

**Corporación Dermoestética,  
S.A. and Companies  
composing the Corporación  
Dermoestética Group**

Consolidated Financial Statements for the year ended 31 December 2007, prepared in accordance with International Financial Reporting Standards as adopted by the European Union (EU-IFRSs) and Directors' Report, together with Independent Auditors' Report

*Translation of a report originally issued in Spanish based on our work performed in accordance with generally accepted auditing standards in Spain and of consolidated financial statements originally issued in Spanish and prepared in accordance with IFRSs as adopted by the European Union (see Notes 3 and 34). In the event of a discrepancy, the Spanish-language version prevails.*

*Translation of a report originally issued in Spanish based on our work performed in accordance with generally accepted auditing standards in Spain and of consolidated financial statements originally issued in Spanish and prepared in accordance with IFRSs as adopted by the European Union (see Notes 3 and 34). In the event of a discrepancy, the Spanish-language version prevails.*

## AUDITORS' REPORT ON CONSOLIDATED FINANCIAL STATEMENTS

To the Shareholders of  
Corporación Dermoestética, S.A.:

1. We have audited the consolidated financial statements of CORPORACIÓN DERMOESTÉTICA, S.A. (the Parent) and Subsidiaries (the Group) comprising the consolidated balance sheet at 31 December 2007 and the related consolidated income statement, consolidated cash flow statement, consolidated statement of changes in equity and notes to the consolidated financial statements for the year then ended. The preparation of these consolidated financial statements is the responsibility of the Parent's directors. Our responsibility is to express an opinion on the consolidated financial statements taken as a whole based on our audit work performed in accordance with generally accepted auditing standards in Spain, which require examination, by means of selective tests, of the evidence supporting the consolidated financial statements and evaluation of their presentation, of the accounting policies applied and of the estimates made.
2. As required by Spanish corporate and commercial law, for comparison purposes the Parent's directors present, in addition to the consolidated figures for 2007 for each item in the consolidated balance sheet, consolidated income statement, consolidated cash flow statement, consolidated statement of changes in equity and notes to the consolidated financial statements, the figures for 2006. The figures for 2006 differ from those in the approved consolidated financial statements for that year, as described in paragraph 3 below. Our opinion refers only to the consolidated financial statements for 2007. On 28 March 2007, we issued our auditors' report on the 2006 consolidated financial statements, in which we expressed an opinion qualified for a matter closely related to that described in paragraph 4 below.
3. In February 2008 the Parent formalised with 3i Group Plc. the sale of its 100% holding in the share capital of its subsidiary Ultralase Limited. The selling price established amounted to GBP 174.5 million (approximately EUR 235 million). In accordance with the estimates made by the Parent, the pre-tax gain arising from the disposal of its subsidiary will amount to approximately EUR 187 million and will be recognised in the consolidated income statement for 2008. As indicated in Notes 1 and 12 to the accompanying consolidated financial statements, the figures relating to the income statement and cash flow statement for 2006 presented in the accompanying consolidated financial statements for 2007 differ from those contained in the consolidated financial statements for 2006 approved by the shareholders at the Annual General Meeting, mainly as a result of the fact that the investment in Ultralase Limited was deemed to be a discontinued operation and, as required by International Financial Reporting Standard 5, the consolidated income statement and consolidated cash flow statement must present comparative figures for all the prior years reported in the consolidated financial statements. Consideration of the investment in Ultralase Limited as a discontinued operation arose as a result of the agreement entered into in December 2007 by the Parent with 3i Group Plc. for the sale to latter of the Parent's holding in Ultralase Limited. The above-mentioned notes include a summary of the transactions carried out in 2007 and the transactions not yet formalised in relation to the aforementioned sale agreement, in addition to their impact on the accompanying consolidated financial statements.

4. As indicated in Note 1 to the consolidated financial statements, the subsidiaries incorporated in Italy have incurred significant losses in recent years that have had a negative impact on the Group's consolidated results and its financial and equity position at 31 December 2007, as reflected in the accompanying consolidated financial statements. Considering this circumstance, and the funds obtained by the Group as a result of the sale of Ultralase Limited described in paragraph 3 above, the Group has redefined its operations in the international markets. In this context, on 9 March 2008, the Parent's directors resolved to perform an orderly liquidation of its subsidiaries in Italy. Per the Parent's directors' estimates, the cost of liquidation not yet incurred at 31 December 2007 amounted to approximately EUR 8.6 million (see Note 33 to the consolidated financial statements). This cost will be recognised with a charge to the consolidated income statement for 2008, since this is the year in which the liquidation plan was established and formally approved by the directors. However, the total cost that will ultimately arise for the Group from the aforementioned liquidation of its Italian subsidiaries will depend on the performance and evolution of the liquidation process.
5. In our opinion, except for the effects of any adjustment which might be necessary if the final outcome of the uncertainty described in paragraph 4 above were known, the accompanying consolidated financial statements for 2007 present fairly, in all material respects, the consolidated equity and consolidated financial position of Corporación Dermoestética, S.A. and Subsidiaries at 31 December 2007 and the consolidated results of their operations, their consolidated cash flows and the changes in the consolidated equity for the year then ended, and contain the required information, sufficient for their proper interpretation and comprehension, in conformity with International Financial Reporting Standards as adopted by the European Union applied on a basis consistent with that used in preparing the preceding year figures presented for comparison purposes.
6. The accompanying consolidated directors' report for 2007 contains the explanations which the Parent's directors consider appropriate about the Group's situation, the evolution of its business and other matters, but is not an integral part of the consolidated financial statements. We have checked that the accounting information in the consolidated directors' report is consistent with that contained in the consolidated financial statements for 2007. Our work as auditors was confined to checking the consolidated directors' report with the aforementioned scope, and did not include a review of any information other than that drawn from the accounting records of Corporación Dermoestética, S.A. and Subsidiaries.

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

Luis Caruana  
4 April 2008

Translation of consolidated financial statements originally issued in Spanish and prepared in accordance with IFRSs as adopted by the European Union (see Notes 3 and 34). In the event of a discrepancy, the Spanish-language version prevails.

**CORPORACIÓN DERMOESTÉTICA, S.A. AND COMPANIES  
COMPOSING THE CORPORACIÓN DERMOESTÉTICA GROUP**

**CONSOLIDATED BALANCE SHEETS AT 31 DECEMBER 2007 AND 2006**

(Thousands of Euros)

<b>ASSETS</b>	<b>Note</b>	<b>2007</b>	<b>2006</b>
<b>NON-CURRENT ASSETS:</b>			
Intangible assets		<b>166</b>	<b>37,784</b>
Goodwill, net	<b>5</b>	-	16,601
Other intangible assets, net	<b>6</b>	166	21,183
Property, plant and equipment		<b>20,517</b>	<b>44,229</b>
Buildings	<b>7</b>	25,269	34,648
Plant and machinery	<b>7</b>	26,325	41,472
Other fixtures, tools and furniture	<b>7</b>	4,980	8,719
Other items of property, plant and equipment	<b>7</b>	3,158	2,708
Accumulated depreciation	<b>7</b>	(30,697)	(42,025)
Provisions	<b>7</b>	(8,518)	(1,293)
Other non-current assets		<b>12,605</b>	<b>6,404</b>
Investments accounted for using the equity method	<b>9</b>	103	-
Held-to-maturity investments	<b>9</b>	1,013	1,141
Available-for-sale financial assets	<b>9</b>	1,133	-
Deferred tax assets	<b>25.3</b>	10,356	5,263
<b>Total non-current assets</b>		<b>33,288</b>	<b>88,417</b>
<b>CURRENT ASSETS:</b>			
Inventories	<b>10</b>	4,631	5,239
Current financial assets		<b>3,764</b>	<b>14,930</b>
Cash and cash equivalents	<b>11</b>	2,813	12,616
Trade and other receivables	<b>11</b>	951	2,314
Other current assets	<b>11</b>	2,511	6,103
<b>Total current assets</b>		<b>10,906</b>	<b>26,272</b>
<b>ASSETS CLASSIFIED AS HELD FOR SALE</b>	<b>12</b>	58,552	-
<b>TOTAL ASSETS</b>		<b>102,746</b>	<b>114,689</b>
<b>EQUITY:</b>			
Share capital	<b>13.1</b>	3,989	3,989
Share premium	<b>13.2</b>	12,401	12,401
Reserves	<b>13.3</b>	9,565	8,833
Profit/Loss for the year attributable to the Parent	<b>24</b>	(819)	732
Translation differences	<b>13.4</b>	(3,508)	236
Less: Shares of the Parent	<b>13.5</b>	(3,536)	(720)
Minority interests	<b>13.6</b>	93	-
<b>Total equity</b>		<b>18,185</b>	<b>25,471</b>
<b>NON-CURRENT LIABILITIES:</b>			
Deferred payments	<b>18</b>	475	1,221
Bank borrowings and other financial liabilities	<b>15</b>	27,367	33,889
Long-term provisions	<b>14</b>	3,440	5,516
Deposits and guarantees received	-	93	75
Deferred tax liabilities	<b>25.3</b>	1,732	5,193
Other financial liabilities	-	154	154
<b>Total non-current liabilities</b>		<b>33,261</b>	<b>46,048</b>
<b>CURRENT LIABILITIES:</b>			
Advances received from customers	<b>17</b>	17,925	19,045
Trade payables	<b>17</b>	8,546	11,464
Bank borrowings and other financial liabilities	<b>15</b>	8,322	6,265
Other current liabilities	<b>17</b>	2,390	6,146
Non-current asset suppliers	-	351	250
<b>Total current liabilities</b>		<b>37,534</b>	<b>43,170</b>
<b>LIABILITIES ASSOCIATED WITH ASSETS CLASSIFIED AS HELD FOR SALE</b>	<b>12</b>	13,766	-
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>102,746</b>	<b>114,689</b>

The accompanying Notes 1 to 34 are an integral part of the consolidated balance sheet.

Translation of consolidated financial statements originally issued in Spanish and prepared in accordance with IFRSs as adopted by the European Union (see Notes 3 and 34). In the event of a discrepancy, the Spanish-language version prevails.

**CORPORACIÓN DERMOESTÉTICA, S.A. AND COMPANIES  
COMPOSING THE CORPORACIÓN DERMOESTÉTICA GROUP**

**CONSOLIDATED INCOME STATEMENT**  
**FOR THE YEARS ENDED 31 DECEMBER 2007 AND 2006**

(Thousands of Euros)

	Note	(Debit) Credit	
		2007	2006
<b>Continuing operations:</b>			
Revenue	19	86,468	85,908
Procurements	21.1	(22,566)	(19,338)
Other operating income	19	895	938
Other operating expenses	21.4	(40,880)	(37,850)
Staff costs	21.2	(21,068)	(22,144)
Depreciation and amortisation charge	6 y 7	(5,171)	(5,181)
Impairment losses	7	(8,518)	(1,293)
Other expenses	25.1	-	(1,800)
<b>Loss from operations</b>		<b>(10,840)</b>	<b>(760)</b>
Finance income	22	67	257
Finance costs	23	(1,977)	(1,221)
<b>Loss before tax</b>		<b>(12,750)</b>	<b>(1,724)</b>
Income tax	25.2	5,639	871
<b>Profit for the year from continuing operations</b>		<b>(7,111)</b>	<b>(853)</b>
<b>Discontinued operations:</b>			
Profit for the year from discontinued operations	12	6,249	1,585
<b>PROFIT/LOSS FOR THE YEAR</b>		<b>(862)</b>	<b>732</b>
Attributable to:			
Minority interests	13.6	(43)	-
Shareholders of the Parent		(819)	732
<b>Earnings per share (euros):</b>			
From continuing operations			
Basic	27	(0.180)	(0.021)
Diluted	27	(0.180)	(0.021)
From continuing and discontinued operations			
Basic	27	(0.022)	0.018
Diluted	27	(0.022)	0.018

The accompanying Notes 1 to 34 are an integral part of the consolidated income statement.

Translation of consolidated financial statements originally issued in Spanish and prepared in accordance with IFRSs as adopted by the European Union (see Notes 3 and 34).  
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## CORPORACIÓN DERMOESTÉTICA, S.A. AND COMPANIES COMPOSING THE CORPORACIÓN DERMOESTÉTICA GROUP

### CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY FOR THE YEARS ENDED 31 DECEMBER 2007 AND 2006

(Thousands of Euros)

	Share Capital	Share Premium	Accumulated Profit/Loss		Translation Differences	Shares of the Parent	Minority Interests	Total Equity
			Prior Years	Profit/Loss for the Year				
<b>Balances at 31 December 2005</b>	3,989	12,401	12,586	(3,753)	78	-	-	25,301
Allocation of net loss for 2005	-	-	(3,753)	3,753	-	-	-	-
Net profit for 2006	-	-	-	732	-	-	-	732
Acquisition of shares of the Parent	-	-	-	-	-	(720)	-	(720)
Translation differences	-	-	-	-	158	-	-	158
<b>Balances at 31 December 2006</b>	3,989	12,401	8,833	732	236	(720)	-	25,471
Distribution of net profit for 2006	-	-	732	(732)	-	-	-	-
Net loss for 2007	-	-	-	(819)	-	-	-	(819)
Acquisition of shares of the Parent	-	-	-	-	-	(2,816)	-	(2,816)
Minority interests	-	-	-	-	-	-	93	93
Translation differences	-	-	-	-	(3,744)	-	-	(3,744)
<b>Balances at 31 December 2007</b>	3,989	12,401	9,565	(819)	(3,508)	(3,536)	93	18,185

The accompanying Notes 1 to 34 are an integral part of the consolidated statement of changes in equity.

Translation of consolidated financial statements originally issued in Spanish and prepared in accordance with IFRSs, as adopted by the European Union (see Notes 3 and 34). In the event of a discrepancy, the Spanish-language version prevails.

## CORPORACIÓN DERMOESTÉTICA, S.A. AND COMPANIES COMPOSING THE CORPORACIÓN DERMOESTÉTICA GROUP

### CONSOLIDATED STATEMENTS OF CASH FLOWS FROM CONTINUING OPERATIONS FOR THE YEARS ENDED 31 DECEMBER 2007 AND 2006

(Thousands of Euros)

	2007	2006
<b>1. CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Pre-tax loss from continuing operations	(12,750)	(1,724)
Adjustments for:		
Depreciation/amortisation of assets (+)	5,171	5,181
Impairment losses (+)	8,518	1,293
Period provisions (net) (+/-)	818	3,811
Finance income (-)	(67)	(257)
Finance costs (+)	1,977	1,221
Non-monetary tax items	(374)	(798)
<b>Adjusted profit</b>	<b>3,293</b>	<b>8,727</b>
<b>Taxes paid</b>	-	-
<b>Increase/Decrease in current assets and liabilities</b>		
Increase/Decrease in inventories	(146)	(1,180)
Increase/Decrease in current asset accounts	3,550	555
Increase/Decrease in current liability accounts	11	2,877
Amounts used	(2,894)	(1,520)
<b>Total net cash flows from operating activities (1)</b>	<b>3,814</b>	<b>9,458</b>
<b>2. CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Investments (-):		
Property, plant and equipment	(2,666)	(3,596)
Intangible assets	-	(267)
Other non-current assets	(1,108)	-
Other deferred income	-	176
Other interest received from investments and financial assets	67	276
Disposals (+):		
Property, plant and equipment	-	22
<b>Total net cash flows from investing activities (2)</b>	<b>(3,707)</b>	<b>(3,389)</b>
<b>3. CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Reduction in bank borrowings (-)	(3,249)	(1,232)
Interest paid on debts (-)	(1,977)	(1,219)
Other reductions in financing items (-)	-	(4,602)
Acquisition of treasury shares (-)	(2,816)	(720)
Minority interests	93	-
<b>Total net cash flows from financing activities (3)</b>	<b>(7,949)</b>	<b>(7,773)</b>
<b>4. EFFECT OF FOREIGN EXCHANGE RATE CHANGES (4)</b>	-	-
<b>5. NET INCREASE/DECREASE IN CASH AND CASH EQUIVALENTS (1+2+3+4)</b>	<b>(7,842)</b>	<b>(1,704)</b>
<b>Cash and cash equivalents from continuing operations at beginning of year</b>	<b>10,655</b>	<b>12,359</b>
<b>Cash and cash equivalents from continuing operations at end of year</b>	<b>2,813</b>	<b>10,655</b>

The accompanying Notes 1 to 34 are an integral part of the consolidated cash flow statement.

