LABORATORIOS ALMIRALL, S.A. (formerly Almirall Prodesfarma, S.A.) and Subsidiaries (Grupo ALMIRALL)

Consolidated Annual Accounts for the year ended 31 December 2005, prepared in accordance with the International Financial Reporting Standards (IFRSs) adopted in Europe

Translation of consolidated financial statements originally issued in Spanish and prepared in accordance with IFRSs, as adopted by the European Union (see Notes 2 and 31). In the event of a discrepancy, the Spanish-language version prevails.

Translation of consolidated financial statements originally issued in Spanish and prepared in accordance with IFRSs, as adopted by the European Union (see Notes 2 and 31). In the event of a discrepancy, the Spanish-language version prevails.

LABORATORIOS ALMIRALL, S.A. (formerly Almirall Prodesfarma, S.A.) and Subsidiaries
(GRUPO ALMIRALL)

CONSOLIDATED BALANCE SHEET AT 31 DECEMBER 2005 AND 2004

(Thousands of euro)

ASSETS	Note	31/12/2005	31/12/2004	EQUITY AND LIABILITIES	Note	31/12/2005	31/12/2004
				Share capital		21.516	21.516
Goodwill	7	39.955	39.955	Share premium		84.029	84.029
Intangible assets	8	73.674	51.631	Legal reserve		4.303	4.303
Property, plant and equipment	9	147.292	134.772	Other reserves of the parent company		270.554	284.769
Financial assets	10	90.031	86.804	Consolidation reserve		341.837	149.693
Deferred tax assets	20	97.159	86.181	Reserves, first-time application		57.054	164.946
Investments accounted for using the equity method	11	-	133.805	Exchange differences		1.501	1.775
NONCURRENT ASSETS		**448.111**	**533.148**	Profit for the year		117.725	92.572
				EQUITY	14	**898.519**	**803.603**
				Deferred revenue	15	4.347	5.521
				Bank borrowings and other financial liabilities	16	-	129
				Deferred tax liabilities	20	47.760	33.184
				Provisions	18	10.246	8.475
				Other noncurrent liabilities	17	26.665	27.100
				NONCURRENT LIABILITIES		**89.018**	**74.409**
Inventories	12	93.656	80.453				
Trade accounts receivable and other	13	93.899	90.360	Bank borrowings and other financial liabilities	16	7.291	5.396
Current tax assets	20	44.807	34.973	Trade accounts payable		138.516	125.136
Current financial investments	10	455.697	287.015	Current tax liabilities	20	30.325	25.136
Cash and other liquid assets	10	62.958	36.325	Other current liabilities	17	37.630	29.613
Other current assets		3.243	1.019	Provisions	19	1.072	-
CURRENT ASSETS		**754.260**	**530.145**	**CURRENT LIABILITIES**		**214.834**	**185.281**
TOTAL ASSETS		**1.202.371**	**1.063.293**	**TOTAL EQUITY AND LIABILITIES**		**1.202.371**	**1.063.293**

Notes 1-31 described in the Consolidated Annual Report and Annex are an integral part of the consolidated balance sheets at 31 December 2005 and 2004.

Translation of consolidated financial statements originally issued in Spanish and prepared in accordance with IFRSs, as adopted by the European Union (see Notes 2 and 31). In the event of a discrepancy, the Spanish-language version prevails.

LABORATORIOS ALMIRALL, S.A.
(Formerly Almirall Prodesfarma, S.A.) and Subsidiaries
(GRUPO ALMIRALL)

CONSOLIDATED INCOME STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2005 AND 2004

(Thousands of euro)

	Notes	2005	2004
Revenue		736.132	699.740
Change in inventories of work in process and finished products		11.229	2.260
Procurements	19	(237.601)	(209.846)
Gross margin		**509.760**	**492.154**
Other income	19	62.281	45.473
Staff costs	19	(187.499)	(179.880)
Depreciation and amortisation charge	8 and 9	(29.978)	(29.066)
Net change in provisions	19	(5.984)	(4.780)
Other operating expenses		(220.202)	(215.199)
Net gains / (losses) in the sale of noncurrent assets	19	541	2.092
Other gains / (losses), ordinary operations	19	(110)	864
Impairment losses on property, plant and equipment, intangible assets and goodwill	8 and 9	(5.080)	(19.518)
Impairment losses on long-term financial assets		452	(6)
Financial income	19	17.122	6.368
Financial expenses	19	(7.484)	(4.613)
Exchange differences	19	4.089	(2.266)
Profits (losses), entities accounted for using the equity method	11	-	11.176
Results before taxes from continuing operations		**137.908**	**102.799**
Income tax	20	(20.183)	(10.227)
Net profits (losses) for the year attributed to the parent company		**117.725**	**92.572**
Earnings per share (euro)	23		
A) Basic		32,88	25,86
B) Diluted		32,88	25,86

Notes 1-31 described in the Consolidated Annual Report and Annex are an integral part of the consolidated income statements for the fiscal years ended December 2005 and 2004.

Translation of consolidated financial statements originally issued in Spanish and prepared in accordance with IFRSs, as adopted by the European Union (see Notes 2 and 31).
In the event of a discrepancy, the Spanish-language version prevails.

LABORATORIOS ALMIRALL, S.A. (formerly Almirall Prodesfarma, S.A.) and Subsidiaries
(GRUPO ALMIRALL)

STATEMENT OF CHANGES IN CONSOLIDATED EQUITY IN THE YEARS
ENDED 31 DECEMBER 2005 AND 2004
(Thousands of euro)

	Notes	Share Capital	Share Premium	Legal reserve	Other reserves, parent company	Reserves at companies		Gains and losses registered in equity	Exchange differences	Profits (losses) attributed to parent company	Equity
						Fully Consolidated	Accounted for by the Equity method				
Balance at 31 December 2003		**21.516**	**84.029**	**4.303**	**161.182**	**100.302**	**13**	**-**	**1.474**	**79.482**	**452.301**
Correction of pre-existing adjustments under Generally Accepted Acounting Principles in Spain	2-a and 30	-	-	-	92.730	-	-	-	-	29.373	122.103
Adjustment to adapt to IFRS	30	-	-	-	-	53.768	107.893	3.285	-	-	164.946
Balance at 1 January 2004	**30**	**21.516**	**84.029**	**4.303**	**253.912**	**154.070**	**107.906**	**3.285**	**1.474**	**108.855**	**739.350**
Changes in scope of consolidation		-	-	-	-	-	-	-	-	-	-
Distribution of profits (losses)		-	-	-	60.907	34.250	13.698	-	-	(108.855)	-
Dividends		-	-	-	(30.050)	-	-	-	-	-	(30.050)
Exchange differences		-	-	-	-	122	(54)	-	301	-	369
Revenue and expenses registered in equity		-	-	-	-	-	-	1.362	-	-	1.362
Profit (loss) for the period		-	-	-	-	-	-	-	-	92.572	92.572
Balance at 31 December 2004	**14**	**21.516**	**84.029**	**4.303**	**284.769**	**188.442**	**121.550**	**4.647**	**1.775**	**92.572**	**803.603**
Changes in scope of consolidation		-	-	-	-	121.550	(121.550)	-	-	-	-
Distribution of profits (losses)		-	-	-	10.129	82.443	-	-	-	(92.572)	-
Dividends		-	-	-	(24.344)	-	-	-	-	-	(24.344)
Exchange differences		-	-	-	-	66	-	-	(274)	-	(208)
Revenue and expenses registered in equity		-	-	-	-	-	-	1.743	-	-	1.743
Profit (loss) for the period		-	-	-	-	-	-	-	-	117.725	117.725
Balance at 31 December 2005	**14**	**21.516**	**84.029**	**4.303**	**270.554**	**392.501**	**-**	**6.390**	**1.501**	**117.725**	**898.519**

Notes 1-31 described in the Consolidated Annual Report and Annex are an integral part of this statement.

Translation of consolidated financial statements originally issued in Spanish and prepared in accordance with IFRSs, as adopted by the European Union (see Notes 2 and 31). In the event of a discrepancy, the Spanish-language version prevails.

LABORATORIOS ALMIRALL, S.A. (formerly Almirall Prodesfarma, S.A.) and Dependent Companies
(GRUPO ALMIRALL)

CONSOLIDATED CASH FLOW STATEMENT (indirect method)

(Thousands of euro)

	Notes	2005	2004
Cash flow from operating activities			
Profit before taxes		137.908	102.799
Amortisation and depreciation	8 and 9	29.978	29.066
Profits (losses), companies accounted for by the equity method	11	-	(11.176)
Net change in noncurrent provisions	18	1.771	3.394
Net change in provisions, noncurrent financial assets	10	2	68
Proceeds from the sale of fixed assets	19	(541)	(2.092)
Finance income	19	(17.122)	(6.368)
Finance costs	19	7.484	4.613
Exchange differences	19	(4.089)	2.266
Impairment losses on assets	7, 8 and 9	5.080	19.518
Allocation of deferred revenue to income	15	(1.193)	(1.519)
		159.278	**140.569**
Adjustments for changes in working capital			
Change in inventories		(13.203)	4.050
Change in trade accounts receivable and other		(3.539)	34.936
Changes in trade accounts payable		13.380	8.138
Changes in other current assets		(2.224)	(18)
Changes in other current liabilities		8.017	(7.905)
Changes in current provisions		1.072	(90)
Adjustments for changes in other noncurrent items:			
Incorporation of deferred revenue	15	19	1.000
		3.522	**40.111**
Taxes paid		**(21.230)**	**(26.331)**
Net cash flow from operating activities (I)		**141.570**	**154.349**
Cash flow from investing activities			
Finance income	19	17.122	6.368
Exchange differences	19	4.089	(2.266)
Dividends received from companies accounted for by the equity method and other movements	11	-	7.712
Net changes in financial assets held for sale	10 and 11	(2.681)	(1.943)
Investments:			
Intangible assets	8	(40.327)	(10.526)
Property, plant and equipment	9	(31.330)	(29.910)
Financial assets	10	(5.804)	(30.666)
Divestments:			
Intangible and property, plant and equipment	8 and 9	2.772	3.261
Financial assets	10	6.533	23.041
Changes in scope of consolidation	3-b and 11	132.333	
Net cash flows from investing activities (II)		**82.707**	**(34.929)**
Cash flow from financing activities			
Financial expenses	19	(7.484)	(4.613)
Equity instruments:			
Change in revenue and expenses registered against equity		1.743	1.362
Dividends paid		(24.344)	(30.050)
Exchange differences		(208)	369
Liability instruments			
Bank borrowings	16	1.766	(4.013)
Other noncurrent liabilities	17	(435)	2.007
Net cash flow from financing activities (III)		**(28.962)**	**(34.938)**
			-
Net change in cash and other cash equivalents (I+II+III)		**195.315**	**84.482**
Cash and cash equivalents at beginning of period		**323.340**	**238.858**
Cash and cash equivalents at end of period		**518.655**	**323.340**

Notes 1-31 described in the Consolidated Annual Report and Annex are an integral part of the consolidated cash flow statements at 31 December 2005 and 2004.

Translation of consolidated financial statements originally issued in Spanish and prepared in accordance with IFRSs, as adopted by the European Union (see Notes 2 and 31). In the event of a discrepancy, the Spanish-language version prevails.

Laboratorios Almirall, S.A. (formerly Almirall Prodesfarma, S.A.) and Subsidiaries

Report on the consolidated annual accounts for the year ended 31 December 2005

1. The Group's activities

Laboratorios Almirall, S.A. is the parent company of a group of companies (hereafter Grupo ALMIRALL) whose object is basically the purchase, manufacture, storage, marketing and intermediation in the sale of pharmaceutical products and specialties as well as all types of inputs used in the preparation of these pharmaceutical products and specialties.

The object of the parent company also includes:

a) The purchase, production, storage, marketing, and intermediation in the sale of cosmetics; chemical, biotechnological, and diagnostic products for human, veterinary, agrochemical and food use; as well as any type of utensils, supplements and accessories for the chemical, pharmaceutical, and clinical industry.

b) Research in pharmaceutical and chemical principles and products.

c) The purchase, sale, rental, parcelling and development of building sites, land and properties of any type with the possibility of building on them and transferring them, fully or in part or under condominium property schemes.

d) The purchase, subscription, holding, transfer and sale of all types of securities, domestic and foreign, for its own account and without brokerage activity. These activities shall not include those the law expressly reserves for collective investment undertakings and those the Law on the Securities Market reserves for stock brokerage companies.

This corporate object may be developed, fully or partially, directly, on its own, or indirectly through ownership of shares, holdings or any other rights or interests in companies or any other type of institutions, with or without legal personality, resident in Spain or abroad and engaged in activities identical or similar to those included in the object of the parent company.

The parent company's corporate domicile is located at Ronda General Mitre 151, Barcelona.

The parent company's current name was adopted following its registration in the Mercantile Register on 27 November 2006, following due agreement of the Extraordinary Shareholders' Meeting of 18 October 2006 at which the name was adopted to replace the company's former name, Almirall Prodesfarma, S.A.

2. Bases of presentation of the annual accounts and consolidation principles

a) Preparation of the consolidated annual accounts

On 31 March 2006, the Directors of the parent company of Grupo ALMIRALL prepared the Group's 2005 consolidated annual accounts, applying the accounting standards and principles provided in the Commercial Code, and in accordance with Royal Decree 1815/91 of 20 December 1991.

However, in accordance with current accounting standards at the time (Final Provision 11 of Law 62/2003 of 30 December 2003), Grupo ALMIRALL's consolidated annual accounts for the year ended 31 December 2005 should have been prepared according to the International Financial Reporting Standards adopted by the European Union (EU-IFRSs) as one of its subsidiaries (Sociedad de Inversión en Capital Variable) had issued securities listed on a market regulated in Spain at that date.

In light of these circumstances, the Directors of the Group decided to reformulate Grupo ALMIRALL's annual accounts for the year ended 31 December 2005 in accordance with EU-IFRSs.

Further, the Group's 2004 consolidated annual accounts were prepared in accordance with the accounting regulations provided in the Commercial Code and as established in Royal Decree 1815/91, of 20 December 1991 included a provision for liabilities recognised in prior years for the amount of €92,730,000. The recording of this provision provided coverage for possible generic risks that might occur in the future, and was not necessary under current accounting principles.

In addition, for 2004 the Group recorded in its consolidated annual accounts, in accordance with the Commercial Code and RD 1815/91 of 20 December 1991, revenue of €45,190,000 for the sale of production and marketing rights in the U.S. of a specific product which, in accordance with the current accounting principles, should have been recorded in prior years.

For this reason, in the preparation of the present consolidated accounts, the Directors of the parent company decided to rectify the foregoing problems. The impact of this rectification was calculated retroactively to the date of the transition to the IFRSs, as a preliminary step for the initial application of the IFRSs. This rectification had the following repercussions:

- Reduction of €92,730 thousand in “Provision for contingencies and expenses” on the balance sheet at 1 January 2004 (Note 30),

- Reduction of €45,190 thousand in “Extraordinary revenue" for 2004 (Note 30),

- Reduction of €15,817 thousand in “Income tax expense” (Note 30); and

- Increase of €122,103 thousand in "Equity" on the balance sheet at 1 January 2004 (Note 30).

b) Basis of presentation

The present 2005 consolidated annual accounts of Grupo ALMIRALL, which were obtained based on the accounting records maintained by the parent company and by the remaining companies comprising the Group, were prepared by the Directors of the parent company at the Meeting of the Board of Directors of 21 March 2007.

These consolidated annual accounts were prepared for the first time in accordance with the IFRSs adopted by the European Union and reflect all of the accounting standards and principles and the valuation criteria to be applied on a mandatory basis and present fairly the consolidated equity and financial position, on a consolidated basis, of Grupo ALMIRALL at 31 December 2005 and of the results from its operations, changes in equity and consolidated cash flow of the Group during the year ended at that date.

However, as the accounting principles and valuation criteria applied in the preparation of the Group's 2005 consolidated annual accounts may differ from those used by some of its constituent companies, in the process of consolidation, the adjustments and reclassifications required to unify the principles and criteria, and to adapt them to the International Financial Reporting Standards, were applied.

For a uniform presentation of the different components of the consolidated annual accounts, the parent company's valuation standards and principles were applied to all the companies in the scope of consolidation.

The Group's 2004 consolidated annual accounts, prepared according to the accounting principles then in force in Spain, were approved by the parent company's General Shareholders' Meeting of 30 June 2005. To facilitate comparability with the present consolidated annual accounts for 2005, the figures for 2004 are presented in adjusted form as required to adapt them to the IFRSs. While the present 2005 consolidated annual accounts of the Group have not yet been approved by the parent company's General Shareholders' Meeting, the parent company's Board of Directors expects the consolidated annual accounts to be approved without amendment.

c) Adoption of International Financial Reporting Standards

The present consolidated annual accounts of Grupo ALMIRALL for the year ended 31 December 2005, were first prepared in accordance with the International Financial Reporting Standards as provided under Regulation (EC) No 1606/2002 of The European Parliament and of The Council of 19 July 2002 (by virtue of which all companies governed by the law of a member State of the European Union, and whose securities are listed on a regulated market in any of the member States are required to file consolidated annual accounts for the years beginning from 1 January 2005 in accordance with the IFRSs adopted by the European Union). In Spain, the obligation to file consolidated annual accounts under the IFRSs approved in Europe was also regulated in Final Provision 11 of Law 62/2003 of 30 December 2003 on fiscal, administrative, and social measures.

