Almirall S.A. and Subsidiaries
(Almirall Group)

Directors' report
(Year ended 31 December 2017)

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1. Summary. Main achievements

The year 2017 was marked by the decline of the US business, particularly due to the impact of the entry of generics on the franchise for the oral treatment of acne of our subsidiary Aqua Pharmaceuticals, and also the slowdown of growth of our aesthetics subsidiary ThermiGen. On the other hand, there was the positive performance of the dermatology franchise in Europe and the licensees party business.

The main milestones in 2017 in relation to corporate development agreements are described in section 3 of this consolidated directors' report. Specifically, noteworthy was the agreement to market the cholesterol lowering drugs Crestor and Provisacor in Spain and the licensing agreement to develop and market KX2-391 for actinic keratosis in Europe and USA.

On 27 June the European Commission approved Skilarence, a new oral formula of dimethyl fumarate (DMF) developed by Almirall as a treatment for patients with moderate to severe chronic psoriasis. Skilarence can be used as an induction and prolonged first-line therapy. During 2017 Almirall obtained the reimbursement of Skilarence in Germany, UK, Denmark, Norway and Sweden.

As part of the review of the R&D pipeline, the Group decided to discontinue its research activities in USA on two projects deriving from the acquisition of PoliGroup in 2016, P3073 (nail psoriasis) and P3058 (onychomycosis), in the Phase III development in USA, and subsequently decided to also discontinue the Phase III research activities in Europe on the programme P3073 (nail psoriasis). Impairment of the related assets was therefore recognized in the consolidated income statement amounting to €53 million.

Additionally, the impact of generics on the franchise for the oral treatment of acne at our subsidiary Aqua Pharmaceuticals and the resulting fall in sales has made it necessary to recognize impairment of the related assets in the consolidated income statement amounting to €246 million.

Finally, as reported on 14 November, the approval of tildrakizumab and its launch on European markets expected for mid 2018 was postponed until late 2018 or early 2019. The postponement is due to a communication received from EMA that it was extending the scope of the centers where the clinical trials were carried out.

The Board of Directors approved the appointment of Mr Peter Guenter as the Chief Executive Officer of Almirall, effective starting on 1 October 2017, following the succession plan initiated more than one year ago. He succeeds Mr Eduardo Sanchiz, who expressed his wish to resign.

Finally, it should be mentioned that on 1 June, the Group distributed a dividend against 2016 income, amounting to Euro 33 million (Euro 0.19 per share).

2. Evolution of key figures in the consolidated income statement

- Revenue fell by Euro 125 million compared with 2016 which represents a fall of 16.3% mainly as a result of the negative impact of the business in USA, triggered by the effect of the entry of generics on the franchise for the oral treatment of acne and the drop in sales in the aesthetics business.

- The performance of our Dermatology area in Europe remained stable compared to the comparative period despite the entry of generics in Germany. Therefore, at 31 December 2017 Dermatology accounts for 38% of revenues for the year despite the negative impact of the dermatological business in USA.

- The product mix has reduced the margin with respect to the previous year.

- The "Other revenues" caption in 2017 includes, among others, the income from the agreement reached in 2014 with AstraZeneca UK Limited.

- The captions Staff costs, Amortization and depreciation and Other operating expenses fell sharply as a result of the restructuring process in France, Spain and USA and the cost saving measures adopted to mitigate the negative impact of the drop in sales.

- As a direct result of the discontinuance of the pipeline projects related to the acquisition of PoliGroup, R&D expenses (recorded under the 3 headings of the consolidated income statement referred to in the preceding paragraph) fell by 10.6% to Euro 87.9 million, equivalent to 13.7% of net sales.

- Impairment losses relating to the projects mentioned in point 1 of this Consolidated Directors' Report amount to Euro 323.6 million recognized as an expense in the consolidated income statement for 2017.

- As a result of the above, losses after taxes for the year ended 31 December 2017 amounted to Euro 303.9 million.

3. Corporate development

In 2017 the following corporate development agreements were entered into:

- On 16 March 2017 Almirall S.A. and Symatese announced the signing of a global strategic agreement for the development and marketing of aesthetics products.

