Pharma Mar , S.A.

Financial Statements and Directors' Report as of 31 December 2016

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This version of our report is a free translation from 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."

INDEPENDENT AUDITOR´S REPORT ON ANNUAL ACCOUNTS

To the shareholders of Pharma Mar, S.A.:

Report on the Annual Accounts

We have audited the accompanying annual accounts of Pharma Mar, S.A., which comprise the balance sheet as at December 31, 2016, and the income statement, statement of changes in equity, cash flow statement and related notes for the year then ended.

Directors' Responsibility for the Annual Accounts

The company´s directors are responsible for the preparation of these annual accounts, so that present fairly the equity, financial position and financial performance of Pharma Mar, S.A., in accordance with the financial reporting framework applicable to the entity in Spain, as identified in Note 2 to the accompanying annual accounts, and for such internal control as directors determine is necessary to enable the preparation of annual accounts that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these annual accounts based on our audit. We conducted our audit in accordance with legislation governing the audit practice in Spain. This legislation requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the annual accounts are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the annual accounts. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the annual accounts, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the annual accounts in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the presentation of the annual accounts taken as a whole.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

R. M. Madrid, hoja 87.250-1, folio 75, tomo 9.267, libro 8.054, sección 3ª
Inscrita en el R.O.A.C. con el número S0242 - CIF: B-79 031290

Opinion

In our opinion, the accompanying annual accounts present fairly, in all material respects, the equity and financial position of Pharma Mar, S.A. as at December 31, 2016, and its financial performance and its cash flows for the year then ended in accordance with the applicable financial reporting framework, and in particular, with the accounting principles and criteria included therein.

Report on Other Legal and Regulatory Requirements

The accompanying directors' Report for 2016 contains the explanations which the directors consider appropriate regarding the company's situation, the development of its business and other matters and does not form an integral part of the annual accounts. We have verified that the accounting information contained in the directors' Report is in agreement with that of the annual accounts for 2016. Our work as auditors is limited to checking the directors' Report in accordance with the scope mentioned in this paragraph and does not include a review of information other than that obtained from Pharma Mar, S.A.´s accounting records.

PricewaterhouseCoopers Auditores, S.L.

The original Spanish version was signed by Julio Balaguer Abadía
February 23, 2017

Pharma Mar , S.A.
Balance sheets as of
31 December 2016 and 2015
(Thousand euro)

	Note	31/12/2016	31/12/2015
A) Non-current assets		**397,441**	**387,207**
I. Intangible assets		**298,708**	**285,991**
1. Development	6	297,465	285,010
5. Computer software	6	1,243	981
II. Property, plant and equipment		**20,516**	**19,755**
1. Land and structures.	7	13,960	14,649
2. Technical installations and other property, plant and equipment	7	4,366	4,856
3. Construction in progress and advances	7	2,190	250
III. Investment property		**1,492**	**1,530**
1. Land	8	1,492	1,112
2. Structures	8	-	418
IV. Non-current investment in group and associated undertakings		**57,184**	**54,889**
1. Equity instruments	11	44,693	43,093
2. Loans to group undertakings	28	12,491	11,796
V. Non-current financial investments		**568**	**488**
1. Equity instruments	12	326	323
2. Loans to third parties		118	51
5. Other financial assets	14	124	114
VI. Deferred tax assets	20	**18,973**	**24,554**
B) Current assets		**80,781**	**75,340**
II. Inventories		**6,089**	**7,806**
2. Raw materials and other supplies	13	88	110
3. Products in process	13	5,596	7,362
4. Finished products	13	405	334
III. Trade and other accounts receivable		**48,560**	**26,053**
1. Customer receivables for sales and services	14	38,979	13,440
2. Receivable from group and associated undertakings	28	7,655	11,040
3. Sundry debtors	14	469	384
4. Personnel	14	113	118
5. Current tax assets		306	92
6. Other receivables from public authorities	22	1,038	979
IV. Current investment in group and associated undertakings		**2,030**	**3,031**
5. Other financial assets	14	2,030	3,031
V. Current financial investments		**14,993**	**33,914**
5. Other financial assets	14	14,993	33,914
VI. Accruals	14	**1,848**	**1,369**
VII. Cash and cash equivalents		**7,261**	**3,167**
1. Cash	15	7,261	2,967
2. Other liquid assets	15	-	200
Total assets (A+B)		**478,222**	**462,547**

Pharma Mar , S.A.
Balance sheets as of
31 December 2016 and 2015
(Thousand euro)

EQUITY AND LIABILITIES	Note	31/12/2016	31/12/2015
A) Equity		**321,455**	**333,487**
A-1) Capital and reserves		**312,297**	**324,195**
I. Capital		**11,110**	**11,110**
1. Share capital	16	11,110	11,110
II. Share premium account	16	**69,189**	**69,189**
III. Reserves		**302,126**	**302,248**
1. Legal and bylaw reserves	17	2,222	2,222
2. Other reserves	17	299,904	300,026
IV. (Own shares and equity instruments)	16	**-3,246**	**-2,944**
V. Prior years' income		**-55,408**	**-12,301**
2. (Prior years' loss)		-55,408	-12,301
VII. Income for the year		**-11,474**	**-43,107**
A-2) Value adjustments		**12**	**8**
II. Hedge transactions		12	8
A-3) Subsidies, donations and legacies received	6 & 18	**9,146**	**9,284**
B) Non-current liabilities		**79,165**	**63,081**
I. Long-term provisions		**150**	**-**
4. Other provisions		150	**-**
II. Non-current debt		**61,737**	**59,774**
1. Bonds and other marketable securities	19	16,350	16,349
2. Bank debt	19	24,794	19,931
5. Other financial liabilities	19	20,593	23,494
IV. Deferred tax liabilities	20	**3,278**	**3,307**
V. Long-term accruals	21	**14,000**	-
C) Current liabilities		**77,602**	**65,979**
III. Current debt		**24,357**	**23,833**
1. Bonds and other marketable securities	19	466	424
2. Bank debt and debt to official authorities	19	23,223	23,195
5. Other financial liabilities	19	668	214
IV. Current accounts payable to group and associated undertakings	19 & 28	**9,209**	**14,617**
V. Trade and other payables		**34,036**	**27,529**
1. Due to suppliers	19	187	485
2. Due to group and associated undertakings	19 & 28	2,174	1,282
3. Sundry creditors	19	25,086	19,161
4. Personnel (compensation payable)	19	4,490	4,278
6. Other debt to public authorities	22	865	1,663
7. Customer advances	19	1,234	660
VI. Short-term accruals	21	**10,000**	**-**
Total equity and liabilities (A+B+C)		**478,222**	**462,547**

Pharma Mar , S.A.
Statements of income for the years ended
31 December 2016 and 2015
(Thousand euro)

STATEMENT OF INCOME	Note	31/12/2016	31/12/2015
A) Continuing operations			
1. Net revenues	21,1	**92,775**	**112,508**
a) Product sales		75,228	81,335
b) Licensing and co-development agreements		11,129	29,034
c) Royalties		5,779	1,789
d) Other revenues		639	350
2. Variation in finished goods and work-in-process inventories	13	**-1,695**	**-4,538**
3. Capitalized in-house work	6	**40,443**	**34,744**
4. Purchases		**-5,866**	**-6,409**
a) Merchandise consumed		-	-2
b) Raw materials and other consumables consumed	21,4	-4,179	-4,054
c) Outside work		-1,687	-2,353
5. Other operating revenues		**31**	**480**
b) Operating subsidies recognized in income for the year		31	480
6. Personnel expenses	21,5	**-30,147**	**-28,608**
a) Wages, salaries and similar		-24,714	-23,442
b) Employee welfare expenses		-5,433	-5,166
7. Other operating expenses	21,6	**-68,841**	**-56,504**
a) Outside services		-67,951	-56,151
b) Taxes other than income tax		-798	-353
c) Losses, impairment and changes in trade provisions		-92	-
8. Depreciation and amortization	6, 7 & 8	**-29,724**	**-23,115**
9. Recognition of subsidies for non-financial assets and other		**434**	**5,905**
11. Impairment losses and income from disposal of assets		**-171**	**-78,140**
a) Impairments and losses	21,7	-171	-1,033
b) Income from disposals and other	6	-	-77,107
A.1) OPERATING INCOME (1+2+3+4+5+6+7+8+9+11)		**-2,761**	**-43,677**
12. Financial revenues	23	**1,272**	**1,972**
a) Equity instruments		579	1,334
a 1) Group and associated undertakings		579	1,334
b) Marketable securities and other financial instruments		693	638
b 1) Group and associated undertakings		516	479
b 2) Third parties		177	159
13. Financial expenses	23	**-4,176**	**-4,786**
a) On debts to group and associated undertakings		-206	-398
b) On debts to third parties		-3,970	-4,388
15. Exchange differences	23	**-306**	**-78**
16. Impairment losses and income from disposal of financial instruments	23	**202**	**-324**
a) Impairments and losses		52	-325
b) Income from disposals and other		150	1
A.2) FINANCIAL INCOME (12+13+15+16)		**-3,008**	**-3,216**
A.3) INCOME BEFORE TAXES (A.1 + A.2)		**-5,769**	**-46,893**
17. Income tax	22	**-5,705**	**3,786**
A.4) INCOME FOR THE YEAR FROM CONTINUING OPERATIONS (A.3+17)		**-11,474**	**-43,107**

Pharma Mar , S.A.
Statements of changes in equity for the years ended
31 December 2016 and 2015
(Thousand euro)

A) STATEMENT OF RECOGNIZED REVENUES AND EXPENSES (thousand euro)

STATEMENT OF CHANGES IN EQUITY	Note	31/12/2016	31/12/2015
A) INCOME, PER INCOME STATEMENT		**-11,474**	**-43,107**
Revenues and expenses recognized directly in equity			
I. Valuation of financial instruments		-	2
III. Subsidies, donations and legacies received	18	282	676
IV. Tax effect	18	-70	-189
V. Variation in deferred taxes due to change in the tax rate		-	-105
B) TOTAL REVENUES AND EXPENSES RECOGNIZED DIRECTLY IN EQUITY (I+III+IV+V)		**212**	**384**
Transfers to profit or loss			
VIII. Subsidies, donations and legacies received	18	-465	-5,905
IX. Tax effect	18	116	1,653
C) TOTAL TRANSFERS TO PROFIT OR LOSS (VIII+IX)		**-349**	**-4,252**
TOTAL RECOGNIZED REVENUES AND EXPENSES (A + B + C)		**-11,611**	**-46,975**

Pharma Mar , S.A.
Statements of changes in equity for the years ended
31 December 2016 and 2015
(Thousand euro)

B) TOTAL STATEMENT OF CHANGES IN EQUITY (thousand euro)

	Share capital	Share premium account	Reserves	(Own shares and equity instruments)	Prior years' income	Income for the year	Subsidies, donations and legacies received	Value adjustments	Total
Ending balance 2014	**85,292**	**69,189**	**7,580**	**-310**	**-23,576**	**12,527**	**13,154**	**-**	**163,856**
Total recognized revenues and expenses	-	-	-	-	-	-43,107	-3,870	2	**-46,975**
Transactions with shareholders or owners	-74,182	-	74,182	-	-	-	-	-	**-**
Other changes in equity	-	-	-310	310	-	-	-	6	**6**
Own shares - merger	-	-	-	-5,006	-	-	-	-	**-5,006**
Transactions with own shares (purchases)	-	-	-132	-4,701	-	-	-	-	**-4,833**
Transactions with own shares (sales)				6,763					**6,763**
Merger reserve	-	-	215,160	-	-	-	-	-	**215,160**
Gain on sale of treasury shares	-	-	4,515	-	-	-	-	-	**4,515**
Distribution of income	-	-	1,253	-	11,275	-12,527	-	-	**-**
Ending balance 2015	**11,110**	**69,189**	**302,248**	**-2,944**	**-12,301**	**-43,107**	**9,284**	**8**	**333,487**
Total recognized revenues and expenses	-	-	-	-	-	-11,474	-138	-	**-11,612**
Other changes in equity	-	-	-	-	-	-	-	4	**4**
Transactions with own shares (purchases)	-	-	-122	-4,164	-	-	-	-	**-4,286**
Transactions with own shares (sales)	-	-	-	3,862	-	-	-	-	**3,862**
Distribution of income	-	-	-	-	-43,107	43,107	-	-	**-**
Ending balance 2016	**11,110**	**69,189**	**302,126**	**-3,246**	**-55,408**	**-11,474**	**9,146**	**12**	**321,455**

Pharma Mar , S.A.
Cash flow statements for the years ended
31 December 2016 and 2015
(Thousand euro)

	Notes	31/12/2016	31/12/2015
A) OPERATING CASH FLOW			
1. Income for the year before taxes		**-5,769**	**-46,893**
2. Adjustments to income		**32,630**	**98,583**
a) Depreciation and amortization (+)	6, 7, 8	29,724	23,115
c) Change in provisions (+/-)		-43	15
d) Subsidies recognized (-)	18	-434	-5,905
e) Income from derecognitions and disposals of property, plant and equipment (+/-)	6, 7, 23	171	78,466
f) Income from derecognitions and disposals of financial instruments (+/-)		-202	-
g) Share-based payments		206	-
h) Financial revenues (-)	23	-1,273	-1,972
i) Financial expenses (+)	23	4,175	4,786
j) Exchange differences (+/-)	23	306	78
3. Changes in working capital		**9,462**	**-588**
a) Inventories (+/-)	13	1,717	4,294
b) Debtors and other accounts receivable (+/-)	14	1,206	-7,602
d) Creditors and other accounts payable (+/-)	19	6,529	6,767
f) Other non-current assets and liabilities (+/-)		10	-4,047
4. Other operating cash flow		**-2,043**	**-2,814**
a) Interest paid (-)		-2,810	-4,786
c) Interest received (+)		767	1,972
5. Operating cash flow (+/-1+/-2+/-3+/-4)		**34,280**	**48,288**
B) INVESTING CASH FLOW			
6. Investment payments (-)		**-45,062**	**-64,494**
a) Group and associated undertakings.		-1,728	-9,331
b) Intangible assets	6	-40,974	-35,370
c) Property, plant and equipment	7	-2,360	-1,539
e) Other financial assets		-	-18,254
7. Divestment receipts (+)		**19,927**	**7,097**
a) Group and associated undertakings.		1,016	700
b) Intangible assets		-	6,397
e) Other financial assets		18,911	-
8. Investing cash flow (6-7)		**-25,135**	**-57,397**
C) FINANCING CASH FLOW			
9. Collections and payments in connection with equity instruments		**-487**	**8,613**
c) Acquisition of own equity instruments (-)		-4,164	-4,701
d) Disposal of own equity instruments (+)		3,534	11,279
e) Subsidies, donations and legacies received (+)	18	143	2,035
10. Collections and payments in connection with instruments representing financial liabilities		**-4,257**	**-3,031**
a) Issuance		**29,259**	**37,733**
2. Bank debt and debt to official authorities (+)	19	17,510	32,483
3. Debt to group and associated undertakings (+)	19	11,749	5,250
b) Refund and amortization of:		**-33,516**	**-40,764**
1. Debt to group and associated undertakings (-)	19	-17,185	-7,335
2. Bank debt and debt to official authorities (-)	19	-16,331	-33,429
12. Financing cash flow (+/-9+/-10)		**-4,744**	**5,582**
D) EFFECT OF EXCHANGE RATE VARIATIONS		**-306**	**-79**
E) NET INCREASE/DECREASE IN CASH AND CASH EQUIVALENTS (+/-5+/-8+/-12+/-D)		**4,094**	**-3,606**
Beginning cash and cash equivalents		3,167	6,773
Ending cash and cash equivalents		7,261	3,167

Notes to financial statements of Pharma Mar, S.A. as of 31 December 2016 (In thousand euro)

1. COMPANY BUSINESS

Pharma Mar, S.A. (hereafter "PharmaMar" or the "Company") was incorporated on 30 April 1986 as a limited company (*sociedad anónima*) for an indefinite period. Its registered offices are at Avenida de los Reyes nº 1 (Pol. Industrial La Mina – Norte), Colmenar Viejo (Madrid).

PharmaMar's main activity is research, development and marketing of bio-active principles, particularly those of marine origin, for application in human medicine, especially in the antitumour, antiviral and immunomodulation fields and the area of tropical diseases, as well as management, support and development of its investees, mainly in the chemical and biopharmaceutical businesses.

On 20 September 2007, PharmaMar received authorization from the European Commission to commercialize its first compound, Yondelis®, to treat soft tissue sarcoma; commercial sales began in the fourth quarter of 2007.

On 2 November 2009, the European Commission granted authorization for PharmaMar to commercialize Yondelis® (Trabectedin) in combination with pegylated liposomal doxorubicin to treat relapsed platinum-sensitive ovarian cancer in the 27 EU countries plus Norway, Iceland and Liechtenstein. The first sales for this therapeutic use were made at the end of 2009.

In 2015, Yondelis® (Trabectedin) was authorized for sale by the Japanese regulatory authorities, via PharmaMar partner Taiho Pharmaceutical Co, and by the US Food and Drug Administration (FDA), via PharmaMar partner Janssen Biotech Inc., for treating certain types of soft tissue sarcoma.

At year-end, the company had not begun to sell its other products, which are all in the research and development phase. In September 2016, PharmaMar filed an application with the European Medicines Agency (EMA) for authorization to market one of its compounds, Aplidin®, for treating multiple myeloma. The Company expects that the EMA may respond in the second half of 2017.

Pharma Mar, S.A.'s shares are listed on the Madrid, Barcelona, Bilbao and Valencia Stock Exchanges and the Spanish electronic market (SIBE).

The Company's financial statements are presented in euro, which is the Company's functional and presentation currency.

These separate financial statements and the consolidated financial statements for the year ended 31 December 2016 were authorized by the Board of Directors on 23 February 2017 and must be approved by the Shareholders' Meeting; they are expected to be approved without changes. These financial statements will be filed with the Madrid Mercantile Register.

In accordance with the provisions of Royal Decree 1.159/2010, of 17 September, on 23 February 2017, the Company authorized the Consolidated Financial Statements for its group of companies as of 31 December 2016, which disclose a consolidated net loss of 24,082 thousand euro, equity (including the loss for the year) of 48,495 thousand euro, assets amounting to 221,137 thousand euro and revenues amounting to 180,948 thousand euro.

Those Consolidated Financial Statements were drawn up in accordance with the International Financial Reporting Standards adopted by the European Union (IFRS-EU).

The Consolidated Financial Statements contain all the Group companies, using the applicable consolidation method in each case, in conformity with article 42 of the Commercial Code.

Reverse merger of Pharma Mar, S.A. and Zeltia, S.A.

On 30 June 2015, the Shareholders' Meeting of Zeltia, S.A. and the sole shareholder of Pharma Mar, S.A. approved a reverse merger of Zeltia into PharmaMar, through dissolution without liquidation of the former and the transfer en bloc of its net worth to PharmaMar. On 30 October 2015, the merger was registered with the Mercantile Registers in question and, as a result, Zeltia ceased to exist.

The structure chosen was that of a "reverse merger", in which a subsidiary absorbs its parent company, since Zeltia (the merged company) directly owned 100% of the shares of PharmaMar (acquiring company).

Moreover, the fact that Zeltia (merged company) directly owned 100% of the shares of PharmaMar (acquiring company) made it possible, under article 52 of the Structural Modifications Act, to apply, *mutatis mutandis*, the rules for the absorption of wholly-owned subsidiaries. Consequently, the merger qualified for the special simplified procedure provided in article 49.1 of the Structural Modifications Act.

The shareholders of Zeltia received shares of PharmaMar in exchange for their Zeltia shares in a ratio of 1:1. In order to perform this type of exchange, it was necessary that, at the time of the exchange, the number of shares into which the capital stock of PharmaMar was divided be the same as the number of shares into which the capital stock of Zeltia was divided.

To this end, PharmaMar approved a reduction in share capital by means of an increase in voluntary reserves and the establishment of a new number and a new par value for its shares such that, following the reduction in the par value of the shares and the consequent increase in their number, the number of shares into which the capital stock of PharmaMar was divided coincided with the number of shares of Zeltia. The capital reduction amounted to 74,182 thousand euro.

The merger availed itself of the tax rules established under Chapter VII of Title VII of the Corporate Income Tax Act regarding the special system for mergers, spin-offs, contribution of assets and exchange of securities, which provide a tax-neutral approach.

In accordance with the amendments made by Royal Decree 1159/2010, of 17 September, which approved the standards for preparing consolidated financial statements, and, in particular, the aspects of Recognition and Measurement Standard no. 21 "Transactions between Group companies" in the Spanish General Accounting Plan, the date as of which mergers and intra-group spin-offs take place for accounting purposes is the first day of the year in which the merger is approved, provided that it is subsequent to the time on which the affected companies joined the Group. Therefore, the PharmaMar-Zeltia merger was effective for accounting purposes as of 1 January 2015.

2. BASIS OF PRESENTATION

2.1 True and fair view

The financial statements were prepared from the Company's accounting records and are presented in accordance with the current mercantile legislation and the rules established in Spain's General Accounting Plan approved by Royal Decree 1514/2007 (GAP 2007), as amended by Royal Decree 1159/2010 and Royal Decree 602/2016, in order to present a true and fair view of the equity, financial position and income of the Company and the veracity of the cash flows set out in the cash flow statement.

The figures in the documents comprising these financial statements (balance sheet, income statement, statement of changes in equity, cash flow statement and these notes to financial statements) are expressed in thousand euro.

The Company's Directors consider that the 2016 financial statements, which were authorized on 23 February 2017, will be approved without changes by the Shareholders' Meeting.

2.2 Critical aspects of measuring and estimating uncertainty

The preparation of the financial statements requires the Company to use certain estimates and judgments in connection with the future that are evaluated continuously and are based on past experience and other factors, including expectations about future events that are considered to be reasonable in the circumstances.

By definition, these estimates seldom coincide with the actual results. The estimates and judgments with a significant risk of having a material impact on the carrying amounts of assets and liabilities in the next financial year are detailed below.

Deferred tax assets

Deferred tax assets due to tax losses carried forward and unused tax credits are recognized to the extent that the Company is likely to obtain future taxable income enabling them to be offset. Accordingly, for the purpose of the 2016 financial statements, the projections of revenues and expenses were re-estimated using Management's best estimates about the Company's business and the current and foreseeable economic situation.

In calculating expected future income and assessing the recoverability of the tax credits, only the companies belonging to the consolidated tax group of which PharmaMar is the head are considered.

The Company assesses the recoverability of deferred tax assets on the basis of estimates of future taxable income. The recoverability of deferred tax assets depends ultimately on the Company's ability to generate sufficient taxable income in the periods in which those deferred taxes are deductible. Changes in future tax rates or in the prospects of generating taxable income against which to recover the carrying amount of deferred tax assets may result in changes in that carrying amount.

The main assumptions made in calculating expected future income and, therefore, the recoverability of the tax credits generated by the undertakings that belong to the tax group in Spain are as follows:

- Projections through 2025 are included for all the businesses of the Spanish tax group.

- The information for preparing the tax plan is the budget presented to the Board of Directors, which includes projections through 2021, extended to 2025 using the Company's best estimates of future earnings based on past experience, and the assumptions made in the first 5 years of estimation.

- The main variables used in projections for the oncology segment are as follows: a) the probability assigned to ongoing developments (revenues expected for each product under development is assigned a probability of occurrence based on the degree of progress with current research), b) the estimated selling price, and c) a penetration rate as a function of the number of patients that could potentially be treated with the product under development.

- The tax plan also uses the following significant assumptions:

    - No revenues are assumed from products under development that have not yet reached Phase III.

    - Average 25% growth in sales in the oncology segment. That growth is due mainly to the good prospects for PM1183, a product currently under development.

    - Average 3% growth in sales in the consumer chemicals segment.

    - Average 12% sustained growth in operating expenses.

Variations with respect to management's assumptions in estimating future taxable income, especially the assumptions used in the Oncology segment, may materially affect the amounts recognized as deferred tax assets. The main factors that may affect this estimate are: the probability of occurrence assigned to the revenues expected from compounds currently in development depending on their current phase of research, the estimated price of the medicine, and the rate of incidence of the various potential indications in the population:

- Increasing the probability assigned to revenues from Phase III research by 1% would result in the recognition of an additional 2,751 thousand euro.
- A 5% reduction in the estimated price for the main research compound (PM1183) would result in the derecognition of 5,336 thousand euro.
- A 5% reduction in the incidence in the population for Yondelis would result in derecognition of 1,031 thousand euro.

Recognition of revenue under licensing and/or co-development agreements

PharmaMar enters into licensing and/or co-development agreements that generally include many factors, and the associated revenues must be matched with the costs and considerations to be

paid. When deciding how to recognize the revenues from those transactions (Note 4.15), the directors consider the following factors:

- The economic basis of the transaction.
- The nature of the components of the transaction (payments, asset swaps, etc.).
- The valuation and distribution, on a fair value basis, of each item of consideration.
- The transfer of material risks and benefits deriving from ownership of the goods and the assumption of future obligations.
- The degree of progress with the project (milestones).

Capitalization of R&D expenses

Developing new drugs is subject to uncertainty due to the long period of maturation for the drugs and the technical results obtained at different stages of trials involved in the development process. It may prove necessary to abandon development at any stage of the process, whether because the drug does not meet medical or regulatory standards or because it proves unprofitable. Consequently, the Company assesses each development project to ascertain when the conditions set out in the measurement standard (Note 4.1.1) are met.

Useful life of property, plant and equipment

Company management determines the estimated useful life and the corresponding depreciation charge for the property, plant and equipment. This may change significantly as a result of technical innovations and actions by competitors in response to severe economic cycles in the industry. Management will increase the depreciation charges where the useful lives are shorter than those previously estimated, or it will impair or write off assets that are technically obsolete or non-strategic and have been abandoned or sold.

Fair value of other financial instruments

The fair value of financial instruments traded in active markets (such as investments acquired for trading and those available for sale) is based on year-end market prices.

The fair value of financial instruments that are not traded in an active market is determined by using measurement techniques. The Company uses a variety of methods and makes assumptions based on the market conditions at each balance sheet date. For long-term debt, the market price for similar instruments is used. To determine the fair value of other financial instruments, other techniques are used, such as discounted estimated cash flow.

The carrying amount of accounts receivable and payable, minus any provision for impairment, is assumed to approximate their fair value, given their short-term nature.

The fair value of financial liabilities for the purposes of presenting the financial information is estimated by discounting the contractual future cash flow at the current market interest rate available to the Company for similar financial instruments.

2.3 Comparative information

The amounts for 2015 are presented alongside those for 2016 for comparison purposes.

2.4 Grouping of items

To facilitate comprehension of the balance sheet, income statement, statement of changes in equity and cash flow statement, these financial statements are presented in grouped form, and the necessary breakdown is given in the notes to financial statements.

2.5 Changes in accounting policy as a result of Royal Decree 602/2016

On 17 December 2016, Spain's Official State Gazette published Royal Decree 601/2016, of 2 December, amending the General Accounting Plan approved by Royal Decree 1514/2007, of 16 November; the General Accounting Plan for Small and Medium Enterprises approved by Royal Decree 1515/2007, of 16 November; the Rules for the Preparation of Consolidated Financial Statements, approved by Royal Decree 1159/2010, of 17 September; and the Rules for Adapting the General Accounting Plan to non-profit entities, approved by Royal Decree 1491/2011, of 24 October.

The changes introduced by this Royal Decree must be applied in financial statements for accounting periods beginning on or after 1 January 2016 (Additional provision two):

The changes mainly affect the following items:
a) Intangible assets (previously considered to have an indefinite useful life).
b) Goodwill.
c) Reserve for goodwill.
d) Greenhouse gas emission rights.

The Directors assessed those changes and consider that they do not have a material impact on these financial statements.

3. APPLICATION OF RESULTS

The proposed distribution of 2016 income which will be presented to the Shareholders' Meeting, and the distribution approved for 2015 by the shareholders on 23 June 2016, are as follows:

(thousand euro)	2016	2015
Basis of distribution		
Income for the year	-11,474	-43,107
	-11,474	**-43,107**
Distribution		
Prior years' losses	-11,474	-43,107
	-11,474	**-43,107**

The proposed distribution of income for the year ended 31 December 2016 which will be proposed to the Shareholders' Meeting, in accordance with article 274 of the Consolidated Text of the Capital Companies Act, approved by the Legislative Royal Decree of 2 July 2010, will consist of allocating the loss for the year (11,474 thousand euro) to prior years' losses.

4. ACCOUNTING AND VALUATION STANDARDS

The valuation standards applied for the various items are as follows:

4.1 Intangible assets

Intangible assets are recognized initially if:

i) they fulfil the definition of asset contained in the Accounting Conceptual Framework: "Rights, goods and other resources controlled economically by the company as a result of past events and from which the company expects to obtain profits or economic yields in the future"

ii) they fulfil the condition of being recognized in the accounts, in line with the Accounting Conceptual Framework: "Assets must be recognized on the balance sheet where they are likely to provide profits or economic yields for the company in the future, and provided that they can be measured reliably"

iii) they fulfil the identifiability requirement "that the intangible asset fulfils either of the following two conditions:

a. it must be possible to separate it from the company and sell, assign, deliver for exploitation, lease or exchange it, or

b. it must arise from rights in rem or contractual rights, regardless of whether those rights are transferable or can be separated from the company or from its other rights or obligations.

4.1.1 Research & Development expenses

Research is planned original investigation in pursuit of new knowledge and greater understanding of scientific or technical knowledge.

Development is the specific application of research findings in a specific design or plan for the production of materials, products, processes, systems or services that are new or substantially improved, up to commencement of commercial production.

Research expenditure is expensed when incurred.

Development expenses in the year are capitalized when they meet the following conditions:

i) there is a specific itemised project that enables the payment attributable to the project to be measured reliably,

ii) there are clear criteria for assignment, allocation and recognition of the costs of each project,

iii) there are sound reasons, at all times, for expecting technical success,

iv) the financial and commercial success of the project is reasonably assured,

v) funding is reasonably assured to enable the project to be concluded, and the necessary technical resources are available, and

vi) the company intends to complete the intangible asset in question for use or sale.

Fulfilment of those conditions is assessed each year.

Development expenses recognized under assets must be amortized in accordance with a systematic plan over their useful life, which is presumed not to exceed five years except where there is evidence to the contrary, beginning in the year in which the project concluded.The circumstances leading to the recognition of a useful life in excess of five years must be disclosed in the notes to financial statements (Note 6.1). That useful life may not exceed the term of the patent in any event.

These capitalized expenses may not, in any event, include research expenses.

If a company is unable to distinguish between the research and development phases of an internal project to create an intangible asset, it must treat the expenses arising in that project as if they had been incurred solely in the research phase.

Measurement of research and development projects

Where projects are carried out with the company's own means, they are measured at production cost and will include the costs directly attributable and necessary to create, produce and prepare the asset. In particular, they include the following items:

i) cost of personnel related directly to the project activities,

ii) cost of raw materials, consumables and services used directly in the project,

iii) depreciation and amortization of fixed assets assigned directly to the project, and

iv) the part of indirect costs that can reasonably be assigned to the project activities, provided that such assignment is rational.

Costs of under-activity and those of the company's general structure may not be assigned to research and development projects. Financial expenses related to research expenses may not be capitalized.

Where research and development projects are outsourced to other companies or institutions, they are measured at acquisition cost.

4.1.2 Computer software

Computer software licences acquired from third parties are capitalized based on the costs incurred to acquire and prepare them for using the specific program. Those costs are amortized over their estimated useful lives, i.e. 4 or 5 years.

Computer program maintenance costs are recognized in profit or loss as incurred.

4.2 Property, plant and equipment

Property, plant and equipment are recognized at acquisition or production cost. Property, plant and equipment are presented on the balance sheet at cost value less the accumulated amount of depreciation and impairment adjustments.

The amount of capitalized in-house work on property, plant and equipment is calculated as the sum of the acquisition costs of consumables and the direct and indirect costs allocable to those assets.

The costs of expanding, modernizing or improving property, plant and equipment are capitalized solely when they increase the assets' capacity or productivity or extend their useful life, provided that it is possible to ascertain or estimate the carrying amount of the items that are retired from inventory due to being replaced.

The cost of major repairs is capitalized and depreciated over their estimated useful lives, whereas recurring maintenance costs are recognized in profit or loss in the year in which they are incurred.

Apart from land, which is not depreciated, depreciation of property, plant and equipment is taken systematically on a straight-line basis over the asset's useful life, having regard to actual loss of functionality and usability. The estimated useful lives are as follows:

	Year
Buildings and structures	25-30
Technical installations and machinery	10
Vehicles	4-7
Furniture and fixtures	10
Computer hardware	4-7

The residual value and the useful life of an asset are measured, and adjusted if necessary, at each balance sheet date.

When the carrying amount of an asset exceeds its estimated recoverable amount, its value is written down immediately to the recoverable amount.

Losses and gains on the disposal of property, plant and equipment are calculated by comparing the revenue from the sale with the carrying amount, and are recognized in profit or loss.

4,3 Investment property

Investment property comprises land and buildings held for the purpose of generating rent over the long term that are not occupied by the Company. The items in this heading are presented at acquisition cost less accumulated depreciation and impairment losses.

Depreciation is taken on investment property on a straight-line basis over the estimated useful life (25 years).

4,4 Leases

Where the Company is the lessee – Finance lease

Leases of property, plant and equipment in which the Company has substantially all the risks and rewards incidental to ownership of the assets are classified as finance leases. Finance leases are capitalized initially for the fair value of the leased item or the present value of the agreed minimum lease payments, whichever is lower. The present value is calculated using the interest rate implicit in the contract; if that cannot be determined, the interest rate paid by the Company on similar transactions is used.

Each lease payment is split into liabilities and financial charges. The total financial charge is distributed over the lease term and recognized in profit or loss in the year in which it accrues, using the effective interest method. Contingent charges are recognized as expenses in the year in which they are incurred. The related lease obligations, net of financial charges, are recognized under "Finance lease liabilities". Assets acquired under finance leases are depreciated over their useful lives or the contract term, whichever is shorter.

Where the Company is the lessee - Operating lease

Leases where the lessor retains substantially all the risks and rewards incidental to ownership are classified as operating leases. Operating lease payments (net of any incentive received from the lessor) are recognized in profit or loss on a straight-line basis over the lease term.

Where the Company is the lessor

Assets leased under operating leases are recognized in the balance sheet on the basis of their nature. The revenues from the lease are recognized on a straight-line basis over the lease term.

4.5 Impairment of non-financial assets

Amortizable assets are measured for impairment whenever any event or change in circumstances indicates that the carrying amount may not be recoverable.

An impairment loss is recognized for the amount by which the carrying amount exceeds the recoverable amount, the latter being understood to mean the lower of the fair value less the selling cost or the value in use.

To perform the impairment tests, assets are grouped at the lowest level of cash flow that cannot be identified separately (cash-generative units). Non-financial assets other than goodwill that have suffered impairment are measured at each balance sheet date to ascertain whether the loss has been reversed.

4.6 Financial assets

4.6.1 Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for those maturing over 12 months from the balance sheet date, which are classified as non-current assets. Loans and accounts receivable are recognized under "Trade and other accounts receivable", "Current investment in group and associated undertakings" and "Current financial assets" on the balance sheet.

These financial assets are recognized initially at their fair value, including directly allocable transaction costs, and subsequently at amortized cost, recognizing accrued interest on the basis of the effective interest rate, i.e. the discount rate that matches the instrument's carrying amount with the total estimated cash flows to maturity. Nevertheless, trade accounts receivable maturing at over one year are measured both initially and subsequently at their nominal value provided that the effect of not discounting the cash flow is not material.

At least at year-end, value adjustments are made for impairment if there is objective evidence that not all amounts receivable will be collected.

The amount of impairment loss is the difference between the asset's carrying amount and the present value of estimated effective future cash flows, discounted at the effective interest rate applying at the time of initial recognition. Value corrections and their reversals are recognized in profit or loss.

4.6.2 Investments in equity of group, multi-group and associated undertakings

These are carried at cost less accumulated impairment adjustments, if any. Nevertheless, where the investment preceded its classification as a group, multi-group or associated undertaking, the cost of the investment is taken to be the carrying amount before it was so classified. Pre-existing value adjustments recognized directly in equity are maintained in equity until the asset is derecognized.

Where there is objective evidence that the carrying amount is not recoverable, it is written down to the recoverable value, the latter being the fair value less the cost of sale or the present value of the effective cash flows arising from the investment, whichever is higher. Except where there is better evidence of the recoverable value, the impairment of these investments is estimated taking account of the investee company's equity corrected for any unrealized capital gains existing at the valuation date. Value adjustments, and any reversals of same, are recognized in profit or loss in the year in which they occur.

4.6.3 Available-for-sale financial assets

This category includes debt securities and equity instruments not classified in any of the preceding categories. They are included in non-current assets unless management plans to sell them within 12 months from the balance sheet date.

They are recognized at fair value and any changes are recognized directly in equity until the asset is disposed of or written off, at which point the accumulated gains and losses in equity are recognized in profit or loss. If the fair value cannot be determined, the asset is recognized at cost less impairment.

If there is objective evidence of impairment, the accumulated losses previously recognized in equity as the reduction in fair value are recognized in profit or loss. Impairment losses on equity instruments recognized in profit or loss are not reversed through profit or loss.

The fair value of quoted investments is based on current purchase prices. If the market in a financial asset is not active (or if the securities are not quoted), the Company establishes the fair value using valuation techniques that include recent transactions between duly-informed interested parties, references to other substantially similar instruments, discounting estimated future effective cash flows, and option pricing models, making the maximum use of observable market data and placing as little reliance as possible on the Company's subjective judgments.

4.6.4 Financial assets available for sale and other financial assets at fair value through profit or loss

All assets available for sale that are acquired for the purpose of being sold in the short term and form part of a portfolio of instruments identified and managed jointly for short-term gains, and financial assets that the Company designated as such on initial recognition (for clarity), are classified as financial assets at fair value through profit or loss. Derivatives are classified as acquired for trading unless they are a financial collateral arrangement contract or are designated as hedges.

These financial assets are recognized at fair value both initially and in subsequent measurements, and any changes are recognized in profit or loss. Transaction costs directly attributable to the acquisition are recognized in profit or loss.

4.7 <u>Financial derivatives and hedge accounting</u>

Financial derivatives are recognized at fair value both initially and in subsequent measurements. The method of recognizing the resulting gains or losses depends on whether or not the derivative has been designated as a hedge and, if so, the type of hedge.

In the cases of derivatives that do not qualify for hedge accounting, changes in fair value are recognized immediately in profit or loss.

4.8 Inventories

Inventories are measured at the lower of cost or net realizable value. Where the net realizable value of inventories is lower than cost, the appropriate valuation adjustments are recognized as an expense in profit or loss. If the circumstances leading to the valuation adjustment cease to exist, the adjustment is reversed and recognized as revenue in profit or loss.

The cost price is obtained as follows:

- Raw materials and other supplies: weighted average cost price.

- Finished and semi-finished products and products in process: weighted average cost of the raw and ancillary materials used, plus the applicable amount of direct labour and general manufacturing expenses valued at standard costs (based on normal production capacity). The standard cost has not been adjusted to value inventories at the lower of actual or market cost since the adjustment would not be material.

The net realizable value is the estimated sale price in the normal course of business less the estimated costs required for the sale and, in the case of raw materials and products in process, the estimated costs required to complete production.

4.9 Equity

Share capital is represented by ordinary shares.

The cost of issuing new shares or options is presented directly under equity as a reduction of reserves.

In the case of acquisition of own shares by the Company, the consideration paid, including any directly attributable incremental cost, is deducted from equity until the shares are cancelled, re-issued or disposed of. If the shares are sold or re-issued, any amount received, net of any directly attributable incremental cost of the transaction, is recognized in equity.

4.10 Financial liabilities

Debts and accounts payable

This category includes both trade and non-trade accounts payable. This debt is classified as current liabilities unless the Company has an unconditional right to defer the liability settlement for at least twelve months from the balance sheet date, in which case it is classified under non-current liabilities.

These debts are recognized initially at fair value adjusted for directly-allocable transaction costs, and are subsequently recognized at amortized cost in accordance with the effective interest rate method. The effective interest rate is the discount rate that matches the carrying amount of the instrument with the projected flow of future payments up to the liability's maturity.

Nevertheless, trade accounts payable maturing at over one year which do not have a contractual interest rate are measured, both initially and subsequently, at their nominal value provided that the effect of not discounting the cash flows is not material.

If existing debts are renegotiated, no material changes are considered to exist if the new lender is the same as the initial lender and the present value of the cash flows, including net fees, does not differ by more than 10% from the present value of the outstanding cash flows payable on the original liability calculated using the same method.

4.11 Subsidies received

Repayable subsidies are recognized as liabilities until the conditions rendering them non-repayable are met; non-repayable subsidies are recognized as revenues directly in equity and are recognized as revenue on a systematic, rational basis in line with the expenses arising from the subsidy. Non-repayable subsidies from shareholders are recognized directly in equity.

For these purposes, a subsidy is considered to be non-repayable when there is an individual agreement to grant the subsidy, all the conditions established for granting it have been fulfilled, and there are no reasonable doubts that it will be collected.

Monetary subsidies are recognized at the fair value of the amount granted and non-monetary subsidies at the fair value of the received asset, at the time of recognition in both cases.

Non-repayable subsidies related to the acquisition of intangible assets, property, plant and equipment and investment property are recognized in profit or loss in proportion to the depreciation/amortization of the related assets or when the asset is disposed of, impaired or derecognized.

Non-repayable subsidies related to specific expenses are recognized in profit or loss in the year in which the corresponding expenses accrue, and those granted to offset an operating deficit are recognized in the year in which they are granted, except where they are allocated to offset operating deficits in future years, in which case they are recognized in those years.

Additionally, implicit interest on zero-rate loans from the Ministry of Industry to finance research and development activities is recognized as a non-refundable subsidy in equity. These subsidies are recognized in profit or loss in proportion to the amortization of these assets or when the asset is disposed of, impaired or derecognized.

4.12 Current and deferred taxes

The income tax expense (revenue) is the amount accruing under this heading in the year and comprises the expense (revenue) for current and deferred taxes.

The expense (revenue) for current and deferred taxes is recognized in profit or loss. Nevertheless, the tax effect of items that are recognized directly in equity is recognized in equity.

Current tax assets and liabilities are recognized for the amount expected to be paid to, or recovered from, the tax authorities, in accordance with the legislation enacted or substantially enacted at year-end.

Deferred taxes are measured, in accordance with the liability method, based on the timing differences arising between the tax base of the assets and liabilities and their carrying amounts. However, deferred taxes arising from the initial recognition of an asset or liability in a transaction other than a business combination that does not affect the accounting result or the tax base at the time of recognition are not recognized. The deferred tax is determined by applying the tax regulations and rates enacted or substantially enacted on the balance sheet date and which are

expected to apply when the corresponding deferred tax asset is realized or the deferred tax liability is settled.

Deferred tax liabilities are recognized insofar as it is probable that there will be future taxable income to offset timing differences (Note 2.2).

At each accounting close, deferred tax assets are re-measured and impairment is recognized to the extent that there are doubts as to their recovery in the future. Also, at each accounting close, the deferred tax assets not recognized on the balance sheet are re-measured and are recognized to the extent that they are likely to be recovered against future taxable income.

Consolidated income tax

As a result of the merger described in Note 1, a reverse merger of a parent company (Zeltia, S.A.) into its subsidiary (Pharma Mar, S.A.), Pharma Mar, S.A. is now the leading company in the Tax Group of Companies of which Zeltia, S.A. was formerly the leading company prior to the merger, and Pharma Mar, S.A. succeeded to the former with the same tax group number 29/39 as Zeltia, S.A. had before, the composition of the group being unchanged.

Since all companies that make up this new tax group were part of the previous (now defunct) tax group, the resolutions adopted by those companies that were reported to the Tax Administration are considered to be valid for the purposes of applying the tax consolidation regime to the new tax group.

In November 2015, Pharma Mar, S.A. notified the Spanish tax authorities that it is now the leading company of the new group of companies for the purposes of corporate income tax, which group retains the previous number: 29/93.

The companies comprising the group for tax purposes in 2016 are: Zelnova Zeltia, S.A. Xylazel, S.A., Genómica, S.A. and Sylentis, S.A., with Pharma Mar, S.A. as leading company.

It is consolidated Group policy to recognize the tax expense at individual undertakings in accordance with the resolution of the ICAC (Spanish Accounting and Audit Institute) dated 9 October 1997.

4.13 Employee benefits

4.13.1 Share-based compensation

The company operates share-based incentive plans for employees. Those plans are subject to a lock-up period during which employees must continue to work for the Company.

The fair value of the services provided by the employees in exchange for the shares is recognized as a personnel expense as the services are provided, during the lock-up period, and a reserve for the incentive plans is recognized simultaneously in equity for the same amount.

The fair value of the services to be provided by those employees is determined with respect to the fair value of the shares granted. That amount is recognized in profit or loss during the vesting period. The Company regularly reviews its assumptions and adjusts any deviation resulting from employee rotation.

4.13.2 Termination indemnities

Termination indemnities are paid to employees as a result of the Company's decision to terminate the employment contract before the normal retirement age or when the employee agrees to resign in exchange for those benefits.

The Company recognizes these benefits when it has demonstrably decided to terminate the employees in accordance with an irrevocable formal detailed plan or to provide termination indemnities as a result of an offer to encourage voluntary retirement. Benefits that are not to be paid in the twelve months following the balance sheet date are discounted to their present value.

4.14 Provisions and contingent liabilities

Provisions for environmental restoration, restructuring costs and litigation are recognized when the Company has a present obligation, either legal or implicit, as a result of past events, an outflow of funds is likely to be necessary in the future to settle the obligation, and the amount can be estimated reliably. Restructuring provisions include lease cancellation penalties and employee termination indemnities.

Provisions are calculated at the present value of the disbursement expected to be needed to settle the obligation, using a pre-tax rate that reflects current market measurements of the time value of money and the specific risks attached to the obligation. Adjustments due to updating the provision are recognized as a financial expense as they accrue.

Provisions maturing at one year or less that do not have a material financial effect are not discounted.

When part of the disbursement required to settle the provision is expected to be paid by a third party, the reimbursement is recognized as a separate asset provided that its collection is practically assured.

Obligations arising as a result of past events whose materialization is conditional upon the occurrence or non-occurrence of one or more future events outside the Company's control are treated as contingent liabilities. Those contingent liabilities are not recognized in the accounts but are disclosed in detail in the notes to financial statements (Note 25).

4.15 Recognition of revenues

Revenues are recognized for the fair value of the consideration receivable and they represent amounts receivable for goods delivered and services provided in the ordinary course of the Company's business, less returns, rebates, discounts and Value Added Tax.

The Company recognizes revenues when their amount can be measured reliably, the future economic benefits are likely to flow to the Company and the specific conditions for each activity are met, as detailed below. It is considered that the amount of revenues cannot be measured reliably until all the contingencies related to the sale have been resolved. The Company bases its estimates on past results, having regard to the type of customer, the type of transaction and the specific terms of each agreement.

4.15.1 Revenues from the sale of pharmaceutical products

The Company sells in the European Union by virtue of the marketing approval received from the European Medicines Agency (EMA) for soft tissue sarcoma (since 2007) and ovarian cancer (since 2009).

Where the Company distributes its products directly, the sale is recognized once the product is delivered to the end customer, since that is the point at which the significant risks and benefits inherent to ownership of the goods are transferred.

Where the Company sells to subsidiaries, it recognizes the amount of sales at the time of product delivery to the subsidiary.

Where sales are made through distributors, three different situations may arise:

- sales to the distributor in Portugal: Sales are recognized once the product is delivered to that distributor, since that is the point at which the significant risks and benefits inherent to ownership of the goods are transferred.

- sales to the distributors in the Nordic countries, Eastern Europe, Greece and Cyprus: the Company has various agreements for commercial promotion and distribution. In this model, the sale occurs once the product is shipped from the Company's warehouse in Spain to the two distributors, since that is the point at which the significant risks and benefits inherent to ownership of the goods are transferred. The commission collected by the aforementioned partners is recognized as a reduction in the sale amount when it occurs.

- sales to other distributors: ownership of the product passes to the distributor once it leaves the latter's warehouse for delivery to a hospital. Under the established conditions, that is when the invoice is triggered from the Company to the logistics operators and the sale is recognized, since that is the point at which the significant risks and benefits inherent to ownership of the goods are transferred

Distribution costs are recognized as period expenses.

4.15.2 Licensing, co-development and other similar agreements

In the normal course of its business, the Company has developed intellectual property on certain compounds and has signed licensing and co-development agreements with certain pharmaceutical companies. Under these agreements, third parties are granted licenses to use the products developed by the Company and/or are given access to products under development (generally through co-development agreements). The agreements under which these transfers, assignments or accesses are granted are generally complex and include multiple components in two distinct phases: development and marketing. The associated revenues must be matched with the costs and considerations to be paid by the Company.

Development phases

- Upfront payments collected by PharmaMar, which are generally non-refundable.

- Milestone payments, triggered when the compound to which the agreement refers (Yondelis®, Aplidin® or PM1183) achieves development milestones, generally of a regulatory or commercial nature.

Marketing phase

- Royalty payments.

− Revenues from the supply of products (raw materials).

As a general rule, upfront payments are recognized as revenues in the year that the agreement is signed, provided that: they are not refundable, the Group does not assume significant future obligations (except those for which a separate arm's-length consideration is provided), and it transfers substantially all the risks and rewards inherent to the asset. Otherwise, they are recognized as deferred revenues. Deferred revenues are recognized in the income statement over

the term of the commitments established as a function of the degree of progress of the project, measured by a costs model.

Additionally, any consideration linked to fulfillment of certain technical or regulatory requirements (milestones) in the framework of cooperation agreements with third parties are recognized on the basis of the same rules as for upfront payments as set out above.

The Group does not recognize revenues in excess of the amount to which it is entitled.

Payments attributed to the marketing phase, i.e. royalties and revenues for the supply of raw materials, are recognized on an accrual basis once marketing commences.

Royalties are set on an arm's-length basis and supply contracts are based on market manufacturing margins.

4.15.3 Royalties

Royalties received from sales in countries outside of the European Union are recognized on an accrual basis.

4.15.4 Interest revenues

Interest revenues are recognized using the effective interest rate method. Where an account receivable is impaired, the Company writes the carrying amount down to the recoverable value, discounting estimated future cash flows at the instrument's original effective interest rate, and carries the discount as a reduction in interest revenues. Interest revenues on loans that have suffered impairment are recognized using the effective interest rate method.

4.15.5 Dividends

Dividend revenues are recognized in profit or loss when the Company becomes entitled to collect them. Nevertheless, if the dividends paid are from profits obtained prior to the acquisition date, they are not recognized as revenues but, rather, are deducted from the carrying amount of the investment.

4.15.6 Provision of services

The Company provides advisory and support services to Group undertakings.

4.16 Foreign currency transactions

4.16.1 Functional and presentation currency

The Company's financial statements are presented in euro, which is the Company's functional and presentation currency.

4.16.2 Transactions and balances

Foreign currency transactions are translated to the functional currency at the exchange rates ruling on the transaction date. Exchange gains or losses arising on the settlement of those transactions and on translating monetary assets and liabilities denominated in foreign currency at the year-end exchange rate are recognized in profit or loss, except when deferred in equity as a qualifying cash flow hedge or qualifying net investment hedge.
Changes in the fair value of available-for-sale financial assets denominated in foreign currency are analyzed as the exchange differences resulting from changes in the amortized cost of the instrument and other changes in the security's carrying amount. Exchange differences are recognized in profit or loss and other changes to the carrying amount are recognized in equity.

Exchange differences on non-monetary items, such as equity instruments at fair value through profit or loss, are presented as part of that gain or loss in fair value. Exchange differences on non-monetary items, such as available-for-sale equity instruments, are included in equity.

4.17 Related-party transactions

Related-party transactions are generally recognized initially at fair value. If the agreed price differs from fair value, the difference is recognized on the basis of the economic reality of the transaction. Subsequent measurements are performed in accordance with the applicable standards.

Mergers, demergers and non-monetary contributions of business lines. In transactions between group undertakings involving the parent company or the parent company of a subgroup and a direct or indirect subsidiary, the items comprising the acquired business line are recognized for the amount that would correspond to them, upon completion of the transaction, in the consolidated financial statements of the group or subgroup in accordance with the Rules for Drafting Consolidated Financial Statements, issued in implementation of the Commercial Code.

In transactions between other group undertakings, business assets and liabilities are measured at the carrying amount at which they were recognized prior to the transaction in the separate financial statements.

Any difference disclosed by application of the foregoing criteria is recognized in a reserve account.

For the purposes of this rule, holdings in the equity of other companies are not considered to constitute a business line.

4.18 Business combinations

Mergers, demergers and non-monetary contributions of a business between group undertakings are recognized in accordance with the rules for related-party transactions (Note 4.17).

Mergers and demergers other than the above and business combinations arising from the acquisition of all the equity of a company or of a part comprising one or more businesses are recognized in accordance with the acquisition method.

In the case of business combinations arising as a result of the acquisition of shares or equity interests in a company, the Company recognizes the investment in accordance with the rules for investments in the equity of group, multi-group and associated companies (Note 4.6.2).

4.19 Non-recourse factoring

The Company derecognizes financial assets when it assigns/sells the rights to the cash flows of the financial asset and has transferred the risks and rewards inherent to ownership, such as factoring of trade accounts receivable in which the company does not retain any credit or default risk (Note 14.3).

5. RISK POLICY AND MANAGEMENT

5.1 Financial risk factors

The Company's activities are subject to a number of financial risks: market risk (including exchange rate risk, interest rate risk and price risk), credit risk, and liquidity risk. The Company's overall risk management program focuses on the uncertainty of the financial markets and tries to minimize the potential adverse effects on the Company's returns. The Finance Department is responsible for risk management in accordance with the guidelines provided by the Board of Directors. That Department identifies, assesses and hedges financial risks. The Board establishes guidelines for overall risk management and for specific areas such as interest rate risks, liquidity risks, the use of derivatives and non-derivatives, and investment of surplus liquidity.

5,1.1. Market risk

5.1.1.1 Price risk

The Company's long-term financial investments are securities of biopharmaceutical companies. The volume of investment in this type of asset is not material in the context of the Company's operations; accordingly, the related price risk is very low.

The Company's policy with regard to financial assets is to place cash in low-risk highly-liquid financial assets in order to ensure the availability of funds. For this reason, those financial assets are almost entirely government bonds and deposits at banks with good credit quality, with the result that their value does not fluctuate significantly.

5.1.1.2 Exchange rate risk

The Company operates internationally and, therefore, is exposed to exchange rate risk on transactions in foreign currencies, particularly the US dollar. Exchange rate risks arise from future commercial transactions, recognized assets and liabilities, and net investments in foreign operations.

Transactions denominated in currencies other than the euro, basically in US dollars, Japanese yen, Swiss francs and pounds sterling, amounted to 18,109 thousand euro in the year ended 31 December 2016 (39,104 thousand euro in 2015) (Note 21.3). The main transaction in foreign currency in 2016 and 2015 was the revenue from the Johnson & Johnson Group (Note 21.1.3).

If, as of 31 December 2016, the euro had appreciated by 5% with respect to the US dollar while all other variables remained constant, income after taxes for the year would have been lower by 194 thousand euro (778 thousand euro in 2015), mainly as a result of translation into euro of customer and other accounts receivable and debt denominated in US dollars.

If, as of 31 December 2016, the euro had depreciated by 5% with respect to the US dollar while all other variables remained constant, income after taxes for the year would have been 214 thousand euro higher (860 thousand euro at 31 December 2015). The material impact of variations in the dollar as of 31 December 2016 is due mainly to the amounts in dollars collected in both years, detailed in Note 21.1.

Management does not consider it necessary to establish any policy for hedging the foreign currency risk vs. the functional currency.

5.1.1.3 Interest rate risk on cash flows and fair values

The Company's interest rate risk arises from remunerated financial assets that can be converted into cash. The remunerated financial assets consist basically of government bonds and deposits remunerated at floating interest rates referenced to Euribor.

The Company's interest rate risk arises from interest-bearing debt. Floating-rate debt exposes the Company to interest rate risk. Additionally, fixed-rate debt exposes the Group to interest rate risk on the fair value. A sizeable part of the debt is in the form of repayable advances that are not subject to interest rate risk.

The Company analyses its exposure to interest rate risk dynamically. It simulates a number of scenarios considering refinancing, roll-overs, alternative financing and hedging. Based on those scenarios, the Company calculates the effect on income of a given variation in interest rates. In a given simulation, it assumes the same change in interest rates in all currencies. The scenarios are applied only to the largest interest-bearing liability positions.

5.1.2 Credit risk

Credit risk is managed in groups. Credit risk arises from cash and cash equivalents placed with banks and financial institutions, and from customer balances.

The banks and financial institutions with which the Company works generally have independent ratings. Where customers have an independent rating, that rating is used; otherwise, the Company assesses the risk based on the customer's financial position, past experience and other factors. Where there is no doubt about a customer's solvency, no credit limits are set.

Where the Company acquires financial assets other than government bonds, it must apply the following policies:

- Acquisition of fixed-income funds that invest in public- or private-sector debt (government bonds, treasury bills and commercial paper), generally secure, which pay periodic coupons.
- Acquisition of money market funds comprising fixed-income securities where security is given priority in exchange for a slightly lower yield than other investments.

The credit quality of the financial assets and of customers with which the Company had balances as of 31 December 2016 and 2015 is set out in Note 10.3.

5.1.3 Liquidity risk

Prudent liquidity risk management entails having sufficient cash and marketable securities, financing via sufficient credit facilities, and the capacity to settle market positions.

The Company's goal is to maintain flexible financing by having sufficient funds in financial assets to settle its obligations.

PharmaMar's directors believe the Group has liquidity to cover its research and development projects and fulfill its future commitments for the following reasons:

- On 22 December 2016, PharmaMar signed a licensing, development and commercialization agreement relating to Lurbinectedin (PM1183) with Chugai Pharmaceutical Co. Ltd. for the Japan territory which contemplates a non-refundable upfront payment to PharmaMar amounting to 30 million euro. As of 31 December 2016, only 6 million euro of the 30 million euro were recognized in profit or loss as a function of the attainment of certain milestones. The outstanding amount will be recognized as a function of progress with the clinical trials agreed upon in the licensing agreement, which are to be performed by the Company. PharmaMar collected the entire upfront payment (€30 million) in the first weeks of 2017; consequently, the effect of this payment will be reported in the cash flow statement for the first quarter of 2017. The payment, which was collected in January 2017, enhanced the Group's financial position, though it is not reflected in the 2016 financial statements.
- The Company has a balanced debt structure.
- The Company has sufficient ability to renegotiate its debt if it is considered necessary; this ability has increased in view of growth in revenues in recent years.
- The Company had unused credit lines in the amount of 21,128 thousand euro as of 31 December 2016.
- The Company ended the year with cash and cash equivalents plus current financial assets amounting to 22,254 thousand euro.

The table below shows an analysis of the Company's financial liabilities grouped by maturity based on the period remaining between the balance sheet date and the contractual maturity date, excluding the corresponding interest.

A 31/12/16						2022 y	Total	
(Miles de Euros)	2017	2018	2019	2020	2021	siguientes	no corriente	TOTAL
Obligaciones y otros valores negociables	**466**	**-**	**-**	**-**	**-**	**16.350**	**16.350**	**16.816**
Préstamos bancarios	19.395	5.256	5.396	5.539	4.444	4.160	24.794	44.189
Deudas con organismos oficiales	3.828	3.848	3.507	3.706	2.767	6.765	20.593	24.421
Deudas con entidades de crédito y organismos oficiales	**23.223**	**9.104**	**8.903**	**9.245**	**7.211**	**10.925**	**45.387**	**68.610**
Otros pasivos financieros	**668**	**-**	**-**	**-**	**-**	**-**	**-**	**668**
Deudas con empresas del grupo y asociadas corrientes	**9.209**	**-**	**-**	**-**	**-**	**-**	**-**	**9.209**
Proveedores	**187**	**-**	**-**	**-**	**-**	**-**	**-**	**187**
Proveedores, empresas del grupo y asociadas	**2.174**	**-**	**-**	**-**	**-**	**-**	**-**	**2.174**
Acreedores varios	**25.086**	**-**	**-**	**-**	**-**	**-**	**-**	**25.086**
Personal (remuneraciones pendientes de pago)	**4.490**	**-**	**-**	**-**	**-**	**-**	**-**	**4.490**
Administraciones Públicas	**865**	**-**	**-**	**-**	**-**	**-**		**865**
Anticipos de clientes	**1.234**	**-**	**-**	**-**	**-**	**-**	**-**	**1.234**
Periodificaciones	**10.000**	**9.000**	**5.000**	**-**	**-**	**-**		**24.000**
TOTAL	**77.602**	**18.104**	**13.903**	**9.245**	**7.211**	**27.275**	**61.737**	**153.339**

A 31/12/15						2021 y	Total	
(Miles de Euros)	2016	2017	2018	2019	2020	siguientes	no corriente	TOTAL
Obligaciones y otros valores negociables	**424**	**-**	**-**	**-**	**-**	**16.349**	**16.349**	**16.773**
Préstamos bancarios	19.367	5.748	2.635	2.719	2.719	6.110	19.931	39.298
Deudas con organismos oficiales	3.828	3.691	3.896	3.518	3.643	8.746	23.494	27.322
Deudas con entidades de crédito y organismos oficiales	**23.195**	**9.439**	**6.531**	**6.237**	**6.362**	**14.856**	**43.425**	**66.620**
Otros pasivos financieros	**214**	**-**	**-**	**-**	**-**	**-**	**-**	**214**
Deudas con empresas del grupo y asociadas corrientes	**14.617**	**-**	**-**	**-**	**-**	**-**	**-**	**14.617**
Proveedores	**485**	**-**	**-**	**-**	**-**	**-**	**-**	**485**
Proveedores, empresas del grupo y asociadas	**1.282**	**-**	**-**	**-**	**-**	**-**	**-**	**1.282**
Acreedores varios	**19.161**	**-**	**-**	**-**	**-**	**-**	**-**	**19.161**
Personal (remuneraciones pendientes de pago)	**4.278**	**-**	**-**	**-**	**-**	**-**	**-**	**4.278**
Administraciones Públicas	**1.663**	**-**	**-**	**-**	**-**	**-**		**1.663**
Anticipos de clientes	**660**	**-**	**-**	**-**	**-**	**-**	**-**	**660**
TOTAL	**65.979**	**9.439**	**6.531**	**6.237**	**6.362**	**31.205**	**59.774**	**125.753**

5.2 Fair value estimates

The fair value of financial instruments that are traded in an active market (e.g. securities held for trading and available for sale) is based on the market prices on the balance sheet date. The market price used for financial assets is the current bid price.

The fair value of financial instruments that are not traded in an active market is determined by using measurement techniques. The Company uses a variety of methods and makes assumptions based on the market conditions at each balance sheet date. Listed market prices or agent quotations are used for long-term debt. To determine the fair value of the other financial instruments, other techniques are used, such as discounting estimated cash flow. The fair value of forward exchange rate contracts is determined by using the exchange rates quoted in the market on the balance sheet date.

The carrying amount of trade accounts payable and receivable is assumed to approximate their fair value. The fair value for the purposes of presenting the financial information is estimated by discounting the contractual future cash flow at the current market interest rate available to the Company for similar financial instruments.

The fair value of repayable advances that are interest-free or at a subsidized interest rate is determined by applying, to the repayments to be made, the yield curve in force on the date of receipt of the advance plus the spread normally paid by the Company on loans.

The fair value of floating-rate loans is assumed to coincide with the carrying amount.

6. INTANGIBLE ASSETS

The breakdown and changes in the "Intangible Assets" account as of 31 December 2016 and 2015 are as follows:

2016

(thousand euro)	Development	Computer software	TOTAL
Cost			
Balance as of 31/12/15	443,277	3,960	447,237
Recognitions	40,443	532	40,975
Balance as of 31/12/16	**483,720**	**4,492**	**488,212**
Accumulated amortization			
Balance as of 31/12/15	-158,267	-2,979	-161,246
Provisions	-27,988	-270	-28,258
Balance as of 31/12/16	**-186,255**	**-3,249**	**-189,504**
Net carrying amount as of 31/12/2016	**297,465**	**1,243**	**298,708**

2015

(thousand euro)	Development	Industrial property	Computer software	TOTAL
Cost				
Balance as of 31/12/14	633,221	-	2,037	635,258
Recognitions/(Derecognitions) due to merger	-89,065	15	1,316	-87,734
Recognitions	34,744	-	626	35,370
Derecognitions	-135,623	-15	-19	-135,657
Balance as of 31/12/2015	**443,277**	**-**	**3,960**	**447,237**
Accumulated depreciation and amortization				
Balance as of 31/12/14	-216,791	-	-1,589	-218,380
Recognitions/(Derecognitions) due to merger	21,549	-15	-1,130	20,404
Provisions	-21,542	-	-279	-21,821
Derecognitions	58,517	15	19	58,551
Balance as of 31/12/2015	**-158,267**	**-**	**-2,979**	**-161,246**
Net carrying amount as of 31/12/2015	**285,010**	**-**	**981**	**285,991**

6.1 Development

In 2016, the Company continued to develop all the molecules in its pipeline. The main investment in the year was in work on PM1183.

In 2015, the Company decided to discontinue the development of certain compounds and to derecognize the related assets since certain technical events that occurred in the year made this advisable, as was notified to the CNMV on 28 December 2015, so as to prioritize funding for the development of other molecules with greater anti-tumor activity. Nevertheless, Pharma Mar, S.A. intends to retain ownership of the patents relating to the aforementioned compounds. The net carrying amount of those compounds was 77,106 thousand euro.

In 2016 and 2015, the Company amortized 4,675 thousand euro and 8,817 thousand euro for platinum-sensitive relapsed ovarian cancer and soft tissue sarcoma, respectively; the amortization calendar for both indications is 10 years due to obtaining marketing approval in Europe. Other amortizations in 2016 associated with Yondelis® amounted to 10,953 thousand euro (6.744 thousand euro in 2015) due to obtaining approval in the US and Japan. Additionally, amortization amounting to 3,543 thousand euro was taken in connection with other Yondelis®-related projects.

R&D expenses are measured at cost, corrected at year-end if there is objective evidence that the investment will not be recovered. The carrying amount must be corrected to the recoverable amount, i.e. the fair value less selling costs or the present value of the future cash flows arising from the investment, whichever is higher.

The basis for the impairment test applied to capitalized R&D expenses on the balance sheet varies depending on the available information, and the best evidence for each project is selected on the basis of its current phase of development.

Yondelis® and Aplidin®

Since Yondelis® was approved for marketing by regulatory authorities in Europe (EMA: for soft tissue sarcoma in 2007 and for ovarian cancer in 2009) and the US (FDA: for soft tissue sarcoma in 2015) and Japan (PHM: for soft tissue sarcoma in 2015), the method used is the discounted free cash flows using projections based on the following key assumptions: direct sales of Yondelis® in Europe for soft tissue sarcoma and ovarian cancer, royalties on sales of Yondelis® to be collected from Janssen and Taiho, the licensees for the United States and Japan, as well as the sale of raw materials to the latter two, and milestones payments under the license agreement with Janssen, which will accrue upon approval of Yondelis in the United States for ovarian cancer. The following costs are considered: costs directly related to the product, such as production and selling, marketing and commercialization costs, the sales network and a proportional part of overheads and administrative expenses, patenting expenses, quality control and regulatory affairs incurred by the Company. All of them were calculated on the basis of available historical information.

The discounted free cash flow method was also used for Aplidin® based on the Company's projections. The presentation in September 2016 of an application to the EMA for authorization to commercialize Aplidin® for treating multiple myeloma, which is expected to be approved in the fourth quarter of 2017, was taken into account for this purpose. The projections also took account of the licensing agreements signed in 2015 and 2016 for marketing of Aplidin® in certain territories (Note 21.1.3) and also possible future agreements. Consequently, the main assumptions made in the projections are as follows: direct sales of Aplidin® in certain European countries for which licenses have not been granted, sale of raw material to our current licensees and potential partners, and regulatory milestone payments by current licensees and potential partners. The following costs are considered: costs directly related to the product, such as production and selling, marketing and commercialization costs, and the cost of the sales network in European countries not licensed to third parties.

Cash flows were projected over nine years, plus a perpetual income with 5% negative growth.

The discount rate used for free cash flow was the weighted average cost of capital (WACC). The main inputs used to calculate this variable are: the proportion between the fair value of the Company's equity and debt, which were approximately 86% and 14%, respectively, at the analysis date; the cost of debt, estimated at approximately 3.34%;the cost of equity was 11.13% calculated using, as risk-free interest rate, the Spanish 5-year bond yield: 0.75%; the company's beta volatility coefficient at the analysis date: 0.84; and the company's risk premium, estimated with respect to historical series of certain indices (IBEX-35, based on nationality, and NASDAQ Biotech, based on the industry and risk profile), which was 12.4% after deducting the risk-free return; and a tax rate of 25%. The resulting weighted average cost of capital is 10%.

The key parameters which affect the calculation of recoverable value are revenues, expenses, total free cash flow, and the WACC. Below are detailed the changes that would be required in the key parameters in each of the nine years, while maintaining all other variables constant, in order for the recoverable value to match the carrying amount as of 31 December 2016 for both compounds.

In the case of Yondelis®, the two items would match in the event that revenues declined by 97.40%. Alternatively, expenses would have to increase by 153.56%. Applying the same analysis to free cash flow, the two figures would match if that variable declined by 83.15%. Likewise, the same result would be achieved by increasing the discount rate by 575.40%.

In the case of Aplidin®, the two items would match in the event that revenues declined by 82.17%. Alternatively, expenses would have to increase by 174.04%. Applying the same analysis to free cash flow, the two figures would match if that variable declined by 37.65%. Likewise, the same result would be achieved by increasing the discount rate by 60.62%.

Other compounds

For the other compounds at various stages of development, the best evidence for assessing the recoverability of the investment is obtained from a number of sources: i) valuations by market analysts who are specialized in biotechnology; ii) analysis of licensing contracts signed to date, and those under negotiation, whose financial terms can be extrapolated to an overall valuation; iii) the Company's own projections based on third-party surveys.

The Company regularly assesses the viability of the compounds under development.

6.2 Capitalized financial expenses

At the end of 2016 and 2015, 2,379 thousand euro of net financial expenses had been capitalized in connection with funding from third parties for research and development activities.

As a result of the merger that took place in 2015, described in Note 1, the accumulated amount of financial expenses relating to the financing obtained from the Group, specifically from Zeltia, S.A. (merged company), which had been capitalized in the Company's assets under the Research and Development account, was derecognized in that account for a net total amount of 67,516 thousand euro.

6.3 Intangible assets located in other countries

There are no intangible assets located in other countries

6.4 Intangible assets acquired from group and associated undertakings

No assets were acquired from group or associated undertakings in 2016 and 2015.

6.5 Fully amortized assets

The assets that were fully amortized as of 31 December 2016 and 2015 are as follows:

FULLY AMORTIZED INTANGIBLE ASSETS (thousand euro)	2016	2015
Computer software	2,783	2,211
TOTAL	**2,783**	**2,211**

6.6 Income from disposals and other

Income from disposals and other income was not negative in 2016 (loss of 77,106 thousand euro in 2015), as detailed in Note 6.1.

6.7 Assets designated as collateral and subject to ownership restrictions

As of 31 December 2016 and 2015, there were no intangible assets subject to ownership restrictions or pledged as collateral for liabilities.

6.8 Subsidies received to finance R&D

As of 31 December 2016, the Company had 9,146 thousand euro (9,284 thousand euro in 2015) under "Official capital subsidies" to finance research and development activities. That balance includes 4,737 thousand euro (4,752 thousand euro in 2015) corresponding to the subsidy component that is calculated to exist in repayable loans obtained at zero interest from official authorities to finance research and development activities, as compared with finance obtained at market rates (Notes 5.2 and 18).

7. PROPERTY, PLANT AND EQUIPMENT

The detail and changes in the Property, Plant and Equipment account as of 31 December 2016 and 2015 are as follows:

2016

(thousand euro)	Land and structures	Installations	Construction in progress and advances	TOTAL
Cost				
Balance as of 31/12/2015	20,955	29,397	250	50,602
Recognitions	-	428	1,940	2,368
Derecognitions	-	-214	-	-214
Impairment	-171	-	-	-171
Balance as of 31/12/16	**20,784**	**29,611**	**2,190**	**52,585**
Accumulated depreciation and amortization				
Balance as of 31/12/2015	-6,306	-24,541	-	-30,847
Provisions	-518	-909	-	-1,427
Derecognitions	-	205	-	205
Balance as of 31/12/16	**-6,824**	**-25,245**	**-**	**-32,069**
Net carrying amount as of 31/12/2016	**13,960**	**4,366**	**2,190**	**20,516**

2015

(thousand euro)	Land and structures	Installations	Construction in progress and advances	TOTAL
Cost				
Balance as of 31/12/14	21,377	26,777	1,506	49,660
Recognitions due to merger	-	552	-	552
Recognitions	-	508	1,031	1,539
Derecognitions	-	-116	-	-116
Other transfers	611	1,676	-2,287	-
Impairment	-1,033	-	-	-1,033
Balance as of 31/12/2015	**20,955**	**29,397**	**250**	**50,602**
Accumulated depreciation and amortization				
Balance as of 31/12/14	-5,814	-23,456	-	-29,270
Recognitions due to merger	-	-447	-	-447
Provisions	-492	-761	-	-1,253
Derecognitions	-	123	-	123
Balance as of 31/12/2015	**-6,306**	**-24,541**	**-**	**-30,847**
Net carrying amount as of 31/12/2015	**14,649**	**4,856**	**250**	**19,755**

As of 31 December 2016, the net carrying amount of land and structures was 5,495 thousand euro and 8,465 thousand euro, respectively (5.666 thousand euro and 8,983 thousand euro, respectively, in 2015).

