

Almirall S.A. and Subsidiaries (Almirall Group)

Consolidated directors' report (Period ending 30 June 2018)

*(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 first half of the year.

The first half of the year 2018 was characterized by the return to the path of growth in the Group's revenues. This has been mainly due to:

- The launch of Skilarence® in the second half of fiscal year 2017 in Germany, the United Kingdom, Austria and the Nordic countries and in June 2018 in the Netherlands, contributing sales of EUR 8 million. Launches in additional EU territories are planned for the second half of the year (including Spain and Italy).
- The license agreement signed with Astrazeneca dated December 21, 2017, through which the latter granted the Group an exclusive license for the commercialization in Spain of two products for the reduction of cholesterol, whose net sales in the first half of the year 2018 amounted to EUR 21.9 million.
- The good performance of the mature portfolio (with products such as Almax or Sativex growing both at a double-digit ratio, +17% and +16%, respectively) together with the stabilization of business in the United States (despite continuing to decrease, in part due to an unfavorable exchange rate effect), following a particularly convulsive first half of 2017 for the subsidiary Aqua Pharmaceuticals as a result of three significant events: a rebalance of inventories in the distribution channel; an inappropriate adjudication of the American Patient Assistance Program (PAP) and the launch of a generic Acticlate™ in the US market. Following the restructurings carried out in the second half of 2017 of both businesses (Aqua Pharmaceuticals and ThermiGen), despite the decrease in sales, their joint contribution to the Group's results is better than in the same period of the previous year.

On June 1, the Group paid the dividend with a charge to income for the year 2017, for an amount of EUR 22.7 million. It should be recalled that the Group once again used the system of compensation for shareholders called "Scrip Dividend", already applied in 2012. In this way, it offered its shareholders an alternative that allowed them to receive shares from the Parent Company without limiting their ability to receive in cash an amount equivalent to the payment of the dividend. In this regard, 71% of shareholders have opted to receive the dividend in cash, resulting in the issuance of 902,547 new shares of the Parent Company on June 14, 2018.

Finally, the Group closed the six-month period with a cash position amounting to EUR 63.2 million (EUR280.2 million as of December 31, 2017). This evolution is explained by:

- Solid cash flow from operating activities (EUR +70 million), as a result of the improved profitability of the Group and better working capital performance.
- Net payments of investment activities (EUR -114 million) resulting from the license agreements signed in previous years with Athenex, Sun Pharma and AZ (the aforementioned license for Spain) for a total amount of EUR92.6 million, to which must be added the last variable payment corresponding to the acquisition of Poli Group in 2016.
- Net payments of financing activities (EUR -173 million) as a result of the payment of the dividend and the partial refund of EUR150 million of the credit policy.

2. Evolution of key figures in the consolidated income statement

- Total revenues amount to EUR 398.3 million (+5.1%) due to:
 - Revenues have amounted to 367.4 million euros increasing as a result of the points mentioned in point 1 of this management report. As indicated in notes 3 and 20 of the report, the "Revenues" caption includes the effect of the application of IFRS 15 effective January 1, 2018, the impact of which is 18,374 thousand euros (as of June 30, 2017 this effect amounted to 20,792 thousand euros and was classified under the heading "Other income").
 - Other income amounts to EUR 30.9 million as a result of the announcement by AZ of the application for the Registration of Marketing of a New Drug (NDA, for its acronym in English) before the FDA in the USA for Duaklir (acridinium bromide / formoterol 400 / 12mg).
- The gross margin on sales has increased significantly as a result of the new launches and the decrease in the margins of Aqua Pharmaceuticals in the first half of 2017 (in 2018 the situation is already normalized).
- Personnel expenses have been reduced as a result of the restructuring mainly of US businesses, to size them according to the current market situation.
- R&D expenses in the first half of the year amounted to EUR 38.2 million (-20.7%), being reduced mainly as a result of the cancellation of studies P3058 (Onychomycosis) for the United States and P3073 (Nail Psoriasis) for Europe and the United States at the end of 2017.
- Depreciation has fallen to EUR 40 million (-25.4%), mainly as a result of the impairment in 2017 of the technology acquired from Aqua Pharmaceuticals in 2013, as a result of the events mentioned above in the American market.

- The heading "Impairment losses on property, plant and equipment, intangible assets and goodwill" in the attached Interim Consolidated Income Statement included, in 2017, an impairment loss of € 75 million, allocated in full to the goodwill of the Cash Generating Unit (CGU) integrated by Aqua Pharmaceuticals. No impairment loss has been recorded in the first half of 2018.
- Financial expenses for the first 6 months of 2018 amounted to EUR 2 million (-90.2%), decreasing significantly with respect to the same period of the previous year as they included the expense derived from the early amortization of senior liabilities issued at the end of March 2014.
- The exchange differences for the 2018 period have also been significantly reduced since in 2017 they were affected by the transfer amounting to EUR15.9 million (net of tax effect), of the positive exchange differences generated in years previous (until March 31, 2017) for a credit in dollars granted by the parent company to a subsidiary (which until then had been considered as a net investment in business abroad). In fiscal year 2018, there were negative differences of EUR4.4 million, mainly derived from the fluctuation of the US dollar.
- As a result of the aforementioned, the result before tax has improved significantly, reaching a profit of EUR 59.3 million compared to a loss of EUR 89.7 million in the first six months of 2017.

