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

Consolidated Financial Statements for the year ended 31 December 2010, prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union

Translation of consolidated financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Group (see Notes 2 and 30). 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 the regulatory financial reporting framework applicable to the Group (see Notes 2 and 30). In the event of a discrepancy, the Spanish-language version prevails.

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

CONSOLIDATED BALANCE SHEET AT 31 DECEMBER 2010
(Thousands of Euros)

ASSETS	Note	31 December 2010	31 December 2009	EQUITY AND LIABILITIES	Note	31 December 2010	31 December 2009
Goodwill	7	271,879	272,672	Share capital		19,932	19,932
Intangible assets	8	382,778	352,804	Share premium		166,796	166,796
Property, plant and equipment	9	154,817	169,060	Legal reserve		3,986	3,986
Financial assets	10	10,208	10,811	Other reserves of the Parent		474,360	349,269
Deferred tax assets	20	188,988	173,636	Consolidation reserves		38,759	67,500
NON-CURRENT ASSETS		**1,008,670**	**978,983**	Valuation adjustments		(1,736)	(3,346)
				Translation differences		(1,399)	(4,674)
				Profit for the year		118,604	151,494
				EQUITY	13	**819,302**	**750,957**
				Deferred income	14	48,702	67,686
				Bank borrowings and other financial liabilities	15	149,072	195,765
				Deferred tax liabilities	20	83,224	89,089
				Retirement benefit obligations	18	37,421	34,116
				Provisions	17	16,699	13,196
				Other non-current liabilities	16	20,742	24,339
Inventories	11	87,900	97,704	**NON-CURRENT LIABILITIES**		**355,860**	**424,191**
Trade and other receivables	12	103,821	120,398				
Current tax assets	20	17,568	20,502	Bank borrowings and other financial liabilities	15	148,395	69,922
Financial assets	10	250,403	220,281	Trade payables		136,281	142,687
Cash		62,515	39,385	Current tax liabilities	20	35,951	56,211
Other current assets		5,863	5,719	Other current liabilities	16	40,951	39,004
CURRENT ASSETS		**528,070**	**503,989**	**CURRENT LIABILITIES**		**361,578**	**307,824**
TOTAL ASSETS		**1,536,740**	**1,482,972**	**TOTAL EQUITY AND LIABILITIES**		**1,536,740**	**1,482,972**

The accompanying Notes 1 to 30 and the Appendix are an integral part of the consolidated balance sheet at 31 December 2010.

Translation of consolidated financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Group (see Notes 2 and 30). In the event of a discrepancy, the Spanish-language version prevails.

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

CONSOLIDATED INCOME STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

(Thousands of Euros)

	Note	2010	2009
Revenue	19	882,438	925,486
Cost of materials used	19	(273,787)	(289,006)
Gross profit		**608,651**	**636,480**
Other income	19	119,652	107,827
Staff costs	19	(229,624)	(230,433)
Depreciation and amortisation charge	7, 8 and 9	(61,891)	(64,824)
Net change in allowances, provisions and write-downs	19	(3,029)	(1,834)
Other operating expenses	19	(279,355)	(268,099)
Net gains/(losses) on non-current asset disposals	19	(1,485)	17,121
Restructuring costs	19	(11,619)	(8,534)
Other current operating income/(losses)		942	1,956
Impairment losses on property, plant and equipment, intangible assets and goodwill	8 and 9	(13,967)	(1,025)
Gains/(Losses) on revaluation of financial instruments	15	722	(391)
Finance income	19	4,340	2,943
Finance costs	19	(16,936)	(19,764)
Exchange differences, net	19	2,780	67
Profit before tax from continuing operations		**119,181**	**171,490**
Income tax	20	(577)	(19,996)
Net profit for the year attributable to the Parent		**118,604**	**151,494**
Earnings per share (euros):	22		
A) Basic		0.71	0.91
B) Diluted		0.71	0.91

The accompanying Notes 1 to 30 and the Appendix are an integral part of the consolidated income statement for the year ended 31 December 2010.

Translation of consolidated financial statements originally issued in Spanish and prepared in accordance
with the regulatory financial reporting framework applicable to the Group (see Notes 2 and 30).
In the event of a discrepancy, the Spanish-language version prevails.

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2010
(Thousands of Euros)

	Notes	2010	2009
CONSOLIDATED PROFIT FOR THE YEAR (I)		**118,604**	**151,494**
Income and expense recognised directly in equity:			
Available-for-sale financial assets	10	(416)	-
Cash flow hedges	15	3,630	(1,801)
Retirement benefit obligations	18	(914)	(80)
Tax effect		(690)	564
Total income and expense recognised directly in equity (II)		**1,610**	**(1,317)**
Transfers to profit or loss:			
Arising from revaluation of financial assets	10	-	(184)
Tax effect		-	55
Total transfers to profit or loss (III)		-	**(129)**
Total comprehensive income (I+II+III)		**120,214**	**150,048**

The accompanying Notes 1 to 30 and the Appendix are an integral part of the consolidated statement of comprehensive income for the year ended 31 December 2010.

Translation of consolidated financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Group (see Notes 2 and 30).
In the event of a discrepancy, the Spanish-language version prevails.

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

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY FOR THE YEARS ENDED 31 DECEMBER 2010 AND 2009

(Thousands of Euros)

	NOTE	Share capital	Share premium	Legal reserve	Other reserves of the Parent	Reserves at fully consolidated companies	Valuation adjustments	Translation differences	Profit attributable to the Parent	Equity
Balance at 31 December 2008	**13**	**19,932**	**166,796**	**3,986**	**243,736**	**89,378**	**(1,900)**	**(5,071)**	**136,137**	**652,994**
Distribution of profit		-	-	-	158,015	(21,878)	-	-	(136,137)	-
Dividends		-	-	-	(52,482)	-	-	-	-	(52,482)
Translation differences		-	-	-	-	-	-	397	-	397
Other changes		-	-	-	-	-	-	-	-	-
Total comprehensive income		-	-	-	-	-	(1,446)	-	151,494	150,048
Balance at 31 December 2009	**13**	**19,932**	**166,796**	**3,986**	**349,269**	**67,500**	**(3,346)**	**(4,674)**	**151,494**	**750,957**
Distribution of profit		-	-	-	180,235	(28,741)	-	-	(151,494)	-
Dividends		-	-	-	(55,144)	-	-	-	-	(55,144)
Translation differences		-	-	-	-	-	-	3,275	-	3,275
Other changes		-	-	-	-	-	-	-	-	-
Total comprehensive income		-	-	-	-	-	1,610	-	118,604	120,214
Balance at 31 December 2010	**13**	**19,932**	**166,796**	**3,986**	**474,360**	**38,759**	**(1,736)**	**(1,399)**	**118,604**	**819,302**

The accompanying Notes 1 to 30 and the Appendix are an integral part of the consolidated statements of changes in equity for the year ended 31 December 2010.

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

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2010
(Thousands of Euros)

	Note	2010	2009
Cash flows from continuing operations			
Profit from continuing operations before tax		119,181	171,490
Adjustments for:			
Depreciation and amortisation charge	7, 8 and 9	61,891	64,824
Net change in long-term provisions	17	3,503	1,075
Gains/(Losses) on disposal of non-current assets	19	1,485	(17,121)
Gains/(Losses) on revaluation of financial instruments		(722)	391
Finance income	19	(4,340)	(2,943)
Finance costs	19	16,936	19,764
Exchange differences	19	(2,780)	(67)
Impairment losses on assets	8	13,967	1,025
Deferred income allocated to profit or loss	14	(18,984)	(11,759)
		190,137	**226,679**
Changes in working capital:			
Changes in inventories	11	9,804	14,825
Changes in trade and other receivables	12	16,577	(12,510)
Changes in trade payables		(6,406)	(11,724)
Changes in other current assets		(144)	(1,338)
Changes in other current liabilities	16	1,947	(8,027)
Changes in other non-current items:			
Long-term provisions used	17	-	277
Additions to retirement benefit obligations	18	2,619	2,699
Settlement of retirement benefit obligations	18	-	(1,567)
Additions to deferred income	14	-	51,739
		24,397	**34,374**
Cash flows relating to taxes:	20	**(39,968)**	**585**
Net cash flows from operating activities (I)		**174,566**	**261,638**
Cash flows from investing activities			
Finance income	19	4,340	2,943
Exchange differences	19	2,780	67
Investments:			
Intangible assets	8	(78,653)	(53,671)
Property, plant and equipment	9	(14,285)	(16,891)
Financial assets	10	(27)	(7,040)
Divestments:			
Intangible assets and property, plant and equipment	8 and 9	657	19,239
Financial assets	10	214	128
Net cash flows from investing activities (II)		**(84,974)**	**(55,225)**
Cash flows from financing activities			
Finance costs	19	(16,936)	(19,764)
Gains/(Losses) on revaluation of financial instruments		(87)	(41)
Equity instruments:			
Change in income and expenses recognised in equity	13	(324)	-
Dividends paid	13	(55,144)	(52,482)
Translation differences	13	3,275	397
Liability instruments:			
Bank borrowings and other financial liabilities	15	36,473	(57,085)
Other non-current liabilities	16	(3,597)	(3,854)
Net cash flows from financing activities (III)		**(36,340)**	**(132,829)**
Net change in cash and cash equivalents (I+II+III)		**53,252**	**73,584**
Cash and cash equivalents at beginning of year (Notes 5-s and 9)		**259,666**	**186,082**
Cash and cash equivalents at end of year (Notes 5-s and 9)	10	**312,918**	**259,666**

The accompanying Notes 1 to 30 and the Appendix are an integral part of the consolidated statement of cash flows for the year ended 31 December 2010.

Translation of consolidated financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Group (see Notes 2 and 30). In the event of a discrepancy, the Spanish-language version prevails.

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

Notes to the Consolidated Financial Statements
for the year ended 31 December 2010

1. Group activities

Almirall, S.A. is the Parent of a corporate Group ("Almirall Group"), the object of which is basically the acquisition, manufacture, storage, sale and mediation in the sale of pharmaceutical specialities and products and all manner of raw materials used to prepare the aforementioned pharmaceutical specialities and products.

The company object of the Parent also includes:

a) The acquisition, manufacture, storage, sale and mediation in the sale of cosmetics, chemical, biotechnological and diagnostic products for human, veterinary, agrochemical and food-industry use, as well as all manner of utensils, complements and accessories for the chemical, pharmaceutical and clinical industries.

b) Research into chemical and pharmaceutical ingredients and products.

c) The acquisition, sale, lease, subdivision and development of land lots, land and properties of all kinds, including the performance of construction work thereon, and their disposal, in full, in part or under a condominium property arrangement.

The aforementioned company object, in accordance with the Parent's bylaws, may be carried on, in full or in part, directly by the Parent itself or indirectly through the ownership of shares, equity investments or any other rights or interests in companies or other types of entity with or without legal personality, resident in Spain or abroad, engaging in activities that are identical or similar to those constituting the Parent's company object.

The Parent's registered office is located at Ronda General Mitre 151, Barcelona.

2. Basis of presentation of the consolidated financial statements and basis of consolidation

a) Regulatory financial reporting framework applicable to the Group

The consolidated financial statements of the Almirall Group for the year ended 31 December 2010, which were obtained from the accounting records kept by the Parent and by the other companies composing the Group, were formally prepared by the Parent's directors on 25 February 2011.

These consolidated financial statements were prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union, taking into account all the mandatory accounting policies and rules and measurement bases, in addition to the Spanish Commercial Code, the Spanish Public Limited

Liability Companies Law and all other applicable Spanish corporate law, so that they present fairly the Almirall Group's consolidated equity and financial position at 31 December 2010 and the results of its operations, the changes in consolidated equity, the changes in the statement of comprehensive income recognised in consolidated equity and the consolidated cash flows in the year then ended.

However, since the accounting policies and measurement bases used in preparing the Group's consolidated financial statements for 2010 may differ from those used by certain Group companies, the required adjustments and reclassifications were made on consolidation to unify the policies and methods used and to make them compliant with International Financial Reporting Standards.

The Group's consolidated financial statements for 2009 were approved by the shareholders at the Annual General Meeting of the Parent on 14 May 2010. The Group's 2010 consolidated financial statements have not yet been approved by the shareholders at the Annual General Meeting of the Parent. However, the Parent's Board of Directors considers that the aforementioned consolidated financial statements will be approved without any changes.

b) Adoption of International Financial Reporting Standards

The Almirall Group's consolidated financial statements for the year ended 31 December 2005 were the first to be prepared in accordance with International Financial Reporting Standards, in conformity with Regulation (EC) no. 1606/2002 of the European Parliament and of the Council of 19 July 2002. In Spain, the obligation to present consolidated financial statements in accordance with IFRSs as adopted by the European Union is also regulated in the Final Provision Eleven of Law 62/2003, of 30 December, on tax, administrative, labour and social security measures.

The principal accounting policies and measurement bases adopted by the Almirall Group are presented in Note 5.

The main options taken by the Almirall Group in relation to the application of IFRSs are as follows:

- To classify its consolidated balance sheet items as current and non-current.
- To present the income statement by nature.
- To present the statement of cash flows using the indirect method.
- To present the income and expenses in two separate statements: an income statement and a statement of comprehensive income.

Standards and interpretations effective in 2010

Other new standards, amendments or interpretations have been applied since 1 January 2010: revision of IFRS 3, Business Combinations; amendments to IAS 27, Changes in Ownership Interests; amendments to IAS 39, Eligible Hedged Items; amendment to IFRS 2, Group Cash-settled Share-based Payment Transactions; IFRIC 12, Service Concession Arrangements; IFRIC15, Agreements for the Construction of Real Estate; IFRIC 17, Distributions of Non-cash Assets to Owners and IFRIC 18, Transfers of Assets from Customers, businesses; in addition to the improvements to IFRS 5, IAS 18, IFRS 2, IAS 38, IFRIC 9, IFRIC 16, IAS 1, IAS 7, IAS 17, IAS 36 and IAS 39.

The adoption of these new interpretations and amendments did not have a significant impact on the Group's consolidated financial statements.

Standards and interpretations issued but not yet in force

At the date of preparation of these consolidated financial statements, the most significant standards and interpretations that had been published by the IASB but which had not yet come into force, either because their effective date is subsequent to the date of the consolidated financial statements or because they had not yet been adopted by the European Union, were as follows:

Standards, amendments and interpretations		**Obligatory application in annual reporting periods beginning on or after**
Approved for use by the EU		
Amendments to IAS 32	Classification of Rights Issues	1 February 2010
Revision of IAS 24	Related Party Disclosures	1 January 2011
Amendments to IFRIC 14	Prepayments of a Minimum Funding Requirement	1 January 2011
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments	1 July 2010
Not yet approved for use by the EU (1)		
IFRS 9	Financial Instruments: Classification and Measurement	1 January 2013
2010 Improvements to IFRSs	Non-urgent amendments to IFRSs	Various (mainly 1 January 2011)
Amendments to IFRS 7	Disclosures of Transfers of Financial Assets	1 July 2011

(1) Standards and interpretations not yet adopted by the European Union at the date of formal preparation of these consolidated financial statements.

The directors have assessed the potential impact of applying these standards in the future and estimate that their entry into force will not have a material impact on the consolidated financial statements.

c) *Functional currency*

These consolidated financial statements are presented in euros since this is the currency of the primary economic area in which the Group operates. Foreign operations are recognised in accordance with the policies established in Note 5-p.

d) *Responsibility for the information and use of estimates*

The information in these consolidated financial statements is the responsibility of the Group's directors.

In the Group's consolidated financial statements for the year ended 31 December 2010, estimates were occasionally made by the executives of the Group and of the consolidated companies, later ratified by the Parent's directors, in order to quantify certain of the assets, liabilities, income, expenses and obligations reported herein. These estimates relate basically to the following:

- The measurement of the recoverability of the goodwill (see Notes 5-d, 6-e and 7).

- The useful life of the intangible assets and property, plant and equipment (see Notes 5-b and 5-c).

- Assessment of the technical and economic viability of the development projects in progress that have been capitalised (see Notes 5-b and 5-d).

- The impairment losses on certain items of property, plant and equipment, intangible assets and goodwill arising from the non-recovery of the carrying amount of those assets (see Notes 5-d, 6-e, 7 and 8).

- Evaluation of lawsuits, obligations and contingent assets and liabilities at year-end (see Notes 5-k and 23).

- Assessment of the method of recognising revenue and benefits in relation to the agreements entered into with third parties for licence agreements, co-development and co-promotion of products (see Notes 5-m and 6-a).

- Estimate of the appropriate write-downs for obsolescence of the inventories, impairment of accounts receivable and sales returns (see Notes 5-g, 5-h and 5-k).

- Determination of the assumptions required to calculate the actuarial retirement obligations in conjunction with an independent expert (see Note 5-l).

- Estimate of the liability relating to the cash-settled share-based payment arrangements (see Note 5-t).

Although these estimates were made on the basis of the best information available at 31 December 2010 on the events analysed, events that take place in the future might make it necessary to change these estimates (upwards or downwards) in coming years. Changes in accounting estimates would be applied prospectively in accordance with the requirements of IAS 8, recognising the effects of the change in estimates in the related consolidated income statement.

3. Basis of consolidation and changes in the scope of consolidation

a) *Basis of consolidation*

The accompanying consolidated financial statements were prepared from the accounting records of Almirall, S.A. and of the companies controlled by it, whose financial statements were prepared by the directors of each company. In accordance with IAS 27, control is the power to govern the financial and operating policies of a company so as to obtain benefits from its activities.

The subsidiaries of the Almirall Group detailed in the Appendix have been included in consolidation.

The Almirall Group companies were fully consolidated because Almirall directly or indirectly holds more than 50% of the share capital of these companies, over which effective control is exercised by virtue of ownership of a majority of the voting power in their representation and decision-making bodies. Accordingly, all material balances and effects of the transactions between consolidated companies are eliminated on consolidation.

The results of subsidiaries acquired during the year are included in the consolidated income statement from the date of acquisition to year-end. Similarly, the results of subsidiaries disposed of during the year are included in the consolidated income statement from the beginning of the year to the date of disposal.

