Almirall S.A.

Directors' report
(Year ended December 31, 2020)

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

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1. Summary. Main achievements

The 2020 financial year was characterized by the impact of the COVID-19 pandemic on the world, and in particular as far as the Company's operations are concerned, the impact it has had on the EU and the United States. The Company's production activities have not been disrupted during the pandemic and the supply of medicines has been carried out as normal. Despite not disrupting production activity, the Company's sales have been negatively impacted as a result of the global economy, as well as by the restriction of people mobility, which has caused both delays and cancellations of product promotion activities, as well as the reduction of global demand from the different countries in which the Company operates.

In this context, it should be noted that the impact of COVID-19 on EU countries has been lower than in the United States as a result of the type of product sold in each of these territories, with the EU market being particularly focused on chronic treatments that have been less impacted whereas in the United States the product portfolio is among the so-called non-essential ones where the falling sales has been more pronounced. It should be noted that the market share of the Company's main products has not been significantly impacted and that most of the decline in sales is in line with the reduction in global demand.

From the point of view of R&D activities, there have been delays in some activities linked to clinical studies given restrictions on access to hospitals that made difficult to recruit new patients. However, Management considers that there has been no significant delay that could affect the long term. The registration process for Tirbanibulin (to be marketed under the brand name Klisyri®) in the EU is ongoing, while in the United States, FDA approval was obtained on December 14, 2020 (launch in early 2021). As for Lebrikizumab's Phase III, the development schedule is maintained with submission to the EMA expected in 2022 and subsequent approval and release in early 2023.

Promotion activities are the ones that have been most affected due to confinement and the measures imposed to prevent contagion. Due to this, various activities such as congresses or medical visits have been canceled and / or postponed, which has caused a slowdown in the sales of some medicines, especially those that do not correspond to chronic diseases. This has been alleviated by the digitization of various processes and activities, which has allowed us to continue interacting with doctors and patients despite the restrictions.

Finally, support and administration activities have continued to be carried out by adopting certain measures of labor flexibility in the different workplaces and in accordance with the exceptional measures established in each country. Telework has generally been chosen in all those functions that would allow it without significant disruption.

The dividend proposed by the Board of Directors on February 21, 2020 was finally approved on July 24, 2020, as the General Meeting of Shareholders initially scheduled for May 6, 2020 due to COVID-19 was canceled. The instrumentalization as a Script dividend was maintained and the cash payment amounted to EUR 2.1 million (93.8% of the voting rights chose to collect it in shares).

From a liquidity point of view, COVID-19 has not had a significant impact on the Company. The year ended with a cash position amounting to EUR 133.7 million (EUR 89.3 million as of December 31, 2019). This evolution is explained by:

- Solid cash flow from operating activities (EUR +95.5 million), mainly as a result from the collection of dividends from its subsidiaries for the amount of EUR 40 million and the collections related to the contract with AstraZeneca for the amount of EUR 52 million, as explained in the accompanying annual accounts (Note 9).
- Net payments from investment activities (EUR -64.7 million) mainly resulting from the license agreement signed with Dermira (payment of two milestones linked to Phase III of Lebrikizumab), the deferred payment linked to the agreement reached with AstraZeneca in 2017, for an amount of EUR 35 million and investments in the production center of Spain.
- Net payments from financing activities (EUR +13.7million) as a result of the collections of short-term debts with group companies, partially offset by payments for derivative financial instruments and the payment of dividends.

2. COVID-19 impacts

Note 26 of the accompanying Annual Accounts summarizes the main impacts of COVID-19 in year 2020.

3. *Corporate development*

During the year ended December 31, 2020, the following corporate development agreements and relevant facts have taken place:

- On March 2, 2020, it was announced that the European Medicines Agency (EMA) had accepted the submission of the application for a marketing authorization and the application for a new medicinal product for Tirbanibulin, also known as ALM14789 (license acquired to Athenex), as a treatment for actinic keratosis.
- On March 9, 2020, it was announced that the U.S. Food and Drug Administration (FDA) had accepted the submission of the application for marketing authorization and the application for a new drug for Tirbanibulin, also known as ALM14789 (license acquired to Athenex), as a treatment for actinic keratosis.
- On October 10, 2020, the price and reimbursement approval of Ilumetri® (tildrakizumab) was obtained in France for the treatment of adult patients with severe chronic plaque psoriasis.