These new regulations entail the following measures as compared with the regulations in effect when the Group's 2004 consolidated annual accounts were prepared (Spanish National Chart of Accounts, RD 1643/1990 of 20 December 1990 and Rules on the Preparation of Consolidated Annual Accounts, RD 1815/1991 of 20 December 1991):

- Substantial changes in accounting policies, valuation criteria and the format of the financial statements comprising the annual accounts.
- Incorporation of two new financial statements into the consolidated annual accounts: statement of changes in consolidated equity and consolidated cash flow statement; and
- A significant increase in the information provided in the report on the consolidated annual accounts.

Note 30 includes the reconciliation required under IFRS 1 between the equity statement balances at the beginning and end of the year ended 31 December 2004 - and that are therefore included in the Group's consolidated annual accounts for that year - and the correlative opening balances for 2004 and 2005 determined according to the new regulations.

The principal accounting policies and valuation rules adopted by Grupo ALMIRALL are presented in Note 5.

In accordance with IFRS 1, when a company applies the IFRSs for the first time, it must comply with each of the International Accounting Standards (IASs), IFRSs, and current interpretations at the time of the first application, which requires a retroactive application of these rules in most cases. However, IFRS 1 establishes certain voluntary exceptions to that obligation, for practical reasons and because the costs derived from compliance would exceed the benefits to the users of the financial statements. In this connection, Grupo ALMIRALL chose the following options in respect of the First-time Adoption of International Financial Reporting Standards (IFRS 1):

- It did not recalculate business combinations prior to the date of the transition (1 January 2004).
- It reflected, as an asset transition cost, the outlay recorded on the books under the Spanish National Chart of Accounts, therefore including legal revaluations to the extent that they correspond to changes in the general price indices.

With respect to the remaining IFRSs, Grupo ALMIRALL chose the following main options:

- To present the balance sheet items classified under current and noncurrent components.
- To present the income statement by nature.
- To present the statement of changes in equity to reflect changes in all headings.
- To present the cash flow statement using the indirect method.
- The Group decided not to transfer to reserves any exchange differences existing at the date of the transition.
- The Group opted for early application of IASs 32 and 39. The equity impacts of this early application are discussed in Note 30.

In relation to the optional early application of other International Financial Reporting Standards already issued but not yet in effect, the Group did not choose to apply any of these options. Their application would in any case not significantly affect the Group's equity.

Where other rules and the interpretations now in the draft phase are concerned, the Directors do not expect substantial impacts in the future from their application.

d) Responsibility for information and estimates

The information provided in these consolidated annual accounts is the responsibility of the Board of Directors of the Group. In the present consolidated annual accounts of the Group for the year ended 31 December 2005, estimates prepared by the Group's Directors and the consolidated entities were used to quantify some assets, liabilities, revenue, expenditure and commitments recorded therein. These estimates substantially refer to the following:

- Goodwill recovery valuation (Notes 5-a, 5-d, 6-e and 7),
- Useful life of intangible assets and property, plant and equipment (Notes 5-b and 5-c),
- Assessment of the technical and economic feasibility of capitalised development projects in progress (Notes 5-b and 5-d),
- Impairment losses in certain property, plant and equipment and intangible assets derived from the nonrecoverability of the recorded book value of the assets (Notes 5-d, 6-e, 7 and 8),
- Fair value of specific unlisted assets (Note 5-f),

- Assessment of litigation, commitments and assets and contingent liabilities at closing (Note 24).
- Assessment of the criteria for revenue recogition and benefits to be recorded in connection with agreements executed with third parties relating to licenses, co-development and co-promotion of products (Notes 5-m and 6-a).
- Estimation of timely provisions for product returns, insolvencies in accounts receivable and obsolescence of inventories on hand (Notes 5-i, 5-l and 5-j).

Although the estimates were prepared to reflect the best available information on the concepts analyzed, it is possible that events could take place in the future that might require them to be adjusted upwards or downwards in future years, which would be applied as provided in IAS 8, on a prospective basis, and the effects of a change in estimation would be recorded in the corresponding consolidated income statements.

e) Functional currency

These annual accounts are denominated in euro as this is the currency of the Group's main operating environment.

f) Information in reference to 2004

As required under IAS 1, the information in this report in reference to 2004 is presented for comparative purposes with the information on 2005, and accordingly does not constitute the 2004 consolidated annual accounts for the Group.

3. Consolidation principles and changes in scope of consolidation

a) Consolidation principles

The accompanying consolidated annual accounts were prepared based on the accounting records of Laboratorios Almirall, S.A. and those of its subsidiaries, whose annual accounts were prepared by the Directors of each company. As indicated in IAS 27, control is defined as the power to direct the institution's financial and operating policies in order to obtain profits from its activities.

The consolidation process includes the Grupo ALMIRALL subsidiaries as listed in the Annex.

The following criteria were used to determine the consolidation method applicable to each of the companies comprising Grupo ALMIRALL:

a) Fully consolidated:

Companies in which direct or indirect holdings exceed 50%, where effective control is present through the majority of votes in the representation and decision-making bodies.

b) Equity method:

In companies where holdings exceed 20%, where the Group can exercise significant influence without having direct or indirect effective control.

The annual accounts of the subsidiaries are fully consolidated with those of the Company. As a result, all significant balances and the repercussions of transactions carried out between the consolidated companies have been eliminated in the consolidation process.

If required, the subsidiaries' annual accounts are adjusted to adapt the accounting policies used to those applied by the Group.

All operations, balances, revenue and expenses between Group companies are eliminated in the consolidation process.

Profits (losses) generated by companies acquired during a year are consolidated only to reflect the period between the date of acquisition and the close of that year. At the same time, profits (losses) generated by companies sold during a given year are consolidated only to reflect the period between the beginning of the year and the date of sale.

In the consolidated annual accounts, investments in associates are accounted for using the equity method; in other words, to reflect the fraction of their equity represented by the Group's equity stakes when the dividends collected from them are considered and other equity eliminations are applied. Profits or losses corresponding to transactions with associates are eliminated to reflect the Group's percentage equity stakes.

If losses incurred by an associate lead to negative equity in the accounting system, it will be recorded as zero on the Group's consolidated balance sheet, unless the Group is obliged to back it financially.

When required, subsidiaries' financial statements should be adjusted so that the accounting is homogeneous with those used by the Group's parent company.

All accounts receivable and payable and other transactions between consolidated companies were eliminated in the consolidation process.

Further, the accompanying consolidated annual accounts do not reflect the tax effects that may result from the incorporation of the profits or losses and reserves generated by the subsidiaries into the parent company's equity since, pursuant to IAS 12, transfers of reserves leading to additional taxation will not be carried out. As the parent company controls the time of distribution, it is improbable that this would occur in the foreseeable future; such profits and reserves will instead be used as financing resources in each company.

Annex to this report provides a listing of subsidiaries and related information (name, country where established, and the parent company's equity stakes).

b) Changes in the scope of consolidation

The main changes in the scope of consolidation during 2005 are provided below:

a) During 2005, the Group acquired all political and economic rights not held in prior years in the subsidiaries Chemol International, Ltd. and Expharm, S.A., respectively.

   The value of these acquisitions should correspond to the underlying book value of the holdings. As a result of these acquisitions, the holdings in Chemol International, Ltd. and Expharm, S.A., which were previously accounted for using the equity method, were fully consolidated. For simplification purposes and because the impact is not material, the application of the full consolidation method became effective from 1 January 2005.

   Later, during 2005, the above-mentioned companies conducted a merger by absorption and changed the acquiring company's name (Chemol International, Ltd.) to that of the acquired company (Expharm, S.A.).

b) During 2005, the Group acquired all political and economic rights not held in prior years in the subsidiaries Almirall International, B.V. and Almochem, S.L., accounted for up to that time using the equity method. As a result, Almochem, S.L., which was previously accounted for using the equity method, was fully consolidated. The merger by absorption into Almirall International, B.V. by Almirall Prodesfarma, B.V. also occurred later in 2005. For simplification purposes and because the impact is not material, application of the fully consolidated method became effective 1 January 2005.

The detailed listing at 31 December 2004 of the key equity blocks on the individual balance sheets of the companies consolidated in the past using the equity method and described above, are listed in the following table:

	Thousands of Euros			
	Chemol International, Ltd	Expharm, S.A.	Almirall International, BV.	Almochem, S.L.
Current assets	13,715	17,219	8	115,353
Noncurrent assets	59	3,450	287	1
	13,774	**20,669**	**295**	**115,354**
Equity	13,766	18,186	288	114,447
Noncurrent liabilities	-	-	-	9
Current liabilities	8	2,483	7	898
	13,774	**20,669**	**295**	**115,354**

Market value adjustments to balance sheet items for the foregoing companies are insignificant. No significant goodwill has been recorded.

The subsidiary Fordonal Servicios, S.L. was liquidated in 2004. This was the only change in the scope of consolidation for 2004. This company's contribution to the balance sheet and income statement was insignificant.

4. Distribution of the parent company's profits

The proposed distribution of profits recorded in the parent company's annual accounts for 2004 and 2005 were as follows:

	Thousands of euro	
	2005	2004
Distribution base:		
Profits for the year	121,038	39,502
Distribution:		
Voluntary reserves	121,038	39,502

5. Valuation rules

The Group's 2005 consolidated annual accounts were prepared by the Directors of the parent company as provided in the International Financial Reporting Standards (IFRSs) approved by the European Union and in accordance with Law 62/2003 of 30 December 2003.

The main valuation rules used in preparing these consolidated annual accounts, as provided in the International Financial Reporting Standards adopted by the European Union, and the current interpretation at the time the accounts were prepared are listed below:

a) Goodwill

The main figure included in this item corresponds to goodwill from the merger of the parent company with Prodesfarma, S.A. (Note 7) during 1997.

The goodwill generated in consolidation represents the excess acquisition cost over the group's stakes in the fair value of identifiable assets and liabilities of a subsidiary or jointly controlled entity at the date of acquisition.

The positive differences between the cost of equity stakes in the consolidated entities in respect of the corresponding underlying theoretical book values acquired, adjusted at the date of first consolidation, are allocated as follows:

- If they can be attributed to specific equity components of the acquired companies, by increasing the value of assets (or reducing the value of liabilities) for which the market values are greater than (less than) the net book values listed on the balance sheet and that would receive similar accounting treatment as the same assets (liabilities) of the Group: amortisation, accrual, etc.

- If they can be attributed to certain intangible assets, they are specifically recorded on the consolidated balance sheet, provided that the fair value at the date of acquisition can be reliably determined.

- The remaining differences are recorded as goodwill and assigned to one or more specific cash generating units.

Goodwill incorporated from 1 January 2004 is still carried at cost of acquisition and goodwill incorporated prior to that date is maintained at net value recorded at 31 December 2003. In both cases, at each account closing, it is estimated whether there has been any impairment that might reduce the recoverable value below the net recorded cost, and in such a case, the appropriate adjustment is applied with a balancing entry under “Net impairment losses" in the consolidated income statements. As established under IFRS 3, goodwill is not subject to amortisation.

Impairment losses on goodwill are not subject to later reversal (Note 5-d).

When a subsidiary or jointly controlled company is sold, the amount attributable to goodwill is included in determining the profits or losses as a result of the sale.

b) Intangible assets

Intangible assets are initially recorded at cost of acquisition or production and later are carried at cost, less any cumulative amortisation or impairment losses that may apply.

Intangible assets may have indefinite useful lives when it is concluded, based on an analysis of all relevant factors, that there is no foreseeable limit to the period during which the asset can be expected to generate net cash flow for the consolidated entities; or finite lives in all other cases.

Intangible assets with indefinite useful life are not amortised unless, during each account closing, the consolidated entities revise the respective remaining useful life figures to ensure that they continue to be indefinite or, otherwise, to take the necessary steps.

Intangible assets with definite useful lives are amortised according to that useful life, applying similar criteria to those adopted for amortisation of property, plant and equipment, which basically are equivalent to the following amortisation rates (determined according to the average years of estimated useful life attributed to the various assets):

	Percentage Annual
Industrial property	10%-20%
Software	33%

In both cases the consolidated entities register in the accounting system any impairment loss that may have occurred in the recorded value of these assets, with a balancing entry under "Impairment losses on property, plant and equipment, intangible assets and goodwill" in the consolidated income statements. The criteria for registering impairment losses on these assets and if applicable, recovered impairment losses recorded during prior years, are similar to those applied to property, plant and equipment (Note 5-d).

Research and development

a) Internally generated

The costs of research activities are recorded as expenditure during the period in which they are incurred.

Expenditure incurred by the Group internally in the development of new drugs is only recorded as assets if all of the conditions below are met or can be demonstrated:

I. It is technically possible to complete production of the drug so that it can be available for use or sale.

II. The Group intends to complete the development of the drug in question for use or sale.

III. Capacity is available for the drug's use or sale.

IV. Mechanisms for the drug to generate economic profits in the future. Among other matters, the existence of a market for the drug generated by the development, or for the development *per se,* can be demonstrated, or if it is to be used internally, the usefulness of the development for the Group.

V. Availability of adequate technical, financial or other resources to complete the development and to use or sell the drug resulting from the development in progress.

VI. The capacity to reliably assess the disbursement attributable to the development until completion.

The development of new drugs is subject to a high degree of uncertainty, as a result of the protracted maturity period (normally several years) and the technical results that must be recorded in different testing phases involved in this process. During each phase of the development process, it may be advisable to abandon the project either because it does not meet medical and regulatory standards, or because it fails to meet profitability thresholds. For these reasons, the Group only considers the above-mentioned uncertainty to have been resolved when the developed product has been approved by the competent authorities in a reference market. At that time the Group considers the conditions for capitalisation of development expenditure, which are normally insignificant, to be met.

b) Separate acquisition

The separate acquisition of a research or development project in progress is capitalised, in all cases, as provided in Paragraph 25 of IAS 38, as the price paid for acquisition reflects expectations on the probability that the Group will generate future economic benefits from the asset; in other words, the price paid reflects the probability that the project in question will be a success.

Capitalised development costs with a finite useful life are subject to straight-line amortisation from the start of commercial production, for the period in which the product is expected to generate profits.

Development costs previously recorded as expenditure are not recorded as an asset during subsequent years.

Industrial property

Patents, trademarks, and licenses for production, marketing and/or distribution of products are initially recorded at purchase price and are amortised throughout the estimated useful lives of the related products (normally using the straight-line method) with the limit, if applicable, of the duration of license agreements signed with third parties. These periods normally do not exceed 10 years.

Expenditure derived from development of an industrial property that is not economically viable is fully allocated to results for the year when the activity was recorded.

Software

Costs to maintain computer systems are charged to the consolidated income statement for the year in which they are incurred.

Software can be contained into property, plant and equipment or have physical substance, therefore comprising tangible and intangible elements. These assets will be recorded as property, plant and equipment when they form an integral part of the related property, plant and equipment and are essential for their operation.

Computer assets are subject to straight-line amortisation for four years after each application begins operation.

c) Property, plant and equipment

Property, plant and equipment are normally carried at present cost, in the case of Spanish companies, in accordance with various legal provisions, including Royal Decree-Law 7/1996 (Note 9).

Replacements or renewals of complete elements that increase the useful life of the asset or its economic capacity are recorded as increases of property, plant and equipment, and the replaced or renewed components are subsequently withdrawn from the accounting system.

Periodic maintenance, upkeep and repair expenditure is allocated to profits or losses according to the accrual principle, as costs in the year when incurred.

Items in progress are transferred to property, plant and equipment in operation when the corresponding development period has ended.

Annual depreciation allowances for property, plant and equipment are applied with a balancing entry in the consolidated income statement and are basically equivalent to the following depreciation percentages determined to reflect the years of estimated useful life of the asset, with the understanding that the land on which buildings and other constructions are built has an indefinite useful life and is therefore not subject to depreciation. Average useful life figures are listed below for a number of different assets:

	Years of useful life
Constructions	33-50
Technical facilities and machinery	8-12
Laboratory equipment and furnishings	6-10
Data processing hardware	4-6
Transportation equipment	5-6.25

Certain asset items are depreciated according to the accelerated method under which a constant percentage is applied to the value not yet depreciated. This percentage is determined based on the years of estimated useful life and the coefficient established under Royal Legislative Decree 4/2004 of 5 March 2004 approving the text of the Law on the Tax on Corporations as amended. Had linear coefficients been used, the effects on reserves and profits for the year would not have been significant.

The profit or loss from the transfer or withdrawal of an asset is calculated as the difference between the sale amount and the book value of the asset as recorded in the income statement.

d) Impairment in value of property, plant and equipment and intangible assets

At the date of each balance sheet, the Group reviews the book amounts of its property, plant and equipment and intangible assets to determine whether indications exist that the assets have undergone losses in value due to impairment. Should any indication exist, the recoverable value of the asset is calculated to determine the extent of the loss in value due to impairment (if applicable). Should the asset not generate cash flows on its own independently of other assets, the Group calculates the recoverable amount of the cash generating unit to which the asset belongs. Intangible assets with an indefinite useful life or those for which amortisation has not begun are subject to value impairment tests once a year.

The recoverable amount is the higher amount between the fair value less the cost of sale and value in use. In assessing the value, estimated future cash flows in respect of the present value are discounted using a discount rate before taxes that reflects the current market valuations in respect of the time value of money and the specific risks of the asset for which the estimated future cash flows have not been adjusted.

If it is estimated that the recoverable amount of an asset (or cash generating unit) is less than its book value, the book value of the asset (cash generating unit) is reduced to its recoverable amount. An impairment loss is immediately recorded as an expense.

When a loss in value due to impairment is later reversed, the book value of the asset (cash generating unit) is increased to reflect the revised estimate of its recoverable amount, but such that the increased book value does not exceed the book value that would be determined in the absence of any value impairment loss in the asset (cash generating unit) during prior years. A reversal of a loss in value due to impairment is immediately recorded in income, up to the aforementioned limit.

