Almirall S.A. and Subsidiaries (Almirall Group)

Consolidated directors' report

(Six-month period ending June 30, 2020)

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

CONTENTS

1. Semester summary

The first half of the 2020 financial year was characterized by the impact of the COVID-19 pandemic on the world, and in particular as far as the Group's operations are concerned, the impact it has had on the EU and the United States. The Group'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 Group'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 Group 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 Group'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 in the EU and the US is ongoing with expected approval and subsequent 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.

Promotional activities were the most affected by confinement and measures to prevent contagion. As a result, various activities such as congresses or medical visits have been cancelled and/or postponed, which has caused the slowdown in sales of some medicines, especially those that do not correspond to chronic diseases.

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 distribution proposed by the Board of Directors on 21 February has not yet been approved since the General Shareholders' Meeting scheduled for May 6, 2020 was postponed due to COVID-19. The approval of the dividend is expected at the Ordinary General Meeting to be held on 24 July 2020 by exclusively virtual means. Instrumentalization as a “Script dividend” dividend remains.

From a liquidity point of view, COVID-19 has not had a significant impact on the Group. The semester has been closed with a cash position amounting to EUR 103.7 million (EUR 117.3 million as of December 31, 2019). This evolution is explained by:

- Solid cash flow from operating activities (+68.2 million euros), in line with operating profit and collection of a sales milestone resulting from the AstraZeneca agreement ($30 million), EUR 27.5 million at the time of collection), corresponding to the second milestone tranche of $65 million accrued on 5 April 2019, the first tranche of which was collected in April 2019 ($35 million, EUR 31.2 million at the time of collection).
- Cash Flow used in investing activities (-58.7 million euros) resulting mainly from the license agreement signed with Dermira (payment of two milestones linked to Lebrikizumab's Phase III) and the deferred payment linked to the agreement reached with AstraZeneca in 2017, amounting to 35 million.
- Cash Flow used in financing activities (-23.3 million) as a result of the repayment of the credit facility of the subsidiary Almirall LLC and the payments for leases.

2. COVID-19 impacts

Note 28 of the accompanying Consolidated Intermediate Financial Statements summarizes the main impacts of COVID-19 in the first half of 2020.

3. Corporate development

During the six-month period ended 30 June 2020, the following corporate development agreements and relevant facts have taken place:

- On 2 March 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, as a treatment for actinic keratosis. If the EMA approves, Tirbanibulin could be a major step forward in the treatment of actinic keratosis in Europe, as it has the potential to provide a substantial improvement in the quality of life of patients suffering from this disease.
- On 9 March, 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, as a treatment for actinic keratosis.
- On 25 June 2020, Ansiolin® (diazepam) divestment to Neuraxpharm in Italy was announced. The agreement between Neuraxpharm Italia and Almirall includes the two formats marketed in Ansiolin®: Ansiolin® 5 mg tablets and Ansiolin® 5 mg/ml in drops, both marketed in Italy. The conditions for such a transaction to be completed are expected to occur in the second half of 2020.

4. Evolution of the main figures in the consolidated income statement

- Operating income amounted to EUR 433.0 million (-8.1%) due to:
  - Net sales amounted to EUR 426.0 million (-1;5%), as the erosion in sales caused by generics (mainly Aczone in the United States and Solaraze in the EU) and the impact on demand caused by COVID-19 has been almost offset by Ilumetri's growth and the allocation of deferred income explained in Note 17 of the accompanying Consolidated Intermediate Financial Statements.
  - Other income fell to 7.0 million euros (-81.9%) due to the achievement of a milestone for reaching sales levels in the first half of 2019 resulting from the agreement with AstraZeneca.
- Gross margin on sales has declined mainly due to the impact of generics.
- R&D costs in the six-month period ended 30 June 2020 amounted to EUR 40.8 million (-7.1%), decreasing slightly due to the increased number of Phase IV studies related to the psoriasis allowance (Skilarence and Ilumetri) that were taking place in the first half of 2019, to which we must add delays in some activities scheduled for the first half of 2020 due to COVID-19.
- 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.
- Depreciation decreases slightly to 61.9 million euros (-5.0%) as a result of the completion of the depreciation of some assets related to the business combination of Almirall Hermal, GmbH.
- The heading " Loss (Gain) on recognition (reversal) of impairment of property, plant and equipment, intangible assets and goodwill" in the accompanying Interim condensed consolidated Income Statement includes in 2020 the partial impairment of intangible assets associated with the portfolio acquired in the business combination of Aqua Pharmaceuticals, LLC in 2013 (now Almirall LLC), as explained in Note 10 of the accompanying Consolidated Intermediate Financial Statements. In 2019 it included the total deterioration of the down payment resulting from the agreement signed with Symatese.
- The exchange differences in the 2020 and 2019 periods are mainly due to the fluctuation of the US dollar.
- As a result of the above, the Profit before taxes has decreased to EUR 50.4 million (-31.5%).

