ALMIRALL, S.A. and Subsidiaries (ALMIRALL Group)

CONSOLIDATED MANAGEMENT REPORT

(Year ended 31 December 2010)

Almirall

CONTENTS

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

1. Summary of 2010. Main achievements

2010 was marked by the impact of spending containment measures introduced by some European governments (Spain and Germany, inter alia) and by the life cycle of certain products (Atorvastatin). Consequently, sales were down 4.7%, mainly because of the Spanish market. International sales represented 44% of the Group's total billings, an increase on 2009.

2010 was an intense year of news regarding R+D, noteworthy of which were those concerned with the development of aclidinium bromide monotherapy, of particular note being the pivotal Phase III studies that will form the basis for the registration of the product in Europe and the United States in mid-2011. Also, positive results were obtained from two pivotal Phase III studies for Linaclotide, which is scheduled for registration in Europe in the second half of 2011.

The balance sheet position is also solid, with a significant decrease in net borrowings, which stood at 0.10% of EBITDA for the year, EUR 22 million. Although cash generation was down on 2009, it is still positive despite the significant investments made in 2010, linked to corporate development projects and the acquisition of new products.

In short, in 2010 the Group endeavoured to adapt to the new situation and to continue to be consistent in its messages and strategic objectives: maintaining its leadership in the Spanish market, fostering its expansion in international markets and boosting R+D through major development projects, both internal and external through acquisitions.

2. Performance of the main items in the functional income statement

Functional Income Statement

Millions of euros	Cumulative Dec 2010	Cumulative Dec 2009	% change
Revenue	**882.4**	**925.5**	***(4.7%)***
Gross profit	**546.2**	**580.9**	***(6.0%)***
% of sales	*61.9%*	*62.8%*	
Other income	**119.7**	**107.8**	***11.0%***
R&D expenditure	**(144.9)**	**(121.0)**	***19.8%***
% of sales	*(16.4%)*	*(13.1%)*	
Overheads	**(363.5)**	**(386.8)**	***(6.0%)***
% of sales	*(41.2%)*	*(41.8%)*	
Other expenses	**(3.1)**	**(1.8)**	*72.2%*
% of sales	*(0.4%)*	*(0.2%)*	
EBIT	**154.4**	**179.1**	***(13.8%)***
% of sales	*17.5%*	*19.4%*	
Depreciation and amortisation charge	**61.9**	**64.8**	***(4.5%)***
% of sales	*7.0%*	*7.0%*	
EBITDA	**216.3**	**243.9**	***(11.3%)***
% of sales	*24.5%*	*26.4%*	
Gains or losses on disposals of non-current assets / Other	(0.5)	19.0	*(102.6%)*
Restructuring costs	(11.6)	(8.5)	*36.5%*
Impairment reversals / (losses)	(14.0)	(1.0)	*not material*
Net finance income / (costs)	(9.1)	(17.1)	*(46.8%)*
Income tax	(0.6)	(20.0)	*(97.0%)*
Net profit for the year	**118.6**	**151.5**	***(21.7%)***
Normalised profit for the year	**136.7**	**145.3**	***(5.9%)***
Earnings per share (EUR) (1)	0.71 €	0.91 €	
Normalised earnings per share (EUR) (1)	0.82 €	0.87 €	
Number of employees at the reporting date	2,831	3,125	(9.4%)

(1) Number of shares at the reporting date

- Sales amounted to EUR 882.4 million, down 4.7% on 2009. This trend was due mainly to the 7.6% decrease in sales in the Spanish market. On a geographical level, the Group's sales grew both in Europe and the Middle East (+1.6%) and in America, Asia and Africa (1.2%). Globally, Ebastine was Almirall's highest selling product, whilst Tesavel/Efficib (launched in 2009) was the product that showed the most growth. Also noteworthy is the sustained growth of the dermatological product Solaraze which, having recorded significant growth in 2009 (44%), was up 5.9% on the same period of 2009.

- "Other Income" was up 11.0% on 2009 due to the higher co-development income from the cooperation agreement with Forest for the aclidinium bromide studies (in monotherapy Phase III) and OD LABA (entered into at the end of 2009).

- R+D expenditure grew 19.8%, mainly due to the performance of the pivotal aclidinium bromide Phase III studies, the ACCORD in the United States and the ATTAIN in the European Union.

- Overheads were down, thanks to the cost-containment policy.

- As a result of the aforementioned changes, EBIT and EBITDA decreased by 13.8% and 11.3%, respectively, with respect to the same period of 2009.

