Almirall S.A. and Subsidiary Companies (Almirall Group)

Consolidated management report

(Year ended 31 December 2022)

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

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1. Summary of the year: main milestones

FY 2022 was marked by the launch of two new products in Europe (Klisyri for actinic keratosis and Wynzora for psoriasis) and the rollout of Ilumetri (also for psoriasis) in the various regions in which the Group operates. In parallel, the US market has continued to be affected by declining sales of generics and deeper discounting, which is having a negative impact on sales there.

During this year, the impact of Covid-19 has also decreased, although the conflict between Russia and Ukraine has taken its place, resulting in a harsher macroeconomic environment than initially expected, especially in terms of energy and certain raw material costs. This conflict has not had a direct or significant impact, however, on the year ending 31 December 2022, and the Group's management has monitored those activities most sensitive to the conflict in order to minimise the impact and/or seek alternatives.

In terms of R&D activities, significant progress has been made in the development of Lebrikizumab (a compound indicated for atopic dermatitis), since positive Phase-3 results were published and the dossier was submitted to European regulators on 28 October 2022, with approval expected during the second half of 2023. In addition, several research agreements have been signed for early-stage products, such as the agreements with Evotec, Simcere and Ichnos (the last of these signed in December 2021), which allow the Group's pipeline to be nurtured over the long term. Finally, the application procedure for approval of Efinaconazole, a treatment for mild to moderate onychomycosis of the nails, was initiated in Europe in May 2022.

The dividend proposed by the Board of Directors on 18 February 2022 was approved at the General Meeting of Shareholders held on 06 May 2022. The payment of the dividend has been instrumented as a flexible dividend in which shareholders have been offered the choice between receiving newly issued Parent Company shares or the cash amount equivalent to the dividend. The cash payment was chosen by 37.1% of the rights holders (which entailed a disbursement of €12.4 million), while the remaining 62.9% opted to receive new shares at the unit par value, which were issued as a capital increase. On 8 June 2022, 1,738,566 new shares of the Parent Company from this flexible dividend were admitted to trading on the Barcelona, Madrid, Bilbao and Valencia stock exchanges

From a liquidity standpoint, the Group ended the half year with a cash position that came to €248.8 million (as at 31 December 2021: €207.4 million). This evolution is explained by:

- Robust cash flow from operating activities (+155.1 million), in line with operating profit but partially offset by corporate income tax payments (mainly in Spain, Germany and Switzerland) and the negative trend in working capital (linked to the increase in inventories of new releases and the decrease in payables in Spain and the USA).
- Net payments from investing activities (-68.5 million) resulting mainly from investments in the Group's manufacturing sites, upfront payments for the licensing and development agreements with Ichnos, Evotec and Simcere, payments for the commercial launch of Wynzora, for Lebrikizumab and Ilumetri milestones, partially offset by the proceeds from the agreement with Covis Pharma GmbH (which acquired the respiratory business from AstraZeneca).
- Net payments from financing activities (-€45.1 million) mainly as a result of the cash payment of the flexible dividend (€12.4 million), interest payments on debt and quarterly repayments of the loan from the European Investment Bank.

2. Corporate Development

During FY 2022, the corporate development agreements concluded and the significant events that occurred were as follows:

- On 5 January 2022, the agreement between AstraZeneca and Covis Pharma GmbH for the transfer of the global rights to Eklira and Duaklir entered into force. As a result of this agreement, in addition to continuing to receive royalty payments under the terms initially established with AstraZeneca, the Parent Company received an amount of US$10 million on the date on which the transaction took effect and will receive US$40 million in different tranches until September 2023, mainly linked to certain changes in the initially established milestone structure.
- On 26 March 2022, 16-week data for the Phase-3 ADvocate study and Phase-1 and Phase-2 studies of Lebrikizumab were announced at the annual meeting of the American Academy of Dermatology. Subsequently, on 7 June 2022, the main results of the one-year efficacy and safety analyses of Lebrikizumab were published, where 80% of patients who responded to Lebrikizumab maintained the improvements as far as clearer skin and reduced disease severity at 52 weeks; lasting improvements in itch relief were also observed.

