that will form part of the Group's overall strategy.

Looking ahead, the business outlook for 2022 is equally strong, with high single-digit growth in sales and double-digit growth in profits. These are targets that we expect to meet as in previous years and which will enable us to achieve a record result for the eighth year in a row.

I would also like to extend my special and sincere thanks to everyone who works in the Faes Farma Group for their daily effort, support and dedication. Without their participation and collaboration, none of what I have said here would be possible. I would also like to send a message of thanks to all of our shareholders for your trust in and commitment to a project that has an exciting, ambitious and promising future.

Yours faithfully,

Mariano Ucar Angulo

Chairman

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INFORME DE AUDITORÍA

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Informe de auditoría de cuentas anuales consolidadas emitido por un auditor independiente

A los accionistas de Faes Farma, S.A.:

Informe sobre las cuentas anuales consolidadas

Opinión

Hemos auditado las cuentas anuales consolidadas de Faes Farma, S.A. (la Sociedad dominante) y sus sociedades dependientes (el Grupo), que comprenden el balance a 31 de diciembre de 2021, la cuenta de pérdidas y ganancias, el estado del resultado global, el estado de cambios en el patrimonio neto, el estado de flujos de efectivo y la memoria, todos ellos consolidados, correspondientes al ejercicio terminado en dicha fecha.

En nuestra opinión, las cuentas anuales consolidadas adjuntas expresan, en todos los aspectos significativos, la imagen fiel del patrimonio y de la situación financiera del Grupo a 31 de diciembre de 2021, así como de sus resultados y flujos de efectivo, todos ellos consolidados, correspondientes al ejercicio terminado en dicha fecha, de conformidad con las Normas Internacionales de Información Financiera, adoptadas por la Unión Europea (NIIF-UE), y demás disposiciones del marco normativo de información financiera que resultan de aplicación en España.

Fundamento de la opinión

Hemos llevado a cabo nuestra auditoría de conformidad con la normativa reguladora de la actividad de auditoría de cuentas vigente en España. Nuestras responsabilidades de acuerdo con dichas normas se describen más adelante en la sección *Responsabilidades del auditor en relación con la auditoría de las cuentas anuales consolidadas* de nuestro informe.

Somos independientes del Grupo de conformidad con los requerimientos de ética, incluidos los de independencia, que son aplicables a nuestra auditoría de las cuentas anuales consolidadas en España según lo exigido por la normativa reguladora de la actividad de auditoría de cuentas. En este sentido, no hemos prestado servicios distintos a los de la auditoría de cuentas ni han concurrido situaciones o circunstancias que, de acuerdo con lo establecido en la citada normativa reguladora, hayan afectado a la necesaria independencia de modo que se haya visto comprometida.

Consideramos que la evidencia de auditoría que hemos obtenido proporciona una base suficiente y adecuada para nuestra opinión.

Cuestiones clave de la auditoría

Las cuestiones clave de la auditoría son aquellas cuestiones que, según nuestro juicio profesional, han sido de la mayor significatividad en nuestra auditoría de las cuentas anuales consolidadas del periodo actual. Estas cuestiones han sido tratadas en el contexto de nuestra auditoría de las cuentas anuales consolidadas en su conjunto, y en la formación de nuestra opinión sobre éstas, y no expresamos una opinión por separado sobre esas cuestiones.

R. M. Madrid, hoja 87.250-1, folio 75, tomo 9.267, libro 8.054, sección 3ª
Inscrita en el R.O.A.C. con el número S0242 - CIF: B-79 031290

Faes Farma, S.A. y sociedades dependientes

Cuestiones clave de la auditoría	Modo en el que se han tratado en la auditoría
Valoración de marcas y fondo de comercio	
El balance consolidado a 31 de diciembre de 2021 incluye unos importes de 87.095 y 65.723 miles de euros correspondientes respectivamente a marcas y fondo de comercio. Una parte significativa de estos activos tienen asignada una vida útil indefinida, de forma que no se amortizan con carácter anual. En este sentido, la dirección del Grupo evalúa, con carácter anual, la recuperabilidad de estos activos comparando su valor en uso con el valor contable de los mismos. Este análisis se basa principalmente en la estimación de flujos de caja futuros de las distintas unidades generadoras de efectivo a la que están afectos los activos objeto de análisis y, por tanto, requiere juicios y estimaciones relevantes por parte de la dirección del Grupo. Estas estimaciones incluyen, entre otras, las expectativas de ventas y márgenes futuros, proyección de índices de crecimiento, así como la tasa de descuento para el cálculo del valor actual de los flujos. Las asunciones más importantes utilizadas por el Grupo en su análisis se resumen en la nota 5 de la memoria consolidada adjunta. Como consecuencia de este análisis y los cálculos realizados, la dirección del Grupo ha reconocido en el ejercicio un deterioro sobre marcas y fondo de comercio por importe de 3.104 y 295 miles de euros respectivamente, tal y como se indica en la nota 5 de la memoria consolidada adjunta. Dada la relevancia de estos activos, así como las estimaciones y juicios significativos requeridos para evaluar su recuperabilidad, este aspecto supone una cuestión clave de nuestra auditoría.	Hemos procedido a entender el proceso interno de realización del análisis de recuperabilidad de las marcas de vida útil indefinida y el fondo de comercio por parte de la dirección del Grupo, comprobando la consistencia de los criterios de cálculo aplicados con la metodología de valor en uso establecida en el marco normativo aplicable. Con relación a los flujos de efectivo, hemos comprobado los cálculos realizados y hemos comparado los flujos anuales anteriormente proyectados, que se basan en los planes y presupuestos aprobados por la dirección del Grupo, con los realmente conseguidos en el ejercicio 2021. Así mismo, hemos analizado las hipótesis clave utilizadas para determinar las tasas de crecimiento y márgenes futuros previstos, contrastándolas con comparables disponibles (resultados históricos y previsiones de evolución del mercado disponibles). Adicionalmente, hemos contrastado la tasa de descuento utilizada con datos disponibles de mercado de cara a evaluar su razonabilidad. Para los análisis de sensibilidad desglosados en la memoria de las cuentas anuales consolidadas adjuntas, hemos comprobado los cálculos efectuados, así como la coherencia de las variaciones e hipótesis consideradas sobre los cambios posibles, en base a la situación y expectativas de mercado. Como resultado de nuestro análisis y pruebas realizadas no tenemos observaciones al respecto.

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Faes Farma, S.A. y sociedades dependientes

Otra información: Informe de gestión consolidado

La otra información comprende exclusivamente el informe de gestión consolidado del ejercicio 2021, cuya formulación es responsabilidad de los administradores de la Sociedad dominante y no forma parte integrante de las cuentas anuales consolidadas.

Nuestra opinión de auditoría sobre las cuentas anuales consolidadas no cubre el informe de gestión consolidado. Nuestra responsabilidad sobre el informe de gestión consolidado, de conformidad con lo exigido por la normativa reguladora de la actividad de auditoría de cuentas, consiste en:

a) Comprobar únicamente que el estado de información no financiera consolidado, determinada información incluida en el Informe Anual de Gobierno Corporativo y el Informe Anual de Remuneraciones de los Consejeros, a los que se refiere la Ley de Auditoría de Cuentas, se ha facilitado en la forma prevista en la normativa aplicable, y en caso contrario, a informar sobre ello.

b) Evaluar e informar sobre la concordancia del resto de información incluida en el informe de gestión consolidado con las cuentas anuales consolidadas, a partir del conocimiento del Grupo obtenido en la realización de la auditoría de las citadas cuentas, así como evaluar e informar de si el contenido y presentación de esta parte del informe de gestión consolidado son conformes a la normativa que resulta de aplicación. Si, basándonos en el trabajo que hemos realizado, concluimos que existen incorrecciones materiales, estamos obligados a informar de ello.

Sobre la base del trabajo realizado, según lo descrito anteriormente, hemos comprobado que la información mencionada en el apartado a) anterior se facilita en la forma prevista en la normativa aplicable y que el resto de la información que contiene el informe de gestión consolidado concuerda con la de las cuentas anuales consolidadas del ejercicio 2021 y su contenido y presentación son conformes a la normativa que resulta de aplicación.

Responsabilidad de los administradores y de la comisión de auditoría en relación con las cuentas anuales consolidadas

Los administradores de la Sociedad dominante son responsables de formular las cuentas anuales adjuntas, de forma que expresen la imagen fiel del patrimonio, de la situación financiera y de los resultados consolidados del Grupo, de conformidad con las NIIF-UE, y demás disposiciones del marco normativo de información financiera aplicable al Grupo en España, y del control interno que consideren necesario para permitir la preparación de cuentas anuales consolidadas libres de incorrección material, debida a fraude o error.

En la preparación de las cuentas anuales consolidadas, los administradores de la Sociedad dominante son responsables de la valoración de la capacidad del Grupo para continuar como empresa en funcionamiento, revelando, según corresponda, las cuestiones relacionadas con empresa en funcionamiento y utilizando el principio contable de empresa en funcionamiento excepto si los citados administradores tienen intención de liquidar el Grupo o de cesar sus operaciones, o bien no exista otra alternativa realista.

La comisión de auditoría de la Sociedad dominante es responsable de la supervisión del proceso de elaboración y presentación de las cuentas anuales consolidadas.

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Faes Farma, S.A. y sociedades dependientes

Responsabilidades del auditor en relación con la auditoría de las cuentas anuales consolidadas

Nuestros objetivos son obtener una seguridad razonable de que las cuentas anuales consolidadas en su conjunto están libres de incorrección material, debida a fraude o error, y emitir un informe de auditoría que contiene nuestra opinión.

Seguridad razonable es un alto grado de seguridad, pero no garantiza que una auditoría realizada de conformidad con la normativa reguladora de la actividad de auditoría de cuentas vigente en España siempre detecte una incorrección material cuando existe. Las incorrecciones pueden deberse a fraude o error y se consideran materiales si, individualmente o de forma agregada, puede preverse razonablemente que influyan en las decisiones económicas que los usuarios toman basándose en las cuentas anuales consolidadas.

Como parte de una auditoría de conformidad con la normativa reguladora de la actividad de auditoría de cuentas vigente en España, aplicamos nuestro juicio profesional y mantenemos una actitud de escepticismo profesional durante toda la auditoría. También:

- Identificamos y valoramos los riesgos de incorrección material en las cuentas anuales consolidadas, debida a fraude o error, diseñamos y aplicamos procedimientos de auditoría para responder a dichos riesgos y obtenemos evidencia de auditoría suficiente y adecuada para proporcionar una base para nuestra opinión. El riesgo de no detectar una incorrección material debida a fraude es más elevado que en el caso de una incorrección material debida a error, ya que el fraude puede implicar colusión, falsificación, omisiones deliberadas, manifestaciones intencionadamente erróneas, o la elusión del control interno.

- Obtenemos conocimiento del control interno relevante para la auditoría con el fin de diseñar procedimientos de auditoría que sean adecuados en función de las circunstancias, y no con la finalidad de expresar una opinión sobre la eficacia del control interno del Grupo.

- Evaluamos si las políticas contables aplicadas son adecuadas y la razonabilidad de las estimaciones contables y la correspondiente información revelada por los administradores de la Sociedad dominante.

- Concluimos sobre si es adecuada la utilización, por los administradores de la Sociedad dominante, del principio contable de empresa en funcionamiento y, basándonos en la evidencia de auditoría obtenida, concluimos sobre si existe o no una incertidumbre material relacionada con hechos o con condiciones que pueden generar dudas significativas sobre la capacidad del Grupo para continuar como empresa en funcionamiento. Si concluimos que existe una incertidumbre material, se requiere que llamemos la atención en nuestro informe de auditoría sobre la correspondiente información revelada en las cuentas anuales consolidadas o, si dichas revelaciones no son adecuadas, que expresemos una opinión modificada. Nuestras conclusiones se basan en la evidencia de auditoría obtenida hasta la fecha de nuestro informe de auditoría. Sin embargo, los hechos o condiciones futuros pueden ser la causa de que el Grupo deje de ser una empresa en funcionamiento.

- Evaluamos la presentación global, la estructura y el contenido de las cuentas anuales consolidadas, incluida la información revelada, y si las cuentas anuales consolidadas representan las transacciones y hechos subyacentes de un modo que logran expresar la imagen fiel.

- Obtenemos evidencia suficiente y adecuada en relación con la información financiera de las entidades o actividades empresariales dentro del Grupo para expresar una opinión sobre las cuentas anuales consolidadas. Somos responsables de la dirección, supervisión y realización de la auditoría del Grupo. Somos los únicos responsables de nuestra opinión de auditoría.

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Nos comunicamos con la comisión de auditoría de la Sociedad dominante en relación con, entre otras cuestiones, el alcance y el momento de realización de la auditoría planificados y los hallazgos significativos de la auditoría, así como cualquier deficiencia significativa del control interno que identificamos en el transcurso de la auditoría.

También proporcionamos a la comisión de auditoría de la Sociedad dominante una declaración de que hemos cumplido los requerimientos de ética aplicables, incluidos los de independencia, y nos hemos comunicado con la misma para informar de aquellas cuestiones que razonablemente puedan suponer una amenaza para nuestra independencia y, en su caso, de las correspondientes salvaguardas.

Entre las cuestiones que han sido objeto de comunicación a la comisión de auditoría de la Sociedad dominante, determinamos las que han sido de la mayor significatividad en la auditoría de las cuentas anuales consolidadas del periodo actual y que son, en consecuencia, las cuestiones clave de la auditoría.

Describimos esas cuestiones en nuestro informe de auditoría salvo que las disposiciones legales o reglamentarias prohíban revelar públicamente la cuestión.

Informe sobre otros requerimientos legales y reglamentarios

Formato electrónico único europeo

Hemos examinado los archivos digitales del formato electrónico único europeo (FEUE) de Faes Farma, S.A. y sociedades dependientes del ejercicio 2021 que comprenden el archivo XHTML en el que se incluyen las cuentas anuales consolidadas del ejercicio y los ficheros XBRL con el etiquetado realizado por la entidad, que formarán parte del informe financiero anual.

Los administradores de Faes Farma, S.A. son responsables de presentar el informe financiero anual del ejercicio 2021 de conformidad con los requerimientos de formato y marcado establecidos en el Reglamento Delegado UE 2019/815, de 17 de diciembre de 2018, de la Comisión Europea (en adelante Reglamento FEUE).

Nuestra responsabilidad consiste en examinar los archivos digitales preparados por los administradores de la Sociedad dominante, de conformidad con la normativa reguladora de la actividad de auditoría de cuentas en vigor en España. Dicha normativa exige que planifiquemos y ejecutemos nuestros procedimientos de auditoría con el fin de comprobar si el contenido de las cuentas anuales consolidadas incluidas en los citados archivos digitales se corresponde íntegramente con el de las cuentas anuales consolidadas que hemos auditado, y si el formato y marcado de las mismas y de los archivos antes referidos se ha realizado en todos los aspectos significativos, de conformidad con los requerimientos establecidos en el Reglamento FEUE.

En nuestra opinión, los archivos digitales examinados se corresponden íntegramente con las cuentas anuales consolidadas auditadas, y éstas se presentan y han sido marcadas, en todos sus aspectos significativos, de conformidad con los requerimientos establecidos en el Reglamento FEUE.

Faes Farma, S.A. y sociedades dependientes

Informe adicional para la comisión de auditoria de la Sociedad dominante

La opinión expresada en este informe es coherente con lo manifestado en nuestro informe adicional para la comisión de auditoría de la Sociedad dominante de fecha 24 de febrero de 2022.

Periodo de contratación

La Junta General Ordinaria de Accionistas celebrada el 30 de junio de 2020 nos nombró como auditores del Grupo por un período de tres años, contados a partir del ejercicio finalizado el 31 de diciembre de 2020.

Con anterioridad, fuimos designados por acuerdo de la Junta General Ordinaria de Accionistas para el periodo de tres años y hemos venido realizando el trabajo de auditoría de cuentas de forma ininterrumpida desde el ejercicio finalizado el 31 de diciembre de 2017.

Servicios prestados

Los servicios, distintos de la auditoría de cuentas, que han sido prestados al Grupo auditado se desglosan en la nota 24 de la memoria de las cuentas anuales consolidadas.

PricewaterhouseCoopers Auditores, S.L. (S0242)

Gabriel Torre Escudero (21647)

24 de febrero de 2022

AUDITORES
INSTITUTO DE CENSORES JURADOS DE CUENTAS DE ESPAÑA

PRICEWATERHOUSECOOPERS AUDITORES, S.L.

2022 Núm. 03/22/00475

SELLO CORPORATIVO: 96,00 EUR

Informe de auditoría de cuentas sujeto a la normativa de auditoría de cuentas española o internacional

3 CONSOLIDATED FINANCIAL STATEMENTS

Consolidated statement of financial position at 31 December 2021

(Amount in thousands of euros)

Assets	Note	2021	2020
Property, plant and equipment	4	136,100	91,254
Right-of-use assets	4	3,528	3,991
Intangible assets	5	179,411	165,523
Investment Properties		1,550	1,550
Other financial assets	6	990	338
Deferred tax assets	9	26,474	28,854
Total non-current assets		**348,053**	**291,510**
Inventories	7	107,451	91,591
Other financial assets	6	3,154	1,926
Trade and other receivables	8	112,852	105,280
Cash and cash equivalents		70,254	91,210
Total current assets		**293,711**	**290,007**
Total assets		**641,764**	**581,517**

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

Consolidated statement of financial position at 31 December 2021

(Amount in thousands of euros)

	Note	2021	2020
Equity			
Equity	10		
Capital		29,742	28,524
Issue Premium		1,460	1,460
Other reserves		385,922	344,896
Cumulative earnings		127,779	104,268
Translation differences		(3,111)	(2,489)
Treasury Shares		(5,264)	(5,264)
Equity attributed to owners of equity instruments of the Parent Company		536,528	471,395
Non-controlling interest		1,538	1,482
Total equity		538,066	472,877
Liabilities			
Other financial liabilities	12	3,498	3,515
Lease liabilities	12	2,148	1,583
Provisions	13	957	803
Other non-current liabilities		-	500
Capital grants		157	187
Deferred tax liabilities		17,631	17,367
Total non-current liabilities		**24,391**	**23,955**
Other financial liabilities	12	13,619	10,431
Lease liabilities	12	2,097	2,380
Trade and other payables	15	54,082	59,331
Current income tax liabilities	9	1,654	1,243
Provisions	13	7,855	11,241
Other current liabilities		-	59
Total current liabilities		**79,307**	**84,685**
Total Liabilities		**103,698**	**108,640**
Total equity and liabilities		**641,764**	**581,517**

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

Consolidated income statement for the year ended 31 December 2021

(Amount in thousands of euros)

	Note	2021	2020
Ordinary income	17	398,557	380,240
Other income	17	30,084	31,247
Change in finished goods and work in progress		(10,594)	2,211
Consumption of raw materials and other consumable materials		(135,566)	(142,614)
Expenses from employee remuneration	18	(85,033)	(83,136)
Depreciation expenses	4 and 5	(16,235)	(14,826)
Losses from impairment and disposal of non-current assets	5	(3,858)	(5,540)
Other expenses	19	(83,078)	(80,811)
Financial income	20	23	156
Finance costs	20	(312)	(2,045)
Profit Before Tax		93,988	84,882
Income tax expenses	9	(10,775)	(11,506)
Profit for the year		83,213	73,376
Profit for the year attributable to holders of equity instruments of the Parent Company		**83,157**	**72,549**
Profit for the year attributable to non-controlling interest		56	827
Profit for the year		**83,213**	**73,376**
Earnings per share from the profit from ongoing activities attributable to holders of ordinary equity instruments of the Parent Company			
Basic earnings per share (in Euros)	11	0.285	0.259
Diluted earnings per share (in Euros)		0.273	0.248

Consolidated statement of comprehensive income for the year ended 31 December 2021

(Amount in thousands of euros)

	2021	2020
Profit for the year	**83,213**	**73,376**
Other comprehensive income:		
Items to be reclassified to profit or loss		
Translation differences from financial statements of foreign business	(933)	(2,491)
Other comprehensive income for the year, net of tax	(933)	(2,491)
Total profit(loss) for the year, net of tax	82,280	70,885
Total profit(loss) for the year attributable to:		
Holders of equity instruments of the Parent Company	82,224	70,058

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

Consolidated statement of changes in equity for the year ended 31 December 2021

(Amount in thousands of euros)

Equity attributable to holders of equity instruments of the Parent Company									
	Capital (Note 10)	Premium for Issue	Other Reserves (Note 10)	Other comprehensive income Differences in Conversion	Profit Accumulated	Actions Own	Total	Shares non-dominant	Total equity weight
Balance at 31 December 2020	**28,524**	**1,460**	**344,896**	**(2,489)**	**104,268**	**(5,264)**	**471,395**	**1,482**	**472,877**
Total profit(loss) for the year	**-**	**-**	**-**	**(933)**	**83,157**	**-**	**82,224**	**56**	**82,280**
Capital increases	1,218	-	(1,218)	-	-	-	-	-	-
Application of accrued earnings	-	-	49,992	-	(49,992)	-	-	-	-
Dividends (notes 10, 12 and 28)	-	-	(7,437)	-	(8,787)	-	(16,224)	-	(16,224)
Transfers	-	-	(311)	311	-	-	-	-	-
Other transactions	-	-	-	-	(867)	-	(867)	-	(867)
Balance at 31 December 2021	**29,742**	**1,460**	**385,922**	**(3,111)**	**127,779**	**(5,264)**	**536,528**	**1,538**	**538,066**

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

Consolidated statement of changes in equity for the year ended 31 December 2020

(Amount in thousands of euros)

Equity attributable to holders of equity instruments of the Parent Company									
	Capital (Note 10)	Premium for Issue	Other Reserves (Note 10)	Other comprehensive income Differences in Conversion	Profit Accumulated	Actions Own	Total	Shares non-dominant	Total equity weight
Balance at 31 December 2019	**27,815**	**1,460**	**298,323**	**2**	**90,632**	**(5,264)**	**412,968**	**686**	**413,654**
Total profit(loss) for the year	**-**	**-**	**-**	**(2,491)**	**72,549**	**-**	**70,058**	**827**	**70,885**
Capital increases	709	-	(709)	-	-	-	-	-	-
Capital increase costs	-	-	(92)	-	-	-	(92)	-	(92)
Application of accrued earnings	-	-	52,306	-	(52,306)	-	-	-	-
Dividends (Notes 10 and 12)	-	-	(4,932)	-	(7,303)	-	(12,235)	-	(12,235)
Transfers	-	-	-	-	-	-	-	-	-
Other transactions	-	-	-	-	696	-	696	(31)	665
Balance at 31 December 2020	**28,524**	**1,460**	**344,896**	**(2,489)**	**104,268**	**(5,264)**	**471,395**	**1,482**	**472,877**

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

Consolidated statement of cash flows for the year ended 31 December 2021

(Indirect method - Amount in thousands of euros)