3. Corporate development

During the first six-month period of 2018, there were no significant corporate development agreements, although the following significant events have occurred, the impact of which, whether present or future, has a special significance in the performance of the Group:

- On June 1, 2018, our partner AstraZeneca submitted the application for the Registration of Marketing of a New Drug (NDA) to the FDA in the USA for Duaklir (aclidinium bromide / formoterol 400 / 12mg).
The application for registration is based on the positive results of the phase III AMPLIFY study, announced on September 7, 2017, which demonstrated that Duaklir significantly improves lung function in cases of stable moderate to very severe COPD.
- On June 25, the situation of several ongoing studies of the Group's pipeline was published:
 - P3074 (androgenic alopecia): The recent reading of the preliminary results in phase III of the clinical trial were positive and have shown significant data in the primary endpoint, the variation of the TAHC (target area hair count) in week 24. Additional information about this program will be offered soon.
 - PAT001 (ichthyosis): The review of the phase II trial of PAT001 (ichthyosis) did not meet the internal development criteria of Almirall and, therefore, the company has decided not to continue with the license agreement with Patagonia.
 - Rest of Almirall's pipeline: tildrakizumab for psoriasis is on record and its approval in the EU is expected in Q4 2018. The development of KX2-391 for actinic keratosis, is in accordance with the established, all patients in phase III they have completed the treatment. Clinical trials of P3058 (onychomycosis) continue to progress in Europe and the results are expected in the last quarter of 2018.

4. Consolidated balance sheet. Financial position

The main variations of the Balance sheet as of June 30, 2018 with respect to the end of 2017 are described below:

- The intangible assets heading maintains similar amounts to the ones at the close of 2017. Despite the payment of various milestones during the first half of 2018, these assets were already recorded on the balance sheet as they corresponded to agreements signed in previous years, so they have not meant an increase in the value of the asset (instead a decrease of the corresponding liability).
- Financial assets have increased mainly due to Other income recorded as a result of the agreement signed with AZ in 2014. There has been no payment related to this agreement during the six-month period ended June 30, 2018.
- Cash and cash equivalents have decreased to EUR 63.2 million for the events explained in section 1 of this Director's report.
- Non-current liabilities have decreased mainly due to the reimbursement of EUR 150 million of the credit policy (which as of December 31, 2017 was fully available) and the transfer to income of deferred income under the agreement signed with AZ in 2014.
- Current liabilities have decreased mainly due to the payment of several milestones of license agreements for an added value of EUR 92.6 million, as well as the payment of the earn-out related to Poli Group acquisition in 2016.

5. Risk factors

The risk factors which are worthy of mention that can affect the achievement of business objectives are the following:

- Price reduction, limitations on volume, difficulties with the approval or repayment of new products due to decisions of the health authorities which affect the sale of some products.
- Delays with the implementation of the new strategy which focuses on the growth of the dermatological area and other specialties.
- Launching of generics which cause a reduction in the price of products and a loss of the market share.
- Impairment of intangible assets, goodwill and deferred tax assets as a result of the decrease in expected results.
- Continuous increase in the regulatory environment that requires constant knowledge of the new regulations and an increase in the resources allocated to comply with it.

6. Treasury stocks

At June 30, 2018, the Parent Company holds no treasury stock shares.

However, in the resolutions adopted at the Ordinary General Shareholders' Meeting held on May 10, 2018, it was approved to grant express authorization for the Parent Company and / or its subsidiaries to acquire shares representing the capital of the Parent Company through any onerous title admitted in Law, within the limits and with the legal requirements, until reaching a maximum of the number of shares equivalent to 5% percent of the existing share capital at all times, fully paid, at a minimum price per share of the value nominal and maximum of up to 5 percent higher than the last quotation prior to the acquisition in question. This authorization can only be exercised within a period of five years from the date of the meeting. The authorization includes the acquisition of shares that, if applicable, are to be delivered directly to the employees and administrators of the Company as remuneration, incentive or other concept, or as a consequence of the exercise of potential option rights of which they were holders.

