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

Audit Report,
Consolidated annual
Accounts as of 31 December 2011
And Director's report for 2011

This version of our report is a free translation of the original, which was prepared in Spanish. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of our report takes precedence over this translation -

AUDIT REPORT ON THE CONSOLIDATED ANNUAL ACCOUNTS

To the shareholders of Almirall, S.A.:

We have audited the consolidated annual accounts of Almirall, S.A. (Parent Company) and its subsidiaries (the Group), consisting of the consolidated balance sheet at 31 December 2011, the consolidated income statement, the consolidated statement of recognised income and expenses, the consolidated statement of changes in equity, the consolidated cash flow statement and related notes to the consolidated annual accounts for the year then ended. As explained in Note 2, the Directors of the Company are responsible for the preparation of these consolidated annual accounts in accordance with the International Financial Reporting Standards as endorsed by the European Union, and other provisions of the financial reporting framework applicable to the Group. Our responsibility is to express an opinion on the consolidated annual accounts taken as a whole, based on the work performed in accordance with the legislation governing the audit practice in Spain, which requires the examination, on a test basis, of evidence supporting the annual accounts and an evaluation of whether their overall presentation, the accounting principles and criteria applied and the estimates made are in accordance with the applicable financial reporting framework.

In our opinion, the accompanying consolidated annual accounts for 2011 present fairly, in all material respects, the consolidated financial position of Almirall, S.A. and its subsidiaries at 31 December 2011 and the consolidated results of its operations and the consolidated cash flows for the year then ended in accordance with the International Financial Reporting Standards as endorsed by the European Union, and other provisions of the applicable financial reporting framework.

The accompanying consolidated Directors' Report for 2011 contains the explanations which the Parent Company's Directors consider appropriate regarding the Group's situation, the development of its business and other matters and does not form an integral part of the consolidated annual accounts. We have verified that the accounting information contained in the consolidated Directors' Report is in agreement with that of the consolidated annual accounts for 2011.Our work as auditors is limited to checking the consolidated Directors' Report in accordance with the scope mentioned in this paragraph and does not include a review of information other than that obtained from the accounting records of Almirall, S.A. and its subsidiaries.

PricewaterhouseCoopers Auditores, S.L.

Original in Spanish signed by
José M Solé Farré
Audit Partner

24 February 2012

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

ALMIRALL, S.A.
and subsidiaries (GRUPO ALMIRALL)

CONSOLIDATED BALANCE SHEET AT 31 DECEMBER 2011
(thousand euro)

ASSETS	Note	31 December 2011	31 December 2010	LIABILITIES AND EQUITY	Note	31 December 2011	31 December 2010
				Share capital		19.932	19.932
Goodwill	7	271.086	271.879	Share premium		166.796	166.796
Intangible assets	8	353.070	382.778	Legal reserve		3.986	3.986
Property, plant and equipment	9	152.131	154.817	Other parent company reserves		583.170	474.360
Financial assets	10	8.530	10.208	Consolidation reserves		1.109	38.759
Deferred tax assets	20	213.135	188.988	Valuation adjustments		(221)	(1.736)
NON-CURRENT ASSETS		**997.952**	**1.008.670**	Translation differences		(4.225)	(1.399)
				Profit/(loss) for year		84.166	118.604
				EQUITY	13	**854.713**	**819.302**
				Deferred income	14	36.373	48.702
				Bank borrowings and other financial liabilities	15	-	149.072
				Deferred tax liabilities	20	76.047	83.224
				Retirement benefit commitments	18	41.331	37.421
				Provisions	17	15.412	16.699
				Other non-current liabilities	16	19.170	20.742
Inventories	11	93.207	87.900	**NON-CURRENT LIABILITIES**		**188.333**	**355.860**
Trade and other receivables	12	105.980	103.821				
Current tax assets	20	23.399	17.568	Bank borrowings and other financial liabilities	15	202.222	148.395
Financial assets and other cash equivalents	10	190.208	250.403	Trade payables		149.198	136.281
Cash	10	38.717	62.515	Current tax liabilities	20	22.120	35.951
Other current assets		7.144	5.863	Other current liabilities	16	40.021	40.951
CURRENT ASSETS		**458.655**	**528.070**	**CURRENT LIABILITIES**		**413.561**	**361.578**
TOTAL ASSETS		**1.456.607**	**1.536.740**	**TOTAL LIABILITIES AND EQUITY**		**1.456.607**	**1.536.740**

Notes 1 to 31 and the Appendix are an integral part of the consolidated annual accounts as at 31 December 2011.

ALMIRALL, S.A.
and subsidiaries (GRUPO ALMIRALL)

CONSOLIDATED INCOME STATEMENT FOR
THE YEAR ENDED 31 DECEMBER 2011
(thousand euro)

	Note	2011	2010
Revenue	19	768.418	882.438
Raw materials and consumables	19	(233.429)	(273.787)
Other income	19	104.664	119.652
Staff costs	19	(209.458)	(229.624)
Restructuring costs	19	(9.936)	(11.619)
Depreciation	7.8 and 9	(63.212)	(61.891)
Net change in provisions	19	(242)	(3.029)
Other operating expenses	19	(269.841)	(279.355)
Profit /(loss) on sales of fixed assets	19	(2.351)	(1.485)
Other sundry profit/(loss)		(341)	942
Loss on impairment of PPE, intangible assets and goodwill	8 and 9	(6.970)	(13.967)
Operating profit		**77.302**	**128.275**
Profit/(loss) on changes in financial instruments	15	695	722
Financial income	19	8.549	4.340
Financial expenses	19	(14.719)	(16.936)
Exchange differences	19	145	2.780
Profit/(loss) before taxes		**71.972**	**119.181**
Corporate income tax		12.194	(577)
Net results for the year attributable to the Parent		**84.166**	**118.604**
Earnings per share (euro):	23		
A) Basic		0,51	0,71
B) Diluted		0,51	0,71

Notes 1 to 31 to the consolidated annual accounts and Appendix form an integral part of the consolidated annual accounts for the year ended 31 December 2011.

Translation of consolidated financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Group.
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ALMIRALL, S.A.

and subsidiaries (GRUPO ALMIRALL)

CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2011

(thousand euro)

	Notes to the accounts	FY 2011	FY 2010
NET RESULTS FOR THE YEAR ATTRIBUTABLE TO THE PARENT		**84.166**	**118.604**
Other comprehensive income:			
Net variation in available-for-sale financial assets	10	1.023	(416)
Cash-flow hedges	15	3.622	3.630
Retirement benefit commitments	18	(2.481)	(914)
Tax effect		(649)	(690)
Other comprehensive income for the year, net of tax		**1.515**	**1.610**
Total comprehensive income for the year		**85.681**	**120.214**

Notes 1 to 31 and the Appendix are an integral part of the consolidated annual accounts for the year ended 31 December 2011

ALMIRALL, S.A.

and subsidiaries (GRUPO ALMIRALL)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEARS ENDED 31 DECEMBER 2011 AND 2010

(thousand euro)

	NOTE	Share capital	Share premium	Legal reserve	Other parent company reserves	Consolidation reserves	Valuation adjustments to equity	Translation differences	Result attributed to the parent company	Equity
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 results		-	-	-	180.235	(28.741)	-	-	(151.494)	-
Dividends		-	-	-	(55.144)	-	-	-	-	(55.144)
Translation differences		-	-	-	-	-	-	3.275	-	3.275
Total comprehensive income for the year		-	-	-	-	-	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**
Distribution of results		-	-	-	156.254	(37.650)	-	-	(118.604)	-
Dividends		-	-	-	(47.444)	-	-	-	-	(47.444)
Translation differences		-	-	-	-	-	-	(2.826)	-	(2.826)
Total comprehensive income for the year		-	-	-	-	-	1.515	-	84.166	85.681
Balance at 31 December 2011	**13**	**19.932**	**166.796**	**3.986**	**583.170**	**1.109**	**(221)**	**(4.225)**	**84.166**	**854.713**

Notes 1 to 31 and the Appendix are an integral part of the consolidated annual accounts for the year ended 31 December 2011

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

ALMIRALL, S.A.
and subsidiaries (GRUPO ALMIRALL)

CONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR
ENDED 31 DECEMBER 2011
(thousand euro)

	Note	2011	2010
Cash flows			
Profit/(loss) before taxes		71.972	119.181
Adjustments to results:			
Depreciation	7.8 and 9	63.212	61.891
Net change in non-current assets	17	(1.287)	3.503
Profit/(loss) on sales of fixed assets	19	2.351	1.485
Profit/(loss) on valuation of financial instruments		(695)	(722)
Financial income	19	(8.549)	(4.340)
Financial expenses	19	14.719	16.936
losses due to asset impairment	8 and 9	6.970	13.967
Transfer of deferred revenues to the income statement	14	(17.329)	(18.984)
Other changes		-	(2.780)
		131.364	**190.137**
Adjustments to changes in working capital:			
Difference between opening and closing inventories	11	(5.307)	9.804
Change in trade and other debtors	12	(2.158)	16.577
Change in trade creditors		4.669	(6.406)
Change in other current assets		(1.281)	(144)
Change in other current liabilities	15	327	1.947
Other changes		(2.826)	-
Adjustments to changes in other non-current items:			
Creation of retirement benefit commitments	18	1.806	2.619
Inclusion of deferred income	14	5.000	-
		230	**24.397**
Cash flow for taxes:		**(31.454)**	**(39.968)**
Net cash flows from operating activities (I)		**100.140**	**174.566**
Cash flow from investing activities			
Financial income	19	8.549	4.340
Investments:			
Intangible assets	8	(19.738)	(78.653)
Property, plant and equipment	9	(18.704)	(14.285)
Financial assets	10	(35)	(27)
Disinvestments:			
Intangible fixed assets and property, plant and equipment	8 and 9	(77)	657
Financial assets	10	2.737	214
Other changes		-	2.780
Net cash flows from investing activities (II)		**(27.268)**	**(84.974)**
Cash flows from financing activities			
Financial expenses	19	(14.719)	(16.936)
Equity instruments:			
Dividends paid	13	(47.444)	(55.144)
Liability instruments:			
Repayment of bank loans	15	(117.000)	(60.000)
Increase in bank loans	15	25.000	100.000
Increase/decrease for discounted bills	15	1.597	(3.527)
Other non-current liabilities	16	(4.299)	(4.008)
Other changes		-	3.275
Net cash flows from financing activities (III)		**(156.865)**	**(36.340)**
Net change in cash and cash equivalents (I+II+III))		**(83.993)**	**53.252**
Cash and cash equivalents at beginning of the year	10	**312.918**	**259.666**
Cash and cash equivalents at end of the period	10	**228.925**	**312.918**

Notes 1 to 31 to the consolidated annual accounts and Appendix form an integral part of the consolidated cash flow statement at 31 December 2011.

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

Notes to the Consolidated Financial Statements
for the year ended 31 December 2011

1. Group activities

Almirall, S.A. is the Parent of a corporate group ("Almirall Group"), the objects of which are 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 corporate objects, 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 objects.

Almirall, S.A. is a public limited company that is listed on the stock exchange included in the Spanish stock market interconnection system ("mercado continuo"). Its registered office is located at Ronda General Mitre, 151, Barcelona (Spain).

2. Basis of presentation of the financial statements and consolidation principles

a) Regulatory financial reporting framework applicable to the Group

The consolidated financial statements of the Almirall Group for the year ended 31 December 2011, 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 24 February 2012.

These consolidated financial statements were prepared in accordance with International Financial Reporting Standards (IFRS) 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 Companies Act 2010 and all other applicable Spanish corporate law, so that they present fairly the Almirall Group's consolidated equity and financial position at 31 December 2011 and the results of its operations, the changes in consolidated equity, the changes in other comprehensive income and the consolidated cash flows in the year then ended.

The consolidated financial statements have been prepared on a cost basis, adjusted in the relevant record of financial instruments at fair value as required by accounting legislation.

However, since the accounting policies and measurement bases used in preparing the Group's consolidated financial statements for 2011 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 2010 were approved at the Parent's General Shareholders' Meeting on 6 May 2011. The Group's present consolidated financial statements for 2011 have not yet been approved by the General Shareholders’ Meeting. 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 prepared under International Financial Reporting Standards in accordance with EC Regulation 1606/2002 of the European Parliament and Council of 19 July 2002. In Spain, the obligation to present consolidated financial statements under IFRS approved in Europe was also regulated through Final Provision 11 of Law 62/2003, on tax, administrative and social measures.

The main accounting and measurement standards adopted by the Almirall Group are presented in Note 5.

With respect to the application of IFRS, the main options adopted by the Almirall Group are as follows:

- To present the balance sheet on a current / non-current basis.
- To present the income statement by nature.
- To present the statement of cash flows using the indirect method.
- To present income and expenses in two separate statements: an income statement and a statement of comprehensive income.

As is detailed below, in 2011 new accounting standards (IAS/IFRS) and interpretations (IFRIC) have come into effect. Similarly, at the date of preparation of the present consolidated financial statements, new accounting standards (IAS/IFRS) and interpretations (IFRIC) have been published, which are set to come into effect for the accounting periods starting on or after 1 January 2012.

Mandatory standards, amendments and interpretation for all years starting 1 January 2011

IAS 24, “Related-party disclosures”, IAS 32 (Amendment), “Classification of rights issues”, IFRS 1 (Amendment) “Limited exemption from comparative IFRS disclosures for first-time adopters of IFRS”, IFRIC 14 (Amendment), “Prepayments of a minimum funding requirement”, IFRIC 19, “Extinguishing financial liabilities with equity instruments", plan for improvement with clarifications of IFRS 1 “First-time adoption of IFRS”, IFRS 3 “Business combinations”, IFRS 7 “Financial instruments: Disclosures”, IAS 1 “Presentation of financial statements”, IAS 27 “Consolidated and separate financial statements”, IAS 34 “Interim financial reporting”, IFRIC 13 “Customer loyalty programmes”.

All standards, amendments and interpretations applicable to the Group's consolidated financial statements have been taken into account with effect 1 January 2011. None of them has had a significant effect on the present consolidated financial statements.

Standards, amendments and interpretations that may be adopted before the start of financial years starting on and after 1 January 2011:

IFRS 7 (Amendment) “Financial Instruments: Disclosures – Transfers of financial assets"

The application of the standards, amendments and interpretations indicated is not expected to have a significant impact on the Group's consolidated financial statements.

Standards, amendments and interpretations applied to existing standards that have not been adopted to date by the European Union at the date of preparation of these consolidated financial statements.

IFRS 9, "Financial Instruments ", IFRS 9 (Amendment) "Mandatory effective date and transition disclosures", IAS 12 (Amendment) "Deferred tax: Recovery of underlying assets", IFRS 1 (Amendment) "Severe hyperinflation and removal of fixed dates for first-time adopters", IFRS 10 "Consolidated financial statements", IFRS 11 "Joint arrangements", IFRS 12 "Disclosure of interests in other entities", IAS 27 (Amendment) "Separate financial statements", IAS 28 (Amendment) "Investments in associates and joint ventures", IFRS 13 "Fair value measurement", IAS 1 (Amendment) "Presentation of financial statements", IAS 19 (Amendment) "Employee benefits", IFRIC 20 "Stripping costs in the production stage of a surface mine", IAS 32 (Amendment) and IFRS 7 (Amendment) "Offsetting financial assets and financial liabilities".

As indicated above, the Group has not taken into account the early application of the above standards and interpretations and in any event, their application will be considered by the Group, following their approval, if appropriate, by the European Union.

c) *Functional currency*

These consolidated financial statements are presented in euro 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-q.

d) *Estimates made*

The consolidated results and determination of the consolidated equity are sensitive to the accounting principles and policies, measurement criteria and estimates made by the parent when preparing the consolidated financial statements.

In the Group's consolidated financial statements for the year ended 31 December 2011, 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-u).