The most significant changes in property, plant and equipment in 2016 related to the expansion of the R&D laboratories; in 2015, they included a fermentation room and a logistics warehouse for product distribution from Spain to the rest of Europe.

7.1 Impairment losses

During 2016, an impairment was recognized on the carrying amount of land owned by PharmaMar amounting to 171 thousand euro based on an internal analysis and third-party appraisals (1,033 thousand euro in 2015) (Note 21.7). Until mid-2015 the aim for this land was to be used for the construction of new facilities in order to expand the production capacity of the company. During 2015, management decided to invest in the current facilities rather than in new ones, this being the triggering event for re-measurement.

7.2 Assets acquired from Group and Associated undertakings

No assets were acquired from group or associated companies in 2016 or 2015.

7.3 Fully depreciated assets

As of 31 December 2016, the Company was using assets with a carrying amount of 21,451 thousand euro which had been fully depreciated (20,997 thousand euro as of 31 December 2015).

7.4 Property, plant and equipment pledged as collateral

The Company's building in Colmenar Viejo is mortgaged to secure the repayment of certain loans obtained from financial institutions. The mortgage loan, which matured in September 2015, was rolled over into a new mortgage loan maturing in June 2024.

The detail of mortgaged assets and their relation to the loan transactions is as follows (in thousand euro):

LOCATION (Thousand euro)	Net value 31/12/16	Amount of loan	Amount outstanding 31/12/2016	Maturity
Av. de los Reyes nº 1, Colmenar Viejo (Madrid)	10,785	9,000	6,996	June 2024

LOCATION (Thousand euro)	Net value 31/12/15	Amount of loan	Amount outstanding 31/12/2015	Maturity
Av. de los Reyes nº 1, Colmenar Viejo (Madrid)	11,303	9,000	7,824	June 2024

The outstanding amount of the mortgage loan under "Long-term bank debt" is 6,143 thousand euro (7,001 thousand euro in 2015), and the amount under "Short-term bank debt" is 853 thousand euro (823 thousand euro in 2015). See Note 19.2.

7.5 Assets acquired under finance leases

There were no finance leases outstanding as of the end of 2016 and 2015.

7.6 Subsidies received

No fixed assets financed by subsidies from public authorities were acquired in 2016 and 2015.

7.7 Insurance

The Company has arranged insurance policies to cover the risks to which its property, plant and equipment are subject. The cover of these policies is deemed to be sufficient.

7.8 Assets located in other countries

There is no property, plant and equipment located outside Spanish territory.

8. INVESTMENT PROPERTY

As of 31 December 2016, the Company had land which was held for appreciation and rental as "Investment property" for a total net amount of 1,492 thousand euro (1,530 thousand euro in 2015).

On 22 November 2016, the Company signed a lease with a third party for that plot of land, located at Avda. de la Industria no. 52, in Polígono Industrial de Tres Cantos (Madrid); the lease is for 25 years and may not be terminated in the first 10 years.

In 2016, the Company recognized 38 thousand euro in depreciation for certain structures classified as "Investment property".

9. OPERATING LEASES

The Company has equipment leases (vehicles, computers and software) and operating lease contracts (laboratories, offices, cold stores, document archives and material stores). The

equipment leases can be cancelled upon payment of the established penalty and the operating leases can be cancelled with the corresponding advance notice.

The minimum total future payments for non-cancellable operating leases are as follows:

OPERATING LEASE COMMITMENTS (thousand euro)	2016	2015
Less than 1 year	1,714	1,372
1 to 5 years	3,000	2,291
TOTAL	**4,714**	**3,663**

The expense recognized in profit or loss amounted to 1,927 thousand euro in 2016 (1,474 thousand euro in 2015).

10. ANALYSIS OF FINANCIAL INSTRUMENTS

10.1 Analysis by category

The carrying amount of each category of financial instrument established in the accounting and measurement rules for "Financial Instruments", except for investments in the equity of group, multi-group and associated undertakings (Note 11) and liabilities with public authorities (Note 22), is as follows:

10.1.1 Current and non-current financial assets and liabilities

2016 (thousand euro)	Loans and accounts receivable / payable	Available-for-sale assets (Note 12)	TOTAL
Non-current financial assets			
Financial assets – Group undertakings (Note 14.2)	12,491	-	**12,491**
Non-current financial investments	118	326	**444**
Other financial assets (Note 14.1)	124	-	**124**
Current financial assets			
Customer and other accounts receivable (Note 14.3)	38,979	-	**38,979**
Customer receivables and receivable from group undertakings (Note 28)	7,655	-	**7,655**
Financial assets – Group undertakings (Notes 14 and 28)	2,030	-	**2,030**
Current financial investments (Note 14.5)	14,993	-	**14,993**
Other financial assets	2,430	-	**2,430**
TOTAL	**78,820**	**326**	**79,146**
Non-current financial liabilities			
Bonds and other marketable securities (Note 19.1)	16,350	-	**16,350**
Bank loans (Note 19.2)	24,794	-	**24,794**
Other financial liabilities (Note 19.3)	20,593	-	**20,593**
Current financial liabilities			
Bonds and other marketable securities (Note 19.1)	466	-	**466**
Bank loans (Notes 19.2 and 19.3)	23,223	-	**23,223**
Other financial liabilities	668	-	**668**
Current accounts payable to group and associated undertakings	9,209	-	**9,209**
Debt to Group undertakings (Note 28)	2,174	-	**2,174**
Suppliers	187	-	**187**
Sundry creditors	25,086	-	**25,086**
Personnel (compensation payable)	4,490	-	**4,490**
Customer advances	1,234	-	**1,234**
TOTAL	**128,474**	**-**	**128,474**

2015 (thousand euro)	Loans and accounts receivable / payable	Available-for-sale assets (Note 12)	TOTAL
Non-current financial assets			
Financial assets – Group undertakings (Note 14.2)	11,796	-	**11,796**
Non-current financial investments (Note 12)	51	323	**374**
Other financial assets (Note 14.1)	114	-	**114**
Current financial assets			
Customer and other accounts receivable (Note 14.3)	13,440	-	**13,440**
Customer receivables and receivable from group undertakings (Note 28)	11,040	-	**11,040**
Financial assets – Group undertakings (Notes 14 and 28)	3,031	-	**3,031**
Current financial investments (Note 14.5)	33,914	-	**33,914**
Other financial assets (Note 14)	1,871	-	**1,871**
TOTAL	**75,257**	**323**	**75,580**
Non-current financial liabilities			
Bonds and other marketable securities (Note 19.1)	16,349	-	**16,349**
Bank loans (Note 19.2)	19,931	-	**19,931**
Other financial liabilities (Note 19.3)	23,494	-	**23,494**
Current financial liabilities			
Bonds and other marketable securities (Note 19.1)	424	-	**424**
Bank loans (Notes 19.2 and 19.3)	23,195	-	**23,195**
Other financial liabilities	214	-	**214**
Current accounts payable to group and associated undertakings	14,617	-	**14,617**
Debt to Group undertakings (Note 28)	1,282	-	**1,282**
Suppliers	485	-	**485**
Sundry creditors	19,161	-	**19,161**
Personnel (compensation payable)	4,278	-	**4,278**
Customer advances	660	-	**660**
TOTAL	**124,090**	**-**	**124,090**

10.2 Analysis by maturity

The amounts of financial instruments with a fixed or determinable maturity, by year of maturity, are as follows:

Additionally, the "Long-term accruals" and "Short-term accruals" in the Company's liabilities include a number of advance revenues under licensing contracts whose maturity is established on the basis of their recognition in revenues (Note 21.1.3).

FINANCIAL ASSETS / LIABILITIES BY MATURITY (Thousand euro) 2016	2017	2018	2019	2020	2021	Subsequent years	Total Non-current	TOTAL
							-	
ASSETS AVAILABLE FOR SALE	**-**	**-**	**-**	**-**	**-**	**444**	**444**	**444**
At fair value (Note 12)	-	-	-	-	-	326	326	326
Loans to third parties	-	-	-	-	-	118	118	118
LOANS AND ACCOUNTS RECEIVABLE	**-**	**-**	**-**	**-**	**-**	**12.491**	**12.491**	**12.491**
Financial assets - Group undertakings (Note 14.2)	-	-	-	-	-	12.491	12.491	12.491
OTHER FINANCIAL ASSETS	**66.087**	**124**	**-**	**-**	**-**	**-**	**124**	**66.211**
Other financial assets (Note 14.1)	-	124	-	-	-	-	124	124
Loans and accounts receivable (Note 14.5)	14.993	-	-	-	-	-	-	14.993
Current investment in group undertakings (Notes 14 and 28)	2.030	-	-	-	-	-	-	2.030
Sundry debtors	469	-	-	-	-	-	-	469
Personnel	113	-	-	-	-	-	-	113
Accruals	1.848	-	-	-	-	-	-	1.848
Customer receivables for sales and services (Note 14)	38.979	-	-	-	-	-	-	38.979
Receivable from group and associated undertakings (Note 28)	7.655	-	-	-	-	-	-	7.655
TOTAL	**66.087**	**124**	**-**	**-**	**-**	**12.935**	**13.059**	**79.146**
FINANCIAL LIABILITIES								
Bonds and other marketable securities (Note 19.1)	**466**	**-**	**-**	**-**	**-**	**16.350**	**16.350**	**16.816**
Bank loans (Note 19.2)	19.395	5.255	5.396	5.539	4.444	4.160	24.794	44.189
Debt to official authorities (Note 19.3)	3.828	3.848	3.507	3.706	2.767	6.765	20.593	24.421
Bank debt and official authorities	**23.223**	**9.103**	**8.903**	**9.245**	**7.211**	**10.925**	**45.387**	**68.610**
Current accounts payable to group and associated undertakings	**9.209**	**-**	**-**	**-**	**-**	**-**	**-**	**9.209**
Debt to group and associated undertakings	**2.174**	**-**	**-**	**-**	**-**	**-**	**-**	**2.174**
Suppliers	**187**	**-**	**-**	**-**	**-**	**-**	**-**	**187**
Sundry creditors	**25.086**	**-**	**-**	**-**	**-**	**-**	**-**	**25.086**
Personnel (compensation payable)	**4.490**	**-**	**-**	**-**	**-**	**-**	**-**	**4.490**
Customer advances	**1.234**	**-**	**-**	**-**	**-**	**-**	**-**	**1.234**
Other financial liabilities	**668**	**-**	**-**	**-**	**-**	**-**	**-**	**668**
TOTAL	**66.737**	**9.103**	**8.903**	**9.245**	**7.211**	**27.275**	**61.737**	**128.474**

The "Non-current financial assets - Group undertakings" account as of 31 December 2016 and 2015 contained the loans indicated in Note 14.2. Those loans were classified as non-current since they have no fixed maturity and the directors do not intend to repay them in the short term.

FINANCIAL ASSETS / LIABILITIES BY MATURITY (Thousand euro) 2015	2016	2017	2018	2019	2020	Subsequent years	Total Non-current	TOTAL
ASSETS AVAILABLE FOR SALE	**-**	**-**	**-**	**-**	**-**	**374**	**374**	**374**
At fair value (Note 12)	-	-	-	-	-	323	323	323
Loans to third parties	-	-	-	-	-	51	51	51
LOANS AND ACCOUNTS RECEIVABLE	**-**	**-**	**-**	**-**	**-**	**11.796**	**11.796**	**11.796**
Financial assets - Group undertakings (Note 14.2)	-	-	-	-	-	11.796	11.796	11.796
OTHER FINANCIAL ASSETS	**63.296**	**114**	**-**	**-**	**-**	**-**	**114**	**63.410**
Other financial assets (Note 14.1)	-	114	-	-	-	-	114	114
Loans and accounts receivable (Note 14.5)	33.914	-	-	-	-	-	-	33.914
Current investment in group undertakings (Notes 14 and 28)	3.031	-	-	-	-	-	-	3.031
Sundry debtors	384	-	-	-	-	-	-	384
Personnel	118	-	-	-	-	-	-	118
Accruals	1.369	-	-	-	-	-	-	1.369
Customer receivables for sales and services (Note 14)	13.440	-	-	-	-	-	-	13.440
Receivable from group and associated undertakings (Note 28)	11.040	-	-	-	-	-	-	11.040
TOTAL	**63.296**	**114**	**-**	**-**	**-**	**12.170**	**12.284**	**75.580**
FINANCIAL LIABILITIES								
Bonds and other marketable securities (Note 19.1)	**424**	**-**	**-**	**-**	**-**	**16.349**	**16.349**	**16.773**
Bank loans (Note 19.2)	19.993	5.748	2.635	2.719	2.719	6.110	19.931	39.924
Debt to official authorities (Note 19.3)	3.202	3.691	3.896	3.518	3.643	8.746	23.494	26.696
Bank debt and official authorities	**23.195**	**9.439**	**6.531**	**6.237**	**6.362**	**14.856**	**43.425**	**66.620**
Current accounts payable to group and associated undertakings	**14.617**	**-**	**-**	**-**	**-**	**-**	**-**	**14.617**
Debt to group and associated undertakings	**1.282**	**-**	**-**	**-**	**-**	**-**	**-**	**1.282**
Suppliers	**485**	**-**	**-**	**-**	**-**	**-**	**-**	**485**
Sundry creditors	**19.161**	**-**	**-**	**-**	**-**	**-**	**-**	**19.161**
Personnel (compensation payable)	**4.278**	**-**	**-**	**-**	**-**	**-**	**-**	**4.278**
Customer advances	**660**	**-**	**-**	**-**	**-**	**-**	**-**	**660**
Other financial liabilities	**214**	**-**	**-**	**-**	**-**	**-**	**-**	**214**
TOTAL	**64.316**	**9.439**	**6.531**	**6.237**	**6.362**	**31.205**	**59.774**	**124.090**

10.3 Credit quality of financial assets

The credit quality of financial assets that have not yet matured and have not suffered impairment can be assessed on the basis of credit ratings provided by external bodies or by the past history of default:

ACCOUNTS RECEIVABLE (Thousand euro)	2016	2015
Customers without an external credit rating		
New customers	173	1,682
Customers from previous years	38,806	11,758
TOTAL ACCOUNTS RECEIVABLE	**38,979**	**13,440**
Cash at bank and short-term bank deposits		
Moody's rating		
A2	5	-
A3	1,574	23
B1	-	6,149
B2u	1,209	-
Ba1	6,347	31
Ba2	-	2
Ba3u	-	63
Baa1	1	10,657
Baa2	12,325	3
Baa3	-	17,935
Caa1	-	1,642
Unrated	793	576
TOTAL CASH AT BANK AND SHORT-TERM BANK DEPOSITS	**22,254**	**37,081**

11. HOLDINGS IN GROUP COMPANIES

11.1 Description of Group undertakings: registered offices and line of business

The registered office and line of business of each of PharmaMar's investees as of 31 December 2016 are summarized below:

Company	Registered offices	Line of business
Genómica, S.A.U. - Madrid (Spain)	Via de los Poblados, 1, Edif. B, Parq. Emp. Alvento, Madrid, Spain	Research, development and commercialization of biotechnology applications, diagnosis and services related to these activities.
Genómica, A.B.- Sweden	Ideon Science Park, Scheelevägen 17, Lund, Sweden	Research, development and commercialization of biotechnology applications, diagnosis and services related to these activities.
Sylentis , S.A.U. - Madrid (Spain)	Pza. del Descubridor Diego de Ordás 3, Madrid	Research, development, production and sale of products with therapeutic activity based on reducing or silencing gene expression. The company does not have any products on the market.
Pharma Mar, USA INC - NY (USA)	205 East 42nd Street, Suite 15003, New York, NY 10017, USA	Research and production of pharmaceutical products
PharmaMar, AG - Basle (Switzerland)	Seschenvorstadt, 71 - Basle - Switzerland	Research and production of pharmaceutical products
Pharma Mar, Sarl - Paris (France)	120, Av. Charles-de-Gaulle - Neuilly Sur Seine - France	Research and production of pharmaceutical products
Pharma Mar GmbH - Berlin (Germany)	Uhlandstraße 14 - 10623 Berlin - Germany	Research and production of pharmaceutical products
Pharma Mar, Srl - Milan (Italy)	Via Giorgio Stephenson, 29 - Milan - Italy	Research and production of pharmaceutical products
Pharma Mar, Ltd - Reading (United Kingdom)	Regus Abbey House, 1650 Arlington Business Park, Reading (UK)	Research and production of pharmaceutical products
Pharma Mar, Sprl - Brussels (Belgium)	Avenue du Port 86C, Boite 204, 1000 Brussels, Belgium	Research and production of pharmaceutical products
Pharma Mar Ges.m.b.H- Vienna (Austria)	Mooslackengasse 17- 1190 Vienna, Austria	Research and production of pharmaceutical products
Noscira, S.A. in liquidation- Madrid (Spain)	Pza. del Descubridor Diego de Ordás 3, Madrid	In October 2012, the ARGO clinical trial in Alzheimer's disease failed to reach its end points. Noscira wrote off the amount of capitalized R&D expenses, with the result that the company was in a position in which it is required by law to be dissolved, since equity had been reduced to less than one-half of capital stock. On 18 December of that same year, the shareholders resolved to dissolve and liquidate Noscira.
Zelnova Zeltia, S.A. - Porriño - Pontevedra (Spain)	Torneiros - Porriño, Pontevedra	Manufacture and marketing of chemical products for household, agricultural and industrial use.
Xylazel, S.A. - Porriño - Pontevedra (Spain)	Las Gándaras - Porriño, Pontevedra	Manufacture and sale of wood protection and decoration products.
Copyr S.p.A.- Milan (Italy)	Via Giorgio Stephenson, 29 - Milan - Italy	Manufacture and marketing of chemical products for household, agricultural and industrial use.

11.2 PharmaMar stakes in Group undertakings

The breakdown of holdings in group companies as of 31 December 2016 and 2015 is as follows:

Name and domicile	Percentage of ownership		Percentage of ownership	
	Direct % 2016	Indirect % 2016	Direct % 2015	Indirect % 2015
Genómica, S.A.U. - Madrid (Spain)	100.00%	-	100.00%	-
Genómica, A.B. - Sweden (**)	-	100.00%	-	100.00%
Sylentis , S.A.U. - Madrid (Spain)	100.00%	-	100.00%	-
Pharma Mar USA INC - NY (USA)	100.00%	-	100.00%	-
PharmaMar AG - Basel (Switzerland)	100.00%	-	100.00%	-
Pharma Mar Sarl - Paris (France)	100.00%	-	100.00%	-
Pharma Mar GmbH - Berlin (Germany)	100.00%	-	100.00%	-
Pharma Mar Srl - Milan (Italy)	100.00%	-	100.00%	-
Pharma Mar, Ltd - Reading (UK)	100.00%	-	100.00%	-
Pharma Mar, Sprl - Brussels (Belgium)	100.00%	-	100.00%	-
Pharma Mar Ges.m.b.H- Vienna (Austria)	100.00%	-	-	-
Noscira, S.A. in liquidation - Madrid (Spain)	73.32%	-	73.32%	-
Zelnova Zeltia, S.A. - Porriño - Pontevedra (Spain)	100.00%	-	100.00%	-
Xylazel, S.A. - Porriño - Pontevedra (Spain)	99.93%	-	99.93%	-
Copyr S.p.A.- Italy (*)	-	100.00%	-	100.00%
Promaxsa, S.L.-Coslada-Madrid (Spain)	-	-	100.00%	-

(*) Copyr, S.p.A. is wholly owned by Zelnova Zeltia, S.A.
(**) Genómica, A.B. is wholly owned by Genómica, S.A.U.

The percentage of voting rights is proportional to the stake in capital.

The Company periodically receives economic and financial information from all its subsidiaries. In compliance with article 155 of the consolidated text of the Capital Companies Act, PharmaMar has presented the required notifications to the companies in which it has direct and/or indirect holdings of more than 10%.

11.3 Changes in holdings in Group undertakings: Capital increases, business combinations

The changes in the holdings in group undertakings in 2016 and 2015 are as follows:

Company	Cost	Provision	Balance as of 31/12/2015	Recognitions due to capital increase	Recognitions Newly created	Derecognitions Cost	Derecognitions Provision	Balance as of 31/12/2016
Holdings in group companies								
Genómica, S.A.U.	6,606	-	6,606	1,500	-	-	-	8,106
Sylentis, S.A.U.	26,068	-	26,068	-	-	-	-	26,068
Pharma Mar, USA Inc.	5,010	-5,010	-	-	-	-	-	-
PharmaMar, AG	107	-52	55	-	-	-	-	55
Pharma Mar, Sarl	100	-37	63	-	-	-	-	63
Pharma Mar, GmbH	500	-29	471	-	-	-	-	471
Pharma Mar, Srl	500	-	500	-	-	-	-	500
Pharma Mar, Ltd	70	-	70	-	-	-	-	70
Pharma Mar, Sprl	150	-	150	-	-	-	-	150
Pharma Mar Ges.m.b.H	-	-	-	-	100	-	-	100
Noscira, S.A.	44,254	-44,254	-	-	-	-	-	-
Zelnova Zeltia, S.A.	4,385	-	4,385	-	-	-	-	4,385
Xylazel, S.A.	4,725	-	4,725	-	-	-	-	4,725
Promaxsa, S.L.	1,530	-1,530	-	-	-	-1,530	1,530	-
	94,005	**-50,912**	**43,093**	**1,500**	**100**	**-1,530**	**1,530**	**44,693**

The changes in holdings in 2016 were due to the capital increase at Genómica, S.A.U., the sale of Promaxsa, S.L. and the incorporation of a subsidiary in Austria: Pharma Mar, Ges.m.b.H.

Genómica increased capital in 2016 by issuing 6,816 new shares of 60.10 euro par value each, with an issue premium of 160 euro per share, i.e. amounting to a total of 1,500,201.60 euro, by offsetting a debt claim by the Company against Genómica.

In July 2016, the Company sold 100% of subsidiary Promaxsa Protección de Maderas, S.L. to a third party for 150 thousand euro. Prior to the sale, that company increased capital by 631

thousand euro (6 thousand euro capital and 625 thousand euro issue premium) by offsetting debt claims by the Company against Promaxsa. The total amount of PharmaMar's interest in Promaxsa, and the loans granted to it in the amount of 683 thousand euro, had been provisioned at the date of the sale. As a result of the sale, a gain of 202 thousand euro was recognized in the income statement (Note 23).

11.3.1 Disclosures on equity of the Group undertakings and their net carrying amount at PharmaMar. Valuation methods for the holdings in Group undertakings

The amounts of capital, reserves, period income and other information of interest as of 31 December 2016 and 2015, as stated in each company's separate financial statements, and the net carrying amount at which PharmaMar has recognized its holding in each subsidiary, are as follows:

	2016							
SOCIEDAD	Capital	Reservas	Otras partidas	Resultado de explotación	Resultado 2016	Total Fondos Propios	Valor contable en la matriz	Dividendos recibidos
Genómica, S.A.U.	2.587	-132	2.792	-2.096	-2.296	2.952	8.107	-
Genómica, A.B. (**)	-	-	-	-	-	-	-	-
Sylentis, S.A.U.	1.523	154	13.194	-2.429	-2.834	12.037	26.068	-
Pharma Mar, USA INC	5.010	-5.039	-	21	12	-17	-	-
Pharma Mar, Sarl	100	25	-	-959	-959	-834	63	-
Pharma Mar, GmbH	25	167	-	129	129	320	471	-
PharmaMar, AG	107	-13	-	6	4	98	55	-
Pharma Mar, Srl	500	-17	-	912	458	941	500	-
Pharma Mar, Ltd	70	16	-	4	-8	77	70	-
Pharma Mar, Sprl	150	-17	-	5	2	135	150	-
Pharma Mar, GesmbH	35	65	-	-10	-10	90	100	-
Noscira, S.A. en liquidación	27.615	-1.467	-40.532	-49	-92	-14.475	-	-
Zelnova Zeltia, S.A.	3.034	22.562	920	1.091	562	26.540	4.385	538
Copyr, S.p.A. (*)	-	-	-	-	-	-	-	-
Xylazel, S.A.	811	8.272	27	1.435	1.086	10.197	4.724	-
TOTAL	**41.567**	**24.576**	**-23.599**	**-1.940**	**-3.945**	**38.061**	**44.693**	**538**

(*) Copyr, S.p.A. is wholly owned by Zelnova Zeltia, S.A.
(**) Genómica, A.B. is wholly owned by Genómica, S.A.U.

Under point 2.5 ("Investments in the equity of Group undertakings") of Accounting and Measurement Standard 9, "Financial Instruments", of Spain's New General Accounting Plan, these investments must be carried at cost, corrected at year-end if there is objective evidence that the investment is not recoverable. The carrying amount must be corrected to the recoverable amount, i.e. the fair value less selling costs or the present value of the future cash flows arising from the investment, whichever is higher.

The basis for the impairment test applied to investments in group undertakings varies depending on the available information and the best evidence for each investee. In the case of companies in the consumer chemical business and also the commercial subsidiaries of PharmaMar and Genómica, S.A.U., the best evidence of recoverable value is their own business projections. In the case of other investees in the biopharmaceutical business whose research projects are at an early stage (e.g. Sylentis), business projections do not provide the most reliable evidence of recoverable value. In this case, the Company mainly uses appraisals by independent experts based on the company's projects under way, and other references based on deals signed in the market for comparable pharmaceutical compounds at similar stages of development. An independent appraisal of Sylentis gives an amount in excess of 100 million euro, which is well above the recognized cost of the investment and the loans granted to that company. In the case of Genómica, an impairment test was conducted by discounting free cash flow over a period of nine years using the Group's weighted average cost of capital as the discount rate and assuming that revenues and the discount rate are the key parameters affecting calculation of the recoverable value. A reduction of five basis points in the discount rate or of 5% in revenues, while keeping all other variables constant, would not result in the recognition of any impairment of the financial investment.

No other impairments of investments in Group undertakings were recognized apart from those shown in the preceding table.

12. AVAILABLE-FOR-SALE FINANCIAL ASSETS

Holdings in companies

Holding in the capital of Companies	Line of business	Percentage of ownership 2016 Direct %	Percentage of ownership 2015 Direct %
Instituto BIOMAR	Pharmaceutical research	3.52%	3.55%
Pangaea Biotech SA	Consulting services	0.21%	0.33%
Johnson & Johnson	Manufacture of pharmaceuticals, consumer products, devices and medical diagnostics	0.00001%.	0.00001%.

The value of those holdings is as follows:

Thousand euro	2016	2015
Instituto BIOMAR	252	253
Pangaea Biotech SA	50	50
Johnson&Johnson	24	20
	326	**323**

No impairment losses were recognized in 2016 and 2015 on financial assets available for sale.

Unlisted securities: the available-for-sale financial assets consist entirely of holdings in biotechnology companies. The balance of this item as of 31 December 2016 was 302 thousand euro.

Listed securities: Available-for-sale financial assets include securities traded on official markets that are denominated in US dollars. The financial assets available for sale consist of shares listed on the US market, all of them in the biopharmaceutical sector. Their fair value matches their quoted market price. The balance of this item as of 31 December 2016 was 24 thousand euro.

13. INVENTORIES

The Group classifies inventories as follows:

(thousand euro)	2016	2015
Raw materials and other supplies used	88	110
Semi-finished products and products in process	5,596	7,362
Finished products	405	334
	6,089	**7,806**

No financial expenses have been capitalized as the inventory production cycle does not exceed one year.

There are no future (option) contracts relating to inventories as of 31 December 2016 and 2015.

No material impairment losses were recognized for inventories in 2016 and 2015. No inventories have been committed as collateral for obligations or debt.

The Company has arranged several insurance policies to cover the risks to which the inventories are exposed. The cover of these policies is deemed to be sufficient.

14. LOANS AND RECEIVABLES

Loans and accounts receivable are classified as follows:

(thousand euro)	2016	2015
NON-CURRENT LOANS AND ACCOUNTS RECEIVABLE	**12,733**	**11,961**
Long-term deposits and guarantees provided (Note 14.1)	124	114
Loans to third parties	118	51
Financial assets – Group undertakings (Notes 14.2 and 28)	12,491	11,796
CURRENT LOANS AND ACCOUNTS RECEIVABLE	**66,088**	**63,296**
Customer receivables (Note 14.3)	38,979	13,440
Customer receivables from group and associated undertakings (Notes 14.4 and 28)	7,655	11,040
Current investment in group and associated undertakings (Notes 14.2 and 28)	2,030	3,031
Sundry debtors	469	384
Personnel	113	118
Accruals	1,848	1,369
Short-term deposits (Note 14.5)	14,987	33,908
Long-term deposits and guarantees provided	6	6
TOTAL	**78,821**	**75,257**

14,1 Deposits and sureties

Long-term deposits and guarantees at 31 December 2016 and 2015 include mainly deposits on leases.

14,2 Loans to group undertakings

The "Non-current financial assets - Group undertakings" account as of 31 December 2016 contained the following loans to Group undertakings:

(thousand euro)	2016	2015
Sylentis	10,919	9,696
Genómica	1,572	2,100
Noscira	7,611	7,611
Promaxsa	-	683
Impairments	-7,611	-8,294
	12,491	**11,796**

Those loans were classified as non-current since they have no fixed maturity and the directors do not intend to repay them in the short term.

The loan to Noscira (which is in liquidation) has been written off due to doubts about its recoverability. Additionally, the entire amount of the loan to Promaxsa had been written off in 2015.

The loan to Noscira (which is currently being liquidated) amounting to 7.6 million euro arose as a result of subrogation in 2013 by Zeltia (merged company, see Note 1) to two loans granted by Centro de Desarrollo Tecnológico e Industrial (CDTI) to Noscira (currently in liquidation) for that amount, in which Zeltia had acted as guarantor. The subrogation was under the same conditions and for the same term as the original contract, i.e. zero interest rate and a 10-year maturity.

The "Current financial assets – Group undertakings" account comprises the following items:

(thousand euro)	2016	2015
Current financial assets		
Corporate income tax receivable (Note 22)	507	801
VAT receivable (Note 22)	155	137
Current accounts with Group undertakings	830	793
Account receivable from Zelnova Zeltia, S.A.	538	1,300
	2,030	**3,031**

The balances with Group undertakings under current financial assets and liabilities in 2016 consist mainly of those arising between the parent company and the subsidiaries as a result of tax consolidation—both corporate income tax and value added tax (Note 22).

14,3 Customers

The detail of customer balances by age is as follows:

Thousand euro	2016	2015
Current balances	**36,244**	**6,727**
Balances past-due but not provisioned	**2,795**	**6,890**
Up to 3 months	1,774	5,355
3-6 months	13	749
Over 6 months	1,008	786
TOTAL CUSTOMER RECEIVABLES	**39,039**	**13,617**
Provisions	-60	-177
TOTAL NET CUSTOMER RECEIVABLES	**38,979**	**13,440**

Past-due receivables have not been impaired and the Company expects to recover the total amount due plus any default interest that it claims.

The amount of 60 thousand euro in 2016 relates to a provision for bad debts recognized in the year. The amount in 2015 relates mainly to the levy on sales to be paid by PharmaMar to the Portuguese health authorities (Infarmed).

Due from official authorities

As of 31 December 2016, accounts receivable from public authorities totaled 2,946 thousand euro (6,600 thousand euro in 2015).

The geographic breakdown of receivables from public authorities in Spain is as follows:

Thousand euro	Credit rating	2016	2015
Andalusia	Baa3	133	488
Madrid	Baa2	370	559
Balearic Islands	BBB	26	21
Valencia	Ba2	129	332
Castilla y León	Baa2	90	290
Castilla la Mancha	Ba2	74	79
Aragon	BBB-	33	115
Catalonia	Ba3	369	268
Cantabria	BBB	64	111
Galicia	Baa2	127	188
Canary Islands	BBB-	125	62
Extremadura	Baa3	6	23
Basque Country	Baa1	10	24
Murcia	Ba2	48	65
Navarra	A	-2	39
Rioja	BBB	22	-
Asturias	BBB	55	33
Other		-	35
TOTAL		**1,679**	**2,732**

In 2016, the Company collected 5,267 thousand euro of debt owed by various public administrations by arranging non-recourse factoring contracts with financial institutions that specialize in transactions of this type (5,996 thousand euro in 2015).

Past-due debt as of 31 December 2016 totaled 1,095 thousand euro (1,709 thousand euro in 2015), and no impairments had been recognized on those amounts. Claims have been issued against public authorities for the default interest accrued on these debts.

Debt owed by public agencies outside Spain at year-end was as follows:

Thousand euro	Credit rating	2016	2015
Italy	Baa2	193	209
France	Aa2	-	1,157
United Kingdom	Aa1	114	1,096
Portugal	Ba1	411	450
Austria	Aaa	274	455
Belgium	AA-	216	366
Luxembourg	Aaa	12	18
The Netherlands	Aaa	5	78
Ireland	A3	42	39
TOTAL		**1,267**	**3,868**

14,4 Trade receivables from group and associated undertakings

The balances and transactions with group undertakings in 2016 and 2015 are detailed in Note 28.

14,5 Short-term deposits

The Short-term deposits item at 31 December 2016 contains the following material items:

- A number of time deposits amounting to a total of 14,993 thousand euro plus accrued interest at a fixed annual rate of between 0.035% and 0.05%, amounting to 4 thousand euro outstanding at year-end.

This account contained the following material items as of 31 December 2015:

- A number of time deposits amounting to a total of 33,894 thousand euro plus accrued interest at a fixed annual rate of between 0.10% and 0.85%, amounting to 13 thousand euro outstanding at year-end.

The interest rate for short-term bank deposits as of 31 December 2016 was approximately 0.23%, the same as in 2015.

15. CASH AND CASH EQUIVALENTS

The detail of this caption as of 31 December 2016 and 2015 is as follows:

(thousand euro)	2016	2015
Cash on hand and at banks	7,261	2,967
Cash equivalents	-	200
TOTAL	**7,261**	**3,167**

Cash equivalents at 2015 year-end included deposits maturing in under three months, as follows:

- Fixed-term deposits amounting to 200 thousand euro at a fixed annual interest rate of 0.15%.

16. SHARE CAPITAL

16.1 Share capital

As of 31 December 2016, the Company's capital stock was represented by 222,204,887 fully subscribed and paid ordinary shares with a par value of 0.05 euro each, which are listed on the four Spanish stock exchanges.

As indicated in Note 1, on 30 June 2015, the Shareholders' Meeting of Zeltia, S.A. and the sole shareholder of Pharma Mar, S.A. approved a reverse merger of Zeltia into PharmaMar, through dissolution without liquidation of the former and the transfer en bloc of its net worth to PharmaMar. To achieve a 1-for-1 share exchange ratio, PharmaMar approved a reduction in share capital by means of an increase in voluntary reserves and the establishment of a new number and a new par value for its shares such that, following the reduction in the par value of the shares and the consequent increase in their number, the number of shares into which the capital stock of PharmaMar was divided coincided with the number of shares of Zeltia.

Changes in capital stock in euro	
Capital stock of Pharma Mar, S.A. 31/12/2014	85,291,576
Capital reduction with a charge to voluntary reserves	-74,181,332
Capital stock of Pharma Mar, S.A. 31/12/2015	11,110,244

According to information in the official registers of the National Securities Market Commission as of 31 December 2016, holders of significant stakes in PharmaMar, either directly or indirectly, amounting to over 10% are as follows:

	DIRECT STAKE		INDIRECT STAKE (1)		TOTAL
	No. of shares	%	No. of shares	%	%
José Mª Fernández Sousa-Faro	14,318,261	6.444	10,354,841	4.66	11.104

(1) Indirect stake held through his spouse, Ms Montserrat Andrade Detrell.

16.2 Share premium account

The share premium may be used for the same purposes as the Company's voluntary reserves, including conversion into capital stock, there being no restrictions as to its use or distribution. As of 31 December 2016 and 2015, the issue premium amounted to 68,189 thousand euro.

16.3 Own shares

In 2016, the Company acquired 1,709,350 own shares for a total of 4,164 thousand euro. The Company sold 1,395,059 own shares for a total of 3,862 thousand euro, resulting in a loss of 328 thousand euro, which was recognized against the Company's reserves. As of 31 December 2016, the Company held 1,210,081 own shares representing 0.55% of capital stock.

As of 31 December 2015, the Company had acquired 1,493,572 own shares for a total of 4,702 thousand euro, i.e. an average price of 3.15 euro per share. The Company sold 2,803,216 own shares for a total of 11,279 thousand euro, resulting in a gain of 4,515 thousand euro, which was recognized in the Company's reserves. As of 31 December 2015, the Company held 895,790 own shares representing 0.40 of capital stock.

The changes in holdings in own equity instruments in 2016 and 2015 are as follows:

	No. of shares	Amount (euro)
Balance at 31/12/2015	895,790	-2,944,492
Own shares purchased	1,709,350	-4,163,901
Sales	-1,395,059	3,862,201
Balance at 31/12/2016	**1,210,081**	**-3,246,192**

	No. of shares	Amount (euro)
Balance at 31/12/2014	-	-310,000
Own shares - merger	2,205,434	-5,006,389
Transfer to reserves	-	310,000
Own shares purchased	1,493,572	-4,701,948
Sales	-2,803,216	6,763,845
Balance at 31/12/2015	**895,790**	**-2,944,492**

17. RESERVES AND PRIOR YEARS' INCOME

The detail of this caption as of 31 December 2016 and 2015 is as follows:

(thousand euro)	2016	2015
LEGAL AND BYLAW RESERVES		
Legal reserve	2,222	2,222
Voluntary reserves		
Voluntary reserves	84,967	85,295
Merger reserves	215,160	215,160
OTHER RESERVES		
Other reserves	30	30
Difference due to redenomination of share capital in euro	1	1

Own shares and equity instruments	-254	-460
TOTAL	**302,126**	**302,248**

17,1 Legal reserve

Under article 274 of the Consolidated Text of the Capital Companies Act, approved by the Legislative Royal Decree of 2 July 2010, companies must transfer 10% of income for each year to the legal reserve until it amounts to at least 20% of capital stock.

The legal reserve may not be distributed and may only be used to offset losses if there are not sufficient unrestricted reserves available for this purpose, in which case it must be restored out of future income.

As of 31 December 2016, the Company had fully allocated the legal reserve.

17,2 Voluntary reserves

In 2016, the balance of voluntary reserves was reduced by 328 thousand euro as a result of transactions with own shares.

In 2015, voluntary reserves increased by 84,882 thousand euro, mainly due to the capital reduction against voluntary reserves for the reduction in capital by that same amount (74,182 thousand euro), of which 4,914 thousand euro related to the transfer of the surplus legal reserve and 4,515 thousand euro to the gain on the sale of own shares (Note 16 c).

The merger reserve, which arose in 2015 as a result of the reverse merger described in Note 1, amounts to 215,160 euro.

17.3 Other reserves

The "Other reserves" item includes:

- A reserve amounting to 30 thousand euro for Differences in conversion to GAP 2007 because of the treatment of exchange gains that have accrued but not been realized.
- Difference due to redenomination of share capital in euro (this reserve is restricted); and
- A reduction of 206 thousand euro in the balance of own equity instruments as a result of accrual of expenses during the lock-up period of the employee stock ownership plan.

17.4 Limitations on dividend distribution

The distribution of reserves designated elsewhere in this note as unrestricted is subject to the limits established by law.

Under the Capital Companies Act, profits may not be distributed unless the amount of available reserves is at least equal to the amount of research and development expenses shown on the assets side of the balance sheet.

18. SUBSIDIES, DONATIONS AND LEGACIES RECEIVED

As of 31 December 2016, the "Subsidies, donations and other legacies received" item of the Company's equity includes 4,737 thousand euro (4,752 thousand euro in 2015) of refundable subsidies from official authorities at zero or below-market interest rates (notes 5.2 and 6.8) and 4,409 thousand euro (4,532 thousand euro in 2015) of non-repayable capital subsidies.

Non-repayable capital subsidies were granted mainly by the Ministry of Science and Technology, IMADE, CDTI, the Ministry of Industry, Tourism and Trade, the Madrid Regional Government, and the European Union.

Those subsidies were granted for the implementation of a number of development programs by the Company's projects, and the conditions under which they were granted have been met.

The changes in these subsidies are as follows:

(thousand euro)	2016	2015
BEGINNING BALANCE	**9,284**	**13,154**
Increase	211	676
Change in tax rate	-	-295
Recognized in profit or loss	-349	-4,251
ENDING BALANCE	**9,146**	**9,284**

In 2015, the Company derecognized certain compounds due to technical developments and, consequently, recognized the associated subsidies in profit or loss.

19. DEBTS AND ACCOUNTS PAYABLE

The detail of this caption as of 31 December 2016 and 2015 is as follows:

(thousand euro)	2016	2015
Bonds and other marketable securities	16,350	16,349
Bank debt	24,794	19,931
Debt to official authorities	20,593	23,494
Prepaid revenues	14,000	-
NON-CURRENT DEBTS AND ACCOUNTS PAYABLE	**75,737**	**59,774**
Bonds and other marketable securities (Note 19.1)	466	424
Bank loans (Note 19.2)	19,395	19,992
Debt to official authorities (Note 19.3)	3,828	3,203
Other financial liabilities	668	214
Suppliers	187	485
Due to group undertakings (Note 28)	2,174	1,282
Accounts payable to related parties (Note 19.5 and 28)	9,209	14,617
Sundry creditors	25,086	19,161
Personnel	4,490	4,278
Customer advances	1,234	660
Prepaid revenues	10,000	-
CURRENT DEBTS AND ACCOUNTS PAYABLE	**76,737**	**64,316**
TOTAL DEBTS AND ACCOUNTS PAYABLE	**152,474**	**124,090**

The "Prepaid revenues" item includes part of the amount of the licensing, development and commercialization signed with Chugai Pharmaceutical Co., Ltd. as detailed in Note 21.1.3.

The carrying amount of short-term debt is approximately the fair value since the effect of discounting is not material.

19.1 Bonds and other marketable securities

In 2015, the Company decided to issue non-convertible bonds for an amount of seventeen million euro in order to strengthen its financial position and extend its debt maturity profile.

The principal terms and conditions of the bonds are as follows:

a) The nominal amount of the issue is seventeen million euro;
b) The maturity is 12 years from disbursement;
c) The issue was targeted at a single qualified Spanish investor via a private placement.
d) The bonds, which are uncertificated, were issued at par, each with a unit nominal value of one hundred thousand euro (100,000 euro).
e) The bonds bear a fixed coupon of 4.75% per annum payable annually in arrears from the date of disbursement;
f) The Company is liable for the obligations arising from the bonds with all its assets and no specific guarantee is granted;
g) The terms and conditions of the bonds are governed by Spanish law;
h) The Company applied to list the bonds on the Alternative Fixed-Income Market (MARF) on 7 July 2015.

The debt is recognized at amortised cost under non-current liabilities.

The unpaid accrued interest amounted to 466 thousand euro at 31 December 2016 (424 thousand euro in 2015).

19.2 Bank debt

Current and non-current bank debt is broken down as follows:

	2016		2015	
(thousand euro)	Non-current	Current	Non-current	Current
Bank loans	24,794	9,892	19,931	10,412
Credit lines	-	9,424	-	8,743
Interest payable	-	74	-	85
Other interest-bearing debt	-	5	-	753
TOTAL DEBTS AND ACCOUNTS PAYABLE	**24,794**	**19,395**	**19,931**	**19,993**

Non-current bank debt includes a mortgage loan of 6,143 thousand euro (7,001 thousand euro in 2015) described in Note 7.4, maturing in 2024 and bearing interest at Euribor at 12 months plus a spread of 2.75 points. The short-term part of the loan amounted to 853 thousand euro at 31 December 2016 (823 thousand euro at 31 December 2015) and is recognized under “Short-term debt — Bank debt and debt to official authorities".

In 2016, the Company obtained long-term financing from two financial institutions for a total amount of 15,000 thousand euro. The fixed interest rate for the transactions is 2.20% and 2.25%, respectively.

In 2015, the company obtained additional long-term (7 years) funding from two banks for a total of 12 million euro bearing variable interest referenced to Euribor plus 3.25 points.

The limit of the credit lines is 27,700 thousand euro (33,450 thousand euro in 2015), of which the

Company had drawn 9,424 thousand euro at 31 December 2016 (8,743 thousand euro in 2015). The credit lines bore average interest of 2.21% in 2016 (3.31% in 2015).

The maturity calendar of the bank debt in 2016 and 2015 is detailed in Note 10.2.

19.3 Debt to official authorities

The amounts under this item, recognized at amortized cost as non-current debt, amounted to 20,593 thousand euro as of 31 December 2016 (23,494 thousand euro in 2015).

A total of 3,828 thousand euro were recognized as current under this heading in 2016 (3,203 thousand euro in 2015).

These transactions do not accrue interest, except for nine loans that bear interest at between 0.079% and 1%.

The difference between initial fair value and the nominal value is accrued on the basis of market interest rates (Euribor and Spanish government bond yields plus a spread based on the Group's risk).

In 2016, four subsidised loans were received for a nominal amount of 1,010 thousand euro, with an initial fair value of 760 thousand euro, repayable in 7-8 years.

In 2015, six subsidised loans were received for a nominal amount of 3,483 thousand euro, with an initial fair value of 2,807 thousand euro, repayable in 11 years (three loans) or 8 years (the other three).

The maturities of the amounts due to official authorities which are recognized at fair value as of 31 December 2016 and 2015 are detailed in Note 10.2.

19.4 Accounts payable to group and associated undertakings

The detail of accounts payable to related parties is as follows:

(thousand euro)	2016	2015
Current financial liabilities		
Corporate income tax payable (Note 22)	2,287	6,546
VAT payable (Note 22)	271	190
Loans from Zelnova Zeltia, S.A.	6,652	7,881
	9,210	**14,617**

The balances of current financial assets and liabilities with Group undertakings in 2016 consist mainly of accounts between the parent company and its subsidiaries as a result of tax consolidation —both company tax and value added tax (Note 22)— plus a loan from ZelnovaZeltia with a balance of 6,652 thousand euro (7,881 thousand euro in 2015).

19.5 Information on deferral of payments to suppliers.

Information on payments for commercial transactions performed in 2016 that were outstanding at the end of the year, in relation to the maximum legal payment periods envisaged in Act 15/2010, is as follows:

	2016	2015
Average period taken to pay suppliers (days)	53	49
Proportion of transactions paid (days)	55	49
Proportion of transactions outstanding (days)	39	66
Total payments made (thousand euro)	32,403	31,578
Total payments outstanding (thousand euro)	4,170	4,800

20. DEFERRED TAXES

The detail of this caption as of 31 December 2016 and 2015 is as follows:

(thousand euro)	2016	2015
DEFERRED TAX ASSETS	**17,334**	**24,555**
Timing differences (Note 22)	3,750	8,218
Tax credits (Note 22)	6,856	10,117
Tax withholdings receivable	6,728	6,220
DEFERRED TAX LIABILITIES	**1,639**	**3,308**
Timing differences (Note 22)	1,639	3,308
DEFERRED TAXES (NET)	**15,695**	**21,247**

The "Tax withholdings receivable" account as of 31 December 2016 and 2015 included taxes withheld from royalties and payments received from the Johnson & Johnson Group by virtue of the agreements signed in 2001 and 2011, and from Taiho Pharmaceutical Co. Ltd.

The changes in the year in deferred tax assets and liabilities were as follows:

DEFERRED TAX LIABILITIES (thousand euro)	Subsidies	Timing differences	TOTAL
Balance as of 31 December 2014	**4,455**	**-**	**4,455**
Recognitions due to merger	-	230	230
Charge (credit) to profit or loss	-	-4,181	-4,181
Charge to equity	-1,464	-	-1,464
Rate adjustment	105	240	345
2014 corporate income tax return	-	3,923	3,923
Balance as of 31 December 2015	**3,096**	**212**	**3,308**
Reclassification	-1,548	-106	-1,654
Charge (credit) to profit or loss	-	8	8
Charge to equity	-23	-	-23
Balance as of 31 December 2016	**1,525**	**114**	**1,639**

DEFERRED TAX ASSETS (thousand euro)	Tax credits	Timing differences	Withholdings	TOTAL
Balance as of 31 December 2014	**4,800**	**4,638**	**2,465**	**11,903**
Recognitions due to merger	1,383	4,238	-	5,621
Charge (credit) to profit or loss	-	-666	-	-666
Rate adjustment	-1,383	8	-	-1,375
2014 corporate income tax return	2,693	-	1,165	3,858
Recognition of tax credit	2,624	-	-	2,624
Other movements	-	-	2,590	2,590
Balance as of 31 December 2015	**10,117**	**8,218**	**6,220**	**24,555**
Reclassification	2,455	-4,109	-	-1,654
Charge (credit) to profit or loss	-5,716	-359	-	-6,075
Other movements	-	-	508	508
Balance as of 31 December 2016	**6,856**	**3,750**	**6,728**	**17,334**

Tax assets and liabilities were reclassified in 2016 to present them on the basis of their nature.

Deferred taxes charged to equity in the year are as follows:

(thousand euro)	2016	2015
Subsidies, donations and legacies received	-23	-1,464
TOTAL	**-23**	**-1,464**

Deferred tax assets due to tax losses carried forward are recognized to the extent that the Company is likely to obtain future taxable income enabling them to be offset.

21. REVENUES AND EXPENSES

21,1 Net revenues

The net amount of revenues is broken down as follows:

(thousand euro)	2016	2015
Product sales	75,228	81,335
Royalties	5,779	1,789
Licensing contract revenues	11,129	29,034
Corporate services rendered	639	350
TOTAL	**92,775**	**112,508**

21,1.1 Product sales

The “Sales” item basically refers to commercial sales of Yondelis® for soft tissue sarcoma and relapsed ovarian cancer made by PharmaMar in the European Union (73,693 thousand euro in 2016 and 73,579 thousand euro in 2015), and of Trabectedin and intermediates to the Johnson & Johnson group and to Taiho Pharmaceutical, Ltd. (1,535 thousand euro in 2016 and 7,756 thousand euro in 2015).

21,1.2 Royalties

This item as of 31 December 2016 and 2015 refers to the amount of royalties on sales by Janssen Products Ltd., which amounted to 5,202 thousand euro (1,731 thousand euro in 2015) and 577 thousand euro of royalties from Taiho Pharmaceutical, Ltd. (58 thousand euro in 2015) (Note 4.15.3). Janssen commercializes Yondelis® under license for the entire world except the European Union and Japan. Taiho Pharmaceutical holds the commercialization license for Japan.

21,1.3 Licensing revenues

The Group has licensing and co-development agreements with a number of pharmaceutical companies. The breakdown of revenue as a result of these agreements, including royalties, in 2016 and 2015 is as follows:

(Thousand euros)	12/31/2016	12/31/2015
Grupo Johson & Johson (Janssen Produts LP) (Yondelis)	5.202	24.432
Taiho (Yondelis)	577	5.990
Other agreements (Aplidin)	1.129	400
Chugai Pharma Marketing (Aplidin)	4.000	0
Chugai Pharmaceutical (PM1183)	6.000	0
Total	**16.908**	**30.822**

Janssen Products LP (Yondelis®)

1) In 2001, the Group signed a licensing and co-development agreement with Ortho Biotech Products L.P. (OBP), a subsidiary of US group Johnson & Johnson (J&J). That agreement provides, inter alia, for certain payments to PharmaMar, including an upfront payment that was collected on the date of the contract and certain payments connected with subsequent development and regulatory milestones for Yondelis®. Those amounts (upfront and milestone payments), which are collected irrevocably once the corresponding dates and milestones are attained, are recognized initially as deferred revenue and subsequently as revenue over the term of the contract signed, which includes two distinct phases: development and marketing.

The commitments assumed by the Group as a result of the agreement include the following:

- Co-development of Yondelis® from the date of signature of the agreement up to marketing, and financing of a percentage of total development costs incurred by the two parties;

- Assignment to OBP of the future marketing rights for the United States and the rest of the world except Europe (retained by the Group). For this assignment, the Group will collect royalties based on OBP's sales.

- The Group retains the exclusive right to manufacture the active ingredient, which will be supplied to OBP on a cost-plus basis;

The Group will retain the patents associated with Yondelis® and is responsible for complying with the administrative requirements relating to maintaining the patents and any other requirements that may apply for their effective use.

The amounts attributed to the development phase are recognized as revenue during the development phase based on the degree of progress with development and the project's total estimated costs. As of 31 December 2016, the Group did not have any amounts pending recognition since all the necessary obligations had been fulfilled and the related expenses had already been incurred by PharmaMar. Consequently, PharmaMar did not recognize any amount under this heading in 2016.

In 2015, in the framework of this contract, PharmaMar received 9,453 thousand euro due to attaining one of the milestones set out in the agreement: approval from the FDA to market Yondelis

The amounts attributed to the marketing phase are royalties, which are recognized on an accrual basis. In 2016, royalties were recognized in the amount of 5,202 thousand euro on sales of Yondelis® (1,731 thousand euro in 2015).

2) In 2011, the Company signed a coordination agreement with Janssen Pharmaceuticals, a subsidiary of US group Johnson & Johnson, in connection with a new plan of action to boost the development of Yondelis® in the US by developing two therapeutic uses of Yondelis® (soft tissue sarcoma and relapsed ovarian cancer).

That agreement envisaged a series of payments between 2011 and 2015 amounting to up to 110 million dollars if the agreed milestones were met in that period. Those milestones, which were additional to those envisaged in the 2001 licensing agreement, were based solely on the Yondelis® development plan. These payments were recognized as current revenue as they were collected since they related to development milestones connected to future performance by Janssen, not by the Group.

The last payment under this agreement took place in 2015: 8,764 thousand euro were collected from Janssen for attaining the last milestone under this agreement. Therefore, no consideration in relation to this agreement was received by PharmaMar in 2016.

3) Additionally, in 2015, PharmaMar collected 4,484 thousand euro from Janssen Products as a result of Yondelis® being approved for marketing in Japan.

Taiho Pharmaceutical Co (Yondelis®)

In 2009, PharmaMar signed a licensing agreement with Taiho Pharmaceutical Co. for the development and commercialization of Yondelis® in the Japanese market.

The commitments assumed by the Group as a result of the agreement include the following:

- the Group will collect royalties based on Taiho's sales once authorization is obtained to market the drug in Japan.

- The Group retains the exclusive right to manufacture the active ingredient, which will be supplied to Taiho.

- Taiho assumes the responsibility, at its own expense, for researching, developing and obtaining regulatory approval for Yondelis® in Japan.

In January 2015, Taiho filed an application with the Japanese regulator (PMDA) to market Yondelis® for the treatment of several subtypes of soft tissue sarcoma; in November, it received authorization from the regulator to commercialize Yondelis®.

As a result, the following amounts were collected from Taiho Pharmaceuticals: one for presentation of the Yondelis® registration dossier to the Japanese authorities (1,486 thousand euro) and another for subsequent authorization of commercialization by the Japanese authorities (4,504 thousand euro).

In 2016, royalties were recognized in the amount of 577 thousand euro on sales of Yondelis®.

Chugai Pharma Marketing Co. (Aplidin®)

In 2014, PharmaMar signed a licensing contract with Chugai Pharma Marketing Co. to market Aplidin® for the treatment of multiple myeloma.

The commitments assumed by the Group as a result of the agreement include basically the following:

- Development of Aplidin® from the date of signature of the agreement up to marketing, and financing of a percentage of the total development costs incurred by PharmaMar;

- Assignment to Chugai of the future marketing rights for the eight European countries. For this assignment, the Group will collect royalties based on Chugai's sales.

- The Group retains the exclusive right to manufacture the active ingredient, which will be supplied to Chugai.

Under the terms of the agreement, PharmaMar received an upfront payment of 5 million euro in 2014 for signing the agreement, which also envisages additional payments of up to more than 30 million euro subject to attainment of certain milestones in connection with development of the active principles and other regulatory and commercial objectives.

The upfront payment under the contract was recognized as revenue in 2014 since it was linked to completion of the Phase III trial in multiple myeloma and, consequently, was directly related to the number of patients enrolled in that trial to date.

In September, 2016 PharmaMar received and recognized as a revenue 4,000 thousand euro due to the achievement of a regulatory milestone: the submission to the European Medicines Agency (EMA) of the Marketing Authorization Application (MAA) for Aplidin®.

TTY Biopharm / Specialised Therapeutics Australia Pty, Ltd. (Aplidin®)

Two licensing contracts for Aplidin® were signed in 2015. The first was with TTY Biopharm to commercialize Aplidin® in Taiwan, and the second was with Specialised Therapeutics Australia Pty, Ltd. covering commercialization of Aplidin® in Australia and New Zealand. The upfront payment on those contracts was 400 thousand euro in 2015.

Specialised Therapeutics Asia Pte, Ltd (Aplidin®)

In February 2016, an agreement was signed with Singapore-based Specialised Therapeutics Asia Pte, Ltd (STA) to market marine-based anti-tumor compound APLIDIN® (plitidepsin) for the treatment of hematological tumors in 12 Asian countries: PharmaMar received, and recognized as revenue, an up-front payment in the amount of 229 thousand euro.

Boryung Pharmaceutical (Aplidin®)

In October, 2016 a licensing agreement was signed with Boryung Pharm to commercialize the marine-derived anticancer drug Aplidin® (plitidepsin) in South Korea. Under the terms of the agreement, PharmaMar will receive an upfront payment along with royalties and additional remuneration upon achieving regulatory milestones with Aplidin®. PharmaMar will retain exclusive production rights and will supply the finished product to Boryung Pharm for commercial use. PharmaMar received, and recognized as revenue, an up-front payment amounting to 450 thousand euro and a regulatory milestone amounting to 450 thousand euro

Chugai Pharmaceutical Co. (PM1183 (lurbinectedin))

In December, 2016 PharmaMar signed of an exclusive license, development and commercialization agreement with Chugai Pharmaceutical Co. Ltd. for its third marine-derived anticancer drug PM1183 (lurbinectedin) in Japan.

The commitments assumed by the Group under this agreement are as follows:

- Assignment to Chugai of the future marketing rights for Japan. For this assignment, the Group will collect double-digit tiered royalties based on Chugai's sales in Japan. The agreement also established milestone payments as a function of accumulated sales.

- The Group retains the exclusive right to manufacture the active ingredient, which will be supplied to Chugai.

- PharmaMar will carry out certain clinical trials outside Japan, which are described in the agreement and had already commenced at the time it was signed.

- PharmaMar will carry out certain clinical trials with the molecule for Japan.

- Under the terms of the agreement, PharmaMar will receive an upfront payment of 30,000 thousand euro upon signing the agreement, along with royalties and additional payments based on development, regulatory and commercial milestones.

Additionally, PharmaMar will receive payments related to the clinical trials performed with the molecule for Japan.

Both the upfront payment and milestone payments will be recognized as revenues in accordance with the degree of progress with the clinical trials agreed in the licensing agreement.

At December 2016, 6,000 thousand euro were recognized under “Licensing and development agreements”, relating to the part of the upfront payment accrued by the Company as consideration for the progress already attained at the date of the signature of the agreement, namely: enrolment of the first patients for the Phase III trial in platinum-resistant ovarian cancer, and commencement of the Phase III trial in small-cell lung cancer.

21,2 Breakdown of revenues

The net amount of the Company's revenues, in thousand euro, by geographical region, is as follows:

Market (thousand euro)	2016	2015
Spain	14,686	13,218
European Union	68,269	59,904
OECD countries	2,633	808
America	5,224	31,055
Japan	832	7,122
Other countries	1,131	401
TOTAL	**92,775**	**112,508**

21.3 Foreign currency transactions

The detail of foreign currency transactions is as follows:

(thousand euro)	2016	2015
Assignment of intellectual property	6,008	30,822
Other expenses	-	360
Sales	5,898	4,222
Purchases and services received	6,203	3,700

21.4 Merchandise, raw materials and other consumables consumed

(thousand euro)	2016	2015
Purchased in Spain	2,772	2,825
Purchased in other EU countries	1,215	1,366
Imports	170	108
Change in inventories	22	-245
TOTAL	**4,179**	**4,054**

21.5 Personnel expenses

(thousand euro)	2016	2015
Wages, salaries and similar	24,381	23,067
Indemnities	333	375
Employee welfare expenses		
Employer social security	4,185	3,981
Other welfare expenses	1,248	1,185
TOTAL	**30,147**	**28,608**

The average number of employees by category and gender is as follows:

NUMBER IN CATEGORY (MEN)	2016	2015
Executives and managers	13	11
Technical personnel	93	96
Clerical personnel	30	20
Commercial personnel	5	7
Assistants and others	5	8
TOTAL	**146**	**142**

NUMBER IN CATEGORY (WOMEN)		
Executives and managers	6	7
Technical personnel	136	132
Clerical personnel	40	36
Commercial personnel	8	8
Assistants and others	25	24
TOTAL	**215**	**207**

TOTAL	**361**	**349**

The breakdown of the workforce by category and gender at 2016 and 2015 year-end does not differ materially from the reported average workforce breakdown.

There were an average of 5 employees in the year with disability of 33% or greater: 3 administrative staff and 2 technicians.

21.6 Outside services

The detail of this caption as of 31 December 2016 and 2015 is as follows:

(thousand euro)	2016	2015
Research & Development expenses	37,653	24,128
Leases and fees	1,975	1,845
Repairs and upkeep	1,703	1,426
Independent professional services	7,288	7,100
Transport	940	1,218
Insurance premiums	519	535
Advertising and public relations	9,952	10,756
Utilities	893	943
Other services	7,028	8,200
Other taxes	798	353
Losses, impairment and changes in trade provisions	92	-
Total	**68,841**	**56,504**

21.7 Impairment losses and income from disposal of assets, etc.

Impairment amounting to 171 thousand euro was recognized in connection with land (1,033 thousand euro in 2015). See note 7.1.

22. INCOME TAX AND TAX SITUATION

The balances with public authorities as of 31 December 2016 and 2015 are as follows:

	2016		2015	
(thousand euro)	Payable	Receivable	Payable	Receivable
Personal income tax	-	455	-	1,276
Social security	-	410	-	387
Other balances with public authorities	1,038	-	979	-
TOTAL	1,038	**865**	**979**	**1,663**

The balances with public authorities relate principally to value added tax refunds outstanding to the Group.

As a result of the merger described in Note 1, PharmaMar notified the Spanish tax authorities in November 2015 that it had become the leading company of the corporate income tax group of which Zeltia, S.A. (merged company) had been the leading company prior to the merger. PharmaMar succeeded Zeltia with the same tax group number: 29/93.

Consequently, since 2015, the Company has filed corporate income tax returns on a consolidated basis. The following companies are included in the group's consolidated tax return: Genómica, ZelnovaZeltia, Xylazel, PharmaMar and Sylentis.

Because certain transactions are treated differently for corporate income tax purposes and in the preparation of these financial statements, the taxable base for the year differs from the book result. The deferred or prepaid taxes arise from the recognition of revenues and expenses in different periods under current tax regulations and for the purpose of preparing the financial statements.

The reconciliation of net revenues and expenses in 2016 to the income tax base is as follows:

	2016

(thousand euro)	Income statements		Revenues and expenses recognized directly in equity	
BALANCE OF REVENUES AND EXPENSES IN THE YEAR	-	**-11,474**	-	-
	Increase	**Decrease**	**Increase**	**Decrease**
Corporate income tax	5,705	-	-	-
Permanent differences	1,183	-	-	-
Timing differences:				
Arising in the year	324	-1,194	-	-
Arising in prior years	-	-2,066	-	-
TAX BASE	-	-7,521	-	-
Tax losses carried forward	-	-	-	-
TAXABLE INCOME		**-7,521**		

The corporate income tax expense in 2016 is as follows:

(thousand euro)	2016	2015
Current tax	-508	-1,992
Deferred tax	6,083	-3,514
Changes in tax rates and other regularizations	130	1,720
TOTAL TAX EXPENSE	**5,705**	**-3,786**

The corporate income tax expense is the result of applying the tax rate to taxable income, considering applicable research and development tax credits.

As a result of tax consolidation, the Company recognized 508 thousand euro in current tax revenues as a result of tax losses for the period that were offset within the Group.

Since 2009, the Company has availed itself of article 23 of the Corporate Income Tax Act, which provides an exemption for revenues from the assignment of rights to use or exploit patents, drawings, models, plans, or secret formulas or procedures, and rights on information relating to industrial, commercial or scientific experience.

The increase in permanent differences in 2016 included mainly 8,851 thousand euro from the reversal of impairments at a Group company (Noscira, S.A. in liquidation) which were recognized in prior years (before 2013) and which, by virtue of Royal Decree 3/2016, must be recognized in equal installments in the Group's tax base in the five tax years beginning in 2016. The entire provision may be deducted from the tax base in the year in which that company is disposed of or definitively liquidated.

Additionally, the decrease in permanent differences in 2016 corresponds mainly to the application of Article 23 of the Consolidated Text of the Corporate Income Tax Act in connection with income from the transfer of certain intangible assets created by the company, amounting to 6,163 thousand euro. Specifically, royalties were collected in 2016 from Johnson & Johnson and Taiho Pharmaceutical, giving rise to 5,779 thousand euro in revenues from the assignment of patent rights to commercialize Yondelis®. Additionally, the signature of new licensing contracts (Note 21.1.3) gave rise to the receipt of 11,128 thousand euro from the various licensees. The permanent difference in 2015 relate mainly to the application of Article 23 of the Consolidated Text of the Corporate Income Tax Act to income from the transfer of certain intangible assets created by the company. Specifically, the 17,173 thousand euro received from Johnson & Johnson and Taiho Pharmaceutical under the agreement to assign patent rights to commercialize Yondelis®.

The timing differences in 2016 relate mainly to the reversal of amortization recognized in previous years that was not deductible for tax purposes (1,781 thousand euro) as well as impairments of the investment in Promaxsa Protección de Maderas, S.L. plus loans granted to that company, which arose in prior years and were included in the tax base in the current year, when it abandoned the Group (1,000 thousand euro).

The timing differences in 2016 that arose in prior years relate to the amount of depreciation that is not tax-deductible under the tax measures implemented in 2013, the Company's employee stock ownership plan, and the accelerated depreciation that the Company took in its 2014 tax return.

As of 31 December 2016, the tax credits earned by the Company, after deducting the tax losses used by other group undertakings, that are available for use in future years are as follows:

Year	Amount of tax credit as of 31/12/2015	Used 2016	Earned 2016	Unused as of 31/12/2016
2006	4,527	-	-	4,527
2007	17,615	-	-	17,615
2008	7,316	-	-	7,316
2010	2,245	-	-	2,245
2011	3,603	-	-	3,603
2012	15,661	-	-	15,661
2015	39,798	-	-	39,798
2016	-	-	6,275	6,275
Total	**90,766**	**-**	**6,275**	**97,041**

As of 31 December 2016, the unused tax credits earned by the Company, mainly for R&D, were as follows (in thousand euro):

2016	(Miles de Euros)			
Año de generación	Importe Deducción al 31/12/2016	Aplicado 2016	Pendientes Aplicación al 31/12/2016	Año de vencimiento
1999	2.149	-	2.149	2017
2000	4.478	-	4.478	2018
2001	4.890	-	4.890	2019
2002	12.096	-	12.096	2020
2003	13.023	-	13.023	2021
2004	9.400	-	9.400	2022
2005	10.565	-	10.565	2023
2006	10.251	-	10.251	2024
2007	9.477	-	9.477	2025
2008	10.059	-	10.059	2026
2009	8.625	-	8.625	2027
2010	8.211	-	8.211	2028
2011	7.980	-	7.980	2029
2012	6.915	-	6.915	2030
2013	9.076	-	9.076	2031
2014	7.537	-	7.537	2032
2015	13.827	-	13.827	2033
2016	19.213	-	19.213	2034
TOTAL	**167.772**		**167.772**	

Under Act 27/2014, of 27 November, on Corporate Income Tax, and as a result of the changes in the tax rates, an expense item amounting to 1,720 thousand euro was recognized as of 31 December 2015 as a result of adjusting the amounts of deferred tax assets and liabilities.

The Company's balances with the other companies in the tax group in respect of corporate income tax and VAT as a result of tax consolidation are as follows:

(thousand euro)	Corporate income tax
Xylazel	322
ZelnovaZeltia	185
TOTAL RECEIVABLE	**507**
Genómica	609
Sylentis	1,677
TOTAL PAYABLE	**2,287**

(thousand euro)	VAT
Genómica	57
ZelnovaZeltia	98
TOTAL RECEIVABLE	**155**
ZelnovaZeltia	117
Xylazel	20
Sylentis	135
TOTAL PAYABLE	**272**

In June 2003, the Company (Zeltia, the merged company) sold an item of property, plant and equipment for 36,069 thousand euro. The total amount obtained from the sale was reinvested in subsequent years as follows:

In the year ended 31 December 2003, the Company applied the system envisaged in article 21 of Act 43/1995, dated 27 December, on Corporate Income Tax, to the amount of 27,054 thousand euro. That benefit was obtained due to the sale of certain items of property, plant and equipment for a sale price of 36,069 thousand euro. The total amount was reinvested as follows: 16,384 thousand euro in the year ended 31 December 2002 (from 16 June 2002), 18,892 thousand euro in the year ended 31 December 2003, and 794 thousand euro in the year ended 31 December 2004. These acquisitions did not obtain any other tax benefit.

In 2004, the Group sold certain items of property, plant and equipment for 3,178 thousand euro. It also availed itself of the benefits of article 21 of Act 43/1995, dated 27 December, on Corporate Income Tax. That amount was partly reinvested in 2004 (2,015 thousand euro) and in 2005 (1,768 thousand euro).

The breakdown of these reinvestments in euro, by asset type, is as follows:

(euro)	Brands	Structures	Laboratory equipment	Other	Total
Since June 2002	-	14,225	500	1,659	16,384
2003	8,700	6,353	1,317	2,522	18,892
2004	-	521	-	2,288	2,809
2005	-	122	-	1,646	1,768
Total	**8,700**	**21,221**	**1,817**	**8,115**	**39,853**

In 2006, Noscira (currently in liquidation) ceased to form part of the tax group as a result of a capital increase in which the holding in that subsidiary was reduced to below 75%.Noscira (currently in liquidation) is one of the companies in which the extraordinary gains obtained by the tax group in previous years had been reinvested. For greater legal certainty and so as not to forfeit the reinvestment tax credit earned in previous years, the assets (from June 2002 to December 2005) of Noscira (currently in liquidation) were replaced with assets acquired by PharmaMar in 2006.

As a result of the merger described in Note 1, on 21 November 2015, PharmaMar applied to the Spanish tax authorities for inclusion in the special tax regime for Value Added Tax Groups as the leading company.

As of 31 December 2016, that VAT tax group was comprised of Pharma Mar, S.A., as parent company, together with Genómica, S.A.U., Zelnova Zeltia, S.A., Xylazel, S.A. and Sylentis, S.A.U., since the Company considered that all of them, both controlling company and controlled companies, met the requirements of articles 163 quinquies and 163 sexies of the Value Added Tax Act and their Boards of Directors or equivalent governing bodies had approved the proposal to create a group under the Special VAT Group regime provided by Act 38/2006, using the "simple aggregation system".

Under current law, tax returns cannot be deemed definitive until they have been inspected by the tax authorities or the statute of limitations period has elapsed. The Group has the last three years open for review for the main taxes applicable to it (two years in the case of corporate income tax).

As a result, inter alia, of possible differing interpretations of the current tax legislation, additional liabilities might arise as a result of a tax audit. However, the Company's directors consider that such liabilities, if any, would not materially affect the financial statements.

On 6 January 2015, the Spanish tax authorities notified the company of plans to commence a partial tax audit of corporate income tax for the years 2010 to 2012, which would be confined to examining revenues from certain intangible assets reported by PharmaMar. On 20 January 2015, the Company applied to the tax authorities for the partial tax audit to be converted into a general tax audit covering the taxes and periods in question.

As a result, notification of the initiation of the tax audit was received in June 2015. It refers to the following periods and Group entities.

	Corporate income tax	VAT	Personal income tax - Spanish residents	Personal income tax - Non-residents	Income from capital
Zeltia, S.A.	2010-2013	2011-2013	2Q 2011 - 4Q 2013	2Q 2011 - 4Q 2013	2Q 2011 - 4Q 2013
Genómica, S.A.U.	2010-2013	2011-2013	2Q 2011 - 4Q 2013	2Q 2011 - 4Q 2013	2Q 2011 - 4Q 2013
Pharma Mar, S.A.	2010-2013	2011-2013	2Q 2011 - 4Q 2013	2Q 2011 - 4Q 2013	-
Zelnova Zeltia, S.A.	2010-2013	06/2011-2013	1Q 2012 - 4Q 2013	-	-
Xylazel, S.A.	2010-2013	06/2011-2013	1Q 2012 - 4Q 2013	-	-

The tax audit concluded in September 2016. The company accepted an assessment that resulted in a reduction in the tax base, and it disputed assessments for corporate income tax, personal income tax withholdings and prepayments, value added tax and non-residents' personal income tax. It filed pleadings with the Madrid Tax Inspectorate against the tax inspectors' proposal for regularization of tax bases and tax payments, plus penalties; decisions are pending. To the extent that those decisions result in adjustments to the tax base and tax payable, as well as late payment interest and penalties, since the company considers that, with the exception of some minor items, they lack merit, it will appeal them before the Central Economic-Administrative Tribunal (TEAC) or the Madrid Economic-Administrative Tribunal (TEAR), depending on the amounts involved.

There are currently two appeals pending before the Central Economic-Administrative Tribunal (TEAC): the first refers to rejection of the downward adjustment to revenues under article 23 of the Corporate Income Tax Act, in which pleadings have already been filed; the second is against a proposal to regularize tax withholdings and prepayments, made against PharmaMar, in which pleadings have yet to be entered.

The net amount of corporate income tax payable by the companies in the Spanish tax group in each of the years referred to in the disputed tax assessment is zero in all cases, since the companies in the Spanish tax group have tax losses and international double taxation tax credits which were applied in the tax authorities' proposal, in accordance with the regulations in force in each year. Consequently, in the worst case scenario, in which all of the tax groups' appeals were to fail, the tax payable would be zero and no late payment interest would accrue.