- Profit before tax fell 30.4%, largely because of the sale of a portfolio of 13 products in 2009 and the impairment losses recognised in 2010 relating to certain products (affected by the price measures and austerity plans implemented in Europe in 2010) and the fall in value of certain facilities. Also, restructuring costs included expenses linked to the process for the optimisation of the sales networks in certain areas. These impacts, together with increased R+D expenditure (for which the Group receives tax credits), explain the decrease in income tax expense.

- Net profit for 2010 amounted to EUR 118.6 million, down 21.7% on 2009.

- Normalised net profit was down 5.9% (adjusted for non-ordinary items).

3. Corporate development

In 2010 the following corporate performance agreements were entered into:

- Toctino: exclusive international distribution agreement with Basilea Pharmaceutica Ltd. for marketing Toctino® (Alitretinoin) in Austria, Belgium, Slovakia, Spain, Holland, Italy, Luxembourg, Mexico, Poland, Portugal and the Czech Republic. Toctino® is a once-daily oral treatment for adults with severe chronic hand eczema (CHE) that is unresponsive to topical corticosteroids.

  Toctino® has been approved in all the countries included in the agreement, except in the Czech Republic and Mexico. The product was given a price and redemption in Italy and Austria, where it was launched in 2010. A sequential launch to the other European countries is foreseen in 2011.

- In 2010 the Parent entered into an agreement to acquire the development and marketing rights for a respiratory product. The agreement led to a payment of approximately EUR 45 million on 22 July 2010.

- Almirall entered into a co-promotion agreement with Pfizer to market Conbriza® (bazedoxifene) in Spain, a new drug for the treatment of osteoporosis, offering a considerable option in the treatment of post-menopausal osteoporosis in women with an increased risk of fractures.

  Conbriza® (bazedoxifene) was approved by the Spanish Drugs Agency (AEMPS) and the co-promotion to health professionals began in September in Spain.

4. Balance sheet. Financial position

A robust balance sheet with ample borrowing capacity

Millions of euros	December 2010	% of BS	December 2009
Goodwill	271.9	17.7%	272.7
Intangible assets	382.8	24.9%	352.8
Property, plant and equipment	154.8	10.1%	169.1
Non-current financial assets	10.2	0.7%	10.8
Other non-current assets	189.0	12.3%	173.6
Total non-current assets	**1,008.7**	**65.6%**	**979.0**
Inventories	87.9	5.7%	97.7
Trade receivables	103.8	6.8%	120.4
Cash and cash equivalents	312.9	20.4%	259.7
Other current assets	23.4	1.5%	26.2
Total current assets	**528.0**	**34.4%**	**504.0**
Total assets	**1,536.7**		**1,483.0**
Equity	819.3	53.3%	751.0
Bank borrowings	297.5	19.4%	265.7
Non-current liabilities	206.8	13.5%	228.4
Current liabilities	213.1	13.9%	237.9
Total liabilities and equity	**1,536.7**		**1,483.0**

The following matters should be noted in relation to the Group's balance sheet at 31 December 2010:

The increase in intangible assets is due to the payments made in 2010 to Ironwood (Linaclotide), Basilea (Toctino) and Meda.

The EUR 189.0 million balance under "Other Non-Current Assets" includes tax assets attributable mainly to cumulative R&D tax credits which will be effectively used in subsequent years.

"Inventories" is significantly down on 2009, reflecting the Group's effort to enhance inventory volume management. "Trade and Other Receivables" shows a decrease linked, in part, to the fall in sales and to improved working capital management.

On the liability side, equity (representing 53.3% of the balance sheet) increased due to:

a). A EUR 55.1 million dividend payment

b). Net profit for 2009 of EUR 118.6 million

Bank borrowings amounted to EUR 297.5 million, an increase on 2009, in order to finance the payment made to Meda in July. However, net borrowings, discounted for liquid assets and retirement benefit obligations, fell to EUR 22 million, equal to 0.10 times EBITDA for the year.

5. Financial risk management and use of hedging instruments

The Almirall Group uses financial instruments to partially hedge its exposure to financial risk, specifically to both interest rate risk and foreign currency risk.

Interest rate risk

In order to eliminate the uncertainties arising from fluctuations in the interest rates on the Group's bank borrowings, the Group arranged certain hedging transactions. The policy adopted seeks to minimise the risk through swaps of floating interest rates (tied to Euribor) on these borrowings for fixed rates or collars.

The hedge was arranged on the portion of the borrowings instrumented through loans (66.85% through interest rate swaps and 33.15% through collars).

The maximum hedging period is two years and at 31 December 2010, 64.79% of the bank borrowings were hedged.

