Almirall S.A. and Subsidiaries
(ALMIRALL GROUP)

Directors' Report
(Year ended
31 December 2014)

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

Almirall

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

CONTENTS

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

1. Annual summary. Highlights

One of the highlights in 2014 has been the strategic agreement entered into with AstraZeneca which was announced on 29 July and was completed on 1 November. The agreement transfers the rights to part of the Almirall respiratory franchise and other related assets for an initial amount of USD 900 million. A further USD 1.2 billion will be collected if certain development, release and sales targets are met. The franchise includes Eklira® (aclidinium); Duaklir®, a combination of aclidinium/formoterol (LAMA/LABA) which has received a positive opinion from the EU-CHMP and is under development in the US; LAS100977 (abediterol), a long-acting beta2-agonist (LABA) to be taken once daily at Stage II of clinical trials; an M3 antagonist beta2-agonist (MABA) platform at the pre-clinical development stage (LAS191351, LAS194871) and at Stage 1 of clinical trials (LAS190792); and several pre-clinical studies. Almirall Sofotec, an Almirall subsidiary engaged in the development of advanced inhalers, has also been transferred to AstraZeneca. The Group received €704.6 million upon the completion of the agreement.

Another highlight for 2014 has been the consolidation of Aqua Pharmaceuticals into the Group following its acquisition at the end of 2013. The subsidiary has had a successful first year, having released Acticlate® in the US during the second half of the year.

Lastly, the Group completed another transaction related to the above acquisition, issuing company bonds of €325 million at the end of March that bear interest at a rate of 4.625%. The debt will mature in 2021. However the Group's debt will remain low, accounting for 12.6% of the total assets.

Within the organisation, on 3 February 2014 Almirall S.A. (Parent Company of the Group) and the labour representatives finally signed an agreement detailing the terms and conditions of the restructuring plan proposed by Almirall S.A. in Spain. The agreement ultimately affected 180 people. The Group made the relevant provisions at the end of 2013 and, accordingly, the payments made in 2014 will not have any effect on profit or loss.

Lastly, on 24 November the European Commission (EC) authorised the sale of aclidinium and formoterol combination across all EU member states as a bronchodilator treatment to alleviate the symptoms of Chronic Obstructive Pulmonary Disease (COPD).

2. Main items in the income statements by function

Income statement by function

(rounded to € million)	2014	2013	% change
Total income	**1,407.4**	**825.5**	***70.5%***
Net sales	786.4	692.9	*13.5%*
Other income	621.0	132.6	*n.m.*
Cost of sales	(235.4)	(233.1)	*1.0%*
Gross margin	**551.0**	**459.8**	***19.8%***
% of sales	*70.1%*	*66.4%*	
R&D	**(100.6)**	**(126.7)**	***(20.6%)***
% of sales	*(12.8%)*	*(18.3%)*	
Overheads and administration costs	**(459.9)**	**(448.1)**	***2.6%***
% of sales	*(58.5%)*	*(64.7%)*	
Other expenses	**(9.9)**	**(1.9)**	*n.m.*
EBIT	**601.6**	**15.7**	***n.m.***
% of sales	*76.5%*	*2.3%*	
Amortisation and depreciation charge	**84.7**	**69.4**	***22.0%***
% of sales	*10.8%*	*10.0%*	
EBITDA	**686.3**	**85.1**	***n.m.***
% of sales	*87.3%*	*12.3%*	
Gains or losses on sales of non-current assets	14.1	(5.8)	*n.m.*
Other costs	(36.8)	(9.4)	*n.m.*
Restructuring costs	0.0	(80.3)	*(100.0%)*
Impairment losses reversed (recognised)	(69.2)	(4.6)	*n.m.*
Net financial income (expense)	(27.8)	(5.3)	*n.m.*
Profit (loss) before tax	**481.9**	**(89.7)**	***n.m.***
Corporate income tax	(33.5)	56.0	*(159.8%)*
Net profit (loss)	**448.4**	**(33.7)**	***n.m.***
Normalised net profit	**43.5**	**31.0**	***40.3%***
Earnings per share (€) (1)	€2.59	-€0.20	
Normalised earnings per share (€) (1)	€0.25	€0.18	