Although these estimates were made on the basis of the best information available at 31 December 2011 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.

Consolidation of the results generated by entities acquired during a year is carried out taking into consideration only those results relating to the period between the date of acquisition and the close of that year. In parallel, consolidation of the results generated by entities disposed of during a year is carried out taking into consideration only those results relating to the period between the beginning of the year concerned and the date of disposal.

Where necessary, the financial statements of the subsidiaries are adjusted so that the accounting policies used conform to 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

There were no significant changes to the consolidation scope in 2011.

In 2010 the Parent incorporated Almirall ApS, a company domiciled in Denmark, at a cost of EUR17 thousand. Also in 2010 the Group wound up the investees Almirall Prodesfarma, B.V. and Almirall, GmbH, 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 2011 and 2010 is as follows:

	Thousand euro	
	2011	2010
Available for distribution:		
Profit for the year	86,215	156,254
Distribution		
To voluntary reserves	56,757	108,812
To dividends	29,458	47,442
Total	**86,215**	**156,254**

At the date of preparation of these financial statements, the Board of Directors agreed to submit a proposal to the General Shareholders' Meeting for the implementation of a shareholder remuneration system named "Dividendo Flexible". In this way, shareholders would be offered an alternative enabling them to receive bonus shares in the Parent without limiting their chances of receiving a cash amount equal to the dividend payment of 2011. This alternative would be arranged through a bonus share issue which should be approved by the General Shareholders' Meeting of Almirall, S.A.

5. Accounting policies

The Group's consolidated financial statements for the year ended 31 December 2011 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 standards 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

The goodwill generated on business combinations represents the excess of the acquisition cost over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary at the combination date.

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: depreciation, 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 as from 1 January 2004 is carried at acquisition cost while goodwill prior to that date is reflected at its net value 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 tested 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 may not be reversed in a subsequent period (see Note 5-d).

On disposal of a subsidiary, 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 "indefinite useful lives" when, based on 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 flows 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 %
Research and development expenses	10%
Intellectual property	6%-10%
Computer applications	18%-33%

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).

Development costs

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 time of the product's regulatory approval (i.e when the intellectual property rights are transferred) 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 recognised as an asset in a subsequent period.

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 (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 records the acquisition of computer programs in this account. 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.

Replacements or renewals of complete items that lead to a lengthening of the useful lives 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:

	Estimated useful life
Buildings	33-50
Plant and machinery	8-12
Other fixtures and tools	3-4
Furniture and laboratory equipment	6-10
Data processing equipment	4-6
Vehicles	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 the 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 immediately as an expense.

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 (for products under development since it is the average timeframe necessary to stabilise the cash flows generated by such products), 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 2011 and 2010 were as follows:

	2011		2010	
	Goodwill	Intellectual property and development expenses	Goodwill	Intellectual property and development expenses
Gross profit	45-80%	45-80%	45-80%	45-80%
Discount rate of flow	8.5%	10%	8%	9.5%
Growth rate perpetual income	(1%)	(20%)	(1%)	(20%)
Probability of development success	Not applicable	On the basis of each product assessed	Not applicable	On the basis of each product assessed

Management determines the budgeted gross margin based on past performance and their expectations of market development.

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.

Such variables derive from historical experience weighted by external information. Changes in assumptions are based on the evidence obtained by the Company on the basis of the performance of the indicators applied.

e) 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.

Operating lease payments are charged to the income statement on a straight- line basis over the lease period.

Leases of property, plant and equipment where the lessee retains substantially all the risks and rewards of ownership are classed as finance leases. Finance leases are capitalised at inception at the lower of the fair value of the leased asset or the present value of the minimum lease payments.

Each lease payment is distributed between the liability and financial charges. Lease liabilities, net of finance charges, are included in long-term payables. The interest part of the financial charge is charged to the income statement during the term of the lease, in order to obtain a constant regular interest rate on the debt pending repayment in each period. Property, plant and equipment acquired under finance lease are depreciated over the lower of their useful lives and the lease period.

The Group has no finance leases at 31 December 2011 and 2010.

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 2011 and 2010, 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.

Cost is calculated using the average weighted cost method. The net realisable value represents an estimate of the selling price less all estimated costs to completion and the costs incurred in the marketing, sales and distribution processes.

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 the decline in value no longer exist or when there is clear evidence of an increase in net realisable value due to a change in economic circumstances, the provision 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 (not including financial derivatives)

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 2011 and 2010, 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:

- Loans and receivables generated by the Group: financial assets generated by the Group companies in exchange for the supply of cash, assets or services directly to a debtor. They are measured at amortised cost using the effective interest rate method.

- Financial assets held to maturity: assets collection of which is for a fixed or determinable amount and which mature at a set point in time. With respect to such assets, the Group expresses its intention and capacity to keep them in its possession from the time they are purchased through to maturity. They do not include loans and accounts receivable originated by the Group. They are measured at amortised cost using the effective interest rate method.

- Financial assets held for trading: 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.

- Financial assets available for sale: 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 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 net profit or loss for the year. For non-monetary financial assets classified as available for sale (eg, equity instruments), profits and losses which are recognised directly in equity include any component related to shifts in the exchange rate.

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 agrees with the contractual interest rate set at the time of their acquisition, plus, where appropriate, the commissions that, because of their nature, may be likened to an interest rate. 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.

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

Investments in the share capital of unlisted companies whose market values cannot be measured reliably are recognised at acquisition cost less accumulated impairment losses. Similarly, the Group companies and associates not included in the consolidation because they are dormant and / or immaterial are carried at acquisition cost less accumulated value adjustments for impairment.

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 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 a grant.

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 of the consolidated balance sheet date are classified as current, while those maturing after more than twelve months are classified as non-current.

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.

(a) Assets at amortised cost/ Assets held to maturity

At each balance sheet date, the Group assesses whether there is objective evidence of impairment losses with respect to a financial asset or group of financial assets. A financial asset or a group of financial assets is impaired and impairment losses are incurred if and only if there is objective evidence of impairment as a result of one or more events occurring after the initial recognition of the asset (a 'loss event') and that loss event (or events) has /have an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Evidence of impairment losses can include indications that debtors or a group of debtors is experiencing major financial difficulties, defaults or delays in the payment of interest or the principal, the probability that they will be involved in bankruptcy proceedings or any other financial restructuring and when observable data point to the existence of a measurable fall in future estimated cash flows, such as changes in payment terms or business terms which match defaults.

For loans and receivables and assets held for sale, the loss is measured as the difference between the carrying amount of the asset and the present value of the future estimated cash flows (not taking into account future bad debt write-offs not incurred), discounted at the original effective interest rate of the financial asset.

If, subsequently, an impairment loss diminishes, and this reduction can be objectively attributed to an event occurring after the impairment loss was recognised (such as an improvement in the debtor 's credit quality), the previously recognised impairment is recognised in the consolidated income statement.

(b) Available for sale assets

The Group assesses at the end of each accounting period whether there is objective evidence that a financial asset or group of financial assets has become impaired. In the case of investments in equity instruments classified as available for sale, a significant or prolonged decline in the fair value of the instrument to below cost, is considered evidence that the asset has become impaired. If there is this type of evidence for available-for-sale financial assets, the cumulative loss, determined as the difference between acquisition cost and current fair value, less any impairment losses previously recognised in the income statement on the financial asset, is eliminated from equity and recognised in the income statement. Impairment losses recognised in the consolidated income statement on equity instruments are not reversed in the consolidated income statement.

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 the interest rate risk. The Group does not use derivative financial instruments for speculative purposes.

The Group documents at inception the relationship between the hedging instruments and hedged items and its risk management objectives and strategy for arranging various hedging transactions. The Group also documents their evaluation, at both inception and continuously, as to whether the derivatives used in the hedges are highly effective for offsetting the changes in the fair value or cash flows of the hedged assets.

The fair value of certain derivative financial instruments used for hedging purposes is set out in Note 15. Movements in the hedging reserve included in equity are set out in Note 13. The total fair value of a hedging derivative is classified as a non-current asset or liability if the time remaining to maturity of the hedged item is more than 12 months and as a current asset or liability if the time remaining to maturity of the hedged item is less than 12 months. Derivatives that do not qualify for hedge accounting are classified as current assets or liabilities.

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:

- Variations in the value of assets and liabilities due to shifts in prices, interest rates and / or exchange rates to which the position or balance to be hedged is subject ("fair value hedges").

- Fluctuations in estimated cash flows arising on financial assets and liabilities, commitments and transactions forecast and highly probable that an entity is planning to carry out ("cash flow hedges").

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

Similarly, it has to efficiently eliminate the risk inherent in the asset or position hedged during the entire forecast hedging period and it has to be adequately documented that the financial derivative was arranged specifically to hedge certain balances or transactions and the manner in which such efficient hedging is 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 subsidiary).

Hedging instruments cease to qualify for hedge accounting when they fall due or are sold, end or are exercised or cease to meet the relevant criteria. Any accumulated gain or loss on the hedging instrument which has been reflected in equity, continues to be reflected in equity until the forecast transaction takes place. When the transaction hedged is not expected to take place, any accumulated net gains or losses recognised in equity are transferred to net profit or loss for the year. At 31 December 2011 and 2010, the Almirall Group has designated some of these financial derivative instruments as accounting hedges and as we are dealing with cash flow hedges, any changes in fair value are reflected in equity for their effective part. 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 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 resulting from past events, the future materialisation of which is contingent upon the occurrence or otherwise of one or more events independent of the consolidated companies' intentions.

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 24.

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 2011 and 2010, certain litigations 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) Cost of retirement benefits (or post-employment benefits)

The Group companies Almirall, S.A.S., Almirall Sofotec, GmbH and Almirall Hermal, 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 Almirall Hermal GmbH are funded by two defined benefit plans, a defined contribution plan with employer contributions and two defined contribution plans with employee contributions.

A defined contribution plan is a pension plan under which the Group pays fixed contributions into a fund. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. A defined benefit plan is a pension plan that does not fulfil the definition of a defined contribution plan. Defined benefit plans generally lay down the amount of the benefit that will be received by an employee on retirement, normally on the basis of one or more factors such as age, years of service or remuneration.

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:

- Calculation 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 2011 and 2010 the main assumptions used in the actuarial valuation of the aforementioned obligations were as follows:

2011	Almirall Hermal, GmbH	Almirall Sofotec, GmbH	Almirall, S.A.S.
Mortality tables	Heubeck 2005G	Heubeck 2005G	TD 2007-2009
Discount rate	4.90%	5.20%	4.30%
Salary increase rate	2.25%	3.00%	2.80%
Benefit increase rate	1.50%	2.00%	0.00%
Turnover rate	3.00%	0.00%	5.80%
Retirement age	63	65	65

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%
Salary increase rate	2.00%	3.00%	2.10%
Benefit increase rate	1.50%	2.00%	0.00%
Turnover rate	3.00%	0.00%	8.33%
Retirement age	63	65	65

- Actuarial gains and losses that arise from adjustments applied due to experience and changes in the actuarial assumptions used are charged and credited to equity in Other comprehensive income in the period in which they arise.
- Past services costs are recognised immediately in income unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, past service costs are amortised on a straight-line basis over the vesting period.

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 2011 and 2010 was EUR 1.6 million (2010: EUR 0.8 million).

The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due.

Termination benefits

Termination benefits are payable when employment is terminated before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises these benefits when it has demonstrably undertaken to terminate current employees' employment in accordance with a formal detailed plan that cannot be withdrawn. When an offer is made to promote the voluntary retirement of employees, severance indemnities are measured on the basis of the number of employees expected to take up the offer. Benefits falling not due within 12 months of the balance sheet date are discounted to present value.

ll) Official 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) Recognition of revenue and expenses

Income and expenses are recorded on an accruals basis, i.e. in the period in which the income or expense deriving from the goods or services in question is earned or incurred rather than the period in which the cash is actually received or disbursed.

Revenues are carried at the fair value of the consideration received or to be received and represent the amounts receivable on the assets sold, net of discounts, returns and VAT. Revenues are recognised when they can be reliably measured, it is probable that the company will receive future economic benefits and when certain conditions are met for each of the Group's activities described below. The Group bases its estimates for estimating the provision for returns on historical results, taking into account the type of customer, the type of transaction and the specific circumstances of each agreement.

However, in accordance with the accounting principles established in the IFRS Conceptual Framework, the Group recognises accrued 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 tax assets and liabilities

The expense for Spanish corporate income 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, approving the Corporate Income Tax Law. The companies composing the tax group for 2011 and 2010 were: 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 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 using tax rates that have been approved or virtually approved on the date of the consolidated balance sheet. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred tax assets and liabilities are recognised using the liability method for 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. However, deferred taxes are not accounted for if they arise from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss.

Deferred tax assets for temporary differences and other deferred tax assets (tax loss carryforwards and deductions pending application) are only recognised 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. At each accounting close, deferred tax assets and liabilities are analysed to ensure that they remain valid and any necessary adjustments are made accordingly.

o) Discontinued operations

A discontinued operation is a line of business or geographical area that is material and may be considered separate from the rest of the entity, and which has been disposed of or classified as held for sale, whose activities and cash flows may be clearly differentiated from the rest of the entity, from an operational viewpoint 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) Borrowing costs

General and specific borrowing costs which are directly attributable to the acquisition, construction or production of qualifying assets, which are those assets that necessarily require a substantial period of time before they are ready for forecast use or sale, are added to the cost of such assets until the assets are substantially ready for their intended use or sale.

Financial income obtained on the temporary investment of specific loans until they are used in relation to qualifying assets is deducted from capitalizable borrowing costs.

Other borrowing costs are recognised in the income statement in the year in which they are incurred.

q) Foreign currency transactions

The Group's presentation currency is the euro. Therefore all balances and transactions denominated in currencies other than the euro are considered denominated in foreign currency.

Balances in foreign currencies are translated to euro 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 euro 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 euro 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 expenses in the period in which the investment is made or sold.

r) 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.

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

s) 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 such purposes, conversion is deemed to take place at the start of the period or when the potentially dilutive ordinary shares are issued, where they have become outstanding during the period in question.

t) Consolidated cash flow statements

The following expressions are used with the following meaning in the consolidated cash flow statements:

- Cash flows: inflow and outflow of cash and equivalents, understood as short-term highly liquid investments with a low risk of shifts in value.

- Operating activities: typical company activities and other activities that may not be classified as investing or financing activities.

- Investing activities: acquisitions, sales or disposals through other means of long-term assets and other investments not included in cash and equivalents.

- Financing activities: activities that result in changes in the size and composition of the equity and liabilities of the Group which do not form part of operating activities.

For the purposes of determining the consolidated cash flow statement, "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 and other cash equivalents" in the accompanying consolidated balance sheet. The carrying amount of these assets approximates their fair value.

u) 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 as described in IFRS 2, at 31 December 2011 and 2010, is detailed in Note 26.

6. Critical accounting judgements and estimates

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are considered reasonable under the circumstances.

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.

- Collections on attainment of certain milestones (development, business, 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

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, possibly 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.

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 24) 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 related deferred income is allocated to the income statement on a straight-line basis over the estimated duration of the development phase, which ended in 2011. Such distribution over time is considered not to differ significantly from that which would result had a criterion of proportionality been applied on the basis of the amount of estimated development costs until 2011.

Following the end of the deferral of income in September 2011, it is in the registration stage in the US and European market.

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 2011.

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 24) 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.

