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Almirall, S.A.

Directors' Report
(Year ended 31 December 2023)

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

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1. *Summary of the year. Key milestones*

FY 2023 has followed the trend of the preceding year, with growth in sales of dermatological products in the different territories of Europe thanks to the commercial deployment of Klisyri (for actinic keratosis) and Wynzora (for psoriasis) in new territories, together with the increase in sales of Ilumetri (also for psoriasis) in the different geographies where it was already being marketed. On the other hand, there has been an increase in the erosion of sales of products marketed under the Efficib and Tesavel brands, as the reference prices have gone down since August 2022.

From a macroeconomic and geopolitical point of view, 2023 has been relatively quiet given that, even though interest rates have continued to rise, the Company has no particular exposure to these rates in the short to medium term. In addition, energy costs and inflation have relaxed, after a 2022 in which they increased significantly. Finally, neither the conflict between Russia and Ukraine nor the recent conflict in the Middle East have had a direct or significant impact on 2023 and 2022.

In terms of R&D activities, approval from the EMA was obtained in November for the application for registration of Lebrikizumab, with marketing expected to commence at the end of 2024 under the Ebglyss brand name (product for atopic dermatitis). New research and development agreements were signed in the fourth quarter with Absci (AI-engineered therapies to treat chronic and debilitating dermatological diseases) and with Etherna (which has proprietary messenger RNA (mRNA) and lipid nanoparticle (LPN) technology). In addition, a Phase I study evaluating the safety, pharmacokinetics, immunogenicity and pharmacodynamics of ALM223, an interleukin 2 (IL-2 mu-Fc) mutant fusion protein (mutein) for the potential treatment of a broad spectrum of autoimmune diseases, was initiated in December 2023 (that molecule stems from the agreement with Simcere).

The dividend proposed by the Board of Directors on 17 February 2023 was approved at the General Meeting of Shareholders held on 5 May 2023. Payment of the dividend was set up as a scrip dividend in which shareholders were offered the choice between receiving newly issued Company shares or the cash amount equivalent to the dividend. The cash payment was chosen by 7.8% of the holders of rights (which meant a disbursement of €2.6 million), while the remaining 92.2% opted to receive new shares, each at par value, which were issued as a capital increase. On 7 June 2023, a total of 3,488,113 new shares of the Parent Company from this scrip dividend were admitted to trading on the Barcelona, Madrid, Bilbao and Valencia stock exchanges.

Subsequently, on 12 June 2023, a capital increase was made by issuing 24,390,243 shares belonging to the same class and series as the shares currently outstanding, by means of cash contributions and excluding the preemptive subscription rights of the Company's shareholders, through a private placement aimed exclusively at qualified investors. This placement was finally closed at an issue price of 8.2 euros per share, representing a total disbursement of 197.8 million euros, after deducting the costs of the capital increase.

From a liquidity standpoint, the Company ended the year with a cash position that amounted to 360.9 million euros (214.6 million euros at 31 December 2022). This evolution is explained by:

- Solid cash flow from operating activities (+53.5 million euros), mainly as a result of the good business performance corrected for non-cash items and the collection of dividends from investees amounting to 45 million euros, partially offset by the negative evolution of working capital (linked to the increase in inventories due to new launches and the decrease in accounts payable).
- Net cash flows from investment activities (-121.7 million euros), the result of payments for the acquisition of the products marketed under the Physiorelax and Prometax brands, extension of the Efficib/Tesavel contract, a payment derived from the addendum to the Ilumetri contract and payment for the approval of Ebglyss by the EMA, described in Note 5 of the accompanying Annual Accounts, partially offset by receivables derived from the agreement with Covis Pharma GmbH.
- Net cash flows from financing activities (+215.1 million euros) as a result of the aforementioned capital increase and proceeds from the issuance of debt with group companies, partially offset by the repayment of debt as described in Note 15 of the accompanying Annual Accounts.

2. *Corporate Development*

During FY 2023, the corporate development agreements concluded and the significant events that occurred were as follows:

- On 3 February 2023, the acquisition of the Physiorelax® product portfolio from DFT El Globo S.L. in Spain was announced. The acquisition includes worldwide marketing rights. Sales of this portfolio in 2023 amounted to 3.5 million euros.
- In August 2023, exclusive rights were acquired for Prometax® in Spain, a transdermal patch containing rivastigmine for treating Alzheimer’s by increasing the level of the neurotransmitter acetylcholine, which helps to reduce the symptoms of the disease.