(1) Number of shares at the end of the period

- Net sales amount to €786.4 million, which is an increase of 13.5% on last year thanks to the consolidation of Aqua, the successful release of Sativex in Italy and the growth of Eklira (which is still the biggest selling product of the Group). Dermatology has become the biggest therapeutic area in 2014.
- Other income has increased mainly as a result of the agreement with AstraZeneca.
- Gross margin as a percentage of sales has increased by 370 basis points due to the consolidation of Aqua and the increased weight of the products,
- R&D expenditure is down due to the current stage of the development studies for aclidinium bromide combination. Overheads and administration costs are rising as a result of the consolidation of Aqua. Otherwise, they would not be as high.
- "Gains or Losses on Sales of Non-current Assets" includes the gain or loss on the sale of assets transferred to AstraZeneca. The amount corresponds mainly to the exclusion from the scope of consolidation of Almirall Sofotec GmbH.
- "Other Costs" include mainly all the costs associated with the AstraZeneca transaction. These costs were normalised for the purposes of net profit (loss).
- The net financial costs are rising as a result of the bonds issued in March 2014 and certain adjustments to the acquisition cost of Aqua Pharmaceuticals acquired in 2013.
- The effective rate of corporate income tax is 7% thanks to the tax incentives applied by the Group for intellectual property management and R+D activities.

- Total net profit is €448.4 million compared to the losses of €33.7 million in the prior year. Once the effects of the transaction with AstraZeneca, the impairment and the price adjustments to Aqua Pharmaceuticals have been normalised, normalised net profit (loss) will stand at €43.5 million, up 40% on last year.

3. Corporate development

During the year the following corporate development agreements were entered into:

- On 27 March 2014, the Group announced that it had completed the issuance of senior notes for an aggregate face value of €325 million. These bonds will bear an annual rate of interest of 4.625% payable every six months until 2021. The issue was made to diversify and internationalize the sources of the Group's financing, allowing it to repay a large portion of bank borrowings by the companies, extend the maturity dates and increase financial flexibility.

- On 29 July 2014 an agreement was entered into with AstraZeneca for the transfer of the rights to part of the Almirall respiratory franchise and other related assets for an initial amount of USD 900 million. A further USD 1.2 billion will be collected if certain development, release and sales targets are met. The agreement was finalised on 1 November.

4. Balance sheets. Financial position

€ million	December 2014	% of BS	December 2013
Goodwill	338.8	13.3%	336.2
Intangible assets	444.4	17.5%	595.1
Property, plant and equipment	132.1	5.2%	161.3
Non-current financial assets	179.2	7.1%	23.3
Other non-current assets	338.7	13.3%	322.1
Total non-current assets	**1,433.2**	**56.4%**	**1,438.0**
Inventories	81.0	3.2%	97.7
Trade receivables	207.2	8.2%	99.5
Cash and cash equivalents	754.4	29.7%	89.2
Other current assets	64.6	2.5%	48.3
Total current assets	**1,107.2**	**43.6%**	**334.7**
Total assets	**2,540.4**		**1,772.7**
Equity	1,339.6	52.7%	888.3
Financial debt	319.9	12.6%	281.4
Non-current liabilities	523.5	20.6%	232.4
Current liabilities	357.4	14.1%	370.6
Total equity and liabilities	**2,540.4**		**1,772.7**

The Group's balance sheet at 31 December 2014 reflects the following:

The "Intangible Assets", "Property, Plant and Equipment" and "Inventories" balances have all decreased as a result of the transfer of assets to AstraZeneca. "Non-current Financial Assets" and "Trade Receivables" also increased as a result of the agreement with AstraZeneca because of the recognition of future amounts that the Group expects to receive from AstraZeneca - approximately €169 million and €98 million, respectively.

"Other Non-current Assets" includes the tax assets that are mainly attributable to the relief granted for R&D activities and the tax loss carryforwards that will be used in future years.

"Cash and Cash Equivalents" will increase significantly thanks to the collection received in November as a result of the initial payment in the agreement with AstraZeneca for €704.6 million.

At the end of the year equity accounts for almost 53% of the total assets.

The financial debt is composed in full of the corporate bonds mentioned under Section 3 which acted to settle the existing debt at the end of 2013.

Lastly, "Non-current Liabilities" are up mainly due to the deferred income relating to the initial collection from AstraZeneca which will be taken to income over the next few years (approx. €234 million).

The Group's average period for current trade payables and current payables to suppliers was approximately 87 days in 2014.

5. Financial risk management and use of hedging instruments

Interest rate risk

At the start of 2014 Almirall S.A. (Parent Company of the Group) issued high-yield bonds at a fixed rate of interest of 4.625% and, therefore, it is not exposed to any fluctuations in interest rates.

The bridge loan of $350 million taken out at the end of 2013 for the purchase of Aqua Pharmaceuticals LLC was repaid out of the proceeds from the bonds.

During 2014 the Parent Company arranged credit facilities of up to €75 million. No interest rate hedges have been arranged on this amount.

