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

CONSOLIDATED MANAGEMENT REPORT
(Year ended 31 December 2008)

Almirall

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1. Summary of 2008. Main achievements

In 2008 the Almirall Group not only consolidated the major achievements of 2007, such as the Group's listing on the stock exchange or the acquisition of new businesses, but it was also a year in which the Group continued to look ahead by increasing investment in R&D and obtaining new licenses supplementing current business. All this was achieved in line with the Group's strategic goals: leveraging R&D, growing internationally and maintaining Spanish leadership.

The international nature of the Group was strengthened following the acquisition of the company Hermal in 2007, together with the purchase of the product portfolio from Shire in December 2007, the establishment of two subsidiaries (United Kingdom and Poland), also in 2007, and the creation of two new marketing teams in Austria and Switzerland.

The Group's profile as Spanish market leader was consolidated and enhanced with its new licences for products such as Tesavel (Sitagliptin) and Astucor (Amlodipine - Atorvastatin).

As regards R&D, the Group continued to make progress with new drugs under development, especially those related to Aclidinium Bromide (LAMA) and Beta-Antagonist (LABA) among others, and also the promising dermatological product development pipeline.

The Group's total income, i.e. "Revenue" plus those items composing "Other Income", increased by 15.1%. Revenue was up 13.9%, due mainly to the acquisition of Hermal and Shire's product portfolio, as well as the creation of the two new subsidiaries in 2007. "Other Income" in the accompanying consolidated income statement improved considerably due to the achievement of certain milestones related to the development of Aclidinium Bromide together with those linked to the financing of a pediatric study in connection with the product Almotriptan in the United States.

Research and Development expenditure increased by around 14%, reflecting the advances of projects currently in progress. Also, the expense reduction measures and the improvement of income statement management brought about an overall improvement in the Company's margin with EBIT growth at 24.1%, EBITDA at 35% and normalised net profit - adjusted for extraordinary items - at 5.8%. Net profit increased by 3.8%.

As regards financial position, the Group presents a healthy balance sheet with net debt as a percentage of EBITDA (i.e. financial liabilities plus retirement benefit obligations less financial assets) at less than 1% (0.73%), achieved due to the repayment of debt totalling approximately EUR 145 million in 2008.

In short, in 2008 the Group was on par with its strategic messages and met its objectives. Also, the new businesses together with the commitment to improve income statement management enhanced both margins and financial position.

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

Functional Income Statement

€ Millions	2008	2007	% change
Revenue	**902.8**	**792.5**	**13.9%**
Gross margin	**569.4**	**484.6**	**17.5%**
% of sales	63.1%	61.2%	
Other income	**153.1**	**124.9**	**22.6%**
R&D expenditure	**-139.3**	**-122.0**	**14.1%**
% of sales	-15.4%	-15.4%	
General administrative expenses	**-418.2**	**-351.2**	**19.1%**
% of sales	-46.3%	-44.3%	
Other expenses	**1.6**	**-2.0**	Not material
% of sales	0.2%	-0.3%	
EBIT	**166.7**	**134.3**	**24.1%**
% of sales	18.5%	16.9%	
Depreciation and amortisation charge	**63.3**	**36.0**	**75.7%**
% of sales	7.0%	4.5%	
EBITDA	**230.0**	**170.3**	**35.0%**
% of sales	25.5%	21.5%	
Other income	0.8	0.0	
Impairment losses	-5.1	-10.2	
Net finance income / (expense)	-17.7	5.0	
Income tax	-8.6	2.1	
Profit for the year	**136.1**	**131.2**	**3.8%**
Normalised profit for the year	**142.5**	**134.6**	**5.8%**
Earnings per share (€) (1)	0.82 €	0.79 €	
Normalised earnings per share (€)(1)	0.86 €	0.81 €	
Number of employees at reporting date	3,344	3,357	-0.4%

(1) Number of shares at reporting date

- Sales rose in 2008 to EUR 902.8 million, representing an increase of 13.9% with respect to 2007 due mainly to the positive performance of international business sales, in particular the newly acquired Hermal subsidiary together with Shire's product portfolio. Also, business in Spain was enhanced by the excellent performance of Prevencor and Esertia. At a global level, Prevencor became the Group's leading product in terms of sales due to strong sales growth in 2008, whereas Ebastine occupied second place.

- Gross margin as a percentage of sales increased 1.9 points with respect to the previous year, brought about by a combination of sales mix, reduced product costs and the incorporation of the new businesses.

- The increase of "Other Income", boosted by the agreement with Forest, the development milestone secured from a partner marketing Almotriptan in the US, and the positive performance of overheads led to an increase in EBIT (+24.1%) and EBITDA (+35%) despite the rise in R&D expenditure.

- The products Colazide and Lodine (EUR 3.9 million) and other Hermal products in the R&D pipeline (EUR 1.2 million) gave rise to an impairment loss amounting to EUR 5.1 million.

- Financial profit/loss fell from a profit of EUR 5 million in 2007 to a loss of EUR 17.7 million in 2008 as a result of the loans and credit facilities made available to the Group in 2007 to finance the acquisition of the new businesses.