Deferred income is allocated to the income statement on a straight-line basis over the estimated duration of the development phase, which, according to the Group's estimates, is set to end in 2015. Such distribution over time is considered not to differ significantly from that which would result had a criterion of proportionality been applied on the basis of the amount of estimated development costs until 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 2011 and 2010, 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 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 obtain regulatory approval. 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 2011 and 2010, 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 24).

d) Deferred tax assets

In calculating its deferred tax assets the Group establishes a finite timeframe 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 judgements 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 2011 and 2010 were as follows:

	Thousand euro				
	Balance at 1 January 2010	Disposals	Balance at 31 December 2010	Disposals	Balance at 31 December 2011
Almirall, S.A.	35,407	-	35,407	-	35,407
Almirall Sofotec, GmbH	9,522	(793)	8,729	(793)	7,936
Almirall Hermal, GmbH	227,743	-	227,743	-	227,743
Total	**272,672**	**(793)**	**271,879**	**(793)**	**271,086**

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 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 EUR 8 million and, therefore, there was a difference up to the amount disbursed of 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 timeframe for the research and development activities that had been established previously and, as a result, EUR 0.8 million was charged to the respective consolidated income statements for the years ended 31 December 2011 and 2010.

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 2011 and 2010, the recoverable amount has been estimated on the basis of calculations of value in use, as described in Note 5-d. These calculations use five year cash flow projections based on financial budgets approved by Management. Cash flows for more than the five year period are extrapolated using the estimated growth rates indicated 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.

Goodwill is assigned to the subsidiaries for goodwill relating to Almirall, S.A. which is assigned to the Parent. If the recoverable amount of all goodwill, calculated on the basis of value in use, is subjected to a sensitivity analysis for a 10% decrease in the gross margin, the growth rate would fall by 1% or the discount rate would increase by 1%, which would not entail the need for any additional impairment.

8. Intangible assets

The detail of Intangible assets in the accompanying consolidated balance sheets at 31 December 2011 and 2010 and of the changes therein is as follows:

	Intellectual property	R&D costs	Computer applications	Payments on account and assets in course of construction	Total
Cost					
At 1 January 2010	583,877	79,709	21,187	3,921	688,694
Additions	58,101	16,988	2,102	821	78,012
Disposals	(31,679)	-	(405)	-	(32,084)
Transfers	4	-	4,113	(3,921)	196
Exchange differences	2,482	-	-	-	2,482
At 31 December 2010	**612,785**	**96,697**	**26,997**	**821**	**737,300**
Additions	13,182	-	3,857	2,615	19,654
Disposals	(3,218)	-	-	-	(3,218)
Transfers	26,349	(26,349)	1,162	(1,162)	-
Exchange differences	437	-	-	-	437
At 31 December 2011	**649,535**	**70,348**	**32,016**	**2,274**	**754,173**
Amortisation and accumulated impairment losses					
At 1 January 2010	(285,563)	(150)	(19,527)	-	(305,240)
Amortisation charge	(36,488)	-	(1,762)	-	(38,250)
Disposals	30,238	20	402	-	30,660
Transfers	-	-	(1)	-	(1)
Exchange differences	(1,841)	-	-	-	(1,841)
At 31 December 2010	**(293,654)**	**(130)**	**(20,888)**	**-**	**(314,672)**
Amortisation charge	(37,580)	(295)	(2,408)	-	(40,283)
Disposals	1,021	-	5	-	1.026
Exchange differences	(354)	-	-	-	(354)
At 31 December 2011	**(330,567)**	**(425)**	**(23,291)**		**(354,283)**
Impairment losses					
At 1 January 2010	(29,450)	(1,200)	-	-	(30,650)
Impairment losses recognised in the year	(8,200)	(1,000)	-	-	(9,200)
At 31 December 2010	**(37,650)**	**(2,200)**			**(39,850)**
Impairment losses recognised in the year	-	(6,970)	-	-	(6,970)
At 31 December 2011	**(37,650)**	**(9,170)**	**-**	**-**	**(46,820)**

	Intellectual property	R&D costs	Computer applications	Payments on account and assets in course of construction	Total
Net carrying amount					
Cost	612,785	96,697	26,997	821	737,300
Accumulated amortisation	(293,654)	(130)	(20,888)	-	(314,672)
Impairment losses	(37,650)	(2,200)	-	-	(39,850)
At 31 December 2010	**281,481**	**94,367**	**6,109**	**821**	**382,778**
Cost	649,535	70,348	32,016	2,274	754,173
Accumulated amortisation	(330,567)	(425)	(23,291)	-	(354,283)
Impairment losses	(37,650)	(9,170)	-	-	(46,820)
At 31 December 2011	**281,318**	**60,753**	**8,725**	**2,274**	**353,070**

All the intangible assets described above have finite useful lives and have been acquired from third parties or generated on business combinations. No assets have been pledged to secure debts.

During 2011 the Group has acquired licences and marketing rights from third parties. In addition, the R&D acquired in previous years for a product launched in the first half of 2011 has been transferred as intellectual property.

The breakdown of the main headings included under intangible assets, at carrying value, is as follows:

	2011	2010
Development costs acquired as a result of the acquisition of control of Almirall Hermal, GmbH	7,830	15,070
Other Development expenses acquired	52,923	79,297
Licences and other marketing rights as a result of the acquisition of control of Almirall Hermal, GmbH	79,047	91,874
Other licences and marketing rights	202,271	189,607

Other development costs relate to marketing rights on the pan-European market for a product under development acquired from Ironwood for an initial payment in 2009 of USD 42 million (EUR 31.5 million at the time of payment). As part of the agreement and subject to certain conditions, the Group undertook to carry out an investment in the capital of Ironwood Pharmaceuticals, Inc. amounting to US 15 million in 2010.

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 (see note 10).

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.

Other licences and marketing rights mainly include the following licences:

- Intangible assets associated with intellectual property, know-how and patents related to inhalers that are to be used mainly in the development of an inhaler device which is to be used to support the administration of one of the main products that the Group has under development and which were acquired in 2006 from a third party (Meda Pharma GmbH & Co KG.), amounting to EUR 25 million.

- Marketing rights over various dermatological products acquired from Shire in 2007. That agreement entailed the disbursement of EUR 151 million.

- Development and marketing rights over a respiratory product. That agreement entailed the disbursement of EUR 45 million on 22 July 2010.

- Marketing rights over a product for Spain and other countries in Europe and Latin America,acquired in 2009. That agreement entailed an initial disbursement of EUR 5 million. 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 EUR 10.5 million and EUR 11.3 million, respectively, of which, at 31 October 2010, EUR 5.5 million had been paid, since a portion of the milestones established in the agreement had been met.

- Intellectual property deriving from the R&D acquired in previous years for a product launched in the first half of 2011.

The aggregate amount of the research and development expenditure recognised as an expense in the accompanying consolidated income statement for 2011 was EUR 144.5 million (2010: EUR 144.9 million). These amounts include both amortisation/ depreciation of the assets associated with R&D activities and the expenses accrued by Group personnel and incurred by third parties.

Impairment losses

For development expenses not subject to amortisation because the associated pharmaceutical has not yet obtained regulatory approval and for those intangible assets where there are possible indications of impairment, the recoverable amount has been estimated on the basis of value in use, as described in note 5-d. These calculations use cash flow projections based on detailed financial projections for a finite period of six and 22 years (for developments acquired) as mentioned in that note.

For the above intangible assets, if the recoverable amount, calculated on the basis of value in use, is subjected to a sensitivity analysis for a 10% decrease in the gross margin, the growth rate would fall by 1% or the discount rate would increase by 1%, the effect on impairment not being significant.

In 2011 the Group recognised impairment losses amounting to EUR 7 million on certain research and development projects recognised at fair value at the date of acquisition of Almirall Hermal GmbH (see Note 7). Such losses resulted from the discontinuance of several development projects for reasons of their economic viability. In 2010 impairment losses were reflected amounting to EUR 9.2 million.

These impairment losses were recognised under "Impairment Losses on Property, Plant and Equipment, Intangible Assets and Goodwill" in the accompanying consolidated income statements for 2011 and 2010.

The detail of the impairment losses on intangible assets in 2011 and 2010 included in the column "Accumulated Amortisation and Impairment Losses" in the foregoing table and of the changes therein is as follows:

	Thousand euro					
	Balance at 1 January 2010	Additions	Disposals	Balance at 31 December 2010	Additions	Balance at 31 December 2011
Intellectual property	29,450	8,200	-	37,650	-	37,650
Develop. expenditure	1,200	1,000	-	2,200	6,970	9,170
Total impairment losses	**30,650**	**9,200**	**-**	**39,850**	**6,970**	**46,820**

9. Property, plant and equipment

The changes in "Property, Plant and Equipment" in the consolidated balance sheet in 2011 and 2010 were as follows:

	Land and buildings	Plant and machinery	Fixtures, fittings, tools and equipment	Other fixed assets	Payments on account and assets in course of construction	Total
Cost						
At 1 January 2010	94,239	79,833	235,581	13,356	4,322	427,331
Additions	781	1,053	7,366	615	4,410	14,225
Disposals		(1,514)	(3,611)	(414)	(515)	(6,054)
Transfers	334	7,839	(6,695)	1,761	(3,263)	(24)
Exchange differences	10	5	32	53	-	100
At 31 December 2010	**95,364**	**87,216**	**232,673**	**15,371**	**4,954**	**435,578**
Additions	21	1,667	11,230	328	6,213	19,459
Disposals	-	(257)	(1,892)	(101)	-	(2,250)
Transfers	2	265	3,891	249	(4,407)	-
Exchange differences	(2)	(4)	(16)	(19)	-	(41)
At 31 December 2011	**95,385**	**88,887**	**245,886**	**15,828**	**6,760**	**452,746**
Depreciation and accumulated impairment losses						
At 1 January 2010	(27,815)	(52,235)	(163,879)	(13,800)	-	(257,729)
Depreciation charge	(2,446)	(2,886)	(16,627)	(909)	-	(22,868)
Disposals	(61)	1,489	1,456	2,472	-	5,356
Transfers	(217)	3,732	(3,138)	(548)	-	(171)
Exchange differences	(2)	(1)	(11)	(26)	-	(40)
At 31 December 2010	**(30,541)**	**(49,901)**	**(182,199)**	**(12,811)**	**-**	**(275,452)**
Depreciation charge	(2,460)	(2,955)	(15,806)	(915)	-	(22,136)
Disposals	(1)	246	1,872	52	-	2,169
Exchange differences	(3)	1	6	18	-	22
At 31 December 2011	**(33,005)**	**(52,609)**	**(196,127)**	**(13,656)**	**-**	**(295,397)**
Impairment losses						
At 1 January 2010	(542)	-	-	-	-	(542)
Impairment losses	(4,767)	-	-	-	-	(4,767)
At 31 December 2010	**(5,309)**	**-**	**-**	**-**	**-**	**(5,309)**
Impairment losses	91	**-**	**-**	**-**	**-**	91
At 31 December 2011	**(5,218)**	**-**	**-**	**-**	**-**	**(5,218)**
Net carrying amount						
Cost	95,364	87,216	232,673	15,371	4,954	435,578
Accumulated depreciation	(30,541)	(49,901)	(182,199)	(12,811)	-	(275,452)
Impairment loss	(5,309)	-	-	-	-	(5,309)
At 31 December 2010	**59,514**	**37,315**	**50,474**	**2,560**	**4,954**	**154,817**

	Land and buildings	Plant and machinery	Fixtures, fittings, tools and equipment	Other fixed assets	Payments on account and assets in course of construction	Total
Cost	95,385	88,887	245,886	15,828	6,760	452,746
Accumulated depreciation	(33,005)	(52,609)	(196,127)	(13,656)	-	(295,397)
Impairment loss	(5.218)	-	-	-	-	(5,218)
At 31 December 2011	**57,162**	**36,278**	**49,759**	**2,172**	**6,760**	**152,131**

The additions in 2011 and 2010 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 year ended 31 December 2011 include investments at the aforementioned research and development centres amounting to EUR 5.4 million (2010: EUR 5.7 million).

Property, plant and equipment in course of construction at the 2011 year end mainly relates to investments in existing production plants in Spain amounting to EUR 5.6 million (31 December 2010: EUR 4.8 million).

At 31 December 2011, the Group had assets not yet in use amounting to EUR 13 million (31 December 2010: EUR 19 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 2011 and 2010 relate mainly to the transfer of investment projects at the production centres that came into service during these years.

During this year the Group reinvested impairment losses amounting to EUR 91 thousand (EUR 4.8 million in 2010), owing to the decrease in the recoverable value of certain production facilities related to a factory that is no longer in use.

At 31 December 2011, property, plant and equipment included EUR 27 million (31 December 2010: EUR 31 million) relating to the carrying amount of the property, plant and equipment owned by the Group companies located outside Spain.

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

The Group has formalised insurance policies to cover the possible risks to which certain property, plant and equipment are subject and the possible claims that may be filed in relation to the performance of its operations. These policies are understood to provide sufficient coverage of the risks to which such assets are subject.

The only commitments for the acquisition of assets are disclosed in Note 24.

There is no property, plant and equipment subject to guarantee.

10. Non-current financial assets / Financial assets and other case equivalents

Non-current

The detail of the balance of non-current financial assets in the consolidated balance sheets at 31 December 2011 and 2010 and of the changes therein in the years then ended is as follows:

	Thousand euro					
	Investments in Group companies and associates	Long-term securities portfolio	Long-term loans	Deposits and guarantees given	Provisions	Total
Balance at 31 December 2009	**399**	**9,248**	**56**	**1,118**	**(10)**	**10,811**
Additions or charges for the year	-	-	21	6	-	27
Disposals/ Decrease in valuation	-	(416)	(34)	(179)	-	(629)
Transfers	-	-	-	-	-	-
Translation differences	-	-	(1)	-	-	(1)
Balance at 31 December 2010	**399**	**8,832**	**42**	**945**	**(10)**	**10,208**
Additions or charges for the year	-	1,023	-	-	-	1,023
Disposals/ Decrease in valuation	(3)	(2,510)	(18)	(170)	-	(2,701)
Transfers	-	-	-	-	-	-
Translation differences	-	-	-	-	-	-
Balance at 31 December 2011	**396**	**7,345**	**24**	**775**	**(10)**	**8,530**

“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 2011, amounted to EUR 6,307 thousand (2010: EUR 5,284 thousand), acquired as a result of the agreement entered into with the aforementioned company in accordance with the agreement entered into in 2009 for the acquisition of marketing rights on the pan-European market for a product under development (see Note 8).

“Financial Assets - Long-Term Investment Securities” also includes government debt securities issued by agencies of the Canary Islands Autonomous Community totalling EUR 1,038 thousand at 31 December 2011 (EUR 3,548 thousand), as required under Law 19/1994, of 6 July. These securities must be held during an uninterrupted period of five years. The effect of possible impairment in this heading is not considered significant.

Current (financial assets and other cash equivalents)

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

	Thousand euro	
	31/12/2011	31/12/2010
Short-term securities portfolio	189,918	222,411
Short-term deposits	115	27,834
Short-term guarantees	175	158
Total	**190,208**	**250,403**

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. Of the total of the foregoing table, at 31 December 2011, EUR 158,445 thousand was considered to be cash and cash equivalents as described in Note 5 (31 December 2010, EUR 244,468 thousand). Therefore, 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.

There are no restrictions on the availability of cash and equivalents.

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

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

- Financial assets available for sale: 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.

- Financial assets held to maturity: this category includes fixed-income investments mainly in Eurodeposits, foreign currency deposits and repos.

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

	Thousand euro	
	31/12/2011	31/12/2010
Available-for-sale financial assets	6,307	5,284
Held-to-maturity financial assets	192,431	255,327
Total	**198,738**	**260,611**

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.

- Interests in investment funds: where these are 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 2011 and 2010.

There are no significant differences between the carrying value and fair value of such assets.

The changes in fair value recognised through reserves or profit or loss in 2011 and 2010, excluding derivative financial instruments, were as follows:

	Thousand euro	
	2011	2010
Balance at 1 January	-	-
Disposals	-	-
Revaluation of the period recognised through reserves	1,023	(416)
Balance at 31 December	**1,023**	**(416)**

Also, the bank accounts included under "Cash" mostly earned average annual interest of 2.25% in the year ended 31 December 2011 (31 December 2010: 1.72%).