5. Consolidated balance sheet. Financial position

The main variations of the Balance sheet as of June 30, 2020 compared to December 31 2019 are described below:

- The heading of Intangible Assets has decreased mainly as a result of the amortization of the period and the impairment of the assets referred to in the previous paragraph, partially offset by the payment of two milestones to Dermira in relation to Phase III of Lebrikizumab's development.
- Inventories have increased due to new releases. There have been no significant impacts on the supply chain and products have continued to be supplied normally.
- Receivables have declined mainly from the collection of AstraZeneca's milestone in March 2020 (27.5 million euros) and lower sales in the United States due to Aczone's generic.
- Financial debt has declined mainly due to the cancellation of the credit facility of the subsidiary Almirall LLC.
- Non-current liabilities have declined mainly due to the deferred income allocation to the income statement, as mentioned in Note 17 of the accompanying Consolidated Intermediate Financial Statements.
- Current liabilities have declined mainly due to the payment of EUR 35 million corresponding to the deferred payment for the agreement reached with AstraZeneca in 2017 and the reduction in accounts payables due to lower activity in the second quarter following the disruption caused by COVID-19.

6. Financial risk management and use of hedging instruments

Interest risk rate

During the first quarter of 2017, the Parent Company signed a new 4-year line of credit, enabled for a maximum of EUR 250 million at fixed interest rate, with the average of that rate being 0.81%, so the Group is not exposed to interest rate volatility. As of June 30, 2020 and December 31, 2019, the Group had no amount drawn from this financing. On July 17, 2020 a new credit revolving policy has been singed, see section 14 of this document.

In September 2018, the Parent Company signed a temporary loan of 400 million euros 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 Group is not exposed to interest rate volatility.

Finally, in March 2019, the Parent Company formalized a loan with the European Investment Bank (EIB) up to 120 million euros, 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%. As of June 30, 2020 and December 31, 2019, the outstanding balance is EUR 80 million

Exchange rate risk

The Group 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 Group operates is the US dollar.

The Group analyses quarterly the forecasts of collections and payments in currency, as well as the evolution and trend of them. During the last years, the Group 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 well as payment in USD for the purchase of Allergan's portfolio that was made in September 2018.

To finance part of the purchase of Allergan's portfolio during the 2018 financial year, a new loan was made with subsidiary Almirall, Inc. in USD. This loan was covered with exchange insurance to minimize exchange rate risk

that was settled in June 2019. As of June 30, 2020 and December 31, 2019, there was no exchange insurance contracted.

Liquidity risk

The Group 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, 24-month forecasts are set up, which are updated monthly.

Cash surpluses have generally been invested in very short-term financial assets in recognized solvency financial institutions.

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 Group periodically evaluates such compliance (as well as future expectations of compliance in order, where appropriate, to be able to take corrective action). As of June 30, 2020, all "covenants" are fulfilled, as mentioned in Note 17..

The Group 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.

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

7. Risk factors

Noteworthy risk factors that may affect the achievement of business objectives include:

- Price reductions or volume limitations for existing products and difficulties in obtaining the prices or repayment terms requested for new launches by health authorities' decisions, with the consequent impact on sales forecasts.
- Erosion of the turnover and loss of market share due to the progressive entry of generics.
- Cyberattacks or security incidents that allow access to sensitive information or cause a disruption of business activities.
- Impairment of intangible assets and goodwill by lower-than-projected revenue streams.
- R&D pipeline not sufficiently balanced and differentiated in its different phases to nurture the product portfolio.

In addition, Note 28 of the accompanying Interim condensed consolidated Financial Statements detail additional risks associated with COVID-19.

8. Treasury shares

The Parent Company maintains a liquidity contract with a financial intermediary, effective since March 4, 2019, with the aim of promoting liquidity and regularity in the price of the company's shares, within the limits established by the General Shareholders' Meeting and by current regulations, in particular Circular 1/2017, of April 26, of the National Securities Market Commission, on liquidity contracts. That contract assumes that the Parent Company holds as of 30 June 2020 the portfolio representing 0.08% of the share capital (0.07% as of 31 December 2019) and an overall face value of EUR 16.1 thousand and which have been registered in accordance with IFRS-EU. The average acquisition price of those shares was EUR 12.07 per share. The shares of the Parent Company in its possession are intended to be traded on the market.

9. 2020 outlook

The 2020 financial year has been marked by the impact in the first half of COVID-19, as well as uncertainty in the second half generated by fear of further outbreaks and the impact of the pandemic on the global economy. Note 28 of the Accompanying Consolidated Intermediate Financial Statements and this management report describes the main impacts of the six-month period ended June 30, 2020, as well as the risks and uncertainties faced by the Group.

As regards products currently under development, the submission to registration with the EMA and FDA of Tirbanibulin (license purchased from Athenex at the end of 2017) was made in March 2020 and is expected to be approved and subsequently released by early 2021; and continue with Lebrikizumab's Phase III studies (license acquired from Dermira in 2019), which are expected to be published during the first half of 2021.