	Note	2021	2020
Cash flows from operating activities			
Profit for the year		83,213	73,376
Adjustments for:			
Depreciation	4 and 5	16,235	14,826
(Profit)/Loss from impairment of intangible assets	5	3,399	5,540
(Profit)/Loss from impairment of trade receivables	8	333	(27)
(Profit)/Loss from impairment of inventories	7	(460)	717
(Income)/Expenses from exchange differences	20	50	1,653
Changes in provisions		2,024	6,154
(Profit)/Loss of financial assets at fair value with changes in Profit/Loss	20	46	126
Allocation of subsidies		(30)	-
(Profit)/Loss on fixed assets		220	-
Financial income	20	(23)	(156)
Finance costs	20	216	266
Income tax expenses	9	10,775	11,506
		115,998	**113,981**
Changes in working capital, excluding the effect of acquisitions and translation differences			
Inventories		(10,828)	(20,854)
Trade and other receivables		(3,800)	(11,381)
Trade and other payables		(6,863)	4,673
Provisions paid	13	(5,363)	(1,974)
Other current liabilities		(59)	-
Cash resulting from operations		**89,085**	**84,445**
Interest paid		(216)	(266)
Income tax paid		(9,224)	(5,690)
Net cash from exploitation activities		**79,645**	**78,489**

(Continued)

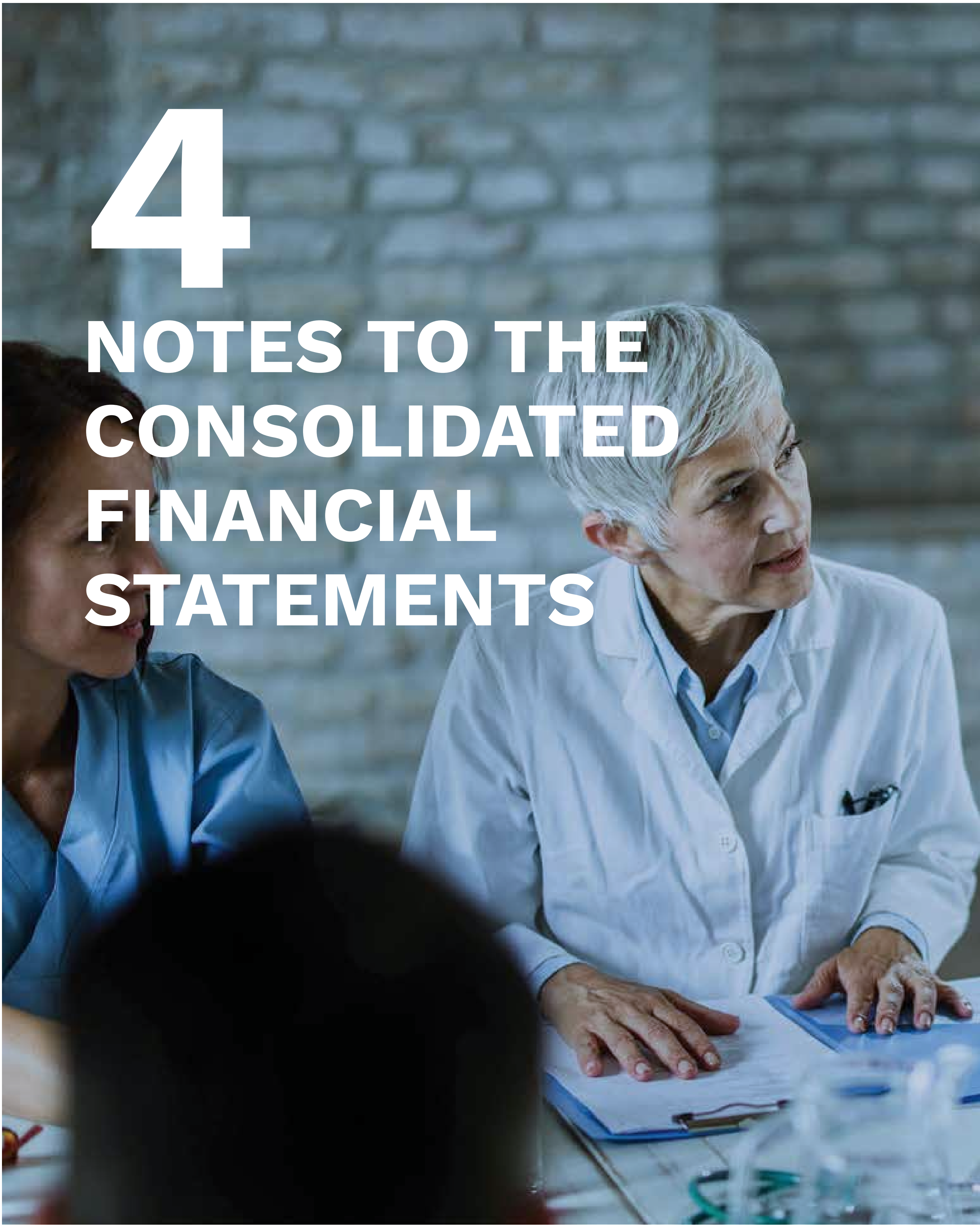
Consolidated statement of cash flowsfor the year ended 31 December 2021

(Indirect method - Amount in thousands of euros)

	Note	2021	2020
Cash flows from investment activities			
Expense for acquisition of subsidiary, net of acquired cash	26	(23,647)	-
Proceeds from disposal of subsidiary		1,032	-
Receivables/payables from the sale of financial assets		(1,880)	(600)
Interest received		23	156
Payments for the acquisition of property, plant and equipment and right of use assets	4 (*)	(51,490)	(20,211)
Receivables for sale of property, plant and equipment		404	385
Payables for acquisition of intangible assets	5 (*)	(7,927)	(5,512)
Net cash from investing activities		**(83,485)**	**(25,782)**
Cash flows from financing activities			
Proceeds from and payments for other financial liabilities		(1,947)	(1,768)
Payments from redemption of treasury shares and other equity instruments		-	(92)
Payments from financial liabilities with credit institutions		(1,450)	(946)
Dividends paid	10	(13,719)	(11,544)
Net cash from financing activities		**(17,116)**	**(14,350)**
Net increase/(decrease) in cash and cash equivalents		(20,956)	38,357
Cash and cash equivalents at 1 January		**91,210**	**52,853**
Cash and cash equivalents at 31 December		**70,254**	**91,210**

(*) The difference with respect to increased costs indicated in these notes is mainly due to the payments made to suppliers of assets throughout the year and those outstanding at the end of the year.

The consolidated annual report attached forms an integral part of the consolidated financial statements.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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. Nature, Activities, and Composition of the Group

Faes Farma, S.A. (hereinafter, the "Company" or the "Parent Company") has the corporate purpose of manufacturing and selling all kinds of chemical and pharmaceutical products, foodstuffs, cosmetics, dietetics and medicinal plants, as well as acquiring, purchasing, disposing of, investing in, holding, using, managing, administering, marketing and leasing corporations, securities and real estate, patents, trademarks and registered brands and equity interests.

The Company was incorporated pursuant to a public deed executed in Bilbao on 29 July 1933, under the name Fábrica Española de Productos Químicos y Farmacéuticos, S.A. On 6 July 2001, it adopted its current corporate name, with its headquarters, offices and factory located at Avenida Autonomía, 10, Leioa (Vizcaya, Spain).

Faes Farma, S.A. is the parent company of a Group made up of the subsidiaries listed in the attached Annex. Faes Farma, S.A. and its subsidiaries (hereinafter, the "Faes Farma Group" or the "Group") are mainly engaged in the manufacture and sale of pharmaceutical products, as well as in the manufacture and sale of animal nutrition and health products. All its subsidiaries are fully consolidated since they all have a controlling interest or control in the Company.

The Company's shares are listed in the continuous Spanish market.

In relation to ESMA's requirements for the Single European Electronic Format, we list the key annexes as follows:

- Name of the entity: Faes Farma, S.A.
- Address of the entity: Vizcaya - Spain
- Legal form of the entity: S.A.
- Country of incorporation: Spain
- Address of the entity's registered office: Avenida Autonomía, 10, Leioa (Vizcaya, Spain)
- Main centre of activity: Avenida Autonomía, 10, Leioa (Vizcaya, Spain)
- Description of the nature of the entity's operations and its main activities: manufacture and sale of pharmaceuticals and manufacture and sale of animal nutrition and health products.
- Name of the parent: Faes Farma, S.A.
- Name of the controlling parent of the group: Faes Farma, S.A.

Changes in the scope of consolidation

On 28 May 2021, the Parent Company merged by absorption with the subsidiary Laboratorios Diafarm, S.A.U., effective for accounting purposes on 1 January 2021.

On 8 March 2021, the Parent Company and its subsidiary Ingaso Farm, S.L.U. acquired 99.99% and 0.01%, respectively, of the shares of the pharmaceutical laboratory Global Farma, S.A. located in Guatemala. The Group has not yet completed the assessment relating to the identification and valuation of the net assets acquired from the business combination of Global Farma, S.A. and is therefore applying provisional accounting (see note 26).

On 16 November 2021, the subsidiary Ingaso Farm, S.L.U., together with Tecnología & Vitaminas, S.L., incorporated the subsidiary ISF By Farm Faes, S.L. with an initial disbursement of 2 million euros. The activity of this company will be the manufacture and marketing of animal nutrition and health products, holding 70% and 30% respectively.

During the 2021 financial year, the merger by absorption of Faes Farma, S.A.S. by BCN Medical, S.A. was approved. In addition, during the 2021 financial year and subsequent to the merger, the change of name of BCN Medical, S.A. to Faes Farma Colombia, S.A.S. was approved.

With effect from 1 January 2021, the Group has sold its subsidiary Laboratoire Phyto-Actif, S.A.S.

On 30 June 2020, Faes Farma, S.A., as Sole Shareholder, proceeded to the liquidation of the investee Biotecnet I MAS D, S.A. (Sole-Shareholder Company).

On 6 November 2020, the directors of the subsidiaries Faes Farma Perú, S.A.C. and Biosyntec, S.A.C. proceeded to formulate a merger plan whereby the latter would be absorbed by Faes Farma Perú, S.A.C. In addition, on 1 December 2020, the directors of the subsidiaries Faes Farma Chile, Salud y Nutrición Limitada and Biosyntec S.A. (Chile) formulated a merger plan whereby the latter would be absorbed by Faes Farma Chile, Salud y Nutrición Limitada.

On 23 December 2020, the directors of the subsidiaries Faes Farma BCN Medical, S.A. and Faes Farma, S.A.S. proceeded to formulate a merger plan whereby the latter would be absorbed by BCN Medical, S.A.

2. Basis for presentation

These consolidated financial statements were prepared using the accounting records of Faes Farma, S.A. and its consolidated entities. The consolidated financial statements for 2021 were prepared pursuant to the International Financial Reporting Standards adopted by the European Union (IFRS-EU) and other provisions of the applicable regulatory framework for financial reporting, in order to present a true and fair view of the consolidated equity and the consolidated financial position of Faes Farma, S.A. and its subsidiaries at 31 December 2021, and of the consolidated financial performance, consolidated cash flows and consolidated changes in equity for the year ended on said date.

The Group adopted the IFRS-EU on 1 January 2004 and, on that date, it applied IFRS 1, "First-time Adoption of International Financial Reporting Standards."

The directors of the Parent Company estimate that the consolidated financial statements for 2021, which were prepared on 23 February 2022, will be approved by the General Shareholders' Meeting without any modifications.

2.1 Basis for preparation of the consolidated financial statements

These consolidated financial statements have been prepared using the historical cost principle, with the following exceptions:

- Investment Properties recorded at fair value;
- Financial Instruments at fair value through profits/loss, which are carried at fair value.

2.2 Relevant accounting estimates and assumptions and relevant judgments for the application of the accounting policies

The preparation of the consolidated financial statements pursuant to the IFRS-EU requires the application of relevant accounting estimates and judgments, estimates and assumptions during the application of the Group's accounting policies. Along these lines, the features that have implied a higher level of judgment or complexity during the formulation of these consolidated financial statements are summarised below:

(i) Relevant accounting estimates and assumptions

- Impairment of goodwill and of indefinite useful life trademarks: see Note 3.6
- Useful life of intangible assets: see Note 3.4
- Deductions and capitalised tax credits: see Note 3.17

(ii) Changes in estimates

Moreover, despite the fact that the estimates performed by the directors of the Parent Company were based on the best information available at 31 December 2021, it is possible that said estimates may require adjustment in upcoming years based on future events. The effect on the consolidated financial statements of any changes which, if applicable, may result from adjustments to be made in upcoming years would be recorded prospectively.

The global pandemic has led to a reduction in sales of certain consumer products linked to the Healthcare segment, due to a reduction in demand for these products, and the Group has therefore reassessed the main assumptions contained in the impairment test performed on the brands and other intangible assets related to this business at 31 December 2021 (see note 5). On the other hand, the Group experienced growth in the rest of its segments and lines of business, which enabled it to strengthen its financial and liquidity position.

It is very difficult to make accurate estimates given the difficulties associated with the evolving situation and the current economic context, which is why the Group will continue to monitor developments and their impact on the financial statements.

2.3 Issued standards and interpretations

The same accounting principles and valuation standards set forth in the Group's consolidated financial statements at 31 December 2021, prepared pursuant to IFRS-EU, were followed in the preparation of these consolidated financial statements. The Group has not adopted in advance any published standards, amendments or interpretations which have not yet been enforced.

Mandatory standards, amendments and interpretations for all years started 1 January 2021

IFRS 9 (Amendment), IAS 39 (Amendment), IFRS 7 (Amendment), IFRS 4 (Amendment), IFRS 16 (Amendment) "Interest rate benchmark reform". Phase 2", IFRS 4 (Amendment) 'Extending the temporary exemption from applying IFRS 9' and IFRS 16 (Amendment) 'COVID-19 related rent reductions beyond 30 June 2021'.

These standards have been taken into account with effect from 1 January 2021 and their impact on these consolidated financial statements has not been material.

Standards, amendments and interpretations which have not yet become effective but which may be adopted in advance

At the date of issuance of these consolidated financial statements of the Group, the IASB and the IFRS Interpretations Committee had published the standards, amendments and interpretations listed below, even though they have not been adopted in advance by the Group.

IAS 16 (Amended) "Property, plant and equipment: amounts received before intended use, IAS 37 (Amended) "Contracts for pecuniary interest: costs of fulfilling a contract", IFRS 3 (Amended) "Reference to the Conceptual Framework, annual improvements to IFRS. Cycle 2018 - 2022 and IFRS 17 "Insurance Contracts".

The Group does not expect these amendments to have a significant impact on the formulation of the consolidated financial statements.

Standards, interpretations and amendments of existing standards that cannot be adopted early or which have not been adopted by the European Union

IFRS 10 (Amended) and IAS 28 (Amended) "Sale or contribution of assets between an investor and its associates or joint ventures", IAS 1 (Amended) "Classification of liabilities as current or non-current", IAS 1 (Amended) "Disclosure of accounting policies", IAS 8 (Amended) "Definition of Accounting Estimates", IAS 12 (Amended) "Deferred Taxes Relating to Assets and Liabilities Arising from a Single Transaction", IFRS 17 (Amended) "Initial Application of IFRS 17 and IFRS 9 - Comparative Information".

The Group has analysed the future impact of application of these standards, but no relevant impacts have been identified.

3.Applied accounting principles and measurement standards

3.1 Subsidiaries

An investor controls a subsidiary when, due to its interest in said subsidiary, it is exposed or entitled to variable returns and can influence said returns through the control exerted on the controlled entity.

The Annex attached to the Annual Report contains information on the subsidiaries included in the consolidation of the Group.

The income, expenses and cash flow of the subsidiaries are included in the consolidated financial statement since the date of acquisition, which is the one on which the Group effectively gained control thereof. Subsidiaries are excluded from consolidation from the date on which they have lost control.

The Group has applied the exception set forth in IFRS 1, "First-time Adoption of International Financial Reporting Standards," which means that only business combinations performed after 1 January 2004, date of transition to the IFRS-EU, have been recorded by means of the acquisition method. The acquisition of companies made before the above date were recorded pursuant to the accounting principles effective in Spain before that date, after considering the necessary corrections and adjustments on the date of transition.

Non-controlling interest

Non-controlling interest in subsidiaries acquired after 1 January 2004 is recognised at the date of acquisition based on the share in the fair value of the identifiable net assets. Non-controlling interest in subsidiaries acquired before the date of transition was recognised at the share percentage in the net equity thereof at the date of first consolidation.

Non-controlling interest is presented separately in the consolidated net equity statement from the equity attributed to holders of net equity instruments in the Parent Company. Likewise, non-controlling interest in the consolidated profit/loss of the year and in the total profit(loss) for the year is presented separately in the consolidated profit and loss account and in the consolidated statement of comprehensive income.

Other consolidation features

The financial statements of subsidiaries are consolidated with those of the Parent Company by applying the full consolidation method. Thus, all the balances and transactions made between consolidated companies and the unrealised profits or losses have been eliminated from the consolidation process.

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

The financial statements of subsidiaries used in the consolidation process are accounted for on the same date of presentation and for the same period as for the Parent Company.

3.2 Foreign currency transactions and balances

Functional and reporting currency

The consolidated financial statements are presented in thousands of euros, rounded to the closest thousand, since this is the functional and reporting currency of the Parent Company.

Foreign currency transactions, balances and flows

Transactions in foreign currencies are converted to the functional currency using the spot exchange rates between the functional currency and the foreign currency valid on the transaction dates.

Monetary assets and liabilities stated in foreign currency are converted to the functional currency at the exchange rate effective at year-end, while non-monetary assets and liabilities are valued at their historical cost and are converted to the functional currency at the exchange rate valid on the transaction date.

For the presentation of the consolidated statement of cash flows, flows from foreign currency transactions are converted to euros by applying the exchange rates effective on the date in which they occurred. The effect of the exchange rate differences on cash and other cash and cash equivalents expressed in foreign currency is presented separately in the consolidated cash flow statement as "(Income) Expenses from exchange rate differences."

Any differences arising from the settlement of foreign currency transactions and from the conversion to euros of monetary assets and liabilities expressed in foreign currency are recognised to profits/losses. However, exchange rate differences arising in monetary items which are part of net investments in foreign businesses are recorded as translation differences in another comprehensive income.

Losses or profits from exchange rate differences related to monetary financial assets or liabilities expressed in foreign currency are equally recognised in profits/losses.

Conversion to Euros for foreign businesses has been made by applying the following criterion:

- The assets and liabilities are converted at the closing exchange rate on the date of each balance sheet;
- Income and expenses are converted at the exchange rates valid on the date of each transaction; and
- Exchange rate differences resulting from the application of the aforementioned criteria are recognised as translation differences in other comprehensive income.

3.3 Property, plant and equipment

Initial recognition

Property, plant and equipment is recognised at cost or attributed, less accumulated depreciation and, if applicable, any impairment losses.

Assets located in Spain acquired before 1996 were revalued or updated pursuant to the relevant laws. On 1 January 2004, the Group adopted the exemption related to the fair value or the revaluation as expense attributed to IFRS 1 "First-time Adoption of International Financial Reporting Standards."

Depreciation

Items of property, plant and equipment are depreciated by allocating the depreciable amount thereof on a systematic basis over their useful life. For these purposes, the depreciable amount is understood to be the acquisition cost less residual value.

Amortisation of property, plant and equipment is calculated using the straight-line method, based on the subsequent estimated useful life years of the assets:

Estimated useful life years	
Constructions	30–50
Technical installations and machinery	10–15
Other installations, tools and furniture	5–15
Computer equipment	4–7
Others	8–10

At the close of each year, the Group reviews the residual value, the useful life and the amortisation method for property, plant and equipment. Changes in the criteria initially established are accounted for as a change in estimate.

Subsequent costs

After the initial recognition of the asset, capitalisation only applies to those costs incurred that will result in future economic benefits and which can be classified as likely and for which the amount of the above-mentioned costs can reliably be measured. The costs of day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

When property, plant and equipment items that can be capitalised are replaced, the carrying amount of the replaced items is reduced. When depreciation of the cost of the replaced items was not shown separately, and it was not feasible to determine their carrying amount, the replacement cost is used to indicate the cost of the items at the time of acquisition or construction.

Impairment of Assets

The Group assesses and determines losses and reversals of losses due to impairment of the real value of property, plant and equipment pursuant to the criteria set forth in Note 3.6.

3.4 Intangible assets

3.4.1 Goodwill

The goodwill derived from business combinations made after the date of transition (1 January 2004) is valued initially for an amount equivalent to the difference between the cost of the business combination and the share of the Group in the net fair value of the assets, liabilities and contingent liabilities assumed by the controlled entity or joint business acquired.

The goodwill is not depreciated, but rather the impairment of its value is verified by means of the criteria described in section 3.6. Following initial recognition, the goodwill is measured at its cost less the accumulated impairment losses.

Internally generated goodwill is not recognised as an asset.

3.4.2 Internally generated intangible assets

Costs related to research activities are recorded as expenses as incurred.

Costs incurred in the performance of activities in which costs attributable to the research phase cannot be distinguished from those corresponding to the development phase of intangible assets are recognised in the consolidated income statement. Developments costs previously recognised as an expense are not recognised as an asset in a subsequent year.

Costs related to development activities are capitalised as:

- The Group has technical studies available justifying the feasibility of the production process.
- The Group has agreed to complete production of the asset so as to render in sale conditions (or internal use) conditions;
- The asset will generate sufficient financial benefits;
- The Group has the necessary technical and financial resources to complete the development of the asset.

The completion of the development phase and, thus, its transfer to patents, licences and trademarks, and beginning of the amortisation period takes place at the time of approval by regulatory agencies.

The cost of assets generated internally by the Group is capitalised by means of payment of the costs attributable to the asset in the accounts of the item “Work by the Group for non-current assets”.

3.4.3 Patents and trademarks

Registered trademarks and licences are presented at the acquisition or development cost. Certain trademarks and licences have a finite useful life and are measured later at their cost minus the accumulated amortisation and any adjustment for impairment. Moreover, there are trademarks and licences with indefinite useful lives for which the Group conducts impairment loss tests at least yearly and provided that there are factors indicating a potential value impairment.

3.4.4 Computer applications

Software licences purchased are activated based on the costs incurred in the purchase and preparation for use. These costs are amortised throughout their estimated useful life.

Software and maintenance costs are recognised as an expense when they are incurred.

3.4.5 Other intangible assets

The remaining intangible assets purchased by the Group are presented in the consolidated statement of financial position at their cost, less the amount of any amortisations and accumulated impairment losses.

3.4.6 Useful life and amortisation

For each intangible asset acquired, the Group assesses whether it has a finite or indefinite useful life. To these effects, an intangible asset is deemed to have an indefinite useful life when there is no foreseeable limit to the period during which it will generate net cash flows.

