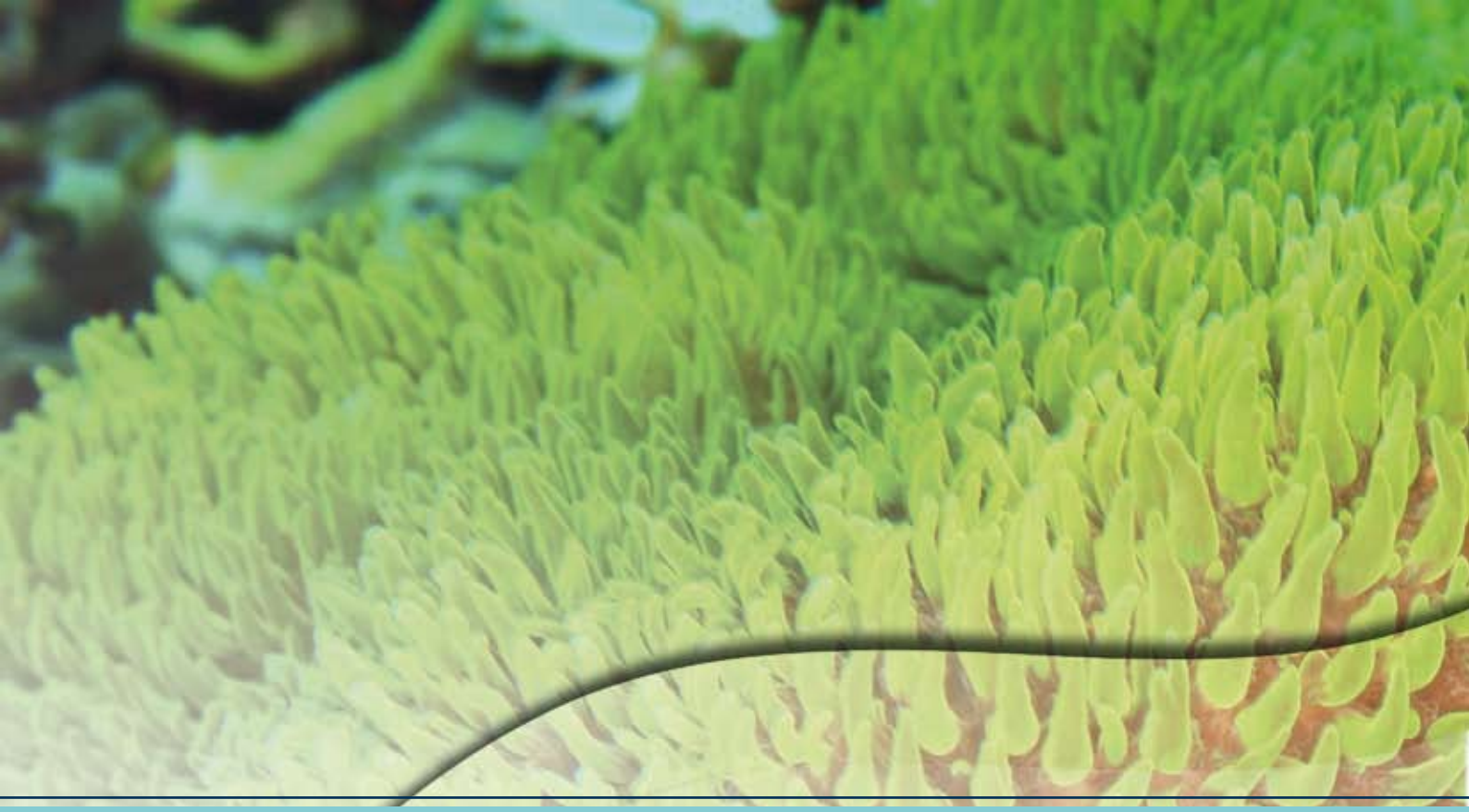
2012 Annual Report

PharmaMar



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Fellow shareholder,

I am pleased to present PharmaMar's Annual Report for 2012, which describes the company's progress during the year: despite the difficult economic situation, it proved to be a very special year for PharmaMar because of excellent news generated by the hard work and professionalism of our people. We celebrated the fifth anniversary of Yondelis®, while our novel compound PM01183 exhibited very promising activity, as recognised by the European Society for Medical Oncology (ESMO). That compound also obtained orphan drug status from the European and US regulators (EMA and FDA) for ovarian cancer. Despite the persisting crisis, PharmaMar continues to focus on internationalization as a key component of its good performance and future prospects. In this line, we established two subsidiaries: in Germany (Berlin) and Italy (Milan). Our tenacity was rewarded, as the State Secretariat for Research, Development and Innovation, part of the Spanish Ministry of Economy and Competitiveness, granted PharmaMar the National Innovation and Design Award 2011 in the Internationalization category.

At the 17th CTOS (Connective Tissue Oncology Society) annual meeting, held in Prague between 14 and 17 November, PharmaMar celebrated the fifth anniversary of the European Commission's approval of Yondelis® for soft tissue sarcoma, and 18 papers on Yondelis® were presented. During the year, we obtained 14 new marketing authorisations in 10 countries, and the trials under way with Yondelis® are advancing on schedule. In the sarcoma area, recruitment for the Phase III trial in patients with gene translocation-related sarcomas was completed early in the year and the patients are currently being monitored. Recruitment is progressing on schedule for the trials in cooperation with the Spanish Sarcoma Research Group (GEIS), EORTC, SARC, GISG and others. Patient recruitment for the Phase III trial in L-sarcoma that is being executed by Janssen in the USA is ahead of schedule. Moreover, the two Phase II trials sponsored by our partner in Japan, Taiho, in patients with translocation-related sarcomas, are progressing as expected. In the second quarter, recruitment commenced for a new Phase II trial with Yondelis® in patients with advanced ovarian cancer with the BRCA1 and BRCA2 mutations and the BRCAness phenotype, which is proceeding on schedule.