As a result of this agreement, the Parent Company has formalized an "Equity swap" agreement with the financial institution Banco Santander, through which the portfolio will be built, although until the end of said agreement, the Parent Company will not have the option of acquiring such shares (therefore, the ownership of these shares will be held by Banco Santander). The liquidation of said contract, either through the physical delivery of the shares, either through settlement between the difference between the market value and the acquisition cost, is estimated to be mid-2020.

7. Subsequent events

In relation to the tax inspection initiated in July 2016 by the Spanish Tax Authorities described in Note 21, on July 27, 2018 the final minutes have been received, which have been signed in accordance. These minutes do not imply any significant impact on these interim consolidated financial statements.

Additionally, on July 27, 2018 the Group received a positive opinion from the Committee for Medicinal Products for Human Use (CHMP, for its acronym in English) for the regulatory approval of tildrakizumab (license acquired from Sun Pharma, as described in the Note 17) by the European Medicines Agency (EMA).

Finally, readings of top-line results of two phase III trials of KX2-391 (license for a product under development acquired to Athenex) demonstrated the achievement of the primary endpoint in terms of efficacy. The Group has the commercialization rights for this product in the United States and Europe.

8. Outlook for 2018

The Group forecasts mid single-digit growth in Total Revenues in 2018, as compared with the figures at the 2017 year end, and expects to see an increase in EBITDA[1] around 30% compared with the previous year.

We will continue throughout 2018 to work on the consolidation of our specialist model, reinforcing our presence as a world leader in dermatology. The Group will use its sound cash position and the resources made available through the restructuring operations performed to finance the opportunities for growth in this area, and to support the clinical development of our pipeline.

[1] Calculated as Operating income plus the captions of the consolidated income statement "Amortizations and Depreciation", "Net provisions variation", "Net result from sale of assets" and "Impairment losses".

9. Capital structure. Significant ownership interests

At June 30, 2018, the Parent Company's capital is represented by 173,853,667 shares with a par value of Euros 0.12 each, all fully subscribed and paid up.

On June 14, 2018 the 902,547 new shares of the Company created as a result of the capital increase released through which the Company's scrip dividend program was implemented were admitted to trading on the Barcelona Stock Exchange, Madrid, Bilbao and Valencia. These shares are representative of the holders of 28.70% of the free allocation rights that chose to receive new shares instead of cash. As a consequence, the share capital of the Parent Company after the capital increase was increased by EUR108,305.64, reaching 30 June 2018 to EUR20,862,440.04 (represented by 173,853,667 shares).

The shareholders with significant direct or indirect ownership interests in the share capital of Almirall, S.A., of more than 3% of the share capital, 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 June 30, 2018, are as follows:

Name or company name of direct holder of the ownership interest	% ownership interest in Almirall Group
Grupo Plafin, S.A.	41.1%
Todasa, S.A.	25.2%
Scopia Capital	4.0%

At June 30, 2018, the Parent Company is unaware of there being other ownership interests of 3% or more in the share capital or voting rights of the Parent Company, or other interests which, despite being less than this percentage, enable the holder to exercise a significant influence over the Parent Company.

10. Side agreements and restrictions on transferability and voting rights

In relation to the existing side agreements as of December 31, 2017, on May 23, 2018, the following significant event was reported:

In accordance with the Contract between Shareholders of Inmobiliaria Braviol, S.A. dated May 28, 2007, communicated to the CNMV on June 26, 2007 (registration n. 81611), and in execution of the purchase option right contemplated in the aforementioned Contract, the purchase was made by a Company controlled by Don Jorge and Don Antonio Gallardo Ballart - Grupo Corporativo Landon, SL-, of the shares of Inmobiliaria Braviol, SA (Sole partner of Todasa, SAU, holder of 43,830,765 shares of Almirall, SA representing 25.34% of the share capital of this company) owned to date, indirectly, by Mr. Daniel Bravo Andreu through the company Danimar 1990, SL In this way, Mr. Bravo has ceased to be an indirect shareholder of

Inmobiliaria Braviol, S.A. and therefore of Almirall, S.A., although said gentleman continues conserving the actions of Almirall, S.A. of which it is a direct holder.

Likewise, it has been communicated to the Company that the aforementioned Real Estate Shareholders Agreement of Inmobiliaria Braviol, S.A. dated May 28, 2007 as well as the Contract between Shareholders of Laboratorios Almirall, S.A. (today Almirall, S.A.) also dated May 28, 2007 and communicated to the CNMV on June 26, 2007 (registration number 81611) have been extinguished by the signing parties of the same. For the appropriate purposes, a copy of the corresponding communication filed before this Committee as of today by one of the signatories of such parasocial agreements is attached. For its part, the agreement of partners in relation to the participation of Mr. Antonio and Mr. Jorge Gallardo Ballart in Inmobiliaria Braviol, SA, which regulates their concerted action in the exercise of the voting rights inherent to their indirect participation. at Almirall SA through Todasa, S.A.U., communicated to the CNMV on June 26, 2007 (registration number 81611), will continue in effect among the undersigned

Consequently, the following shareholder agreements notified to the CNMV have been extinguished on May 23, 2018:

Agreement entered into by Almirall, S.A. shareholders

This is an agreement formalized between Mr. Antonio Gallardo Ballart, Mr. Jorge Gallardo Ballart, Mr. Daniel Bravo Andreu and the companies Todasa, S.A.U. and Grupo Plafin, S.A.U., which regulates, among other aspects, certain pre-emptive and purchase and sale option rights in relation to the shares of Almirall, S.A.