The amortisation of finite useful life intangible assets is performed by systematically distributing the amortisable amount throughout the useful life by applying the following criteria:

	Amortisation method	Estimated useful life years
Patents and trademarks	Linear	5–25
Computer applications	Linear	3–10
Other intangible assets	Linear	10

For these purposes, the depreciable amount is understood to be the acquisition cost less residual value. The Group reviews the residual value, the useful life, and the amortisation method of intangible assets at the end of each year. Changes in the criteria initially established are accounted for as a change in estimate.

Intangible assets with indefinite useful lives are not subject to amortisation but rather to measurement of impairment, which is conducted annually or earlier, if there are signs of a potential impairment.

The grounds which justify the indefinite useful life of certain trademarks are, among others:

- Trademarks bought by the Group from third parties which were already out of patent at the time of purchase. Some trademarks correspond to products which have a generic counterpart in the market, and some do not. Since the acquisition of these trademarks by the Group, there has been a significant increase in sales, mainly resulting from the Group's financial and commercial efforts to protect and develop the brand. These trademarks are catered to what are considered stable market niches, which means that consistent future demand is expected.
- The current forecast is that new patents or substituting generic products are unlikely to appear in the market in the short or medium-term.
- Another key factor in determining the future profitability of trademarks is the evolution of prices. Along these lines, considering the currently established benchmark prices, they guarantee extended profitability and cash flow generation levels over time, enough to recover the investments made.
- The Group has the will and capabilities required to maintain these brands in its portfolio, which means that it will continue to make the necessary investments and take any commercial actions required to sustain them.

3.4.7 Impairment of assets

The Group assesses and determines losses and reversals of losses due to impairment of intangible assets pursuant to the criteria set forth in Note 3.6.

3.5 Investment Properties

Investment properties are real estate properties which are kept exclusively or partially to obtain income, capital gains or both, instead of being meant for use in production or supply of goods and provision of services, or else for administrative purposes of the Group, or for sale in the regular operating of the business.

Investment properties refer to real estate owned by the Group, located in Portugal, maintained to gain profitability through long-term income.

Investment properties are initially measured at cost, including transaction-associated costs.

The Group measures investment properties following their initial fair value recognition. A qualified independent external appraiser experienced in the measurement of the appraised property conducted an appraisal under observable market variables (level 2 fair value hierarchy) during fiscal year 2021, which shall be revised approximately every two years, except if market conditions change significantly, in which case the revision will be performed at that time.

Losses or profits derived from changes in the fair value of an investment property is recorded in the consolidated income statement. Investment properties are not depreciated.

Investment properties continue to be measured at fair value until sale or until the property is used by the Group or starts development thereof for sale in the ordinary course of business, regardless of whether comparable market transactions have become less common or market prices are less readily available.

3.6 Impairment of non-financial assets subject to amortisation or depreciation

The group follows the criteria of assessing the existence of signs which might reflect any potential impairment of non-financial assets subject to depreciation or amortisation, so as to verify whether its recoverable amount is lower than their carrying amount.

Moreover, and notwithstanding the existence of any impairment signs, the Group verifies at least annually any potential impairment which might affect goodwill, indefinite life intangible assets, as well as any intangible assets which are still unavailable for use.

For these purposes, the goodwill resulting from business combinations is allocated to each one of the Group's cash generating units that are expected to benefit from the synergies of the combination.

The recoverable value of assets is the higher of its fair value minus any sale or disposal by other means and its value in use.

The measurement of the value in use of the assets is realised according to the expected cash flows that will result from use of said asset, the expectations on the possible variations in the temporary amount or distribution of the future flows, the temporary value of money, the price to pay in order to offset the uncertainty related to the asset and other factors that market players would consider in the valuation of future cash flows related to the asset.

Negative differences resulting from comparison of the carrying amounts of assets with the recoverable value thereof are recognised to profits(losses).

The recoverable value should be calculated for an individual asset, unless the asset does not generate cash inflows that are to a major extent independent from those corresponding to other assets or group of assets. Should this be the case, the recoverable value is determined for the cash generating unit to which the asset belongs.

Losses related to the impairment of cash generating units will be allocated initially to reduce, as applicable, the value of the goodwill allocated to it and the continuation of the other assets of the cash generating unit, prorating it based on the carrying amount of each of the assets, with the limit for each of them being the higher between the fair value minus any sale or disposal costs by other means, its value in use and zero.

At each closing date, the Group assesses whether there are any signs that may indicate that the impairment losses recognised in previous years has been eliminated or may have diminished. The impairment losses corresponding to goodwill are non-reversible. Impairment losses for the remaining assets can only be reversed should there have been a change in the estimations made to determine the recoverable value of the asset.

Reversal of impairment losses are recorded to profits; however, the reversal of the loss cannot increase the carrying amount of the asset above the carrying amount it would have had, net of depreciation, had the impairment not been recorded.

The amount of the impairment loss of a cash generating unit is distributed among its assets, except for goodwill, prorating it based on the carrying amount of the assets, with the limit per asset being the lower between its recoverable value and the carrying amount it would have had, net of depreciations, had the loss not been recognised.

3.7 Financial instruments

Financial instruments are classified at the time of initial recognition as a financial asset, a financial liability or an equity instrument, based on the goodwill of the contractual agreement and the definitions of the financial asset, the financial liability or the equity instrument developed in IAS 32, "Financial instruments: presentation."

Financial instruments are recognised when the Group becomes a bound party in the agreement or legal business, pursuant to the provisions thereof.

Moreover, and for valuation purposes, financial instruments are classified in categories of financial assets and liabilities at fair value, with changes to profits, loans and accounts receivables and financial assets at depreciated cost. The classification in the aforementioned categories is conducted based on the characteristics of the instrument and the intention of the Management at the time of initial recognition.

A financial asset and a financial liability are subject to compensation only when the Group has the enforceable right to legally compensate the recognised amounts and intends to settle the net amount or to realise the asset and settle the liability at the same time.

Conventional purchases and sales of financial assets are recognised at the date of negotiation; that is, the date on which the Group agrees to purchase or sell the asset.

3.7.1 Financial assets at fair value through changes in profit/loss

Financial assets held for trading are included in this section. A financial asset is classified as held for trading if:

- It is acquired or incurred mainly for the purpose of selling it or re-purchasing in the immediate future.
- In the initial recognition, it is part of an identified financial instrument portfolio, jointly managed and for which there is evidence of a recent pattern of short-term benefits, or
- It is a derivative, except for derivatives classified as a hedging instrument, and meets the requirements to be deemed effective, and a derivative which is a financial guarantee contract.

They are recognised initially and at a later date based on the fair value. Transaction costs directly attributable to the acquisition of said assets are recognised as an expense in the consolidated income statement. Realised and unrealised losses and profits derived from changes in the fair value are included in the income statement for the year in which they occur.

3.7.2 Loans and receivables

Loans and accounts receivables are financial assets that are not derivatives, with a fixed or determinable cost, which are not listed in an active market, and different from those classified in other financial asset categories.

They are initially recognised at their fair value, including incurred transaction costs, and are later valued at the depreciated cost, through the effective interest method.

3.7.3 Impairment and uncollectible financial assets

Trade and other receivables are subject to the expected credit loss model. However, the impairment identified is intangible.

The cash and cash equivalents' line is also subject to the impairment requirements set by IFRS 9, even though the impairment identified is intangible.

To determine the expected credit losses, the Group applies the simplified approach of IFRS 9.

To measure expected credit losses, trade receivables have been grouped based on the shared credit risk characteristics, and on due dates.

Expected loss rates are based on the sales payment profiles throughout a 12-month period before 1 January 2020, and the corresponding historical credit losses experienced during said period. Historical loss rates are adjusted to reflect the current and prospective information on the macroeconomic factors affecting customers' capacity to settle the accounts receivable.

In addition, the Group impairs any accounts receivable for which the existence of specific bad debt risks is assessed, in the same way as for the previous year, in order to determine if there is objective evidence of impairment. The Group considers that impairment has occurred when the debtor has significant financial difficulties or when payment default or delay exceeds 12 months.

Accounts receivable for which an impairment provision has been recognised are cancelled against the provision when there is no expectation of recovering the additional cash.

3.7.4 Financial liabilities

Financial liabilities, including trade and other payables, which are not classified at fair value with changes to profits (losses) are initially recognised at their fair value, minus, if applicable, any transactions costs directly attributable to the issuance thereof. Subsequent to initial recognition, the financial liabilities classified in this group are valued at amortised cost using the effective interest rate method.

3.7.5 Derecognition of financial assets

Financial assets are derecognised from the accounting statements when the rights to receive the cash flows related thereto have expired or been transferred and the Group has materially transferred the risks and advantages resulting from owning said assets.

The derecognition of an asset implies its recognition to profits/losses for the difference between its carrying amount and the amount of the consideration received, net of transaction expenses, including assets acquired or liabilities assumed, and any losses and profits in a different comprehensive income.

The Group applies the weighted average price method to measure and derecognise the cost of equity or debt instruments which integrate homogeneous portfolios and which have the same rights, except if the sold instruments and the individual price thereof can be clearly identified.

3.7.6 Derecognition and changes in financial liabilities

The Group derecognises a financial liability or part thereof when it has met the obligation contained in the asset or else is legally exempt from the fundamental liability contained in the liability, whether by virtue of a legal process or by the creditor.

The exchange of debt instruments between the Group and the other counterparty or substantial changes in the initially recognised liabilities is recorded as the settlement of the original financial liability and the recognition of a new financial liability, provided that the instruments have materially different conditions.

3.8 Treasury shares of the Parent Company

The purchase of equity instruments of the Parent Company by the Group is presented separately at the acquisition cost, as an equity decrease in the consolidated statement of financial position, regardless of the reason for its purchase. No results are recognised for transactions conducted with equity instruments.

Transaction costs related to equity instruments are recognised as a net equity decrease after considering any tax effects.

3.9 Payment to shareholders

Dividends, whether in cash or in kind, are recognised as a net equity decrease at the time of approval thereof by the General Shareholders' Meeting.

3.10 Inventories

Inventories are valued at the lower between the purchase cost which includes all other costs derived from the purchase and transformation, as well as direct and indirect costs incurred in giving them their current condition and location-, and their net realisable value, the latter being understood as the estimated disposal price in the ordinary course of business, minus the costs estimated to terminate production and those required for the sale thereof.

The method applied by the Group in determining the cost used for each inventory is the following:

- Commercial inventories and raw materials and other supplies: weighted average cost.
- Finished products and works in progress: Cost of consumption of raw materials and other supplies, incorporating the costs directly related to the units produced and a systematically calculated portion of the indirect, variable or fixed costs incurred during the transformation process. The incorporation of fixed indirect costs is made based on normal production capacity or on actual production, whichever is higher.

The value of the cost of inventories is subject to adjustment against profits/losses whenever their cost exceeds the net realisable value.

The value reduction recognised above is reversed against profit/losses if the circumstances which originated the recognition thereof have ceased to exist, or when there is clear evidence justifying an increase in the net realisation value as a result of a change in economic circumstances. The reversal of the value reduction is limited by the lower amount between the cost and the new realisable value of the inventories. Reductions and reversals in the value of inventories are recognised under the heading "Change in finished goods and works in progress" and "Consumption of raw materials and other consumable materials", of the consolidated income statement.

3.11 Cash and cash equivalents

Cash and cash equivalents include cash on hand, demand deposits in credit institutions and other highly liquid short-term investments with a near original due date, usually within three months or less, provided that they are easily convertible in specific cash amounts and are subject to negligible value change risk.

The Group classifies cash flows corresponding to interest received as investment activities and those paid as exploitation activities. The dividends received are classified as investment activities and those paid by the Company are classified as financing activities.

3.12 Employee benefits

3.12.1 Termination benefits

Termination benefits are recognised at the earlier date between the date on which the Group can no longer withdraw the offer and the one when the costs of a restructuring entailing compensation payments are recognised.

For termination benefits as a result of the employees' decision to accept an offer, it is considered that the Group can no longer withdraw the offer at the earlier date of the one in which the employees accept the offer and when a restriction on the capacity of the Group to withdraw the offer becomes effective.

In the case of termination benefits due to dismissal, it is considered that the Group can no longer withdraw the offer when it has notified the employees involved or the union representatives of the plan, and the actions required to complete said plan indicate that significant changes to the plan are unlikely, the number of employees to be terminated has been identified, as well as their category of employment or duties and the place of employment and expected termination date, and when the termination benefits to be received by the employees have been described in sufficient detail, so that the employees are aware of the type and amount of compensation to be received upon termination.

3.12.2 Short-term employee remuneration

Short-term employee remuneration refers to employee compensation other than termination benefits, whose payment is expected to be made in whole within the 12 months following the close of the year in which the employees have rendered the services compensated.

The Group recognises the expected cost of short-term remuneration in the form of paid leave, the rights to which accrue as employees render the services which entitle them to receive said remunerations. If the leaves are not cumulative, the expense is recognised as the changes occur.

The Group recognises the expected profit sharing cost or the workers' incentives plan when there is a current, legal, or implicit obligation as a result of past events and the value of the obligation can be fairly estimated.

3.13 Provisions

Provisions are recognised in the consolidated statement of financial position when the Group has a present obligation, legal or implicit, as a result of past events and it is probable that there is an outflow of resources entailing future financial benefits to settle said obligation, provided that it is possible to reliably estimate the amount in question.

The amounts recognised in the consolidated statement of financial position correspond to the best estimation at the date of closure of the disbursements required to settle the current obligation, after having considered the risks and uncertainties related to the provision and, when significant, the financial effect derived from the discount, provided that the disbursements to be made in each period can be reliably determined.

Separate obligations are measured according to their most likely individual outcome. If an obligation implies a large group of homogeneous items, the obligation is measured by weighting its possible outcomes according to their likelihood. If there is a continuous range of possible outcomes and each point along the range has the same likelihood of occurrence than the rest, then the obligation is measured at the average amount.

The financial effect of provisions is recognised as financial expenses in profits/losses.

Provisions revert to profit/losses when an outflow of resources that might settle the obligation is unlikely. Reversal is recognised in the consolidated profit and loss account line in which the corresponding expense and surplus, if any, was recognised under the "Oher income" entry of the consolidated profit and loss account.

3.14 Revenue recognition

Revenues from the sale of goods or rendering of services are recognised at the fair value of the consideration arising from such, which has been or will be received. Revenues are presented net of the value added tax and of any other amount or tax which substantially corresponds to accounts receivables on account of third parties. In addition, discounts for prompt payment, volume or other types of discounts, as well as interest added to the nominal amount of credits, are recorded as a write-down thereof.

3.14.1 Sales of goods and rendering of services

Revenue from the sale of goods and the provision of services are recognised only when there is evidence of an agreement with other parties, the products have been delivered or the services rendered, the fees have been set and collection is reasonably guaranteed.

The Group mainly manufactures and sells pharmaceutical and animal health and nutrition products. Sales are recognised upon transfer of control of the products, that is, when they are delivered to the client, the latter has total control over the product and there is no unmet obligation which might affect acceptance of the products by the client. The delivery takes place based on agreements with clients (Incoterm) and it is at that time when obsolescence and loss risks have been transferred to the client and the Group has evidence that all acceptance criteria have been met.

The Group sells certain goods that can be returned by buyers. In such cases, sales of items are recognised when the above conditions are met and it is possible to reliably estimate the sum of returns, based on the Company's experience and other relevant factors. Estimated returns are recognised against ordinary income, paid to the provision for sales returns.

No financing element is considered, given that sales are made with a 60-day credit term, consistently with market practices.

The management considers that there is no significant judgment required with respect to these sales.

Breakdown of ordinary income from contracts with Customers

Ordinary income from external customers mainly originates in the sale of pharmaceutical and animal nutrition and health specialty products.

As regards pharmaceutical specialty products, the Group considers that there is a single classification of contracts with customers: sales correspond to a single performance obligation (the sale of the chemical or pharmaceutical product) and are realised at a point in time.

As regards sales for animal nutrition and health products, the Group considers that there is a single classification of contracts with customers: sales correspond to a single performance obligation and are realised at a point in time.

Since there are no other classifications of contracts with customers, the Group has broken down sales geographically (see Note 25).

3.14.2 Other income

Income and licence commissions are essentially recognised based on whether they correspond to a sale of an asset or rights, or a licence of use agreement. It will be a sale and, thus, the income is recognised upon transfer of the rights to the licence holder, under the following circumstances:

- Rights are allocated in consideration of fixed or non-reimbursable commissions as a guarantee to the agreement.
- The agreement may not be terminated.
- The Group does not have any control over the management.
- The Group does not have any performance obligations.

For all other cases, it will be considered that the amounts are related to the right of use of the licence and, thus, that the income is recognised throughout that period. If the Group receives a share of the income but with a minimum guaranteed amount, said minimum amount will be recognised as income initially, provided that the Group does not maintain any significant risks and advantages inherent to holding the licence. The Group recognises this income under "Other income" as it is considered that no control is retained over the subsequent management of royalty income.

3.14.3 Earnings from dividends

Income from dividends on investments in equity instruments is recognised when the Group becomes entitled to receive them.

3.15 Official grants

Official grants are recognised when there is reasonable certainty regarding compliance with the conditions pertaining the grant and collection thereof.

Exploitation grants are recognised to other income in the consolidated income statement, for the same period in which the associated expenses were incurred.

Grants from public administrations received as compensation for expenses or losses already incurred, or else to provide immediate financial support unrelated to future expenses are recognised to Other income accounts in the consolidated income statement.

Financial liabilities with implicit aids in the form of interest rates below market rate are recognised initially at fair value. The difference in value, adjusted as applicable per the costs of issuance of the financial liability and the amount received, is recognised as an official grant, based on the nature of the awarded grant.

3.16 Leases

The Group executes operating lease operations both as lessor and lessee.

The Group changed its accounting policy for leases where the Group is the lessee. Starting on 1 January 2019, leases are recognised as a right-of-use asset with the corresponding liabilities recognised on the date on which the leased asset becomes available for use by the Group.

The assets and liabilities arising from a lease are initially measured based on current value. The lease liabilities include the net current value of the following lease payments:

- Fixed payments.
- Variable lease payments tied to an index or rate.

Lease payments to be made under reasonably certain extension options are also included when measuring the liabilities.

Lease payments are discounted at the implicit interest rate in the lease. If this rate cannot easily be determined, which is generally the case for the Group's leases, the lessee's incremental borrowing rate is used. This is the rate that the individual lessee would have to pay to borrow the funds needed to obtain an asset of a value similar to that of the right-of-use asset in a similar economic setting and with similar terms, guarantees and conditions.

The Group is exposed to potential future increases in the variable lease payments tied to an index or rate, which are not included in the lease liabilities until they enter into force. When adjustments to lease payments tied to an index or rate enter into force, the lease liabilities are reassessed and the right-of-use asset amount is adjusted.

Both the principal and the finance costs are included in lease payments. Finance costs are expensed to profit/loss over the lease period, giving rise to a constant interest rate applied at regular intervals to the outstanding balance payable for each period.

Right-of-use assets are measured at cost, which consists of the following:

- The initial measurement of the lease liabilities.
- Any lease payment made on or before the starting date, less any lease incentives received.
- Any initial direct costs.
- Restoration costs.

Right-of-use assets generally depreciate on a straight line basis over the useful life of the asset or the lease term, whichever is shorter. If the Group is reasonably certain to exercise a purchase option, the right-of-use asset depreciates over the useful life of the underlying asset.

Payments made in relation to short-term leases and all leases of assets of low value are recognised as expenses in profit/loss on a straight line basis. Short-term leases are any leases with a term of 12 months or less. Low value assets include IT equipment and small pieces of office furniture.

Extension and termination options are included in some of the property and equipment leases held throughout the Group. These terms are included to provide maximal operating flexibility when it comes to managing the assets used in the Group's operations. Most of the extension and termination options in place can only be exercised by the Group, not by the respective lessor.

Income from operating leases, net of any incentives granted, are recognised as income by the linear method throughout the term of the lease.

3.17 Income tax expenses

The income tax expense or revenue entails both current and deferred taxes.

Current tax is the amount to be paid or recovered during the fiscal year for the income tax with respect to the consolidated tax profit or loss for the year. Current income tax assets or liabilities are measured at the amounts expected to be paid or recovered from the tax authorities, using the standards or tax rates approved or to be approved at the closing date.

Deferred tax liabilities are the amounts to be paid in the future as corporate income tax expenses related to the taxable temporary differences, while deferred tax assets are the amounts to be recovered as corporate income tax expenses due to the existence of deductible temporary differences, tax losses carried forward or deductions pending application. For these purposes, a temporary difference is understood as the difference between the carrying amount of assets and liabilities, and their tax vase.

As of year 2014, Faes Farma, S.A. tax, made up of the companies Faes Farma, S.A. and Ingaso Farm, S.L.U. pays tax through the consolidated statement method.

3.17.1 Recognition of taxable temporary differences

Deferred tax liabilities derived from temporary differences are recognised in all cases, except if:

- They are derived from the initial recognition of the goodwill or an asset or liability in a transaction which is not a business combination and which, at the date of the transaction, does not affect the accounting profit or loss or the taxable profit;
- They correspond to differences associated with investments in subsidiaries and business combinations for which the Group can control the time of reversal and for which a reversal is unlikely in the foreseeable future.

3.17.2 Recognition of deductible temporary differences

Deferred tax assets derived from deductible temporary differences are recognised provided that:

- There are likely to be sufficient future positive taxable base for compensation thereof, except in those cases in which the differences result from the initial recognition of assets or liabilities in a transaction which is not a business combination and which, at the date of the transaction, does not affect the accounting profit or loss or the taxable base;
- They correspond to temporary differences associated with investments in subsidiaries and joint ventures to the extent that the temporary differences can reverse in a foreseeable future and positive future taxable profits are expected to offset the differences.

Tax planning opportunities are only considered in the assessment of recovery of deferred tax assets if the Group intends or is likely to adopt them.

The Group has estimated that there are sufficient taxable profits to ensure recoverability of deductions and credits activated, based on profit/loss forecasts made pursuant to the budgets approved for the year 2021 and the forecasts for the next years. These forecasts have been made taking into account, among other aspects, the Group's business plan, highlighting the contribution of the main products such as Bilaxten, which began marketing in the first half of 2011, as well as Hidroferol, Claversal and the licences granted by third parties and to third parties.

3.17.3 Measurement

Deferred tax assets and liabilities are measured at the tax rates to be applied in the fiscal years in which assets are expected to be realised or liabilities are expected to be settled, pursuant to the regulations and rates approved or almost approved, and having considered the tax effects derived from the way in which the Group expects to recover the assets or settle the liabilities.

At the date of closure of each year, the Group reviews the carrying amount of deferred tax assets, so as to reduce said value to an extent that makes it unlikely for there to be sufficient taxable profits to offset them.

Deferred tax assets which fail to meet the aforementioned conditions are not recognised in the consolidated statement of financial position. At year-end, the Group reconsiders whether the conditions are met to recognise deferred tax assets which had previously not been recognised.