Finally, the Group companies and associates not included in the consolidation scope because they are dormant and / or insignificant and related information for the years ended 31 December 2011 and 2010 are as follows:

2011

	Thousand euro				
Location Name	Almirall , Inc. USA	Almirall, S.A. (Chile) Chile	Hermal Zweite Germany	Almirall Europa, S.A. Spain	Neogenius Pharma A.I.E. Spain
Activity	Pharmaceutical industry (dormant)	Pharmaceutical laboratory	International holding company	Dormant	Dormant
% shareholding	100%	100%	100%	30%	100%
Carrying value of shareholding (Group)					
Cost	52	209	30	44	52
Provision	(10)	-	-	-	(10)

At the year end Almirall Chile S.A. is in the process of dissolution and liquidation. The liquidation will be completed in 2012.

2010

	Thousand euro					
Location Name	Almirall , Inc. USA	Almirall, S.A. (Chile) Chile	Hermal Zweite Germany	Genius Pharma A.I.E. Spain	Almirall Europa, S.A. Spain	Neogenius Pharma A.I.E. Spain
Activity	Pharmaceutical industry (dormant)	Pharmaceutical laboratory	International holding company	Dormant	Dormant	Dormant
% shareholding	100%	100%	100%	28%	100%	30%
Carrying value of shareholding (Group)						
Cost	52	209	30	3	61	44
Provision	(10)	-	-	-	-	-

11. Inventories

At 31 December 2011 and 2010 this heading breaks down as follows:

	Thousand euro	
	31/12/2011	31/12/2010
Raw materials and packaging	20,613	16,970
Work in progress	22,004	16,230
Merchandise and finished goods	62,373	64,705
Impairment (Note 19)	(11,783)	(10,005)
Total	**93,207**	**87,900**

The movement in the provision for impairment of goods purchased for resale is included in Note 19.

There are no inventories subject to guarantees.

There are no commitments to purchase inventories involving significant amounts at 31 December 2011 and 2010.

12. Trade and other receivables

At 31 December 2011 and 2010 this heading breaks down as follows:

	Thousand euro	
	31/12/2011	31/12/2010
Trade receivables for sales and services rendered	88,909	85,426
Other receivables	17.838	19,197
Provision for impairment losses on receivables (Note 19)	(767)	(802)
Total receivables	**105,980**	**103,821**

At 31 December 2011, "Other Receivables" in the preceding table included EUR 17.4 million (31 December 2010: EUR 12.8 million) relating to the receivable outstanding on development expenditure charged to a third party in accordance with the agreement described in Note 19.

Total overdue balances provided at 31 December 2011 and 2010 amount to EUR (767) thousand and EUR (802) thousand.

There is no credit risk concentration with respect to trade receivables since the Group has a large number of customers.

The percentage represented by balances with the public administrations related to the hospital business with respect to the total trade receivable balance stand at 5% (4% in 2010).

There are no guarantees over trade receivable balances.

The Company carries out an individual analysis of overdue trade receivable balances in order to identify possible risks of insolvency and on the basis of this analysis, establishes a provision for bad debts. The movement in the provision for impairment of receivables is included in Note 19.

The balance receivable is stated at its nominal value with no significant difference to fair value.

The trade receivable balance in foreign currency amounts to EUR 35,744 thousand in 2011 (EUR 36,586 thousand in 2010). Given the amounts and maturities involved, the possible variation in the exchange rate is not considered significant.

13. Equity

Share capital

At 31 December 2011 and 2010, 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 2011 and 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 2011 and 2010, are as follows:

Name or company name of direct holder of the ownership interest	2011 % of ownership of the Almirall Group	2010 % of ownership of the Almirall Group
Grupo Plafin, S.A.	46.26%	45.85%
Todasa, S.A.	25.30%	25.08%
Wellington Management Company, LLP	3.02%	-
Total	**74.58%**	**70.93%**

At 31 December 2011 and 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 Spanish Companies Act 2010, 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 2011 and 2010 amounted to EUR 30 million.

Legal reserve-

The legal reserve may be used to increase capital in an amount equal to the portion of the balance that exceeds 10% of capital after the increase. Otherwise, until it exceeds 20% of share capital and provided there are no sufficient available reserves, the legal reserve may only be used to offset losses.

The amount of EUR 4 million presented under this heading at 31 December 2011 and 2010 relates to the balance of the legal reserve of the Parent.

Share premium-

The Spanish Companies Act 2010 expressly permits the share premium account balance to be used to increase capital and provides no specific limitation with respect to the availability of that balance.

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 EUR 105.8 million. The balance of this item at 31 December 2011 and 2010 amounted to 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 that reserve at 31 December 2011 and 2010 amounts to EUR 3.5 million (EUR 7.6 million in 2010), included in "Other Parent's reserves".

Revaluation reserve

In accordance with mercantile legislation, the Parent restated its fixed assets in 1996. The balance may be used, without the accrual of taxes, to offset book losses, including losses brought forward and current-year or future losses, as well as to increase share capital. As from 1 January 2007 (once 10 years have elapsed as from the date of the balance sheet in which the restatements were presented) it may be appropriated to freely distributable, provided the monetary gain has been realised. The capital gain will be deemed to have been realised in an amount equal to the depreciation that has been charged in the accounts or when the restated assets have been transferred or written off.

Should the balance in this account be used for any purpose other than those defined by Royal Decree-Law 7/1996, the balance will become taxable.

The balance of the Parent's "Revaluation reserve" amounts to EUR 2.5 million.

Other parent company reserves:

The detail is as follows:

	Thousand euro	
	31/12/2011	31/12/2010
Voluntary reserves	542,019	429.062
Canary Islands investment reserve-	3,485	7,632
Reserve for redeemed capital	30,539	30,539
Revaluation reserve	2,539	2,539
Merger reserve	4,588	4,588
Total other parent company reserves	**583,170**	**474,360**

Consolidation reserves-

The detail is as follows:

	Thousand euro	
	31/12/2011	31/12/2010
Almirall, S.A. (*)	93,467	146,298
Other fully consolidated companies	(92,358)	(107,539)
Total consolidation reserves	**1,109**	**38,759**

(*) 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 IFRS 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 presentation currency of the assets and liabilities of the companies that operate in a different functional currency.

The detail, by company, of "Translation Differences" in 2011 and 2010 is as follows:

	Thousand euro	
	31/12/2011	31/12/2010
Almirall Limited	(340)	(447)
Almirall, A.G.	1,528	2,970
Almirall SP, Z.O.O.	(122)	4
Almirall, S.A. de C.V. subgroup	(5,291)	(3,926)
Total reserves at consolidated companies	**(4,225)**	**(1,399)**

14. Deferred income

At 31 December 2011 and 2010, the breakdown of "Deferred Income" was as follows:

	Thousand euro
Balance at 1 January 2010	**67,686**
Additions	-
Amount taken to income (Note 19)	(18,984)
Balance at 31 December 2010	**48,702**
Additions	5,000
Amount taken to income (Note 19)	(17,329)
Balance at 31 December 2011	**36,373**

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 EUR 36.2 million at 31 December 2011 (31 December 2010: EUR 48.3 million), of which EUR 17.1 million was taken to income for the year ended 31 December 2011 (31 December 2010: EUR 18.3 million) (see Note 19).

Additions for 2011 relate to the agreement entered into on 23 February 2011 by the Parent with a third party (Kyorin Pharmaceutical Co. Ltd) amounting to EUR 5,000 thousand, guaranteeing an exclusive licence under Almirall's patent for the development, use, import, registration, packaging and marketing of that product for Chronic Obstructive Pulmonary Disease ("COPD") , the active ingredient of which is aclidinium bromide, in the Japanese market.

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 other financial liabilities

The detail of bank borrowings and other financial liabilities at 31 December 2011 and 2010 is as follows:

	Thousand euro					
				Non-current		
	Limit	Amount utilised	Current	2013	2014	Total
Bank loans	350,000	92,000	92,000	-	-	-
Credit lines	175,000	100,000	100,000	-	-	-
Liabilities in respect of financial derivatives	N/A	2,230	2,230	-	-	-
Other financial debts (*)	N/A	7,992	7,992	-	-	-
Total at 31 December 2011	**525,000**	**202,222**	**202,222**	**-**	**-**	**-**
				Non-current		
	Limit	Amount utilised	Current	2012	2013	Total
Bank loans	350,000	184,000	92,000	92,000	-	92,000
Credit lines	175,000	100,000	50,000	50,000	-	50,000
Liabilities in respect of financial derivatives	N/A	7,072	-	7,072	-	7,072
Other financial debts (*)	N/A	6,395	6,395	-	-	-
Total at 31 December 2010	**525,000**	**297,467**	**148,395**	**149,072**	**-**	**149,072**

(*) 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 2011, the Parent had EUR 30 million payable on the loan (EUR 60 million in 2010). Each year a fifth of the loan received matures until 27 March 2012 while the credit line, drawable over periods of up to six months and is renewable, 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 2011, the Parent had EUR 62 million payable on the aforementioned loan (EUR 124 million in 2010). 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 financial derivatives, bore average interest during the years ended 31 December 2011 and 2010 at 1.65% and 1.41%, 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, this 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.

There are no differences between the fair value of the liabilities and the amount recognised.

Liabilities in respect of financial derivatives

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

The purpose of such arrangements is to reduce the impact of an upward trend in variable interest rates (euribor) on the Group's financing.

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 2011 and 2010 and their fair values at that date were as follows:

31/12/2011			Thousand euro			
Subsidiary	Instrument	Maturity	Nominal amount outstanding	Fair value	Fixed rate or tranches	Variable rate
Almirall, S.A. (1)	IRS	13/12/2012	50,000	(1.461)	4.435%	Euribor 6 months
Almirall, S.A. (2)	IRS	27/03/2012	24,000	(330)	4.46%	Euribor 6 months
Almirall, S.A. (5)	Collar KI	26/07/2012	12,500	(357)	4.68% - 3.75%	Euribor 6 months
Almirall, S.A. (6)	Collar KI	27/03/2012	6,000	(82)	4.68% - 3.75%	Euribor 6 months
Total			**92,500**	**(2,230)**		

31/12/2010			Thousand euro			
Subsidiary	Instrument	Maturity	Nominal amount outstanding	Fair value	Fixed rate or tranches	Variable rate
Almirall, S.A. (1)	IRS	13/12/2012	75,000	(3,611)	4.435%	Euribor 6 months
Almirall, S.A. (2)	IRS	27/03/2012	48,000	(1,478)	4.46%	Euribor 6 months
Almirall, S.A. (3)	Collar	13/12/2011	8,067	(178)	4.50% - 3.69%	Euribor 6 months
Almirall, S.A. (4)	Collar	13/12/2011	22,183	(490)	4.50% - 3.69%	Euribor 6 months
Almirall, S.A. (5)	Collar KI	26/07/2012	18,750	(946)	4.68% - 3.75%	Euribor 6 months
Almirall, S.A. (6)	Collar KI	27/03/2012	12,000	(369)	4.68% - 3.75%	Euribor 6 months
Total			**184,000**	**(7,072)**		

The Group hedges the interest rate risk on a portion of the financing in euro 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 2011, as the effective portion of the hedging relationships of the IRSs (1) and (2) and of the collars (3) and (4), was EUR 1,791 thousand (31 December 2010: EUR 5,757 thousand). The Parent has designated the relevant hedging relationships at 31 December 2011 and 2010, which are fully effective. In these hedging relationships the changes in the floating Euribor rate of the hedged borrowings constitute the hedged risk.

In 2011 EUR 2,535 thousand was deducted from equity (2010: EUR 2,541 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 at 31 December 2011 and 2010 do not meet the requirements to be designated in accordance with IAS 39, amounting to EUR 439 thousand and EUR 1,315 thousand, with a balancing entry in the respective consolidated income statements for 2011 and 2010.

Analysis of sensitivity to interest rates

Changes in fair value of the interest rate derivatives arranged by the Group depend on the variation in the long-term euro interest rate curve. The fair value of these derivatives at 31 December 2011 was EUR 2,230 thousand in liabilities (at 31 December 2010: EUR 7,072 thousand).

The detail of the sensitivity analysis (changes in the fair value at 31 December 2011 and 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:

	Thousand euro	
Sensitivity in equity	31/12/2011	31/12/2010
+0.5% (increase in the interest rate curve)	128	637
- 0.5% (decrease in the interest rate curve)	(129)	(647)

	Thousand euro	
Sensitivity in profit or loss	31/12/2011	31/12/2010
+0.5% (increase in the interest rate curve)	31	140
- 0.5% (decrease in the interest rate curve)	(31)	(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 2011 will affect equity and profit or loss to the extent that market conditions change.

16. Other liabilities

The detail at 31 December 2011 and 2010 is as follows:

	Thousand euro					
		Non-current				
	Current	2013	2014	2015	Other	Total
Loans related to research	4,280	3,665	2,288	1,488	9,181	16,622
Payables for non-current asset purchases	3,060	-	31	1,517	1,000	2,548
Accrued wages and salaries	31,067	-	-	-		
Advances and guarantees received	299	-	-	-		
Other payables	1,315	-	-	-		
Total at 31 December 2011	**40,021**	**3,665**	**2,319**	**3,005**	**10,181**	**19,170**
		Non-current				
	Current	2012	2013	2014	Other	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	-	-	-	-	-
Accrued wages and salaries	32,160	-	-	-	-	-
Advances and guarantees received	177	-	-	-	-	-
Other payables	17	-	-	-	-	-
Total at 31 December 2010	**40,951**	**4,280**	**3,665**	**2,288**	**10,509**	**20,742**

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 compliance with certain conditions concerning investments and expenses in the period 2003 to 2008, with final maturity in the period 2012 to 2023.

Payables for non-current asset purchases in 2011 and 2010 relate mainly to the outstanding payments for the acquisition of goods, products and marketing licences made in the year and in prior years.

There are no differences between the fair value of the liabilities and the amount recognised.

17. Provisions

The changes in 2011 and 2010 in "Provisions" in the accompanying consolidated balance sheet were as follows:

	2011			2010		
	Provision for returns	Other provisions	Total	Provision for returns	Other provisions	Total
Balance at 1 January	**13,688**	**3,011**	**16,699**	**10,472**	**2,724**	**13,196**
Additions or charges for the year	-	624	624	3,216	287	3,503
Disposals or reductions	(1,911)	-	(1,911)	-	-	-
Balance at 31 December	**11,777**	**3,635**	**15,412**	**13,688**	**3,011**	**16,699**

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 commitments

The changes in "Retirement Benefit Obligations" in the accompanying consolidated balance sheets in 2011 and 2010 were as follows:

	Thousand euro
Balance at 1 January 2010	**34,116**
Additions	3,541
Amounts reversed	(236)
Balance at 31 December 2010	**37,421**
Additions	4,283
Amounts reversed	(373)
Balance at 31 December 2011	**41,331**

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

The amounts recognised in the balance sheet have been calculated as follows:

	2011	2010
Present value of the obligations financed	38,794	34,580
Present value of the obligations not financed	2,537	2,841
Liability recognised in the balance sheet	**41,331**	**37,421**

The movement in the defined benefit obligation is as follows:

	2011	2010
At 1 January	**37,421**	**34,116**
Cost of current services	968	1,851
Borrowing costs	1,746	1,700
Contributions of plan participants	(21)	(19)
Actuarial gains/(losses)	2,481	914
Benefits paid	(1,264)	(1,141)
As at 31 December	**41,331**	**37,421**

The amounts recognised in the income statement are as follows:

	2011	2010
Current service cost	968	1,851
Borrowing costs	1,746	1,700
Total (included under staff costs)	**2,714**	**3,551**

The sensitivity to changes in the main assumptions (weighted as follows) would not have a significant effect on the total pension liability.

