Almirall, S.A.

Directors' report

(Year ended December 31st, 2022)

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

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1. Summary of the year; main milestones

The 2022 financial year has been highlighted by the launch of two new products in Europe (Klisyri for actinic keratosis and Wynzora for psoriasis) together with the deployment of Ilumetri (also for psoriasis) in the different geographies in which the Company has a presence. In parallel, the US market has continued to be affected by the erosion of generics and higher discounts, negatively impacting sales in that territory.

During this year, the impact of Covid 19 has also decreased, although the conflict between Russia and Ukraine has begun, which has resulted in a harsher macroeconomic environment than initially expected, especially with regard to energy costs and certain raw materials. However, this conflict has not had a significant direct impact in the year ended December 31st, 2022 and the Company's Management has monitored those activities most sensitive to the conflict in order to minimize the impact and/or seek alternatives.

From the point of view of R&D activities, there have been important advances in the development of Lebrikizumab (compound indicated for atopic dermatitis), since positive results of phase 3 were published and the dossier has been presented to European regulatory entities on October 28th, 2022, with approval expected in the second half of 2023. Additionally, several research agreements have been signed for early-stage products, such as the agreements with Evotec, Simcere and Ichnos (the latter signed in December 2021), which allow nurturing the Company's *pipeline* in the long term. Finally, in May 2022, the procedure has been initiated in Europe to apply for the approval of Efinaconazole, a treatment for mild to moderate onychomycosis in the nails.

The dividend proposed by the Board of Directors on February 18th, 2022 was approved by the General Shareholders' Meeting held on May 6th, 2022. The dividend payment has been instrumented as a flexible solution in which shareholders have been given the right to choose between receiving newly issued shares of the Company or the cash amount equivalent to the dividend. The cash payment has been chosen for 37.1% of the rights (which has meant a disbursement of 12.4 million euros) and the remaining 62.9% has opted to receive new shares at the unit nominal value that have been issued as a capital increase. On June 8th, 2022, 1,738,566 new shares of the Company, from this flexible dividend, were admitted to trading on the Barcelona, Madrid, Bilbao and Valencia stock exchanges.

Finally, from the liquidity point of view, the Company closed 2022 with a cash position amounting to €214.6 million (€161.1 million as of December 31st, 2021). This evolution is explained by:

- Solid cash flow from operating activities (€48.2 million), mainly as a result of the good performance of the business corrected for non-cash items, which was offset by the negative evolution of working capital (linked to the increase in inventories due to new launches and the decrease in accounts payable) and by the collection of corporate income tax refund of the previous year.
- Net cash flows from investment activities (-€41.7 million) mainly from payments relating to the licensing and development agreements of Ichnos, Evotec and Simcere, payments for the commercial launch of Winzora, for regulatory milestones to Eli Lilly and for sales milestones to Sun Pharma described in Note 5 of the accompanying Financial Statements, partially offset by the charges arising from the agreement with Covis Pharma GmbH (which acquired the respiratory business from AstraZeneca).
- Net cash flows from financing activities (€45.8 million) mainly as a result of collections from debt issuance with group companies, partially offset by net repayments of debt and obligations in 2021 as described in Note 15 of the accompanying Financial Statements.

2. Corporate development

During the year ended December 31st, 2022, the following corporate development agreements and relevant facts have taken place:

- On 5th January 2022, the agreement between AstraZeneca and Covis Pharma GmbH for the transfer of the global rights of Eklira and Duaklir became effective. As a result of this agreement, the Company, in addition to continuing to receive royalty payments on the terms initially set with AstraZeneca, received $10 million on the date on which the transaction was effective and will receive $40 million in different tranches until September 2023, primarily linked to certain changes in the milestone structure initially established.
- On March 26th, 2022, 16-week data for the Phase 3 ADvocate 1 and 2 studies of Lebrikizumab were announced at the American Academy of Dermatology annual meeting. Subsequently, on June 7th, 2022, the main results of the one-year analyses of the efficacy and safety of Lebrikizumab were published, where 80% of patients who responded to Lebrikizumab maintained improvement in skin lightening and improvement in disease severity at 52 weeks; Lasting improvements in itch relief were also observed.
- On September 29th, 2022, the exclusive license agreement for SIM0278, the mutant fusion protein IL-2 (IL-2Mu-Fc) developed by Simcere and a drug candidate for the treatment of autoimmune diseases, was announced. Under the agreement, the Company will have the exclusive right to develop and commercialize SIM0278 for all indications outside the China region, has made an initial payment of $15 million, and can pay up to $492 million for development and commercial milestones taking into account achievements in various indications, with an important part as sales milestones, as well as staggered royalties of up to low double digits based on future global sales.