  Symatese is a leading player in the development and manufacture of innovative medical devices with more than 30 years' experience.

  According to the terms of the collaboration, Symatese grants Almirall an exclusive license to market a new range of facial Hyaluronic Acid fillers worldwide in exchange for an initial payment of Euro 7.5 million and subsequent milestones, royalties and sales milestones. In line with Almirall's strategy designed to continue building its presence in Skin-care, this agreement represents not only an attractive opportunity to enter the injectable facial filler market with distinctive technology but also to establish long-term collaboration with a leading developer of medical skincare devices.

  Activities will firstly focus on the development of new transformation technology based on Hyaluronic Acid. This technology will enable Almirall to offer a new, safe, efficient and versatile range of dermal facial fillers which will cover patients' needs by replacing lost facial volume with foreseeable, natural and satisfactory results.

- On 11 December 2017 Almirall, S.A. signed a strategic agreement with Athenex Inc for the development and marketing in Spain and USA of KX2-391 for use in the treatment of actinic keratosis and other skin conditions.

  Athenex, Inc is a global bio-pharmaceutical company devoted to the discovery, development and marketing of new therapies for the treatment of cancer and other related conditions, and to the promotion of the development and marketing of KX2-391 for the treatment of actinic keratosis and other skin deseases.

  KX2-391 is a first-in-class topical treatment, currently in stage III of development, which will strengthen Almirall's actinic keratosis franchise and its leadership in the dermatological market.

  Under the terms of the agreement, Athenex will receive from Almirall an initial payment and other short-term payments of up to USD 55 million. Athenex is also entitled to receive payments for milestones connected with launches and additional uses amounting to USD 65 million. Similarly, the contract envisages payments for the attainment of sales milestones of KX2-391 estimated at up to USD 155 million. Almirall will make additional payments to Athenex if sales exceed current estimates. The contract also envisages the scaled payment of royalties taking 15% as the starting point, based on annual net sales. This will increase if sales are higher.

  Athenex will also be responsible for carrying out pre-clinical and clinical studies up to the product's approval by the FDA in USA. Almirall will use its experience to support the product's development in Europe and market it in the licensed territories.

- On 21 December 2017 Almirall SA signed a strategic agreement with AstraZeneca for the exclusive marketing in Spain of Crestor and Provisacor (rosuvastatin), cholesterol-lowering drugs. Almirall started to actively promote these products in early 2018.

4. Consolidated balance sheet. Financial position

As indicated in Notes 8 and 9 to the consolidated financial statements, there is a significant decrease in both Goodwill and Intangible assets as a result of the impairments discussed in point 1 of this consolidated directors' report.

"Deferred tax assets" relates mainly to tax credits consisting mostly of deductions for R&D activities in Spain, which will be applied in subsequent years. The decrease compared with the previous year is due to the reversal of assets amounting to Euro 39 million in Spain and Euro 18 million in USA, of which approximately 15 million corresponds to the subsidiary Aqua Pharmaceuticals LLP, due to the facts indicated in Note 21 of the consolidated financial statements.

As of December 31, 2017, Almirall's cash position stands at Euro 280.2 million.

Non-current financial debt has fallen significantly since in April the Group decided to redeem all senior bonds at 4.625% issued on 27 March 2014 and maturing in 2021. Almirall signed a revolving credit facility for a maximum amount of Euro 250 million for a 4-year period, with average interest of less than 1%. At 31 December 2017 this facility has been fully utilized.

Other non-current and current liabilities have decreased mainly due to the fall in accounts payable in Aqua Pharmaceuticals and the reversal of deferred tax liabilities related to the acquisition of Aqua Pharmaceuticals and PoliGroup as a result of impairment and the reduction in the US nominal tax rate.

In relation to current liabilities, the average payment period of payments made by the Spanish Group to creditors and trade creditors in 2017 is 52 days.

Equity currently stands at 52.1% of the total consolidated assets figure.

5. Financial risk management and use of hedging instruments

Interest rate risk

Early 2014 the Company issued 7-year high-yield bonds at a fixed interest rate of 4.625% and on 3 April 2017 it amortized the entire amount of such bonds early together with the corresponding interest.