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## **Corporación Dermoestética, S.A. and Companies composing the Corporación Dermoestética Group**

### Notes to consolidated financial statements for the year ended 31 December 2007

#### **1. Group activities**

Corporación Dermoestética, S.A. is the Parent of a group of companies specialising in the integral provision of aesthetic and medical-aesthetic services. The Parent was incorporated in Valencia by public deed on 25 January 1979. Its registered office is at calle Pizarro 11-13, Valencia.

The company object of Corporación Dermoestética, S.A., in accordance with its articles of association, comprises the following:

- The performance of activities relating to aesthetic medicine, to cosmetic, plastic and reconstructive surgery, and to nutrition, dietetics and odontology.
- The operation of centres for the aforementioned activities and of hospitals providing all manner of medical and surgical services.
- The operation of clinical laboratories, the marketing and sale of all manner of prostheses and the manufacture, marketing and sale of cosmetic products.

Since 1979, the Corporación Dermoestética Group has established a network of clinics throughout Spain, which it subsequently expanded to Portugal, Italy and the United Kingdom, and will foreseeably open a new clinic in Mexico in 2008. The Group has progressively been incorporating innovative and effective treatments and products which have enabled it to provide top-quality service and shape an aesthetic medicine concept and a brand for which the Group has gained market recognition.

- In 2007 the Group opened two new clinics in Spain and Portugal, thus giving it 54 clinics in those two countries. The Group's activities in Spain and Portugal mainly consist of the provision of aesthetic medicine, aesthetic surgery, odontology and nutrition services, in addition to the sale of cosmetic products. Activities in Portugal are performed through a subsidiary of the Parent.
- In 2005 the Group acquired 100% of the British company Ultralase Limited, a company specialised in providing ophthalmological treatment through its 17 clinics in the United Kingdom. As indicated in Note 20.2 the Group's operations through Ultralase Limited in the United Kingdom generated a significant volume of income in 2007, contributing profits to the Group as a whole.

On 27 December 2007, the Parent's Board of Directors accepted the binding offer presented by 3i Europe Plc. through its branch in Spain, acting as adviser to and on behalf of 3i Group Plc. and of the funds managed by it, to acquire all the share capital of Ultralase Limited for GBP 174.5 million (EUR 235 million). This offer was conditional on the completion of the legal, tax, financial and labour due diligence reviews to 3i Europe Plc.'s satisfaction and on a satisfactory agreement being reached on the legal documentation for the execution of the transaction. This process was completed in the first few months of 2008 with the sale of the aforementioned shareholding on 14 February 2008 (see Note 33).

- Similarly, in 2005 in the United Kingdom, the Group developed a network of clinics to provide medical and aesthetic surgery services through the subsidiary Ultralase Medical Aesthetics Limited. In 2006 the Parent approved a series of measures aimed at curbing the expansion and activity of Ultralase Medical Aesthetics

Limited. These measures were mainly aimed at staff redundancies and on the closure of certain centres which failed to meet the projected activity or profitability targets, thus focusing operations on fewer centres. In 2007, as part of the Group's global strategy in the United Kingdom, the business activity of Ultralase Medical Aesthetics Limited was practically non-existent. Accordingly, the Parent negotiated the sale of Ultralase Medical Aesthetics Limited to a third party. The process was completed on 28 March 2008 (see Note 33).

- The Group has subsidiaries in Italy through which it developed, in previous years, a network of clinics specialised in the provision of medical and aesthetic surgery services. All of these clinics started providing services at the end of 2005. From the commencement of operations, the revenues from these Italian subsidiaries were low and did not meet the Group's initial expectations. These subsidiaries have incurred ongoing losses since the commencement of operations. These losses amounted to EUR 15,067 thousand in 2007, which had a material impact on the results, and financial and equity position of the Parent and the Group as a whole. In this connection, in 2006 the Parent's Board of Directors approved a "Restructuring Plan" for its Italian subsidiaries. This plan was mainly focused on staff redundancies and the closure of certain centres which failed to meet the projected activity or profitability targets. The Restructuring Plan was completed in full in the first half of 2007, and attained the targets set in relation to the closure of clinics and the reduction of operating costs. However, in 2007, the Italian subsidiaries' business volume did not reach the level expected in the budgets prepared by Group management, since the losses incurred exceeded the initial estimates. The budgets prepared by the Parent's directors for 2008 envisaged that the Italian subsidiaries will incur further significant losses. Accordingly, on 9 March 2008, the Parent's Board of Directors resolved to liquidate its Italian subsidiaries (see Note 33).

In the Group's business model, as is the case for most medical services paid for privately, medical treatments are paid for by customers before they are provided and are taken to income when they are actually provided. Accordingly, the Group's balance sheet includes recurring material balances relating to collections made for treatment for which sessions will take place subsequent to the related year-end under "Current Liabilities - Advances Received from Customers" (EUR 17,925 thousand and EUR 19,045 thousand at 31 December 2007 and 2006, respectively). Although it does not relate to amounts that might be claimable from the Group at short term, it is shown as part of the current liabilities in the Group's balance sheet

In view of the business activities carried on by the Group companies, they do not have any environmental liability, expenses, assets, provisions or contingencies that might be material with respect to their equity, financial position or results. Therefore, no specific disclosures relating to environmental issues are included in these notes to the consolidated financial statements.

### **Merger in prior years**

In 2000 Clínica Suver, S.A. and Centro Español de Dermatología Capilar, S.A. (the absorbed companies) were merged into Corporación Dermoestética, S.A. (the absorbing company). All the disclosures relating to this merger required under Article 107 of Corporation Tax Law 43/1995, of 27 December, are included in the notes to the 2000 financial statements of Corporación Dermoestética, S.A. As a result of this merger, Corporación Dermoestética acquired, by way of universal succession, the assets and liabilities of the absorbed companies, which were measured at the post-merger company at the values at which they had been reflected in the books of the transferor companies.

## **2. Adoption of new and revised International Financial Reporting Standards (IFRSs)**

### **2.1 Standards and interpretations in force in 2007**

In 2007 the Group adopted IFRS 7 *Financial Instruments: Disclosure*, which came into force on 1 January 2007 for the years beginning on or after that date, and the amendments to IAS 1 *Presentation of Financial Statements* in relation to capital disclosures. The adoption of this standard did not have an impact on the Group's consolidated financial statements.

Additionally, four IFRIC interpretations became effective for the first time this year: IFRIC 7 *Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies*; IFRIC 8 *Scope of IFRS*

2; IFRIC 9 Reassessment of Embedded Derivatives; and IFRIC 10 Interim Financial Reporting and Impairment. The adoption of these interpretations did not have an impact on the Group's consolidated financial statements.

## 2.2 Standards and interpretations issued but not in force

At the date of preparation of these consolidated financial statements, the following standards and interpretations had been published by the IASB but had not come into force, either because their effective date is subsequent to the date of the consolidated financial statements or because they had not yet been adopted by the European Union:

Standards and Amendments to Standards		Obligatory Application in Years Beginning On or After:
IFRS 8	Operating Segments	1 January 2009
Revision of IAS 23 (a)	Borrowing Costs	1 January 2009
Revision of IAS 1 (a)	Presentation of Financial Statements	1 January 2009
Revision of IFRS 3 (a)	Business Combinations	1 July 2009
Amendment to IAS 27 (a)	Consolidated and Separate Financial Statements	1 July 2009
Amendment to IFRS 2 (a)	Share-based Payment	1 January 2009
<b>Interpretations</b>		
IFRIC 11	IFRS 2 Group and Treasury Share Transactions	1 March 2007
IFRIC 12 (a) (b)	Service Concession Arrangements	1 January 2008
IFRIC 13 (a)	Customer Loyalty Programmes	1 July 2008
IFRIC 14 (a) (b)	IAS 19 The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction	1 January 2008

(a) Standards and interpretations not adopted by the European Union at the date of preparation of these financial statements.

(b) Standards and interpretations not applicable to the Group.

### IFRS 8 Operating Segments

This standard repeals IAS 14. The main new development in the new standard is that IFRS 8 requires a company to adopt a management approach to report on the financial performance of its business segments. In general, the information reported will be that used internally by management to evaluate the performance of the segments and allocate resources among them. The directors have not yet assessed the impact that the application of this standard will have on the accompanying consolidated financial statements.

### Revision of IAS 23 Borrowing Costs

The main change in this new revised version of IAS 23 is the elimination of the option to immediately recognise as an expense the borrowing costs relating to assets that take a substantial period of time to get ready for use or sale.

Application of this standard entails a change in the Group's accounting policies since the policy followed for these borrowing costs is to expense them as they arise. The directors have not yet assessed the impact that the application of this standard will have on the accompanying consolidated financial statements, although they consider that it will not be significant.

## **Revision of IAS1 Presentation of Financial Statements**

The new version of this standard aims to improve the capacity of users of financial statements to analyse and compare the information presented therein. These improvements will enable users of consolidated financial statements to analyse changes in equity arising from transactions with owners acting in their capacity as such (e.g. dividends and share buy-backs) separately from changes arising from transactions with non-owners (e.g. transactions with third parties or income and expenses recognised directly in equity). The revised standard includes the option to present income and expense items and components of other total income in a single statement of comprehensive income with subtotals, or in two separate statements (a separate income statement followed by a statement of recognised income and expense).

It also introduces new disclosure requirements when the entity applies an accounting change retrospectively, performs a restatement or reclassifies items included in previously issued financial statements, and introduces changes to the names of certain financial statements with the aim of reflecting their function more clearly (for example, the balance sheet is entitled “the statement of financial position”).

This standard will basically impact on presentation and disclosure. In the case of the Group, as it does not regularly present a statement of recognised income and expense, this will mean the inclusion of this new financial statement.

## **Revision of IFRS 3 Business Combinations and Amendments to IAS 27 Consolidated and Separate Financial Statements**

These standards were issued as a result of the project for the convergence of international principles regarding business combinations with US GAAP. The revised IFRS 3 and the amendments to IAS 27 include pertinent changes to various aspects related to accounting for business combinations which, in general, place a greater emphasis on the use of fair value. Since the changes are significant, set forth below are certain of these changes, merely for illustrative purposes: acquisition costs, which will be taken to expenses rather than be considered to be an increase in the cost of the business combination as per the current accounting treatment; step acquisitions, in which the acquirer revalues the investment at fair value on the date control is obtained; or the option to measure at fair value the minority interests of the acquiree rather than measure them as the proportional part of the fair value of the net assets acquired as per the current accounting treatment. Given that the standard is to be applied prospectively, the directors do not expect significant modifications in the business combinations as a result of the introduction of this new standard. However, given the changes in the standard, the directors have not yet assessed the possible impact that the changes in the standard may have on future business combinations and the respective effects on the consolidated financial statements.

## **Amendment to IFRS 2 Share-based Payment**

The objective of the amendment to IFRS 2 is basically to clarify in the standard the concepts of vesting conditions and cancellations in share-based payments. The directors consider that the entry into force of this amendment will not affect the consolidated financial statements, since the Group does not use share-based payment formulas.

## **IFRIC 11 – IFRS 2 Group and Treasury Share Transactions**

This interpretation analyses the application of IFRS 2 Share-based Payment to share-based payment arrangements involving an entity's own equity instruments or equity instruments of another entity in the same group (e.g. equity instruments of the parent). It points out that share-based payments of the company itself or by another group entity will be accounted for as own equity-settled, irrespective of how the necessary equity instruments are obtained. The directors consider that the entry into force of this interpretation will not have a material affect on the consolidated financial statements.

### **IFRIC 13 Customer Loyalty Programmes**

The interpretation addresses accounting by entities that grant loyalty bonuses in the form of redeemable vouchers (such as "points" or travel miles) to customers who purchase goods or services. Specifically, it explains how these companies should account for their obligation to provide free or discounted goods or services (through "points" or "travel miles" etc) to customers who redeem these award credits or points.

The interpretation requires that companies allocate part of the revenue from the initial sale to the award credits, recognising them as revenue only when their obligations have been fulfilled, either by delivering the awards themselves or by paying a third party to do so.

The directors have not yet assessed the impact that the application of this standard will have on the consolidated financial statements.

### **3. Basis of presentation of the financial statements and basis of consolidation**

#### **3.1 Basis of presentation**

The consolidated financial statements for 2007 of the Corporación Dermoestética Group were formally prepared:

- By the Parent's directors, at the Board of Directors Meeting held on 31 March 2008.
- In accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union, in conformity with Regulation (EC) no. 1606/2002 of the European Parliament and of the Council.
- The principal accounting policies and measurement bases applied in preparing the Group's consolidated financial statements for 2007 are summarised in Note 4.
- Taking into account all the mandatory accounting policies and rules and measurement bases with a material effect on the consolidated financial statements.
- So that they present fairly the Group's consolidated equity and financial position at 31 December 2007 and the results of its operations, the changes in consolidated equity and the consolidated cash flows in the year then ended.
- On the basis of the accounting records kept by the Parent and by the other Group companies.

However, since the accounting policies and measurement bases used in preparing the Group's consolidated financial statements for 2007 (IFRSs) differ from those used by the Group companies (local standards), the required adjustments and reclassifications were made on consolidation to unify the policies and methods used and to make them compliant with International Financial Reporting Standards adopted by the European Union.

The consolidated financial statements of the Group for 2006, prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union, were approved by the shareholders at the Annual General Meeting of the Parent held on 19 May 2007. The 2007 consolidated financial statements of the Group and the 2007 financial statements of the Group companies were prepared by the managing body of each company in accordance with the International Financial Reporting Standards (IFRSs) adopted in Europe or in accordance with local standards, as appropriate, and will be submitted for approval by their shareholders at the respective Annual General Meetings. However, the Parent's Board of Directors considers that the aforementioned financial statements will be approved without any changes.

As required by IAS 1, the information relating to 2006 contained in these notes to the consolidated financial statements is presented, for comparison purposes, with similar information relating to 2007 and, accordingly, it does not constitute the Group's consolidated financial statements for 2006. The figures for 2006 presented in the accompanying consolidated income statement and consolidated cash flow statement differ from those contained

in the consolidated financial statements for 2006 approved by the shareholders at the Annual General Meeting because the investments in certain subsidiaries (see Note 12) were deemed to be discontinued activities and, as required by IFRS 5, the consolidated income statement and consolidated cash flow statement must present comparative figures for all the prior years reported in the consolidated financial statements.

### **Responsibility for the information and use of estimates**

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

In the Group's consolidated financial statements for 2007, estimates were occasionally made by management of the Group and of the consolidated companies, later ratified by the directors, in order to quantify certain of the assets, liabilities, income, expenses and obligations reported herein. These estimates relate basically to the following:

- The useful life of the intangible assets and property, plant and equipment (see Notes 4.2 and 4.3).
- The amount of certain provisions (see Notes 4.4, 4.10 and 4.11).
- The measurement of goodwill arising on consolidation (see Note 4.1).
- The fair value of certain unquoted assets (see Note 4).

Although these estimates were made on the basis of the best information available at 31 December 2007 on the events analysed and the changes at the date of preparation of the accompanying consolidated financial statements, events that take place in the future might make it necessary to change these estimates (upwards or downwards) in coming years. Changes in accounting estimates would be applied prospectively in accordance with the requirements of IAS 8, recognising the effects of the change in estimates in the related consolidated income statements.

### **Functional currency**

These financial statements are presented in euros, which is the currency in the main economic area in which the Group operates. Foreign operations are recorded in accordance with the policies established in Note 4.19.

## **3.2 Basis of consolidation**

### **a) Subsidiaries**

"Subsidiaries" are defined as companies over which the Parent has the capacity to exercise effective control; control is, in general but not exclusively, presumed to exist when the Parent owns directly or indirectly half or more of the voting power of the investee or, even if this percentage is lower or zero, when, for example, there are agreements with other shareholders of the investee that give the Parent control. In accordance with IAS 27, control is the power to govern the financial and operating policies of a company so as to obtain benefits from its activities. Note 8 contains significant information on these companies.