4. *Evolution of key figures in the income statement*

- Net sales amounted to EUR 519.7 million (-15%), mainly due to the lower contribution of income from dividends and interests from Group companies, which amounted to EUR 139 million in the previous year (52 million in the current year) as explained in Note 19 of the attached Annual Accounts.
- Other Income decrease to EUR 77.8 million (-27%) due to the achievement of a milestone for reaching sales levels in the first half of 2019 resulting from the agreement with AstraZeneca as explained in Note 9 of the attached Annual Accounts.
- Operating expenses have been reduced by savings generated due to the cancellation and delay of some promotional events and activities as a result of the impact of COVID-19.
- Personnel expenses decreased slightly to EUR 64.7 million (-6%) mainly as a consequence of the decrease in the provision for long-term remuneration, as explained in Note 14 of the attached Annual Accounts.
- Depreciation decreases slightly to EUR 26.9 million (-5%) as a result of the completion of the depreciation of some assets mainly related to software.
- The heading "Impairment results from disposals of fixed assets and investments in Group companies" in the accompanying Income Statement includes in 2020 the partial impairment of the stake in Almirall, Inc, as explained in Note 8 of the attached Annual Accounts.
- The financial result has fallen to EUR 23.8 million due to negative exchange differences mainly caused by the fluctuation of the US dollar.
- As a consequence of the aforementioned, the operating profit has decreased to EUR 41.9 million (-79%) and the net result to EUR 9.7 million (-95%).

5. *Balance sheet. Financial position*

The main variations of the Balance sheet as of December 31, 2020 compared to December 31, 2019 are described below:

- The Intangible Assets heading (intangible assets and investments in group companies) has decreased mainly as a consequence of the amortization of the yearpartially offset by the payments to Dermira in relation to some milestones regarding the Phase III development of Lebrikizumab.
- Inventories have increased due to new launches and the construction of safety inventories as a result of the reorganization of production between the different Group centers. There have been no significant impacts on the supply chain and products have continued to be supplied normally.
- Accounts receivable have increased mainly due to tax assets due to the incorporation of the Corporation Tax receivable for fiscal years 2020 and 2019, as explained in Note 18 of the attached Annual Accounts.

- Non-current liabilities have decreased mainly due to the allocation to the income statement of deferred income, as mentioned in Note 13 of the attached Annual Accounts, and to the short-term transfer of the convertible bond since its date of expiration date is December 14, 2021.

- Current liabilities have increased due to the aforementioned transfer of the convertible bond, partially offset by the payment of EUR 35 million corresponding to the deferred payment for the agreement reached with AstraZeneca in 2017 and the reduction in commercial creditors due to the lower activity in the second quarter as a result of the disruption caused by COVID-19.

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

The Company's activities are exposed to various types of financial risk: market risk (including exchange rate risk, interest rate risk and price risk), credit risk and liquidity risk. The Company's risk management program focuses on uncertainty in financial markets and seeks to minimize the potential adverse impact on its financial profitability.

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

Interest rate risk

During the first quarter of 2017, the Company signed a new 4-year credit line, enabled for a maximum drawdown of EUR 250 million at a fixed interest rate, with the average of said rate of 0.81%, so the Company is not exposed to interest rate volatility. Said policy has been canceled in 2020 and replaced by a new credit policy for the amount of EUR 275 million, for an initial term of 3 years with the possibility of an additional 1 year extension and intended for general corporate uses (as described in the Note 15). This policy accrues a variable interest rate referenced to Euribor, plus a variable that depends on the Company's Net Debt to EBITDA ratio. Within the contract of this credit line, the Company was obliged to comply with a number of covenants among which stands out the fulfillment of a certain "Net Financial Debt Ratio / EBITDA"(from now on understood as the calculation of "Operating Profit" plus Profit and Loss statement epigraphs "Fixed asset amortization/ depreciation", "Losses, impairment and variation in trade provisions" and "Impairment and profit/(loss) on fixed asset disposals and in group companies")", which is considered as complied at December 31, 2020. At December 31, 2020, taking into account the current macroeconomic perspectives, the Company's Management does not consider that there is a relevant risk due to possible interest rate increases in the short / medium term, so it has not considered necessary to implement any hedging mechanism in this regard.

In September 2018, the Company signed a temporary loan of EUR 400 million at a fixed interest rate of 1.25%. That loan was cancelled in December 2018 and refined, on the one hand, with a syndicated loan of EUR 150 million at a fixed rate of 2.1% and, on the other hand, with the issuance of Convertible Bonds (EUR 250 million), also at a fixed interest rate of 0.25%. Since it is all fixed-rate financing, the Company is not exposed to interest rate volatility.