Regarding the other taxes whose assessments are being disputed, the amount of tax due plus late payment interest and penalties that would be payable in the event that none of the appeals succeeded would not result in a material reduction in the assets recognized by the Group.

Under the partial audit of corporate income tax confined to checking the reduction in revenue from certain intangible assets reported by PharmaMar, an assessment for taxes due was issued for 2011 and 2012 (not for 2010). However, the net tax due was zero since the assessed increases in taxable bases were offset (up to 50%) with loss carryforwards from previous years and the resulting total tax liability was offset by international double taxation tax credits. Nevertheless, the Company filed an appeal with the Economic-Administrative Appeals Tribunal. The disputed tax assessment also included the prior regularization of the partial assessment referred to in this paragraph.

23. FINANCIAL INCOME

The detail of financial income is as follows:

(thousand euro)	2016	2015
FINANCIAL REVENUES	**1,272**	**1,972**
Equity instruments	**579**	**1,334**
Group and associated undertakings (Note 28.2)	579	1,334
Marketable securities and other equity instruments	**693**	**638**
Group and associated undertakings (Note 28.2)	516	479
From third parties	177	159
FINANCIAL EXPENSES	**-4,176**	**-4,786**
On debts to group and associated undertakings (Note 28.2)	-206	-398
On debts to third parties	-3,970	-4,388
EXCHANGE DIFFERENCES	**-306**	**-78**
IMPAIRMENT AND INCOME FROM DISPOSAL OF FINANCIAL INSTRUMENTS	**202**	**-324**
Impairment of loans to group undertakings	52	-325
Income from disposals and other	150	1
FINANCIAL INCOME	**-3,008**	**-3,216**

The equity instruments item refers mainly to dividends from Group undertakings.

Revenues from marketable securities and other instruments of Group undertakings refer basically to interest received on loans granted to Group companies.

The balance of the " Impairment losses and income from disposal of financial instruments" item, 202 thousand euro, relates to the gain on the disposal of Promaxsa Protección de Maderas, S.L. (see Note 11).

The loss under this heading in 2015 referred to impairment of a loan to that company.

24. SHARE-BASED PAYMENTS

As of the end of 2016, PharmaMar and its Group undertakings had three share ownership plans for Group employees and executives (not including directors of Pharma Mar, S.A.) who receive annual variable remuneration, have an indefinite contract, have passed the trial period and have attained at least 50% of the objectives set for the year, excepting the Stock Ownership Plan approved by Zeltia's Shareholders' Meeting on 12 June 2013 and implemented by a decision of the Board of Directors on 28 February 2014, for which the threshold was 60%.
All the plans currently in force were approved by the Shareholders' Meeting of Zeltia (merged company) and executed by its Board of Directors. As a result of the merger described in Note 1, PharmaMar succeeded to the place of Zeltia in connection with the other rights and obligations inherent to those plans.

As regards the Stock Ownership Plans executed up to the date of authorization of these financial statements, below is a description of the essential terms and conditions approved by the Company's Board of Directors at the time of execution under powers granted specifically for this purpose by the Shareholders' Meeting. To date, at the start of each year, each of the Group undertakings that has decided to apply the Stock Ownership Plan has provided the Board of Directors with a list of beneficiaries, i.e. employees who meet the conditions set out in the resolution of the Shareholders' Meeting, detailing each beneficiary's degree of attainment of the objectives set for the year just ended. Since participation in the Plans has been voluntary to date, those lists have included only employees and executives who have opted to participate and allocate part of their variable remuneration to those Plans. In the light of the foregoing, the Board of Directors have approved that such beneficiaries be granted, by their respective employers, the amounts in shares specified in that list (in no event to exceed 12,000 euro per beneficiary per year), which includes, for each beneficiary, a multiplier coefficient based on their level of responsibility and performance during the previous year (and which is used as a basis for calculating the amount in shares). The number of

shares to be delivered to each beneficiary is determined by dividing the corresponding amount by the value assigned to the share, which is normally established, depending on the case, as either the weighted average price of the share in the electronic market on the execution date or the average of the weighted average price of the share in the month prior to execution.

Employee participation to date in these Plans has been voluntary; if the employee decides not to participate, his/her variable remuneration is delivered entirely in cash; however, no multiplier is applied to the cash amount.

The beneficiaries have the political and economic rights deriving from ownership of all the shares from the moment the shares are actually delivered, although the Board of Directors has resolved to establish a lock-up arrangement. In the Stock Ownership Plans that were in force at 2016 year-end, the lock-up period is 4 years from the date of delivery of the shares; nevertheless, some of the shares will be released 18 months after delivery: specifically, the number of shares resulting from dividing the total number of shares that were delivered by the coefficient established in the list, plus one. The delivery of those shares, which must remain locked up for the above-mentioned 4-year period, is subject to a condition subsequent which is understood to be met in the event of voluntary severance or fair dismissal of the beneficiary. In the event of cessation of employment due to a cause other than those two, the lock-up is lifted.

Year 2012 (Incentive Plan approved by the Ordinary Shareholders' Meeting on 15 June 2011)

On 15 June 2011, the Shareholders' Meeting approved another plan for the delivery of shares free of charge; it was executed in April 2012. The Company allocated 350,000 own shares to this plan.

In the execution of this incentives plan, a total of 349,880 shares were awarded in 2012 to 249 beneficiaries at a value of 1.4258 euro per share.

In 2013, a total of 87,672 shares were released under this Plan.

This plan ended in 2015 since the four-year lock-up period had expired, and the shares that were under lock-up were released (a total of 210,915 shares).

In relation to this Plan, a total of 51,293 shares have been cancelled: 10,209 shares purchased by the employee and 41,084 shares contributed by the Company.

Year 2013 (Incentive Plan approved by the Ordinary Shareholders' Meeting on 13 June 2012)

On 13 June 2012, the Shareholders' Meeting approved a new plan for the delivery of shares free of charge; it was executed in March 2013. The Company allocated 350,000 own shares to this plan.

A total of 234 beneficiaries were granted 349,866 shares in 2013, at a value of 1.3244 euro per share.

In 2014, 88,812 shares were released under this Plan.

In relation to this Plan, a total of 46,991 shares were cancelled: 2,969 shares purchased by the employee and 44,022 shares contributed by the Company.

At 31 December 2016, there were 214,063 shares contributed by the Company that have not vested.

Year 2014 (Incentives Plan approved by the Shareholders ‘Meeting held on 12 June 2013)

On 12 June 2013, the Shareholders' Meeting approved a new plan for the delivery of shares free of charge; it was executed in March 2014. The Company allocated 500,000 own shares to this plan.

In the execution of this Incentive Plan, a total of 236,070 shares were awarded in 2014 to 196 beneficiaries at a value of 2.7292 euro per share.

In 2015, 114,442 shares were released under this plan.

In relation to this plan, a total of 21,191 shares have been cancelled: 3,550 shares purchased by employees and 17,641 shares contributed by the Company.

At 31 December 2016, there are 100,437 shares contributed by the Company that have not vested.

Year 2015 (Incentive Plan approved by the Ordinary Shareholders' Meeting on 27 May 2014)

On 27 May 2014, the Shareholders' Meeting approved a new plan for the delivery of shares free of charge; it was executed in May 2015. The Company allocated 600,000 own shares to this plan.

In the execution of this Incentives Plan, a total of 167,311 shares were awarded in 2015 to 154 beneficiaries at a value of 3.9239 euro per share.

In 2015, 46,774 shares vested under this plan.

In relation to this Plan, a total of 19,061 shares have been cancelled: 5,058 shares purchased by employees and 14,003 shares contributed by the Company.

At 31 December 2016, there are 101,476 shares contributed by the Company that have not vested.

Year 2017 (Incentive Plan approved by the Ordinary Shareholders' Meeting on 23 June 2016)

The Shareholders' Meeting on 23 June 2016 approved a new plan for the delivery of shares free of charge with a double objective, as in previous years: to reward employees and executives whose performance in 2016 was satisfactory, and to incentivize beneficiaries to stay in the Group. The maximum number of shares that can be allocated for the execution of this Plan was set by the General Meeting at 500,000, which will be taken from treasury stock held by the Company at the time the plan is implemented. The Shareholders' Meeting determined the Plan's beneficiaries as Group employees and executives (excluding directors of Pharma Mar, S.A.) who have a permanent contract, have completed any trial period and collect variable remuneration in 2017 relating to attainment of objectives in 2016, provided that they attained over 50% of the targets established by their Department head or hierarchical superior.

In the case of Xylazel, S.A. and Zelnova Zeltia, S.A., only employees in professional group 0 will qualify as beneficiaries, as well as those employees who, though not belonging to that group, are designated by those companies' Boards of Directors, which may not designate more than 25 such employees per company (apart from those belonging to professional group 0). The Shareholders' Meeting empowered the Board of Directors to determine the other terms and conditions of the Plan. At the date of authorizing these consolidated financial statements, the Plan was pending execution, and the Board of Directors had yet to establish the conditions of same under the powers granted specifically for this purpose by the Shareholders' Meeting.

The following table shows the number of shares under each plan at 31 December 2016:

Plan / Fecha de concesión	Acciones adjudicadas en el Plan	Acciones compradas por empleado anuladas	Acciones compradas por empleado devengadas	Acciones compradas por empleados pendiente de devengo	Acciones aportadas por compañía anuladas	Acciones aportadas por compañía devengadas	Acciones aportadas por compañía pendiente de devengo	Número de acciones total pendiente de devengo	Valor razonable de la acción	Periodo de devengo
	(1)+(2)+(3)+(4)+(5)+(6)	(1)	(2)	(3)	(4)	(5)	(6)	(3)+(6)		
Plan 11 junio. 2011/concesión abril 2012	349.880	10.209	87.672	0	41.084	210.915	0	0	1,43	abr-16
Plan 12 junio. 2012/concesión marzo 2013	349.866	2.969	88.812	0	44.022	0	214.063	214.063	1,32	mar-17
Plan 13 junio. 2013/concesión marzo 2014	236.070	3.550	114.442	0	17.641	0	100.437	100.437	2,73	mar-18
Plan 14 junio. 2014/concesión mayo 2015	167.311	5.058	46.774	0	14.003	0	101.476	101.476	3,92	may-19
	1.103.127	**21.786**	**337.700**	**0**	**116.750**	**210.915**	**415.976**	**415.976**		

25. CONTINGENCIES

Under current legislation, tax returns cannot be deemed definitive until they have been inspected by the tax authorities or the statute of limitations period has elapsed. The Group has the last three years open for review for the main taxes applicable to it (two years in the case of corporate income tax).

A tax inspection of the Spanish Group for the years 2010, 2011, 2012 and 2013 concluded in September 2016 for the following taxes: corporate income tax, VAT, personal income tax (withholding tax), non-residents' personal income tax, and withholdings from income from capital. PharmaMar's management has made its best estimates of the tax risk represented by the tax assessments. This tax risk is not material in relation to the financial statements.

For the rest of the years open to inspection, the Company's directors do not anticipate that additional liabilities would arise or the amount of recognized assets might be reduced such as to have a material effect on these consolidated financial statements.

26. COMMITMENTS

26.1 Purchase and sale commitments

The Company has sale commitments to Johnson & Johnson and Taiho for 2017 amounting to a total of approximately 2,310 thousand euro.

26.2 Operating lease commitments

The minimum future payments for non-cancellable operating leases as of 31 December 2016 and 2015 are detailed in Note 9.

26.3 Share-based incentive plans

- Under the twelfth plan (June 2012) for delivery of shares free of charge, as of 31 December 2016, 214,063 shares delivered and subject to lock-up will vest in March 2017.

- Under the thirteenth plan (June 2013) for delivery of shares free of charge, as of 31 December 2016, 100,437 shares delivered and subject to lock-up will vest in March 2018.

- Under the fourteenth plan (June 2014) for delivery of shares free of charge, as of 31 December 2016, 101,476 shares delivered and subject to lock-up will vest in May 2019.

26.4 Other commitments

The company has provided comfort letters to credit institutions. Those comfort letters were mainly for Genómica.

The Company has also obtained several credit and guarantee lines from financial institutions in the amount of 1,192 thousand euro under which the company is listed as a borrower alongside Genómica and PharmaMar USA. PharmaMar is jointly and severally liable for the full amounts drawn down against those credit and guarantee lines, including amounts drawn by Genómica and PharmaMar USA.

PharmaMar is also listed a borrower on a loan to Genómica (577 thousand euro at 31 December 2016), for which PharmaMar is jointly and severally liable vis-à-vis the bank.

PharmaMar is the guarantor for Sylentis and Genómica vis-à-vis official bodies, such as the Centro para el Desarrollo Tecnológico e Industrial, for loans granted by the latter in the amount of 1,776 thousand euro.

27. DIRECTOR AND SENIOR MANAGEMENT REMUNERATION

27.1 Director remuneration.

The following table shows the remuneration granted in 2016 and 2015 to directors of PharmaMar:

(thousand euro)	2016	2015
Fixed remuneration for executive directors	1,111	929
Variable remuneration for executive directors	257	425
Remuneration for belonging to the Board of Directors	559	235
Board and Board committee attendance fees	393	216
Fixed remuneration for belonging to Board committees	515	87
Remuneration for belonging to Boards of other Group companies	115	894
Remuneration for Lead Independent Director	16	16
Other remuneration	337	1,172
Total	**3,303**	**3,974**

For the purposes of comparison with the previous year, it should be taken into account that the balance included as “Remuneration for belonging to the Board of Directors” in 2015 (235 thousand euro), the year in which Zeltia was merged into PharmaMar (specifically on 30 October 2015), contained the remuneration paid in the pre-merger period (January-October) to those directors who were directors of PharmaMar as of 31 December 2015, plus the remuneration paid by PharmaMar in the post-merger period (November-December).

“Remuneration for belonging to Board committees” in 2015 (87 thousand euro) contained just the remuneration corresponding to two months: November and December.

Additionally, regarding “Fixed remuneration for belonging to Boards of other Group companies”, it should be noted that in 2015 (894 thousand euro), the remuneration received from Zeltia (merged company) during the January-October 2015 period (for belonging to Zeltia's Board of Directors and sub-committees) by those directors who were directors of PharmaMar on 31 December 2015 was classified as remuneration received from the Group companies. In 2016, only the remuneration received from ZelnovaZeltia, Genómica and Xylazel is classified as "Fixed remuneration for belonging to Boards of other Group companies".

The "Other remuneration" item in 2016 refers to certain benefits paid to the Company's Chairman and Vice-Chairman, such as casualty and health insurance (both under the group policy for Company employees), an executive office at the Company's operational headquarters, communication equipment, means of payment, support staff, and a high-end vehicle. Additionally, each year the Company pays 12 thousand euro in premiums for life and saving insurance (life insurance-savings plan) for each of the two executive directors.

The "Other remuneration" item in 2015 refers to the bonus collected by the Executive Chairman, in the amount of one million euro gross, in accordance with the provisions of the contract for the provision of executive services dated 26 February 2015; that extraordinary remuneration accrued on the day the Food and Drug Administration (FDA) approved Yondelis® for commercialization in the United States (October 2015). Executive directors also receive benefits (casualty insurance, healthcare, etc.) and the executive chairman has the use of an executive suite, telecommunications equipment, high-end vehicle, support staff, etc.

As of 31 December the advances and loans granted by the Group to the members of the Board of Directors in 2015 amounted overall to 45 thousand euro, on which interest is not earned in accordance with the transitory provisions of the Spanish Personal Income Tax Act.

The company has arranged a civil liability policy for the members of the Company's Board of Directors. The premium paid in 2016 amounted to 182 thousand euro.

27.2 Senior management remuneration and loans

Company senior management received an aggregate total of 1,661 thousand euro in 2016 (1,518 thousand euro in 2015). One of those executives is a director at one of the Group undertakings and collected 16 thousand euro under this heading in 2016 (19 thousand euro in 2015), which are not included in the foregoing aggregate figure.

27.3 Companies related to the directors and executives and their close relatives

Transactions with companies related to directors and executives of the company and their close relatives in 2016 and 2015 were not material, formed part of the normal business of the Company or its subsidiaries, and were performed on an arm's-length basis.

A company related to one member of the Board of Directors provided services to two Companies of the Group amounting to 15 thousand euro.

In 2009, a company related to a member of the Board of Directors granted Zeltia a 2-year loan for an initial amount of 8,000 thousand euro. The transaction was arranged at market rates in line with other financing transactions offered to the Company at the same time, and without additional collateral; it was rolled over through February 2015, when it was repaid in full. The interest accrued on this loan in those two months of 2015 amounted to 48 thousand euro.

27.4 Directors' duty of loyalty

Based on the disclosures presented by each of the Company's directors, they and, to the best of their knowledge and belief, their related parties abstained from incurring in situations of conflict of interest as envisaged in article 229.1 of the Consolidated Text of the Capital Companies Act, except where they were authorized (see Note 27.3 Companies related to the directors and executives and their close relatives).

28. OTHER TRANSACTIONS WITH RELATED PARTIES

28.1 Balances with group companies

The detail of accounts payable to and receivable from group undertakings as of 31 December 2016 and 2015 is as follows:

(thousand euro) 2016	Non-current assets	Current assets	Current liabilities
Loans and other financial assets/liabilities	**12,491**	**2,030**	**9,209**
Genómica, S.A.U.	1,572	269	609
Sylentis, S.A.U.	10,919	33	1,812
Noscira, S.A.in liquidation	-	584	-
Zelnova Zeltia, S.A.	-	822	6,768
Xylazel, S.A.	-	322	20
Trade debtors/creditors	**-**	**7,655**	**2,174**
Pharma Mar, USA	-	-	138
PharmaMar, AG	-	733	65
Pharma Mar, Srl	-	3,277	-
Pharma Mar, GmbH	-	1,646	829
Pharma Mar, Sarl	-	1,860	561
Pharma Mar, Sprl	-	36	266
Pharma Mar, Ltd	-	67	148
Pharma Mar, Ges.m.b.H.	-	7	80
Genómica, S.A.U.	-	29	85
Instituto BIOMAR	-	-	2
TOTAL	**12,491**	**9,685**	**11,383**

(thousand euro) 2015	Non-current assets	CURRENT ASSETS	CURRENT LIABILITIES
Loans and other financial assets/liabilities	**11,796**	**3,031**	**14,617**
Genómica, S.A.U.	2,100	153	1,034
Sylentis, S.A.U.	9,696	109	5,053
Noscira, S.A. in liquidation	-	549	-
Promaxsa Protección de Maderas, S. L.	-	9	578
Zelnova Zeltia, S.A.	-	1,977	7,880
Xylazel, S.A.	-	234	72
Trade debtors/creditors	**-**	**11,040**	**1,282**
Pharma Mar, USA	-	-	359
PharmaMar, AG	-	782	65
Pharma Mar, Srl	-	6,080	14
Pharma Mar, GmbH	-	3,882	91
Pharma Mar, Sarl	-	155	531
Pharma Mar, Sprl	-	19	62
Pharma Mar, Ltd	-	48	36
Genómica, S.A.U.	-	5	124
Sylentis, S.A.U.	-	29	-
Promaxsa Protección de Maderas, S. L.	-	40	-
TOTAL	**11,796**	**14,071**	**15,899**

The non-current assets, comprising loans to group undertakings, refer to loans granted by the Company to its subsidiaries. One of them, to Noscira (currently in liquidation) and amounting to 7,611 thousand euro, has been written off.

The detail of current assets with Group undertakings in 2016 is as follows:

(thousand euro) 2016	Current accounts	Dividends	Due for purchases	Total
Genómica, S.A.U.	269	-	29	298
Sylentis, S.A.U.	33	-	-	33
PharmaMar, AG	-	-	733	733
Pharma Mar, Srl	-	-	3,277	3,277
Pharma Mar, GmbH	-	-	1,646	1,646
Pharma Mar, Sarl	-	-	1,860	1,860
Pharma Mar, Sprl	-	-	36	36
Pharma Mar, Ltd	-	-	67	67
Pharma Mar, Ges.m.b.H.	-	-	7	7
Noscira, S.A. in liquidation	584	-	-	584
Zelnova Zeltia, S.A.	283	538	-	822
Xylazel, S.A.	322	-	-	322
TOTAL	**1,491**	**538**	**7,655**	**9,685**

The total balance payable to group undertakings in 2016 is:

(thousand euro) 2016	Loans	Taxes	Provision of services	Total
Genómica, S.A.U.	-	609	85	694
Sylentis, S.A.U.	-	1,812	-	1,812
Pharma Mar USA	-	-	136	136
PharmaMar, AG	-	-	65	65
Pharma Mar, GmbH	-	-	829	829
Pharma Mar, Sarl	-	-	561	561
Pharma Mar, Sprl	-	-	266	266
Pharma Mar, Ltd	-	-	148	148
Pharma Mar, Ges.m.b.H.	-	-	80	80
Zelnova Zeltia, S.A.	6,652	116	-	6,768
Xylazel, S.A.	-	20	-	20
Instituto BIOMAR	-	-	1	1
TOTAL	**6,652**	**2,558**	**2,172**	**11,382**

Under current liabilities, taxes due are debts owed by the parent company to its subsidiaries as a result of tax consolidation of both corporate income tax and value added tax. In both cases, the amounts outstanding with the tax administration are recognized at PharmaMar, the head of the group, which also recognizes the account payable to its subsidiaries. Specifically, 2,074 thousand euro relate to corporate income tax and 272 thousand euro to VAT pending recovery in 2016. This item also includes the short-term part of two loans granted by ZelnovaZeltia amounting to 6,600 thousand euro (7,865 thousand euro in 2015) plus accrued outstanding interest amounting to 52 thousand euro (16 thousand euro in 2015).

28.2 Transactions with group undertakings

The amounts of the Company's transactions with group undertakings as of 31 December 2016 and 2015 are as follows:

TRANSACTIONS WITH GROUP UNDERTAKINGS EXPENSES (thousand euro)	2016	2015
Services received		
Genómica, S.A.U.	248	150
Pharma Mar, USA	218	153
PharmaMar, AG	107	104
Pharma Mar, Sarl	1,239	3,514
Pharma Mar, Srl	-	14
Pharma Mar, GmbH	301	519
Pharma Mar, Ltd	1,144	246
Pharma Mar, Sprl	689	62
Pharma Mar, Ges.m.b.H.	80	-
Xylazel, S.A.	3	-
Financial		
Zelnova Zeltia, S.A.	206	368
Xylazel, S.A.	-	32
Total expenses	**4,235**	**5,162**

TRANSACTIONS WITH GROUP UNDERTAKINGS Revenues (thousand euro)	2016	2015
Sales		
PharmaMar, AG	1,439	809
Pharma Mar, Srl	13,041	16,143
Pharma Mar, GmbH	14,023	14,148
Pharma mar, Sarl	3,973	-
Services provided		
Genómica, S.A.U.	21	19
Sylentis, S.A.U.	45	31
Pharma Mar, Srl	217	106
Pharma Mar, GmbH	503	185
PharmaMar, AG	-	3
Pharma Mar, Ltd	19	6
Pharma Mar, Sprl	17	6
Pharma Mar, Sarl	310	39
Zelnova Zeltia, S.A.	22	15
Xylazel, S.A.	19	37
Promaxsa Protección de Maderas, S. L.	-	144
Financial		
Genómica, S.A.U.	78	69
Sylentis, S.A.U.	384	313
Noscira, S.A. in liquidation	44	64
Zelnova Zeltia, S.A.	538	1,300
Promaxsa Protección de Maderas, S. L.	10	32
TOTAL REVENUES	**34,703**	**33,469**

The transactions with Group undertakings were conducted on an arm's-length basis.

29. SURETIES AND GUARANTEES

The sureties and guarantees provided by banks for subsidies and advances received by the Company from public authorities as of 31 December 2016 amounted to 10,064 thousand euro (11,789 thousand euro in 2015).

30. ENVIRONMENT

There were no material investments in environmental matters in 2016 and 2015.

The most significant installations that the Company has at present include:

- Atmospheric emissions: To control and clean emissions, the Company has scrubbers for gas from fume cupboards, absolute particle filters in the production area, and particle filters in the R&D department.

- Industrial discharges: the Company installed a network that separates industrial water, two tanks to homogenize discharges, and a discharge valve, pursuant to Madrid Region Law 10/93.

- Waste: the Company invested in the construction of two warehouses to store waste prior to removal and disposal.

Environmental protection and improvement expenses amounted to 57 thousand euro in 2016 (80 thousand euro in 2015) and relate mainly to waste disposal by third parties.

The Company is not aware of any significant environmental contingencies as a result of its activities.

31. AUDITORS' FEES

The fees accrued by PricewaterhouseCoopers Auditores, S.L. and other firms in its network amounted to 200 thousand euro in 2016 (132 thousand euro in 2015) for the statutory audit (of Pharma Mar, S.A. and PharmaMar and dependent companies), 525 thousand euro in 2016 for audit services other than the statutory audit, and 0 euro for other verification services in 2016 (95 thousand euro in 2015).

32. SUBSEQUENT EVENTS

In January 2017, the Company received the upfront payment contemplated in the PM 1183 licensing and development agreement signed in December 2016 with Chugai Pharmaceutical (Note 21), for a gross amount of 30.000 thousand euro.

In February, the Company rolled over credit lines amounting to 5,000 thousand euro in total.

Between year-end and the authorization of these financial statements, no significant events occurred that affect the content of these financial statements and there were no other events requiring disclosure.

2016 DIRECTORS' REPORT

1. Company situation

1.1. Organizational structure

Pharma Mar, S.A. (the Company) is the holding company of a group of companies (PharmaMar Group or the Group) which operates in two segments: biopharmaceuticals and consumer chemicals.

PharmaMar became the parent company of the Group in 2015 through a reverse merger of Zeltia (merged company) into PharmaMar (acquiring company). As a result of that merger, the entire net worth of Zeltia, with its rights and obligations, was transferred en bloc to the acquiring company, PharmaMar.

The Board of Directors of the Group parent company, Pharma Mar, S.A., defines the general strategy. It has the following sub-committees: Executive Committee, Audit Committee, and Remuneration and Appointment Committee.

1.2. Operations: Business model, strategy

The PharmaMar Group obtains its revenues from two main areas: biopharmaceuticals and consumer chemicals. Of those two areas, biopharmaceuticals is the main line of business; specifically, the group's primary activity is the development and sale of marine-based antitumour drugs. Oncology is the Group's fastest-growing and most strategic area.

Its business model focuses on discovering new marine-based antitumour molecules and developing them in preclinical and clinical trials with a view to producing new drugs with therapeutic advantages for oncology patients. The Group's strategy also includes the search for strategic alliances with partners, preferably industrial, to collaborate not only financially but also on advancing the compounds through the various research phases and in subsequent marketing.

One of the distinguishing factors of the oncology business model is the capacity to discover new molecules for the pipeline, thereby generating new drug opportunities for the company. The group has several antitumour molecules in its pipeline at various stages of development, the goal being to bring new compounds to market. PharmaMar also has its own sales network covering Europe. This not only allows it to sell its products directly, but also provides scope to leverage future opportunities to sell third-party products.

In biopharmaceuticals, apart from oncology, the group has other, smaller businesses, such as the development and sale of diagnostic and DNA analysis kits, conducted through subsidiary Genómica. Sylentis is conducting clinical trials in ophthalmology with the new gene silencing technology, RNAi.

In the area of consumer chemicals, the Group produces and distributes consumer products such as insecticides, air fresheners and household cleaning products through Zelnova Zeltia, and produces and sells wood protectors, varnishes and special paints through Xylazel.

Most of the Group's R&D and innovation spending is focused on oncology, its main strategic business. Oncology is the fastest-growing area, and the company maintains a firm commitment to R&D to bring new drugs to market.

2. Business performance and results

REVENUES	31/12/2016	31/12/2015
Sales	**164.034**	**161.992**
Biopharmaceutical Area	94.374	94.644
Oncology Segment	88.194	88.442
Comercial Yondelis sales	86.680	80.677
API Yondelis sales	1.514	7.765
Diagnostic Segment	6.180	6.202
Consumer Chemicals Segment	69.660	67.348
Royalties		
Oncology Segment	**5.779**	**1.788**
Licenses and co-developement agreements		
Oncology Segment	**11.129**	**29.034**
Services Rendered		
Not asigned	**5**	**1.003**
TOTAL REVENUES	**180.947**	**193.817**

EBITDA	31/12/2016	31/12/2015
Biopharmaceutical Area	-6.530	23.670
Consumer Chemicals Segment	5.308	5.122
Not asigned	-9.813	-9.452
TOTAL EBITDA	**-11.035**	**19.340**

(Thousand euro)

2-1 Total revenues

Net sales in the Biopharmaceutical segment amounted to €94.37 million, a 0.3% increase with respect to 2015 (€94.6 million). Of that figure, €88.2 million were in Oncology (PharmaMar) for Yondelis® sales, 0.30% less than in 2015 (€88.4 million).In 2015, Pharma Mar sold raw materials to its partners Janssen Products, LP and Taiho Pharmaceutical Co, Ltd. for €7.8 million to enable them to prepare stocks of Yondelis®, which was approved in their territories in that year. Sales of raw materials to those partners amounted to €1.5 million in 2016. Eliminating sales of raw materials to partners Janssen Products and Taiho Pharmaceutical Co, net commercial sales increased by 7.4% year-on-year in 2016. Sales in the Diagnostic segment (Genómica) totalled €6.2 million, the same as in 2015.

Sales by the Consumer Chemicals companies amounted to €69.7 million, a 3.5% increase year-on-year (€67.3 million in 2015).

Royalty revenues correspond to the Oncology segment. Royalties collected from Janssen Products and Taiho Pharmaceutical Co for sales of Yondelis in the US, Japan and the rest of the world except the European Union increased to €5.8 million in 2016 (from €1.8 million in 2015), after both companies obtained approval from their respective regulators to market Yondelis® in the fourth quarter of 2015.

Revenues from licensing and other co-development agreements, which correspond entirely to the Oncology segment, amounted to €11.1 million in 2016. The breakdown is as follows: €4 million from Chugai Marketing Pharma for the presentation of the Aplidin dossier to the European Medicines Agency (EMA), €1.1 million for smaller licensing contracts for Aplidin in a number of Asian countries, and recognition of €6 million which is part of the upfront payment under the Lurbinectidin (PM1183) license between PharmaMar and Chugai Pharmaceutical Co, Ltd signed in December. The upfront payment, which totalled €30 million and was received early in January 2017, will be recognised in revenues in line with the degree of progress with the obligations acquired by PharmaMar under the agreement, which consist of performing certain clinical trials.

In 2015, Yondelis® was approved for commercialization in the US and Japan, which triggered sizeable payments, and there was also the last payment under the Yondelis development plan (Coordination Agreement) signed with Janssen in 2011. Receipts under licensing agreements amounted to €29 million in 2015.

Consequently, **total revenues** amounted to €180.9 million in 2016, compared with €193.8 million in 2015 (-6.5%).

2.2. Revenues from other countries

Out of total 2016 revenues, 59%, i.e. €106.4 million, came from sales and transactions in other countries (63%, i.e. €121.3 million in 2015).

2.3. Margins: Gross margin and EBITDA

The Group's gross margin was 73% of total revenues in 2016 (72% in 2015). (Calculated using only sales and services revenues, excluding royalty and licensing revenues).

Group EBITDA in 2016 amounted to -€11.0 million (€19.3 million in 2015).
This variation is attributable mainly to two factors: 1) "Revenues under licensing and other agreements": amounted to €11.1 million in 2016, vs. €29.0 million in 2015; this deviation is due to the recognition in revenues of only €6 million of the €30 million upfront payment received for the Lurbinectedin (PM1183) license due to application of the standards for revenue recognition. As a result of this partial recognition, revenues from licences and other agreements were lower than in 2015, when revenues under this heading were collected from Janssen Products and Taiho Pharmaceutical Co for attaining Yondelis® milestones; and 2) R&D expenditure increased by €18 million net in 2016, basically as a result of ongoing Phase III trials. The impact of these two items partly offset the €5 million increase in net sales and royalties.

(EBITDA: earnings before interest, taxes, depreciation and amortization).

2.4. R&D expenditure

R&D expenditure increased by 25% year-on-year (+€16.2 million), from €63.5 million gross in 2015 to €79.8 million in 2016. The Oncology area spent €72.3 million in 2016 (€55.6 million in 2015), while the Diagnostics and RNA interference areas spent €7.3 million (€7.9 million in 2015). In 2016, Oncology capitalised €1.4 million of R&D expenses (€3.3 million in 2015); accordingly, net investment increased by 30% (+€18.1 million) in the year.

R & D	December 2016	December 2015	Dif[a]	Var.
Oncology Segment	-72.301	-55.610	-16.691	30%
Diagnostic Segment	-2.426	-2.218	-208	9%
RNAi Segment	-4.890	-5.687	797	-14%
Consumer Chemicals Segment	-163	-34	-129	
	-79.780	**-63.549**	**-16.231**	**26%**
- Capitalization R&D	1.357	3.258	-1.901	-58%
TOTAL R & D EXPENSES	**-78.423**	**-60.291**	**-18.132**	**30%**

(Thousand euro)

Increased R&D spending in the oncology segment was due mainly to the considerable progress achieved in the clinical trial with Lurbinectedin (PM1183) in platinum resistant ovarian cancer and small-cell lung cancer, as well as a number of preclinical and clinical trials with that same compound.

2.5. Marketing and commercial expenses

Marketing and commercial expenses amounted to €47.7 million in 2016 (€48.6 million in 2015). The biopharmaceutical segment accounted for €29 million (€29 million in 2015). Commercial expenses in the chemical segment amounted to €18.6 million in 2016 (€19.6 million in 2015).

2.6. Income attributable to the parent company

Income attributable to the parent company amounted to -€24.1 million, compared with €6.6 million in 2015. This difference arose mainly because of a net €18.1 million year-on-year increase in R&D expenditure, and of the recognition of a lower amount of licensing revenues due to only partial recognition (€6 million) of the total €30 million upfront payment received for the Lurbinectedin (PM1183) licensing contract.

2.7. Other events that impacted the 2016 financial statements

Licensing agreements and strategic alliances:

In December, 2016 PharmaMar signed an exclusive licensing, development and commercialization agreement in Japan with Chugai Pharmaceutical Co. Ltd. for its third marine-derived anticancer drug, PM1183 (lurbinectedin). Under the terms of the agreement, PharmaMar collected an upfront payment of €30 million and will receive double-digit stepped royalties on sales of PM1183 by Chugai if and when the drug is authorised for commercialization in Japan. The agreement also provides for other payments by Chugai to PharmaMar upon attaining certain milestones relating to clinical development, regulatory events and product sales, potentially totalling over €100 million.

In February 2016, an agreement was signed with Singapore-based Specialised Therapeutics Asia Pte, Ltd (STA) to market marine-based anti-tumour compound APLIDIN® (plitidepsin) for the treatment of haematological tumours in 12 Asian countries: PharmaMar received, and recognized as revenue, an up-front payment in the amount of €229 thousand. PharmaMar will retain exclusive production rights and will supply the finished product for marketing.

In October, 2016 a licensing agreement was signed with Boryung Pharm to commercialize the marine-derived anti-tumour drug Aplidin® (plitidepsin) in South Korea. Under the terms of the agreement, PharmaMar will receive an upfront payment along with royalties and additional remuneration upon achieving regulatory milestones with Aplidin®. PharmaMar will retain exclusive production rights and will supply the finished product to Boryung Pharm for commercial use. Pharma Mar received and recognized as revenue an up-front payment amounting to €450 thousand and a regulatory milestone amounting to €450 thousand.

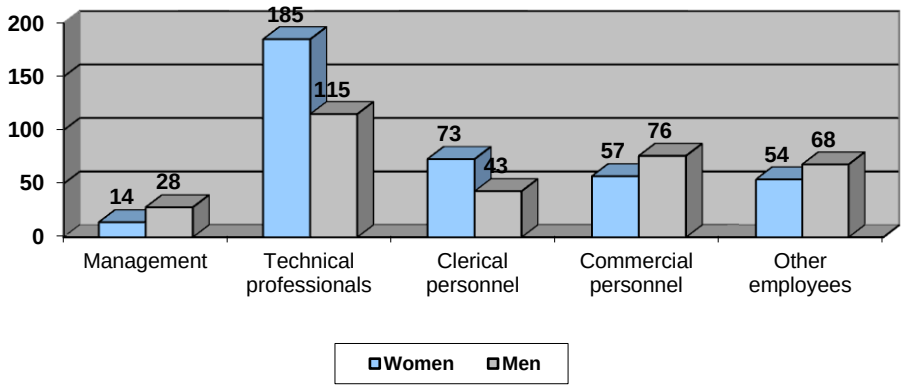
The two companies in the consumer chemicals segment increased both revenues and exports. Zelnova continued to expand internationally. Xylazel moved strongly into the interior decoration niche, successfully distributing chalky finish paints for furniture.

2.8. Personnel

The Group had 713 employees at year-end (700 in 2015).There were 400 employees in the oncology segment, 53 in diagnostics, 20 in RNAi, 215 in consumer chemicals, and 25 unassigned to any segment.

Women account for 53.7% of the workforce.

The bar graph below illustrates segmentation by gender and category:



2.9. Environmental issues

The Company did not need to incur material investments to protect and improve the environment during the year.

Since there were no contingencies relating to environmental protection and improvement and there are no risks that could have been transferred to other companies, it was not necessary to recognize any provisions for environmental actions in the year.

2.10. Average period taken to pay suppliers:

Information on payments for commercial transactions performed in 2016 that were outstanding at the end of the year, in relation to the maximum legal payment periods envisaged in Act 15/2010, is as follows:

	2016 Days
Average period taken to pay suppliers	51
Ratio of paid transactions	53
Ratio of outstanding transactions	43

Total payments made (€' 000)	82,721
Total payments outstanding (€ '000)	10,676

The average supplier payment lag in 2016 was 51 days (50 days in 2015).

3.- Liquidity and Capital

The net cash position (cash + cash equivalents + current financial assets) amounted to €32.4 million as of 31 December 2016 (€45.6 million in 2015). Including non-current financial assets, the total was €33.5 million as of 31 December 2016 (€46.7 million in 2015).

For comparison with the balance sheet figures, the Group's total net interest-bearing debt at amortized cost in the last two years is detailed below:

	December 2016	December 2015
Long term debt	**67.583**	**64.973**
Bank debt	25.351	20.651
Govt. agencies: R&D funding (interest free debt)	16.350	16.350
Obligations and bonds	25.882	27.972
Short term debt	**27.906**	**28.629**
Credit facilities	10.958	10.558
Effects and certifications	1.238	2.148
Bank loan	10.685	11.585
Govt. agencies: R&D funding (interest free debt)	4.438	3.753
Interest and others	587	585
Total financial debt	**95.489**	**93.602**
Cash & cash equivalents + no current and current financial investments	**33.505**	**46.692**
TOTAL NET DEBT	**-61.984**	**-46.910**

When analysing the Group's liquidity as of 31 December 2016, it is necessary to take account of the licensing agreement for PM1183 that PharmaMar signed with Chugai Pharmaceutical Co on 22 December 2016. The contract provides for a non-refundable upfront payment of €30 million. That payment was collected in early January 2017. The payment from Chugai Pharmaceutical Co enhanced the Group's financial position, though it is not reflected in the 2016 treasury figures.

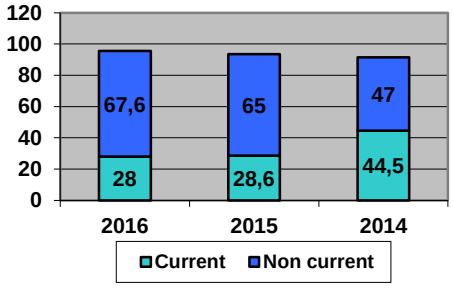
Gross debt remained at similar levels to the previous year. New long-term loans were arranged in 2016 which were used to repay loans maturing in the year, maintaining a good debt structure.

Cash and cash equivalents plus current financial assets declined in year-on-year terms in line with the increase in R&D expenditure in the year.

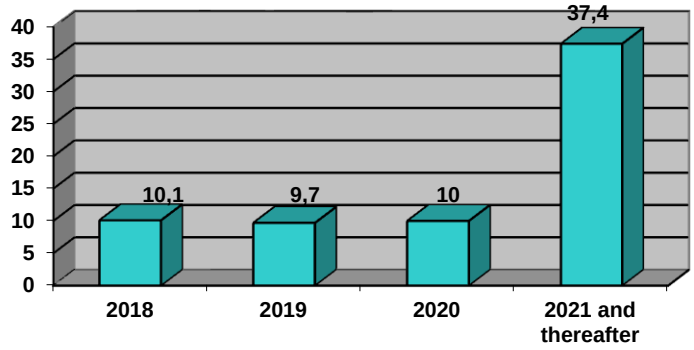
Additionally, in connection with the cash position, the Company received a €30 million gross upfront payment under the PM1183 licensing and development agreement in January 2017, which is not reflected in the 2016 financial statements.

In 2015, the Company decided to issue non-convertible bonds for an amount of €17 million in order to strengthen its financial position and extend its debt maturity profile. The bonds, maturing in 12 years, were acquired by a Spanish investor. The bonds accrue a fixed coupon of 4.75% and are listed in the *Mercado Alternativo de Renta Fija* (MARF).

The graph below shows the Group's debt, both current and non-current, in the last three years.



The graph below shows annual maturities of long-term debt at amortized cost:



4.- Primary Risks and Uncertainties

4.1. Situation risks

Competition.
The chemical and pharmaceutical market is highly competitive and involves multinationals, small and medium-sized domestic players, and generic producers.

The PharmaMar Group's results may be affected by the launch of novel or innovative products, technical and technological progress, and the launch of generics by competitors.

Industrial property. Patents.
Industrial property is a key asset for the PharmaMar Group. Effective protection of industrial property is vital for ensuring a reasonable return on investment in R&D. Industrial property can be protected by registering patents, trade marks, brand names, domains, etc.

Patents run for 20 years in most countries, including the USA and the European Union. The effective period of protection depends on how long drug development takes before launch. To compensate partly for such a long development period and the need to obtain authorization before marketing a drug, a number of markets (including the USA and the European Union) offer patent extensions of up to five years in certain circumstances.

Deficient protection of an invention or excessively long development times that limit the patent's useful life are risks inherent to the pharmaceutical business.

The PharmaMar Group has a rigorous patent policy which seeks to protect inventions obtained through its R&D activities. In addition to the protection that can be obtained for newly-discovered active principles, we also actively pursue protection for new formulations, production processes, medical applications and even new methods of drug administration.

The Group has a system for managing its patents' life cycle, with patent departments that regularly review the patent situation in coordination with the regulatory affairs department. It is also vigilant to detect breaches of our patents by other companies with a view to taking legal action if necessary.

Regulation
The chemical and pharmaceutical industry is highly regulated. Regulations cover such aspects as research, clinical trials, drug registration, drug production, technical validation of production standards, and even marketing. Regulatory requirements have become more stringent in recent times and this trend is expected to continue.

Pharmaceutical prices are controlled and regulated by the government in most countries. In recent years, prices have been reduced and reference prices have been applied.

To offset the risk of a constant flow of new legal and regulatory requirements, the Group makes its decisions and designs its business processes on the basis of an exhaustive analysis of these issues by our own experts, and prestigious external experts where necessary.

Capital availability
Because the markets are not always open and PharmaMar Group makes significant R&D investments each year, the group seeks a range of funding sources, in both the credit and capital markets, to finance its growth, implement its strategy and generate income in the future.

The Group has spread out its risk considerably among various credit institutions, which provides it with greater flexibility and limits the impact in the event that any of its loans are not rolled over.

The Group also issued long-term debt in order to diversify its funding sources.

Shareholders
As in the case of any listed company, there is the risk that a shareholder may consider that a decision by the Board of Directors or the Group's executives is harmful to his/her interests as a shareholder and file a complaint.

The Group has director and executive liability insurance which covers the risk of a shareholder filing a complaint on the grounds that a decision by the Board of Directors or the Group's executives is harmful to his/her interests.

4.2. Operating risks

Commodity prices
Deviations from expected price levels and a strategy of buying and accumulating inventories of commodities expose the organization to excessive production costs and to losses on inventories.

The Group conducts an in-depth analysis of prices at the beginning of the year and tries to obtain a closed price for the year from its suppliers. The products' cost prices are set on this basis. Prices are checked on a monthly basis to detect any need for modification, although petroleum derivatives are subject to sharp variations that are not always predictable (butane, solvents, plastics, etc.).

Health and safety
Failure to provide a safe workplace for its employees would expose the Group to sizeable expenses, loss of reputation and other costs.

Workplace health and safety is monitored exhaustively in pursuit of continuous improvement.

Exposure of laboratory personnel to new natural or synthetic compounds whose possible adverse effects are unknown creates a theoretical health and safety risk in addition to the standard risk of handling chemicals.

The Group has implemented a workplace health and safety system, which is audited regularly to ensure compliance.

The Company has also arranged casualty and third-party liability insurance.

One Group undertaking, whose workforce accounts for 59% of the Group total, is certified to the OHSAS 18001 Occupational Health and Safety Management System standard.

Environmental

Environmental risks can generate potentially significant liabilities for companies. The greatest risk lies in third-party claims for harm to persons and property as a result of pollution.

The Group's production processes generally have a very low risk of environmental impact (noise, smoke, discharges, etc.) and generate almost no waste.

Waste management is outsourced to public recycling and waste management companies. Regular compliance checks are conducted and, where necessary, atmospheric emissions are monitored, water purification systems are installed and the Group has designated points for depositing separated waste for subsequent management.

Two of the Group's largest subsidiaries are certified to ISO 14001, which establishes how to implement an effective environmental management system, allowing the company to maintain returns and minimize its environmental impact.

Product development

The Group allocates a considerable volume of resources to researching and developing new pharmaceutical products. As a result of the length of this process, the technological challenges involved, the regulatory requirements and the intense competition, it is not possible to be sure that all compounds currently under development and those to be developed in the future will reach the market and attain commercial success.

To maximize the effective and efficient use of our resources, the Group has implemented a horizontal working structure across the various departments, project-specific teams and reporting systems to monitor R&D projects internally.

4.3. Information risks

Malfunction of the Group's internal information flows poses the risk of misalignment with strategy and of erroneous or mistimed decisions.

Market disclosures

The Group is also obliged to disclose certain financial information and make other regulatory disclosures that must be truthful, complete and timely. Failure to comply carries the risk of punishment and of a loss of credibility.

PharmaMar's management and directors have inside information about the Group's progress.

There are control systems in place to know who is in possession of certain information at a given time, aimed mainly at complying with the securities market legislation governing inside information.

Information systems

Failure to apply proper access controls in information systems (data and software) may lead to unauthorized discovery, unauthorized access to data or the untimely delivery of same, and improper use of confidential information.

Lack of important information at a crucial time may adversely affect the continuity of the organization's critical processes and operations.

As technology progresses, the PharmaMar Group adapts its physical and legal security policies in connection with the information and communication systems.

The PharmaMar Group has several data processing centres. As far as possible, those centres use the same technology so as to minimize technological diversity and share services that are susceptible to use by more than one business unit (basically in the area of security, support and maintenance).

Access to information is controlled on a person-by-person basis using current technology, and there are redundant fault-tolerant systems in mission-critical areas together with procedures to restore those systems in the shortest possible time. Data integrity is guaranteed using backup systems.

The PharmaMar Group uses third-party technology infrastructures and has service level agreements with those third parties to minimize the impact of any degradations; it also generally has redundant or duplicate infrastructures.

4.4. Financial risks

4.4. A. Market risk

Price risk

The Group is exposed to price risk of available-for-sale equity instruments and of shares in exchange-traded funds at fair value through profit or loss. As for traded commodities, the consumer chemical segment's operations are affected by the price of oil.

Investments in available-for-sale equity instruments are securities of foreign biopharmaceutical companies. Nevertheless, the Group's volume of investment in this type of asset is not material in the context of its operations.

Interest rate risk on cash flows and fair values

The Group's interest rate risk arises from remunerated financial assets that can be converted into cash. The remunerated financial assets consist basically of deposits remunerated at floating interest rates referenced to Euribor.

Floating-rate debt securities expose the Company to interest rate risk on its cash flow. Fixed-rate debt securities expose the Company to interest rate risk on the fair value.

Based on a number of scenarios, at times the Company manages the interest rate risk of its cash flow by means of floating-to-fixed interest rate swaps. The economic impact of these swaps is to convert floating-rate debt into fixed-rate debt. Under interest rate swaps, the Company undertakes to exchange, at regular intervals, the difference between the fixed and floating interest rates on the notional principals that are contracted.

Exchange rate risk

Exchange rate risks arise from future commercial transactions, recognized assets and liabilities and net investments in foreign operations. The Company is exposed to exchange rate risk on transactions in foreign currencies, particularly the US dollar.

Management does not consider it necessary to establish any policy for hedging the foreign currency risk vs. the functional currency.

4.4. b. Credit risk

Credit risk arises from financial assets arranged with banks.

The banks and financial institutions with which the Company works generally have independent ratings.

Where the Company acquires other financial assets, it must apply the following policies:

• Acquisition of fixed-income funds that invest in public- or private-sector debt (government bonds, treasury bills and commercial paper), generally secure, which pay periodic coupons.

• Acquisition of money market funds comprising short-term fixed-income securities (18 months maximum), where security is given priority in exchange for a yield that is generally lower than other investments.

4.4. C. Liquidity risk

The risk of not obtaining funds to honour debt obligations when they come due.

Prudent liquidity risk management entails having sufficient cash and marketable securities, financing via sufficient credit facilities, and the capacity to settle market positions. The goal of the Group's financial department is to maintain flexibility in funding by having credit lines and sufficient funds in financial assets to cover obligations, particularly in the biopharmaceutical segment.

When assessing liquidity risk at the date of authorization of these 2016 financial statements, it should be noted that PharmaMar signed a licensing, development and marketing agreement for PM1183 with Chugai Pharmaceutical Co. on 22 December 2016. The contract provides for a non-refundable upfront payment of €30 million. That payment was collected in early January 2017. The payment from Chugai Pharmaceutical Co enhanced the Group's financial position, though it is not reflected in the 2016 year-end figures.

PharmaMar's directors believe the Group has liquidity to cover its research and development projects and fulfil its future commitments for the following reasons:

- The Group has a sound balance sheet.
- The Group's ability to renegotiate its debt if it is considered necessary.
- The company has unused credit lines in the amount of €20 million.
- The Group ended the year with cash and cash equivalents plus current and non-current financial assets amounting to €33.5 million.

5.- Subsequent events

In January 2017, the Company received the upfront payment contemplated in the PM1183 licensing, development and commercialization agreement signed in December 2016 with Chugai Pharmaceuticals for a gross amount of €30,000 thousand.

In February 2017, one of the Group companies terminated the contract with one of its executives. The Directors consider that this event might entail a cost of approximately €800 thousand. The decision was taken in 2017 and, consequently, no provision was recognised in this connection in the 2016 financial statements.

Some credit lines are renewed automatically and, to date, experience shows that they have been renewed systematically with the same banks. Credit lines amounting to €5,000 thousand were renewed in January and February.

6.- 2017 outlook

In our main business, oncology, the company will continue with its product development plan during 2017; the bulk of R&D and innovation expenditure will be allocated to Lurbinectedin (PM1183). In the second half of 2017, we expect to obtain the results of the Phase III registration trial with this compound in patients with platinum-resistant ovarian cancer. During the year, we will continue to recruit patients for the Phase III registration trial in small-cell lung cancer, which commenced in 2016. We are also finalizing the design of a new registration trial in BRCA2 breast cancer, which we plan to commence in 2017. As for Aplidin, in 2017 we expect to receive a reply from the European Medicines Agency (EMA) to the marketing authorization application that was presented in 2016. The company also plans to commence clinical trials with a new compound that is currently at the preclinical stage.

Efforts will continue to obtain new licensing agreements and/or to create new strategic alliances with other companies and to develop those under way, since all these alliances enhance our position as an oncology company.

After one year of sales of Yondelis in the US and Japan for treating soft tissue sarcoma, the royalties from sales in those two major countries are expected to grow in 2017 in line with our partners' sales projections.
The consumer chemicals segment is expected to continue expanding domestic sales and exports in 2017 and to add new products, both proprietary and under license.

7.- R&D and Innovation

R&D and innovation are a key component of the Group's strategy, and it spent €79.8 million in this area in 2016.

Of that total, €72.3 million was allocated to oncology, €4.9 million to RNAi in ophthalmology, €2.4 million to the diagnostic area, and €0.16 million to the Consumer Chemicals companies. A net amount of €1.4 million in R&D expenses was capitalised in 2016.

The main progress and results in R&D in 2016 by area of activity are as follows:

1.- ONCOLOGY: PHARMA MAR, S.A.

The activities and progress for each of the group's compounds in 2016 are detailed below:

a) Yondelis®:

The post-authorization trials (both observational and retrospective) with Yondelis® in the two approved indications (soft tissue sarcoma and platinum-sensitive ovarian cancer) continued satisfactorily in 2016.

At year-end, there were 26 open trials: 17 in soft tissue sarcoma and 9 in ovarian cancer. Research into Yondelis® that was presented at the leading oncology meetings generated a large number of abstracts and publications during the year.

Soft-tissue sarcoma

A number of major international publications were presented in 2016, such as the T-SAR randomised Phase III trial with trabectedin compared with best supportive care, conducted in France by the French sarcoma group, and the ISG-STS 101-01 trial in neo-adjuvant treatment, conducted by the Italian Sarcoma Group and the Spanish Sarcoma Research Group. Results from the TOMAS Phase I trial with trabectedin in combination with olaparib were presented at the American Society of Clinical Oncology (ASCO) annual meeting in June 2016.

Ovarian cancer

Recruitment continues satisfactorily in the NIMES-ROC international prospective observational trial on the efficacy and safety of the Yondelis® + PLD combination in real life in patients previously treated, or not, with antiangiogenics.

The INOVATYON Phase III trial comparing the Yondelis® + PLD combination with the carboplatin + PLD combination, headed by Gruppo MaNGO (Mario Negri Gynecologic Oncology), continued recruiting very actively in eleven European countries in 2016.

The MITO 23 Phase III trial comparing Yondelis® as monotherapy vs. investigator-choice chemotherapy in patients with a BRCA mutation or a BRCAness phenotype is being conducted in cooperation with the Italian MITO group.

Regarding combinations with other drugs for this indication, the IRFMN-OVA 6152 Phase II trial with trabectedin + bevacizumab, with and without carboplatin, which is being promoted by the Mario Negri Institute in Milan, is ongoing; interim data from this trial were reported to the International Gynecologic Cancer Society meeting in Lisbon.

Other indications

Recruitment is continuing in the ATREUS Phase II trial promoted by the Mario Negri Institute for Pharmacological Research (IRCCS) in cooperation with the Department of Medical Oncology at San Gerardo Hospital (Monza, Italy) to evaluate the activity and safety of Yondelis® in malignant pleural mesothelioma (MPM).

Recruitment is also continuing satisfactorily in the EORTC 1320-BTG trial, conducted in cooperation with the European Organization for Research and Treatment of Cancer (EORTC); this Phase II randomised trial with Yondelis® in patients with highly recurrent meningioma seeks to assess the drug's efficacy and safety in comparison with the standard treatment.

b) Aplidin®

Multiple Myeloma

In September, PharmaMar filed an application with the European Medicines Agency (EMA) for authorization to market Aplidin® (plitidepsin) in combination with dexamethasone for treating relapsed or refractory multiple myeloma.

That application was made using data from the ADMYRE Phase III trial, which assessed Aplidin® (plitidepsin) in combination with dexamethasone vs. dexamethasone as monotherapy in patients with relapsed or refractory multiple myeloma. That trial, which concluded in the first quarter of the year, disclosed a statistically significant 35% reduction in the risk of progression or death vs. the comparator, thereby achieving the primary endpoint.

The Phase II trial with Aplidin® in combination with bortezomib and dexamethasone in patients with double refractory multiple myeloma has commenced, having opened the centres in Spain, Italy and France.

The Phase I trial with Aplidin® in combination with bortezomib in patients with relapsed or refractory multiple myeloma continues recruiting in the expansion phase. Between 15 and 20 new evaluable patients are expected to be added in this stage.

A new Phase I trial has been designed with Aplidin® in combination with bortezomib, pomalidomide and dexamethasone in patients with multiple myeloma exposed to proteosome inhibitors who are refractory to lenalidomide. This trial will be conducted at centres in Spain and the Czech Republic. We are currently awaiting approval from the ethics committees and the regulators.

T-cell lymphoma

The registration trial with Aplidin® as monotherapy in patients with angioimmunoblastic T-cell lymphoma has commenced recruitment and opened new centres in Spain, the Czech Republic, Italy and the US. The trial will include 60 patients at approximately 25 centres in Europe and the US.

c) PM1183

Platinum-resistant ovarian cancer

The CORAIL Phase III pivotal trial with PM1183 as monotherapy vs. topotecan or pegylated liposomal doxorubicin in patients with platinum-resistant ovarian cancer completed recruitment in October 2016. A total of 442 patients were enrolled.

In August, PharmaMar received the green light from the Independent Data Monitoring Committee (IDMC) to continue with this trial. This decision was based on a futility analysis conducted with the first 210 patients (50% of the total) which assessed the safety and efficacy of PM1183 in this indication.

The trial's primary endpoint is to assess progression free survival; secondary endpoints are overall survival, the objective response rate and patient quality of life variables. Patients are currently being monitored to determine progression-free survival and secondary variables.

Small-cell lung cancer (SCLC)

In August, PharmaMar commenced the ATLANTIS Phase III trial, which compares the activity and safety of the combination of PM1183 (lurbinectedin), a drug of marine origin, plus doxorubicin with topotecan or CAV (cyclophosphamide, adriamycin and vincristine) for treating patients with small-cell lung cancer who have relapsed after a first round of platinum treatment. Topotecan is the only drug approved in the US and Europe for this indication. FDA approval to commence the trial had been obtained in February.

ATLANTIS is an open, randomised controlled multicentre Phase III trial that will enrol 600 patients in over 150 centres worldwide over a period of 17 months. The trial's primary endpoint is to demonstrate an increase in progression free survival in the experimental arm, as assessed by an IDMC using the RECIST 1.1 criteria. Secondary endpoints include overall survival, response duration, quality of life variables, response rates in accordance with RECIST 1.1, and the correlation between pharmacokinetics and pharmacodynamics.

Advanced breast cancer

In the Phase II clinical trial in advanced breast cancer, recruitment is ongoing in the A1 arm, consisting of breast cancer patients with BRCA 1 or 2 mutations who had been pre-treated with PARP inhibitors.
The clinical data obtained from analysing the A arm (breast cancer patients with a BRCA 1 or 2 mutation) were selected for an oral presentation at the European Society for Medical Oncology (ESMO) 2016 Conference, held in Copenhagen from 7 to 11 October 2016.

The registration strategy for PM1183 in breast cancer patients with the BRCA gene mutation was discussed and agreed upon with the FDA at a meeting in Washington in December 2016.

Basket trial in advanced solid tumours

Recruitment is continuing for the Phase II trial with PM1183 as monotherapy in indications chosen on the basis of the drug's action mechanism or on the basis of its activity as observed previously in combination trials. Those indications are small cell lung cancer, neuroendocrine tumours, cancer of the head and neck, germ cell cancer, endometrial cancer, bile duct cancer, cancer of unknown primary origin (CUP), and Ewing sarcoma. Recruitment is continuing in the cohorts of endometrial cancer, small-cell lung cancer, germ cell cancer and Ewing sarcoma. The trial is being conducted in Belgium, France, Germany, Italy, Spain, Switzerland, the United Kingdom and the United States.

Combination trials

As regards Phase I combination trials, recruitment was completed for the combinations with doxorubicin, cisplatin, capecitabine and paclitaxel with or without bevacizumab. The latter two trials produced promising preliminary results in a range of breast cancer types, among others; consequently, the next stages of development for this indication are currently being assessed. These results were presented as a poster at the European Society for Medical Oncology (ESMO) 2016 Conference, which was held in Copenhagen from 7 to 11 October this year. The results of the combination trial with cisplatin were presented at the European Cancer Organisation (ECCO) Congress, which was held in Amsterdam on 27-30 January 2017.

Recruitment continues on schedule for the Phase I trial in combination with irinotecan.

d) PM184

The Phase I dose escalation trial assessing the combination of PM184 with gemcitabine is recruiting on schedule. It is being conducted at two centres, one in Spain and one in the US. There are plans to enrol patients

with specific diseases in which clinical benefit has been observed, such as non-small-cell lung cancer, breast cancer and tumours of the head and neck.

The Phase II trial with PM184 is being conducted in hormone-receptor positive advanced breast cancer patients; recruitment is advancing on schedule.

2.- Diagnostics: Genómica

There was considerable R&D activity in 2016.In the area of infectious diseases, an enhanced version of the CLART® PneumoVir kit was launched which focuses on detecting respiratory viruses; CLART® PneumoVir2 allows faster detection of more targets than its predecessor, including coronavirus OC43, coronavirus NL63 and influenza A H7N9.Also, a new version of CLART® HPV2 was released. This is a lyophilized product that can be transported and stored at room temperature, which is an advantage by avoiding the drawbacks of shipping a frozen product to distant countries and should open up new sales opportunities.

As for oncology, the CLART® EGFR BL kit for detection in blood of 39 mutations of the EGFR gene which are significant in lung cancer was released. This kit makes it possible to track and monitor an oncological patient without requiring a solid biopsy.
Additionally, the CLART®CMA ALK-ROS1 kit, launched in 2016, detects and provides genetic identification of the main chromosome translocations in the ALK and ROS1 genes in patients with lung cancer.

In 2016, a total of 36% of revenues was spent on research and development.

2.- RNA Interference, OPHTHALMOLOGY: SYLENTIS, S.A.

The first product undergoing clinical development, Bamosiran (SYL040012), for treating glaucoma and ocular hypertension, completed a Phase IIB dose-seeking trial which also sought to determine efficacy vs. timolol as comparator. In view of the results, Sylentis is exploring the possibility of trials combining Bamosiran with other treatments on the market. Consequently, Sylentis is awaiting progress with these negotiations before proceeding with clinical development of this product.

Sylentis completed the second Phase II trial with SYL1001 in dry eye syndrome in March 2016. Both of the Phase II trials were multi-centre randomized parallel group double-blind with placebo control, and they took place at eight centres in two European countries: Spain and Estonia. The results of the Phase II trials evidenced SYL1001's efficacy in improving the signs and symptoms of dry eye syndrome in patients as well as determining the most effective dose.

In June, Sylentis presented the Phase II results and the clinical strategy for subsequent stages to the FDA. The protocol for Phase III clinical development was defined subsequently, and the centres for the next trial with SYL1001 were selected; the regulatory documentation has been drafted and a CRO has been engaged to perform the trial. All the documentation was presented to the Estonian medicines agency to obtain approval for the clinical trial with the product in Estonia. The documentation will be presented in the other participating countries early in 2017.

Additionally, a new line of research is being pursued to develop RNAi candidates for treating diseases of the retina.

8.- Acquisition and disposal of own shares

As of 31 December 2016, the Company's capital amounted to €11,110 thousand and was represented by 222,204,887 bearer shares with a par value of €0.05 per share. All the shares are fully subscribed and paid and have the same political and economic rights.

As of 31 December 2016, the controlling company had 1,210,081 own shares, representing 0.545% of capital stock.

The Group acquired 1,709,350 shares in 2016, representing 0.769% of capital, for a total amount of €4.2 million, and sold 1,396,059 shares for a total amount of €3.5 million, resulting in a net loss of €0.3 million that was recognized in reserves.

A total of 211 thousand shares were released from lock-up under the Share Delivery Plan in 2016, due either to reaching the end of the lock-up period or to other conditions set out in the plans, such as terminations.

9.- Share information

General situation

In macroeconomic and market terms, 2016 was a year of uncertainties that had a clear impact on the financial markets. The two principal geopolitical events of 2016 were indisputably the UK vote in June to abandon the European Union (Brexit), and the impact of the US presidential election campaign on the markets throughout the year, culminating with the election of Donald Trump in November. Other notable macroeconomic factors in the year were the monetary policies implemented by the main central banks. In Europe, the European Central Bank (ECB) maintained its expansive monetary policy in view of weak European economic growth; meanwhile, on the other side of the Atlantic, in December the Federal Reserve resumed its policy of increasing interest rates after seven consecutive years of GDP growth and given the improved prospects for the following year as well as the robust recovery by employment in recent years, among other macroeconomic indicators.

In Spain, the political uncertainty in 2016 caused by the need to hold a second general election, while the country spent almost one year under an interim government, was reflected in market performance, as the indices underperformed their European counterparts. This occurred even though Spain achieved 3.2% GDP growth, putting it at the head of the developed countries, with prospects of maintaining this good performance. Nevertheless, Spain still faces major challenges in the coming years, such as the high unemployment rate, although this datum continues to improve, a government deficit that must be controlled in line with Europe's instructions, and the rising government debt, among other issues.

As a result, until mid-December the IBEX-35 index (the main index of the Spanish bourse) had accumulated a moderate 2% decline, after gaining 8% since the end of November, but it finally ended 2016 down -2.2%.

PharmaMar stock market indicators 2016

Share information in 2016

Total number of shares	222.204.887
Number of outstanding shares	222.994.806
Par value (euro)	0,05
Average daily trading (no. of shares)	550.406
Average daily trading (euro)	1.366.107
Trading days	256
Year trading low (24 December) (euro)	235.060
Year trading high (6 February) (euro)	9.875.512
Total trading in year (million euro)	550,3
	(euro)
Lowest share Price (11 February)	1.72
Highest share Price (22 April)	3.19
Share price at 31 December	2.71
Average share price in the year	2.48
Market capitalization at 31 December (million euro)	**602.2**

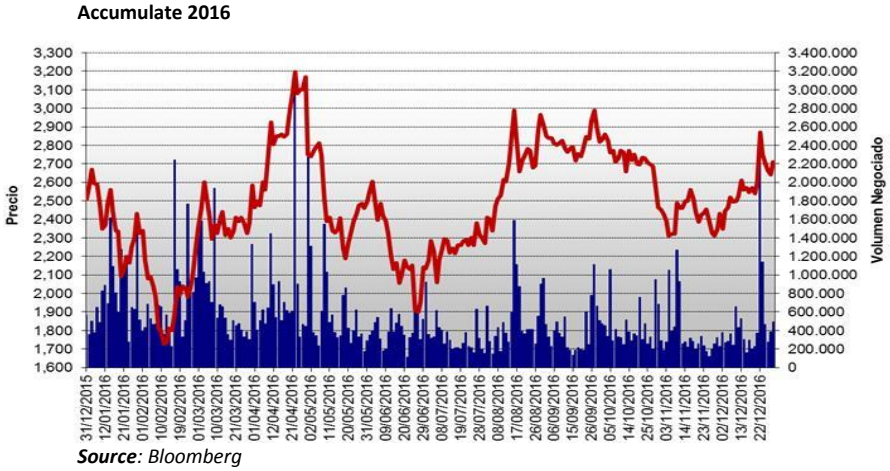
***Source**: Bloomberg*

PharmaMar share performance

In 2016, PharmaMar's first full year of trading following the inverse merger with Zeltia, the share gained 8%, contrasting with a decline of 2.2% by the IBEX-35 index and of 21% by the Nasdaq Biotech index, one of the world's main biotechnology indexes. PharmaMar's share price recovered from the outset, supported by positive corporate news and despite the difficult market situation.

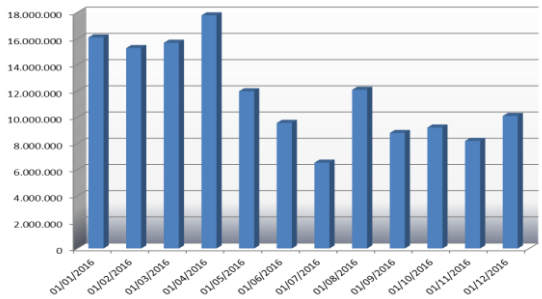
Notable events in the year included progress with clinical trials with its most strategic product, Lurbinectedin (PM1183), and also with Aplidin. In March, the Company announced that the ADMYRE Phase II trial with Aplidin in multiple myeloma had attained its primary endpoint. This resulted in the presentation of a marketing authorization application to the EMA for Aplidin in Europe for this indication. The share's good performance in the second half of the year was driven by Lurbinectedin's clinical progress. Firstly, the Phase III registration trial with Lurbinectedin in combination with doxorubicin for treating patients with small-cell lung cancer commenced at the end of the summer. Shortly afterwards, it was announced that the Independent Data Monitoring Committee (IDMC) had approved continuation of the CORAIL pivotal Phase III trial with Lurbinectedin to treat platinum-resistant ovarian cancer. Enrolment of the 442 patients in this trial concluded in October.

The year 2016 concluded with the signature of an exclusive licensing, development and marketing agreement for Lurbinectedin in Japan with Chugai Pharmaceutical Co, Ltd. This agreement and the related revenues represent strong support for Lurbinectedin's development and had a positive impact in the market.



***Source**: Bloomberg*

Trading in PharmaMar shares amounted to €353.2 million in 2016.Average daily trading amounted to 550,351 shares and peaked in April.



ANNEX I

ANNUAL CORPORATE GOVERNANCE REPORT FOR LISTED PUBLIC LIMITED COMPANIES

ISSUER'S IDENTIFICATION

FISCAL YEAR CLOSING DATE	31/12/2016

SPANISH TAX ID (C.I.F.)	A-78267176

COMPANY NAME
PHARMA MAR, S.A.

REGISTERED OFFICE
AVENIDA DE LOS REYES 1, POLÍGONO INDUSTRIAL LA MINA, 28770 COLMENAR VIEJO (MADRID)

ANNUAL CORPORATE GOVERNANCE REPORT FOR LISTED PUBLIC LIMITED COMPANIES

A. CAPITAL STRUCTURE

A.1 Please complete the table below with details on the company's share capital:

Date of Last Change	Share Capital (€)	Number of Shares	Number of Voting Rights
30/10/2015	11,110,244.35	222,204,887	222,204,887

Please specify whether there are different classes of shares with different associated rights:

Yes ☐ No ☒

A.2 Please list the company's significant direct and indirect shareholders at year end, excluding any board members:

Name of Shareholder	Number of Direct Voting Rights	Number of Indirect Voting Rights	% of Total Voting Rights
SANDRA ORTEGA MERA	0	11,110,333	5.00%
SAFOLES, S.A.	8,615,205	0	3.88%

Name of Indirect Shareholder	Via: Name of Direct Shareholder	Number of Voting Rights
SANDRA ORTEGA MERA	ROSP CORUNNA PARTICIPACIONES EMPRESARIALES, S.L.	11,110,333

Please specify the most significant changes in the shareholding structure during the fiscal year:

A.3 Please complete the following tables with details on those board members with voting rights in the company:

Name of Director	Number of Direct Voting Rights	Number of Indirect Voting Rights	% of Total Voting Rights
ANA PALACIO VALLELERSUNDI	18,900	0	0.01%
JAIME ZURITA SAÉNZ DE NAVARRETE	10,388	0	0.00%
CARLOS SOLCHAGA CATALÁN	0	0	0.00%
PEDRO FERNÁNDEZ PUENTES	1,386,869	8,615,205	4.50%
MONTSERRAT ANDRADE DETRELL	10,354,841	0	4.66%
JOSÉ MARÍA FERNÁNDEZ SOUSA-FARO	14,318,261	10,354,841	11.10%
ROSP CORUNNA PARTICIPACIONES EMPRESARIALES, S.L.	11,110,333	0	5.00%
JEFPO, S.L.	0	0	0.00%
EDUARDO SERRA Y ASOCIADOS, S.L.	9,538	0	0.00%

Name of Indirect Shareholder	Via: Name of Direct Shareholder	Number of Voting Rights
PEDRO FERNÁNDEZ PUENTES	SAFOLES, S.A.	8,615,205
JOSÉ MARÍA FERNÁNDEZ SOUSA-FARO	MONTSERRAT ANDRADE DETRELL	10,354,841

% of Voting Rights Held by the Board of Directors		20.62%

Please complete the following tables with details on the company's board members that hold rights over the company's shares:

A.4 If applicable, please specify any family, commercial, contractual or corporate relationships that exist among significant shareholders to the extent that they are known to the company, unless they are insignificant or arise in the ordinary course of business:

Name of Related Party
JOSÉ MARÍA FERNÁNDEZ SOUSA-FARO
MONTSERRAT ANDRADE DETRELL

Type of Relation: Family

Brief Description:

José María Fernández Sousa-Faro is in a community property marriage with Montserrat Andrade Detrell, who is also a significant shareholder of the Company.

Name of Related Party
MONTSERRAT ANDRADE DETRELL
JOSÉ MARÍA FERNÁNDEZ SOUSA-FARO

Type of Relation: Family

Brief Description:

Montserrat Andrade Detrell is in a community property marriage with José María Fernández Sousa-Faro, who is also a significant shareholder of the Company.

A.5 If applicable, please specify any commercial, contractual or corporate relationships that exist between significant shareholders and the company and/or its group, unless they are insignificant or arise in the ordinary course of business:

Name of Related Party
JOSÉ MARÍA FERNÁNDEZ SOUSA-FARO
PHARMA MAR, S.A.

Type of Relation:
Contractual

Brief Description:

José María Fernández Sousa-Faro is the Executive Chairman of Pharma Mar, S.A. and has signed an agreement with the company for the provision of executive services. The Board of Directors of Zeltia, S.A. granted prior approval to his execution of said agreement in its meeting on 26 February 2015, at the proposal of its Appointments and Compensation Committee, as required by Article 249 of the Spanish Capital Corporations Law (*Ley de Sociedades de Capital* - LSC), by the majority required therein. Said agreement (in which Pharma Mar, S.A. succeeded Zeltia, S.A. in its contractual position as a result of the takeover merger of Zeltia, S.A. by Pharma Mar, S.A.) details those items for which the top executive may be compensated for performing his executive duties (fixed annual compensation, variable annual compensation, special bonuses, attendance allowances, severance pay for termination of the agreement based on causes attributable to the company).