3.17.4 Offsetting and classification

The Group only offsets current income tax assets and liabilities if it is legally entitled by the tax authorities and if it intends to settle any resulting debts at their net amount or else realise the assets and settle debts simultaneously.

The Group only offsets deferred income tax assets and liabilities if there is a legal offsetting rights pursuant to the tax authorities and said assets and liabilities correspond to the same tax authority for deferred income tax and for the same taxpayer or else to different taxpayers who intend to liquidate or realise the current tax assets and liabilities at their net amount or realise assets and settle labilities simultaneously at each future fiscal year in which they expect to recover significant deferred tax assets or liabilities amounts.

Deferred tax assets and liabilities are recognised in the consolidated statement of financial position as non-current assets or liabilities, regardless of the expected realisation or settlement date.

3.18 Segment reporting

An exploitation segment is a component of the Group which develops business activities from which it can obtain ordinary income and incur in expenses, whose exploitation results are regularly reviewed by the senior exploitation decision-making authority in the Group, to decide on resources to be allocated to the segment, assess its performance and in relation to which differentiated financial information is available.

At 31 December 2021 and 2020, the Group was made up of the following exploitation segments:

- Pharmaceuticals and healthcare specialties
- Animal nutrition and health
- Pharmaceutical raw materials

The Pharmaceutical raw materials segment does not meet the quantitative criteria to be presented separately.

3.19 Environment

The Group conducts operations whose main purpose us to prevent, mitigate or repair any damage caused to the environment as a result of its activities.

Expenses incurred in environmental activities are recognised as other operating expenses in the year in which they incur.

Property, plant and equipment items purchased to be used for extended periods of time during its business and whose main purpose is to minimise environmental impact and protect and improve the environment, including the mitigation or elimination of future contamination from the operations of the Group, are recognised as assets by means of the application of measurement, presentation and breakdown criteria consistent with those set forth in Note 3.3.

4. Property, plant and equipment

The breakdown of this item of the consolidated statement of financial position, and its movements during 2021 and 2020, is described below:

	31.12.19	Additions	Reductions	Transfers	31.12.20	Changes in the scope of consolidation (Notes 1 and 26)(*)	Additions	Reductions	Transfers	Translation differences	31.12.21
Cost											
Land and buildings	36,159	2,390	(350)	123	38,322	72	17,812	(1,050)	-	5	55,161
Technical installations and machinery	52,938	7,086	(1,179)	1,571	60,416	4,611	7,513	(4,541)	6,464	127	74,590
Other installations, tools and furniture	50,479	3,148	(173)	707	54,161	(149)	3,442	(96)	57	104	57,519
Computer equipment	1,349	542	(466)	(56)	1,369	15	836	(72)	(63)	13	2,098
Advances and property, plant and equipment in progress	2,437	7,025	-	(2,345)	7,117	345	20,851	(9)	(6,458)	-	21,846
Others	2,322	101	(268)	-	2,155	129	114	(589)	-	18	1,827
	145,684	20,292	(2,436)	-	163,540	5,023	50,568	(6,357)	-	267	213,041
Accumulated depreciation											
Constructions	(15,878)	(820)	267	-	(16,431)	-	(950)	136	-	(2)	(17,247)
Technical installations and machinery	(34,986)	(1,802)	1,120	-	(35,668)	14	(2,842)	4,265	-	(78)	(34,309)
Other installations, tools and furniture	(14,121)	(4,238)	125	-	(18,234)	39	(5,103)	62	-	(96)	(23,332)
Computer equipment	(1,752)	(124)	474	-	(1,402)	-	(376)	84	-	(58)	(1,752)
Others	(244)	(372)	65	-	(551)	(18)	(89)	357	-	-	(301)
	(66,981)	(7,356)	2,051	-	(72,286)	35	(9,360)	4,904	-	(234)	(76,941)
Carrying amount	78,703	12,936	(385)	-	91,254	5,058	41,208	(1,453)	-	33	136,100

(*) Changes in the scope of consolidation correspond to the sale of Laboratoire Phyto-Actif, S.A.S (note 1) and the acquisition of Global Farma, S.A. (notes 1 and 26).

The additions recorded during the financial year 2021 correspond mainly to the land on which the construction of the new pharmaceutical production plant in the Bizkaia Technology Park has begun. The amount of EUR 21,537 thousand classified as property, plant and equipment under construction as at 31 December 2021 relates mainly to buildings, other plant and machinery for the new plant.

The amount held as assets in progress at 31 December 2020 was almost entirely transferred in 2021 to the corresponding asset lines.

The Group has commitments to purchase property, plant and equipment amounting to EUR 58,651 thousand, mainly related to the investment in the new pharmaceutical production plant.

At year-end 2020, the Group had property, plant and equipment purchase commitments of EUR 3,476 thousand, mainly related to the investment in the solid pharmaceutical manufacturing lines.

4.1 Fully depreciated assets

The cost of the property, plant and equipment items which are fully depreciated at 31 December is detailed below:

Thousands of euros

	2021	2020
Constructions	6,712	6,671
Technical installations and machinery	24,363	28,042
Other installations, tools and furniture	10,994	11,124
Computer equipment	1,541	2,297
Other transport means	654	62
	44,264	**48,196**

4.2 Insurance

The Group takes out various insurance policies to cover the risks to which the property, plant and equipment items may be exposed. The coverage of these policies is considered to be sufficient.

4.3 Operating leases – Lessee

The Group leases offices in Madrid and Lamiako to third parties. Moreover, the Group has leased vehicles from third parties, mostly for commercial purposes, as well as commercial premises and several electronic equipment items.

The right-of-use assets recognised are related to the following types of assets:

Thousands of euros

	31.12.21	31.12.20
Properties	1,461	1,363
Equipment	354	246
Vehicles	1,713	2,382
Total right-of-use assets	**3,528**	**3,991**

During the financial year 2021 there have been additions of EUR 1,998 thousand of right-of-use assets (there were no additions in the financial year 2020). In addition, depreciation and amortisation charges for these assets amounted to EUR 2,405 thousand (EUR 2,412 thousand in 2020).

The future minimum payments for non-cancellable operating leases in 2021 and 2020 are as follows:

Thousands of euros

	2021	2020
Up to 1 year	1,743	1,202
Between one and five years	1,795	1,756
	3,538	**2,958**

The minimum payments in 2021 and 2020 include leases considered short-term and low value leases, which are not recognised as right-of-use assets.

5.Intangible assets

The breakdown of this heading of the consolidated statement of financial position and of the movement of the main classes of intangible assets for 2021 and 2020 is shown below:

Thousands of euros

	Goodwill	Development expenses in progress	Patents, licenses and trademarks	Computer applications	Others	Total
31 December 2019						
Cost	**54,882**	**12,513**	**209,755**	**6,581**	**7,306**	**291,037**
Accumulated depreciation	-	(146)	(100,466)	(3,213)	(5,508)	(109,333)
Cumulative impairment	(79)	-	(11,016)	-	-	(11,095)
Net carrying amount	**54,803**	**12,367**	**98,273**	**3,368**	**1,798**	**170,609**
Additions	-	3,825	75	1,100	37	5,037
Depreciation	-	(167)	(4,381)	(380)	(130)	(5,058)
Reductions	-	(174)	-	(126)	(31)	(331)
Depreciation derecognitions	-	56	81	112	-	249
Transfers	-	-	273	543	(816)	-
Impairment losses recognised in profit/loss	(2,717)	-	(2,823)	-	-	(5,540)
Business combinations (note 26)	557	-	-	-	-	557
31 December 2020						
Cost	**55,439**	**16,164**	**210,103**	**8,098**	**6,496**	**296,300**
Accumulated depreciation	-	(257)	(104,766)	(3,481)	(5,638)	(114,142)
Cumulative impairment	(2,796)	-	(13,839)	-	-	(16,635)
Net carrying amount	**52,643**	**15,907**	**91,498**	**4,617**	**858**	**165,523**

(Continued)

Thousands of euros

	Goodwill	Development expenses in progress	Patents, licenses and trademarks	Computer applications	Others	Total
Changes in the scope of consolidation (note 1 and note 26) (*)	13,296	-	(599)	13	-	12,710
Additions	-	4,671	473	1,270	169	6,583
Depreciation	-	(167)	(3,746)	(557)	-	(4,470)
Reductions	-	(109)	(480)	(1,200)		(1,789)
Depreciation derecognitions	-	-	366	1,121	-	1,487
Transfers	-	-	-	123	(123)	-
Impairment write-offs	79	-	2,669	-	-	2,748
Impairment losses recognised in profit/loss	(295)	-	(3,104)	-	-	(3,399)
Translation differences	-	-	18	-	-	18
31 December 2021						
Cost	**68,735**	**20,726**	**209,515**	**8,304**	**6,542**	**313,822**
Accumulated depreciation	-	(424)	(108,146)	(2,917)	(5,638)	(117,125)
Cumulative impairment	(3,012)	-	(14,274)	-	-	(17,286)
Net carrying amount	**65,723**	**20,302**	**87,095**	**5,387**	**904**	**179,411**

At 31 December 2021 and 2020, there are no commitments to purchases of intangible assets.

The cost of fully amortised intangible assets at 31 December 2021 amounts to EUR 46,436 thousand (EUR 49,274 thousand in 2020) and mainly corresponds to patents, licences and trademarks.

(*) Changes in the scope of consolidation correspond to the sale of Laboratoire Phyto-Actif, S.A.S (note 1) and the acquisition of Global Farma, S.A. (notes 1 and 26).

Goodwill

The Group has recognised goodwill totalling EUR 68,735 thousand, the most significant of which are those generated by the acquisitions of Laboratorios Diafarm, S.A.U. (generating goodwill amounting to EUR 25,277 thousand), Ingaso Farm, S.L.U. (generating goodwill in the amount of EUR 10,677 thousand), Tecnología & Vitaminas, S.L. (generating goodwill in the amount of EUR 5,650 thousand), Initial Technical Foods, S.L.U. (generating goodwill of EUR 3,855 thousand) and the most recent acquisition of Global Farma, S.A. (generating provisional goodwill of EUR 13,568 thousand). The goodwill also included an amount equivalent to EUR 6,671 thousand for the acquisition of a pharmaceutical business in 2005.

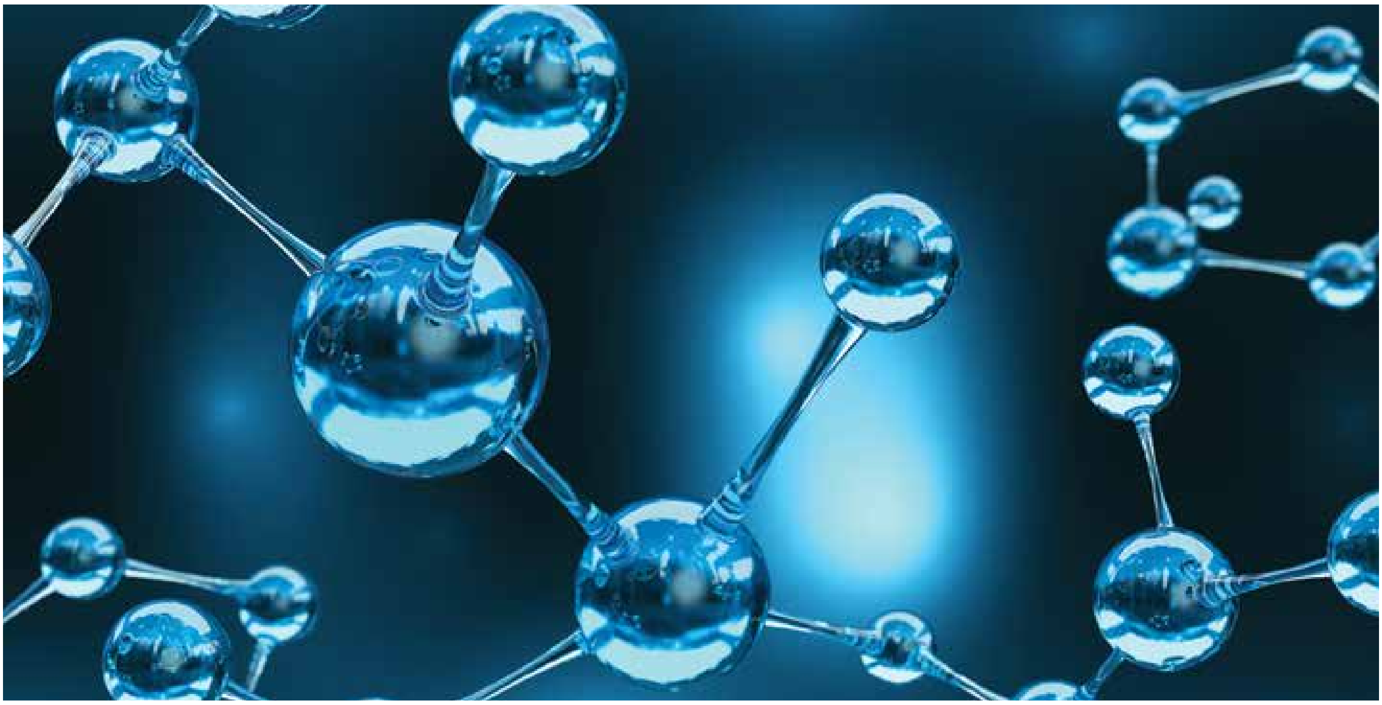
The acquisition of Global Farma, S.A. described in note 1 was completed in 2021, and goodwill of EUR 13,568 thousand was recognised. At the date of the financial statements, the Group has not completed the assessment relating to the identification and valuation of the net assets acquired from the business combination of Global Farma, S.A. and is therefore applying provisional accounting (see note 26).

Development expenses in progress

At 31 December 2021, Development includes an amount of EUR 12,539 thousand relating to an alternative application for Bilastine (EUR 12,228 thousand at 31 December 2020), for which marketing authorisation is expected to be obtained in 2022. In addition, the Group has an amount of EUR 5,079 thousand corresponding to an alternative application of Hidroferol (EUR 2,597 thousand at 31 December 2020), and the directors consider that these projects meet all the activation criteria. At 31 December 2021, there are still expenses from these developments pending capitalisation.

In addition, the Group has capitalised expenses for other product developments in the amount of EUR 1,878 thousand in 2021.

Moreover, the Group has recognised an amount of EUR 3,888 thousand (EUR 3,246 thousand in 2020) related to research and development expenses on other projects, under the Other expenses heading of the attached consolidated income statement (see Note 19).



Patents, licenses and trademarks

The detail of the net carrying amount and the residual depreciation period for the most significant patents, licences and trademarks at the individual level at 31 December 2021 and 2020 is described below:

	Years of residual useful life		Thousands of euros	
Description of the asset	2021	2020	2021	2020
Revenue from trademark	11	12	856	935
Claversal trademark	Indefinite	Indefinite	15,411	15,411
Analgilasa trademark	Indefinite	Indefinite	2,762	2,762
Hemorrane trademark	Indefinite	Indefinite	940	2,296
Dezacor trademark	-	-	-	-
Zyloric trademark	Indefinite	Indefinite	3,360	3,360
Rosilan trademark	5	6	2,457	2,949
Pankreoflat trademark	Indefinite	Indefinite	2,647	2,647
Bilastine	15	16	17,879	19,156
Siken trademark	Indefinite	Indefinite	3,745	3,745
Arnidol trademark	Indefinite	Indefinite	6,264	6,264
Vitanatur trademark	Indefinite	Indefinite	3,713	3,713
Faringesic trademark	Indefinite	Indefinite	1,553	3,301

Impairment of Assets

For the purpose of impairment testing, the Group has made a distinction between cash-generating units (CGUs); brands and goodwill.

In the case of trademarks, impairment losses have been realised individually, considering each brand as a cash generating unit. The recoverable amount from a cash generating unit is determined based on value in use calculations. These calculations use cash flow forecasts based on financial assumptions approved by management, covering a five-year period.

The key hypotheses used by Management to create the flow forecasts in the case of the Parent Company's indefinite useful life brands have been the following:

- The discount rate before taxes used has been 8% in the year 2021 (8.15% in 2020).
- Cash flows beyond the five-year period are extrapolated without considering growth.
- Stability in terms of brand sales volume, given that these are brands for which there are sometimes generic options in the market, aimed at stable markets with a continued future demand, based on the historical information available to the Group.

The prices considered for future years have been estimated based on actual prices for 2021, considering the effect of the approved laws during the years 2010 and 2011 with respect to the 7.5% or 15% discounts over the selling prices authorised for pharmaceutical companies by the Ministry of Health in the case of Spain. Both discounts exclusively apply to units sold pursuant to the National Health System.

Based on these projections, the Group has made an adjustment for impairment losses of EUR 3,104 thousand related to brands in 2021 (EUR 2,823 thousand in 2020).

The Group's management has performed a sensitivity analysis of the plan by increasing the WACC discount rate by 10% and reducing the sales growth rate by 5%, with no significant differences in the impairment recorded in either of the two previous scenarios.

The assumptions used in the case of estimated flow forecasts for the goodwill allocated to Ingaso Farm, S.L.U. Have been the virtually stable maintenance of the operating income/expense over the net amount of the revenue for the next years. The growth rate used to extrapolate cash flows as of the third year was 0%, while the discount rate before taxes used has increased to 8% (8% in 2020). The sensitivity analyses undertaken have been conducted by stressing the discount rate by 10%, without the need to reflect any additional losses in the intangible assets.

In the case of the goodwill generated by the healthcare business following the acquisition of Laboratorios Diafarm, S.A.U., the Group has performed a recoverability analysis, the key assumptions used in this analysis being as follows:

- The discount rate before taxes used has been 8% in the year 2021 (8.15% in 2020).
- The real terminal value growth rate is 1% in 2021 and 2020.

The most relevant parameters considered in the estimation of future flows are as follows:

- The net amount of turnover: average increase of 2% over the plan period, with lower sales growth in the first year of the plan and stabilising in the following years of the plan with an average increase of 2.3%.
- Margins: Management determined the budgeted EBITDA margin based on market yields and taking into account the type of activity of the company, reaching at the end of the plan a higher EBITDA than budgeted for previous years in a pre-pandemic situation.

Based on the result of the analysis performed, goodwill has been determined to be free of impairment at 31 December 2021 (the Group recognised goodwill impairment of EUR 2,717 thousand in 2020).

Moreover, Management has conducted the following sensitivity analyses:

- Changes of 0.5% in the discount rate would prompt the need to record a further EUR 0.3 million in impairment.
- Changes of 0.5% in the terminal value growth rate would not prompt the need to record further impairment.
- A 2% decline in EBITDA growth would prompt the need to record a further EUR 2.6 million in impairment.

From the sensitivity analysis performed, no significant differences have been detected in the impairment recorded in either of the two previous scenarios.

6. Other financial assets

The details of other financial assets at 31 December 2021 and 2020 are as follows:

Thousands of euros

	2021	2020
Non-current		
Guarantees	990	338
Current		
Financial assets at fair value through profit/loss	2,289	1,926
Guarantees	865	-
	3,154	**1,926**

The details of the main financial assets included in the category of financial assets at fair value with changes in profit/loss are as follows:

Thousands of euros

	2021	2020
Internal and external portfolio		
Securities	2,289	1,926
	2,289	**1,926**

The Group does not have any pledged financial assets as a guarantee for contingent liabilities or liabilities.

7. Inventories

Details of this item of the consolidated statement of financial position are as follows:

Thousands of euros

	2021	2020
Goods	25,675	26,126
Raw materials and other supplies	37,051	32,202
Works in progress	8,449	6,636
Finished products	35,301	26,102
Advances to suppliers	975	525
	107,451	**91,591**

In 2021, a total of EUR 511 thousand in impairment of inventories (EUR 1,151 thousand in 2020) was recognised, in addition to a reversal of EUR 971 thousand (434 thousand in 2020) stated under the Change in finished goods and works in progress heading of the attached consolidated income statement.

At 31 December 2021 and 2020, there are no inventories with a recovery period beyond 12 months as of the date of the consolidated statement of financial position.

The Group companies have taken out insurance policies to cover any risks which might affect inventories. The coverage of these policies is considered to be sufficient.

At 31 December 2021 and 2020, there are no pledged inventories as guarantee against the payment of debts.

8. Trade and other receivables

Details of this item of the consolidated statement of financial position are as follows:

Thousands of euros

	2021	2020
Customer receivables – sales and service provision	102,057	99,236
Employee advances	360	375
Other non-commercial loans		
Tax receivables	10,916	6,062
Other	87	70
Adjustment for impairment losses	(568)	(463)
Total	**112,852**	**105,280**

Movements of valuation adjustments for impairment are as follows:

Thousands of euros

	2021	2020
Balance at 1 January	463	1,476
Exits from the scope of consolidation (note 1)	(35)	-
Allocations for impairment (Note 19)	389	465
Impairment reversals (Note 19)	(56)	(492)
Cancellations	(193)	(986)
Balance at 31 December	**568**	**463**

The details for Government payables are as follows:

Thousands of euros

	2021	2020
Value Added Tax	7,791	3,143
Other concepts	3,125	2,919
	10,916	**6,062**

The carrying amount and the fair value of trade and other receivables balances are not significantly different.

9. Income tax expenses

The details of deferred tax assets and liabilities by type of asset and liability are as follows:

Thousands of euros

	Assets		Liabilities		Net	
	2021	2020	2021	2020	2021	2020
Property, plant and equipment	125	125	-	-	125	125
Intangible assets	-	-	(15,347)	(15,800)	(15,347)	(15,800)
Investment Properties	-	-	(315)	(321)	(315)	(321)
Other concepts	2,915	1,280	(1,969)	(1,246)	946	34
Rights from deductionsand credits	23,434	27,449	-	-	23,434	27,449
Total	**26,474**	**28,854**	**(17,631)**	**(17,367)**	**8,843**	**11,487**

Detail of the change in deferred taxes by type of asset and liability:

Thousands of euros

	31.12.19	Recognized profit/loss	31.12.20	Recognized profit/loss	31.12.21
Property, plant and equipment	125	-	125	-	125
Intangible assets	(17,580)	1,780	(15,800)	453	(15,347)
Investment Properties	(320)	(1)	(321)	6	(315)
Other concepts	(499)	533	34	912	946
Rights from deductionsand credits	32,407	(4,958)	27,449	(4,015)	23,434
Total	**14,133**	**(2,646)**	**11,487**	**(2,644)**	**8,843**

The Group has no unrecognised tax credits and tax loss carryforwards on its balance sheet at 31 December 2021 and 2020.

The detail of deferred tax assets and liabilities with a term of more than 12 months for settlement or reversal is as follows:

Thousands of euros

	2021	2020
Assets from temporary differences		
Rights from deductionsand credits	23,434	27,449
Total Assets	**23,434**	**27,449**
Deferred tax liabilities	(17,108)	(16,844)
Total Liabilities	**(17,108)**	**(16,844)**
Net	**6,326**	**10,605**

The Group's Directors consider that the rights to deductions and credits related mainly to capitalised research and development expenses are adequately supported based on expectations of future profits and that there is a reasonable assurance that they can be used within a time horizon of less than 10 years. Deferred tax liabilities mainly correspond to indefinite useful life of the trademarks' tax depreciation.