- The effective tax rate continued to be a one-digit average due to the recognition of tax assets arising from R&D tax credits.

- Net profit for 2008 amounted to EUR 136.1 million, representing an increase of 3.8% with respect to the previous year.

3. Corporate performance

- In 2008 the Group entered into an agreement with Merck Sharp Dohme (MSD) to market the innovative drug for type-2 diabetes in Spain, which will be marketed under the Tesavel trade name and the combination drug Efficib.

- In November 2008 the Group entered into a co-marketing agreement with Pfizer in relation to a pharmaceutical product (Astucor) for the Spanish market which reduces cardiovascular risk in hypertensive patients.

4. Balance Sheet. Financial Position

A robust balance sheet with the potential for an increase in borrowings

€ Millions	**2008**	**% of BS**	**2007**
Goodwill	273.5	19.6%	274.3
Intangible assets	342.7	24.5%	383.4
Property, plant and equipment	175.7	12.6%	179.3
Financial assets	3.9	0.3%	6.3
Deferred tax assets	165.3	11.8%	144.2
Non-current assets	**961.1**	**68.8%**	**987.5**
Inventories	112.5	8.1%	112.9
Trade and other receivables	107.9	7.7%	107.0
Cash and cash equivalents	186.1	13.3%	190.0
Other current assets	28.8	2.1%	41.8
Current assets	**435.3**	**31.2%**	**451.6**
Total assets	**1,396.4**		**1,439.1**
Equity	653.0	46.8%	573.7
Bank borrowings	321.0	23.0%	466.2
Other non-current liabilities	183.3	13.1%	187.4
Other current liabilities	239.1	17.1%	211.9
Total liabilities and equity	**1,396.4**		**1,439.1**

As regards the Company's balance sheet at 31 December 2008 the following matters should be noted:

The headings "Goodwill" and "Intangible Assets" reflect the impact of the acquisition of Hermal and Shire's product portfolio. The decrease with respect to 2007 under "Intangible Assets" is explained by the related amortisation.

Also, "Property, plant and equipment" is stable due to tight management of the Group's investments.

The EUR 165.2 million under "Deferred Tax Assets" includes the tax assets attributable mainly to accumulated R&D tax credits which will effectively be used in subsequent years.

The operating items "Trade and Other Receivables" and "Inventories" suffered little change with respect to the previous year. The increase in "Revenue" reflects the positive management of working capital.

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 profit for 2008 of EUR 136 million.

Bank borrowings amounted to EUR 321 million (of which EUR 252.2 million were non-current) arising from the borrowings arranged to finance acquisitions. Borrowings amounting to approximately EUR 145 million were settled in 2008.

Net borrowings, less liquidity and retirement benefit obligations, amounted to EUR 167.8 million, equivalent to 0.73 times the 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

To eliminate the uncertainties arising from the fluctuations in interest rates on the Group's bank borrowings, the Parent arranged certain hedging transactions. The Group's policy seeks to minimise risk through the exchange of floating interest rates of the aforementioned borrowings (tied to Euribor) for fixed interest rates (Interest Rate Swap) or for a fixed interest rate within a range (Interest Rate Collars).

The hedge was arranged on the portion of the financial debt instrumented in loans, 62.83% through interest rate swaps and 37.17% through interest rate collars.

The maximum term of the hedge is four years and the percentage hedged on total bank borrowings at 2008 year-end was 100%.

Foreign currency risk

The Group is exposed to foreign currency risks on certain transactions carried out in the course of its ordinary business. These relate fundamentally to the collection in US dollars of the income corresponding to delivery dates under agreements for the joint-development and the sale of finished products, payments in US dollars for clinical trials, the purchase of raw materials and payment of royalties in Japanese yen, as well as amounts received from and paid to the subsidiaries located in the United Kingdom and Mexico.

As regards collections, the risks represented approximately 12.7% of revenue and other income. As regards payments, the risks represented around 12.5% of procurements and other operating expenses.

The Group's policy is to hedge 50% of the aforementioned transactions through foreign currency derivatives.

The related nominal values are detailed in Note 15 in the accompanying notes to the financial statements.

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 2008 and 31 December 2007 was as follows:

Employees	31/12/2008	31/12/2007	% change
Sales			
Spain	814	783	3.96%
France	253	275	-8.00%
Italy	224	227	-1.32%
Mexico	200	197	1.52%
Germany	177	206	-14.08%
Portugal	49	47	4.26%
Austria	11	11	0.00%
Belgium	35	34	2.94%
Other (The Netherlands and Switzerland)	9	4	
UK - Ireland	43	31	
Poland	27	0	
Total Operating Area	**1,842**	**1,815**	**1.54%**
Industrial Spain	512	545	-6.06%
Industrial Germany	181	174	4.02%
Industrial France	25	28	-10.71%
R&D	499	513	-2.73%
Corporate and finance	127	128	-0.78%
International	90	95	-5.26%
General (HR, Legal, IT, …)	68	59	15.25%
Total	**3,344**	**3,357**	**-0.36%**

Average number of employees	2008	2007	% change
Total average number of employees	**3,387**	**3,074**	**10.18%**

7. Risk factors

1) Entry of generic copies of products marketed in key markets due to additional regulation or the expiry of patents.