If as a result of losses incurred by a subsidiary its equity were negative, the investment should be presented in the Group's consolidated balance sheet with a zero equity contribution, unless the Group is obliged to give it financial support.

Where necessary, the financial statements of the subsidiaries are adjusted so that the accounting policies used conform with those applied by the Group's Parent.

Also, the tax effect that may arise as a result of including the results and reserves of the subsidiaries in the Parent’s equity is not included in the accompanying consolidated financial statements since, pursuant to IAS 12, it is considered that no transfers of reserves that are subject to additional taxation will be made. Since the Parent controls the timing of distribution, it is not probable that such distribution will occur in the foreseeable future, but rather that the results and reserves will be used as financing resources at each company.

The Appendix to these notes to the consolidated financial statements details the subsidiaries and information thereon (including name, country of incorporation and proportion of ownership interest held by the Parent).

b) Changes in the scope of consolidation

In 2010 the Parent incorporated Almirall ApS, a company domiciled in Denmark, at a cost of approximately EUR 17 thousand. Also in 2010 the Group liquidated the investees Almirall Prodesfarma, B.V. and Almirall, GmbH, which did not have any impact on the accompanying consolidated financial statements.

In the year ended 31 December 2009, the only change in the scope of consolidation related to the process of liquidating the investee Irinol Farma, S.A., all of whose business activities were transferred to the Parent, which did not have any impact on the accompanying consolidated financial statements.

The contribution of the various companies involved in the changes in the scope of consolidation to both the consolidated balance sheet and the consolidated income statement was not material.

4. Distribution of the Parent's profit

The proposed distribution of profit included in the Parent’s consolidated financial statements for the years ended 31 December 2010 and 2009 is as follows:

	Thousands of euros	
	2010	2009
Distributable profit:		
Profit for the year	156,254	180,235
Appropriation:		
To voluntary reserves	108,812	125,091
Dividends	47,442	55,144
Total	**156,254**	**180,235**

5. Accounting policies

The Group's consolidated financial statements for the year ended 31 December 2010 were formally prepared by the directors of the Parent in accordance with International Financial Reporting Standards (IFRSs) as approved by the European Union, pursuant to Law 62/2003, of 30 December.

The principal accounting policies used in preparing these consolidated financial statements, in accordance with International Financial Reporting Standards as adopted by the European Union and with the Interpretations in force at the reporting date, were as follows:

a) *Goodwill*

Goodwill arising on business combinations represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary or jointly controlled entity at the date of combination.

Any excess of the cost of the investments in the consolidated companies over the corresponding underlying carrying amounts acquired, adjusted at the date of first-time consolidation, is allocated as follows:

- If it is attributable to specific assets and liabilities of the companies acquired, increasing the value of the assets (or reducing the value of the liabilities) whose market values were higher (lower) than the carrying amounts at which they had been recognised in their balance sheets and whose accounting treatment was similar to that of the same assets (liabilities) of the Group: amortisation, accrual, etc.

- If it is attributable to specific intangible assets, recognising it explicitly in the consolidated balance sheet provided that the fair value at the date of acquisition can be measured reliably.

- The remaining amount is recognised as goodwill, which is allocated to one or more specific cash-generating units.

Goodwill acquired on or after 1 January 2004 is measured at acquisition cost and that acquired earlier is recognised at the carrying amount at 31 December 2003. In both cases, at least at the end of each reporting period (or earlier if there is any indication of impairment), goodwill is reviewed for impairment (i.e. a reduction in its recoverable amount to below its carrying amount) and, if there is any impairment, the goodwill is written down with a charge to “Impairment Losses on Property, Plant and Equipment, Intangible Assets and Goodwill” in the consolidated income statement, since, as stipulated in IFRS 3, goodwill is not amortised. An impairment loss recognised for goodwill must not be reversed in a subsequent period (see Note 5-d).

On disposal of a subsidiary or jointly controlled entity, the attributable amount of goodwill is included in the determination of the gain or loss on disposal.

b) *Intangible assets*

Intangible assets are recognised initially at acquisition cost (separately or through a business combination) or production cost and are subsequently measured at cost less any accumulated amortisation and any accumulated impairment losses.

They can have an indefinite useful life –when, based on an analysis of all the relevant factors, it is concluded that there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows for the consolidated companies– or a finite useful life, in all other cases.

Intangible assets with indefinite useful lives are not amortised, but rather at the end of each reporting period the consolidated companies review the remaining useful lives of the assets in order to ensure that they continue to be indefinite or, if this is not the case, to take the appropriate steps.

Intangible assets with finite useful lives are amortised over those useful lives using methods similar to those used to depreciate property, plant and equipment. The amortisation rates, which were determined on the basis of the average years of estimated useful life of the assets, are basically as follows:

	Annual rate
Intellectual property	6%-10%
Computer software	18%-33%

In both cases the consolidated companies recognise any impairment loss on the carrying amount of these assets with a charge to “Impairment Losses on Property, Plant and Equipment, Intangible Assets and Goodwill" in the consolidated income statement. The criteria used to recognise the impairment losses on these assets and, where applicable, the recovery of impairment losses recognised in prior years is similar to those used for property, plant and equipment (see Note 5-d).

Research and development expenditure-

a) *Internal developments*

Expenditure on research activities is recognised as an expense in the year in which it is incurred.

The expenditure incurred internally as a result of the development of new drugs by the Group is only capitalised when all the following conditions are met or can be demonstrated:

I. It is technically possible to complete the production of the drugs so that they can become available for use or sale.

II. There is an intention to complete the development of the drugs in question for use or sale.

III. The Group has the capacity to use or sell the drug.

IV. The asset will generate future economic benefits. It can be demonstrated, inter alia, that there is a market for the drugs resulting from the development or for the development in itself, or, where it is going to be used internally, that the development is of use to the Group.

V. Adequate technical, financial and other resources are available to complete the development and to use or sell the drugs resulting from the development in progress.

VI. The disbursement attributable to the aforementioned development up to its completion can be measured reliably.

The development of new drugs is subject to a high degree of uncertainty as a result of the protracted period of maturation thereof (usually over the course of several years) and of the technical results that are obtained during the various trial phases through which the development passes. It may become necessary to abandon a development in any of the various phases through which it passes, either as a result of failing to meet medical or regulatory standards or of not achieving suitable profitability thresholds. For these reasons, the Group only considers that such uncertainties have been overcome once the product developed has been approved by the competent authorities in a reference market. It is from this time onwards that the Group considers that the conditions have been met for capitalising development expenditure, which, in general, is not significant.

b) *Separate acquisition*

A research or development project in progress acquired separately or through a business combination is capitalised in all cases in accordance with the provisions of IAS 38, paragraph 25, since the price paid for the acquisition reflects the probability of the expected future economic benefits embodied in the asset flowing to the Group, i.e. the price paid reflects the probability of the aforementioned project's success.

The capitalised development costs with a finite useful life are amortised from the commencement of commercial production of the product on a straight-line basis over the period in which benefits are expected to be generated.

Development costs previously recognised as an expense are not capitalised in subsequent years.

Intellectual property-

Patents, trademarks and product production, sale and/or distribution licences are initially recognised at the cost of purchase (separate or through a business combination) and are amortised over the estimated useful lives of the related products (usually on a straight-line basis), with the limit, as the case may be, of the duration of the licensing agreements entered into with third parties. These periods usually do not exceed fifteen years.

The purchase cost of the licences acquired from third parties in foreign currencies includes, where applicable, the gains and losses associated with cash flow hedges relating to changes in the exchange rate arranged for their acquisition.

The expenses incurred in developing intellectual property that is not economically feasible are recognised in full in the income statement for the year in which this circumstance becomes known.

Computer software-

The Group recognises under "Computer Software" acquisitions of computer programs, including web-site development costs. Computer system maintenance costs are recognised with a charge to the consolidated income statement for the year in which they are incurred.

Computer software may be contained in a tangible asset or have physical substance and, therefore, incorporate both tangible and intangible elements. These assets will be recognised as property, plant and equipment if they constitute an integral part of the related tangible asset, which cannot operate without that specific software.

Computer software is amortised on a straight-line basis over a period of between three and six years from the entry into service of each application.

c) Property, plant and equipment

Property, plant and equipment are measured at cost (calculated on the basis of a separate acquisition or through a business combination) revalued, in the case of Spanish companies, pursuant to the related legislation, including Royal Decree-Law 7/1996, of 7 June.

Replacements or renewals of complete items that lead to a lengthening of the useful life of the assets or to an increase in their economic capacity are recognised as additions to property, plant and equipment, and the items replaced or renewed are derecognised.

Periodic maintenance, upkeep and repair expenses are recognised in the income statement on an accrual basis as incurred.

Property, plant and equipment in the course of construction are transferred to property, plant and equipment in use at the end of the related development period.

The period property, plant and equipment depreciation charge is recognised in the consolidated income statement and is based on the depreciation rates determined on the basis of the years of estimated useful life; the land on which the buildings and other structures stand is considered to have an indefinite useful life and, therefore, is not depreciated. The detail of the average useful lives of the various items is as follows:

	Years of useful life
Buildings	33-50
Plant and machinery	8-12
Other fixtures and tools	3-4
Furniture and laboratory equipment	6-10
Computer hardware	4-6
Transport equipment	5-6.25

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the consolidated income statement.

d) Impairment of property, plant and equipment, intangible assets and goodwill

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets might have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset itself does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Intangible assets for which amortisation has not commenced are tested for impairment at least at each year-end and, in all cases, prior to year-end if there are any indications of impairment.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses (a circumstance that is not permitted in the case of goodwill), the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised as income immediately, up to the aforementioned limit.

In the case of goodwill, impairment is tested with the frequency described in Note 5-a, on the basis of the following three steps: firstly, the recoverable amount of the goodwill specifically allocated to cash-generating units is assessed (wherever possible). Second, the loss allocable to the assets included in the cash-generating unit is assessed and the relevant impairment, if any, is recognised thereon in accordance with the foregoing. Third, the recoverable amount of unallocated goodwill is assessed, including all the associated cash-generating units. An impairment loss recognised for goodwill must not be reversed in a subsequent period (see Note 5-a).

The methodology used by the Almirall Group to test for impairment the goodwill arising as a result of the acquisition of control over Almirall Hermal, GmbH (see Note 7) and research and development expenditure (see Note 8) not subject to amortisation since the marketing of the related drug has not commenced and for intangible assets for which indications of impairment were detected is based mainly on financial projections established for a finite period of 6 and 22 years, respectively (since it is the average time horizon necessary to stabilise the cash flows generated by products which are currently under development), estimating a perpetual return for the following years. The projections are based on reasonable and supported assumptions.

The main assumptions used in the impairment tests in the years ended 31 December 2010 and 2009 were as follows:

	Goodwill	Intellectual property and R&D
Cash flow discount rate	8%	9.5%
Perpetual return growth rate	(1%)	(20%)
Probability of development success	Not applicable	Based on each product evaluated

The key variables in the impairment tests carried out by the Group relate mainly to the sales performance of each of the different drugs, both those marketed and those which are currently at the development phase; and for the latter, the outlook of the probability of success of the product in accordance with the results of the drug's various development phases is an additional key variable.

e) *Operating leases*

The leases in which the Group acts as the lessee are classified as operating leases when they meet the conditions of IAS 17, i.e. when the ownership of the leased asset and substantially all the risks and rewards relating to the leased asset are attributable to the lessor, with any related expenses recognised as incurred in the consolidated income statement.

f) *Non-current assets classified as held for sale*

Non-current assets classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell.

Non-current assets are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset is available for immediate sale in its present condition.

In the years ended 31 December 2010 and 2009, the Group did not have any non-current assets held for sale involving significant amounts.

g) *Inventories*

Inventories are stated at the lower of acquisition or production cost and net realisable value. Production cost comprises direct materials and, where applicable, direct labour costs and production overheads, including the costs that have been incurred in bringing the inventories to their present location and condition at the point of sale.

Trade discounts, rebates and other similar items are deducted in determining the costs of purchase.

The cost of inventories is calculated by using the weighted average cost formula. Net realisable value is the estimated selling price less the estimated costs of completion and costs to be incurred in marketing, selling and distribution.

The Group assesses the net realisable value of the inventories at the end of each period and recognises the appropriate loss if the inventories are overstated. When the circumstances that previously caused inventories to be written down no longer exist or when there is clear evidence of an increase in net realisable value because of changed economic circumstances, the amount of the write-down is reversed.

h) *Trade receivables for sales and services*

Trade receivables are recognised at amortised cost. At the end of each reporting period the recoverable amount thereof is calculated and the carrying amount is reduced, where necessary, by the adjustments required to cover balances for which there are circumstances that reasonably permit them to be classified as doubtfully receivable.

i) *Financial instruments (excluding derivative financial instruments)*

Financial assets and liabilities are recognised in the Group's consolidated balance sheet when the Group becomes a party to the contractual provisions of the instrument.

In the years ended 31 December 2010 and 2009, the measurement bases applied by the Group to its financial instruments were as follows:

Financial assets-

Financial assets are initially recognised at the fair value of the consideration given plus any directly attributable transaction costs, except in the case of financial assets classified as at fair value through profit or loss.

The financial assets held by the Group companies are classified as:

- Originated loans and receivables: financial assets originated by the Group companies in exchange for supplying cash, goods or services directly to a debtor. They are measured at amortised cost using the effective interest method.

- Held-to-maturity investments: financial assets with fixed or determinable payments and fixed maturity that the Group has the positive intention and ability to hold from the date of purchase to the date of maturity. They do not include loans and accounts receivable originated by the Group. They are measured at amortised cost using the effective interest method.

- Held-for-trading financial assets: assets acquired by the Group with the intention of generating a profit from short-term fluctuations in their prices or from differences between their purchase and sale prices. This heading also includes financial derivatives not considered to qualify for hedge accounting.

- Available-for-sale financial assets: these include securities acquired that are not held for trading purposes and are not classified as held-to-maturity investments, and equity instruments issued by entities other than the subsidiaries, associates and jointly controlled entities.

Held-for-trading financial assets and available-for-sale financial assets are measured at fair value at subsequent measurement dates. In the case of held-for-trading financial assets, gains and losses from changes in fair value are recognised in the net profit or loss for the year. In the case of available-for-sale financial assets, the gains and losses from changes in fair value are recognised directly in equity until the asset is disposed of or it is determined that it has become impaired, at which time the cumulative gains or losses previously recognised in equity are recognised in the net profit or loss for the year.

The effective interest rate is the discount rate that exactly matches the carrying amount of a financial instrument to all its estimated cash flows of all kinds through its residual life. For fixed rate financial instruments, the effective interest rate coincides with the contractual interest rate established on the acquisition date plus, where applicable, the fees that, because of their nature, can be equated with a rate of interest. In the case of floating rate financial instruments, the effective interest rate coincides with the rate of return prevailing in all connections until the date on which the reference interest rate is to be revised for the first time.

Investments in the share capital of unlisted companies whose market values cannot be measured reliably are recognised at acquisition cost.

The Group companies state deposits and guarantees at acquisition cost and/or at the amounts paid.

Impairment losses (i.e. cost higher than market or fair value at year-end) are recognised under "Financial Assets – Impairment Losses" (see Note 10).

Financial liabilities-

Interest-bearing bank loans and overdrafts are recognised at the proceeds received, net of direct issue costs. Borrowing costs, including premiums payable on settlement or redemption and direct issue costs, are recognised in the consolidated income statement on an accrual basis using the effective interest method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

The loans with subsidised or zero interest rates are forms of government aid. The loans granted after 31 December 2007 are recognised at the fair value of the financing received and the differences arising between the fair value and the nominal value of the financing received are treated as established in section ll).

Trade payables are not interest bearing and are stated at their nominal value.

Classification of financial assets and liabilities as current or non-current-

In the accompanying consolidated balance sheets, financial assets and liabilities maturing within no more than twelve months from the consolidated balance sheet date are classified as current items, and those maturing within more than twelve months are classified as non-current items.

Loans due within twelve months but whose long-term refinancing is assured at the Group's discretion, through existing long-term credit facilities, are classified as non-current liabilities.

j) *Derivative financial instruments and hedge accounting*

The Group's activities expose it mainly to foreign currency risk, on the marketing of products through franchisees in countries with a currency other than the euro, and interest rate risk, on the bank borrowings arranged by the

Parent. The Group uses derivative financial instruments, mainly interest rate swaps (IRSs) and collars, in order to hedge interest rate risk. The Group does not use derivative financial instruments for speculative purposes.

The Group opted to designate these instruments wherever possible (i.e. if they comply with the requirements of IAS 39) as hedging instruments in hedging relationships. In order to qualify for hedge accounting, pursuant to IAS 39, a derivative must necessarily hedge one of the following three types of exposure:

- Changes in the fair value of assets and liabilities due to fluctuations in the price, interest rate and/or exchange rate to which the position or balance to be hedged is subject ("fair value hedge").

- Changes in the estimated cash flows arising from financial assets and liabilities, firm commitment and highly probable forecast transactions ("cash flow hedge").

- The net investment in a foreign operation ("hedge of a net investment in a foreign operation").

The derivative must also effectively offset the exposure inherent in the hedged item or position throughout the expected term of the hedge, and there must be adequate documentation evidencing the specific designation of the financial derivative to hedge certain balances or transactions and how this effective hedge was intended to be achieved and measured.

Under IAS 39, a financial instrument must be recognised as an asset or as a liability at fair value and changes in fair value must be recognised in the profit or loss for the year, unless, opting for hedge accounting, the effective portion of the hedging relationship has to be recognised in equity (cash flow hedges and hedges of a net investment in a foreign operation).

Hedge accounting, where applicable, is discontinued when the hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting. Any cumulative gain or loss on the hedging instrument recognised in equity is retained in equity until the forecast transaction occurs. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is transferred to net profit or loss for the year.