- On 29 September 2022, an exclusive licence agreement was announced for SIM0278, the IL-2 mutant fusion protein IL-2 (IL-2Mu-Fc) developed by Simcere and drug candidate for the treatment of autoimmune diseases. Under the agreement, Almirall will have the exclusive right to develop and commercialize SIM0278 for all indications outside the China region. It has made an upfront payment of $15 million, and may pay up to $492 million for development and commercial milestones taking into account achievements in various indications, with a significant portion as sales milestones, as well as tiered royalties of up to low double digits based on future worldwide sales.
- On 28 October 2022, the European Medicines Agency (EMA) announced its acceptance of the marketing authorization application (MAA) for lebrikizumab for atopic dermatitis. The marketing authorisation application dossier is based on three pivotal Phase III studies: ADvocate 1 and ADvocate 2, evaluating Lebrikizumab as monotherapy in adult and adolescent patients with moderate to severe AD, and ADhere, evaluating Lebrikizumab in combination with topical corticosteroids (TCS). Approval in Europe is expected in the second half of 2023.
- On 18 November 2022, a perpetual licence for Motilex® (Clebopride) to Teofarma was announced. Under the agreement, rights are assigned in Italy for Motilex® 0.5 mg tablets, indicated for the relief of such symptoms as nausea and vomiting in adults and children. €18.5 million was received by the Group on the effective date of the agreement.

3. Evolution of the main figures of the consolidated income statement

- Operating income totalled €878.5 million (+5.0%) due to:
  - The net turnover totalled €863.2 million, an increase of 4.4% thanks to the growth of dermatological products in Europe (led by Ilumetri, Klisyri and Wynzora) and the positive evolution of the national market in particular, albeit offset by falling sales in the United States.
  - Other revenues amounted to €15.3 million, increasing significantly as a result of the agreement between Covis Pharma and AstraZeneca, as explained in the previous section.
- R&D expenses in the first six months of the FY totalled €103.2 million, up significantly from 2021 (€73.6 million) due to Phase-3 studies of Lebrikizumab, post-- launch studies of Klisyri and the new research agreements that have been signed.
- The remaining operating expenses have increased as a result of new launches in Europe.
- Depreciation and amortisation amounted to €120.6 million (+ 0.6%), as the amortisation linked to the licensing of new products launched in Europe (Wynzora and Klisyri) was offset by the reduction resulting from impairments in certain US assets recognised in 2021.
- The caption “Impairment of property, plant and equipment, intangible assets and goodwill” includes the loss related to certain products in the U.S. market, as described in Note 12 to the accompanying consolidated financial statements.
- Hence, for the reasons indicated above, the result before tax amounts to a profit of €4.3 million, compared to a loss of -€40.9 million in 2021.

4. Consolidated balance sheet. Financial position

The main changes in the Consolidated Balance Sheet as at 31 December 2022 compared to the end of FY 2021 are described below:

- Intangible assets increased mainly as a result of the positive effect of the US dollar on assets related to the US business, additions related to the agreements with Evotec, Simcere, Lily, Sun Pharma, Athenex and MC2 Therapeutics, partially offset by amortization for the year and the impairment recorded over assets tied to the US market.
- “Trade and other receivables” have increased, mainly due to the change in the time horizon of certain milestones resulting from the agreement that was transferred from AstraZeneca to Covis Pharma GmbH.
- The cash position at 31 December 2022 comes to €248.8 million, which is significantly higher than at closing on 31 December 2021, thanks to cash flows from operating activities.
- Financial debt has decreased as a result of quarterly repayments of the loan from the European Investment Bank.
- Non-current liabilities decreased mainly due to the impact of higher interest rates on the Group’s pension plan liabilities, which mainly relate to the investee Almirall Hermal GmbH (Germany).

- Current liabilities have decreased mainly due to the upfront payment for the research contract with Ichnos (€20.8 million paid in January 2022), partially offset by an increase in trade payables in Spain and Germany and in the balance of current tax liabilities.