- On 12 December 2023, a partnership with Etherna was announced to research and develop new mRNA-based therapies for serious skin diseases, including non-melanoma skin cancer. Etherna and Almirall will collaborate on research activities, while Almirall will direct the clinical development and marketing.

3. ***Evolution of the main figures of the profit and loss statement***

- Net revenues amounted to €702.8 million (+16%) due to the good performance of the domestic and export markets, as well as income from dividends from Group companies amounting to €45 million, as explained in Note 20 of the accompanying Annual Accounts.
- Other operating income amounted to €19.8 million (-43%) mainly as a result of the decrease in the financial restatement of the collection rights relating to the agreement with Covis Pharma, as explained in Note 9 of the accompanying Annual Accounts.
- Staff costs increased by 16%, mainly as a result of allocations to the long-term remuneration provision, as explained in Note 14 of the accompanying Annual Accounts.
- Operating expenses increased by 12% due to higher R&D expenses, mainly due to the phase 3b studies of Lebrikizumab and the progress in early stage assets (especially IL-1RAP and IL-2muFc), on the one hand, and to higher royalties linked to licensed products, on the other.
- The heading "Impairment and gains or losses on disposals of fixed assets and investments in Group companies" in the accompanying profit and loss statement includes the impairment of the investment in Almirall, Inc. as explained in Note 8 to the accompanying Annual Accounts.
- The financial result decreased to a loss of 24 million euros, mainly due to interest accrued during the year on debts to group companies.
- As a result, the operating result and the net result amounted to losses of 36.9 and 60.2 million euros, respectively.

4. ***Balance sheet evolution. Financial position***

The main changes in the Balance Sheet as at 31 December 2023 compared to the end of FY 2022 are described below:

- Intangible assets have been increased by the additions linked to the agreements with Eli Lilly, Sun Pharma, Simcere and Etherna and the acquisitions of Physiorelax and Prometax.
- Long-term investments in group and associate companies decreased mainly as a result of the aforementioned impairment of the investee Almirall, Inc.
- Inventories have increased as a result of the initial procurement of several products launched during the year (Ebglyss and Physiorelax), as well as increased demand for some licensed products (Illumetri, Crestor and Winzora).
- Equity has increased significantly due to the aforementioned capital increase.
- Current liabilities have increased mainly due to payments for intangible assets outstanding at year-end to Eli Lilly, Sun Pharma, Simcere and Etherna, which have been settled in January 2024, as detailed in Note 16 of the accompanying Annual Accounts.

5. ***Financial risk management and use of hedging instruments***

The Company's activities are exposed to various financial risks: market risk (including exchange rate risk, interest rate risk and price risk), credit risk and liquidity risk. The Company's global risk management programme focuses on the uncertainty of financial markets, and seeks to minimise the potential adverse effects on its financial profitability.

Risk management is controlled by the Company's Treasury Department, which identifies, assesses and hedges for financial risks in accordance with the policies approved by the Board of Directors. The Board provides written policies for overall risk management, as well as for specific areas such as foreign exchange risk, interest rate risk, liquidity risk, use of derivatives and non-derivatives, and investment of surplus liquidity.

Interest rate risk

As of 31 December 2023, most of the Company's debt is at a fixed rate, which minimises the risk of a possible increase in interest rates. As described in Note 15 to the accompanying Annual Accounts, the main debt instruments are as follows:

- On 22 September 2021, the Company proceeded to conclude and disburse an issuance of senior unsecured bonds for an aggregate nominal amount of €300 million, at a fixed annual interest rate of 2.125%, maturing on 22 September 2026.

- On 27 March 2019, the Company arranged a loan facility with the European Investment Bank (EIB) for up to 120 million euros to fund its research and development efforts, with the objective of providing cutting-edge innovation and differentiated therapies in the area of medical dermatology. The first tranche of €80 million was granted on 17 April 2019, at a fixed interest rate of 1.351%, with 32 equal repayments of principal between 17 April 2021 and 17 April 2029, with the latter date being the final maturity. Due to the issue of new debt, the interest rate has temporarily increased by 0.30%, and therefore the interest rate is 1.651%.