At 31 December 2010 and 2009, the Almirall Group had designated certain derivative financial instruments as hedges and, since they are cash flow hedges, changes in fair value of the effective portion are recognised in equity. Changes in fair value of the other derivatives arranged by the Almirall Group, which failed to comply with all the requirements to qualify for hedge accounting under IFRSs, are recognised in the consolidated income statement.

k) Provisions

When preparing the financial statements of the consolidated companies, their respective directors made a distinction between:

- Provisions: credit balances covering present obligations at the balance sheet date arising from past events which could give rise to an outflow of economic resources, which is certain as to its nature but uncertain as to its amount and/or timing; and

- Contingent liabilities: possible obligations that arise from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more future events not wholly within the control of the consolidated companies.

The Group's consolidated financial statements include all the material provisions with respect to which it is considered that it is more likely than not that the obligation will have to be settled. Since the contingent liabilities did not arise from a business combination, they are not recognised, but rather detailed in Note 23.

Provisions, which are quantified on the basis of the best information available on the consequences of the event giving rise to them and are reviewed and adjusted at the end of each year, are used to cater for the specific and probable risks for which they were originally recognised. Provisions are fully or partially reversed when such risks cease to exist or are reduced.

Litigation and/or claims in process-

At 31 December 2010 and 2009, certain litigation and claims were in process against the consolidated companies arising from the ordinary course of their operations. The Group's legal advisers and directors consider that the provisions recognised are sufficient and that the outcome of litigation and claims will not have an additional material effect on the consolidated financial statements for the years in which they are settled.

Provisions for product returns-

The provisions for product returns are recognised at the selling date of the related products to cover losses for returns that will be made in the future as a result of the sales made in the current and previous years, at the directors' best estimate of the expenditure required to settle the Group's liability. This estimate is made on the basis of the historical experience acquired by the Group of product returns in previous years.

Since a very significant portion of these returns will be made within more than twelve months, they are classified as non-current items.

l) Retirement benefit costs (or post-employment benefits)

The Group companies Almirall, S.A.S., Almirall Sofotec, GmbH and the Hermal Group companies, Almirall Hermal, GmbH and Almirall, GmbH have retirement benefit obligations (or post-employment benefit obligations). The obligations of Almirall S.A.S. and Almirall Sofotec, GmbH are not material with respect to the Group's consolidated financial statements.

The obligations assumed by the Hermal Group are funded by two defined benefit plans, a defined contribution plan with employer contributions and two defined contribution plans with employee contributions.

The contingencies funded by the defined benefit plans are retirement and similar (death of spouse and death of parent), active life risks, death and disability, for the employees hired prior to 30 June 2002 and consist of a pension calculated basically on the basis of the pensionable salary. The obligation assumed is covered by in-house provisions (see Note 18).

The methods applied to calculate the amount of the obligations assumed were as follows:

- Measurement method: the actuarial valuations were calculated using the Projected Unit Credit method. Pension liabilities are measured on the basis of the present value of the benefits to which the employees are entitled, bearing in mind the employees' years of service and the time remaining until retirement.

- Actuarial assumptions: in 2010 and 2009 the main assumptions used in the actuarial valuation of the aforementioned obligations were as follows:

2010	Almirall Hermal, GmbH	Almirall Sofotec, GmbH	Almirall, S.A.S.
Mortality tables	Heubeck 2005G	Heubeck 2005G	TD 2003-2005
Discount rate	4.20%	5.20%	5.32%
Expected salary increase rate	2.00%	3.00%	2.10%
Expected benefit increase rate	1.50%	2.00%	0.00%
Turnover rate	3.00%	0.00%	8.33%
Retirement age	63	65	65

2009	Almirall Hermal, GmbH	Almirall Sofotec, GmbH	Almirall, S.A.S.
Mortality tables	Heubeck 2005G	Heubeck 2005G	TD 2003-2005
Discount rate	5.50%	5.20%	5.25%
Expected salary increase rate	2.50%	3.00%	2.50%
Expected benefit increase rate	1.50%	2.00%	0.00%
Turnover rate	3.00%	0.00%	15.42%
Retirement age	63	65	65

− Actuarial gains and losses were recognised in comprehensive income.

The defined contribution plans cover similar contingencies to those of the defined benefit plans discussed above for all the employees. The contributions are made to non-related entities, such as insurance companies, and the amount recognised as an expense in this connection in 2010 was approximately EUR 0.8 million (2009: approximately EUR 0.2 million).

ll) Government grants

Government grants to cover current costs are recognised as income once all the conditions attaching to them have been fulfilled over the periods necessary to match them with the related costs and are deducted in reporting the related expense.

Government grants related to property, plant and equipment are treated as deferred income and are taken to income over the expected useful lives of the assets concerned.

m) Revenue and expense recognition

Revenue and expenses are recognised when the actual flow of the related goods and services occurs, regardless of when the resulting monetary or financial flow arises.

However, in accordance with the accounting principles established in the IFRS Conceptual Framework, the Group recognises earned income and all the necessary associated expenses. Sales of goods are recognised when the assets are delivered and title thereto has been transferred.

Interest income is accrued on a time proportion basis, by reference to the principal outstanding and the effective interest rate applicable, which is the rate that exactly discounts estimated future cash flows over the expected life of the financial asset from that asset's carrying amount.

Dividend income from non-consolidated investments is recognised when the shareholder's rights to receive payment have been established, i.e. when the shareholders at the Annual General Meetings of the investees approve the distribution of the related dividend.

Recognition of licensing, co-development, co-promotion and other similar transactions-

The Group companies recognise the revenue received for the assignment of product licences, co-development, co-promotion and other similar transactions on the basis of the economic substance of the related agreements. These agreements generally include multiple items and the revenue associated therewith must match the costs and the consideration to be paid by the Group. When assessing the accounting treatment for these transactions, the Group’s directors consider the following matters:

- The economic substance of the transaction.

- The nature of the items forming the subject-matter of the transaction (disbursements, exchanges of goods or services, etc.).

- Measurement and allocation on the basis of the fair value of each of the items of consideration.

- Transfer of the significant risks and rewards arising from ownership of the goods and assumption of future obligations.

As a general rule, if the consideration received is non-refundable, it relates to the compensation for costs incurred prior to the execution of the agreement, there are no significant future obligations assumed by the Group under non-market conditions and substantially all the risks and rewards of ownership of the asset are transferred, the transaction is considered to be revenue for the year in which the agreement was executed. If these circumstances do not concur, the collection is recognised as deferred income within the period over which the obligations established remain effective, the remaining useful life of the product or the applicable period based on the specific circumstances of the agreements established.

The consideration tied to the fulfilment of certain technical or regulatory requirements (milestones), within the framework of cooperation agreements with third parties, are recognised as revenue in accordance with the same rules as those detailed above in the method for recognising revenue in the case of the initial consideration described above.

The aforementioned consideration is recognised when it is allocated to profit or loss under “Other Income” in the accompanying consolidated income statement.

n) *Income tax; deferred taxes*

The expense for Spanish corporation tax and similar taxes applicable to the consolidated foreign companies is recognised in the consolidated income statement, unless it arises from a transaction whose results are recognised directly in equity, in which case the related tax is also recognised in equity.

Almirall, S.A. files consolidated tax returns as provided for in Title VII, Chapter VII of Legislative Royal Decree 4/2004, of 5 March, approving the Consolidated Spanish Corporation Tax Law. The companies composing the tax group in 2010 and 2009 are: Almirall, S.A., Laboratorios Almofarma, S.L., Laboratorio Temis Farma, S.L., Laboratorios Berenguer-Infale, S.L., Industrias Farmacéuticas Almirall, S.L., Laboratorio Omega Farmacéutica, S.L., Laboratorios Tecnobío, S.A., Laboratorios Miralfarma, S.L., Alprofarma, S.L., Pantofarma, S.L., Laboratorios Farmacéuticos Romofarm, S.L., Ranke Química, S.L. and Almirall Europa, S.A., with Almirall, S.A. as the Parent. Consequently, the consolidated income tax expense includes the benefits arising from the use of tax loss and tax credit carryforwards that would not have been recognised had the companies that make up the aforementioned tax group filed individual tax returns.

The income tax expense represents the sum of the current tax expense and the changes in recognised deferred tax assets and liabilities.

The current income tax expense is calculated on the basis of taxable profit for the year. The taxable profit differs from the net profit shown in the consolidated income statement because it excludes income or expenses that are taxable or deductible in other years and also excludes items that will never become taxable or deductible. The Group's current tax liability is calculated on the basis of tax rates that were approved or substantially approved at the consolidated balance sheet date.

Deferred tax assets and liabilities include temporary differences measured at the amount expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities and their tax bases, and tax loss and tax credit carryforwards. These amounts are measured at the tax rates that are expected to apply in the period when the asset is realised or the liability is settled.

Deferred tax assets are recognised for temporary differences to the extent that it is considered probable that the consolidated companies will have sufficient taxable profits in the future against which the deferred tax asset can be utilised, and the deferred tax assets do not arise from the initial recognition (except in a business combination) of other assets and liabilities in a transaction that affects neither accounting profit (loss) nor taxable profit (tax loss). The other deferred tax assets (tax loss and tax credit carryforwards) are only recognised if it is considered probable that the consolidated companies will have sufficient future taxable profits against which they can be utilised.

The deferred tax assets and liabilities recognised are reassessed at each balance sheet date in order to ascertain whether they still exist, and the appropriate adjustments are made on the basis of the findings of the analyses performed.

o) *Discontinued operations*

A discontinued operation is a line of business that it has been decided to abandon and/or sell whose assets, liabilities and net profit or loss can be distinguished physically, operationally and for financial reporting purposes.

The assets, liabilities, income and expenses of the discontinued operations and the non-current assets held for sale are presented separately in the consolidated balance sheet and income statement.

In this regard, the Group only presents information on discontinued operations separately when they are material.

p) *Foreign currency transactions*

The Group's functional currency is the euro. Therefore, all balances and transactions in currencies other than the euro are deemed to be “foreign currency transactions”.

Balances in foreign currencies are translated to euros in two consecutive phases:

1. Translation of foreign currencies to the subsidiaries' functional currencies:

   Transactions in foreign currencies performed by consolidated companies are initially recognised in their respective financial statements at the equivalent value in their functional currencies based on the exchange rates prevailing at the date of the respective transactions. Subsequently, for the purpose of their presentation in the separate financial statements, the consolidated companies translate the balances in foreign currencies to their functional currencies using the exchange rates prevailing at the balance sheet date. Any exchange differences are charged and/or credited to the income statement.

2. Translation to euros of balances held in the functional currencies of the subsidiaries whose functional currency is not the euro.

   The balances in the financial statements of consolidated companies whose functional currency is not the euro are translated to euros as follows:

   - Assets and liabilities are translated at the exchange rates prevailing at the reporting date.

   - Income, expenses and cash flows are translated at the average exchange rates for the year.

   - Equity items are translated at the historical exchange rates.

Differences arising in the translation process are included under “Equity - Translation Differences”. Such translation differences are recognised as income or as expenses in the year in which the operation is disposed of. Also, the exchange differences with respect to the Group’s functional currency, the euro, generated by the subsidiaries whose functional currency is not the euro, are eliminated on consolidation with a balancing entry under “Translation Differences” in the accompanying consolidated balance sheet.

q) Information on the environment

Environmental assets are considered to be assets used on a lasting basis in the operations of the Almirall Group companies whose main purpose is to minimise environmental effects and to protect and enhance the environment, including the reduction or elimination of the pollution caused in the future by the Group’s operations.

These assets, like any other tangible assets, are measured at acquisition or production cost revalued in accordance with the applicable legislation, including Royal Decree-Law 7/1996, of 7 June.

The companies depreciate these items on a straight-line basis over the remaining years of estimated useful life of these assets.

r) Earnings per share

Basic earnings per share are calculated by dividing net profit or loss attributable to the Parent by the weighted average number of ordinary shares outstanding during the year.

Diluted earnings per share are calculated by dividing the net profit or loss for the year attributable to ordinary shares adjusted for the effect attributable to the dilutive potential ordinary shares by the weighted average number of ordinary shares outstanding in the year, adjusted by the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares of the Parent. For these purposes, it is considered that the shares are converted at the beginning of the year or at the date of issue of the potential ordinary shares, if the latter were issued during the current period.

s) Consolidated statements of cash flows

The following terms are used in the consolidated statements of cash flows with the meanings specified:

- Cash flows: inflows and outflows of cash and cash equivalents, which are short-term, highly liquid investments that are subject to an insignificant risk of changes in value.

- Operating activities: the principal revenue-producing activities of the Company and other activities that are not investing or financing activities.

- Investing activities: the acquisition and disposal of long-term assets and other investments not included in cash and cash equivalents.

- Financing activities: activities that result in changes in the size and composition of equity and borrowings that are not operating activities.

For the purposes of determining the consolidated statement of cash flows, "Cash and Cash Equivalents" is considered to include the Group's cash and short-term bank deposits that may become liquid immediately at the Group's discretion without incurring any penalty and are recognised under "Current Assets – Financial Assets" in the accompanying consolidated balance sheet. The carrying amount of these assets approximates their fair value.

t) Share-based payment plans

On 14 February 2008, the Board of Directors of the Parent approved, for certain executives, a long-term variable remuneration plan tied to the Company's share price or Stock Equivalent Units Plan ("the Plan") which was ratified by the shareholders at the Annual General Meeting on 9 May 2008.

Under the Plan, the Parent undertakes to grant the executives long-term variable remuneration, settled in cash, tied to the price of the Parent's shares, provided that certain requirements and conditions are met. The liability, calculated in accordance with IFRS 2, was not material at 31 December 2010 or 2009.

6. Critical accounting estimates and judgements

a) Revenue recognition

A portion of the revenue generated by the Group relates to the grant to third parties of the use of licences on products developed by the Almirall Group or access afforded to third parties to products under development (generally through co-development). The agreements upon which these licensing or access arrangements are based are usually of a complex nature and include, inter alia:

- Non-refundable initial amounts.

- Payments for achieving certain milestones (relating to development, sales, etc.)

- Royalties.

- Calculation of the future price of supplies of the product in question between the parties.

It is necessary to perform a detailed analysis of each of the component parts of the aforementioned agreements and of the agreements taken as a whole in order to determine the appropriate allocation to income of each of the elements thereof.

Transactions with Forest Laboratories

I. Aclidinium bromide

On 6 April 2006, the Group entered into an agreement with a third party (Forest Laboratories Holdings Ltd., a subsidiary of Forest Laboratories, Inc.) to jointly develop and, eventually, market and distribute a product to treat chronic obstructive pulmonary disease ("COPD"), the main active ingredient of which is aclidinium bromide and which is currently at Phase III of development.

On the basis of the aforementioned agreement, the Group granted to the aforementioned third party an exclusive right to the possible future sale of the product and its combinations in the US market. As part of the consideration for this exclusive right, the parties to the aforementioned agreement (the Group and Forest Laboratories Holdings, Ltd) undertook to jointly bear, effective from the beginning of 2006, the development costs of each of the projected therapeutic applications and, therefore, the third party must finance the contractually stipulated amount of the development costs.

The aforementioned agreement established other obligations for the Group relating to the potential supply of both the active ingredient and the inhaler required to administer the final product, for which the Group will obtain other compensation.

As consideration for the aforementioned agreement, the Group also obtained a non-refundable amount of USD 60 million (approximately EUR 48.7 million at the time of collection), and retained collection rights over certain amounts for milestones relating to the development and potential sale of the aforementioned product (see Note 23) and royalties related to the level of sales.

The amount initially collected was considered to be deferred income on the basis of the following premises:

- The Group assumed substantial future obligations for its contribution to the development of the product.

- The potential future collections relating to the achievement of development and sales milestones were established on an arm's length basis.

- The price for the future supply of the active ingredient and the inhaler, after considering both royalties and sales milestones, was established on an arm's length basis.

The deferred income is taken to the income statement on a straight-line basis over the estimated duration of the development phase which, according to Group estimates, is scheduled for completion in 2011. The timing of recognition is considered not to differ significantly from that which would result from applying a matching method based on the amount of the estimated development costs up to 2011.

Differences in the premises established or the estimates made could give rise to changes in the timing of recognition of the non-refundable amount initially collected (see Notes 14 and 19).

II. LAS100977

On 15 December 2009, the Group entered into an agreement with a third party (Forest Laboratories Holdings Ltd., a subsidiary of Forest Laboratories, Inc.) to jointly develop and, eventually, market and distribute, inter alia, a product (OD LABA 100977, a long-acting beta-agonist inhaler) to treat asthma and chronic obstructive pulmonary disease ("COPD"), which is at Phase II of its development at 31 December 2010.

On the basis of the aforementioned agreement, the Group granted to the aforementioned third party an exclusive right to the possible future sale of the product and its combinations in the US market. As part of the consideration for this exclusive right, the parties to the aforementioned agreement (the Group and Forest Laboratories Holdings, Ltd) undertook to jointly bear, effective from 1 July 2009, the development costs of each of the projected therapeutic applications and, therefore, the third party must finance the contractually stipulated amount of the development costs.

Additionally, the aforementioned agreement established other obligations for the Group relating to the potential supply of both the active ingredient and the inhaler required to administer the final product, for which the Group will obtain other compensation.

Lastly, the Group holds a co-promotion right on potential products under development for the assigned markets and both parties assume mutual payment obligations in relation to future royalties.

As consideration for the aforementioned agreement, the Group also obtained a non-refundable amount of USD 75 million (approximately EUR 51.6 million at the time of collection), and retained collection rights over certain amounts for milestones relating to the development and potential sale of the aforementioned product (see Note 23) and royalties related to the level of sales.

The amount initially collected was considered to be deferred income on the basis of the following premises:

- The Group assumed substantial future obligations for its contribution to the development of the product.

- The potential future collections relating to the achievement of development and sales milestones were established on an arm’s length basis.

- The price for the future supply of the active ingredient and the inhaler, after considering both royalties and sales milestones, was established on an arm's length basis.

The deferred income is taken to the income statement on a straight-line basis over the estimated duration of the development phase which, according to Group estimates, is scheduled for completion in 2015. The timing of recognition is considered not to differ significantly from that which would result from applying a matching method based on the amount of the estimated development costs up to 2015.

Differences in the premises established or the estimates made could give rise to changes in the timing of recognition of the non-refundable amount initially collected (see Notes 14 and 19).

b) Measurement of intangible assets

Transaction with Meda Pharma GmbH & Co KG.