5. Risk factors

Noteworthy risk factors that may affect the achievement of business targets are as follows:

- Pressures on price reductions, reimbursement conditions, contributions to the healthcare system or more restrictive regulations, which may speed up with growing government budget deficits on the horizon and the general Potentials worsening of macroeconomic conditions in European countries.
- Price increases in materials, transportation, energy and supply shortages due to current geopolitical and socioeconomic threats and macroeconomic developments.
- Unexpected climate changes and increasing risks of major natural disasters can accelerate the adoption of new regulations to reduce emissions, energy and water use and changes to increase climate resilience by generating operational costs.
- Cyberattacks or security incidents that allow access to confidential information or cause a disruption of business activities.
- Impairment of intangible assets and goodwill due to lower than projected revenue streams.
- R&D pipeline not sufficiently balanced and differentiated in its different phases to nurture the product portfolio.

Likewise, section 1.5 of the Statement of Non-Financial Information (Annex I) explains the Group's Risk Management System.

6. Financial risk management and use of hedging instruments

Interest rate risk

As of 31 December 2022, most of the Group's debt is at a fixed rate, which minimises the risk of a possible increase in interest rates. As described in Note 16 to the consolidated financial statements, the main debt instruments are as follows:

- On 22 September 2021, the Parent Company proceeded to conclude and disburse an issuance of senior unsecured bonds for an aggregate nominal amount of €300 million, at a fixed annual interest rate of 2.125%, maturing on 22 September 2026.
- On 17 July 2020, the Parent Company entered into a revolving credit facility for an amount of €275 million, which will mature in July 2024 and has been allocated to general corporate purposes. This credit facility accrues interest at a variable rate linked to Euribor. As of 31 December 2022, the Group has not drawn down any amount under this policy.
- On 27 March 2019, the Parent Company arranged a loan facility with the European Investment Bank (EIB) for up to €120 million, to fund its research and development efforts, with the objective of providing cutting-edge innovation and differentiated therapies in the area of medical dermatology. The first tranche of €80 million was granted on 17 April 2019, at a fixed interest rate of 1.351%, with 32 equal repayments of principal between 17 July 2021 and 17 April 2029, with the latter date being the final maturity. Due to the issue of new debt, the interest rate has temporarily increased by 0.30%, and therefore the interest rate is 1.651%.

Exchange rate risk

The Group is exposed to exchange rate risk on certain transactions arising from its business activities. This exchange rate risk is mainly related to cash inflows in dollars for sales of finished product, cash inflows and outflows derived from the transaction with Covis Pharma GmbH, outflows in dollars for the licensing agreements with Athenex, Lily or Sun Pharma, outflows in dollars for clinical trials, purchases of raw materials and royalty payments in yen and dollars. The most relevant foreign currency in which the Group operates is the US dollar.

The Group analyses quarterly the expected incoming and outgoing payments in foreign currencies, as well as the evolution and trends in these currencies. In recent years, the Group has reduced its exposure to exchange rate risk in larger commercial transactions by taking out specific insurance policies for exchange rates to cover payments in yen for the purchase of raw materials and to cover incoming cash flows in dollars.

Liquidity risk

The Group determines its cash requirements using two fundamental forecasting tools that operate according to different time frames.

On the one hand, a monthly cash budget is established for one year, based on the forecast financial statements for the current year, and deviations from the forecast are analysed on a monthly basis; and, on the other hand, medium- and long-term liquidity planning and management is based on the Group's Strategic Plan, which covers a five-year time frame.

Cash surpluses in foreign currencies are invested in deposits when payments are expected to be made in that currency, mainly US dollars.

The financing instruments include a series of covenants that, in the event of default, could possibly result in a demand for immediate payment of these financial liabilities. The Group periodically assesses their fulfilment (as well as expected fulfilment, so that it may take corrective measures, if necessary). As of 31 December 2022, all covenants are considered to be fulfilled, as mentioned in Note 16 of the accompanying notes to the consolidated financial statements.

The Group manages liquidity risk prudently, maintaining sufficient cash and marketable securities, as well as arranging committed credit facilities for an amount sufficient to support expected needs.

7. Trends for the year 2023

FY 2023 will be busy year from an operational standpoint, as in addition to the rollout of launches in new territories for Wynzora and Klisyri, and the consolidation of Ilumetri in existing markets, there will be regulatory and pre-launch activities for Lebrikizumab. Should it receive regulatory approval from the EMA in the fourth quarter of 2023, it is expected to be launched in the first territories in Europe by the end of 2023.