Detail of income tax expense (income):

Thousands of euros

	2021	2020
Current tax		
For the year	7,131	6,968
	7,131	**6,968**
Deferred taxes		
Origin and reversal of temporary differences	(523)	-
Tax deductions and recognised taxable profit during the year	(7,063)	(6,158)
Tax deductions and tax losses applied this year	11,230	10,696
	3,644	**4,538**
Total	**10,775**	**11,506**

The relationship between the tax expense and the benefit before tax is as follows:

Thousands of euros

	2021	2020
Profit for the year before taxes	**93,988**	**84,882**
Expected expense at the Company tax rate (24%)	22,557	20,372
Tax rate difference from subsidiaries	174	159
Other concepts	806	-
Tax credits	(7,063)	(6,158)
Permanent Differences	(5,699)	(2,867)
Tax expense/(income)	**10,775**	**11,506**

The permanent differences mainly relate to the percentage of net royalty income which, in accordance with the applicable tax regulations, is not included in the tax base.

Tax credits amounting to EUR 7,063 thousand at 31 December 2021 (EUR 6,158 thousand at 31 December 2020) mainly correspond to deductions on research and development expenses.

Pursuant to current legislation, taxes cannot be considered as permanently settled until the statements filed have been inspected by the tax authorities or until the four-year statute of limitations period has elapsed from the presentation of the corresponding settlements. At 31 December 2021, the Company and its subsidiaries have all the taxes from 1 January 2017 open for inspection, except for the Corporate Income Tax, which has been open since 1 January 2016. The Directors do not expect any significant additional liabilities to arise the event of an inspection.

10. Equity

The composition and movement of the net equity is presented in the consolidated statement of changes in equity.

10.1. Capital

The detail of outstanding shares for years 2021 and 2020 is as follows:

	Number of shares	
	2021	2020
At 1 January, net of treasury shares	280,909,169	273,937,590
Capital increases	12,176,596	7,093,838
Acquisition of treasury stock	(210,881)	(122,259)
At 31 December, net of treasury shares	**292,874,884**	**280,909,169**

At 31 December 2021 the registered capital of Faes Farma, S.A. is made up of 297,418,206 ordinary shares represented by book entries with a nominal value of EUR 0.10 each, fully subscribed and paid out (285,241,610 ordinary shares represented by book entries with a nominal value of EUR 0.10 each, fully subscribed and paid out at 31 December 2020). These share units all hold equal political and economic rights. All the shares of the Company are officially listed in the stock market.

There is no shareholder with a registered capital interest equal to or higher than 10%.

The Company also holds 4,543,322 treasury shares at 31 December 2021 (4,332,441 treasury shares at 31 December 2020).

At the General Shareholders' Meeting held on 16 June 2021, a capital increase charged to reserves was approved to meet the shareholders' payment schedule. The Board of Directors had one year as of the date of the agreement to implement said capital increase. On 25 November 2021, the Board of Directors agreed to implement the capital increase charged to voluntary reserves, which introduced the flexible dividend approved at the General Shareholders' Meeting held on 16 June 2021. As agreed in the aforementioned General Shareholders' Meeting, the maximum capital increase was set at EUR 1,565,358.90, with the market value of the increase being EUR 52,167,153.33.

The Board of Directors established a schedule which included the deadlines for the execution of the increase, and 23 December 2021 was established as a deadline to request the cash compensation by virtue of the purchase commitment for the rights assumed by Faes Farma, S.A. Each shareholder of Faes Farma, S.A. received a right of free allocation per each share of Faes Farma, S.A. The aforementioned free allocation rights were traded in the stock markets of Madrid, Barcelona, Bilbao and Valencia. Depending on the selected option, upon the execution of the capital increase, each shareholder of the Company could choose to receive either new paid-up shares of Faes Farma, S.A. or an amount in cash as a result of the sale of the free allocation rights to Faes Farma, S.A. (by virtue of the commitment undertaken by the company, at a guaranteed fixed price), or in the market (in which case the consideration varied based on the listing price of the free allocation rights).

The capital increase was conducted free of expenses and commissions for subscribers in terms of the allocation of the new issued shares, with Faes Farma, S.A. assuming the expenses related to the issuance, subscription, circulation, listing and other charges related to capital increases. Shareholders holding 85.38% of the free allotment rights opted for the subscription of newly issued shares. Therefore, the parent company issued 13,364,619 shares with a par value of 0.10 euro each, increasing the amount of capital by EUR 1,336,461.90.

As a result of the option chosen by the shareholders, at 31 December 2021 the Company has recognised an amount equivalent to EUR 7,437 thousand under the Other current financial liabilities heading for the acquisition of the free allocation rights of the shares which opted to waive the preferential allocation right (EUR 4,932 thousand in 2020). Said amount was paid in January 2022 (see Notes 12 and 28).

At the General Shareholders' Meeting held on 30 June 2020, a capital increase charged to reserves was approved to meet the shareholders' payment schedule. The Board of Directors had one year as of the date of the agreement to implement said capital increase. On 25 November 2020, the Board of Directors agreed to implement the capital increase charged to voluntary reserves, which introduced the flexible dividend approved at the General Shareholders' Meeting held on 30 June 2020. As agreed in the aforementioned General Shareholders' Meeting, the maximum capital increase was set at EUR 1,358,293.30, with the market value of the increase being EUR 47,545,212.52.

The Board of Directors established a schedule which included the deadlines for the execution of the increase, and 23 December 2020 was established as a deadline to request the cash compensation by virtue of the purchase commitment for the rights assumed by Faes Farma, S.A. Each shareholder of Faes Farma, S.A. received a right of free allocation per each share of Faes Farma, S.A. The aforementioned free allocation rights were traded in the stock markets of Madrid, Barcelona, Bilbao and Valencia. Depending on the selected option, upon the execution of the capital increase, each shareholder of the Company could choose to receive either new paid-up shares of Faes Farma, S.A. or an amount in cash as a result of the sale of the free allocation rights to Faes Farma, S.A. (by virtue of the commitment undertaken by the company, at a guaranteed fixed price), or in the market (in which case the consideration varied based on the listing price of the free allocation rights).

The capital increase was conducted free of expenses and commissions for subscribers in terms of the allocation of the new issued shares, with Faes Farma, S.A. assuming the expenses related to the issuance, subscription, circulation, listing and other charges related to capital increases. Shareholders holding 89.65% of the free allotment rights opted for the subscription of newly issued shares. Therefore, the parent company issued 12,176,596 shares with a par value of 0.10 euro each, increasing the amount of capital by EUR 1,217,659.60.

As a result of the option chosen by the shareholders, at 31 December 2020 the Company recognised an amount equivalent to EUR 4,932 thousand under the Other current financial liabilities heading for the acquisition of the free allocation rights of the shares which opted to waive the preferential allocation right. Said amount was paid in January 2021 (see Note 12).

The General Shareholders' Meeting of 19 June 2019 authorised the Board of Directors to increase the registered capital once or more times, until half of the Company's registered capital at the time of this authorisation; and empowered the Board of Directors so that it may, for a maximum period of five years to be counted as of the date of the Meeting, to issue obligations, Treasury bonds or other similar instruments, simple or guaranteed, up to a maximum amount of EUR 100 million.

The General Shareholders' Meeting of 16 June 2021 authorised the Board of Directors to purchase and charge to profits for the year and/or to available reserves the shares of the Company, as many times as deemed timely, whether directly or through the Group's companies, as well as to later dispose of or depreciate said shares, in the conditions and under the limits set forth in articles 146, 509 and related provisions of the Spanish Corporate Enterprises Act. This authorisation was granted for the maximum period allowed by law (5 years) as of the date of the aforementioned Meeting.

The Group's objectives with regard to capital management is to safeguard its capacity to continue operating, so that it may continue to offer dividends to its shareholders and benefit other stakeholders, while maintaining an optimal capital structure to reduce capital costs.

With the purpose of maintaining and adjusting the capital structure, the Parent Company may adjust the amount of the dividends payable to its shareholders, it may return capital, issue shares or sell assets to reduce debt.

Consistently with other groups from the sector, Faes Farma, S.A. controls the capital structure based on the leverage ratio. This ratio is calculated as net debt divided by the total capital. Net debt is determined through the sum of financial debt plus trade and other payables and other accounts payable, plus other non-current payables, minus cash and cash equivalents and current financial assets. Total capital is calculated by adding the net equity and the net debt.

The 2021 and 2020 ratios have been determined as follows:

Thousands of euros

	2021	2020
Total current and non-current debt	75,444	77,799
Minus:		
Cash and cash equivalents	70,245	91,210
Current and non-current financial assets	4,144	2,264
Net debt	1,055	(15,675)
Equity	538,066	472,877
Total capital	539,121	457,202
Debt ratio	0.20%	(3,43%)

10.2 Other reserves

The details of other reserves at 31 December 2021 and 2020 are as follows:

Thousands of euros

	2021	2020
Legal Reserve	5,705	5,563
Goodwill Reserves	2,135	2,668
Capitalisation reserves	444	-
Parent Company voluntary reserves	377,638	336,665
	385,922	**344,896**

Legal Reserve

Companies must allocate an amount equivalent to 10% of the profits for each year to set up a legal reserve until it represents at least 20% of the corporate capital. This reserve is not distributed to the shareholders and may only be used to cover the debt balance of the profit and loss account, if there are no other available reserves. In certain circumstances, it may also be used to increase the corporate capital in the share of this reserve exceeding 10% of the already increased capital amount.

Goodwill Reserves

Goodwill reserves are set pursuant to article 273.4 of the consolidated text of the Spanish Corporate Enterprises Act, now revoked, which established that, in any case, a non-available reserve should be established equivalent to the goodwill recognised in the balance sheet and that a figure of the profits representing at least 5% of the amount of the aforementioned goodwill should be allocated to that effect. Should there be no profit, or should it be insufficient, available reserves were to be used. This reserve has been freely available since 1 January 2016.

Parent Company voluntary reserves

These are voluntary reserves, which are unrestricted, except for an amount of EUR 19,496 thousand corresponding to balances pending depreciation for the development expenses recorded by the Parent Company at 31 December 2021 (EUR 14,825 thousand at 31 December 2020).

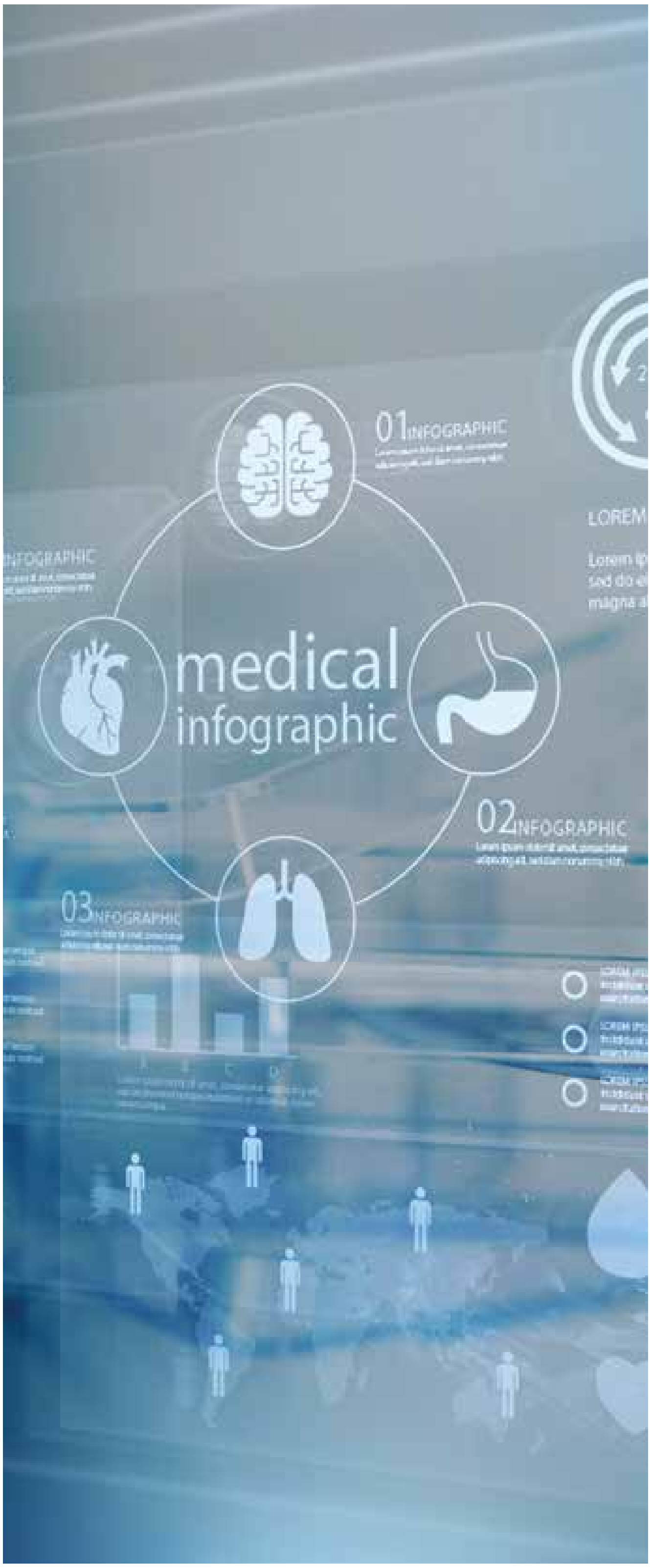
10.3 Dividends and restrictions on the distribution of dividends

The total amount of dividends distributed in 2021 by Faes Farma, S.A. to its shareholders, corresponding to the distribution of profits for the year 2020 amounted to EUR 13,719 thousand (EUR 11,544 thousand in 2020 corresponding to the 2019 profits), which is equivalent to EUR 0.0461 per share (EUR 0.0405 per share in 2018).

The proposal for the distribution of profits of Faes Farma, S.A. for the year 2021, presented by the Directors and pending approval by the General Shareholders' Meeting, as well as the distribution approved for the year 2020, is set forth below:

Thousands of euros

	2021	2020
Distribution basis		
Profit for the year	68,855	58,779
Distribution		
Legal Reserve	244	142
Other reserves	50,464	44,918
Flexible dividend distributed in January 2022(Notes 10.1,12 and 28)	7,437	-
Supplementary dividend	10,710	8,787
Flexible dividend distributed in January 2021(Notes 10.1 and 12)	-	4,932
	68,855	**58,779**



11. Earnings per share

11.1 Basic

Basic earnings per share are calculated by dividing the profits from the year attributable to the holders of equity instruments of the Company by the weighted average number of ordinary shares in circulation during the year, excluding treasury shares.

	2021	2020
Profit attributable to owners of parent company equity instruments (in thousands of euros)	83,157	72,549
Weighted average number of ordinary shares in circulation	291,460,126	279,855,022
Basic earnings per share (in euros)	**0.285**	**0.259**

The average number of ordinary shares in circulation is calculated as follows:

	2021	2020
Ordinary shares in circulation at 1 January	279,855,022	273,937,196
Free issuance of shares in 2021	11,605,104	-
Free issuance of shares in 2020	-	5,917,826
Weighted average number of ordinary shares in circulation at 31 December	**291,460,126**	**279,855,022**

11.2 Diluted

Diluted earnings per share are calculated by dividing the profits from the year attributable to the holders of equity instruments of the Company by the weighted average number of ordinary shares in circulation and potential ordinary shares during the year, excluding treasury shares.

	2021	2020
Profit attributable to owners of parent company equity instruments (in thousands of euros)	83,157	72,549
Weighted average number of ordinary shares in circulation and potentials	304,824,745	292,031,618
Basic earnings per share (in euros)	**0.273**	**0.248**

12. Other financial liabilities and lease liabilities

Details of these items of the consolidated statement of financial position at 31 December are as follows:

Thousands of euros

	2021		2020	
	Non-current	Current	Non-current	Current
Borrowings from banks	-	501	-	1,951
Ministry of Science and Innovation and CDTI	3,485	1,433	3,453	563
Debts with shareholders (Notes 10.1 and 28)	-	7,437	-	4,932
Finance lease payables	2,148	2,097	1,583	2,380
Other borrowings	13	4,248	62	2,985
	5,646	**15,716**	**5,098**	**12,811**

The classification of other non-current financial liabilities by due date is as follows:

Thousands of euros

	2021					
	2023	2024	2025	2026	Subsequent years	Total non-current
Ministry of Science and Innovation and CDTI	476	569	627	628	1,185	3,485
Finance lease payables	964	296	296	296	296	2,148
Other long-term borrowings	13	-	-	-	-	13
Total financial liabilities	**1,453**	**865**	**923**	**924**	**1,481**	**5,646**

Thousands of euros

2020						
	2022	2023	2024	2025	Subsequent years	Total non-current
Ministry of Science and Innovation and CDTI	457	462	555	613	1,366	3,453
Finance lease payables	510	268	268	268	269	1,583
Other long-term borrowings	62	-	-	-	-	62
Total financial liabilities	**1,029**	**730**	**823**	**881**	**1,635**	**5,098**

Debts with the Ministry of Science and Innovation correspond to the depreciated cost of long-term returnable advance payments without interest accrual and granted as financial aid for certain Research and Development projects. This amount does not differ significantly from its fair value.

Reconciliation of cash flows from financing activities:

Thousands of euros

	Assets/liabilities included in financing activities				
	Cash and cash equivalents	Other short and long-term financial assets	Remaining short-term financial debt	Long-term financial debt	Total net debt
Initial balance at 1 January 2020	52,853	1,790	(12,065)	(6,370)	36,208
Cash flows	38,357	661	(746)	1,272	39,544
Change in fair value (Note 20)	-	(187)	-	-	(187)
Final balance at 31 December 2020	**91,210**	**2,264**	**(12,811)**	**(5,098)**	**75,565**
Cash flows	(20,956)	844	(2,905)	(548)	(23,565)
Change in fair value (Note 20)	-	46	-	-	46
Final balance at 31 December 2021	**70,254**	**3,154**	**(15,716)**	**(5,646)**	**52,046**

13. Provisions

The detail of provisions for years 2021 and 2020 is as follows:

Thousands of euros

	Health contribution	Sales returns	Other provisions	Total
At 31 December 2019	5,092	892	1,880	7,864
Provisions allocated	5,764	217	173	6,154
Provisions used	(1,698)	(144)	(132)	(1,974)
At 31 December 2020	9,158	965	1,921	12,044
Provisions allocated	2,000	617	47	2,664
Provisions used	(4,060)	-	(1,303)	(5,363)
Reversals	(533)	-	-	(533)
At 31 December 2021	**6,565**	**1,582**	**665**	**8,812**

The breakdown of current and non-current provisions is the following:

Thousands of euros

	2021	2020
Non-current	957	803
Current	7,855	11,241
	8,812	**12,044**

13.1 Health contribution

Pursuant to the forty-eighth Additional Provision of Act 2/2004 of 27 December of the General State Budget for 2005, corporate groups in Spain engaged in the manufacture and import of drugs, medicinal products and any other health products prescribed within the national territory through an official prescription of the National Health System, had to pay certain amounts calculated based on a scale established by the same provision.

In 2006, the aforementioned provision was replaced by the sixth Additional Provision of Law 29/2007, of 26 July, on guarantees and rational use of medicines. According to these regulations, the amounts are calculated on the basis of certain scales on the sales of medicines, medicinal substances and any other health products dispensed in the national territory through official prescriptions of the National Health System.

In 2021, Faes Farma, S.A. paid the Ministry of Health and Consumption EUR 1,928 thousand for this item (EUR 1,500 thousand in 2018) and allocated a provision for the outstanding amount at 31 December 2021, for a total of EUR 2,000 thousand (EUR 2,476 thousand in 2020).

This item also includes the provision recorded for an agreement being negotiated by Farmaindustria, an association to which the Company belongs, with the Ministry of Health, according to which the affiliated companies must contribute to the differential between the growth in pharmaceutical spending and the growth in GDP. The Company has made provisions based on the best estimate of the amounts outstanding for the years 2021 and 2020 for a total amount of EUR 4,565 thousand (the provision at the end of 2020 amounted to EUR 6,682 thousand).

13.2. Sales returns

Provisions for sales returns correspond to the best estimate made by the Group, based on its historical experience and on the assessment of the current market circumstances, of the sold goods expected to be returned by customers.

13.3 Other provisions

During 2014, the Group established a provision to cover indeterminate amount obligations derived from potential litigations, compensations and other customary issues in the development of the Group's businesses.

14. Contingencies

The Group has contingent liabilities from bank guarantees and other guarantees related to the normal course of business for EUR 1,758 thousand (EUR 1,888 thousand in 2020). The most significant guarantees correspond to the payments to be made to Farmaindustria as a result of the discounts to be applied to sales pursuant to Royal Decree-Law 8/2010 and 9/2011. The Management of the Group does not expect any significant liabilities to arise from the aforementioned guarantees.

15. Trade and other payables

Detail of trade and other payables:

Thousands of euros

	2021	2020
Trade payables	37,925	41,973
Other borrowings		
Remuneration payable	10,104	11,808
Payable to Social Security Authorities	1,866	1,541
Tax payables	4,187	4,009
	54,082	**59,331**

Government payables mainly correspond to withholdings on individuals pursuant to the Income Tax.

16. Information on the average payment terms to suppliers. Additional provision three. “Duty of disclosure of Law 15/2010, of 5 July"

The information on the average period of payment to suppliers for years 2021 and 2020 is as follows:

	Days	
	2021	2020
Average period of payment to suppliers	33.84	48.41
Ratio of paid transactions	34.35	49.73
Ratio of outstanding transactions	28.20	37.94
	Thousands of euros	
	2021	2020
Total payments made	160,457	160,187
Total payments payable	14,648	20,150

17. Ordinary income and other income

The details of ordinary income and other income are as follows:

Thousands of euros

	2021	2020
Revenue	398,388	380,113
Service provision	169	127
	398,557	**380,240**
Licenses	26,655	27,386
Official grants	795	893
Other income	2,634	2,968
	30,084	**31,247**

The revenues figure is reduced by an amount of EUR 7,087 thousand (EUR 7,004 thousand at 31 December 2020) as a result of the laws approved in Spain during years 2010 and 2011, which established, among other requirements, a 7.5% or a 15% discount, based on the product, off the selling price authorised by the Ministry of Health.

The licences figure accounts for income derived from non-reimbursable amounts resulting from executed agreements, mainly for the sale of Bilastine by other pharmaceutical companies worldwide.

