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

CONSOLIDATED MANAGEMENT REPORT
(Year ended 31 December 2009)

Almirall

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

1. Summary of 2009. Main achievements

2009 was a good year for the Group since significant events occurred that continued to strengthen its governing macro-strategy: internationalisation, leadership in the Spanish market and firm commitment to R&D.

The internationalisation of the Group was strengthened by a 5.6% increase in international sales representing 42% of its total billings.

The Group safeguarded its profile as Spanish market leader by maintaining the same market share and billings as the previous year, despite the adverse economic climate.

As regards R&D, the Group continued to make progress with new drugs under development, especially those related to Aclidinium Bromide, with promising findings regarding the preliminary Phase III BID (twice daily) studies and Phase II studies comparing BID with tiotropium and a placebo. Noteworthy are the excellent prospects of the beta agonist (LABA) of Sativex® and the Phase III results of linaclotide.

The Group also continued laying the foundation for its future growth through:

- Corporate development projects, such as the LABA licence to Forest in the US market, the licence for silodosin in Spain and for linaclotide, a first-in-class compound, in Europe.

- The divestment of non-core assets (sale of 13 products in Spain) and the concentration of production activities (closure of a pharmaceutical plant in France).

The financial information in the income statement confirm the Group´s positive track record and shows an increase of 2.5 % in sales, 7.5% in EBIT and 11% in net income (normalised net income, excluding items considered extraordinary, rose by 2%).

The balance sheet position is also solid, with a significant decrease in net debt, which stood at 0.16 times of EBITDA for the year, giving rise to a reduction therein of EUR 127.7 million. Cash generation in 2009 was also relevant with cash flows from ordinary activities amounting to EUR 261.6 million (up 12% on 2008).

In summary, in 2009 the Group was on par with its forecasts and strategic objectives. Consequently, together with the ongoing commitment to improve income statement management, there was an enhancement of both margins and financial position.

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

Functional Income Statement

Millions of euros	Cumulative Dec 2009	Cumulative Dec 2008	% change
Net Sales	**925.5**	**902.8**	***2.5%***
Gross profit	**580.9**	**569.4**	***2.0%***
% of sales	*62.8%*	*63.1%*	
Other income	**107.8**	**153.1**	***(29.6%)***
R&D	**(121.0)**	**(139.3)**	***(13.1%)***
% of sales	*(13.1%)*	*(15.4%)*	
SG&A	**(386.8)**	**(418.2)**	***(7.5%)***
% of sales	*(41.8%)*	*(46.3%)*	
Other expenses	**(1.8)**	**1.6**	*not material*
% of sales	*(0.2%)*	*0.2%*	
EBIT	**179.1**	**166.6**	***7.5%***
% of sales	*19.4%*	*18.5%*	
Depreciation and amortisation	**64.8**	**63.3**	***2.4%***
% of sales	*7.0%*	*7.0%*	
EBITDA	**243.9**	**229.9**	***6.1%***
% of sales	*26.4%*	*25.5%*	
Gains or losses on disposals of non-current assets / Other	19.0	0.8	*not material*
Reversal / Impairment losses	(1.0)	(5.1)	*(80.4%)*
Net finance income / (costs)	(17.1)	(17.7)	*(3.4%)*
Income tax	(20.0)	(8.6)	*132.6%*
Net income for the year	**151.5**	**136.0**	***11.4%***
Normalised net income for the year	**145.3**	**142.5**	***2.0%***
Earnings per share (Euros) (1)	0.91 €	0.82 €	
Normalised earnings per share (Euros) (1)	0.87 €	0.86 €	
Number of employees at the reporting date	3,125	3,344	(6.5%)

(1) Number of shares at the reporting date

- Sales rose in 2009 to EUR 925.5 million, up 2.5% on 2008, boosted by the performance of the international business, with a 17.3% increase in sales to licensee and 2.8% growth at our affiliates. The business in Spain has also remained stable despite the loss of sales from 13 products that were sold during the year. Globally, ebastine became the Group's leading product in terms of sales due to strong sales growth of 13.7% in 2009 compared to 2008. The performance of the dermatology product Solaraze up 44.3% on 2008 should also be mentioned.

- Slight drop in gross profit due to prices reduction in Spain, inter alia.

- Other Income is down following the achievement of certain milestones in 2008 which was not the case in 2009 and due to the decrease in R&D co-development revenue associated mainly with the stage of development of aclidinium bromide.

- The good performance of SG&A resulting from the ongoing policy to rationalise costs and sales networks. The foregoing, together with the reduction in R&D expenditure led to an increase in EBIT (+7.5%) and EBITDA (+6.1%).