In terms of R&D activities, we expect to obtain decentralized regulatory approval for Efinaconazole for some European countries, the aforementioned approval of Lebrikizumab, Phase III results for the line extension of Klisyri, progress in the various molecules that are in early stages of development, such as Anti-IL-1RAP mAb (agreement with Ichnos) and IL-2muFc (agreement with Simcere), and the first candidates resulting from the collaboration agreement with Evotec. Seysara is also expected to be filed for registration in China.

Finally, the Group's Management continues to focus on opportunistic M&A transactions that fit with the Group's business strategy, while always maintaining a prudent financial approach.

8. Annual Corporate Governance Report

The Annual Corporate Governance Report is attached as Annex II to this document.

9. Management Bodies, Board

Appointment of directors

Directors are appointed (i) at the proposal of the Appointments and Remuneration Committee, in the case of independent directors, and (ii) after a report from the Appointments and Remuneration 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 Capital Companies Act.

When a new director is appointed, he/she must follow the orientation programme for new directors established by the Parent Company, so that he/she can quickly acquire sufficient knowledge of the Parent Company and of its rules for corporate governance.

When designating external directors, the Board of Directors endeavours to ensure that candidates are chosen who are endowed with recognised solvency, competence and experience, since great care must be taking in filling the posts of independent director provided for in Art. 6 of the Board Regulations.

Directors affected by proposals for re-election shall abstain from taking part in deliberations and from voting on such proposals.

Directors hold office for the term stipulated by the General Shareholders' Meeting, which must be the same for all of them and may not exceed four years. At the end of this term, they may be re-elected one or more times for periods of the same maximum duration.

Replacement of directors

Directors shall leave office when the term for which they were appointed has elapsed or when so decided by the General Shareholders' Meeting in the exercise of the powers conferred upon it by law or the Company's Articles of Association. In any case, the appointment of the directors shall expire when the term has expired and the next General Meeting has been held or the legal deadline for holding the meeting that must pass a resolution approving the previous year's accounts has elapsed.

The Board of Directors may only propose the dismissal of an independent director before the expiry of the term established in the Articles of Association when there is just cause, as determined by the Board following a report from the Appointments and Remuneration Committee. In particular, just cause shall be deemed to exist when the director has failed to comply with the duties inherent in his or her position or has incurred in any of the circumstances that prevent him or her from holding office as described in the definition of independent director established in the good corporate governance recommendations currently in force.

Directors affected by proposals for dismissal shall abstain from taking part in the deliberations and voting on such proposals.

Directors must submit their resignation to the Board of Directors and, if the Board deems it appropriate, officially resign their post in the following cases:

a) When they leave the executive positions associated to their appointment as director.
b) When they find themselves in any of the situations resulting in incompatibility or prohibition as stipulated by law.
c) When they are seriously reprimanded by the Board of Directors for having breached their obligations as directors.
d) When their continued presence on the Board may jeopardise or damage the interests, credit or reputation of the Parent Company or when the reasons for which they were appointed cease to exist (for example, when a proprietary director sells his stake in the Parent Company).
e) In the case of independent directors, they may not remain in their posts for a continuous period of more than 12 years, and once this period has elapsed, they must submit their resignation to the Board of Directors and officially resign.
f) In the case of proprietary directors (i) when the shareholder they represent sells its entire stake and; , likewise (ii) in the corresponding number, when this shareholder reduces its stake to a level that requires a reduction in the number of proprietary directors.

In the event that, due to resignation or for any other reason, a director leaves his post before the end of his term of office, he must explain the reasons in a letter to be sent to all the members of the Board.

Amendment of Articles of Incorporation

The amendment of the Articles of Association is the responsibility of the General Shareholders' Meeting and is governed by Art. 160 Spanish Capital Companies Act and other concordant provisions, and there are no relevant specifications in this regard in the Articles of Association or the Regulations of the General Shareholders' Meeting.

Powers of the Members of the Board of Directors

The Board has delegated certain powers to the Chief Executive Officer of the Group, according to a deed authorised by the Notary Public of Barcelona, Mr. Enrique Viola Tarragona, on 10 November 2022.