- On 28th October 2022, the acceptance by the European Medicines Agency (EMA) of the marketing authorization application (MAA) for Lebrikizumab for the treatment of moderate to severe atopic dermatitis was announced. Marketing Authorization Application Dossier is based on three pivotal phase III studies: ADvocate 1 and ADvocate 2, which evaluate lebrikizumab as monotherapy in adult and adolescent patients with moderate to severe AD, and ADhere, evaluating lebrikizumab in combination with topical corticosteroids (TCS). Approval in Europe is expected in the second half of 2023.
- On November 18th, 2022, the perpetual license of Motilex® (Cleboprida) to Teofarma was announced. Under the agreement, the rights in Italy are transferred for Motilex® 0.5 mg tablets, indicated for the relief of symptoms of nausea and vomiting in adults and children. The Company received €18.5 million on the effective date of the agreement.

3. Evolution of the main figures in the income statement

- The net turnover amounts to 603.3 million euros (+8%) due to the good performance of the domestic and export market despite the lower contribution of income from the transfer of licenses linked to the completion of the allocation to results of deferred income linked to the operation with AstraZeneca described in Note 13 of the accompanying Financial Statements, which amounted to 17.4 million euros in the previous year; and despite the income from interest of Group companies, practically null and amounted to €10.6 million in the previous year, as explained in Note 19 of the accompanying Financial Statements.
- Other revenues amounted to €35 million(+49%) as a result of the financial update of the collection rights related to the agreement between Covis Pharma and AstraZeneca, as explained in the previous section.
- Personnel costs decreased by 12% mainly as a result of reversals in the provision for long-term remuneration, as explained in Note 14 of the accompanying Financial Statements.
- Operating expenses increased by 25% due on the one hand to R&D expenses mainly due to the phase 3 studies of Lebrikizumab and post-launch studies of Klisyri, as well as the new research agreements signed, and on the other hand as a result of the operating expenses related to new launches in Europe.
- The heading "Impairment and profit from disposals of fixed assets and investments in group companies" in the accompanying income statement includes mainly, the impairments of the participation in Almirall, Inc. as explained in Note 8 of the accompanyig Financial Statements.
- The financial result decreased to a negative result of €16.5 million due to the adjustment of the fair value of the equity swap as well as interest accrued during the year relating to senior unsecured notes see Note 19.
- As a result of the above, the operating result and the net result amounted to losses of 34.9 million euros and 57.7 million euros, respectively.

4. Balance sheet. Financial position

The main variations of the Balance sheet as of December 31st, 2022 compared to December 31st, 2021 are described below:

- Intangible assets have increased due to investments linked to licensing agreements with Eli Lilly, Simcere, Sun Pharma and Evotec.
- The heading of Investments in group companies and long-term associates has decreased mainly as a result of the impairment discussed above on the investee company Almirall, Inc.
- Inventories have increased due to new releases.
- Financial debt has decreased as a result of quarterly repayments of the loan with the European Investment Bank.
- Non-current liabilities (excluding financial debt) have decreased mainly due to reversal of provisions as mentioned in Note 14 of the accompanying Financial Statements.
- Current liabilities (excluding financial debt) have increased mainly due to the increase in short-term debts to group companies as detailed in Note 20 of the accompanying Financial Statements.

5. Financial risk management and use of hedging instruments

The Company's activities are exposed to various types of financial risk: market risk (including exchange rate risk, interest rate risk and price risk), credit risk and liquidity risk. The Company's risk management program focuses on uncertainty in financial markets and seeks to minimize the potential adverse impact on its financial profitability.

Risk management is controlled by the Company's Treasury Department which identifies, evaluates and hedges against financial risks in accordance with the policies approved by the Board of Directors. The Board provides written policies for overall risk management and for specific areas such as foreign currency risk, interest rate risk, liquidity risk, use of derivatives and non-derivatives and investment of surplus liquidity.

Interest rate risk

At December 31st, 2022 most of the Company's debt is at a fixed rate, minimizing the risk of a possible increase in interest rates. As described in Note 15 of the accompanying Financial Statements, the main debt instruments are as follows:

- On September 22nd, 2021, the Company, has proceeded to the issuance of senior unsecured notes for an aggregate nominal amount of EUR 300 million, with an annual fixed interest rate of 2.125% and maturing on September 22nd, 2026.