The financial statements of the subsidiaries are fully consolidated with those of the Parent. Accordingly, all material balances and effects of the transactions between consolidated companies are eliminated on consolidation. Where necessary, adjustments are made to the financial statements of the subsidiaries to adapt the accounting policies used to those applied by the Group.

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

shareholders is stated at the minority's proportion of the fair values of the identifiable assets and liabilities recognised. Therefore, any losses applicable to the minority interests in excess of the carrying value of the minority interests are recognised with a charge to the Parent's interests.

The subsidiaries and information thereon (which includes name, registered office and the percentage of ownership of the Parent) are detailed in Note 8.

These consolidated financial statements for 2007 include, based on the consolidation methods applicable in each case, all the Group companies, in accordance with Article 42 of the Spanish Commercial Code. At 31 December 2007, the directors considered that the Parent was not required to prepare consolidated financial statements with a scope exceeding that used in these consolidated financial statements.

#### ***b) Changes in the scope of consolidation***

The only changes in the scope of consolidation of the Group in 2007 were the inclusion of two new companies incorporated during the year: Corporación Dermoestética, S.A. de C.V. (which was fully consolidated) and Cosmética Estética Avanzada, S.L. (which was accounted for using the equity method), which did not have a material effect on the consolidated financial statements.

### **4. Accounting policies**

The principal accounting policies used in preparing the Group's consolidated financial statements, in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union, were as follows:

#### **4.1 Goodwill**

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary or jointly controlled entity at the date of acquisition.

Any excess of the cost of the investments in the consolidated companies over the corresponding underlying carrying amounts acquired, adjusted at the date of first-time consolidation, is allocated as follows:

1. If it is attributable to specific assets and liabilities of the companies acquired, increasing the value of the assets (or reducing the value of the liabilities) whose market values were higher (lower) than the carrying amounts at which they had been recognised in their balance sheets and whose accounting treatment was similar to that of the same assets (liabilities) of the Group: amortisation, accrual, etc.
2. If it is attributable to specific intangible assets, recognising it explicitly in the consolidated balance sheet provided that the fair value at the date of acquisition can be measured reliably.
3. The remaining amount is recognised as goodwill, which is allocated to one or more specific cash-generating units.

Goodwill is only recognised when it has been acquired for consideration and represents, therefore, a payment made by the acquirer in anticipation of future economic benefits from assets of the acquired company that are not capable of being individually identified and separately recognised.

Goodwill acquired on or after 1 January 2004 is measured at acquisition cost and that acquired earlier is recognised at the carrying amount at 31 December 2003. In both cases, at the end of each reporting period goodwill is reviewed for impairment (i.e. a reduction in its recoverable amount to below its carrying amount) and, if there is any impairment, the goodwill is written down with a charge to "Impairment Losses" in the consolidated income statement, since, as stipulated in IFRS 3, goodwill is not amortised.

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

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

As explained in Note 4.19, goodwill arising in the acquisition of companies with a functional currency other than the euro, is translated to euros at the exchange rates prevailing at the date of the balance sheet.

When, subsequent to the acquisition, additional information comes to light that serves as an aid for estimating the amounts attributable to identifiable assets and liabilities, these amounts and the amount attributable to goodwill (or negative goodwill) are adjusted to the extent that these adjustments are made before the end of the first reporting period beginning after the acquisition and they do not increase the carrying amount of goodwill to above its recoverable amount. Otherwise, these adjustments to identifiable assets and liabilities are recognised in the income statement. If the acquisition price of the related investment is variable on the basis of the occurrence of future events, the goodwill is measured on the basis of a best estimate using the information available and is adjusted, where appropriate, in the first reporting period beginning after the acquisition to the extent that new estimates are available.

Any deficiency of the cost of investments in consolidated companies and associates below the related underlying carrying amounts acquired, adjusted at the date of first-time consolidation, is classified as negative goodwill and is allocated as follows:

1. If the negative goodwill is attributable to specific assets and liabilities of the companies acquired, increasing the value of the liabilities (or reducing the value of the assets) whose market values were higher (lower) than the carrying amounts at which they had been recognised in their balance sheets and whose accounting treatment was similar to that of the same assets (liabilities) of the Group: amortisation, accrual, etc.
2. The remaining amount is presented under "Other Operating Income" in the income statement for the year in which the share capital of the subsidiary or associate is acquired.

#### **4.2 Other intangible assets**

The other intangible assets are identifiable non-monetary assets without physical substance which arise as a result of a legal transaction or which are developed internally by the consolidated companies. Only assets whose cost can be estimated reasonably objectively and from which the consolidated companies consider it probable that future economic benefits will be generated are recognised.

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

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

Intangible assets with indefinite useful lives are not amortised, but rather at the end of each reporting period the consolidated companies review the remaining useful lives of the assets in order to ensure that they continue to be indefinite or, if this is not the case, to take the appropriate steps.

Intangible assets with finite useful lives are amortised on a straight-line basis over those useful lives using methods similar to those used to depreciate "Property, plant and equipment".

In both cases the consolidated companies recognise any impairment loss on the carrying amount of these assets with a charge to "Impairment Losses" in the consolidated income statement. The criteria used to recognise the impairment losses on these assets and, where applicable, the recovery of impairment losses recognised in prior years are similar to those used for property, plant and equipment.

### ***Concessions, patents, trademarks and similar intellectual property***

"Concessions, Patents, Trademarks and Similar Intellectual Property" is charged for the amounts paid for the acquisition of the right to use the "Corporación Dermoestética" trademark and its various manifestations in different countries, which are duly recognised by the Group. No other additional amount was recognised, as this asset was generated internally. The maintenance costs of the trademark are recognised with a charge to the result of the year in which they are incurred, the amount of which is not material.

Concessions, patents, trademarks and similar intellectual property are amortised on a straight-line basis over the best estimate of their useful lives. After initial recognition, these intangible assets are measured at purchase cost less any accumulated amortisation and any impairment loss.

Until 31 December 2007, this item in the consolidated balance sheet included the amount assigned as the value of the "Ultralase" trademark. This amount was part of the excess over the underlying carrying amount paid for the acquisition of Ultralase Limited. This asset was considered to have an indefinite useful life and is therefore not amortised since it is subject to the statutory annual impairment test. At 31 December 2007, this asset was reclassified under "Assets Classified as Held for Sale" in the accompanying consolidated balance sheet (see Note 12).

### ***Computer software***

The acquisition and development costs incurred in relation to the basic computer systems used in the Group's management are recognised with a charge to "Other Intangible Assets" in the consolidated balance sheet.

Computer system maintenance costs are recognised with a charge to the consolidated income statement for the year in which they are incurred.

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

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

## **4.3 Property, plant and equipment**

"Property, plant and equipment" for own use are stated at acquisition cost less any accumulated depreciation and any recognised impairment losses.

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

Periodic maintenance, upkeep and repair expenses are recognised in the income statement on an accrual basis as incurred.

Depreciation is calculated, using the straight-line method, on the basis of the acquisition cost of the assets less their residual value; the land on which the buildings and other structures stand has an indefinite useful life and, therefore, is not depreciated. The period property, plant and equipment depreciation charge is recognised in the consolidated income statement and is based on the application of the following depreciation rates, which are determined on the basis of the average years of estimated useful life of the various assets:

	Years of Estimated Useful Life
Buildings	10-20
Machinery	5-10
Machine and hand tools	4-5
Furniture	6-12
Computer hardware	3-5

The useful life and the depreciation method are reviewed periodically to ensure that the method and depreciation period are consistent with the pattern in which the asset's future economic benefits are expected to be consumed which, where applicable, are adjusted prospectively in the income statement.

The Group operates in leased properties (see Note 21.3). The costs incurred in preparing the premises leased by the Group relate mainly to refurbishment and investments in fixtures which are permanently incorporated into these properties. These costs are amortised on a straight-line basis over the shorter of the estimated useful life of the assets or the term of the relevant lease from the commencement of commercial activities in each of the premises and are presented under "Property, Plant and Equipment" in the consolidated balance sheet.

Assets held under finance leases are recorded in the corresponding asset category, and are depreciated over their expected useful lives on the same basis as owned assets. At 31 December 2007, "Property, Plant and Equipment" in the consolidated balance sheet included EUR 1,237 thousand relating to assets held under finance leases (see Note 7).

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

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

Similarly, when there are indications that the value of an item of property, plant and equipment has recovered, the consolidated companies recognise the reversal of the impairment loss recorded in prior years and, consequently, adjust its future depreciation charges. In no case may the reversal of the impairment loss lead to an increase in its carrying amount to a value above that at which it would have been stated had no impairment losses been recognised in prior years.

#### ***Borrowing costs***

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are not added to the cost of those assets.

#### **4.4 Impairment of property, plant and equipment and intangible assets excluding goodwill**

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

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects

current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

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

### ***Financial instruments***

Financial instruments are reviewed for any impairment loss at each balance sheet date.

In the case of financial assets recognised at the amortised cost, if it is probable that the Group will not collect all of the amounts owed to it, in accordance with the contractual conditions of the loans, receivables or held-to-maturity investments, an impairment loss or provision for doubtful debts is recognised in the income statement. When there is a decrease in the impairment loss that can be objectively attributed to an event that took place after the impairment loss was recognised, the related reversal of the previously recognised impairment loss is recognised in the income statement. However, the increase in carrying amount is only recognised to the extent that it does not exceed the amortised cost that the asset would have had had the impairment loss not been recognised.

In the case of held-for-trading and available-for-sale financial assets, impairment losses are charged to income. The recoverable amount of the debt instrument adjusted to fair value is the present value of the projected future cash flows discounted at the market interest rates applicable to similar financial assets. When there is a decrease in the impairment loss that can be objectively attributed to an event that took place after the impairment loss was recognised, the related reversal of the previous impairment loss is recognised in the income statement.

### ***Other assets***

Other assets, including goodwill and intangible assets with an indefinite useful life, are tested for impairment at least once a year, and whenever there are indications that they might have become impaired.

When the carrying amount of an asset exceeds its recoverable amount, an impairment loss is recognised in the income statement.

## **4.5 Leases**

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

### ***Finance leases***

Therefore, finance leases are deemed to be those in which substantially all the risks and rewards relating to the leased asset are transferred to the lessee, who, habitually but not necessarily, has the option to purchase the asset at the end of the lease on the terms and conditions agreed on when the transaction was formalised.

The Group recognises finance leases as assets and liabilities in the consolidated balance sheet for amounts equal at the inception of the lease to the lower of the fair value of the leased asset or the present value of the minimum lease payments. To calculate the present value of the minimum lease payments, the discount rate used

is the interest rate implicit in the lease, where it can be determined; otherwise the Group's incremental borrowing rate is used. The initial direct costs incurred are included as part of the asset. The minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period in the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

A finance lease gives rise to both a depreciation charge on the asset and a finance expense for each reporting period. Assets held under finance leases are depreciated over their useful lives applying the same method as that used for owned assets or, if shorter, over the lease term.

If a sale and leaseback transaction results in a finance lease, any excess of sales proceeds over the carrying amount is not immediately recognised as income, but is deferred and amortised over the lease term.

### ***Operating leases***

In operating leases, the ownership of the leased asset and substantially all the risks and rewards relating to the leased assets remain with the lessor.

Lease payments under operating leases are recognised as an expense on a straight-line basis over the lease term.

The aggregate benefit of the incentives granted by the lessor is recognised as a reduction of the rental expense on a straight-line basis over the lease term.

If a sale and leaseback transaction results in an operating lease, and it is clear that the transaction is established at fair value, any profit or loss is recognised immediately. If the sale price is below fair value, any profit or loss is recognised immediately except that, if the loss is compensated for by future lease payments at below market price, it is deferred and amortised in proportion to the lease payments over the period for which the asset is expected to be used. If the sale price is above fair value, the excess over fair value is deferred and amortised over the period for which the asset is expected to be used.

## **4.6 Inventories**

Specific medicines, clothing and consumables and replacement parts, mainly the replacement parts for the specific machinery the Group uses to provide its treatment, are measured at the lower of cost per the most recent purchase invoice or market. Due to the high turnover of these products, the resulting cost does not differ significantly from FIFO cost.

Trade discounts, rebates and other similar items are deducted in determining the costs of purchase.

Obsolete, defective or slow-moving inventories have been reduced to realisable value.

## **4.7 Financial assets**

Financial assets are initially recognised in the cost of acquisition, including transaction costs.

The financial assets held by the Group companies are classified as:

- Held-for-trading financial assets: assets acquired by the companies with the intention of generating a profit from short-term fluctuations in their prices or from differences between their purchase and sale prices.
- Held-to-maturity investments: financial assets with fixed or determinable payments and fixed maturity that the Group has the positive intention and ability to hold from the date of purchase to the date of maturity. They do not include loans and accounts receivable originated by the Group.

- Originated loans and receivables: financial assets originated by the companies in exchange for supplying cash, goods or services directly to a debtor.
- Available-for-sale financial assets: these include securities acquired that are not held for trading purposes, are not classified as held-to-maturity investments or financial assets at fair value through profit or loss, and the equity instruments issued by entities other than subsidiaries, associates and joint ventures, provided such instruments are not considered as “at fair value through profit and loss”, as defined in IAS 39, paragraphs 9 to 11.

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

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

#### ***Classification of financial assets as current and non-current***

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

#### **4.8 Liability instruments**

Financial liabilities are classified in accordance with the content of the contractual arrangements. The financial assets held by the Group companies are classified as:

- Held-to-maturity financial liabilities, which are measured at amortised cost using the effective interest method.
- Financial liabilities held for trading, which are measured at fair value, using the same criteria as those applied to held-for-trading assets. The gains and losses arising from changes in fair value are recognised in profit or loss for the year.
- Financial liabilities at fair value through profit or loss, which are measured at fair value when included in the definitions of paragraphs 9 and 11a of IAS 39.
- Financial liabilities at fair value through profit or loss, mainly held-for-trading liabilities: this heading includes the financial liabilities associated with available-for-sale financial assets arising as a result of a transfer of assets in which the transferor neither transfers nor retains substantially all the risks and rewards of ownership of the asset.

#### ***Bank loans***

Interest-bearing bank loans and overdrafts are recognised at the proceeds received, net of direct issue costs. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are recognised in the income statement on an accrual basis using the effective interest method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

### ***Trade payables***

Trade payables are not interest bearing and are stated at their nominal value.

### ***Current/Non-current classification***

In the accompanying consolidated balance sheet, debts due to be settled within 12 months are classified as current items and those due to be settled within more than 12 months as non-current items.

Loans due within 12 months but whose long-term refinancing is assured at the Group's discretion, through existing long-term credit loan facilities, are classified as non-current liabilities.

## **4.9 Equity instruments**

Equity instruments are classified in accordance with the content of the contractual arrangements. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Equity instruments issued by the companies are recognised in equity at the proceeds received, net of direct issue costs.

### ***Shares of the Parent***

All the treasury shares held by the Parent at 31 December 2007, represented 1.02% of the issued share capital at that date (the transactions involving own shares in 2007 are summarised in Note 13.5).

Treasury shares are presented at acquisition cost and are deducted from equity. The result obtained from transactions involving treasury shares is recognised as appropriate, with a charge or credit to "Reserves of the Parent - Other Reserves" under consolidated equity.

### ***Translation differences***

The translation differences account is used for the differences which arise on consolidation of the financial statements of foreign operations (i.e., subsidiaries, associates and joint ventures).

Translation differences arising from a monetary line item which, in essence, forms part of the Parent's net investment in a foreign operation are classified as equity in the consolidated financial statements until the net investment is disposed of.

On disposal of the related assets, the cumulative translation differences or the cumulative revaluation reserve are recognised as income or expenses in the same period in which the gain or loss arising from the disposal is recognised.

## **4.10 Termination benefits**

Under current legislation, the Spanish consolidated companies and some of the Group companies located in other countries are required to pay termination benefits to employees terminated under certain conditions. At 31 December 2007, there were no redundancy plans making it necessary to record a provision in this connection, other than that already described in the notes to the consolidated financial statements (see Note 33).