Name of Related Party
SAFOLES, S.A.
PHARMA MAR, S.A.

Type of Relation:
Contractual

Brief Description:

The controlling shareholder of SAFOLES, S.A., Pedro Fernández Puentes, is an executive director and Vice Chairman of the Board of Directors of Pharma Mar, S.A. and, as of 31 December 2016, formed part of its employee workforce.

A.6 Please specify whether the company has been notified of any shareholder agreements that may affect it, in accordance with Articles 530 and 531 of the Spanish Capital Corporations Law. If so, please provide a brief description of such agreements and list the shareholders they bind:

Yes ☐ No ☒

Please specify whether the company is aware of any existing initiatives agreed by and among its shareholders. If so, please provide a brief description:

Yes ☐ No ☒

If any of the aforementioned agreements or agreed initiatives have been modified or terminated during the year, please expressly indicate such circumstances below:

A.7 Please specify whether any natural or legal person exercises or may exercise control over the company in accordance with Article 4 of the Spanish Securities Market Law (*Ley del Mercado de Valores*). If so, please provide details:

Yes ☐ No ☒

Remarks

A.8 Please complete the following tables on the company's own shares:

At year end:

Number of Direct Shares	Number of Indirect Shares (*)	Total Percentage of Share Capital
1,210,081	165	0.54%

(*) Via:

Name of Direct Shareholder	Number of Direct Shares
SYLENTIS, S.A. SOCIEDAD UNIPERSONAL	165
Total:	165

Please detail any significant variations during the year in accordance with Royal Decree 1362/2007:

Explain the significant variations

A.9 Please describe the conditions and term of the current mandate in force made by the general shareholders meeting to the board of directors to issue, repurchase or transfer own shares.

See section H.1

A.9.bis Estimated floating capital:

	%
Estimated Floating Capital	78.83

A.10 Please identify any restrictions on the transfer of securities and/or any other restrictions on voting rights. In particular, please identify whether there are any types of restrictions which could prevent the acquisition of control in the company through acquiring shares in the market.

Yes [X] No [ ]

Description of the restrictions
Article 18 of the Bylaws establishes the right of shareholders with at least 100 shares, notwithstanding the right of shareholders with fewer shares to form groups with other shareholders in identical circumstances to accumulate the required number of shares, to attend the General Shareholders Meeting. In accordance with Article 25.2 of the Bylaws, as regards calculating votes, each share present in person or by proxy at the General Shareholders Meeting shall have the right to one vote, excluding non-voting shares, in accordance with the provisions of law. It is worth noting in this regard that the Company has resolved on the issuance of non-voting shares. See additional information in section H.1

A.11 Please indicate whether the general shareholders meeting has resolved to adopt measures to neutralize a takeover bid pursuant to the provisions of Law 6/2007.

Yes [ ] No [X]

If so, please explain the measures approved and the terms under which the restrictions would cease to apply:

A.12 Please specify whether the company has issued securities that are not traded on a regulated market within Europe.

Yes [X] No [ ]

If so, identify the different share classes and list the rights and obligations inherent in each class.

At a meeting on 19 May 2015, the Board of Directors of Zeltia, S.A. resolved to issue simple bonds through its incorporation to the Spanish Alternative Bond Market on 8 July 2015, the primary terms and conditions of which are as follows:

a) The nominal amount of the issue was seventeen million euros (€17,000,000), represented by 170 simple bonds;
b) The bonds will mature in 12 years from the payout date for the issue (7 July 2015);
c) The issue was aimed at a single qualified Spanish investor, through private placement;
d) The bonds were issued at par with a unit par value of one hundred thousand euros (€100,000) and are represented by book entries. The company Sociedad de Gestión de los Sistemas de Registro, Compensación y Liquidación de Valores, S.A., "IBERCLEAR", and its member entities are responsible for recording the book entries for these bonds in the company's records;
e) The bonds accrue annual nominal fixed interest of 4.75%, payable for completed years counting from the payout date;
f) The Company guarantees its obligations deriving from the bonds with its full equity and has not granted any specific guarantee; and

g) The terms and conditions of the bonds are governed by Spanish law.

The aforementioned bond issue was assumed by Pharma Mar, S.A. by virtue of the takeover merger of Zeltia, S.A. by Pharma Mar, S.A.

B. GENERAL SHAREHOLDERS MEETING

B.1 Please identify any differences from the minimums provided for in the Spanish Capital Corporations Law (LSC) as regards the quorum for holding the general shareholders meeting and, if any, please provide details.

Yes [X] No ☐

	% quorum different from that established in Art. 193 LSC for general matters	% quorum different from that established in Art. 194 LSC for special cases under Article 194 LSC
Quorum required in 1st call	50.00%	50.00%
Quorum required in 2nd call	0.00%	25.00%

Description of differences

The quorum necessary to hold the General Shareholders Meeting is established in Article 20 of the Bylaws and, in the same manner, in Article 8 of the General Shareholders Meeting Regulations.

Article 20.1 of the Bylaws, unlike Article 193.1 LSC, which sets a minimum quorum of twenty-five percent of the subscribed voting capital in first call, establishes a minimum quorum for the General Shareholders Meeting, whether annual or special, of attendance of shareholders representing at least fifty percent of the subscribed voting capital in first call. In second call, the Meeting will be validly assembled no matter the share capital represented.

Therefore, the system provided for in the Company's Bylaws differs from the minimums provided for in the LSC, as the Bylaws require a quorum of fifty percent of subscribed voting capital in order to hold a General Shareholders Meeting in first call, regardless of the type of resolutions being addressed.

B.2 Please specify and, where appropriate, provide details on any differences from the system set out in the Spanish Capital Corporations Law (LSC) for adopting corporate resolutions.

Yes [X] No ☐

Please describe the differences as compared to the system set out in the LSC.

	Reinforced majority difference from that established in Article 201.2 LSC for cases provided in Art. 194.1 LSC	Other cases of reinforced majority
% established by the company for adopting resolutions	75.00%	0.00%

Describe the differences

The adoption by the Company's General Shareholders Meeting of the resolutions referred to in Article 194.1 LSC do not require a special majority beyond that established in Article 201.2 LSC, except as regards the amendment to Article 25 of the Bylaws, on the adoption of resolutions, the approval of which requires a qualified majority vote of 75% of the capital present, in person or by proxy, both in first and second call.

Article 25.3 of the Bylaws states that no shareholder may cast a number of votes exceeding 25% of total voting capital from time to time, even when the number of shares held thereby is greater than the aforesaid capital percentage. This restriction shall also apply to the maximum number of votes that two or more shareholding companies belonging to the same corporate group may cast, whether jointly or separately. This restriction shall also apply to the maximum number of votes that a natural person shareholder and the entity or entities, also shareholders, controlled thereby may cast, whether jointly or separately.

B.3 Please list the rules applicable to the amendment of the company's bylaws. In particular, describe the majorities required to amend the bylaws and, as the case may be, the rules established to protect shareholders' rights in the amendment of the bylaws.

In general, Article 50 of the Bylaws establishes the following:

"The amendment of the Bylaws shall be resolved upon by the General Shareholders Meeting and shall require compliance with the following requirements:

1. The directors or, as the case may be, the shareholders issuing the proposal shall draft the full contents of the proposed amendment and shall issue a written report justifying said amendment.
2. The proposed amendments shall be clearly stated in the meeting notice, which shall also specify the shareholders' right to inspect, at the registered offices, the full text of the proposed amendment and the report on said amendment, as well as to request that said documents be delivered or sent to them free of charge.
3. The resolution shall be adopted by the General Shareholders Meeting in compliance with the quorums established by law and these Bylaws for holding the Meeting and adopting resolutions.
4. In any case, the resolution shall be drawn up as a public deed and registered in the Mercantile Registry and published in the Official Mercantile Registry Bulletin."

There are no special requirements beyond those established in the legislation in force for the amendment of the corporate Bylaws, except as regards the amendment of Article 25, on the adoption of resolutions. As indicated in section B.2, *supra*, the amendment of said Article 25 requires that the resolution be adopted by a qualified majority of 75% of the capital present, in person or by proxy, in both first and second call.

B.4 Please provide details on attendance at the general shareholders meetings held during the year reported on in this report and during the preceding fiscal year:

	Attendance Information				
General Meeting Date	**% Physical Attendance**	**% by Proxy**	**% Distance Voting**		**Total**
			Electronic Vote	**Other**	
28/04/2015	100.00%	0.00%	0.00%	0.00%	100.00%
30/06/2015	100.00%	0.00%	0.00%	0.00%	100.00%
23/06/2016	22.78%	15.18%	0.00%	0.00%	37.96%

B.5 Please specify whether the bylaws establish any restrictions on the minimum number of shares required to attend the general shareholders meeting:

Yes [X] No ☐

Number of shares required to attend the general meeting	100

B.6 Section repealed.

B.7 Please provide the URL and access route for the information on corporate governance and the general shareholders meeting on the company's website, as required to be made available to shareholders through the company's website

The Company's corporate governance information can be accessed through Pharma Mar, S.A.'s website (www.pharmamar.com) by clicking on the "Shareholders and Investors" heading on the main page and under that heading, within the section titled "Corporate Governance."

Furthermore, information on the company's General Shareholders Meetings held by virtue of its status as a listed company can be accessed through Pharma Mar, S.A.'s website (www.pharmamar.com) by clicking on the "Shareholders and Investors" heading on the main page and under that heading, within the section titled "General Shareholders Meeting."

C. COMPANY ADMINISTRATION STRUCTURE

C.1 Board of Directors

C.1.1 Maximum and minimum number of directors provided for in the corporate bylaws:

Maximum Number of Directors	15
Minimum Number of Directors	3

C.1.2 Please complete the following table with details on the board members:

Name of Director	Representative	Director Category	Position on the Board	Date of First Appt.	Date of Most Recent Appt.	Appointment Procedure
ANA PALACIO VALLELERSUNDI		Independent	DIRECTOR	28/07/2009	16/09/2014	GENERAL SHAREHOLDERS MEETING RESOLUTION
JAIME ZURITA SAÉNZ DE NAVARRETE		Independent	DIRECTOR	28/04/2015	28/04/2015	GENERAL SHAREHOLDERS MEETING RESOLUTION
CARLOS SOLCHAGA CATALÁN		Independent	DIRECTOR	30/06/2015	30/06/2015	GENERAL SHAREHOLDERS MEETING RESOLUTION
PEDRO FERNÁNDEZ PUENTES		Executive	VICE CHAIRMAN	30/04/1986	28/06/2013	GENERAL SHAREHOLDERS MEETING RESOLUTION
MONTSERRAT ANDRADE DETRELL		Proprietary	DIRECTOR	30/06/2015	30/06/2015	GENERAL SHAREHOLDERS MEETING RESOLUTION
JOSÉ MARÍA FERNÁNDEZ SOUSA- FARO		Executive	CHAIRMAN	30/04/1986	28/06/2013	GENERAL SHAREHOLDERS MEETING RESOLUTION
ROSP CORUNNA PARTICIPACIONES EMPRESARIALES, S.L.	JOSÉ FRANCISCO LEYTE VERDEJO	Proprietary	DIRECTOR	16/07/2013	16/07/2013	GENERAL SHAREHOLDERS MEETING RESOLUTION
JEFPO, S.L.	JOSÉ FÉLIX PÉREZ- ORIVE CARCELLER	Other External	DIRECTOR	30/06/2015	30/06/2015	GENERAL SHAREHOLDERS MEETING RESOLUTION
EDUARDO SERRA Y ASOCIADOS, S.L.	EDUARDO SERRA REXACH	Independent	DIRECTOR	30/06/2015	30/06/2015	GENERAL SHAREHOLDERS MEETING RESOLUTION

Total Number of Directors	9

Please list any directors that were removed from the board of directors during the reporting period:

C.1.3 Please complete the following tables with information on the board members and their respective categories:

EXECUTIVE DIRECTORS

Name of Director	Position in the Company
PEDRO FERNÁNDEZ PUENTES	VICE CHAIRMAN
JOSÉ MARÍA FERNÁNDEZ SOUSA-FARO	CHAIRMAN

Total Number of Executive Directors	2
% of Total Board	22.22%

PROPRIETARY EXTERNAL DIRECTORS

Name of Director	Name of significant shareholder represented by the director or who proposed the director's appointment
MONTSERRAT ANDRADE DETRELL	MONTSERRAT ANDRADE DETRELL
ROSP CORUNNA PARTICIPACIONES EMPRESARIALES, S.L.	SANDRA ORTEGA MERA

Total Number of Proprietary Directors	2
% of Total Board	22.22%

INDEPENDENT EXTERNAL DIRECTORS

Name of Director:

JAIME ZURITA SAÉNZ DE NAVARRETE

Profile:

Doctor in Law. Professor of Commercial Law. Practicing lawyer.

Name of Director:

CARLOS SOLCHAGA CATALÁN

Profile:

Carlos Solchaga Catalán holds a Bachelor's Degree in Business and Economic Sciences from Complutense University (1966) and completed graduate studies at the Alfred P. Sloan School of Business of the Massachusetts Institute of Technology (MIT) (1971).

Mr. Solchaga started his professional career at the Bank of Spain, moving on to work with the National Institute of Industry and the Vizcaya Bank, where he was appointed as director of the research department and adviser to the chairman He served as the Minister of Industry and Energy (1982–1985) and subsequently served as the Minister of Economy and Taxation (1985–1993). From 1991 to 1993, he served as the Chairman of the Internal Committee of the International Monetary Fund (IMF). He also worked in the House of Representatives (1980–1994) and served as the Chairman of the socialist parliament group in 1993 and 1994.

Among his current positions with companies similar to Pharma Mar, S.A. are: Chairman of Solchaga Recio & Asociados; Honorary Chairman of the Euroamerica Foundation; Vice Chairman of the Royal Board of Trustees of the Reina Sofía Museum; Chairman of the Architectural and Societal Foundation; Chairman of the Advisory Board of the law firm Roca & Junyent; member of the Scientific Board of the Royal Elcano Institute; Director of Duro Felguera, S.A. and of Cie Automotive, S.A.

Name of Director:

EDUARDO SERRA Y ASOCIADOS, S.L.

Profile:

Eduardo Serra holds a Bachelor's Degree in law from the Complutense University of Madrid. In 1974, he was registered as a Spanish State Attorney under qualification no. 1.

He has held various positions in the public sector: head of department of the Ministry of Industry and Energy (1977–1979); General and Board Secretary of the National Institute of Industry (1979–1982); Director of the Bank of Industrial Credit (1979–1982); Director of Butano (1979–1982); Vice Chairman of Astilleros Españoles (1979–1982); Chairman of Auxina (1979–1982); Deputy Secretary of Defense (1982–1984); State Secretary of Defense (1984–1987); Director of the National Institute of Industry (1984–1987); and Director of the National Institute of Hydrocarbons (1984–1987). He also served as the Minister of Defense from 1996 to 2000.

In the private sector, from 1987 to 1996, he was appointed as the Chairman of Telettra España; Vice Chairman and Chairman of Cubiertas Mzov; Chairman of Peugeot-Talbot Spain; and Chairman of Airtel. From 2000-2006, he served as the Chairman of UBS España.

During his professional career he also served as the Vice Chairman and Chairman of the National International Affairs and Foreign Policy Institute (INCIPE) (1989–1996) and was the Chairman of the Royal Board of Trustees of the Prado Museum (2000–2004) and the Founding Chairman of the Royal Elcano Institute (2001–2005).
He has served as a member on the Board of Directors of Zeltia, S.A. and as Chairman of the Everis Foundation. He currently serves as the chairman of the consulting firm Eduardo Serra y Asociados, S.L.; is the vice chairman of Everis; director of Pharma Mar, S.A.; chairman of Park Row Digital; and director, adviser and trustee in various non-profit organizations.

Name of Director:

ANA PALACIO VALLELERSUNDI

Profile:

Ana Palacio Vallelersundi holds a Bachelor's Degree both in Law and in Sociology and Political Sciences (Award for Academic Achievement). She holds an Honorary Doctorate Degree from Georgetown University and, in 2016, she was granted the Sandra Day O'Connor Justice Prize.

As a lawyer specializing in International and European Union Law, Arbitration and Mediation, she founded the law firm Palacio y Asociados. She was a member of the European Parliament from 1994 to 2002, where she presided over the Legal Affairs and Internal Market Committee, the Justice and Home Affairs Committee and the Conference of Committee Chairs. Her positions have included: Spanish Minister of External Affairs (2002–2004). Spanish Parliament Member in its 8th Term, during which time she chaired the Mixed Party Committee in the Spanish Parliament and in the Senate of the European Union (2004-2006). She went on to hold the position of Senior Vice Chairwoman and General Counsel of the World Bank Group and acted as the Secretary General of the International Centre for Settlement of Investment Disputes (ICSID).

In March 2012, she was appointed as the Elected Director of the State Council, a position which she continues to hold today. She is also an Independent Coordinating Director of Enagás and a member of the International Advisory Board of Investcorp. She is also a member of the Board of various research centers and international and foreign public institutions, including: MD Anderson Cancer Center; Atlantic Council of the United States; Institute for Strategic Dialogue; French Insurance Advisory and Strategic Committee (CORA); and the Global Agenda Council of the World Economic Forum. In Spain, she is also a member of the Scientific Board of the Elcano Institute and of the Board of Trustees of the Foundation for Social Analysis and Research.

She has worked as a visiting professor at the Edmund E. Walsh School of Foreign Service of Georgetown University since 2014.

Total Number of Independent Directors	4
% of Total Board	44.44%

Please indicate whether any independent director receives any amount or benefit beyond its compensation as a director from the company or any group company or whether any independent director holds or held a business relation during the last fiscal year with the company or any group company, whether on its own behalf or as a significant shareholder, director or senior executive of the entity that holds or held said relation.

If applicable, please include a reasoned statement from the board on the reasons they believe such director is able to perform his/her duties as an independent director.

OTHER EXTERNAL DIRECTORS

Please list other external directors and discuss the reasons they could not be considered proprietary or independent directors as well as any connections they may have with the company, its officers or its shareholders:

Name of Director:

JEFPO, S.L.

Related company, officer or shareholder:

PHARMA MAR, S.A.

Rationale:

José Félix Pérez-Orive Carceller served, in his individual capacity, as a director of Pharma Mar since he was first appointed on 9 June 1993 up until 30 June 2015, on which date JEFPO, S.L. was appointed as a director and it designated José Félix Pérez-Orive Carceller to serve as its natural representative to exercise the duties inherent in its position as a member of the Board of Directors.

It is worth noting that on 5 May 2014, Zeltia, S.A. and JEFPO, S.L. executed an agreement for the provision of consulting and mediation services in which Pharma Mar, S.A. succeeded Zeltia, S.A. in its contractual position as a result of the takeover merger of Zeltia, S.A. by Pharma Mar, S.A.

Furthermore, and in accordance with the information included in the official registers of the CNMV, JEFPO, S.L. does not hold any ownership interest in the Company, although José Félix Pérez-Orive Carceller holds 2684 shares (representing 0.001%), according to the information he reported to the CNMV.

Based on all of the above and on the provisions of Article 529 duodecies 4 LSC (in particular, the requirement that directors who have served for 12 consecutive years cannot be deemed independent), the Appointments and Compensation Committee classified JEFPO, S.L. as an external director of the Company.

Total Number of Other External Directors	1
% of Total Board	11.11%

Please specify any variations, if any, that have occurred in each director category during the year:

C.1.4 Complete the following table with information on the number of female directors over the last 4 fiscal years (including their category):

	Number of Female Directors				% of Total Directors of Each Category			
	Fiscal Year 2016	Fiscal Year 2015	Fiscal Year 2014	Fiscal Year 2013	Fiscal Year 2016	Fiscal Year 2015	Fiscal Year 2014	Fiscal Year 2013
Executive	0	0	N/A	N/A	0.00%	0.00%	N/A	N/A
Proprietary	1	1	N/A	N/A	11.11%	11.11%	N/A	N/A
Independent	1	1	N/A	N/A	11.11%	11.11%	N/A	N/A
Other External	0	0	N/A	N/A	0.00%	0.00%	N/A	N/A
Total:	2	2	N/A	N/A	22.22%	22.22%	N/A	N/A

C.1.5 Please explain any measures that were adopted with a view to attaining the required number of female directors to ensure a balance between male and female directors on the board of directors.

Explanation of measures

Article 8.4 of the Board Regulations states that the Board of Directors shall aim to develop Director selection policies and procedures that favor diversity as regards gender, experience and knowledge, ensuring that there are no implicit flaws that could result in any type of discrimination and, in particular, that promote the selection of female Directors.

In this regard, Article 14.2.b) of the Board of Directors Regulations establishes the duty of the Appointments and Compensation Committee to set representation goals for the least-represented gender on the Board of Directors and to develop guidelines on how to reach such objective.

Furthermore, in accordance with the director selection policy approved by the Company's Board of Directors, the Board shall promote the objective of having female directors account for at least thirty percent of the total number of board members by 2020. As of the date this Report was drafted, the Board of Directors of Pharma Mar had two women among its nine members (22.22% women).

C.1.6 Please explain any measures followed by the appointments committee to ensure that the selection procedures did not have any implicit flaws that would prevent the selection of female directors and to ensure that the company specifically seeks out and includes women with the desired professional profile among the potential candidates:

Explanation of measures

The Company does not have any requirement for membership on the Board which could constitute an implicit flaw preventing the selection of female directors. In this regard, Article 8.4 of the Board of Directors Regulations states that the Board of Directors shall aim to develop a Director selection policy and procedures that favor diversity as regards gender, experience and knowledge, ensuring that there are no implicit flaws that could result in any type of discrimination and, in particular, that promote the selection of female Directors.

It is worth noting that the current directors of the Company were appointed before the Company was a listed company. As set forth in the director selection policy approved by the Company's Board of Directors, candidates meeting the conditions set forth in section 4 of said policy will be identified, i.e. qualified professionals of good repute with recognized abilities, experience and proper training and whose appointment would contribute to diversity within the Board of Directors as regards knowledge, experience, origins, nationalities and gender. In accordance with said policy, the company aims to have female directors account for at least thirty percent of the total number of Board members by 2020.

It should also be noted that the Company did not appoint any new Board members in the year reported on in this Report (2016).

If despite the measures taken, as the case may be, there are few or no female directors, please explain the reasons that justify such circumstances:

Explanation of the reasons

As of the date this Report was drafted, the Board of Directors of Pharma Mar had two women among its nine members. There are no requirements to act as a Board member which could constitute an implicit flaw preventing women from forming part of such body. Including women on the Company's Board of Directors and looking for women to carry out the position of directors of the Company is a reality, as evidenced by the established Director selection policy, and there are no obstacles that would prevent women from becoming directors of the Company. The Company's Board of Directors, following the advice and report of the Appointments and Compensation Committee, shall analyze the needs of the Company and its Group companies when covering vacancies in director positions. Any director may suggest candidates for the position of director, provided said candidates meet the requirements set forth in the selection policy, and the selection process shall not suffer from any implicit biases that could result in any type of discrimination.

In any case, candidates whose appointment would contribute to diversity within the Board of Directors as regards knowledge, experience, origins, nationalities and gender will be promoted.

The Pharma Mar Group shows a continuing concern for the participation of women in management positions at all levels, as evidenced by the fact that there are currently two women on the Board of Directors. Furthermore, in 2016, the Pharma Mar Group's workforce comprised 53.75% women and women accounted for 33.33% of executive positions.

C.1.6 bis Please explain the conclusions made by the appointments committee as regards verification of compliance with the director selection policy. And, in particular, explain how said policy promotes the objective of having female directors account for at least 30% of the total number of board members by 2020.

Explanation of conclusions

No members were appointed to the Board of Directors during the fiscal year (2016) referred to herein and, as such, no Director selection processes were opened (no appointment, reappointment or removal of Directors took place during the year), in relation to which compliance with the director selection policy should be verified. Additionally, it is worth mentioning that said director selection policy was approved by the Board of Directors very recently. As previously mentioned and in accordance with said policy, candidates meeting the conditions set forth in section 4 of said policy will be identified, i.e. qualified professionals of good repute with recognized abilities, experience and proper training and whose appointment would contribute to diversity within the Board of Directors as regards knowledge, experience, origins, nationalities and gender. On 31 December 2016, the number of female directors represented 22.22% of the total number of Board members.

C.1.7 Please explain the form of representation of significant shareholders on the board of directors.

José María Fernández Sousa-Faro is the Chairman of the Board of Directors and the top executive and majority shareholder of the Company, holding a direct participation of 6.44% in share capital and an indirect participation of 4.66%.

Montserrat Andrade Detrell is a director and holds a direct participation of 4.66% in share capital and an indirect participation of 6.44%.

Pedro Fernández Puentes is the Vice Chairman of the Board of Directors and an executive of the Company, holding a total participation of 4.50% in share capital (direct participation of 0.62% and indirect participation of 3.88% through SAFOLES, S.A., a company of which he is the controlling shareholder).

Sandra Ortega Mera is a significant shareholder of the company through the company ROSP CORUNNA PARTICIPACIONES EMPRESARIALES, S.L., who holds an indirect participation of 5.00% in share capital. The company ROSP CORUNNA PARTICIPACIONES EMPRESARIALES, S.L., Member of the Board of Directors of Pharma Mar, S.A., is a wholly-owned subsidiary of ROSP CORUNNA S.L., of which Sandra Ortega Mera holds 89.23% of the share capital, as recorded in the official registers of the CNMV.

C.1.8 If applicable, please explain the reasons for the appointment of any proprietary directors at the request of shareholders with less than 3% of share capital:

Please specify whether formal requests from shareholders for membership on the board were not honored when their ownership interest is equal to or exceeds that of other shareholders whose proposal for proprietary directors was honored. If so, please explain why the aforementioned requests were not met:

Yes ☐ No ☒

C.1.9 Please specify whether any director has ceased to hold his/her position before completion of his/her mandate, whether the director provided any explanation to the board, including through what means, and, if provided in writing and addressed to the entire board, please specify the reasons given thereby:

C.1.10 Please specify any powers delegated to the managing director(s):

Name of Director:

JOSÉ MARÍA FERNÁNDEZ SOUSA-FARO

Brief Description:

José María Fernández Sousa-Faro holds a power of attorney by virtue of a deed granted on 13 November 1992 before the Madrid Notary Public, Antonio de la Esperanza Martínez-Radío, under number 3694 of his official records, and may act for and on behalf of the company with the powers granted to him, including but not limited to the following: (i) use of the corporate signature and representation of the Company in its transactions with the Bank of Spain or with any other banking or credit institution; (ii) resolve upon the execution of all types of deeds or agreements deemed necessary or convenient for the performance of the corporate purpose and, in general, adopt resolutions on all types of transactions and business that may be performed by the Company in accordance with the Bylaws; and (iii) request and obtain for the Company, and acquire, dispose of and use patents, privileges, licenses and any other rights related to the corporate purpose.

José María Fernández Sousa-Faro also currently provides executive services to the company by virtue of an agreement executed on 26 February 2015 with Zeltia, S.A., in which Pharma Mar succeeded Zeltia by operation of law as a result of the merger between the aforementioned companies in October 2015.

C.1.11 Please identify any board members who assume positions as directors or officers in other companies in the group of which the listed company is the parent:

Name of Director	Name of Group Company	Position	Executive Duties?
PEDRO FERNÁNDEZ PUENTES	ZELNOVA ZELTIA, S.A.	CHAIRMAN OF THE BOARD OF DIRECTORS	YES
JOSÉ MARÍA FERNÁNDEZ SOUSA-FARO	GENOMICA, S.A. SOCIEDAD UNIPERSONAL	CHAIRMAN OF THE BOARD OF DIRECTORS	YES

C.1.12 Please specify the directors of the company, if any, that have notified the company of their membership on the board of directors of other companies (excluding of other group companies) listed on official securities markets in Spain:

Name of Director	Name of Group Company	Position
ANA PALACIO VALLELERSUNDI	ENAGAS, S.A.	DIRECTOR
CARLOS SOLCHAGA CATALÁN	CIE AUTOMOTIVE, S.A.	DIRECTOR
CARLOS SOLCHAGA CATALÁN	DURO FELGUERA, S.A.	DIRECTOR
PEDRO FERNÁNDEZ PUENTES	INGERCOVER SICAV S.A.	CHAIRMAN

C.1.13 Please specify whether the company has established any rules on the number of boards on which its directors can hold seats, providing details if applicable:

Yes [X] No ☐

Explanation of rules

Article 22.3 of the Board Regulations establishes that Directors may not be a member on more than four boards of directors of public limited companies (*sociedades anónimas*) and of eight boards of directors of limited liability companies (*sociedades de responsabilidad limitada*), not including the boards of those companies forming part of the Company's corporate group and of the holding companies (*sociedades patrimoniales*) of the aforesaid Directors.

C.1.14 Section repealed.

C.1.15 Please indicate the overall compensation of the board of directors:

Board of Directors Compensation (in thousands of euros)	3,303
Amount of accumulated pension rights of current directors (in thousands of euros)	611
Amount of accumulated pension rights of former directors (in thousands of euros)	0

C.1.16 Please identify senior managers that do not also serve as executive directors and indicate the total compensation earned thereby during the year:

Name	Position
MARÍA LUISA DE FRANCIA CABALLERO	CHIEF FINANCIAL OFFICER
SEBASTIÁN CUENCA MIRANDA	GENERAL AND BOARD SECRETARY
BELÉN SOPESÉN VERAMENDI	DIRECTOR OF MARKET RESEARCH
JOSÉ LUIS MORENO MARTÍNEZ-LOSA	DIRECTOR, INVESTOR RELATIONS AND CAPITAL MARKETS
JUAN CARLOS VILLALÓN GÓMEZ	INTERNAL AUDITOR
LUIS MORA CAPITÁN	MANAGING DIRECTOR, ONCOLOGY BUSINESS UNIT

Total Senior Management Compensation (in thousands of euros)	1,661

C.1.17 Please identify any board members who are also members on the board of directors of significant shareholder companies and/or of other group companies:

Name of Director	Name of Significant Shareholder	Position
PEDRO FERNÁNDEZ PUENTES	SAFOLES, S.A.	SOLE DIRECTOR

Please detail any relevant relationships, other than those presented in the previous section, between members of the board of directors and significant shareholders in the company and/or group companies:

Name of the Associated Director:

MONTSERRAT ANDRADE DETRELL

Name of Significant Associated Shareholder:

JOSÉ MARÍA FERNÁNDEZ SOUSA-FARO

Description of the Relationship:

Spouses, married under a common property regime

Name of the Associated Director:

JOSÉ MARÍA FERNÁNDEZ SOUSA-FARO

Name of Significant Associated Shareholder:

MONTSERRAT ANDRADE DETRELL

Description of the Relationship:

Spouses, married under a common property regime

C.1.18 Please specify whether the board of directors regulations were amended during the year:

Yes [X] No ☐

Description of amendments

The Board of Directors, at its meeting on 26 July 2016, approved an amendment to Article 13 of the Board of Directors Regulations, following a report from the Audit Committee. This amendment was aimed at bringing said provision into line with the new wording of Article 529 quaterdecies LSC, as approved by Law 22/2015, of 20 July, on statutory auditing. This amendment addressed the addition of the following:

(i) The requirement that Committee members collectively have the "relevant technical knowledge related to the activity sector in which the audited company operates" (Article 529 quaterdecies.1 LSC).

(ii) The requirement that the Committee be comprised of a majority of Independent Directors (Article 529 quaterdecies.1 LSC). (iii) The duties and powers of the Committee were also amended, in particular, as regards the following: (i) the requirement to report audit results to the General Shareholders Meeting, explaining how such audit contributed to the integrity of the financial information and the duties performed by the Committee in the process (Article 529 quaterdecies.4 a) LSC); (ii) the submission of recommendations or proposals to the Board of Directors as regards monitoring of the effectiveness of the Company's internal controls, internal auditing and risk management systems (Article 529 quaterdecies.4 b) LSC); (iii) integrity of all required financial reporting (Article 529 quaterdecies.4 c) LSC); and (iv) responsibility for selecting the Company's external auditor and for confirming the independence thereof (Article 529 quaterdecies.4 d), e) and f) LSC).

The Board of Directors unanimously resolved at this same meeting to approve the Amended and Restated Text of the Company's Board of Directors Regulations, the only amendment to which was the aforementioned changes to Article 13.

C.1.19 Please specify the procedures for the selection, appointment, reappointment, assessment and removal of directors: Provide details on the competent bodies, steps to follow and criteria applied in each procedure.

See section H.1

C.1.20 Please explain to what extent the annual assessment of the board of directors led to significant changes in the internal organization and procedures applicable to its activities:

Description of changes

The Board of Directors contracted a renowned independent expert (Mercer Consulting, S.L.U.) in fiscal year 2016 to assist it in assessing the functioning of the Board and its Committees.

The report drafted by said external consultant concluded that the Company's Board of Directors was very engaged, with extensive collaboration between the Chairman and the Board, useful and participative meetings, productive discussions, active involvement of the directors, joint expertise, and assignment of duties. In view of this report, the Board of Directors agreed to implement certain improvements (e.g. drafting an action protocol for succession of the Chairman), the implementation of which in no case constitutes a significant change to the internal organization thereof nor to the procedures applicable to its activities.

C.1.20.bis Please describe the assessment process and the areas assessed by the board of directors with the assistance, as the case may be, of an external consultant, as regards the diversity of its composition and skills, functioning and composition of its committees, performance of the chairman of the board of directors and the company's top executive and the performance and contribution of each of the directors.

In accordance with Article 17 bis of the Company's Board of Directors Regulations, the Board is required to annually assess work quality, conduct of its Chairman based on the report drafted for such purpose by the Appointments and Compensation Committee, and the functioning of its Committees, following which the Board proposes an action plan to correct any deficiencies identified. The Chairman of the Board of Directors is in charge of organizing and coordinating the aforementioned assessment process with the Chairmen of the Committees. Assessment of the Executive Chairman's performance is directed by the Coordinating Director.

With a view to bringing the Company's practices in line with best international practices, in fiscal year 2016, the Board of Directors, at the proposal of the Appointments and Compensation Committee, hired Mercer Consulting, S.L.U. as an external consultant to assist with the assessment process. The assessment for this fiscal year was completed based on an analysis of the Company's corporate governance information, a questionnaire submitted to all of the directors, and personal interviews with the Chairman of the Audit Committee and of the Appointments and Compensation Committee, as well as with the Coordinating Director. The assessment process focused on the following aspects: structure, composition and functioning of the Board and its Committees during fiscal year 2016. The findings report was submitted to the Board of Directors at its meeting on 23 February 2017. In view of this report, the Board of Directors agreed to implement certain improvements as explained in section C.1.20, *supra*.

Furthermore, the Board of Directors, following the proposal and report of the Appointments and Compensation Committee, as led in this case by the Coordinating Director, performed the assessment of the Executive Chairman for fiscal year 2016.

It should be noted that the Company's Appointments and Compensation Committee verified the independence of the external consultant.

C.1.20.ter Provide detailed information, as applicable, on business relations between the consultant or any group company with the company or any other group company.

N/A

C.1.21 Please specify the situations in which the board members are required to resign.

Article 19.2 of the Board of Directors Regulations provides in such regard as follows:

"Directors shall tender their resignation to the Board of Directors and formalize the pertinent resignation, if deemed appropriate by the Board, in the following cases:

(a) When they turn 75.
(b) If they are involved in any circumstance of incompatibility or prohibition provided by law, the Corporate Bylaws or these Regulations.
(c) If their continued membership on the Board could put at risk or harm the Company's interests, credit or reputation.
(d) When they no longer hold an executive position to which their appointment was linked or, in general, when the reasons for their appointment no longer exist (e.g. when the shareholder represented by a Director disposes of its shareholding in the Company that motivated the Director's appointment).
(e) When the Director has missed four consecutive Board meetings without granting a proxy to another Board member.

The Board of Directors may only propose the removal of an Independent Director to the General Shareholders Meeting before the period provided for in the Bylaws has lapsed and when the Director has not tendered his or her resignation after having met any of the said circumstances referred to in this article or when any other just cause as determined by the Board exists, following a report of the Appointments and Compensation Committee. In particular, just cause shall be deemed to exist when the Director accepts additional obligations that prevent said Director from dedicating the required time to the performance of its duties, breaches any duties inherent in its position or otherwise is in any circumstances that prevent its independence. The Board of Directors may also propose the removal of Independent Directors as a result of public offers of acquisition, merger or other similar corporate transactions that entail a change to the Company's capital structure, provided such structural changes to the Board of Directors are a result of application of the proportionality criteria set forth in corporate governance recommendations for listed companies in Spain."

C.1.22 Section repealed.

C.1.23 Are qualified majorities other than those established by law required for any specific type of decision?

Yes [X] No ☐

If so, please describe the differences:

Description of differences
In order for amendments to the Board Regulations to be valid, the relevant resolution must be adopted by a two-thirds majority of the Directors in attendance, in accordance with the provisions of Article 3.4 of the Board Regulations.

C.1.24 Please state whether there are any specific requirements, other than those relating to directors, for appointment as chairman of the board of directors.

Yes ☐ No [X]

C.1.25 Please specify whether the chairman has a casting vote:

Yes [X] No ☐

Matters for which there is a casting vote
Article 36 of the Bylaws and Articles 10.5 and 17.2 of the Board of Directors Regulations provide that in the event of a tie, the Chairman shall have the casting vote.

C.1.26 Please specify whether the bylaws or board regulations establish any limit as to the age of the directors:

Yes [X] No ☐

Age limit for chairman:

Age limit for managing director:

Age limit for director: 75

C.1.27 Please specify whether the bylaws or board regulations establish any limit beyond that provided by law to the mandate of independent directors:

Yes ☐ No [X]

C.1.28 Please specify whether the bylaws or board of directors regulations establish specific rules for granting proxies on the board of directors, including as regards the manner for granting proxies and, in particular, the maximum number of proxies that any single director may hold, as well as whether they establish any restrictions on the category of director to which they can be granted, beyond legally mandated restrictions. If so, please briefly describe the rules.

The third paragraph of Article 36 of the Bylaws establishes in this regard that proxies shall be granted to other Directors in writing or by e-mail and shall be made specifically for each Board meeting. No Director may hold more than three proxies. The same requirement is also set forth in Article 17.1 of the Board Regulations.

As regards any restrictions on the category of directory to which proxies may be granted, the aforesaid Bylaw provision (and Article 17.1 of the Board Regulations) states that, in accordance with Article 529 quáter 2 LSC, Non-Executive Directors may only grant proxies to other Non-Executive Directors.

C.1.29 Please specify the number of meetings held by the board of directors during the year. In addition, please identify the number of times the board met, if any, without the attendance of the chairman. Proxies granted with specific instructions shall be considered in attendance for calculation purposes.

Number of Board Meetings	9
Number of Board Meetings without Attendance of the Chairman	0

If the chairman is an executive director, please indicate the number of meetings held without the personal attendance or attendance by proxy of any executive directors and that were presided over by the coordinating director.

Number of Meetings	0

Please specify the number of meetings held by the different board committees during the year:

Committe	No. of Meetings
AUDIT COMMITTEE	6
APPOINTMENTS AND COMPENSATION COMMITTEE	10
EXECUTIVE COMMITTEE	7

C.1.30 Please specify the number of meetings held by the board of directors during the year in which all of its members were present. Proxies granted with specific instructions shall be considered in attendance for calculation purposes.

Number of Meetings with Full Attendance	8
Attendance as a Percentage of Total Votes During the Year	98.77%

C.1.31 Please specify whether the annual individual and consolidated financial statements presented to the board for approval were previously certified:

Yes ☐ No ☒

Please specify, if applicable, the person/s who certified the individual and consolidated financial statements of the company for their preparation by the board:

C.1.32 Please explain any mechanisms established by the board of directors to prevent the individual and consolidated financial statements prepared by the board from being submitted to the general meeting with an audit opinion including reservations.

It is worth noting, first, that the audit reports on the individual and consolidated financial statements for fiscal year 2016 did not include any reservations.

The mechanisms established by the Board of Directors are derived from the powers assigned to the Audit Committee which, in accordance with Article 13.2 of the Board Regulations, include, *inter alia*: (i) the duty to oversee the effectiveness of the Company's internal controls, internal audit and risk management systems, as well as to discuss any significant weaknesses identified in the internal control system during the audit with the statutory auditor, all without compromising the independence thereof; (ii) monitoring the process for drafting and presenting the required financial information and submitting recommendations or proposals to the management body with a view to ensuring the integrity of such information; and (iii) ensuring that the Board of Directors presents the financial statements to the General Shareholders Meeting without giving rise to any restriction or reservation whatsoever in the audit report.

Furthermore, Article 32.4 of the Board Regulations, referring to the Board's relations with the auditors, establishes that the Board of Directors shall draft a final and conclusive version of the financial statements such that no reservations are made by the auditor. Nevertheless, the Board, in case of disagreement with the auditor's remarks, may reaffirm its own perspective, but shall publicly explain the scope and content of the discrepancy.

C.1.33 Is the secretary of the board a director?

Yes ☐ No ☒

If the secretary is not a director, please complete the following table:

Name of Secretary	Representative
SEBASTIÁN CUENCA MIRANDA	

C.1.34 Section repealed.

C.1.35 Please specify any mechanisms established by the company to ensure the independence of the external auditors, financial analysts, investment banks and rating agencies.

Article 32.1 of the Board Regulations establishes that the relations of the Board with the external auditors shall be channeled through the Audit Committee. In this regard, Article 13.2 of the Board Regulations provides that the Audit Committee shall have the following duties, *inter alia*:

"(…)

(d) To refer proposals for the selection, appointment, reappointment and removal of the statutory auditor, taking responsibility for the selection process in accordance with the provisions of applicable regulations, as well as for the hiring conditions thereof, to the Board of Directors, and regularly gather information from the external auditor on the auditing plan and execution thereof, in addition to maintaining its independence in carrying out its duties.

(e) To establish the relevant relationships with the external auditor in order to receive information on all matters which may threaten their independence, to be examined by the Committee, as well as on any other matters related to the auditing of the accounts, and, as applicable, on the authorization of services other than those services prohibited under the terms set forth in applicable regulations on the independence regime, including all communications as provided for by statutory auditing legislation and standards. In any event, the Committee shall receive an annual statement from the external auditors on their independence in relation to the company or any of its directly or indirectly related entities. This report shall include detailed and personalized information on additional services of any nature that were provided together with the applicable fees received from such entities by either the external auditor or other persons or entities related thereto, in accordance with the applicable regulations governing statutory auditing.

(…)"

In addition, Article 32.2 of the Board Regulations states that the Board of Directors shall abstain from contracting those audit firms that are involved in any circumstances that could affect their independence in performing their duties, respecting in all cases the legally established prohibitions and incompatibilities. This article also provides that the Board of Directors shall publicly report any global professional fees paid by the Company to the audit firm for non-audit services, which it has already been reporting in the Notes to the Annual Financial Statements.

On the other hand, the Investor Relations and Capital Markets Department is tasked with maintaining communications with institutional shareholders and financial analysts that cover the shares of Pharma Mar, making sure not to provide them with any insider information as regards the rest of the shareholders, in accordance with Article 30 of the Board of Directors Regulations and with the Company's policy on communication and relationships with shareholders, institutional investors and voting advisors, as approved by the Board of Directors and published on the Company's website.

C.1.36 Please specify whether the company changed its external auditor during the year. If so, please identify the incoming and outgoing auditor:

Yes ☐ No ☒

If there were any disagreements with the outgoing auditor, please provide an explanation:

C.1.37 Please specify whether the audit firm provides any non-audit services to the company and/or its group and, if so, the fees paid and the corresponding percentage of total fees invoiced to the company and/or group:

Yes ☒ No ☐

	Company	Group	Total
Amount for Non-Audit Services (in thousands of euros)	0	24	24
Amount for Non-Audit Services / Total Amount Invoiced by the Audit Firm (%)	0.00%	2.96%	2.96%

C.1.38 Please specify whether the audit report on the annual financial statements for the preceding fiscal year contains a qualified opinion or reservations. If so, please explain the reasons given by the chairman of the audit committee to explain the content and scope of the aforementioned qualified opinion or reservations.

Yes ☐ No ☒

C.1.39 Please provide details on the number of consecutive years for which the current audit firm has been auditing the annual financial statements of the company and/or its group.

Furthermore, please specify the number of years audited by the current audit firm as a percentage of the total number of years that the financial statements have been audited:

	Company	Group
Number of Consecutive Years	21	21
Number of Years Audited by the Current Audit Firm / Number of Years the Company Has Been Audited (%)	77.77%	77.77%

C.1.40 Please specify whether there is a procedure whereby directors can contract external advisory services and, if applicable, provide details:

Yes [X] No ☐

Explanation of procedure

Article 20.2 of the Board Regulations provides that any Director, in the exercise of the specific duties entrusted thereto either individually or by virtue of its membership on any of the Board Committees, may request that the Chairman hire, at the Company's expense, legal, accounting, technical, financial, commercial or any other advisers deemed necessary to assist in the performance of its duties, whenever related to specific problems of particular relevance and complexity that warrant said advising. The Chairman, according to the circumstances of the particular case, may deny or authorize the proposal by notice to the Board Secretary, who shall, if authorized, coordinate the hiring of the expert.

The Chairman may also bring the proposal to the Board of Directors, who may refuse to approve financing for the advisory services on the grounds that they are not necessary for the performance of the duties entrusted, that their amount is disproportionate to the importance of the issue, or if it considers that such technical assistance could be adequately provided by Company personnel.

C.1.41 Please specify whether there is a procedure for providing information to directors to allow them to prepare for meetings of management bodies with sufficient notice. If so, explain the procedure:

Yes [X] No ☐

Explanation of procedure

The directors' right to information is expressly regulated by Article 20.1 of the Board Regulations, which establishes that the Directors, as required to perform their duties, shall have ample powers to make inquiries on any matter related to the Company and, for such purpose, shall have access to any and all documents, registries, records or any other necessary elements. Information requests shall be made to the Chairman and will be processed by the Secretary of the Board of Directors, who shall directly provide the Directors with such information or otherwise notify the relevant intermediaries in the Company and, in general, shall establish all necessary measures to ensure full compliance with the Director's right to information.

Article 16.2 of the Regulations states that the annual meetings shall be called by letter or e-mail issued by the Secretary at the demand of the Chairman or the Acting Chairman. The meeting notice shall be made at least five days in advance, except as provided in Article 3.3 of the Regulations, and shall include the agenda for the meeting, which shall clearly list the agenda items on which the Board must make a decision or pass a resolution.

Thus, and in accordance with regulatory provisions, to ensure that meetings are properly prepared and with a view to ensuring that the Directors have all necessary information, the Chairman shall establish an agenda for all Board meetings. This agenda, together with all documents related thereto, is sent by the Board Secretary, usually by e-mail, at least five days before the date set for the meeting.

The prior and express consent of a majority of the Directors in attendance shall be required, and duly recorded in the minutes, if the Chairman wishes to submit to the Board, for urgency reasons, the approval of decisions or resolutions not listed on the agenda.

The annual Board meetings shall discuss the general performance and financial results of the Company and, as the case may be, of its subsidiaries, as well as those matters referred to in Article 5 of the Regulations, if applicable and, in any case, shall discuss those items included on the agenda.

The Board of Directors shall receive information in these regular meetings on the most relevant aspects of the business management since the last meeting of said body was held as well as on all actions in such regard proposed by Senior Management.

Article 16.3 establishes that special meetings of the Board may be convened by phone and that the deadline and other requirements referred to in the preceding section shall not apply when, in the opinion of the Chairman or Acting Chairman, the circumstances so justify.

On the other hand, Article 17.3 of the Regulations states that, except where the Board of Directors has been convened on an urgent basis, the Directors shall have sufficient prior access to the information required to form an opinion on each of the agenda items, and the Chairman shall be responsible, with the assistance of the Secretary and, as the case may be, the Legal Counsel, for preparing said information. The Chairman may invite as many officers to the meeting as he or she deems appropriate with a view to supplementing the information provided to the Directors on the agenda items.

C.1.42 Please specify whether the company has established any rules that require directors to report on and, if applicable, resign in any circumstances that may harm the company's credit and reputation. If so, provide details:

Yes [X] No [ ]

Explanation of rules

Article 28.2 of the Board Regulations states that Directors shall inform the Company of any positions that they hold or activities that they carry out in other companies or entities and, in general, of any other fact or circumstances that could be relevant to its conduct as a director of the Company and of any transactions that could cause harm to the Company or of any other activities that could constitute competition for the Company or any of its Group companies.

Furthermore, Article 19.2 of the Board Regulations provides that the Directors shall tender their resignation to the Board of Directors and formalize said resignation, if deemed appropriate, when they are involved in any circumstance of incompatibility or prohibition provided by law, the Bylaws or the Regulations. Article 19.3 establishes that the Appointments and Compensation Committee shall make proposals to the Board of Directors, for their submission to the General Shareholders Meeting, on the removal of Directors whose behavior could negatively affect the functioning of the Board or the Company's credit and reputation.

C.1.43 Please specify whether any member of the board of directors has notified the company that he or she has been tried, or notified that judiciary proceedings have been filed, for any offenses established in Article 213 of the Spanish Capital Corporations Law.

Yes [ ] No [X]

Please explain whether the board of directors has analyzed the case. If so, please provide a reasoned explanation of the decision made on whether the director should continue in his or her position, explaining all actions taken or expected to be taken by the board of directors as of the date of this report.

C.1.44 Please give details on any significant agreements entered into by the company that would enter into force, be amended or concluded in the event of a change in control of the company as a consequence of a public tender offer, and the effects thereof.

C.1.45 Please identify and detail, on an aggregate basis, the agreements between the company and its administration and management positions or employees who benefit from indemnities, or guarantee or golden parachute clauses, upon their resignation or wrongful dismissal, or if the contractual relationship comes to an end due to a public tender offer or any other type of transaction.

Number of Beneficiaries: 1

Type of Beneficiary:

EXECUTIVE CHAIRMAN

Description of Agreement:

As regards the Executive Chairman, the contract for the provision of executive services between the Company and the Chairman shall remain in force for as long as the Executive Chairman continues to hold such position on the Board of Directors and to serve as the top executive of the Company, bearing in mind that the contract may be terminated by mutual agreement of the parties, by unilateral voluntary resignation of the Executive Chairman, for causes attributable to the Company and due to death, legal incapacity, total permanent or other significant incapacity of the Executive Chairman, or temporary incapacity or inability to perform his duties for a period longer than twelve months.

The Executive Chairman shall have the right to receive a severance payment equivalent to 1.5 times the gross annual Regulated Compensation (defined as the arithmetic mean of the total amount of annual fixed compensation, annual variable compensation and attendance allowances accrued during each of the two full fiscal years immediately preceding the contract termination date) if his contract as the top executive is terminated for any cause attributable to the Company (whether by unilateral voluntary termination by the Company –e.g. removal or non-reappointment of the director or revocation of authorities or powers without subsequently and immediately appointing, delegating or granting analogous authorities or powers in the Company or, in the case of an intragroup merger, in the absorbing company–, or by significant amendment to the duties or conditions for providing services, including the succession of the Company or a significant change in ownership thereof that has the effect of changing the composition of its governing bodies or the content and focus of its primary activity, unless the contract is assigned by the Company to any other Group company).

Please specify whether the governing bodies of the company or its group must be notified of and/or approve these agreements:

	Board of Directors	General Meeting
Body Authorizing the Clauses	**Yes**	**No**

	Yes	No
Are the clauses reported to the general shareholders meeting?	**X**	

C.2 Board Committees

C.2.1 Please provide details on all board committees, their members and the proportion of executive, proprietary, independent and other external directors on the committees:

AUDIT COMMITTEE

Name	Position	Category
CARLOS SOLCHAGA CATALÁN	CHAIRMAN	Independent
ANA PALACIO VALLELERSUNDI	MEMBER	Independent
ROSP CORUNNA PARTICIPACIONES EMPRESARIALES, S.L.	MEMBER	Proprietary
JEFPO, S.L.	MEMBER	Other External
JAIME ZURITA SAÉNZ DE NAVARRETE	MEMBER	Independent

% proprietary directors	20.00%
% independent directors	60.00%
% other external directors	20.00%

Please explain the duties attributed to this committee, describe the procedures and rules followed regarding its organization and functioning and summarize the most significant actions taken during the fiscal year.

In accordance with Art. 13 of the Board Regulations, this Committee has the following duties, *inter alia*:

(a) To notify the General Shareholders Meeting regarding matters arising within the scope of the Committee's competencies.

(b) To supervise the effectiveness of the company's internal controls, internal auditing and risk management systems, including tax systems, as well as discuss with auditors any significant weaknesses in the internal control system detected during the audit.

(c) To monitor the preparation and presentation of all required financial information.

(d) To refer proposals for the selection, appointment, reappointment and removal of the external auditor, as well as on the hiring conditions thereof, to the Board of Directors, and regularly gather information from the external auditor on the auditing plan and execution thereof, in addition to maintaining its independence in carrying out its functions.

(e) To establish the relevant relationships with the external auditor in order to receive information on all matters which may place their independence at risk, to be examined by the Committee, as well as on any other matters related to the auditing of the accounts, including all communications as provided for by accounting and auditing legislation and standards. In any event, the external auditors shall issue an annual statement on their independence in relation to the company or any of its directly or indirectly related entities, including information on additional services of any nature that were provided together with the applicable fees received from such entities by either the external auditor or other persons or entities related thereto, as set forth in applicable legislation on the auditing of accounts.

(f) To issue an annual report, prior to issuance of the auditors' report, expressing an opinion on the independence of the statutory auditor. This report shall, in any event, include an assessment of the value of the additional non-auditing services referred to in the preceding paragraph, accounted for both individually and collectively, in relation to independence requirements or auditing regulations.

(g) To provide the Board of Directors with advance notice regarding all matters provided for by law, the Bylaws and these Regulations and in particular, regarding:

1. All financial information that the Company must periodically make public.

2. The creation or acquisition of shares in special purpose vehicles or companies incorporated in foreign countries or territories that are considered tax havens.

(h) To ensure that the Board of Directors works to present the financial statements to the General Shareholders Meeting without any restriction or reservation in the audit report.

Furthermore, the Committee shall exercise duties related to the reporting and internal control systems and to the external auditor, including:

(a) To supervise the preparation process and the integrity of the financial information relating to the company and, as the case may be, to the group, reviewing compliance with regulatory requirements, the proper scope of the consolidated group and the correct application of accounting principles.

(b) To ensure the independence of the internal auditing unit; propose the selection, appointment, reappointment and removal of the party responsible for the internal auditing services; propose the budget for such service; approve the direction and plans for its services to ensure that the activity focuses primarily on relevant risks for the company; receive regular reports on its activities; and verify that Senior Management takes the conclusions and recommendations of such reports into account.

(c) To establish and monitor a mechanism that allows employees to communicate, confidentially, any potential significant irregularities, in particular financial and accounting irregularities, observed from within the company.

(d) To examine the circumstances leading to any resignation of the external auditor.

(e) To ensure that compensation of the external auditor does not compromise quality or independence.

(f) To oversee that the company reports the change of auditor as a material event to the Spanish Securities Market Commission (*Comisión Nacional del Mercado de Valores* - CNMV), which shall be accompanied by a statement on any potential disagreements with the outgoing auditor and, if any, the content thereof.

(g) To ensure that the external auditor holds an annual meeting with a plenary session of the board of directors in order to inform them of the work performed and the financial position of and risks faced by the company.

(h) To ensure that the company and the external auditor respect rules in force on the provision of non-auditing services, limits on the concentration of the auditor's business and, in general, any other rules on the independence of the auditors.

(continued in section H.1)

Please identify the director on the audit committee whose appointment was made based on his or her knowledge and experience in the areas of accounting, auditing or both and state the number of years the chairman of this committee has been in his or her position.

Name of Experienced Director	CARLOS SOLCHAGA CATALÁN
No. of Years Chairman has Held Office	1

APPOINTMENTS AND COMPENSATION COMMITTEE

Name	Position	Category
EDUARDO SERRA Y ASOCIADOS, S.L.	CHAIRMAN	Independent
ANA PALACIO VALLELERSUNDI	MEMBER	Independent
MONTSERRAT ANDRADE DETRELL	MEMBER	Proprietary
JAIME ZURITA SAÉNZ DE NAVARRETE	SECRETARY	Independent

% proprietary directors	25.00%
% independent directors	75.00%
% other external directors	0.00%

Please explain the duties attributed to this committee, describe the procedures and rules followed regarding its organization and functioning and summarize the most significant actions taken during the fiscal year.

In accordance with Art. 14 of the Board Regulations, this Committee has the following duties:

- To assess the skills, knowledge and experience needed on the Board of Directors. For such purpose, the Committee shall define the functions and skills necessary in the candidates to cover each vacancy and evaluate the time and dedication required in order that they may properly perform their mandate.

- To establish a representation goal for the least-represented gender on the Board of Directors and develop guidelines on how to reach such objective.

- To raise all proposals for the appointment of Independent Directors to the Board of Directors for their appointment by co-optation or by submission to the decision of the General Shareholders Meeting, as well as all proposals for the reappointment or removal of said Directors by the General Shareholders Meeting.

- To report on all proposals for the appointment of the remaining Directors by co-optation or by submission to the decision of the General Shareholders Meeting, as well as on all proposals for their reappointment or removal by the General Shareholders Meeting.

- To report on proposals for the appointment or removal of senior executives as well as to report on or propose the basic terms of their contracts.

- To assess and coordinate the succession of the Chairman of the Board of Directors and of the Company's top executive and, as the case may be, develop proposals for the Board of Directors such that said succession may be completed as smoothly and orderly as possible.

- To propose a policy to the Board of Directors for the compensation of Directors and general managers or other individuals carrying out senior management duties under the direct supervision of the board, the executive committees or the Managing Directors, as well as for individual compensation and other contractual terms of the Executive Directors, ensuring that such terms are complied with.

- To ensure compliance with and periodically review the compensation policy for the Directors and senior executives, including share compensation systems and their implementation, as well as to ensure that individual compensation is proportionate to the amounts paid to the other Directors and senior executives of the Company.

- To ensure that any potential conflicts of interest do not threaten the independence of any external advising provided to the Committee.

- To verify information regarding compensation of Directors and senior executives as provided in various corporate documents, including the annual Directors compensation report.

- To report to the Board of Directors in advance regarding proposed resolutions for related-party transactions.

As regards the rules on organization and functioning, Article 14.1 states that it shall be comprised of a minimum of three and a maximum of four Non-Executive Directors appointed by the Board, at least two of which shall be Independent Directors. This Article further states that the Board shall be responsible for appointing the Chairman from among the Independent Directors on the Committee and that Committee meetings may, as the case may be, be attended by the party responsible for implementing the Company's compensation policy or by any other Company employee, as deemed appropriate by the Committee. The position of Secretary of the Committee shall be held by one of the Committee members, the Board Secretary, the Vice Secretary or the Legal Counsel of that body, as determined by the Board of Directors, who shall draft minutes for all resolutions adopted.

The Committee shall analyze all suggestions submitted thereto by the Chairman, Committee members, officers or shareholders of the Company and shall meet whenever the Board or its Chairman requests that a report be issued or a proposal be adopted and, in any case, whenever convenient for the proper performance of its duties and, in any case, shall monitor the information on the compensation of the Board of Directors.

(continued in section H.1)

EXECUTIVE COMMITTEE

Name	Position	Category
JOSÉ MARÍA FERNÁNDEZ SOUSA-FARO	CHAIRMAN	Executive
PEDRO FERNÁNDEZ PUENTES	MEMBER	Executive
JEFPO, S.L.	MEMBER	Other External

% executive directors	66.67%
% proprietary directors	0.00%
% independent directors	0.00%
% other external directors	33.33%

Please explain the duties attributed to this committee, describe the procedures and rules followed regarding its organization and functioning and summarize the most significant actions taken during the fiscal year.

In accordance with Art. 15 of the Board Regulations, it shall focus its activities primarily on:

- Ongoing monitoring and oversight of the daily operation and management of the Company, regularly monitoring financial management and implementation of the Company's strategic proposals and plans.

- Discussing those matters related to the following topics prior to submitting them to the Board: (i) accounts, management report and proposed application of earnings for each fiscal year; (ii) budgets and action plans and guidelines for managing the Company; (iii) oversight of the foundations of the corporate organization in order to ensure its maximum efficiency; and (iv) tangible or financial investments and divestments that are particularly relevant for the Company.

- In general, providing assistance to the Board in all decisions related to those issues listed in Article 5.3 a) and b) of the Board Regulations, which refer to the establishment by the Board of general strategies and management guidelines for the Company.

As regards the rules on organization and functioning, Article 15.1 states that the Executive Committee shall be comprised of three Directors appointed by the Board of Directors. The Chairman of the Board of Directors shall act as the Committee Chairman. The position of Committee Secretary shall be performed by one of the Directors on the Committee, the Board Secretary, the Vice Secretary or the Legal Counsel of said body, as determined by the Board of Directors.

It shall perform the duties delegated by the Board of Directors in relation to the day-to-day management, administration and representation of the Company in conformity with the principles governing conduct as established in the Bylaws and in these Regulations in relation to the Board of Directors. Notwithstanding the Executive Committee's decision-making autonomy in relation to the delegated powers, and its resolutions being valid and effective without any requirement of ratification by the Board, in those cases in which, in the opinion of the Chairman, the circumstances so require, the resolutions passed by the Executive Committee shall be submitted to the ratification of the Board, following the same regime as applicable to those matters for which the Board has delegated their analysis to the Committee but reserving the final decision thereon to the Board, in the latter case which the Executive Committee shall be limited to submitting the relevant proposal to the Board.

Information will be provided in the Board meetings on the main decisions adopted, as the case may be, in the meeting(s) of the Executive Committee that were held after the most-recent Board meeting, and all minutes for such meetings shall be made available to the directors for their evaluation.

Any member of the management team or other Company employee as required for such purpose may attend its meetings and provide their assistance.

The Executive Committee held seven meetings in 2016, addressing various issues related to the Group's strategy.

Please indicate whether the composition of the delegated committee or executive committee reflects the participation of the different categories of directors on the board of directors:

Yes ☐ No ☒

If not, explain the composition of the delegated committee or executive committee

The Company's Executive Committee is comprised of two executive directors (representing 66.66% of the Committee) and one other external director (representing 33.33% of the Committee). This composition does not reflect the participation on the Board of the different categories of directors, as this would not be possible given that the Board is comprised of directors belonging to four different categories and the Committee is comprised, in conformity with the Board Regulations, of only three members; this means that each member of the Committee necessarily represents 33.33% of the body and thus, it is mathematically impossible to duplicate the percentage of executive directors on the Board (22.22%). Taking into account that the Board of Directors is currently comprised of nine members, it is estimated that the Executive Committee should have three members. Due to the own nature thereof, the Executive Directors of the company shall be part of said Committee.

C.2.2 Please complete the following table with information on the number of female directors on the board committees over the last four fiscal years:

	Number of Female Directors							
	2016		2015		2014		2013	
	Number	%	Number	%	Number	%	Number	%
AUDIT COMMITTEE	1	20.00%	1	25.00%				
APPOINTMENTS AND COMPENSATION COMMITTEE	2	50.00%	2	50.00%				
EXECUTIVE COMMITTEE	0	0.00%	0	0.00%				

C.2.3 Section repealed.

C.2.4 Section repealed.

C.2.5 Please indicate, where applicable, if there are any regulations governing the board committees, where these regulations may be consulted and any amendments thereto made during the year. Please also state whether any annual reports on the activities of each committee have been voluntarily prepared.

There are no specific regulations applicable to the Board committees, which are regulated under Articles 12–15 of the Board Regulations available on Pharma Mar's website (www.pharmamar.com). The Board of Directors, at its meeting on 26 July 2016, approved the amendment of Article 13 of the Board Regulations. This amendment was aimed at bringing said article into line with the new wording of Article 529 quaterdecies of the Spanish Capital Corporations Law, as approved by Law 22/2015, of 20 July, on statutory auditing. The Board approved this amendment and subsequently, at the same meeting, approved the Amended and Restated Text of Pharma Mar's Board of Directors Regulations, which was reported to the Spanish Securities Market Commission on 27 July 2016.

An annual report on the activity of the Audit Committee and the Appointments and Compensation Committee has been issued.

C.2.6 Section repealed.

D. RELATED-PARTY AND INTRAGROUP TRANSACTIONS

D.1 Please explain, as the case may be, the procedures for approving related-party and intragroup transactions.

Procedures for reporting on the approval of related-party transactions

The Appointments and Compensation Committee is responsible for reporting on, prior to the meeting of the Board of Directors, proposed resolutions for related-party transactions (Art. 14.2.k of the Board Regulations).

The Board of Directors is in charge of approving, following a report from the Appointments and Compensation Committees, transactions carried out by the Company or its group companies with significant shareholders, whether individually or collectively with others, including shareholders represented on the Board of Directors of the Company or of other group companies, or with parties related thereto, in the terms and subject to the exceptions set forth in applicable law (Art. 5.3.b.(ix) of the Board Regulations).

D.2 Please describe any transactions for significant amounts or relating to significant issues between the company or group companies and the company's significant shareholders:

D.3 Please describe any transactions for significant amounts or relating to significant issues between the company or group companies and the company's directors or officers:

Name of Directors or Officers	Name of Related Party	Relation	Nature of Transaction	Amount (in thousands of euros)
ROSP CORUNNA PARTICIPACIONES EMPRESARIALES, S.L.	PHARMA MAR, S.A.	Commercial	Provision of services	13
ROSP CORUNNA PARTICIPACIONES EMPRESARIALES, S.L.	SYLENTIS, S.A. UNIPERSONAL	Commercial	Provision of services	2

D.4 Please describe significant transactions carried out by the company with other companies belonging to the same group, to the extent they are not removed for the purposes of preparing the company's consolidated financial statements and do not (in terms of their purpose and conditions) form part of the company's ordinary business activities.

In any case, any intragroup transaction carried out with organizations established in countries or territories deemed to be tax havens shall be reported:

D.5 Please state the amount of the transactions carried out with other related parties.

€2 thousand.

D.6 Please describe the mechanisms established to detect, assess and resolve potential conflicts of interests between the company and/or its group and its directors, officers or significant shareholders.

In the case of Directors, Article 24 of the Board Regulations governs conflicts of interest, establishing that:

1. The Company's Directors, in compliance with their duty of loyalty, shall be required to report to the Board, through the Chairman or Secretary, any conflict of interest with the Company and its group companies, prior to it arising or as soon as they become aware of its existence, and shall be required to immediately resign if based on the nature and continuance of the conflict their presence on the Board goes against the Company's interests.

The Directors shall also adopt those measures necessary to prevent their interests, whether for themselves or on behalf of third parties, from coming into conflict with corporate interests or with their duties to the Company, in accordance with the provisions of

law. In particular, the duty to avoid conflicts of interest requires that the Directors abstain from engaging in the conduct described in Article 229 of the Spanish Capital Corporations Law, except as waived in accordance with the provisions of Article 230.

A conflict of interest shall be deemed to exist when the interests of the Company and the interests of the Directors directly or indirectly clash. The Director shall be deemed to have an interest when he or she is directly affected or if any related party thereto is so affected, as provided in Article 231 of the Capital Corporations Law.

2. The Directors shall also abstain from debating and voting on those matters in which they have an interest, whether directly or indirectly through a related party, that conflicts with the interests of the Company. This obligation to abstain shall not apply to those resolutions that affect the Directors in their condition as such, including resolutions for their appointment, reappointment or removal. Voting by the Directors or, as the case may be, by the Committee in question on these types of resolutions may be made anonymously if so requested by any of its members.

3. The Directors shall disclose any interest held thereby in the capital of a company engaging in activity identical, analogous or complementary to that constituting the corporate purpose, as well as any offices held or duties performed in such company, as well as any activity carried out, for their own benefit or for the benefit of a third party, that is identical, analogous or complementary to that constituting the Company's corporate purpose. This information shall be included in the justifying report.

Articles 25 and 27 of the Board Regulations may apply to certain conflicts of interest. These articles regulate, respectively, the use of corporate assets and taking advantage of business opportunities, although they only incidentally address conflict of interest.

Article 25 of said Regulations provides that Directors may not use the assets of the Company or its subsidiaries for private purposes or for persons related thereto and may not use their position in the Company or its subsidiaries to obtain a financial advantage unless sufficient consideration is paid. Waiver of this requirement shall require a prior report from the Appointments and Compensation Committee. If the benefit is attained in their condition as a partner, the principle of equal treatment of shareholders must be followed.

Article 27 states that Directors may not take advantage, whether directly or on behalf of a related party thereto, of any potential business investments or transactions, or of any other nature, of which they became aware in the performance of their position, using the information means of the Company or of its investee companies or in such circumstances that could give rise to an assumption that the action was actually led by the Company. This prohibition shall not govern when the Board has previously offered the business opportunity to the Company or when authorized by the Board by prior report of the Appointments and Compensation Committee, whenever the Company has not dismissed said investment or transaction through the influence of the Director.

It is also important to note that Article 29 of the Board Regulations, governing transactions with significant shareholders and directors, states that:

1. Whenever a significant shareholder or Director of the Company wishes to carry out a transaction with the Company, it shall provide prior and immediate notice to the Board of Directors, through the Chairman, unless the transaction relates to ordinary transactions that are made under standard conditions for all clients and are immaterial, understood as those for which information is not required to express a true and fair view of the Company's equity, financial position and profits.

2. The Company may authorize performance by any Director or any related party thereto of a certain transaction with the Company. The authorization shall necessarily be granted by the General Shareholders Meeting when it relates to a transaction whose value exceeds ten percent of corporate assets. In all other cases, the authorization may also be granted by the Board of Directors, following a report from the Appointments and Compensation Committee, provided that independence of the members granting the authorization is guaranteed as regards the excepted Director or executive. In addition, it shall also be required to show that the transaction authorized will be harmless to the company's equity or, as the case may be, that it is being carried out under arm's length conditions and through a transparent process.

D.7 Is there more than one Group company listed in Spain?

Yes ☐ No ☒

Please identify any subsidiaries that are listed on a Spanish Stock Exchange:

Listed Subsidiary

Please identify whether the respective areas of activity and potential business relationships among them, as well as those of the listed subsidiary with other group companies, have been made publicly available.

Please define any potential business relations between the parent company and the listed subsidiary, as well as between the latter and any other group company.

Please identify the mechanisms developed to resolve potential conflicts of interest between the listed subsidiary and the other group companies:

Mechanisms for resolving potential conflicts of interest

E. RISK MANAGEMENT AND CONTROL SYSTEMS

E.1 Please explain the scope of the company's Risk Management System, including as regards tax risks.

As a result of the wide variety of activity sectors in which the Pharma Mar Group operates and the intense activity and resources applied to R&D projects, the most appropriate risk management system for this type of structure and activity is a decentralized system for the different business units, developed primarily on a project-by-project basis. The inherent risks in each project are identified and assessed by the different business units, who develop actions to respond to and mitigate said risks, as necessary.

Nevertheless, with a view to monitoring certain common risks across the different Group companies, a Group Policy has been established that applies to all Group companies and which addresses, *inter alia*, restrictions on and monitoring of powers of attorney and the contracting of certain financial transactions or purchases and investments. The Audit Committee, with the assistance of the Group's Internal Audit Department, is responsible for monitoring compliance with these specific policies.

E.2 Please identify the bodies of the company that are responsible for developing and implementing the Risk Management System, including as regards tax risks.

In general, the management bodies of each of the Group companies are aware of the risks faced by their organizations and understand the control environment. Officers in the different areas are in charge of implementing the specific controls for such risks.

The Board of Directors of the parent company of the Group, through its Audit Committee, has the duty to monitor the effectiveness of the Company's internal controls, internal auditing and risk management systems, as well as for discussing with the statutory auditors any significant weaknesses in the internal control system identified during the audit, all without compromising their independence. For such purpose, as the case may be, recommendations or proposals may be submitted to the governing body, including the periods established for compliance therewith (Art. 13.2.b of the Board Regulations).

In order to carry out this duty, the officers of the different business units shall report to the Committee at least once per year on the different risks faced by their respective business units (operating, market, financial, etc.), on processes for monitoring such risks and on mitigating actions.

Development projects for new products are managed by the project management teams or "Project Teams," who are also responsible for identifying the risks that may arise in relation to each project and sub-project. These "Project Teams" are interdisciplinary and assess potential risks from the perspective of various disciplines (patents, production, clinical, regulatory, etc.) and establish tolerance levels which, as regards projects in the clinical development stages, are regulated by the competent authorities, leaving little discretionary margin. The management system through "Project Teams" was adopted by the Management Committee of the Oncology Business Unit.

As regards research projects, certain institutional criteria have been established: patentability, viability of production, market criteria or therapeutic window and novel mechanisms of action; if the research project does not comply with any of these institutional criteria, there are a series of internal mechanisms that result in stoppage of the project by the Research Management. The decision of whether to promote a project from the research stage to the development stage is discussed among the Chairman, the Managing Director of the Oncology Business Unit and R&D Management.

On the other hand, all of the boards of directors of the different business units have various directors that also serve as directors of the Group's parent company; these directors disseminate the principles of conduct established in the board of directors of the Group's parent company to these boards of directors and raise relevant questions to the board of the parent company that may arise within the boards of directors of which they form part for the different business units.

E.3 Please identify the primary risks, including tax risks, which may affect attainment of the business objectives.

See section H.1

E.4 Please identify whether the company has established a risk tolerance level, including as regards tax risks.

The sectors in which the activity of the different business units of the Pharma Mar Group is carried out (biopharmaceutical and consumer chemicals) are highly regulated sectors. In these sectors, the safety and reliability of operations are monitored by official bodies such as the Spanish Agency of Medications and Sanitary Products, the European Medicines Agency (EMA), and the U.S. Food and Drug Administration (FDA). Consequently, risk appetite has very low tolerance thresholds, in particular as regards operating risks and risks related to physical safety of employees, compliance and separation of duties. The Group's risk tolerance is in line with and complies with the standards and regulations applicable thereto. Management decisions made by the Company's senior management take into account this tolerance level as established at the corporate level.