In March 2019, the Company formalized a loan with the European Investment Bank (EIB) up to EUR 120 million, to finance its research and development efforts, with the aim of offering cutting-edge innovation and differentiated therapies in the area of medical dermatology. The first tranche of EUR 80 million was granted on 17 April 2019, at a fixed interest of 1.35%. Within the contract for this loan, the Company is obliged to comply with a series of covenants, among which the fulfilment of a certain "Consolidated Net Financial Debt / Consolidated EBITDA Ratio" and another certain "Financial Leverage Ratio of the companies stand out. subsidiaries / consolidated EBITDA ". Both covenants are considered fulfilled as of December 31, 2020.

Exchange rate risk

The Company is exposed to the exchange rate risk in certain transactions arising from its activity. These are basically dollar charges for finished product sales, collections and payments arising from the operation with AstraZeneca, dollar payments derived from the licensing agreements with Athenex, Dermira or the recent option agreement with Bioniz, dollar payments for clinical trials, purchases of raw materials and royalty payments in yen and dollars, as well as collections and payments made by subsidiaries in the United States, United Kingdom,

Poland, Switzerland and Denmark in their local currency. The most relevant currency with which the Company operates is the US dollar.

The Company analyses quarterly the forecasts of collections and payments in currency, as well as the evolution and trend of them. During the last years, the Company has reduced its exposure to exchange rate risk in those higher volume business transactions, by hiring one-off exchange insurance to cover payments in yen for purchases of raw materials, and to cover cash in cash in USD for collections.

As of December 31, 2020, the Company is the borrower of a loan between companies of the group, with Almirall, Inc., in USD. Said loan has not been hedged since July 1, 2010 it has been considered as more value of the net investment abroad and, therefore, the exchange differences generated from that moment have been recorded in the translation differences section of the equity, without having affected the consolidated profit and loss account.

Finally, the existing loan with the subsidiary Almirall Aesthetics Inc in USD was capitalized as a result of the dissolution of said company in November 2019.

Liquidity risk

The Company determines cash requirements using two fundamental forecasting tools that vary in terms of their time horizon.

On the one hand, a one-year monthly cash budget is established based on the forecast financial statements for the current year, from which the variances are analyzed monthly.

On the other hand, medium- and long-term liquidity planning and management is based on the Company's Strategic Plan covering a five-year time horizon.

Cash surpluses in foreign currency are invested in deposits in those cases where there is a provision to make payments in that currency, mainly US dollars.

The financing instruments include a series of "covenants" which in the event of non-compliance would imply the immediate enforceability of such financial liabilities. The Company periodically evaluates such compliance (as well as future expectations of compliance in order, where appropriate, to be able to take corrective action). As of December 31, 2020, all "covenants" are fulfilled.

The Company performs prudent liquidity risk management, maintaining sufficient cash and marketable securities, as well as the hiring of credit facilities committed enough to meet the intended needs.

Credit risk

The Company manages credit risk through an individual analysis of the items that make up the accounts receivable. As preventive measures, credit limits are established for sales made to wholesalers, pharmacies and local licensees. With regard to hospital sales, given its reduced weight, the subsequent collection management is carried out directly, once the debt is due.

The amounts that are considered uncollectible, once all the relevant collection procedures have been carried out, are provisioned at 100%. In relation to the deterioration of financial assets due to credit risk, the Company invests mainly in very short-term variable rate instruments in entities with a high credit rating, in order to minimize any credit risk.

The Company does not have significant credit risk, both treasury placements and, where appropriate, contracting derivatives with highly solvent financial institutions.

7. Risk factors

Risk factors worthy of mention that may affect the achievement of the business objectives are the following:

- Price reductions or volume limitations for existing products and difficulties in obtaining the prices or reimbursement conditions requested for new releases by decisions of the health authorities, with the consequent impact on sales forecasts.

- Erosion of turnover and loss of market share due to the progressive entry of generics.
- Cyber-attacks or security incidents that may allow access to confidential information or cause a disruption of business activities.
- Impairment of intangible assets and goodwill due to income flows below those projected.
- Pipeline of R&D not sufficiently balanced and differentiated in its different phases to nourish the product portfolio.
- Prolonged and higher than expected impact of COVID-19.

Additionally, Note 26 of the attached Annual Accounts details additional risks related to COVID-19. In the Non-financial Information Statement attached to the Consolidated Annual Accounts of Almirall, SA and dependent companies, the risk management system of the Group of which the Company is the head is explained in section 1.5.

8. *Treasury stock*

The Company maintains a liquidity contract with a financial intermediary, effective as of March 4, 2019, with the objective of increase and stability in the share price of the Company, within the limits established by the General Meeting of Shareholders and by current regulations, in particular, Circular 1/2017, of April 26, of the National Securities Market Commission, on liquidity contracts. Said contract assumes that the Company owns, at December 31, 2020, treasury stock representing 0.09% of the share capital (0.07% at December 31, 2019) and a global nominal value of EUR 18.6 thousand and which have been registered in accordance with Spanish local regulation. The average acquisition price of these shares has been 11.07 EUR per share. The shares of the Company in its possession are intended to negotiate in the market.