Foreign currency risk

The Group is exposed to foreign currency risk on certain transactions arising from its ordinary business. This relates mainly to revenue received in USD for achieving milestones and from sales of finished goods, payments in USD for clinical trials, raw material purchases and the payment of royalties in JPY, as well as collections and payments made by the Mexican and UK subsidiaries.

In the case of collections the risk represents approximately 11.32% of revenue and other income, and in the case of payments approximately 13.46% of procurements and other operating expenses.

The Group analyses projected collections and payments in foreign currency and the performance and trends thereof on a quarterly basis. In 2010 the Group arranged a series of hedging transactions to reduce its exposure to foreign currency risk in higher volume transactions by allocating cash surpluses to transactions that were very likely to occur which had been completed at year-end.

The Group is exposed to price risk as the retail prices of its medicines are regulated by and subject to the procedures adopted by the Spanish Ministry of Health.

Also, credit risk, liquidity risk and cash flow risk are mitigated considerably through the quality of the Group's financial assets, its capacity to generate cash flows and the solvency of the financial institutions with which it operates.

6. Employees. Distribution by centre and subsidiary

The number of employees at 31 December 2010 and 2009 was as follows:

Employees Sales	31/12/10	31/12/09	% change
Spain	617	707	-12.73%
France	207	234	-11.54%
Italy	205	210	-2.38%
Mexico	200	207	-3.38%
Germany	128	158	-18.99%
Portugal	9	35	-74.29%
Austria	11	11	0.00%
Belgium	11	29	-62.07%
UK & Ireland	42	43	-2.33%
Switzerland	10	8	25.00%
Nordic countries	3	0	not material
Poland	28	30	-6.67%
Total operating area	**1,471**	**1,672**	**-12.02%**
Industrial Spain	503	508	-0.98%
Industrial Germany	113	171	-33.92%
Industrial France	0	1	-100.00%
R&D expenditure	486	498	-2.41%
Corporate development and Finance	122	134	-8.96%
International	74	77	-3.90%
General (HR, legal, information systems, etc.)	62	64	-3.13%
Total	**2,831**	**3,125**	**-9.41%**

Average number of employees	2010	2009	% change
Total average number of employees	**3,012**	**3,233**	**-6.84%**

7. Risk factors

1.- Entry of generics and/or price referenced products marketed in key markets, due to additional regulation or the expiry of patents.
2.- A reduction in prices or other measures which may affect sales margins as a result of new measures by public health authorities to control expenditure.
3.- Low R+D productivity or delays/cancellations of major projects for Almirall.
4.- Loss of opportunity for growth as certain licensing agreements were not consummated.
5.- Product withdrawal due to problems in pharmacovigilence.

8. Treasury shares

At 31 December 2010, the Parent held no treasury shares.

9. Events after the balance sheet date

There were no significant events after the balance sheet date.

10. Outlook for 2011

From a financial perspective, the main challenge for 2011 will be managing the impact of the price reduction and austerity measures introduced by the Spanish government in 2010 and the growing competition from generic products.

In this respect, the reduction in sales is expected to be in a high single-digit percentage range, which could, in turn, result in a low double-digit drop of normalised net profit (excluding extraordinary items). This estimate is based on the current regulatory framework of which the Company is aware and it does not include the execution of new licenses and/or acquisitions.

These financial perspectives foresee a positive trend in the new products launched in 2009 and 2010 and the continuity of the expenditure control and savings generation measures and of the improvements to the Parent's productivity.

The only expense category that is expected to increase with respect to 2010 is research and development, one of the strategic drivers in a company based on innovation and focused on fostering long-term growth.

Following the positive conclusion of the aclidinium bromide (monotherapy) and Linaclotide Phase III studies, increasing effort in R+D is expected with the objective of furthering the respiratory and dermatological franchise currently under development.

In 2011 Almirall will continue to explore new corporate development opportunities afforded by new licenses and/or acquisitions which, if materialised, could improve the financial forecasts for the year.

Lastly, Almirall's operations will pivot around two other key drivers of its long-term growth strategy: its internationalisation process and its continued leadership position in Spain.

11. Corporate Governance Report

The Corporate Governance Report is set forth in Appendix 1 of this document.

12. Capital structure. Significant ownership interests

At 31 December 2010, the Parent's share capital was represented by 166,098,610 fully subscribed and paid shares of EUR 0.12 par value each.