- Lastly, on 17 July 2020, the Company entered into a revolving credit facility for an amount of 275 million euros, which will mature in July 2024 and has been allocated to general corporate purposes. This credit facility accrues interest at a variable rate linked to Euribor. As at 31 December 2023 and 2022, the Company had not drawn down any amounts.

Exchange rate risk

The Company is exposed to exchange rate risk on certain transactions arising from its business activities. This exchange rate risk is mainly related to cash inflows in dollars for sales of finished product; cash inflows and outflows derived from the transaction with Covis Pharma GmbH; outflows in dollars for the licensing agreements with Athenex, Lily or Sun Pharma; outflows in dollars and pounds sterling for clinical trials; purchases of raw materials and royalty payments in dollars. The most relevant foreign currency in which the Company operates is the US dollar.

Quarterly, the Company analyses the expected incoming and outgoing payments in foreign currencies, as well as the evolution and trends in these currencies. In recent years, the Company has reduced its exposure to exchange rate risk in larger commercial transactions by taking out specific insurance policies for exchange rates to cover payments in yen for the purchase of raw materials and to cover incoming cash flows in US dollars.

Liquidity risk

The Company determines its cash requirements using two fundamental forecasting tools that operate according to different time frames.

On the one hand, a monthly cash budget is established for one year, based on the forecast financial statements for the current year, and deviations from the forecast are analysed on a monthly basis.

And on the other hand, medium- and long-term liquidity planning and management is based on the Company's Strategic Plan, and that of the Parent Group, which covers a five-year time frame.

Cash surpluses in foreign currencies are invested in deposits when payments are expected to be made in that currency, mainly US dollars.

Financing instruments include a series of covenants that, in the event of default, would result in a demand for immediate payment of these financial liabilities. The Company periodically assesses their fulfilment (as well as expected future fulfilment, so that it may take corrective measures, if necessary). As of 31 December 2023 and 2022, all covenants are fulfilled, as mentioned in Note 15 of the accompanying Annual Accounts.

The Company manages liquidity risk prudently, maintaining sufficient cash and marketable securities, as well as arranging committed credit facilities for an amount sufficient to support expected needs.

Credit risk

The Company manages credit risk through an individual analysis of the items included in accounts receivable. As a preventive measure, credit limits are established for sales to wholesalers, pharmacies and local licensees. In the case of hospital sales, given their minor significance, credit management is carried out afterwards, once the debt is due.

Amounts considered to be bad debts, once all the pertinent collection procedures have been carried out, are provisioned at 100%. The balance of the provision at year-end 2023 amounts to €154 thousand, as described in Note 11 to the accompanying Annual Accounts.

As for the impairment of financial assets due to credit risk, the Company invests mainly in very short-term, floating-rate instruments in entities with a high credit rating, in order to minimise any credit risk.

The Company does not have a significant credit risk, since it invests cash and, where applicable, arranges derivatives with highly solvent entities.

6. Risk factors

Noteworthy risk factors that may affect the achievement of business targets are as follows:

- Pressures related to price reductions, reimbursement conditions, contributions to the healthcare system or more restrictive regulations, which could increase with growing government budget deficits on the horizon and with a potential overall worsening of the macroeconomic conditions in European countries.
- Price increases in materials, transport, energy and supply shortages due to current geopolitical and socioeconomic threats and macroeconomic developments.
- Unexpected climate changes and increasing risks of major natural disasters can accelerate the adoption of new regulations to reduce emissions, energy and water use and changes to increase climate resilience by generating operational costs.
- Cyberattacks or security incidents that allow access to confidential information or cause a disruption of business activities.
- Impairment of intangible assets and goodwill due to lower-than-projected revenue streams.
- Inability to have a sufficiently balanced and differentiated R&D *pipeline* in its various phases, either with internal or external innovation, to nurture the portfolio of products.
- Difficulties in attracting and retaining talent.
- Delays in the implementation of new launches.

7. Treasury shares

The Company has a liquidity contract with a financial intermediary, effective as from 4 March 2019, with the aim of favouring liquidity and stability of prices of the Company’s shares, within the limits established by the General Shareholders’ Meeting and by current regulations, in particular, Circular 1/2017, of 26 April, of the National Securities Market Commission (CNMV), on liquidity contracts. This contract means that as at 31 December 2023 the Company holds treasury shares representing 0.09% of the share capital and an overall nominal value of €23 thousand, which have been recognised in accordance with current regulation. The average acquisition price of these shares in 2023 was 8.6 euros per share. The Company’s own shares are intended to be traded on the market.