For goodwill, impairment analysis involves three steps: first, the recoverable value of goodwill assigned specifically to cash generating units is determined (if possible); second, the loss attributable to asset items included in the cash generating unit is assessed, and if applicable the relevant impairment is recorded as described above. Last, the unassigned recoverable value of goodwill, including all related cash generating units is assessed. If goodwill impairment losses need to be recognised, they are not reversible (Note 5.a).

e) Lease agreements

Financial leases

Financial leases are defined as those in which the risks and benefits attributed to a leased asset are transferred to the lessee who normally has the option of purchasing the asset at the end of the agreements under conditions agreed when the operation is finalised.

The assets acquired by financial lease are classified under "Property, plant and equipment" depending on the nature of the asset subject to the contract, and are recorded with a liability balancing entry of equal value, as the lowest amount between the fair value of the leased asset and the sum of current values of the minimum amounts payable to the lessor plus the price of exercising the purchase option. These assets are depreciated with criteria similar to those applied to all property, plant and equipment of the same type.

Current and noncurrent “Bank borrowings” on the consolidated balance sheet reflects total debt in connection with the present value of rental payments. Financial expenses on the transaction are recorded in the income statement at the time each payment is made, for the duration of the agreement, reflecting the effective interest rate applicable to these operations, so that the rent remains constant throughout the life of the agreements.

Operating leases

Leases are classified as operating leases when they meet the conditions of IAS 17, i.e., when ownership of the leased asset and substantially all risks and benefits associated with that asset are attributable to the lessor, and the corresponding expenses are recorded as they accrue in the consolidated income statement.

f) Financial investments and cash and cash equivalents

Grupo ALMIRALL determines the most appropriate classification for each financial investment at the time of acquisition, and revises these classifications at the end of the year. Financial investments, both current and noncurrent, are classified in the following categories:

- Financial assets held for trading: all assets acquired for the main purpose of generating profits as a result of short-term purchase and sale operations.

  Assets included in this category appear on the consolidated balance sheet at fair value and fluctuations in value are recorded under “Financial costs” and “Financial income" in the consolidated income statements, as applicable.

- Loans and accounts receivable: are valued at the time they are recorded on the balance sheet at market value, and are later carried at amortised cost using the effective interest rate.

- Investments to be held to maturity: financial investments that the group intends and has the capacity to hold until maturity, which are recorded at amortised cost using the effective interest rate.

- Investments available for sale: all investments not included in any of the three foregoing categories. The accounting entry of these figures on the balance sheet for 2005 and 2004 reflected market value at closing date, and changes in the value of these investments are charged or credited to “Gains and losses registered in equity" under consolidated equity. When these investments are transferred, the cumulative value of the changes in equity is allocated in full to the consolidated income statement.

Changes in market value of these assets as a result of impairment losses, exchange rate fluctuations, application of the effective interest rate or the existence of unpaid dividends are recorded through the consolidated income statement.

The effective interest rate is the discount rate which is precisely equal to the value of a financial instrument with all estimated cash flows for all purposes throughout its remaining useful life. For fixed interest rate financial instruments, the effective interest rate coincides with the contractual interest rate established at the time of acquisition plus, if applicable, any commissions which by nature can be equated with interest rates. Where variable-rate financial instruments are concerned, the effective interest rate coincides with the current rate of return for all purposes until the first revision of the reference interest rate.

Financial investments in the capital of unlisted companies whose market value cannot be accurately assessed are carried at cost of acquisition.

The Group's companies show deposits and guarantees at cost of acquisition and/or amounts delivered.

Capital losses between cost and market value or fair value at the end for the year are recorded in" Provisions" under "Financial assets".

Classification of current and noncurrent financial assets

On the accompanying consolidated balance sheet, financial assets are classified to reflect their maturities, i.e., as current when maturities are less than or equal to 12 months from the date of the balance sheet, or noncurrent when their maturities are longer.

g) Investments accounted for using the equity method

Holdings in associates in which a significant influence is maintained are accounted for using the equity method, recorded at the value of the proportion represented by them in the company's equity (Note 11).

h) Noncurrent assets classified as held for sale

Noncurent assets classified as held for sale are carried at the lesser of the amounts recorded on the books and the fair value less cost of sale.

Noncurrent assets are classified as held for sale if the amount on the books is recovered through a sale and not through continued use. This condition is considered to be met only when the sale is highly probable and the asset is available for immediate sale in its current state.

i) Inventories

Inventories are carried at acquisition or production cost, or at the net realisable value, whichever is lower. Production cost includes direct material outlays and, if applicable, the costs of direct labour and general production expenses applicable, including costs incurred in transferring inventories from the current location and current conditions at the sales outlet.

Trade discounts, reductions obtained and other similar items are deducted when the purchase price is determined.

Cost price is calculated using the weighted average method. The net cash value represents the estimated sale price less all estimated finishing costs and those incurred in the process of marketing, sales, and distribution.

The company assesses the net realisable value of inventories at the end of the year by recording the appropriate loss when they are found to be overvalued. When the circumstances that previously caused the decline in value have ceased to exist, or when there is clear evidence of an increase in the net cash value as a result of a change in economic circumstances, the amount of the provision is reversed.

j) Customers, sales and services

Customer balances are recorded as described in Note 5-f. At each closing the recoverable value is determined and reduced, if applicable, to reflect adjustments to cover the balances when circumstances reasonably permit them to be classified as doubtful claims.

k) Liability instruments

Bank loans

Bank loans and overdrafts that accrue interest are recorded at the amount received net of direct issue costs. Finance costs, including premiums payable on settlement or reimbursement and direct costs of the issue are recorded on an accrual basis in the income statement using the effective interest method, and are added to the booked amount of the instrument, to the extent that the assets are not settled during the period in which they are produced.

Trade and other accounts payable

Trade accounts payable do not explicitly accrue interest and are recorded at nominal value.

Classification of debts as current or noncurrent

On the accompanying consolidated balance sheet, debts are classified by maturity, i.e., current debts are those whose maturities are less than or equal to 12 months from the date of the balance sheet and noncurrent debts are those having longer maturities.

Loans having short-term maturities but that will be refinanced in the long term at the Group's discretion through long-term credit facilities are classified as noncurrent liabilities.

l) Provisions

At the time the annual accounts of the consolidated entities were prepared, its Directors made the distinction between:

- Provisions: credit balances covering obligations present at the date of the balance sheet arising as a result of past events from which outgoings of financial resources can be derived that are specific in nature but indeterminate in terms of amount and/or temporary and

- Contingent liabilities: possible obligations arising as a result of past events, whose occurrence depends on whether or not one or more future events beyond the control of the consolidated entities will occur.

The Group's consolidated annual accounts reflect all significant provisions with respect to which it is estimated that the probability that an obligation will have to be met is greater than the opposite case. Contingent liabilities not arising from a business combination are not recorded and are listed in Note 24.

Provisions, quantified to reflect the best available information on the consequences of their underlying events, are re-estimated when the accounts are closed, and are used to address specific, probable risks for which they were originally recorded. They are fully or partially reversed when the risks are eliminated or diminished.

Provision for product returns

Provisions for product returns are recorded at the date the relevant products are sold to cover losses in connection with returns that occur in the future as the result of sales during the current year and prior years, according to the best estimate of expenditure by the Directors and required to settle the Group's liability. This estimate is based on the Group's historical experience with product returns in past years.

As a significant share of returns will occur in a period exceeding 12 months, they are classified as noncurrent.

ll) Grants (deferred revenue)

Grants intended to cover costs of personnel retraining are recorded as revenue when all of the conditions have been met, and in the time frames where the related costs are offset and deducted in the corresponding expenditure reporting.

Grants related to property, plant and equipment are considered deferred revenue and are applied to profit throughout the estimated useful life of the relevant assets.

m) Recognition of revenue and expenses

Revenue and expenses are recognised to reflect the real flows of goods and services represented, regardless of when the monetary or financial flows derived from them are generated.

However, according to the principles in the conceptual framework of the IFRSs, the Group records accrued revenue and all the necessary related expenditure. Sales of assets are recorded when the goods are delivered to the purchaser and ownership has been transferred.

Interest revenue is accrued according to a financial time condition reflecting principal pending payment and the applicable effective interest rate, which is the exact discount rate of estimated future cash flows throughout the useful life of the financial asset, reflecting the net book value of the asset.

The result obtained for unconsolidated investment dividends is recorded when the shareholders have the right to receive the payment, i.e., when the General Shareholders' Meeting of the companies in the portfolio approve the distribution.

Recording of license, co-development, co-promotion and other similar operations

The Group companies record revenue collected in connection with the transfers of product licenses, co-development, co-promotion, and other similar operations to reflect the economic nature of the corresponding agreements. These agreements generally reflect multiple factors and the associated revenue should be correlated with the costs and balancing items to be covered by the Group. When the accounting treatment of these operations is being assessed, the Group Directors will consider the following factors:

- Economic basis of the operation.
- Type of elements involved in the transaction (disbursements, asset transfers, etc.),
- Valuation and distribution in accordance with the fair value of each consideration.
- Significant transfers of risks and benefits derived from ownership of the assets and assumption of future obligations.

As a rule, if the payment received is nonreimbursable, it corresponds to the compensation of costs generated prior to the signing of the contract, the Group assumes no significant future obligations under conditions other than market, and the risks and advantages inherent in the asset are substantially transferred, the transaction is considered revenue for the year during which the agreement is executed. If these circumstances are not present, the collection is recorded as deferred revenue during the life of the agreements established, the remaining life of the product or the applicable period under the specific circumstances of the agreements.

Similarly, payments for meeting certain technical or regulatory requirements (milestones) in the framework of collaboration agreements with third parties are recorded as revenue under the same guidelines as those discussed in connection with the recording of revenue from the initial payments as indicated above.

The payments mentioned above are recorded when allocated to profits or losses under “Other income” in the accompanying income statement.

n) Income tax; deferred tax assets and liabilities

Expenditure in connection with the Spanish income tax and similar taxes applicable to foreign consolidated entities are recorded in the consolidated income statement, except when they are the proceeds from a transaction for which the outcome is recorded directly in equity, and in this case, the corresponding tax is also recorded under equity.

Laboratorios Almirall, S.A. is subject to the income tax under the tax consolidation regime, Chapter VII, Title VII of Royal Legislative Decree 4/2005 of 5 March 2005 approving the Law in respect of the Tax on Corporations, as amended. The companies comprising the Group for tax purposes, for 2005, are: Laboratorios Almirall, S.A., Laboratorios Farmacéuticos Prodes, S.L., Laboratorio Temis Farma, S.L. (formerly Laboratorios Funk, S.L.), Laboratorios Berenguer-Infale, S.L., Industrias Farmacéuticas Almirall Prodesfarma, S.L., Laboratorio Omega Farmacéutica, S.L., Laboratorios Tecnobío, S.A., Laboratorios Farmacéuticos Almirall, S.L., Alprofarma, S.L., Pantofarma, S.L., Laboratorios Farmacéuticos Romofarm, S.L, Ranke Química, S.L. and Almirall Europa, S.A., the first acting as parent company. As a result, expenditure under the consolidated income tax reflects the advantages derived from tax losses and deductions pending application and not recorded when companies comprising this tax group are subject to individual taxation.

Income tax represents the sum of income tax expense for the year and the change in deferred tax assets and liabilities recognised.

The income tax expense for the year is calculated using the taxable base for the year. The taxable base differs from the net profit or loss listed in the income statements as it excludes income or expenditure items that are taxable or deductible during other years, and it also excludes items that are not. The Group's current tax liabilities are calculated using tax rates already approved or substantially approved at the date of the balance sheet.

Deferred tax assets and liabilities include temporary differences identified as balances payable or recoverable as a result of differences in the book value and tax value of assets and liabilities, tax losses pending carryforward and credits for tax deductions not applied for fiscal purposes. These figures are recorded applying the appropriate temporary difference or credit to the tax rate applicable at which they are expected to be collected or settled.

Deferred tax assets identified as temporary differences are only recorded when it is considered likely that the consolidated entities will have sufficient future taxable earnings against which they can be applied, and, except in business combinations, other assets and liabilities in transactions not affecting the tax or accounting profit or losses, will not be initially recorded. The remaining deferred tax assets (tax losses and deductions pending carryforward) are only recorded when it is considered that the consolidated entities will probably have sufficient tax earnings in the future against which they may be applied.

At each account closing, recorded deferred taxes (assets and liabilities) are revised to ensure that they remain effective, and the appropriate adjustments are applied according to the results.

o) Discontinued operations

An interrupted or discontinued operation is a business line the Group has decided to abandon and/or sell, for which the assets, liabilities, and profits or losses can be distinguished physically, operationally, and for financial reporting purposes.

The assets, liabilities, revenue, and expenditure from discontinued operations and noncurrent assets held for sale are listed separately in the income statement.

In this connection the Group only segregates information in reference to discontinued operations when they are significant.

p) *Transactions in foreign currencies*

The Group's functional currency is the euro. As a result, all balances and transactions denominated in currencies other than the euro are considered to be denominated in "foreign currencies."

Balances in foreign exchange are converted to euro in two consecutive stages:

1) Conversion of foreign currencies to the functional currency of the subsidiaries:

   Transactions in foreign currencies carried out by consolidated entities are initially recorded on their respective financial statements for the equivalent in their operating currencies resulting from the application of the exchange rate prevailing on the transaction date. Later, for presentation in the individual annual accounts, the consolidated entities convert the balances in foreign currencies to their functional currencies using the exchange rate at the close of the year. Exchange differences are recorded as debits and/or credits to the income statement.

2) Conversion into euro of balances maintained by subsidiaries with non-euro functional currencies.

   The balances of the annual accounts of the consolidated entities whose functional currencies are other than euro are converted into euros as follows:

   - Assets and liabilities, using the exchange rates at the close of the year.
   - Revenue, expenditure and cash flows, using the average exchange rate for the year.
   - Equity, at historical exchange rates.

Differences arising in the conversion process are recorded under “Exchange differences" in equity. These exchange gains and losses are recorded as revenue or expenses for the period during which the investment is made or disposed of. In addition, exchange differences in respect of the Group's functional currency, the euro, generated by subsidiaries whose functional currency is not the euro, are eliminated in the consolidation process with a balancing entry under "Exchange differences” on the accompanying consolidated balance sheet.

q) Information on environment

Environmental assets are those used on a long-term basis in the activities of Grupo ALMIRALL's companies, the main purpose of which is to minimise the environmental impact and to protect the environment, including the reduction or elimination of future contamination from the Group's operations.

These assets are carried, as any property, plant and equipment, at the present value of the purchase price or production cost in accordance with various legislation, including Royal Decree-Law 7/1996, of 7 June 1996.

The companies subject these items to straight-line amortisation to reflect the estimated years of remaining useful life of the various components.

r) Earnings per share

Basic earnings per share are calculated as the quotient between net earnings from the period attributable to the parent company and the weighted average number of shares in circulation during the period, not including the average number of shares of the parent company in the portfolio of group companies.

Diluted earnings per share are calculated as the quotient between net profits from the period attributable to common stock adjusted to reflect the effect attributable to potential shares of common stock with the dilution effect and the weighted average number of shares of common stock in circulation during the period, adjusted to reflect the weighted average of the common shares that would be issued if all potential shares of common stock were converted into shares of common stock. For that purpose the conversion is considered to take place at the beginning of the period or when the potential shares of common stock are issued, if placed in circulation during the same period.

s) Consolidated cash flow statements

The following definitions are used in the consolidated cash flow statements:

- Cash flows: inflows and outflows of cash and equivalents; defined as highly liquid short-term investments unlikely to change in value.

- Operating activities: the company's typical activities, and others that cannot be classified as investment or financing activities.

- Investment activities: purchase, sale, or disposal by other means of long-term assets and other investments not included in cash and equivalents.

- Financing activities: activities that lead to changes in the amount and composition of equity and assets included in operating activities.

6. Key accounting judgements and estimates

a) Revenue recognition

Some of the Group's revenue is generated by the sale to third parties of the use of licenses on products developed by Grupo ALMIRALL or for third parties to access products in development (generally through co-development arrangements). The agreements serving as a basis for these transfers or accesses are normally complex and include factors such as:

- Initial non-refundable payments;

- Payments for reaching certain goals (development, commercial, etc.);

- Royalties;

- Determination of the future supply price between the parties for the product in question.

A detailed analysis of each component of this agreement should be conducted so that results can be adequately allocated to each element involved.

In this connection, in 2003, the group signed a contract for the sale of distribution rights for a product to a third party (Ortho McNeil, subsidiary of the Johnson & Johnson group) through which it received an initial non-refundable payment and conditions were established to govern subsequent commercial relations between the parties during the useful life of the product. The initial payment was considered revenue from prior years according to the following premises:

- It was a non-refundable payment.

- The payment received by the group corresponded to research and development expenditure executed earlier by the group, and costs incurred to obtain approval for the drug from the U.S. authorities.

- The payment the Group received approximately represented an insignificant share of the total volume of revenue expected from the agreement.

- The price for the future supply of assets established between the Group and Ortho McNeil reflects market conditions.

In addition, the agreement included future payments to be received of US$10 and US$15 million in completion and success payments, respectively, for two paediatric studies related to the product. As these studies have not been completed to date, the group has not recorded any revenue for these potential receivables (Note 24).

b) Valuation of intangible assets

In November 2005 the Group obtained marketing rights to a product in development that meets the following characteristics for its initial capitalisation under IFRSs (Note 5-b). This asset will be amortised to reflect the useful life of the product in question from the time it is marketable. At the close of each accounting period, the Group assesses the recoverability of that asset through the generation of positive cash flows in the future according to the best estimates by the Group's technical and financial experts, to reflect a discounted cash flow model that includes a degree of uncertainty that is to be expected when different possible scenarios are considered.