Agreement entered into by Inmobiliaria Braviol, SA shareholders

This is an agreement formalized between Mr. Antonio Gallardo Ballart, Mr. Jorge Gallardo Ballart, Mr. Daniel Bravo Andreu, Ms. Margaret Littleton and the companies Inmobiliaria Braviol, S.A., Danimar 1990, S.L., and Todasa, S.A.U., which regulates, among other aspects, certain pre-emptive and purchase and sale option rights in relation to the participation units and shares of the said companies.

Only the following agreement in effect as of June 30, 2018 remains:

Agreement between Mr. Jorge and Mr. 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.

The bylaws impose no restrictions on the transferability of the shares of the Parent Company, and neither are there any restrictions on voting rights pursuant to the bylaws or regulations.

11. Governance bodies, Board of Directors

Appointment of directors

The directors are appointed (i) upon proposal by the Appointments and Remuneration Committee, in the case of independent directors, and (ii) following a report by said 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 Companies Law.

Newly-appointed directors are required to complete the Parent Company's orientation course for new directors so that they can rapidly build up sufficient knowledge of the Parent Company and of its corporate governance rules.

As for the appointment of external directors, the Board of Directors seeks to ensure that the candidates chosen are persons of recognized 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.

Directors proposed for re-appointment must refrain from participating in the deliberations and voting procedures concerning them.

Directors hold office for the term stipulated by the General Meeting, which is equal for all and may not exceed four years, at the end of which they may be re-elected one or more times for periods of the same maximum duration.

Replacement of directors

Directors cease to hold office when the period for which they were appointed has elapsed and when a decision to this effect is adopted by the General Meeting, exercising the powers attributed to it by law or by the Articles of Association. In any event,

the appointment of directors expires when, once its term has elapsed, the following General Meeting has been held, or the legal time limit for holding the General Meeting to approve the accounts for the previous year has passed.

The Board of Directors may only propose the removal of an independent director before the expiry of the statutory term when there is due cause, acknowledged by the Board following a report by the Appointments and Remuneration Committee. In particular, due cause is understood to exist when a director has breached the duties inherent to his/her position or has come to be in any of the circumstances which bar him/her from holding this office, as described in the definition of independent director contained in corporate governance recommendations applicable at the time.

Directors who are the subject of removal proposals must refrain from participating in the deliberations and voting procedures concerning them.

The directors are required to tender their resignation to the Board of Directors and formalize such resignation, where the Board considers this appropriate, in the following cases:

- a) Where they cease to hold the executive posts with which their appointment as directors was associated.
- b) Where they find themselves in any of the situations of incompatibility or barring from office stipulated by law.
- c) When seriously reprimanded by the Board of Directors for failing to discharge their obligations as directors.
- d) When their remaining on the Board could jeopardize or prove detrimental to the interests, credit or reputation of the Parent Company or when the reasons for which they were appointed cease to apply (for example, when a nominee director sells their shareholding in the Parent Company).
- e) In the case of independent directors, they may not remain in such positions continuously for more than 12 years; therefore, once this period has elapsed, they must tender their resignation to the Board of Directors and formally withdraw.
- f) In the case of nominee directors, (i) when the shareholder they represent sells its entire shareholding and, similarly, (ii) in the requisite number, when such shareholder reduces its shareholding to a level which requires the number of nominee directors to be reduced.

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

Amendment of the Company's bylaws

Amendments to the bylaws are a competence of the General Meeting and are regulated by Article 160 of the Spanish Companies Law and other related legislation. There are no special provisions of relevance in this respect in either the bylaws or the General Meeting Regulations.

Powers of the members of the Board of Directors

Certain powers pertaining to the Board of Directors are vested in the Chief Executive Officer of Almirall, S.A., pursuant to a public deed executed before the Barcelona Notary Mr. Enrique Viola Tarragona on 24 May 2018.

Similarly, powers have been granted to Mr. Jorge Gallardo Ballart in the public deed executed before the Barcelona Notary Mr. Enrique Viola Tarragona on 2 June 2011.

12. Significant agreements

There are no significant agreements with regard to changes in the control of the Parent Company or between the Parent Company and its Directors and Managers or Employees with respect to indemnities for dismissal, resignation, or public takeover bids.