## **4.11 Provisions**

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

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

The Group's consolidated financial statements include all the material provisions with respect to which it is considered that it is more likely than not that the obligation will have to be settled. Contingent liabilities are not recognised in the consolidated financial statements, but rather are disclosed, as required by IAS 37 (see Note 31).

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

#### ***Litigation and/or claims in process***

The Group recognises provisions for the estimated amounts required to cover the liability and obligations arising in the normal course of its operations, both those identified individually and those incurred which are estimated on the basis of past experience and accepted statistical criteria and which it is considered will arise in the future (provided that it is more likely than not that they will arise) and provided that their amount can be estimated reliably. These provisions are recognised with a charge to "Other Operating Expenses".

#### ***Provisions for restructuring costs***

Provisions for restructuring costs are recognised when the Group has a detailed formal plan for the restructuring that has been communicated to affected parties.

#### **4.12 Revenue recognition**

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

The Group makes collections for all types of treatment when it is contracted for. This treatment is recognised as income in the income statement on an accrual basis, based on the sessions that have actually taken place. Collections for treatment relating to sessions taking place subsequent to year-end are included under "Advances Received from Customers" on the liability side of the consolidated balance sheet.

Also, the Group recognises the fees actually earned by personnel on the basis of the sessions that have taken place as expenses. Payments of fees relating to sessions that have taken place subsequent to year-end are included under "Trade and Other Receivables" on the asset side of the consolidated balance sheet.

#### **4.13 Expense recognition**

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

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

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

#### **4.14 Operating profit (loss)**

The profit or loss from operations is presented after charging restructuring costs, impairment losses on property, plant and equipment and intangible assets and after the share of results of associates, but before investment income and finance costs.

#### **4.15 Offsetting**

Asset and liability balances must be offset and, therefore, the net amount is presented in the consolidated balance sheet when, and only when, they arise from transactions in which, contractually or by law, offsetting is permitted and the Company intends to settle them on a net basis, or to realise the asset and settle the liability simultaneously.

#### **4.16 Income taxes**

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

The income tax expense represents the sum of the current tax expense and the changes in the deferred tax assets and liabilities recognised (see Note 25).

The income tax expense for the year is calculated on the basis of taxable profit for the year. The taxable profit differs from the net profit shown in the consolidated income statement because it excludes income or expenses that are taxable or deductible in other years and also excludes items that will never become taxable or deductible. The Group's liability for current income tax is calculated using tax rates which have been approved or practically approved on the balance sheet date.

Deferred tax assets and liabilities include temporary differences measured at the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and their tax bases used in calculating the taxable profit, and are recognised using the balance sheet liability method. They are measured by applying to the related temporary difference or asset the tax rate at which they are expected to be recovered or settled.

The deferred tax assets and liabilities are charged or credited to the income statement, unless they relate to line items that are taken directly to equity accounts, in which case the deferred tax assets and liabilities are also recognised in these equity accounts.

Deferred tax liabilities are recognised for all taxable temporary differences, unless the temporary difference arises from the initial recognition of goodwill, goodwill for which amortisation is not deductible for tax purposes or the initial recognition (except in the case of a business combination) of other assets and liabilities in a transaction that affects neither accounting profit (loss) nor taxable profit (tax loss).

Deferred tax liabilities are recognised for the taxable temporary differences arising from investments in subsidiaries, unless the Group is in a position to control the reversal of the temporary differences and it is probable that they will not reverse in the foreseeable future.

However:

- Deferred tax assets are only recognised to the extent that it is considered probable that the consolidated companies will have sufficient taxable profits in the future against which the deferred tax assets can be utilised.

- Deferred taxes arising from non-deductible goodwill generated in an acquisition are never recognised.

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

The deferred tax assets and liabilities are offset when they arise from the income tax applied by the same tax authority and the Group intends to settle its current tax assets and liabilities for their net amount.

#### **4.17 Discontinued operations and assets classified as held for sale**

“Assets Classified as Held for Sale” includes the carrying amount of individual items or disposal groups or items forming part of a business unit earmarked for disposal (“Discontinued operations”), whose sale in their present condition is highly probable and is expected to occur within one year from the reporting date. Therefore, the carrying amount of these items (which may be financial or non-financial) will foreseeably be recovered through the proceeds from their disposal.

Symmetrically, “Liabilities Classified as Held for Sale” includes the credit balances arising from assets or disposal groups and from discontinued operations.

Assets held for sale are classified at the lower of their fair value less costs to sell and their carrying amount calculated at the date they are assigned to this category. The assets and liabilities classified as held for sale were measured at their carrying amounts in the accompanying consolidated balance sheet since this was the lower of these two amounts.

Assets classified as held for sale are not depreciated as long as they remain in this category.

Impairment losses on an asset or disposal group arising from a reduction in its carrying amount to its fair value (less costs to sell) are recognised under “Impairment Losses - Non-Current Assets Held for Sale” in the consolidated income statement. The gains on a non-current asset held for sale resulting from subsequent increases in fair value (less costs to sell) increase its carrying amount and are recognised in the consolidated income statement up to an amount equal to the impairment losses previously recognised.

The assets, liabilities, income and expenses of the discontinued operations and the assets classified as held for sale are presented separately in the balance sheet and income statement.

#### **4.18 Earnings per share**

Basic earnings per share are calculated by dividing net profit or loss attributable to the Parent by the weighted average number of ordinary shares outstanding during the year, excluding the average number of shares of the Parent held by the Group companies (see Note 27).

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

#### **4.19 Foreign currency transactions**

The Group's functional currency is the euro. Therefore, transactions in currencies other than the euro are deemed to be “foreign currency transactions” and are recognised by applying the exchange rates prevailing at the date of the transaction.

At each balance sheet date, monetary assets and liabilities denominated in foreign currencies are translated to euros at the rates prevailing on the balance sheet date. Any resulting gains or losses are recognised directly in the income statement.

Non-monetary assets and liabilities carried at fair value that are denominated in foreign currencies are translated at the exchange rates prevailing at the date when the fair value was adjusted. The changes in the fair value of non-monetary assets and liabilities are recognised directly in equity.

On consolidation, the assets and liabilities of the Group's foreign operations are translated to euros at the exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly. Any translation differences arising are classified as equity. Such translation differences are recognised as income or as expenses in the year in which the operation is disposed of.

Goodwill and fair value adjustments arising on the acquisition of a foreign company are treated as assets and liabilities of the foreign company and are translated at the closing rate.

#### **4.20 Consolidated cash flow statement**

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

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

#### **4.21 Events subsequent to year-end**

The events after the balance sheet date that provide additional information on the Group's position at the balance sheet date (events giving rise to adjustments) are recognised in the financial statements. Material subsequent events that do not give rise to adjustments are disclosed in the notes to the consolidated financial statements.

#### **4.22 Standardisation of items**

In order to uniformly present the various items composing the accompanying consolidated financial statements, the accounting policies and measurement bases applied by the Parent in preparing these consolidated financial statements were applied to all the consolidated companies in all areas that might have material effect. The financial year of all the consolidated companies ends on 31 December.

### **5. Goodwill**

The changes in "Goodwill" in the consolidated balance sheets in 2007 and 2006 were as follows:

	Thousands of Euros	
	2007	2006
Beginning balance	16,601	18,455
Adjustment in the acquisition cost of Ultralase Limited	-	(1,854)
Translation differences	(1,193)	-
Transfers	(15,408)	-
	<b>-</b>	<b>16,601</b>

The balance of "Goodwill" in the consolidated balance sheet at 31 December 2006 related in full to the Ultralase Limited Group, which had been transferred to "Assets Classified as Held for Sale" at 2007 year-end (see Note 12).

## **6. Other intangible assets**

### **6.1 Detail of the balance and significant changes**

The breakdown of the balance of "Other Intangible Assets" in the consolidated balance sheets at 31 December 2007 and 2006, which relates in full to assets not generated internally by the Group, is as follows:

	Estimated Useful Life	Thousands of Euros	
		2007	2006
<b>With indefinite useful life -</b> "Ultralase" trademark	Indefinite	-	21,000
		-	<b>21,000</b>
<b>With finite useful life -</b> Intellectual property	5 years	237	237
Other intangible assets	5 years	-	101
		<b>237</b>	<b>338</b>
<b>Total, gross</b>		<b>237</b>	<b>21,338</b>
Less:			
Accumulated amortisation		(71)	(155)
<b>Total, net</b>		<b>166</b>	<b>21,183</b>

The changes (gross amounts) in "Other Intangible Assets" in the consolidated balance sheet in 2007 and 2006 were as follows:

	Thousands of Euros	
	2007	2006
<b>Beginning balance</b>	<b>21,338</b>	<b>22,636</b>
Additions	-	267
Disposals	(101)	(1,565)
Translation differences	(1,520)	-
Transfers	(19,480)	-
<b>Ending balance</b>	<b>237</b>	<b>21,338</b>

The balance of "Ultralase Trademark", which amounted to EUR 19,480 thousand, had been transferred to "Assets Classified as Held for Sale" at 2007 year-end (see Note 12).

## 6.2 Amortisation of intangible assets with finite lives

The changes in the accumulated amortisation of the intangible assets with finite useful lives in 2007 and 2006 are summarised as follows:

	Thousands of Euros	
	2007	2006
Beginning balance	(155)	(1,404)
Disposals	101	1,531
Charge for the year	(17)	(282)
<b>Ending balance</b>	<b>(71)</b>	<b>(155)</b>

## 7. Property, plant and equipment

### 7.1 Detail of the balance and significant changes

The changes in "Property, Plant and Equipment" in the consolidated balance sheet in 2007 and 2006 were as follows:

	Thousands of Euros				
	Buildings	Plant and Machinery	Other Fixtures, Tools and Furniture	Other Property, Plant and Equipment	Total
<b>Cost:</b>					
<b>Balance at 1 January 2006</b>	<b>31,828</b>	<b>35,067</b>	<b>8,143</b>	<b>2,499</b>	<b>77,537</b>
Additions	2,697	6,261	526	209	9,693
Disposals	-	(21)	(1)	-	(22)
Translation differences	123	165	51	-	339
<b>Balance at 31 December 2006</b>	<b>34,648</b>	<b>41,472</b>	<b>8,719</b>	<b>2,708</b>	<b>87,547</b>
Additions	5,391	3,250	1,012	488	10,141
Disposals	(1,569)	(1,080)	(138)	(5)	(2,792)
Translation differences	(777)	(1,244)	(311)	(3)	(2,335)
Transfers (Note 12)	(12,424)	(16,073)	(4,302)	(30)	(32,829)
<b>Balance at 31 December 2007</b>	<b>25,269</b>	<b>26,325</b>	<b>4,980</b>	<b>3,158</b>	<b>59,732</b>
<b>Accumulated depreciation:</b>					
<b>Balance at 1 January 2006</b>	<b>(5,360)</b>	<b>(23,046)</b>	<b>(4,764)</b>	<b>(1,115)</b>	<b>(34,285)</b>
Charge for the year	(2,487)	(3,968)	(799)	(300)	(7,554)
Translation differences	(38)	(107)	(41)	-	(186)
<b>Balance at 31 December 2006</b>	<b>(7,885)</b>	<b>(27,121)</b>	<b>(5,604)</b>	<b>(1,415)</b>	<b>(42,025)</b>
Charge for the year	(2,098)	(2,245)	(455)	(356)	(5,154)
From discontinued operations	(662)	(2,404)	(430)	(2)	(3,498)
Disposals	460	1,023	116	2	1,601
Translation differences	407	901	315	1	1,624
Transfers (Note 12)	3,429	9,859	3,206	261	16,755
<b>Balance at 31 December 2007</b>	<b>(6,349)</b>	<b>(19,987)</b>	<b>(2,852)</b>	<b>(1,509)</b>	<b>(30,697)</b>
<b>Impairment losses:</b>					
<b>Balance at 31 December 2006</b>	<b>(1,041)</b>	<b>(190)</b>	<b>(59)</b>	<b>(3)</b>	<b>(1,293)</b>
Amounts used	1,041	190	59	3	1,293
Disposals	(7,778)	(391)	-	(349)	(8,518)
<b>Balance at 31 December 2007</b>	<b>(7,778)</b>	<b>(391)</b>	<b>-</b>	<b>(349)</b>	<b>(8,518)</b>
<b>Property, plant and equipment, net:</b>					
<b>Balance at 31 December 2006</b>	<b>25,722</b>	<b>14,161</b>	<b>3,056</b>	<b>1,290</b>	<b>44,229</b>
<b>Balance at 31 December 2007</b>	<b>11,142</b>	<b>5,947</b>	<b>2,128</b>	<b>1,300</b>	<b>20,517</b>

All property, plant and equipment is for own use and no assets were leased to third parties at 31 December 2007 or at 31 December 2006.

The net balance at 31 December 2007 presented in the foregoing table includes other items amounting to approximately:

- EUR 2,749 thousand relating to property, plant and equipment owned by the Group companies located abroad (31 December 2006: EUR 28,564 thousand).

- EUR 1,237 thousand relating to property, plant and equipment acquired by consolidated companies under finance lease (31 December 2006: EUR 2,595 thousand).

Property, plant and equipment for own use with a gross value of approximately EUR 16,299 thousand had been fully depreciated at 31 December 2007 (31 December 2006: EUR 21,321 thousand).

The Group operates in leased properties (see Note 21.3).

At 31 December 2007, the Group had not acquired any property, plant and equipment investment commitments of a material amount.

The Group has taken out insurance policies to cover the carrying amount of all the assets included in its "Property, Plant and Equipment", which is lower than their actual replacement value.

## **7.2 Impairment losses**

In 2006, as a result of the losses incurred by the Italian subsidiaries, the "Restructuring Plan" and other measures adopted by the Group (see Note 1), the directors identified certain assets under "Property, Plant and Equipment", the recoverable amount of which was lower than their carrying amount. Consequently, the carrying amount of these assets was reduced to their recoverable amount, and an impairment loss was recognised as an expense with a charge to "Impairment Losses" in the consolidated income statement for 2006. The related loss, the cost and the accumulated depreciation of the impaired assets were derecognised in 2007.

In 2007, as a result of the Parent's directors' decision to liquidation of the Italian subsidiaries (see Note 33), the directors identified certain assets included under "Property, Plant and Equipment" whose recoverable amount was estimated to be zero. Consequently, a provision was recognised for the full carrying amount of these assets and an impairment loss of EUR 8,518 thousand was recognised with a charge to "Impairment Losses" in the accompanying consolidated income statement for 2007.

## **8. Subsidiaries**

Following is a detail of subsidiaries and jointly controlled entities, none of which are listed, and information thereon (which includes name, registered office and the percentage of ownership of the Parent):

Company	Auditor	Location	Line of Business	Percentage of Voting Rights Held by the Parent		
				Direct	Indirect	Other (i)
<b>Corporación Dermoestética, S.r.L. subgroup</b>						
Corporación Dermoestética, S.r.L.	a	Turin (Italy)	c	99.90	-	0.10
Alta Estética, S.r.L.	a	Turin (Italy)	c	-	99.80	0.20
Belle Epoque, S.r.L.	a	Turin (Italy)	c	-	99.80	0.20
Istituto Cosmético Avanzata, S.r.L.	a	Turin (Italy)	c	-	99.80	0.20
Obiettivo Uno, S.r.L.	a	Turin (Italy)	c	-	99.80	0.20
Belmed, S.r.L.	a	Turin (Italy)	c	-	99.80	0.20
Studio Estética i Benessere, S.r.L.	a	Turin (Italy)	c	-	99.80	0.20
<b>Dermo Salud, S.r.L. subgroup</b>						
Dermo Salud, S.r.L.	a	Turin (Italy)	d	99.90	-	0.10
Società Italiana di Medicina e Chirurgia, S.r.L.	a	Turin (Italy)	d	-	99.80	0.20
Cliniche Futura, S.r.L.	a	Turin (Italy)	d	-	99.80	0.20
Istituto Medico Laser, S.r.L.	a	Turin (Italy)	d	-	99.80	0.20
Medical International Center, S.r.L.	a	Turin (Italy)	d	-	99.80	0.20
Medicalia, S.r.L.	a	Turin (Italy)	d	-	99.80	0.20
<b>Ultralase Medical Aesthetics, Ltd. (Note 12)</b>	a	Leeds (United Kingdom)	g	100	-	-
<b>Ultralase Limited subgroup (Note 12)</b>	b	Leeds (United Kingdom)				
Ultralase Ltd.			e	100	-	-
The Corneal Laser Centre Ltd.			g	-	100	-
Nusight Ltd.			g	-	100	-
<b>Obesidad y Genética, S.L.</b>	a	Valencia (Spain)	f	100	-	-
<b>Corporación Dermoestética, S.A. de C.V.</b>	a	Mexico City (Mexico)	d - f	51	-	-
<b>Cosmética Estética Avanzada, S.L.</b>	a	Barcelona (Spain)	f - h	50	-	-

(a) Information obtained from their 2007 financial statements, which were not audited because it was not mandatory.