During the first quarter of 2017 the Company arranged a new 4-year credit facility with authorization to draw down a maximum of Euro 250 million at a fixed interest rate, averaging 0.81%. The Company is therefore not subject to interest rate volatility. At year end 2017 the Company had used the entire amount of that facility. The terms of the revolving credit facility includes some covenants to be fulfilled by the Group, among them we want to emphasize the ratio “Net Financial Debt/ EBITDA”. On the formulation date, the Board of Directors considers that no breach was arisen in regard to the aforementioned covenants.

The Company’s other credit facility, available since 2014 for a maximum amount of EURO 25 million, was also cancelled in the first quarter of 2017.

Exchange rate risk

The Group is exposed to exchange rate risk on certain operations deriving from its activities. These are primarily collections made in US dollars corresponding to sales of finished products, collections and payments deriving from the operation performed with AstraZeneca, payments in US dollars under the agreement with Sun Pharmaceutical Industries Ltd., payments in US dollars for clinical trials, purchases of raw materials and payments of royalties in yens, in addition to collections and payments made by the subsidiaries in the United Kingdom, Poland, Switzerland, Denmark and the US in their local currencies. The most important of the foreign currencies with which the group operates is the US dollar.

Generally, in the case of collections, the foreign currency risk represents 18.66% of revenue and other income, and in the case of payments 31.29% of procurements and other operating costs.

The Group analyses each quarter its forecasts for collections and payments in foreign currency and movements and trends in these operations. In 2017 and 2016, the Group reduced its exchange rate risk exposure in commercial transactions of greater volume by contracting one-off exchange rate insurance policies covering payments in yens for purchases of raw materials, and cash receipts in US dollars corresponding primarily to collections (at 31 December 2017 and 2016 there were no significant insurance contracts still in force).

The Group’s parent company was the borrower of a loan with the subsidiary Almirall, Inc.. This loan was not covered as the forecast development of the dollar was favorable and coverage represented a cash outflow of the amount of the revaluation. Also, until 2017 this loan was considered as an increase in the value of the net investment abroad, as a result of which differences on exchange generated as from that point were recorded under Equity - Translation differences, having no effect on the consolidated income statement. However, during 2017, the loan’s consideration as permanent in nature was changed, the loan being considered to be repayable by the subsidiary in the near future. As a result, the related accumulated translation differences has been reclassified to the income statement for the year.

Liquidity risk

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

On the one hand, a one-year monthly cash budget based on the projected annual accounts for the current year, whose variations are analyzed on a monthly basis. On the other, forecasts at 24 months, which are updated monthly.

Cash surpluses are generally invested in very short-term financial assets in reputable financial entities.

The Group adopts a prudent approach towards the management of its liquidity risk, maintaining sufficient cash and negotiable securities, and arranging committed credit facilities of an amount sufficient to cover its anticipated requirements.

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

6. Risk factors

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

- Reductions in prices, volume restrictions, difficulties in obtaining approval or the reimbursement of new products due to decisions by the Health Authorities which affect the marketing of certain items.
- Delays in the implementation of the new strategy centered on growth in dermatology and other specialist areas.
- Entries of generic medicines which trigger a reduction in the prices of products and result in a loss of market share.
- Impairment of intangible assets, goodwill and deferred tax assets due to the decrease in expected results.
- Increase in the number of inspections or lawsuits that may slow down the sale of products in some geographical areas or require provisions.

7. Treasury stock

At 31 December 2017, the Parent Company holds no treasury stock shares.

8. Subsequent events

At the formulation date of these consolidated annual accounts, the Board of Directors of Almirall, S.A. has agreed to propose in the Shareholders' meeting the distribution of a dividend, charged against reserves for an amount of 33 million euros. For the purpose of carrying out this dividend distribution, it is proposed to reuse the remuneration system for shareholders called "Script dividend", already implemented in 2012. In this way, its shareholders are offered an alternative that allows them to receive shares issued by the parent company without limiting their possibility of receiving in cash an amount equivalent to the payment of the dividend as explained in Note 4.