9. *Staff costs*

The Company's average headcount numbered 592 employees during 2020 and 587 during the previous year.

10. *Average payment period*

The Company's average payment period to suppliers and creditors during 2020 was 48 days.

11. *Outlook for 2021*

Financial year 2021 will continue to be conditioned by the evolution of the pandemic in the different territories where the Company operates, as well as its effects on the global economy. In Note 26 of the accompanying Annual Accounts and in this management report the main impacts of the 2020 financial year are described as well as the risks and uncertainties that the Company faces.

With regard to new products, Klisyri is expected to be launched in the United States during the first quarter of 2021, while in the EU it is expected to obtain approval from the EMA in the second quarter and its subsequent launch in mid-2021.

In terms of R&D activities, Phase III of Lebrikizumab (license acquired from Dermira in 2019) is ongoing and the forecast is to present the registration in 2022 for Europe and launch in 2023.

Finally, Company's Management continues to focus on inorganic growth opportunities that provide sustainable value for shareholders.

12. *Corporate Governance Report*

The Corporate Governance report is attached hereto as Annex I.

13. *Capital structure. Significant ownership interests*

The share capital of the Company as of December 31, 2020 is represented by 178,115,627 shares with a par value of EUR 0.12, fully subscribed and paid up (174,554,820 shares as of December 31, 2019).

In Note 12 of the attached Annual Accounts the movement of capital during the year is detailed, the increase of which is due to the flexible dividend paid in the year.

Shareholders with significant ownership in the capital stock of Almirall, S.A. both direct and indirect, greater than 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 as of December 31, 2020 and December 31 of 2019, are the following:

Name of direct holder of the ownership interest	% interest 31/12/2020	% interest 31/12/2019
Grupo Plafin, S.A.	40.9%	40.9%
Grupo Corporativo Landon, S.L.	18.8%	18.8%
Total	**59.7%**	**59.7%**

At December 31, 2020, the Company is unaware of there being other ownership interests of 3% or more in the share capital or voting rights of the Company, or other interests which, despite being less than this percentage, enable the holder to exercise a significant influence over the Company.

14. Side agreements and restrictions on transferability and voting rights

The Company has entered into one side agreement, which was reported to the CNMV and which may be consulted in full on the following web site www.almirall.com, subscribed by Mr. Antonio Gallardo Ballart and Mr. Jorge Gallardo Ballart, which regulates the concerted action of its signatories in Almirall, SA and the exercise of the voting rights inherent to its indirect participation in the Company through the company Grupo Plafin, S.A.U., on the one hand, and Todasa, S.A.U. (Today Corporate Group Landon, S.L.), of another.

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

15. 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 Company's orientation course for new directors so that they can rapidly build up sufficient knowledge of the 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 Company or when the reasons for which they were appointed cease to apply (for example, when a nominee director sells their shareholding in the 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 were 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 May 24, 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 June 2, 2011.

16. Significant agreements

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

17. Subsequent events

At the date of formulation of these annual accounts, the Almirall Board of Directors. S.A. has agreed to propose to the General Shareholders' Meeting the distribution of a dividend charged to freely available reserves for an amount of EUR 33.8 million (equivalent to EUR 0.19 euros per share). For the purposes of carrying out this dividend distribution, it is proposed to reuse the remuneration system for shareholders known as "Scrip Dividend", already applied in 2020. In this way, its shareholders are offered an alternative that allows them to receive redeemed shares of the Company without limiting its possibility of receiving in cash an amount equivalent to the payment of the dividend as indicated in Note 4.

Additionally, on February 17, 2021, the Group acquired from MC2 Therapeutics the marketing rights in Europe of Wynzora® cream for the treatment of plaque psoriasis. Under the terms of this agreement, MC2 Therapeutics will receive up-front payments of € 15 million, in addition to milestone payments and double-digit royalties on sales in Europe. Wynzora® cream (50 µg / g calcipotriol and 0.5 mg / g betamethasone as dipropionate) received FDA approval in the US on July 20, 2020. The product is currently under review in Europe for which two phase 3 trials have been presented, including a head-to-head study against the active Dovobet / Daivobet® Gel. The marketing authorization application (MAA) has been submitted in Europe and its approval is expected in 2021.

18. Non-financial information report

The non-financial information statement has been published within the Consolidated Annual Accounts of Almirall, S.A. and dependent companies.