Changes in the assumptions used to value expected cash flow (changes in interest rates, regulatory amendments, competition from other products, etc.) could reduce the cash value of this asset (Note 8).

c) Provision for contingent liabilities (lawsuits, etc.)

The Group's activities are situated in a highly regulated segment (health, intellectual property, etc.), which exposes it to potential lawsuits derived from its activity.

Claims and lawsuits to which the Group is subject are generally complex, and accordingly, they are subject to a high level of uncertainty, in terms of the probability of a negative outcome for the Group's interests and in reference to estimated potential future disbursements the Group may be required to make. As a result, opinions and estimates must be used with the support of the appropriate legal advisors.

At the close of 2005 and 2004 various legal proceedings and claims instituted against the consolidated entities originating from the normal course of their activities were in progress. Both the Group's legal advisors and its Directors deem that the conclusion of these proceedings and claims will not have significant bearing on the annual accounts in future years (Note 24).

d) Deferred tax assets

In the determination of deferred tax assets, the Group establishes a specific time frame for their recovery based on the best available estimates. Accordingly, based on individual taxable bases of the individual companies comprising the group, an expected time frame has been determined for the application of pending deductions and tax losses subject to carryforward in subsequent years, within the legal time frames for their application.

In this connection, the balance sheets at 31 December 2005 and 2004 reflect assets for deductions pending of €79.8 and €71.6 million, respectively.

e) Impairment of goodwill

Determination of potential losses owing to impairment of goodwill requires use of opinions and estimates regarding the recoverable value thereof. These judgements and estimates refer primarily to the determination of cash flows associated with the relevant cash generating units and certain assumptions in respect of the interest rates used in the cash flow discounts. The use of other assumptions in analyzing the recoverable value of goodwill could give rise to other considerations on their impairment.

At the end of 2004, in light of the outlook for generating future cash flows for the subsidiary Almirall, S.A.S., the Group recorded an impairment loss of €16.2 million (Note 7).

7. Goodwill

The changes in this item of the consolidated balance sheet throughout 2005 and 2004 are listed below:

	Thousands of euro			
	Balance at 1 January 2004	**Impairment losses**	**Balance at 31 December 2004**	**Balance at 31 December 2005**
Irinol Farma, S.A. (formerly Pras-Farma, S.A.)	**4,548**	-	**4,548**	**4,548**
Almirall, S.A.S.	**16,248**	(16,248)	**-**	**-**
Total consolidation goodwill	**20,796**	**(16,248)**	**4,548**	**4,548**
Laboratorios Almirall, S.A.	**35,407**	-	**35,407**	**35,407**
Total merger/acquired goodwill	**35,407**	**-**	**35,407**	**35,407**
Total	**56,203**	**(16,248)**	**39,955**	**39,955**

Merger goodwill was generated by the difference between the value at which the shares in Prodesfarma S.A. were recorded and the underlying book value of that company at the time of the merger by absorption by the parent company, once the unrealised capital gains derived from property, plant and equipment and financial fixed assets were assigned, if applicable, to other asset items.

Consolidated goodwill arose from the difference between the acquisition value in 2001 of the shares of the subsidiaries Irinol Farma, S.A. (formerly Pras-Farma, S.A.) and Almirall S.a.S and their underlying book value at the time of acquisition once any unrealised capital gains are assigned, if applicable, to the rest of the asset items.

During 2004 the Group made a charge under "Impairment losses on intangible assets, property, plant and equipment, and goodwill" in the accompanying consolidated income statements of €16,248 thousand corresponding to the writedown of the consolidation goodwill maintained at 1 January 2004 as a result of negative expectations of the future results of that subsidiary.

8. Intangible assets

The breakdown of the balance of this item on the consolidated balance sheet at 31 December 2005 and 2004 is provided below:

	Thousands of euro						
	Cost					Cumulative amortisation and provision for impairment	Net
	Industrial property	R&D expenditure	Software	Advances and fixed assets in progress	Total		
Balance at 1 January 2004	89,854	-	13,820	5	103,679	(45,075)	58,604
Changes in scope / method of consolidation	-	-	34	(34)	-	-	-
Additions or allowances	8,110	-	790	1,556	10,456	(17,381)	(6,925)
Increase/decrease owing to transfers or movements from other accounts, withdrawals and reductions	(662)	-	(42)	-	(704)	586	(118)
Exchange differences	94	-	(6)	-	88	(18)	70
Balance at 31 December 2004	**97,396**	**-**	**14,596**	**1,527**	**113,519**	**(61,888)**	**51,631**
Changes in scope / method of consolidation	163	-	-	-	163	32	195
Additions or allowances	20,265	17,775	1,862	681	40,583	(17,423)	23,160
Increase/Decrease owing to transfers or movements from other accounts, withdrawals and reductions	(3,022)	-	771	(2,037)	(4,288)	3,232	(1,056)
Exchange differences	(274)	-	13	-	(261)	5	(256)
Balance at 31 December 2005	**114,528**	**17,775**	**17,242**	**171**	**149,716**	**(76,042)**	**73,674**

All intangible assets described in the foregoing table have finite useful lives.

Additions for 2005 and 2004 under "Industrial property and other" correspond primarily to the acquisition cost of licenses to market a product in 2005 for the Italian market and for two products in 2004 for the Spanish market for €18.5 million and €6.7 million, respectively.

2005 additions under "Research and development expenditure", amounting to approximately €17.8 million, correspond to the amount satisfied in obtaining marketing rights from a third party at end-2005 for a product in the development phase. This development acquisition agreement in progress establishes a series of additional payments with a maximum amount of £7 million for meeting a series of subsequent development milestones, a maximum of £14 million for meeting certain milestones related to authorisation to market the potential product in Europe, and a maximum of £13 million for exceeding certain sales thresholds for the potential product.

The above-mentioned additional payments are not recorded as increased values of assets acquired, owing to their contingent nature. The Group also considers that the discounted value of expected future cash flows at the time the obligation for additional payment arises due to the achievement of various milestones exceeds the total value of disbursements made or to be made. Accordingly, the registration of additional disbursement obligations will involve registering an increased acquisition cost for the intangible asset.

The amount of fully amortised intangible assets in operation by for the Spanish companies at 31 December 2005 and 31 December 2004 is €52,973 thousand and €22,349 thousand, respectively; and the amounts relating to foreign companies are insignificant.

The aggregate amount of Research and development expenses recognised as expenses on the accompanying consolidated income statement for 2005 and 2004 is €66 million and €68 million, respectively. These figures include amortisation of assets allocated to research and development activities, accrued staff expenditure for the Group and outlays in connection with third parties.

Impairment losses

During 2004 and 2005, the Group has recorded impairment losses of approximately €3.2 million and €5 million in connection with the acquisition in prior years of certain trademarks as a result of the negative sales outlooks for these trademarks in future years. This impairment loss, which the Company considers definitive, was recorded under "Impairment losses in property, plant and equipment, intangible assets, and goodwill" in the consolidated income statement.

The details and changes of impairment losses of intangible assets recorded during 2004 and 2005 an included in the "Accumulated amortisation and impairment losses" column in the foregoing table are provided below:

	Thousands of euro				
	Balance at 1 January 2004	Additions	Balance at 31 December 2004	Additions	Balance at 31 December 2005
Industrial property	-	3,270	3,270	5,080	8,350

9. Property, plant and equipment

The changes under this item of the consolidated balance sheet in 2005 and 2004 are listed below:

	Thousands of euro								
	Cost							Accumulated depreciation	Net
	Land and constructions	Technical facilities and machinery	Other facilities, tools, and furnishing	Other fixed assets	Advances and fixed assets in progress	Assets under financial lease arrangements	Total		
Balance at 1 January 2004	31,716	39,878	132,935	16,936	26,279	29,039	276,783	(155,915)	120,868
Additions or allowances	4,779	2,021	14,027	990	8,113	4	29,934	(14,955)	14,979
Increase/decrease, transfers or movements from other accounts, withdrawals and reductions	3,241	3,033	10,956	(333)	(18,304)	-	(1,407)	356	(1,051)
Exchange differences	-	(8)	(3)	(7)	-	(75)	(93)	69	(24)
Balance at 31 December 2004	**39,736**	**44,924**	**157,915**	**17,586**	**16,088**	**28,968**	**305,217**	**(170,445)**	**134,772**
Additions or allowances	5,106	3,189	15,942	501	6,553	-	31,291	(17,635)	13,656
Increase/decrease, transfers or movements from other accounts, withdrawals and reductions	28,649	89	7,704	(378)	(15,258)	(29,168)	(8,362)	7,187	(1,175)
Exchange differences	-	21	9	20	-	200	250	(211)	39
Balance at 31 December 2005	**73,491**	**48,223**	**181,570**	**17,729**	**7,383**	**-**	**328,396**	**(181,104)**	**147,292**

Property, plant and equipment in progress at the close of 2005 held by the group basically reflects investments in existing production plants and improvements to research and development centres located in Spain amounting to approximately €7 million. Property, plant and equipment in progress at the close of 2004 held by the group basically reflects investments in existing production plants and improvements to research and development centres located in Spain amounting to approximately €17 million. Transfers of property, plant and equipment in progress by the Group during both years basically reflected the entry into operation of a new research and development centre in 2004; and in 2005 it mainly reflects investment projects in production centres that became operational during that year.

The fully depreciated assets of Spanish companies at 31 December 2005 and 31 December 2004 totalled €117,802 thousand and €110,335 thousand, respectively, and the figures corresponding to foreign companies are insignificant.

As a result of the merger in 1997 and pursuant to Law 43/1995, the Company recorded a revaluation under "Land and constructions" of the assets of the acquired company (up to the limit of the independent expert assessment at the time these companies were acquired) for a net book value of €421 thousand.

The effect at 31 December 2005 and 2004 of the revaluation of property, plant and equipment recognised by the companies in 1996 is as follows:

	Thousands of euro							
	2005				2004			
	Cost increase	Accumulated depreciation	Disposals	Net effect	Cost increase	Accumulated depreciation	Disposals	Net effect
Land and constructions	2,858	(656)	(571)	1,631	2,858	(593)	(459)	1,806
Technical facilities and machinery	1,520	(1,517)	(2)	1	1,520	(1,516)	(2)	2
Other facilities, tools, and furnishing	4,511	(4,366)	(83)	62	4,511	(4,336)	(70)	105
Other property, plant and equipment	101	(81)	(20)	-	101	(81)	(20)	-
Total	**8,990**	**(6,620)**	**(676)**	**1,694**	**8,990**	**(6,526)**	**(551)**	**1,913**

The net increase in the amount resulting from the revaluations is depreciated during the remaining useful lives of the revalued assets.

The Group has arranged insurance policies to cover potential risks to which the various property, plant and equipment are subject, as well as potential claims that may be filed in the course of its activities, and these policies are considered to provide sufficient cover for the relevant risks.

At 31 December 2005 and 2004 intangible assets include €2 million corresponding to the net value of property, plant and equipment owned by entities and subsidiaries of the Group based in foreign countries.

10. Financial assets

Noncurrent

The breakdown of the balance of this item on the consolidated balance sheets is as follows:

	Thousands of euro						
	Investments in group companies and associates	Long-term securities portfolio	Long-term loans	Securities investment funds	Deposits and guarantees provided	Provisions	Total
Balance at 1 January 2004	**527**	**699**	**1,572**	**77,364**	**624**	**(3,197)**	**77,589**
Changes in consolidation scope or method	-	-	-	-	-	-	-
Additions or allowances	153		55	31,893	164	(68)	32,197
Disposals	(251)	-	(1,467)	(21,770)	(44)	491	(23,041)
Exchange differences	-	-	-	78	-	(19)	59
Balance at 31 December 2004	**429**	**699**	**160**	**87,565**	**744**	**(2,793)**	**86,804**
Changes in consolidation scope or method	-	-	-	1,277	-	-	1,277
Additions or allowances	64	41	-	8,049	351	(2)	8,503
Disposals	(6)	-	(52)	(6,892)	(37)	454	(6,533)
Exchange differences	-	-	-	(25)	-	5	(20)
Balance at 31 December 2005	**487**	**740**	**108**	**89,974**	**1,058**	**(2,336)**	**90,031**

Current

The breakdown of the balance of this item on the consolidated balance sheets is as follows:

	Thousands of euro	
	2005	2004
Short-term securities portfolio	407,387	271,252
Short-term deposits	48,278	15,731
Short-term guarantees	32	32
Total	**455,697**	**287,015**

The Group's investments in financial instruments are classified using the following guidelines:

- Financial assets held for trading: the Group considers this item to include financial investments made through the subsidiary Alpro Cartera, S.I.C.A.V., which are part of its overall investment portfolio aimed at generating short-term profits.

- Financial assets available for sale: this item includes investments in fixed-income or equity investment funds (excluding those acquired through Alpro Cartera, S.I.C.A.V.) as they are not part of an investment portfolio to be realised in the short term nor were they acquired for that purpose.

- Financial assets held to maturity: This item primarily includes fixed-income investments through euro deposits, deposits in foreign currencies and repurchase arrangements (excluding those acquired through Alpro Cartera, S.I.C.A.V.).

Current and noncurrent financial assets held for trading or available for sale are listed below:

	Thousands of euro	
	2005	2004
Financial assets held for trading	58,852	57,440
Financial assets available for sale	77,613	74,887
Financial assets held to maturity	409,263	241,492
Total	**545,728**	**373,819**

The fair value of the various eligible financial instruments is determined according to the following rules:

- Fixed-income securities included in the trading portfolio: when not listed or having maturities less than or equal to six months, they are calculated based on the acquisition cost plus the corresponding accrued interest computed according to the internal rate of return. When securities with an original maturity exceeding six months have six months or less remaining to maturity, the acquisition price will be considered to be the price, equal to the internal yield of the investment at the market interest rate. Calculations for listed fixed-income securities use the official exchange rate applicable to them or to those having similar features when not quoted on the day in question. However, should the listings not reflect value adjustments according to changes in the market interest rate, or if it is not possible to determine the listing value, the method described above is used.

- Investments in equity securities: reflecting the quotation on the last trading day. There are no significant holdings in unlisted companies.

- Shares in investment funds: calculated to reflect the last unit redemption value published at the valuation date.

These valuations were also taken into consideration in the valuation of the financial assets held by companies accounted for using the equity method during 2004 (Note11).

Changes in fair value recognised through reserves or income statements during 2004 and 2005 for investments held through fully consolidated companies are listed below:

	Thousands of euro	
	2005	2004
Initial balance	9,282	6,163
Changes in scope of consolidation (Note 3-b)	(1,784)	-
Disposal due to sale	(1,466)	(497)
Revaluation for the period recognised in profits (Note 19)	392	1,461
Revaluation for the period recognised for reserves (Note 14)	4,147	2,155
Ending balance	10,571	9,282

Changes in fair value of financial instruments assigned to companies accounted for using the equity method are listed, net of the relevant tax effects in Note 11.

Similarly the parent company held public debt securities in agencies of the Autonomous Community of the Canary Islands amounting to €1.8 million and €1.8 million at 31 December 2005 and 31 December 2004, respectively, in compliance with the requirements under Law 19/1994 of 6 July 1994, and these assets must be held continuously for a period of five years.

In addition, most of the bank accounts included under "Cash" were remunerated at an average interest rate of 1.89% and 1.8% per annum during 2005 and 2004, respectively.

Last, Group companies and associates not included in the scope of consolidation because they were inactive and/or insignificant, and related information for 2005 and 2004 are provided below:

2005

	Thousands of euro							
Name	Almirall Prodes P.Q., Lda.	Laboratorios Sefton, S.A.	Almirall Inc.	Cofarin	Almirall Prodesfarma, S.A.	Almirall Prodesfarma, S.A.	Genius Pharma, A.I.E.	Almirall Europe, S.A.
Address	Portugal	Spain	U.S.A.	Dominican Republic	Venezuela	Ecuador	Spain	Spain
Activity	Pharmaceuticals industry	Pharmaceuticals industry	Pharmaceuticals industry (inactive)	Pharmaceuticals laboratory	Pharmaceuticals industry	Pharmaceuticals industry	Inactive	Inactive
Share of capital owned	100%	49%	100%	100%	100%	100%	28%	100%
Consolidation method	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Capital	5	60	52	N/D	46	191	3	61
Reserves	33	1	N/D	N/D	N/D	(249)	-	-
Net profits (losses) for the year	N/D	-	N/D	N/D	N/D	N/D	-	(1)
Interim dividends distributed during the year	-	-	32	-	-	-	-	-
Book value of holdings (Group)								
Cost	55	34	52	20	47	215	3	61
Allowance	(18)	-	(10)	(20)	(34)	(266)	-	-

2004

Name	Almirall Prodes P.Q., Lda.	Laboratorios Sefton, S.A.	Almirall, Inc.	Cofarin	Almirall Prodesfarma, S.A.	Almirall Prodesfarma, S.A.	IFAP 08740, S.L.
	Thousands of euro						
Address	Portugal	Spain	U.S.A.	Dominican Republic	Venezuela	Ecuador	Spain
Activity	Pharmaceuticals industry	Pharmaceuticals industry	Pharmaceuticals industry (inactive)	Pharmaceuticals laboratory	Pharmaceuticals industry	Pharmaceuticals industry	Inactive
Share of capital owned:	100%	49%	100%	100%	100%	100%	100%
Consolidation method	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Capital	5	60	52	N/D	46	191	6
Reserves	33	1	N/D	N/D	N/D	(249)	(1)
Net profits (losses) for the year	N/D	-	N/D	N/D	N/D	N/D	1
Interim dividends distributed during the year	-	-	32	-	-	-	-
Book value of holdings (Group)							
Cost	55	34	52	20	47	215	6
Allowance	(18)	-	(16)	(20)	(35)	(257)	-

11. Investments accounted for using the equity method

The changes during 2004 and 2005 in the application of the equity method to associates are provided below:

	Thousands of euro							
	Balance at 1 January	Changes in scope or method of consolidation	Profit (loss)	Attributable consolidation adjustments	Dividend distribution	Valuation of financial assets at fair value	Exchange differences	Balance at 31 December
2004	**130,056**	**-**	**10,829**	**347**	**(7,826)**	**285**	**114**	**133,805**
2005	**133,805**	**(133,805)**	**-**	**-**	**-**	**-**	**-**	**-**

The column "Changes in scope or method of consolidation" corresponds to the inclusion of Chemol International, Ltd., Expharm, S.A., Almirall International, BV. and Almochem, S.L. in the Group using the full consolidation method as described in Note 3-b.