- Restructuring costs amounted to EUR 8.5 million, related to the rationalisation of the Spanish sales network.

- The effective tax rate rose compared to 2008 due to the impact from the decline in R&D expenditure. However, it still remains low at 11.6%.

- Net income for 2009 amounted to EUR 151.5 million, up 11.3% on 2008. Net income also includes the sale of 13 of the Group's non-core products, amounting to EUR 19.1 million.

3. Corporate performance

- In December the Almirall Group and Forest Laboratories Holdings, Ltd., a subsidiary of Forest Laboratories, Inc. entered into an agreement to develop, market and distribute LAS100977 in the United States. LAS100977 is an inhaled long-acting beta agonist (LABA) taken once daily which up until now has been developed by Almirall for the treatment of bronchoconstriction in patients with asthma. Forest and Almirall will develop LAS100977 in combination with an undisclosed corticosteroid to treat bronchoconstriction in patients with asthma and Chronic Obstructive Pulmonary Disease (COPD) using Almirall's proprietary inhaler, Genuair®.

- In May the Group signed a pan-European licensing agreement with Ironwood Pharmaceuticals, Inc. for linaclotide, a *first-in-class* compound for the treatment of irritable bowel syndrome (IBS) involving constipation and other gastrointestinal conditions, which is currently in late stage development. Through this licensing agreement, Almirall will be responsible for exclusively marketing linaclotide in all member countries of the European Union, plus Russia, CIS, Switzerland, Norway and Turkey, as well as other countries of the former Yugoslavia. Almirall will also be responsible for regulatory activities to obtain the corresponding approvals in the aforementioned countries.

- Furthermore, in April the Group entered into a joint-marketing agreement with Recordati, by virtue of which Recordati granted Almirall rights to market silodosin in Spain, a new drug for Benign Prostatic Hyperplasia (BPH). This drug will also be marketed in Spain by Recordati España. This agreement will enable Almirall to strengthen its core business in the coming years and enhance its product portfolio in the urology area.

4. Balance sheet. Financial position

A solid balance sheet with the potential to increase debt

Millions of euros	December 2009	% of BS	December 2008
Goodwill	272.7	18.4%	273.5
Intangible assets	352.8	23.8%	342.7
Property, plant and equipment	169.1	11.4%	175.7
Non-current financial assets	10.8	0.7%	3.9
Other non-current assets	173.6	11.7%	165.3
Total non-current assets	**979.0**	**66.0%**	**961.1**
Inventories	97.7	6.6%	112.5
Accounts receivables	120.4	8.1%	107.9
Cash and cash equivalents	259.7	17.5%	186.1
Other current assets	26.2	1.8%	28.8
Total current assets	**504.0**	**34.0%**	**435.3**
Total assets	**1,483.0**		**1,396.4**
Equity	751.0	50.6%	653.0
Financial debt	265.7	17.9%	321.0
Non-current liabilities	228.4	15.4%	183.3
Current liabilities	237.9	16.0%	239.1
Total liabilities and equity	**1,483.0**		**1,396.4**

As regards the Group's balance sheet at 31 December 2009, the following matters should be noted:

Goodwill and Intangible Assets reflect the impact of the acquisition of Hermal and Shire's product portfolio. The increase in Intangible Assets is due mainly to the capitalisation of the disbursements relating mainly to linaclotide and Sativex®.

Meanwhile, Property, Plant and Equipment shows a decrease as a result of depreciation for the year and stringent management of the Group's investments.

The EUR 173.6 million under Other Non-Current Assets includes the tax assets attributable mainly to R&D tax credits which will effectively be used in subsequent years.

Inventories were significantly down on 2008, reflecting the Group's effort to enhance inventory volume management. Accounts Receivables shows a circumstantial increase arising from non-recurring receivables which have no impact on the Group's debtor default figures.

On the equity and liability side of the balance sheet, equity suffered a significant change due to:

a). The payment of a EUR 52 million dividend

b). Net income for 2009 of EUR 151.5 million.

Financial debt amounted to EUR 265.7 million (of which EUR 195.8 million were non-current), arising from the borrowings arranged previously to finance acquisitions. Debt amounting to approximately EUR 55 million was repaid in 2009.

Net debt, less liquidity and retirement benefit obligations amounted to EUR 40.1 million, equal as a percentage to 0.16 times of EBITDA for the year.

5. Financial risk management and use of hedging instruments

The Almirall Group uses financial instruments which enable it to partially hedge its exposure to financial risks, 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 debt, the Group arranged certain hedging transactions. The policy adopted seeks to minimise the risk through swaps of floating interest rates (tied to Euribor) on this financing for fixed rates or collars.