Foreign currency risk

The Group is exposed to foreign currency risk on certain transactions from its ordinary business. The risk relates mainly to revenue received in US dollars for sales of finished goods, payments in US dollars for clinical trials, raw material purchases and royalty payments in Japanese yen and collections and payments made in local currency by the subsidiaries in Mexico, the UK, Poland, Canada, Denmark and the US.

The risk associated with collections represents 17.5% of the revenue and other income and 27.2% for payments relating to procurements and other operating expenses.

Every quarter the Group analyses the expected foreign currency collections and payments and any changes and trends therein. In 2014 the Group reduced its exposure to foreign currency risk on commercial transactions of a higher volume by arranging foreign currency hedges to hedge payments in yen for raw material purchases and to hedge cash inflows in USD, mainly in respect of collections. Cash surpluses in foreign currency have been sold in order to avoid exposure to volatility on the currency market and its resulting effect on the income statement.

Almirall S.A. (Parent Company) has taken out an intercompany loan with Almirall, Inc. (subsidiary). A foreign currency hedge was not arranged in respect of this loan because the US dollar exchange rate was not expected to disadvantage the Group and the hedge would have resulted in an outflow of cash equal to the new amount.

Liquidity risk

The Group calculates its cash requirements using two basic systems that work to different time scales.

On the one hand, a monthly cash budget for the next year based on the forecast financial statements for the current year.

On the other hand, a shorter-term cash budget (for the next three months), which is updated monthly on the basis of invoices, confirmed delivery notes and processed orders.

Cash surpluses are generally invested in financial assets at very short term.

The funds received for the transaction with AstraZeneca have been invested in financial assets diversified across six financial institutions all of which scored highly in the stress tests performed by the European Banking Authority last year.

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

Lastly, medium- and long-term liquidity planning and management is based on the Group's five-year strategic plan.

6. Risk factors

1. Price reduction, limitations on volume or difficulties approving or reimbursing new products owing to decisions by the Health Authorities.
2. A negative effect on the Company's assets as a result of problems in the clinical development of certain products or the sale of others.
3. A competitive environment makes it more difficult for new product growth.
4. Restrictions on new releases due to problems in the supply chain.

7. Treasury shares

At 31 December 2014 the Parent Company does not have any treasury shares.

8. Events after the balance sheet date

With respect to the agreement with AstraZeneca, on 13 February the Group received a payment of $150 million for the first sale of aclidinium and formoterol combination in an EU member state as a bronchodilator treatment to alleviate the symptoms of COPD.

9. Outlook for 2015

For 2015 the Group expects total revenue of around €720-750 million. The total estimated revenue is not as high as in 2014 due to the absence of sales of AstraZeneca licensed products (Eklira) and due to the revenue earned on the deal in 2014.

The Group expects a slight drop in sales as a result of the AstraZeneca deal which will be offset at least in part by a rise in other income for milestone payments associated with the transaction in 2015 and subsequent years.

The global agreement in the respiratory therapeutic area will generate revenue and opportunities that will give us a specialist model, making us one of the leading global dermatology companies with a huge interest in specialist areas. Funds obtained from the transaction will be used to acquire other burgeoning assets to supplement the Group's long-term view and continue investing in R&D.

10. Corporate Governance Report

The Corporate Governance Report is set out in Appendix I of this report.

11. Capital structure. Significant ownership interests

At 31 December 2014 the Parent Company's share capital is represented by 172,951,120 fully subscribed and paid shares with a par value of €0.12 each.

In accordance with information from the official records of the Spanish National Securities Market Commission (CNMV), at 31 December 2014 the Parent Company is aware of the following significant direct or indirect ownership interests of more than 3% in Almirall, S.A.:

Name or company name of direct shareholder	% of ownership of the Almirall Group
Grupo Plafin, S.A.	41.30%
Todasa, S.A.	25.34%
Wellington Management Company, LLP	4.37%

At 31 December 2014, the Parent Company does not have any knowledge of any other ownership interests of over 3% of its share capital or voting power and does not have any knowledge of other interests under 3% that would allow the holders to exercise significant influence over it.

12. Side agreements and restrictions on transfer and voting rights

There are 3 side agreements in the Group, all of which have been duly communicated to the CNMV. The full side agreements are available online at www.almirall.com:

Agreement between shareholders of Almirall, S.A.

A side agreement entered into by Mr. Antonio Gallardo Ballart, Mr. Jorge Gallardo Ballart, Mr. Daniel Bravo Andreu and Todasa, S.A.U. and Grupo Plafin, S.A.U. governing certain pre-emption rights and purchase and sale options on the shares of Almirall, S.A.

Agreement between shareholders of Inmobiliaria Braviol, S.A.