2) A reduction in price or other measures which may affect sales margins as a result of new cost cutting measures by public health authorities.

3) Fiscal reforms which could limit tax credits for Research and Development.

4) Low R&D productivity, or delays/cancellations of important projects for Almirall. In this respect, in the second half of 2008 the results of Phase III of the studies (Acclaim) associated with Aclidinium Bromide were made known. The results of the two studies presented a positive difference and were statistically significant with respect to the placebo although the efficiency parameters were lower than those obtained in previous studies.

   This gave rise to a review and extension of the product development plan, which is pending consultation with the regulatory bodies in Europe and the United States. This could lead to delays and increased development expenditure in comparison with the original product development plan.

8. Treasury Shares

At 31 December 2008, the Parent held no treasury shares.

9. Events after the Reporting Date

On 27 October 2008, the Parent and a third party entered into an agreement for the purchase and sale, amounting to EUR 19.1 million, of 13 products included in the Parent's product range for the Spanish market, the total sales of which in 2008 and 2007 amounted to approximately EUR 8 million. In order to be executed, the aforementioned agreement envisaged the fulfilment of certain conditions which were met after the balance sheet date, and the collection of a non-refundable advance if the transaction was not carried through, amounting to approximately EUR 2,865 thousand, recognised under "Advances and Guarantees Received" in the accompanying consolidated balance sheet.

10. Outlook for 2009

The business priorities for 2009 will be marked by the implementation of the revised Aclidinium Bromide product development plan, which includes consultation with the regulatory authorities, and the continuing negotiation to reach sales and development agreements for Aclidinium Bromide or Beta-Antagonist (LABA).

At a financial level in 2009, moderate one-digit growth in revenue is expected while EBITDA growth and net normalised profit (excluding extraordinary items) are not expected to change. R&D expenditure is expected to remain stable at the same level as that incurred in 2008.

All this takes place against a backdrop of continuing market turbulence due to the international financial crisis, possible cuts in government healthcare spending and the possible introduction of generic drugs into the market.

11. Corporate Governance Report

The Corporate Governance Report is set forth in Appendix I of this report.

12. Capital structure. Significant ownership interests

At 31 December 2008, the Parent's share capital was represented by 166,096,610 fully subscribed and paid shares of EUR 0.12 par value each.

At 31 December 2008, the holders of significant direct or indirect ownership interests of over 3% in the share capital of Laboratorios Almirall, S.A., of which the Parent is aware, on the basis of the information in the official records of the Spanish National Securities Market Commission (CNMV), were as follows:

Name or company name of direct holder of the ownership interest	No. of Shares	% Ownership Interest in Almirall Group
Grupo Plafin, S.A.	76,013,149	45.764%
Todasa, S.A.	41,579,239	25.033%
Fidelity International Limited		
Fidelity European Fund	3,620,950	2.18%
FID FDS - Iberia pool	1,278,959	0.77%
Fidelity European OPP FND 1992	531,515	0.32%
FID FDS - Euro smaller Co pool	315,587	0.19%
European Equity MKT NEUT. LONG	166,099	0.10%
Other ownership interests	717,765	0.43%
Total Fidelity	**6,630,875**	**3.99%**

The Parent is unaware of other ownership interests of 3% or more in the share capital or in its voting rights, or in the case of interests below this threshold, of any positions affording significant influence.

13. Side agreements and restrictions on transferability and voting rights

The Company has entered into three side agreements, all of which were made known to the Spanish National Securities Market Commission and which may be consulted on the following web site www.almirall.com:

Agreement entered into by Laboratorios 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 shares of Laboratorios 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.

Shareholders' agreement between Jorge and Antonio Gallardo Ballart

A side agreement regulating the concerted action of the signatories in Laboratorios 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 Company's shares or the exercise of the related voting rights.

14. 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 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 by-laws. 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 that is resolved on the approval or otherwise of the financial statements for the previous year has ended.

The Board of Directors may only propose the removal of an independent Board member before the term established in the by-laws 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 as governed by Article 144 of the Spanish Companies Law and similar provisions, no specific provisions being envisaged 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 and (ii) by public deed of power attorney authorised by the same notary on 30 June 2004.

The director Luciano Conde Conde has been conferred powers by virtue of a public deed of power of attorney authorised by the Barcelona notary Salvador Carballo Casado on 10 March 1999, ratified and extended by virtue of a public deed authorised by the same notary on 30 June 2004.

The director Per Olof Andersson has been conferred powers by virtue of a public deed of power of attorney authorised by Barcelona notary Salvador Carballo Casado on 12 January 2006.

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 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 subsidiaries, in accordance with the same terms and conditions as those laid down in this resolution.

   Any shares acquired as a result of the aforementioned authorisation may be either disposed of or redeemed, or allocated to employee remuneration schemes, as set forth in Article 75 ter. 1 of the Spanish 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, 27 February 2009

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	