E.5 Please identify the risks, including tax risks, that materialized during the fiscal year.

A product for treating soft tissue sarcoma (Halaven) was approved in 2016 and is already being marketed by Eisai Europe Ltd. as a treatment for metastatic breast cancer. Approval in Europe and the United States is limited to use for treatment of liposarcoma. Liposarcoma accounts for a mere 15% of all cases of soft tissue sarcoma, and it is therefore expected that this will not have a significant impact on Yondelis® sales.

Likewise, in 2016, some European Union countries made health care budget cuts, which will have an effect on all medications. Yondelis® in particular has been affected in some European Union countries, and the impact of these budget cuts in 2016 is estimated at a €2.7 million decrease in turnover.

As regards the consumer chemicals sector, the risks identified in previous years continue to decrease: risk of default and non-payment and customer credit risk. The most significant uncontrollable risk in this sector is the potential effect of adverse weather conditions, including the appearance of insects and/or long periods of rain that could delay exterior wood restoration works. The transfer of price increases in raw materials (in particular, pyrethrum extract) to the clients and the implementation of an appropriate advance stocking policy have helped minimize the potential effects of changes in the EUR/USD exchange rate.

E.6 Please explain the plans for responding to and monitoring the main risks faced by the company, including tax risks.

See section H.1

F. INTERNAL CONTROL AND RISK MANAGEMENT SYSTEMS IN RELATION TO THE FINANCIAL REPORTING PROCESS (*SCIIF)*

Describe the mechanisms included in your company's internal control and risk management systems in relation to the financial reporting process (SCIIF - *Sistema de Control Interno de la Información Financiera*).

F.1 Company's control environment

Please provide information on the primary characteristics of at least:

F.1.1. What bodies and/or duties are responsible for: (i) the existence and maintenance of a proper and effective SCIIF; (ii) its implementation; and (iii) monitoring of the SCIIF.

The Company's Board of Directors has the duty to establish the internal control and risk management systems, including as regards tax risks, and to identify the primary risks faced by the Company, in particular those risks arising from derivative transactions, as well as to implement and monitor adequate internal control and reporting systems, in accordance with Article 5.3.b).(viii) of the Board Regulations.

This responsibility is exercised through the Audit Committee, which is the body responsible for monitoring the effectiveness of the Company's internal controls, internal auditing and risk management systems, including as regards tax risks, as well as for discussing with the statutory auditor any significant weaknesses in the internal control system identified during the audit, all without compromising independence. For such purpose, as the case may be, recommendations or proposals may be submitted to the governing body, including the periods established for compliance therewith, in accordance with Art. 13.2.b) of the Board Regulations.

The Company's Financial Managers are responsible for the design, implementation and operation of the SCIIF, as well as for identifying and assessing risk on an annual basis and for determining the controls to be implemented, in accordance with the risk management procedures in relation to financial reporting.

The Audit Committee and the Financial Managers assist the Internal Audit Department, which is in charge of drafting and implementing an annual plan to assess the efficiency of the SCIIF. Likewise, it shall regularly report to the Audit Committee on weaknesses identified and the implementation of corrective measures, as frequently as required. These duties are also established by virtue of the risk management procedures in relation to financial reporting.

F.1.2. If any, please identify the following elements, in particular as regards the process for drawing up financial information:

• Departments and/or mechanisms responsible for: (i) designing and revising the organizational structure; (ii) clearly defining the lines of responsibility and authority, ensuring proper distribution of tasks and duties; and (iii) ensuring that there are sufficient procedures in place for its proper dissemination within the company.

As regards the organizational structure, the Board of Directors is entrusted with the duty to define the structure of the group of companies for which the Company is the parent company (Art. 5.3.a).(vi) of the Board Regulations). The Board shall adopt all measures necessary to ensure that company management is under the effective supervision of the Board (Article 6.3.b of the Board Regulations). Article 22 of the Regulations establishes that, in addition, the Directors shall have the duty to assist the Board with its duty to foster and monitor the day-to-day management of the Company and, to the extent legally permitted, of the investee companies.

In this regard, the General Managers of the investee companies shall, at least once a year and whenever so required due to special circumstances, report to the Board of Directors on their day-to-day operations, and the Board shall aim to ensure that no individual or small group of individuals holds decision making power not subject to counterweights and controls (Art. 6.3.c) of the Board Regulations); in this regard, there is an internal policy establishing restrictions on powers of attorney.

The Executive Committee has the duty to monitor the bases of the corporate organization with a view to ensuring the maximum efficiency thereof (Art. 15.2.b).(iii) of the Board Regulations), whereas the General Managers are in charge of distributing tasks and duties among members of their respective organizations. As regards the process for drawing up financial information, applicable procedures are established by corporate Financial Managers and distributed to the different affected areas through their managers.

• Code of conduct, authorizing body, degree of publication and reporting, principles and values included (identifying whether there is any specific mention to the registration of transactions and drafting of financial information), body tasked with assessing non-compliance and proposing corrective actions and sanctions.

The Company's Board of Directors unanimously resolved on the approval of the Pharma Mar Group's Code of Conduct at its meeting held on 22 December 2015, which entered into effect on 1 February 2016. The Code of Conduct has been sent to all employees of the Pharma Mar Group and is aimed at, in accordance with Article 1 thereof, formalizing the principles and values that should guide the conduct of everyone forming part of the companies of the Pharma Mar Group, both internally and with clients, partners, suppliers and in general, with all public and private individuals and entities with which they liaise in the performance of their professional activity.

Article 3.15 of the Code states that the management bodies of the Pharma Mar Group and its companies undertake to ensure regular monitoring of the effectiveness of the internal control system in relation to financial reporting to the markets. Any doubts that may arise in the interpretation of the Code of Conduct shall be discussed with the hierarchical superior or, as the case may be, with the Group's Conduct Committee, which shall be in charge of analyzing non-compliance and proposing corrective actions.

• Complaints channel that enables the reporting of financial and accounting irregularities to the audit committee, as well as for reporting potential breaches of the code of conduct and other irregular activities within the organization. Please indicate whether this channel is confidential.

Everyone covered by the Code of Conduct –i.e. members of the board of directors, Senior Management and, in general, without exception and regardless of his or her position, responsibility or workplace, all employees and executives of companies that form part of the Pharma Mar Group–, may report any potential breaches thereof through the Complaints Channel established for such purpose.

In accordance with the Regulations governing the Complaints Channel, the Conduct Committee, the composition of which was resolved on by the Board of Directors on 26 January 2016, ensures that all complaints received through the Complaints Channel are addressed and managed properly and fully and are analyzed on an unbiased and confidential basis. Furthermore, the Conduct Committee guarantees the confidentiality of the identity of the reporting party or parties, as well as of the party or parties being reported, notifying only those people as strictly necessary for the investigation and resolution process.

• Training programs and regular ongoing training programs for staff involved in preparing and reviewing financial information, as well as on assessment of the SCIIF, which shall cover, at least, accounting, auditing, internal control and risk management rules.

Staff involved in the preparation and review of financial information regularly attend external continuing education programs on applicable regulations. In 2016, the total number of hours spent on training in this area was 121 hours.

F.2 Assessment of financial reporting risk

Report on at least the following:

F.2.1. What are the main characteristics of the process for identifying risks, including the risk of error or fraud, in relation to:

• Whether the process exists and is documented.

The Company has a process for identifying financial risks that results in the development of a risk map for the Group's financial information. Both the process for identifying financial risks as well as the resulting map are duly documented.

• Whether the process covers all financial reporting objectives (existence and occurrence; completeness; valuation; presentation; allocation and comparability; and rights and obligations) and whether it is updated, and with what frequency.

The process analyzes the five objectives for reliable financial reporting: (i) existence and occurrence; (ii) completeness, (iii) valuation, (iv) allocation, classification and comparability, and (v) rights and obligations. Those risks that could result in material misstatements in the financial information are identified and assessed through this process. For such purpose, both quantitative criteria based on materiality and qualitative criteria based on risk factors are used. Based on the results obtained, the key processes associated with those accounts showing significant and/or specific risks are identified. The results of this process form the basis for the procedures for documenting and assessing the SCIIF. The risks associated with fulfilling the financial reporting objectives are annually identified and assessed as the basis for establishing the controls to be implemented.

• Whether the company has a process for identifying the perimeter of consolidation, taking into account, *inter alia*, the potential existence of complex corporate structures, instrumental entities or special purpose vehicles.

The Company's internal regulations establish mechanisms to monitor any potential changes in the perimeter of consolidation. In this regard, the Audit Committee is responsible for supervising the drafting process and integrity of financial reporting related to the Company and, as the case may be, to the Group, ensuring compliance with regulatory requirements, proper identification of the perimeter of consolidation and proper application of accounting criteria (Article 13.3a) of the Board Regulations).

On the other hand, the Board of Directors is responsible for approving transactions for the incorporation and winding up of companies or shareholdings in existing companies that are material for the Company, whether due to their amount or nature (Article 5.3.b)(ii) of the Board Regulations).

• Whether the process considers the effects of other types of risks (operating, technological, financial, legal, reputation, environmental, etc.) to the extent they affect the financial statements.

The risk management procedures for financial reporting form part of the Pharma Mar Group's comprehensive risk management system, exclusively covering those risks that threaten the financial reporting objectives (existence and occurrence; completeness; valuation; allocation, classification and comparability; and rights and obligations). The procedures are applicable to all financial reporting risks that affect or may affect the Pharma Mar Group in any of its entities or areas or that arise in its environment or activities. Therefore, the process considers the effects of other types of risks covered by the comprehensive risk system of the Pharma Mar Group (operating, technological, financial, legal, reputation, environmental, etc.), to the extent they affect the financial statements.

• Which governing body of the company oversees the process.

The governing body that oversees the risk identification process is the Audit Committee, in accordance with the provisions of the Risk Management System for Financial Reporting. The Internal Audit Department, Financial Managers and external auditors, as the case may be, assist the Audit Committee in such regard.

F.3 Control Activities

Please provide information on the primary characteristics of at least, if any:

F.3.1. Processes for reviewing and authorizing financial reporting and the establishment of the SCIIF, to be published in securities markets, identifying the responsible parties, as well any processes for the descriptive documentation of operation flows and controls (including as regards fraud risk) for the different types of transactions that could materially affect the financial statements, including the procedures for closing the accounts and specifically reviewing the relevant opinions, estimates, valuations and projections.

The company has an internal financial reporting control model based on the COSO framework, which provides reasonable certainty of compliance with the objectives of said model: effectiveness and efficiency of transactions, safeguarding of assets, reliability of financial reports and compliance with applicable laws and regulations.

Prior to identifying the financial risks and developing the pertinent risk map, critical activities were identified (totaling 61), enabling identification of the key processes to be documented (totaling 37). These 37 processes are duly described and documented, including flowcharts and a description of the activity. The significant risks identified at each stage of the process are assigned an applicable key control, which is also described in the processes. A total of 286 controls have been identified.

The financial managers are responsible for identifying and documenting the aforementioned processes and the corresponding risks that could affect financial information, as well as for assessing their potential impact. The financial managers are also responsible for implementing actions aimed at mitigating the identified risks.

There is a procedure for closing the accounts. The specific review of material opinions, estimates, valuations and projections follow their own process. The respective business units make estimates, valuations or projections in the areas for which they are authorized; the reasonableness of these calculations is evaluated by the corporate Financial Managers, with the support of, as the case may be, the advise provided by the different General Managers.

F.3.2. Internal control policies and procedures for reporting systems (including but not limited to for access security, control of changes, operation thereof, operational continuity and separation of duties) that support the relevant processes of the company as regards the development and publication of financial information.

As regards reporting systems that support the relevant financial reporting processes, the responsibilities are delegated to the different business units. The most significant business unit has a security policy that includes IT controls, controls on the access of programs and data, controls on the development and management of change, and controls on the operation and implementation of reporting systems.

F.3.3. Internal control policies and procedures aimed at monitoring the management of activities sub-contracted to third parties, as well as of the assessment, calculation or valuation activities outsourced to independent experts, which could have a material effect on the financial statements.

The Company has not sub-contracted any activities which could be relevant to the issuing of the financial statements. When the services of an independent expert are used to, for example, make valuations, the professional technical capacity thereof is ensured, and the Group has qualified staff that can verify the reasonableness of the conclusions made in the reports issued.

F.4 Reporting and communication

Please provide information on the primary characteristics of at least, if any:

F.4.1. A specific department responsible for defining and updating the accounting policies (accounting policies area or department); resolving doubts or conflicts arising from the interpretation thereof; maintaining close communications with the parties responsible for the

operations of the organization; maintaining an up-to-date accounting policies manual, which shall be communicated to the different units through which the company operates.

The corporate Financial Managers are primarily responsible for the application of the accounting policies. As regards International Financial Reporting Standards, the Consolidation Unit reports to the heads of the accounting areas of the Group regarding any updates that could affect such areas, working with them to analyze one-off operations and transactions and resolve any doubts that may arise in any other Group company regarding application of these standards. The internal auditor updates the different heads in charge of drafting the financial statements as regards regulatory amendments and also determines the effects of applying new regulations. In particularly complex transactions, the corporate Financial Managers request the opinion of external auditors regarding the analysis completed by the Group.

The Group's Accounting Policies are set forth in a document titled "Accounting Manual of the Pharma Mar Group," drafted based on the General Spanish Accounting Plan Law, as nearly all of the Group companies are located in Spain. This document is regularly updated and has been distributed to the financial managers of the different Group companies.

F.4.2. Mechanisms for capturing and preparing financial information, with standardized formats, which apply to and are used by all units of the company or its group and that support the main financial statements and notes thereto, as well as the information on the SCIIF.

The Company has internally developed IT tools for use in consolidating and drafting the annual financial statements. These applications have a unified format and are distributed to the Group companies, who then incorporate their individual financial statements into the application and return them completed to the Consolidation Unit where the consolidation process is completed. In the event of companies that have their own subsidiaries, such companies shall be responsible for adding their subsidiaries before sending the financial information to the Consolidation Unit. The SCIIF is supported by a single, unified system that includes a reporting tool used to obtain the necessary information to reach conclusions regarding the functionality of the SCIIF.

F.5 Monitoring functioning of the system

Please provide information on the primary characteristics of at least:

F.5.1. Monitoring activities carried out by the audit committee in relation to the SCIIF as well as whether the company has an internal audit department charged with the duty of supporting the committee in its monitoring activities of the internal control system, including the SCIIF. Please also include information on the scope of the assessment of the SCIIF completed during the fiscal year, as well as on the procedures followed by the party responsible for the assessment to report his or her results, whether the company has an action plan detailing the potential corrective measures, and whether its impact on financial information has been considered.

The Company has an internal audit department that is tasked with, *inter alia*, supporting the Audit Committee in the performance its duties, which includes the duty to monitor the functioning of Pharma Mar's control environment. These duties are performed in compliance with the Audit Department Charter approved by the Board of Directors of Zeltia, S.A. on 28 November 2011. The aforesaid Charter was assumed by Pharma Mar, S.A. as a result of the takeover merger of Zeltia, S.A. (absorbed company) by Pharma Mar, S.A. (absorbing company), effective as of 30 October 2015.

In relation to the SCIIF, the internal audit department is responsible for overseeing the reliability and integrity of the financial information, monitoring and assessing the efficiency of the control and management of financial risks, publishing proposals for improvement and monitoring their implementation, unifying compliance with accounting policies, standards and procedures with effects on each of the processes analyzed and coordinating with financial managers to ensure documentation related to the SCIIF is up to date. The internal auditor issues an annual report evaluating compliance with the SCIIF and making proposals for improvement to the SCIIF, which is then sent to the Audit Committee for review. The internal auditor designs and implements a plan for assessing the efficiency of the controls. Identified weaknesses in the controls are notified to the Audit Committee.

F.5.2. Whether the company has a discussion procedure through which the statutory auditor (in accordance with the provisions of the Spanish Auditing Technical Standards - NTA), the internal audit department and other experts can communicate with senior management, the audit committee or directors of the company regarding significant weaknesses in internal controls identified during the processes for reviewing the annual financial statements or during other processes entrusted thereto. Please also provide information on whether an action plan exists to correct or mitigate the identified weaknesses.

The external auditor met with the Audit Committee twice during fiscal year 2016. The audit work completed in relation to the individual and consolidated Financial Statements for fiscal year ended 31 December 2015 was presented at a meeting on 29 February 2016, and the external auditor presented the Audit Plan for fiscal year 2016 at a meeting on 21 November 2016.

The corporate Financial Managers attend the meetings whenever so required.

The internal auditor, by delegation of the Audit Committee, monitors the proper operation of the SCIIF and assesses its design and effectiveness. The assessment plan for the SCIIF for the upcoming year shall be presented to the Audit Committee on an annual basis, which shall address risks identified by the financial managers of the Group companies. This Committee shall be responsible for approving this plan. The Audit Committee shall be regularly notified of any potential weaknesses identified during the work carried out by the audit department. In this regard, the internal auditor attended the meeting of the Audit Committee on 26 July 2016, in which it presented on the implementation of the Audit Plan during the first half of 2016. This Plan was approved by the Committee itself at the end of 2015. Details on the processes analyzed were provided at this meeting and, in the case of weaknesses identified in the controls by the internal auditor, the recommendations to be implemented by the Group companies in order to mitigate such weaknesses were reported to the Audit Committee. Supplementary information was also sent to the members of said Committee via e-mail. The Internal Audit Plan for 2017 was presented to the Committee and approved at the same meeting held on 21 November 2016.

The monitoring process is continually carried out, which provides reasonable security that the financial information provided at the interim closing dates is reliable. Furthermore, the Audit Committee may seek the opinion of external auditors or, in specific cases, seek support from independent experts as regards their monitoring tasks, on the items of the SCIIF that it deems appropriate.

F.6 Other relevant information

N/A

F.7 External audit report

Please report on:

F.7.1. Whether the information on the SCIIF released to the markets was submitted to a review by the external auditor, in which case the company should attach the relevant report as an annex hereto. If not, please provide the reasons.

In fiscal year 2016, SCIIF information reported to the markets was not submitted to a review by the external auditor.

G. COMPLIANCE WITH CORPORATE GOVERNANCE RECOMMENDATIONS

Please specify the company's level of compliance with recommendations from the Unified Corporate Governance Code.

If any recommendation was not followed, or was only partially followed, please include a detailed explanation of the reasons so that shareholders, investors and the market in general have enough information to evaluate the company's conduct. General explanations will not be accepted.

1. That the Bylaws of listed companies should not limit the maximum number of votes that may be cast by any single shareholder and should not contain other restrictions that hinder the takeover of control of the company through the acquisition of shares on the market.

Complies ☐ Explain ☒

Article 25.3 of the Bylaws provides that "no shareholder may cast a number of votes exceeding 25% of total voting capital from time to time, even when the number of shares held thereby is greater than the aforesaid capital percentage." This limit shall not affect the votes applicable to the shares represented by a shareholder by proxy in the terms provided in Article 19 of these Bylaws, notwithstanding the individual application to each shareholder so represented of the same 25% limit for the votes related to the shares held thereby.

The limit established in this section shall also apply to the number of votes that, at the most, two or more corporate shareholders belonging to the same group of companies may cast, whether jointly or separately. This limit shall likewise apply to the number of votes that, at the most, a natural person shareholder and the company or companies, also shareholder(s), which are controlled by the natural person, may cast, whether jointly or separately.

For the purposes of the previous paragraph, a group of companies shall be defined as provided in Article 42 of the Commercial Code, and a natural person shall be deemed to control one or several entities when, in the relations between the aforementioned person and the reference company or companies, one of the control circumstances referred to in said article occurs.

Likewise, and for the purposes of this Article, the relationship of any natural person or corporate shareholder with interposed parties, trustees or equivalent entities that are in turn shareholders of the company, as well as with funds, investment institutions or similar entities that are also shareholders of the company, shall be considered control for the purposes of Article 42 of the Commercial Code, when the voting rights of the shares held by these persons or entities are directly or indirectly exercised by the shareholder in question.

The limit established in this section shall likewise apply to the number of votes that may be cast jointly by shareholder groups acting collectively.

In the days leading up to the General Meeting, in first call, the Chairman of the Board of Directors may require that any shareholder inform the Company through its Chairman, within 48 hours, of the shares held directly thereby and of the shares owned by third parties directly or indirectly controlled by the shareholder in question, as well as of any information on any pacts or agreements, express or implied, relating to the right to vote that could give rise to collective action with other shareholders. The Chairman may comment as he or she deems appropriate at the General Meeting, at the time the Meeting is assembled, in order to ensure compliance with these Bylaws in relation to the exercise of voting rights by shareholders.

Those shares that belong to one holder, to a group of entities or to a natural or legal person, and the companies controlled by said natural or legal person, as well as all individuals or entities acting collectively with the aforementioned, shall be fully accounted for among the shares attending the Shareholders Meeting to obtain the necessary quorum in terms of capital required to hold the meeting, but at the time of voting, the limit on the number of votes, established at 25% by virtue of this article, shall apply.

The limit established in this section 3 shall cover any material subject to a decision of the General Shareholders Meeting, including the appointment of directors by the proportional system, but excluding amendment of this article, which shall in any case require the approval of a qualified majority of 75% of the capital present in person or by proxy, both in first and second call. The limit established in this section 3 shall be null and void when, following a public tender offer, the offeror has reached a percentage equal to or greater than 70% of the voting capital, unless said offeror was not subject to equivalent neutralization measures, or if such measures were not adopted. The removal of the aforesaid limits shall be effective as of the date on which the settlement results of the offer are published in the Quotation Bulletin of the Madrid Stock Exchange."

This limit –contained in the Bylaws of Pharma Mar that were part of the Common Merger Project of Zeltia, S.A. and Pharma Mar, S.A., approved by 99.98% of the shareholders of Zeltia, S.A. in attendance at its last General Shareholders Meeting on 30 June 2015– is a measure aimed at protecting the rights of the many minority shareholders that have a limited ability to act and is a response before any potential shareholder with a participation that, although not a majority holding and without surpassing takeover bid thresholds, wishes to exercise its influence and whose interests may not be completely in line with the corporate interests.

2. That when the parent company and a subsidiary are listed on the stock exchange both should publicly and specifically define:

   a) The respective areas of activity and potential business relationships between them, as well as those of the listed subsidiary with other group companies.

   b) The mechanisms in place to resolve any conflicts of interest that may arise.

Complies ☐ Partially Complies ☐ Explain ☐ Not Applicable ☒

3. That during the annual general shareholders meeting, as a supplement to the publication in writing of the annual corporate governance report, the chairman of the board of directors should verbally report to the shareholders, in sufficient detail, regarding the most relevant aspects of the company's corporate governance and, in particular:

   a) On the changes occurring since the previous annual general shareholders meeting.

   b) On the specific reasons for which the company is not in compliance with any of the recommendations of the Corporate Governance Code and, if any, the alternative rules applied in this regard.

Complies ☒ Partially Complies ☐ Explain ☐

4. That the company should define and promote a policy on communication and relationships with shareholders, institutional investors and voting advisors that is fully compliant with regulations against market abuse and that provides similar treatment to shareholders in identical circumstances.

   And that the company should make said policy public on its website, including information on the manner in which it is implemented and identifying the partners or responsible parties for its implementation.

Complies [X] Partially Complies [ ] Explain [ ]

5. That the board of directors should not make proposals to the general shareholders meeting for the delegation of powers to issue shares or convertible securities without preemptive rights, for an amount greater than 20% of the capital at the time of the delegation.

   And that when the board of directors approves any issue of shares or convertible securities without preemptive rights, the company should immediately publish on its website those reports addressing the lack of preemptive rights as required by applicable mercantile legislation.

Complies [X] Partially Complies [ ] Explain [ ]

6. That the listed companies that draft the reports referred to herein below, whether on a mandatory or voluntary basis, should publish them on their website sufficiently in advance of the annual general shareholders meeting, although dissemination is not mandatory:

   a) Report on the independence of the auditor.
   b) Reports on the functioning of the audit committee and appointments and compensation committee.
   c) Report on the audit committee in relation to related-party transactions.
   d) Report on the corporate social responsibility policy.

Complies [ ] Partially Complies [X] Explain [ ]

As will be explained in the 2015 Annual Corporate Governance Report, the Company did not publish the reports on the functioning of the Audit Committee and Appointments and Compensation Committee for 2015 because, given that only one meeting of each committee was held in fiscal year 2015 (since the Company became a listed company on 2 November 2015), publication was deemed immaterial in light of the scarce volume of activity carried out during the months of November and December 2015. Furthermore, the Company also did not publish the reports on related-party transactions due to the sensitive and confidential nature of the information contained in these reports, in particular taking into account the fact that a large majority of said reports contain the economic terms offered by third parties in the proposals drafted together with the proposal of the related party. On the other hand, the Company did publish both the report on independence of the auditor and the corporate social responsibility report prior to the Annual General Shareholders Meeting held on 23 June 2016. As regards this fiscal year, the Company expects to publish a report on the functioning of the Audit Committee and on the independence of the auditor prior to the meeting of the Annual General Shareholders Meeting and does not expect to publish a report on related-party transactions or functioning of the Appointments and Compensation Committee, as such reports may potentially contain confidential information and, therefore, publication thereof could harm the legitimate interests of third parties (e.g. providers, employees).

7. That the company should hold a live broadcast of the general shareholders meetings on its website.

Complies [X] Explain [ ]

8. That the audit committee should ensure that the board of directors submits the financial statements to the general shareholders meeting without any qualifications or reservations in the audit report and, in the exceptional circumstance that it fails to do so, the chairman of the audit committee and the auditors should clearly explain the content and scope of the qualifications or reservations to the shareholders.

Complies [X] Partially Complies [ ] Explain [ ]

9. That the company should publish on its website, on a permanent basis, the requirements and procedures to be followed in order to accredit ownership of shares, the right to attend the general shareholders meeting and exercise or delegation of the right to vote.

And that said requirements and procedures shall encourage attendance and the exercise of the shareholders' rights, and which shall be applied on a non-discriminatory basis.

Complies [X] Partially Complies [ ] Explain [ ]

10. That when any authorized shareholder has exercised, prior to the meeting of the general shareholders meeting, the right to add additional agenda items or present new proposed resolutions, the company should:

a) Immediately publicize the additional agenda items and proposed resolutions.

b) Make the form of attendance, proxy and voting card public, incorporating the changes required in order to ensure that voting on the new agenda items and alternative proposed resolutions is carried out under the same terms as the proposals made by the board of directors.

c) Submit all items or alternative proposals to a vote and apply the same voting rules as established for the board of directors including, in particular, as regards the presumptions and inferences on the direction of the vote.

d) Prior to the general shareholders meeting, notify the breakdown of the vote on said additional items or proposed resolutions.

Complies [ ] Partially Complies [X] Explain [ ] Not Applicable [ ]

Article 24.2 of the Bylaws provides that "unless the Presiding Panel, at the proposal of the Chairman, has established a different system for the voting in question, votes in favor of the proposed resolutions shall be understood as the votes of all shareholders attending, in person or by proxy, that have not expressly abstained, voted in blank or voted against the resolution, and approval shall be accredited by recording the votes against, in blank or abstentions. Nevertheless, as regards resolutions not proposed by the Board of Directors (defined as proposed resolutions deriving from the exercise of the right provided for in Article 519 of the Capital Corporations Law), votes of all shareholders attending, in person or by proxy, except for those shareholders that expressly abstain, vote for or cast a blank vote, shall be considered votes against the proposal submitted to a vote." Article 14.4 of the General Meeting Regulations contains a provision in this same regard.

These types of provisions are included for practical and operational reasons. For example, the use of mechanisms for granting a proxy or for distance voting and the preparation of the required documentation for such purpose (voting cards, proxy cards, etc.) is facilitated if a consensus on the direction of the vote exists, and following this recommendation would hinder and limit the use of these mechanisms, as it is presumed that a considerable portion of the shareholders employing these methods for voting or granting proxies would need to revise and, perhaps, amend the documentation that they had prepared or sent to cast their votes using these methods if they were considered to have voted in favor of any proposed resolution submitted by any shareholder (this same reasoning would apply shareholders that leave the Shareholders Meeting after it has already been assembled).

In any case, it should be noted that no authorized shareholder has, prior to the meeting of the General Shareholders Meeting on 23 June 2016, exercised its right to add additional agenda items or to present new proposed resolutions.

11. That, in the case the company intends to pay premiums for attendance at the general shareholders meeting, it should establish, in advance, a general policy for said premiums, and said policy shall be stable.

Complies [ ] Partially Complies [ ] Explain [ ] Not Applicable [X]

12. That the board of directors should perform its duties with unity of purpose and independent judgment, providing equal treatment to all shareholders in the same situation, and should be guided by the best interests of the company, which shall be understood as developing a profitable business that can be sustained in the long term, promoting the viability of the company and maximizing its financial value.

And that in pursuing the corporate interests, the board, in addition to abiding by laws and regulations, should follow good faith and ethical principles and observe commonly accepted customs and good practices, aiming to reconcile the corporate interests with, as applicable, the legitimate interests of its employees, suppliers, clients and other interest groups that may be affected, as well as with the impact of the company's activities on the environment and the community as a whole.

Complies [X] Partially Complies [ ] Explain [ ]

13. That the board of directors should have the required scope to ensure its effective operation and participation at its meetings, for which purpose the board should have between five and fifteen members.

Complies [X] Explain [ ]

14. That the board of directors should approve a director selection policy that:

a) Is specific and attestable.
b) Ensures that the proposals for appointment or reappointment are based on a prior analysis of the needs of the board of directors.
c) Favors diversity of knowledge, experience and gender.

That the result of the prior analysis of the needs of the board of directors should be included in the justifying report of the appointments committee, which is published when the general shareholders meeting is convened in order to ratify, appoint or reappoint each director.

And that the director selection policy should promote the objective of having female directors account for at least 30% of the total number of board members by 2020.

The appointments committee shall verify compliance with the director selection policy on an annual basis and shall report on said policy in the annual corporate governance report.

Complies [X] Partially Complies [ ] Explain [ ]

15. That the proprietary and independent directors should constitute a broad majority of the board and that the number of executive directors is the minimum necessary, taking into account the complexity of the corporate group and the percentage interest held by the executive directors in the share capital of the company.

Complies [X] Partially Complies [ ] Explain [ ]

16. That the percentage of proprietary directors in relation to the total number of non-executive directors should not exceed the proportion between the share capital of the company represented by said directors and the remaining share capital.

These criteria may be modified:

a) In companies with high capitalization and in which shareholdings legally considered to be significant are limited.
b) In companies where several shareholders are represented on the board of directors and are not related to one another.

Complies [ ] Explain [X]

The Company does not comply with this recommendation, as two of its primary shareholders are considered executive directors and cannot be considered proprietary directors; all of the shareholders currently holding a significant interest in the company form part of its Board of Directors.

17. That the number of independent directors should represent at least one half of the total number of directors.

That, nevertheless, when the company does not have high capitalization or when, even if having high capitalization, it has one or more shareholders acting jointly that control 30% of the share capital, the number of independent directors should represent at least a third of total directors.

Complies [X] Explain [ ]

18. That companies should publish and update the following information on their directors on their website:

a) Professional profile and biography.

b) Other boards of directors of which they are a member, whether of a listed company or not, as well as any other compensated activities carried out, regardless of the nature thereof.

c) Indication of the director's category, identifying, in the case of proprietary directors, the shareholder that they represent or are linked to.

d) The date of their first appointment as a director of the company, as well as of all subsequent reappointments.

e) The shares of the company and option rights thereon that they own.

Complies [ ] Partially Complies [X] Explain [ ]

The Company has made public on its website all information referred to in the recommendation except information on other compensated activities of any nature carried out by the directors; this is the case due both to the practical difficulty of gathering the information referred to in this recommendation, taking into account that it includes any type of activity regardless of the materiality thereof (conferences, publication of articles, teaching activities, etc.), as well to the confidential and personal nature of this information.

19. That the annual corporate governance report, following verification by the appointments committee, should explain the reasons for the appointment of proprietary directors at the request of the shareholders whose interest in share capital is less than 3%. It should also explain, where applicable, why formal requests from shareholders for membership on the board were not honored, when their interest is equal to or exceeds that of other shareholders whose proposal for proprietary directors was honored.

Complies [ ] Partially Complies [ ] Explain [ ] Not Applicable [X]

20. That the proprietary directors should tender their resignation when the shareholder represented thereby fully transfers its shareholding. And that they should also resign, by the relevant number, when said shareholder reduces its shareholding to a level that requires a reduction in the number of proprietary directors.

Complies [ ] Partially Complies [ ] Explain [ ] Not Applicable [X]

21. That the board of directors may not propose the dismissal of any independent director before the completion of the mandate period for which the member was appointed in accordance with the bylaws, unless just cause is identified by the board following a report from the appointments committee. In particular, just cause shall be deemed to exist when the director is appointed to new positions or undertakes new obligations that prevent said director from dedicating the time required to perform the duties inherent in its position as a director, that result in the breach of the duties inherent in its position or that results in any circumstances that would cause the director to lose his/her condition as independent, in accordance with applicable legislation.

The dismissal of independent directors may also be proposed as a result of a public tender offer, merger or other similar operation implying a change in the share structure of the company, provided that such changes in the structure of the board of directors are required by virtue of the proportionate representation criteria discussed in recommendation 16.

Complies [X] Explain [ ]

22. That companies should set rules requiring that directors report on and, where appropriate, resign from their positions in those circumstances that could harm the company's credit and reputation and, in particular, requiring that they report to the board of directors any criminal actions with which they are charged, as well as the subsequent legal proceedings.

And that if a director is tried or called to court for any of the crimes set out in corporations law, the board must investigate the case as soon as possible and, based on the particular situation, decide whether the director should continue in his or her position. And that the board of directors must provide a reasoned written account of these events in its annual corporate governance report.

Complies [ ] Partially Complies [X] Explain [ ]

23. That all directors must clearly express their opposition when they consider that any proposal submitted to the board of directors could go against the company's interests. And that this should also apply to both independent and other directors that are not affected by the potential conflict of interest if the decision could be detrimental to any shareholders not represented on the board of directors.

And that when the board of directors adopts significant or repeated resolutions regarding which the director has voiced serious reservations, the director should draw the appropriate conclusions and, in case of resignation, explain the reasons for this decision in the letter referred to in the next recommendation.

This recommendation also applies to the secretary of the board of directors, despite not being considered a director.

Complies [X] Partially Complies [ ] Explain [ ] Not Applicable [ ]

24. That whenever, due to resignation or any other reason, directors leave their position before the completion of their mandate, they shall be required to explain the reasons for this decision in a letter addressed to all the members of the board of directors. And that, regardless of whether said resignation has been reported as a relevant event, the reason for leaving their position must be included in the annual corporate governance report.

Complies [ ] Partially Complies [ ] Explain [ ] Not Applicable [X]

25. That the appointments committee should ensure that the non-executive directors have enough time to properly perform their duties.

And that the board regulations should establish the maximum number of boards of directors of which the directors may form part.

Complies [X] Partially Complies [ ] Explain [ ]

26. That the board of directors should meet with the frequency necessary to perform its duties efficiently and, at least, eight times each year, following the schedule and agenda established at the beginning of each year. Directors should be able to individually propose additional agenda items beyond those initially included on the agenda.

Complies [X] Partially Complies [ ] Explain [ ]

27. That directors' failure to attend should be limited to extraordinary cases and should be quantified in the annual corporate governance report. And that, in case of such absence, a proxy should be granted with instructions.

Complies [ ] Partially Complies [X] Explain [ ]

All of the Directors attended all nine meetings of the Board of Directors in 2016, excluding one meeting that was not attended by one of the Directors, who did not grant a proxy with instructions for said meeting.

28. That when the directors or the secretary voice any concern regarding any proposal or, in the case of directors, regarding performance of the company, and their concern is not resolved by the board of directors, such circumstance shall be stated for the record at the request of the individual who raised it.

Complies [X] Partially Complies [ ] Explain [ ] Not Applicable [ ]

29. That the company should establish the channels necessary to ensure that the directors may obtain the advising required to perform their duties including, if required by the circumstances, external advising at the company's expense.

Complies [X] Partially Complies [ ] Explain [ ]

30. That, regardless of the knowledge required of the directors to perform their duties, the companies should offer knowledge update programs to the directors when the circumstances so require.

Complies [X] Partially Complies [ ] Not Applicable [ ]

31. That the agenda for meetings should clearly state the agenda items that will be resolved upon at the board of directors meeting so that the directors may study or gather the information required for its adoption in advance.

The prior and express consent of the majority of the directors in attendance shall be required, and duly recorded in the minutes, if the chairman wishes, on an exceptional and urgent basis, to propose decisions or resolutions to the board of directors that were not listed on the agenda.

Complies [X] Partially Complies [ ] Explain [ ]

32. That the directors should be regularly informed of any changes in shareholdings and of the opinion of significant shareholders, investors and credit rating agencies as regards the company and its group.

Complies ☒ Partially Complies ☐ Explain ☐

33. That the chairman, as the responsible party for the effective operation of the board of directors, in addition to exercising all duties conferred thereto by law and the bylaws, shall prepare and submit to the board of directors a schedule of dates and issues to be addressed; organize and coordinate the regular assessment of the board, as well as, as the case may be, of the top executive of the company; be responsible for the management of the board and for the effectiveness of its operation; ensure that enough time is spent discussing strategic questions; and resolve on and revise knowledge update programs for each director, when so required by the circumstances.

Complies ☒ Partially Complies ☐ Explain ☐

34. That when there is a coordinating director, the bylaws or board of directors regulations should, in addition to the duties attributed thereto by law, attribute the following duties to the coordinating director: to chair the board of directors in the absence of the chairman and vice chairmen, if any; to voice the concerns of the non-executive directors; to maintain contact with investors and shareholders to learn about their points of view in order to form an opinion on their concerns, in particular, in relation to the company's corporate governance; and to coordinate the succession plan for the chairman.

Complies ☐ Partially Complies ☒ Explain ☐ Not Applicable ☐

Article 10 bis of the Board of Directors Regulations establishes that "if the Chairman is an Executive Director, the Board of Directors, with all Executive Directors abstaining, shall necessarily appoint a Coordinating Director from among the Independent Directors, who shall be specifically empowered to convene a meeting of the Board of Directors, add new items to the agenda for Board meetings that have already been called, preside over the Board of Directors in the absence of the Chairman and of the Vice Chairmen, coordinate and gather Non-Executive Directors, coordinate the succession plan for the Chairman and, as the case may be, carry out periodic assessments of the Chairman of the Board of Directors."

For such purpose, the Company is considered to partially comply with this recommendation, as the only duty of those listed in the recommendation that the Coordinating Director does not perform is that of "maintaining contact with investors and shareholders." This duty is performed by the Investor Relations and Capital Markets Department, which keeps the Board of Directors duly informed in such regard.

35. That the secretary of the board of directors should ensure, in particular, that the conduct and decisions of the board of directors take into account the good governance recommendations applicable to the company under this Corporate Governance Code.

Complies ☒ Explain ☐

36. That the board of directors, in a plenary session, should annually assess and adopt, as the case may be, an action plan to correct the deficiencies identified in relation to:

a) The quality and efficiency of the functioning of the board of directors. b) The functioning and composition of its committees.

c) The diversity in the composition and competencies of the board of directors.

d) The performance of the chairman of the board of directors and of the company's top executive.

e) The performance and contributions of each director, paying particular attention to the heads of the different board committees.

In order to assess the different committees, such assessments shall be based on the reports submitted thereby to the board of directors and, as regards assessment of the board itself, on the report submitted by the appointments committee.

Every three years, the board of directors shall be assisted in carrying out an assessment by an external consultant, the independence of which shall be verified by the appointments committee.

The business relations held by the consultant or any of its group companies with the company or any other group company shall be described in the annual corporate governance report.

The process and areas assessed shall be described in the annual corporate governance report.

Complies ☒ Partially Complies ☐ Explain ☐

37. That if there is an executive committee, the structure of the participation by the different categories of directors shall be similar to that of the board of directors itself, and its secretary shall be the board secretary.

Complies ☐ Partially Complies ☒ Explain ☐ Not Applicable ☐

The Company has created an executive committee whose secretary is the Board secretary; however, the participation structure of the different types of directors is not the same as that of the Board of Directors, as this would not be possible given that the Board is comprised of directors belonging to four different categories and the Committee is comprised, in compliance with the Board Regulations, of only three members; this means that each member of the Committee necessarily represents 33.33% thereof and thus, it is mathematically impossible to duplicate the percentage of the different categories of Directors on the Board. Taking into account that the Board of Directors is currently comprised of nine members, it is estimated that the Executive Committee should have three members. Due to the own nature thereof, the Executive Directors (two in the case of the Company) shall be part of said Committee.

38. That the board of directors must always be aware of the subjects discussed and decisions adopted by the executive committee and that all members of the board of directors should receive a copy of the minutes of the executive committee meetings.

Complies ☐ Partially Complies ☒ Explain ☐ Not Applicable ☐

The Board is regularly notified of key decisions made by its Committees. The minutes of the meetings of all Committees are submitted to the members thereof for approval and are made available to all Directors for review. All of the Company's Directors are members of one of its Committees, and several external directors are also Board members in one of the Company's subsidiaries. The Board believes the current system is effective.

39. That the members of the audit committee, and in particular its chairman, should be appointed considering their knowledge and experience in the area of accounting, auditing or risk management, and that the majority of its members should be independent directors.

Complies ☒ Partially Complies ☐ Explain ☐

40. That under the supervision of the audit committee, the company shall have a unit dedicated to performing internal audit duties and which ensures the proper functioning of the internal reporting and control systems and functionally reports to the non-executive chairman of the board or of the audit committee.

Complies ☒ Partially Complies ☐ Explain ☐

41. That the person in charge of the unit performing the internal audit duties shall present an annual work plan to the audit committee, report directly on any issues that may arise in its implementation and submit an activity report at the end of each fiscal year.

Complies ☒ Partially Complies ☐ Explain ☐ Not Applicable ☐

42. That, in addition to those duties provided by law, the audit committee should have the following duties:

1. As regards reporting and internal control systems:

a) To supervise the preparation process and the integrity of the financial information relating to the company and, as the case may be, to the group, reviewing compliance with regulatory requirements, the proper scope of the consolidated group and the correct application of accounting principles.

b) To ensure the independence of the internal auditing unit; propose the selection, appointment, reappointment and removal of the party responsible for the internal auditing services; propose the budget for such service; approve the direction and plans for its services to ensure that the activity focuses primarily on relevant risks for the company; receive regular reports on its activities; and verify that Senior Management takes the conclusions and recommendations of such reports into account.

c) To establish and monitor a mechanism that allows employees to communicate, confidentially and, if possible and deemed appropriate, anonymously, any potential significant irregularities, in particular financial and accounting irregularities, observed from within the company.

2. As regards the external auditor:

a) To examine the circumstances leading to any resignation of the external auditor.

b) To ensure that compensation of the external auditor does not compromise quality or independence.

c) To oversee that the company reports the change of auditor as a material event to the Spanish Securities Market Commission (*Comisión Nacional del Mercado de Valores* - CNMV), which shall be accompanied by a statement on any potential disagreements with the outgoing auditor and, if any, the content thereof.

d) To ensure that the external auditor holds an annual meeting with a plenary session of the board of directors in order to inform them of the work performed and the financial position of and risks faced by the company.

e) To ensure that the company and the external auditor respect rules in force on the provision of non-auditing services, limits on the concentration of the auditor's business and, in general, any other rules on the independence of the auditors.

Complies ☒ Partially Complies ☐ Explain ☐

43. That the audit committee may request the presence of any employee or executive of the company, even without the presence of any other officers.

Complies ☒ Partially Complies ☐ Explain ☐

44. That the audit committee should be aware of any transactions proposed by the company that would implement structural and corporate changes in order to analyze such transactions and report to the board of directors regarding the financial terms and accounting effects thereof and, in particular, as the case may be, regarding the proposed exchange ratio.

Complies ☒ Partially Complies ☐ Explain ☐ Not Applicable ☐

45. That the risk control and management policy should identify at least the following:

a) The different types of risk, including financial and non-financial risks (including but not limited to operating, technological, legal, social, environmental, political and reputation), faced by the company, including under financial and economic risks any contingent liabilities and other off-balance sheet risks.

b) A fixed risk level deemed acceptable by the company.

c) The measures intended to mitigate the impact of the risks identified, in the event that they materialize.

d) The internal control and reporting systems that will be used to control and manage the aforementioned risks, including contingent liabilities and off-balance sheet risks.

Complies ☐ Partially Complies ☐ Explain ☒

Not all of the aspects identified in this recommendation have been laid out in the risk control and management policy. Nevertheless, the Company has already implemented an exhaustive control system for financial reporting and has also developed a risk map in relation to criminal risks. Furthermore, each of the business units comprising the Group identifies risks, on an annual basis, that its business could face in the upcoming fiscal year; they classify these risks based on how serious the risks are and propose, as the case may be, mitigating actions, all of which is presented to the Audit Committee on an annual basis. The Company has also established a complaints channel through which employees, executives, and directors of the Group may file complaints regarding any type of irregularity identified. This channel will be managed by the Conduct Committee, which was established by resolution of the Board of Directors on 26 January 2016. The Company also has a Monitoring Committee, which ensures application of the Internal Regulations on Conduct in Securities Markets. Finally, as previously stated above, the Company has an Internal Audit Department that functionally reports to the Audit Committee.

46. That under the direct supervision of the audit committee or, as the case may be, of a specialized committee of the board of directors, there is an internal audit and risk management function carried out by one of the company's internal units or departments, which is expressly assigned the following duties:

a) To ensure proper operation of the risk control and management systems and, in particular, to ensure the identification, management and proper quantification of the substantial risks faced by the company.

b) To actively participate in developing the risk strategy and making important decisions related to the management thereof.

c) To ensure that risk control and management systems properly mitigate risks under the framework of the policy established by the board of directors.

Complies ☐ Partially Complies ☐ Explain ☒

The Company did not comply with this recommendation in 2016, as it was waiting on the request for admission to trade in the United States as well as on a detailed analysis of the requirements in this regard for said market. In accordance with the above, the Company's internal auditing department is tasked with ensuring the proper functioning of the reporting and internal control systems.

47. That the members of the appointments and compensation committee –or of the appointments committee and the compensation committee, if separate– shall be appointed ensuring that they have the proper knowledge, skills and experience to perform the duties required therefrom and that the majority of its members shall be independent directors.

Complies ☒ Partially Complies ☐ Explain ☐

48. That companies with high capitalization shall have an appointments committee and a separate compensation committee.

Complies ☐ Explain ☐ Not Applicable ☒

49. That the appointments committee shall consult the chairman of the board of directors and the top executive of the company, in particular in matters related to the executive directors.

And that any director may ask the appointments committee to consider potential candidates he or she considers appropriate, in his/her opinion, to fill a vacancy on the board of directors.

Complies ☒ Partially Complies ☐ Explain ☐

50. That the compensation committee should carry out its duties independently and that, in addition to the duties granted thereto by law, should have the following duties:

a) To propose to the board of directors the basic contracting conditions signed with senior executives. b) To verify compliance with the compensation policy established by the company.

c) To regularly review the compensation policy for the directors and senior executives, including share compensation systems and their application, as well as to ensure that individual compensation is proportionate to the amounts paid to the other directors and senior executives of the company.

d) To ensure that any potential conflicts of interest do not threaten the independence of any external advising provided to the committee.

e) To verify information regarding compensation of directors and senior executives provided in various corporate documents, including the annual report on director compensation.

Complies ☒ Partially Complies ☐ Explain ☐

51. That the compensation committee should consult the chairman and the top executive of the company, in particular in matters related to the executive directors and senior executives.

Complies ☒ Partially Complies ☐ Explain ☐

52. That the rules on the composition and functioning of the monitoring and control committees should be provided in the board of directors regulations, which should comply with all rules applicable to those legally required committees in accordance with the preceding recommendations, including:

a) That they should be exclusively comprised of non-executive directors, with a majority of independent directors.

b) That they must be chaired by independent directors.

c) That the board of directors should appoint the members of these committees taking into account the knowledge, skills and experience of the directors and the tasks entrusted to each committee; that their members discuss the committee's reports and proposals and report to the board of directors, at the first plenary session thereof following each of the committee meetings, on its activities and work performed.

d) That the committees may request external advising as deemed necessary to perform their duties.

e) That minutes should be drafted for the meetings, which shall be made available to all directors.

Complies ☐ Partially Complies ☐ Explain ☐ Not Applicable ☒

53. That monitoring of compliance with corporate governance rules, internal codes of conduct and the corporate social responsibility policy should be attributed to one or more committees of the board of directors, which could include the audit committee, appointments committee, corporate social responsibility committee, if any, or any specialized committee of the board of directors which, in the performance of its self-organization duties, it decides to establish for such purpose, to which the following specific minimum duties shall be attributed:

a) To monitor compliance with the internal codes of conduct and the corporate governance rules of the company.

b) To monitor the communications strategy and relationships with shareholders and investors, including small and medium shareholders.

c) To regularly assess whether the company's corporate governance system is appropriate with a view to ensuring that its objective of promoting corporate interests is met and taking into account, as applicable, the legitimate interests of the remaining interest groups.

d) To review the company's corporate social responsibility policy, ensuring it is aimed at creating value.

e) To monitor the corporate social responsibility strategy and practices and assess compliance therewith.

f) To monitor and assess the engagement processes for different interest groups.

g) To assess all aspects related to the company's non-financial risks, including operating, technological, legal, social, environmental, political and reputation risks.

h) To coordinate the process for reporting non-financial and diversity information in accordance with the applicable regulations and international benchmark standards.

Complies ☐ Partially Complies ☐ Explain ☒

Pending a potential request for admission to trading in the United States market and a detailed analysis of the requirements in this regard in such market, the Company considers that it would be inefficient at this time to distribute these duties among the different committees if the rules of other markets would require it to establish a specific committee, or to attribute certain duties, if the rules of other markets contain more demanding requirements in this regard. Until such time, the monitoring of compliance with corporate governance rules, internal codes of conduct and the corporate social responsibility strategy and practices will continue to be performed ultimately by the board of directors.

54. That the corporate social responsibility policy should incorporate the principles and commitments voluntarily assumed by the company in its relations with various interest groups and identifying at least:

a) The objectives of the corporate social responsibility policy and the implementation of support instruments.

b) The corporate strategy as regards sustainability, the environment and social issues.

c) The specific practices in matters related to: shareholders, employees, clients, suppliers, social issues, environment, diversity, tax liability, respect of human rights and prevention of illegal conduct.

d) The methods or systems for monitoring the results of application of the specific practices indicated in the preceding paragraph, associated risks and management thereof.

e) The mechanisms for monitoring non-financial risks, ethics and business conduct.
f) The channels for communication, participation and dialog with interest groups.
g) The practices of responsible communication that prevent manipulation of information and protect integrity and honor.

Complies ☐ Partially Complies ☒ Explain ☐

The Company annually publishes a corporate social responsibility report (with information on corporate governance, corporate organization, management structure, good governance policy and ethical management, patients, clients, suppliers, employees, shareholders, environment and environmental indicators, social action, primary contributions, communities, regulatory authorities, etc.) that can be considered its corporate social responsibility policy. This report does not address all content required by this recommendation, but rather focuses on issues deemed appropriate for a company the size of Pharma Mar, in view of its human and financial resources.

55. That the company should report, in a separate document or in the management report, on all aspects related to corporate social responsibility, applying for such purpose internationally accepted methodologies.

Complies ☐ Partially Complies ☒ Explain ☐

As stated in the previous section, the Company annually publishes a corporate social responsibility report; however, although this report is modeled after the corporate social responsibility reports issued by international pharmaceutical companies, the primary manner in which the report does not comply with internationally accepted principles is to the extent that these methodologies require the report to be audited. Said audit is not completed as the Company considers the cost incurred to be disproportionate in view of the resources it has available.

56. That director compensation should be set as required to attract and retain directors with the desired profile and to compensate them for the dedication, qualifications and responsibility required in the position, without being so high as to compromise the independence of the non-executive directors.

Complies ☒ Explain ☐

57. That compensation of executive directors should be limited to variable compensation linked to performance of the company and the individual, as well as compensation in the form of delivery of shares, options or share rights or instruments referencing share value and long-term savings systems such as pension plans, retirement funds or other social welfare systems.

Delivery of shares as compensation of non-executive directors may be used, provided the directors are required to hold said shares until they no longer serve as directors. The foregoing shall not apply to shares that the director needs to dispose of, as the case may be, in order to pay the relevant acquisition costs.

Complies ☒ Partially Complies ☐ Explain ☐

58. That variable compensation policies should incorporate the necessary technical precautions and restrictions to ensure that this compensation rewards the professional performance of its beneficiaries and does not solely derive from the general performance of the markets or of the activity sector of the company, or from any other similar circumstances.

And, in particular, that the variable compensation items should:

a) Be linked to performance criteria that are predetermined and measurable and that said criteria should take into account the risk assumed in obtaining a result.

b) Promote the sustainability of the company and include appropriate non-financial criteria for creating long-term value, such as compliance with the company's internal rules and procedures, as well as with its risk control and management policies.

c) Be established based on a balance between meeting short, medium and long-term objectives, enabling compensation for continued performance during a sufficient period of time to measure their contributions to creating sustainable value, such that the measurement elements for this performance are not solely based on one-off, occasional or extraordinary events.

Complies ☒ Partially Complies ☐ Explain ☐ Not Applicable ☐

59. That payment of a significant part of the variable compensation components should be differed for a minimum period of time sufficient to verify that the previously established performance conditions have been met.

Complies ☒ Partially Complies ☐ Explain ☐ Not Applicable ☐

60. That, in calculating any compensation linked to profits, the company should consider any potential reservations included in the external auditor's report that reduce said profits.

Complies ☒ Partially Complies ☐ Explain ☐ Not Applicable ☐

61. That a material percentage of the variable compensation of the executive directors should be linked to the delivery of shares or financial instruments linked to their value.

Complies ☐ Partially Complies ☐ Explain ☒ Not Applicable ☐

Executive director compensation does not in any way involve the delivery of shares or financial instruments linked to share value, as the interests of the executive directors are already considered sufficiently in line with the Company's interests, given that the executive directors are the primary shareholders of Pharma Mar.

62. That once the shares or options or share rights have been contributed to the compensation system, the directors may not transfer ownership of a certain number of shares equivalent to two times fixed annual compensation, nor may exercise the options or rights until a period of at least three years from allocation thereof has elapsed.

The foregoing shall not apply to shares that the director needs to dispose of, as the case may be, in order to pay the relevant acquisition costs.

Complies ☐ Partially Complies ☐ Explain ☐ Not Applicable ☒

63. That contractual agreements should include a clause authorizing the company to request reimbursement of the variable compensation if the payment amount was not in line with actual performance or if it is subsequently determined that payments were based on data that was clearly erroneous.

Complies ☐ Partially Complies ☐ Explain ☒ Not Applicable ☐

In relation to the agreements currently in force, it is considered unnecessary to amend such agreements solely to include a reimbursement clause for variable components, bearing in mind that said claim is considered to be permitted at all times even if

not expressly stated in a clause for such purpose in the agreement, as is generally the case for any improper payment or payment without cause. In the future, in the event that agreements are executed with new executive directors, the convenience of including this type of clause referred to in the recommendation will be analyzed when negotiating such agreements.

64. That payments for terminating contracts should not exceed an established amount equivalent to two years of total annual compensation and that they should not be paid out until the company has verified compliance by the director with the previously established performance criteria.

Complies [X] Partially Complies [ ] Explain [ ] Not Applicable [ ]

H. OTHER USEFUL INFORMATION

1. If there is any other relevant aspect as regards corporate governance of the company or any of its groups companies that has not been included in the rest of the sections of this report, but which should be included in order to gather more complete and reasoned information on the corporate governance structure and practices of the company or its group, please briefly describe such information below.

2. Any other information, clarification or specifications related to the previous sections of this report may be included in this section, to the extent it is relevant and not redundant.

   In particular, please indicate whether the company is subject to any corporate governance legislation other than that prevailing in Spain and, if so, include that information required to be provided under such legislation and that differs from that requested in this report.

3. The company may also indicate whether it has voluntarily adhered to any other international, industry or other ethical codes or codes of good practice. If so, please identify the code in question and the date of accession.

This annual corporate governance report has been approved by the company's Board of Directors at its meeting held on 23/02/2017.

Please indicate whether any directors have voted against or abstained from the approval of this report.

Yes [ ] No [X]

This Corporate Governance Report covers the company Pharma Mar, S.A. ("**Pharma Mar**" or the "**Company**") in its condition as a listed company, a condition which it attained on the date its shares were admitted to trade on the official Madrid, Barcelona, Bilbao and Valencia Stock Exchanges (2 November 2015). With a view to providing a proper response, some of the sections and additional explanations provided in this Report refer expressly to the Company when it was not yet a listed company and was wholly-owned by its sole shareholder Zeltia, S.A. (hereinafter, "**Zeltia**"), prior to its merger by takeover by the Company. In addition, and in order to facilitate comprehension of this Report, certain sections refer to Zeltia, a listed company that was absorbed by the Company on 30 October 2015, which was up until such time its parent company.

As a supplement to **section A.9**:

a) Resolution Eleven of the Universal General Shareholders Meeting of Pharma Mar held on 30 June 2015 establishes the following:

Authorization of the Board of Directors, in accordance with the provisions of Article 297.1.b) of the Capital Corporations Law, to increase share capital, within a maximum period of five years, if deemed convenient, by an amount equal to half of the current share capital, on a one-time basis or several times, in the manner and amount deemed appropriate, granting the power to exclude preemptive rights.

11.1. Authorized capital, amount and term

It is resolved to delegate to the Company's Board of Directors, in accordance with the provisions of Article 297.1.b) of the Capital Corporations Law, the power to, without requiring prior consulting with the General Meeting, resolve on a share capital increase up to the amount of half the Company's capital, and may exercise this power for a period of five years from the date of this resolution, on a one-time basis or on several occasions, at the time, for the amounts and under the conditions as freely resolved thereby in each case.

11.2. Scope of the delegation

In this regard, the Board of Directors may set the terms and conditions of the capital increases as well as the characteristics of the shares, including determining the investors and markets to whom the capital increases will be directed and the placement procedure to be followed; freely offer new unsubscribed shares during the preemptive subscription period; provide, in the case of incomplete subscription, that the capital increase be deemed null and void or that the capital only be increased for the amount in which subscriptions were made; and amend the Bylaws provision relating to share capital.

11.3. Rights of the new shares, issue rate and counter value of the increase

The new shares issued with a view to the capital increase resolved under the framework of this delegation shall be ordinary shares with equal rights to those shares already existing (except as regards dividends that have already been announced and are pending payment at the time of their issue), which shall be issued at their par value or, as the case may be, with the issue premium established. The counter value of the new shares to be issued shall necessarily consist of monetary contributions.

11.4. Ex pre-emptive rights.

Effective as from the time when the Company's shares are admitted to trade and in accordance with the provisions of Article 506 of the Capital Corporations Law, the Board of Directors is expressly granted the power to exclude, in whole or in part, preemptive rights over some or all of the shares it agrees to issue by virtue of this authorization, although this power shall be limited to capital increases for an amount up to 20% of the Company's share capital.

In accordance with applicable law, the Board of Directors may make use of the power granted thereto by virtue of this section 4 when the interests of the Company so require, provided the par value of shares to be issued, plus the share premium, as the case may be, match the fair value of the shares of the Company as set forth in the report that, at the request of the Board of Directors, shall be drafted by the statutory auditor.

11.5. Application for admission

Furthermore, the Company's Board of Directors is empowered to request admission to trading on organized secondary markets, in Spain or abroad, of those shares that may be issued, in compliance with all applicable rules on the admission, listing and delisting of shares.

It is expressly stated that, in the event of a subsequent request to delist the Company's shares, the delisting shall be adopted following the same formalities as those followed to request listing and, in such case, the interests of the shareholders or bondholders that oppose or do not vote on the resolution in the terms provided in the legislation in force shall be guaranteed. Furthermore, it is expressly stated that the Company is bound by those rules in force or which may be laid out in the future on Securities Markets and, in particular, on admission, listing and delisting.

11.6. Power to substitute or sub-delegate

The Board of Directors is authorized to in turn sub-delegate or substitute, to the benefit of any of its members, the powers delegated by virtue of this resolution.

b) Resolution Four of the Annual General Shareholders Meeting of Pharma Mar held on 23 June 2016 establishes the following:

Pursuant to the provisions of Article 146 and related provisions and of Article 509 of the Capital Corporations Law, it is resolved to authorize the Company's Board of Directors (as well as its subsidiaries), with the express power of substitution, to acquire, during a period of five years from the date of this General Meeting, at any time and as many times as deemed appropriate and by any means permitted by law, the Company's shares in accordance with the following provisions and requirements in addition to those provided by the legal provisions in force:

A. Means of acquisition

Acquisitions shall be made through sale and purchase transactions, swap transactions or other means permitted by law.

B. Maximum limit

Company shares with a par value, in aggregate with shares already held by the Company and its subsidiaries, that does not exceed 10% of the Company's subscribed capital from time to time.

C. Purchase price when for consideration

(i) Maximum acquisition price: 10% of the trading price of the Company's shares in the Spanish Stock Exchange Interconnection System at the time of acquisition.

(ii) Minimum acquisition price: par value of the Company's shares.

The Company's Board of Directors (and the boards of its subsidiaries) are authorized, for the period and in accordance with the terms established in the preceding paragraphs to the extent applicable and at arm's length, to acquire the Company's shares using loans.

It is hereby expressly authorized that treasury stock acquired may be used in whole or in part towards (i) its disposal; (ii) delivery to employees, executives, directors (for the purposes provided in Article 146 of the Capital Corporations Law); and (iii) reinvestment plans for dividends or similar instruments.

Render void the unimplemented portion of Resolution Thirteen of the General Shareholders Meeting of 30 June 2015, also governing authorization to acquire treasury stock.

As a supplement to **section A.10**, it is worth noting that Article 25.3 of the Bylaws establishes the following as restrictions on the exercise of the voting right:

- No shareholder may cast a number of votes exceeding 25% of total voting capital from time to time, even when the number of shares held thereby is greater than the aforesaid capital percentage. This limit shall not affect the votes applicable to the shares represented by a shareholder by proxy (in the terms provided in Article 19 of the Bylaws), notwithstanding the individual application to each shareholder so represented of the same 25% limit for the votes related to the shares held thereby.
- This restriction shall also apply to: (i) the maximum number of votes that may be cast –jointly or separately– by two or more corporate shareholders belonging to the same corporate groups; and (ii) the maximum number of votes that may be cast by a natural person shareholder and the company or companies, also shareholder(s), which are controlled by said natural person, whether cast jointly or separately.

- Those shares that belong to one holder, to a group of entities or to a natural or legal person, and the companies controlled by said natural or legal person, as well as all individuals or entities acting collectively with the aforementioned, shall be fully accounted for among the shares attending the Shareholders Meeting to obtain the necessary quorum in terms of capital required to hold the meeting, but at the time of voting, the aforementioned limit on the number of votes (25%) shall apply.
- Article 25.3 of the Bylaws states that the limit established in this section shall cover any material subject to a decision of the General Shareholders Meeting, including the appointment of directors by the proportional system, but excluding amendment of its Article 25, which shall in any case require the approval of a qualified majority of 75% of the capital present in person or by proxy, in first and second call.

- The limit shall be null and void when, following a public tender offer, the offeror has reached a percentage equal to or greater than 70% of the voting capital, unless said offeror was not subject to equivalent neutralization measures, or if such measures were not adopted, as provided in Article 527 LSC. The removal of the aforesaid limits shall be effective as of the date on which the settlement results of the offer are published in the Quotation Bulletin of the Madrid Stock Exchange.

In relation to **section B.4**, it is worth noting that the attendance figures for general meetings held in the previous fiscal year (2015) refer to Pharma Mar, S.A.'s Universal General Shareholders Meetings, held on 28 April 2015 and 30 June 2015, which were held at a time when the Company was not yet a listed company, and Zeltia, S.A. was still its sole shareholder.

In relation to **section C.1.11**, it should be added that José María Fernández Sousa-Faro is also the Chairman of the Board of Directors of Sylentis, S.A. Unipersonal, a wholly-owned subsidiary of Pharma Mar, and holds a general power of attorney; Pedro Fernández Puentes is a Director on the Board of Directors of Sylentis, S.A. Unipersonal and does not perform any executive duties nor holds a general power of attorney. José María Fernández Sousa-Faro is also a natural person representative of Pharma Mar on the Board of Directors of Zelnova Zeltia, S.A. and does not perform any executive duties nor holds a general power of attorney. Furthermore, it is worth specifying that José Félix Pérez-Orive Carceller, natural representative of JEFPO, S.L. on the Board of Pharma Mar, is also an individual director of Xylazel, S.A.; Zelnova Zeltia, S.A.; and Genomica, S.A. Unipersonal, and does not perform executive duties nor holds a power of attorney in any of the aforementioned companies.

In relation to **section C.1.12**, it is worth noting that the natural representative of ROSP CORUNNA PARTICIPACIONES EMPRESARIALES, S.L., José Leyte Verdejo, is the Secretary of BREIXO INVERSIONES, IICIICIL, S.A. and of SOANDRES DE ACTIVOS SICAV, S.A.

In relation to **section C.1.16**, it should be specified that Sebastián Cuenca Miranda is also a director of Xylazel, S.A. Compensation earned in 2016 for his membership on said governing body (€16 thousand) has been included as part of the figure provided in this section for total compensation earned.

In relation to **section C.1.19**, it is worth noting that:

Article 18 of the Board Regulations refers to the appointment of directors and provides the following:

1. The Directors shall be appointed by the General Meeting or, in the event of an unexpected vacancy, by co-optation by the Board of Directors itself up until the next General Meeting is held and, if a vacancy arises after the General Meeting has already been called but before it is held, until the following General Meeting. Directors appointed by co-optation shall not be required to be shareholders.

The appointment of substitutes shall not be required.

2. The Appointments and Compensation Committee shall be responsible for the proposals for the appointment or reappointment of Directors as regards Independent Directors, and in all other cases, responsibility shall lie with the Board itself.

The proposal shall, in any case, be accompanied by a justifying report of the Board of Directors assessing the skills, experience and merits of the proposed candidate. This report shall be attached to the minutes of the General Meeting or of the Board itself.

The proposal for appointment or reappointment of any non-independent Director shall be preceded by a report from the Appointments and Compensation Committee.

These provisions shall also apply to natural persons designated as representatives of a corporate Director. The proposal for a natural representative shall be subject to the report of the Appointments and Compensation Committee.

3. The Directors shall serve in their positions for a maximum term of four years and may be reappointed for periods of like duration. The term of the mandate of the Directors shall be calculated as of the date of the General Meeting in which their appointment or ratification, in the event of prior appointment by co-optation by the Board of Directors, was made.

4. The Board of Directors may make proposals to the Shareholders Meeting for the appointment as an Honorary Director of those Directors who, based on their merits and dedication to the Company, deserve to be granted such title following their removal as members of the Board of Directors. The appointments made may be deemed void by the Board itself based on the circumstances of each case. In such case, the General Meeting shall be provided notice of such circumstances.

Honorary Directors may attend and participate in Board meetings, but with no right to vote, provided the Board of Directors itself deems it appropriate and they are called to the meeting by the Chairman in the terms required.

Honorary Directors shall have the right to receive compensation for their condition as such and, as the case may be, for advising the Board, to the extent determined by the Board of Directors itself by virtue of the relevant resolution and, as the case may be, execution of the relevant contractual advising relationship.

In addition, it should be noted that the Appointments and Compensation Committee is the body in charge of, on the one hand, bringing proposals for the appointment of independent directors to the Board of Directors for appointment by co-optation or decision of the General Shareholders Meeting, as well as for proposals for the reappointment or removal of said directors by the General Shareholders Meeting and, on the other hand, submitting proposals for the appointment of the remaining directors for appointment by co-optation or decision of the General Shareholders Meeting, as well as for proposals for their reappointment or removal by the General Shareholders Meeting, in accordance with the provisions of Article 14.2.(c) and (d) of the Board Regulations.

As regards the assessment of the directors, the Chairman shall be in charge of organizing and coordinating the regular assessment of the Board, as well as of the top executive of the Company, if the Chairman does not hold this position (Article 10.4.(d) of the Board Regulations). As regards the assessment referred to in Article 17 bis of the Board Regulations:

1. On an annual basis, the Board of Directors shall evaluate:

(a) the efficiency of their functioning and quality of their performance;

(b) diversity in its composition and skills;

(c) the performance of duties by the Board Chairman and, if any, by the Managing Director, in view of the report submitted thereto by the Appointments and Compensation Committee;

(d) the performance and contributions of each Director, paying particular attention to the heads of the different Committees; and

(e) the functioning and composition of its Committees in view of the reports submitted thereby to the Board.

For such purpose, the Chairman of the Board of Directors shall organize and coordinate with the Chairmen of the Committees regarding the aforementioned assessment process.

2. In the event that the Chairman of the Board of Directors is performing executive duties, assessment of his or her performance shall be directed by the Coordinating Director.

3. An action plan to correct identified deficiencies shall be developed during the assessment process.

4. The results of the assessment shall be included in the meeting minutes or as an attachment thereto.

Furthermore, it is worth noting that Article 10bis of the Board Regulations provides that, in accordance with Article 529 septies 2 of the Capital Corporations Law, the Coordinating Director shall be in charge of directing the regular assessment of the Chairman of the Board of Directors.

Article 19 of the Board Regulations refers to the removal of directors and provides the following:

1. The Directors shall be removed when the period for which they were appointed has elapsed and was not renewed as well as when determined by the General Meeting.

2. The Directors shall tender their resignation to the Board of Directors and formalize the pertinent resignation, if deemed appropriate by the Board, in the following cases:

(a) When they turn 75.

(b) If they are involved in any circumstance of incompatibility or prohibition provided by law, the Corporate Bylaws or these Regulations.

(c) If their continued membership on the Board could put at risk or harm the Company's interests, credit or reputation.

(d) When they no longer hold an executive position to which their appointment was linked or, in general, when the reasons for their appointment no longer exist (e.g. when the shareholder represented by a Director disposes of its shareholding in the Company that motivated the Director's appointment).

(e) When the Director has missed four consecutive Board meetings without granting a proxy to another Board member.

The Board of Directors may only propose the removal of an Independent Director to the General Shareholders Meeting before the period provided for in the Bylaws has lapsed and when the Director has not tendered his or her resignation after having met any of the said circumstances referred to in this article or when any other just cause as determined by the Board exists, following a report of the Appointments and Compensation Committee. In particular, just cause shall be deemed to exist when the Director accepts additional obligations that prevent said Director from dedicating the required time to the performance of its duties, breaches any duties inherent in its position or otherwise is in any circumstances that prevent its independence. The Board of Directors may also propose the removal of Independent Directors as a result of public offers of acquisition, merger or other similar corporate transactions that entail a change to the Company's capital structure, provided such structural changes to the Board of Directors are a result of application of the proportionality criteria set forth in corporate governance recommendations for listed companies in Spain.

3. The Appointments and Compensation Committee may make a proposal to the Board of Directors for submission to the General Shareholders Meeting on the removal of Directors when their behavior could negatively affect the functioning of the Board or the credit and reputation of the Company.

4. When a Director tenders his or her resignation for any reason, said Director shall provide, and the Board of Directors shall require, an explanation of the reasons for said resignation in a letter to be issued to all members of the Board of Directors.

5. Furthermore, at least every four years, the Board of Directors shall be assisted in carrying out an assessment by an external consultant, the independence of which shall be verified by the Appointments and Compensation Committee.

It should be noted in addition to the foregoing that the Company's Board of Directors has approved a Director Selection Policy. In accordance with said Policy, the director selection/reappointment process is aimed at establishing a properly balanced Board of Directors. Candidates whose appointment would contribute to diversity within the Board of Directors as regards knowledge, experience, origins, nationalities and gender will be promoted. The candidates for the position of Director of the Company must be qualified professionals of good repute with recognized abilities, experience and proper training. Candidates for the position of director will be selected based on the analysis completed by the Board of Directors, with the assistance and report from the Appointments and Compensation Committee, of the needs of the Company and its Group companies. Any director may suggest candidates for the position of director, provided said candidates meet the requirements set forth in the aforementioned policy. The selection process shall not suffer from any implicit biases that could result in any type of discrimination.

As a supplement to **section C.1.45**, it is worth noting that the General Meeting is informed through the Annual Compensation Report –which was submitted to an advisory vote– and the Annual Corporate Governance Report –which forms part of the Annual Financial Statements– of the primary conditions of the agreements (including severance pay for termination of the agreement) with the managing directors or other individuals who are granted executive duties by virtue of any other means. As regards the Company's executives that report directly to the board or to any of its

members, information is provided on their overall compensation as well as on the existence, as the case may be, of agreements for severance pay, guarantee clauses or "golden parachutes."

As of 31 December 2016, there were no agreements between Pharma Mar, S.A. and its directors, officers or employees providing for severance payments in case of resignation, wrongful dismissal (in this case, beyond that legally provided) or termination of the labor relationship by virtue of a public tender offer, excluding as provided in section C.1.45.

As a supplement to **section C.2.1**:

- As regards the rules on organization and functioning of the Audit Committee, Article 13.1 of the Board Regulations states that it shall be comprised of a minimum of three and maximum of five Directors appointed by the Board and that its members shall exclusively include Non-Executive Directors, with a majority of its members being Independent Directors, one of which shall be appointed in consideration of his or her knowledge and experience in the area of accounting, auditing or both. The members of the Committee shall collectively have the relevant technical expertise in relation to the sector of activity in which the company operates. The position of Secretary shall be held by one of the Directors on the Committee, the Board Secretary, the Vice Secretary, or the Legal Counsel of that body, as determined by the Board. Its meetings may be attended by, whenever deemed convenient by its Chairman, in addition to the external auditor and the Company's internal auditor, any employee of the Company whose activity may be related to the duties performed by the Committee.