In 2006 the Group acquired from a third party (Meda Pharma GmbH & Co KG.), for EUR 25 million, certain intangible assets relating to intellectual property rights, know-how and patents in connection with the field of inhalers which will be used mainly in developing an inhaler that will foreseeably be used as a support for the administration of one of the main products that the Group is currently developing (see Note 6-a). A portion of the aforementioned intangible assets (patents) constitute the intellectual property rights over an inhaler (“Novolizer”) currently being used as a support in the administration of drugs marketed by the aforementioned third party, the latter having reserved the perpetual exclusive right to use the inhaler free of charge for the production and sale of the aforementioned drug.

Since a return on the aforementioned intellectual property rights can only be obtained through the sale of drugs on which the Group obtains no return whatsoever and since the Group acquired the aforementioned intellectual property rights as a basis for a development process, the guarantee of recovering the cost borne by the Group, which had been capitalised at 31 December 2010 and 2009, was estimated considering an alternative use thereof. In this regard, the Group considers that the amount that could be obtained in the event of a possible sale of the intangible assets acquired to any pharmaceutical company (if the development of the inhaler in progress, or the development of the drug in progress for which the inhaler is developed, are not successfully completed), would not represent, under any circumstances, a significant loss.

A decrease in the estimated market value of the aforementioned intellectual property rights could give rise to a different assessment of the cost at which they have been recognised.

Acquisition of developments in progress

In 2010 and prior years the Group obtained rights to market certain products which are in the development phase (see Note 8), which met the requirements for their capitalisation at the time of initial recognition under IFRSs (see Note 5-b). These assets will be amortised on the basis of the respective useful lives of the related products from the time when they become marketable onwards. At each balance sheet date, the Group assesses the recoverability of these assets through the generation of positive future cash flows based on the best estimates of the Group's technical and financial managers, to which end a discounted cash flow model must be used which entails a degree of uncertainty inherent to the consideration of the various possible scenarios.

A change in the assumptions used to measure the expected cash flows (changes in interest rates, regulatory amendments, competition from other products, etc.) could reduce the realisable value of the aforementioned assets (see Note 8).

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

The Group's business activities are carried on in a highly regulated industry (healthcare legislation, intellectual property, etc.), which leads to exposure to potential lawsuits arising from such activity.

The claims and lawsuits to which the Group is subject are, in general, complex and, therefore, they are subject to a high degree of uncertainty, both in relation to an outcome detrimental to the interests of the Group and to the estimated potential future disbursements that the Group might have to make. Consequently, it is necessary to use judgements and estimates, with the assistance of expert legal advisers.

At 31 December 2010 and 2009, certain litigation and claims were in process against the consolidated companies arising from the ordinary course of their operations. The Group's legal advisers and directors consider that the outcome of litigation and claims will not have a material effect on the consolidated financial statements for future years (see Note 23).

d) Deferred tax assets

In calculating its deferred tax assets the Group establishes a finite time horizon for the recovery thereof based on the best estimates made. Accordingly, on the basis of estimates of the taxable profit of each of the Group companies, the Group has determined the expected period over which the deferred tax assets will be realised, also taking into account the timing of deduction of the tax credit and tax loss carryforwards by the legally established deadlines (see Note 20).

e) Impairment of goodwill

The calculation of potential impairment losses on goodwill requires the use of judgments and estimates in relation to the recoverable amount thereof. These judgements and estimates relate mainly to the calculation of the cash flows associated with the relevant cash generating units and to certain assumptions in relation to the interest rates used to discount the cash flows (see Notes 5-d and 7). The use of other assumptions in the analysis of the recoverable amount of goodwill could give rise to other considerations concerning the impairment thereof.

7. Goodwill

The changes in this consolidated balance sheet heading in 2010 and 2009 were as follows:

	Thousands of euros				
	Balance at 1 January 2009	Disposals	Balance at 31 December 2009	Disposals	Balance at 31 December 2010
Almirall, S.A.	35,407	-	35,407	-	35,407
Almirall Sofotec, GmbH	10,315	(793)	9,522	(793)	8,729
Total merger/acquired goodwill	**45,722**	**(793)**	**44,929**	**(793)**	**44,136**
Almirall Hermal, GmbH	227,743	-	227,743	-	227,743
Total goodwill on consolidation	**227,743**	**-**	**227,743**	**-**	**227,743**
Total	**273,465**	**(793)**	**272,672**	**(793)**	**271,879**

The goodwill of Almirall, S.A., the net value of which amounts to EUR 35.4 million, arose in 1997 as a result of the difference between the carrying amount of the shares of Prodesfarma, S.A. and the underlying carrying amount of this company at the time of the merger by absorption thereof by the Parent, after having allocated any unrealised gains arising from property, plant and equipment and non-current financial assets to the other asset items.

As a result of the research and development activities performed by the Group in recent years for certain new drugs related to respiratory system illnesses, in 2006 the subsidiary Almirall Sofotec, GmbH acquired a group of assets in connection with the aforementioned activity from a third party for approximately EUR 20 million (ex VAT), and also took on a portion of the personnel of the aforementioned third party related to these activities. The market value of the productive assets acquired amounted to approximately EUR 8 million and, therefore, there was a difference up to the amount disbursed of approximately EUR 12 million. Since in prior years the Group had entered into an agreement with the aforementioned third party to carry out the aforementioned research and development activities, the excess amount paid was considered to be an advance payment on the margin of the research and development activities that the Group would have necessarily had to perform to complete the processes carried out. The advance payment is charged to income on a straight-line basis over the projected time horizon for the research and development activities that had been established previously and, as a result, EUR 0.8 million were charged to the respective consolidated income statements for the years ended 31 December 2010 and 2009.

The goodwill on consolidation of Almirall Hermal, GmbH arose in 2007 as a result of the difference between the acquisition cost of the shares of the Hermal Group companies and the underlying carrying amount thereof at the time of acquisition, after having allocated to the identifiable assets and liabilities any difference between their fair value and their carrying amount in the financial statements of the companies acquired.

The cash-generating unit to which the aforementioned goodwill was allocated is, in accordance with the Almirall Group management's segment reporting and monitoring policies, the Hermal Group taken as a whole.

At 31 December 2010, the recoverable amount was estimated as described in Note 5-d. According to the estimates and projections available to the directors of the Parent, the projected results and discounted cash flows of the corresponding cash-generating unit adequately support the carrying amount of the goodwill.

At 31 December 2010, there were no changes in any of the key assumptions used by the Parent's directors to determine the recoverable amount of the cash-generating units.

8. Intangible assets

The detail of “Intangible Assets” in the accompanying consolidated balance sheets at 31 December 2010 and 2009 and of the changes therein is as follows:

	Thousands of euros						
	Cost					Accumulated amortisation and impairment losses	Net
	Intellectual property	Research and development expenditure	Computer software	Advances and intangible assets in progress	Total		
Balance at 31 December 2008	**593,674**	**35,175**	**20,460**	**208**	**649,517**	**(306,803)**	**342,714**
Additions or charge for the year	4,811	44,534	613	3,713	53,671	(49,814)	3,857
Increase/Decrease due to transfers from/to another account	(513)	-	632	-	119	34	153
Disposals or reductions	(14,111)	-	(518)	-	(14,629)	20,715	6,086
Translation differences	16	-	-	-	16	(22)	(6)
Balance at 31 December 2009	**583,877**	**79,709**	**21,187**	**3,921**	**688,694**	**(335,890)**	**352,804**
Additions or charge for the year	58,101	16,988	2,102	821	78,012	(47,430)	30,582
Increase/Decrease due to transfers from/to another account	4	-	4,113	(3,921)	196	(1)	195
Disposals or reductions	(31,679)	-	(405)	-	(32,084)	30,640	(1,444)
Translation differences	2,482	-	-	-	2,482	(1,841)	641
Balance at 31 December 2010	**612,785**	**96,697**	**26,997**	**821**	**737,300**	**(354,522)**	**382,778**

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

In 2010 the Parent entered into an agreement to acquire the development and marketing rights of a product in the respiratory area. On 22 July 2010, this agreement entailed a payment of approximately EUR 45 million (see Note 6).

The Group also acquired rights to market a product in Spain and in other countries in Europe and Latin America. The aforementioned agreement entailed an initial payment of approximately EUR 5 million, recognised under “Intellectual Property” in the accompanying consolidated balance sheet. As part of the agreement, the Group undertook to make additional payments, subject to compliance with certain milestones related, on one hand, to the authorisation to market the product in different countries and, on the other, to certain sales thresholds for maximum amounts of approximately EUR 10.5 million and EUR 11.3 million, respectively, of which, at 31 October 2010, approximately EUR 5.5 million had been paid, since a portion of the milestones established in the agreement had been met.

Also, in the year ended 31 December 2009, the Group acquired the rights to market a product at the development phase in the pan-European market, which led to an initial payment of USD 42 million (approximately EUR 31.5 million at the time of payment), recognised under “Research and Development Expenditure” in the accompanying consolidated balance sheet. As part of the agreement and subject to certain conditions, the Group undertook to make an investment amounting to USD 15 million in the share capital of Ironwood Pharmaceuticals, Inc. in the future. Also, the Group undertook to make a number of additional payments of USD 20 million if certain milestones relating to the development of the product were achieved, and an additional maximum amount of USD 5 million on commencement of the marketing of the product in certain key markets in which the Group acquired marketing rights. On 10 November 2009, since certain milestones established under the agreement had been achieved, the Group made an investment in the share capital of Ironwood Pharmaceuticals, Inc. (EUR 10 million at the time of payment), although, based on the fair value of the shares received, the Group recognised the difference of approximately EUR 4.3 million between the fair value and the value of the consideration given as an addition to the rights to market the acquired product under development. In 2010 the Group made an additional payment of USD 21 million (approximately EUR 17 million at the time of payment, an amount that includes the gains and losses associated with cash flow hedges relating to changes in the exchange rate established for the acquisition, amounting to approximately EUR 2 million), since the milestones relating to the development of the product had been achieved.

Also, as a result of the acquisition made in prior years of the rights to market a product under development, in 2009 the Group made an additional payment of GBP 8 million (approximately EUR 8.6 million at the time of payment) due to the completion of the development phase thereof. Also, the Group is obliged to make a series of payments for a maximum of approximately GBP 15 million if certain milestones relating to the potential product's development and clearance for marketing in Europe are achieved, and a maximum amount of GBP 13 million if certain sales thresholds are exceeded. Consequently, in 2009 the Group reversed impairment losses, recognised in prior years, amounting to approximately EUR 7,975 thousand, as a result of the higher expectations for growth in sales of the product in the European market.

The aforementioned additional payments to acquire the aforementioned marketing rights were not capitalised to the value of the asset acquired in view of their contingent nature and the fact that marketing had not commenced at the date of the accompanying consolidated balance sheet. Also, the Group considers that the discounted value of the future cash flows expected at the time when the additional payment obligations arise as a result of the achievement of the various milestones is higher than the total value of the payments made or to be made. Accordingly, the recognition of the additional payment obligation will entail the recognition of an increase in the acquisition cost of the intangible asset.

The aggregate amount of the research and development expenditure recognised as an expense in the accompanying consolidated income statement for 2010 was approximately EUR 144.9 million (2009: approximately EUR 121 million). These amounts include the depreciation of the assets used in research and development, staff costs and expenses charged by third parties.

At 31 December 2010, fully amortised intangible assets in use amounted to approximately EUR 40.5 million (31 December 2009: approximately EUR 55.5 million).

Impairment losses

In 2010 the Group recognised impairment losses amounting to approximately EUR 8.2 million on certain intellectual property rights and EUR 1 million on research and development projects recognised at fair value at the date of acquisition of the Hermal Group (see Note 7).

In addition to the reversal of the impairment loss on the aforementioned product under development for approximately EUR 7,975 thousand, in 2009 the Group recognised a loss of approximately EUR 9,000 thousand in relation to the acquisition from a third party in prior years of the rights to market certain pharmaceutical specialities because of their negative performance.

These impairment losses and reversals were recognised under "Impairment Losses on Property, Plant and Equipment, Intangible Assets and Goodwill" in the accompanying consolidated income statements for 2010 and 2009.

The detail of the impairment losses on intangible assets in 2010 and 2009 included in the column "Accumulated Amortisation and Impairment Losses" in the foregoing table and of the changes therein is as follows:

	Thousands of euros					
	Balance at 1 January 2009	Additions	Disposals	Balance at 31 December 2009	Additions	Balance at 31 December 2010
Intellectual property	20,450	9,000	-	29,450	8,200	37,650
Research and development expenditure	9,175	-	(7,975)	1,200	1,000	2,200
Total impairment losses	**29,625**	**9,000**	**(7,975)**	**30,650**	**9,200**	**39,850**

9. Property, plant and equipment

The changes in "Property, Plant and Equipment" in the consolidated balance sheet in 2010 and 2009 were as follows:

	Thousands of euros							
	Cost							
	Land and buildings	Plant and machinery	Other fixtures, tools and furniture	Other items of property, plant and equipment	Advances and property, plant and equipment in the course of construction	Total	Accumulated depreciation and impairment losses	Net
Balance at 31 December 2008	**94,144**	**78,752**	**223,300**	**13,307**	**3,559**	**413,062**	**(237,317)**	**175,745**
Additions or charge for the year	76	1,285	10,796	591	4,143	16,891	(23,217)	(6,326)
Increase/Decrease due to transfers from/to another account	-	570	2,255	173	(3,376)	(378)	225	(153)
Disposals or reductions	-	(784)	(779)	(720)	-	(2,283)	2,042	(241)
Translation differences	19	10	9	5	(4)	39	(4)	35
Balance at 31 December 2009	**94,239**	**79,833**	**235,581**	**13,356**	**4,322**	**427,331**	**(258,271)**	**169,060**
Additions or charge for the year	781	1,053	7,366	615	4,410	14,225	(27,635)	(13,410)
Increase/Decrease due to transfers from/to another account	334	7,839	(6,695)	1,761	(3,263)	(24)	(171)	(195)
Disposals or reductions	-	(1,514)	(3,611)	(414)	(515)	(6,054)	5,356	(698)
Translation differences	10	5	32	53	-	100	(40)	60
Balance at 31 December 2010	**95,364**	**87,216**	**232,673**	**15,371**	**4,954**	**435,578**	**(280,761)**	**154,817**

The additions in 2010 and 2009 were due mainly to improvements at the production centres at the Group's chemical and pharmaceutical plants and at the Group's research and development centres. The additions in the years ended 31 December 2010 and 2009 include investments at the aforementioned research and development centres amounting to approximately EUR 5 million.

At the end of 2010, property, plant and equipment in the course of construction related mainly to investments at the existing production plants in Spain amounting to approximately EUR 4.8 million (2009: approximately: EUR 4.3 million).

At 31 December 2010, the Group had assets not yet in use amounting to approximately EUR 19 million (31 December 2009: approximately EUR 17.9 million), relating to investments in physical assets required for the performance of a research and development project. The directors consider that, if the aforementioned project is not successfully completed, the aforementioned assets could be realised through their sale to third parties or through an alternative use for other products that require similar technology.

The transfers of property, plant and equipment in the course of construction made by the Group in the years ended 31 December 2010 and 2009 relate mainly to the transfer of investment projects at the production centres that came into service during these years.

On 30 July 2008, the Parent, the investee Industrias Farmacéuticas Almirall, S.L. and a third party entered into a memorandum of understanding for the purchase and sale of certain fixed production assets. The aforementioned agreement was subject to compliance with certain conditions, and provided for the collection of a non-refundable advance in the event of failure to consummate the transaction amounting to approximately EUR 1,293 thousand. On 27 November 2008, the parties agreed to extend the term of the agreement, which had been initially entered into until 28 February 2009. At that date and since the terms of the agreement had not been fulfilled, the Group recognised the income associated with the advances received under “Net Gains/(Losses) on Non-Current Asset Disposals” in the consolidated income statement for 2009.

In 2009 the Group discontinued production activities at the plant located in France, without it having a significant effect.

In 2010 the Group recognised impairment losses amounting to approximately EUR 4,767 thousand, as a result of the decrease in the recoverable amount of certain production facilities.

At 31 December 2010, property, plant and equipment included approximately EUR 31 million (31 December 2009: approximated EUR 33 million) relating to the carrying amount of the property, plant and equipment owned by the Group companies and branches located outside Spain.

Fully depreciated property, plant and equipment at 31 December 2010 amounted to approximately EUR 157.3 million (31 December 2009: approximately EUR 171.7 million).

The Group occupies various facilities held under leases (see Notes 19 and 24).

The Group has taken out insurance policies to cover the possible risks to which its property, plant and equipment are subject and the claims that might be filed against it for carrying on its business activities. These policies are considered to adequately cover the related risks.

10. Financial assets

Non-current-

The detail of the balance of non-current financial assets in the consolidated balance sheets at 31 December 2010 and 2009 and of the changes therein in the years then ended is as follows:

	Thousands of euros					
	Investments in Group companies and associates	Long-term investment securities	Long-term loans	Deposits and guarantees given	Allowances	Total
Balance at 31 December 2008	**355**	**2,556**	**17**	**981**	**(10)**	**3,899**
Additions or charge for the year	44	6,776	77	141	-	7,038
Disposals/ Decrease in valuation	-	(84)	(39)	(5)	-	(128)
Transfers	-	-	-	-	-	-
Translation differences	-	-	1	1	-	2
Balance at 31 December 2009	**399**	**9,248**	**56**	**1,118**	**(10)**	**10,811**
Additions or charge for the year	-	-	21	6	-	27
Disposals/ Decrease in valuation	-	(416)	(34)	(179)	-	(629)
Transfers	-	-	-	-	-	-
Translation differences	-	-	(1)	-	-	(1)
Balance at 31 December 2008	**399**	**8,832**	**42**	**945**	**(10)**	**10,208**

“Financial Assets - Long-Term Investment Securities” in the accompanying consolidated balance sheet includes 681,819 convertible shares representing 0.72% of the share capital of Ironwood Pharmaceuticals, Inc., the fair value of which, at 31 December 2010, amounted to approximately EUR 5,284 thousand, acquired as a result of the agreement entered into with the aforementioned company as described in Note 8.