Finally, the Group's management continues to focus on inorganic growth opportunities that bring sustainable value to shareholders.

10. Capital structure. Significant ownership interests

The share capital of the Parent Company as of 30 June 2020 is represented by 174,554,820 shares of EUR 0.12 of face value, fully subscribed and disbursed (174,554,820 shares as of 31 December 2019).

Shareholders with significant ownership in the share capital of Almirall, S.A. both direct and indirect, more than 3% of the share capital, of which the Parent Company is aware, according to the information contained in the official records of the National Securities Market Commission as of June 30, 2020 and December 31, 2019, are as follows:

Name or company name of direct holder of the ownership interest	% ownership in Almirall Group 30/06/2020	% ownership in Almirall Group 31/12/2019
Grupo Plafin, S.A.	40.9%	40.9%
Grupo Corporativo Landon, S.L.	18.8%	18.8%

As of 30 June 2020 and 31 December 2019, there is no knowledge by the Parent Company of other shares equal to or greater than 3% of the share capital, or of the voting rights of the Parent Company which, being less than the established percentage, allow to exercise a significant influence in the Parent Company.

11. Side agreements and restrictions on transferability and voting rights

There is a side-agreement pact, duly communicated to the CNMV and whose full text is consultable through the website www.almirall.com, signed by Don Antonio Gallardo Ballart and Don Jorge Gallardo Ballart, which regulates the concerted action of its signatories in Almirall, S.A. and the exercise of the rights of votes inherent in their indirect participation in the Company through the company Grupo Plafin, S.A.U. and Todasa, S.A.U. (now Grupo Corporativo Landon, S.L.).

There are no statutory restrictions on the free transferability of the Company's shares, and there are no statutory or regulatory restrictions on the right to vote.

12. Governing Bodies, Board of Directors.

Appointment of directors

Directors are appointed (i) on a proposal from the Appointments and Remuneration Committee, in the case of independent directors, and (ii) after a report by the Appointments and Remuneration Committee in the case of the remaining directors, by the General Meeting or by the Board of Directors in accordance with the provisions contained in the Corporations Act.

At the time of appointment of a new director, he must follow the new director orientation program established by the Dominant Society, so that he can acquire a quick and sufficient knowledge of the Dominant Society, as well as its rules of corporate governance.

With regard to the appointment of external directors, the Board of Directors ensures that the election of candidates is based on persons of recognized solvency, competence and experience, and the rigor in relation to those called to fill the positions of independent director provided for in Article 6 of the Council Regulation must be extremely stringent.

Directors affected by re-election proposals shall refrain from intervening in the deliberations and votes dealing with them.

The directors hold their office for the period established for that purpose by the General Meeting, which shall be the same for all of them and may not exceed four years, at the end of which may be re-elected one or more times for periods of equal maximum duration.

Replacement of directors

The directors shall cease office when the period for which they were appointed has elapsed and when decided by the General Meeting in use of the powers conferred by law or statutory. In any event, the appointment of the administrators shall expire when, after the deadline, the following General Meeting has been held or the legal term for the holding of the board to be resolved on the approval of accounts for the previous financial year has elapsed.

The Board of Directors may only propose the dismissal of an independent director before the expiry of the statutory period where there is a just cause, assessed by the Council following a report by the Appointments and Remuneration Committee. In particular, it shall be understood that there is just cause where the director has failed to comply with the duties inherent in his office or incurred in any of the impeded circumstances described in the definition of independent director as set out in the recommendations of good corporate governance applicable at all times.

Directors affected by proposals for termination shall refrain from intervening in the deliberations and votes dealing with them.

Directors shall make their office available to the Board of Directors and formalize, if deemed appropriate, the corresponding resignation in the following cases:

a) When they cease to be appointed to the executive positions to which they are associated with their appointment as director.
b) Where they are intended in any of the cases of incompatibility or prohibition legally provided for.
c) Where they are seriously reprimanded by the Board of Directors for having breached their obligations as directors.
d) Where his stay in the Council may jeopardize or prejudice the interests, credit or reputation of the Parent Company or when the reasons for his appointment disappear (for example, when a Sunday director disposes of his participation in the Parent Company).
e) In the case of independent directors, they may not remain as such for a continuous period of more than 12 years, and therefore, after that period, they shall make their office available to the Board of Directors and formalize the corresponding resignation.
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 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.

13. 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.

14. Subsequent events

As of July 17, 2020, the Parent Company has signed a credit line for an amount of 275 million euros, for an initial term of 3 years with the possibility of an additional 1 year extension and intended for general corporate use. The BBVA entity has acted as coordinator of the operation, in which Santander, CaixaBank, BNP Paribas and Banca March have also participated.

A part from the above there are no other significant subsequent events to the closing date of the formulation of these condensed consolidated interim financial statements.