There have been no other significant events worthy of mention subsequent to the closing date of these consolidated financial statements of Almirall, S.A. and Subsidiaries.

9. Outlook for 2018

The Group forecasts average single-digit growth in Total Revenues in 2018, as compared with the figures at the 2017 year end, and expects to see an increase in EBITDA[1] of more than 20% compared with the previous year.

We will continue throughout 2017 to work on the consolidation of our specialist model, reinforcing our presence as a world leader in dermatology. The Company will use its sound cash position and the resources made available through the restructuring operations performed to finance the opportunities for growth in this area, and to support the clinical development of our pipeline.

10. Corporate Governance Report

The Corporate Governance report is attached hereto as Schedule I.

11. Capital structure. Significant ownership interests

At 31 December 2017, the Parent Company's capital is represented by 172,951,120 shares with a par value of Euros 0.12 each, all fully subscribed and paid up.

[1] Calculated as Operating income plus the captions of the consolidated income statement "Amortizations and Depreciation", "Net provisions variation", "Net result from sale of assets" and "Impairment losses".

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 2017, are as follows:

Name or company name of direct holder of the ownership interest	% ownership interest in Almirall Group
Grupo Plafin, S.A.	41.30%
Todasa, S.A.	25.34%
Scopia Capital	4.0%

At 31 December 2017, the Parent Company is unaware of there being other ownership interests of 3% or more in the share capital or voting rights of the Parent Company, or other interests which, despite being less than this percentage, enable the holder to exercise a significant influence over the Parent Company.

12. Side agreements and restrictions on transferability and voting rights

The Group has entered into three side agreements, all of which were reported to the CNMV and which may be consulted in full on the following web site: www.almirall.com:

Agreement entered into by Almirall, S.A. shareholders

This is an agreement formalized between Mr. Antonio Gallardo Ballart, Mr. Jorge Gallardo Ballart, Mr. Daniel Bravo Andreu and the companies Todasa, S.A.U. and Grupo Plafin, S.A.U., which regulates, among other aspects, certain pre-emptive and purchase and sale option rights in relation to the shares of Almirall, S.A.

Agreement entered into by Inmobiliaria Braviol, SA shareholders

This is an agreement formalized between Mr. Antonio Gallardo Ballart, Mr. Jorge Gallardo Ballart, Mr. Daniel Bravo Andreu, Ms. Margaret Littleton and the companies Inmobiliaria Braviol, S.A., Danimar 1990, S.L., and Todasa, S.A.U., which regulates, among other aspects, certain pre-emptive and purchase and sale option rights in relation to the participation units and shares of the said companies.

Agreement between Mr. Jorge and Mr. Antonio Gallardo Ballart

A side agreement regulating the concerted action of the signatories in Almirall, S.A. and the inherent voting rights of their indirect ownership interest in the Company through Grupo Plafin, S.A.U. and Todasa, S.A.U.

The bylaws impose no restrictions on the transferability of the shares of the Parent Company, and neither are there any restrictions on voting rights pursuant to the bylaws or regulations.

13. Governance bodies, Board of Directors

Appointment of directors

The directors are appointed (i) upon proposal by the Appointments and Remuneration Committee, in the case of independent directors, and (ii) following a report by said 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 Companies Law.

Newly-appointed directors are required to complete the Parent Company's orientation course for new directors so that they can rapidly build up sufficient knowledge of the Parent Company and of its corporate governance rules.

As for the appointment of external directors, the Board of Directors seeks to ensure that the candidates chosen are persons of recognized solvency, competence and experience. Particular care is taken in relation to those called upon to fill the independent director positions envisaged in Article 6 of the Board Regulations.

Directors proposed for re-appointment must refrain from participating in the deliberations and voting procedures concerning them.

Directors hold office for the term stipulated by the General Meeting, which is equal for all and may not exceed four years, at the end of which they may be re-elected one or more times for periods of the same maximum duration.

Replacement of directors

Directors cease to hold office when the period for which they were appointed has elapsed and when a decision to this effect is adopted by the General Meeting, exercising the powers attributed to it by law or by the Articles of Association. In any event, the appointment of directors expires when, once its term has elapsed, the following General Meeting has been held, or the legal time limit for holding the General Meeting to approve the accounts for the previous year has passed.