8. Staff

The average number of employees of the Company during the financial year 2023 was 599.

9. Average payment period

The Company’s average payment period to creditors and suppliers for the financial year 2023 is approximately 40 days.

10. Trends for 2024

FY 2024 will be a key year from a commercial point of view, given that the launch of Ebglyss in different territories of Europe (although the main market for 2024 is expected to be Germany, where it was launched in December 2023) will be accompanied by the expected growth of the rest of the dermatology portfolio in Europe (Ilumetri, Wynzora and Klisyri, mainly), together with the growth of the recent acquisitions in Spain (Prometax and Physiorelax).

In terms of R&D activities, FDA approval is expected for the Klisyri line extension in the United States by mid-2024, and progress is also expected on the various projects that the Company has under way in the early stages of development (linked to the agreements with Ichnos, Simcere, Etherna and Evotec, among others).

Finally, the Company's Management continues to focus on opportunistic M&A transactions that fit with the Company's business strategy, while always maintaining a prudent financial approach.

11. *Annual Corporate Governance Report / Annual Directors' Remuneration Report*

The Annual Corporate Governance Report and the Annual Directors' Remuneration Report are attached to the Consolidated Management Report of the Almirall, S.A. Group and subsidiaries, of which the Company is the parent.

12. *Capital structure. Significant shareholdings*

At 31 December 2023, the Company's share capital is represented by 209,393,724 fully subscribed and paid-up shares with a par value of 0.12 euros each.

Note 12 to the accompanying Annual Accounts details the movement in capital during 2023, the increase of which is due to the scrip dividend paid in June and the increase of share capital that same month.

The shareholders with significant holdings in the share capital of Almirall, S.A., both direct and indirect, in excess of 3% of the share capital, of which the Company is aware, according to the information contained in the official records of the National Securities Market Commission (CNMV) at 31 December 2023 and 2022, are as follows:

Name or company name of the direct shareholder	**% Interest 31/12/2023**	**% Interest 31/12/2022**
Grupo Plafin, S.A.	44.5%	41.9%
Grupo Corporativo Landon, S.L.	15.6%	17.7%
Norbel Inversiones	5.1%	-
Wellington Management	5.0%	5.1%
Total	**70.2%**	**64.7%**

As of 31 December 2023 and 2022, the Company was not aware of any other holdings equal to or greater than 3% of the share capital or voting rights of the Company, which, although less than the established percentage, would enable the exercise of significant influence over the Company.

13. *Private agreements among shareholders and restrictions on transferability and voting*

There is a private agreement among shareholders, which has been duly notified to the CNMV, and the full text thereof can be consulted on the website www.almirall.com. It was signed by Antonio Gallardo Ballart and Jorge Gallardo Ballart, and it regulates the concerted action of its signatories in Almirall, S.A. and the exercise of the voting rights inherent in their indirect participation in the Company through the company Grupo Plafin, S.A.U. and Grupo Corporativo Landon, S.L.

There are no restrictions set out in the Articles of Association on the free transferability of the Company's shares, nor are there any statutory or regulatory restrictions set out in the Articles of Association or in other regulations on voting rights.

14. *Management Bodies, Board*

Appointment of directors

Directors are appointed (i) at the proposal of the Appointments and Remuneration Committee, in the case of independent directors, and (ii) after a report from the Appointments and Remuneration Committee, in the case of other directors, by the General Shareholders' Meeting or by the Board of Directors in accordance with the provisions of the Spanish Capital Companies Act.

When a new director is appointed, they must follow the orientation programme for new directors established by the Company, so that they can quickly acquire sufficient knowledge of the Company and of its rules for corporate governance.

When designating external directors, the Board of Directors endeavours to ensure that candidates are chosen who have recognised solvency, competence and experience, given that great care must be taken when filling the posts of independent director provided for in Art. 6 of the Board Regulations.

Directors affected by proposals for re-election will abstain from taking part in deliberations and from voting on such proposals.

Directors hold office for the term stipulated by the General Shareholders' Meeting, which must be the same for all of them and may not exceed four years. At the end of this term, they may be re-elected one or more times for periods of the same maximum duration.