The detailed listing of companies under "Investments accounted for using the equity method" on the accompanying consolidated balance sheet at 31 December 2004 is provided below:

Company	Thousands of Euros 2004
Chemol International, Ltd.	12,533
Almirall International, BV.	289
Almochem, S.L.	109,132
Expharm, S.A.	11,851
Total	**133,805**

12. Inventories

The composition of this item at 31 December 2005 and 2004 is provided below:

	Thousands of euro	
	2005	2004
Raw materials and processing	20,215	17,172
Products in progress	26,015	16,323
Finished goods	55,203	53,666
Advances to suppliers	15	-
Provisions	(7,792)	(6,708)
Balance at 31 December	**93,656**	**80,453**

Changes in the allowance for obsolescence during 2005 and 2004 and the amount of inventories consumed by the Group are listed in Note 19.

13. Trade accounts receivable and other assets

The composition of this item at 31 December 2005 is listed below:

	Thousands of euro	
	2005	2004
Customers, sales and services	88,463	85,967
Other accounts receivable	9,323	5,681
Provisions	(3,887)	(1,288)
Total accounts receivable	**93,899**	**90,360**

14. Equity

Capital stock

On 7 November 2001, the parent company redenominated its capital stock in euro, and the amount changed from Pta 3,580 million to €21,516,233.34, represented by 3,580,000 shares with a face value of €6.010121 each, totally subscribed and paid in.

The parent company at this date adjusted the face value per share to €6.01 creating a restricted reserve of €433.34.

At the close 2005 and 2004 shareholders in Laboratorios Almirall, S.A. with holdings exceeding 10% are listed below:

Shareholder	Percentage stakes
Grupo Plafin, S.A.	68.00%
Todasa, S.A.	31.07%

After 31 December 2005 (26 July 2006) the Extraordinary Shareholders Meeting of Laboratorios Almirall, S.A. agreed to reduce the company's share capital through the acquisition of 423,289 of

own shares from Grupo Plafin, S.A., with the express waiver of the rest of the shareholders offering their shares for sale and preferential purchase rights that may have been applicable to them in respect of shares that the company intended to acquire.

The effective price paid by the Company at 6 September 2006 for this acquisition of own shares was €250 million and the following charges were incurred as a result of their immediate redemption:

- Share capital: €2,544 thousand
- Voluntary reserves: €227,000 thousand
- Share premium reserves: €20,456 thousand

As a result of this retirement of own shares, the number of shares in the Company was established at 3,156,711; and after 31 December 2006, the percentage stakes of shareholders exceeding 10% of the capital stock were as follows:

Shareholder	Percentage stakes
Grupo Plafin, S.A.	64.41%
Todasa, S.A.	35.23%

Reserves for retired capital

In accordance with the Law on Corporations as amended, this reserve can only be accessed subject to the same requirements as reductions in share capital.

Legal reserve

The legal reserve may be used to increase capital in the proportion of its balance exceeding 10% of the already increased capital. Except for the purpose mentioned above, and as long as it does not exceed 20% of the capital stock, this reserve can be used only to offset losses, provided that there are no other sufficient reserves for that purpose.

The amount of €4.3 million in this account in the foregoing table prior to 31 December 2005 and 2004 corresponds to the legal reserve balance of the parent company, Laboratorios Almirall, S.A.

The balances of the "Legal reserve" account for consolidated subsidiaries at 31 December 2005 and 2004 amounted to €1.7 million.

Share Premium

The Law on Corporations as amended expressly permits the use of the share premium account balance to increase capital, and places no specific restrictions on the availability of the balance. However, the equivalent share of the present value of assets contributed in past years, totalling €1.5 million, is subject to the same availability conditions as the revaluation reserve.

Canary Islands investment reserve (RIC)

In compliance with the requirements of Law 19/1994, and to benefit from tax incentives established by that law, the parent company earmarks a portion of the profits from its establishment in the Canary Islands to the RIC. This reserve is not available as long as the relevant assets must remain in the company.

Revaluation reserve

As permitted by corporate legislation, the parent company revalued its noncurrent assets during 1996. This balance may be earmarked, without accruing taxes, to eliminate accounting losses, both those accumulated during prior years and those for the current one, or any that may occur in the future, and for increases in capital. From January 2007 (10 years after the date of the balance sheet reflecting the revaluations), the funds can be earmarked to freely available reserves provided that the monetary capital gain has been realised. The capital gain will be considered realised in the component corresponding to accounting amortisation, or when the revalued equity components have been transferred or retired from the accounting system.

In addition, in revaluations attributed to assets under finance leases, the balance cannot become available until the purchase option is exercised.

If the balance of this account is used for purposes other than as provided in Royal Decree-Law 7/1996, the balance will be taxable.

The balances of the "Revaluation reserve" account of consolidated subsidiaries amounted to €6.6 million.

Other restricted reserves

Until the share of goodwill from the merger included in intangible property, plant and equipment, which in the parent company's individual annual accounts at 31 December 2005 and 2004 amounted to €15.2 million and €25.3 million, respectively, has been fully amortised, any distribution of profits is prohibited unless the available reserves are equal to the unamortised balances.

Reserves in consolidated companies

The balance of this account derives from the following:

	Thousands of euro	
	2005	2004
Laboratorios Almirall, S.A. (*)	274,701	112,094
Other fully consolidated companies	124,190	80,165
Total reserves in fully consolidated companies	**398,891**	**192,259**
Reserves in companies accounted for using the equity method	**-**	**122,380**
Total reserves in consolidated companies	**398,891**	**314,639**

(*)Basically includes dividends received from subsidiaries, reversal of financial investment provisions and elimination of margin from internal transactions, as well as the impacts of the application of IFRSs to the parent company. Reserves of each subsidiary reflect the respective impacts of the adaptation.

Gains and losses recognised in equity

Financial assets available for sale

This heading on the consolidated balance sheet reflects the net amount of changes in fair value of assets classified as available for sale explained in Note 10; discrepancies are recorded in the consolidated income statements and consolidated earnings when the assets giving rise to them are sold.

The detailed listing and changes on the balance in this item throughout 2005 and 2004 are provided below:

	Thousands of euro	
	2005	2004
Initial balance	4,647	3,285
Disposal, sales	(953)	(323)
Revaluation for the period	2,696	1,685
Ending balance	6,390	4,647

Exchange differences

This item on the accompanying balance sheet reflects the net amount of exchange gains and losses arising from the conversion to the group's functional currency of equity in companies operating under their local regulations in currency other than the euro.

The detailed listing of companies in this section at the end of 2005 and 2004 is provided below:

	Thousands of euro	
	2005	2004
Almirall Prodesfarma, S.A. (Chile)	(34)	(93)
Almirall Prodesfarma, S.A. de C.V.	227	(696)
Chemol International, Ltd. (*)	-	(450)
Almirall Prodesfarma, A.G.	1,012	1,748
Chemol, S.A.	942	1,125
Expharm, S.A.(*)	(646)	141
Total	**1,501**	**1,775**

(*) Companies merged during 2005

15. Deferred revenue

At 31 December 2005 and 2004, the balance of "Deferred revenue" was as follows:

	Thousands of euro
Balance 1/1/2004	**6,040**
Additions	1,000
Released to income	(1,519)
Balance at 31/12/2004	**5,521**
Additions	19
Released to income	(1,193)
Balance at 31/12/2005	**4,347**

“Other deferred revenue" is comprised of the amounts received during the year and in prior years in the transfer of licenses for products resulting from internal research, recorded as indicated in Note 5-m.

16. Bank borrowings and other financial liabilities

The composition of bank borrowings at 31 December 2005 and 2004 is as follows:

	Thousands of euro						
			Noncurrent				
	Limit	Current	2006	2007	2008	Other	Total
Loans from credit institutions	(*)	4,395	-	-	-	-	-
Accounts payable, finance leases	N/A	1,001	129	-	-	-	129
Total at 31 December 2004		**5,396**	**129**	**-**	**-**	**-**	**129**
			Noncurrent				
	Limit	Current	2007	2008	2009	Other	Total
Loans from credit institutions	(*)	7,291	-	-	-	-	-
Accounts payable, finance leases	N/A	-	-	-	-	-	-
Total at 31 December 2005		**7,291**	**-**	**-**	**-**	**-**	**-**

(*) At 31 December 2005 and 2004 the Group had no credit facilities, discount lines, etc. Bank borrowings corresponds to notes in collection proceedings the amounts of which have been advanced by financial companies responsible for collections management.

17. Other liabilities

The composition of this item was as follows at December 2005 and 2004:

	Thousands of euro					
		Noncurrent				
	Current	2006	2007	2008	Other	Total
PROFIT loans and other	794	3,467	3,069	3,875	13,400	23,811
Accounts payable, purchase of noncurrent assets	7,384	2,699	-	-	-	2,699
Remunerations pending payment	21,221	-	-	-	-	-
Other debts	214	590	-	-	-	590
Total at 31 December 2004	**29,613**	**6,756**	**3,069**	**3,875**	**13,400**	**27,100**
		Noncurrent				
	Current	2007	2008	2009	Other	Total
PROFIT loans and other	-	2,786	3,586	3,872	15,609	25,853
Accounts payable, purchase of noncurrent assets	8,121	-	-	-	-	-
Remunerations pending payment	21,314	-	-	-	-	-
Other debts	8,195	812	-	-	-	812
Total at 31 December 2005	**37,630**	**3,598**	**3,586**	**3,872**	**15,609**	**26,665**

Loans under PROFIT (Programme for promotion of technological research) correspond to zero interest loans granted by the Ministry of Science and Technology to promote research, and presented in the foregoing table at the amount granted. These loans are subject to certain investments and expense criteria.

Debts as a result of fixed asset purchases basically include disbursements pending on the purchase of products and marketing licenses in 2005 and 2004, and in prior years.

18. Provisions

The changes during 2005 and 2004 under "Provisions" on the consolidated income statement were as follows:

	Thousands of euro					
	2005			2004		
	Provision for returns	Other Provisions	Total	Provision for returns	Other Provisions	Total
Balance at 1 January	**8,475**	**-**	**8,475**	**5,081**	**-**	**5,081**
Additions or allowances	-	1,771	1,771	3,394	-	3,394
Balance at 31 December	**8,475**	**1,771**	**10,246**	**8,475**	**-**	**8,475**

Provision for returns

The provision for product returns corresponds to the funds required to cover losses owing to returns occurring in the future as a result of sales during the current and past years. This provision was calculated as described in Note 5-l.

Other Provisions

This reflects the Group's estimate of the disbursements to be made in future to cover other liabilities derived from the nature of its activities.

19. Revenue and expenses

Revenue

The table below lists the revenue for 2005 and 2004 distributed by therapeutic specialities.

	Thousands of euro	
	2005	2004
Anti-infective	9,343	10,722
Cardiovascular	149,037	151,592
Digestive	107,710	112,786
Oncology	15,148	26,425
Osteomuscular	90,513	80,911
Respiratory	167,262	138,499
Central nervous system	145,521	125,828
Urological	25,024	23,408
Other therapeutic specialities	17,278	17,325
Miscellaneous	9,296	12,244
Total	**736,132**	**699,740**

The table below lists the revenue contribution during 2005 and 2004 of the Group's top 10 products for the year 2005.

	Thousands of euro	
	2005	2004
Ebastina	98,643	70,646
Atorvastatina	78,314	74,358
Aceclofenaco	61,943	57,177
Salmeterol+Fluticasona	54,503	53,118
Venlafaxine	49,645	44,836
Lansoprazol	36,799	42,029
Almotriptan	33,263	27,658
Candesartan	27,418	27,466
Almagato	26,908	29,672
Escitalopram	25,403	9,938
Total	**492,839**	**436,898**

Other income

	Thousands of euro	
	2005	2004
Collaboration in product promotion	24,992	7,675
Revenue under co-promotion agreements	25,817	21,521
Revenue from the sale or transfer of product marketing rights	2,403	6,937
Royalties	2,161	2,541
Subsidies	2,006	1,564
Other	4,902	5,235
Total	**62,281**	**45,473**

The various items listed in the first four sections of the above table refer mainly to income for different purposes related to agreements for the sale or transfer of rights to market products resulting from internal research, entered in the accounting system as indicated in Note 5-m.

Procurements

This item is broken down as follows:

	Thousands of euro	
	2005	2004
Purchases	240,644	204,513
Change in inventories	(3,043)	5,333
Total	**237,601**	**209,846**

Staff costs

Composition of staff costs:

	Thousands of euro	
	2005	2004
Wages and salaries	135,970	132,416
Social Security to be paid by the company	29,866	30,061
Indemnities	11,303	9,163
Other social expenses	10,360	8,240
Total	**187,499**	**179,880**

The Group's average number of employees is provided below, distributed by occupational category:

	Number of personnel	
	2005	2004
Managers	65	69
Supervisors	225	208
Technical staff	2,005	2,031
Administrative staff	659	700
Other	18	19
Total	**2,972**	**3,027**

Operating leases

Rental payments for 2005 and 2004 are provided below:

	Thousands of euro	
	2005	2004
Operating leases recorded in profit for the year	14,411	13,933

At the date of the balance sheet, the Group held agreements for future minimum rental payments under noncancellable operating leases with the following maturities:

	Thousands of euro	
	31/12/2005	31/12/2004
In one year	16,080	14,164
2-5 years	47,908	51,057
Over 5 years	598	1,144

The assets acquired under rental agreements acquired and the average duration of the agreements are provided below:

	Average contract duration (years)
Rental items:	
Buildings	3
Commercial space	4
Office equipment	4
Transportation equipment	4

Net change in provisions

The composition of "Net change in provisions" under the accompanying income statement and the changes in current provisions are provided below:

	Thousands of euro	
	2005	2004
Change in provisions for inventories	1,210	1,293
Change in allowance for bad debts	2,628	35
Losses on uncollectible loans	375	58
Change in provision for returns (Note 18)	1,771	3,394
Total	**5,984**	**4,780**

	Thousands of euro			
	Provision for allowance	Provision for Inventories	Current provisions	Total
Balance at 1 January 2004	**1,275**	**5,424**	**90**	**6,789**
Change in provisions:				
Charge	86	7,179	-	7,265
Use	(51)	(5,886)	(90)	(6,027)
Other	(22)	(9)	-	(31)
Balance at 31 December 2004	**1,288**	**6,708**	**-**	**7,996**
Change in provisions:				
Charge	2,720	8,468	1,072	12,260
Use	(92)	(7,258)	-	(7,350)
Other	(29)	(126)	-	(155)
Balance at 31 December 2005	**3,887**	**7,792**	**1,072**	**12,751**

"Current provisions" correspond to the estimate by the Group's Directors of potential future disbursements according to product quality guarantee conditions established in contracts maintained with third parties. Owing to the nature of this item, the changes during the year were recorded against "Revenue" in the accompanying income statement.

Net gains from the sale of assets

The detailed listing of net gains (losses) in the sale of noncurrent assets during 2005 and 2004 is listed below:

	Thousands of euro			
	2005		2004	
	Gains	Losses	Gains	Losses
Transfers or retirements of intangible assets	1,157	(296)	501	-
Transfers or retirements of property, plant and equipment	36	(356)	1,597	(6)
	1,193	**(652)**	**2,098**	**(6)**
Gains (losses) from the sale of noncurrent assets	**541**		**2,092**	

Financial income and costs

The itemisation of net finance income (expenses) and exchange differences for 2005 and 2004 are provided below:

	Thousands of euro			
	2005		2004	
	Income	Expenses	Income	Expenses
Revenue from other marketable securities	12,145	-	3,837	-
Other similar income and interest	4,563	-	647	-
Finance costs and similar charges	-	(7,484)	-	(4,613)
Net change in fair value of other financial instruments (Note 10)	392	-	1,461	-
Other financial profits (losses)	22	-	423	-
Exchange differences	11,477	(7,388)	8,335	(10,601)
	28,599	**(14,872)**	**14,703**	**(15,214)**
Net finance income (losses)	**13,727**		**(511)**	

Auditors' compensation

Fees for audit services for 2005 and 2004 for the various companies comprising Grupo ALMIRALL, provided by the main auditor and related institutions, amounted to €426 thousand and €342 thousand, respectively. Fess for other auditors for auditing the annual accounts of subsidiaries amounted to €3 thousand during 2005 and 2004.

Fees for other professional services provided to the various Group and multigroup companies by the main auditor and related institutions amounted to €699 thousand and €135 thousand respectively in 2005 and 2004.