A side agreement entered into by Mr. Antonio Gallardo Ballart, Mr. Jorge Gallardo Ballart, Mr. Daniel Bravo Andreu, Ms. Margaret Littleton and Inmobiliaria Braviol, S.A., Danimar 1990, S.L. and Todasa, S.A.U. governing certain pre-emption rights and purchase and sale options relating to the shares of the aforementioned companies.

Agreement between Jorge Gallardo Ballart and Antonio Gallardo Ballart

An agreement governing the action of the signatories in Almirall, S.A. and the execution of their voting rights from the indirect ownership interest in the Company through, on the one hand, Grupo Plafin, S.A.U. and on the other, Todasa, S.A.U.

The Articles of Association do not envisage any restrictions on the transfer of the Parent Company's shares or on voting rights. No restrictions on the voting rights are envisaged in any regulations.

13. Management bodies: Board of Directors

Director nominations

The directors are nominated (i) at the proposal of the Nomination and Remuneration Committee, in the case of independent directors, and (ii) following a report by the above Committee in the case of other directors, by the shareholders in the General Meeting or by the Board of Directors in accordance with the Spanish Companies Law.

Newly nominated directors are required to follow the Parent Company's programme for new directors which aims to quickly acquaint them with sufficient knowledge of the Parent Company and its corporate governance rules.

The Board of Directors ensures that the candidates for external directors involves persons of recognised solvency, competence and experience. Particular care is taken in relation to those called upon to fill the independent director positions envisaged in Article 6 of the Board Regulations.

Nominated directors must refrain from participating in discussions and votes concerning them.

Directors will carry out their role over the term decided by the shareholders at the General Meeting, which must be the same for everyone and no more than four years. At the end of the term, they may be reappointed for one or more periods of equal duration.

Replacing directors

Directors will cease to hold office when the period for which they were appointed has elapsed and when the shareholders decide as such at the General Meeting through the powers attributed to it by law or by the Articles of Association. Director nominations will become invalid when, following the deadline, the subsequent General Meeting of the shareholders has been held or the statutory term has passed to hold the General Meeting for approval of the prior year's financial statements.

The Board of Directors may propose the removal of independent directors before the expiry of the statutory period when the Board deems that there is a justified reason following a report from the Nomination and Remuneration Committee. A valid reason is understood as a breach of the duties incumbent upon a director or unexpected involvement in one of the forbidden situations included in the definition of independent director in the applicable corporate governance guidelines.

Directors that are subject of proposals for their removal shall not participate in discussions and votes concerning them.

The directors shall report their resignation to the Board of directors and formalise their resignation in the following cases should the Board require it:

a) Where they cease to hold the executive posts with which their nomination as director was associated.

b) Where they do not meet the requirements of the position or they are in breach of legal requirements.

c) When seriously reprimanded by the Board of Directors for failing to discharge their obligations as directors.

d) When their position on the Board could jeopardise or prejudice the interests, credit or reputation of the Parent Company or when the reasons for which they were nominated (for example, when nominee directors disposes of their shareholding in the Parent Company) cease to be applicable.

e) In the case of independent directors, they may not remain as such for more than 12 consecutive years; therefore, once this period has elapsed, they must notify the Board of Directors and officially tender their resignation.

f) In the case of nominee directors, (i) when the shareholder they represent sells its shareholding in full and (ii) when this shareholder reduces its holding by the corresponding number of shares to a level that requires a reduction in the number of nominee directors.

Directors who step down before the end of their term via a resignation or for any other reason must explain the reasons why in a letter to all of the members of the Board.

The Board of Directors may propose the removal of independent directors before the expiry of the statutory period when the Board deems that there is a justified reason following a report from the Nomination and Remuneration Committee. A valid reason is understood as a breach of the duties incumbent upon a director or unexpected involvement in one of the forbidden situations included in the definition of independent director in the applicable corporate governance guidelines.

Amended Articles of Association

The shareholders are entrusted with the approval of any amendments to the Articles of Association at the General Meeting. Amendments to Articles of Association are regulated in Article 160 and other concordant articles of the Spanish Companies Law. There are no special provisions in this respect in either the Articles of Association or the Regulations of the General Meetings of Shareholders.

Board member powers

Certain powers pertaining to the Board of Directors are vested in the Company's Chief Executive Officer, pursuant to a public deed executed in the presence of the Barcelona Notary Mr. Enrique Viola Tarragona on 17 May 2012.

Powers have been granted to Mr. Jorge Gallardo Ballart by virtue of the public deed executed in the presence of the Barcelona Notary Mr. Enrique Viola Tarragona on 2 June 2011.

14. Significant agreements

No significant agreements have been made on changes in the control of the Parent Company or between the Parent Company and its directors, executives or employees with respect to termination benefits in the event of resignations, dismissals or public takeover bids.

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

APPENDIX I: Corporate Governance Report