“Financial Assets - Long-Term Investment Securities” also includes government debt securities issued by agencies of the Canary Islands Autonomous Community totalling approximately EUR 3.5 million at 31 December 2010, as required under Law 19/1994, of 6 July. These securities must be held during an uninterrupted period of five years.

Current-

The detail of current financial assets in the consolidated balance sheets is as follows:

	Thousands of euros	
	31/12/10	31/12/09
Short-term investment securities	222,411	152,057
Short-term deposits	27,834	68,091
Short-term guarantees	158	133
Total	**250,403**	**220,281**

In accordance with IAS 7, for the purpose of preparing the statement of cash flows, the Group considers to be cash equivalents all the highly liquid short-term investments (see Note 5-s) that are readily convertible into given amounts of cash and are subject to an insignificant risk of changes in value. At 31 December 2010, approximately EUR 244,468 thousand (31 December 2009: approximately EUR 220,148 thousand) of the total of the foregoing table were considered to be cash equivalents, as described in Note 5-t. However, in preparing the consolidated statements of cash flows for the year all the current financial assets were included as cash equivalents, since it was considered that the other assets were not significant.

The Group’s investments in financial instruments are classified as follows:

- Held-for-trading financial assets: the Group considers that this category includes the financial assets the revaluations of which are recognised through profit or loss, and the financial instruments that do not qualify for hedge accounting.

- Available-for-sale financial assets: these are considered to include the investments made in fixed-income or equity securities investment funds since they do not form part of an investment portfolio with short-term profit-taking, nor have they been acquired for such purpose. The ownership interest acquired in Ironwood Pharmaceuticals, Inc. described above is also included in this heading.

- Held-to-maturity investments: this category includes fixed-income investments mainly in Eurodeposits, foreign currency deposits and repos. It also includes financial instruments that qualify for hedge accounting.

The detail of the current and non-current available-for-sale financial assets and held-to-maturity investments is as follows:

	Thousands of euros	
	31/12/10	31/12/09
Available-for-sale financial assets	5,284	5,700
Held-to-maturity investments	255,327	225,392
Total	**260,611**	**231,092**

The fair value of the various financial instruments to which this value applies was calculated based on the following rules:

- Fixed-income securities: where these are unlisted securities or mature within no more than six months, fair value is calculated on the basis of acquisition cost plus the related accrued interest, calculated using the internal rate of return.

- Investment fund units: fair value is calculated on the basis of the last unit redemption price published on the day of measurement.

- Ownership interests in other companies: the fair value of the ownership interest in Ironwood Pharmaceuticals, Inc. was obtained from the price of this company's shares on the US market at 31 December 2010.

The changes in fair value recognised through reserves or profit or loss in 2010 and 2009, excluding derivative financial instruments, were as follows:

	Thousands of euros	
	2010	2009
Balance at 1 January	**-**	**184**
Disposals	**-**	(184)
Revaluation of the period recognised through reserves	(416)	-
Balance at 31 December	**(416)**	**-**

Also, the bank accounts included under "Cash" mostly earned average annual interest of 1.72% in the year ended 31 December 2010 (31 December 2009: 1.18%).

Lastly, the Group companies and associates not included in the scope of consolidation, due to being dormant and/or scantly material, and the information related thereto for the years ended 31 December 2010 and 2009 are as follows:

2010

	Thousands of euros					
Name	Almirall, Inc.	Almirall, S.A. (Chile)	Hermal Zweite	Genius Pharma, A.I.E.	Almirall Europa, S.A.	Neogenius Pharma, A.I.E.
Location	USA	Chile	Germany	Spain	Spain	Spain
Line of business	Pharmaceutical industry (dormant)	Pharmaceutical laboratory	International holding company	Dormant	Dormant	Dormant
Percentage of ownership held	100%	100%	100%	28%	100%	30%
Consolidation method	N/A	N/A	N/A	N/A	N/A	N/A
Share capital	N/D	N/D	26	12	61	N/D
Reserves	N/D	N/D	(19)	2	3	N/D
Net results for the year	N/D	N/D	N/D	N/D	-	N/D
Carrying amount of the investment (Group)						
Cost	52	209	30	3	61	44
Allowance	(10)	-	-	-	-	-

N/D: Not disclosed

2009

	Thousands of euros					
Name	Almirall, Inc.	Almirall, S.A. (Chile)	Hermal Zweite	Genius Pharma, A.I.E.	Almirall Europa, S.A.	Neogenius Pharma, A.I.E.
Location	USA	Chile	Germany	Spain	Spain	Spain
Line of business	Pharmaceutical industry (dormant)	Pharmaceutical laboratory	International holding company	Dormant	Dormant	Dormant
Percentage of ownership held	100%	100%	100%	28%	100%	30%
Consolidation method	N/A	N/A	N/A	N/A	N/A	N/A
Share capital	N/D	N/D	26	12	61	N/D
Reserves	N/D	N/D	(19)	2	3	N/D
Net results for the year	N/D	N/D	N/D	N/D	-	N/D
Carrying amount of the investment (Group)						
Cost	52	209	30	3	61	44
Allowance	(10)	-	-	-	-	-

N/D: Not disclosed

11. Inventories

The detail of “Inventories” at 31 December 2010 and 2009 is as follows:

	Thousands of euros	
	31/12/10	31/12/09
Raw materials and packaging	16,970	25,212
Work in progress	16,230	17,484
Merchandise and finished goods	64,705	65,160
Write-downs (Note 19)	(10,005)	(10,152)
Total	**87,900**	**97,704**

12. Trade and other receivables

The detail of “Trade and Other Receivables” at 31 December 2010 and 2009 is as follows:

	Thousands of euros	
	31/12/10	31/12/09
Trade receivables for sales and services	85,426	99,009
Other receivables	19,197	22,738
Allowances (Note 19)	(802)	(1,349)
Total receivables	**103,821**	**120,398**

At 31 December 2010, “Other Receivables” in the preceding table included approximately EUR 12.8 million (31 December 2009: EUR 10.1 million) relating to the receivable outstanding on development expenditure charged to a third party in accordance with the agreement described in Note 19.

13. Equity

Share capital-

At 31 December 2010 and 2009, the Parent's share capital was represented by 166,098,610 fully subscribed and paid shares of EUR 0.12 par value each.

At 31 December 2010, all the shares of the Parent were listed on the Spanish stock exchanges and there were no bylaw restrictions on the free transferability thereof. Also, pre-emption rights and purchase and sale options have been granted to former ultimate shareholders of the Parent in respect of the shares of one of the aforementioned shareholders in accordance with the shareholders agreement entered into on 28 May 2007.

The shareholders with significant direct or indirect ownership interests in the share capital of Almirall, S.A., of more than 3% of the share capital, of which the Parent is aware, in accordance with the information contained in the official records of the Spanish National Securities Market Commission (CNMV) at 31 December 2010, are as follows:

Name or company name of direct holder of the ownership interest	% of ownership of the Almirall Group
Grupo Plafin, S.A.	45.85%
Todasa, S.A.	25.08%
Total	**70.93%**

At 31 December 2010, the Parent is unaware of other ownership interests of 3% or more of the Parent's share capital or voting power, or of interests lower than the percentage established, but that permit significant influence to be exercised.

Reserves for retired capital-

Under the Consolidated Spanish Public Limited Liability Companies Law, this reserve may only be used if the same conditions as those required for the reduction of share capital are met.

The balance of this reserve at 31 December 2010 and 2009 amounted to approximately EUR 33 million.

Legal reserve-

The legal reserve can be used to increase capital provided that the remaining reserve balance does not fall below 10% of the increased share capital amount. Otherwise, until the legal reserve exceeds 20% of share capital, it can only be used to offset losses, provided that sufficient other reserves are not available for this purpose.

The amount of approximately EUR 4 million presented under this heading at 31 December 2010 and 2009 relates to the balance of the legal reserve of the Parent.

The balances of "Legal Reserve" of the consolidated subsidiaries at 31 December 2010 and 2009 amounted to approximately EUR 3 million.

Share premium-

The Consolidated Spanish Public Limited Liability Companies Law expressly permits the use of the share premium account balance to increase capital and does not establish any specific restrictions as to its use.

In 2007, as a result of various transactions in the process of admission to listing of all the Parent's shares on the Spanish stock exchanges, the share premium balance increased by approximately EUR 105.8 million. At 31 December 2010, the balance of this heading was approximately EUR 166.8 million.

Canary Islands investment reserve-

The Parent, as required by Law 19/1994, to be able to avail itself of the tax incentives established thereby, allocates a portion of profit obtained by the permanent establishment located in the Canary Islands to the Canary Islands investment reserve, which is restricted to the extent that the assets in which the reserve is invested must remain at the company.

The balance of this reserve at 31 December 2010 and 2009 amounted to approximately EUR 7.6 million.

Reserves at consolidated companies-

The detail of “Reserves at Consolidated Companies” is as follows:

	Thousands of euros	
	31/12/10	31/12/09
Almirall, S.A. (*)	146,298	209,946
Other fully consolidated companies	(107,539)	(142,446)
Total reserves of consolidated companies	**38,759**	**67,500**

(*) Including mainly dividends received from subsidiaries, reversals of impairment losses on non-current financial assets and elimination of margins on internal transactions, as well as the impacts of applying IFRSs at the Parent. The respective impacts of adaptation are included in the reserves of each of the subsidiaries.

Translation differences-

This heading in the accompanying consolidated balance sheet includes the net amount of the exchange differences arising in the translation to the Group’s functional currency of the assets and liabilities of the companies that operate under local legislation in a currency other than the euro.

The detail, by company, of "Translation Differences” in 2010 and 2009 is as follows:

	Thousands of euros	
	31/12/10	31/12/09
Almirall Limited	(447)	(418)
Almirall, A.G.	2,970	1,079
Almirall SP, Z.O.O.	4	(25)
Almirall, S.A. de C.V. subgroup	(3,926)	(5,310)
Total reserves at consolidated companies	**(1,399)**	**(4,674)**

14. Deferred income

At 31 December 2010 and 2009, the breakdown of "Deferred Income" was as follows:

	Thousands of euros
Balance at 1 January 2009	**27,706**
Additions	51,739
Amount taken to income (Note 19)	(11,759)
Balance at 31 December 2009	**67,686**
Amount taken to income (Note 19)	(18,984)
Balance at 31 December 2010	**48,702**

The main item of the balances presented in the foregoing table relates to the amounts not allocated to income of the non-refundable initial amounts discussed in Note 6-a, of approximately EUR 48.3 million at 31 December 2010 (31 December 2009: approximately EUR 66.5 million), of which approximately EUR 18.3 million were taken to income in 2010 (2009: approximately EUR 9.8 million) (see Note 19).

The other amounts recognised under "Deferred Income" relate to amounts received in the period and in prior periods for the licensing of proprietary research products, recognised as indicated in Note 5-m.

15. Bank borrowings and derivative financial instruments

The detail of the bank borrowings and derivative financial instruments at 31 December 2010 and 2009 is as follows:

	Thousands of euros					
		Balance		Non-current		
	Limit	drawn down	Current	2012	2013	Total
Bank loans	350,000	184,000	92,000	92,000	-	92,000
Credit facilities	175,000	100,000	50,000	50,000	-	50,000
Liabilities arising from derivative financial instruments	N/A	7,072	-	7,072	-	7,072
Other financial liabilities (*)	N/A	6,395	6,395	-	-	-
Total at 31 December 2010	**525,000**	**297,467**	**148,395**	**149,072**	**-**	**149,072**
		Balance		Non-current		
	Limit	drawn down	Current	2011	2012	Total
Bank loans	350,000	244,000	60,000	92,000	92,000	184,000
Credit facilities	175,000	-	-	-	-	-
Liabilities arising from derivative financial instruments	N/A	10,454	-	1,541	8,913	10,454
Other financial liabilities (*)	N/A	11,233	9,922	1,311	-	1,311
Total at 31 December 2009	**525,000**	**265,687**	**69,922**	**94,852**	**100,913**	**195,765**

(*) Other financial liabilities include mainly liabilities to banks for drafts taken for collection management the amounts of which were advanced by the banks commissioned to manage the collections and the unmatured interest accrued on the debt.

All of the liabilities described in the foregoing table relate to accounts payable and the Company has not held or designated any instrument as financial liabilities at fair value except the derivative financial instruments.

On 27 March 2007, the Group entered into a loan and credit line agreement with a bank syndicate for amounts of EUR 150 million and EUR 100 million, respectively. At 31 December 2010, the Parent had EUR 60 million payable on the loan. The loan received is repayable in annual instalments of one fifth each until 27 March 2012, while the revolving credit line, drawable over periods of up to six months, has final maturity in 2012.

On 13 December 2007, the Group entered into a loan and credit line agreement with a bank syndicate for amounts of EUR 200 million and EUR 75 million, respectively. At 31 December 2010, the Parent had EUR 124 million payable on the aforementioned loan. The loan received is repayable in annual instalments of variable amount, the last being repayable on 13 December 2012, while the revolving credit line, drawable over periods of up to six months, has final maturity in 2012.

The interest rate established for this financing is Euribor plus a market spread that will vary in the future depending on certain financial ratios. The bank borrowings, excluding the derivative financial instruments, bore average interest during the years ended 31 December 2010 and 2009 at approximately 1.41% and 2.86%, respectively.

Also, the aforementioned financing agreements establish the requirement of fulfilling certain financial ratios and certain non-financial obligations that must be met. In the event of breach of any of the foregoing obligations would render the total amount financed and the interest accrued would become immediately claimable at the request of the banks. At the date of preparation of these consolidated financial statements, the directors consider that all of the aforementioned obligations have been fulfilled.

Liabilities arising from financial instruments-

The Group arranges over-the-counter derivative financial instruments with Spanish and international banks with high credit ratings.

Through these arrangements the Group aims to reduce the impact of a rise in floating interest rates (Euribor) on Group borrowings and adverse trends in the exchange rates of the currencies in which collections and payments must be made in connection with its operations.

Interest rate derivatives

The Group determines the fair value of interest rate derivatives (fixed-rate swaps or IRSs and collars) by discounting cash flows on the basis of the implicit euro interest rate calculated according to market conditions at the measurement date. For the options, the Group also uses the implicit market volatility as an input for determining the fair value of the option, using valuation techniques such as the Black & Scholes option pricing model and variations thereon applied to interest rate underlyings.

The interest rate derivatives arranged by the Group at 31 December 2010 and 2009 and their fair values at that date were as follows:

31/12/10			Thousands of euros			
Subsidiary	Instrument	Maturity	Nominal amount outstanding	Fair value	Fixed interest rate or range of fluctuation	Floating rate
Almirall, S.A. (1)	IRS	13/12/12	75,000	(3,611)	4.435%	6-month Euribor
Almirall, S.A. (2)	IRS	27/03/12	48,000	(1,478)	4.46%	6-month Euribor
Almirall, S.A. (3)	Collar	13/12/11	8,067	(178)	4.50% - 3.69%	6-month Euribor
Almirall, S.A. (4)	Collar	13/12/11	22,183	(490)	4.50% - 3.69%	6-month Euribor
Almirall, S.A. (5)	KI collar	26/07/12	18,750	(946)	4.68% - 3.75%	6-month Euribor
Almirall, S.A. (6)	KI collar	27/03/12	12,000	(369)	4.68% - 3.75%	6-month Euribor
Total			**184,000**	**(7,072)**		

31/12/09			Thousands of euros			
Subsidiary	Instrument	Maturity	Nominal amount outstanding	Fair value	Fixed interest rate or range of fluctuation	Floating rate
Almirall, S.A. (1)	IRS	26/07/12	85,000	(4,845)	4.43%	6-month Euribor
Almirall, S.A. (2)	IRS	27/03/12	72,000	(2,408)	4.46%	6-month Euribor
Almirall, S.A. (3)	Collar	13/12/11	17,400	(411)	4.50% - 3.69%	6-month Euribor
Almirall, S.A. (4)	Collar	13/12/11	47,850	(1,130)	4.50% - 3.69%	6-month Euribor
Almirall, S.A. (5)	KI collar	26/07/12	21,250	(1,060)	4.68% - 3.75%	6-month Euribor
Almirall, S.A. (6)	KI collar	27/03/12	18,000	(600)	4.68% - 3.75%	6-month Euribor
Total			**261,500**	**(10,454)**		

The Group hedges the interest rate risk on a portion of the financing in euros bearing floating interest rates through IRSs and collars. In the IRSs interest rates are exchanged so that the Group receives a floating rate (6-month Euribor) from the bank and pays a fixed rate on the same nominal amount. The floating interest rate received for the derivative offsets the interest payable on the hedged borrowings. The end result is a fixed interest rate payment on the hedged borrowings. Similarly, in collars maximum and minimum rates are established for the Euribor on the financing (6-month Euribor).

The amount recognised as a financial liability at 31 December 2010, as the effective portion of the hedging relationships of the IRSs (1) and (2) and of the collars (3) and (4), was approximately EUR 5,757 thousand (31 December 2009: approximately EUR 8,794 thousand). The Parent has designated the relevant hedging relationships at 31 December 2010 and 2009, which are fully effective. In these hedging relationships the changes in the floating Euribor rate of the hedged borrowings constitute the hedged risk.

In 2010 approximately EUR 2,541 thousand was deducted from equity (2009: approximately EUR 1,130 thousand) – the amount of the interest accrued on the derivatives during the year– and was allocated to profit or loss as the interest on the financial liabilities hedged in accordance with the designated hedging relationships was recognised.

Also, financial liabilities were recognised for the financial derivatives not designated as “hedge accounting” (collars (5) and (6), which contain knock-ins), which do not meet the requirements to be designated in accordance with IAS 39, amounting to approximately EUR 1,315 thousand and EUR 1,660 thousand, with a balancing entry in the respective consolidated income statements for 2010 and 2009.

Analysis of sensitivity to interest rates

The changes in the fair value of the interest rate derivatives arranged by the Group depend on the changes in the long-term euro interest rate curve. The fair value of these derivatives at 31 December 2010 was approximately EUR 7,072 thousand.