(b) Information obtained from their 2007 financial statements, audited by Deloitte & Touche LLP.

(c) These companies engage in the provision of aesthetic services.

(d) These companies engage in the provision of medical-aesthetic services.

(e) These companies engage in the provision of ocular and refractive laser surgery.

(f) These companies, which are at the start-up stage, engage in the provision and marketing of aesthetic and medical-aesthetic products and services.

(g) Dormant.

(h) Jointly controlled entities.

(i) The voting rights included in the "Other" column relate to minority interests held by the Parent's directors in the related subsidiaries, since this is a requirement under Italian legislation. These voting rights are controlled by the Parent although under agreements that have not been formally executed.

## 9. Other non-current assets

### **Investments accounted for using the equity method**

The balance of "Investments Accounted for using the Equity Method" relates in full to the Parent's ownership interest of 50% of the share capital of Cosmética Estética Avanzada, S.L., a company whose registered office is in Barcelona (Spain), which is at the start-up phase of its business and will foreseeably engage in the creation, design, development and marketing of cosmetics. Under the joint venture agreement entered into with this company's other shareholder, Antonio Puig, S.A., the Parent undertook to provide EUR 1,850 thousand of financing to Cosmética Estética Avanzada, S.L. in the first few months of 2008 in the form of a participating loan.

### **Held-to-maturity investments**

These relate in full to guarantee deposits for the lease of the properties in which the Group carries on its business activities (see Note 4.5). The changes in the period were as follows:

	Thousands of Euros
<b>Balance at 1 January 2006</b>	<b>1,076</b>
Additions	86
Disposals	(21)
<b>Balance at 31 December 2006</b>	<b>1,141</b>
Additions	24
Disposals	(17)
Transfers (Note 12)	(135)
<b>Balance at 31 December 2007</b>	<b>1,013</b>

### **Available-for-sale financial assets**

The changes in the period were as follows:

	Thousands of Euros
<b>Balance at 1 January 2006</b>	-
<b>Balance at 31 December 2006</b>	-
Additions	1,200
Provisions charged to income	(67)
<b>Balance at 31 December 2007</b>	<b>1,133</b>

The balance of "Available-for-Sale Financial Assets" relates to an investment of 10% of the share capital of Adquiera Servicios Financieros EFC, S.A., which was acquired in 2007 from a related company for EUR 600 thousand, an amount equal to its underlying carrying amount at the transaction date. Subsequently, the Parent subscribed and paid an additional EUR 600 thousand in a capital increase performed by this investee, which is at the start-up phase of its business activity and incurred losses, as envisaged in its business plan, which foresees the generation of profits at medium term. As a result of these losses, the company recognised a provision of EUR 67 thousand with a charge to the 2007 income statement.

## **10. Inventories**

The detail of "Inventories" at 31 December 2007 and 2006 is as follows:

	Thousands of Euros	
	2007	2006
Clinical instruments and small tools	1,506	1,475
Consumables and replacement parts	2,885	3,593
Other procurements	240	171
	<b>4,631</b>	<b>5,239</b>

The Group takes out insurance policies with third parties to cover the possible risks to which its inventories are subject. The policies arranged by the Group covered substantially all of the carrying amount of the Group's inventories at year-end.

## **11. Current financial assets and other current assets**

### **Current financial assets**

#### ***Cash and cash equivalents***

"Cash and Cash Equivalents" includes the Group's cash and short-term bank deposits with an original maturity of three months or less. The carrying amount of these assets approximates their fair value.

#### ***Trade and other receivables***

The Group makes cash collections from customers for all treatments when contracted for. The collection procedures established by the Group companies allow the customer to finance the treatment received through certain financial institutions. "Trade and other Receivables" at the balance sheet date includes, mainly, the amounts due from the aforementioned financial institutions arising from treatments financed in the last few days of the year that had not been collected at year-end and were collected by the Group during the first few days of 2008.

Except in the case of Ultralase Limited, it is Group policy that customers assume all the borrowing costs arising from financing received from the aforementioned financial institutions. The Group receives certain fees which are recognised with a credit to "Other Operating Income" in the consolidated income statement. Ultralase Limited assumes a significant portion of these costs, which are of a finance nature.

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

### **Other current assets**

The detail of the balance of "Other Current Assets" in the consolidated balance sheets at 31 December 2007 and 2006 is as follows:

	Thousands of Euros	
	2007	2006
Tax receivables:		
VAT	2,187	2,908
Income tax	33	1,813
Other taxes	97	116
Other assets	194	1,266
	<b>2,511</b>	<b>6,103</b>

## **12. Discontinued operations**

### **Description of the divestments**

As indicated in Note 1, on 27 December 2007 the Parent's Board of Directors accepted the binding offer presented by 3i Europe Plc. to acquire all of the share capital of its UK subsidiary Ultralase Limited for GBP 174.5 million (approximately EUR 235 million). This offer was conditional on the completion of the legal, tax, financial and labour due diligence reviews to 3i Europe Plc.'s satisfaction and on a satisfactory agreement being reached on the legal documentation for the execution of the transaction. This process was completed in the first few months of 2008 with the sale of the aforementioned holding on 14 February 2008 (see Note 33).

On 28 March 2008, the Group sold the holding in Ultralase Medical Aesthetics Ltd., thus completing the process to that effect initiated in 2007 (see Notes 1 and 33).

### **Profit/Loss and net cash flows from discontinued operations**

The breakdown of the operating results of discontinued operations included in the consolidated income statement is as follows: The comparative figures for 2006 were restated to include operations classified as discontinued in 2007.

	Thousands of Euros			
	2007		2006	
	Ultralase Ltd.	Ultralase Medical Aesthetics, Ltd.	Ultralase Ltd.	Ultralase Medical Aesthetics, Ltd.
Revenue	63,808	248	46,232	466
Procurements	(12,949)	(172)	(9,163)	(392)
Staff costs	(12,039)	(506)	(9,532)	(1,211)
Depreciation and amortisation charge	(3,405)	(93)	(2,554)	(101)
Other expenses	(18,581)	(992)	(14,726)	(3,236)
<b>Profit from operations</b>	<b>16,834</b>	<b>(1,515)</b>	<b>10,257</b>	<b>(4,474)</b>
Finance income	173	-	137	19
Finance costs	(5,439)	(62)	(3,377)	(97)
<b>Profit (Loss) before tax</b>	<b>11,568</b>	<b>(1,577)</b>	<b>7,017</b>	<b>(4,552)</b>
Income tax	(3,650)	(92)	(2,090)	1,210
<b>Profit (Loss) for the year</b>	<b>7,918</b>	<b>(1,669)</b>	<b>4,927</b>	<b>(3,342)</b>

The net cash flows attributable to discontinued operating, investing and financing activities are as follows:

	Thousands of Euros	
	2007	2006
Cash and cash equivalents at beginning of year	1,961	3,031
Cash flows from operating activities	15,407	8,201
Cash flows from investing activities	(7,313)	(6,007)
Cash flows from financing activities	(7,177)	(3,264)
<b>Cash and cash equivalents at end of year</b>	<b>2,878</b>	<b>1,961</b>

#### Assets and liabilities classified as held for sale

The detail of the amounts of the assets and liabilities associated with discontinued operations at 31 December 2007, which related substantially in full to the assets and liabilities of Ultralase Limited, is as follows:

	Thousands of Euros
<b>ASSETS:</b>	
<b>Non-current assets</b>	
Property, plant and equipment	16,074
Goodwill	15,408
Other intangible assets	19,480
Deferred tax assets	142
Other non-current assets	135
<b>Total non-current assets</b>	<b>51,239</b>
<b>Current assets</b>	
Inventories	599
Cash and cash equivalents	2,878
Trade and other receivables	2,257
Current tax assets	172
Other current assets	1,407
<b>Total current assets</b>	<b>7,313</b>
<b>Assets classified as held for sale</b>	<b>58,552</b>

	Thousands of Euros
<b>LIABILITIES:</b>	
<b>Non-current liabilities</b>	
Bank borrowings and other financial liabilities	164
Deferred tax liabilities	3,172
Other non-current liabilities	676
<b>Total non-current liabilities</b>	<b>4,012</b>
<b>Current liabilities</b>	
Trade and other payables	6,109
Bank borrowings and other financial liabilities	160
Current tax liabilities	2,848
Other current liabilities	637
<b>Total current liabilities</b>	<b>9,754</b>
<b>Liabilities associated with assets classified as held for sale</b>	<b>13,766</b>

#### Earnings per share from discontinued operations

Basic earnings per share from discontinued operations in 2007 and 2006, which was the same as diluted earnings per share, amounted to EUR 0.158 and EUR 0.040 per share, respectively.

### 13. Equity

#### 13.1 Share capital

There were no changes in "Share Capital" in 2007 and 2006. The share capital of the Parent at 31 December 2007 consisted of 39,891,135 fully subscribed and paid bearer shares of EUR 0.10 par value each. At that date, all of the Parent's shares were listed on the Madrid, Valencia, Barcelona and Bilbao Stock Exchanges and the Continuous Market.

#### 13.2 Share premium

The balance of "Share Premium" in the consolidated balance sheet did not change in 2007.

The Consolidated Spanish Companies Law expressly permits the use of the share premium account balance to increase the capital of the entities at which it is recognised and does not establish any specific restrictions as to its use.

#### 13.3 Reserves

The detail of the balance of "Reserves" in the consolidated balance sheets is as follows:

	Thousands of Euros	
	2007	2006
<b>Restricted reserves -</b>		
Legal reserve	108	108
Reserve for treasury shares	284	53
Other reserves	9,028	10,209
	<b>9,420</b>	<b>10,370</b>
<b>Voluntary and consolidation reserves -</b>		
Attributable to the Parent	43,826	19,480
Attributable to the other consolidated companies	(43,681)	(21,017)
	<b>145</b>	<b>(1,537)</b>
	<b>9,565</b>	<b>8,833</b>

### **Legal reserve**

Under the Consolidated Spanish Companies Law, 10% of the net profit for each year obtained by Spanish companies must be transferred to the legal reserve until the balance of this reserve reaches at least 20% of the share capital. The legal reserve can be used to increase capital provided that the remaining reserve balance does not fall below 10% of the increased share capital amount.

### **Reserve for treasury shares**

The balance of the reserve for treasury shares is included under "Reserves of the Parent - Other Reserves". Under Article 79.3 of the Consolidated Spanish Companies Law, this reserve is created for the acquisition of treasury shares and is restricted until the shares are sold or redeemed.

### **Other reserves**

Under Spanish corporate law, until the start-up costs in the individual balance sheet of the Parent prepared in accordance with Spanish GAAP have been fully amortised, no income distribution may be made unless unrestricted reserves are at least equal to the unamortised balances at the Parent, which at 31 December 2007, amounted to EUR 9,028 thousand (31 December 2006: EUR 10,209 thousand).

### **Reserves by company**

The detail, by company, of the balances of this account in the consolidated balance sheets - after considering the effect of consolidation adjustments and of the exchange differences recognised in equity as a result of the consolidation process - is as follows:

Company	Thousands of Euros	
	2007	2006
Corporación Dermoestética, S.A.	53,246	29,850
Corporación Dermoestética, S.r.L.	(32,591)	(16,685)
Derma Salud, S.r.L.	(12,218)	(5,379)
Ultralase Limited	6,158	2,734
Ultralase Medical Aesthetics Limited (Note 12)	(5,030)	(1,687)
	<b>9,565</b>	<b>8,833</b>

### 13.4 Translation differences

Translation differences are distributed among the Group companies as follows:

Company	Thousands of Euros
Ultralase Limited	(3,668)
Ultralase Medical Aesthetics Limited	187
Corporación Dermoestética, S.A. de C.V. (Mexico)	(27)
	<b>(3,508)</b>

### 13.5 Shares of the Parent

The changes in "Shares of the Parent" in 2007 and 2006 were as follows:

	Euros		
	Number of Shares	Amount	% of Share Capital
Balance at 1 January 2006	-	-	-
Purchases	81,392	720,404	0.2
<b>Balance at 31 December 2006</b>	<b>81,392</b>	<b>720,404</b>	<b>0.2</b>
Purchases	323,565	2,815,664	0.82
<b>Balance at 31 December 2007</b>	<b>404,957</b>	<b>3,536,068</b>	<b>1.02</b>

The purchases of treasury shares in 2006 were made pursuant to the resolutions adopted at the Annual General Meeting of the Parent on 27 May 2006 and at the meeting of its Board of Directors on 12 December 2006, without specifying the purpose for which they were intended.

The purchases of treasury shares in 2007 were made pursuant to the resolutions adopted at the Annual General Meeting of the Parent on 19 May 2007, thus revoking the unused portion of the authorisation to acquire treasury shares granted by the shareholders at the Annual General Meeting of the Parent on 27 May 2006. This purchase of treasury shares was approved by the Board on 5 July 2007, without specifying the purpose for which they were intended.

### 13.6 Minority interests

The balance of "Minority Interests", which arose in full in 2007, relates to the minority interests' 49% stake in Corporación Dermoestética S.A. de C.V. (Mexico), which was incorporated during the year. The only shareholder other than the Parent owning more than 10% of this investee, which is at the start-up phase, is the Mexican company Consorcio Impulsa, S.A. de C.V.

## 14. Long-term provisions

The changes in provisions in 2007 and 2006 were as follows:

	Thousands of Euros
<b>Balance at 1 January 2006</b>	<b>3,225</b>
Period provision charged to income	
For the restructuring of subsidiaries	1,307
Other	2,107
Amounts used	(1,123)
<b>Balance at 31 December 2006</b>	<b>5,516</b>
Period provision charged to income	1,251
Amounts used	
For the restructuring of subsidiaries	(1,212)
Other (Note 25.2)	(2,115)
<b>Balance at 31 December 2007</b>	<b>3,440</b>

The Group makes provisions for liability of any kind or nature arising from litigation in progress, indemnity payments or obligations of undetermined amount, and collateral and other similar guarantees provided by the Group, both those identified individually and those incurred but estimated on the basis of past experience accumulated to date provided that they can be determined reliably and they are not covered by the third-party liability insurance policies taken out by the Group.

Accordingly, the Group does not recognise as provisions contingent liabilities that do not arise from current obligations or whose amount cannot be estimated reliably.

In 2006 the Group recognised a provision of EUR 1,307 thousand for the restructuring of its Italian subsidiaries, in accordance with the Plan approved by the Parent's Board of Directors, with a charge to "Other Operating Expenses- Restructuring Costs" in the consolidated income statement for 2006 (see Note 21.4). This provision included, mainly, redundancy costs, the cancellation of lease agreements and other onerous contracts and the costs to be incurred for implementation of the Restructuring Plan. The Plan began in the final quarter of 2006 and was completed substantially in full in 2007.

## **15. Bank borrowings and other financial liabilities**

The detail of the balance of "Bank Borrowings and Other Financial Liabilities" in the consolidated balance sheets is as follows:

	Thousands of Euros			
	2007		2006	
	Current Maturity	Non-Current Maturity	Current Maturity	Non-Current Maturity
Obligations under finance leases (Note 16)	500	554	842	1,331
Bank loans	7,822	26,813	5,423	32,558
	<b>8,322</b>	<b>27,367</b>	<b>6,265</b>	<b>33,889</b>

The detail, by maturity, of the balance of non-current bank borrowings at 31 December 2007, is as follows:

	Thousands of Euros				
	2009	2010	2011	2012	Total
Obligations under finance leases	306	248	-	-	554
Bank loans	7,943	7,240	6,615	5,015	26,813
	<b>8,249</b>	<b>7,488</b>	<b>6,615</b>	<b>5,015</b>	<b>27,367</b>

At 31 December 2007, all the bank borrowings were instrumented in euros. At 31 December 2006, substantially all the bank borrowings were instrumented in euros.