The shareholders with significant direct or indirect ownership interests of more than 3% in the share capital of Almirall, S.A., of which the Parent is aware, in accordance with the information contained in the official records of the Spanish National Securities Market Commission (CNMV) at 31 December 2010, are as follows:

Name or company name of direct holder of the ownership interest	No. of shares	% of ownership of the Almirall Group
Grupo Plafin, S.A.	76,155,630	45.849%
Todasa, S.A.	41,657,172	25.079%

At 31 December 2010, the Parent was unaware of other ownership interests of 3% or more in its share capital or voting rights, or of interests that, despite being lower than the percentage established, enable significant influence to be exercised.

13. Side agreements and restrictions on transferability and voting rights

The Group has entered into three side agreements, all of which were made known to the CNMV and which may be consulted on the following web site: www.almirall.com:

Agreement entered into by Almirall, S.A. shareholders

A side agreement entered into by Antonio Gallardo Ballart, Jorge Gallardo Ballart, Daniel Bravo Andreu, and the companies Todasa, S.A.U. and Grupo Plafin, S.A.U. regulating, inter alia, certain pre-emptive acquisition and call and put option rights relating to the shares of Almirall, S.A.

Agreement entered into by Inmobiliaria Braviol, S.A. shareholders

A side agreement entered into by Antonio Gallardo Ballart, Jorge Gallardo Ballart, Daniel Bravo Andreu, Margaret Littleton, and the companies Inmobiliaria Braviol, S.A., Danimar 1990, S.L., and Todasa, S.A.U. regulating, inter alia, certain pre-emptive acquisition and call and put option rights relating to the ownership interests and shares of the aforementioned companies.

Agreement between Jorge and Antonio Gallardo Ballart

A side agreement regulating the concerted action of the signatories in Almirall, S.A. and the inherent voting rights of their indirect ownership interest in the Company through Grupo Plafin, S.A.U. and Todasa, S.A.U.

There are no bylaw restrictions on the transferability of the Parent's shares or the exercise of the related voting rights.

14. Managing bodies, Board of Directors

Appointment of directors

Directors are appointed (i) upon the proposal of the Nomination and Remuneration Committee, in the case of independent directors, and (ii) upon a prior report from the Nomination and Remuneration Committee in the case of other directors, by the Annual General Meeting or by the Board of Directors, in conformity with the provisions laid down in the Spanish Public Limited Liability Companies Law.

On appointment, the new director is required to complete an induction programme established by the Parent for new Board members so that he/she can rapidly acquire sufficient knowledge of the Parent and of its corporate governance rules.

As regards the appointment of non-executive directors, the Board of Directors must ensure that persons of acknowledged solvency, competence and experience are elected, and its standards must be particularly stringent in respect of persons proposed as independent Board members in accordance with the provisions laid down in Article 6 of the Board Regulations.

Board members who are candidates for the position must abstain from participating in the discussions or votes relating thereto.

Board members shall discharge their positions for the period established by the Annual General Meeting, which shall be the same for all Board members and may not exceed six years, after which they may be re-elected for one or more subsequent periods of equal length.

Replacement of Board members

Directors shall cease to hold office when the term for which they were appointed elapses, or when the Annual General Meeting so decides, by virtue of the powers conferred upon it by law or in the bylaws. In any case, the appointment of directors shall lapse when, on expiry of the term, the next General Meeting has been held or the period established by law for holding the General Meeting at which the financial statements for the previous year are to be approved or otherwise, has ended.

The Board of Directors may only propose the removal of an independent Board member before the term established in the bylaws ends when it considers that there is just cause to do so, subject to a prior report by the Nomination and Remuneration Committee. In particular, just cause will be deemed to exist when the director has infringed the duties inherent to his/her position or when he/she, due to a supervening cause, has become subject to any of the circumstances impeding the discharge of duties as an independent director, per the definition thereof that may be established in the applicable good corporate governance guidelines from time to time.

Directors subject to removal proposals must abstain from participating in the discussions or votes relating thereto.

Directors shall tender their resignation to the Board of Directors, should the latter deem it appropriate, in the following situations:

a) When they cease to hold the executive positions associated with their appointment as directors.

b) When they are involved in any of the situations of incompatibility or legal prohibition established by law.

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

d) When their continuity as directors jeopardises the Parent's interests or adversely affects its prestige and reputation or when the reasons for which they were appointed cease to exist (e.g. when proprietary directors dispose of their ownership interest in the Parent).

e) Independent directors may not continue to hold office as such for a period exceeding 12 years and, once this period has elapsed, must tender their resignation to the Board of Directors.

f) In the case of proprietary directors (i) when the shareholder they represent sells its entire shareholding and, also (ii) when the aforementioned shareholder reduces its shareholding to a level which requires the number of its proprietary directors to be reduced.