The detail of the sensitivity analysis (changes in the fair value at 31 December 2010) of the fair values of the derivatives recognised in equity (hedges) and profit or loss (derivatives that do not qualify for hedge accounting) is as follows:

Sensitivity in equity	Thousands of euros 31/12/10
+0.5% (increase in the interest rate curve)	637
- 0.5% (decrease in the interest rate curve)	(647)

Sensitivity in profit or loss	Thousands of euros 31/12/10
+0.5% (increase in the interest rate curve)	140
- 0.5% (decrease in the interest rate curve)	(142)

The sensitivity analysis indicates that the positive value of interest rate derivatives increases when interest rates rise since we are dealing with IRSs or collars in which the Company pays a fixed or capped interest rate and, therefore, the Group is protected against interest rate rises.

The sensitivity of the derivatives at 31 December 2010 will affect equity and profit or loss to the extent that market conditions change.

16. Other liabilities

The detail at 31 December 2010 and 2009 is as follows:

	Thousands of euros					
		Non-current				
	Current	2012	2013	2014	Subsequent years	Total
Loans related to research	3,816	4,280	3,665	2,288	10,509	20,742
Payables for non-current asset purchases	4,781	-	-	-	-	-
Remuneration payable	32,160	-	-	-	-	-
Advances and guarantees received	177	-	-	-	-	-
Other liabilities	17	-	-	-	-	-
Total at 31 December 2010	**40,951**	**4,280**	**3,665**	**2,288**	**10,509**	**20,742**
		Non-current				
	Current	2011	2012	2013	Subsequent years	Total
Loans related to research	3,964	3,816	4,280	3,665	12,526	24,287
Payables for non-current asset purchases	6,707	-	-	-	-	-
Remuneration payable	28,144	-	-	-	-	-
Advances and guarantees received	189	-	-	-	-	-
Other liabilities	-	52	-	-	-	52
Total at 31 December 2009	**39,004**	**3,868**	**4,280**	**3,665**	**12,526**	**24,339**

The loans related to research correspond to interest-free loans granted by the Ministry of Science and Technology to promote research and are presented as described in Note 5-i. The grant of these loans is subject to the fulfilment of certain investment and expense obligations.

Payables for non-current asset purchases in 2010 and 2009 relate mainly to the outstanding payments for the acquisition of goods, products and marketing licences made in the year and in prior years.

17. Provisions

The changes in 2010 and 2009 in “Provisions” in the accompanying consolidated balance sheets were as follows:

	Thousands of euros					
	2010			2009		
	Provision for sales returns	Other provisions	Total	Provision for sales returns	Other provisions	Total
Balance at 1 January	**10,472**	**2,724**	**13,196**	**8,988**	**2,856**	**11,844**
Additions or charge for the year	3,216	287	3,503	1,484	-	1,484
Disposals or transfers	-	-	-	-	(132)	(132)
Balance at 31 December	**13,688**	**3,011**	**16,699**	**10,472**	**2,724**	**13,196**

Provisions for sales returns-

The provision for product returns relates to the amounts required to cover the losses due to returns that may arise in the future as a result of sales made in the current or previous years. This provision was calculated as described in Note 5-k.

Other provisions-

“Other Provisions” relates to the estimate made by the Group of the disbursements that it should make in the future to settle other liabilities arising as a result of the nature of its business activity.

18. Retirement benefit obligations

The changes in “Retirement Benefit Obligations” in the accompanying consolidated balance sheets in 2010 and 2009 were as follows:

	Thousands of euros
Balance at 1 January 2009	**32,904**
Additions	2,699
Reversals	(1,487)
Balance at 31 December 2009	**34,116**
Additions	3,541
Reversals	(236)
Balance at 31 December 2010	**37,421**

The retirement benefit obligations relate to the Group subsidiaries Almirall Hermal, GmbH, Almirall Sofotec, GmbH and Almirall, SaS.

19. Income and expenses

Revenue-

The detail, by business line, of revenue in 2010 and 2009 is as follows:

	Thousands of euros	
	2010	2009
Sales through own network	784,709	818,789
Sales through licensees	69,853	71,001
Corporate management and revenue not allocable to other segments	27,876	35,696
Total	**882,438**	**925,486**

The detail, by geographical area, of revenue in 2010 and 2009 is as follows:

	Thousands of euros	
	2010	2009
Spain	495,324	536,010
Europe and the Middle East	288,720	284,131
America, Asia and Africa	70,517	69,649
Unallocated	27,877	35,696
Total	**882,438**	**925,486**

Other income-

	Thousands of euros	
	2010	2009
Cooperation in the promotion of products	24,635	30,158
Income from co-promotion agreements	21,507	27,247
Income from co-development agreements	65,769	42,938
Income from sales/product marketing licenses	4,112	1,018
Royalties	(56)	2,346
Grants	872	1,665
Other	2,813	2,455
Total	**119,652**	**107,827**

The first four items detailed in the foregoing table refer basically to other income relating to sales/marketing licenses for proprietary research products which were accounted for as indicated in Note 5-m.

Also, in 2010 "Income from Co-Development Agreements" included approximately EUR 47.5 million (2009: approximately EUR 32.1 million) relating to the charge to a third party of the portion that the latter must bear of the development costs of certain products, previously borne by the Group, as described in Note 6-a. Also, in 2010 this heading included approximately EUR 18.3 million (2009: EUR 9.8 million) relating to the timing of recognition in the income statement of the non-refundable amounts initially received (see Note 14).

Cost of materials used-

The detail of "Cost of Materials Used" is as follows:

	Thousands of euros	
	31/12/10	31/12/09
Purchases	263,836	274,856
Change in inventories of raw materials and other procurements	8,242	(811)
Changes in inventories of goods held for resale, finished goods and work in progress	1,709	14,961
Total	**273,787**	**289,006**

Staff costs-

The detail of "Staff Costs" is as follows:

	Thousands of euros	
	2010	2009
Wages and salaries	170,368	178,617
Employer social security costs	34,257	36,582
Termination benefit costs	12,555	4,290
Other employee benefit costs	12,444	10,944
Total	**229,624**	**230,433**

The average number of employees at the Group, by professional category and gender, which does not differ significantly from the number at year-end, was as follows:

	Thousands of euros					
	2010			2009		
	Men	Women	Total	Men	Women	Total
Managers	56	4	60	57	3	60
Supervisors	212	82	294	229	82	311
Other line personnel	1,054	1,026	2,080	1,153	1,133	2,286
Clerical staff	177	395	572	184	390	574
Other	5	1	6	2	1	3
Total	**1,504**	**1,508**	**3,012**	**1,625**	**1,609**	**3,234**

At 31 December 2010, 486 Group employees were engaged in research and development activities (31 December 2009: 498 Group employees).

Other operating expenses-

The detail of "Other Operating Expenses" is as follows:

	Thousands of euros	
	2010	2009
Leases	32,475	33,442
Repair and upkeep expenses	15,861	14,859
Independent professional services	92,919	62,992
Transport expenses	8,657	8,887
Insurance premiums	3,380	3,936
Banking and similar services	296	326
Utilities	5,780	5,939
Other services		
- Telephone and communication expenses	5,319	5,632
- Materials and IT developments	20,913	19,925
- Per diems and travelling expenses	11,137	11,829
- Other expenses	76,867	94,167
Taxes other than income tax	5,751	6,165
Total	**279,355**	**268,099**

Operating leases-

The rental costs incurred in 2010 and 2009 were as follows:

	Thousands of euros	
	2010	2009
Operating leases recognised in income for the year	18,766	19,618

At the consolidated balance sheet date, the Group had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

	Thousands of euros	
	2010	2009
Within one year	18,700	19,595
2 to 5 years	18,867	38,794
Over 5 years	-	675

The assets under lease and the average term of the lease agreements are as follows:

	Average lease term (years)
Leased assets:	
Buildings	5
Premises	5
Office equipment	4
Transport equipment	4

Net change in allowances, provisions and write-downs-

The detail of "Net Change in Allowances, Provisions and Write-downs" in the accompanying consolidated income statement and of the changes in the short-term provisions is as follows:

	Thousands of euros	
	2010	2009
Change in allowance for doubtful debts	(327)	84
Change in inventory write-downs	(147)	675
Change in long-term provisions (Note 17)	3,503	1,075
Total	**3,029**	**1,834**

	Thousands of euros		
	Allowance for doubtful debts (Note 12)	Inventory write-downs (Note 11)	Total
Balance at 1 January 2009	**1,265**	**9,477**	**10,742**
Changes in allowances and write-downs			
Charge for the year	116	3,673	3,789
Amounts used	(32)	(2,998)	(3,030)
Balance at 31 December 2009	**1,349**	**10,152**	**11,501**
Change in allowances and write-downs			
Charge for the year	313	19,321	19,634
Amounts used	(640)	(19,468)	(20,108)
Amounts reversed	(220)	-	(220)
Balance at 31 December 2010	**802**	**10,005**	**10,807**

Net gains on asset disposals-

The detail of the net gains/(losses) on non-current asset disposals in 2010 and 2009 is as follows:

	Thousands of euros			
	2010		2009	
	Gains	Losses	Gains	Losses
On disposal or derecognition of intangible assets	6	(1,445)	19.100	(1.905)
On disposal or derecognition of property, plant and equipment	71	(90)	115	(189)
On disposal or derecognition of non-current financial assets	-	(27)	-	-
	77	**(1,562)**	**19.215**	**(2.094)**
Gains on disposal of non-current assets	**(1,485)**		**17,121**	

In 2008 the Group and a third party entered into a EUR 19.1 million agreement for the purchase and sale of 13 products that the Group sells in the Spanish market. Completion of the aforementioned agreement was conditional on certain conditions which were met in 2009.

Restructuring costs-

In 2010 and 2009 the Group undertook processes to restructure mainly the Spanish and international commercial networks which entailed the dismissal of a significant portion of its sales personnel and the reorganisation of its commercial activities. Taking into account these factors, the Group recognised the costs associated with these terminations, totalling approximately EUR 11,619 thousand in 2010, under “Restructuring Costs” in the accompanying consolidated income statement (2009: EUR 8,534 thousand).

Finance income and costs-

The detail of the net finance income/(costs) and exchange differences in 2010 and 2009 is as follows:

	Thousands of euros			
	2010		2009	
	Gains	Losses	Gains	Losses
Income from other marketable securities	3,503	-	1.962	-
Other interest and similar income	837	-	981	-
Finance and similar costs	-	(16,936)	-	(19.764)
Exchange differences	15,477	(12,697)	8.619	(8.552)
	19,817	**(29,633)**	**11.562**	**(28.316)**
Financial loss	**(9,816)**		**(16,754)**	

Fees paid to auditors-

In 2010 and 2009 the fees for financial audit services and other services provided by the Group's auditor, Deloitte, S.L., or by a firm related to the auditor due to control, joint ownership or management reasons were as follows (in thousands of euros):

	Services provided by the auditor and by related companies	
	2010	2009
Audit services	687	747
Other attest services	9	9
Total audit and related services	**696**	**756**
Tax advisory services	24	15
Other services	92	83
Total other professional services	**116**	**98**

20. Tax matters

Consolidated Tax Group-

Almirall, S.A. files consolidated tax returns as provided for in Title VII, Chapter VII Legislative Royal Decree 4/2005, of 5 March, approving the Consolidated Corporation Tax Law. The companies composing the tax group for 2010 and 2009 were: Almirall, S.A., Laboratorios Almofarma, S.L., Pantofarma, S.L., Laboratorio Temis Farma, S.L., Laboratorios Berenguer-Infale, S.L., Industrias Farmacéuticas Almirall, S.L., Laboratorio Omega Farmacéutica, S.L., Laboratorios Tecnobío, S.A., Laboratorios Miralfarma, S.L., Alprofarma, S.L., Laboratorios Farmacéuticos Romofarm, S.L., Ranke Química, S.L. and Almirall Europa, S.A., with Almirall, S.A. as the Parent. Consequently, Almirall, S.A. is responsible to the tax authorities for preparing and filing the income tax return.

Income tax is calculated on the basis of accounting profit determined by application of generally accepted accounting principles, which does not necessarily coincide with the taxable profit.

The Group's other subsidiaries file individual tax returns in accordance with the tax legislation in force in each country.

Years open for review by the tax authorities-

On 10 February 2010, the consolidated tax group, of which Almirall, S.A. is the Parent, received notification of the commencement of a tax audit for 2007 and 2008 for all the taxes applicable to it. These audits, which concluded prior to year-end, did not have a significant impact for the Group.

The Parent and the companies in the tax group headed by it, have 2009 and 2010 open for review by the tax authorities for all the taxes applicable to them.

The Group's Spanish companies have 2007 to 2009 open for review by the tax authorities for income tax and the other taxes applicable to them.

In relation to the Group's foreign companies, Almirall S.A.S. (France) is currently involved in arbitration proceedings relating to 2003 and 2004. The inspection was targeted on the losses incurred by Almirall S.A.S. on proprietary research products purchased from the Parent. The latest proposed adjustment issued by the tax authorities amounted to approximately EUR 1.4 million (tax deficiency plus late-payment interest). In 2010 the tax returns filed by the investee in relation to various taxes paid from 2006 to 2009 were also subject to review, for which tax assessments amounting to approximately EUR 3.6 million were issued (tax deficiency plus late-payment interest).The Group has decided not to recognise any provisions in this connection since it considers that the possibility of the proposal succeeding is very low. The Group and its external advisers consider that the likelihood of the tax authorities' effectively claiming the aforementioned or any other potentially significant amount is remote and, therefore, no provisions in this connection were recognised in the consolidated balance sheets for 2010 and 2009.

The other foreign companies have all the applicable years open for review by the tax authorities on the basis of their respective legislations.

Generally, in view of the varying interpretations that can be made of the applicable tax legislation, the outcome of the tax audits of the open years that are being or could be conducted by the tax authorities in the future could give rise to tax liabilities which cannot be objectively quantified at the present time. However, the tax advisers and directors of the Parent consider that the possibility of material liabilities arising in this connection additional to those already recognised is remote.

Tax receivables and payables-

The detail of the current tax receivables and payables at 31 December 2010 and 2009 is as follows:

	Thousands of euros	
	31/12/10	31/12/09
VAT refundable	4,814	7,513
Social security taxes receivable	11	93
Income tax receivable	11,854	11,794
Other receivables	889	1,102
Total tax receivables	**17,568**	**20,502**
Current tax account payable	620	28,926
VAT payable	3,884	3,969
Personal income tax withholdings	11,020	9,744
Accrued social security taxes payable	6,949	5,684
Income tax payable	4,577	2,825
Pharmaceutical tax and other payables	8,901	5,063
Total tax payables	**35,951**	**56,211**

"Current Tax Account Payable" includes the outstanding balances payable by the Parent in connection with VAT, personal income tax withholdings and income tax prepayments of the consolidated tax group of which Almirall, S.A. is the Parent.

"Pharmaceutical Tax and Other Payables" in the foregoing table includes mainly a provision for the payments that will foreseeably be made, on the one hand, with respect to Law 29/2006, of 26 July, on guarantees and the rational use of medicines and healthcare products (partially amending Additional Provision Nine of Law 25/1990, of 20 December, on medicines –pharmaceutical tax– approved by State Budget Law 2/2004, of 27 December, for 2005), and, on the other, to Royal Decree-Law 8/2010, of 20 May, on the adoption of extraordinary measures to reduce the public deficit.

Income tax recognised-

The detail of the income tax recognised in the consolidated income statement and in equity in 2010 and 2009 is as follows:

	Thousands of euros	
	2010	2009
Income tax:		
- Recognised in the income statement	577	19,996
- Recognised in equity	690	(619)
Total	**1,267**	**19,377**

Reconciliation of the accounting profit to the taxable profit-

The reconciliation of the income tax expense resulting from the application of the standard tax rate in force in Spain to the income tax expense recognised is as follows:

	Thousands of euros	
	2010	2009
Consolidated profit before tax (continuing activities)	119,181	171,490
Permanent differences:		
- Individual companies		
Increase	19,551	7,491
Decrease	(70,203)	(107,642)
- Consolidation adjustments		
Increase	67,044	121,775
Decrease	(4,396)	(313)
Adjusted accounting profit	131,177	192,801
Tax rate	30.0%	30.0%
Gross tax	**39,353**	**57,840**
Tax credits:		
- Taken in settlements	(1,399)	(2,923)
- Recognised but not yet taken	(34,219)	(27,878)
Income tax paid abroad	306	288
Adjustment of deferred tax assets and liabilities	1,136	1,621
Tax loss carryforwards recognised	-	(2,879)
Theoretical tax expense incurred	**5,178**	**26,069**
Effect of different tax rates between countries	(4,416)	(6,063)
Other changes	(185)	(10)
Income tax expense (income) charge	**577**	**19,996**

The increase in the taxable profit as a result of the permanent differences of the individual companies arising in 2010 and 2009 was due mainly to the differing tax treatment of certain provisions recognised and expenses incurred in those years. The decrease in the taxable profit as a result of the permanent differences of the individual companies was due mainly to the distribution of tax-free dividends by subsidiaries.

In 2010 and 2009 the increase in the taxable profit as a result of permanent differences arising from consolidation adjustments was due mainly to the elimination of dividends.

The detail, by nature and amount, of the tax incentives taken in 2010 and 2009 and of those not yet taken at 31 December 2010 and 2009 is as follows:

Nature	Year earned	Thousands of euros			
		2010		2009	
		Amount offset	Amount available for offset (*)	Amount offset	Amount available for offset
Research and development	2004	-	-	3,548	-
	2005	6,071	-	14,332	6,071
	2006	8,132	21,929	-	31,157
	2007	-	42,424	-	42,671
	2008	-	34,850	-	35,028
	2009	-	26,883	-	26,243
	2010	-	34,219	-	-
		14,203	**160,305**	**17,880**	**141,170**
Double taxation	2009	-	-	1,484	-
	2010	309	-	-	-
		309	**-**	**1,484**	**-**
Other tax credits	2009	1,635	-	1,439	1,635
	2010	1,090	-	-	-
		2,725	**-**	**1,439**	**1,635**
	Total	**17,237**	**160,305**	**20,803**	**142,805**

(*) The amount of the tax credits by year and nature was modified as a result of audits by the tax authorities.