In 2007 and 2006 the bank borrowings bore interest at the following average annual rate intervals:

	2007	2006
Obligations under finance leases	4.8%	4.1%
Bank loans	4.7%	3.4%

All the bank loans amounting to EUR 34,635 thousand (2006: EUR 37,981 thousand) were arranged at floating rates, exposing the Group to cash flow interest rate risk.

The Parent's directors consider that the fair value of the Group's borrowings matches their carrying amount.

The Group has the following bank loans:

- (i) Loans of EUR 1,593 thousand of the Italian Group companies (2006: EUR 2,188 thousand). These loans were taken out in prior years and their final contractual maturity is in 2010. The loans bear interest at Euribor plus an average spread of 0.6%.
- (ii) Loans of EUR 31,042 thousand (2006: EUR 35,793 thousand) to finance the acquisition of Ultralase Limited, for which there are no in rem guarantees or covenants of a financial or other nature except for a loan of EUR 6 million maturing in 2012 which includes a clause relating to the fulfilment of certain financial ratios by the Parent. Failure to achieve these ratios would lead to the automatic repayment of the outstanding principal of the loan. In the Parent's directors' opinion at 31 December 2007, it was achieving all the above-mentioned ratios.

These loans were taken out in prior years for an initial amount of EUR 37 million. Their final maturity is in 2012. The loans bear interest tied to Euribor plus a spread of approximately 0.65% signifying Group interest of EUR 1,620 thousand (2006: EUR 1,261 thousand) which was recognised under "Finance Costs" in the accompanying 2007 consolidated income statement (see Note 23).

- (iii) Loan of EUR 2,000 thousand arranged by the Parent in 2007 with final maturity in 2012.

## **16. Obligations under finance leases**

It is the Group's policy to lease certain of its fixtures and equipment under finance leases. The average lease term is three to five years. Note 15 shows the average effective borrowing rate in 2007 and 2006. Interest rates are set at the contract date. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

All the lease obligations are denominated in euros. The fair value of the Group's lease obligations approximates their carrying amount (see Note 15).

## **17. Accounts payable and other current liabilities**

### ***Customer advances***

The Group makes cash collections from customers for all treatments when contracted for. This treatment is recognised as income in the consolidated income statement on an accrual basis, based on the sessions that have actually taken place. Collections for treatment relating to sessions taking place subsequent to year-end are included under "Advances Received from Customers" on the liability side of the consolidated balance sheet.

### ***Trade payables***

The balance of "Trade Payables" includes the accounts payable arising from the Group's ordinary commercial transactions.

The directors consider that the carrying amount of trade payables approximates their fair value.

### ***Other current liabilities***

The detail of the balance of "Other Current Liabilities" in the consolidated balance sheets at 31 December 2007 and 2006 is as follows:

	Thousands of Euros	
	2007	2006
Compensation payable	1,390	1,705
Tax payables:		
Income tax	-	697
Other taxes	912	2,876
Other current liabilities	88	868
	<b>2,390</b>	<b>6,146</b>

## **18. Deferred payments**

The changes in 2007 and 2006 in "Non-Current Liabilities - Deferred Payments" in the accompanying consolidated balance sheet were as follows:

	Thousands of Euros
<b>Balance at 1 January 2006</b>	<b>1,045</b>
Additions	182
Amount taken to income	(6)
<b>Balance at 31 December 2006</b>	<b>1,221</b>
Additions	23
Amount taken to income	(93)
Transfers (Note 12)	(676)
<b>Balance at 31 December 2007</b>	<b>475</b>

Substantially all the balance relates to the deferral of the income obtained for the initial grace periods granted to the Group under operating leases in relation to the premises in which the Group operates, for its uniform allocation to income over the term of the leases.

## **19. Revenue**

The detail of "Revenue" in the consolidated income statements for 2007 and 2006 is as follows:

	Thousands of Euros	
	2007	2006
Revenue from the rendering of services	84,754	84,939
Sale of goods	1,714	969
<b>Revenue</b>	<b>86,468</b>	<b>85,908</b>
Other operating income	895	938
<b>Other operating income</b>	<b>895</b>	<b>938</b>

"Revenue from the Rendering of Services" relates mainly to the provision of aesthetic and medical-aesthetic services as part of the Group's ordinary operations in Spain, Portugal and Italy. "Sale of Goods" includes, inter alia, the revenue arising from sales of cosmetic products manufactured by the Group in Spain.

## **20. Segment reporting**

### **20.1 Basis of segmentation**

Segment reporting is generally structured on a primary basis by geographical segment and on a secondary basis by business segment, on the basis of the Group's various lines of business.

#### ***Primary segments - geographical segments***

The Group's operations are located in Spain, Portugal, Italy and the United Kingdom, and operations will foreseeably commence in Mexico in 2008. The business activity carried on by the Group in the United Kingdom and performed by Ultralase Limited and Ultralase Medical Aesthetics Limited were classified as discontinued operations (see Notes 1 and 12).

#### ***Secondary segments - business segments***

The business lines described below were established on the basis of the Group's organisational structure at 2007 year-end, taking into account, on the one hand, the nature of the services offered and, on the other, the customer segments at which they are targeted.

In 2007 the Group engaged mainly in the following major lines of business, which provide the basis on which the Group presents the information on its secondary segments:

- Medical - aesthetic;
- Ocular laser surgery. Within the Group, this business line was developed almost exclusively by Ultralase Limited, which was classified as a discontinued operation (see Notes 1 and 12).

## 20.2 Basis and methodology for geographical segment reporting

The segment reporting below is based on reports prepared by the management of the various Group companies.

The segment's ordinary income relates to the ordinary income directly allocable to the segment plus the relevant proportion of the Group general income that can be allocated thereto using reasonable allocation bases. The ordinary income of each segment does not include interest income or dividends, gains on the disposal of investments or on debt redemption or repayment transactions.

The expenses of each segment are determined as the expenses arising from its operating activities directly attributable to it plus the relevant proportion of the expenses that can be allocated to the segment using reasonable allocation bases. The expenses allocated do not include interest, or losses arising from the disposal of investments or losses on debt redemption or repayment transactions. Similarly, they do not include the income tax expense or the head office's general administrative expenses that are not related to the segments' operating activities and, therefore, that cannot be allocated using reasonable allocation bases. The segment's profit/loss is presented before any adjustments which might relate to minority interests.

The assets and liabilities of the segments are those that are directly related to operations, plus those that can be directly attributed to it on the basis of the above-mentioned allocation system, and include the proportional part of joint ventures. Liabilities do not include the income tax expense.

Segment information, by geographical area, is presented below.

### Primary segments

	Thousands of Euros									
	Spain/Portugal		Italy		United Kingdom		Mexico		Total Group	
	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006
<b>Total revenue</b>	80,095	80,002	6,373	5,906	64,056	46,698	-	-	150,524	132,606
<b>RESULT</b>										
Profit/loss	7,269	12,987	(18,022)	(13,747)	15,319	5,783	(87)	-	4,479	5,023
Financial	(1,335)	(358)	(575)	(606)	(5,328)	(3,318)	-	-	(7,238)	(4,282)
Profit/loss	5,934	12,629	(18,597)	(14,353)	9,991	2,465	(87)	-	(2,759)	741
Tax	(447)	9,377	6,086	(8,392)	(3,742)	(880)	-	-	1,897	(9)
Segment	5,487	22,006	(12,511)	(22,745)	6,249	1,585	(87)	-	(862)	732

	Thousands of Euros									
	Spain/Portugal		Italy		United Kingdom		Mexico		Total	
	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006
<b>Other information</b>										
Property, plant and equipment additions	2,557	3,383	109	213	7,475	6,097	-	-	10,141	9,693
Intangible asset additions	-	267	-	-	-	-	-	-	-	267
Other non-current asset additions	2,949	-	-	-	-	-	-	-	2,949	-
Costs not giving rise to an outflow of cash										
Depreciation and amortisation charge	3,534	3,386	1,637	1,795	3,498	2,654	-	-	8,669	7,836
Provisions	585	2,107	9,454	1,307	-	-	-	-	10,039	3,414
<b>Consolidated balance sheet</b>										
Segment assets	38,580	42,099	5,614	17,044	58,552	55,546	-	-	102,746	114,689
Segment liabilities	68,104	72,659	2,691	7,858	13,766	8,701	-	-	84,561	89,218
Net equity by segment	73,450	67,526	(59,161)	(44,809)	3,896	2,754	-	-	18,185	25,471

The profit, assets and liabilities contributed by discontinued operations relate in full to the "United Kingdom" primary segment.

### Secondary segments

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

	Thousands of Euros					
	Revenue		Total Assets		Additions to Property, Plant and Equipment and Intangible Assets	
	2007	2006	2007	2006	2007	2006
Medical - aesthetic	86,717	86,374	44,870	61,723	2,666	3,807
Ocular laser surgery	63,807	46,232	57,876	52,966	7,475	5,886
<b>Total</b>	<b>150,524</b>	<b>132,606</b>	<b>102,746</b>	<b>114,689</b>	<b>10,141</b>	<b>9,693</b>

The "Ocular Laser Surgery" secondary segment relates in full to discontinued operations.

## 21. Expenses

### 21.1 Procurements

The detail of "Procurements" in the consolidated income statements for 2007 and 2006 is as follows:

	Thousands of Euros	
	2007	2006
Purchases of raw materials and other supplies	7,728	7,587
Healthcare services	9,296	8,366
Work carried out by other companies	5,758	4,565
Changes in inventories of merchandise, raw materials and other goods	(216)	(1,180)
<b>Procurements</b>	<b>22,566</b>	<b>19,338</b>

The balance of "Healthcare Services" relates mainly to the work performed for the Group by graduate healthcare professionals and the services of healthcare companies. In 2007, a total of 464 professionals (2006: 376 professionals), including doctors and surgeons, provided external healthcare services. "Work Performed by Other Companies" includes expenses relating mainly to laundry, cleaning and waste management services.

## 21.2 Staff costs

The detail of "Staff Costs" in the consolidated income statements for 2007 and 2006 is as follows:

	Thousands of Euros	
	2007	2006
Wages and salaries	16,759	17,114
Social security costs	4,171	4,363
Termination benefits	138	667
	<b>21,068</b>	<b>22,144</b>

The average number of employees at the Group (excluding those belonging to discontinued operations), by professional category and gender, was as follows:

	Number of Employees			
	2007		2006	
	Men	Women	Men	Women
Executives and middle management	7	89	9	93
Graduate healthcare professionals	36	92	29	86
Assistant healthcare personnel	1	250	2	259
Other healthcare personnel	2	-	1	-
Non-healthcare personnel	22	346	22	393
	<b>68</b>	<b>777</b>	<b>63</b>	<b>831</b>

## 21.3 Operating leases

The Group carries on its business activities in leased properties. As indicated in Note 28, some of the properties are leased to the Group by a related company. The Group has arranged operating leases for all the properties for an average term of 13 years, without any additional significant features, and is recognising the expense over the lease term on a straight-line basis, regardless of the payment schedule, as stipulated in International Accounting Standard 17 Leases. The difference between the expense recognised and the amount actually paid is classified by the Group under "Deferred Payments" in the consolidated balance sheets at 31 December 2007 and 2006.

At 31 December 2007, the Group had acquired commitments for future minimum lease payments under operating leases, which fall due as follows:

	Thousands of Euros	
	2007	2006
Within one year	6,813	5,808
Between two and five years	22,672	24,496
After five years	37,131	32,972
	<b>66,616</b>	<b>63,276</b>

With respect to the information in the foregoing table, certain leases for premises relating to the various Group companies include specific penalties in the event of early termination, in accordance with usual market and regulatory terms and conditions in the related countries. The total penalties at 31 December 2007 amounted to EUR 1,109 thousand (2006: EUR 1,391 thousand), which are secured by the Parent.

#### 21.4 Other operating expenses

The detail of the balance of "Other Operating Expenses" in the consolidated income statements for 2007 and 2006 is as follows:

	Thousands of Euros	
	2007	2006
Advertising and publicity	25,824	23,382
Rent and royalties	6,740	6,738
Other services	3,234	2,001
Independent professional services	1,541	881
Restructuring costs	-	1,307
Utilities	808	852
Repair and upkeep expenses	677	773
Charge for the year	520	392
Transport costs	336	289
Insurance premiums	284	390
Banking and similar services	217	252
Taxes other than income tax	699	593
	<b>40,880</b>	<b>37,850</b>

The fees for financial audit services provided by the principal auditor and by other entities related to the auditor in 2007 amounted to EUR 109 thousand (2006: EUR 118 thousand), of which EUR 77 thousand (2006: EUR 70 thousand) related to the Parent. Also, the fees for other professional services provided in 2007 to the Parent by the principal auditor amounted to EUR 25 thousand (2006: EUR 18 thousand).

## 22. Finance income

The detail of the balance of "Finance Income" in the consolidated income statements for 2007 and 2006 is as follows:

	Thousands of Euros	
	2007	2006
Interest on bank deposits	-	152
Interest on current accounts	67	100
Other finance income	-	5
	<b>67</b>	<b>257</b>

### **23. Finance costs**

The detail of the balance of "Finance Costs" in the consolidated income statements for 2007 and 2006 is as follows:

	Thousands of Euros	
	2007	2006
Interest on long-term loans (Note 15)	1,620	1,153
Interest on obligations under finance leases	93	66
Other finance costs	264	2
	<b>1,977</b>	<b>1,221</b>

### **24. Contribution to profit/loss**

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

	Thousands of Euros	
	Income/(Expenses)	
	2007	2006
Corporación Dermoestética, S.A.	5,487	22,006
Corporación Dermoestética, S.r.L.	(6,634)	(15,906)
Dermo Salud, S.r.L.	(5,877)	(6,839)
Corporación Dermoestética, S.A. de C.V.	(44)	-
Discontinued operations (Note 12)	6,249	1,471
<b>Total</b>	<b>(819)</b>	<b>732</b>

### **25. Tax matters**

#### **25.1 Years open for review by the tax authorities**

The consolidated companies have the years that have not become statute-barred open for review by the tax authorities for the taxes applicable to them.

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

## 25.2 Reconciliation of the accounting loss to the tax loss

The Parent and all the Group's subsidiaries file individual tax returns in accordance with the tax legislation in force in each country.

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

	Thousands of Euros	
	2007	2006
Consolidated loss before tax	(12,750)	(1,724)
Permanent differences	(587)	875
Adjusted loss	<b>(13,337)</b>	<b>(849)</b>
Tax rate	30%	35%
Income tax at the applicable tax rate	4,001	(297)
Effect of applying different tax rates	-	(64)
Tax credits	-	-
<b>Income tax (expense)/income</b>	<b>4,001</b>	<b>(361)</b>
Temporary differences	(1,074)	(798)
<b>Net tax (payable)/refundable</b>	<b>2,927</b>	<b>(1,159)</b>

Also, the Group recognised other items with a charge or a credit to "Income Tax" in the consolidated income statement for 2007, the detail being as follows:

	Thousands of Euros
2007 income tax income	(4,001)
Change in 2006 tax losses	(540)
Change in deferred tax liabilities - Italy	(1,383)
Other items	285
<b>Income tax expense (income)</b>	<b>(5,639)</b>

As a result of the Parent's directors' decision to perform an orderly liquidation of the Italian subsidiaries (see Note 33), the Group derecognised the deferred taxes it had recognised in relation to the elimination of the effect of the provisions that the Parent recognised in its individual financial statements for its financial investments in the Italian subsidiaries at the balance at 31 December 2006 of EUR 1,383 thousand, with a credit to "Income Tax" in the accompanying consolidated income statement for 2007.

In accordance with Article 12.5 of the Spanish Corporation Tax Law, the Parent considered the tax amortisation of goodwill arising from the difference between the cost of acquisition of Ultralase Limited and its carrying amount on the date of acquisition as deductible (see Note 5), up to the maximum annual limit of one twentieth of this amount. Accordingly, the Group recognised the difference of EUR 1,341 thousand (31 December 2006: EUR 839 thousand) between the tax charge allocated to the current year and to prior years and the tax payable was recorded under "Non-Current Liabilities - Deferred Tax Liabilities" in the accompanying consolidated balance sheet at 31 December 2007 (see Notes 12 and 25.3).