The Board of Directors may only propose the removal of an independent director before the expiry of the statutory term when there is due cause, acknowledged by the Board following a report by the Appointments and Remuneration Committee. In particular, due cause is understood to exist when a director has breached the duties inherent to his/her position or has come to be in any of the circumstances which bar him/her from holding this office, as described in the definition of independent director contained in corporate governance recommendations applicable at the time.

Directors who are the subject of removal proposals must refrain from participating in the deliberations and voting procedures concerning them.

The directors are required to tender their resignation to the Board of Directors and formalize such resignation, where the Board considers this appropriate, in the following cases:

a) Where they cease to hold the executive posts with which their appointment as directors was associated.

b) Where they find themselves in any of the situations of incompatibility or barring from office stipulated by law.

c) When seriously reprimanded by the Board of Directors for failing to discharge their obligations as directors.

d) When their remaining on the Board could jeopardize or prove detrimental to the interests, credit or reputation of the Parent Company or when the reasons for which they were appointed cease to apply (for example, when a nominee director sells their shareholding in the Parent Company).

e) In the case of independent directors, they may not remain in such positions continuously for more than 12 years; therefore, once this period has elapsed, they must tender their resignation to the Board of Directors and formally withdraw.

f) In the case of nominee directors, (i) when the shareholder they represent sells its entire shareholding and, similarly, (ii) in the requisite number, when such shareholder reduces its shareholding to a level which requires the number of nominee directors to be reduced.

In the event that, due to resignation or for any other reason, a director leaves office before the end of their term, they are required to explain the reasons in a letter sent to all the Board members.

Amendment of the Company's bylaws

Amendments to the bylaws are a competence of the General Meeting and are regulated by Article 160 of the Spanish Companies Law and other related legislation. There are no special provisions of relevance in this respect in either the bylaws or the General Meeting Regulations.

Powers of the members of the Board of Directors

Certain powers pertaining to the Board of Directors are vested in the Chief Executive Officer of Almirall, S.A., pursuant to a public deed executed before the Barcelona Notary Mr. Enrique Viola Tarragona on 26 September 2017.

Similarly, powers have been granted to Mr. Jorge Gallardo Ballart in the public deed executed before the Barcelona Notary Mr. Enrique Viola Tarragona on 2 June 2011.

14. Significant agreements

There are no significant agreements with regard to changes in the control of the Parent Company or between the Parent Company and its Directors and Managers or Employees with respect to indemnities for dismissal, resignation, or public takeover bids.

15. *Non-financial information*

1- Description of the group's business model

Almirall Group (from now on referred as “Almirall” or “the Company”) is a leading global pharmaceutical group focused on skin health that works with health professionals to apply science to provide medical solutions to patients and future generations. The company's efforts are concentrated on fighting skin disease and ailments and on helping people feel and see themselves better, supporting health professionals for their continued improvement and delivering innovative solutions wherever they are needed.

The company is traded on the Spanish Stock Exchange and has become a key source of value creation for society thanks to the commitment acquired with its main shareholders and its determination to help others, understanding their challenges and using science to offer real-life solutions.

Through its R&D activities and agreements and alliances with other entities, Almirall's activity covers the entire medicine value chain. Almirall is a specialist company, which allows it to achieve its goal of taking innovative products wherever they are needed.

The company's strategic focus is concentrated on (i) promoting the growth of dermatology and medical aesthetics while optimizing the value of our current portfolio; (ii) broadening the portfolio and pipeline in priority therapeutic areas by means of effective combination of R&D and corporate development; (iii) achieving selective expansion in key countries; (iv) boosting Almirall's competitiveness by bringing it closer to its customers; and (v) fostering an organization with a culture based on the company's core corporate values:

A key factor in the Almirall business model is research and development (R&D), backed by more than 40 years’ experience, guided by the essential goal of providing innovative solutions for unattended medical needs. At Almirall R&D focused on those areas where the greatest contribution can be made, with the goal of improving the health and quality of life of patients. Thanks to its three specialised research centres, and its international alliances, the company has products in all phases of development.