The limitation period on the tax credits yet to be taken expires basically 15 years after they arise and are generally subject to a limit of 50% of the tax liability.

Also, at 31 December 2010 the Group was obliged to make investments in the Canary Islands Autonomous Community in relation to the tax incentives for investment in the Canary Islands, with the following amounts and deadlines:

Year earned	Thousands of euros			Last year for investment
	Investment			
	Committed	Made	Not yet made	
2003	2,398	2,398	-	2007
2005	2,492	1,625	867	2009
2006	2,742	-	2,742	2010
Total	**7,632**	**4,023**	**3,609**	

Deferred taxes-

Pursuant to the tax legislation in force in the countries in which the consolidated companies are located, in 2010 and 2009 certain temporary differences arose that must be taken into account when quantifying the related income tax expense. The detail of the deferred taxes recognised in 2010 and 2009 is as follows:

	Thousands of euros			
	2010		2009	
	Differences accumulated in taxable profit	Cumulative effect on tax liability	Differences accumulated in taxable profit	Cumulative effect on tax liability
Deferred tax assets:				
Amortisation of intangible assets	35,264	10,603	43,124	12,988
Provisions	32,062	9,044	33,584	9,506
Retirement benefit obligations	8,352	2,345	7,288	2,046
Inventory measurement bases	3,929	1,400	2,617	1,007
Market valuation of financial instruments	11,193	3,358	9,640	2,892
Other	6,825	834	6,474	953
	97,624	27,585	102,727	29,392
Tax assets:				
Tax loss carryforwards	3,662	1,098	4,401	1,439
Tax credit carryforwards		160,305		142,805
Total deferred and other tax assets:	**101,286**	**188,988**	**107,128**	**173,636**
Deferred tax liabilities:				
Accelerated depreciation Royal Decrees 27/84, 2/85, 3/93	45,760	13,509	45,909	13,617
Assets held under finance lease	8,711	2,613	8,711	2,613
Capitalisation of intangible assets	17,775	5,333	17,775	5,333
Allocation of gains to assets	69,467	19,445	87,577	24,498
Amortisation of goodwill	67,889	20,443	58,285	17,543
Tax effect of reversing provisions for equity investments in subsidiaries	70,306	21,492	82,906	25,272
Other	2,644	389	2,646	213
Deferred tax liabilities	**282,552**	**83,224**	**303,809**	**89,089**

The increase in the deferred tax assets was due mainly to the differing tax treatment of the amortisation and depreciation and, as the case may be, impairment charge for merger goodwill and certain items of intellectual property (see Notes 7 and 8) and to the differing accounting and tax treatment of the retirement benefit obligations (see Note 18).

The increase in the deferred tax liabilities relates mainly to the difference between the tax base of the various assets included in the acquisition of the Hermal Group (see Notes 7, 8 and 9) and the fair value allocated thereto that has not yet been realised.

At 31 December 2010 and 2009, the Group companies had not recognised any tax losses incurred in the current year or in previous years, the deferred tax assets of which had not been recognised in the accompanying consolidated balance sheet.

Also, the accompanying consolidated balance sheets include deferred tax liabilities at 31 December 2010 amounting to EUR 21.5 million (31 December 2009: EUR 25.3 million) relating to the tax effect of reversing the investment valuation allowance in the consolidation process.

21. Business and geographical segments

Basis of segmentation

The main criteria applied when defining the segment information of the Group included in the consolidated financial statements for the years ended 31 December 2010 and 2009 are described below.

Business segments:

The business lines described below were established on the basis of the organisational structure of the Almirall Group at 2010 year-end, which constitute the basis upon which the Group discloses the primary segment information.

a) Sales through own network

b) Sales through licensees

c) Corporate management and results not allocated to other segments

In addition, the operating segments on which information is reported in these notes to the consolidated financial statements are those whose income, profit and/or assets are greater than 10% of the related consolidated figure. Accordingly, “Corporate Management and Results Not Allocated to Other Segments” includes the revenue and expenses that are not directly related and allocated to the business lines, which refer mainly to corporate assets and the Group’s production and research and development centres.

Geographical segments:

The Group’s business activities are also coordinated by geographical area, on the basis of the following classification: Spain, Europe and the Middle East (EME) and America, Africa and Asia (AAA).

Basis and methodology for segment reporting-

The segment reporting below is based on reports prepared by Group management which are generated using information based on the Group’s consolidated accounting data.

For the purposes of determining the segment reporting included in the consolidated income statements, the consolidated balances of each segment were included reflecting, therefore, the consolidation adjustments relating to each of the segments. Inter-segment transactions were also eliminated. For the purposes of determining the segment reporting included in the consolidated balance sheets, the consolidation adjustments were not included.

The segment's total revenue, comprising “Revenue” and “Other Income”, consists of revenue directly attributable to the segment. Other revenue items in the consolidated income statement were not distributed among segments.

Also, for the purposes of segment reporting, the income received by the Group as a result of the agreements entered into with Forest Laboratories (see Note 6-a) was classified as follows:

- Allocation to income of the initial amounts paid by Forest Laboratories (see Notes 6-a and 14): based on the nature of the consideration, the allocation to profit or loss of the initial payment made by the third party was included under “Other Income” in the segment “Sales through Licensees”.

- Co-development revenue (see Notes 6-a and 19) was included under “Other Income” in the segment “Corporate Management and Results Not Allocated to Other Segments”, in view of its association with the development costs borne by the Group included in the aforementioned segment.

The expenses included in each segment are determined on the basis of the directly allocable expenses incurred in the operating activities of the segment which include, inter alia, “Procurements”, “Staff Costs” and “Depreciation and Amortisation Charge”. In this regard, the amounts presented under “Procurements” in each of the segments include the cost of acquisition of materials plus the costs allocated thereto by the Group in the manufacturing process (such costs entail the addition of staff costs and depreciation and amortisation, among other costs). These costs are included, by nature, in the segment “Corporate Management and Results Not Allocated to Other Segments” and, therefore, prior to obtaining the data from the Group’s consolidated income statements, are eliminated.

The expenses included in each of the segments, as discussed above, do not include depreciation or amortisation, impairment losses, interest, the income tax expense or overheads corresponding to general services that are not directly allocated to each business segment and, therefore, were not distributed.

In preparing the segment reporting in the consolidated income statement, since it is consolidated information reflecting the consolidation adjustments and reclassifications, inter-segment transactions, which relate mainly to the supply of products and services, were not taken into consideration, except for the aforementioned elimination corresponding to the production costs allocated to products.

For the purposes of presenting the information in the consolidated income statement by segment, the gross margin and profit from operations presented must be understood to be the result of the following arithmetical formulas:

- Gross margin: revenue - procurements

- Profit from operations: gross margin + other income - staff costs - depreciation and amortisation - net change in allowances - other operating expenses.

The Group did not disclose finance income, finance costs and income tax by segments in the consolidated financial statements as it was not information used by the senior executives in the management of the Group, or information on significant customers as none of them individually represents a percentage greater than 10% of the Group’s revenue.

Segment assets are those directly related to the segment’s operating activity and relate mainly to: patents, trademarks and product production, sale and/or distribution licences, directly attributable property, plant and equipment and accounts receivable generated by each segment.

The Group has not established methods for distributing equity by segment and, therefore, does not disclose this information. Also, certain balance sheet items including, inter alia, current and non-current financial assets held by the Group, cash and cash equivalents, inventories, tax receivables and payables and other items of less importance are considered to relate to the segment “Corporate Management and Results Not Allocated to Other Segments”.

Segment reporting-

Business segments-

Segmented income statement for the year ended 31 December 2010:

	Thousands of euros				
	Sales through own network	Sales through licensees	Corporate management and results not allocated to other segments	Adjustments and reclassifications	Total
Revenue	784,709	69,853	27,876	-	882,438
Procurements	(278,286)	(11,609)	(39,055)	55,163	(273,787)
Gross profit	**506,423**	**58,244**	**(11,179)**	**55,163**	**608,651**
Other income	46,809	21,323	51,520	-	119,652
Staff costs	(111,648)	(210)	(117,766)	-	(229,624)
Depreciation and amortisation charge	(36,832)	-	(25,059)	-	(61,891)
Net change in allowances, provisions and write-downs	-	-	(3,029)	-	(3,029)
Other operating expenses	(139,430)	(5,130)	(134,795)	-	(279,355)
Profit/(Loss) from operations	**265,322**	**74,227**	**(240,308)**	**55,163**	**154,404**
Gains or losses on disposals of non-current assets / other					(543)
Restructuring costs					(11,619)
Impairment losses					(13,967)
Financial loss					(9,094)
Profit before tax					**119,181**
Income tax					(577)
Net profit attributable to the Parent					**118,604**

Segmented balance sheet at 31 December 2010:

	Thousands of euros			
ASSETS	Sales through own network	Sales through licensees	Corporate management and results not allocated to other segments	Total
Goodwill	-	-	271,879	271,879
Intangible assets	295,018	-	87,760	382,778
Property, plant and equipment	8,831	-	145,986	154,817
Financial assets	-	-	10,208	10,208
Deferred tax assets	3,235	-	185,753	188,988
NON-CURRENT ASSETS	**307,084**	**-**	**701,586**	**1,008,670**
Inventories	-	-	87,900	87,900
Trade and other receivables	65,317	8,434	30,070	103,821
Current tax assets	4,876	-	12,692	17,568
Current financial assets	-	-	250,403	250,403
Cash and cash equivalents	-	-	62,515	62,515
Other current assets	1,255	-	4,608	5,863
CURRENT ASSETS	**71,448**	**8,434**	**448,188**	**528,070**
TOTAL ASSETS	**378,532**	**8,434**	**1,149,774**	**1,536,740**

Non-current asset additions by segment in the year ended 31 December 2010

	Thousands of euros			
	Sales through own network	Sales through licensees	Corporate management and results not allocated to other segments	Total
Total non-current asset additions	27,842	-	64,395	92,237

Segmented income statement for the year ended 31 December 2009:

	Thousands of euros				
	Sales through own network	Sales through licensees	Corporate management and results not allocated to other segments	Adjustments and reclassifications	Total
Revenue	818,789	71,001	35,696	-	925,486
Procurements	(300,464)	(12,304)	(31,842)	55,604	(289,006)
Gross profit	**518,325**	**58,697**	**3,854**	**55,604**	**636,480**
Other income	57,674	13,005	37,148	-	107,827
Staff costs	(119,922)	(1,162)	(109,349)	-	(230,433)
Depreciation and amortisation charge	(39,793)	(71)	(24,960)	-	(64,824)
Net change in allowances, provisions and write-downs	-	-	(1,834)	-	(1,834)
Other operating expenses	(148,097)	(4,794)	(115,208)	-	(268,099)
Profit/(Loss) from operations	**268,187**	**65,675**	**(210,349)**	**55,604**	**179,117**
Gains or losses on disposals of non-current assets and other					19,077
Restructuring costs					(8,534)
Impairment losses					(1,025)
Financial loss					(17,145)
Profit before tax					**171,490**
Income tax					(19,996)
Net profit attributable to the Parent					**151,494**

Segmented balance sheet at 31 December 2009:

	Thousands of euros			
	Sales through own network	Sales through licensees	Corporate management and results not allocated to other segments	Total
ASSETS				
Goodwill	-	-	272,672	272,672
Intangible assets	323,089	-	29,715	352,804
Property, plant and equipment	10,563	-	158,497	169,060
Financial assets	-	-	10,811	10,811
Deferred tax assets	4,069	-	169,567	173,636
NON-CURRENT ASSETS	**337,721**	**-**	**641,262**	**978,983**
Inventories	-	-	97,704	97,704
Trade and other receivables	72,777	14,626	32,995	120,398
Current tax assets	5,205	-	15,297	20,502
Current financial assets	-	-	220,281	220,281
Cash and cash equivalents	-	-	39,385	39,385
Other current assets	1,606	-	4,113	5,719
CURRENT ASSETS	**79,588**	**14,626**	**409,775**	**503,989**
TOTAL ASSETS	**417,309**	**14,626**	**1,051,037**	**1,482,972**

Non-current asset additions by segment in the year ended 31 December 2009:

	Thousands of euros			
	Sales through own network	Sales through licensees	Corporate management and results not allocated to other segments	Total
Total non-current asset additions	47,326	-	23,226	**70,552**

Revenue by product and geographical market-

The detail of the contribution of the Group's main products to revenue in 2010 and 2009 is as follows:

	Thousands of euros	
	2010	2009
Ebastine	119,459	114,411
Atorvastatin	73,834	112,821
Escitalopram	64,434	65,447
Salmeterol + Fluticasone	60,252	60,072
Almotriptan	49,013	51,770
Candesartan	48,285	44,042
Aceclofenac	39,619	43,073
Lansoprazole	34,385	34,863
Venlafaxine	30,633	34,523
Sitagliptin	25,891	10,359
Other	336,633	354,105
Total	**882,438**	**925,486**

Accordingly, the breakdown, by geographical area, of the revenue in 2010 and 2009 is detailed in Note 19.

22. Earnings per share

Dividends paid by the Parent

The detail of the dividends paid by the Parent in 2010 and 2009, which in both cases related to the dividends approved out of 2009 and 2008 profit, respectively, is as follows:

	2010			2009		
	% of nominal amount	Euros per share	Amount (Thousands of euros)	% of nominal amount	Euros per share	Amount (Thousands of euros)
Ordinary shares	277%	0.33	55,145	263%	0.32	52,482
Total dividends paid			**55,145**	**263%**	**0.32**	**52,482**
Dividends charged to income	277%	0.33	55,145	263%	0.32	52,482

Basic earnings per share

Basic earnings per share are calculated by dividing the net profit or loss attributable to the Group by the weighted average number of ordinary shares outstanding during the year, excluding the average number of treasury shares held in the year.

Accordingly:

	2010	2009
Net profit for the year (thousands of euros)	118,604	151,494
Weighted average number of shares outstanding (thousands of shares)	166,099	166,099
Basic earnings per share (euros)	**0.71**	**0.91**

Diluted earnings per share

At 31 December 2010 and 2009, there were no potential ordinary shares as a result of possible conversions of debt, equity or derivative financial instruments and, therefore, the diluted earnings per share coincide with the basic earnings per share.

23. Acquired obligations, contingent liabilities and contingent assets

a) Acquired obligations

At 31 December 2010 and 2009, the Group had contingent payment obligations for the acquisition of product licences and intellectual property as indicated in Note 8.

Also, as a result of the research and development activities carried out by the Group, at 31 December 2010 firm agreements had been entered into in relation to the performance thereof amounting to approximately EUR 5.6 million (31 December 2009: approximately EUR 36.9 million), which will have to be settled in future years.

Note 19 on leases details the obligations acquired by the Group in relation to leases.

f) Contingent liabilities

There were no other contingent liabilities at the date of authorisation for issue of these consolidated financial statements that might result in significant cash outlays additional to those discussed in Note 20.

g) Contingent assets

As a result of the agreements entered into with a third party in 2010 and prior years (see Note 6-a), in addition to the amount received upon achieving the milestone in the year (see Note 19), the Group should receive USD 258.5 million on achieving certain milestones relating to the successful completion of the various development phases of the products referred to in the aforementioned agreement at 31 December 2010. The aforementioned agreement also establishes collections for milestones relating to the achievement of sales targets for the potential products in the US market, which could amount to a maximum of USD 400 million; the aforementioned agreement also establishes the Group's entitlement to collect certain royalties (calculated as a variable percentage, scaled on the annual sales in the US market) for the aforementioned potential products.

24. Related party transactions

Transactions between the Parent and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this Note. Transactions between the Parent and its subsidiaries are disclosed in the separate financial statements.

Balances and transactions with other related parties

In 2010 and 2009 the Group companies performed the following transactions with related parties, and at 31 December 2010 and 2009 the balances receivable therefrom and payable thereto were as follows:

				Thousands of euros	
Company	Related party	Transaction	Year	Transactions - Income/ (Expenses)	Balance – Receivable /(Payable)
Almirall, S.A.	Walton, S.L.	Leases	2010	(2,677)	-
			2009	(2,650)	-
Almirall, S.A.	Picking Pack, S.L.	Office supplies	2010	(294)	-
			2009	(12)	(55)

The Group's headquarters are leased from Walton, S.L. -expiring 2011- although it is not expected that there will be any problems as regards renewal of the lease.

25. Remuneration of directors and executives

For the purposes of the consolidated financial statements, the Group considers the members of the Management Committee who are not members of the Board of Directors as executives.

The amount earned by the executives who are not members of the Parent's Board of Directors in 2010, for all types of remuneration (wages, bonuses, attendance fees and per diems, compensation in kind, indemnities, incentive plans and social security contributions) amounted to approximately EUR 1,461 thousand (2009: approximately EUR 1,188 thousand).

At 31 December 2010 and 2009, there were no other pension obligations to the executives.

In 2010 the amount earned by the current and former members of the Board of Directors for all types of remuneration (wages, bonuses, attendance fees and per diems, compensation in kind, life insurance plans, indemnities, incentive plans and social security contributions) amounted to approximately EUR 4,009 thousand (2009: approximately EUR 3,610 thousand).

The remuneration earned, paid and not paid by the Parent in 2010, for both the Parent's executives and Board of Directors in connection with expired pluriannual incentive and loyalty-building plans and the SEUS Plan (see Note 4-t) amounted to approximately EUR 602 thousand (2009: approximately EUR 2,919 thousand).

At 31 December 2010 and 2009, there were no other pension or life insurance obligations to the current and former members of the Board of Directors of the Parent.

26. Other disclosures concerning the Board of Directors

In relation to the disclosures required under Article 229 of the Spanish Public Limited Liability Companies Law, in 2010 and 2009, the current and former members of the Board of Directors of Almirall, S.A., or the parties related thereto, as defined in Article 231 of the Spanish Public Limited Liability Companies Law, did not hold direct or indirect ownership interests in companies engaging in an activity that is identical, similar or complementary to that which constitutes the company object of the Parent, other than the indirect ownership interests held by Jorge Gallardo Ballart, Antonio Gallardo Ballart and Daniel Bravo Andreu in the other Almirall Group companies, as a result of being shareholders of the Parent.