The Chairman of the Committee shall be appointed by the Board from among the Independent Directors on the Committee and shall be replaced every four years but may be reappointed one year after removal thereof has lapsed, regardless of his or continued membership or reappointment as a member of the aforesaid Committee. In the absence or inability of the Chairman to perform his or her duties, the Independent Director on the Committee, as temporarily designated for such purpose by the Board of Directors or, otherwise, the oldest Committee member, shall replace the Chairman.

The Committee shall meet as often as the Chairman calls a meeting, when so resolved by at least two of its members or at the request of the Board. The meetings shall be held at the registered offices or any other location designated by the Chairman and indicated in the meeting notice. The necessary quorum shall be met when the majority of its members attend, in person or by proxy, adopting resolutions by the favorable vote of the majority of its members in attendance at the meeting. In the event of a tie, the Chairman or Acting Chairman shall have the casting vote.

The Audit Committee held six meetings in 2016, in which it addressed, *inter alia*, the following matters: (i) proposed the reappointment of the external auditors for fiscal year 2016 and the fees for said auditors to the Board of Directors for submission to the General Meeting; (ii) received an independence statement from the external auditors as well as information on the additional services provided and issued the auditor independence report as required under Art. 529 quaterdecies.4 e) LSC; (iii) monitored the preparation and presentation of all required financial information; (iv) held several meetings with the Company's auditors in which the auditors provided information on, *inter alia*, the audit plan for fiscal year 2016; (v) authorized the financial divestment in subsidiaries of the Group requiring an amendment to the consolidation perimeter; (vi) reported on the proposed amendment of Art. 13 of the Board of Directors Regulations; and (vii)

oversaw the effectiveness of the Company's internal controls and risk management systems and, in particular, of the internal financial reporting control system (SCIIF), by virtue of the internal auditor, approving the Pharma Mar Group's internal auditing plan and related budget.

- The Appointments and Compensation Committee held 10 meetings in 2016, in which it carried out, *inter alia*, the following tasks:

(i) submitted Pharma Mar's Directors' Compensation Policy for 2016-2018 to the Board of Directors, for referral to the General Meeting;

(ii) submitted a report to the Board of Directors on the achievement of variable compensation targets by the Executive Chairman in 2015;

(iii) proposed 2016 targets to the Board of Directors for the regulated variable compensation tranche for the Company's top executive;

(iv) proposed 2016 salary adjustments and changes in the conditions of the senior managers of Pharma Mar to the Board of Directors;

(v) verified the information included in the 2015 Annual Report on Compensation of Directors for submission to the Board of Directors;

(vi) submitted to the Board of Directors the annual report on the independent directors of Pharma Mar, assessing the compliance of said directors with the criteria for independence as set forth in the Spanish Capital Corporations Law;

(vii) pre-reported to the Board of Directors regarding proposed resolutions for related-party transactions;

(viii) submitted a report to the Board of Directors on the functioning, composition and performance of the Appointments and Compensation Committee during 2015 to enable the Board to assess such performance; submitted a report to the Board on the activities and assessment of the performance of the Board of Directors, of the Board Chairman and of the Directors in 2015;

(ix) implemented a process for assessing the performance in 2016 of the Board and its Committees, with the assistance of an external consultant;

(x) submitted a Stock Ownership Plan to the Board of Directors, for approval by the General Meeting, applicable to employees and executives of the Group with a view to variable compensation for meeting targets in 2016 (to be implemented in fiscal year 2017); and

(xi) analyzed compensations applied to the Group companies' executive positions, in order to become acquainted with the different compensation systems in use and ensure that individual compensation is proportionate.

In relation to **section D.3**, it should be noted that as regards the service provision referring to the director ROSP CORUNNA PARTICIPACIONES EMPRESARIALES, S.L., the company Talleres Trébore, S.L., the sole shareholder of which is María Sandra Ortega Mera, who is the controlling shareholder of ROSP CORUNNA PARTICIPACIONES EMPRESARIALES, S.L., provided graphic design, layout, printing, stationary and merchandising services to the Pharma Mar Group totaling €15 thousand in fiscal year 2016.

In relation to **section D.5**, it is worth noting that José Luis Fernández Puentes, after he ceased performing his duties a member of the Board of Directors of Zeltia, was appointed as an Honorary Director of said company by resolution of the General Meeting held on 12 June 2013. On this same date, the Board of Directors of Zeltia resolved to set the compensation of José Luis Fernández Puentes as an Honorary Director in the amount of €61,963.58 (gross) per twelve month period starting from the date of his appointment as an Honorary Director for a period of four years. This obligation has been assumed by Pharma Mar by virtue of universal succession as a result of the takeover merger of Zeltia by Pharma Mar. The amount earned by José Luis Fernández Puentes in fiscal year 2015 totaled €61,963.58 (gross). As from the date of Mr. Fernández Puentes' death, on 10 January 2016, said compensation obligation was expressly extinguished, such that at the close of fiscal year 2016 only the prorated amount of his compensation equivalent to 10 days shall have accrued (€1,697.63 gross).

In relation to **section E.3**, it is worth noting that:

A. Environmental Risks

Competency

The chemical pharmaceuticals market is extremely competitive. Multinational companies, small and medium sized domestic companies and generic drug manufacturers participate in this market.

The profits of the Pharma Mar Group may be affected by the launch of new or innovative products, technical and technological advances or launches of generic brands by competitors.

Industrial Property. Patents.

Industrial property is a key asset for the Pharma Mar Group. Effective protection of these assets is critical to ensure reasonable returns on investments in R&D. Industrial property may be protected through patents, trademarks, trade names and domain registrations, etc.

In most countries –including in the United States and EU member states–, patent rights are granted for a period of 20 years. The effective time of protection ultimately depends on the length of the development period for the medication before its launch. In order to compensate in some way for this long development period and the need to obtain authorization prior to commercializing medications, some markets, including the United States and the European Union, allow the extension of patents, under certain circumstances, for up to five years.

An invention that is not sufficiently protected or extremely long development periods that limit the useful life of the patent are inherent risks in the pharmaceutical industry.

Regulation

The chemical pharmaceuticals sector is a highly regulated sector. The requirements related to research, clinical trials, registration and manufacturing of the medication, technical validation of production standards and even the commercialization of the medications are all regulated. These requirements have increased in recent years and this trend is expected to continue.

The prices of pharmaceutical products are controlled and regulated by the government in most countries. In recent years, price reductions have been applied and benchmark prices have been approved.

Availability of capital

Markets are not always open and the strong investment made by the Pharma Mar Group in R&D each year requires that the company turn to different financing sources, credit markets or capital markets to finance its growth, implement its strategy and generate future financial results.

Shareholders

As with any listed company, there is a risk that any given shareholder could consider that a decision made by the Board of Directors or executives of the Group has harmed its interests as a shareholder and file a claim to such effect.

B. Operational Risks

Prices of key materials

Deviations from expected prices, as well as the company's strategy for purchasing and stocking key materials, expose the company to excessive production costs or losses for keeping materials in stock.

Health and Safety

Not providing a safe workplace for the workers would expose the Group to significant costs, loss of reputation and other expenses.

Health and safety controls are comprehensive, continually seeking to make improvements.

Direct exposure of the employees working in the laboratories to new natural or synthetic compounds –the potential adverse effects of which are unknown– generates theoretical health and safety risks in addition to the regular risks inherent in managing chemical products.

Environmental

Environmental risks could expose the companies to potentially significant liabilities. Elevated risk exposure derives from potential third party claims for damage or loss to persons and/or property caused by different types of pollution.

The Company's productive processes in general have a very low risk as regards environmental impact (noise, smoke, spills, etc.) and generate hardly any residue.

Product development

The Group applies a significant amount of its resources to research and development of new pharmaceutical products. As a result of the length of the development processes, technological challenges, regulatory requirements and intense competition, it cannot be guaranteed that all of

the compounds currently in development as well as those that may be developed in the future will reach the market and have commercial success.

C. Reporting Risks

If the internal flow of information within the Group does not function properly, there could be risk of misalignment with the strategies and risk of making incorrect or untimely decisions.

Market Communications

On the other hand, the Group is required to present certain financial information and, in general, relevant events in an accurate, complete and timely manner. If not completed in this manner, the company would face the risk of sanctions and loss of credibility.

Pharma Mar management and its Board of Directors hold insider information on the performance of the Group.

Reporting Systems

Failure to maintain adequate access to reporting systems (data or programs) could result in unauthorized knowledge, unauthorized access, improper use or mistaken delivery of confidential information.

On the other hand, if important information is not available at the time necessary, this could adversely affect the continuity of the organization's critical processes and operations.

Due to constant technological advances, the Pharma Mar Group continually adjusts its physical and legal security policies, which are linked to the reporting and communication systems.

D. Financial Risks

a) Market Risk

Price Risk

The volume of the Group's investments in this type of investment is of limited relevance in the context of the Group's operations.

Interest rate risk for cash flows and fair value

The Group's interest rate risk stems from its financial investments in convertible interest bearing financial assets. Investments in interest bearing financial assets include government bonds and interest bearing deposits at a variable interest rest, linked to the Euribor.

Funds not linked to variable interest rates expose the Group to interest rate risk over the cash flows. Funds not linked to fixed interest rates expose the Group to interest rate risk over the fair market value.

b) Credit Risk

Credit risk arises from financial investments with banks, other than public debt.

c) Liquidity Risk

The risk of not obtaining the funds needed to meet all payment obligations at the time they fall due.

In relation to **section E.6**, it is worth noting that:

A. Environmental Risks

Industrial Property. Patents.

The Pharma Mar Group has a rigorous patents policy that aims to protect new inventions obtained through R&D activities. In addition to the protection that can be obtained for new active ingredients discovered, the Group also works to actively protect new formulations, manufacturing processes, medical uses and new methods for administering the medication.

The Group has a system for managing the life cycle of the patents, including patent departments that regularly review the status of the patents in coordination with the regulatory affairs department. Furthermore, the Group looks out for potential violations of our patents by other companies in order to initiate legal proceedings, as necessary.

Regulation

In order to offset the risks arising from ongoing and new legal requirements and regulations, the Group makes it decisions and designs its business processes based on an exhaustive analysis of these matters, provided by our own experts and by reputable external specialists, as deemed necessary.

Availability of capital

The Group has significantly fractioned the risk across different credit institutions, which provides the Company with greater flexibility and limits the impact in the event that any of its credits are not renewed.

Shareholders

The Group has contracted a liability policy for its directors and executives, which covers the risk of any given shareholder considering that a decision made by the Board of Directors or executives of the Group has harmed its interests as a shareholder and thus filing a claim.

B. Operational Risks

Prices of key materials

The Group carries out a detailed analysis of the prices at the beginning of the year, working with our suppliers in order to establish a closed price for the whole year. Based on this, the cost price of the products is calculated. These prices are monitored on a monthly basis in case any amendment

is required, although raw materials derived from petroleum are already experience strong variations that are not always predictable (butane, solvents, plastics. etc.).

Health and Safety

The Group has implemented an Occupational Risk Prevention System, compliance with which is regularly audited.
The Company holds accident and civil liability insurance policies.
The parent company of the Group, whose workforce represents 59% of total Group employees, has obtained the OHSAS 18001 Certification for occupational health and safety management.

Environmental

Residues are managed through public companies in charge of recycling and residue management. Regular verifications of legal compliance are completed and, where necessary, atmospheric emissions control systems are in place. The company also has water purification systems and clean points.

Two of the Group companies hold the ISO 14001 Certification, which establishes how to implement an effective environmental management system in order to balance the maintenance of profitability while minimizing environmental impact.

Product development

In order to provide maximum assurance of the effective and efficient use of our resources, the Group has implemented a transversal work structure among the different departments, project teams and reporting systems in order to internally monitor research and development projects.

C. Reporting Risks

Market Communications

Control systems are in place that allow us to determine who has access to this information at any given time and which are primarily directed at compliance with the Securities Market Law in relation to insider information.

The Monitoring Committee ensures the proper implementation of the Internal Regulations on Conduct in Securities Markets and is comprised of the General Manager of the Business Unit, the Company's top executive and the Director of Investor Relations and Capital Markets.

Reporting Systems

The Pharma Mar Group has a strategic information systems plan designed to ensure the proper functioning and use of the information systems supporting the company's business processes and to ensure compliance with applicable regulations.

The Pharma Mar Group has various Data Processing Centers. To the extent possible, the same technologies are used in said centers in order to simplify technological diversity as much as possible and to share services that are likely to be used by more than one Business Unit, primarily as regards security, storage and maintenance.

Access to this information is personalized and is controlled by current technology, also using redundant and tolerant systems as regards errors in those systems deemed critical to the performance of the business, as well as procedures to restore said systems in the shortest time possible. The integrity of the information is in any case guaranteed using backup systems and files.

The Pharma Mar Group uses third party technological infrastructures. It holds service level agreements with these parties that ensure the minimum impact of any potential breakdowns thereof and which include, in general, copies or duplicates of the infrastructures.

D. Financial Risks

The Group is exposed to a wide array of risks. The finance department is responsible for managing risks in accordance with the policies approved by the Board of Directors. This department identifies, assesses and hedges financial risks. The Board provides steps for the management of overall risk, as well as for specific areas such as interest rate risk, liquidity risk, use of derivatives and non-derivatives and investment of excess liquidity.

a) Market Risk

Price Risk

As regards financial assets, the Group's policy involves placing treasury stock in low risk and high liquidity financial assets in order to ensure the availability of funds. For this purpose, these financial assets are comprised practically entirely of public debt and deposits in credit institutions with high credit quality and as such fluctuations in their value are immaterial.

Interest rate risk for cash flows and fair value

Based on the different scenarios, on some occasions the Group manages the interest rate risk of cash flows through interest rate swaps, from variable to fixed interest rates. The economic effect of these interest rate swaps is to convert outside funds with variable interest rates to fixed interest rates. Under these interest rate swaps, the Group undertakes to exchange the difference, on a regular basis, between the fixed and variable interest rates, as calculated based on the notional principals contracted.

b) Credit Risk

The banks and financial institutions with which the Group collaborates are considered independent. When the Group acquires additional financial investments other than public debt, it shall follow the below stated policies in making such investments:

- Acquisition of fixed income funds invested in public or private debt equity (bonds, letters of credit, promissory notes of the company), generally insurance, which provide for periodic interest payments.
- Acquisition of monetary funds that include short-term fixed income (max. 18 months), in which security is prioritized in exchange for generally lower returns as compared to other investments.

c) Liquidity Risk

Prudent management of liquidity risk requires that enough cash and tradable securities be held, that enough financing be available through committed credit facilities and that the company have the ability to liquidate market positions. The Group has the objective of maintaining flexibility in financing through availability of credit lines, as well as sufficient funds in financial assets in order to meet their obligations.

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FINANCIAL STATEMENTS AND DIRECTORS' REPORT OF PHARMA MAR, S.A. FOR THE YEAR ENDED 31 DECEMBER 2016

These Financial Statements and Directors' Report of PHARMA MAR, S.A. for the period from 1 January 2016 to 31 December 2016 were drafted and authorized in compliance with the provisions of articles 34 and 35 of the Commercial Code and articles 253 and 254 of the Capital Companies Act.

In accordance with the provisions of article 37 of the Commercial Code and article 253 of the Capital Companies Act, the Board of Directors signed this 167-page document on 23 February 2017.

The Board of Directors:

José Mª Fernández Sousa-Faro Chairman	Pedro Fernández Puentes Vice-Chairman
Jaime Zurita Sáenz de Navarrete Director	Eduardo Serra Rexach Director (Representing EDUARDO SERRA Y ASOCIADOS, S.L. on the Board)
José Leyte Verdejo Director (Representing ROSP CORUNNA Participaciones Empresariales, S.L. on the Board)	Carlos Solchaga Catalán Director
José Félix Pérez-Orive Carceller Director (representing JEFPO, S.L. on the Board)	Ana Palacio Vallelersundi Director
Montserrat Andrade Detrell Director	

Certificate by the Secretary of the Board of Directors to the effect that, after authorization by the Board of Directors, on 23 February 2017, of the Financial Statements and Directors' Report of PHARMA MAR, S.A. for the year ended 31 December 2016, the Directors listed above signed this document by placing their signatures on the Balance Sheet, the Income Statement, the Statement of Changes in Equity, the Cash Flow Statement, the first page of the notes to financial statements, the first page of the Directors' Report and the last page of the document, with the exception of Mr Eduardo Serra Rexach, representative on the Board of EDUARDO SERRA Y ASOCIADOS, S.L., who did not sign since he was outside Spain due to unavoidable professional engagements, and who granted proxy to fellow director Jaime Zurita Sáenz de Navarrete with respect to the items on the agenda of this meeting (including authorisation of the separate and consolidated financial statements for the year ended 31 December 2016, and of the separate and consolidated directors' reports for the year ended 31 December 2016), with express instructions to vote in favour. Which I certify in Madrid on 23 February 2017.

Secretary of the Board of Directors

Sebastián Cuenca Miranda

PHARMA MAR GROUP
(Pharma Mar, S.A. and subsidiaries)

Consolidated financial statements and Directors' Report
as of December 31, 2016

PHARMA MAR, S.A.

Independent auditor´s report on consolidated annual accounts at 31 December 2016

"This version of our report is a free translation from 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."

INDEPENDENT AUDITOR´S REPORT ON CONSOLIDATED ANNUAL ACCOUNTS

To the shareholders of Pharma Mar, S.A.

Report on the Consolidated Annual Accounts

We have audited the accompanying consolidated annual accounts of Pharma Mar, S.A. and its subsidiaries, which comprise the consolidated statement of financial position as at December 31, 2016, and the consolidated income statement, statement of other comprehensive income, statement of changes in equity, cash flow statement and related notes for the year then ended.

Directors' Responsibility for the Consolidated Annual Accounts

The parent company´s directors are responsible for the preparation of these consolidated annual accounts, so that they present fairly the consolidated equity, financial position and financial performance of Pharma Mar, S.A. and its subsidiaries, in accordance with International Financial Reporting Standards, as adopted by the European Union, and other provisions of the financial reporting framework applicable to the Group in Spain and for such internal control as directors determine is necessary to enable the preparation of consolidated annual accounts that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated annual accounts based on our audit. We conducted our audit in accordance with legislation governing the audit practice in Spain. This legislation requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated annual accounts are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated annual accounts. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated annual accounts, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the parent company´s directors´ preparation of the consolidated annual accounts in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the presentation of the consolidated annual accounts taken as a whole.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

R. M. Madrid, hoja 87.250-1, folio 75, tomo 9.267, libro 8.054, sección 3ª
Inscrita en el R.O.A.C. con el número S0242 - CIF: B-79 031290

Opinion

In our opinion, the accompanying consolidated annual accounts present fairly, in all material respects, the consolidated equity and financial position of Pharma Mar, S.A. and its subsidiaries as at December 31, 2016, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards, as adopted by the European Union, and other provisions of the financial reporting framework applicable in Spain.

Report on Other Legal and Regulatory Requirements

The accompanying consolidated directors' Report for 2016 contains the explanations which the parent company´s directors consider appropriate regarding Pharma Mar, S.A. and its subsidiaries´ situation, the development of their 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 directors' Report is in agreement with that of the consolidated annual accounts for 2016. Our work as auditors is limited to checking the directors' Report in accordance with the scope mentioned in this paragraph and does not include a review of information other than that obtained from Pharma Mar, S.A. and its subsidiaries´ accounting records.

PricewaterhouseCoopers Auditores, S.L.

The original Spanish version was signed by Julio Balaguer Abadía

February 23, 2017

CONSOLIDATED BALANCE SHEET (Thousand euro)	Note	12/31/2016	12/31/2015
ASSETS			
Non-current assets			
Property, plant and equipment	6	31,141	30,624
Investment property	7	6,119	6,157
Intangible assets	8	24,900	26,829
Goodwill	9	2,548	2,548
Non-current financial assets	10	1,138	1,067
Deferred tax assets	25	34,299	32,579
		100,145	**99,804**
Current assets			
Inventories	16	22,158	22,990
Trade and other receivables	14	62,652	40,200
Current financial assets	10	18,077	37,996
Other current assets	15	3,815	3,320
Cash and cash equivalents	17	14,290	7,629
		120,992	**112,135**
TOTAL ASSETS		**221,137**	**211,939**

CONSOLIDATED BALANCE SHEET (Thousand euro)	Note	12/31/2016	12/31/2015
EQUITY			
Share capital	18	11,110	11,110
Share premium	18	69,189	69,189
Treasury shares	18	(3,247)	(2,944)
Revaluation reserves		11	9
Retained earnings and other reserves		(24,705)	(490)
Total capital and reserves attributable to equity-holders of the parent company		**52,358**	**76,874**
Non-controlling interests	20	**(3,863)**	**(3,838)**
TOTAL EQUITY		**48,495**	**73,036**
LIABILITIES			
Non-current liabilities			
Borrowings	24	67,583	64,973
Non-current deferred income	22	16,790	2,709
Other non-current liabilities	23	1,105	598
		85,478	**68,280**
Current liabilities			
Trade and other payables	21	39,175	31,959
Borrowings	24	27,906	28,629
Derivatives	13	0	14
Provisions for other liabilities and charges	26	6,988	6,306
Current deferred income	22	10,012	54
Other current liabilities	23	3,083	3,661
		87,164	**70,623**
TOTAL LIABILITIES		**172,642**	**138,903**
TOTAL EQUITY AND LIABILITIES		**221,137**	**211,939**

CONSOLIDATED INCOME (Thousand euro)	**Note**	**12/31/2016**	**12/31/2015**
Revenue:			
Sale of goods	5, 27	164,035	161,992
Revenue from licensing and development agreements (excluding royalties)	5, 27	11,129	29,034
Royalties	5, 27	5,779	1,788
Other		5	1,003
		180,948	**193,817**
Cost of sales	5	(43,971)	(45,705)
Gross profit		**136,977**	**148,112**
Marketing expenses	30	(47,688)	(48,614)
Administrative expenses	29	(20,328)	(19,984)
Research and development expenses	28	(78,423)	(60,291)
Other operating expenses	29	(10,777)	(11,750)
Other income	31	1,533	3,824
Operating profit		**(18,706)**	**11,297**
Finance costs		(6,661)	(6,320)
Finance income		668	932
Finance costs - net	34	**(5,993)**	**(5,388)**
Result of the period before income taxes		**(24,699)**	**5,909**
Income tax profit / (expense)	25	592	654
Profit for the period		**(24,107)**	**6,563**
Profit is attributable to:			
Equity holders of the parent company		(24,082)	6,588
Non-controlling interests	20	(25)	(25)

Earnings/(Loss) per share for profit from operations and profit for the period attributable to equity holders of the parent company:			
(Euro per share)			
Basic earnings per share	35	(0.11)	0.03
Diluted earnings per share	35	(0.11)	0.03

Consolidated Financial Statements of Pharma Mar, S.A. and subsidiaries as of December 31, 2016

CONSOLIDATED OF COMPREHENSIVE INCOME (Thousand euro)	2016	2015
Profit for the period	**(24.107)**	**6.563**
Other comprehensive income		
Items that may be reclassified to profit or loss		
Changes in the fair value of available-for-sale financial assets	2	1
Exchange differences on translation of foreign operations	26	(76)
Other comprehensive income for the period, net of tax	**28**	**(75)**
Total comprehensive income for the period	**(24.079)**	**6.488**
Total comprehensive income for the period is attributable to:		
Equity holders of the parent company	(24.054)	6.513
Non-controlling interests	(25)	(25)
TOTAL COMPREHENSIVE INCOME FOR EQUITY HOLDERS	**(24.079)**	**6.488**

Consolidated Financial Statements of Pharma Mar, S.A. and subsidiaries as of December 31, 2016

CHANGES IN CONSOLIDATED SHAREHOLDERS´ EQUETY							
(Thousand euro)	Share capital	Share premium	Treasury shares	Revaluation reserves	Retained earnings and	Non-controlling interests	Total equity
Balance as of January 1, 2015	**11.110**	**323.286**	**(6.810)**	**8**	**(263.712)**	**(3.813)**	**60.069**
Fair value gain / (loss), gross:							
- Available-for-sale financial assets (Note 12)	0	0	0	1	0	0	1
- Exchange differences on translation of foreign operations	0	0	0	0	(76)	0	(76)
Other comprehensive income	**0**	**0**	**0**	**1**	**(76)**	**0**	**(75)**
2015 result of the period	0	0	0	0	6.588	(25)	6.563
Comprehensive income for the year	**0**	**0**	**0**	**1**	**6.512**	**(25)**	**6.488**
Merger effect (Note 18)	0	(254.097)	0	0	254.097	0	0
Purchase of treasury shares (Note 18)	0	0	(4.684)	0	0	0	(4.684)
Proceeds from shares issued (Note 18)	0	0	7.966	0	2.887	0	10.853
Value of employee services — Employee share ownership plan	0	0	584	0	(276)	0	308
Other movements	0	0	0	0	2	0	2
Balance as of December 31, 2015	**11.110**	**69.189**	**(2.944)**	**9**	**(490)**	**(3.838)**	**73.036**
Fair value gain / (loss), gross:							
- Available-for-sale financial assets (Note 12)	0	0	0	2	0	0	2
- Exchange differences on translation of foreign operations	0	0	0	0	26	0	26
Other comprehensive income	**0**	**0**	**0**	**2**	**26**	**0**	**28**
2016 result of the period	0	0	0	0	(24.082)	(25)	(24.107)
Comprehensive income for the year	**0**	**0**	**0**	**2**	**(24.056)**	**(25)**	**(24.079)**
Purchase of treasury shares (Note 18)	0	0	(4.165)	0	0	0	(4.165)
Proceeds from shares issued (Note 18)	0	0	3.862	0	(329)	0	3.533
Value of employee services — Employee share ownership plan	0	0	0	0	303	0	303
Other movements	0	0	0	0	(133)	0	(133)
Balance as of December 31, 2016	**11.110**	**69.189**	**(3.247)**	**11**	**(24.705)**	**(3.863)**	**48.495**

CONSOLIDATED OF CASH FLOW

CONSOLIDATED STATEMENT OF CASH FLOW (Thousand euro)	Note	2016	2015
Net cash inflow from operating activities			
Income before taxes:		**(24.699)**	**5.909**
Adjustments for:		**13.678**	**12.594**
Depreciation and amortization	6, 7, 8	7.243	6.281
Provision for impairment of accounts receivable	14	258	(44)
Impairment losses of property, plant and equipment and investment property	6, 37	171	1.774
Fair value loss/(gain) on financial assets	13	(14)	(26)
Finance income	34	(255)	(258)
Finance costs	34	5.214	5.509
Share based payments	37	303	308
Deferred income - grants	22	76	(1.036)
Provisions	26	682	86
Changes in working capital:		**7.981**	**(1.755)**
Inventories	16	832	1.414
Trade and other receivables	14	1.290	(3.167)
Other assets and liabilities		(1.357)	(3.251)
Trade and other accounts payable	21	7.216	3.249
Other cash flows from operations:		**(5.374)**	**(5.664)**
Interest paid		(5.241)	(5.529)
Interest received		241	230
Income tax paid		(374)	(365)
Net cash inflow from operating activities		**(8.414)**	**11.084**
Cash flows from investing activities			
Acquisitions:		**(47.674)**	**(63.632)**
Property, plant and equipment, intangible assets and investment property	6, 7, 8	(6.093)	(9.288)
Other financial assets	10	(41.581)	(54.344)
Proceeds from:		**61.558**	**35.378**
Property, plant and equipment, intangible assets and investment property	6, 7, 8	129	70
Other financial assets	10	61.429	35.308
Other investing cash flow:		**(105)**	**(74)**
Other investment receipts/(payments)		(105)	(74)
Net cash (outflow) from investing activities		**13.779**	**(28.328)**
Receipts and (payments) in connection with equity instruments:		**(632)**	**6.169**
Purchase of treasury shares	18	(4.165)	(4.684)
Proceeds from shares issued	18	3.533	10.853
Receipts and (payments) in connection with financial liabilities:		**1.926**	**(23)**
Proceeds from borrowings	24	20.140	34.867
Repayment of borrowings	24	(18.214)	(34.890)
Other financing cash flow		**2**	**2.176**
Other financing receipts/(payments)		2	2.176
Net cash (outflow) from financing activities		**1.296**	**8.322**
Net increase (decrease) in cash and cash equivalents		**6.661**	**(8.922)**
Cash and cash equivalents at beginning of the year	10	7.629	16.551
Cash and cash equivalents at period ended September 30		**14.290**	**7.629**

Notes to the consolidated financial statements of Pharma Mar, S.A. and subsidiaries as of December 31, 2016
(Thousand euro)

1. GENERAL INFORMATION

Pharma Mar, S.A. is the company that resulted from the merger of Zeltia, S.A. (absorbed company) into Pharma Mar, S.A. (acquiring company). Pharma Mar, S.A., the Group's parent company (hereinafter, "Pharma Mar" or "the Company"), was incorporated as a limited company in Spain for an indefinite period on April 30, 1986. Its registered offices are located in Colmenar Viejo (Madrid) at Avenida de los Reyes, 1 (Pol. Industrial La Mina – norte).

PharmaMar's main activity is the research, development, production and commercialization of bio-active principles of marine origin for application in oncology, as well as the management, support and development of its subsidiaries, mainly in the chemical and biopharmaceutical businesses. In addition, the Group produce and market insecticides and air fresheners for household use, household products, wood treatment and decoration products, paints, and similar products.

On September 20, 2007, Pharma Mar received authorization from the European Commission for marketing Yondelis® for the treatment of soft tissue sarcoma. This approval meant the commencement of PharmarMar's pharmaceutical compounds sales, as it had no drugs in the market until then.

Two years later, on November 2, 2009, the European Commission granted authorization for Pharma Mar to commercialize Yondelis® in combination with pegylated liposomal doxorubicin to treat relapsed platinum-sensitive ovarian cancer in the 27 EU countries plus Norway, Iceland and Liechtenstein. The first sales for this therapeutic use were made at the end of 2009.

On September 28, 2015, Taiho, a company with which Pharma Mar had previously signed an agreement to develop and commercialize Yondelis® in Japan, received authorization from Japan's Ministry of Health, Labour and Welfare to commercialize Yondelis® in Japan for the treatment of soft tissue sarcoma. Additionally, on October 23, 2015, Janssen, PharmaMar's partner for the development and commercialization of Yondelis® in the US, obtained authorization from the FDA to commercialize Yondelis® in the US for the treatment of certain soft tissue sarcoma types.

As of December 31, 2016, Pharma Mar was continuing to develop its other products and was also developing Yondelis® for therapeutic uses other than soft tissue sarcoma and ovarian cancer.

For the purposes of drafting these financial statements, a group is considered to exist when the parent company has one or more subsidiaries over which it has control, directly or indirectly.

Pharma Mar's shares are listed on the Madrid, Barcelona, Bilbao and Valencia Stock Exchanges and the Spanish Electronic Market (SIBE).

There were no material changes in the consolidation scope of the Pharma Mar Group (hereinafter, the "Group") in 2016 and 2015 apart from the incorporation of Pharma Mar Ges.m.b.H AT (Austria) in September 2016 and apart from the sale of Promaxa Protección de Maderas, S.L. in July 2016. In 2015, the merger between Zeltia, S.A. and Pharma Mar, S.A. took place. The list of the consolidated Group's subsidiaries as of December 31, 2016 and 2015 is as follows:

		Stake (%)		
Subsidiary	Registered offices	Direct	Indirect	Total
Genómica, S.A.U.	Parque Empresarial Alvento, Calle Vía de los Poblados, 1, 28033 Madrid, Spain	100%	-	100%
Zelnova Zeltia, S.A.	Torneiros – Porriño – Pontevedra, Spain	100%	-	100%
Xylazel, S.A.	Las Gándaras -Porriño –Pontevedra, Spain	100%	-	100%
*Promaxsa Protección de Maderas, S.L.	Avda. Fuentemar, 16, 1º – Coslada – Madrid, Spain	100%	-	100%
Noscira, S.A. on liquidation	Plaza del Descubridor Diego de Ordás, 3 Planta 5ª Madrid, Spain	73,32%	-	73,32%
Pharma Mar USA	205 East 42nd Street Suite 15003 New York, NY 10017 USA	100%	-	100%
Pharma Mar AG (Switzerland)	Seschenvorstadt, 71- Basel –Switzerland	100%	-	100%
Pharma Mar SARL (France)	120, Av. Charles Gaulle- Neuilly-sur-Seine - France	100%	-	100%
Pharma Mar GmbH (Germany)	Uhlandstrasse, 14, D 10623 Berlin - Germany	100%	-	100%
Pharma Mar Ltd (UK)	Regus Awey House, 1650 Arlington Business Park - London - UK	100%	-	100%
Pharma Mar, S.r.L. (Italy)	Via Giorgio Stephenson, 29 Milan, Italy	100%	-	100%
Pharma Mar, Sprl (Belgium)	1000 Brussels, Avenue du Port 86c, bolte 204, Belgium	100%	-	100%
**Pharma Mar Ges.m.b.H.	Mooslackengasse 17, 1190 Wien, Austria	100%	-	100%
***Copyr, S.p.A. (Italy)	Via Giorgio Stephenson, 29 Milan, Italy	-	100% ***	100%
****Genómica, A.B.	Ideon Science Park Sheelevage, 17 Lund, Sweden	-	100% ****	100%
Sylentis, S.A.	Plaza del Descubridor Diego de Ordás, 3 Planta 5ª Madrid, Spain	100%	-	100%

(*) Disposed in 2016
(**) Incorporated in 2016
(***) Copyr, S.p.A. is wholly owned by Zelnova Zeltia, S.A.
(****) Genómica, A.B. is wholly owned by Genómica, S.A.U.

A. PharmaMar- Zeltia merger

On June 30, 2015, the Shareholders' Meeting of Zeltia and the sole shareholder of Pharma Mar approved a reverse merger of Zeltia into Pharma Mar, through dissolution without liquidation of Zeltia and the whole transfer of Zeltia's net worth to Pharma Mar. On October 30, 2015, the merger was registered with the Spanish Mercantile Registers in question and, as a result, Zeltia ceased to exist.

The structure chosen was that of a "reverse merger", in which a subsidiary absorbs its parent company, since Zeltia (the absorbed company) directly owned 100% of the shares of Pharma Mar (acquiring company).

Moreover, the fact that Zeltia (absorbed company) directly owned 100% of the shares of Pharma Mar (acquiring company) made it possible, under article 52 of the Spanish Structural Modifications Act, to apply, mutatis mutandis, the rules for the absorption of wholly-owned subsidiaries. Consequently, the merger qualified for the special simplified procedure provided in article 49.1 of the Spanish Securities Market Act.

B. Description of subsidiaries

The principal activity of the Group companies, all of which were fully consolidated as of December 31, 2016 and 2015, is as follows:

- Genómica, S.A.U. (Genómica): Development and marketing of diagnostic applications and related services.

- Zelnova Zeltia, S.A. (ZelnovaZeltia): Manufacture and marketing of domestic and industrial insecticides and air fresheners.

- Xylazel, S.A. (Xylazel): Manufacture and sale of wood and metal protective and decorative products, paints and similar products.

- Promaxsa Protección de Maderas, S.L. (Promaxsa): Provision of services for treating and protecting wood, and repairing and preserving buildings, as well as insect control and disinfection. This company was sold in 2016.

- Noscira, "S.A. in liquidation" (Noscira): This Company is in liquidation. On 18 December 2012, the Shareholders' Meeting of Noscira resolved to dissolve the company and commence the period of liquidation, since the company had an equity imbalance and was in one of the situations of dissolution established by article 363.1.e) of the Spanish Capital Companies Act as its net equity had declined to less than one-half of its capital stock.

- Pharma Mar USA: Business development in the US market.

- Pharma Mar AG: Marketing pharmaceutical products in the Swiss market.

- Pharma Mar SAR: Marketing pharmaceutical products in the French market.

- Pharma Mar GmbH: Marketing pharmaceutical products in the German market.

- Pharma Mar S.r.L.: Marketing pharmaceutical products in the Italian market.

- Pharma Mar S.p.r.l.: Marketing pharmaceutical products in the Belgian market.

- Pharma Mar Ltd.: Marketing pharmaceutical products in the UK market.

- Pharma Mar Ges.m.b.H. (Austria): This Company was founded in 2016 and it is primarily engaged in marketing pharmaceutical products in the Austria market.

- Copyr, S.p.A. (Copyr): Manufacture and sale of automatic aerosol dispensers under its Copyrmatic brand. Copyr also produces products for ecological farming.

- Genómica, A.B.: Marketing diagnostic applications and related services in the Scandinavian market.

- Sylentis, S.A.U. (Sylentis): Research, development, production and sale of products with therapeutic activity based on reducing or silencing gene expression, and pharmaceutical derivatives of same in a range of formulations and applied in various ways to all types of diseases; it does not yet have any products on the market.

2. ACCOUNTING PRINCIPLES

The main accounting principles adopted in preparing these consolidated financial statements are described below. Those principles were applied on a consistent basis for all the years covered by these consolidated financial statements, except where indicated otherwise.

A. Basis of presentation

These consolidated financial statements for 2016 and those for 2015 presented for comparison were prepared in accordance with the International Financial Reporting Standards and IFRIC interpretations adopted for use in the European union in accordance with Regulation (EC) No 1606/2002 of the European Parliament and of the Council of 19 July 2002, by virtue of which all companies governed by the law of a Member State of the European Union and whose shares are listed on a regulated market of a Member State must prepare their consolidated accounts, for annual periods beginning on or after 1 January 2005, in accordance with the IFRS adopted by European Union.

The consolidated financial statements were drawn up under the historical cost convention, though modified by of available-for-sale financial assets and financial assets and liabilities (including derivatives) at fair value through profit or loss.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4.

The accounting policies applied in preparing the consolidated financial statements as of December 31, 2016 are consistent with those used to prepare the consolidated financial statements for the year ended December 31, 2015. Significant estimates made in the 2016 financial statements are also consistent with those made in the 2015.

The figures contained in the documents comprising these consolidated financial statements are expressed in thousands of euro.

Standards, amendments and interpretations mandatory for all annual periods commencing on or after January 1, 2016.

- IAS 1 (Modification) "Disclosure initiative"
- IFRS Annual Improvements Cycle 2012-2014
- IAS 16 (Modification) /IAS 38 (Modification) "Clarification of acceptable methods of depreciation and amortization"

The adoption of these standards and modifications has not had significant impact on the financial statements of the Group.

Standards, amendments and interpretations that have not yet entered into force but which may be adopted before annual periods commencing on or after January 1, 2016.

At the date of signing these consolidated financial statements, the IASB and the IFRS Interpretations Committee had published the standards, amendments and interpretations described below whose has been endorsed by UE, although the Group has not adopted them in advance.

- IFRS 9 “Financial instruments”. The Group management does not expect significant impacts.

- IFRS 15 “Revenue from contracts with customers”, effective for annual periods beginning on or after 1 January 2018), although anticipated adoption is allowed. The Group, specially the oncology segment, signed with several customers certain license and co-development agreements containing multiple components, for its compounds in development or already commercialized (Note 27). The adoption of this IFRS 15 will have no significant impact on the financial statements of the Group.

Standards, amendments and interpretations to the existing rules that cannot be adopted in advance or that have not been adopted by EU.

At the date of preparation of these consolidated financial statements, the IASB and the IFRS Interpretations Committee published the standards, amendments and interpretations set out below, which are pending adoption by the European Union. The Group considers that the following could be applicable to the Group:

-NIF 10 (Modification) and IAS 28 (Modification) "Sale or contribution of assets between an investor and its associates or joint ventures" - No significant impacts are expected

-NIIF 16 "Leases" - The Group has certain operating lease contracts, mainly lease agreements for offices and vehicles (Note 40). Such contracts grant the right to use an asset for a period of time in exchange for a consideration. The Group must recognize the current value of the lease payments and count them as assets, and recognize a financial liability that represents its future payment obligation. At the moment there is no quantification of the effect on the annual accounts for the year 2019, year in which the norm will come into force.

-NIC 7 (Modification) "Disclosure Initiative" - No significant impacts are expected.

-NIC 12 (Modification) "Recognition of deferred tax assets for unrealized losses" - No significant impacts are expected.

- Annual Improvements to IFRS. Cycle 2014 - 2016 - No significant impacts are expected.

B. Consolidation principles

All entities over which the Group has control, including structured entities, are classified as subsidiaries. The Group is considered to control an entity when it is exposed, or has rights, to variable returns from its involvement in the investee and it can use its power over it to influence such returns. Subsidiaries are consolidated on the date on which their control is transferred to the Group and are deconsolidated on the date on which control ceases.

The Group uses the acquisition method to account for business combinations. Consideration for the acquisition of a subsidiary is measured as the fair value of the transferred assets, the liabilities incurred with the previous owners of the acquiree, and the equity instruments issued by the Group. The consideration will also include the fair value of any asset or liability which arises from any contingent consideration.

The identifiable assets acquired and the liabilities and contingent liabilities assumed in a business combination are carried initially at their fair value on the acquisition date.

For each business combination, the Group may elect to measure non-controlling interests at fair value or at the proportionate share of the recognized amounts of the acquiree's identifiable net assets.

Acquisition-related costs are recognized in profit or loss in the years that they are incurred.

If the business combination takes place in stages, the acquisition-date carrying amount of the acquirer's previously-held equity interest in the acquiree is remeasured to fair value at the acquisition-date. Any gain or losses arising from such remeasurement are recognised in profit or loss.

Contingent consideration is classified either as equity or a financial liability. Amounts classified as a financial liability are subsequently remeasured to fair value with changes in fair value recognised in profit or loss.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previously-held equity interest in the acquiree with respect to the fair value of the identifiable net assets acquired is recognized as goodwill. If the total of the consideration transferred, the recognized non-controlling interest and previously-held equity interest is lower than the fair value of the net assets of a subsidiary acquired in very advantageous conditions, the difference is recognized directly in profit or loss.

If the subsidiary is fully consolidated, intercompany transactions, balances, and revenue and expenses on transactions between Group entities are eliminated.

Also eliminated are gains and losses on intragroup transactions recognized as assets. The accounting policies of the subsidiaries have been modified where necessary to ensure conformity with the Group's policies.

Refer to Note 1 to see consolidated subsidiaries details.

The financial year of all the subsidiaries is the calendar year.

Transactions with non-controlling interests

The Group recognizes transactions with minority interests as transactions with holders of Group equity. In acquisitions of minority interests, the difference between the price paid and the related proportion of the carrying value of the subsidiary's net assets is recognized in equity. Gains or losses resulting from the sale of minority interests are also recognized in equity.

C. Segment reporting

Operating segments are presented coherently with the internal information presented to the chief operating decision maker (CODM). The CODM is responsible for allocating resources to operating segments and for evaluating their performance. The Board of Directors has been identified as the CODM.

D. Foreign currency transactions

i. Functional and presentation currency

Items included in the financial statements of each of the group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in euros (€), which is Pharma Mar's functional and presentation currency.

In the case of US-based Pharma Mar USA, its functional currency is the euro, essentially taking into account its sources of funding and its activity.

With regard to Pharma Mar AG, a Swiss subsidiary, Pharma Mar Ltd, a British dependent and Genómica, AB, a Swedish subsidiary, its functional currencies in 2016 and 2015 have been the Swiss franc, the pound sterling and the Swedish krona respectively, Marketing of products being their sales in local currency. The impact of translation to euro is not material, given the small volume of its operations with respect to the Group.

ii. Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year end exchange rates are generally recognised in profit or loss. They are deferred in equity if they relate to qualifying cash flow hedges and qualifying net investment hedges or are attributable to part of the net investment in a foreign operation.

Foreign exchange gains and losses are presented in the statement of profit or loss within "Finance costs - net".

Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Translation differences on assets and liabilities carried at fair value are reported as part of the fair value gain or loss. For example, translation differences on non-monetary assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss and translation differences on non-monetary assets such as equities classified as available-for-sale financial assets are recognised in other comprehensive income.

iii. Group companies

The results and financial position of foreign operations (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- Assets and liabilities on each balance sheet are translated at the closing exchange rate on the balance sheet date;
- Income and expenses for each statement of profit or loss and statement of comprehensive income are translated at average exchange rates (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions), and
- All resulting exchange differences are recognised in other comprehensive income.

On consolidation, exchange differences arising from the translation of any net investment in foreign entities, and of borrowings and other financial instruments designated as hedges of such investments, are recognised in other comprehensive income. When a foreign operation is sold or any borrowings forming part of the net investment are repaid, the associated exchange differences are reclassified to profit or loss, as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the closing rate.

E. Property, plant and equipment

Land and buildings comprise mainly of buildings and installations of the parent company and subsidiaries in Colmenar Viejo and Tres Cantos, Madrid (Pharma Mar), Porriño, Pontevedra (ZelnovaZeltia and Xylazel). Items of property, plant and equipment are recognized at cost less any accumulated depreciation and impairment except in the case of land, which is presented net of impairment.

The historical cost includes expenses directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All repairs and maintenance are expensed as incurred.

Land is not depreciated. Other assets are depreciated by the straight-line method to assign the difference between the cost and residual value over their estimated useful lives:

	Years of useful life
Buildings	17-50
Machinery and installations	5-10
Tools and equipment	3-10
Furniture and fixtures	3-10
Vehicles	4-7
Computer hardware	4-7
Other assets	7-15

The residual value and the useful life of an asset are reviewed, and adjusted if necessary, at each balance sheet date.

When the carrying amount of an asset exceeds its estimated recoverable amount, its value is written down immediately to the recoverable amount. Gains and losses on the sale of property, plant and equipment, which are calculated by comparing the proceeds with their carrying amount, are recognized in profit and loss.

F. Investment property

The Group classifies as "Investment property" the land and buildings held to earn rent or for capital appreciation, or both, which are not occupied by the Group. The investment property is recognized at the cost value depreciated during the useful life. The depreciation is disclosed in Note 7.

When the carrying amount of an asset exceeds its estimated recoverable amount, its value is written down immediately to the recoverable amount.

G. Intangible assets

i. Development expenses

Research and development expenses are expensed as incurred. Development project costs (design and testing of new and improved products) are recognized as intangible assets when it is probable that the project will be successful, based on its technical and commercial viability; specifically, they are capitalized when the following requirements are met:

(i) It is technically possible to complete production of the intangible asset so that it may be available for use or sale;
(ii) Management intends to complete the intangible asset in question for use or sale;
(iii) There is the capacity to use or sell the intangible asset;
(iv) The form in which the intangible asset will generate likely economic benefits in the future is demonstrable;
(v) Sufficient technical, financial and other resources are available to complete development and to use the intangible asset; and
(vi) The cost attributable to the intangible asset during development can be measured reliably.

Considering the nature of the development expenses incurred by the Group, i.e. connected to pharmaceutical development, and in line with standard practice in the industry, the requirements for capitalization are not considered to be fulfilled prior to the registration phase.

Development costs with finite useful lives that are recognized as an asset are amortized from the moment the product is available for sale on a straight-line basis over the period in which income is expected to be generated, which is at least the lifetime of the patent. Other development expenses are expensed as incurred.

Development costs that were previously expensed are not capitalized as an intangible asset in a subsequent year.

ii. Trademarks and licences

These assets are carried at historical cost. Trademarks were acquired from third parties and are assumed to have an indefinite life; therefore, they are not amortized and, instead, they are tested for impairment at the end of each year.

iii. Computer programs

Acquired computer software licences are capitalized based on the costs incurred to acquire and prepare them for using the specific program. Those costs are amortized over their estimated useful lives (mainly 5 years).

Computer program maintenance costs are recognized in profit or loss as incurred. Development expenses directly attributable to the design and testing of computer programs that are identifiable, unique and susceptible to being controlled by the Group are recognized as intangible assets when the following conditions are met:

- It is technically possible to complete production of the intangible asset so that it may be available for use or sale;
- Management intends to complete the intangible asset in question for use or sale;
- There is the capacity to use or sell the intangible asset;
- The form in which the intangible asset will generate likely economic benefits in the future is demonstrable;
- Sufficient technical, financial and other resources are available to complete development and to use or sell the intangible asset; and
- The cost attributable to the intangible asset during development can be measured reliably.

H. Goodwill

Goodwill is recognized initially as described in Note 2.B. Goodwill is tested for impairment each year and carried at its cost less accumulated impairment losses. Impairment of goodwill is not reversible. Gains and losses on the sale of an entity include the carrying amount of the goodwill related to the sold entity.

For the purposes of impairment tests, goodwill acquired in a business combination is allocated to the cash-generating units or groups of cash-generating units that are expected to benefit from the synergies in the combination. Each unit or group of units to which goodwill is assigned represents the lowest level within the entity at which goodwill is monitored for internal management purposes.

Goodwill is measured for impairment on an annual basis, or more frequently if events or changes in circumstances indicate a potential impairment loss. The carrying amount of the cash-generating units containing goodwill is compared with their recoverable value, which is the value in use or the fair value less selling costs, whichever is higher. Impairment losses on goodwill are recognized immediately in profit or loss and are not reversed subsequently.

I. Impairment losses on non-financial assets

Intangible assets that have an indefinite useful life or intangible assets in progress are not amortized and are tested annually for impairment losses. The assets that are amortized are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds the recoverable amount. The recoverable amount is determined as the fair value less the cost of sale, or the value in use, whichever is higher. To perform the impairment tests, the assets are grouped at the lowest level of separately identifiable cash flows (cash-generating units). Pre-existing impairment losses on non-financial assets (other than goodwill) are reviewed at each reporting date to consider the possibility of reversing the impairment.

J. Financial assets

i. Classification

The Group classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables, and available-for-sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

- Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if expected to be settled within 12 months, otherwise they are classified as non-current.

- Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets. The Group's loans and receivables comprise 'trade and other receivables' in the balance sheet.

- Cash and cash equivalents

Term deposits are presented as cash equivalents if they have a maturity of three months or less from the date of acquisition and are repayable with 24 hours notices with no loss of interest.

- Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless the investment matures or management intends to dispose of it within 12 months.

ii. Reclassification

The Group may choose to reclassify a non-derivative trading financial asset out of the held for trading category if the financial asset is no longer held for the purpose of selling it in the near term.

Financial assets other than loans and receivables are permitted to be reclassified out of the held for trading category only in rare circumstances arising from a single event that is unusual and highly unlikely to recur in the near term. In addition, the Group may choose to reclassify financial assets that would meet the definition of loans and receivables out of the held for trading or available-for-sale categories if the Group has the intention and ability to hold these financial assets for the foreseeable future or until maturity at the date of reclassification.

Reclassifications are made at fair value as of the reclassification date. Fair value becomes the new cost or amortized cost as applicable, and no reversals of fair value gains or losses recorded before reclassification date are subsequently made.

Effective interest rates for financial assets reclassified to loans and receivables are determined at the reclassification date. Further increases in estimates of cash flows adjust effective interest rates prospectively.

iii. Recognition and measurement

Regular acquisitions or disposals of investments are recognized on the trade date, i.e. the date on which the Group undertakes to acquire or sell the asset. In the case of financial assets not at fair value through profit or loss, investments are initially recognized at fair value plus transaction costs. Financial assets at fair value through profit or loss are recognized initially at their fair value, and the transaction costs are recognized in profit or loss. Financial assets are derecognized when the rights to receive the investments' cash flows have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are carried at amortized cost using the effective interest method.

Gains or losses arising from fair value changes in "financial assets at fair value through profit or loss" are recognized in profit or loss under "Finance costs - net" in the year in which they arise.

Fair value changes in available-for-sale monetary and non-monetary financial assets are recognized in other comprehensive income.

When available-for-sale securities are sold or impaired, accumulated adjustments in the fair value through equity are recognized in profit or loss as "Finance costs - net".

Dividends from equity instruments available-for-sale are recognized in profit and loss within “Other gains – net”.

iv. Impairment losses on financial assets

- Assets at amortized cost

At the balance sheet date, the Group assesses whether there is objective evidence that a financial asset or group of financial assets has been impaired. A financial asset or group of financial assets is deemed to be impaired if and only if there is objective evidence of a loss of value as a result of one or more events that occurred after initial recognition of the asset (a "triggering event") and such triggering event has an impact on the estimated future cash flows from the financial asset or group of financial assets that can be estimated reliably.

Evidence of impairment may include indications that a debtor or group of debtors is experiencing material financial difficulties, is in default or is late in paying interest or principal, the likelihood that they may enter a situation of insolvency or any other financial reorganization, and where there is observable evidence of a measurable decrease in the estimated future cash flows, such as changes in the payment conditions or in economic conditions that are correlated with defaults.

For the category of loans and accounts receivable, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows (ignoring future credit losses that have not been incurred), discounted at the original effective interest rate of the financial asset. The carrying amount of the asset is written down and the amount of the impairment is recognized in consolidated profit and loss. As a practical expedient, the Group can measure the impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment is reduced and that reduction can be attributed objectively to an event that took place after the impairment was recognized (i.e. an

improvement in the debtor's credit quality), the previously recognized impairment is reversed through consolidated profit or loss (Note 14).

- Assets classified as available-for-sale

At the end of each accounting period, the Group assesses whether there is objective evidence that a financial asset or group of financial assets has been impaired.

If such evidence exists for debt instruments, the accumulated loss—measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset recognized previously in profit or loss—is eliminated in equity and is recognized in profit or loss. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively attributed to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss is reversed through consolidated profit or loss.

In the case of investments in equity instruments, a material or prolonged decline in the fair value of the instrument below its cost is also considered to be evidence of impairment. If such evidence exists, the accumulated loss— measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset recognized previously in profit or loss—is eliminated in equity and is recognized in profit or loss. Impairment losses recognized in consolidated profit or loss on net equity instruments are not reversed through consolidated profit or loss.

v. Offset of financial instruments

Financial assets and financial liabilities are offset and presented net on the balance sheet when the Group has a legally enforceable right to offset the amounts recognized and intends to settle them at their net amounts or to realize the asset and settle the liability simultaneously. The legally enforceable right should not be contingent upon future events and should be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the company or the counterparty.

K. Derivatives

The derivatives arranged by the Group do not qualify for hedge accounting; they are recognized at fair value on the contract date and subsequently measured at fair value. Changes in fair value are recognized immediately in profit or loss under “Finance costs - net".

L. Leases

Leases of property, plant and equipment in which the Group acts as lessee and has substantially all the risks and rewards incidental to ownership of the assets are classified as finance leases. Finance leases are capitalized at the start of the lease term at the fair value of the leased property or the present value of the minimum lease payments, whichever is lower. Each lease payment is apportioned between the reduction of the outstanding liability and the finance charge so as to produce a constant interest rate on the outstanding balance of the liability. The payment liability arising from the lease, net of the finance charge, is recognized in current liabilities (for the part payable in the next twelve months) and in long-term liabilities (for the remaining part).

The interest part of the finance charge is expensed during the lease term so as to produce a constant periodic interest rate on the outstanding balance of the liability in each period.

Leases where the lessor retains a significant portion of the risks and rewards incidental to ownership are classified as operating leases. Operating lease payments (net of any incentive received from the lessor) are expensed on a straight-line basis during the lease term.

M. Inventories

Inventories are stated at the lower of cost or net realizable value. Net realizable value is the estimated selling price in the ordinary course of business less, the variable costs necessary to make the sale.

Cost is determined as follows:

- Commercial inventories, raw materials and other supplies: weighted average cost.

- Finished and semi-finished products and products in process: weighted average cost of the raw and ancillary materials used, plus the applicable amount of direct labour and general manufacturing expenses (based on normal production capacity).

Inventories acquired and/or produced for the purposes of commercializing drugs are capitalized when the requirements indicated in Note 2.G.i are met. Inventories are impaired up to that point, and the impairment charge is reversed once those requirements are met.

N. Trade receivables

Trade receivables are recognized initially at fair value and subsequently at amortized cost based on the effective interest method, minus any impairment. Impairment is recognized for trade receivables when there is objective evidence that the Group will not be able to collect all the outstanding amounts in accordance with the original terms of the receivables. Refer to Note 2.W i with respect to receivables resulting from sales to governmental bodies.

Transfers of receivables result in derecognition when the Group has transferred substantially all the risks and rewards of ownership, including those related to late payment. Otherwise, proceeds from the transfer are treated as borrowings.

At the end of each year, past-due debt is analysed and a decision is made as how to proceed on the basis of its age and the prospects of collection. It is Group policy to claim default interest and principal due on late paymente of amounts owed by certain public authorities (Note 14)

O. Cash and cash equivalents

Cash and cash equivalents include cash on hand, demand deposits at banks, and short-term, highly-liquid investments with an initial maturity of three months or less, and bank overdrafts. Bank overdrafts are classified as borrowings under current liabilities in the balance sheet.

P. Share capital and distribution of dividends

Ordinary shares are classified as equity. Incremental costs directly attributable to the issuance of new shares and options are shown in equity as a deduction, net of tax, from the proceeds obtained.

When any Group entity acquires shares of the parent company, the consideration paid, including any directly attributable incremental costs (net of income taxes), is accounted for within “Treasury shares”, deducting equity attributable to the parent company's equity holders until cancellation, re-issuance or disposal.

Where such shares are subsequently sold or re-issued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is accounted for within Treasury shares (acquisition cost) and Retained earnings (difference between proceeds and acquisition cost), increasing equity attributable to the parent company's equity holders.

Dividends on ordinary shares are recognized in liabilities in the year that they are approved by the parent company's shareholders.

Q. Government grants

Government grants are recognized at fair value when there is reasonable assurance that the grants will be received and the Group will comply with all the conditions attached to them. These grants are recognized on the basis of their maturity.

Government grants related to the acquisition of fixed assets are included under “Non-current deferred income” and are recognized in profit or loss on a straight-line basis over the expected life of those assets under “Other income”.

Grants related to the Group's research and development projects are recognized as income for the year in proportion to the amortization of these intangible assets, or, where applicable, when they are disposed, impaired or written-off. Grants related to specific expenses are recognized in the income statement in the same period in which the corresponding expenses are accrued.

Monetary grants are recognised at the fair value of the amount granted and the non-monetary grants at the fair value of the asset received, both referred to at the time of recognition

R. Trade accounts payable

Trade accounts payable are obligations to pay for goods or services acquired from suppliers in the ordinary course of business. Accounts payable are classified as current liabilities if the payments fall due in one year or less.

S. Borrowings

Interest-bearing debt is recognized initially at fair value, net of the transaction costs incurred. Subsequently, debt is measured at amortized cost based on the effective interest method. The difference between the funds obtained (net of the necessary costs to obtain them) and the reimbursement value is recognized in profit or loss over the debt term based on the effective interest method.

Borrowings are classified under current liabilities unless the Group has an unconditional right to defer the liability settlement for at least twelve months from the balance sheet date.

When a loan is renegotiated, a decision is made whether or not to derecognize it as a financial liability depending on whether the initial loan varies and whether the present value of the cash flows, including net fees, using the effective interest rate of the original contract, varies by more than 10% with respect to the present value of the payment cash flows prior to renegotiation.

T. Current and deferred taxes

The income tax expense includes both current and deferred taxes. The tax is recognized in profit or loss except to the extent that it refers to items recognized directly in other comprehensive income or directly in equity. In that case, the tax is also recognized in other comprehensive income or directly in equity, respectively.

The current tax expense is calculated on the basis of tax law enacted or substantively enacted on the balance sheet date. Management regularly evaluates positions adopted in connection with tax returns regarding situations where the tax regulations are open to interpretation, and recognizes any necessary provisions on the basis of the amounts expected to be paid to the tax authorities.

Deferred taxes are measured on the basis of the temporary differences arising between the tax base of the assets and liabilities and their carrying amounts in these consolidated financial statements. However, deferred taxes arising from the initial recognition of an asset or liability in a transaction other than a business combination that does not affect the accounting result or the taxable gain or loss at the transaction date are not recognized.

The deferred tax is determined by applying the tax rates (and regulations) enacted or substantially enacted on the balance sheet date and which will be applicable when the corresponding deferred tax asset is realized or the deferred tax liability is settled.

Deferred tax assets are recognized when it is probable that there will be future taxable income to offset the temporary differences.

Deferred tax assets are recognized for tax-deductible temporary differences arising from investments in subsidiaries, associates and joint agreements only to the extent that the temporary difference is likely to be reversed in the future and a sufficient taxable profit is expected to be obtained against which to offset the temporary difference.

Deferred tax assets and liabilities are offset if and only if there is a legally acknowledged right to offset current tax assets against current tax liabilities and the deferred tax assets and liabilities arise from the tax on income levied by the same tax authority on the same entity or taxable subject, or on different entities or taxable subjects that settle current tax assets and liabilities for their net amount.

U. Employee benefits

i. Pensions and similar obligations

Some Group entities have been granting pension supplements that qualify as defined-contribution benefits. These supplementary pensions are covered through a system of insurance policies arranged with an insurance company. The annual premium is recognized as a period expense.

ii. Share-based payments

The Group has share-based equity-settled employee incentive plans which vest after employees have worked at the Group for a specific period.

The fair value of the services to be provided by those employees is determined with respect to the fair value of the shares granted. That amount is recognized in profit or loss as a personnel expense over the vesting period, while simultaneously recognizing a reserve for the incentive plans, for the same amount, under equity. The Group regularly reviews its assumptions and adjusts any deviation arising from employee rotation.

iii. Termination indemnities

Termination indemnities are paid to employees as a result of the Group's decision to terminate the employment contract before the normal retirement age or when the employee agrees to resign voluntarily in exchange for those benefits. The Group recognizes these benefits on the following dates, whichever is earlier: (a) when the Group can no longer withdraw the offer of such indemnities, or (b) when the entity recognizes the costs of a restructuring in the scope of IAS 37 which entails the payment of termination indemnities. When an offer to encourage voluntary termination by employees is made, termination indemnities are measured on the basis of the number of employees expected to accept the offer. Benefits that are not to be paid in the twelve months following the balance sheet date are discounted to their present value.

V. Provisions

Provisions for environmental restoration, restructuring and litigation costs are recognized when:

(i) the Group has a present obligation, legal or implicit, as a result of past events;
(ii) a cash outflow is likely to be needed to settle the obligation; and
(iii) the amount can be reliably estimated. Restructuring provisions include lease cancellation penalties and employee termination indemnities. No provisions are recognized for future operating losses.

Where there are a number of similar obligations, the probability of the need for a cash outflow to settle them is determined considering the obligations as a whole. A provision is recognized even if the probability of an outflow in connection with any item contained in the same class of obligations is low.

Provisions are calculated at the present value of the disbursement expected to be needed to settle the obligation, using a pre-tax rate that reflects current market measurements of the time value of money and the specific risks attached to the obligation. An increase in the provision due to the passage of time is recognized as interest expense.

W. Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Amounts disclosed as revenue are net of returns, trade allowances, rebates and amounts collected on behalf of third parties.

The group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the group's activities as described below.

The group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

i. Sale of goods

The Group recognizes revenue from sales of goods marketed at sales price. Buyers are entitled to return sold goods. The Group bases its estimate of return on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

Receivables from governmental authorities as a result of sales of products are generally recognized based on the amount due, which does not differ significantly from fair value at initial recognition. Balances with governmental authorities are monitored for late payment analysis purposes and late payment interests are claimed when customary terms are not met (Note 14).

ii. Services

Revenue recognized for the sale of services are for treating and protecting wood, repairing and preserving buildings, and for clinical analysis services. The subsidiary that provided wood protection services was sold in 2016 (Note 1).

Revenue from the provision of services are recognized in the accounting period in which the service is delivered, by reference to the degree of completion of the specific transaction, and measured on the basis of the current service expressed as a percentage of the total services to be provided.

iii. Licensing, co-development and other similar agreements

In the normal course of its business, the Group has developed intellectual property on certain compounds and has signed licensing and co-development agreements with certain pharmaceutical companies. Under these agreements, third parties are granted licenses to use the products developed by the Group and/or are given access to products under development (generally through development agreements). The agreements under which these transfers, assignments or accesses are granted are generally complex and include multiple components in two distinct phases: development and marketing. The associated revenue must be matched with the obligations to be delivered by the Group.

Development phases

- Upfront payments collected by Pharma Mar, which are generally non-refundable.

- Milestone payments, triggered when the compound to which the agreement refers (Yondelis® , Aplidin® or PM1183 (Lurbinectedin) achieves development milestones, generally of a regulatory or commercial nature.

Marketing phase

- Royalty payments.

− Revenue from the supply of products (raw materials).

As a general principle, the upfront payment is classified as revenue in the year in which the agreement is signed if: it is non-refundable, the Group does not assume future obligations (other than those for which separate consideration at arm's-length conditions is granted), and the risks and advantages inherent to the asset are substantially transferred. Otherwise, the amount is recognized as deferred revenue. Deferred revenue is taken to income over the period in which the commitments that are established are fulfilled, on the basis of the project's degree of progress, measured on a cost to cost model.

Additionally, any consideration linked to fulfilment of certain technical or regulatory requirements (milestones) in the framework of cooperation agreements with third parties are recognized on the basis of the same rules as for upfront payments as set out above.

The Group does not recognize revenue in excess of the amount to which it is entitled.

Payments attributed to the marketing phase, i.e. royalties and revenue for the supply of raw materials, are recognized on an accrual basis once marketing commences.

Royalties and supply contracts prices represent market rates and manufacturing margins respectively.

iv. Interest

They are recognized using the effective interest method.

Default interest on late payment of accounts receivable from public administrations is recognized once it has been collected.

3. FINANCIAL RISK MANAGEMENT

3.1 Financial risks

The Group's activities are subject to a number of financial risks: market risk (including exchange rate risk, interest rate risk, fair value risk and price risk), credit risk, and liquidity risk. The Group's overall risk management programme focuses on the uncertainty of the financial markets and tries to minimise the potential adverse effects on the Group's returns. The Group uses financial derivatives to hedge certain risk exposures.

PharmaMar's Finance Department is responsible for risk management in accordance with the Board of Directors' guidelines. That Department identifies, evaluates and hedges the financial risks in close cooperation with the Group's operating units. The Board establishes guidelines for overall risk management and for specific areas such as exchange rate risks, interest rate risks, liquidity risks, the use of derivatives and non-derivatives, and investment of surplus liquidity.

A. Market risk

i. Exchange rate risk

Exchange rate risks arise from future commercial transactions, recognized assets and liabilities, and net investments in foreign operations.

As of December 31, 2016 and 2015 and during the years ended on those dates, the consumer chemicals segment did not have balances and did not have significant activities in foreign currencies (purchases amounting to 3,134 thousand euro in 2016 and 3,185 thousand euro in 2015); accordingly, Group management did not consider it necessary to establish a specific policy for hedging exchange rate risk, and it evaluates the need for hedges specifically on the basis of projected transactions. Consequently, as of December 31, 2016 and 2015, this segment did not have any type of exchange rate hedge in force.

The oncology segment engages in material transactions in foreign currencies. Although the amounts recognized on the balance sheet are not material, the volume of transactions in currencies other than the euro is material.

Mainly, related to licensing and development agreements in US dollars amounted to 8,760 thousand euro in 2016 and 27,495 thousand euro in 2015. Group management did not consider it necessary to establish any policy for hedging in 2016 and 2015.

The Group has several investments in companies in other countries whose net assets are exposed to exchange rate risk; however, the amounts are non-significant in the context of the Group's operations.

If, as of December 31, 2016, the euro had appreciated by 5% with respect to the US dollar while all other variables remained constant, income after taxes for the year would have been lower by 194 thousand euro and 778 thousand euro in 2015, mainly as a result of translation into euro of trade and other receivable and debt denominated in US dollars. If, as of December 31, 2016, the euro had depreciated by 5% with respect to the US dollar while all other variables remained constant, income after taxes for the year would have been higher by 214 thousand euro and 860 thousand euro in 2015. The material impact of variations in the dollar as of December 31, 2016 is due mainly to the amounts in dollars collected in both years.

ii. Cash flow and fair value interest rate risk

The Group's interest rate risk arises from remunerated financial assets recognized at amortized cost and from borrowing debt at floating rates.

Remunerated financial assets consist basically of government bonds, bank commercial paper and time deposits remunerated at floating interest rates, generally referenced to Euribor.

With respect to financial liabilities, as of December 31, 2016 and 2015, interest rate risk was basically driven by the Group’s bank debt, which is generally agreed at floating rates indexed to three-month Euribor. As of December 31, 2016, bank debt had been increased to 48,353 thousand euro (bank debt as of December 31, 2015 amounted to 45,044).

The Group analyses its exposure to interest rate risk dynamically. It simulates a number of scenarios considering refinancing, roll-overs, alternative financing and hedging. Based on those scenarios, the Group calculates the effect on income of a given variation in interest rates.

In a given simulation, it assumes the same change in interest rates in all currencies. The scenarios are applied only to the largest interest-bearing assets and liabilities.

Based on the scenarios, the Group manages the interest rate risk of its cash flow by means of variable-to-fixed interest rate swaps. The economic impact of these swaps is to convert floating-rate debt into fixed-rate debt. Under interest rate swaps, the Group undertakes, vis-à-vis the counterparties, to exchange at regular intervals (generally each quarter) the difference between the fixed and floating interest rates on the notional amounts of principal established in the swaps. In 2011, the Group arranged an interest rate hedge contract which was still in force at 2015 year-end (Note 13). The Group does not apply hedge accounting.

If, as of December 31, 2016, the interest rates on the interest-bearing debt and remunerated assets had been 100 basis points higher, while all other variables remained constant, profit after income taxes for the period would have been 79 thousand euro lower and 42 thousand euro in 2015.

iii. Price risk

The Group is exposed to price risk of available-for-sale equity instruments and of shares in exchange-traded funds at fair value through profit or loss.

Investments in available-for-sale equity instruments are securities of foreign biopharmaceutical companies. Nevertheless, the Group's volume of investment in this type of asset is not material in the context of the Group's operations (Note 12).

The Group's policy with regard to those financial assets is to place cash in low-risk financial assets in order to ensure the availability of funds as they are needed for research and development operations in the oncology segment.

B. Credit risk

Credit risk is managed in groups. Credit risk arises on deposits, time deposits and commercial paper arranged with banks and financial institutions, debt held through mutual funds in which the Group investmets, cash and cash equivalents, and trade receivable (Note 11).

The banks and financial institutions with which the Group works generally have independent ratings.

Where customers are independently rated, that rating is used. Otherwise, the Group assesses the risk on the basis of the customer's financial position, past experience and other factors. Where there is no doubt about a customer's solvency, no credit limits are set.

The policies of the funds in which the Group holds investments are as follows:

- Fixed-income funds that invest in sovereign or private sector debt (bonds, bills, commercial paper), generally secured, which pay periodic coupons.

- Money market funds comprising short-term fixed-income securities (18 months maximum), where security is given priority in exchange for a slightly lower yield than other investments.

The credit quality of the financial assets and of customers with which the Group had balances as of December 31, 2016 and 2015 is set out in Note 11. The composition of the Group's financial assets is set out in Notes 12, 13 and 14.

Regarding credit risk concentration, as of December 31, 2016, the Group had government bonds and bank products at 4 credit institutions amounting to 28,050 thousand euro (36,340 thousand euro in 2015).

With regard to credit risk with public authorities, management analyzes the credit quality and recoverability of outstanding balances and generally claims default interest when the average collection period exceeds 365 days (Note 14).

C. Liquidity risk

Prudent liquidity risk management entails having sufficient cash and marketable securities, financing via sufficient credit facilities, and the capacity to settle market positions. The goal of the Group's treasury department is to maintain flexibility in funding by having credit lines and sufficient funds in financial assets to cover obligations, particularly those of the oncology segment.

The net cash position defined as cash and cash equivalents and current financial assets (32,367 thousand euro in 2016, 45,625 thousand euro in 2015) less short-term borrowings (27,906 thousand euro in 2016, 28,629 thousand euro in 2015) was positive in the amount of 4,461 thousand euro at the end of 2016 (positive in 16,996 thousand euro in 2015).

Long-term debt amounted to 67,583 thousand euro (64,973 thousand euro in 2015), of which 25,882 thousand euro (27,972 thousand euro in 2015) was in the form of research and development loans from official bodies which are repayable over 10 years, with a three-year grace period, at zero or below-market interest rates.

As indicated in Note 1, sales in the oncology segment commenced in the fourth quarter of 2007 for one of the products, and they gained in strength with the marketing approval for a second therapeutic use in the second half of 2009; Yondelis® was approved for commercialization for the treatment of soft tissue sarcoma in both Japan and the US in the fourth quarter of 2015; the other products are still in the development phase. This segment is less dependent upon the funds generated by the Group either through credit transactions, capital-raising or, to a lesser

extent, funds generated by other segments of the Group, and on the Group's capacity to obtain new sources of finance on the market.

This dependency has been declining as the segment's revenue increase, both from sales and from licence agreements, particularly since the segment's investments are now focused on oncology. The Group regularly monitors liquidity projections on the basis of expected cash flows, particularly in this segment, and Management considers that it has sufficient cash, tradeable securities and credit lines available to meet its liquidity needs within the time horizon that is considered to be necessary.

PharmaMar's directors believe the Group has sufficient liquidity to cover its research and development projects and fulfil its future commitments for the following reasons:

- On 22 December 2016, Pharma Mar signed a licensing, development and commercialisation agreement with Chugai Pharmaceutical Co. Ltd. relating to Lurbinectedin (PH1183) for Japan (Note 27), which contemplates a non-refundable upfront payment to PharmaMar amounting to 30 million euros. Only a part of that upfront payment (6 million euro) was recognised as revenues in 2016, based on the degree of attainment of certain milestones. The outstanding amount will be recognised as a function of progress with the clinical trials agreed upon in the licensing agreement, which are to be performed by the Company. Pharma Mar collected the 30 million euro up-front payment in the first weeks of 2017; accordingly, the effect of that receipt will be reflected in the cash flow statement for the first quarter of 2017. This payment, received in January 2017, strengthens the Group's financial position.
- The Group has a balanced debt structure.
- The Group has sufficient ability to renegotiate its debt if it is considered necessary; this ability has increased in view of growth in revenues in recent years.
- The company had unused credit lines in the amount of 20,462 thousand euro as of 31 December 2016.
- The Group ended the year with cash and cash equivalents plus current financial assets amounting to 32,367 thousand euro.