18. Personnel expenses

The breakdown for personnel expenses for 2021 and 2020 is as follows:

Thousands of euros

	2021	2020
Payroll and similar	69,572	67,885
Social Security expenses	13,840	13,937
Other expenses	1,621	1,314
	85,033	**83,136**

The average number of Group employees during 2021 and 2020, broken down by category, is as follows:

	Average numberof employees	
	2021	2020
Executives	15	17
Administration	182	166
Marketing/Commercial	831	824
Production	297	219
Other line personnel	157	138
Research	144	120
	1,626	**1,484**

Distribution by gender regarding the Company's staff and its directors at year-end is as follows:

	2021		2020	
	Male	Female	Male	Female
Directors	**14**	**3**	**14**	**4**
Executives	5	3	5	3
Other line personnel	51	107	46	97
Marketing and Commercial	368	469	335	477
Research	48	104	38	90
Administration	75	110	61	95
Production	214	98	162	62
	770	**891**	**656**	**825**

19. Other expenses

The breakdown for other expenses is as follows:

Thousands of euros

	2021	2020
Operating lease expenses	1,743	1,202
Research and Development expenses (Note 5)	3,888	3,246
Transport	6,215	6,498
Repairs and preservation	4,801	5,662
Independent professional services	27,000	19,128
Insurance premiums	931	936
Advertising and promotion	21,384	21,129
Supplies	2,663	1,955
Taxes	615	1,668
Banking services	399	286
Changes in provisions (Note 13)	1,514	5,764
Losses from impairment of trade receivables and other receivables (Note 8)	333	(27)
Other expenses	11,592	13,364
	83,078	**80,811**

20. Finance income and costs

Details of the finance income and costs are as follows:

Thousands of euros

Financial income	2021	2020
Other finance income	23	156
Total finance income	**23**	**156**

Thousands of euros

Finance costs	2021	2020
Interest from bank borrowings	216	266
Fair value losses of assets and liabilities atfair value with changes to profits/losses	46	126
Exchange losses	50	1,653
Total finance costs	**312**	**2,045**

21. Management remuneration

Remuneration received by key management personnel is as follows:

Thousands of euros

	2021	2020
Short-term remuneration for employees, executives	**4,310**	**4,193**

22. Information about the Directors of the Parent Company and their related parties

The details of the remuneration of the Directors of the Parent Company are as follows:

Thousands of euros

	2021	2020
Salaries	2,132	1,969
Other remuneration	237	201
	2,369	**2,170**

The Directors of the Parent Company are not granted advanced payments or credits and no obligations have been assumed on their behalf as a guarantee, and no civil liability insurance premiums have been paid for damages caused by actions or omissions in the performance of their duties. Furthermore, the Group has not assumed any obligations relating to pension or life insurance policies regarding current or former directors of the Parent Company.

None of the Directors of the Parent Company or any individuals related to them have incurred in any conflicts of interest subject to notification pursuant to the provisions of article 229 of the consolidated text of the Spanish Corporate Enterprises Act (TRLSC as per the Spanish acronym).

During years 2021 and 2020, the Directors of the Parent Company have not executed, with the Company or with any companies from the Group, any transactions outside the ordinary course of business or in conditions other than market conditions.

23. Information on the environment

The Group complies with the applicable environmental regulations. All the waste resulting from its activities is selectively treated by specialised companies. The cost of this management is directly allocated to expenses for the year.

a) Equipment

The most significant equipment introduced for environmental improvement purposes corresponds primarily to elements for water treatment and energy saving with an approximate cost of EUR 1,583 thousand (EUR 1,414 thousand in 2020), and its accumulated depreciation at the end of the year 2021 amounts to EUR 1,192 thousand (EUR 1,145 thousand in 2020).

b) Expenses

Expenses related to the environment incurred during the year 2021 are mainly focused on the treatment of waste and on advisory services for environmental improvement, amounting to EUR 646 thousand in 2019 (EUR 583 thousand in 2020).

During 2021, various actions were carried out related to energy savings in electricity consumption.

c) Provisions, contingencies and responsibilities

No provisions have been allocated for environmental actions. Similarly, there are no litigations, contingencies, foreseen risks or responsibilities of this kind.

d) Grants

No grants were received during this year, nor on previous years, for expenses or investments with environmental purposes, and no greenhouse gas emission allowances have been received or acquired.

24. Audit fees

The auditing firm (PricewaterhouseCoopers Auditores, S.L. in 2021 and 2020) responsible for auditing the financial statements of the Group has billed the following net fees for professional services rendered at 31 December 2021 and 2020:

Thousands of euros

	2021	2020
Auditing services	155	168
Audit-related services	23	38
Other services	64	–
	242	**206**

In turn, other entities in the PwC network abroad billed the Group in the years ended 31 December 2021 and 2020 a total of EUR 130 thousand and EUR 132 thousand, respectively, for net fees for professional audit and related services.

In 2021 and 2020, other PwC companies have billed the Group the following net fees for professional services rendered at 31 December 2021 and 2020:

Thousands of euros

	2021	2020
Advisory services	**234**	**76**

25. Financial information by segment

At 31 December 2021 and 2020, the Group is organised into the following operating segments, with the Group adopting the criteria set forth below for the identification of segments, products, with the following types of main products and services:

- Pharmaceuticals and healthcare specialties
- Animal nutrition and health
- Pharmaceutical raw materials

The "Pharmaceutical raw materials" segment, whose products are pharmaceutical raw materials, does not meet the quantitative criteria to be presented separately.

The Group operates mainly in two geographical areas, identified as domestic and international markets. As regards the domestic market, the main activities are developed in Spain and Portugal, while in the international market, in Latin America, Africa and especially Europe.

In the presentation of geographic information, ordinary income and the assets for the segment are based on the customers' location.

Ordinary income from customers external to the "Pharmaceuticals and healthcare specialties" corresponds in all cases to human use drugs delivered to customers for final use and amount to EUR 366,808 thousand.

The "Animal nutrition and health" segment generates revenue of EUR 60,330 thousand (EUR 56,796 thousand in 2020).

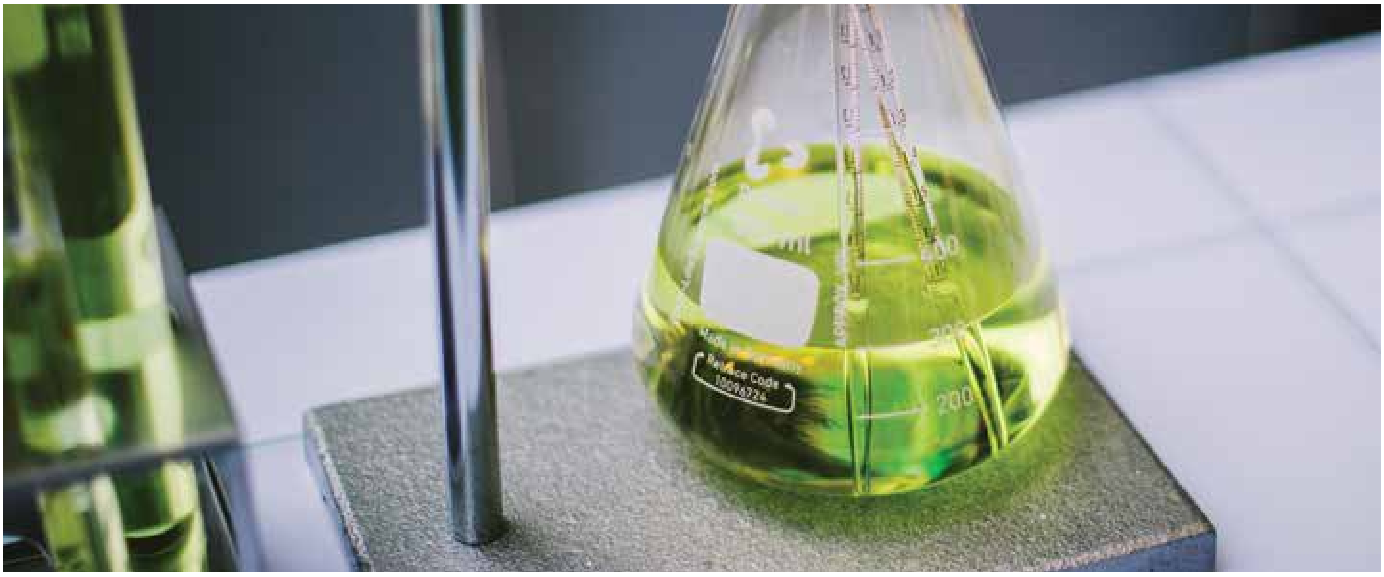
The "Pharmaceutical raw materials" segment generates revenue of EUR 1,419 thousand (EUR 1,800 thousand in 2020).

By market, ordinary income attributable to the country of domicile of the Parent Company amounts to EUR 209.2 million (EUR 205.6 million in 2020), while the amounts attributable to Portugal amount to EUR 27.3 million (EUR 29.2 million in 2020) and the amount attributed to other foreign countries amounts to EUR 162.1 million (EUR 145.4 million in 2020).

In addition, the Group holds non-current assets outside of Spain for a net amount of EUR 19,973 thousand (EUR 23,506 thousand in 2020), which mainly correspond to a subsidiary incorporated in Portugal.

No external customers account for 10% or more of the Group's ordinary income.

There are no transactions among segments and the information used and reviewed in the decision-making process is detailed below:



Thousands of euros

2021				
	Pharmaceuticals and healthcare specialties	Animal nutrition and health	Other segments	Consolidated
Ordinary income to external customers	336,808	60,330	1,419	398,557
Other income	30,039	45	-	30,084
Depreciation	(14,481)	(1,238)	(516)	(16,235)
Impairment and results on disposal of intangible assets	(3,858)	-	-	(3,858)
Financial income	23	-	-	23
Finance costs	(281)	(31)	-	(312)
Profits before tax of the segments	80,657	13,587	(256)	93,988
Income tax expenses	(8,038)	(2,737)	-	(10,775)
Profit for the year	72,619	10,850	(256)	83,213
Assets of the segment	582,042	52,972	6,750	641,764
Deferred tax assets	26,474	-	-	26,474
Liabilities of the segment	88,286	15,156	256	103,698

Thousands of euros

2021			
	Domestic	International	Consolidated
Ordinary income to external customers	307,252	91,305	398,557
Non-current assets of the segment	328,080	19,973	348,053

Thousands of euros

2020				
	Pharmaceuticals and healthcare specialties	Animal nutrition and health	Other segments	Consolidated
Ordinary income to external customers	321,644	56,796	1,800	380,240
Other income	31,182	65	-	31,247
Depreciation	(13,396)	(1,086)	(344)	(14,826)
Impairment of intangibles assets	(5,540)	-	-	(5,540)
Financial income	156	-	-	156
Finance costs	(2,045)	-	-	(2,045)
Profits before tax of the segments	73,044	12,923	(1,085)	84,882
Income tax expenses	(8,985)	(2,521)	-	(11,506)
Profit for the year	64,059	10,402	(1,085)	73,376
Assets of the segment	541,219	31,749	8,549	581,517
Deferred tax assets	28,854	-	-	28,854
Liabilities of the segment	101,013	7,453	174	108,640

Thousands of euros

2020			
	Domestic	International	Consolidated
Ordinary income to external customers	277,793	102,447	380,240
Non-current assets of the segment	268,004	23,506	291,510

26. Business combinations

On 8 March 2021, the Group acquired 100% of the shares of the pharmaceutical laboratory Global Farma, S.A. (Guatemala) for a total consideration of EUR 25 million.

The assets and liabilities recognised as a result of said acquisition were the following:

	Thousands of euros
Cash and cash equivalents	1,344
Intangible assets	584
Property, plant and equipment	5,262
Financial investments	23
Inventories	4,572
Accounts receivable	6,572
Deferred tax assets	678
Accruals	77
Accounts payable	(3,466)
Financial debt	(3,786)
Deferred tax liabilities	(437)
Net assets acquired	**11,423**
Goodwill	13,568
Gross cash disbursed	24,991
Net cash disbursed	**23,647**

In relation to the goodwill generated at 31 December 2021, the Group has not yet completed an assessment to identify and measure the net assets acquired; therefore provisional accounting has been applied.

The acquired business generated an ordinary income of EUR 16,701 thousand and net profits of EUR 2,339 thousand for the Group in the period between 08 March 2021 and 31 December 2021. If the acquisition had occurred on 1 January 2021, the consolidated ordinary income for the year ended 31 December 2021 would have been EUR 19,526 thousand.

On 30 October 2019, the Group acquired 100% of the shares of BCN Medical, S.A., a pharmaceutical firm that specialises in the development and production, both directly and through third parties, of pharmaceutical products and medical devices for human health, paying a total of EUR 12.2 million.

The assets and liabilities recognised as a result of said acquisition were the following:

	Thousands of euros
Cash and cash equivalents	569
Property, plant and equipment	102
Financial investments	8
Inventories	4,124
Accounts receivable	6,466
Investments in Group companies	1,977
Deferred tax assets	17
Accounts payable	(7,856)
Financial debt	(618)
Borrowings from Group companies	(342)
Deferred tax liabilities	(39)
Net assets acquired	**4,408**
Goodwill	**7,791**
	12,199

During 2020, the Group paid an additional amount of EUR 557 thousand (note 5) as additional consideration for the acquisition of BCN Medical, S.A. Consequently, the resulting goodwill, prior to the process to identify and value the net assets acquired, amounted to EUR 8,348 thousand.

In relation to the goodwill generated at the time of said transaction, the Group carried out an evaluation relating to the identification and valuation of the net assets acquired, having identified intangible assets corresponding to brands with an indefinite useful life amounting to EUR 8,816 thousand and a deferred liability associated with the same amounting to EUR 2,116 thousand. The goodwill generated as a result of this allocation process, measured at cost, amounted to EUR 1,648 thousand and corresponds to the excess of the sum of the consideration transferred over the fair value of the assets acquired and liabilities assumed (note 5). At 31 December 2021 and 2020 there is no sign of impairment of this goodwill.

27. Risk Policy and Management

Financial risk factors

The activities of the Group are exposed to several financial risks: credit risks, liquidity risks and market risks (including the exchange rate risk, the interest rate risk and the price risk). The global risk management program is focused on the uncertainty of financial markets and attempts to minimise potential adverse effects on financial returns. The Group assesses the option of taking out derivatives to cover certain risks.

Risk management is controlled by Internal Auditing and by the Corporate Financial Department, in compliance with the Risk Management Policy approved by the Board of Directors. The above departments identify, assess and cover the financial risks identified. The Board of Directors, through the Audit and Compliance Committee, issues policies aimed at managing global risk, as well as specific areas, such as the exchange rate risk, the interest rate risk, the liquidity risk, the use of derivatives and the investment of the liquidity surplus.

a) Credit risk

Credit risk arises, on the one hand, from the balances pending collection that the Group includes in the balance sheet with customer and other receivables. Although the amounts are relatively significant, their due date is very close in time and they correspond to long-standing, controlled customers. On the other hand, there are older outstanding receivables for lower amounts which correspond to Government agencies, which means that collection is fully guaranteed.

The Group has no significant credit risk concentrations with clients because its sales and, hence, payments, are widely distributed among the main domestic and international distributors.

There are internal policies in place to ensure that sales to distributors are made to customers with good credit history, with individual risk analysis conducted and a thorough and frequent follow-up of outstanding balances and credits. Sales to retail clients have very short payment terms, which means that the Group has the capacity to promptly adopt credit restriction measures.

Adjustments for customer insolvency, reviews of individual balances based on customers' credit standing and market trends are subject to thorough regular review.

In the case of exports credit, in addition to the factors described above, the specific component of the country is also considered.

On the other hand, cash operations are only executed with very high credit ratings.

The total amount of the financial assets subject to the credit risk is shown in the Trade receivables and other payables in the assets section of the balance sheet. The amount impaired in this section is very low. Except for the Government payables amount, which is not significant, it is estimated that due balances pending collection will be paid, for the most part, in the first quarter of 2022.

The Group's exposure to overdue or outstanding receivables which have not suffered impairment at 31 December 2021 and 2020 is not significant, in line with figures from previous years.

b) Liquidity risk

The Group adopts a cautious approach to the management of the liquidity risk, mainly based on two goals; in the first place, to maintain sufficient cash to cover short-term payments and, on the other, to have banking financing available by means of credit lines and loans, in the short and long-term, which provide available funds to pay off present and future payables.

The Group currently has a cash position of EUR 70 million (EUR 91 million at year-end 2020). On the other hand, there are no debts with financial institutions, although there is a creditor position for debts with public bodies (refundable advances) for the financing of certain research and development projects.

Although the Group is making significant investments, these are currently being financed by the business's positive cash generation. The company's liquidity projections ensure that it will be able to meet its investment commitments related to the new plants (estimated at between EUR 177 and 187 million), as well as shareholder remuneration payments, without the need for external financing.

Given the expectations of positive cash generation in the future, as well as the opportunities open to the Group to seek market financing for its investments, there are no cash pressures that cannot be covered with the current cash position and/or with financing available on the market.

At the end of 2021 and 2020 there was no bank financing after the cancellation in 2020 of the credit account signed with a major financial institution in the sector.

The exposure of the Group to the liquidity risk at 31 December 2021 and 2020 is as follows. The attached tables reflect the analysis of financial liabilities by remaining due contractual dates:

Thousands of euros

2021					
	0 to 6 months	6 to 12 months	1 to 2 years	2 to 5 years	Total
Other financial liabilities	13,602	2,114	2,317	3,329	21,362
Trade payables and other accounts payable	54,082	-	-	-	54,082
	67,684	**2,114**	**2,317**	**3,329**	**75,444**

Thousands of euros

2020					
	0 to 6 months	6 to 12 months	1 to 2 years	2 to 5 years	Total
Other financial liabilities	10,699	2,112	1,759	3,339	17,909
Trade payables and other accounts payable	59,331	-	-	-	59,331
	70,030	**2,112**	**1,759**	**3,339**	**77,240**

c) Market risk

The Group has exposure to the market risk associated with financial investments since it holds mostly high liquidity and very low risk assets. The purpose of the Group's investment policy is to maximise return on investments, while maintaining an adequate liquidity level and controlled risk.

c.1) Currency risk

The Group operates internationally and is therefore exposed to the currency risk from operations in foreign currency, mainly the Yen, the US dollar, the Colombian peso, the Mexican peso, the Peruvian Sol and the Chilean Peso. The currency risk arises when future commercial transactions, and the recognised assets and liabilities are expressed in a currency other than the Group's functional currency.

The currency risk is low given that, on the one hand, almost all the assets and liabilities are expressed in euros and, on the other, most transactions are conducted in euros.

In 2021 and 2020 no exchange rate hedging transactions have been contracted.

During 2021 and 2020 exports have mainly been in US dollars and they have been produced for a very small percentage of turnover, therefore, exchange rate variations between the euro and any other currency would have a very limited effect on the income statement. On the other hand, Bilastine's business in Japan is invoiced in euros, but with local reference in yen.

As regards imports, no coverage is obtained due to the low volume of purchases made in currencies other than the euro. Similarly, reasonable changes in the exchange rate would result in moderate results in the financial statements.

The Group does not have significant investments in foreign assets in currencies which might be considered a noteworthy potential risk, other than bank balances in US dollars of insignificant sums.

c.2) Interest rate risk

The Group's interest rate risk arises from external resources hired with financial institutions in the short and long term. As mentioned above, no bank financing is available following the cancellation in 2020 of the credit account facility in the amount of 10 million that was not used in that year. In short, there is no risk of upward interest rate changes.

For this reason, the sensitivity of the income statement to interest rate variations is negligible. No significant changes are expected in the coming months, so the interest rate risk is of minimal importance.

c.3) Price risk

The Group is not exposed to the price risk for equity instruments classified as available for sale or at fair value, with changes to profits/losses, as it does not have a trading portfolio. In any case, the policy to be maintained in the future, where appropriate, will be to concentrate investment in listed equity instruments, included in the main stock market indices, in euro currency and with high credit ratings.

d) Fair value estimates

An analysis of the financial instruments measured at fair value is presented below, by valuation method. The different levels have been defined as follows:

- (Unadjusted) quoted prices in active markets for identical assets and liabilities (Level 1).
- Inputs other than the quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. Benchmark prices) or indirectly (i.e. price derivatives) (Level 2).
- Inputs of the asset or liability not based on observable market data (i.e., unobservable input) (Level 3).

The following table shows the Group's assets and liabilities valued at fair value at 31 December 2021:

	Level 1	Level 2	Level 3	Total
Assets/ Liabilities				
Financial assets at fair value with changes in profit/loss	2,289	-	-	2,289
Total Assets/ Liabilities	**2,289**	**-**	**-**	**2,289**

The following table shows the Group's assets and liabilities valued at fair value at 31 December 2020:

	Level 1	Level 2	Level 3	Total
Assets/ Liabilities				
Financial assets at fair value with changes in profit/loss	1,926	-	-	1,926
Total Assets/ Liabilities	**1,926**	**-**	**-**	**1,926**

e) Climate change risk

The Group is assessing how climate risk factors may impact its financial statements, including potential impacts in the following areas:

Non-financial assets: the potential shortened useful economic lives of existing assets have been assessed, e.g. as a result of regulatory changes requiring new production technologies. Climate-related issues may give rise to indications that an asset (or a group of assets) is impaired. For example, a regulatory change that phases out the use of certain facilities.

Costs: a potential impact on production and distribution costs has been assessed as a result of higher input costs (e.g. water, energy, supply chain costs, transport) or increases in insurance premiums in high-risk industries or locations.