20. Tax situation

Consolidated tax group

Laboratorios Almirall, S.A. is subject to corporation tax under the tax consolidation regime, Chapter VII, Title VII of Royal Legislative Decree 4/2005 of 5 March 2005 approving the Law in respect of the Tax on Corporations as amended. The companies comprising the Group for tax purposes for 2004 were: Laboratorios Almirall, S.A., Laboratorios Farmacéuticos Prodes, S.L., Laboratorio Temis Farma, S.L. (formerly Laboratorios Funk, S.L.), Laboratorios Berenguer-Infale, S.L., Industrias Farmacéuticas Almirall Prodesfarma, S.L., Laboratorio Omega Farmacéutica, S.L., Laboratorios Tecnobío, S.A., Laboratorios Farmacéuticos Almirall, S.L., Alprofarma, S.L., Pantofarma, S.L., Laboratorios Farmacéuticos Romofarm, S.L, Ranke Química, S.L., the first acting as parent company. As a result, Laboratorios Almirall, S.A. is responsible for filing and settling corporation tax returns with the tax authorities. During 2005, the subsidiary Almirall Europe, S.A. was incorporated into the Group.

Income tax is calculated based on the economic or accounting result obtained by applying generally-accepted accounting principles, which does not necessarily coincide with the result for tax purposes, defined as the taxable base.

The rest of the Group's subsidiaries file their tax returns individually in accordance with the tax legislation applicable in each country.

Years subject to tax inspection

The Spanish Group companies have the 2002 to 2006 open for review by the tax authorities for income tax and 2003 to 2006 for the other taxes applicable to them.

On 5 February 2007, the consolidated tax group was notified of the commencement of a tax audit of 2002 to 2004 for income tax and of 2003 and 2004 for the other taxes.

Also, Almochem, S.L. has 2001 and 2002 open for review by the tax authorities for non-resident income tax, since it is currently being audited in this connection. On 19 March 2007, the tax authorities made a regularisation proposal amounting to EUR 3.5 million (deficiency + late-payment interest), which was signed on a protested basis by that company. It is planned to submit the related pleadings by the stipulated deadline. The Group and its external advisers consider that the possibility of the tax authorities demanding effective settlement of the aforementioned amount or of any other material amount is remote and, accordingly, the consolidated balance sheets for 2005 and 2004 do not contain any provision in this connection.

As regards the foreign Group companies, Almirall SAS (France) and Almirall GmbH (Germany) are currently having 2003 and 2004 and 2002 to 2004, respectively audited for tax purposes. In both cases the subject of the tax audit are the losses incurred by the two companies for the products developed in-house purchased from the Parent.

In the case of France, the latest rectifying proposal of the tax authorities amounts to EUR 1.4 million (deficiency + late-payment interest). The Group has decided not to recognise any provision in this regard because it considers that there is little chance of this proposal being successful. The Group and its external advisers consider that the possibility of the aforementioned amount or of any other material amount having to be effectively paid over to the tax authorities is remote and, therefore, the consolidated balance sheets for 2005 and 2004 do not include any provision in this connection.

In the case of Germany, an extension of the tax audit to cover 2005 and 2006 has been applied for and it is considered that the maximum effect that might arise would be a reduction of the prior years' tax losses of approximately EUR 23.6 million. These tax losses have not been recognised in the consolidated balance sheets for 2005 and 2004 and, there is no danger of there being an outflow of economic resources from the Group.

The other foreign operations have all the years stipulated in the legislation applicable to them open for review by the tax authorities.

In general, due to the possible different interpretations that can be made of tax legislation, the outcome of the tax audits currently in progress or which might be conducted in the future by the tax authorities in relation to the open years could give rise to tax contingencies that cannot be objectively quantified at the present time. However, the Parent's tax advisers and directors consider that the possibility of significant liabilities additional to those already recognised materialising in this connection is remote.

Balances maintained with the tax authorities

Debit and credit balances with the tax authorities at 31 December 2005 and 2004 were as follows:

	Thousands of euro	
	2005	2004
VAT payable	7,791	7,473
Payable to social security agencies	4	10
Corporate income tax payable	36,600	21,655
Payable to official agencies	412	5,835
Total current credit balances	**44,807**	**34,973**
VAT receivable	2,440	1,155
Individual income tax	3,330	3,466
Receivable from social security agencies	4,316	1,957
Corporate income tax receivable	9,686	1,415
Drug tax and other debit items	10,553	17,143
Total current debit balances	**30,325**	**25,136**

"Current tax liabilities - pharmaceutical tax" on the accompanying consolidated balance sheet primarily includes a provision for payments to be made during 2005 and 2006 in respect of Additional Provision 9 of Law 25/1990 of 20 December 1990 for the pharmaceutical drug tax approved under Law 2/2004 of 27 December 2004, General State Budget for 2005 as well as similar provisions existing in countries where the various subsidiaries operate. At 31 December 2005 and 2004, despite having recorded corresponding payments in accordance with government requirements, the Group appealed against the payment of this tax for the amounts corresponding to Spanish Group companies.

In addition, "Current tax assets – Payable to official agencies" at 31 December 2004 includes €5.6 million corresponding to subsidy pending receipt at that date.

Corporate income tax

Corporate income tax on recorded earnings on the consolidated income statement for 2005 and 2004 is as follows:

	Thousands of euro	
	2005	2004
Corporate income tax		
- Recognised in the income statement	20,183	10,227
- Recognised in equity	938	734
Total	**21,121**	**10,961**

Reconciliation of accounting and tax profits

The reconciliation between the income tax expense resulting from applying the general tax rate prevailing in Spain and expense recorded for that tax is provided below:

	Thousands of euro	
	2005	2004
Consolidated profits before taxes	137,908	102,799
Permanent differences:		
- Individual companies		
Increase	11,282	20,848
Decrease	(7,223)	(2,299)
- Consolidation adjustments		
Increase	109,216	11,047
Decrease	(1,735)	(11,698)
Elimination of profits of companies	-	-
consolidated using the equity method	-	(11,176)
Adjusted accounting profit	249,448	109,521
Tax rate	35%	35%
Gross tax	**87,307**	**38,332**
Deductions:		
- Generated and applied in returns	(40,989)	(10,588)
- Capitalised but not yet taken	(19,379)	(20,088)
- Regularisation of deductions from prior years	-	2,829
Adjustment, taxes from prior tax years	-	(7)
Income tax paid abroad	-	3,301
Adjustment of deferred tax assets and liabilities	679	4,185
Theoretical income tax expense	**27,618**	**17,964**
Effect of rate differences between countries	(7,144)	(6,931)
Other changes	(291)	(806)
Income tax expense	**20,183**	**10,227**

The increase in the base owing to permanent differences in individual companies derives mainly from different tax treatment of certain provisions recorded and expenses incurred during the year.

The type and amount of incentives applied during 2005 and 2004 and those pending deduction at 31 December 2005 and 31 December 2004, are as follows:

		Thousands of euro			
		2005		2004	
Type	Year generated	Offset	Available for offsetting	Offset	Available for offsetting
Research and development	2001	1,207	1,219	2,718	2,426
	2002	-	20,385	-	20,385
	2003	10,000	18,719	-	28,719
	2004	-	20,088	-	20,088
	2005	-	19,379	-	-
		11,207	79,790	2,718	71,618
Double taxation deduction	2004	-	-	3,524	-
	2005	37,154	-	-	-
		37,154	-	3,524	-
Export deduction	2004	-	-	6,255	-
	2005	3,125	-	-	-
		3,125	-	6,255	-
Other deductions	2004	-	-	809	-
	2005	710		-	-
		710	-	809	-
	Total	**52,196**	**79,790**	**13,306**	**71,618**

The time period for application of deductions pending application is 15 years.

In addition, in relation to tax incentives for investments in the Canary Islands, at 31 December 2005, the Group was required to register investments in that Autonomous Community with the following amounts and terms:

	Thousands of euro			
	Investment			
Year generated	Committed	Executed	Pending	Limit
2002	2,606	1,278	1,328	2007
2003	2,979	550	2,429	2008
2005	2,492	-	2,492	2010
Total	**8,077**	**1,828**	**6,249**	

Deferred taxes

Under current tax legislation in the different countries where the consolidated entities are located, during 2005 and 2004 certain temporary differences arose which must be taken into account when quantifying the corresponding income tax expense. Deferred taxes recorded in both tax years are provided below:

	Thousands of euro			
	2005		2004	
	Cumulative taxable base differences	Cumulative effect on payment	Cumulative taxable base differences	Cumulative effect on payment
Deferred tax assets:				
Intangible asset amortisation	38,604	13,511	26,684	9,339
Provisions	9,580	3,353	8,879	3,108
Valuation of inventories	-	-	4,593	1,608
Other	1,443	505	1,450	508
	49,627	17,369	41,606	14,563
Tax credits:				
Deductions available for offset	N/A	79,790	N/A	71,618
Total deferred tax assets and tax credits	**49,627**	**97,159**	**41,606**	**86,181**
Deferred tax liabilities:				
Accelerated amortisation , R.D. 27/84, 2/85, 3/93	41,997	14,699	34,729	12,155
Assets under finance leases	13,097	4,584	13,513	4,730
Capitalisation of intangible assets	17,775	6,221	-	-
Valuation of inventories	-	-	1,066	373
Amortisation of goodwill	24,780	8,673	12,390	4,337
Tax effect, reversal of provisions, portfolio of subsidiaries	28,934	10,127	26,994	9,448
Market valuation of financial instruments	9,830	3,441	5,872	2,055
Other	42	15	245	86
Deferred tax liabilities	**136,455**	**47,760**	**94,809**	**33,184**

The increase owing to temporary differences for individual companies substantially derives from the different tax treatment of amortisation allowances for goodwill in connection with the merger and certain industrial property items (Note 8).

The decrease owing to temporary differences for individual companies is basically the result of different tax treatment for depreciation and amortisation of noncurrent assets.

Similarly, temporary differences owing to consolidation adjustments relate to the elimination of internal margins and the tax impact of the application of the IFRSs.

At 31 December 2005 and 2004, the Group's foreign subsidiaries had tax losses generated during those tax years and prior years eligible to be carried forward against future profits, in the respective amounts of €74.9 million and €64.3 million. With relation to these tax losses, the Group recorded no deferred tax credit balances on the accompanying consolidated balance sheet. In addition, the accompanying consolidated balance sheet includes deferred tax liabilities at 31 December 2005 and 2004 of €10.1 million and €9.4 million, respectively, reflecting the tax impact of the reversal of the portfolio allowance carried out in the consolidation process for companies holding the aforementioned tax losses.

21. Business and geographical segments

Segmentation criteria

The main criteria for defining segmented group information in the consolidated annual accounts for the years ended 31 December 2005 and 2004 are provided below.

The information by segment is structured first of all by the Group's different business areas, and second, according to a geographical distribution. The segmentation was applied to reflect the organisational units for which information is reported to the administrative body to assess the unit's past returns and to decide on future resource allocations.

Primary segments - business

The lines of business described below are established to reflect the organisational structure of Grupo Almirall effective at the close of 2005, and constitute the basis on which the Group presents information in respect of the following segments:

a) Marketing through its own network

b) Marketing with licensees

c) Corporate management and results not allocated to other segments

By contrast, the operational segments covered by the accompanying report are those whose income, profits, and assets exceed 10% of the corresponding consolidated figure. Accordingly, the column “Corporate management and profits (losses) not attributable to other segments” incorporates income and expenses not directly related, allocated to business areas, and primarily referring to the group's corporate assets and production and research and development centres.

Secondary segments - geographical

By contrast, the Group's activities are coordinated by geographical area in accordance with the following classification: Spain, Europe and Middle East (EME) and U.S., Africa and Asia (AAA).

Bases and methodology for reporting business segments

The information by segment provided below is based on reports prepared by Group management and drawing from information based on the Group's consolidated accounting data.

To determine the information by segments in the consolidated income statements, the consolidated balances of each segment was considered, and the relevant consolidation adjustments were attributed to each segment. Operations between segments were also eliminated. Allocation of consolidation adjustments was not reflected in the information on the consolidated balance sheets.

Regular segment revenue including "Revenue" and "Other income" is directly attributable to the segment. The remaining revenue items in the consolidated income statements were not distributed by segment.

Expenditure in each segment is determined based on outlays derived from operating activities directly attributable to the segment, which include "Procurements", "Staff costs," and "Depreciation and amortisation charge". In this connection, figures reported under "Procurements" in each segment include, in addition to the acquisition cost of the materials, the costs allocated to them by the Group in the production process (for example, the addition of staff costs, amortisation, depreciation, etc.). These costs are included by nature in “Corporate management and profits (losses) not allocated to other segments" and are eliminated when the data are obtained from the Group’s consolidated income statement.

Expenses considered in each segment, as described above, does not include amortisation and depreciation charges, impairment losses, interest, income tax, or general administration expenses corresponding to overhead not directly allocated to each business segment, and therefore was not distributed.

In the preparation of segmented information from the consolidated income statement, as this involves consolidated information with the distribution of consolidation reclassifications and adjustments, transactions between segments were not reflected as they basically correspond to the supply of goods and services, save for the corresponding elimination of production costs allocated to products as described above.

For purposes of presenting the information in the income statement by segment, "Gross margin" and "Operating profits (losses)" must be determined with following arithmetic formulas:

- Gross Margin: Revenue - Procurements

- Operating profits (losses): Gross margin + Other income – Staff costs – Depreciation and amortisation charge – Net change in provisions – Other operating expenses.

Segment assets are directly related to the activities and operations of the segments and correspond primarily to patents; trademarks; licences for production, marketing, and/or distribution of products; directly attributable property, plant and equipment; and accounts receivable generated by each segment.

The Group has not established criteria for the distribution of equity by segment and therefore does not list this information in detail. In addition, some balance sheet entries which include current and non-current financial assets maintained by the Group, cash and cash equivalents, inventories, balances with the tax authorities, and other minor items are considered allocated to "Corporate management and results not allocated to other segments ".

In addition, to obtain segmented data for "Trade accounts payable" under current liabilities on the segmented consolidated balance sheet, "Marketing through own network", in reference to the domestic market, the Group has prepared an estimate of the theoretical balance attributable to the segment when the real information divided into closures for the 2005 and 2004 years is not available. The estimates were based on the following assumptions.

- Calculation base: expenditure assigned to segments under "Procurements" and "Other operating expenses".

- Average value-added tax rate: 4% applicable to “Procurements” and 16% applicable to “Other operating expenses”.

- Average payment period: based on the real average payment period for the Group's Spanish companies, an average rotation of 92 and 87 days was applied for 2005 and 2004, respectively.

Information by segment for these activities is provided below:

Financial information by segment

Segmentation by business

Segmented income statement for the year ended 31 December 2004

	Thousands of euro				
	Marketing through own network	Marketing with licensees	Corporate management and profits (losses) not assigned to other segments	Adjustments and reclassifications	Total
Revenue	641,351	38,329	20,060	-	699,740
Procurements	(222,466)	(6,455)	(16,828)	38,162	(207,586)
Gross margin	**418,885**	**31,874**	**3,232**	**38,162**	**492,154**
Other income	35,163	5,901	4,409	-	45,473
Staff costs	(103,611)	(591)	(75,678)	-	(179,880)
Depreciation and amortisation charge	(2,699)	-	(26,369)	-	(29,068)
Net change in provisions	-	-	(4,780)	-	(4,780)
Other operating expenses	(126,131)	(3,628)	(85,438)	-	(215,197)
Operating profit (loss)	**221,607**	**33,556**	**(184,623)**	**38,162**	**108,702**
Other					(16,568)
Net finance income (losses)					(511)
Profits (losses), investments accounted for by the equity method					11,176
Profit before taxes					**102,799**
Income tax					(10,227)
Profits attributed to the parent company					**92,572**

Segmented balance sheet at 31 December 2004:

	Marketing through own network	Marketing with licensees	Corporate management and profits (losses) not assigned to other segments	Adjustments and reclassifications	Total
ASSETS					
Goodwill	4,548	-	35,407	-	**39,955**
Intangible assets	47,259	6,016	15,689	(17,333)	**51,631**
Property, plant and equipment	1,791	39	134,247	(1,305)	**134,772**
Financial assets	373	-	283,281	(196,850)	**86,804**
Deferred tax assets	-	-	86,181	-	**86,181**
Holdings in associates and joint ventures	-	-	133,805	-	**133,805**
NONCURRENT ASSETS	**53,971**	**6,055**	**688,610**	**(215,488)**	**533,148**
Inventories	-	-	114,991	(34,538)	**80,453**
Trade accounts receivable and other	104,069	10,429	154,639	(178,777)	**90,360**
Current tax assets	3,794	7	41,743	(10,571)	**34,973**
Current financial investments	-	-	234,425	52,590	**287,015**
Cash and other liquid assets	-	-	35,818	507	**36,325**
Other current assets	927	2	90	-	**1,019**
CURRENT ASSETS	**108,790**	**10,438**	**581,706**	**(170,789)**	**530,145**
TOTAL ASSETS	**162,761**	**16,493**	**1,270,316**	**(386,277)**	**1,063,293**
EQUITY AND LIABILITIES					
Equity					**803,603**
Noncurrent liabilities	11,818	5,114	69,867	(12,390)	**74,409**
Current liabilities	133,282	12,565	217,364	(177,930)	**185,281**
TOTAL EQUITY AND LIABILITIES	**145,100**	**17,679**	**287,231**	**(190,320)**	**1,063,293**

Segmented income statement for the year ended 31 December 2005:

	Thousands of euro				
	Marketing through own network	Marketing with licensees	Corporate management and profits (losses) not assigned to other segments	Adjustments and reclassifications	Total
Revenue	657,153	60,122	18,857	-	736,132
Procurements	(244,301)	(6,619)	(18,265)	42,813	(226,372)
Gross margin	**412,852**	**53,503**	**592**	**42,813**	**509,760**
Other income	56,566	2,447	3,268	-	62,281
Staff costs	(105,767)	(559)	(81,173)	-	(187,499)
Depreciation and amortisation charge	(5,268)	-	(24,714)	-	(29,982)
Net change in provisions	-	-	(5,984)	-	(5,984)
Other operating expenses	(128,330)	(4,795)	(87,073)	-	(220,198)
Operating profit (loss)	**230,053**	**50,596**	**(195,084)**	**42,813**	**128,378**
Other					(4,197)
Net finance income (losses)					13,727
Profit before taxes					**137,908**
Income tax					(20,183)
Profits attributed to the parent company					**117,725**

Segmented balance sheet at 31 December 2005:

	Marketing through own network	Marketing with licensees	Corporate management and profits (losses) not assigned to other segments	Adjustments and reclassifications	Total
ASSETS					
Goodwill	4,548	-	35,407	-	**39,955**
Intangible assets	61,473	9,446	22,772	(20,017)	**73,674**
Property, plant and equipment	2,472	32	145,906	(1,118)	**147,292**
Financial assets	343	-	420,020	(330,332)	**90,031**
Deferred tax assets	2	-	97,157	-	**97,159**
NONCURRENT ASSETS	**68,838**	**9,478**	**721,262**	**(351,467)**	**448,111**
Inventories	-	-	134,479	(40,823)	**93,656**
Trade Accounts receivable and other	113,557	14,642	195,381	(229,681)	**93,899**
Current tax assets	4,109	11	56,126	(15,439)	**44,807**
Current financial investments	-	-	470,721	(15,024)	**455,697**
Cash and other liquid assets	-	-	67,765	(4,807)	**62,958**
Other current assets	773	592	1,878	-	**3,243**
CURRENT ASSETS	**118,439**	**15,245**	**926,350**	**(305,774)**	**754,260**
TOTAL ASSETS	**187,277**	**24,723**	**1,647,612**	**(657,241)**	**1,202,371**
EQUITY AND LIABILITIES					
Equity					**898,519**
Noncurrent liabilities	13,326	4,101	85,218	(13,627)	**89,018**
Current liabilities	150,875	22,952	291,564	(250,557)	**214,834**
TOTAL EQUITY AND LIABILITIES	**164,201**	**27,053**	**376,782**	**(264,184)**	**1,202,371**

Geographical segmentation

The listing under “Revenue”, “Total assets” and “Addition of property, plant and equipment and intangible assets” by geographical segment where the Group operates is provided below, by location of asset:

	Thousands of euro					
	Revenue		Total segment assets		Additions of property, plant and equipment and intangible assets	
	2005	2004	2005	2004	2005	2004
Spain	520,640	530,562	1,367,470	1,218,515	52,145	39,019
Europe and Middle East	130,906	110,933	470,801	221,693	19,668	1,281
U.S., Asia and Africa	65,729	38,185	15,240	7,089	61	90
Not assigned	18,857	20,060	-	-	-	-
Consolidation adjustments	-	-	(651,141)	(384,006)	-	-
Total	**736,132**	**699,740**	**1,202,371**	**1,063,291**	**71,874**	**40,390**

22. Discontinued operations

At 25 September 2005, the Group reached an agreement on the sale of a series of assets allocated to production and marketing of oncology products, as well as the transfer of the Group's personnel assigned to that activity. Finalisation of this agreement was contingent on meeting certain conditions, which were met in February 2006. This transfer came to a total of €20 million.

The tables below provide details of the effects of the discontinued operation into the main balance sheet items at 31 December 2005 and 2004, as well as the estimated effects on the income statement for the years ended at these dates:

	Millions of euro	
	2005	2004
Income statements		
Revenue	12.0	12.4
Expenses	(10.2)	(11.0)
Profit (loss) before taxes	1.8	1.4
Expenses, applicable taxes	(0.7)	(0.1)
Net profit (loss) attributable to definitively discontinued operations	1.1	1.3

	Millions of euro	
	2005	2004
Balance sheet		
Property, plant and equipment	1.5	1.7
Inventories	2.3	2.4
TOTAL	**3.8**	**4.1**

Similarly, along with these assets and the transferred personnel, the transfer of a series of intangibles (health registers, commercial network, know-how, etc.) was established but not capitalised on the respective balance sheets.

The effect of discontinued activities on the data reflected in the corresponding cash flow statements is insignificant in all areas.

23. Earnings per share

Basic earnings per share

Basic earnings per share are determined by dividing the net profits or losses attributed to the group during the year by the weighted average number of own shares held during the year, excluding the average number of own shares held throughout the year.

Accordingly:

	2005	**2004**
Net profit (loss) for the year (thousands of euro)	117,725	92,572
Weighted average number of shares in circulation (thousands of shares)	3,580	3,580
Base earnings per share (euro)	32.88	25.86

Diluted earnings per share

The number of shares in circulation remained unchanged during 2005 and 2004. Accordingly, at the close of both years, there were no potential shares of common stock as a result of possible conversions of liability instruments, capital or derivatives and, accordingly diluted earnings per share matches basic earnings per share.

24. Commitments acquired, contingent liabilities, and contingent assets

a) Commitments acquired

At 31 December 2004 the Group had no significant contingent agreements for the acquisition of product licenses not recorded under liabilities.

At 31 December 2005 the Group held contingent disbursement commitments for the acquisition of product licenses as indicated in Note 8.

Similarly, as a result of the Group's research and development activities, at the close of 2005 and 2004 firm agreements were signed to carry out these activities for approximately €89 million and €13 million, respectively, which should be met in future years. Further, as a result of the Group's research and development activities, at 31 December 2005 there were commitments acquired to invest in property, plant and equipment amounting to approximately €11 million.

Similarly, commitments acquired for leasing the parent company's central office are outlined in detail in the Note on leases (Note 19).

b) Contingent liabilities

There were no contingent liabilities in addition to those described in Note 20 at the date these annual accounts were prepared that could involve a major cash disbursement by the Group in the future.

c) Contingent assets

As described in Note 6-a, in prior years, the Group signed a contract for the sale of distribution rights for a product with a third party that established, among other compensation, payments of US$15 and US$10 million to be collected for finalisation and success, respectively, of two paediatric studies relating to the product in question. As none of the studies in reference has been completed to date, the Group has not recorded any revenue under these potential collections.

25. Post-balance sheet events

As these consolidated annual accounts were restated by the Board of Directors with the main objectives described in Note 2, events occurring after the date of original formulation (31 March 2006), which are part of the ordinary course of the Group's operations, were not detailed as subsequent events. Similarly, there are no significant subsequent events between the reference date for these consolidated annual accounts and the date they were prepared, and therefore no breakdown was provided.

On 12 February 2007 the parent company announced its intention to apply for listing of its shares on the Spanish stock exchanges and to offer some of these shares on the Spanish and international securities markets. The listing and related offering of securities will take place during 2007, provided that market conditions are favourable.

26. Operations with related parties

Operations between the parent company and its subsidiaries, which are related parties, were eliminated in the consolidation process and are not provided in detail in this note. Operations between the parent company and its associates are provided below. Operations between the parent company and its subsidiaries and associates are broken down in the individual financial statements.

Balances and operations with associates

During 2005, no transactions were carried out with companies accounted for using the equity method.

During 2004, the following transactions were carried out with companies accounted for using the equity method:

Associates	Thousands of euro	
	Revenue	Expenses
Chemol International, Ltd.	-	-
Almirall International, BV.	-	-
Expharm, S.A.	13,682	-
Almochem, S.L.	-	-
TOTAL	**13,682**	-

Balances and operations with other related parties

During 2005 and 2004, the companies in the Group carried out the following transactions with related parties. And the related balances at 31 December 2005 and 2004 were as follows:

Company	Related party	Item	Year	Thousands of euro	
				Transactions - Revenue/(Expenses)	Balance - Debit/Credit
Laboratorios Almirall, S.A.	Chemtop, S.L.	Consulting services	2005	(2,021)	(539)
			2004	(1,525)	(293)
Laboratorios Almirall, S.A.	Picking Pack, S.L.	Office equipment	2005	(241)	-
			2004	(187)	-
Laboratorios Almirall, S.A.	Walton, S.L.	Rent	2005	(1,929)	-
			2004	(1,711)	(13)

27. Compensation of the Board of Directors and Senior Management

For the present annual accounts, in identifying the members of Senior Management, the Group included Members of its Management Committee.

The accrued amount during 2005 and 2004 for members of Senior Management for all compensation purposes except fees for attendance at Board Meetings (wages, gratuities, compensation in kind, indemnities, loyalty plans and social security contributions) amounted to €1,600 thousand and €2,159 thousand respectively.

There are no other commitments in terms of pensions or life insurance to members of Senior Management at 31 December 2005 or 2004.

The amounts accrued and paid during 2005 and 2004 to current and past Members of the Board of Directors, after discounting the amounts corresponding to the participation in the Group's Senior Management, amounted to €126 thousand and €144 thousand, respectively.

There are no other life insurance or pension commitments to the past and present Members of the Board of Directors of the parent company at 31 December 2005 or 2004.

28. Other information on the Board of Directors

With regard to the information required under Article 127 ter 4 of Spanish Company's Law, during 2004 and 2005, present and past members of the Board of Directors of Laboratorios Almirall, S.A. maintained no direct or indirect holdings in companies with the same, similar, or complementary nature to the activities that constitute the object of the parent company other than indirect holdings maintained by Jorge Gallardo Ballart, Antonio Gallardo Ballart and Daniel Bravo Andreu, Ruarti XXI, S.L. and Caleta XXI, S.L. in the other companies of Grupo Almirall as a result of their status as shareholders in the parent company.

Similarly, the present and past members of the Board of Directors of Laboratorios Almirall, S.A. engaged in the following activities, as an independent professional or as an employee, in companies having the same, similar, or complementary activities to the type of activity that constitutes the corporate object of the parent company:

Company	Name	Activity	Type of arrangement	Company through which the activity was carried out	Position or functions in the company indicated
Almirall GmbH	Jorge Gallardo Ballart *	Directorship	As an Independent professional	-	Director
	Luciano Conde Conde	Directorship	As an Independent professional	-	Director
Almirall, NV	Jorge Gallardo Ballart *	Directorship	As an Independent professional	-	Director
	Luciano Conde Conde	Directorship	As an Independent professional	-	Director
	Joan Figueras Carreras	Directorship	As an Independent professional	-	Director
Almirall, SAS	Luciano Conde Conde	Directorship	As an Independent professional	-	Chairman
Almirall B.V.	Jorge Gallardo Ballart	Directorship	As an Independent professional	-	Director
	Luciano Conde Conde	Directorship	As an Independent professional	-	Director
Almirall, S.p.A.	Jorge Gallardo Ballart *	Directorship	As an Independent professional	-	Director
	Luciano Conde Conde	Directorship	As an Independent professional	-	Director
Almirall - Produtos Farmacêuticos, Lda.	Jorge Gallardo Ballart *	Directorship	As an Independent professional	-	Director
	Luciano Conde Conde	Directorship	As an Independent professional	-	Director
	Joan Figueras Carreras	Directorship	As an Independent professional	-	Director
Almirall Marketing Farmacêutico, Unipessoal Lda.	Luciano Conde Conde	Directorship	As an Independent professional	-	Director
	Joan Figueras Carreras	Directorship	As an Independent professional	-	Director
Almirall Prodes - Produtos Farmacêuticos, Lda	Jorge Gallardo Ballart *	Directorship	As an Independent professional	-	Director
	Luciano Conde Conde	Directorship	As an Independent professional	-	Director
	Joan Figueras Carreras	Directorship	As an Independent professional	-	Director
Almirall S.A.	Jorge Gallardo Ballart	Directorship	As an Independent professional	-	Director
	Luciano Conde Conde	Directorship	As an Independent professional	-	Director
Almirall S.A. de C.V.	Jorge Gallardo Ballart *	Directorship	As an Independent professional	-	Director
	Luciano Conde Conde	Directorship	As an Independent professional	-	Director
	Joan Figueras Carreras	Directorship	As an Independent professional	-	Director
Almirall, Inc	Jorge Gallardo Ballart *	Directorship	As an Independent professional	-	Chairman
	Luciano Conde Conde	Directorship	As an Independent professional	-	Chairman
Almirall Prodesfarma, B.V.	Jorge Gallardo Ballart	Directorship	As an employee	Laboratorios Almirall, S.A.	Director
Almirall International, BV.	Jorge Gallardo Ballart	Directorship	As an employee	Laboratorios Almirall, S.A.	Director
	Luciano Conde Conde	Directorship	As an Independent professional	-	Director
Almirall, AG	Jorge Gallardo Ballart	Directorship	As an Independent professional	-	Director
Chemol, S.A.	Jorge Gallardo Ballart	Directorship	As an Independent professional	-	Director
Expharm S.A.	Jorge Gallardo Ballart	Directorship	As an Independent professional	-	Director
Gyles de Suyrot SAS	Jorge Gallardo Ballart	Directorship	As an Independent professional	-	Chairman

(*) He held his position at these companies in 2004 only.

In this connection, current and past Members of the Board of Directors for whom no detailed information is provided in this section have informed the parent company that they have no holdings and do not carry on any activities covered by the aforementioned legislation with the exception of Antonio Vila Casas and Santiago Oller Daurella, Members of the Board of Directors until 2006, who failed to submit any communication on this subject.

29. Information on the environment

The companies in the Group have adopted the relevant measures on the environment in order to comply with the relevant current legislation.

Grupo ALMIRALL's property, plant and equipment includes specific environmental protection assets (limitation of fumes, subsoil drainage, etc.) having a net book value at 31 December 2005 and 2004 of €4 million and €4.4 million, respectively.

The income statements for 2005 and 2004 include expenditure related to environmental protection of €1,254 thousand and €1,304 thousand, respectively.

The Directors of the parent company consider that the measures adopted adequately cover all possible requirements, and therefore that there are no environmental risks or contingencies. Similarly, no subsidies or revenue have been received in connection with these activities.

30. Reconciliation of balances at the beginning and end of 2004

2005 is the first year during which the Group presented its annual accounts in accordance with IFRSs. The latest annual accounts filed according to Spanish principles, with the exception of those now prepared as discussed in Note 2-a, corresponded to the year ended 31 December 2004, and therefore the IFRSs transition date is 1 January 2004.

International Financial Reporting Standard 1 requires that the first consolidated annual accounts prepared in application of the IFRSs should include a reconciliation of equity at the beginning and end of the immediately preceding year with the opening and closing equity for the period compared to which these annual accounts refer, respectively, prepared in accordance with the Spanish accounting principles and standards where the Group is concerned. Also, IFRS 1 requires reconciliation of profits or losses for the comparative period with the figures for the same period in accordance with the local accounting principles and rules.

Below is a reconciliation of the equity balances and consolidated income statements at 1 January 2004, the date of transition to IFRSs, and 31 December 2004. The changes originating from valuation criteria and accounting policies amended under the new rules are considered adjustments:

Equity reconciliation

		Thousands of euro (**)	
		01/01/2004	31/12/2004
Equity according to generally accepted standards current to date (*)		**452,301**	**512,377**
Correction of pre-existing adjustments under the Spanish Generally Accepted Accounting Principles			
Allowance for contingencies and expenses	(1)	92,730	92,730
Sale of marketing rights	(2)	29,373	-
Adjustment to adapt to IFRSs			
Scope of consolidation	(3)	107,893	120,152
Tax assets and liabilities - IAS 12 application	(4)	51,814	62,170
Goodwill	(5)	-	8,053
Financial assets - IAS 32-39 application	(6)	5,234	8,057
Other impacts		6	64
Equity attributed to parent company shareholders under International Financial Reporting Standards		**739,351**	**803,603**

(*) From the 2004 consolidated annual accounts.
(**) Net of the tax effect which for 1 January and 31 December 2004 amount to €17,589 thousand and €6,427 thousand respectively, not reflecting item (4).

Reconciliation of consolidated profits for 2004

		Thousands of euro (**)
Consolidated profits for 2004 according to the generally accepted rules and principles in force to date(*)		**89,839**
Correction of pre-existing adjustments under the Spanish Generally Accepted Accounting Principles		
Sale of marketing rights	(2)	(29,373)
Adjustment to adapt to International Financial Reporting Standards (IFRSs)		
Scope of consolidation	(3)	12,177
Tax assets and liabilities - IAS 12 application	(4)	10,356
Goodwill	(5)	8,053
Financial assets - IAS 32-39 application	(6)	1,461
Other impacts		59
Consolidated profits for 2004, under IFRSs		**92,572**

(*) From the 2004 consolidated annual accounts.
(**)Net of the tax effect amounting to €11,449 thousand not reflecting aspect (4).

a) Reconciliation at the date of the transition between Spanish and IFRS accounting principles:

- Consolidated equity

The main effects of this transition are divided into two categories:

Correction of pre-existing adjustments under Spanish accounting principles. Under Spanish accounting principles, equity was under-valued in the following areas:

(1) The Group recognised a provision for contingencies and expenses of €92,730 thousand which exceeded the expected value of obligations acquired by the Group.

(2) During 2004 the Group recorded some revenue accrued from the sale in 2003 of specific marketing rights to a third party. The amount, net of the tax impact, came to €29,373 thousand.

ii) Differences in accounting treatment between Spanish principles and IFRSs:

(3) Change of the scope of consolidation owing to the application of control criteria for subsidiaries established under IFRSs: €107,893 thousand.

(4) Capitalisation of tax credits for deductions and recording of deferred tax liabilities, with relation to the deductibility of allocations to portfolio provisions, neither of which were previously recorded under Spanish accounting principles, in accordance with a condition of prudence: €51,814 thousand.

(6) Valuation at fair value of financial assets held for business purposes: €1,949 thousand.