- On July 17th, 2020, the Company subscribed a revolving credit facility, amounting to EUR 275 million, maturing in July 2024 and intended for general corporate purposes. This policy accrues a variable interest rate tied to Euribor. At December 31st, 2021, the Company had no amount drawn on this policy.

- On March 27th, 2019, the Company formalized a loan with the European Investment Bank (EIB) for up to EUR 120 million to finance its research and development efforts, with the aim of offering cutting-edge innovation and differentiated therapies in the area of medical dermatology. The first tranche of EUR 80 million was granted on April 17th, 2019 at a fixed interest rate of 1.351%, with 32 equal principal repayments between April 17th, 2021 and April 17th, 2029, the latter being the final maturity. Due to the issuance of new debt, the interest rate is increased by 0.30% temporarily, resulting in an interest rate of 1.651%.

Foreign currency risk

The Company is exposed to exchange rate risk in certain transactions derived from its activity. These are mainly collections in dollars corresponding to sales of finished products, collections and payments derived from the operation with Covis Pharma GmbH, payments in dollars derived from license agreements with Athenex, Eli Lilly or Sun Pharma, payments in dollars for clinical trials, purchases of raw materials and royalty payments in yen and dollarsThe most relevant foreign currency in which the Company operates is the US dollar.

The Company analyzes quarterly the forecasts of collections and payments in foreign currencies as well as their evolution and trend. During the last few years, the Company has reduced its exposure to exchange rate risk in those commercial transactions of greater volume, by contracting specific exchange rate insurance to cover payments in yen for the purchase of raw materials, and to cover cash inflows in USD for collections.

Until November 24th, 2021, the Company held a loan between companies, with the American subsidiary Almirall, Inc., in US dollars. This loan had not been covered since July 1st, 2020 it had been considered as net investment abroad. On November 24th, 2021 the Company proceeded to capitalize the nominal amount of said loan together with the outstanding interest.

Liquidity risk

The Company determines cash requirements using two fundamental forecasting tools that vary in terms of their time horizon.

On the one hand, a one-year treasury budget is established based on the forecast financial statements for the current year, from which the variances are analyzed monthly.

On the other hand, medium and long-term liquidity planning and management is based on the Company's Strategic Plan covering a five-year time horizon.

Cash surpluses in foreign currency are invested in deposits when there is a prevision to make payments in that currency, mainly US dollars.

The financing instruments include a series of "covenants" which in the event of non-compliance would imply the immediate enforceability of such financial liabilities. The Company periodically evaluates such compliance (as well as future expectations of compliance, where appropriate, to be able to take corrective measures). As of December 31st, 2022, all "covenants" are fulfilled, as mentioned in Note 15 of the accompanying financial statements.

The Company performs prudent liquidity risk management, maintaining sufficient cash and marketable securities, as well as the hiring of credit facilities committed enough to meet the intended needs.

Credit risk

The Company manages credit risk through an individual analysis of the items included in accounts receivable. As preventive measures, credit limits are established for sales made to wholesalers, pharmacies and local licensees. With regard to hospital sales, given its reduced weight, the subsequent collection management is carried out directly, once the debt is due.

The amounts that are considered uncollectible, once all the relevant collection procedures have been carried out, are provisioned at 100%. The balance of the provision at year-end 2022 amounts to Euros 68 thousand, as described in Note 11 of the accompanying financial statements.

In relation to the deterioration of financial assets due to credit risk, the Company invests mainly in very short-term variable rate instruments in entities with a high credit rating, in order to minimize any credit risk.

The Company does not have significant credit risk, as both treasury placements and, when appropriate, contracting of derivatives, are carried out with highly solvency financial institutions.

6. Risk factors

Risk factors worthy of mention that may affect the achievement of the business objectives are the following:

- Pressures on price reductions, repayment conditions, contributions to the health system or more restrictive regulations, which can accelerate with the growing budget deficits of the governments that are foreseen and the general worsening of macroeconomic conditions in European countries.
- Price increases in materials, transportation, energy, and shortages in supplies due to current geopolitical and socio-economic threats and macroeconomic developments.
- Unexpected climate changes and increasing risks of major natural disasters can accelerate the adoption of new regulations to reduce emissions, energy and water use and changes to increase climate resilience by generating operational expenses.
- Cyber-attacks or security incidents that allow access to sensitive information or cause disruption of business activities.
- Impairment of intangible assets and goodwill due to lower than projected revenue streams.
- R&D pipeline not sufficiently balanced and differentiated in its different phases to nourish the product portfolio.