The director Mr. Carlos Gallardo Piqué has been granted powers by virtue of a deed of power of attorney authorised by the Notary Public of Barcelona, Mr. Enrique Viola Tarragona, on 11 May 2022.

10. Capital structure. Significant shareholdings

The Parent Company's share capital as at 31 December 2022 is represented by 181,515,368 shares with a par value of €0.12, fully subscribed and paid up (179,776,802 shares as at 31 December 2021).

The shareholders with significant holdings in the share capital of Almirall, S.A., both direct and indirect, in excess of 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 (CNMV) as of 31 December 2022 and 2021, are as follows:

Name or company name of the direct shareholder	**% Interest 31/12/2022**	**% Interest 31/12/2021**
Grupo Plafin, S.A.	41.9%	40.9%
Grupo Corporativo Landon, S.L.	17.7%	18.8%
Wellington Management	5.1%	5.1%
Artisan Partners	-	3.6%
Total	**64.7%**	**68.4%**

As of 31 December 2022 and 2021, the Parent Company was not aware of any other holdings equal to or greater than 3% of the share capital or voting rights of the Parent Company, which, although less than the established percentage, would enable the exercise of significant influence over the Parent Company.

11. Treasury shares

The Parent Company has a liquidity contract with a financial intermediary, effective from 4 March 2019, with the aim of favouring liquidity and stability of prices of the Company's shares, within the limits established by the General Shareholders' Meeting and by current regulations, in particular, Circular 1/2017, of 26 April, of the National Securities Market Commission (CNMV), on liquidity contracts. This contract means that as at 31 December 2022 the Parent Company holds treasury shares representing 0.10% of the share capital (0.08% on 31 December 2021) and an overall nominal value of €21.7 thousand (€16.8 thousand as of 31 December 2021), which have been recognised in accordance with EU-IFRS. The average acquisition price of these shares was €9.0 per share. The treasury shares held by the Parent Company are intended to be traded on the market.

12. Private agreements among shareholders and restrictions on transferability and voting

There is a private agreement among shareholders, which has been duly notified to the CNMV and the full text of which can be consulted on the website www.almirall.com, concluded by Mr. Antonio Gallardo Ballart and Mr. Jorge Gallardo Ballart, which regulates the concerted action of its signatories in Almirall, S.A. and the exercise of the voting rights 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 restrictions set out in the Articles of Association on the free transferability of the Company's shares, nor are there any statutory or regulatory restrictions set out in the Articles of Association or in other regulations on voting rights.

13. Significant agreements

There are no significant agreements, either in relation to changes of control of the Parent Company or between the Parent Company and its Directors and Management or Employees, regarding compensation for resignation, dismissal or takeover bids.

14. Subsequent events

On 1 January 2023, the agreement signed with MSD International Business GmbH came into force, whereby it agreed to extend the rights for the Spanish territory (which ended on 31 December 2022) for the products marketed under the Efficib and Tesavel trademarks, indicated for the treatment of diabetes and marketed by the Group since 2009. Under the terms of this agreement,, the rights extend until 31 December 2025, for which €18 million will be paid by the end of March 2023.

In addition, on 03 February 2023, the Parent Company signed a purchase agreement with DFT El Globo S.L. for the rights of several products marketed in Spain under the Physiorelax trademark. In February, under the terms of this agreement, the Group paid around €12 million.

Additionally, at the date of preparation of these consolidated financial statements, the Board of Directors of Almirall, S.A. agreed to propose to the General Shareholders' Meeting the distribution of a dividend charged to unrestricted reserves for the amount of €34.5 million (equivalent to €0.19 per share). For the purposes of this dividend distribution, it is proposed to again utilise the "Flexible Dividend" shareholder remuneration system, already applied in 2022. In this system, the shareholders are offered an alternative option that allows them to receive bonus shares in the Parent Company without limiting their option to receive an amount of cash equivalent to the dividend payment.

15. Statement of non-financial information

The Statement of Non-Financial Information is attached as Annex I to this document.

16. Annual remuneration report

The Annual remuneration report is attached as Annex III to this document.