	Changes in assumptions
Discount rate	Increase / decrease of 0.5%
Inflation rate	Increase / decrease of 0.5%
Salary increase rate	Increase / decrease of 0.5%
Mortality rates	Increase in 1 year

19. Income and expense

Revenue-

The detail, by business line, of revenue in 2011 and 2010 is as follows:

	Thousand euro	
	2011	2010
Sales through own network	685,366	784,709
Sales through licensees	66,619	69,853
Corporate management and revenue not allocable to other segments	16,433	27,876
Total	**768,418**	**882,438**

The detail, by geographical area, of revenue in 2011 and 2010 is as follows:

	Thousand euro	
	2011	2010
Spain	388,038	495,324
Europe and the Middle East	291,035	288,720
America, Asia and Africa	72,912	70,517
Corporate management and revenue not allocable to other segments	16,433	27,877
Total	**768,418**	**882,438**

Other income-

	Thousand euro	
	2011	2010
Cooperation in the promotion of products	18,446	24,635
Income from co-promotion agreements	10,944	21,507
Income from co-development agreements	68,028	65,769
Income from sales/ assignment rights over marketing of products	3,831	4,112
Grants	739	872
Other	2,676	2,757
Total	**104,664**	**119,652**

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.

Similarly, in 2011 EUR 44.9 million (2010: EUR 47.5 million) has been included in "Income from co-development agreements" 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 2011 this heading included EUR 17.1 million (2010: EUR 18.3 million) relating to the timing of recognition in the income statement of the non-refundable amounts initially received (see Note 14).

Supplies-

This heading is analysed below:

	Thousand euro	
	31/12/2011	31/12/2010
Purchases	226,344	263.836
Changes in inventories of raw materials and other consumables	3,643	8,242
Changes in inventories of goods held for resale, finished goods and work in progress	3,442	1,709
Total	**233,429**	**273,787**

Staff costs-

The detail of “Staff Costs” is as follows:

	Thousand euro	
	2011	2010
Wages and salaries	158,982	170,368
Social Security paid by the Company	33,054	34,257
Indemnities	3,828	12,555
Other welfare costs	13,594	12,444
Total	**209,458**	**229,624**

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:

	Thousand euro					
	2011			2010		
	Men	Women	Total	Men	Women	Total
Managers	51	3	54	56	4	60
Supervisors	217	99	316	212	82	294
Qualified employees	958	936	1,894	1,054	1,026	2,080
Administrative personnel	166	356	522	177	395	572
Other	3	3	6	5	1	6
Total	**1,395**	**1,397**	**2,792**	**1,504**	**1,508**	**3,012**

At 31 December 2011, 479 Group employees were engaged in research and development activities (31 December 2010: 486 Group employees).

Other operating expenses-

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

	Thousand euro	
	2011	2010
Rentals and royalties	30,222	32,475
Repairs and maintenance	18,582	15,861
Independent professional services	89,106	92,919
Transport	9,793	8,657
Insurance premiums	3,181	3,380
Banking and similar services	296	296
Supplies	5,942	5.780
Other services	107,835	114,236
Other taxes	4,884	5,751
Total	**269,841**	**279,355**

Operating leases-

The rental costs incurred in 2011 and 2010 were as follows:

	Thousand euro	
	2011	2010
Operating leases recognised in profit/(loss) for year	17,071	18,766

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:

	Thousand euro	
	2011	2010
Within one year	16,800	18,700
2 to 5 years	20,918	18,867
Over 5 years	-	-

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
Vehicles	4

Net change in allowances and provisions -

The detail of "Net change in allowances and provisions" in the accompanying consolidated income statement and of the changes in the short-term provisions is as follows:

	Thousand euro	
	2011	2010
Change in allowance for doubtful debts	(132)	(327)
Change in inventory provision	1,700	(147)
Change non-current provisions	(1,326)	3,503
Total	**242**	**3,029**

	Thousand euro		
	Allowance for doubtful debts (Note 12)	Inventory provision (Note 11)	Total
Balance at 01 January 2010	**1,349**	**10,152**	**11,501**
Change in allowances and provisions			
Appropriation	313	19,321	19,634
Application	(640)	(19,468)	(20.108)
Amounts reversed	(220)	-	(220)
Balance at 31 December 2010	**802**	**10,005**	**10,807**
Change in allowances and provisions			
Appropriation	158	20,330	20,488
Application	(290)	(18,630)	(18,920)
Amounts reversed	97	78	175
Balance at 31 December 2011	**767**	**11,783**	**12,550**

Net gains on asset disposals-

The detail of the net gains/(losses) on non-current asset disposals in 2011 and 2010 is as follows:

	Thousand euro			
	2011		2010	
	Gains	Losses	Gains	Losses
On disposal or derecognition of intangible assets	-	(2,200)	6	(1,445)
On disposal or derecognition of property, plant and equipment	56	(212)	71	(90)
On disposal or derecognition of financial assets	8	(3)	-	(27)
	64	**(2,415)**	**77**	**(1,562)**
Gains/(losses) on disposal of non-current assets	**(2,351)**		**(1,485)**	

Restructuring costs-

In 2011 and 2010 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 EUR 9,936 thousand in 2011, under “Restructuring Costs” in the accompanying consolidated income statement (2010: EUR 11,619 thousand).

Finance income and costs-

The detail of the net finance income/(costs) and exchange differences in 2011 and 2010 is as follows:

	Thousand euro			
	2011		2010	
	Gains	Losses	Gains	Losses
Income from other marketable securities	6,730	-	3,503	-
Other income and comparable interest	1,819	-	837	-
Financial and similar expenses	-	(14,719)	-	(16,936)
Exchange differences	10,225	(10,080)	15,477	(12,697)
	18,774	**(24,799)**	**19,817**	**(29,633)**
Financial income and expense	**(6,025)**		**(9,816)**	

Transactions denominated in foreign currency

Transactions carried out in foreign currency are as follows:

	Thousand euro	
Expenses	2011	2010
Purchases	881	944
Services received	20,149	15,710
Financial expenses	-	-
Total	**21,030**	**16,654**

	Thousand euro	
Income	2011	2010
Sales	810	909
Other income	7,290	18,661
Financial income and dividends	301	286
Total	**8,401**	**19,856**

Auditors' remuneration

In 2011 and 2010 the fees for audit services and other services provided by the Group's auditor, PricewaterhouseCoopers Auditores, S.L. (Deloitte, S.L. in 2010), or by other companies of the PwC network as a result of tax services, other attest services and other services provided to the Group were as follows (thousand euro):

Description	Services provided by the auditor and by related companies	
	2011	2010
Audit services	555	687
Other attest services	42	9
Total audit and related services	**597**	**696**
Tax advisory services	153	24
Other services	186	92
Total other professional services	**339**	**116**

20. Tax situation

Consolidated Tax Group -

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 Corporate Income Tax Law. The companies composing the tax group for 2011 and 2010 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 in 2010, did not have a significant impact for the Group.

The Parent and the companies in the Spanish tax group headed by it, have 2009 to 2011 open for review by the tax authorities for all the taxes applicable to them.

The other Group companies have 2007 to 2011 open for review by the tax authorities for income tax and the other taxes applicable to them.

With respect to the foreign Group companies, Almirall S.A.S. (France) is currently involved in an arbitration process for the years 2003 and 2004. The inspection focused on the losses generated in Almirall, S.A.S as a result of the proprietary research products purchased from the Parent. The latest proposed adjustment issued by the tax authorities amounted to 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 EUR 3.6 million were issued (tax deficiency plus late-payment interest).

In 2012 the audit commenced of Almirall SpA (Italy) of 2008 for the main applicable taxes.

The opinion of the Group and its external advisors is that the probability of assessments or any other significant aspects resulting from such inspections is remote.

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

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 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 2011 and 2010 is as follows:

	Thousand euro	
	31/12/2011	31/12/2010
VAT refundable	6,146	4,814
Social security taxes receivable	121	11
Income tax receivable	16,999	11,854
Other	133	889
Total tax receivables	**23,399**	**17,568**
Current tax account payable	313	620
VAT payable	3,951	3,884
Personal income tax	7,210	11,020
Social security payable	6,431	6,949
Income tax payable	4,215	4,577
Other	-	8,901
Total tax payables	**22,120**	**35,951**

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

Income tax recognised-

The detail of the income tax recognised in the consolidated income statement and in equity in 2011 and 2010 is as follows:

	Thousand euro	
	2011	2010
Income tax:		
- Recognised in the income statement	(12,194)	577
- Recognised in equity	649	690
Total	**(11,549)**	**1,267**

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:

	Thousand euro	
	2011	2010
Consolidated profit before tax (continuing activities)	71,972	119,181
Permanent differences:		
- Individual companies		
Increase	6,291	19,551
Decrease	(42,799)	(70,203)
- Consolidation adjustments		
Increase	38,895	67,044
Decrease	(1,711)	(4,396)
Adjusted accounting results	72,648	131,177
Tax rate	30.0%	30.0%
Gross tax	**21,795**	**39,353**
Tax credits:		
- Taken in settlements	(1,633)	(1,399)
- Recognised but not yet taken	(35,845)	(34,219)
Income tax paid abroad	1,190	306
Adjustment of deferred tax assets and liabilities	-	1,136
Tax loss carryforwards recognised	-	-
Theoretical tax expense accrued	**(14,493)**	**5,178**
Effect of different tax rates between countries	(1,732)	(4,416)
Other movements	4,031	(185)
Income tax expense (income) charge	**(12,194)**	**577**

The increase in the taxable profit as a result of the permanent differences of the individual companies arising in 2011 and 2010 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 2011 and 2010 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 2011 and 2010 and of those not yet taken at 31 December 2010 and 2009 is as follows:

		Thousand euro			
		2011		2010	
Nature	Year arising	Offset	Losses available for offset	Offset	Losses available for offset
Research and development	2004	-	-	-	-
	2005	-	-	6,071	-
	2006	4,372	16,980	8,132	21,929
	2007	-	42,452	-	42,424
	2008	-	34,841	-	34,850
	2009	-	26,883	-	26,883
	2010	-	34,628	-	34,219
	2011	-	35,845		
		4,372	**191,629**	**14,203**	**160,305**
Double taxation	2009	-	-	-	-
	2010		-	309	-
	2011	1,179	-		
		1,179	**-**	**309**	**-**
Other deductions applied	2009	-	-	1,635	-
	2010	-	-	1,090	-
	2011	454	-		
		454		**2,725**	**-**
	Total	**6,005**	**191,629**	**17,237**	**160,305**

The available deductions should basically be applied within 15 years of the year in which they arose and are mostly subject to an application limit of 50% of tax payable.

The above deferred tax assets were recognised in the balance sheet as the Group's directors considered that, in accordance with their best estimate of the Group's future results, including, inter alia, the launch of innovative products that are currently under development, it is probable that such assets will be recovered within approximately 10 years.

Deferred taxes

A breakdown of deferred tax assets and liabilities is as follows:

	2011	2010
Deferred tax assets	213,135	188,988
Deferred tax liabilities	(76,047)	(83,224)
Deferred tax assets net	**137,088**	**105,764**

The overall movement in the deferred tax account is as follows:

	2011	2010
At 1 January	105,764	84,547
Charge to income statement	31,973	21,907
Tax (charged) paid directly to equity	(649)	(690)
As at 31 December	**137,088**	**105,764**

In accordance with current tax legislation in the countries in which the consolidated entities are located, in 2011 and 2010 certain temporary differences have arisen which should be taken into account when quantifying the corresponding corporate income tax expense. The detail of deferred taxes recognised in both years is as follows:

	Thousand euro			
	2011		2010	
	Accumulated differences in tax bases	Accumulated effect in tax payable	Accumulated differences in tax bases	Accumulated effect in tax payable
Deferred tax assets:				
Amortisation of intangible assets	19,846	5,962	35,264	10,603
Provisions	29,340	8,639	32,062	9,044
Retirement benefit commitments	10,694	3,040	8,352	2,345
Difference between opening and closing inventories	7,118	2,357	3,929	1,400
Market measurement of financial derivatives	1,546	464	11,193	3,358
Other	7,530	921	6,825	834
	76,074	21,383	97,624	27,585
Tax credits:				
Tax losses available for offset.	416	124	3,662	1,098
Deductions pending offset	-	191,628	-	160,305
Total deferred tax assets and tax credits:	**76,490**	**213,135**	**101,286**	**188,988**
Deferred tax liabilities:				
Freedom of amortisation R.D. 27/84, 2/85, 3/93	50,832	15,016	45,760	13,509
Assets being acquired under finance leases	8,188	2,456	8,711	2,613
Capitalisation of intangible assets	16,294	4,889	17,775	5,333
Assignment of capital gains to assets	55,297	15,478	69,467	19,445
Amortisation of goodwill	70,008	21,039	67,889	20,443
Tax effect reversal provision subsidiary portfolio	54,996	16,899	70,306	21,492
Other	644	270	2,644	389
Deferred tax liabilities:	**256,259**	**76,047**	**282,552**	**83,224**

The fall in deferred tax assets basically relates to the different tax treatment afforded to the amortisation charge and, if appropriate, the impairment of goodwill and certain intellectual property (see Notes 7 and 8) and the different accounting and tax treatment of retirement benefit obligations (see Note 18) and the market measurement of financial instruments.

The decrease in deferred tax liabilities relates mainly to the difference between the tax base of the assets included in the acquisition of Almirall Hermal, GmbH (see Notes 7, 8 and 9) and the fair value attributed to them and which has not yet been realised. Additionally, the accompanying consolidated balance sheets include deferred tax liabilities at 31 December 2011 amounting to EUR 16.9 million (31 December 2010: EUR 21.5 million) relating to the tax impact of the reversal of the portfolio provision on consolidation.

At 31 December 2011 the Group companies reflect no tax losses generated in the year or in previous years for which deferred tax assets have not been recognised in the accompanying consolidated balance sheet.

21. Business and geographical segments

Segmentation criteria

Set out below is a description of the main criteria when defining the Group's segmented information in the consolidated financial statements for the years ended 31 December 2011 and 2010.

Business segments:

The business lines described below were established on the basis of the Almirall Group's organisation structure at the 2011 and 2010 year end and make up the basis on which the Group reports on its primary segments:

a) Sales through own network.

b) Sales through licensees.

c) Corporate management and results not allocated to other segments

The operating segments reported in these notes are those with income, profits and / or assets which exceed 10% of the relevant consolidated figure. Therefore the column "Corporate management and results not allocated to other segments" includes income and expenses that are not directly related and allocated to business areas and which mainly refer to the Group's corporate assets and production and R&D centres.

Geographical segments

The Group's activities are coordinated by geographical area as per the following classification Spain, Europe and Middle East (EME) and America, Africa and Asia (AAA).

Basis and methodology of business segment information

The segment information reported below is based on the reports prepared by Group management and is generated through the information based on the Group's consolidated accounting data.

For the purposes of determining information by segment in the consolidated income statement, the consolidated balances of each segment have been taken into account, following the allocation of the pertinent consolidation adjustments to each segment. The allocation of consolidation adjustments has been taken into account for the purposes of the segmented information in the consolidated balance sheets.

Segment revenues, including Revenues and Other income relate to those directly attributable to the segment. Additionally, other revenue items in the consolidated income statement have not been distributed between segments.

Also, revenues received by the Group as a result of the agreements entered into with "Forest Laboratories" (Note 6-a) have been treated as follows for the purposes of segment reporting :

- Allocation to profit and loss of the initial payments made by "Forest Laboratories" (Notes 6-a and 14): taking into account the nature of the consideration, the allocation to profit and loss of the initial payment made by the third party has been included in Other income in the "Sales through licensees" segment.

- Income from co-development (Note 6-a y 19): this has been included in "Other income" in the segment "Corporate management and results not allocated to other segments", given its relationship to the development costs borne by the Group which are included in that segment .