Law 35/2006, of 28 November, relating to Personal Income Tax and partially amending the Spanish Corporation Tax, Non-Resident Income Tax and Wealth Tax Laws was enacted in November 2006; inter alia, it partially

amended the Companies Law, establishing that the general tax rate will be 32.5% for tax periods commencing on or after 1 January 2007 and 30% for tax periods commencing on or after 1 January 2008. As a result, in 2006 the Parent re-calculated the amount of the deferred tax assets and liabilities and tax credits recognised in the consolidated balance sheet, taking into account the year in which they will foreseeably reverse. As a result of this recalculation, EUR 1,163 thousand was recognised with a credit to "Income Tax" in the consolidated income statement for 2006. In calculating the income tax return for 2007, the Group applied a tax rate of 30%, since tax losses arose that will be available for offset subsequent to 2008.

Current Spanish corporation tax legislation provides certain tax incentives to encourage, inter alia, new investments, staff training, research and development, and exports. At 31 December 2007, the Parent has outstanding tax credits for exporting activities not yet applied totalling EUR 6,007 thousand, which were generated in 2004 and 2005 and, in accordance with the accounting principle of prudence, it has not recognised the related tax credits in this connection, taking into account the current situation regarding the legislation establishing these tax credits, which is described in the following paragraph. Under current legislation, these tax credits may be used within a period of ten years from the year in which they arise.

The European Commission decision of 22 March 2006 considered that the tax credit for export activities was State aid and incompatible with the European common market and obliged Spain to gradually eliminate the tax credit and to stop immediately any aid related to the establishment of retail networks. In prior years, the Parent availed itself of the tax benefits under the aforementioned legislation and deducted EUR 1,411 thousand.

In March 2006 the Portuguese tax authorities notified the Parent of the commencement of general verification and investigation inspections at the subsidiary incorporated in Portugal in relation to VAT from 2002 to 2006, both inclusive and income tax from 2002 to 2005. As a result of this inspection, certain tax assessments were issued amounting to EUR 2,082 thousand, which were paid in full by the Parent in 2007. The Parent's directors appealed against these assessments, as provided for by Portuguese legislation. The Parent recognised provisions for contingencies and charges for the full amount of these assessments, which were almost entirely recognised in prior years, reversed when payment was made (see Note 14).

### 25.3 Deferred taxes

Pursuant to the tax legislation in force in the countries in which the consolidated companies are located, in 2007 and 2006 certain temporary differences arose that must be taken into account when quantifying the related income tax expense. The deferred taxes arose in 2007 and 2006 as a result of the following:

Deferred Tax Assets:	Thousands of Euros	
	2007	2006
Tax loss carryforwards (Spain)	8,255	4,788
Impairment losses (Italy)	1,841	-
Other	260	475
	<b>10,356</b>	<b>5,263</b>

Deferred Tax Liabilities:	Thousands of Euros	
	2007	2006
Elimination of allowances for financial assets	-	2,587
Tax deductibility of Ultralase goodwill (Note 12)	-	839
Other	1,732	1,767
	<b>1,732</b>	<b>5,193</b>

The changes in 2007 and 2006 in "Deferred Tax Assets" and "Deferred Tax Liabilities" in the Group's consolidated balance sheet were as follows:

Deferred Tax Assets	Thousands of Euros
<b>Balance at 1 January 2006</b>	<b>11,677</b>
Additions	2,211
Disposals	(8,625)
<b>Balance at 31 December 2006</b>	<b>5,263</b>
Additions	5,308
Disposals	(73)
Transfers (Note 12)	(142)
<b>Balance at 31 December 2007</b>	<b>10,356</b>

Deferred Tax Liabilities	Thousands of Euros
<b>Balance at 1 January 2006</b>	<b>12,405</b>
Additions	920
Disposals	(8,132)
<b>Balance at 31 December 2006</b>	<b>5,193</b>
Additions:	
From continuing operations	1,555
From discontinued operations	254
Disposals	(2,098)
Transfers (Note 12)	(3,172)
<b>Balance at 31 December 2007</b>	<b>1,732</b>

The Parent and certain subsidiaries incurred losses in prior years and the current year which will be able to be offset by the companies which incurred the tax losses against the taxable profits generated in future years under the terms provided for in the tax legislation in force in their respective countries. The detail of the tax loss carryforwards at 31 December 2007, based on the year in which they arose, is as follows:

	Thousands of Euros						
	2002	2003	2004	2005	2006	2007	Total
Corporación Dermoestética, S.A.	-	-	-	8,593	9,169	9,756	27,518
Corporación Dermoestética, S.r.L.	-	2,059	3,900	7,155	2,590	2,221	17,925
Ultralase Medical Aesthetics, Ltd. (Note 18)	-	-	1,654	1,173	-	-	2,827
Società Italiana di Medicina e Chirurgia, S.r.L.	3	1	1,010	1,166	1,167	1,138	4,485
Derma Salud, S.r.L.	-	-	700	1,043	969	985	3,697
Belle Epoque, S.r.L.	-	75	682	635	1,603	1,194	4,189
Alta Estética, S.r.L.	-	67	814	401	457	453	2,192
Instituto Medico Laser, S.r.L.	-	-	402	729	852	27	2,010
Belmed, S.r.L.	31	295	330	192	296	11	1,155
Cliniche Futura, S.r.L.	-	-	194	525	793	168	1,680
Obiettivo Uno, S.r.L.	53	231	351	74	308	12	1,029
Istituto Cosmética Avanzata, S.r.L.	-	-	28	634	2,506	2,134	5,302
Studio Estética i Benessere, S.r.L.	-	-	41	450	1,254	1,523	3,268
Medicalia, S.r.L.	-	-	-	107	273	-	380
Medical International Center, S.r.L.	-	-	-	-	42	-	42
	<b>87</b>	<b>2,728</b>	<b>10,106</b>	<b>22,877</b>	<b>22,279</b>	<b>19,622</b>	<b>77,699</b>

At 31 December 2007, a non-current deferred tax asset of EUR 8,255 thousand (2006: EUR 4,788 thousand) was recognised for the tax losses that arose at the Parent. Considering the situation of the other Group companies at the date of preparation of these financial statements, no tax assets for tax losses were recognised in relation thereto (see Notes 1 and 33).

The aggregate amount of deferred taxes associated with retained earnings contributed on consolidation by the subsidiaries in which deferred tax liabilities were not recognised was EUR 1,847 thousand (2006: EUR 1,685 thousand). The full amount relates to Ultralase Limited. No liabilities were recognised in this connection because, taking into account the tax system applicable to the sale of the Parent's holding in the aforementioned company (see Note 33), no tax will be payable on the above-mentioned retained earnings.

## **26. Allocation of loss of the Parent**

The proposed distribution of the net loss for 2007 prepared by the Parent's directors, which has not yet been approved by the shareholders at the Annual General Meeting, is to appropriate the full amount of the loss for the year, EUR 7,858 thousand, to "Prior Years' Losses".

## **27. Earnings per share**

### **27.1 Basic earnings per share**

Basic earnings per share are calculated by dividing the net profit or loss attributable to the Parent (after tax and minority interests) by the weighted average number of shares outstanding during the year, excluding the average number of treasury shares held in the year.

Accordingly:

	2007	2006	Change
Net profit/loss for the year (thousands of euros):			
From continuing operations	(7,111)	(853)	(6,258)
From discontinued operations	6,249	1,585	4,664
Weighted average number of shares outstanding	39,567,890	39,890,579	(322,689)
<b>Basic earnings per share (euros)</b>			
<b>From continuing operations</b>	<b>(0.180)</b>	<b>(0.021)</b>	<b>(0.159)</b>
<b>From discontinued operations</b>	<b>0.158</b>	<b>0.039</b>	<b>0.119</b>

## 27.2 Diluted earnings per share

Diluted earnings per share are calculated in a similar way to the basic earnings per share, but the weighted average number of shares outstanding is adjusted to take into account the potential dilutive effect of share options, warrants and convertible debt outstanding at the end of the year.

The number of dilutive shares linked to warrants outstanding at year-end is calculated in two phases: firstly, the hypothetical cash amount that would be received from exercising these warrants is divided by the annual average share price and, then, the difference between the amount determined in the first phase and the actual number of potential shares is calculated, which represents the theoretical number of shares outstanding without taking into account the dilutive effect. The profit for the year is not adjusted.

Diluted earnings per share in 2007 coincide with the basic earnings per share, since there were no share options, warrants or convertible debt outstanding at year-end.

## 28. Related party transactions

Transactions between the Parent and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this Note. These transactions are disclosed in the respective individual financial statements. Also at 31 December 2007, the Parent had provided guarantees for a total of EUR 2,702 thousand to third parties for its subsidiaries. These guarantees relate to liabilities or other obligations of various types which are recognised or disclosed, as appropriate, in these consolidated financial statements.

### ***Transactions with significant shareholders***

Transactions performed by the Parent and/or its Group with significant shareholders form part of the Group's normal business activities and are performed on an arm's length basis, the most significant being as follows:

Soul Corporación, S.L., and all its subsidiaries are related parties of the Group because Soul Corporación, S.L. is a wholly-owned investee of José María Suescun, Chairman, Chief Executive Officer and majority shareholder of the Parent. Soul Corporación, S.L. owns approximately 20% of the properties that house the Group's clinics (24% if only continuing operations are considered). The consolidated companies have arranged leases on the above-mentioned properties for an average period of ten years, except in the case of two premises in Italy, the lease term for which is 20 years. The amount paid for the lease of these properties in 2007 amounted to EUR 2,364 thousand (31 December 2006: EUR 1,965 thousand). These contracts establish deposits for a total of EUR 335 thousand (2006: EUR 322 thousand). At 31 December 2007, there were no amounts payable to Soul Corporación, S.L. or to its subsidiaries. Furthermore, services were provided by other companies related to the Group amounting to EUR 77 thousand (2006: EUR 16 thousand).

## **29. Remuneration of directors and senior executives**

### **29.1 Remuneration of directors**

#### ***Salaries and other remuneration***

The salaries received in 2007 by the directors of the Parent with executive duties (five men and one woman) amounted to EUR 554 thousand (EUR 473 thousand of fixed remuneration and EUR 81 thousand of variable remuneration). In 2006 they received EUR 802 thousand (EUR 508 thousand of fixed remuneration and EUR 294 thousand of variable remuneration).

#### ***Other remuneration***

In 2007 EUR 58 thousand were paid for services provided by certain non-executive members of the Parent's Board of Directors (2006: EUR 51 thousand).

#### ***Directors' remuneration arising from the Parent's equity interests in other companies***

The directors did not receive any remuneration in 2007 or 2006 for representing the Parent on the Boards of Directors of the Parent's investees.

#### ***Other items***

No advances, loans or option plans on the shares of any of the consolidated companies have been granted to the members of the Board of Directors.

The Group companies do not have any pension or life insurance obligations to the members of former managing bodies or to the current directors of the Parent.

### **29.2 Remuneration of senior executives**

The remuneration of senior executives (five executives who discharged key duties in 2007 and six in 2006) - excluding those who are simultaneously members of the Board of Directors (whose remuneration is disclosed above) - is summarised as follows:

	Thousands of Euros	
	2007	2006
Salaries:		
Fixed	375	488
Variable	112	171
Other remuneration	-	3,774
	<b>487</b>	<b>4.433</b>

### **29.3 Other disclosures concerning the Board of Directors**

#### ***Situations of conflict of interest***

In 2007 no conflicts of interest arose with the Group companies at which the directors served, without prejudice to the abstentions, even though no conflict existed and in order to take the utmost precaution, recorded in the minutes of the meetings of the managing bodies of the Group companies.

In any event, any situations of conflict of interest involving the Parent's directors would be disclosed in the annual corporate governance report.

In 2007 there were no transactions between the directors and the Group companies other than ordinary business transactions carried out on an arm's length basis.

### **Positions and investments held by the directors**

Pursuant to Law 26/2003, of 17 July, which amended Securities Market Law 24/1988, of 28 July, and the consolidated Spanish Companies Law, approved by Legislative Royal-Decree 1564/1989, of 22 December, in order to reinforce the transparency of publicly listed corporations, the directors declared to the Parent that in 2007 they held the following effective direct and indirect ownership interests and discharged the following duties or functions at companies engaging in an activity that is identical, similar or complementary to the activity in which the Parent engages:

Director	Name of Company	Percentage of Ownership	Position or Functions
José María Suescun Verdugo	Dermo Salud, S.r.L.	0.10%	-
	Società Italiana di Medicina e Chirurgia, S.r.L.	0.10%	-
	Cliniche Futura, S.r.L.	0.10%	-
	Istituto Cosmética Avanzata, S.r.L.	0.10%	-
	Corporación Dermoestética, S.r.L.	0.10%	-
	Alta Estética, S.r.L.	0.10%	-
	Belle Epoque, S.r.L.	0.10%	-
	Istituto Medico Laser, S.r.L.	0.10%	-
	Belmed, S.r.L.	0.10%	-
	Obiettivo Uno, S.r.L.	0.10%	-
	Studio Estética i Benessere, S.r.L.	0.10%	-
	Aesthetic International Center, S.r.L.	0.10%	-
	Medicalia, S.r.L.	0.10%	-
	Medical International Center, S.r.L.	0.10%	-
Soul Corporación, S.L.	100%	Sole director	
Fernando García Llinares	Dermo Salud, S.r.L.	-	Deputy chairman and director
	Società Italiana di Medicina e Chirurgia, S.r.L.	-	Deputy chairman and director
	Cliniche Futura, S.r.L.	-	Deputy chairman and director
	Istituto Medico Laser, S.r.L.	-	Deputy chairman and director
	Medicalia, S.r.L.	-	Deputy chairman and director
	Medical International Center, S.r.L.	-	Deputy chairman and director
Antonio Sánchez Rodado	Soul Corporación, S.L.	-	Attorney; professional services rendered

### **30. Guarantee commitments to third parties**

At 31 December 2007 and 2006, the Group had received from financial institutions and insurance companies guarantees provided to third parties totalling EUR 713 thousand and EUR 1,190 thousand, respectively, to secure proper performance of the commercial agreements executed with the third parties in the Group's ordinary business activities.

The subsidiary, Ultralase Limited has also provided guarantees to a financial institution for a total of EUR 2,182 thousand (2006: EUR 2,383 thousand) for the uncollectibility risk in relation to customers for certain treatments financed by this institution.

The Group's directors consider that the aforementioned guarantees will not give rise to any payment obligation for the consolidated companies and, therefore, the aggregate balance of these commitments cannot be considered to constitute an actual future need for the Group to provide financing or liquidity to third parties.

### **31. Contingent liabilities and contingent assets**

The Group's contingent liabilities relate mainly to certain liabilities of a tax and labour nature (see Note 25.2) amounting to EUR 2,450 thousand at 31 December 2007 (31 December 2006: EUR 3,776 thousand), for which no provisions were recognised in these consolidated financial statements.

Certain legal proceedings are currently in progress arising from claims filed against the Parent and certain of its executives. The Parent's directors and its legal advisers consider that the final outcomes of these proceedings will not have a material impact on the Group.

The Group has also been carrying out its activity at one of its clinics without having yet obtained the relevant operating licence. To date, the Group has appealed against the administrative rulings which refused to grant this licence, the outcome of which was unfavourable. The directors consider that this situation will not have a material adverse effect on the Group in the future and that operations at that clinic will be able to continue as normal.

### **32. Other contingencies**

#### **32.1 Exposure to credit risk**

The Group's main financial assets are its balances of cash and cash equivalents.

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

The directors consider that, in relation to the credit risk on trade receivables, the Group's exposure is low, for the following reasons:

- The risk on receivables from financial institutions is limited because the counterparties are banks with high credit-ratings assigned to them by international credit-rating agencies.
- In the case of the Group's direct customers, the credit risk is transferred by the Group to the aforementioned banks, so that, in most cases, the risk of customer non-payment is fully assumed by the banks, except in certain cases relating to Ultralase Limited (see Notes 11.1 and 31).