Where directors vacate their positions before their tenure concludes, either as a result of their resignation or for any other reason, they must explain their reasons in a letter submitted to all the members of the Board.

The Board of Directors may only propose the removal of an independent director before his/her tenure ends where it considers that is just cause to do so, subject to a prior report by the Nomination and Remuneration Committee. In particular, just cause will be deemed to exist when the director has infringed the duties inherent to his/her position or when, due to a supervening cause, he/she has become subject to any of the circumstances impeding the discharge of duties as an independent director, per the applicable definition thereof that may be established in the good corporate governance guidelines from time to time.

Amendment of the Company's Bylaws

The shareholders at the Annual General Meeting are responsible for the amendment of the Company's bylaws pursuant to Article 144 of the Spanish Public Limited Liability Companies Law and similar provisions, no specific provisions being envisaged in this respect in the Company's bylaws or in the Annual General Meeting Regulations.

The Powers of the Members of the Board of Directors

All the powers of the Board except for those which may not be delegated have been conferred on the Parent's Chairman and CEO.

Also the director Eduardo Javier Sanchiz Yrazu has been conferred powers by virtue of a public deed of power of attorney authorised by a Barcelona notary on 25 November 2009 and extended by public deed authorised by the same notary on the same date.

The director Luciano Conde Conde has been conferred powers by virtue of a public deed of power of attorney authorised by the Barcelona notary Salvador Carballo Casado on 25 November 2009 and extended by virtue of a public deed authorised by the same notary on the same date.

It is hereby placed on record that at the Annual General Meeting held on 13 April 2007, the shareholders unanimously adopted the following resolutions under the terms summarised below:

1. To authorise the Parent's Board of Directors, pursuant to Article 153.1b of the Spanish Public Limited Liability Companies Law, without prior consultation with the Annual General Meeting, to increase capital by up to 50% of the share capital of the Parent at that date, taking into consideration any capital increases that might have been carried out pursuant to the fifth and thirteenth resolutions of this Annual General Meeting. This authority may be exercised within a period of five years from the date of the resolution once or several times and at any time in the amount and conditions deemed appropriate in each case.

2. To delegate to the Board of Directors the power to issue debentures, bonds and other similar fixed-income securities, both nonconvertible and exchangeable for shares of the Parent, or of any other company (belonging to the Group or otherwise) and/or convertible into shares of the Parent. This authorisation may also be used to issue promissory notes, preference shares (where legally permissible) and warrants (options to subscribe to newly-issued shares or to acquire outstanding shares of the Parent). Securities may be issued once or several times within a period of five years from the date of adoption of the aforementioned resolution, for a maximum amount of EUR 100 million.

3. To authorise the Board of Directors of the Parent to derivatively acquire treasury shares in accordance with the following terms and conditions:

   a). The acquisition may be made by purchase and sale, exchange or dation in payment, once or several times, provided that the acquired shares, together with those held by the Parent, do not exceed 5% of the share capital.

   b). The price or equivalent value must fall within a range between a minimum equal to their par value and a maximum equal to the closing market price of the Parent's shares on the Spanish Stock Market Interconnection System at the moment of acquisition. However, for the acquisition of shares that is agreed before their listing and, in particular, for the acquisition of treasury shares in the framework of a tranche offered to employees, the maximum price will be that which is determined by the minority tranche of the Offering.

   c). The authorisation is valid for a period of 18 months from the day after that of the resolution.

   Also, express authorisation was granted for the acquisition of shares of the Parent by any of the subsidiaries, in accordance with the same terms and conditions as those laid down in this resolution.

   Any shares acquired as a result of the aforementioned authorisation may be either disposed of or redeemed, or allocated to employee remuneration schemes, as set forth in Article 75 ter. 1 of the Spanish Public Limited Liability Companies Law.

4. To delegate the broadest powers to the Board of Directors so that it may delegate to any of its members such powers as may be required so that they may interpret, execute and fully implement the resolutions adopted at the aforementioned Annual General Meeting. The Board of Directors made use of this power by delegating powers to the Chairman and CEO Jorge Gallardo Ballart and First Deputy Chairman Antonio Gallardo Ballart through resolutions adopted at the Board meetings held on 13 April 2007 and 11 May 2007, respectively.

15. Significant agreements

There were no significant agreements relating to changes of control either at the Parent or between the Parent, its directors, executives or employees in relation to termination or retirement benefits or takeover bids.

APPENDIX I: Corporate Governance Report

Downloadable at:
http://inversores.almirall.es/phoenix.zhtml?c=209345&p=irol-govreports