The hedge was arranged on the portion of the financial debt instrumented through loans (64.34% through interest rate swaps and 35.66% through collars).

The maximum hedging period is three years and at 31 December 2009, all the financial debt was hedged.

Foreign currency risk

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

In the case of collections the risks represent approximately 10.43% of revenue and other income and in the case of payments approximately 12.98% of procurements and other operating expenses.

The Group analyses projected collections and payments in foreign currencies in addition to their performance and trends on a quarterly basis. The Group occasionally arranged foreign currency hedges in 2009.

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 risks, liquidity risks and cash flow risks 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 2009 and 31 December 2008 was as follows:

Employees	31/12/09	31/12/08	% change
Sales			
Spain	707	814	-13.14%
France	234	253	-7.51%
Italy	210	224	-6.25%
Mexico	207	200	3.50%
Germany	158	177	-10.73%
Portugal	35	49	-28.57%
Austria	11	11	0.00%
Belgium	29	35	-17.14%
Other (The Netherlands and Switzerland)	8	9	-11.11%
UK & Ireland	43	43	0.00%
Poland	30	27	11.11%
Total operating area	**1,672**	**1,842**	**-9.23%**
Industrial Spain	508	512	-0.78%
Industrial Germany	171	181	-5.52%
Industrial France	1	25	-96.00%
R&D expenditure	498	499	-0.20%
Corporate performance and Finance	134	127	5.51%
International	77	90	-14.44%
General (HR, Legal, other, etc.).	64	68	-5.88%
Total	**3,125**	**3,344**	**-6.55%**

Average number of employees	2009	2008	% change
Total average number of employees	**3,233**	**3,387**	**-4.55%**

7. Risk factors

1) Entry of generic 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) Tax reforms which could limit tax credits for Research and Development.

4) Delays/cancellations of major R&D projects for the Almirall Group.

8. Treasury shares

At 31 December 2009, 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 2010

The business prospects for 2010 are as follows:

From a financial viewpoint, the Group will have to manage the forecast backdrop of a slump in sales, arising mainly from the launch of generic copies of certain major products on the Spanish market. In order to maintain normalised income (excluding the impact of extraordinary items), the Group will continue to prioritise its efforts in cost containment (except in R&D).

In 2010 we also expect ongoing progress in our R&D pipeline and to continue generating value for shareholders: Eklira®, Sativex®, linaclotide, dermatology products in the pipeline and LAS 100977(OD LABA).

The Group will also remain firmly committed to projects for the licensing of its own products (Eklira® and OD LABA in Europe and Japan) and also to corporate development by seeking to acquire product licences and selectively evaluating businesses or corporate acquisitions.

All of the foregoing is envisaged within a climate of market uncertainty stemming from the international crisis, possible government measures to curb public health expenditure and the potential introduction of generic products.

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 2009, the Parent's share capital was represented by 166,096,610 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 2009, 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.	76,186,338	45.868%
Todasa, S.A.	41,673,973	25.090%

The Parent is 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 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 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, 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 (i) a public deed of power of attorney authorised by Barcelona notary Salvador Carballo Casado on 11 May 2004, ratified and extended by public deed authorised by the same notary on 30 June 2004, (ii) public deed authorised by the same notary on 30 June 2004 and (iii) public deed authorised by the same 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 (i) a public deed of power of attorney authorised by the Barcelona notary Salvador Carballo Casado on 10 March 1999, ratified and extended by virtue of a public deed authorised by the same notary on 30 June 2004 and (ii) a public deed of power of attorney authorised by the same notary on 25 November 2009 and extended by virtue of a public deed authorised by the same notary on the same date.

The director Per Olof Andersson has been conferred powers by virtue of (i) a public deed of power of attorney authorised by Barcelona notary Salvador Carballo Casado on 12 January 2006 and (ii) a public deed of power of attorney authorised by the same notary on 25 November 2009.

It is hereby placed on record that at the Annual General Meeting held on 13 April 2007, the shareholders unanimously resolved as follows, in the terms set forth in such resolutions, as 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 were 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 affiliates, 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.

This Directors' Report for the Almirall Group is set forth on fifteen sheets of ordinary paper, numbered sequentially from 1 to 15.

Barcelona, 24 February 2010

Jorge Gallardo Ballart	Antonio Gallardo Ballart
Daniel Bravo Andreu	Eduardo Javier Sanchiz Yrazu
Luciano Conde Conde	Per-Olof Andersson
Paul Brons	Sir Tom McKillop
Juan Arena	