Almirall conducts most of its R&D activities at its facilities in Sant Feliu de Llobregat (Barcelona), which were inaugurated in 2006. Covering a floor area of more than 27,500 m2, the site is equipped with the most advanced technology and has highly qualified professionals involved in the entire research and development process for new drugs. In addition to that site, Almirall also has a chemicals plant in Sant Andreu de la Barca (likewise in the Barcelona area) that provides the requisite active ingredients for toxicological, preclinical and clinical studies and trials.

Acquired by Almirall from Hermal in 2007, the facility in Reinbek (Germany) is located on the outskirts of Hamburg and has a total floor area of 21,000 m2. There, Almirall's experts work on development programmes to discover new formulations indicated for the treatment of skin disease. Its more than 60 years of work in this area make it Europe's leading dermatological centre.

Lastly, Polichem, with its primary R&D facility located in Lugano (Switzerland), was acquired in 2016. Its main activity is concentrated in dermatology and dermocosmetics, especially in relation to original formulations and pharmaceutical technologies applicable to a wide range of therapeutic areas. Polichem has patented development projects in diverse medical fields, with special emphasis on skin problems.

In addition to its R&D activity, Almirall is committed to strengthening the skills and expertise of health professionals. Toward this end it organizes and sponsors medical courses, conferences and meetings in each one of the relevant therapeutic areas. In addition, the articles and results of Almirall's clinical trials are published in scientific journals.

The exchange of knowledge with the medical community is also extended to Almirall's joint projects with academic institutions, hospitals and scientific societies to broaden the overall knowledge and understanding of diseases.

In addition to its own R&D programme, Almirall forges agreements with public and private organizations, and with academic research teams and biotechnology firms throughout the world to create a network for exchanging knowledge and promoting innovation that benefits society. This helps spawn new research programmes that respond to the current needs of society and, furthermore, facilitates the take-up of new technologies, to speed up the process of identifying new drugs.

2- Main policies in place in relation to the environment and human resources, respect for human rights and the fight against corruption and bribery

2.1 Environment

Almirall is strongly committed to promoting sustainable development, judicious management of natural resources and the prevention of pollution.

How Almirall achieves its objectives is as important as achieving them. Hence its commitment to society goes beyond offering scientific solutions to patients. It is also based on developing an energy efficiency model pursuant to an environmental policy developed in-house that ensures responsible use of resources, thus working for a more sustainable planet.

The efforts in this area address the entire life cycle of products: from their design and R&D through to manufacture, including the acquisition of the raw material inputs and management of waste materials.

In 2017 the company adapted its environmental management to the new ISO 14001:2015 standard, implementing key substantial changes that were needed to comply with the obligations associated with that standard and to obtain a smooth transition to the new standards. It is expected that certification to that standard will be attained during 2018.

Since 2012, Almirall has achieved improvements of 19% in its total consumption of electricity and gas. This has been made possible by actions carried out in connection to the execution of 134 energy improvement projects aimed at minimizing the effects of climate change, encouraging the use of renewable energies at all sites, with a commitment to seek out energy efficiency solutions that contribute to a more sustainable environment.

Almirall's energy efficiency model is based on an iterative search for projects and new technologies and on applying them progressively, in line with the needs of each site. The company has thus succeeded in implementing innovative technologies such as magnetic levitation and high-pressure water-mist cooling systems that can decrease energy consumption in cooling equipment compressors and in conventional resistance heating and/or electrolysis evaporation systems, respectively.

Almirall is also fully committed to the fight against climate change, and assigns great importance to the reduction of gas emissions in its environmental strategy. Toward this end, in 2016 the company conducted an analysis that identified the most significant changes and existing opportunities to be able to generate a major impact on the business and also be able to prepare action plans for the period 2017-2020.

With the recent opening of the solar energy facility in the Sant Celoni chemical plant, Almirall has reinforced its strategy of putting into operation continuous improvements to make its production processes more sustainable and reduce the environmental impact of all areas of operation, thereby fostering the generation of sustainable energies.