#### **32.2 Interest rate risk exposure**

##### ***Loan risk***

The Group has historically had a positive cash position. However, since 2005 Group borrowings have increased by approximately EUR 37 million due to the loans obtained to finance the acquisition of Ultralase Limited. These loans are tied to Euribor, and, therefore, interest rate fluctuations could have a material effect on the Group's operating results and financial position.

The directors estimate that a reasonable increase or decrease (estimated at 100 basis points) in the reference interest rate would have a negative or positive effect, respectively, of approximately EUR 360 thousand on the consolidated income statement for 2007.

The interest rate on these loans is revised every 12 months and, accordingly, the first revision for all the loans will be in 2008.

From 2008 onwards, as a result of the sale of Ultralase Limited, the Group will again have a positive cash position.

#### ***Risk on agreements with banks***

The Group is also exposed to interest rate risk in relation to the subsidiary Ultralase Limited, since this company assumes the cost of financing treatment in deferred collection transactions, unlike the other Group companies, where it is assumed by the customer (see Note 31). However, as a result of the sale of its holding in Ultralase Limited, from 2008 the Group is no longer exposed to this risk.

### **32.3 Exposure to exchange rate risk**

Certain Group companies operate in the United Kingdom. The operating results and the financial position of these companies are expressed in pounds sterling and are translated to euros at the applicable exchange rate for their consolidation in the Group's consolidated financial statements. This exposes the Group to foreign exchange risk.

Since the Group's financial statements are expressed in euros, fluctuations in the pound sterling/euro exchange rate could have a material impact on the Group's operating results and financial position.

As a result of the sale of the Group's operations in the United Kingdom, this exposure no longer exists. However, the price of these sales was received in pounds sterling. In order to hedge the risk of fluctuations of the euro against the pound, in 2008 the Group arranged specific foreign exchange rate hedging transactions, which partially cover the amount received.

### **32.4 Exposure to other market risks**

The most significant market risks to which the Group is exposed are as follows:

- Changes in demand for the services provided by the Group as a consequence of the economic or social situation of the markets in which it operates or for causes specific to the industry or the Group companies (society's image of aesthetic medicine activities or the companies which operate in this industry, etc.).
- Risks arising from the application of the business model developed by the Group in Spain in other countries, which could require significant investments and substantial advertising expenditure.
- Changes in the regulations governing healthcare in general or aesthetic medicine in particular, in addition to any regulatory restriction on the Group's expansion.
- Difficulties involved in identifying and contracting certain resources required to develop the Group's activity (leased premises for clinics, healthcare professionals, advertising, etc.), in addition to the difficulties involved in maintaining them for use by the Group in the long term in similar conditions to those at present.
- The general evolution of the Group's businesses will also depend on its capacity to obtain the financial resources required to continue financing development of its activity in Italy, to repay the bank borrowing arranged in prior years and the plans for future growth, through the generation of resources by the business itself, as foreseen at present.

## **33. Events after the balance sheet date**

On 27 December 2007, the Board of Directors accepted the binding offer presented by 3i Europe Plc. through its branch in Spain, acting as adviser to and on behalf of 3i Group Plc. and of the funds managed by it, to acquire all the share capital of Ultralase Limited for GBP 174.5 million (approximately EUR 235 million). This offer was conditional on the completion of the legal, tax, financial and labour *due diligence* reviews to 3i Europe Plc.'s satisfaction and on a satisfactory agreement being reached on the legal documentation for the execution of the

transaction. This process was completed on 14 February 2008 with the sale of the aforementioned subsidiary for the amount agreed in the binding offer. Of the total price, GBP 21,500 thousand were deferred until 2018 through the creation by the purchaser of a financial instrument that will bear interest of 6.5% from the date the agreement is entered into until 14 February 2015 and of 10.5% from that date. As a result of this transaction, the Group obtained a gain of approximately EUR 187 million before tax, which will be recognised in the consolidated income statement for 2008.

On 28 March 2008, the Parent formalised an agreement to sell all of its holding in Ultralase Medical Aesthetics Limited to a third party for GBP 1. The Parent's directors consider that this transaction, which will be recognised in the consolidated financial statements for 2008, will not have a material effect thereon.

The agreements entered into in relation to these two transactions establish certain commitments and guarantees provided by the Parent to the purchasers, which are standard in this type of transaction.

Also, on 9 March 2008, the Parent's directors' resolved to perform an orderly liquidation of its subsidiaries in Italy, for which they prepared a plan that will be implemented in 2008. Per the directors' initial estimates, the liquidation of the aforementioned subsidiaries will give rise to losses for the Group of approximately EUR 12.6 million, of which EUR 4 million, net of the related tax effect, were recognised with a charge to the consolidated income statement for 2007. The remaining amount will be recognised with a charge to the consolidated income statement for 2008.

#### **34. Explanation added for translation to English**

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

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

## **Corporación Dermoestética, S.A. and Companies composing the Corporación Dermoestética Group**

Consolidated directors' report  
for the year ended  
31 December 2007

### **Business performance and Group situation**

In 2007 the Corporación Dermoestética Group continued to make significant progress in the development of its business plan and in consolidating its position as the leading company in its speciality. This progress culminated in the sale of the UK subsidiary Ultralase Ltd. in the first quarter of 2008.

The Group's revenue in 2007 was EUR 86,468 thousand (EUR 150,524 thousand if the UK subsidiary Ultralase Ltd. is included, up 13.5% on the previous year). In terms of the year's economic results, the Corporación Dermoestética Group reported a consolidated net loss of EUR 862 thousand.

On the international scene, in view of the performance of the operations and results of the Group's subsidiaries in Italy, in 2006 the Parent's Board of Directors approved a "Restructuring Plan" for its Italian subsidiaries, which was mainly focused on staff redundancies and the closure of certain centres which failed to meet the projected activity or profitability targets, thus focusing operations on fewer centres. The Restructuring Plan was completed in full in the first half of 2007, having attained the targets set in relation to the closure of clinics and the reduction of operating costs. However, in 2007 the Italian subsidiaries' business volume did not reach the levels expected in the budgets prepared by Group management, so much so that the losses incurred exceeded the initial estimates. The budgets prepared by the directors for 2008 envisaged that the Italian subsidiaries will incur further significant losses. Accordingly, the Parent's directors' resolved to liquidate its Italian subsidiaries.

The average number of employees at the Group in 2007 was 5.5% lower than in 2006. There are no noteworthy matters in connection with the Group's employees other than those addressed in the consolidated financial statements.

In view of the business activity carried on by the Group, the Parent's directors consider that it does not have any environmental liability, expenses, assets, provisions or contingencies that might be material with respect to its equity, financial position and results. All the material environmental issues are disclosed, where appropriate, in the notes to the 2007 consolidated financial statements.

### **Significant events after the balance sheet date**

In the period from 1 January 2008 to the date of preparation of these consolidated financial statements and consolidated directors' report, the main events that took place were as follows:

- On 27 December 2007, the Parent's Board of Directors accepted the binding offer presented by 3i Europe Plc. through its branch in Spain, acting as adviser to and on behalf of 3i Group Plc. and of the funds managed by it, to acquire all the share capital of Ultralase Limited for GBP 174,500 thousand. This offer was conditional on the completion of the legal, tax, financial and labour due diligence reviews to 3i Europe Plc.'s satisfaction and on a satisfactory agreement being reached on the legal documentation for the execution of the transaction.

This process was completed on 14 February 2008 with the sale of the subsidiary Ultralase Ltd. for the amount agreed in the binding offer. Of the total price, GBP 21,500 thousand were deferred until 31 March

2018 through the creation by the purchaser of a financial instrument that will bear interest of 6.5% from the date the agreement is entered into until 14 February 2015 and of 10.5% from that date.

- On 28 March, 2008 the Company formalised an agreement to sell all of its holding in Ultralase Medical Aesthetics Limited to a third party for GBP 1. The Parent's directors consider that this transaction, which will be recognised in the consolidated financial statements for 2008, will not have a material effect thereon.
- Also, on 9 March 2008, the Parent's directors' resolved to perform an orderly liquidation of the subsidiaries in Italy, for which they prepared a plan that will be implemented in 2008. Per the directors' initial estimates, the liquidation of the aforementioned subsidiaries will give rise to losses for the Group of approximately EUR 12.6 million, of which EUR 4 million, net of the related tax effect, were recognised with a charge to the consolidated income statement for 2007. The remaining amount will be recognised with a charge to the consolidated income statement for 2008.

The Group is continuing with its activities in Spain and Portugal and is opening new clinics as planned.

### **Outlook**

The events that occurred after 2007 year-end enable the Group to commence a new era in which its main objective will be to continue to strengthen its markets in Spain and Portugal in order to continue to be the leading Group in its speciality. At 31 December 2007, the Group had a total of 49 clinics open in Spain and five in Portugal, which shows its considerable strength in the market and makes it the leading group in the aesthetic medicine and surgery industry in Spain and, possibly, in Europe. In addition, the Group will continue to consolidate the new projects launched in 2007 at national and international (Mexico) level.

### **Main risks and uncertainties**

The most significant market risks to which the Group is exposed are as follows:

- Changes in demand for the services provided by the Group as a consequence of the economic or social situation of the markets in which it operates or for causes specific to the industry or the Group companies.
- Risks arising from the application of the business model developed by the Parent in Spain in other countries, which could require significant investments and substantial advertising expenditure.
- Changes in the regulations governing healthcare in general or aesthetic medicine in particular, in addition to any regulatory restriction on the Group's expansion capacity.
- Difficulties involved in identifying and contracting certain resources required to develop the Group's activity (leased premises for clinics, healthcare professionals, advertising, etc.), in addition to the difficulties involved in maintaining them for use by the Group in the long term in similar conditions to those at present.

### **Research and development activities**

In the second half of 2006, the Group initiated certain non-material R&D projects in its cosmetics production area which will be developed and pursued in full in future years.

### **Transactions with treasury shares of the Parent**

The Parent performed the following transactions involving treasury shares in 2006 and 2007:

	Number of Shares	Amount (Euros)	% of Share Capital
Balance at 1 January 2006	-	-	-
Purchases	81,392	720,404	0.20
<b>Balance at 1 January 2007</b>	<b>81,392</b>	<b>720,404</b>	<b>0.20</b>
Purchases	323,565	2,815,664	0.82
<b>Balance at 31 December 2007</b>	<b>404,957</b>	<b>3,536,068</b>	<b>1.02</b>

The purchases of treasury shares of the Parent in 2006 were made pursuant to the resolutions adopted at the Annual General Meeting of the Parent on 27 May 2006 and at the meeting of its Board of Directors on 12 December 2006, without specifying the purpose for which they were intended.

The purchases of treasury shares of the Parent in 2007 were made pursuant to the resolutions adopted at the Annual General Meeting of the Parent on 19 May 2007, thus revoking the unused portion of the authorisation to acquire treasury shares granted by the shareholders at the Annual General Meeting of the Parent on 27 May 2006. This purchase of treasury shares was approved by the Board on 5 July 2007, without specifying the purpose for which they were intended.

#### **Use of financial instruments**

The Company did not use financial instruments in such a way as to have a relevant impact on the valuation of its assets, liabilities, financial position or results.

#### **Capital structure**

The share capital of the Parent at 31 December 2007 consisted of 39,891,580 fully subscribed and paid shares of EUR 0.10 par value each. All of the Parent's shares are admitted to listing on the Madrid, Valencia, Barcelona and Bilbao Stock Exchanges, in addition to the Continuous Market.

At 31 December 2007, the Parent held 1.02% of its share capital.

#### **Restrictions on the transferability of securities**

There are no restrictions on the transferability of the Parent's shares except as provided in legal regulations.

#### **Significant direct and indirect holdings**

At 31 December 2007, the main shareholders of the Parent were as follows:

	% of Total Share Capital	Type of Holding
José María Suescun Verdugo	50.100	Direct
Pictet Asset Management Ltd.	5.660	Indirect
QMC Development Capital Fund Plc.	5.008	Direct

#### **Restriction on voting rights**

At 31 December 2007, the Parent's shareholders were not subject to any restrictions on voting rights.

## **Side agreements**

At 31 December 2007, there were no side agreements.

## **Rules applicable to the appointment and replacement of the members of the Board of Directors and to the amendment of the bylaws**

The Board of Directors must be formed by the number of directors determined by the General Meeting and must in any case have a minimum of three and a maximum of 12 members.

The Board must propose to the General Meeting the number of directors it considers to be appropriate for the discharge of the functions commended to it at all times.

In exercising its powers to propose the appointment of directors to the General Meeting and to co-opt directors to fill vacancies, the Board of Directors must ensure that non-executive directors are significantly represented.

The Board of Directors must also ensure that the non-executive directors include, on the one hand, those proposed by holders of stable investments in the share capital (nominee directors), and, on the other, professionals of renowned prestige who are not related to the management team or the significant shareholders (independent directors). Taking into account the Company's shareholder structure, in order to establish a reasonable balance between the number of nominee directors and independent directors, the Board will ensure that the composition thereof takes into account the share capital.

Directors shall be appointed for a period of six years and may be re-elected for one or more subsequent terms of equal length.

Both individuals and legal entities may be appointed as directors, and prospective directors need not be shareholders.

Individuals declared incompatible under current legislation at any time may not be members of the Board of Directors.

## **Powers of the members of the Board of Directors**

The Board of Directors holds the Company's powers of attorney, both in and out of court, and has powers, in the broadest respect, to conclude agreements in general, to carry out all manner of acts and transactions, of contractual liability or disposition, ordinary or exceptional management and of absolute title, with respect to all manner of movable and immovable properties, money, securities and commercial bills, with no exceptions other than those matters that are the authority of other bodies.

The Board of Directors has the power to acquire treasury shares under a resolution adopted by the shareholders at the Annual General Meeting on 19 May 2007.

The Board of Directors is responsible for designating its chairman and has the power to appoint one or more deputy chairmen. The Board must designate a secretary, and has the power to appoint a deputy secretary; the persons appointed need not be directors, in which case they will have the right to speak but not to vote. The deputy secretary will replace the secretary in the event of absence, incapacity or a vacancy.

The resolutions of the Board of Directors must be taken by absolute majority of the members attending personally or represented unless, under current legislation or these bylaws, a larger majority is stated. In the event of tied votes, the chairman shall have the casting vote.

## **Significant agreements which will be modified or terminated in the event of a change in control**

No significant agreements will be modified or terminated in the event of a change in control.

**Agreements between the Parent and its directors, executives or employees which provide for termination benefits if the relationship with the Parent ends as a result of a takeover bid**

There are no agreements between the Parent and its directors, executives or employees which provide for termination benefits if the relationship with the Parent ends as a result of a takeover bid.

On 31 March 2008, and in compliance with the requirements established in Article 171 of the Consolidated Companies Law and Article 37 of the Spanish Commercial Code, the Board of Directors of Corporación Dermoestética, S.A., authorised for issue the consolidated financial statements and consolidated directors' report for the year ended 31 December 2007, which consist of the attached documents preceding this page, which have been signed on all pages for identification purposes by all the members of the Board of Directors and by the Secretary of the Board of Directors.

Also, all the members of the Board of Directors declare that, to their knowledge, the consolidated financial statements for 2007, authorised for issue in the meeting held on 31 March 2008 and prepared in accordance with the applicable accounting principles, present fairly the consolidated equity, consolidated financial position, consolidated results of operations, consolidated cash flows and changes in consolidated equity of Corporación Dermoestética, S.A. and that the consolidated directors' report approved with the consolidated financial statements includes a fair analysis of the performance and business results and position of Corporación Dermoestética, S.A., together with a description of the main risks and uncertainties facing the Group, and the directors sign below in proof of conformity.

José M<sup>a</sup> Suescun Verdugo  
(Chairman)

Ascensión Vivancos Matellanos  
(Deputy Chairman)

Jacobo Llanza Figueroa  
(representing  
QMC DIRECTORSHIPS, S.L.)

Fernando García Linares

Carlos Senent Sales

Antonio Sánchez Rodado

Carlos Peiró Sendra  
(Non-director Secretary)

Luis Sebastián Maganto  
(Non-director Deputy Secretary)