The expenses of each segment are determined on the basis of the expenses deriving from its operating activities and which are directly attributable to it, including "Raw materials and consumables", "Staff costs" and "Amortisation/ Depreciation". In this respect, the amounts carried under "Raw materials and consumables" in each of the segments include, in addition to the acquisition cost of materials, the costs allocated to them by the Group in the manufacturing process (such as staff costs and amortisation, among others). Such costs are included by nature in the segment "Corporate management and results not assigned to other segments". Therefore they are eliminated before obtaining the Group's consolidated income statement figures.

The expenses taken into account in each of the segments, as described above, do not include amortisation/depreciation, restructuring costs or impairment losses, interest, the corporate income tax expense or general administrative expenses relating to general services that are not directly allocated to each business segment and have therefore not been distributed.

The Group does not disclose in the consolidated financial statements financial income, financial expenses and the corporate income tax expense per segment as this information is not used by the Board of Directors to take the Group's management decisions, or information on significant customers as none of them represents, individually, a percentage of more than 10% of the Group's revenues.

The segments' assets are directly connected with their operating activities and mainly relate to: patents, trademarks and production licences, product marketing and / or distribution, tangible assets and accounts receivable generated by each segment.

The Group has no criteria in place for distributing assets by segment and therefore no breakdown is provided of that information. In addition, certain balance sheet items, including current and non-current financial assets held by the Group, cash and equivalents, inventories, balances held with the public administrations and other less significant items, are considered to be linked to the segment "Corporate management and results not allocable to other segments".

Segment reporting

Segment reporting by business-

Segment income statement for the year ended 31 December 2011

	Thousand euro				
	Sales through own network	Sales through licensees	Corporate management and results not allocable to other segments	Adjustments and reclassifications	Total
Revenue	685,366	66,619	16,433	-	768,418
Raw materials and consumables	(240,269)	(12,522)	(31,368)	50,730	(233,429)
Other income	11,362	4,427	88,875	-	104,664
Staff costs	(103,416)	(36)	(106,006)	-	(209,458)
Amortisation/ Depreciation	(12,324)	-	(50,888)	-	(63,212)
Net change in provisions	-	-	(242)	-	(242)
Other operating expenses	(118,939)	(4,605)	(146,297)	-	(269,841)
	221,780	**53,883**	**(229,493)**	**50,730**	**96,900**
Results on fixed asset disposals and other					(2,692)
Restructuring costs					(9,936)
Impairment losses					(6,970)
Financial income and expense					(5,330)
Profit before taxes					**71,972**
Corporate income tax					12,194
Results attributed to parent company					**84,166**

Almirall, S.A.
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Notes to the Consolidated Financial Statements
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Segment balance sheet at 31 December 2011:

	Thousand euro			
ASSETS	Sales through own network	Sales through licensees	Corporate management and results not allocable to other segments	Total
Goodwill	-	-	271,086	271,086
Intangible assets	262,316	-	90,754	353,070
Property, plant and equipment	6,849	-	145,282	152,131
Financial assets	-	-	8,530	8,530
Deferred tax assets	2,296	-	210,839	213,135
NON-CURRENT ASSETS	**271,461**	**-**	**726,491**	**997,952**
Inventories	-	-	93.207	93,207
Trade and other receivables	63,388	14,882	27,710	105,980
Current tax assets	5,624	-	17,775	23,399
Current investments	-	-	190,208	190,208
Cash and cash	-	-	38,717	38,717
Other current assets	1,436	-	5,708	7,144
CURRENT ASSETS	**70,448**	**14,882**	**373,325**	**458,655**
TOTAL ASSETS	**341,909**	**14,882**	**1,099,816**	**1,456,607**

The goodwill assigned to Almirall Hermal GmbH is detailed in Note 7. This goodwill is assigned to the corporate management segment since the acquisition of that company included production and marketing activities which are not separable from the point of view of goodwill.

Non-current asset additions during the year ended 31 December 2011:

	Thousand euro			
	Sales through own network	Sales through licensees	Corporate management and results not allocable to other segments	Total
Total non-current assets	12,839	-	26,432	39,271

**Almirall, S.A.
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Segment income statement for the year ended 31 December 2010

	Thousand euro				
	Sales through own network	Sales through licensees	Corporate management and results not allocable to other segments	Adjustments and reclassifications	Total
Revenue	784,709	69,853	27,876	-	882,438
Raw materials and consumables	(278,286)	(11,609)	(39,055)	55,163	(273,787)
Other income	46,809	21,323	51,520	-	119,652
Staff costs	(111,648)	(210)	(117,766)	-	(229,624)
Amortisation/ Depreciation	(36,832)	-	(25,059)	-	(61,891)
Net change in provisions	-	-	(3,029)	-	(3,029)
Other operating expenses	(139,430)	(5,130)	(134,795)	-	(279,355)
	265,322	**74,227**	**(240,308)**	**55,163**	**154,404**
Results on fixed asset disposals and other					(543)
Restructuring costs					(11,619)
Impairment losses					(13,967)
Financial income and expense					(9,094)
Profit before taxes					**119,181**
Corporate income tax					(577)
Results attributed to parent company					**118,604**

Segment balance sheet at 31 December 2010:

	Thousand euro			
	Sales through own network	Sales through licensees	Corporate management and results not allocable to other segments	Total
ASSETS				
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 investments	-	-	250,403	250,403
Cash and cash	-	-	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 during the year ended 31 December 2010:

	Thousand euro			
	Sales through own network	Sales through licensees	Corporate management and results not allocable to other segments	Total
Total non-current assets	27,842	-	64,395	**92,237**

Revenue by product and geographical market

Set out below is a detail of the contribution to revenue of the Group's main products in 2011 and 2010:

	Thousand euro	
	2011	2010
Ebastine	116,217	119,459
Salmeterol + Fluticasone	54,250	60,252
Almotriptan	49,711	49,013
Candesartan	47,875	48,285
Sitagliptin	36,811	25,891
Aceclofenac	30,794	39,619
Escitalopram	30,617	64,434
Atorvastatin	30,472	73,834
Diclofenac sodium	26,625	25,711
Lansoprazole	21,918	34,385
Other	323,128	341,555
Total	**768,418**	**882,438**

The distribution by geographical area of revenue in 2011 and 2010 is detailed in Note 19.

22. Dividends paid by the Parent:

The dividends paid by the Parent in 2010 and 2011, which in both cases related to the dividends approved out of 2011 and 2010 profit, respectively, is as follows:

	2011			2010		
	% of nominal amount	Euro per share	Amount (Thousand euro)	% of nominal amount	Euro per share	Amount (Thousand euro)
Ordinary shares	242%	0.29	47,444	277%	0.33	55,144
Total dividends paid			**47,444**			**55,144**
Dividends charged to income	242%	0.29	47,444	277%	0.33	55,144

23. Earnings per share

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:

	2011	2010
Net profit for the year (thousand euro)	84,166	118,604
Weighted average number of shares outstanding (thousand shares)	166,099	166,099
Basic earnings per share (euro)	**0.51**	**0.71**

Diluted earnings per share

At 31 December 2011 and 2010, 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.

24. Commitments entered into, contingent liabilities and contingent assets

a) Commitments entered into

At 31 December 2011 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 2011 and 2010 firm agreements had been entered into in relation to the performance thereof amounting to EUR 44 million (31 December 2010: EUR 5.6 million), which will have to be settled in future years.

There are no commitments to purchase property, plant and equipment involving significant amounts at 31 December 2011 and 2010.

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

b) 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.

c) Contingent assets

As a result of the agreements entered into with a third party during the year and in previous years (Note 6-a), in addition to the payment already received for the milestone attained during the year (Note 19), the Group would have to receive USD 258.5 million and EUR 5.5 million (USD 258.5 million in 2010) in the event of the attainment of certain milestones related to the successful completion of the development stages of the products to which the aforementioned agreement relates. That agreement lays down receipts for milestones related to the attainment of the sales figures related to contingent products on the US market that could amount to a maximum of USD 400 million. It also lays down the Group's right to collect certain royalties (calculated as a variable and scaled percentage of annual sales on the US market) of the aforementioned products. Additionally, in 2011 an agreement was signed with Kyorin which would mean that the milestones related to the attainment of sales in the Japanese market could amount to JYP 2,500 million.

As we are currently dealing with contingent assets, they are not recognised in the consolidated financial statements.

25. Transactions with related parties

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 2011 and 2010 the Group companies performed the following transactions with related parties, and at 31 December 2011 and 2010 the balances receivable therefrom and payable thereto were as follows:

				Thousand euro	
Company	Related party	Item	Year	Transactions - income/ (expenses)	Balance – Receivable /(Payable)
Almirall S.A.	Walton, S.L.	Leases	2011	(2,780)	-
			2010	(2,677)	-
Almirall S.A.	Picking Pack, S.L.	Office supplies	2011	(536)	-
			2010	(294)	-

The Group's headquarters are leased from Walton, S.L. The lease which expired in 2011 has been renewed in 2012 and will expire in 2017.

The related party transactions are carried out on an arm's-length basis.

26. 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 accrued in 2011 by managers who are not members of the Parent's Board of Directors for all items (salaries, bonuses, attendance fees and per diems, compensation in kind, indemnities, incentive plans and social security contributions) totalled EUR 1,411 thousand (2010: EUR 1,461 thousand).

The remuneration accrued by Company managers, paid and not paid, by the Company in 2011 in respect of multi-year incentive and loyalty plans and the SEUS Plan (see Note 4-u) amounted to EUR 207 thousand (2010: EUR 260 thousand). The year end balance of the provision for such plans amounts to EUR 1,522 thousand in 2011 (EUR 1.315 thousand in 2010).

At 31 December 2011 and 2010, there were no other pension obligations to the executives.

In 2011 the amount earned by the current and former members of the Board of Directors for all types of remuneration (salaries, bonuses, attendance fees and per diems, compensation in kind, life insurance plans, indemnities, incentive plans and social security contributions) amounted to EUR 3,421 thousand (2010: EUR 4,009 thousand). There is life insurance accrued amounting to EUR 8,000.

Remuneration accrued, paid and not paid, in 2011 by the Parent's Board of Directors in respect of multi-year incentive and loyalty plans amounted to EUR 1,379 thousand (2010: EUR 342 thousand). The year end balance of the provision for such plans amounts to EUR 7,941 thousand in 2011 (EUR 6,562 thousand in 2010).

At 31 December 2011 and 2010, there were no other pension commitments with the current and former members of the Board of Directors of the Parent.

The members of the Group's Board of Directors and Senior Management have received no shares or options during the year and nor have they exercised any options and nor do they have options which have not yet been exercised.

27. Other disclosures concerning the Board of Directors

In relation to the disclosures required under Article 229 of the Spanish Companies Act 2010, in 2011 and 2010, 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 Companies Act 2010, 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 Mr Jorge Gallardo Ballart, Mr Antonio Gallardo Ballart and Mr Daniel Bravo Andreu in the other companies of the Almirall Group as shareholders of the Parent.

Moreover, the current and former members of the Board of Directors have carried out on their own or third party's behalf the following activities in companies having a kind of activity which is identical, analogous or complementary to that which makes up the Company's corporate objects.

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

Notes to the Consolidated Financial Statements
for the year ended 31 December 2011

Director	Type of regime	Company	Position
Jorge Gallardo Ballart	Own account	Almirall, S.A. (Chile)	Director
Luciano Conde Conde	Own account	Laboratorios Miralfarma, S.L.	Director
	Own account	Laboratorio Omega Farmacéutica, S.L.	Director
	Own account	Laboratorios Tecnobio, S.A.	Director
	Own account	Laboratorios Almofarma, S.L.	Director
	Own account	Laboratorio Temis Farma, S.L.	Director
	Own account	Laboratorios Berenguer -Infale, S.L.	Director
	Own account	Alprofarma, S.L.	Director
	Own account	Pantofarma, S.L.	Director
	Own account	Laboratorios Farmacéuticos Romofarm, S.L.	Director
	Own account	Industrias Farmacéuticas Almirall, S.L.	Director
	Own account	Ranke Química, S.L.	Director
	Own account	Almirall Europa, S.A.	Director
	Own account	Almirall Hermal, GmbH (Germany)	Director
	Own account	Almirall Sofotec, GmbH (Germany)	Director
	Own account	Almirall GmbH (Austria)	Director
	Own account	Almirall NV (Belgium)	Director
	Own account	Almirall, S.A. (Chile)	Director
	Own account	Almirall ApS (Denmark)	Director
	Own account	Almirall, SAS (France)	Chairman
	Own account	Almirall Production, SAS (France)	Chairman
	Own account	Almirall B.V. (Netherlands)	Director
	Own account	Almirall, S.p.A. (Italy)	Director
	Own account	Almirall, S.A. de C.V. (Mexico).	Director
	Own account	Almirall de México, S.A. de C.V. (Mexico).	Director
	Own account	Almirall sp. z o.o. (Poland)	Director
	Own account	Almirall – Produtos Farmacêuticos Lda. (Portugal)	Director
	Own account	Almirall Marketing Farmacêutico, Unipessoal Lda. (Portugal)	Director
	Own account	Almirall Limited (UK)	Director
	Own account	Almirall Inc (USA)	Director
	Own account	Almirall International B.V. (Netherlands)	Director
Eduardo Sanchiz Yrazu	Own account	Laboratorios Miralfarma, S.L.	Director
	Own account	Laboratorio Omega Farmacéutica, S.L.	Director
	Own account	Laboratorios Tecnobio SA.	Director
	Own account	Laboratorios Almofarma, S.L.	Director
	Own account	Laboratorio Temis Farma, S.L.	Director
	Own account	Laboratorios Berenguer -Infale, S.L.	Director
	Own account	Alprofarma, S.L.	Director
	Own account	Pantofarma, S.L.	Director

Director	Type of regime	Company	Position
	Own account	Laboratorios Farmacéuticos Romofarm, S.L.	Director
	Own account	Industrias Farmacéuticas Almirall, S.L.	Director
	Own account	Ranke Química, S.L.	Director
	Own account	Almirall Europa, S.A.	Director
	Own account	Almirall Hermal, GmbH (Germany)	Director
	Own account	Almirall Sofotec, GmbH (Germany)	Director
	Own account	Almirall GmbH (Austria)	Director
	Own account	Almirall NV (Belgium)	Director
	Own account	Almirall ApS (Denmark)	Director
	Own account	Almirall B.V. (Netherlands)	Director
	Own account	Almirall sp. z o.o. (Poland)	Director
	Own account	Almirall – Produtos Farmacêuticos Lda. (Portugal)	Director
	Own account	Almirall Marketing Farmacêutico, Unipessoal Lda. (Portugal)	Director
	Own account	Almirall AG (Switzerland)	Director
	Own account	Almirall International B.V. (Netherlands)	Director
Per-Olof Andersson	Own account	Almirall Sofotec, GmbH (Germany)	Director

In this respect, the present and former members of the Board of Directors for whom no information has been disclosed in this section have reported that neither they on their own behalf nor persons related to them, as defined in the Spanish Companies Act 2010, have carried out any activities as detailed above.

Lastly, in 2011 and 2010 all of the members of the Board of Directors and the executives were men.

28. Environmental information

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 EUR 2.6 million and EUR 3.7 million at 31 December 2011 and 2010, respectively.

The consolidated income statement for 2011 includes environmental protection expenses amounting to EUR 1.6 million (2010: EUR 2 million).

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.

29. Exposure to risk and capital management

The Group'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 Group's overall risk management program focuses on uncertainty in financial markets and seeks to minimise the potential adverse impact on its financial profitability. The Group uses derivative financial instruments to hedge certain risk exposures.

Risk management is carried out by the Group's Treasury Department, which identifies, evaluates and hedges financial risks in accordance with the policies approved by the Board of Directors. The Board provides written policies for overall risk management and written policies covering specific areas such as foreign exchange risk, interest rate risk, liquidity risk, use of derivatives and non-derivatives and investing excess liquidity.