(6) Valuation at fair value of financial assets held for sale: €3,285 thousand.

b) Reconciliation at 31 December 2004 between Spanish accounting principles and IFRSs:

- Consolidated equity:

In relation to the differences established at the date of transition detailed above, the only significant change established in connection with the change in valuation at fair value of financial assets held for sale: €1,362 thousand.

- Income statement, 2004:

i) Correction of pre-existing adjustments under Spanish accounting principles:

(2) In 2004, the Group recorded some of the revenue accrued as the result of the 2003 sale of specific marketing rights to a third party. The amount, net of its tax impact, came to €29,373 thousand.

Differences in accounting treatment between Spanish principles and IFRSs:

(3) Change in the scope of consolidation owing to the application of control criteria for subsidiaries established in IFRSs: €12,177 thousand.

(4) Capitalisation of tax credits for deductions and recording of deferred tax liabilities with relation to the deductibility of portfolio provision allowances, neither of which were previously recognised under Spanish accounting principles in keeping with the principle of prudence: €10,356 thousand.

(5) Cancellation of goodwill amortisation: €8,053 thousand net of the tax impact.

(6) Valuation at fair value of financial assets held for trade purposes: €1,461 thousand.

c) Reconciliation at 1 January 2004 of the balance sheet under Spanish accounting principles (PGC) and IFRSs:

ASSETS	01/01/04 PGC	Conversion Adjustments	01/01/04 IFRSs
Start-up costs	2	(2)	-
Goodwill	20,796	35,407	56,203
Intangible assets	116,581	(57,977)	58,604
Property, plant and equipment	98,298	22,570	120,868
Financial assets	94,910	(17,321)	77,589
Deferred tax assets	-	68,879	68,879
Investments in associates and joint ventures	-	129,974	129,974
NONCURRENT ASSETS	**330,587**	**181,530**	**512,117**
Deferred charges	97	(97)	-
Inventories	84,503	-	84,503
Trade accounts receivable and other	95,380	30,000	125,380
Current tax assets	48,789	(27,618)	21,171
Current financial investments	201,161	1,949	203,110
Cash and other liquid assets	35,748	-	35,748
Other current assets	1,001	-	1,001
CURRENT ASSETS	**466,582**	**4,331**	**470,913**
TOTAL ASSETS	**797,266**	**185,764**	**983,030**

EQUITY AND LIABILITIES	01/01/04 PGC	Conversion Adjustments	01/01/04 IFRSs
Share capital	21,516	-	21,516
Share premium	84,029	-	84,029
Legal reserve	4,303	-	4,303
Parent company's other reserves	161,182	92,730	253,912
Consolidation reserves	100,315	-	100,315
Reserves, first-time application	-	164,947	164,947
Exchange differences	1,474	-	1,474
Profit for the year (loss)	79,482	29,373	108,855
EQUITY	**452,301**	**287,050**	**739,351**
Deferred revenue	21,241	(15,201)	6,040
Bank borrowings and other financial liabilities	1,000	(97)	903
Deferred tax liabilities	-	18,698	18,698
Provisions	97,811	(92,730)	5,081
Other noncurrent liabilities	37,049	(11,956)	25,093
NONCURRENT LIABILITIES	**157,101**	**(101,286)**	**55,815**
Bank borrowings and other financial liabilities	8,635	-	8,635
Trade accounts payable	116,998	-	116,998
Current tax liabilities	24,622	-	24,622
Other current liabilities	37,519	-	37,519
Provisions	90	-	90
CURRENT LIABILITIES	**187,864**	**-**	**187,864**
TOTAL EQUITY AND LIABILITIES	**797,266**	**185,764**	**983,030**

d) Reconciliation of the balance sheet at 31 December 2004 under Spanish accounting principles (PGC) and IFRSs:

ASSETS	31/12/04 PGC	Conversion adjustments	31/12/04 IFRSs
Start-up costs	1	(1)	-
Goodwill	2,274	37,681	39,955
Intangible assets	98,534	(46,903)	51,631
Property, plant and equipment	113,160	21,612	134,772
Financial assets	106,103	(19,299)	86,804
Deferred tax assets	-	86,181	86,181
Investments in associates and joint ventures	-	133,805	133,805
NONCURRENT ASSETS	**320,072**	**213,076**	**533,148**
Deferred charges	14	(14)	-
Inventories	80,453	-	80,453
Trade accounts receivable and other	90,360	-	90,360
Current tax assets	37,187	(2,214)	34,973
Current financial investments	283,605	3,410	287,015
Cash and other liquid assets	36,325	-	36,325
Other current assets	1,019	-	1,019
CURRENT ASSETS	**528,949**	**1,196**	**530,145**
TOTAL ASSETS	**849,035**	**214,258**	**1,063,293**

EQUITY AND LIABILITIES	31/12/04 PGC	Conversion Adjustments	31/12/04 IFRSs
Share capital	21,516	-	21,516
Share premium	84,029	-	84,029
Legal reserve	4,303	-	4,303
Parent company's other reserves	162,666	122,103	284,769
Consolidation reserves	148,390	1,303	149,693
Reserves, first-time application	-	164,946	164,946
Exchange differences	1,634	141	1,775
Profit for the year	89,839	2,733	92,572
EQUITY	**512,377**	**291,226**	**803,603**
Deferred revenue	5,621	(100)	5,521
Bank borrowings and other financial liabilities	143	(14)	129
Deferred tax liabilities	-	33,184	33,184
Provisions	101,205	(92,730)	8,475
Other noncurrent liabilities	43,985	(16,885)	27,100
NONCURRENT LIABILITIES	**150,954**	**(76,545)**	**74,409**
Bank borrowings and other financial liabilities	5,396	-	5,396
Trade accounts payable	125,137	(1)	125,136
Current tax liabilities	25,136	-	25,136
Other current liabilities	30,035	(422)	29,613
CURRENT LIABILITIES	**185,704**	**(423)**	**185,281**
TOTAL EQUITY AND LIABILITIES	**849,035**	**214,258**	**1,063,293**

e) Reconciliation of the Group's consolidated income statement for the year ended 31 December 2004 under Spanish accounting principles and IFRSs:

	2004 PGC	**Conversion adjustments**	**2004 IFRSs**
Revenue	699,740	-	699,740
Change in inventories of work in process and finished products	2,260	-	2,260
Procurements	(209,846)	-	(209,846)
Gross margin	**492,154**	**-**	**492,154**
Other income	45,473	-	45,473
Staff costs	(179,880)	-	(179,880)
Depreciation and amortisation charge	(60,977)	31,909	(29,068)
Net change in provisions	(4,780)	-	(4,780)
Other operating expenses	(215,197)	-	(215,197)
Profit from operations	**76,793**	**31,909**	**108,702**
Net gains on the sale of noncurrent assets	2,092	-	2,092
Other gains, current operating income	46,054	(45,190)	864
Impairment loss in property, plant and equipment and intangible assets and goodwill	-	(19,518)	(19,518)
Impairment loss in long-term financial assets	(6)	-	(6)
Finance income	4,907	1,461	6,368
Finance costs	(4,613)	-	(4,613)
Exchange differences	(2,273)	7	(2,266)
Results of entities accounted for using the equity method	(1,083)	12,259	11,176
Results before taxes from continuing operations	**121,871**	**(19,072)**	**102,799**
Income tax	(32,032)	21,805	(10,227)
Net profits for the year attributed to the parent company	**89,839**	**2,733**	**92,572**

31. Explanation added for translation to English

These consolidated financial statements are presented on the basis of IFRSs, as adopted by the European Union. Certain accounting practices applied by the Company that conform with IFRSs may not conform with other generally accepted accounting principles.

ANNEX: INFORMATION ON INVESTEES

Name	Thousands of euro						
	Laboratorios Farmacéuticos Almirall, S.L. (1)	Laboratorio Omega Farmacéutica, S.L. (1)	Laboratorios Farmacéuticos Romofarm, S.L. (1)	Laboratorios Farmacéuticos Prodes, S.L. (1)	Laboratorio Temis Farma, S.L. (1)	Alprofarma, S.L. (1)	Laboratorios Tecnobio, S.A. (1)
Address	Spain	Spain	Spain	Spain	Spain	Spain	Spain
Activity	Intermediation Services	Intermediation Services	Intermediation Services	Intermediation Services	Intermediation Services	Intermediation Services	Intermediation Services
2005							
Share of capital owned:							
Directly	100%	100%	100%	100%	100%	100%	100%
Indirectly	-	-	-	-	-	-	-
% of voting rights	100%	100%	100%	100%	100%	100%	100%
Consolidation method	Full	Full	Full	Full	Full	Full	Full
Capital	120	120	60	120	120	60	61
Reserves	3,542	3,040	130	1,235	2,037	(8)	7,062
Net profits (losses) for the year	171	163	429	134	130	16	259
Book value of holdings (Group)	1,340	1,070	60	95	1,114	60	127
Cost	1,340	1,070	60	95	1,114	60	127
Provision	-	-	-	-	-	-	-
2004							
Share of capital owned:							
Directly	100%	100%	100%	100%	100%	100%	100%
Indirectly	-	-	-	-	-	-	-
% of voting rights	100%	100%	100%	100%	100%	100%	100%
Consolidation method	Full	Full	Full	Full	Full	Full	Full
Capital	120	120	60	120	120	60	61
Reserves	3,504	2,995	87	1,158	1,943	6	6,924
Net profits (losses) for the year	38	45	43	77	94	(14)	138
Book value of holdings (Group)	1,340	1,070	60	95	1,114	60	127
Cost	1,340	1,070	60	95	1,114	60	127
Provision	-	-	-	-	-	-	-

N.B. All information on the companies indicated was obtained from the individual financial statements of the various companies involved. Accordingly, the effects that would be obtained by applying consolidation criteria to the holdings are not reflected.

(1) Company audited by Deloitte
(2) Company audited by other auditors
(3) Unaudited company

Name	Laboratorios Berenguer-Infale, S.L. (1)	Pantofarma, S.L. (1)	Industrias Farmacéuticas Almirall Prodesfarma, S.L. (1)	Ranke Química, S.L. (1)	Almirall Prodesfarma, BV (1)	Almirall, NV (1)	Almirall - Produtos Farmacêuticos, Lda (1)
	Thousands of euro						
Address	Spain	Spain	Spain	Spain	Netherlands	Belgium	Portugal
Activity	Intermediation Services	Intermediation Services	Production of specialty goods	Production of raw material	International holding company	Pharmaceuticals laboratory	Pharmaceuticals laboratory
2005							
Share of capital owned:							
Directly	100%	100%	100%	100%	100%	0.01%	-
Indirectly	-	-	-	-	-	99.99%	100%
% of voting rights	100%	100%	100%	100%	100%	100%	100%
Consolidation method	Full	Full	Full	Full	Full	Full	Full
Capital	120	360	1,200	1,200	46,673	1,203	1,500
Reserves	1,154	553	73,184	107,362	(142,219)	34	2,067
Net profits (losses) for the year	86	83	3,622	49,017	108,002	420	238
Book value of holdings (Group)	157	216	49,171	10,840	12,462	1,658	3,055
Cost	157	216	49,171	10,840	48,900	3,515	3,055
Provisions	-	-	-	-	(36,438)	(1,857)	-
2004							
Share of capital owned:							
Directly	100%	100%	100%	100%	100%	0.01%	-
Indirectly	-	-	-	-	-	99.99%	100%
% of voting rights	100%	100%	100%	100%	100%	100%	100%
Consolidation method	Full	Full	Full	Full	Full	Full	Full
Capital	120	360	1,200	1,200	46,673	1,203	1,500
Reserves	1,131	466	70,594	64,187	(34,500)	424	2,271
Net profits (losses) for the year	23	87	2,590	43,175	(2,019)	(390)	(204)
Book value of holdings (Group)	157	216	49,171	10,840	10,155	1,238	3,055
Cost	157	216	49,171	10,840	48,900	3,515	3,055
Provisions	-	-	-	-	(38,745)	(2,277)	-

N.B. All information on the companies indicated was obtained from the individual financial statements of the various companies involved. Accordingly, the effects that would be obtained by applying consolidation criteria to the holdings are not reflected

(1) Company audited by Deloitte
(2) Company audited by other auditors
(3) Unaudited company

Name	Thousands of euro						
	Almirall, BV (1)	Irinol Farma, S.A. (1)	Almirall S.A. de C.V. (1)	Almirall International, BV (1)	Gilles de Suyrot, S.A.S. (3)	Almirall, S.A.S. (1)	Almochem, S.L. (2)
Address	Netherlands	Spain	México	Netherlands	France	France	Spain
Activity	Intermediation Services	Pharmaceuticals laboratory	Pharmaceuticals laboratory	International holding company	Holding company	Pharmaceuticals laboratory	Pharmaceuticals laboratory
2005							
Share of capital owned:							
Directly	-	-	0.74%	100%	-	-	-
Indirectly	100%	100%	99.26%	-	100%	100%	95%
% of voting rights	100%	100%	100%	100%	100%	100%	95%
Consolidation method	Full	Full	Full	Full	Full	Full	Full
Capital	4,000	150	28,707	52,601	1,230	12,510	300
Reserves	(4,599)	6,893	(16,223)	97,371	564	6,862	60
Net profits (losses) for the year	536	1,456	(642)	(6,836)	(7)	(2,090)	42
Book value of holdings (Group)	-	8,499	11,584	143,138	1,234	4,225	287
Cost	8,000	8,499	30,660	214,769	1,801	9,829	287
Provisions	(8,000)	-	(19,076)	(71,631)	(567)	(5,604)	-
2004							
Share of capital owned:							
Directly	-	-	0.74%	100%	-	-	-
Indirectly	100%	100%	99.26%	-	100%	100%	94.99%
% of voting rights	100%	100%	100%	100%	100%	100%	48.71%
Consolidation method	Full	Full	Full	Full	Full	Full	Equity method
Capital	8,000	150	24,106	52,601	1,230	12,510	300
Reserves	(7,499)	6,897	(16,369)	24,132	564	9,301	112,044
Net profits (losses) for the year	(1,092)	(20)	(2,783)	(38,641)	23	(2,439)	2,102
Book value of holdings (Group)	-	7,047	4,897	38,092	1,467	6,089	287
Cost	8,000	7,047	24,208	102,269	1,801	9,829	287
Provisions	(8,000)	-	(19,311)	(64,177)	(334)	(3,740)	-

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ANNEX: INFORMATION ON INVESTEES

Name	Expharm, S.A. (1) 2005 (2) 2004	Almirall, AG (1)	Chemol, S.A. (1)	Prasfarma Oncológicos, S.L. (3)	Alpro Cartera SICAV, S.A. (2)	Almirall GmbH (1)	Almirall SpA (1)
	Thousands of euro						
Address	Switzerland	Switzerland	Switzerland	Spain	Spain	Germany	Italy
Activity	License management and raw material marketing	License management and raw material marketing	Raw material marketing	Pharmaceuticals laboratory	Collective investment undertaking	Pharmaceuticals laboratory	Pharmaceuticals laboratory
2005							
Share of capital owned:							
Directly	-	100%	100%	100%	99.99%	-	-
Indirectly	100%	-	-	-	-	100%	100%
% of voting rights	100%	100%	100%	100%	99.99%	100%	100%
Consolidation method	Full	Full	Full	Full	Full	Full	Full
Capital	64	218	482	6,006	54,048	5,000	8,640
Reserves	29,953	62,498	21,730	(1)	6,042	5,186	7,696
Net profits (losses) for the year	1,208	24,353	2,073	-	1,190	(5,508)	(2,338)
Book value of holdings (Group)	2,793	5,826	4,802	6,006	57,030	4,678	13,998
Cost	2,793	5,826	4,802	6,006	57,030	38,000	45,230
Provision	-	-	-	-	-	(33,322)	(31,232)
2004							
Share of capital owned:							
Directly	-	100%	100%	100%	99.99%	-	-
Indirectly	82.65%	-	-	-	-	100%	100%
% of voting rights	50%	100%	100%	100%	99.99%	100%	100%
Consolidation method	Equity method	Full	Full	Full	Full	Full	Full
Capital	65	146	455	6	51,378	5,000	8,640
Reserves	6,124	49,459	13,030	-	4,332	6,725	14,728
Net profits (losses) for the year	11,997	13,517	8,936	(1)	1,381	(8,539)	(7,032)
Book value of holdings (Group)	58	5,826	4,802	6	54,030	3,186	16,336
Cost	58	5,826	4,802	6	54,030	31,000	45,230
Provision	-	-	-	-	-	(27,814)	(28,894)

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(3) Unaudited company

ANNEX: INFORMATION ON INVESTEES

Name	Thousands of euro		
	Almirall Prodesfarma, S.A. (Chile) (1)	Almirall International, BV (dissolved) (3)	Chemol International, Ltd. (3)
Address	Chile	Netherlands	Switzerland
Activity	Pharmaceuticals laboratory	International holding company	Holding company
2005			
Share of capital owned:			
Directly	3.03%	-	-
Indirectly	96.97%	-	-
% of voting rights	100%	-	-
Consolidation method	Full	-	-
Capital	10	-	-
Reserves	240	-	-
Net profits (losses) for the year	43	-	-
Book value of holdings (Group)	6	-	-
Cost	6	-	-
Provision	-	-	-
2004			
Share of capital owned:			
Directly	3.03%	-	-
Indirectly	96.97%	99.99%	91%
% of voting rights	100%	40%	50%
Consolidation method	Full	Equity method	Equity method
Capital	10	334	68
Reserves	168	(20)	14,869
Net profits (losses) for the year	39	(25)	(1,162)
Book value of holdings (Group)	6	334	58
Cost	6	334	58
Provision	-	-	-

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(3) Unaudited company