The table below shows an analysis of the Group's financial liabilities grouped by maturity based on the period remaining between the balance sheet date and the contractual maturity date, including the corresponding interest. The amounts in the table are the contractual cash flows, which have not been discounted. Since those amounts have not been discounted, and they include future interest, they are not comparable with the amount of borrowings, derivatives and supplier and other accounts payable recognized in the balance sheet.

2016 (Thousand euros)	Less than 1 year	1 to 2 years	2 to 5 years	Over 5 years	Total
Bank debt and other interest-bearing debt	23,822	7,231	18,789	25,466	75,308
Debt to official authorities	5,278	6,575	14,952	9,280	36,085
Finance lease liabilities	153	0	0	0	153
Suppliers / Accounts payable	36,712	0	0	0	36,712
Other accounts payable	2,463	0	0	0	2,463
Total	**68,428**	**13,806**	**33,741**	**34,746**	**150,721**

3.2. Capital management

To date, the Group's objectives with regard to capital have been to safeguard its capacity to continue as a going concern and to raise sufficient liquid funds to finance operations, basically in the oncology segment, having regard to the projected timelines for product launches in the market, research and development cash needs, and the costs of the various sources of funding.

To maintain or adjust the capital structure, the Group may issue new shares, or sell assets to reduce debt.

The Group monitors its capital on the basis of the leverage ratio. This is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including current and non-

current borrowings, as shown in the balance sheet) less cash and cash equivalents and financial assets. Capital is calculated as net equity, per the consolidated financial statements, plus net debt.

(Thousand euro)	12/31/2016	12/31/2015
Long-term borrowings	(67,583)	(64,973)
Short-term borrowings	(27,906)	(28,629)
Cash and cash equivalents	14,290	7,629
Non-current and current financial assets	19,215	39,063
Equity	(48,495)	(73,036)
Total capital	**(110,479)**	**(119,946)**
Leverage	**56.10%**	**39.11%**

The increase of in the leverage ratio is mainly due to the decrease in cash and current financial assets, as a result of the greater investment in R & D, as well as the decrease in Equity as a result of the losses in 2016.

3.3. Fair value estimate

Financial instruments are classified as follows on the basis of the valuation method:

- Level 1. Quoted prices in active markets for identical assets or liabilities.
- Level 2. Observable inputs for the instrument, either direct (prices) or indirect (price-based).
- Level 3. Inputs not based on observable market data.

The table below presents the Group's assets and liabilities at fair value as of December 31, 2016:

2016 (Thousand euros)	Level 1	Total
Financial assets at fair value through profit or loss		
- Financial assets (note 10)	320	**320**
Available-for-sale financial assets		
- Equity securities, net (Note 12)	24	**24**
Total assets	**344**	**344**

The table below presents the Group's assets and liabilities at fair value as of December 31, 2015:

2015 (Thousand euros)	Level 1	Level 2	Total
Financial assets at fair value through profit or loss			
- Financial assets (note 10)	319	0	**319**
Available-for-sale financial assets			
- Equity securities, net (Note 12)	20	0	**20**
Total assets	**339**	**0**	**339**
Liabilities at fair value through profit or loss			
- Trading derivatives (Note 13)	0	14	**14**
Total Liabilities	**0**	**14**	**14**

The fair value of financial instruments that are traded in an active market is determined by the market price on the balance sheet date. A financial instrument is considered to be quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's-length basis. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in Level 1.

The fair value of financial instruments that are not traded in an active market (i.e. over-the-counter derivatives) is determined by using measurement techniques. Measurement techniques make the maximum use of available observable market data and are based as little as possible on specific estimates by the entities. If all material data items required to measure an instrument's fair value are observable, the instrument is classified as Level 2.

If one or more of the significant items of data is not based on observable market data, the instrument is classified as Level 3.

An instrument is classified on the basis of the lowest level input that is significant to the measurement of fair value in its entirety.

The fair value of unquoted fixed-rate debt securities is the price at which the internal rate of return matches the market yields in the government bond market at any given time.

4. ACCOUNTING ESTIMATES AND JUDGEMENTS

Assumptions and estimates are reviewed periodically and are based on past experience and other factors, including future expectations or future events that are considered to be reasonable in certain circumstances. The outcome of those events may differ from the initial projections.

Recognition of revenue under licensing and/or co-development agreements (Note 2.W)

The oncology segment of the Group enters into licensing and/or co-development agreements with third parties. Those agreements generally include multiple components and the associated revenue must be matched with the development costs incurred and with the counterparts to be met be by the Group. When deciding how to recognize the revenue (Note 2.W) from those transactions, the Group's management considers the following factors:

- The economic base of the transaction.
- The valuation and distribution, on a fair value basis, of each item of consideration.
- The transfer of material risks and benefits deriving from ownership of the goods and whether there are any future performance obligations for the Group.
- The stage of completion of the project (milestones) and the estimated total costs.

Deferred tax assets (Note 2.T)

The Spanish entities of the Group (except Noscira, SA in liquidation), all of which file their income tax return on a consolidated basis, have significant unused tax losses and credits as well as other deductible temporary differences (Note 25).

The Group assesses the recoverability of the related deferred tax assets on the basis of estimates of future taxable income. The recoverability of deferred tax assets depends ultimately on the Group's ability to generate sufficient taxable income in the periods in which those deferred taxes are deductible. Changes in future tax rates or in the prospects of generating taxable income against which to recover the carrying amount of deferred tax assets may result in changes in that carrying amount.

The main assumptions made in calculating expected future profits and assessing the recoverability of the tax credits generated by the entities in the Spanish tax group are as follows:

- Projections up to 2025 are included for all businesses in the Spanish tax group.

- The information used to prepare the tax plan is the budget presented to the Board of Directors, which includes projections through 2021, extended to 2025 by means of the Company's best estimates of future earnings based on past experience, and the assumptions made in the first 5 years of estimation.
- The main variables used in projections for the oncology segment are as follows: a) the probability assigned to ongoing developments (revenues expected for each product under development are assigned a probability of occurrence based on the degree of progress with current research), b) the estimated selling price, and c) a penetration rate as a

function of the number of patients that could potentially be treated with the product under development.

- The tax plan also uses the following significant assumptions:
    - No revenues are assumed from products under development that have not yet reached Phase III.
    - Average 25% growth in sales in the oncology segment. That growth is due mainly to the good prospects for PM1183, a product currently under development.
    - Average 3% growth in sales in the consumer chemicals segment.
    - Average 12% sustained growth in operating expenses.

Variations with respect to management's assumptions in estimating future taxable income, especially the assumptions used in the Oncology segment, may materially affect the amounts recognised as deferred tax assets. The main factors that may affect this estimate are: the probability of occurrence assigned to the revenues expected from compounds currently in development depending on their current phase of research, the estimated price of the medicine, and the rate of incidence of the various potential indications in the population:

- Increasing the probability assigned to revenues from Phase III research by 1% would result in the recognition of an additional 2,751 thousand euro.
- A 5% reduction in the estimated price for the main research compound (PM1183) would result in the derecognition of 5,336 thousand euro.
- A 5% reduction in the incidence in the population for Yondelis would result in derecognition of 1,031 thousand euro.

Note 25 describe the assets recognised by the Group as of 31 December 2016 and 2015, and the assets not recognised by application of this approach.

Capitalized development expenses (Note 2.G.i)

Developing new drugs is subject to uncertainty due to the long period of maturation for the drugs and the technical results obtained at different stages of trials involved in the development process. It may prove necessary to abandon development at any stage of the process, whether because the drug does not meet medical or regulatory standards or because it proves unprofitable. For these reasons, the Group considers that uncertainty to have been dissipated once the product being developed has attained at least the registration phase.

Goodwill and intangible assets (trademarks) having indefinite useful life (Note 2.H)

When intangible assets are acquired from third parties, they are capitalized insofar as the requirements for asset recognition are met. Certain trademarks acquired by the Group for 9,786 thousand euro are not amortized and are subject to an annual impairment test since Group management considers that they have an indefinite useful life. Those trademarks were acquired in previous years and form part of the consumer chemical segment (these are cleaning products and insecticides trademarks in particular), which have a long-established presence in the market. In addition, the Group maintains goodwill with a carrying amount of 2,548 thousand euro as a result of the acquisition of Copyr, S.p.A. Refer to Note 9.

The impairment tests are based on discounting future cash flow using the appropriate discount rates, in line with industry practices. Future cash flow is based on Group´s performance expectations and, therefore, involves a judgment. As described in Note 9, the recovery of these trademarks and goodwill is considered to be assured in the current and expected context. Future events might impair those assets, which would have a negative effect on Group income statement.

The principal types of asset to be recovered that are shown in the consolidated financial statements are as follows:

- Trademarks with a carrying amount of 9,786 thousand euro. The recovery of the brands is considered to be assured by their value in use or, otherwise, through their fair value less selling costs (Note 8).

- Goodwill with a carrying amount of 2,548 thousand euro. As described in Note 9, the recovery of the goodwill is considered to be assured in the current context of growth and profitability of the cash generating unit comprising Copyr (consumer chemicals).

5. SEGMENT REPORTING

The Board of Directors is the highest decision-making body in operating matters. Management has determined the operating segments based on the information submitted to the Board of Directors for the purpose of assigning resources and assessing performance.

In identifying its operating segments, management takes into account the Group products, services rendered, types of customers as well as quantitative criteria.

The Board of Directors evaluates the performance of the operating segments by monitoring revenue, gross margin, cost of sales, R&D expenses, marketing and distribution expenses and Adjusted EBITDA. These magnitudes are also used as indicators for determining which operating segments have similar economic characteristics:

- The measure of revenue reported to the Board of Directors operating decision maker to assess performance is revenue for each operating segment.
- The measure of profit reported to the Board of Directors operating decision maker to assess performance is adjusted EBITDA for each operating segment.
- Corporate costs are not allocated to individual operating segments, and therefore are presented as "unallocated".
- Total assets and liabilities are disclosed as this information is provided by operating segment to the Board of Directors on a regular basis.
- Operations between the different operating segments are not significant for the period ended December 2016 or December 2015.

Taking into account both, the economic and qualitative aspects of the different operating segments, the Board concludes that the chemical sector operating segments can be aggregated due to their similarities. The three biopharmaceutical operating segments are not aggregated due to dissimilar qualitative aspects between the operating segments included within.

Therefore, the four identified reporting business segments as of December 31, 2016 and 2015 are the following ones:

1. Oncology. This segment encompasses the Group entities whose object is to research, develop and market anti-tumour drugs (Pharma Mar, S.A., Pharma Mar USA, PharmaMar AG, Pharma Mar SARL, Pharma Mar GmbH, Pharma Mar Ltd, Pharma Mar, S.r.L.,Pharma Mar, Sprl and Pharma Mar Ges.m.b.H.).

2. Diagnostics. This segment encompasses the development and marketing of diagnostic kits (Genómica, S.A.U. and its subsidiary, Genómica AB).

3. RNAi. This segment encompasses the development of drugs with therapeutic activity based on reducing or silencing gene expression (Sylentis, S.A.U.).

4. Consumer chemicals. This segment comprises Group entities that produce and market insecticides and air fresheners for household use, household products, wood treatment and decoration products, paints, and similar products. The subsidiaries that operate in this segment are Zelnova Zeltia,S.A., Xylazel, S.A. and Copyr ,S.p.A.

Income statement information by reporting segment for the year ended December 31, 2016 is as follows:

	Biopharmaceuticals					
	Oncology	Diagnostics	RNAi	Consumer chemicals	Unallocated	Group
Revenues	105,108	6,180	0	69,660	0	**180,948**
Cost of sales	(2,951)	(2,499)	0	(38,521)	0	**(43,971)**
Other operating revenues / Other net gains	218	136	741	438	0	**1,533**
R&D expenses	(70,944)	(2,426)	(4,890)	(163)	0	**(78,423)**
Other expenses	(37,866)	(3,679)	(353)	(27,087)	(9,808)	**(78,793)**
Operating profit	**(6,435)**	**(2,288)**	**(4,502)**	**4,327**	**(9,808)**	**(18,706)**
Finance costs - net	**(4,118)**	**(223)**	**(333)**	**(678)**	**(641)**	**(5,993)**
Profit before income taxes	**(10,553)**	**(2,511)**	**(4,835)**	**3,649**	**(10,449)**	**(24,699)**
Income tax income (expense)	1,371	92	81	(952)	0	**592**
Profit for the period	**(9,182)**	**(2,419)**	**(4,754)**	**2,697**	**(10,449)**	**(24,107)**
Equity holders of the parent company	(9,182)	(2,419)	(4,754)	2,697	(10,424)	**(24,082)**
Non-controlling interests	0	0	0	0	(25)	**(25)**
Profit from continuing operations (1)	(9,182)	(2,419)	(4,754)	2,697	(10,449)	**(24,107)**
Income tax profit / (expense) (2)	(1,371)	(92)	(81)	952	0	**(592)**
Finance costs - net (3)	4,118	223	333	678	641	**5,993**
Depreciation and amortization (4)	5,539	623	142	939	0	**7,243**
Impairment losses of property, plant and equipment and investment property (5)	171	0	0	0	0	**171**
Provision for impairment of accounts receivable (6)	220	0	0	43	(5)	**258**
Adjusted EBITDA (1)+(2)+(3)+(4)+(5)+(6)	**(505)**	**(1,665)**	**(4,360)**	**5,309**	**(9,813)**	**(11,034)**

Note that the Oncology segment is strongly impacted by the tax regime applicable to a significant portion of its revenue from license agreements, which results non-taxable, as well as by tax credits as a result of its R&D activity in Spain.

Assets and liabilities by reporting segment as of December 31, 2016 are presented as supplementary information:

	Biopharmaceuticals					
	Oncology	Diagnostics	RNAi	Consumer chemicals	Unallocated	Group
Non-current assets	76,113	4,068	753	19,211	0	**100,145**
Current assets	77,750	3,308	3,340	34,940	1,651	**120,989**
Non-current liabilities	78,819	1,726	4,186	747	0	**85,478**
Current liabilities	71,074	2,721	882	12,275	212	**87,164**
Investment in fixed assets and intangible assets	4,613	410	27	876	0	**5,926**

Income statement information by reporting segment for the year ended December 31, 2015 is as follows:

	Biopharmaceuticals					
	Oncology	Diagnostics	RNAi	Consumer chemicals	Unallocated	Group
Revenues	119,245	6,202	0	67,348	1,022	**193,817**
Cost of sales	(6,375)	(2,609)	0	(35,928)	(793)	**(45,705)**
Other operating revenues / Other net gains	2,426	393	701	304	0	**3,824**
R&D expenses	(52,352)	(2,218)	(5,687)	(34)	0	**(60,291)**
Other expenses	(38,651)	(3,434)	(197)	(28,153)	(9,913)	**(80,348)**
Operating profit	**24,293**	**(1,666)**	**(5,183)**	**3,537**	**(9,684)**	**11,297**
Finance costs - net	**(3,198)**	**(174)**	**(259)**	**(723)**	**(1,034)**	**(5,388)**
Profit before income taxes	**21,095**	**(1,840)**	**(5,442)**	**2,814**	**(10,718)**	**5,909**
Income tax income (expense)	281	521	738	(993)	107	**654**
Profit for the period	**21,376**	**(1,319)**	**(4,704)**	**1,821**	**(10,611)**	**6,563**
Equity holders of the parent company	21,376	(1,319)	(4,704)	1,821	(10,586)	**6,588**
Non-controlling interests	0	0	0	0	(25)	**(25)**
Profit from continuing operations (1)	21,376	(1,319)	(4,704)	1,821	(10,611)	**6,563**
Income tax profit / (expense) (2)	(281)	(521)	(738)	993	(107)	**(654)**
Finance costs - net (3)	3,198	174	259	723	1,034	**5,388**
Depreciation and amortization (4)	4,547	497	140	897	200	**6,281**
Impairment losses of property, plant and equipment and investment pr	1,042	0	0	732	0	**1,774**
Provision for impairment of accounts receivable (6)	0	0	0	(44)	0	**(44)**
Adjusted EBITDA (1)+(2)+(3)+(4)+(5)+(6)	**29,882**	**(1,169)**	**(5,043)**	**5,122**	**(9,484)**	**19,308**

Note that the Oncology segment is strongly impacted by the tax regime applicable to a significant portion of its revenue from license agreements, which results non-taxable, as well as by tax credits as a result of its R&D activity in Spain.

Assets and liabilities by reporting segments as of December 31, 2015 are presented as supplementary information:

	Biopharmaceuticals					
	Oncology	Diagnostics	RNAi	Consumer chemicals	Unallocated	Group
Non-current assets	75,139	4,400	899	19,340	26	**99,804**
Current assets	71,041	4,211	3,159	31,647	2,077	**112,135**
Non-current liabilities	62,544	1,804	3,318	614	0	**68,280**
Current liabilities	54,793	3,099	901	11,547	283	**70,623**
Investment in fixed assets and intangible assets	4,435	2,290	156	1,372	2	**8,255**

In 2016 and 2015, there were no material transactions between reporting segments, and no goodwill impairment losses were recognized.

In 2016 and 2015, the Group recognized losses due to impairment of inventories and trade accounts receivable amounting, respectively, to 358 thousand euro and 103 thousand euro, mainly in the oncology segment in both years.

The following tables show revenue and non-current assets (property, plant and equipment, investments properties and intangible assets) of the Group, by geographical area:

Revenue (Thousand euro)	12/31/2016	12/31/2012
Spain	74,771	72,554
Rest of European Union	84,436	84,908
United States and other countries	21,958	36,355
	181,165	**193,817**

Non-current assets (Thousand euro)	12/31/2016	12/31/2015
Spain	60,974	63,307
Rest of European Union	1,186	303
	62,160	**63,610**

Most of the Group's sales are made in Spain and other European Union countries. The euro area accounted for 87.87% of total sales in 2016 (81.24% in 2015).

The assets in other countries refer primarily to the Group's offices in Italy. Almost all the investment in property, plant and equipment, intangible assets and investment property in 2016 and 2015 was concentrated in Spain.

Revenue of companies in the consumer chemical sector amounted to 69,660 thousand euro (67,348 thousand euro in 2015), of which 50,237 thousand euro correspond to the insecticides/home care division (50,775 thousand euro in 2015) and 19,423 thousand euro to the wood treatment/paint division (16,573 thousand euro in 2015). This segment accounted for 38.50% of the Group's total revenue in 2016 (34.75% in 2015).

6. PROPERTY, PLANT AND EQUIPMENT

The breakdown of, and changes in, this caption in 2016 and 2015 are as follows:

(Thousand euro)	Balance as of 12/31/2015	Additions	Disposals	Perimeter change	Reclassifications and transfers	Exchange rate effect	Balance as of 12/31/2016
Land and buildings	27,093	136	0	0	0	0	27,229
Technical installations and machinery	30,046	1,454	(115)	(64)	(103)	(4)	31,214
Other installations, tools and furniture	18,879	24	0	(24)	62	0	18,941
Advances & construction in progress	355	2,038	(39)	0	(165)	0	2,189
Other property, plant & equipment	7,323	469	0	(27)	0	0	7,765
Impairments	(1,117)	(171)	0	0	0	0	(1,288)
Cost	**82,579**	**3,950**	**(154)**	**(115)**	**(206)**	**(4)**	**86,050**
Buildings	(8,830)	(661)	0	0	0	0	(9,491)
Technical installations and machinery	(21,907)	(1,732)	37	60	206	0	(23,336)
Other installations, tools and furniture	(15,843)	(472)	0	22	0	0	(16,293)
Other property, plant & equipment	(5,375)	(435)	0	21	0	0	(5,789)
Accumulated depreciation and amortization	**(51,955)**	**(3,300)**	**37**	**103**	**206**	**0**	**(54,909)**
PROPERTY, PLANT AND EQUIPMENT	**30,624**	**650**	**(117)**	**(12)**	**0**	**(4)**	**31,141**

(Thousand euro)	Balance as of 31-dic-14	Additions	Disposals	Reclassifications and	Exchange rate effect	Balance as of 31-dic-15
Land and structures	26,145	337	0	611	0	27,093
Technical installations and machinery	27,342	2,423	(106)	385	2	30,046
Other installations, tools and furniture	16,205	1,102	0	1,572	0	18,879
Advances & construction in progress	1,786	1,135	0	(2,566)	0	355
Other property, plant & equipment	7,153	364	(122)	(72)	0	7,323
Provisions	(84)	(1,033)	0	0	0	(1,117)
Cost	**78,547**	**4,328**	**(228)**	**(70)**	**2**	**82,579**
Structures	(8,208)	(622)	0	0	0	(8,830)
Technical installations and machinery	(20,443)	(1,510)	46	0	0	(21,907)
Other installations, tools and furniture	(15,539)	(302)	0	(2)	0	(15,843)
Other property, plant & equipment	(5,139)	(430)	122	72	0	(5,375)
Accumulated depreciation and amortization	**(49,329)**	**(2,864)**	**168**	**70**	**0**	**(51,955)**
PROPERTY, PLANT AND EQUIPMENT	**29,218**	**1,464**	**(60)**	**0**	**2**	**30,624**

The most significant additions in 2016 are related to new chemistry laboratories in oncology segment. In 2015 mainly refer to new fermentation plant and logistics warehouse for product distribution from Spain to the rest of Europe in the oncology segment, and new facilities in the diagnostics area.

In the column “Perimeter Change” in 2016 is shown the disposal of Promaxa Protección de Maderas, S.L. (Note 1)

During 2016, an impairment was recognized on the carrying amount of land owned by Pharma Mar amounting 171 thousand euro based on its internal analysis and third party valuations (1,033 thousand euro in 2015) (Note 32). Until mid-2015 the aim for this land was to be used as a new facilities in order to expand the production capacity of the company. During 2015 management decided to invest in the current facilities rather than invest in a new ones, being this the triggering event.

Since the Group chose to prepare the income statement by function, the depreciation charge for property, plant and equipment is distributed as follows:

(Thousand euro)	12/31/2016	12/31/2015
Cost of sales	832	939
Marketing expenses	580	271
Administrative expenses	925	759
Research and development expenses	961	893
Other operating expenses	2	2
Depreciation	**3,300**	**2,864**

There are a number of assets under finance leases: plant, machinery, tools and furniture with a net carrying amount of 306 thousand euro in 2016 (59 thousand euro in 2015).

One building is collateral for one of the bank loans. It is a building owned by Pharma Mar (oncology segment) in Colmenar Viejo, Madrid province, with a net carrying amount of 10,785 thousand euro

as of December 31, 2016 (11,303 thousand euro in 2015). The original financial liability was cancelled in 2014 and a new financial liability was recognized subsequently. The initial amount of the transaction, signed in 2014, was 9,000 thousand euro, maturing in 2024. As of December 31, 2016, the unamortized balance of the loan amounted to 6,997 thousand euro.

7. INVESTMENT PROPERTY

The Group has land and buildings classified as investment property, that are maintained for yields and are not occupied by the group. They are recorded at fair value. Changes in fair value are presented in the statement of income for the year.

Investment property (Thousand euro)	Balance as of 12-31-16	Balance as of 12-31-15
Beginning balance	6.157	6.939
Net gain / loss on fair value adjustments	0	(741)
Amortization	(38)	(41)
Ending balance	**6.119**	**6.157**

During 2015 was accounted for an impairment amounting to 741 thousand euro based on its internal analysis and third party valuations (Note 32). Until 2015 management expectation about the value of the lands was high, due to some industry relocation announced in press and media. During 2015, the industry relocation took place in other area of the same region and therefore that was the triggering event for these assets valuation.

Investment property includes a land of one million euro that the Group has in Tres Cantos (Madrid). PharmaMar has signed a lease with a third party for 25 years with the first ten mandatory.

The minimum lease payments under non-cancellable operating leases of real estate investments not recognized in the financial statements are receivable as follows:

(Thousand euro)	12/31/2016
Up to one year	24
1 to 5 years	288
5 to 10 years	230
	542

Since the Group chose to prepare the income statement by function, the depreciation charge for investment property is distributed to other operating expenses.

8. INTANGIBLE ASSETS

The breakdown of, and changes in, this caption in 2016 and 2015 are as follows:

(Thousand euro)	Balance as of 12/31/2015	Additions	Reclassifications and	Balance as of 12/31/2016
Development expenses	23,186	1,357	0	24,543
Concessions, patents & trade marks	10,750	0	15	10,765
Computer software	5,777	580	24	6,381
Advances on intangible assets	38	39	(39)	38
Cost	**39,751**	**1,976**	**0**	**41,727**
Development expenses	(7,457)	(3,543)	0	(11,000)
Concessions, patents & trade marks	(805)	(28)	0	(833)
Computer software	(4,660)	(334)	0	(4,994)
Accumulated depreciation and amortization	**(12,922)**	**(3,905)**	**0**	**(16,827)**
INTANGIBLE ASSETS	**26,829**	**(1,929)**	**0**	**24,900**

Thousand euro	Balance as of 31-dic-14	Additions	Disposals	Reclassifications and	Balance as of 31-dic-15
Development expenses	19,928	3,258	0	0	23,186
Concessions, patents & trade marks	10,765	0	(15)	0	10,750
Computer software	5,043	669	(5)	70	5,777
Advances on intangible assets	38	0	0	0	38
Cost	**35,774**	**3,927**	**(20)**	**70**	**39,751**
Development expenses	(4,449)	(3,008)	0	0	(7,457)
Concessions, patents & trade marks	(795)	(25)	15	0	(805)
Computer software	(4,242)	(343)	(5)	(70)	(4,660)
Accumulated depreciation and amortization	**(9,486)**	**(3,376)**	**10**	**(70)**	**(12,922)**
INTANGIBLE ASSETS	**26,288**	**551**	**(10)**	**0**	**26,829**

Development expenses

The Group capitalizes the amount of clinical trials performed with drugs developed in-house that fulfil the conditions described in Note 2.G.i and 4.

As of December 31, 2016, the Group had capitalized the cost of several clinical trials with Yondelis® in both soft tissue sarcoma and ovarian cancer. Those trials were performed mainly for two purposes:

- To support and provide the necessary input for the process of approval by the FDA and other regulators.
- To obtain a reimbursement price in other locations in response to requirements by the regulatory agencies of certain countries.

In addition, the Group has capitalized during 2016 the costs incurred in the preparation of the registration dossier of Aplidin® for the indication of multiple myeloma submitted to the EMA (European Medicine Agency) in September 2016.

Computer software is mainly licences for office, communication and management software acquired from third parties.

Since the Group chose to prepare the income statement by function, the amortization charge for intangible assets is distributed as follows:

(Thousand euro)	12/31/2016	12/31/2015
Administration expenses	111	124
Research and development expenses	3,794	3,252
Amortization	**3,905**	**3,376**

Concessions, patents and trademarks

This caption mainly includes trademarks amounting 9,786 thousand euro. The trademarks belong to one of the consumer chemical companies and were acquired from third parties. They are measured at the price paid on acquisition (in 1994 and 2003, fundamentally) and, since they are considered to have an indefinite life, they are not amortized. They are assessed for impairment each year with the goodwill referred to in the next note.

The recoverable amount of the trademarks is determined on the basis of calculating their value in use.

These calculations are based on cash flow projections contained in the business plan approved by management.

The key assumptions used to calculate the value in use are as follows:

- Projection periods: 10 years
- Gross margin: 47% of revenue
- Annual growth rate of 2%
- Pre-tax discount rate: 7%

Apart from the discount rates, the most sensitive factors contained in the projections that are used, which are based on industry projections and past experience, are as follows:

- Maintenance of the current domestic customer base, and expansion of exports
- Normal weather conditions
- Stable regulatory framework
- Stable commodity prices

The recoverable amount estimated from the value in use exceeds the carrying amount by 36 million euro. Taken in isolation, a decrease in margin between 5% and 10% of revenue, 0% annual growth in revenue or an increase of 10% in the discount rate before tax, would not result in impairment.

9. GOODWILL

Subsidiary Zelnova Zeltia, S.A. within the Group's consumer chemicals division acquired 100% of the shares of Copyr, S.p.A. from third parties in 2006. The Group recognized 2,548 thousand euro in goodwill as a result.

The business of the acquired company, which is very similar to that of ZelnovaZeltia, consists of selling automatic aerosol dispensers, air fresheners and insecticides, and treatments for ecological agriculture.

The factors contributing to the cost of the transaction, which led to the recognition of goodwill, included the possibility of taking advantage of Copyr S.p.A.'s potential as an independent unit, the promotion of Zelnova Zeltia, S.A.'s range of consumer products in the Italian and other European markets (mainly in the Mediterranean area) where Copyr S.p.A. operates, and synergies in raw material procurement costs and other production costs for both Zelnova Zeltia, S.A. and Copyr S.p.A.. For this reason, the goodwill arising from this business combination was assigned to the group of cash-generating units formed by Copyr, S.p.A. and Zelnova Zeltia, S.A., which form an operating segment included in the consumer chemicals reportable segment.

The annual impairment review of goodwill is performed as of the end of each year.

The recoverable amount is determined based on calculations of value in use.

These calculations are based on cash flow projections contained in the business plan approved by management.

The key assumptions used to calculate the value in use are as follows:

- Projection periods: 10 years
- Gross margin: 47% of revenue
- Annual growth rate of 2%
- Pre-tax discount rate: 7%

The recoverable amount estimated from the value in use exceeds the carrying amount by 36 million euro. Taken in isolation, a decrease in margin between 5% and 10% of revenue, 0% annual growth in revenue or an increase of 10% in the discount rate before tax, would not result in impairment.

10. FINANCIAL INSTRUMENTS BY CATEGORY

The accounting policies with respect to financial instruments were applied to the sections detailed below:

2016 *(Thousand euro)*	Loans and accounts receivable / payable	Assets/liabilities at fair value through profit or loss	Available-for-sale assets	Total
Non-current financial assets				
Equity instruments	0	320	0	320
Available for sale (Note 12)	0	0	24	24
Deposits	794	0	0	794
Current financial assets				
Trade receivable (Note 14)	61,859	0	0	61,859
Other receivable (Note 14)	710	0	0	710
Supplier advances payments (Note 14)	83	0	0	83
Current financial assets	18,077	0	0	18,077
Cash and cash equivalents (Note 17)	14,290	0	0	14,290
Total assets	**95,813**	**320**	**24**	**96,157**
Non-current borrowings (Note 24)	67,583	0	0	67,583
Current borrowings (Note 24)	27,906	0	0	27,906
Trade and other payable (Note 21)	39,175	0	0	39,175
Total liabilities	**134,664**	**0**	**0**	**134,664**

2015 *(Thousand euro)*	Loans and accounts receivable / payable	Assets/liabilities at fair value through profit or loss	Available-for-sale assets	Total
Non-current financial assets				
Equity instruments	0	319	0	319
Available for sale (Note 12)	0	0	20	20
Deposits	728	0	0	728
Current financial assets				
Trade receivable (Note 14)	39,513	0	0	39,513
Other receivable (Note 14)	609	0	0	609
Supplier advances payments (Note 14)	78	0	0	78
Current financial assets	37,996	0	0	37,996
Cash and cash equivalents (Note 17)	7,629	0	0	7,629
Total assets	**86,553**	**319**	**20**	**86,892**
Non-current borrowings (Note 24)	64,973	0	0	64,973
Current borrowings (Note 24)	28,629	0	0	28,629
Trade and other payable (Note 21)	31,959	0	0	31,959
Derivatives (Note 13)	0	14	0	14
Total liabilities	**125,561**	**14**	**0**	**125,575**

Other current financial assets included mainly deposits, time deposits and promissory notes with banks and financial institutions (Note 3.b)

11. CREDIT QUALITY OF FINANCIAL ASSETS

The credit quality of the financial assets that have not yet matured can be assessed on the basis of credit ratings provided by bodies external to the Group or by the past history of default:

(Thousand euro)	2016	2015
Customers without an external credit rating		
Group 1	675	4.654
Group 2	60.043	33.365
Group 3	1.934	1.781
Customers with an external credit rating	0	400
Total accounts receivable	**62.652**	**40.200**
Moody's rating		
A1	76	40
A2	5	0
A3	3.935	1.705
Aa3	0	23
B1	11	29
Ba1	7.005	7.623
Ba2	0	2
Ba3	0	63
Baa1	476	11.093
Baa2	16.324	76
Baa3	1.636	22.254
B3	1.209	0
B2u	68	0
Caa1	0	1.721
Unrated	2.760	2.063
Total Cash and cash equivalents, non-current and current financial assets	**33.505**	**46.692**

Group 1 - New customers (under 6 months)
Group 2 - Existing customers (over 6 months) with no bad debt history
Group 3 - Existing customers (over 6 months) with bad debt history
All receivables were ultimately collected

None of the un-matured financial assets was renegotiated during the year. See credit quality of accounts receivable from public authorities, in Note 14.

12. FINANCIAL ASSETS AVAILABLE-FOR-SALE

All of the financial assets available-for-sale consist of shares listed on the US market, all of them in the biopharmaceutical sector. Their fair value matches their published market price: 24 thousand euro (20 thousand euro in 2015).

Marking these securities to market in 2016 on the basis of their official quoted prices led to a positive change of 4 thousand euro (1 thousand euro in 2015) in other comprehensive income.

13. DERIVATIVE FINANCIAL INSTRUMENTS

As of December 2015, one of the floating-rate loan contracts had an associated derivative financial instrument to hedge floating interest rate risk at a fixed rate, (Note 3.1.ii). Such derivative did not qualify for hedge accounting in 2015, that derivative generated a gain of 26 thousand euro that was recognized in "'Finance costs – net" (Note 34). This derivative had a balance sheet value of 14 thousand euro in 2015.

As of December 31, 2016 there is not derivative financial instruments.

14. TRADE AND OTHER RECEIVABLES

The detail of this caption as of December 31, 2016 and 2015 is as follows:

(Thousand euro)	Balance as of 12/31/2016	Balance as of 12/31/2015
Trade receivables for sales and services	63,472	40,868
Provisions	(1,613)	(1,355)
Net	**61,859**	**39,513**
Other receivables	710	609
Supplier advances payments	83	78
Total	**62,652**	**40,200**

The balance of Trade receivables for sales and services as of 2016, includes the total amount of the up-front payment due by Chugai Pharmaceuticals to Pharma Mar as consequence of the license, development and commercialization agreement signed in December 2016, amounting to 30.000 thousand euro (Note 27)

Customer receivables discounted with credit institutions totalled 1,238 thousand euro as of December 31, 2016 (2,148 thousand euro in 2015). Those discounts were recognized as secured loans since the Group retains the default and late payment risk.

As of December 31, 2016, accounts receivable amounting to 2,989 thousand euro were past due (8,272 thousand euro in 2015), but there had been no impairment loss. The analysis of those accounts receivable by age is as follows (thousand euro):

(Thousand euro)	Balance as of 12/31/2016	Balance as of 12/31/2015
3-6 months	1,162	5,120
Over 6 months	1,827	3,152
Total	**2,989**	**8,272**

The past-due accounts that had not been impaired as of December 31, 2016 and 2015 are mainly due from public hospitals belonging to the Spanish national health system and from distributors of vials for the two therapeutic uses which have been approved for Yondelis®. The average collection period from the Spanish national health system does not exceed one year. The Group does not impair past-due receivables with public authorities and expects to recover the total amount due plus any default interest that it claims. The average collection period for public authorities outside Spain is not more than one year.

The other amounts relate to a number of independent customers in the consumer chemicals segment with no recent history of default.

In 2016, the Group factored 8,908 thousand euro of debt owed by various public authorities in Spain, Italy and Portugal for which it had signed non-recourse factoring agreements with institutions specialised in this type of transaction (7,973 thousand euro in 2015).

The detail of this caption as of December 31, 2016:

(Thousand euro)	Factored	Interest	Collected
Spain	5.267	26	5.241
Italy	3.641	175	3.466
Total	**8.908**	**201**	**8.707**

The detail of this caption as of December 31, 2015:

(Thousand euro)	Factored	Interest	Collected
Portugal	782	44	738
Spain	5,214	145	5,069
Italy	1,977	77	1,900
Total	**7,973**	**266**	**7,707**

As of December 31, 2016, an impairment loss on accounts receivable was recognized amounting to 358 thousand euro (103 thousand euro in 2015). The movement of the provision for impairment is as follows:

(Thousand euros)	Balance as of 12/31/2016	Balance as of 12/31/2015
Beginning balance	**(1,355)**	**(1,399)**
Provision	(358)	(103)
Reversion	5	147
Bad-debt expense	69	0
Others	26	0
Ending balance	**(1,613)**	**(1,355)**

In 2016, was recognized provision for impairment of debts of less than three months past due amounting to 220 thousand euro, and provision for impairment of 137 thousand euro (103 thousand euro in 2015) for debts over six months past due. Additionally, 5 thousand euro in allowances recognized in prior years were reversed (147 thousand euro in 2015).

The provision for impairment of trade receivable was included under "Other operating expenses" in consolidated profit or loss.

The analysis of the provision by age is as follows (thousand euro):

(Thousand euro)	Balance as of 12/31/2016	Balance as of 12/31/2015
Less 3 months	220	0
Over 6 months	1,393	1,355
Total	**1,613**	**1,355**

The carrying amount of the Group's trade and other accounts receivable is denominated in the following currencies:

(Thousand euro)	Balance as of 12/31/2016	Balance as of 12/31/2015
Euro	62,448	39,528
US dollar	0	457
Other currencies	72	215
Total	**62,520**	**40,200**

The breakdown as of December 31, 2016 and 2015 of receivables from public authorities for sales and services, by geography, is as follows:

(Thousand euro)	Balance as of 12/31/2016	Balance as of 12/31/2015
Spain	2.310	3.733
Austria	274	455
Belgium	216	366
France	512	1.130
Germany	678	0
United Kingdom	114	1.096
The Netherlands	5	78
Ireland	42	39
Italy	3.911	209
Luxembourg	12	18
Portugal	411	640
Total	**8.485**	**7.764**

As of December 31, 2016 and 2015, the credit rating of the accounts receivable from public authorities, by geography, is as follows:

(Thousand euro)	Credit rating	Balance as of 12/31/2016
Germany	Aaa	678
Andalusia	Baa3	150
Aragon	BBB-	65
Asturias	BBB	69
Austria	Aaa	274
Balearic Islands	BBB	26
Belgium	AA-	216
Canary Islands	BBB-	133
Cantabria	BBB	95
Castilla la Mancha	Ba2	93
Castilla y León	Baa2	138
Catalonia	Ba3	0
Ceuta and Melilla	-----	430
Extremadura	Baa3	6
France	Aa2	512
Galicia	Baa2	151
United Kingdom	Aa1	114
The Netherlands	Aaa	5
Ireland	A3	42
Italy	Baa2	3,911
Luxembourg	Aaa	12
Madrid	Baa2	538
Monaco	-----	0
Murcia	Ba2	71
Navarra	A	3
Other	-----	72
Basque Country	Baa1	27
Portugal	Ba1	411
Rioja	BBB	22
Valencia	Ba2	221
Total		**8,485**

(Thousand euro)	Credit rating	Balance as of 12/31/2015
Germany	Aaa	0
Andalusia	Ba1	500
Aragon	BBB	202
Asturias	BBB	45
Austria	Aaa	455
Balearic Islands	BBB-	21
Belgium	Aa3	366
Canary Islands	BBB+	77
Cantabria	BBB	160
Castilla la Mancha	ba2	113
Castilla y León	Baa2	579
Catalonia	Ba2	23
Ceuta and Melilla	-----	354
Extremadura	Baa3	23
France	Aa2	1,130
Galicia	Baa2	208
United Kingdom	Aa1	1,096
The Netherlands	Aaa	78
Ireland	Baa1	39
Italy	Baa2	209
Luxembourg	Aaa	18
Madrid	Baa2	756
Murcia	Ba2	109
Navarra	A	39
Other	----	0
Basque Country	Baa1	37
Portugal	Ba1	640
Rioja	BBB	12
Valencia	Ba2	475
Total		**7,764**

The fair value of accounts receivable does not differ materially from their respective carrying amount.

Claims of principal and default interest from public authorities

The Group considers each country and autonomous region as a separate entity, since it handles each one separately and considers it to be independent from the others.

The Group files claims before the courts in the event of delays in payment of balances with public authorities. In those cases, the Group claims principal and default interest incurred from the date the invoice fell due up to the date of actual collection.

If a court finds in favour of claims for default interest, they are recognized in profit or loss on the date they are collected.

15. OTHER CURRENT ASSETS

The breakdown of “Other current assets” as of December 31, 2016 and 2015 is as follows:

(Thousand euro)	Balance as of 12/31/2016	Balance as of 12/31/2015
Prepaid expenses	2,149	1,820
Balances with public authorities	1,666	1,500
Total	**3,815**	**3,320**

The detail of the balance with public authorities as of December 31, 2016 and 2015 is as follows:

(Thousand euro)	Balance as of 12/31/2016	Balance as of 12/31/2015
VAT	1,301	1,394
Other taxes	365	106
Total	**1,666**	**1,500**

16. INVENTORIES

(Thousand euro)	Balance as of 12/31/2016	Balance as of 12/31/2015
Goods for resale	2,094	1,151
Raw materials and other supplies	4,531	5,169
Semi-finished products and products in process	6,209	8,131
Finished products	9,131	8,325
By-products, residues and recovered materials	193	214
Total inventories	**22,158**	**22,990**

The volume of products in process and semi-finished products is due broadly to the need to have sufficient inventories to market the drug Yondelis®.

The cost of inventories recognized as an expense and included under cost of goods sold amounted to 44,120 thousand euro in 2016 (38,519 thousand euro in 2015) (Note 32).

No material impairment losses were recognized for inventories in 2016 and 2015.

No inventories have been committed as collateral for obligations or debt.

17. CASH AND CASH EQUIVALENTS

This caption contains the following amounts, which include mainly investments in deposits and other types of investments, such as bank commercial paper, in all cases with a maturity of not more than 3 months between the acquisition date and maturity.

(Thousand euro)	Balance as of 12/31/2016	Balance as of 12/31/2015
Cash on banks and in hands	12,181	7,429
Short-term bank deposits	2,109	200
Total cash and cash equivalents	**14,290**	**7,629**

Cash equivalents as of December 31, 2016 include short-term bank deposits yielding between 0.05% and 0.15% (between 0.1% and 0.25% in 2015) maturing between January and March 2016.

There were no bank overdrafts at the closing date.

18. SHARE CAPITAL AND SHARE PREMIUM

As explained in Note 1, PharmaMar and Zeltia were merged in 2015. For the purpose of presenting number shares, share capital, share premium and treasury shares, Group management considers that the resulting entity is, in essence, a continuation of the previously existing Zeltia group. In 2015 changes in number of shares, share capital, share premium and treasury shares until the merger

refer to changes carried out by Zeltia. Changes subsequent to the merger relate to transactions carried out by Pharma Mar.

The only effect of the merger relates to a reduction in share premium in order to align this balance to the legally established PharmaMar's share premium (254,097 thousand euro).

As of December 31, 2016, PharmaMar's authorised share capital amounted to 11,110 thousand euro and was represented by 222,205 thousand shares, with a par value of 0.05 euro per share in 2016. All Pharma Mar shares have been fully subscribed and paid.

Thousand euro/Shares	No. of shares	Share capital	Share premium	Treasury shares
Balance as of January 1, 2015	**219.885**	**11.110**	**323.286**	**(6.810)**
Proceeds from shared issued	2.709	0	0	7.966
Purchase of treasury shares	(1.484)	0	0	(4.684)
Issue of shares to empoyees - Share based payments	199	0	0	584
Merger	0	0	(254.097)	0
Balance as of January 1, 2016	**221.309**	**11.110**	**69.189**	**(2.944)**
Proceeds from shared issued	1.395	0	0	3.862
Purchase of treasury shares	(1.709)	0	0	(4.165)
Balance as of December 30, 2016	**220.995**	**11.110**	**69.189**	**(3.247)**

The number of shares in the table above is adjusted by treasury shares acquired by the Group, including shares delivered to employees through stock plans that, according to the concession conditions, are blocked and cannot be disposed by the employees who have been granted them.

Treasury shares

The number of shares outstanding as of December 31, 2016 was 220,995 thousand (221,309 thousand in 2015). The reduction in the capital and share premium as a result of the shares treated as not outstanding is reflected in the Treasury shares account. As of December 31, 2016, the parent company held 1,210 thousand treasury shares (896 thousand shares in 2015).

In 2016, the Group acquired 1,709 thousand treasury shares (1,484 thousand treasury shares in 2015) for 4,165 thousand euro (4,684 thousand euro in 2015), and it sold 1,395 thousand treasury shares (2,709 thousand shares in 2015) at a loss of 329 thousand euro (a gain of 2,887 thousand euros in 2015).

According to information in the official registers of the National Securities Market Commission as of December 31, 2016, holders of significant stakes in Pharma Mar, either directly or indirectly, amounting to over 10% are as follows:

	DIRECT STAKE		INDIRECT STAKE		TOTAL STAKE
	No. of shares	%	No. of shares	%	%
José Mª Fernández Sousa - Faro (1)	**14,318,261**	**6.444%**	**10,354,841**	**4.660%**	**11.104%**

(1) Indirect stake held through his spouse, Ms Montserrat Andrade Detrell.

19. AVAILABILITY AND RESTRICTIONS ON RESERVES AND RETAINED EARNINGS

Under article 274 of the Spanish Capital Companies Act, companies must transfer 10% of income for each year to the legal reserve until it amounts to at least 20% of capital stock. The legal reserve (2,222 thousand euro) can be used to increase capital provided that the remaining balance of the reserve is no less than 10% of the resulting amount of capital. Except for that purpose, until the legal reserve exceeds 20% of capital stock, it can only be used to offset losses, provided that sufficient other reserves are not available for this purpose.
The share premium may be used for the same purposes as the Company's voluntary reserves, including conversion into capital stock, there being no restrictions as to its use or distribution other than the general ones detailed below.

Dividends that the Company distributes are subject to the limitations and restrictions envisaged in the Capital Companies Act. In accordance with current legislation, the maximum amount to be distributed and the applicable limitations and restrictions are based on the amounts presented by the Company in its separate financial statements issued under Spanish GAAP.

Moreover, profits may not be distributed unless the amount of available reserves is at least equal to the amount of development expenses shown on the assets side of the balance sheet.

The proposed distribution of 2016 income and other reserves of the parent company to be submitted to the Shareholders' Meeting for approval, and the distribution approved for 2015, are as follows:

(Thousand euro)	2016	2015
Basis of distribution		
Income for the year	(11,474)	(43,107)
	(11,474)	**(43,107)**
Distribution		
Prior years' losses	(11,474)	(43,107)
	(11,474)	**(43,107)**

20. NON-CONTROLLING INTEREST

There were no changes in 2016 and 2015 in Noscira, S.A. in liquidation's share capital, the only group entity in which there are minority shareholders.

The changes in non-controlling interests in 2016 and 2015 are as follows:

(Thousand euro)	Non-controlling interest
Balance as of January 1, 2015	**(3.813)**
2015 income	(25)
Balance as of January 1, 2016	**(3.838)**
2016 income	(25)
Balance as of December 30, 2016	**(3.863)**

Noscira reported a net loss of 92 thousand euro in 2016 (a net loss of 93 thousand euro in 2015), of which 25 thousand euro corresponded to non-controlling interests (25 thousand euro in 2015), in line with their 26.7% stake in the company.

21. TRADE AND OTHER PAYABLES

The composition of this caption is as follows:

(Thousand euro)	Balance as of 12/31/2016	Balance as of 12/31/2015
Trade payables for purchases and services received	36,712	30,880
Other payables to related parties	752	232
Advances received for orders	1,234	660
Other accounts payable	477	187
Total trade and other payables	**39,175**	**31,959**

All payables mature within 12 months from the closing date of each year. Other payables to related parties refer mainly to accrued outstanding bylaw-mandated allocations to members of Pharma Mar's Board and fees for membership of its board committees that have accrued but are outstanding (663 thousand euro as of December 31, 2016, 137 thousand euro as of December 31, 2015), and accrued outstanding allocations to directors of Genomica who are also directors of

Pharma Mar (14 thousand euro as of December 31, 2016 (20 thousand euro for directors of Genomica in 2015) and 75 thousand euro for directors of Noscira in 2016 and 2015.

Information on payments for commercial transactions performed in 2016 that were outstanding at the end of the year, in relation to the maximum legal payment periods envisaged in Act 15/2010, is as follows:

	2016 Days	2015 Days
Average supplier payment period	51	50
Proportion of transactions paid	53	51
Proportion of transactions outstanding	25	43
Total payments made	82,721	81,621
Total payments outstanding	10,676	10,293

The supplier payment lag in the year between 1 January and 31 December 2016 was 51 days (50 days in 2015).

The above information refers only to companies domiciled in Spain

22. NON-CURRENT AND CURRENT DEFERRED INCOME

The breakdown as of December 31, 2016 and 2015 is as follows:

Non-current deferred income

This caption includes the following items:

- 14,000 thousand euro refer to the non-current part of the up-front payment accrued under the license, development and commercialization agreement signed by Pharma Mar and Chugai Pharmaceutical. The up-front payment totalled 30,000 thousand euro, of which 6,000 thousand euro were recognised as revenue in 2016 (Note 27).

- subsidies, which are to finance property, plant and equipment for R&D projects in the oncology segment. The directors consider that all the conditions for their recognition have been fulfilled. The subsidies detailed below consist mostly of interest rate subsidies.

(Thousand euro)	Balance as of 12/31/2016	Balance as of 12/31/2015
Grants	2,790	2,709
Deferred income	14,000	0
Total	**16,790**	**2,709**

Current deferred income

This caption refers to the current part, amounting to 10,000 thousand euro, of the up-front payment under the licensing and development agreement signed by Pharma Mar and Chugai Pharmaceuticals. The up-front payment totalled 30,000 thousand euro, of which 6,000 thousand euro were recognised as revenues at 2016 (Note 27).

(Thousand euro)	Balance as of 12/31/2016	Balance as of 12/31/2015
Grants	0	5
Deferred income	10,012	49
Total	**10,012**	**54**

23. OTHER NON-CURRENT AND CURRENT LIABILITIES

Other non-current liabilities, amounting to 1,105 thousand euro (598 thousand euro in 2015), refer mainly to retirement benefit obligations. Retirement benefit obligations amounted to 607 thousand euro (598 thousand euro in 2015).

Other current liabilities, amounting to 3,083 thousand euro (3,661 thousand euro in 2015), refer primarily to balances owed to public authorities for personal income tax withholdings amounting to 715 thousand euro (1,610 in 2015), social security contributions amounting to 655 thousand euro (610 thousand euro in 2015), other balances with public authorities amounting to 3 thousand euro (18 thousand euro), and 1,622 thousand euro (1,423 thousand euro in 2015) corresponding to Group subsidiaries domiciled elsewhere in the European Union.

24. BORROWINGS

The breakdown of the Group's non-current and current interest-bearing debt as of December 31, 2016 and 2015 is as follows:

Breakdown of non-current debt:

(Thousand euro)	Balance as of 12/31/2016	Balance as of 12/31/2015
Bank debt	25,351	20,651
Bonds	16,350	16,350
Non-interest-bearing debt to official authorities	25,882	27,972
Total	**67,583**	**64,973**

Breakdown of current debt:

(Thousand euro)	Balance as of 12/31/2016	Balance as of 12/31/2015
Bank debt	23,002	24,393
Bonds	466	424
Non-interest-bearing debt to official authorities	4,438	3,753
Finance lease liabilities	0	59
Total	**27,906**	**28,629**

i. Bank debt

Non-current and current debt consists of bank loans, credit lines and discounted bills, as detailed in the table below as of December 31, 2016 and 2015:

	No. of products	Maturities	Balance as of 12/31/2016	No. of products	Maturities	Balance as of 12/31/2015
Bank loans						
Pharmamar, S.A.	5	2018 - 2022	24.794	14	2017 - 2024	19.931
Genomica, S.A.U.	3	2019	431	4	2017 - 2019	720
Zelnova Zeltia, S.A.	1	2018	126	0	0	0
Total non-current debt	**9**		**25.351**	**18**		**20.651**
Bank loans						
PharmaMar, S.A.	16	---	9.891	20	---	10.411
Genomica, S.A.U.	3	---	293	4	---	291
Zelnova Zeltia, S.A.	1	---	501	1	---	847
Noscira, S.A en liquidación	0	---	0			
	20		**10.685**	**25**		**11.549**
Credit lines						
Pharmamar, S.A.	17	---	9.673	19	---	9.151
Genomica, S.A.U.	7	---	1.015	11	---	1.220
Zelnova Zeltia, S.A.	4	---	270	3	---	186
	28		**10.958**	**33**		**10.557**
Bills and certificates						
Pharmamar, S.A.	---	---	5	---	---	752
Xylazel, S.A.	---	---	1.233	---	---	1.396
			1.238			**2.148**
Interest and other accounts payable						
Pharmamar, S.A.	---	---	74	---	---	87
Zelnova Zeltia, S.A.	---	---	0	---	---	15
Xylazel, S.A.	---	---	44	---	---	37
Sylentis, S.A.	---	---	3	---	---	0
			121			**139**
Total current debt			**23.002**			**24.393**

Non-current debt

PharmaMar has a mortgage loan amounting to 6,997 thousand euro maturing in 2024; that loan was arranged in 2014, through cancellation of the original financial liability and recognition of a new financial liability.

The repayment schedule for non-current bank debt is as follows:

(Thousand euro)	Balance as of 12/31/2016	Balance as of 12/31/2015
2017	0	6,036
2018	5,649	2,904
2019	5,559	2,883
2020	5,539	2,720
2021 and thereafter	8,604	6,108
Total	**25,351**	**20,651**

Current debt

Current bank debt is broken down as follows:

(Thousand euro)	Balance as of 12/31/2016	Balance as of 12/31/2015
Bank loans	10,685	11,549
Credit lines	10,958	10,557
Unmatured discounted bills and certifications	1,238	2,148
Interest and other accounts payable	121	139
Total	**23,002**	**24,393**

Some credit lines are renewed automatically and, to date, experience shows that they have been renewed systematically with the same banks. As of December 31, 2016, the Group had 28 credit lines (35 as of December 31, 2015) with a total limit of 31,420 thousand euro (37,405 thousand euro in 2015).

At the date of authorization of these consolidated financial statements, the Group had signed agreements which extend the maturity of 5,000 thousand euro of current debt (2,000 thousand euro in 2015).

The vast majority of the loans and credit lines are at floating interest rates consisting of Euribor plus a spread of between 1.45% and 3.75% (between 1% and 7% in December 2015).

The effective interest rates as of December 31st, are:

(Thousand euro)	Balance as of 12/31/2016	Balance as of 12/31/2015
Bank overdrafts	29.00%	29.00%
Bank loans	3.85%	6.10%
Credit lines	2.59%	3.05%
Discounted notes	1.41%	1.77%

The Group's exposure to bank debt at floating rates is 31,748 thousand euro as of December 31, 2016 (38,148 thousand euro in 2015), indexed mainly to three-month Euribor.

All the bank loans are arranged in euro.

ii. Bonds

In 2015, the parent company issued non-convertible bonds for an amount of seventeen million euro in order to strengthen its financial position and extend its debt maturity profile.

The principal terms and conditions of the bonds are as follows:

- Nominal amount, 17,000 thousand euro;
- Maturity, 12 years from disbursement;
- The issue was targeted at a single qualified Spanish investor, via a private placement.
- The bonds were issued at par, each with a nominal value of one hundred thousand euro, represented by book entries.
- The bonds bear a fixed coupon of 4.75% per annum payable in arrears every year from the date of disbursement;
- The Company is liable for the obligations arising from the bonds with all its assets and no specific guarantee is granted;
- The terms and conditions of the bonds are governed by Spanish law;
- The parent company applied to list the bonds on the Alternative Fixed-Income Market (MARF) on July 7, 2015.

iii. Non-interest-bearing debt to public authorities

This item refers mainly to funding from government agencies consisting of loans and interest-free loans repayable in seven years, after a three-year grace period, which finance research and development projects.

As of December 31, 2016, the Group had debt balances with official authorities for a total of 30,320 thousand euro, calculated on the basis of cash flows discounted at Euribor plus a spread based on the Group's risk (31,725 thousand euro in 2015), of which 25,882 thousand euro were non-current (27,972 thousand euro in 2014) and 4,438 thousand euro were current (3,753 thousand euro in 2015).

The repayment schedule of non-current government aid is as follows:

(Thousand euro)	Balance as of 12/31/2016	Balance as of 12/31/2015
2017	0	4,840
2018	4,479	4,469
2019	4,163	4,400
2020	4,457	4,600
2021 and thereafter	12,783	9,663
Total	**25,882**	**27,972**

iv. Fair value

The carrying amount and fair value of the non-current and current debt as of December 31, 2016 and 2015 are as follows:

	Fair value		Carrying amount	
(Thousand euro)	2016	2015	2016	2015
Non-current				
Bank loans	25,351	20,704	25,351	20,651
Due to official authorities	30,807	33,101	25,882	27,972
Bonds	17,000	21,165	16,350	16,350
Total	**73,158**	**74,970**	**67,583**	**64,973**
Current				
Bank loans	10,955	11,549	10,955	11,549
Credit lines	10,689	10,556	10,689	10,556
Unmatured discounted bills and certifications	1,238	2,148	1,238	2,148
Interest payable	74	101	74	101
Due to official authorities	5,278	4,545	4,438	3,753
Bonds	466	424	466	424
Other debt	46	98	46	98
Total	**28,746**	**29,421**	**27,906**	**28,629**

25. DEFERRED TAXES AND INCOME TAX EXPENSE

i. Deferred taxes

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

(Thousand euros)	2016	2015
Deferred tax assets	40,127	38,362
Deferred tax liabilities	(5,828)	(5,783)
Total	**34,299**	**32,579**

The gross changes in deferred tax assets and liabilities during the year were as follows:

Deferred tax assets (Thousand euro)	Tax credits granted for R&D	Withholding tax recoverable	Fixed and intangible assets	Other	TOTAL
As of January 1, 2015	**27.742**	**2.465**	**5.090**	**576**	**35.873**
Withholdings	0	3755	0	0	3.755
Income statement credits/(charges)	(4.190)	0	(568)	3.492	(1.266)
As of December 31, 2015	**23.552**	**6.220**	**4.523**	**4.067**	**38.362**
Withholdings	0	508	0	0	508
Income statement credits/(charges)	1.781	0	(485)	(39)	1.257
As of December 31, 2016	**25.333**	**6.728**	**4.038**	**4.028**	**40.127**

The “Tax credits granted for R&D activity / Tax loss carryforwards" column reflects the difference in

the accounting treatment of research and development expenses under local and international standards, as well as capitalised tax losses.

The "Withholding tax" column as of 31 December 2016 and 2015 refers to taxes withheld from royalties and payments received under licensing agreements.

Deferred tax liabilities (Thousand euros)	Investment property	Trademarks with indefinite useful lives	Capital Grants	Other	TOTAL
As of January 1, 2015	**(1,210)**	**(2,105)**	**(3,843)**	**(2)**	**(7,160)**
Income statement credits/(charges)	185	(44)	1,236	0	1,377
As of December 31, 2015	**(1,025)**	**(2,149)**	**(2,607)**	**(2)**	**(5,783)**
Income statement credits/(charges)	0	(80)	34	1	(45)
As of December 31, 2016	**(1,025)**	**(2,229)**	**(2,573)**	**(1)**	**(5,828)**

The deferred tax assets were recognised on the basis of the future taxable income that the Group expects to generate based on current business plans.

The Group analysed the unused tax losses and the differences arising from differing accounting treatment for the purposes of the tax returns for the years 2017 through 2025. As a result, the Group did not recognise unused tax losses amounting to 55,000 thousand euro (zero in 2015) and accounting differences amounting to 157,000 thousand euro (180,000 thousand euro in 2015).

At the same date, there were also unused tax credits which were not recognised on the balance sheet that amounted to 189,982 thousand euro (172,941 thousand euro in 2015).

Those unused tax losses and the differences in the accounting treatment and tax credits were not recognised in connection with deferred tax assets as of 2016 and 2015 year-end following the analysis performed by the Group as referred to in Note 4 "Accounting Estimates and Judgements".

The following table shows the validity dates of unused tax credits that have specific expiry date but were not recognized as deferred tax assets as of December 31, 2016:

Tax credits generated by:	Total amount	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031 and thereafter
Unused tax credits	183,787	2,149	4,478	4,890	12,522	13,383	9,776	11,012	10,854	10,118	11,469	9,809	9,452	9,342	8,127	56,406
Other unused tax credits	6,195	5,291	353	168	383	0	0	0	0	0	0	0	0	0	0	0
TOTAL	**189,982**	**7,440**	**4,831**	**5,058**	**12,905**	**13,383**	**9,776**	**11,012**	**10,854**	**10,118**	**11,469**	**9,809**	**9,452**	**9,342**	**8,127**	**56,406**

ii. Income tax expense

In 2016, the corporate income tax return was filed on a group basis by the tax group headed by PharmaMar and comprising the following Group entities: Genómica, S.A.U.; Zelnova Zeltia, S.A.; Xylazel, S.A.; and Sylentis, S.A.U., the other companies—Pharma Mar USA, PharmaMar AG, Pharma Mar SARL, Pharma Mar GmbH, Pharma Mar Ltd, Pharma Mar Srl, Pharma Mar Sprl, Pharma Mar Ges.m.b.H., Genómica AB, Copyr, SpA and Noscira, “S.A. in liquidation”—file taxes individually.

The reconciliation of the difference between applying a 25% tax rate to the income before taxes and the recognized tax expense is shown in the following table:

(Thousand euros)	2016	2015
Income before taxes	**(24,699)**	**6,002**
Tax rate (25%) 2016 (28%) 2015	**6,175**	**(1,681)**
Tax effect of:		
- Exempt revenues and other minor items	1,541	2,404
- Reversal impairment provision	(2,213)	0
- Other adjustments	(4,911)	(69)
Income tax expense	**592**	**654**

In the preceding table, the tax-exempt revenue are basically untaxed revenue relating to 50% of license fees and royalties collected in other countries. This item also reflects the different tax rates applicable to foreign subsidiaries.

In 2016, one-fifth of the impairment recognised in prior years on the investment in Noscira (in liquidation) was reversed for tax purposes, resulting in a 2,200 thousand euro increase in the tax expense.

As of 31 December 2016, the “Other adjustments” item includes the effect of not fully recognising the pre-paid tax that would arise from the tax losses incurred in the year.

The reconciliation of the corporate income tax expense / (revenue) in the income statement is as follows:

(Thousand euros)	2016	2015
Current tax	(620)	543
Deferred tax	1,212	111
Income tax expense	**592**	**654**

The tax rate applicable to the Group is generally the standard tax rate in Spain (25%), except for Copyr, S.p.A., whose earnings are taxed in Italy at approximately 33%. The effect of differences with the tax rates applicable to the other subsidiaries located outside Spain is not material.

Law 27/2014 on Corporate Income Tax was enacted in Spain on November 28, 2014 and applied to tax periods beginning on or after 1 January 2015. The main change was the reduction in the general rate, from 30% to 28% for tax periods commencing on or after January 1, 2015, and to 25% for tax periods commencing on or after January 1, 2016.

On December 3, 2016 was published in the BOE the Royal Decree-Law 3/2016, approved on Friday, December 2. Some of the measures introduced by these regulations affect Corporate Income Tax, many of them having an impact in the 2016 fiscal year:

- Limitation to the compensation of negative tax bases for companies with a net turnover of more than 60 million euros: new regulation reduces the possibility of offsetting negative tax bases from 70% to 25%
- Limitation on the application of double taxation deductions: new regulation establishes a limit of 50% of the cuota
- Reversal of impairments of the subsidiaries that were tax deductible in pre-2013 tax periods, such reversal must be carried out in a linear manner for a minimum of 5 years.

All these developments have affected the corporate tax calculation of the parent company and have also had an impact on the Group's tax planning for the recovery of deferred taxes.

On January 6, 2015, the Spanish tax authorities notified the company of plans to commence a partial tax audit of consolidated corporate income tax for the years 2010 to 2012, which would be confined to examining revenue from certain intangible assets reported by Pharma Mar.

On January 20, 2015, the parent company applied to the tax authorities for the partial tax audit to be converted into a general tax audit covering the taxes and periods in question.

As a result, notification of the initiation of the tax audit was received in June 2015. It refers to the following periods and Group entities.

	Corporate income tax	VAT	Personal income tax-Spanish residents	Personal income tax-Non-residents	Income from Capital
Zeltia, S.A.	2010-2013	2011-2013	2Q 2011 - 4Q 2013	2Q 2011 - 4Q 2013	2Q 2011 - 4Q 2013
Genómica, S.A.U.	2010-2013	2011-2013	2Q 2011 - 4Q 2013	2Q 2011 - 4Q 2013	2Q 2011 - 4Q 2013
PharmaMar, S.A.	2010-2013	2011-2013	2Q 2011 - 4Q 2013	2Q 2011 - 4Q 2013	-
Zelnova, S.A.	2010-2013	06/2011-2013	1Q 2012 - 4Q 2013	-	-
Xylazel, S.A.	2010-2013	06/2011-2013	1Q 2012 - 4Q 2013	-	-

The tax audit concluded in September 2016.The company accepted an assessment that resulted in a reduction in the tax base, and it disputed assessments for corporate income tax, personal income tax withholdings and prepayments, value added tax and non-residents' personal income tax. It filed pleadings with the Madrid Tax Inspectorate against the tax inspectors' proposal for regularisation of tax bases and tax payments, plus penalties; decisions are pending. To the extent that those decisions result in adjustments to the tax base and tax payable, as well as late payment interest and penalties, since the company considers that they lack merit, it will appeal them before the Central Economic-Administrative Tribunal (TEAC) or the Madrid Economic-Administrative Tribunal (TEAR), depending on the amounts involved.

There are currently two appeals pending before de Central Economic-Administrative Tribunal (TEAC): the first refers to rejection of the downward adjustment to revenues under article 23 of the Corporate Income Tax Act, in which pleadings have already been filed; the second is against a proposal to regularise tax withholdings and prepayments, made against PharmaMar, in which pleadings have yet to be entered.

The net amount of corporate income tax payable by the companies in the Spanish tax group in each of the years referred to in the disputed tax assessment is zero in all cases, since the companies in the Spanish tax group have tax losses and international double taxation tax credits which were applied in the tax authorities' proposal, in accordance with the regulations in force in each year. Consequently, in the worst case scenario in which all of the tax groups' appeals were to fail, the tax payable would be zero and no late payment interest would accrue.

Regarding the other taxes whose assessments are being disputed, the amount of tax due plus late payment interest and penalties that would be payable in the event that none of the appeals succeeded would not result in a material reduction in the assets recognised by the Group.

Under the partial audit of corporate income tax confined to checking the reduction in revenue from certain intangible assets reported by PharmaMar, an assessment for taxes due was issued for 2011 and 2012 (not for 2010). However, the net tax due was zero since the assessed increases in taxable bases were offset (up to 50%) with loss carryforwards from previous years and the resulting total tax liability was offset by international double taxation tax credits. Nevertheless, the Company filed an appeal with the Economic-Administrative Appeals Tribunal. The disputed tax assessment also included the prior regularisation of the partial assessment referred to in this paragraph.

26. PROVISIONS FOR OTHER CONTINGENCIES AND CHARGES

As of December 31, 2016 and 2015, this caption includes outstanding remuneration to Group employees in relation to bonuses that had accrued and were outstanding, and estimated bonuses accrued and outstanding at year-end, based on the compensation systems agreed by the Group with employees.

The variation in the balance of this caption is as follows:

(Thousand euros)	Balance as of 12/31/2016	Balance as of 12/31/2015
Beginning balance	**6,306**	**6,220**
Provision	6,687	6,248
Payments	(5,997)	(6,162)
Transfers and other	(8)	0
Ending balance	**6,988**	**6,306**

27. REVENUE

Revenue as of December 31, 2016 and 2015 was as follows (a detail by segment and geography is given in Note 5):

(Thousand euros)	Balance as of 12/31/2016	Balance as of 12/31/2015
Sales of goods	187,392	182,377
Returns, rebates and volume discounts	(23,357)	(20,385)
Total	**164,035**	**161,992**
Revenue from licensing and co-development agreements (excluding royalties)	11,129	29,034
Royalties	5,779	1,788
Other	5	1,003
Total	**180,948**	**193,817**

The Group has licensing and development agreements with a number of pharmaceutical companies. A breakdown of revenue as a result of these agreements, including royalties, in 2016 and 2015 is as follows:

(Thousand euros)	12/31/2016	12/31/2015
Grupo Johson & Johson (Janssen Produts LP) (Yondelis)	5.202	24.432
Taiho (Yondelis)	577	5.990
Other agreements (Aplidin)	1.129	400
Chugai Pharma Marketing (Aplidin)	4.000	0
Chugai Pharmaceutical (PM1183)	6.000	0
Total	**16.908**	**30.822**

Janssen Products LP (Yondelis®)

1) In 2001, the Group signed a licensing and co-development agreement with Ortho Biotech Products L.P. (OBP), a subsidiary of US group Johnson & Johnson (J&J). That agreement provides for certain payments to Pharma Mar, including an upfront payment that was collected on the date of the contract and certain payments connected with subsequent development and regulatory milestones for Yondelis®. Those amounts (upfront and milestone payments), which are collected irrevocably once the corresponding dates and milestones are attained, are recognized initially as deferred revenue and subsequently as revenue over the term of the contract signed, which includes two distinct phases: development and marketing.

The commitments assumed by the Group as a result of the agreement include the following:

- Co-development of Yondelis® from the date of signature of the agreement up to marketing, and financing of a percentage of total development costs incurred by the two parties;

- Assignment to OBP of the future marketing rights for the United States and the rest of the world except Europe (retained by the Group). For this assignment, the Group will collect royalties based on OBP's sales.

- The Group retains the exclusive right to manufacture the active ingredient, which will be supplied to OBP on a cost-plus basis;

The Group will retain the patents associated with Yondelis® and is responsible for complying with the administrative requirements relating to maintaining the patents and any other requirements that may apply for their effective use.

The amounts attributed to the development phase are recognized as revenue during the development phase based on the degree of progress with development and the project's total estimated costs. As of December 31, 2015, the Group did not have any amounts pending recognition at year-end since all the necessary obligations had been fulfilled and the related expenses had already been incurred. Therefore, no considerations in relation with this agreement have been received by Pharma Mar in 2016 (9,453 thousand euro in 2015, due to the achievement one of the milestones set out in the agreement: Approval from the FDA to market Yondelis)

The amounts attributed to the marketing phase are royalties, which are recognized on an accrual basis. In 2016, royalties were recognized in the amount of 5,202 thousand euro on sales of Yondelis® (1,731 thousand euro in 2015)

2) In 2011, the Company signed a coordination agreement with Janssen Pharmaceuticals, a subsidiary of US group Johnson & Johnson, in connection with a new plan of action to boost the development of Yondelis® in the US by developing two therapeutic uses of Yondelis® (soft tissue sarcoma and relapsed ovarian cancer).

That agreement envisaged a series of payments between 2011 and 2015 amounting to up to 110 million dollars if the agreed milestones were met in that period. Those milestones, which were additional to those envisaged in the 2001 licensing agreement, were based solely on the Yondelis® development plan. These payments were recognized as current revenue as they were collected since they related to development milestones connected to future performance by Janssen, not by the Group.

Last payment in relation to this agreement took place in 2015: 8,764 thousand euro were collected from Janssen for attaining the last milestone under this agreement. Therefore, no considerations related to this agreement have been received by Pharma Mar in 2016.

3) Additionally, in 2015, Pharma Mar collected 4,484 thousand euro from Janssen Products as a result of Yondelis® being approved for marketing in Japan.

Taiho Pharmaceutical Co (Yondelis®)

In 2009, Pharma Mar signed a licensing agreement with Taiho Pharmaceutical Co. for development and commercialization of Yondelis® in the Japanese market.

The commitments assumed by the Group as a result of the agreement include the following:

- Assignment to Taiho of future rights to market Yondelis® in Japan. For this assignment, the Group will collect royalties based on Taiho's sales once authorization is obtained to market the drug in Japan.

- The Group retains the exclusive right to manufacture the active ingredient, which will be supplied to Taiho.

- Taiho assumes the responsibility, at its own expense, for researching, developing and obtaining regulatory approval for Yondelis® in Japan.

In January 2015, Taiho filed an application with the Japanese regulator (PMDA) to market Yondelis® for the treatment of several subtypes of soft tissue sarcoma; in November, it received authorization from the regulator to commercialize Yondelis®.

As a result, the following amounts were collected from Taiho Pharmaceuticals: one for presentation of the Yondelis® registration dossier to the Japanese authorities (1,486 thousand

euro) and another for subsequent authorization of commercialization by the Japanese authorities (4,504 thousand euro).

In 2016, royalties were recognized in the amount of 577 thousand euro on sales of Yondelis®.

Chugai Pharma Marketing Ltd.. (Aplidin®)

In 2014, PharmaMar signed a licensing contract with Chugai Pharma Marketing Co. to market Aplidin® for the treatment of multiple myeloma.

The commitments assumed by the Group as a result of the agreement include basically the following:

- Development of Aplidin® from the date of signature of the agreement up to marketing, and financing of a percentage of total development costs incurred by Pharma Mar;
- Assignment to Chugai of the future marketing rights for the eight European countries. For this assignment, the Group will collect royalties based on Chugai's sales.
- The Group retains the exclusive right to manufacture the active ingredient, which will be supplied to Chugai.