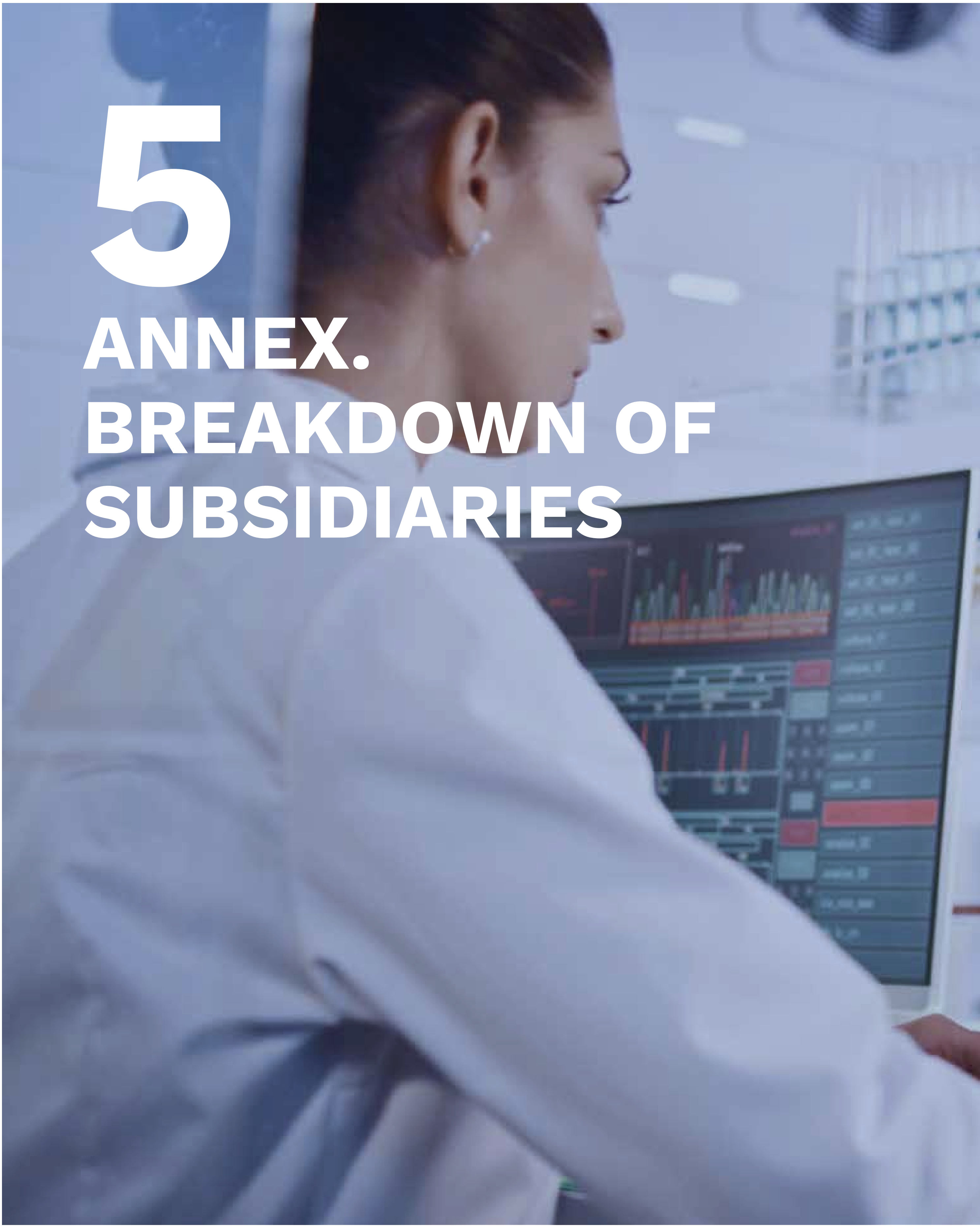
Other: potential climate-related impacts applicable to significant assumptions about future business plans and cash flows and data used to develop accounting estimates and to assess the entity's ability to continue as a going concern have been assessed.

From these assessments, and based on current information, no material impacts on the Group's financial statements have been identified that have not been considered.

28. Events after reporting date

As a result of the completion, in January 2022, of the schedule established for the execution of the capital increase allocated to voluntary reserves instrumenting the flexible dividend approved by the ordinary General Shareholders' Meeting held on 16 June 2021, an issuance of 13,364,619 shares with a par value of EUR 0.10 each is planned, thus increasing the capital by EUR 1,336,461.90. This corresponds to the shareholders who have chosen to subscribe newly issued shares. On the date of preparation of these financial statements, these shares were already trading in the continuous Spanish market. The amount of EUR 7,437 thousand corresponding to the debt with the shareholders who waived the preferential allocation right, was paid in January 2022 (See Notes 10 and 12).

On the other hand, as part of the development of the growth strategy in the Animal Nutrition and Health area (FARM Faes), the Group has announced the construction in Huesca of a manufacturing plant for the production of special feed for piglets, which will enable it to meet the growing offer in this area. A total investment of EUR 17 million is initially estimated. This investment will take place in the newly incorporated subsidiary, ISF by Farm Faes, S.L. (see note 1).



5
ANNEX. BREAKDOWN OF SUBSIDIARIES


set_01_test_01
set_01_test_02
set_02_test_01
culture_t1
culture_t2
culture_t3
zoom_01
zoom_02
zoom_03
analize_01
analize_02
analize_03
report

Breakdown of Subsidiaries at 31 December 2021					
Company name	Company address	Activity	Auditor	Company owning the interests	% interest
Lazlo Internacional, S.A. Sociedad Unipersonal	Vía de los Poblados, 3 – Madrid	Marketing of OTC products	-	Faes Farma, S.A.	100%
Laboratorios Veris, S.A. Sociedad Unipersonal	Vía de los Poblados, 3 – Madrid	Pharmaceutical company	-	Faes Farma, S.A.	100%
Laboratorios Vitoria, S.A.	R. Elías García, 28 – Amadora (Portugal)	Pharmaceutical company	PwC	Faes Farma, S.A.	100%
Olve Farmacéutica, Limitada	R. Elías García, 28 - Amadora (Portugal)	Pharmaceutical company	-	Laboratorios Vitoria, S.A.	100%
Veris Farmacéutica, Limitada	R. Elías García, 28 - Amadora (Portugal)	Pharmaceutical company	-	Laboratorios Vitoria, S.A.	100%
Farmalavi, Pharmaceutical Products, Sociedad Unipersonal Limitada	R. Elías García, 28 - Amadora (Portugal)	Pharmaceutical company	-	Laboratorios Vitoria, S.A.	100%
Ingaso Farm, S.L.U.	P. El Carrascal, 2 Lanciego (Alava)	Animal nutrition and health	PwC	Faes Farma, S.A.	100%
Faes Chile, Salud y Nutrición Limitada	Avenida Las Condes 7700, Oficina 303-A, Santiago – Chile	Distributor	-	Faes Farma, S.A. Ingaso Farm, S.L.U.	6.72% 93.28%
Faes Farma del Ecuador S.A.	Av. Naciones Unidas E2-30, Quito (Ecuador)	Import of drugs	ARMS	Faes Farma, S.A. Ingaso Farm, S.L.U.	99.97% 0.03%
Faes Farma Peru, S.A.C	Calle Los Tulipanes 147, Lima (Peru)	Distributor	-	Faes Farma, S.A. Ingaso Farm, S.L.U.	99,99% 0.01%

This appendix forms an integral part of Notes 1 and 3.1 to the consolidated financial statements.

Breakdown of Subsidiaries at 31 December 2021					
Company name	Company address	Activity	Auditor	Company owning the interests	% interest
Faes Farma Nigeria Limited	Nº 25 D Ladoke Akintola Street, G.R.A. Ikeja Lagos (Nigeria)	Distributor	Grant Thornton	Faes Farma, S.A. Ingaso Farm, S.L.U.	99.89% 0.11%
Faes Farma México, S.A. de C.V.	Av. Prolongación Paseo de la Reforma, 51 Piso 11, Ciudad de México (México)	Pharmaceutical company	-	Faes Farma, S.A. Ingaso Farm S.L.U.	99.98% 0.02%
Colpharma, S.R.L.	Via Mantova, 92 – Parma (Italia)	Distributor	-	Faes Farma, S.A.	51%
Tecnovit, S.L.	Carrer de les Sorts – Alforja (Tarragona)	Animal nutrition and health	PwC	Faes Farma, S.A. Ingaso Farm S.L.U	99.99% 0.01%
Cidosa, S.A.U.	Carrer de les Sorts – Alforja (Tarragona)	Distributor	-	Tecnovit, S.L.	100%
AT Capselos S.L.	Polígono Industrial "Valle del Cinca", Calle C, parcela 41,03, Barbastro (Huesca)	Animal nutrition and health	-	Tecnovit, S.L. Ingaso Farm, S.L.U	82% 18%
Tecnovit RUS	Moscú, ul.Lyublinskaya, D.151, 109341	Animal nutrition and health	-	Tecnovit, S.L.	100%
Faes Farma Colombia, S.A.S.	Av. Carretera 7, 155C, Bogotá (Colombia)	Medicine distributor	PwC	Faes Farma, S.A.	100%
Biosyntec, S.A.	Av. Rodrigo Chávez, 411 y Sexta Peatonal, Urdesa Norte, Quito (Ecuador)	Medicine distributor	-	Faes Farma Colombia, S.A.S.	100%

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Breakdown of Subsidiaries at 31 December 2021					
Company name	Company address	Activity	Auditor	Company owning the interests	% interest
Biosyntec, S.R.L.	Calle Rosendo Gutierrez, Edf. Multicentro Torre B, La Paz (Bolivia)	Medicine distributor	-	Faes Farma Colombia, S.A.S.	100%
Global Farma, S.A.	22 Avenida "b" 0-44 zona 15 vista hermosa II - Guatemala	Pharmaceutical company	PwC	Faes Farma, S.A. Ingaso Farm S.L.U	99.99% 0.01%
ISF by Farm Faes, S.L.	P.I. Valle del Cinca, CL C.	Animal nutrition and health	-	Ingaso Farm, S.L.U. Tecnovit, S.L.	70% 30%

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Breakdown of Subsidiaries at 31 December 2020					
Company name	Company address	Activity	Auditor	Company owning the interests	% interest
Lazlo Internacional, S.A. Sociedad Unipersonal	Vía de los Poblados, 3 – Madrid	Marketing of OTC products	-	Faes Farma, S.A.	100%
Laboratorios Veris, S.A. Sociedad Unipersonal	Vía de los Poblados, 3 – Madrid	Pharmaceutical company	-	Faes Farma, S.A.	100%
Laboratorios Vitoria, S.A.	R. Elías García, 28 – Amadora (Portugal)	Pharmaceutical company	PwC	Faes Farma, S.A.	100%
Olve Farmacéutica, Limitada	R. Elías García, 28 - Amadora (Portugal)	Pharmaceutical company	-	Laboratorios Vitoria, S.A.	100%
Veris Farmacéutica, Limitada	R. Elías García, 28 - Amadora (Portugal)	Pharmaceutical company	-	Laboratorios Vitoria, S.A.	100%
Farmalavi, Pharmaceutical Products, Sociedad Unipersonal Limitada	R. Elías García, 28 - Amadora (Portugal)	Pharmaceutical company	-	Laboratorios Vitoria, S.A.	100%
Ingaso Farm, S.L.U.	P. El Carrascal, 2 Lanciego (Alava)	Animal nutrition and health	PwC	Faes Farma, S.A.	100%
Faes Farma, S.A.S.	Av. Carretera 7, 155 C Bogotá (Colombia)	Distributor	PwC	Faes Farma, S.A.	100%
Faes Chile, Salud y Nutrición Limitada	Avenida Las Condes 7700, Oficina 303-A, Santiago – Chile	Distributor	-	Faes Farma, S.A. Ingaso Farm, S.L.U.	6.72% 93.28%

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Breakdown of Subsidiaries at 31 December 2020					
Company name	Company address	Activity	Auditor	Company owning the interests	% interest
Faes Farma del Ecuador S.A.	Av. Naciones Unidas E2-30, Quito (Ecuador)	Import of drugs	ARMS	Faes Farma, S.A. Ingaso Farm, S.L.U.	99.97% 0.03%
Faes Farma Peru, S.A.C	Calle Los Tulipanes 147, Lima (Peru)	Distributor	-	Faes Farma, S.A. BCN Medical, S.A. Ingaso Farm, S.L.U.	86.11% 13.87% 0.02%
Faes Farma Nigeria Limited	Nº 25 D Ladoke Akintola Street, G.R.A. Ikeja, Lagos (Nigeria)	Distributor	Grant Thornton	Faes Farma, S.A. Ingaso Farm, S.L.U.	99.89% 0.11%
Faes Farma México, S.A.de C.V.	Av. Prolongación Paseo de la Reforma, 51 Piso 11, Ciudad de México (México)	Pharmaceutical company	-	Faes Farma, S.A. Ingaso Farm S.L.U.	99.98% 0.02%
Laboratorios Diafarm, S.A.U.	Avinguda d'Arraona, 119-123 - Barberà del Vallès (Barcelona)	Pharmaceutical company	PwC	Faes Farma, S.A.	100%
Colpharma, S.R.L.	Via Mantova, 92 – Parma (Italia)	Distributor	-	Laboratorios Diafarm, S.A.U	51%
Laboratoire Phyto-Actif, S.A.S.	21, ZI Auguste – Cestas (Francia)	Distributor	PwC	Laboratorios Diafarm, S.A.U.	100%
Tecnovit, S.L.U.	Carrer de les Sorts – Alforja (Tarragona)	Animal nutrition and health	PwC	Faes Farma, S.A.	100%

This appendix forms an integral part of Notes 1 and 3.1 to the consolidated financial statements.

Breakdown of Subsidiaries at 31 December 2020					
Company name	Company address	Activity	Auditor	Company owning the interests	% interest
Cidosa, S.A.U.	Carrer de les Sorts – Alforja (Tarragona)	Distributor	-	Tecnovit, S.L.U.	100%
AT Capselos S.L.	Polígono Industrial "Valle del Cinca", Calle C, parcela 41,03, Barbastro (Huesca)	Animal nutrition and health	-	Tecnovit, S.L.U. Ingaso Farm, S.L.U.	82% 18%
Tecnovit RUS	Moscú, ul.Lyublinskaya, D.151, 109341	Animal nutrition and health	-	Tecnovit, S.L.U.	100%
BCN Medical, S.A.	Av. Carretera 7, 155C, Bogotá (Colombia)	Medicine distributor	PwC	Faes Farma, S.A.	100%
Biosyntec, S.A.	Av. Rodrigo Chávez, 411 y Sexta Peatonal, Urdesa Norte, Quito (Ecuador)	Medicine distributor	-	BCN Medical, S.A. Faes Farma, S.A.S.	99% 1%
Biosyntec, S.R.L.	Calle Rosendo Gutierrez, Edf. Multicentro Torre B, La Paz (Bolivia)	Medicine distributor	-	BCN Medical, S.A. Faes Farma, S.A.S	99% 1%
Biosyntec, S.A.	Avenida El Saman, Edificio Exagon, piso 9, Urb. El Marques	Medicine distributor	-	BCN Medical, S.A.	100%

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6 CONSOLIDATED DIRECTOR'S REPORT

Income Statement

Consolidated profit in 2021 grew by double digits, and in general the income statement shows growth in all its main headings, as shown in the table below:

€ thousands	Dec 2021	% over sales	Dec 2020	% over sales	% Change 2021/2020
Total Income	**428,641**		**411,487**		**4.2%**
Ordinary income / sales	398,557		380,240		4.8%
Other operating income	30,084	7.5%	31,247	8.2%	-3.7%
Cost of sales	-146,160	36.7%	-140,403	36.9%	4.1%
Gross margin	**282,481**	**70.9%**	**271,084**	**71.3%**	**4.2%**
Personnel expenses	-85,033	21.3%	-83,136	21.9%	2.3%
Other operating expenses	-83,537	21.0%	-80,811	21.3%	3.4%
EBITDA	**113,911**	**28.6%**	**107,137**	**28.2%**	**6.3%**
Depreciation and impairment of fixed assets	-19,634	4.9%	-20,366	5.4%	-3.6%
EBIT	**94,277**	**23.7%**	**86,771**	**22.8%**	**8.7%**
Financial profit/ (loss)	-289	-0.1%	-1,889	-0.5%	-84.7%
Profit Before Tax	**93,988**	**23.6%**	**84,882**	**22.3%**	**10.7%**
Corporate tax	-10,775	2.7%	-11,506	3.0%	-6.4%
Profit for the year	**83,213**	**20.9%**	**73,376**	**19.3%**	**13.4%**
Minority interests	-56	0.0%	-827	0.2%	
Consolidated profit	**83,157**	**20.9%**	**72,549**	**19.1%**	**14.6%**

Revenue

The revenue figure for the Faes Farma Group exceeded EUR 398 million in 2021, with 4.8% growth over the year-end 2020 figure. This increase is due to the good performance of certain areas of our business, and in particular to the contribution of sales from the subsidiary acquired in March 2021 in Guatemala, Global Farma, despite the effect of the health crisis, the lockdown...

The trends in each area of activity within the Group are detailed below:

1) FARMA Spain

This area comprises three headings or business lines:

a) Medicines Spain:

This comprises the so-called medical representation products. According to data from the specialised consultant Iqvia, Faes Farma's sales rose by +6.2% in the last twelve months, a figure that is much higher than the overall industry average of +3.5%. The trend is similar in the prescription market, given that Faes Farma grew by +6.3% in 2021, compared to +3.6% for the market overall.

The following products can be highlighted (also according to Iqvia data):

- **Vitamin D**. The positive trends seen in recent years for our molecule (Calcifediol), which operates and is marketed under the Hidroferol brand, continued in 2021. With 31% growth, the important increases seen in sales are consolidated in two-digit percentage rates in the last five years.
- **Hidroferol**. In 2021, Hidroferol was the Group's main product in terms of turnover in Spain. Its success is a reflection of the extensive therapeutic use of this kind of options for compensating the vitamin D deficiency among the population. And because it is a proprietary product manufactured at our facilities, it also offers significant margins.

  In particular, it has shown its positive effect in the fight against Covid 19: several clinical trials have concluded that adequate Vitamin D levels reduce the risk of hospitalisation due to this disease.
- **Diabetes**. MSD's licences for this therapeutic area saw sales decline by -3.2% but revenues exceeded EUR 23 million. Ristfor and Ristaben, taken together and despite the price cut imposed by the Ministry in 2019, rank second in terms of revenues within the Group.
- **Respiratory**. The licence agreed with GSK for marketing three products on the Spanish market contributed more than EUR 10 million in revenues in 2021. This figure is still moderate in quantitative terms but we believe it will continue to grow, gradually increasing its market share, more so after the launch of the triple combination which will improve the treatment of the disease.
- **Bilastine**. This molecule is researched and manufactured internally, and marketed under the Bilaxten name by Faes Farma, becoming the third product in terms of sales volume in Spain for the Group. Turnover of Bilastine exceeded EUR 21 million, down 16.3%, following a very moderate allergy campaign which was especially affected by lockdown and the use of masks, both of which reduce the effect of allergens on the population, but also and especially by the start of generic marketing in June 2021, which means fewer units sold and at a lower price.

  Bilastine also contributes to another important income to the company's profits through agreements with licensees in other geographic markets, as described and explained below.

  For the two brands currently marketed in Spain, this molecule reaches a share of 29.9%, with Bilaxten (Faes Farma's own brand), the best represented, holding 20.9% of that share. Thus, for yet another year, Bilastine remains a significant leader within the antihistamine segment in Spain.

b) Healthcare Spain:

Sales reached EUR 57.8 million, an increase of +3% and meeting budget forecasts. This is a unique business segment, given its differential nature, which requires a specific and highly specialised sales and marketing strategy based on the type of product offered, so it relies on its own management teams.

The pandemic has affected certain products such as Ricola and Alergical, which have seen their falls compensated by the positive evolution of other brands such as Robasixal, ProFaes, Vitanatur, Pankreoflat...

c) Consumer Spain:

In 2021, Laboratorios Diafarm was merged by absorption, which means that this business area encompasses all of the Group's Consumer products in Spain. Despite the impact of the pandemic, this business has increased its sales by +5.5% to over EUR 10.6 million, with its own brands such as Siken and Vitanatur, and the distributed brands Roha, Flores de Bach, performing particularly well.

2) BILASTINE

This proprietary research and production molecule has prompted a relevant change in the Faes Farma Group in terms of its consolidated revenues and profits, which explains why we are devoting a specific section to it.

The expansion of bilastine around the world through numerous licencing agreements is contributing significant growth to the income statement and attractive new prospects for future income as well. It therefore represents an unprecedented success in the Group's history.

As we have indicated in the section on Spain, the exit of generics has reduced their growth rate, but this has not prevented the revenues from licensing contracts from being very significant at the international level.

In 2021, a US licensing agreement was signed with Hikma, which has resulted in USD 3.5 million in net revenues this year and includes double-digit royalties and milestone payments.

Total revenues from all licences reached EUR 66.8 million in 2021, split between raw material sales, royalties and revenues from meeting various milestones. They provide very high margins due to manufacturing and patent control. In 2020, we have experienced declines in API sales in both the European and the Japanese markets due to the stockpiling that both partners carried out the previous year, as well as the effect of the allergy pandemic, where lockdown and the use of masks has significantly reduced the effect of this pathology.

3) PORTUGAL

The termination of certain manufacturing, licensing and distribution contracts led to a 6.1% drop in sales at our subsidiary Laboratorios Vitoria, from EUR 29.4m to EUR 27.6m.

In addition to this impact, as in the rest of Iberia, the reduction of allergies due to lockdown and the use of masks must be added. Bilastine (brand name Bilaxten) has increased its sales slightly in 2021, but less than we would have achieved under business-as-usual health conditions.

Other relevant historical products such as Zyloric, Rosilan, Magnesone, Pankreoflat have maintained revenues compared to the previous year.

On the positive side, vitamin D (Vitodé, equivalent to Hidroferol in Spain) performed well, with a +39.9% growth rate, consolidating the increase already achieved in 2020 (+43.5%).

4) ANIMAL NUTRITION AND HEALTH (FARM Faes).

FARM Faes' annual sales have exceeded EUR 60 million in 2021, with a growth of 6.2% year-on-year, in line with the usual trend in recent years in which sustained and moderate but constant increases have been obtained; it has become a consistent and very profitable business area. In 2020, the increase in sales was +5.9%.

The Group maintains its leadership in the piglet segment, and as a strategic objective we have set ourselves diversification in the pig area as well as in other species, mainly ruminants, poultry and aquaculture.

The Animal Nutrition and Health business is supported by the products manufactured internally at the Group's three plants: Lanciego (Alava) of Ingaso Farm, Alforja (Tarragona) of Tecnovit and Barbastro (Huesca) of AT Capselos, obtaining significant margins and meaningful synergies in production and efficient technical departments, as well as bolstering our competitiveness in a business line in which Faes Farma is a benchmark in terms of quality and market share.

To strengthen this business, the construction of a factory in Huesca for special demedicalised foodstuffs has recently been announced, which will complement our current offer and with which we will achieve a significant quantitative leap in the coming years.

5) INTERNATIONAL

The business generated abroad continued at a swift pace of growth in 2021. Besides the contributions of bilastine described in detail above, we could add the following:

Other licences

In addition to the highly successful business undertaken with bilastine, the company continued to strive to expand its agreements relating to other molecules in our portfolio, which is mature, effective and financially viable, thus enabling us to close other licencing agreements. In 2021, the revenue volume has exceeded EUR 12 million, an increase of 37.9% over 2020, which is on top of the 51% increase in 2020 compared to 2019. This is a highly relevant figure, considering the short lifespan and the hurdles involved in gaining approval from the health authorities. In this regard, Deflazacort in the United States, Calcifediol in Italy and Mesalazine in Europe are especially noteworthy.

Direct exports

Spain bills exports to all continents, particularly Latin America, a region where Faes Farma traditionally began its operations abroad, and Africa, where the Group has been working for years now and has become a benchmark. They exceed EUR 29 million in terms of sales and have grown by 15.2% compared to 2020. Very positive growth under particularly adverse conditions due to the pandemic.

The positive trend in the figures for 2021 is particularly relevant in light of the complexity of this industry caused by the disparity in the markets in which Faes Farma works, the requirements by local authorities, competition with multinationals and the competition posed by domestic laboratories.