As a result of these initiatives, not only was electricity consumption reduced by 3.1% in 2017, but gas consumption was also cut by 5.7%. With respect to gas emissions, Almirall has successfully avoided emissions of 8,000 equivalent tonnes of CO2 by applying specific programmes to purchase green energy, with gas emissions having been brought down by 23% in the period 2014-2016.

Lastly, “eco-design” and, in particular, the “eco-packaging” project have been applied in designing products and in R&D processes with the aim of reducing the environmental impact in the packaging of Almirall products.

2.2 Human Resources

Almirall's people are considered a prime asset. The aim is therefore to always provide employees with the best possible work environment. The company has laid down the basic principles that allow this to be achieved.

Almirall strives to ensure that those principles are applied to all employees with no discrimination by age, gender, race or religion.

Almirall is committed to the wellbeing of its employees and thus strives to ensure a proper balance between their work and personal lives, making sure they enjoy their holiday time as planned over the entire year, and guaranteeing that their tasks are distributed fairly within their respective teams, with no discrimination, and maintaining flexible work hours that also contribute to allowing that balance.

Almirall is committed to equality. It has an Equality Plan that was agreed with the Workers' Committee in the central offices in 2009 to ensure real and effective equality of opportunities for men and women in Almirall. The Plan's goals include promoting and improving access by women to senior positions, as well as preventing discrimination in hiring, gender-biased remuneration and sexual harassment in the workplace.

Almirall offers training to all its employees, providing them with opportunities to keep learning and developing their skillbase, as an important tool for achieving business objectives and personal development goals.

These training actions may can cover values and skills, business, languages and technology systems. Any training need (knowledge, skills or competences) must be aligned with the employee's professional responsibilities, both at present and in the future to allow them to realize their future potential.

Almirall has a rigorous and fair process for ensuring career development in step with the requirements of the organizational strategy. Almirall is also aware of the importance of teamwork in its organization.

Its compensation programmes seek to foster a high-performance culture, with salary and benefits plans based on the industry standards, level of contribution of the job done and the performance of each employee.

Almirall is also fully committed to respecting and complying with labour laws and practices in an environment of constructive dialogue and respect with employees and their representatives. All employees must comply with rules of ethical conduct specific to the pharmaceutical industry, in addition to the Almirall Code of Ethics.

The company's rules of ethical conduct are mandatory and are enforced, and Almirall informs and trains its employees properly on these matters, and assigns responsibilities to ensure they are accepted and that compliance is properly monitored.

A testament to Almirall's continued success in fostering good work conditions for its employees is the “Top Employers” certificate it has earned in Spain since 2008.

At year end 2017 Almirall had a total of 1.833 employees, from 28 nationalities, with men accounting for 45% of the total and women for 55%. The average length of service with the company was 13 years and 64% of the employees hold university degrees and 70% are experts in the pharmaceutical industry.

2.3 Ethics, anti-corruption and corporate social responsibility

In the pursuit of its activities, Almirall is guided by a strong sense of corporate responsibility, integrity and transparency, as well as by strict and faithful compliance with the applicable laws and regulations.

To do this the company has a series of principles and ethical values that govern the actions of all its employees and executives. All these principles, values and standards of conduct are reflected in the Almirall "Code of Ethics" developed by the company's global corporate standards office and contained in the Global Corporate Policies and in their implementing SOPs.

The company is also compliant with nearly all of the recommendations that apply to it of the Code of Good Corporate Governance, as is reflected in the annual corporate governance reports that it makes available to the Spanish securities exchange authority (CNMV), its shareholders and the general public.

Almirall has a specific "Global Corporate Policy for Control of Compliance Risks" which has three main purposes: (i) prevent potential risks that could give rise to legal liability for the company or for its directors and legal representatives, (ii) get an early start on managing those risks and (iii) verify that the Company is complying with the relevant external and regulatory frameworks.

Almirall also has a "Risk Management System" based on creating an annual risks map and in drawing up and implementing a series of specific plans of action for the risks that have been identified, defining the roles and responsibilities of the different bodies that take part in managing the risks to which the company is exposed.