Replacement of Directors

Directors will leave office when the term for which they were appointed has elapsed or when so decided by the General Shareholders' Meeting in the exercise of the powers conferred upon it by law or by the Company's Articles of Association. In any case, the appointment of directors will end when the term has expired and the next General Meeting has been held or when the legal deadline for holding the meeting that must pass a resolution approving the previous year's Annual Accounts has elapsed.

The Board of Directors may only propose the dismissal of an independent director before expiry of the term established in the Articles of Association when there is just cause, as determined by the Board following a report from the Appointments and Remuneration Committee. In particular, just cause will be deemed to exist when the director has failed to comply with the duties inherent in their position or has incurred in any of the circumstances that prevent them from holding office as described in the definition of independent director established in the good corporate governance recommendations currently in force.

Directors affected by proposals for dismissal will abstain from taking part in the deliberations and voting on such proposals.

Directors must submit their resignation to the Board of Directors and, if the Board deems it appropriate, officially resign their post in the following cases:

a) When they leave the executive positions associated with their appointment as director.

b) When they find themselves in any of the situations resulting in incompatibility or prohibition as stipulated by law.

c) When they are seriously reprimanded by the Board of Directors for having breached their obligations as directors.

d) When their continued presence on the Board may jeopardise or damage the interests, credit or reputation of the Company or when the reasons for which they were appointed cease to exist (for example, when a proprietary director sells their stake in the Company).

e) In the case of independent directors, they may not remain in their posts for a continuous period of more than 12 years, and once this period has elapsed, they must submit their resignation to the Board of Directors and officially resign.

f) In the case of proprietary directors (i) when the shareholder they represent sells its entire stake and; likewise (ii) in the corresponding number, when this shareholder reduces its stake to a level that requires a reduction in the number of proprietary directors.

In the event that, due to resignation or for any other reason, a director leaves their post before the end of their term of office, they must explain the reasons in a letter to be sent to all the members of the Board.

Amendment of Articles of Association

The amendment of the Articles of Association is the responsibility of the General Shareholders' Meeting and is governed by Art. 160 of the Spanish Capital Companies Act and other concordant provisions, and there are no relevant specifications in this regard in the Articles of Association or the Regulations of the General Shareholders' Meeting.

Powers of Members of the Board of Directors

The Board has delegated certain powers to the Chief Executive Officer of the Company, according to a deed authorised on 11 May 2023 by the Notary Public of Barcelona, Mr. Enrique Viola Tarragona acting as substitute of and for the notarial record of his colleague in the notarial district Ms. Blanca Pardo García.

The director Mr. Carlos Gallardo Piqué has been granted powers by virtue of a deed of power of attorney authorised on 11 May 2022 by the Notary Public of Barcelona, Mr. Enrique Viola Tarragona.

15. Significant agreements

There are no significant agreements, either in relation to changes of control of the Company or between the Company and its Directors and Management or Employees, regarding compensation for resignation (except for those described in the Annual Remuneration report), dismissal or takeover bids.

16. Subsequent events

In January 2024, the Company made payments in the aggregate amount of 75 million euros linked to the achievement, by the end of 2023, of certain milestones linked to the contracts with Eli Lilly, Sun Pharma and Simcere, together with the amounts derived from the agreement with Etherna, as described in Notes 5 and 16) of the accompanying Annual Accounts.

On 2 February 2024, the Company signed a novation of the revolving credit facility entered into with several financial institutions in July 2020 to extend the maturity date to February 2028, with the option to extend the maturity by a further year to February 2029, while maintaining the same financial terms, and which will be used for general corporate purposes.

Finally, at the date of preparation of these consolidated financial statements, the Board of Directors of Almirall, S.A. resolved to propose to the General Shareholders' Meeting the distribution of a dividend charged to unrestricted reserves in the amount of €39.8 million (equivalent to €0.19 per share). For the purposes of this dividend distribution, it is proposed to again utilise the "Scrip Dividend" shareholder remuneration system, already applied in 2023. In this system, the shareholders are offered an alternative option that allows them to receive bonus shares in the Parent Company without limiting their option to receive an amount of cash equivalent to the dividend payment.

17. Statement of non-financial information

The Statement of Non-Financial Information is attached as Appendix I to the Consolidated Annual Accounts of the Almirall, S.A. Group and subsidiaries, of which the Company is the parent.