International Subsidiaries

- Healthcare International. In Europe, the Group is directly represented in Italy through its subsidiary Colpharma. The 2020 financial year achieved a very significant turnover due to the pandemic, as the type of product was in great demand at the time (thermometers, blood pressure monitors, etc.).

  Once this temporary effect has passed, the subsidiary has returned to its budgeted and pre-Covid revenue figures, ending 2021 with sales of close to EUR 9m.
- Subsidiaries in Mexico, Guatemala, Colombia, Ecuador, Peru, Chile, Bolivia and Nigeria. With a direct presence in these countries through the historical subsidiaries and those acquired in 2019 and 2021, the BCN Medical Group and Global Farma, respectively. In total, sales will amount to more than EUR 59 million (EUR 35 million in 2020), with a growth of +68%, strongly influenced by the incorporation of the subsidiary acquired in Guatemala, Global Farma, into the Group from March 2021, which represents EUR 16.7 million. Without this contribution, turnover growth in the subsidiaries would have exceeded +20%, consolidating the good growth achieved in recent years.

As in the area of direct exports, we face complex regulations, high local and multinational competition, highly differentiated country characteristics and a significant number of difficulties, despite which business in the subsidiaries is developing at a good pace, with prospects of maintaining similar increases in the coming years.

Our international subsidiaries have a clear organic growth bias, a policy that will continue with the recently acquired subsidiaries. They were established with this goal and are strongly committed to long-term business with clear potential for development and positioning in the medium and long term. This strategy is not without its difficulties, but we are certain that it will harvest good results, as indicated by the figures achieved up to now.

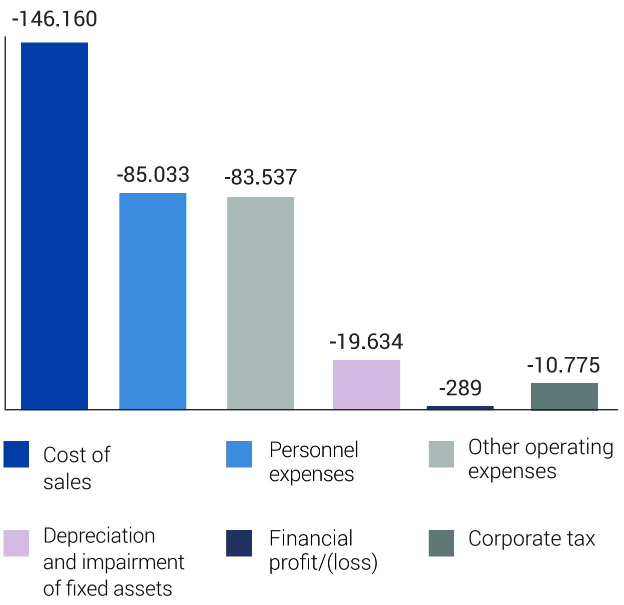
Costs and margins

The Faes Farma Group's sales exceeded EUR 398 million, +4.8% above the previous year (EUR 380 million in 2020), good growth in a turbulent year due to the pandemic, promotional restrictions, the drop in sales of consumer-related products and the reduction in allergy growth.

Other operating revenues exceeded EUR 30 million, very similar to the previous year, with the signing of the Bilastine licence in the United States being the main milestone of the year, in addition to the recurrence of royalty revenues from other contracts signed for Bilastine, Deflazacort, Mesalazine...

The containment of the cost of sales leaves this item at 36.7% of sales, very similar to the previous year, allowing us to achieve a gross margin growth of +4.2%, to reach more than EUR 282 million, with a sales margin of 70.9%.

The following graph shows the distribution, in thousands of euros, of expenses, with the main weight being consumption, followed by the other two large items, human resources and other operating expenses:



EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortisation) stands at almost EUR 114 million, 6.3% higher than last year. This figure, which represents a margin of 28.6% on sales, exceeds the EUR 6.7 million absolute growth over 2020.

The Group's depreciation and impairment charges amounted to EUR 19.6 million, similar to the amount recorded in 2020.

Lower impairment losses on intangible assets were recorded this year, an effect offset by the depreciations contributed by Global Farma and investments in recent months.

Therefore, with this effect, **EBIT (earnings before interest and taxes) grew by +8.7% to more than EUR 94.2 million**, with a margin of 23.7% on sales, 7.5 million more than in 2020 (EUR 86.8 million, 22.8% on sales)

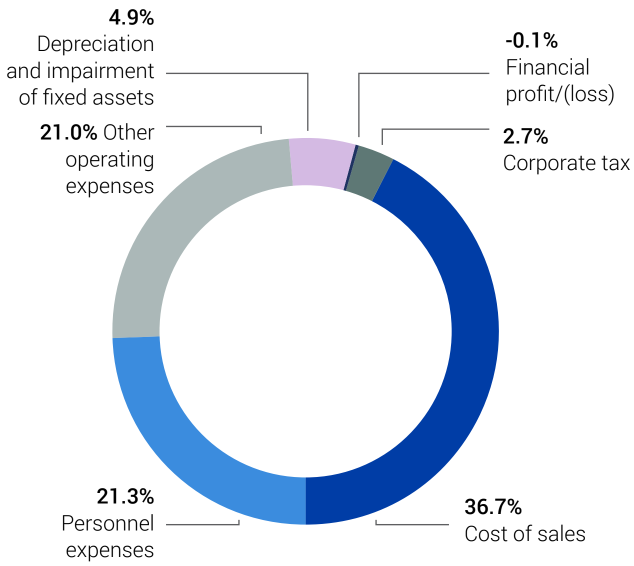
The financial result compared to the previous year is very positive as there are no exchange rate differences as was the case in 2020 and therefore hardly any effect this year.

As a result, **Profit before tax (EBIT) is close to EUR 94 million (+10.7%), 23.6% of sales**, more than EUR 9 million above the 2020 EBIT (EUR 84.9 million, 22.3% of sales)

Corporate income tax is 11.4% of EBIT, an improvement on 2020 due to the increase in deductions for investments in fixed assets and, mainly, for R&D&I activity.

In short, **Consolidated Net Profit reached, for the seventh consecutive year, a record figure of EUR 83.2 million, +13.4% over 2020 and a margin of 20.9% on sales (EUR 73.4 million in 2020 with 19.3% on sales)**

As a final summary to this section, the breakdown of costs in terms of percentages of revenues is shown below:

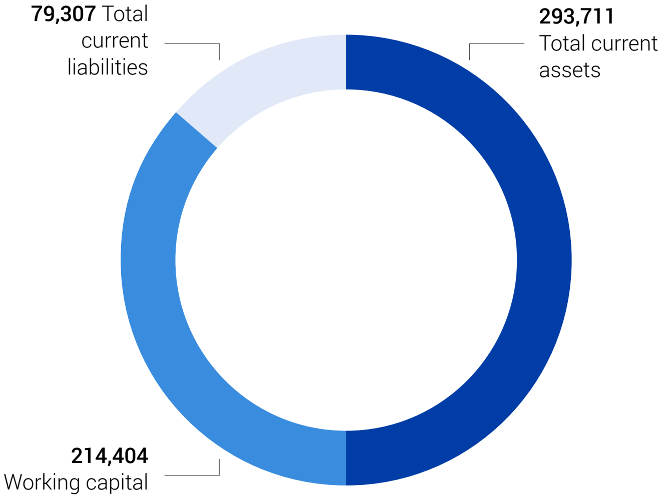


Balance sheet

As is traditionally the case, the Group's balance sheet is very consistent, evidence of a very healthy situation, strong equity and a significant amount of liquidity.

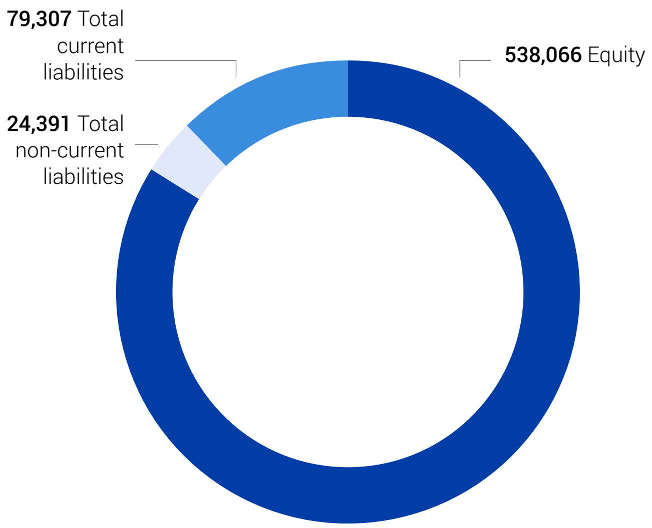
€ thousands	December 2021	% over total	December 2020	% over total
Tangible fixed assets and real estate investments	141,178	22.0%	96,795	16.6%
Intangible assets	179,411	28.0%	165,523	28.5%
Other non-current assets	27,464	4.3%	29,192	5.0%
Total non-current assets	**348,053**	**54.2%**	**291,510**	**50.1%**
Inventories	107,451	16.7%	91,591	15.8%
Trade receivables	112,852	17.6%	105,280	18.1%
Other current assets	3,154	0.5%	1,926	0.3%
Cash and cash equivalents	70,254	10.9%	91,210	15.7%
Total current assets	**293,711**	**45.8%**	**290,007**	**49.9%**
Total Assets	**641,764**	**100.0%**	**581,517**	**100.0%**
Equity	**538,066**	**83.8%**	**472,877**	**81.3%**
Long-term bank borrowing	0	0.0%	0	0.0%
Other non-current liabilities	24,391	3.8%	23,955	4.1%
Total non-current liabilities	**24,391**	**3.8%**	**23,955**	**4.1%**
Other financial liabilities	15,716	2.4%	12,811	2.2%
Trade payables	54,082	8.4%	59,331	10.2%
Provisions and tax liabilities	9,509	1.5%	12,543	2.2%
Total current liabilities	**79,307**	**12.4%**	**84,685**	**14.6%**
Total equity and liabilities	**641,764**	**100.0%**	**581,517**	**100.0%**

In 2021, organic and inorganic investments have been very relevant, leading to a reduction of liquidity. Firstly, investment in industrial plants as a recurring strategy of the Group, also the disbursements for the first milestones of the new pharmaceutical plant in Derio (Vizcaya), including the purchase of the land, its preparation and the start of construction of the building; and thirdly, the purchase of Global Farma in Guatemala. The latter has its own plant in the country, which represents a significant increase in various balance sheet items (non-current assets, inventories, customers, trade debts, etc.)



The Group's working capital has exceeded EUR 214 million (EUR 205 million in 2020) as a result of the good performance of the working capital, the level of revenues, the growth in profit and the degree of acceptance of the flexible dividend in its new share subscription formula, despite the above-mentioned level of investment.

In short, the Group demonstrates its ability to generate liquidity well above the commitments required by investments and dividends.



We would also highlight the strength of our balance sheet, with equity exceeding 83.8% of assets, internal financing for our business, no net financial or bank debt, and current liabilities barely exceeding 12% of total assets and 27% of current assets.

Financial position

After the repayment of the bank financing in 2019, we had a significant increase in liquidity in 2020, a trend that has been reversed in 2021 for two main reasons: the acquisition of the subsidiary in Guatemala, Global Farma, and the start of construction of the new pharmaceutical plant. At the end of 2021 we have bank balances in excess of EUR 70 million (compared to EUR 91 million in the previous year)

Even with this significant reduction in liquidity, we still have the resources to continue, without the need for debt, with the three main investment channels set out in the Group's Strategic Plan: (i) organic investments in production and technical plants, (ii) recurring R&D&i in the development of the portfolio, and (iii) inorganic investments like the ones undertaken in October 2019 to purchase the BCN Medical Group in Colombia, and the one signed in March 2021 to for the aforementioned acquisition in Guatemala.

In addition, Faes Farma holds 1.5% of its share capital in treasury stock, a stake with a market value of almost EUR 16 million at 31 December 2021.

Covid19

After almost two years of pandemic, we find ourselves at the end of 2021 with a new wave caused by the Omicron variant, which forces us to maintain safety and hygiene measures, and which sets us back in the process of de-escalation and return to normality.

In terms of the main aspects affecting our business, there have been no major variations with respect to the situation in previous months.

Financial position. We maintain a solid financial position that has allowed us to tackle the year's investments, especially the new pharmaceutical plant, an investment that has led to the aforementioned reduction in liquidity, but without the need for bank debt and even reducing the level of indebtedness to third parties.

Corporate Social Responsibility. We continue our commitment to the main groups affected: workers, healthcare workers, customers, patients, etc., for whom measures have been taken to help combat the virus, such as teleworking, while maintaining business as usual in the factories and in logistics distribution.

Business. We are almost back to full normality in our sales, with the exception of the products closest to Consumer Products, e.g. Ricola, the line most affected by the restrictive mobility measures.

Research, Development and Innovation activity. There has been no material impact on this activity, with the drug approval processes in the regulatory phase continuing and with the development plans for the new portfolio. However, there has been some delay in the implementation schedules of innovation projects.

Sales and income statement. Without very relevant effects, although there has not been a situation of normality in terms of medical visits, congresses, promotion...

Lockdown, the use of masks... affected the allergy campaign in 2020 and this is also the case in 2021.

Shareholder remuneration

The most relevant issues to be highlighted from 2021 are:

Flexible dividend 2020. Payment of 0.167 euros per share on 4 January 2021 to those shareholders who opted for cash payment. The dividend per share was 17.6% higher than the same dividend paid the preceding year.

Supplementary dividend 2020. Paid from 25 June 2021 for a gross amount per share of 0.03 euros, which is 15.4% more than the previous year.

In total the sum of both concepts totals 0.197 euros per share, 17.3% more than the remuneration paid from the previous year.

Flexible dividend 2021. Approval at the General Meeting of Shareholders held on 16 June 2021 of a new flexible dividend, resolution ratified by the Board of Directors on 25 November. An amount of 0.171 euros per share for those shareholders who opted for a cash payment, dividend paid on 3 January 2022. Exchange of one new share for every 19 old shares for those who opted to subscribe for new shares.

Main risks related to business activity

The Group's objectives include identifying risks that could affect its business, implementing adequate controls and adopting corrective measures to eliminate or at least mitigate their effects. Whenever deemed necessary, insurance policies are taken out and, in all cases, risks that are not covered but pose or could pose a threat are analysed. Risk management is supervised by the Audit and Compliance Committee, whose analyses are based on the Risk Map. One of the responsibilities of the Internal Auditing department is to coordinate and manage the risk policy.

The main risks analysed are detailed below.

1. Business environment

The risks linked to external factors unrelated to management of Faes Farma that could have a significant direct or indirect influence on the achievement of our objectives and application of strategies are:

a) Risk of competition

The pharmaceutical market is highly competitive and the Group competes with major multinationals, domestic companies and firms specialising in generics.

New products, technical advances, innovative active substances, the launch of generics and competitors' pricing policies could affect the Group's results.

Concentration in the sector could negatively affect Faes Farma's competitive position, and customer concentration could affect prices and margins.

When it comes to patents, once the current patents in use expire, they will have to compete with the aggressive generic market. This could lead to a loss of some revenues and margins for the affected products.

In addition, the legal protection of patents is not properly covered in certain countries. Governments facilitate the entry of generic competitors, sometimes in breach of the valid dates.

Diversification is our main strategy for mitigating these risks.

b) Governmental price control

The prices of pharmaceutical products are highly regulated in most countries, and this is certainly true in Spain and Portugal, the Group's main markets. In recent years, significant and wide-ranging price reduction schemes have been applied.

In addition, the measures adopted by the Administration to reduce health spending repeatedly apply to the same issues: charging fees on the volume sold to the National Health System, discounts, underfunding of medications, reference prices and approval of generics.

The Group mitigates these effects by fostering diversification towards products and businesses that are not funded through the public budget and through internationalisation towards more open markets.

c) Regulatory controls

All aspects of pharmaceutical products are highly regulated: research, clinical trials, approval of the health registration, production, sales, promotion, logistics, pharmacovigilance, quality control, etc. This affects not only the cost of the product and its administration but also, quite particularly, the amount of time needed for a new drug to be completely launched on the market, thus also significantly affecting its chances for success.

These controls and execution thereof could prompt certain products to be taken off the market.

In turn, environmental laws demand compliance with regulations, and breaches thereof could lead to fines being imposed or production plants being shut down.

The Group works in diverse ways to avoid these risks, but the main way is by understanding and strictly complying with the rules and appointing highly qualified employees to carry out controls and make any appropriate improvements.

d) Shareholders

As a listed company, there is a risk that stock prices could be jeopardised for some reason, leading to a loss of trust in its shares. For this reason, special emphasis is placed on the relationships with and information provided to investors and analysts.

e) Customers

Concentrating sales on an increasingly limited number of distributors could lead to a risk of pressure to lower prices. In the pharmaceutical sector, prices are set by the Ministry of Health, except for non-prescription products, so this risk is deemed relatively unlikely.

This concentration could also affect the credit risk of each individual customer.

If we also consider the patients to whom our medications are prescribed as customers, there is an important risk in the pharmaceutical sector of harmful effects of consuming medications. As required by law, we have a pharmacovigilance department that ensures that we comply with regulations in this area and that we have third-party liability insurance.

In addition, the Group Companies are in charge of transporting the products sold to our customers, and they accept the risk of accidents, with the subsequent potential loss of the cargo, to which end they have insurance policies that cover transportation.

f) Suppliers

In many relevant areas of our business, such as the supply of raw materials, packaging material, equipment, manufacturing or storage, we depend on the work done by our suppliers.

Sometimes a concentration of suppliers increases our exposure to this risk.

We mitigate this risk by diversifying our most important supplies among several suppliers.

g) Communication

The Faes Farma Group communicates in numerous ways with its customers, shareholders and investors, and other stakeholders. We strive to ensure that our communication policy is appropriate so that it is not erroneous or misinterpreted, that it complies with regulations and that, as a result, our image is not damaged.

h) Employees

Employees are obviously an essential part of the Group and pose a risk that is not easy to deal with. Loss of highly qualified employees would be detrimental to productivity and lead to a loss of knowledge. To mitigate this risk, a motivational remuneration policy is applied.

In addition, strict accident prevention policies are in place at the Group's industrial plants and all legislation in this regard is complied with.

i) Property, plant and equipment

Our production plants and warehouses could be subject to accidents of diverse natures (fires, flooding, etc.), which would halt production.

Likewise, less relevant events might occur, such as machinery breakdowns, which could have similar effects, but for a more limited period of time.

Stringent maintenance plans reduce this risk to a minimum, while insurance policies cover unexpected damage and the resulting loss of profits.

2. Operational

a) Production and distribution

Manufacturing pharmaceutical products and the related raw materials is a technically complex process that calls for very strict compliance with regulations passed by domestic and European health authorities. A breach of these regulations could give rise to issues in the authorisation of the production plant. By hiring qualified staff and strictly complying with regulations we prevent this risk from becoming relevant.

b) Marketing and sales

When patents on products expire, their sales potential is reduced because they must compete with generic products that are considerably lower in price. Therefore, our sales strategy focuses on diversification and internationalisation towards markets with less strict price regulations.

c) Product research and development

The degree of confidence in research projects underway varies depending on the project phase, with a high rate of success expected in advanced clinical phases, but at no time is the project feasibility completely assured.

The clinical phase involving human testing poses a risk related to the test being conducted.

d) Laws and regulations

Significant changes in legislation that could take place in the future might pose a risk related not only to issues such as the manufacturing of our products or sales (prices, distribution channels, etc.) but also to a range of other corporate areas.

e) Licences granted by other pharmaceutical companies

Faes Farma holds several licences granted by other pharmaceutical companies, which represent a significant percentage of its sales. These licences are outlined in contracts that are valid for a limited period of time and contain renewal clauses. Therefore, there is a risk that, upon expiry, the firm granting the licence could decide not to extend the contract period.

f) Licences granted to other pharmaceutical companies

Licence agreements have been concluded with leading firms on various products in diverse countries. In some cases, advance payments are received that must not be refunded if the commercialisation is not successful in the end, but in cases in which it is necessary to refund the advance payment if commercialisation fails, the company does not count these funds as income until the relevant milestone that generates definite income has been reached.

In addition, before the pharmaceutical registration of these licences is completed and commercialisation is authorised in the relevant countries, it is possible that these contracts might be terminated, rendering the estimated budget forecasts invalid.

3. Information

a) Systems

The information and systems used by the Group are of extraordinary importance. Therefore, Faes Farma and its subsidiaries take every measure required to ensure that the activity of its systems is not interrupted for any longer than acceptable.

b) Information management

Management and the Board of Faes Farma use privileged information about the Group's circumstances, which is necessary for decision-making. To ensure that the data provided to them do not contain errors, internal auditing procedures are applied for verification.

4. Financial risks

A note is contained in the report, detailing this risk in depth.

Average period of payment to suppliers

The information on the average period of payment to suppliers for years 2021 and 2020 is as follows:

	Days	
	2021	2020
Average period of payment to suppliers	33.84	48.41
Ratio of paid transactions	34.35	49.73
Ratio of outstanding transactions	28.20	37.94
	Thousands of euros	
	2021	2020
Total payments made	160,457	160,187
Total payments payable	14,648	20,150

Treasury shares of the Parent Company

The Company did not acquire any treasury shares during the financial year 2021, but did subscribe for the shares corresponding to the flexible dividend.

Events after the reporting date

As a result of the completion, in January 2022, of the schedule established for the execution of the capital increase allocated to voluntary reserves instrumenting the flexible dividend approved by the ordinary General Shareholders' Meeting held on 16 June 2021, an issuance of 13,364,619 shares with a nominal value of EUR 0.10 each is planned, thus increasing the capital by EUR 1,336,461.9. This corresponds to the shareholders who have chosen to subscribe newly issued shares. On the date of preparation of these financial statements, these shares were already trading in the continuous Spanish market. The amount of EUR 7,437 thousand corresponding to the debt with the shareholders who waived the preferential allocation right, was paid in January 2022.

On 15 February 2022, the Group informed the CNMV that, as part of the development of its growth strategy in the area of Animal Nutrition and Health (FARM Faes), a plant will be built in Huesca to manufacture special feed for piglets, in order to meet the growing offer in this area.

Annual Corporate Governance Report, Annual Remuneration Report and Statement of Non-financial Information

The Board of Directors of Faes Farma, S.A. approved the Annual Corporate Governance Report for 2021 on 23 February 2022, which is attached hereinbelow as Annex I to this consolidated directors' report. It is also available on the Company's website (www.faesfarma.com) and on the CNMV [Spanish National Securities Market Commission] website (www.cnmv.es).

Likewise, at the same meeting, the Board of Directors formulated the "Statement of Non-Financial Information", as part of the Consolidated Financial Statements, which is included as Annex III to the consolidated management report and is available on the Company's website (www.faesfarma.com) and on the CNMV website (www.cnmv.es).

FAES FARMA