Back in July 2015 the Almirall Board of Directors approved a "Model for Preventing and Managing Criminal Risks" that lays down the system for organizing, preventing, managing and controlling risks of criminal liability in Almirall and its subsidiaries.

That model lays out a plan for preventing criminal wrongdoing by or in the company, and complies with the procedures and controls currently existing for effective prevention and mitigation of criminal risks, on the basis of a detailed analysis of the criminal risks which could hypothetically arise in the different areas of Almirall, taking into account, on the one hand, the policies and controls already in place, and, on the other, the susceptibility to criminal risks detected in specific processes in light of the sector and the activities pursued by Almirall.

The company's Board of Directors approved in February 2017 a "Corporate Social Responsibility Policy" (CSR), in which, with the aim of facilitating the control, supervision and monitoring of these matters, the "Corporate Compliance Committee" was assigned responsibility for overseeing the coordination of all CSR-related activities and, especially, of proposing strategic lines and corporate programmes and establishing the measures to manage, control and review the associated programmes and initiatives.

Almirall views its Corporate Social Responsibility policy as embodying the company's answerability for its impact in society and on the environment. To live up to that responsibility, Almirall strives to imbue its corporate strategy and operations with ethical, social and environmental concerns, in collaboration with all interested parties in order to (i) maximize the creation of shared value for its shareholders and other stakeholders and for society in general; (ii) foster a culture of ethical conduct that enhances corporate transparency; (iii) strengthens the reputation and external image of the company, and (iv) spot, prevent and mitigate any possible adverse effects caused by its activity.

In the pursuit of those objectives, the company is guided by the following general principles:

Align its behaviour with the principles laid down in the Code of Ethics and other corporate governance rules that regulate the conduct of Almirall employees in the pursuit of their activities.

Encourage communication and dialogue with the main stakeholders via diverse communication channels, fostering relations of mutual trust.

Encourage transparent disclosure of Almirall's actions and activities and adopt responsible communication practices to keep the information from being manipulated and to protect the integrity of Almirall's reputation.

Proactively manage non-financial risks and opportunities arising from the markets and from the context of the business operations.

Ensure the creation of shared value for shareholders and other stakeholders over the long term.

Reduce the environmental impact of its activities in the areas where it operates.

Comply with the laws and regulations that apply in the countries where it does business.

3- Main risks of the company in said areas

The Almirall Risk Management Systems is based on an annual mapping of risks that places priority on the most significant risks of the company's global risks map.

The Risk Management System is coordinated by the Internal Audit area and is based on consolidating the analysis and assessment of events, risks, controls and mitigation plans performed by the business and support units that comprise the different areas of the company. Tax risks are addressed by a tax committee which works to control, manage and minimize them.

All risks that can significantly impact the achievement of the company's objectives are examined and evaluated. Consideration is thus given to the strategic, operational, financial, technological, regulatory and reporting risks caused by outside and internal factors.

Responsibility for preparing and executing the Risk Management Systems rests with the senior management. Its effectiveness is supervised by the Risk Management Committee, which functionally reports to the Audit Committee and to the Chairman, given that this directly involves one of the essential responsibilities of the Board of Directors.

The company operates in an industry characterized by great uncertainty as regards spending on research and development, in a highly competitive market in the therapeutic areas that it targets, with great sensitivity to decisions by healthcare authorities in relation both to approval of the products and to the conditions for marketing them, and in a sector that is heavily regulated in aspects relating to pharmacovigilance, quality, the environment and codes of good practices in promotional activities.

These factors entail risks which by their nature need to be approached from a conservative positioning, with very selective allocation of resources and establishing highly rigorous and effective controls and processes in the pursuit of the company's operations.

The various risks are identified and assessed by the company's managers based on analysis of the possible events that they can generate. The assessment is performed using risk-specific metrics of the likelihood of occurrence and of their possible impact on the business objectives. Both inherent and residual risk are measured, so an evaluation is made of the existing controls for mitigating them and of the additional action plans needed if those controls are deemed insufficient. For each of those risks, specific responsibility is assigned for its management and for implementing the related measures.

The Annual Corporate Governance Report contains additional details on the Almirall Risk Management System.

SCHEDULE I: Corporate Governance Report