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 (80% and 66.85% through interest rate swaps and 20% and 33.15% through collars in 2011 and 2010, respectively).

The maximum hedging period is 1 year and at 31 December 2011, 48% of the bank borrowings were hedged (64.79% in 2010).

Given the level of coverage of derivatives over borrowings, a shift of half a percentage point over the rate curve would not have a significant impact on interest payable by the Group.

Exchange rate 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, UK, Danish, Polish and Swiss subsidiaries.

In the case of collections the risk represents 15.56% (11.32% in 2010) of revenue and other income, and in the case of payments 20.76% (13.46% in 2010) 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 and which at the 2010 year end had been completed. 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.

There has been no cash allocated to foreign currency in 2011.

At 31 December 2011 there were balances denominated in foreign currency amounting to EUR 6.5 million (at 31 December 2010 there were balances amounting to EUR 7.6 million).

On the basis of the Group's exposure to foreign currency on its transactions, reasonable changes in exchange rates would not entail a significant effect on the Group's consolidated financial statements.

Liquidity risk

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

Forecast cash outflows in relation to the Group's borrowings are detailed in Note 15.

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.

Fair value measurement

The measurement of assets and liabilities carried at fair value should be detailed by level according to the following hierarchy defined by IFRS 7:

Level 1. Listed price (not adjusted) on active markets for identical assets and liabilities.

Level 2. Data other than listed price included in level 1 that are observable for assets or liabilities, directly (prices) or indirectly (deriving from prices) .

Level 3. Data for assets and liabilities that are not based on observable market data.

The detail at 31 December of the Group's assets and liabilities measured at fair value according to the above levels is as follows (in thousand euro):

	Level 1	Level 2	2011
Assets			
Available-for-sale financial assets	6,307	-	6,307
Total assets	**6,307**	**-**	**6,307**
Liabilities			
Financial derivatives			
Cash flow hedges	-	2,230	2,230
Total derivative financial instruments	-	2,230	2,230
Total liabilities	-	**2,230**	**2,230**

	Level 1	Level 2	2010
Assets			
Available-for-sale financial assets	5,284	-	5,284
Total assets	**5,284**	**-**	**5,284**
Liabilities			
Financial derivatives			
Cash flow hedges	-	7,072	7,072
Total derivative financial instruments	-	7,072	7,072
Total liabilities	**-**	**7,072**	**7,072**

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 2011 was EUR 158 thousand (2010: EUR 313 thousand).

In relation to the impairment of its financial assets for credit risk, in order to minimise any such risk the Group 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.

During the year the Group's strategy in this respect has not varied significantly and there have been no major changes in the leveraging ratio as compared with 2010. At 31 December the leveraging ratios were as follows (thousand euro):

	31 December 2011	
Bank borrowings and other financial liabilities	202,222	297,467
Retirement benefit commitments (1)	41,331	37,421
Cash and cash equivalents	(228,925)	(312,918)
Net debt	**14,628**	**21,970**
Equity	854,713	819,302
Share capital	19,932	19,932
Leveraging ratio	**1.7%**	**2.7%**

(1) On the basis of the calculation used by the Group to determine the leveraging ratio.

30. Information on delays in payments to suppliers

Payments on business operations carried out during the year which are pending payment at the year end by the Spanish companies of the consolidable group, with respect to the maximum terms allowed by Law 15/2010, are as follows:

	Payments made and pending at the balance sheet date	
	2011	
	Thousand euro	%
Payments for the year within legal term		
Other	591,643	92.67%
	46,812	7.33%
Total payments during the year	**638,455**	**100%**
Average payment periods exceeded (days)	**74.61**	
Balance pending payment at year end in excess of legal limit	**434**	

For 2010 and on the basis of the information required by Additional Provision Three of Law 15/2010, at 31 December 2010 EUR 2,430 thousand was pending payment to suppliers and exceeded the legal payment limit.

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.

The maximum payment period applicable to the Company under Law 3/2004 on measures to combat default in business operations, is 85 days.

31. Events after the balance sheet date

There have been no noteworthy events after the balance sheet date other than as is described below:

Almirall S.A. and Forest Laboratories, Inc. announced on 24 February 2012 that the Advisory Committee of the FDA (Food and Drug Administration) had voted 12 to 2 in favour of the approval of the aclidinium dossier, a new long-acting anti-muscarinic drug used to treat EPOC. The Committee should assess separately the efficiency and safety of a 400 mcg dose twice a day and voted unanimously (14 to 0) in favour of its efficiency and 10 to 3, with one abstention in favour of its safety.

The committee's recommendations, although no binding, will be taken into account by the FDA in order to complete its review of the aclidinium dossier. The FDA's regulatory response is expected in the second quarter of 2012.

APPENDIX: INFORMATION RELATING TO INVESTEES

	Thousand of euros						
Name	Laboratorios Miralfarma, S.L	Laboratorio Omega Farmacéutica, S.L.	Laboratorios Farmacéuticos Romofarm, S.L.	Laboratorios Almofarma, S.L.	Laboratorios Temis Farma, S.L.	Alprofarma, S.L.	Laboratorios Tecnobio, S.A.
Location	España	España	España	España	España	España	España
Line of business	Servicios de mediación	Servicios de mediación	Servicios de mediación	Servicios de mediación	Servicios de mediación	Servicios de mediación	Servicios de mediación
December 31, 2011							
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	1,942	1,769	1,504	686	1,564	49	886
Net profit for the year	41	238	167	175	197	5	181
Carrying amount of the investment Group	1,34	1,07	60	95	1,114	60	127
- Cost	1,34	1,07	60	95	1,114	60	127
- Allowance	-	-	-	-	-	-	-
December 31, 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	1,34	1,07	60	95	1,114	60	127
- Cost	1,34	1,07	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 **2/4**

	Thousand of euros						
Name	Laboratorios Berenguer-Infale, S.L.	Pantofarma, S.L.	Industrias Farmacéuticas Almirall, S.L.	Ranke Química, S.L.	Almirall Internacional, BV	Almirall, NV	Almirall - Productos Farmacêuticos, Lda.
Location	España	España	España	España	Holanda	Bélgica	Portugal
Line of business	Servicios de mediación	Servicios de mediación	Fabricación de especialidades	Fabricación de materias primas	Holding internacional	Laboratorio farmacéutico	Laboratorio farmacéutico
December 31, 2011							
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	1,2	1,2	52,602	1,203	1,5
Reserves	741	520	48,161	18,854	21,086	630	643
Net profit for the year	195	68	2,607	70	15,334	357	199
Carrying amount of the investment Group	157	157	41,982	10,84	100,168	1,842	2,332
- Cost	157	157	41,982	10,84	156,497	1,842	2,332
- Allowance	-	-	-	-	-56,329	-	-
December 31, 2010							
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	1,2	1,2	52,602	1,203	1,5
Reserves	559	446	45,424	16,966	6,601	550	411
Net profit for the year	182	74	2,737	1,888	14,466	80	321
Carrying amount of the investment Group	157	216	41,982	10,84	84,858	1,842	2,332
- Cost	157	216	41,982	10,84	156,497	1,842	2,332
- Allowance	-	-	-	-	-71,639	-	-

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 **3/4**

	Thousand of euros						
Name	Almirall, BV	Subgrupo Almirall S.A. de C.V. (**)	Almirall Limited	Subgrupo Almirall, S.A.S. (***)	Almirall SP, Z.O.O.	Almirall GmbH	Almirall, AG
Location	Holanda	México	Reino Unido	Francia	Polonia	Austria	Suiza
Line of business	Servicios de mediación	Laboratorio farmacéutico	Laboratorio farmacéutico	Laboratorio farmacéutico	Comercialización especialidades farmaceuticas	Laboratorio farmacéutico	Gestión de liciencias y comercialización de materias primas.
December 31, 2011							
Percentage of ownership held:							
- Directly	-	0,74%	-	-	-	-	100%
- Indirectly	100%	99,26%	100%	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	24125	563	12,527	14	36	652
Reserves	338	4,125	2,037	2,749	1,018	1,778	1119
Net profit for the year	46	2,629	774	5,753	86	136	10,408
Carrying amount of the investment Group	4,336	22,665	2,492	20,799	1,106	1,485	10,628
- Cost	8	30,891	2,492	20,799	1,106	1,485	10,628
- Allowance	-3,617	-8,226	-	-	-	-	-
December 31, 2010							
Percentage of ownership held:							
- Directly	-	0,74%	-	-	-	-	100%
- Indirectly	100%	99,26%	100%	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	24,125	563	12,527	14	36	652
Reserves	212	-2,511	949	-920	1,065	1,64	3,627
Net profit for the year	20	363	982	3,669	83	139	18,786
Carrying amount of the investment Group	4,338	21,977	2,492	15,083	1,106	1,485	10,628
- Cost	8	30,891	2,492	15,083	1,106	1,485	10,628
- Allowance	-3,662	-8,914	-	-	-	-	-

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 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

	Thousand of euros			
Name	Almirall SpA	Almirall Sofotec, GmbH	Almirall Hermal, GmbH	Almirall Aps
Location	Italia	Alemania	Alemania	Dinamarca
Line of business	Laboratorio farmacéutico	Centro de I+D	Laboratorio farmacéutico	Laboratorio farmacéutico
December 31, 2011				
Percentage of ownership held:				
- Directly	-	100%	100%	100%
- Indirectly	100%	-	-	-
% of voting power	100%	100%	100%	100%
Consolidation method	Full consolidation	Full consolidation	Full consolidation	Full consolidation
Share capital	8,64	25	25	17
Reserves	13,364	27,572	55,646	55
Net profit for the year	7,583	1,243	3,95	232
Carrying amount of the investment Group	29,632	25,027	359,27	17
- Cost	45,23	25,027	359,27	17
- Allowance	-15,598	-	-	-
December 31, 2010				
Percentage of ownership held:				
- Directly	-	100%	100%	100%
- Indirectly	100%	-	-	-
% of voting power	100%	100%	100%	100%
Consolidation method	Full consolidation	Full consolidation	Full consolidation	Full consolidation
Share capital	8,64	25	25	17
Reserves	6,893	27,191	55,138	-
Net profit for the year	6,516	1,56	2,05	78
Carrying amount of the investment Group	22,049	25,027	359,27	17
- Cost	45,23	25,027	359,27	17
- Allowance	-23,181	-	-	-

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.

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

CONSOLIDATED DIRECTOR'S REPORT

(Year ended 31 December 2011)

Almirall

Almirall

CONTENT

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

1. Summary of 2011. Main achievements

2011 was marked by the impact of health spending containment measures and the promotion of the use of generics approved by the Spanish government on 19 August 2011 (Royal Decree Law 9/2011). Consequently, net sales were down 12.9%, mainly because of the Spanish market. International sales accounted for 50% of the Group's total revenues compared with 44% in the previous year.

Nonetheless, significant milestones were attained on R&D projects, particularly noteworthy of which were the following:

- The presentation in June of the registration of a new pharmaceutical product (NDA) with the US Food and Drug Administration (FDA), for aclidinium bromide (an innovative prolonged-action inhaled muscarinic antagonist used to treat Chronic Obstructive Pulmonary Disease (COPD), together with Forest.

- The presentation in July of the application for the registration with the European Medicines Agency (EMA) of aclidinium bromide.

- The presentation in September of the application for authorisation of Linaclotide with the European Medicines Agency (EMA).

Additionally, in November Phase III was started up of the clinical programme for the fixed dose combination of aclidinium bromide and formoterol fumarate administered twice daily through a Genuair® inhaler, for the treatment of moderate or severe COPD, together with its US partner Forest.

The balance sheet position is also solid, with a significant decrease in net borrowings to EUR 14.6 million (compared with the 2010 year end) and bank borrowings representing 13.9% of total assets (which will be repaid in 2012).

In short, in 2011 the Group endeavoured to adapt to the new situation and to continue to be consistent in its messages and strategic objectives: defending its leadership in the Spanish market, fostering its expansion in international markets and boosting R&D.

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2. Performance of the main items in the functional income statement

Functional income statement

Eur million	Cumulative Dec 2011	Cumulative Dec 2010	% variation
Net sales	**768.4**	**882.4**	***(12.9%)***
Gross margin	**477.3**	**546.2**	***(12.6%)***
% of sales	*62.1%*	*61.9%*	
Other income	**104.7**	**119.7**	***(12.5%)***
R&D	**(144.5)**	**(144.9)**	***(0.3%)***
% of sales	*(18.8%)*	*(16.4%)*	
Overheads and administrative expenses	**(340.4)**	**(363.5)**	***(6.4%)***
% of sales	*(44.3%)*	*(41.2%)*	
Other expenses	**(0.2)**	**(3.1)**	*(93.5%)*
% of sales	*(0.0%)*	*(0.4%)*	
EBIT	**96.9**	**154.4**	***(37.2%)***
% of sales	*12.6%*	*17.5%*	
Amortisation and depreciation charge	**63.2**	**61.9**	***2.1%***
% of sales	*8.2%*	*7.0%*	
EBITDA	**160.1**	**216.3**	***(26.0%)***
% of sales	*20.8%*	*24.5%*	
Gains or losses on fixed asset disposals / other	(2.7)	(0.5)	*n.m.*
Restructuring costs	(9.9)	(11.6)	*(14.7%)*
Impairment reversal /(losses)	(7.0)	(14.0)	*(50.0%)*
Net financial income/(expense)	(5.3)	(9.1)	*(41.8%)*
Corporate Income Tax	12.2	(0.6)	*n.m.*
Net profit for the year	**84.2**	**118.6**	***(29.0%)***
Normalised profit for the year	**97.9**	**136.7**	***(28.4%)***
Earnings per share (EUR) (1)	€ 0.51	€ 0.71	
Normalised earnings per share (EUR) (1)	€ 0.59	€ 0.82	
Number of employees at the reporting date	2,765	2,831	(2.3%)

(1) Number of shares at the reporting date

- Sales amounted to EUR 768.4 million, down 12.9% on 2010. This was mainly attributable to the performance of sales on the Spanish market (-21.7%). On a geographical level, the Group's sales grew in both Europe and the Middle East (+0.8%), and America, Asia and Africa (+3.4%). Globally, Ebastine was Almirall's best selling product whilst Tesavel/Efficib (launched in 2009) was the product that showed the most growth. The fall in sales of atorvastatin, escitalopram and lansoprazole resulted from the introduction of generics and the aforementioned measures approved in Spain (Royal Decree Law 9/2011).

- Other income was down 12.5% from 2010 due to the drop in income from co-promotion agreements.

- R&D expenditure remained on similar levels as a result of the development of the aforementioned Phase III studies.

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- Overheads and administration expenses were down thanks to the cost containment policies applied this year and in previous years.

- As a result of the aforementioned changes, EBIT and EBITDA decreased by 37.2% and 26.0%, respectively compared with the same period of 2010.

- Corporate income tax was refundable in 2011 as a result of the fall in profits before tax combined with the R&D deductions generated (which were consistent compared with 2010).

- As a result, total net profit amounted to EUR 84.2 million, down 29.0% compared with 2010 while normalised net profit fell by 28.4% (adjusted for non-ordinary items).

3. Corporate development

In 2011 the following corporate performance agreements were entered into:

- Kyorin: Almirall, S.A. and Kyorin Pharmaceutical Co., Ltd. announced the agreement through which Almirall assigned to Kyorin the exclusive rights for the development and marketing of aclidinium bromide in Japan to treat COPD (chronic obstructive pulmonary disease).

  Kyorin will take responsibility for the development, regulatory approval and marketing of aclidinium bromide in Japan.

- Roflumilast: Almirall and Nycomed entered into a co-branding agreement for the marketing of roflumilast in Spain. Roflumilast is a tablet taken once daily by patients with COPD.

  This phosphodiesterase enzyme inhibitor 4 is the first oral anti-inflammatory treatment for COPD and strengthens Almirall's respiratory product catalogue. The product was first marketed in October 2011.