Under the terms of the agreement, Pharma Mar received an upfront payment of 5 million euro in 2014 for signing the agreement, which also envisages additional payments of up to more than 30 million euro subject to attainment of certain milestones in connection with development of the principals and other regulatory and commercial objectives.

The upfront payment under the contract was recognized as revenue in 2014 since it was linked to completion of the Phase III trial in multiple myeloma and, consequently, was directly related to the number of patients enrolled in that trial to date.

In September, 2016 Pharma Mar received and recognized as a revenue 4,000 thousand euro, due to the achievement of a regulatory milestone: the submission before the European Medicines Agency (EMA) of the Marketing Authorization Application (MAA) for Aplidin®.

TTY Biopharm / Specialised Therapeutics Australia Pty, Ltd. (Aplidin®)

Two licensing contracts for Aplidin® were signed in 2015.The first was with TTY Biopharm to commercialize Aplidin® in Taiwan, and the second was with Specialised Therapeutics Australia Pty, Ltd. covering commercialization of Aplidin® in Australia and New Zealand. The upfront payment on those contracts was 400 thousand euro in 2015.

Specialised Therapeutics Asia Pte, Ltd (Aplidin®)

In February, 2016 an agreement was signed with Singapore-based Specialised Therapeutics Asia Pte, Ltd (STA) to market marine-based anti-tumour compound APLIDIN® (plitidepsin) for the treatment of haematological tumours in 12 Asian countries: Brunei, Cambodia, East Timor, Indonesia, Laos, Malaysia, Myanmar, Papua New Guinea, Philippines, Singapore,Thailand and Vietnam. Pharma Mar received and recognized as revenue, an up-front payment in the amount of 229 thousand euro.

Boryung Pharmaceutical (Aplidin®)

In October, 2016 a licensing agreement was signed with Boryung Pharm to commercialize the marine-derived anticancer drug Aplidin® (plitidepsin) in South Korea. Under the terms of the agreement, PharmaMar will receive an upfront payment along with royalties and additional remunerations upon achieving regulatory milestones with Aplidin®. PharmaMar will retain exclusive production rights and will supply the finished product to Boryung Pharm for commercial use. Pharma Mar received and recognized as revenue an up-front payment amounting to450 thousand euro and a regulatory milestone amounting to 450 thousand euro.

Chugai Pharmaceutical Co. (PM 1183 (lurbinectedin)

In December, 2016 PharmaMar signed an exclusive licensing, development and commercialisation agreement in Japan with Chugai Pharmaceutical Co. Ltd. for its third marine-derived anticancer drug, PM1183 (lurbinectedin).

The commitments assumed by the Group under this agreement are as follows:

- Assignment to Chugai of the future marketing rights for Japan. For this assignment, the Group will collect double-digit tiered royalties based on Chugai's sales in Japan. The agreement also established some milestone payments as a function of accumulated sales.

- The Group retains the exclusive right to manufacture the active ingredient, which will be supplied to Chugai.

- Pharma Mar will carry out certain clinical trials outside Japan, which are described in the agreement and had already commenced at the time it was signed.

- PharmaMar will carry out certain clinical trials with the molecule for Japan.

- Under the terms of the agreement, PharmaMar will receive an upfront payment of 30,000 thousand euro upon signing the agreement, along with royalties and additional payments based on development, regulatory and commercial milestones. Additionally, PharmaMar will receive payments related to the clinical trials performed with the molecule for Japan.

Both the upfront payment and the payments for development milestones will be recognised as revenues as a function of the degree of progress of the clinical trials agreed in the licensing agreement.

At December 2016, 6,000 thousand euro were recognised under “Licensing and development agreements”, relating to the part of the upfront payment accrued by the Company as consideration for the progress already attained at the date of the signature of the agreement, namely: enrolment of the first patients for the Phase III trial in platinum-resistant ovarian cancer, and commencement of the Phase III trial in small-cell lung cancer.

28. RESEARCH AND DEVELOPMENT EXPENSES

The following table shows the amounts spent on R&D by business segment in 2016 and 2015.

2016					
	Oncology	**Diagnostics**	**RNAi**	**Consumer chemicals**	**TOTAL**
Total expenditure	(72,301)	(2,426)	(4,890)	(163)	**(79,780)**
Capitalization	1,357	0	0	0	**1,357**
Research and development expenses	**(70,944)**	**(2,426)**	**(4,890)**	**(163)**	**(78,423)**

2015					
	Oncology	**Diagnostics**	**RNAi**	**Consumer chemicals**	**TOTAL**
Total expenditure	(55,610)	(2,218)	(5,687)	(34)	**(63,549)**
Capitalization	3,258	0	0	0	**3,258**
Research and development expenses	**(52,352)**	**(2,218)**	**(5,687)**	**(34)**	**(60,291)**

R & D expenditure increased by 30% year-on-year mainly due to the considerable progress achieved in the clinical trials with Lurbinectedin in platinum resistant ovarian cancer and small-cell lung cancer, as well as a number of preclinical trials with that same compound.

29. GENERAL AND ADMINISTRATION EXPENSES AND OTHER OPERATING EXPENSES.

Consolidated general and administration expenses amounted to 20,328 thousand euro in 2016, 1.7% more than in 2015 (19,984 thousand euro).

Consolidated other operating expenses, mainly related with corporate functions, amounted to 10,777 thousand euro in 2016, 1.5% less than in 2015 (11,750 thousand euro).

30. MARKETING EXPENSES

Commercial and marketing expenses decreased by 1.4% with respect to 2015, to 47,688 thousand euro in 2016 (48,614 thousand euro in 2015). Marketing expenses in the oncology segment descended to 26,884 thousand euro (27,108 thousand euro in 2015), while in the diagnostic segment they amounted to 2,198 thousand euro (1,892 thousand euro in 2015). The values show a slightly decrease in the oncology segment due to the impact of establishing own sales network in several countries and its own logistics platform.. The consumer chemicals division accounted for 18,606 thousand euro in 2016 (19,570 thousand euro in 2015).

31. OTHER INCOME

The breakdown of other income by type is as follows:

(Thousand euros)	Balance as of 12/31/2016	Balance as of 12/31/2015
Capital grants	1,078	3,487
Other earnings	455	337
Total	**1,533**	**3,824**

32. BREAKDOWN OF EXPENSES BY TYPE

The breakdown of operating expenses by type is as follows:

(Thousand euros)	Balance as of 12/31/2016	Balance as of 12/31/2015
Increase in finished product and product-in-process inventories	1,116	3,161
Raw materials and other supplies used	43,004	35,358
Employee benefit expenses	53,575	50,133
Depreciation and amortization	7,243	6,281
Impairment	171	1,744
Transport	5,363	5,314
Marketing expenses	20,118	19,346
Other expenses	70,814	65,007
Total	**201,404**	**186,344**

Other expenses include expenses related to services received regarding R&D as well as, communications, utilities, travel, security, and directors' remuneration among others.

33. EMPLOYEE BENEFIT EXPENSES

The breakdown of employee benefit expenses is as follows:

(Thousand euros)	Balance as of 12/31/2016	Balance as of 12/31/2015
Salaries and wages	42,404	39,106
Severances	426	748
Social security	8,596	8,334
Defined contribution plan	138	135
Share ownership plans	303	308
Other welfare expenses	1,708	1,502
Total	**53,575**	**50,133**

The average number of employees by category is as follows:

	12/31/2016	12/31/2015
Management	42	39
Technical staff	300	308
Administrative staff	116	102
Commercial staff	133	125
Other employees	122	126
Total	**713**	**700**

The average number of employees by professional category by sex distribution is as follows:

(Men)	12/31/2016	12/31/2015
Management	28	24
Technical professionals	115	123
Clerical personnel	43	32
Commercial personnel	76	79
Other employees	68	74
Total	**330**	**332**

(Women)	12/31/2016	12/31/2015
Management	14	15
Technical professionals	185	185
Clerical personnel	73	70
Commercial personnel	57	46
Other employees	54	52
Total	**383**	**368**

The average number of employees distributed by sex is as follows:

	12/31/2016	12/31/2015
Men	330	332
Women	383	368
Total	**713**	**700**

As of 31 December 2016, two out of the nine members of the Board were women (two women in 2015). Six out of PharmaMar's 19 senior executives including executive directors, were women (seven in 2015).

The average number of employees with a disability greater than or equal to 33%, were 11 (10 in 2015).

34. FINANCE COST-NET

(Thousand euros)	Balance as of 12/31/2016	Balance as of 12/31/2015
Interest expense	(5,214)	(5,574)
Exchange loss	(805)	(746)
Deterioration and disposal of financial instruments	(642)	0
Finance cost	**(6,661)**	**(6,320)**
Other interest and similar revenues from other companies	193	184
Gains on financial assets	63	78
Fair value changes in financial assets	14	26
Exchange gains	398	644
Finance income	**668**	**932**
Total finance cost - net	**(5,993)**	**(5,388)**

"Deterioration and disposal of financial instruments" is related to the disposal of Promaxsa Protección de Maderas, S.L. Note 1.

35. EARNINGS PER SHARE

Basic earnings per share are calculated by dividing income attributable to equity holders of the parent company by the weighted average number of shares outstanding during the year.

The basic earnings per share in 2016 and 2015 were as follows:

Earnings per share (basic)	2016	2015
Profit from continuing operations attributable to owners of the parent (thousand euro)	(24,082)	6,588
Weighted average number of outstanding ordinary shares (thousand)	220,594	220,581
Basic earnings per share (euro)	**(0.11)**	**0.03**

Diluted earnings per share are calculated by adjusting the weighted average number of outstanding ordinary shares to reflect conversion of all potentially-dilutive ordinary shares.

The diluted earnings per share in 2016 and 2015 were as follows:

Earnings per share (diluted)	2016	2015
Profit attributable to equity-holders of the parent company (thousand euro)	(24,082)	6,588
Weighted av. no. of ordinary shares for diluted earnings per share (thousand shares)	221,010	221,239
Diluted earnings per share (euro)	**(0.11)**	**0.03**

The reconciliation between the weighted average number of ordinary shares outstanding and the weighted average number of ordinary shares for the purposes of diluted earnings per share is shown below:

	2016	2015
Weighted average number of outstaning ordinary shares (thousand)	220,594	220,581
Ajustments for: Employee share ownership plan (thousand shares)	416	658
Weighted av.no.of ordinary shares for diluted earnings per share (thousand shares)	**221,010**	**221,239**

36. TRANSACTIONS WITH RELATED PARTIES

For the purposes of this note, the parent company's significant shareholders, directors and executives, the close relatives of all of them and the companies over which any of those persons may have a significant influence are classified as related parties of the Group.

Significant shareholders are those who own over 3% of Company capital. Employees who report to the Chairman, who is the Company's Chief Executive, are classified as executives even if they have an ordinary employment contract (not a senior management contract in accordance with Spanish Royal Decree 1382/85).

Board of Directors

The following table shows the remuneration granted in 2016 and 2015 to directors of Pharma Mar:

Remuneration item (Thousand euros)	12/31/2016	12/31/2015
Fixed remuneration for executive directors	1,111	929
Variable remuneration for executive directors	257	425
Remuneration for belonging to the Board of Directors	559	235
Board and Board committee attendance fees	393	216
Fixed remuneration for belonging to Board committees	515	87
Fixed remuneration for belonging to Boards of other Group companies	115	894
Remuneration for Lead Independent Director	16	16
Other remuneration	337	1,172
Total	**3,303**	**3,974**

As already explained, in October 2015 took place the reverse merger between Pharma Mar and Zeltia.

For the purposes of comparison with the previous year, it should be taken into account that the balance included as “Remuneration for belonging to the Board of Directors” in 2015 (235 thousand euro), the year in which Zeltia was merged into Pharma Mar (specifically on 30 October, 2015) contained the remuneration paid in the pre-merger period (January-October) to those directors who were directors of Pharma Mar as of 31 December 2015, plus the remuneration paid by Pharma Mar in the post-merger period (November-December).

In 2015, the "Remuneration for belonging to Board committees" item (87 thousand euro) refers solely to two months: November-December.

Additionally, regarding the “Remuneration for belonging to Boards of other Group companies” item in 2015 (894 thousand euro), it should be noted that the remuneration paid by Zeltia (merging company) between January and October 2015 (for membership of the Board of Directors and subcommittees of Zeltia) to the persons who were directors of PharmaMar at 31 December 2015 was recognised as remuneration paid by other Group companies. In 2016, only the remuneration paid by ZelnovaZeltia, Genómica and Xylazel was recognised as remuneration for belonging to Boards of other Group companies.

The "Other remuneration" item in 2016 refers to certain benefits (casualty insurance, healthcare, etc.) granted to executive directors, as well as the use of an executive office, telecommunications equipment, high-end vehicle, support staff, etc., by the executive chairman.

In 2015, "Other remuneration" item is also refered to the bonus collected by the Executive Chairman, in the amount of one million euro gross, in accordance with the provisions of the contract for the provision of executive services dated February 26, 2015; such extraordinary remuneration was accrued on the day the Food and Drug Administration (FDA) approved Yondelis® for commercialization in the United States (October 2015).

As of December 31, the advances and loans granted by the Group to the members of the Board of Directors in 2015 amounted overall to 45 thousand euro, on which interest is not earned in accordance with the transitory provisions of the Spanish Personal Income Tax Act.

The company has a civil liability insurance policy in favour of the members of the Board of Directors. The total premium paid in 2016 amounts to 182 thousand euro.

Companies related to the directors and executives and their close relatives

Transactions with companies related to directors and executives of the Company and their close relatives in 2016 and 2015 were not material, formed part of the normal business of the Company or its subsidiaries, and were performed on a basis similar to arm's-length.

In 2016, a company related to one member of the Board of Directors provided services to two Companies of the Group amounting to 15 thousand euro. These amounts are not significant in the context of the operations of this subsidiary or the Group.

In 2015, two societies related to two members of the Board, rendered some services to Pharma Mar amounting to 21 thousand euro and two thousand euro respectively. Both societies rendered services also to Zeltia before de merger (Note 1) amounting to 12 thousand euros and eight thousand euro.

In 2009, a company related to a member of the Board of Directors granted Zeltia a 2-year loan for an initial amount of 8,000 thousand euro. The transaction was arranged at market rates in line with other financing transactions offered to the Company at the same time, and without additional collateral; it was rolled over through February 2015, when it was repaid in full. The interest accrued on this loan in those two months of 2015 amounted to 48 thousand euro

Transactions with executives of the parent company

The executives received an aggregate total of 1,661 thousand euro in 2015 (1,518 thousand euro in 2014). One of those executives is a director at one of the Group entities and collected 16 thousand euro under this heading in 2015 (19 thousand euro in 2014), which are not included in the foregoing aggregate figure.

37. SHARE-BASED PAYMENTS

At the end of 2016, Pharma Mar and its Group companies have three share ownership plans in force for Group employees and executives (not including directors of Pharma Mar) who receive annual variable remuneration, have an indefinite contract, have completed the trial period and exceeded 50% of the objectives set for the year, with the exception of the Share Ownership Plan approved by the Shareholders' Meeting of Zeltia held on 12 June 2013 and executed by agreement of the Board of Directors on February 28, 2014 for which the threshold was 60%.

All the plans currently in force were approved by the Shareholders' Meeting of Zeltia (absorbed company) and executed by its Board of Directors. As a result of the merger described in Note 1, Pharma Mar, has succeeded Zeltia in the other rights and obligations inherent in such plans.

Below is an explanation of the essential terms and conditions of the Share Ownership Plans as approved by the Company's Board of Directors at the time of execution for which it was duly authorised by the Shareholders' Meeting. Thus, to date, at the start of each year, each Group company that has decided to apply the Share Ownership Plan has provided the Board of Directors with a list of beneficiaries –i.e. employees who meet the conditions established in the relevant agreement of the Shareholders' Meeting – which details the degree of attainment by the beneficiary of the objectives set for the year ended. Likewise, given that participation in such Plans has, until now, been voluntary, only employees and executives who decided to participate in the Plans and allocate part of their variable remuneration to those Plans were included in such lists. In the light of the foregoing, the Board of Directors have approved that such beneficiaries be granted, by their respective employers, the amounts in shares specified in that list (in no event can such amounts exceed 12,000 euros per beneficiary per year), which includes, for each beneficiary, a multiplier coefficient based on their level of responsibility and performance during the previous year (and which is used as a basis for calculating the amount in shares). If the employee decided not to participate in the same, their variable remuneration was received, in its entirety, in cash, however in such case no multiplier coefficient was applied to the cash amount.

The number of shares to be delivered to each beneficiary is the result of dividing the relevant amount by the value assigned to the shares, which is usually established, depending on the case, as either the weighted average market price of the share on the date of execution, or the average of the weighted average market price of the share in the month prior to execution.

The beneficiaries have the political rights and economic rights deriving from ownership of all the shares from the moment the shares are actually delivered, although the Board of Directors has resolved to establish a lock-up arrangement. Thus, in relation to the five Share Ownership Plans that were in force at the end of 2016, the vesting period is 4 years from the date on which the shares are delivered to the beneficiaries; however, the number of shares that result from dividing

the total number of shares that were delivered by the coefficient established in the list, will be available a year and six months after delivery. The delivery of those shares, which must remain locked up for the aforementioned four-year period, is subject to a determined condition, which shall be understood to be complied with in the event that the beneficiary voluntarily resigns or is dismissed on fair grounds. In the event that the contract of employment is terminated for reasons other than the two reasons stated above, the vesting period shall be deemed to have been complied with.

Year 2012 (Incentives Plan approved by the Shareholders' Meeting held on 15 June 2011)

The Shareholders' Meeting held on June 15, 2011 approved a new plan for the cost-free delivery of shares which was executed in April 2012. For the execution of the same, the Company allocated 350,000 own shares.

In the execution of this incentives plan, a total of 349,880 shares were awarded in 2012 to 249 beneficiaries at a value of 1.4258 euro per share.

In 2013, a total of 87,672 shares were released under this Plan.

In 2016, this Plan vested given that the four-year lock-up period had lapsed, and the shares that were under lock-up were released, a total of 210,915 shares.

In relation to this Plan, a total of 51,293 shares have been cancelled, of which 10,209 shares correspond to shares purchased by the employee and 41,084 to shares contributed by the Company.

Year 2013 (Incentives Plan approved by the Shareholders' Meeting held on 13 June 2012)

The Shareholders' Meeting held on June 13, 2012 approved a new plan for the cost-free delivery of shares which was executed in March 2013. For the execution of the same, the Company allocated 350,000 own shares.

In the execution of this Incentives Plan, a total of 349,866 shares were awarded in 2013 to 234 beneficiaries at a value of 1.3244 euro per share.

In 2014, a total of 88,812 shares were released under this Plan.

In relation to this Plan, a total of 46,991 shares were cancelled, of which 2,969 correspond to shares purchased by the employee and 44,022 to shares contributed by the Company.

At December 31, 2016 there are 214,063 shares contributed by the Company that have not vested.

Year 2014 (Incentives Plan approved by the Shareholders 'Meeting held on 12 June 2013)

The Shareholders' Meeting held on June 12, 2013 approved a new plan for the cost-free delivery of shares that was executed in March 2014. For the execution of the same, the Company allocated 500,000 own shares.

In the execution of this Incentives Plan, a total of 236,070 shares were awarded in 2014 to 196 beneficiaries at a value of 2.7292 euro per share.

In 2015, a total of 114,442 shares were released under this Plan.

In relation to this Plan a total of 21,191 shares have been cancelled, of which 3,550 correspond to shares purchased by the employee and 17,641 to shares contributed by the Company.

At December 31, 2016 there are 100,437 shares contributed by the Company that have not vested.

Year 2015 (Incentives Plan approved by the Shareholders' Meeting held on 27 May 2014)

The Shareholders' Meeting held on May 27, 2014 approved a new plan for the cost-free delivery of shares that was executed in May 2015. For the execution of the same, the Company earmarked 600,000 treasury shares.

In the execution of this Incentives Plan, a total of 167,311 shares were awarded in 2015 to 154 beneficiaries at a value of 3.9239 euro per share.

In 2016, a total of 46,774 shares were released under this Plan.

In relation to this Plan, a total of 19,061 shares have been cancelled, of which 5,058 correspond to shares purchased by the employee and 14,003 to shares contributed by the Company.

At December 31, 2016 there are 101,476 shares contributed by the Company that have not vested.

Year 2017 (Incentives Plan approved by the Shareholders' Meeting held on 23 June 2016)

The General Shareholders' Meeting on 23 Jun 2016 approved a new plan for the delivery of shares free of charge with a double objective, as in previous years: to reward employees and executives whose performance in 2016 was satisfactory, and to incentivize beneficiaries to stay in the Group. The maximum number of shares that can be allocated for the execution of this Plan was set by the General Meeting in 500,000 that will be taken from treasury stock held by the Company at the time the plan is implemented. The Shareholders' Meeting determined the Plan's beneficiaries as Group employees and executives (excluding Directors of Pharma Mar, S.A.) who have a permanent contract and had completed any trial period and collect variable remuneration in 2017 relating to attainment of objectives in 2016, provided that they attained over 50% of the targets established by their Department head or hierarchical superior. In the case of Zenova Zeltia; S.A. and Xylazel, S.A., only those employees belonging to the professional group 0, as well as those other employees who, not belonging to said group, will determine the Board of directors of said companies, who cannot appoint more of twenty-.five employees per company (other than those belonging to group) The Shareholders' Meeting empowered the Board of Directors to determine the other terms and conditions of the Plan. At the date of authorizing these consolidated financial statements, the Plan was pending execution, and PharmaMar's Board of Directors had yet to establish the conditions of same under the powers granted specifically for this purpose by the Shareholders' Meeting.

The following table shows the number of shares under each plan at 31 December 2016:

		Employee			Company					
Plan / Grant date	Shares awarded under Plan (1)+(2)+(3)+(4)+(5)+(6)	Shares purchased by employees - cancelled (1)	Shares purchased by employees vested (2)	Shares purchased by employees not yet vested (3)	Shares contributed by Company - cancelled (4)	Shares contributed by Company vested (5)	Shares contributed by Company that have not vested yet (6)	Total number of shares that have not vested (3)+(6)	Fair value of share	Vesting period
Plan 11 June (Grant Abril 2012)	349,880	10,209	87,672	0	41,084	210,915	0	0	1.43	April.-16
Plan 12 June (Grant March 2013)	349,866	2,969	88,812	0	44,022	0	214,063	214,063	1.32	March.-17
Plan 13 June (Grant March 2014)	236,070	3,550	114,442	0	17,641	0	100,437	100,437	2.73	March.-18
Plan 14 June (Grant May 2015)	167,311	5,058	46,774	0	14,003	0	101,476	101,476	3.92	May.-19
	1,103,127	**21,786**	**337,700**	**0**	**116,750**	**210,915**	**415,976**	**415,976**		

38. DUTY OF LOYALTY

Director conflicts of interest

Based on the disclosures presented by each of the Company's directors, they and, to the best of their knowledge and belief, their related parties abstained from incurring in the situations of conflict of interest envisaged in article 229.1 of the consolidated Text of the Capital Companies Act, except in the case of related-party transactions authorised by the Company's board of Directors or its Committees, which are disclosed in Note 27.4 to the separate financial Statements, Note 36 to the Consolidated Financial Statements, and section D.· of the Annual Corporate Governance Report for the year ended 31 December 2016, which forms part of these Financial Statements.

39. CONTINGENCIES

i. Contingent liabilities

Under current legislation, tax returns cannot be deemed definitive until they have been inspected by the tax authorities or the statute of limitations period has elapsed. The Group has the last three years open for review for the main taxes applicable to it (two years in the case of corporate income tax).

A Tax inspection of the Spanish Group for fiscal years 2010, 2011, 2012 and 2013 was closed last September 2016 for the following taxes: Corporate Income Tax, VAT, Income tax for individuals (withholding tax), No-resident withholding tax and Withholdings from capital. Pharma Mar's management has made its best estimates of the tax risk of the acts drawn up. This tax risk is not significant for the financial statements.

For the rest of the years open to inspections, the Company's directors do not anticipate that, additional liabilities would arise or the amount of recognized assets might be reduced such as to have a material effect on these consolidated financial statements.

ii. Contingent assets

The Group did not have contingent assets as of December 31, 2016 or 2015.

40. COMMITMENTS

i. Operating lease commitments

The minimum future non-cancellable operating lease payments are as follows:

(Thousand euro)	Balance as of 12/31/2016	Balance as of 12/31/2015
Under 1 year	2,908	1,881
1 to 5 years	4,602	3,116
Total	**7,510**	**4,997**

ii. Share-based incentive plans

- Under the twelfth plan (June 2012) for delivery of shares free of charge, as of December 31, 2016, 214,063 shares delivered and subject to lock-up will vest in March 2017.

- Under the thirteenth plan (June 2013) for delivery of shares free of charge, as of December 31, 2016, 100,437 shares delivered and subject to lock-up will vest in March 2018.

- Under the fourteenth plan (June 2014) for delivery of shares free of charge, as of December 31, 2016, 101,476 shares delivered and subject to lock-up will vest in May 2019.

41. AUDITORS' FEES

The fees accrued by PricewaterhouseCoopers Auditores, S.L. and other firms in its network amounted to 273 thousand euro in 2016 (186 thousand euro in 2015) for audit services, and 525 thousand euro in 2016 (95 thousand euro in 2015) for other verification services, provided to companies in the PharmaMar Group.

The fees accrued during the year by other companies in the PwC network amounted to 19 thousand euro for tax advisory services in 2016 (12 thousand euro in 2015).

The fees accrued during the year by other auditors of subsidiaries amounted to 44 thousand for audit services in 2016 (47 thousand euro in 2015) and 18 thousand euro for other verification services in 2016 (25 thousand euro in 2015).

42. ENVIRONMENT

The Company did not need to incur significant investments during the year to protect and improve the environment. Environmental protection expenses amounted to 390 thousand euro in 2016 (393 thousand euro in 2015).

Since there were no contingencies relating to environmental protection and improvement and there are no risks that could have been transferred to other companies, it was not necessary to recognize any provisions for environmental actions in the year.

43. SUBSEQUENT EVENTS

In January 2017, the Company received the upfront payment contemplated in the PM1183 licensing, development and commercialisation agreement signed in December 2016 with Chugai Pharmaceutical (Note 27) for a gross amount of 30,000 thousand euro.

In February 2017, one of the Group companies terminated the contract with one of its executives. The Directors consider that this event might entail a cost of approximately 800 thousand euro. The decision was taken in 2017 and, consequently, no provision was recognised in this connection in the 2016 financial statements.

During the first two months of 2017, the Group renewed credit lines for a total amount of 5,000 thousand euro.

2016 DIRECTORS' REPORT

1. Company situation

1.1. Organizational structure

Pharma Mar, S.A. (the Company) is the holding company of a group of companies (PharmaMar Group or the Group) which operates in two segments: biopharmaceuticals and consumer chemicals.

PharmaMar became the parent company of the Group in 2015 through a reverse merger of Zeltia (merged company) into PharmaMar (acquiring company). As a result of that merger, the entire net worth of Zeltia, with its rights and obligations, was transferred en bloc to the acquiring company, PharmaMar.

The Board of Directors of the Group parent company, Pharma Mar, S.A., defines the general strategy. It has the following sub-committees: Executive Committee, Audit Committee, and Remuneration and Appointment Committee.

1.2. Operations: Business model, strategy

The PharmaMar Group obtains its revenues from two main areas: biopharmaceuticals and consumer chemicals. Of those two areas, biopharmaceuticals is the main line of business; specifically, the group's primary activity is the development and sale of marine-based antitumour drugs. Oncology is the Group's fastest-growing and most strategic area.

Its business model focuses on discovering new marine-based antitumour molecules and developing them in preclinical and clinical trials with a view to producing new drugs with therapeutic advantages for oncology patients. The Group's strategy also includes the search for strategic alliances with partners, preferably industrial, to collaborate not only financially but also on advancing the compounds through the various research phases and in subsequent marketing.

One of the distinguishing factors of the oncology business model is the capacity to discover new molecules for the pipeline, thereby generating new drug opportunities for the company. The group has several antitumour molecules in its pipeline at various stages of development, the goal being to bring new compounds to market. PharmaMar also has its own sales network covering Europe. This not only allows it to sell its products directly, but also provides scope to leverage future opportunities to sell third-party products.

In biopharmaceuticals, apart from oncology, the group has other, smaller businesses, such as the development and sale of diagnostic and DNA analysis kits, conducted through subsidiary Genómica. Sylentis is conducting clinical trials in ophthalmology with the new gene silencing technology, RNAi.

In the area of consumer chemicals, the Group produces and distributes consumer products such as insecticides, air fresheners and household cleaning products through Zelnova Zeltia, and produces and sells wood protectors, varnishes and special paints through Xylazel.

Most of the Group's R&D and innovation spending is focused on oncology, its main strategic business. Oncology is the fastest-growing area, and the company maintains a firm commitment to R&D to bring new drugs to market.

2. Business performance and results

REVENUES	31/12/2016	31/12/2015
Sales	**164.034**	**161.992**
Biopharmaceutical Area	94.374	94.644
Oncology Segment	88.194	88.442
Comercial Yondelis sales	86.680	80.677
API Yondelis sales	1.514	7.765
Diagnostic Segment	6.180	6.202
Consumer Chemicals Segment	69.660	67.348
Royalties		
Oncology Segment	**5.779**	**1.788**
Licenses and co-developement agreements		
Oncology Segment	**11.129**	**29.034**
Services Rendered		
Not asigned	**5**	**1.003**
TOTAL REVENUES	**180.947**	**193.817**

EBITDA	31/12/2016	31/12/2015
Biopharmaceutical Area	-6.530	23.670
Consumer Chemicals Segment	5.308	5.122
Not asigned	-9.813	-9.452
TOTAL EBITDA	**-11.035**	**19.340**

(Thousand euro)

2-1 Total revenues

Net sales in the Biopharmaceutical segment amounted to €94.37 million, a 0.3% increase with respect to 2015 (€94.6 million). Of that figure, €88.2 million were in Oncology (PharmaMar) for Yondelis® sales, 0.30% less than in 2015 (€88.4 million).In 2015, Pharma Mar sold raw materials to its partners Janssen Products, LP and Taiho Pharmaceutical Co, Ltd. for €7.8 million to enable them to prepare stocks of Yondelis®, which was approved in their territories in that year. Sales of raw materials to those partners amounted to €1.5 million in 2016. Eliminating sales of raw materials to partners Janssen Products and Taiho Pharmaceutical Co, net commercial sales increased by 7.4% year-on-year in 2016. Sales in the Diagnostic segment (Genómica) totalled €6.2 million, the same as in 2015.

Sales by the Consumer Chemicals companies amounted to €69.7 million, a 3.5% increase year-on-year (€67.3 million in 2015).

Royalty revenues correspond to the Oncology segment. Royalties collected from Janssen Products and Taiho Pharmaceutical Co for sales of Yondelis in the US, Japan and the rest of the world except the European Union increased to €5.8 million in 2016 (from €1.8 million in 2015), after both companies obtained approval from their respective regulators to market Yondelis® in the fourth quarter of 2015.

Revenues from licensing and other co-development agreements, which correspond entirely to the Oncology segment, amounted to €11.1 million in 2016. The breakdown is as follows: €4 million from Chugai Marketing Pharma for the presentation of the Aplidin dossier to the European Medicines Agency (EMA), €1.1 million for smaller licensing contracts for Aplidin in a number of Asian countries, and recognition of €6 million which is part of the upfront payment under the Lurbinectidin (PM1183) license between PharmaMar and Chugai Pharmaceutical Co, Ltd signed in December. The upfront payment, which totalled €30 million and was received early in January 2017, will be recognised in revenues in line with the degree of progress with the obligations acquired by PharmaMar under the agreement, which consist of performing certain clinical trials.

In 2015, Yondelis® was approved for commercialization in the US and Japan, which triggered sizeable payments, and there was also the last payment under the Yondelis development plan (Coordination Agreement) signed with Janssen in 2011. Receipts under licensing agreements amounted to €29 million in 2015.

Consequently, **total revenues** amounted to €180.9 million in 2016, compared with €193.8 million in 2015 (-6.5%).

2.2. Revenues from other countries

Out of total 2016 revenues, 59%, i.e. €106.4 million, came from sales and transactions in other countries (63%, i.e. €121.3 million in 2015).

2.3. Margins: Gross margin and EBITDA

The Group's gross margin was 73% of total revenues in 2016 (72% in 2015). (Calculated using only sales and services revenues, excluding royalty and licensing revenues).

Group EBITDA in 2016 amounted to -€11.0 million (€19.3 million in 2015).
This variation is attributable mainly to two factors: 1) "Revenues under licensing and other agreements": amounted to €11.1 million in 2016, vs. €29.0 million in 2015; this deviation is due to the recognition in revenues of only €6 million of the €30 million upfront payment received for the Lurbinectedin (PM1183) license due to application of the standards for revenue recognition. As a result of this partial recognition, revenues from licences and other agreements were lower than in 2015, when revenues under this heading were collected from Janssen Products and Taiho Pharmaceutical Co for attaining Yondelis® milestones; and 2) R&D expenditure increased by €18 million net in 2016, basically as a result of ongoing Phase III trials. The impact of these two items partly offset the €5 million increase in net sales and royalties.

(EBITDA: earnings before interest, taxes, depreciation and amortization).

2.4. R&D expenditure

R&D expenditure increased by 25% year-on-year (+€16.2 million), from €63.5 million gross in 2015 to €79.8 million in 2016. The Oncology area spent €72.3 million in 2016 (€55.6 million in 2015), while the Diagnostics and RNA interference areas spent €7.3 million (€7.9 million in 2015). In 2016, Oncology capitalised €1.4 million of R&D expenses (€3.3 million in 2015); accordingly, net investment increased by 30% (+€18.1 million) in the year.

R & D	December 2016	December 2015	Dif[a]	Var.
Oncology Segment	-72.301	-55.610	-16.691	30%
Diagnostic Segment	-2.426	-2.218	-208	9%
RNAi Segment	-4.890	-5.687	797	-14%
Consumer Chemicals Segment	-163	-34	-129	
	-79.780	**-63.549**	**-16.231**	**26%**
- Capitalization R&D	1.357	3.258	-1.901	-58%
TOTAL R & D EXPENSES	**-78.423**	**-60.291**	**-18.132**	**30%**

(Thousand euro)

Increased R&D spending in the oncology segment was due mainly to the considerable progress achieved in the clinical trial with Lurbinectedin (PM1183) in platinum resistant ovarian cancer and small-cell lung cancer, as well as a number of preclinical and clinical trials with that same compound.

2.5. Marketing and commercial expenses

Marketing and commercial expenses amounted to €47.7 million in 2016 (€48.6 million in 2015). The biopharmaceutical segment accounted for €29 million (€29 million in 2015). Commercial expenses in the chemical segment amounted to €18.6 million in 2016 (€19.6 million in 2015).

2.6. Income attributable to the parent company

Income attributable to the parent company amounted to -€24.1 million, compared with €6.6 million in 2015. This difference arose mainly because of a net €18.1 million year-on-year increase in R&D expenditure, and of the recognition of a lower amount of licensing revenues due to only partial recognition (€6 million) of the total €30 million upfront payment received for the Lurbinectedin (PM1183) licensing contract.

2.7. Other events that impacted the 2016 financial statements

Licensing agreements and strategic alliances:

In December, 2016 PharmaMar signed an exclusive licensing, development and commercialization agreement in Japan with Chugai Pharmaceutical Co. Ltd. for its third marine-derived anticancer drug, PM1183 (lurbinectedin). Under the terms of the agreement, PharmaMar collected an upfront payment of €30 million and will receive double-digit stepped royalties on sales of PM1183 by Chugai if and when the drug is authorised for commercialization in Japan. The agreement also provides for other payments by Chugai to PharmaMar upon attaining certain milestones relating to clinical development, regulatory events and product sales, potentially totalling over €100 million.

In February 2016, an agreement was signed with Singapore-based Specialised Therapeutics Asia Pte, Ltd (STA) to market marine-based anti-tumour compound APLIDIN® (plitidepsin) for the treatment of haematological tumours in 12 Asian countries: PharmaMar received, and recognized as revenue, an up-front payment in the amount of €229 thousand. PharmaMar will retain exclusive production rights and will supply the finished product for marketing.

In October, 2016 a licensing agreement was signed with Boryung Pharm to commercialize the marine-derived anti-tumour drug Aplidin® (plitidepsin) in South Korea. Under the terms of the agreement, PharmaMar will receive an upfront payment along with royalties and additional remuneration upon achieving regulatory milestones with Aplidin®. PharmaMar will retain exclusive production rights and will supply the finished product to Boryung Pharm for commercial use. Pharma Mar received and recognized as revenue an up-front payment amounting to €450 thousand and a regulatory milestone amounting to €450 thousand.

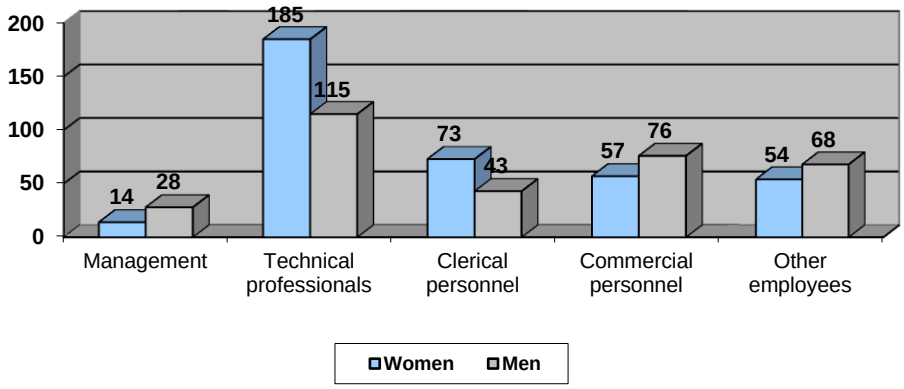
The two companies in the consumer chemicals segment increased both revenues and exports. Zelnova continued to expand internationally. Xylazel moved strongly into the interior decoration niche, successfully distributing chalky finish paints for furniture.

2.8. Personnel

The Group had 713 employees at year-end (700 in 2015).There were 400 employees in the oncology segment, 53 in diagnostics, 20 in RNAi, 215 in consumer chemicals, and 25 unassigned to any segment.

Women account for 53.7% of the workforce.

The bar graph below illustrates segmentation by gender and category:



2.9. Environmental issues

The Company did not need to incur material investments to protect and improve the environment during the year.

Since there were no contingencies relating to environmental protection and improvement and there are no risks that could have been transferred to other companies, it was not necessary to recognize any provisions for environmental actions in the year.

2.10. Average period taken to pay suppliers:

Information on payments for commercial transactions performed in 2016 that were outstanding at the end of the year, in relation to the maximum legal payment periods envisaged in Act 15/2010, is as follows:

	2016 Days
Average period taken to pay suppliers	51
Ratio of paid transactions	53
Ratio of outstanding transactions	43

Total payments made (€' 000)	82,721
Total payments outstanding (€ '000)	10,676

The average supplier payment lag in 2016 was 51 days (50 days in 2015).

3.- Liquidity and Capital

The net cash position (cash + cash equivalents + current financial assets) amounted to €32.4 million as of 31 December 2016 (€45.6 million in 2015). Including non-current financial assets, the total was €33.5 million as of 31 December 2016 (€46.7 million in 2015).

For comparison with the balance sheet figures, the Group's total net interest-bearing debt at amortized cost in the last two years is detailed below:

	December 2016	December 2015
Long term debt	**67.583**	**64.973**
Bank debt	25.351	20.651
Govt. agencies: R&D funding (interest free debt)	16.350	16.350
Obligations and bonds	25.882	27.972
Short term debt	**27.906**	**28.629**
Credit facilities	10.958	10.558
Effects and certifications	1.238	2.148
Bank loan	10.685	11.585
Govt. agencies: R&D funding (interest free debt)	4.438	3.753
Interest and others	587	585
Total financial debt	**95.489**	**93.602**
Cash & cash equivalents + no current and current financial investments	**33.505**	**46.692**
TOTAL NET DEBT	**-61.984**	**-46.910**

When analysing the Group's liquidity as of 31 December 2016, it is necessary to take account of the licensing agreement for PM1183 that PharmaMar signed with Chugai Pharmaceutical Co on 22 December 2016. The contract provides for a non-refundable upfront payment of €30 million. That payment was collected in early January 2017. The payment from Chugai Pharmaceutical Co enhanced the Group's financial position, though it is not reflected in the 2016 treasury figures.

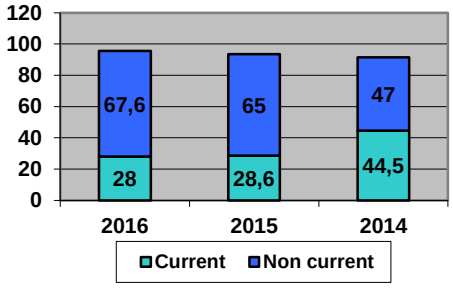
Gross debt remained at similar levels to the previous year. New long-term loans were arranged in 2016 which were used to repay loans maturing in the year, maintaining a good debt structure.

Cash and cash equivalents plus current financial assets declined in year-on-year terms in line with the increase in R&D expenditure in the year.

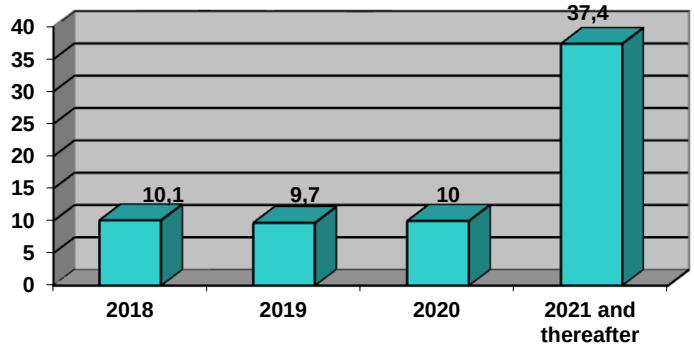
Additionally, in connection with the cash position, the Company received a €30 million gross upfront payment under the PM1183 licensing and development agreement in January 2017, which is not reflected in the 2016 financial statements.

In 2015, the Company decided to issue non-convertible bonds for an amount of €17 million in order to strengthen its financial position and extend its debt maturity profile. The bonds, maturing in 12 years, were acquired by a Spanish investor. The bonds accrue a fixed coupon of 4.75% and are listed in the *Mercado Alternativo de Renta Fija* (MARF).

The graph below shows the Group's debt, both current and non-current, in the last three years.



The graph below shows annual maturities of long-term debt at amortized cost:



4.- Primary Risks and Uncertainties

4.1. Situation risks

Competition.
The chemical and pharmaceutical market is highly competitive and involves multinationals, small and medium-sized domestic players, and generic producers.

The PharmaMar Group's results may be affected by the launch of novel or innovative products, technical and technological progress, and the launch of generics by competitors.

Industrial property. Patents.
Industrial property is a key asset for the PharmaMar Group. Effective protection of industrial property is vital for ensuring a reasonable return on investment in R&D. Industrial property can be protected by registering patents, trade marks, brand names, domains, etc.

Patents run for 20 years in most countries, including the USA and the European Union. The effective period of protection depends on how long drug development takes before launch. To compensate partly for such a long development period and the need to obtain authorization before marketing a drug, a number of markets (including the USA and the European Union) offer patent extensions of up to five years in certain circumstances.

Deficient protection of an invention or excessively long development times that limit the patent's useful life are risks inherent to the pharmaceutical business.

The PharmaMar Group has a rigorous patent policy which seeks to protect inventions obtained through its R&D activities. In addition to the protection that can be obtained for newly-discovered active principles, we also actively pursue protection for new formulations, production processes, medical applications and even new methods of drug administration.

The Group has a system for managing its patents' life cycle, with patent departments that regularly review the patent situation in coordination with the regulatory affairs department. It is also vigilant to detect breaches of our patents by other companies with a view to taking legal action if necessary.

Regulation
The chemical and pharmaceutical industry is highly regulated. Regulations cover such aspects as research, clinical trials, drug registration, drug production, technical validation of production standards, and even marketing. Regulatory requirements have become more stringent in recent times and this trend is expected to continue.

Pharmaceutical prices are controlled and regulated by the government in most countries. In recent years, prices have been reduced and reference prices have been applied.

To offset the risk of a constant flow of new legal and regulatory requirements, the Group makes its decisions and designs its business processes on the basis of an exhaustive analysis of these issues by our own experts, and prestigious external experts where necessary.

Capital availability
Because the markets are not always open and PharmaMar Group makes significant R&D investments each year, the group seeks a range of funding sources, in both the credit and capital markets, to finance its growth, implement its strategy and generate income in the future.

The Group has spread out its risk considerably among various credit institutions, which provides it with greater flexibility and limits the impact in the event that any of its loans are not rolled over.

The Group also issued long-term debt in order to diversify its funding sources.

Shareholders
As in the case of any listed company, there is the risk that a shareholder may consider that a decision by the Board of Directors or the Group's executives is harmful to his/her interests as a shareholder and file a complaint.

The Group has director and executive liability insurance which covers the risk of a shareholder filing a complaint on the grounds that a decision by the Board of Directors or the Group's executives is harmful to his/her interests.

4.2. Operating risks

Commodity prices
Deviations from expected price levels and a strategy of buying and accumulating inventories of commodities expose the organization to excessive production costs and to losses on inventories.

The Group conducts an in-depth analysis of prices at the beginning of the year and tries to obtain a closed price for the year from its suppliers. The products' cost prices are set on this basis. Prices are checked on a monthly basis to detect any need for modification, although petroleum derivatives are subject to sharp variations that are not always predictable (butane, solvents, plastics, etc.).

Health and safety
Failure to provide a safe workplace for its employees would expose the Group to sizeable expenses, loss of reputation and other costs.

Workplace health and safety is monitored exhaustively in pursuit of continuous improvement.

Exposure of laboratory personnel to new natural or synthetic compounds whose possible adverse effects are unknown creates a theoretical health and safety risk in addition to the standard risk of handling chemicals.

The Group has implemented a workplace health and safety system, which is audited regularly to ensure compliance.

The Company has also arranged casualty and third-party liability insurance.

One Group undertaking, whose workforce accounts for 59% of the Group total, is certified to the OHSAS 18001 Occupational Health and Safety Management System standard.

Environmental

Environmental risks can generate potentially significant liabilities for companies. The greatest risk lies in third-party claims for harm to persons and property as a result of pollution.

The Group's production processes generally have a very low risk of environmental impact (noise, smoke, discharges, etc.) and generate almost no waste.

Waste management is outsourced to public recycling and waste management companies. Regular compliance checks are conducted and, where necessary, atmospheric emissions are monitored, water purification systems are installed and the Group has designated points for depositing separated waste for subsequent management.

Two of the Group's largest subsidiaries are certified to ISO 14001, which establishes how to implement an effective environmental management system, allowing the company to maintain returns and minimize its environmental impact.

Product development

The Group allocates a considerable volume of resources to researching and developing new pharmaceutical products. As a result of the length of this process, the technological challenges involved, the regulatory requirements and the intense competition, it is not possible to be sure that all compounds currently under development and those to be developed in the future will reach the market and attain commercial success.

To maximize the effective and efficient use of our resources, the Group has implemented a horizontal working structure across the various departments, project-specific teams and reporting systems to monitor R&D projects internally.

4.3. Information risks

Malfunction of the Group's internal information flows poses the risk of misalignment with strategy and of erroneous or mistimed decisions.

Market disclosures

The Group is also obliged to disclose certain financial information and make other regulatory disclosures that must be truthful, complete and timely. Failure to comply carries the risk of punishment and of a loss of credibility.

PharmaMar's management and directors have inside information about the Group's progress.

There are control systems in place to know who is in possession of certain information at a given time, aimed mainly at complying with the securities market legislation governing inside information.

Information systems

Failure to apply proper access controls in information systems (data and software) may lead to unauthorized discovery, unauthorized access to data or the untimely delivery of same, and improper use of confidential information.

Lack of important information at a crucial time may adversely affect the continuity of the organization's critical processes and operations.

As technology progresses, the PharmaMar Group adapts its physical and legal security policies in connection with the information and communication systems.

The PharmaMar Group has several data processing centres. As far as possible, those centres use the same technology so as to minimize technological diversity and share services that are susceptible to use by more than one business unit (basically in the area of security, support and maintenance).

Access to information is controlled on a person-by-person basis using current technology, and there are redundant fault-tolerant systems in mission-critical areas together with procedures to restore those systems in the shortest possible time. Data integrity is guaranteed using backup systems.

The PharmaMar Group uses third-party technology infrastructures and has service level agreements with those third parties to minimize the impact of any degradations; it also generally has redundant or duplicate infrastructures.

4.4. Financial risks

4.4. A. Market risk

Price risk

The Group is exposed to price risk of available-for-sale equity instruments and of shares in exchange-traded funds at fair value through profit or loss. As for traded commodities, the consumer chemical segment's operations are affected by the price of oil.

Investments in available-for-sale equity instruments are securities of foreign biopharmaceutical companies. Nevertheless, the Group's volume of investment in this type of asset is not material in the context of its operations.

Interest rate risk on cash flows and fair values

The Group's interest rate risk arises from remunerated financial assets that can be converted into cash. The remunerated financial assets consist basically of deposits remunerated at floating interest rates referenced to Euribor.

Floating-rate debt securities expose the Company to interest rate risk on its cash flow. Fixed-rate debt securities expose the Company to interest rate risk on the fair value.

Based on a number of scenarios, at times the Company manages the interest rate risk of its cash flow by means of floating-to-fixed interest rate swaps. The economic impact of these swaps is to convert floating-rate debt into fixed-rate debt. Under interest rate swaps, the Company undertakes to exchange, at regular intervals, the difference between the fixed and floating interest rates on the notional principals that are contracted.

Exchange rate risk

Exchange rate risks arise from future commercial transactions, recognized assets and liabilities and net investments in foreign operations. The Company is exposed to exchange rate risk on transactions in foreign currencies, particularly the US dollar.

Management does not consider it necessary to establish any policy for hedging the foreign currency risk vs. the functional currency.

4.4. b. Credit risk

Credit risk arises from financial assets arranged with banks.

The banks and financial institutions with which the Company works generally have independent ratings.

Where the Company acquires other financial assets, it must apply the following policies:

• Acquisition of fixed-income funds that invest in public- or private-sector debt (government bonds, treasury bills and commercial paper), generally secure, which pay periodic coupons.

• Acquisition of money market funds comprising short-term fixed-income securities (18 months maximum), where security is given priority in exchange for a yield that is generally lower than other investments.

4.4. C. Liquidity risk

The risk of not obtaining funds to honour debt obligations when they come due.

Prudent liquidity risk management entails having sufficient cash and marketable securities, financing via sufficient credit facilities, and the capacity to settle market positions. The goal of the Group's financial department is to maintain flexibility in funding by having credit lines and sufficient funds in financial assets to cover obligations, particularly in the biopharmaceutical segment.

When assessing liquidity risk at the date of authorization of these 2016 financial statements, it should be noted that PharmaMar signed a licensing, development and marketing agreement for PM1183 with Chugai Pharmaceutical Co. on 22 December 2016. The contract provides for a non-refundable upfront payment of €30 million. That payment was collected in early January 2017. The payment from Chugai Pharmaceutical Co enhanced the Group's financial position, though it is not reflected in the 2016 year-end figures.

PharmaMar's directors believe the Group has liquidity to cover its research and development projects and fulfil its future commitments for the following reasons:

- The Group has a sound balance sheet.
- The Group's ability to renegotiate its debt if it is considered necessary.
- The company has unused credit lines in the amount of €20 million.
- The Group ended the year with cash and cash equivalents plus current and non-current financial assets amounting to €33.5 million.

5.- Subsequent events

In January 2017, the Company received the upfront payment contemplated in the PM1183 licensing, development and commercialization agreement signed in December 2016 with Chugai Pharmaceuticals for a gross amount of €30,000 thousand.

In February 2017, one of the Group companies terminated the contract with one of its executives. The Directors consider that this event might entail a cost of approximately €800 thousand. The decision was taken in 2017 and, consequently, no provision was recognised in this connection in the 2016 financial statements.

Some credit lines are renewed automatically and, to date, experience shows that they have been renewed systematically with the same banks. Credit lines amounting to €5,000 thousand were renewed in January and February.

6.- 2017 outlook

In our main business, oncology, the company will continue with its product development plan during 2017; the bulk of R&D and innovation expenditure will be allocated to Lurbinectedin (PM1183). In the second half of 2017, we expect to obtain the results of the Phase III registration trial with this compound in patients with platinum-resistant ovarian cancer. During the year, we will continue to recruit patients for the Phase III registration trial in small-cell lung cancer, which commenced in 2016. We are also finalizing the design of a new registration trial in BRCA2 breast cancer, which we plan to commence in 2017. As for Aplidin, in 2017 we expect to receive a reply from the European Medicines Agency (EMA) to the marketing authorization application that was presented in 2016. The company also plans to commence clinical trials with a new compound that is currently at the preclinical stage.

Efforts will continue to obtain new licensing agreements and/or to create new strategic alliances with other companies and to develop those under way, since all these alliances enhance our position as an oncology company.

After one year of sales of Yondelis in the US and Japan for treating soft tissue sarcoma, the royalties from sales in those two major countries are expected to grow in 2017 in line with our partners' sales projections.
The consumer chemicals segment is expected to continue expanding domestic sales and exports in 2017 and to add new products, both proprietary and under license.

7.- R&D and Innovation

R&D and innovation are a key component of the Group's strategy, and it spent €79.8 million in this area in 2016.

Of that total, €72.3 million was allocated to oncology, €4.9 million to RNAi in ophthalmology, €2.4 million to the diagnostic area, and €0.16 million to the Consumer Chemicals companies. A net amount of €1.4 million in R&D expenses was capitalised in 2016.

The main progress and results in R&D in 2016 by area of activity are as follows:

1.- ONCOLOGY: PHARMA MAR, S.A.

The activities and progress for each of the group's compounds in 2016 are detailed below:

a) Yondelis®:

The post-authorization trials (both observational and retrospective) with Yondelis® in the two approved indications (soft tissue sarcoma and platinum-sensitive ovarian cancer) continued satisfactorily in 2016.

At year-end, there were 26 open trials: 17 in soft tissue sarcoma and 9 in ovarian cancer. Research into Yondelis® that was presented at the leading oncology meetings generated a large number of abstracts and publications during the year.

Soft-tissue sarcoma

A number of major international publications were presented in 2016, such as the T-SAR randomised Phase III trial with trabectedin compared with best supportive care, conducted in France by the French sarcoma group, and the ISG-STS 101-01 trial in neo-adjuvant treatment, conducted by the Italian Sarcoma Group and the Spanish Sarcoma Research Group. Results from the TOMAS Phase I trial with trabectedin in combination with olaparib were presented at the American Society of Clinical Oncology (ASCO) annual meeting in June 2016.

Ovarian cancer

Recruitment continues satisfactorily in the NIMES-ROC international prospective observational trial on the efficacy and safety of the Yondelis® + PLD combination in real life in patients previously treated, or not, with antiangiogenics.

The INOVATYON Phase III trial comparing the Yondelis® + PLD combination with the carboplatin + PLD combination, headed by Gruppo MaNGO (Mario Negri Gynecologic Oncology), continued recruiting very actively in eleven European countries in 2016.

The MITO 23 Phase III trial comparing Yondelis® as monotherapy vs. investigator-choice chemotherapy in patients with a BRCA mutation or a BRCAness phenotype is being conducted in cooperation with the Italian MITO group.

Regarding combinations with other drugs for this indication, the IRFMN-OVA 6152 Phase II trial with trabectedin + bevacizumab, with and without carboplatin, which is being promoted by the Mario Negri Institute in Milan, is ongoing; interim data from this trial were reported to the International Gynecologic Cancer Society meeting in Lisbon.

Other indications

Recruitment is continuing in the ATREUS Phase II trial promoted by the Mario Negri Institute for Pharmacological Research (IRCCS) in cooperation with the Department of Medical Oncology at San Gerardo Hospital (Monza, Italy) to evaluate the activity and safety of Yondelis® in malignant pleural mesothelioma (MPM).

Recruitment is also continuing satisfactorily in the EORTC 1320-BTG trial, conducted in cooperation with the European Organization for Research and Treatment of Cancer (EORTC); this Phase II randomised trial with Yondelis® in patients with highly recurrent meningioma seeks to assess the drug's efficacy and safety in comparison with the standard treatment.

b) Aplidin®

Multiple Myeloma

In September, PharmaMar filed an application with the European Medicines Agency (EMA) for authorization to market Aplidin® (plitidepsin) in combination with dexamethasone for treating relapsed or refractory multiple myeloma.

That application was made using data from the ADMYRE Phase III trial, which assessed Aplidin® (plitidepsin) in combination with dexamethasone vs. dexamethasone as monotherapy in patients with relapsed or refractory multiple myeloma. That trial, which concluded in the first quarter of the year, disclosed a statistically significant 35% reduction in the risk of progression or death vs. the comparator, thereby achieving the primary endpoint.

The Phase II trial with Aplidin® in combination with bortezomib and dexamethasone in patients with double refractory multiple myeloma has commenced, having opened the centres in Spain, Italy and France.

The Phase I trial with Aplidin® in combination with bortezomib in patients with relapsed or refractory multiple myeloma continues recruiting in the expansion phase. Between 15 and 20 new evaluable patients are expected to be added in this stage.

A new Phase I trial has been designed with Aplidin® in combination with bortezomib, pomalidomide and dexamethasone in patients with multiple myeloma exposed to proteosome inhibitors who are refractory to lenalidomide. This trial will be conducted at centres in Spain and the Czech Republic. We are currently awaiting approval from the ethics committees and the regulators.

T-cell lymphoma

The registration trial with Aplidin® as monotherapy in patients with angioimmunoblastic T-cell lymphoma has commenced recruitment and opened new centres in Spain, the Czech Republic, Italy and the US. The trial will include 60 patients at approximately 25 centres in Europe and the US.

c) PM1183

Platinum-resistant ovarian cancer

The CORAIL Phase III pivotal trial with PM1183 as monotherapy vs. topotecan or pegylated liposomal doxorubicin in patients with platinum-resistant ovarian cancer completed recruitment in October 2016. A total of 442 patients were enrolled.

In August, PharmaMar received the green light from the Independent Data Monitoring Committee (IDMC) to continue with this trial. This decision was based on a futility analysis conducted with the first 210 patients (50% of the total) which assessed the safety and efficacy of PM1183 in this indication.

The trial's primary endpoint is to assess progression free survival; secondary endpoints are overall survival, the objective response rate and patient quality of life variables. Patients are currently being monitored to determine progression-free survival and secondary variables.

Small-cell lung cancer (SCLC)

In August, PharmaMar commenced the ATLANTIS Phase III trial, which compares the activity and safety of the combination of PM1183 (lurbinectedin), a drug of marine origin, plus doxorubicin with topotecan or CAV (cyclophosphamide, adriamycin and vincristine) for treating patients with small-cell lung cancer who have relapsed after a first round of platinum treatment. Topotecan is the only drug approved in the US and Europe for this indication. FDA approval to commence the trial had been obtained in February.

ATLANTIS is an open, randomised controlled multicentre Phase III trial that will enrol 600 patients in over 150 centres worldwide over a period of 17 months. The trial's primary endpoint is to demonstrate an increase in progression free survival in the experimental arm, as assessed by an IDMC using the RECIST 1.1 criteria. Secondary endpoints include overall survival, response duration, quality of life variables, response rates in accordance with RECIST 1.1, and the correlation between pharmacokinetics and pharmacodynamics.

Advanced breast cancer

In the Phase II clinical trial in advanced breast cancer, recruitment is ongoing in the A1 arm, consisting of breast cancer patients with BRCA 1 or 2 mutations who had been pre-treated with PARP inhibitors.
The clinical data obtained from analysing the A arm (breast cancer patients with a BRCA 1 or 2 mutation) were selected for an oral presentation at the European Society for Medical Oncology (ESMO) 2016 Conference, held in Copenhagen from 7 to 11 October 2016.

The registration strategy for PM1183 in breast cancer patients with the BRCA gene mutation was discussed and agreed upon with the FDA at a meeting in Washington in December 2016.

Basket trial in advanced solid tumours

Recruitment is continuing for the Phase II trial with PM1183 as monotherapy in indications chosen on the basis of the drug's action mechanism or on the basis of its activity as observed previously in combination trials. Those indications are small cell lung cancer, neuroendocrine tumours, cancer of the head and neck, germ cell cancer, endometrial cancer, bile duct cancer, cancer of unknown primary origin (CUP), and Ewing sarcoma. Recruitment is continuing in the cohorts of endometrial cancer, small-cell lung cancer, germ cell cancer and Ewing sarcoma. The trial is being conducted in Belgium, France, Germany, Italy, Spain, Switzerland, the United Kingdom and the United States.

Combination trials

As regards Phase I combination trials, recruitment was completed for the combinations with doxorubicin, cisplatin, capecitabine and paclitaxel with or without bevacizumab. The latter two trials produced promising preliminary results in a range of breast cancer types, among others; consequently, the next stages of development for this indication are currently being assessed. These results were presented as a poster at the European Society for Medical Oncology (ESMO) 2016 Conference, which was held in Copenhagen from 7 to 11 October this year. The results of the combination trial with cisplatin were presented at the European Cancer Organisation (ECCO) Congress, which was held in Amsterdam on 27-30 January 2017.

Recruitment continues on schedule for the Phase I trial in combination with irinotecan.

d) PM184

The Phase I dose escalation trial assessing the combination of PM184 with gemcitabine is recruiting on schedule. It is being conducted at two centres, one in Spain and one in the US. There are plans to enrol patients

with specific diseases in which clinical benefit has been observed, such as non-small-cell lung cancer, breast cancer and tumours of the head and neck.

The Phase II trial with PM184 is being conducted in hormone-receptor positive advanced breast cancer patients; recruitment is advancing on schedule.

2.- Diagnostics: Genómica

There was considerable R&D activity in 2016.In the area of infectious diseases, an enhanced version of the CLART® PneumoVir kit was launched which focuses on detecting respiratory viruses; CLART® PneumoVir2 allows faster detection of more targets than its predecessor, including coronavirus OC43, coronavirus NL63 and influenza A H7N9.Also, a new version of CLART® HPV2 was released. This is a lyophilized product that can be transported and stored at room temperature, which is an advantage by avoiding the drawbacks of shipping a frozen product to distant countries and should open up new sales opportunities.

As for oncology, the CLART® EGFR BL kit for detection in blood of 39 mutations of the EGFR gene which are significant in lung cancer was released. This kit makes it possible to track and monitor an oncological patient without requiring a solid biopsy.
Additionally, the CLART®CMA ALK-ROS1 kit, launched in 2016, detects and provides genetic identification of the main chromosome translocations in the ALK and ROS1 genes in patients with lung cancer.

In 2016, a total of 36% of revenues was spent on research and development.

2.- RNA Interference, OPHTHALMOLOGY: SYLENTIS, S.A.

The first product undergoing clinical development, Bamosiran (SYL040012), for treating glaucoma and ocular hypertension, completed a Phase IIB dose-seeking trial which also sought to determine efficacy vs. timolol as comparator. In view of the results, Sylentis is exploring the possibility of trials combining Bamosiran with other treatments on the market. Consequently, Sylentis is awaiting progress with these negotiations before proceeding with clinical development of this product.

Sylentis completed the second Phase II trial with SYL1001 in dry eye syndrome in March 2016. Both of the Phase II trials were multi-centre randomized parallel group double-blind with placebo control, and they took place at eight centres in two European countries: Spain and Estonia. The results of the Phase II trials evidenced SYL1001's efficacy in improving the signs and symptoms of dry eye syndrome in patients as well as determining the most effective dose.

In June, Sylentis presented the Phase II results and the clinical strategy for subsequent stages to the FDA. The protocol for Phase III clinical development was defined subsequently, and the centres for the next trial with SYL1001 were selected; the regulatory documentation has been drafted and a CRO has been engaged to perform the trial. All the documentation was presented to the Estonian medicines agency to obtain approval for the clinical trial with the product in Estonia. The documentation will be presented in the other participating countries early in 2017.

Additionally, a new line of research is being pursued to develop RNAi candidates for treating diseases of the retina.

8.- Acquisition and disposal of own shares

As of 31 December 2016, the Company's capital amounted to €11,110 thousand and was represented by 222,204,887 bearer shares with a par value of €0.05 per share. All the shares are fully subscribed and paid and have the same political and economic rights.

As of 31 December 2016, the controlling company had 1,210,081 own shares, representing 0.545% of capital stock.

The Group acquired 1,709,350 shares in 2016, representing 0.769% of capital, for a total amount of €4.2 million, and sold 1,396,059 shares for a total amount of €3.5 million, resulting in a net loss of €0.3 million that was recognized in reserves.

A total of 211 thousand shares were released from lock-up under the Share Delivery Plan in 2016, due either to reaching the end of the lock-up period or to other conditions set out in the plans, such as terminations.

9.- Share information

General situation

In macroeconomic and market terms, 2016 was a year of uncertainties that had a clear impact on the financial markets. The two principal geopolitical events of 2016 were indisputably the UK vote in June to abandon the European Union (Brexit), and the impact of the US presidential election campaign on the markets throughout the year, culminating with the election of Donald Trump in November. Other notable macroeconomic factors in the year were the monetary policies implemented by the main central banks. In Europe, the European Central Bank (ECB) maintained its expansive monetary policy in view of weak European economic growth; meanwhile, on the other side of the Atlantic, in December the Federal Reserve resumed its policy of increasing interest rates after seven consecutive years of GDP growth and given the improved prospects for the following year as well as the robust recovery by employment in recent years, among other macroeconomic indicators.

In Spain, the political uncertainty in 2016 caused by the need to hold a second general election, while the country spent almost one year under an interim government, was reflected in market performance, as the indices underperformed their European counterparts. This occurred even though Spain achieved 3.2% GDP growth, putting it at the head of the developed countries, with prospects of maintaining this good performance. Nevertheless, Spain still faces major challenges in the coming years, such as the high unemployment rate, although this datum continues to improve, a government deficit that must be controlled in line with Europe's instructions, and the rising government debt, among other issues.

As a result, until mid-December the IBEX-35 index (the main index of the Spanish bourse) had accumulated a moderate 2% decline, after gaining 8% since the end of November, but it finally ended 2016 down -2.2%.

PharmaMar stock market indicators 2016

Share information in 2016

Total number of shares	222.204.887
Number of outstanding shares	222.994.806
Par value (euro)	0,05
Average daily trading (no. of shares)	550.406
Average daily trading (euro)	1.366.107
Trading days	256
Year trading low (24 December) (euro)	235.060
Year trading high (6 February) (euro)	9.875.512
Total trading in year (million euro)	550,3
	(euro)
Lowest share Price (11 February)	1.72
Highest share Price (22 April)	3.19
Share price at 31 December	2.71
Average share price in the year	2.48
Market capitalization at 31 December (million euro)	**602.2**

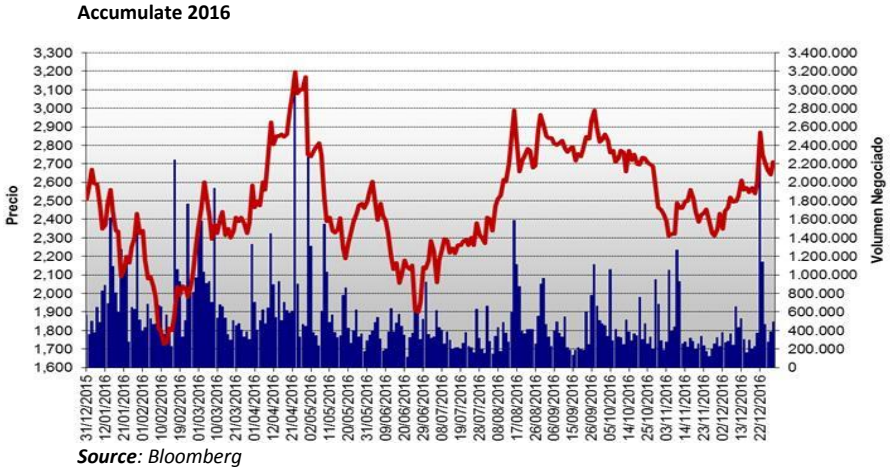
***Source**: Bloomberg*

PharmaMar share performance

In 2016, PharmaMar's first full year of trading following the inverse merger with Zeltia, the share gained 8%, contrasting with a decline of 2.2% by the IBEX-35 index and of 21% by the Nasdaq Biotech index, one of the world's main biotechnology indexes. PharmaMar's share price recovered from the outset, supported by positive corporate news and despite the difficult market situation.

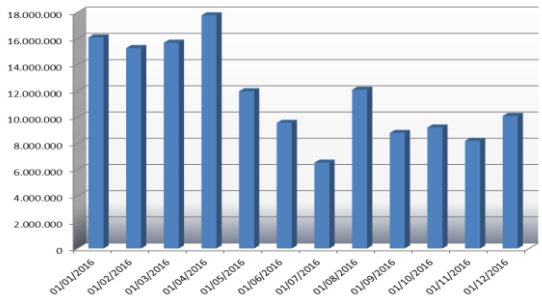
Notable events in the year included progress with clinical trials with its most strategic product, Lurbinectedin (PM1183), and also with Aplidin. In March, the Company announced that the ADMYRE Phase II trial with Aplidin in multiple myeloma had attained its primary endpoint. This resulted in the presentation of a marketing authorization application to the EMA for Aplidin in Europe for this indication. The share's good performance in the second half of the year was driven by Lurbinectedin's clinical progress. Firstly, the Phase III registration trial with Lurbinectedin in combination with doxorubicin for treating patients with small-cell lung cancer commenced at the end of the summer. Shortly afterwards, it was announced that the Independent Data Monitoring Committee (IDMC) had approved continuation of the CORAIL pivotal Phase III trial with Lurbinectedin to treat platinum-resistant ovarian cancer. Enrolment of the 442 patients in this trial concluded in October.

The year 2016 concluded with the signature of an exclusive licensing, development and marketing agreement for Lurbinectedin in Japan with Chugai Pharmaceutical Co, Ltd. This agreement and the related revenues represent strong support for Lurbinectedin's development and had a positive impact in the market.



***Source**: Bloomberg*

Trading in PharmaMar shares amounted to €353.2 million in 2016.Average daily trading amounted to 550,351 shares and peaked in April.



FINANCIAL STATEMENTS AND DIRECTORS' REPORT
OF THE PHARMA MAR, S.A. GROUP
FOR THE YEAR ENDED
31 DECEMBER 2016

These Financial Statements and Directors' Report of the PHARMA MAR, S.A. Group for the period from 1 January 2016 to 31 December 2016 were drafted and authorized in compliance with the provisions of articles 34 and 35 of the Commercial Code and articles 253 and 254 of the Capital Companies Act.

In accordance with the provisions of article 37 of the Commercial Code and article 253 of the Capital Companies Act, the Board of Directors signed this 160-page document on 23 February 2017:

The Board of Directors:

José Mª Fernández Sousa-Faro Chairman	Pedro Fernández Puentes Vice-Chairman
Jaime Zurita Sáenz de Navarrete Director	Eduardo Serra Rexach Director (Representing EDUARDO SERRA Y ASOCIADOS, S.L. on the Board)
José Leyte Verdejo Director (Representing ROSP CORUNNA Participaciones Empresariales, S.L. on the Board)	Carlos Solchaga Catalán Director
José Félix Pérez-Orive Carceller Director (representing JEFPO, S.L. on the Board)	Ana Palacio Vallelersundi Director
Montserrat Andrade Detrell Director	

Certificate by the Secretary of the Board of Directors to the effect that, after authorization by the Board of Directors, on 23 February 2017, of the Financial Statements and Directors' Report of the PHARMA MAR, S.A. Group for the year ended 31 December 2016, the Directors listed above signed this document by placing their signatures on the Balance Sheet, the Income Statement, the Statement of Changes in Equity, the Cash Flow Statement, the first page of the notes to financial statements, the first page of the Directors' Report and the last page of the document, with the exception of Mr Eduardo Serra Rexach, representative on the Board of EDUARDO SERRA Y ASOCIADOS, S.L., who did not sign since he was outside Spain due to unavoidable professional engagements, and who granted proxy to fellow director Jaime Zurita Sáenz de Navarrete with respect to the items on the agenda of this meeting (including authorisation of the separate and consolidated financial statements for the year ended 31 December 2016, and of the separate and consolidated directors' reports for the year ended 31 December 2016), with express instructions to vote in favour. Which I certify in Madrid on 23 February 2017.

Secretary of the Board of Directors

Sebastián Cuenca Miranda

STATEMENT OF RESPONSIBILITY FOR THE CONTENT OF THE ANNUAL FINANCIAL REPORT

The members of the Board of Directors hereby declare that, to the best of their knowledge and belief, the separate and consolidated financial statements for the year ended 31 December 2016, authorized by the Board of Directors at a meeting on 23 February 2017 and drawn up in accordance with the applicable accounting standards, provide a true and fair view of the net worth, financial position and results of PHARMA MAR, S.A. and its consolidated dependent companies taken as a whole, and that the separate and consolidated directors' reports contain an accurate analysis of the business performance and results and the position of PHARMA MAR, S.A. and its consolidated dependent companies, taken as a whole, with a description of the main risks and uncertainties that they face.

Madrid, 23 February 2017

The Board of Directors:

Name	ID number	Position	Signature
José María Fernández Sousa-Faro		Chairman	
Pedro Francisco Fernández Puentes		Vice-Chairman	
Rosp Corunna Participaciones Empresariales, S.L. (represented by Mr José Leyte Verdejo)		Director	
JEFPO, S.L. (Represented by José Félix Perez-Orive Carceller)		Director	
Eduardo Serra y Asociados, S.L. (Represented by Eduardo Serra Rexach)		Director	
Jaime Zurita Sáenz de Navarrete		Director	
Carlos Solchaga Catalán		Director	
Ana Palacio Vallelersundi		Director	
Montserrat Andrade Detrell		Director	