7. Treasury shares

The Company maintains a liquidity contract with a financial intermediary, effective as of March 4th, 2019, with the aim of increasing and stabilizing the share price of the Company, within the limits established by the General Shareholders' Meeting and by current regulations, in particular, Circular 1/2017, of April 26th, of the National Securities Market Commission, on liquidity contracts. Said contract assumes that the Company owns, at December 31st, 2022, treasury stock representing 0.10% of the share capital and a global nominal value of EUR 21.7 thousand and which have been registered in accordance with current regulations. The average acquisition price of these shares has been EUR 9 per share. The treasury shares held by the Company are intended to be traded on the market.

8. Personnel costs

The Company's average headcount numbered 574 employees during 2022.

9. Average payment period

The Company's average payment period to suppliers and creditors during 2022 was 44 days.

10. Trends for the year 2023

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

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

Finally, the Company's management continues to focus on opportunistic M&A transactions that fit in with the Company's commercial strategy, always with a prudent financial attitude.

11. *Annual Corporate Governance Report / Annual Remuneration Report*

The Corporate Governance report and the Directors' Remuneration Report are attached to the Consolidated Almirall Group Management Report.

12. *Capital structure. Significant shareholdings*

The share capital of the Company as of December 31st, 2022 is represented by 181,515,368 shares with a par value of EUR 0.12, fully subscribed and paid up.

In Note 12 of the accompanying Financial Statements the movement of capital during the fiscal year 2022 is detailed, the increase of which is due to the flexible dividend paid in the year.

Shareholders with significant holdings in the share capital of Almirall, S.A. both direct and indirect, in excess of 3% of the share capital, of which the Company is aware, according to the information contained in the official records of the National Securities Market Commission (CNMV) as of December 31st, 2022, are as follows:

Name of direct holder of the ownership interest	% interest 31/12/2021
Grupo Plafin, S.A.U.	41.9%
Grupo Corporativo Landon, S.L.	17.7%
Wellington Management	5.1%

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

13. *Private agreements among shareholders and restrictions on transferability and voting*

There is a private agreement among shareholders, which has been duly notified to the CNMV and the full text of which can be consulted on the website www.almirall.com, concluded by Mr. Antonio Gallardo Ballart and Mr. Jorge Gallardo Ballart, which regulates the concerted action of its signatories in Almirall, S.A. and the exercise of the voting rights inherent in their indirect participation in the Company through the company Grupo Plafin, S.A.U. and Todasa, S.A.U. (now Grupo Corporativo Landon, S.L.).

There are no restrictions set out in the Articles of Association on the free transferability of the Company's shares, nor are there any statutory or regulatory restrictions set out in the Articles of Association or in other regulations on voting rights.

14. *Management bodies, Board*

Appointment of directors

Directors are appointed (i) at the proposal of the Appointments and Remuneration Committee, in the case of independent directors, and (ii) after a report from the Appointments and Remuneration Committee, in the case of other directors, by the General Shareholders' Meeting or by the Board of Directors in accordance with the provisions of the Spanish Capital Companies Act.

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

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

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

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

Replacement of directors

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

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

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

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

When they leave the executive positions associated to their appointment as director.

When they find themselves in any of the situations resulting in incompatibility or prohibition as stipulated by law.

When they are seriously reprimanded by the Board of Directors for having breached their obligations as directors.

When their continued presence on the Board may jeopardise or damage the interests, credit or reputation of the Company or when the reasons for which they were appointed cease to exist (for example, when a proprietary director sells his stake in the Company).

In the case of independent directors, they may not remain in their posts for a continuous period of more than 12 years, and once this period has elapsed, they must submit their resignation to the Board of Directors and officially resign.

In the case of proprietary directors (i) when the shareholder they represent sells its entire stake and; likewise (ii) in the corresponding number, when this shareholder reduces its stake to a level that requires a reduction in the number of proprietary directors.

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

Amendment of Articles of Incorporation

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

Powers of the members of the Board of Directors

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

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

15. Significant agreements

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

16. Subsequent events

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

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

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

17. Statement of non-financial information

The Statement of non-financial information is attached to the Consolidated Almirall Group Management Report.