- Escitalopram: Almirall, SpA and Lundbeck Italia, SpA announced the signature of a co-promotion agreement for escitalopram in Italy under the trademark Cipralex®.

  Excitalopram is a selective serotonin reuptake inhibitor anti-depressant (SSRIs), suitable to treat depression and anxiety.

- Daewoong: Almirall and Daewoong announced the signature of an agreement through which Almirall assigned to Daewoong the exclusive rights for aclidinium in Korea for the treatment of COPD (Chronic Obstructive Pulmonary Disease).

  Daewoong will take responsibility for the development, regulatory approval and marketing of aclidinium in Korea. As a result of this third agreement, Almirall extended the global deployment of its proprietary respiratory agent. Previous agreements already cover USA and Japan.

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4. Balance sheet. Financial position

A robust balance sheet with borrowing capacity

Eur million	December 2011	% of BS	December 2010
Goodwill	271.1	18.6%	271.9
Intangible assets	353.1	24.2%	382.8
Property, plant and equipment	152.1	10.4%	154.8
Non-current financial assets	8.5	0.6%	10.2
Other non-current assets	213.1	14.6%	189.0
Total non-current assets	**997.9**	**68.5%**	**1,008.7**
Inventories	93.2	6.4%	87.9
Trade receivables	106.0	7.3%	103.8
Cash at bank and in hand	228.9	15.7%	312.9
Other current assets	30.6	2.1%	23.4
Total current assets	**458.7**	**31.5%**	**528.0**
Total assets	**1,456.6**		**1,536.7**
Equity	854.7	58.7%	819.3
Bank loans	202.2	13.9%	297.5
Non-current liabilities	188.3	12.9%	206.8
Current liabilities	211.4	14.5%	213.1
Total equity and liabilities	**1,456.6**		**1,536.7**

The following matters should be noted in relation to the Group's balance sheet at 31 December 2011:

Intangible assets include the payments made in Libertek and Sativex in 2011. The fall is due to the decline in value of the assets that have already been launched and impairment losses for the year.

Other non-current assets amounting to EUR 213.1 million include tax credits mostly attributable to accumulated R&D deductions which will be effectively applied in subsequent years.

Inventories reflect a momentary increase related to the restructuring of production centres.

Under liabilities equity has increased (representing 59% of the balance sheet) owing to the effect of:

a). The payment of a dividend of EUR 47.4 million

b). Net profit for the period of EUR 84.2 million

Bank borrowings amount to EUR 202.2 million. The fall is attributable to the repayment of instalments as per the established timeline, amounting to EUR 92 million. Net borrowings, less liquidity and retirement benefit obligations, have fallen to EUR 14.6 million, equal to 0.09 times EBITDA for the year.

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5. Financial risk management and use of hedging instruments

The Almirall Group uses financial instruments to partially hedge its exposure to the financial risk in relation to both the interest rate risk and foreign currency risk.

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 (80% through interest rate swaps and 20% through collars).

The maximum hedging period is currently one year which agrees with the date on which the last repayment falls due. In 2011, part of the hedges in collars have been settled - as they have matured - and therefore the percentage hedged at the 2011 year end of the Group's total bank borrowings amounts to 48%.

Exchange rate 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 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, UK, Danish, Polish and Swiss subsidiaries in local currencies.

In the case of collections the risk represents approximately 15.56% of the Group's revenue and other income, and in the case of payments approximately 20.76% of procurements and other operating expenses.

The Group analyses projected collections and payments in foreign currency and the performance and trend thereof on a quarterly basis. In 2011 the Group reduced its exposure to foreign currency risk in higher volume transactions through the arrangement of one-off exchange insurance to cover payments in yen for the purchase of raw materials and to cover cash inflows in dollars, mainly in respect of collections.

Liquidity risk

The credit, liquidity and cash flow risks are limited thanks to the quality of the Group's financial assets, its capacity to generate cash and the solvency of the financial institutions with which it operates.

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6. Employees Distribution by centre and subsidiary

The number of employees at the year end compared with the previous year is as follows:

Employees	31/12/2011	31/12/2010	% variation
Spain	571	617	-7.46%
France	190	207	-8.21%
Italy	201	205	-1.95%
Mexico	198	200	-1.00%
Germany	135	128	5.47%
Portugal	4	9	-55.56%
Austria	11	11	0.00%
Belgium	6	11	-45.45%
UK & Ireland	57	42	35.71%
Switzerland	8	10	-20.00%
Nordic countries	14	3	n.m.
Poland	22	28	-21.43%
Total operating area	**1,417**	**1,471**	**-3.67%**
Industrial Spain	484	503	-3.78%
Industrial Germany	105	113	-7.08%
R&D	479	486	-1.44%
Corporate Development and Finance	109	122	-10.66%
International	101	74	36.49%
General (HR, Legal, Information systems etc)	70	62	12.90%
Total	**2,765**	**2.831**	**-2.33%**

Average number of employees	2011	2010	% change
Total average number of employees	**2,792**	**3,012**	**-7.3%**

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7. Risk factors

1. A reduction in prices, limitations on volume or difficulties in approval or reimbursement of new products owing to decisions by the health authorities.

2. Critical products are not approved or there are delays in their approval by the European Medicines Agency or the Food & Drug Administration (FDA).

3. Negative impact on the Group's assets as a result of the difficult economic situation in Europe.

8. Treasury shares

At 31 December 2011 the Parent held no treasury shares.

9. Events after the balance sheet date

There were no significant events after the balance sheet date other than as is described below:

- Almirall S.A. and Forest Laboratories, Inc. announced on 24 February 2012 that the Advisory Committee of the FDA (Food and Drug Administration) had voted 12 to 2 in favour of the approval of the aclidinium dossier, a new prolonged action anti-muscarinic drug used to treat EPOC. The Committee had to assess separately the efficiency and safety of a 400 mcg twice daily dose and voted unanimously (14 to 0) in favour of its efficiency and 10 to 3, with one abstention, in favour of its safety.

  The committee's recommendations, although not binding, will be taken into account by the FDA in order to complete its review of the aclidinium dossier. The FDA's regulatory response is expected in the second quarter of 2012.

10. Outlook for 2012

From a financial perspective, the main challenge for 2012 will be managing the impact of the price reduction and austerity measures introduced by the Spanish government in 2012 and the growing competition from generic products.

In this respect, the fall in sales is expected to be similar to that in 2011. This could in turn lead to a decrease in Normalised net profit (excluding extraordinary items) which is somewhat lower than that noted in 2011. This estimate is based on the regulatory framework and current prices and it does not include the execution of new licences and / or acquisitions.

These financial perspectives foresee a positive trend in the new products launched in the last two years and the continuity of cost control measures and the containment of non-trade costs.

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A sustained R&D effort is also expected in order to further the respiratory and dermatological franchise projects. This effect has already been envisaged when discussing the trend in normalised net profit above.

Following a fruitful period of commercial agreements with other companies, in 2012 Almirall will continue to explore new corporate development opportunities afforded by new licences and / or acquisitions which, if they materialise, could improve the financial forecasts for the year.

Moreover, Almirall's operations will pivot around two other key drivers of its long-term strategic growth: its internationalisation process and its continued leadership position in Spain.

11. Corporate Governance Report

The Corporate Governance Report is set out in Appendix I of this report.

12. Capital structure. Significant ownership interests

At 31 December 2011 the Parent's share capital is represented by 166,098,610 shares with a par value of EUR 0.12 each, fully subscribed and paid in.

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 2011, are as follows:

Name or company name of direct holder of the ownership interest	No. of shares	% of ownership of the Almirall Group
Grupo Plafin, S.A.	76,833,723	46.258%
Todasa, S.A.	42,028,091	25.303%
Wellington Management Company, LLP	5,022,243	3.024%

At 31 December 2011, 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.

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13. 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

A side agreement entered into by Mr Antonio Gallardo Ballart, Mr Jorge Gallardo Ballart, Mr Daniel Bravo Andreu, and Todasa, S.A.U. and Grupo Plafin, S.A.U. regulating, inter alia, certain pre-emptive acquisition rights and call and put options relating to the shares of Almirall, S.A.

Agreement entered into by Inmobiliaria Braviol, SA shareholders

A side agreement entered into by Mr Antonio Gallardo Ballart, Mr Jorge Gallardo Ballart, Mr Daniel Bravo Andreu, Ms Margaret Littleton and Inmobiliaria Braviol SA , Danimar 1990 SL and Todasa SAU, regulating, inter alia, certain pre-emptive acquisition rights and call and put options relating to the ownership interests and shares of the aforementioned companies.

Agreement between Jorge and 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.

There are no bylaw restrictions on the transferability of the Parent's shares or the exercise of the related voting rights.

14. Managing bodies, Board of Directors

Appointment of directors

Directors are appointed (i) upon the proposal of the Nomination and Remuneration Committee, in the case of independent directors, and (ii) upon a prior report from the Nomination and Remuneration Committee in the case of other directors, by the Annual General Meeting or by the Board of Directors, in conformity with the provisions laid down in the Spanish Companies Act.

On appointment, the new director is required to complete an induction programme established by the Parent for new Board members so that he/she can rapidly acquire sufficient knowledge of the Parent and of its corporate governance rules.

As regards the appointment of non-executive directors, the Board of Directors must ensure that persons of acknowledged solvency, competence and experience are elected, and its standards must be particularly stringent in respect of persons proposed as independent Board members in accordance with the provisions laid down in Article 6 of the Board Regulations.

Board members who are candidates for the position must abstain from participating in the discussions or votes relating thereto.

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Board members shall discharge their positions for the period established by the Annual General Meeting, which shall be the same for all Board members and may not exceed six years, after which they may be re-elected for one or more subsequent periods of equal length.

Replacement of Board members

Directors shall cease to hold office when the term for which they were appointed elapses, or when the Annual General Meeting so decides, by virtue of the powers conferred upon it by law or in the bylaws. In any case, the appointment of directors shall lapse when, on expiry of the term, the next General Meeting has been held or the period established by law for holding the General Meeting at which the financial statements for the previous year are to be approved or otherwise, has ended.

The Board of Directors may only propose the removal of an independent Board member before the term established in the bylaws ends when it considers that there is just cause to do so, subject to a prior report by the Nomination and Remuneration Committee. In particular, just cause will be deemed to exist when the director has infringed the duties inherent to his/her position or when he/she, due to a supervening cause, has become subject to any of the circumstances impeding the discharge of duties as an independent director, per the definition thereof that may be established in the applicable good corporate governance guidelines from time to time.

Directors subject to removal proposals must abstain from participating in the discussions or votes relating thereto.

Directors shall tender their resignation to the Board of Directors, should the latter deem it appropriate, in the following situations:

a) When they cease to hold the executive positions associated with their appointment as directors.
b) When they are involved in any of the situations of incompatibility or legal prohibition established by law.
c) When they have been seriously reprimanded by the Board of Directors for having breached any of their obligations as directors.
d) When their continuity as directors jeopardises the Parent’s interests or adversely affects its prestige and reputation or when the reasons for which they were appointed cease to exist (e.g. when proprietary directors dispose of their ownership interest in the Parent).
e) Independent directors may not continue to hold office as such for a period exceeding 12 years and, once this period has elapsed, must tender their resignation to the Board of Directors.
f) In the case of proprietary directors (i) when the shareholder they represent sells its entire shareholding and, also (ii) when the aforementioned shareholder reduces its shareholding to a level which requires the number of its proprietary directors to be reduced.

Where directors vacate their positions before their tenure concludes, either as a result of their resignation or for any other reason, they must explain their reasons in a letter submitted to all the members of the Board.

The Board of Directors may only propose the removal of an independent director before his/her tenure ends where it considers that is just cause to do so, subject to a prior report by the Nomination and Remuneration Committee. In particular, just cause will be deemed to exist when the director has infringed the duties inherent to his/her position or when, due to a supervening cause, he/she has become subject to any of the circumstances impeding the discharge of duties as an independent director, per the applicable definition thereof that may be established in the good corporate governance guidelines from time to time.

Amendment of the Company's Bylaws

The shareholders at the Annual General Meeting are responsible for the amendment of the Company's bylaws pursuant to Article 160 of the Spanish Companies Act 2010 and similar provisions, no specific provisions being envisaged in this respect in the Company's bylaws or in the Annual General Meeting Regulations.

Powers of the members of the Board of Directors

Certain powers of the Board have been delegated to the Managing Director, by virtue of the deed authorised by the Notary of Barcelona Mr Enrique Viola Tarragona on 2 June 2011.

The director Mr Luciano Conde Conde has been conferred powers by virtue of the power of attorney authorised by the Notary of Barcelona Mr Salvador Carballo Casado on 21 June 2011.

The director Mr Bertil Lindmark has been conferred powers of attorney by virtue of the power of attorney authorised by the Notary of Barcelona Mr Salvador Carballo Casado on 21 June 2011.

Also the director Mr. Jorge Gallardo Ballart has been conferred powers of attorney by virtue of the power of attorney authorised by the Notary of Barcelona Mr Enrique Viola Tarragona on 2 June 2011.

It is hereby placed on record that at the Annual General Meeting held on 13 April 2007, the shareholders unanimously adopted the following resolutions under the terms summarised below:

1. To authorise the Parent's Board of Directors, pursuant to Article 153.1 b of the Spanish Companies Act, without prior consultation with the Annual General Meeting, to increase capital by up to 50% of the share capital of the Parent at that date, taking into consideration any capital increases that might have been carried out pursuant to the fifth and thirteenth resolutions of this Annual General Meeting. This authority may be exercised within a period of five years from the date of the resolution once or several times and at any time in the amount and conditions deemed appropriate in each case.

2. To delegate to the Board of Directors the power to issue debentures, bonds and other similar fixed-income securities, both nonconvertible and exchangeable for shares of the Parent, or of any other company (belonging to the Group or otherwise) and/or convertible into shares of the Parent. This authorisation may also be used to issue promissory notes, preference shares (where legally permissible) and warrants (options to subscribe to newly-issued shares or to acquire outstanding shares of the Parent). Securities may be issued once or several times within a period of five years from the date of adoption of the aforementioned resolution, for a maximum amount of EUR 100 million..

3. To authorise the Board of Directors of the Parent to derivatively acquire treasury shares in accordance with the following terms and conditions:

a) The acquisition may be made by purchase and sale, exchange or dation in payment, once or several times, provided that the acquired shares, together with those held by the Parent, do not exceed 5% of the share capital.

b) The price or equivalent value must fall within a range between a minimum equal to their par value and a maximum equal to the closing market price of the Parent's shares on the Spanish Stock Market Interconnection System at the moment of acquisition. However, for the acquisition of shares that is agreed before their listing and, in particular, for the acquisition of treasury shares in the framework of a tranche offered to employees, the maximum price will be that which is determined by the minority tranche of the Offering.

c) The authorisation is valid for a period of 18 months from the day after that of the resolution.

Also, express authorisation was granted for the acquisition of shares of the Parent by any of the subsidiaries, in accordance with the same terms and conditions as those laid down in this resolution.

Any shares acquired as a result of the aforementioned authorisation may be either disposed of or redeemed, or allocated to employee remuneration schemes, as set forth in Article 75 ter. 1 of the Spanish Companies Act.

4. To delegate the broadest powers to the Board of Directors so that it may delegate to any of its members such powers as may be required so that they may interpret, execute and fully implement the resolutions adopted at the aforementioned Annual General Meeting. The Board of Directors made use of this power by delegating powers to the Chairman Jorge Gallardo Ballart and First Deputy Chairman Antonio Gallardo Ballart through resolutions adopted at the Board meetings held on 13 April 2007 and 11 May 2007, respectively.

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15. Significant agreements

There were no significant agreements relating to changes of control either at the Parent or between the Parent, its directors, executives or employees in relation to termination or retirement benefits or takeover bids.

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Appendix I: Corporate Governance Report