Also, the current and former members of the Board of Directors of Almirall, S.A. performed the following activities, as independent professionals or as employees, at companies engaging in an activity that is identical, similar or complementary to the activity that constitutes the company object of the Parent:

Director	**Type of arrangement**	**Company**	**Position**
Jorge Gallardo Ballart	Independent professional	Almirall, S.A. (Chile)	Director
Luciano Conde Conde	Independent professional	Laboratorios Miralfarma, S.L.	Director
	Independent professional	Laboratorio Omega Farmacéutica, S.L.	Director
	Independent professional	Laboratorios Tecnobio, S.A.	Director
	Independent professional	Laboratorios Almofarma, S.L.	Director
	Independent professional	Laboratorio Temis Farma, S.L.	Director
	Independent professional	Laboratorios Berenguer-Infale, S.L.	Director
	Independent professional	Alprofarma, S.L.	Director
	Independent professional	Pantofarma, S.L.	Director
	Independent professional	Laboratorios Farmacéuticos Romofarm, S.L.	Director
	Independent professional	Industrias Farmacéuticas Almirall, S.L.	Director
	Independent professional	Ranke Química, S.L.	Director
	Independent professional	Almirall Europa, S.A.	Director
	Independent professional	Almirall Hermal, GmbH (Germany)	Director
	Independent professional	Almirall GmbH (Austria)	Director
	Independent professional	Almirall, NV (Belgium)	Director
	Independent professional	Almirall, S.A. (Chile)	Director
	Independent professional	Almirall ApS (Denmark)	Director
	Independent professional	Almirall, SAS (France)	Chairman
	Independent professional	Almirall Production, SAS (France)	Chairman
	Independent professional	Almirall, B.V. (Netherlands)	Director
	Independent professional	Almirall, S.p.A. (Italy)	Director
	Independent professional	Almirall, S.A. de C.V. (Mexico)	Director
	Independent professional	Almirall de México, S.A. de C.V. (Mexico)	Director
	Independent professional	Almirall sp. z.o.o. (Poland)	Director
	Independent professional	Almirall - Produtos Farmacêuticos, Lda. (Portugal)	Director

	Independent professional	Almirall Marketing Farmacêutico, Unipessoal Lda. (Portugal)	Director
	Independent professional	Almirall Limited (UK)	Director
	Independent professional	Almirall, Inc. (USA)	Chairman
	Independent professional	Almirall International, B.V. (Netherlands)	Director
Eduardo Sanchiz Yrazu	Independent professional	Laboratorios Miralfarma, S.L.	Director
	Independent professional	Laboratorio Omega Farmacéutica, S.L.	Director
	Independent professional	Laboratorios Tecnobio, S.A.	Director
	Independent professional	Laboratorios Almofarma, S.L.	Director
	Independent professional	Laboratorio Temis Farma, S.L.	Director
	Independent professional	Laboratorios Berenguer-Infale, S.L.	Director
	Independent professional	Alprofarma, S.L.	Director
	Independent professional	Pantofarma, S.L.	Director
	Independent professional	Laboratorios Farmacéuticos Romofarm, S.L.	Director
	Independent professional	Industrias Farmacéuticas Almirall, S.L.	Director
	Independent professional	Ranke Química, S.L.	Director
	Independent professional	Almirall Europa, S.A.	Director
	Independent professional	Almirall Hermal, GmbH (Germany)	Director
	Independent professional	Almirall Sofotec, GmbH (Germany)	Director
	Independent professional	Almirall, GmbH (Austria)	Director
	Independent professional	Almirall, NV (Belgium)	Director
	Independent professional	Almirall ApS (Denmark)	Director
	Independent professional	Almirall, B.V. (Netherlands)	Director
	Independent professional	Almirall sp. z.o.o. (Poland)	Director
	Independent professional	Almirall - Produtos Farmacêuticos, Lda. (Portugal)	Director
	Independent professional	Almirall Marketing Farmacêutico, Unipessoal Lda. (Portugal)	Director
	Independent professional	Almirall AG (Switzerland)	Director
	Independent professional	Almirall International, B.V. (Netherlands)	Director
	Independent professional	Almirall-Prodesfarma B.V. (Netherlands)	Director
Per-Olof Andersson	Independent professional	Almirall Sofotec, GmbH (Germany)	Director

In this regard, the current and former members of the Board of Directors on whom disclosures have not been made in this section issued notices to the Parent stating that they were not affected by the matters detailed above, by acting in their own representation and on behalf of the parties related thereto, as defined in the Spanish Limited Liability Companies law.
Lastly, in 2010 and 2009 all of the members of the Board of Directors and the executives were men.

27. Information on the environment

The Group companies adopted the relevant environmental measures in order to comply with the in-force legislation in this connection.

The Almirall Group’s property, plant and equipment include certain environmental protection assets (smoke abatement, subsurface drainage, etc.) with a carrying amount of approximately EUR 3.7 million at 31 December 2010 and 2009.

The consolidated income statement for 2010 includes environmental protection expenses amounting to EUR 2,008 thousand (2009: EUR 2,066 thousand).

The Parent's directors consider that the measures adopted adequately cover all the possible requirements and, therefore, there are no environmental risks or contingencies. No grants or income were received in connection with these activities.

28. Exposure to risk and capital management

Interest rate risk

In order to eliminate the uncertainties arising from fluctuations in the interest rates on the Group's bank borrowings, the Group arranged certain hedging transactions. The policy adopted seeks to minimise the risk through swaps of floating interest rates (tied to Euribor) on these borrowings for fixed rates or collars.

The hedge was arranged on the portion of the borrowings instrumented through loans (66.85% through interest rate swaps and 33.15% through collars).

The maximum hedging period is two years and at 31 December 2010, 64.79% of the bank borrowings were hedged.

Foreign currency risk

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

In the case of collections the risk represents approximately 11.32% of revenue and other income, and in the case of payments approximately 13.46% of procurements and other operating expenses.

The Group analyses foreseeable collections and payments in foreign currency and the performance and trend thereof on a quarterly basis.

In 2010 the Group allocated cash amounting to USD 20 million as a hedging instrument for a transaction that was very likely to occur with Ironwood in US dollars, which had already taken place at the balance sheet date. At the time of effective payment, the change in the fair value of the instrument was deducted from equity, where the various changes in the fair value of the instrument had been recognised, and were capitalised to the non-current assets acquired.

Liquidity risk

The Group calculates its cash requirements using two fundamental forecasting tools that differ in terms of their time horizons.

On the one hand, a one-year monthly cash budget is set based on the projected financial statements for the current year.

On the other, a shorter-term cash budget is set (at three months), which is updated daily on the basis of the invoices registered, shipping notes confirmed or orders processed.

In general, cash surpluses are invested in very short-term financial assets (at a maximum of one month) or are used to reduce bank borrowing tranches corresponding to credit lines.

The Group manages its liquidity risk prudently, maintaining sufficient cash and marketable securities and arranging credit facilities to cater for the projected needs.

Lastly, medium- and long-term liquidity planning and management is based on the Group's Strategic Plan spanning a five-year time frame.

Credit risk

The Group manages its credit risk through the case-by-case analysis of the items composing its accounts receivable. For preventative purposes, credit limits are established for sales to wholesalers, pharmacies and local licensees. In view of the low relative importance of hospital sales, collection management is performed directly after the transaction, once the debt has fallen due.

Allowances are recognised for the total amounts deemed to be uncollectable, once all relevant collection management efforts have been made. The amount recognised in this connection in 2010 was approximately EUR 313 thousand (2009: approximately EUR 78 thousand).

In relation to the impairment of its financial assets for credit risk, in order to minimise any such risk the Parent invests mainly in very short-term floating-rate instruments (promissory notes) at banks with a high credit rating.

The Group does not have any significant credit risk exposure, since it places cash and arranges derivatives with highly solvent entities.

Capital management

Almirall, S.A. manages its capital to guarantee the continuity of the activities of the Group companies of which it is the Parent while maximising returns for shareholders through the optimal balance between debt and equity.

The Group periodically reviews the capital structure on the basis of a five-year strategic plan that establishes the guidelines concerning investment and financing.

29. Information on deferred payments to suppliers

As required by Additional Provision Three of Law 15/2010, of 5 July, for these first consolidated financial statements prepared following the entry into force of the law, it is hereby disclosed that at 31 December 2010, approximately EUR 2,430 thousand of the balance payable to suppliers were deferred for a period exceeding the statutory payment period.

This balance relates to the suppliers of the Spanish companies in the consolidated group which, by nature, are trade creditors owed for goods and services supplied.

According to Law 3/2004, of 29 December, establishing measures to combat default in commercial transactions, the maximum statutory payment period applicable to the Parent is 85 days.

30. Explanation added for translation to English

These consolidated financial statements are presented on the basis of the regulatory financial reporting framework applicable to the Group (see Note 2-a). Certain accounting practices applied by the Group that conform with that regulatory framework may not conform with other generally accepted accounting principles and rules.

APPENDIX: INFORMATION RELATING TO INVESTEES

	Thousands of euros						
Name	Laboratorios Miralfarma, S.L.	Laboratorio Omega Farmacéutica, S.L.	Laboratorios Farmacéuticos Romofarm, S.L.	Laboratorios Almofarma, S.L.	Laboratorio Temis Farma, S.L.	Alprofarma, S.L.	Laboratorios Tecnobio, S.A.
Location	Spain	Spain	Spain	Spain	Spain	Spain	Spain
Line of business	Mediation Services	Mediation Services	Mediation Services	Mediation Services	Mediation Services	Mediation Services	Mediation Services
viernes, 31 de diciembre de 2010							
Percentage of ownership held:							
Directly	100%	100%	100%	100%	100%	100%	100%
Indirectly	-	-	-	-	-	-	-
% of voting power	100%	100%	100%	100%	100%	100%	100%
Consolidation method	Full consolidation	Full consolidation	Full consolidation	Full consolidation	Full consolidation	Full consolidation	Full consolidation
Share capital	120	120	60	120	120	60	61
Reserves	1,718	1,574	1,376	491	1,368	44	674
Net profit for the year	224	195	129	196	195	4	192
Carrying amount of the investment (Group)	1,340	1,070	60	95	1,114	60	127
Cost	1,340	1,070	60	95	1,114	60	127
Allowance	-	-	-	-	-	-	-
jueves, 31 de diciembre de 2009							
Percentage of ownership held:							
Directly	100%	100%	100%	100%	100%	100%	100%
Indirectly	-	-	-	-	-	-	-
% of voting power	100%	100%	100%	100%	100%	100%	100%
Consolidation method	Full consolidation	Full consolidation	Full consolidation	Full consolidation	Full consolidation	Full consolidation	Full consolidation
Share capital	120	120	60	120	120	60	61
Reserves	1,532	1,359	1,188	261	1,178	40	480
Net profit for the year	186	215	188	230	190	4	194
Carrying amount of the investment (Group)	1,340	1,070	60	95	1,114	60	127
Cost	1,340	1,070	60	95	1,114	60	127
Allowance	-	-	-	-	-	-	-

Note: All the information relating to the above companies was obtained from their separate financial statements and, therefore, does not include the effect that would result from applying consolidation criteria to the investments.

APPENDIX: INFORMATION RELATING TO INVESTEES

	Thousands of euros						
Name	Laboratorios Berenguer-Infale, S.L.	Pantofarma, S.L.	Industrias Farmacéuticas Almirall, S.L.	Ranke Química, S.L.	Almirall Prodesfarma, BV	Almirall, NV	Almirall - Produtos Farmacêuticos, Lda
Location	Spain	Spain	Spain	Spain	Holland	Belgium	Portugal
Line of business	Mediation Services	Mediation Services	Manufacture of pharmaceutical specialities	Manufacture of raw materials	International holding company	Pharmaceutical laboratory	Pharmaceutical laboratory
viernes, 31 de diciembre de 2010							
Percentage of ownership held:							
Directly	100%	100%	100%	100%	Dissolved	0.01%	-
Indirectly	-	-	-	-		99.99%	100%
% of voting power	100%	100%	100%	100%		100%	100%
Consolidation method	Full consolidation	Full consolidation	Full consolidation	Full consolidation		Full consolidation	Full consolidation
Share capital	120	360	1,200	1,200		1,203	1,500
Reserves	559	446	45,424	16,966		550	411
Net profit for the year	182	74	2,737	1,888		80	321
Carrying amount of the investment (Group)	157	216	41,982	10,840		1,842	2,232
Cost	157	216	41,982	10,840		1,842	2,232
Allowance	-	-	-	-		-	-
jueves, 31 de diciembre de 2009							
Percentage of ownership held:							
Directly	100%	100%	100%	100%	100%	0.01%	-
Indirectly	-	-	-	-	-	99.99%	100%
% of voting power	100%	100%	100%	100%	100%	100%	100%
Consolidation method	Full consolidation	Full consolidation	Full consolidation	Full consolidation	Full consolidation	Full consolidation	Full consolidation
Share capital	120	360	1,200	1,200	10,732	1,203	1,500
Reserves	365	239	45,424	16,966	(10,516)	2,562	3,911
Net profit for the year	194	207	3,456	2,685	4,981	188	174
Carrying amount of the investment (Group)	157	216	41,982	10,840	11,175	4,070	5,285
Cost	157	216	41,982	10,840	12,172	4,079	5,285
Allowance	-	-	-	-	(997)	(9)	-

Note: All the information relating to the above companies was obtained from their separate financial statements and, therefore, does not include the effect that would result from applying consolidation criteria to the investments.

APPENDIX: INFORMATION RELATING TO INVESTEES

	Thousands of euros						
Name	Almirall, BV	Almirall S.A. de C.V. Subgroup (**)	Almirall International, BV	Almirall Limited	Almirall, S.A.S. Subgroup (***)	Almirall SP, Z.O.O.	Almirall GmbH
Location	Holland	Mexico	Holland	United Kingdom	France	Poland	Austria
Line of business	Mediation Services	Pharmaceutical laboratory	International holding company	Pharmaceutical laboratory	Pharmaceutical laboratory	Manufacture of pharmaceutical specialities	Pharmaceutical laboratory
viernes, 31 de diciembre de 2010							
Percentage of ownership held:							
Directly	-	0.74%	100%	-	-	-	100%
Indirectly	100%	99.26%	-	100%	100%	100%	-
% of voting power	100%	100%	100%	100%	100%	100%	100%
Consolidation method	Full consolidation	Full consolidation	Full consolidation	Full consolidation	Full consolidation	Full consolidation	Full consolidation
Share capital	4,000	24,125	52,602	563	12,527	14	36
Reserves	212	(2,511)	6,601	949	(920)	1,065	1,640
Net profit for the year	20	363	14,466	982	3,669	83	139
Carrying amount of the investment (Group)	4,338	21,977	84,858	2,492	15,083	1,106	1,485
Cost	8,000	30,891	156,497	2,492	15,083	1,106	1,485
Allowance	(3,662)	(8,914)	(71,639)	-	-	-	-
jueves, 31 de diciembre de 2009							
Percentage of ownership held:							
Directly	-	0.74%	100%	-	-	-	100%
Indirectly	100%	99.26%	-	100%	100%	100%	-
% of voting power	100%	100%	100%	100%	100%	100%	100%
Consolidation method	Full consolidation	Full consolidation	Full consolidation	Full consolidation	Full consolidation	Full consolidation	Full consolidation
Share capital	4,000	24,125	52,602	563	12,527	14	36
Reserves	(1,369)	(5,385)	5,780	165	(1,581)	1,000	1,443
Net profit for the year	1,581	557	9,359	741	661	32	197
Carrying amount of the investment (Group)	4,361	18,290	70,391	1,100	10,287	1,911	1,485
Cost	8,000	30,891	156,497	1,100	11,630	1,911	1,485
Allowance	(3,639)	(12,601)	(86,106)	-	(1,343)	-	-

Note: All the information relating to the above companies was obtained from their separate financial statements and, therefore, does not include the effect that would result from applying consolidation criteria to the investments.

(**) Includes the subsidiaries Almirall S.A de C.V. and Almirall de México S.A. de C.V.
(***) Includes the subsidiaries Almirall, SAS and Almirall Production SAS

APPENDIX: INFORMATION RELATING TO INVESTEES

	Thousands of euros					
Name	Almirall, AG	Almirall GmbH	Almirall SpA	Almirall Sofotec, GmbH	Almirall Hermal, GmbH	Almirall Aps
Location	Switzerland	Germany	Italy	Germany	Germany	Denmark
Line of business	Licence management and sale of raw materials	Pharmaceutical laboratory	Pharmaceutical laboratory	R&D Centre	Pharmaceutical laboratory	Pharmaceutical laboratory
viernes, 31 de diciembre de 2010						
Percentage of ownership held:						
Directly	100%	Dissolved	-	100%	100%	100%
Indirectly	-		100%	-	-	-
% of voting power	100%		100%	100%	100%	100%
Consolidation method	Full consolidation		Full consolidation	Full consolidation	Full consolidation	Full consolidation
Share capital	652		8,640	25	25	17
Reserves	3,627		6,893	27,191	55,138	-
Net profit for the year	18,786		6,516	1,560	2,050	78
Carrying amount of the investment (Group)	10,628		22,049	25,027	359,270	17
Cost	10,628		45,230	25,027	359,270	17
Allowance	-		(23,181)	-	-	
jueves, 31 de diciembre de 2009						
Percentage of ownership held:						
Directly	100%	-	-	100%	100%	-
Indirectly	-	100%	100%	-	-	-
% of voting power	100%	100%	100%	100%	100%	-
Consolidation method	Full consolidation	Full consolidation	Full consolidation	Full consolidation	Full consolidation	-
Share capital	652	5,000	8,640	25	25	-
Reserves	974	458	(944)	26,301	48,212	-
Net profit for the year	28,971	46	7,872	1,443	7,511	-
Carrying amount of the investment (Group)	10,628	5,498	14,337	25,027	359,270	-
Cost	10,628	43,000	45,230	25,027	359,270	-
Allowance	-	(37,502)	(30,893)	-	-	-

Note: All the information relating to the above companies was obtained from their separate financial statements and, therefore, does not include the effect that would result from applying consolidation criteria to the investments.