Since late 2011 and early 2012, the data from the Phase III trial in multiple myeloma (ADMYRE) with Aplidin® (plitidepsin) is being compiled and screened for evaluation by an Independent Drug Monitoring Committee (IDMC), which will issue an opinion on the advisability of continuing with the trial with a view to applying for marketing authorisation. In December, the IDMC issued a recommendation that ADMYRE should continue. This recommendation follows a comprehensive analysis of 60 patients in the first stage of the trial, in which the study comfortably met its required efficacy and safety levels. In the area of dedifferentiated liposarcoma, the clinical trial with Aplidin® in four centres in France is continuing thanks to the support of the French Sarcoma Group.

Zalypsis® is undergoing clinical development as monotherapy in patients with recidivant or refractory multiple myeloma. Recruitment for the first stage was completed in the first quarter, the maximum tolerated dose and recommended dose having been defined. Analysis of data from the patients in the second stage of the Phase II trial is ongoing.

PharmaMar's newer products have also provided good news. PM01183 is being developed for a number of therapeutic uses. Recruitment for the second and final phase of the randomised Phase II trial in patients with platinum-refractory/resistant ovarian cancer continues on schedule. Moreover, as I noted earlier, the ESMO Scientific Committee selected the trial's preliminary results to be presented

orally during a special session. The first phase of this trial evaluated the product's efficacy against platinum-refractory/resistant ovarian cancer; control of the disease was achieved in 73% of cases and the response rate was 27%, all evidence of promising activity. As for pancreatic cancer, recruitment was completed for a Phase II trial as second-line treatment where gemcitabine-based therapies have failed. The data will be analysed when certain patients who are still undergoing treatment complete the process. A Phase II trial in patients with advanced breast cancer commenced in the second quarter at hospitals in Spain and the US. Patients were selected depending on the presence of the BRCA1 or 2 mutations (hereditary cancer). In the area of advanced leukaemia, after the maximum tolerated dose had been identified, the Ethics Committees approved an amendment to obtain a more appropriate administration pattern for patients in the Phase I clinical trial with PM01183 as monotherapy. Continuing with this promising compound, in the area of solid tumours, recruitment concluded for the Phase I clinical trials in combination with gemcitabine and doxorubicin, the recommended dose having been defined for both combinations. In view of the excellent results combined with acceptable safety below the maximum tolerated dose for PM01183 in combination with those agents in lung cancer, new Phase II/III trials are being designed with those combinations in small cell and non-small cell lung cancer.

Early in 2011, PharmaMar announced that PM060184 had entered clinical trials. This new marine-derived compound, which has been synthesised, showed strong antitumour activity in preclinical models and a favourable safety profile in animal toxicology studies. In 2011, PM060184 was approved by the health authorities of the US, France and Spain for Phase I clinical trials in patients with solid tumours; this year, the two trials that make up the Phase I development plan are continuing with recruitment as planned. The recommended dose will be defined in the coming months with a view to commencing Phase II trials subsequently.

We were also very active in presenting the results of our research at conferences. In 2012, PharmaMar presented papers on its research at the main international conferences, with very positive results. Over 50 new publications were presented at leading meetings such as the 103rd Annual Meeting of the American Association for Cancer Research (AACR), the American Society of Clinical Oncology's (ASCO) 48th Annual Meeting, the 37th Congress of the European Society for Medical Oncology (ESMO), the 17th Annual Meeting of the Connective Tissue Oncology Society (CTOS), and the 24th EORTC-NCI-AACR Symposium on Molecular Targets.

As a result of negotiations and marketing activities, we attained gross sales of 71.4 million euro in 2012. The difference with respect to 2011 is due basically to the shortage of Caelyx. We also continued to invest in R&D: 33 million euro in 2012. Our library now contains 135,000 marine samples.

It was also an intense and fruitful year for internationalization, as we opened subsidiaries in two of Europe's main markets: Italy (Milan) and Germany (Berlin). PharmaMar is committed to an international presence and is strengthening its position in view of potential licensing-in agreements. PharmaMar also received the award for Internationalisation as part of the National Awards for Innovation and Design 2011 from the State Secretariat for Research, Development and Innovation under Spain's Ministry of Economy and Competitiveness. The jury declared that PharmaMar had obtained the National Award for Internationalization "because of the considerable volume of business conducted abroad (90% of total sales), the impact of innovative projects on the company's international strategy (PharmaMar is the first Spanish company to obtain approval

from the European Medicines Agency for an antitumour drug and its products are available in 70 countries, over 40 of them outside the EU); and its participation in numerous R&D projects in Spain and at European level."

PharmaMar continued to develop international activities and relations in the biotechnology area and in the search for a framework of action that ensures stability and incentivises innovation, which is the distinguishing feature of this area and the foundation of its business. We participated with other Grupo Zeltia companies in BioSpain 2012, one of the main international encounters in the biotech industry, which was attended by over 600 companies from the sector.

Aware of the important role of corporate social responsibility, PharmaMar sought to stand out this year for its focus on innovation and sustainable, responsible research. Accordingly, we channelled our social responsibility efforts through cooperation projects aimed at training and awareness-raising in the area of science, biotechnology and innovation. We also provided sponsorship and awards for innovative work by professional researchers and for science journalism.

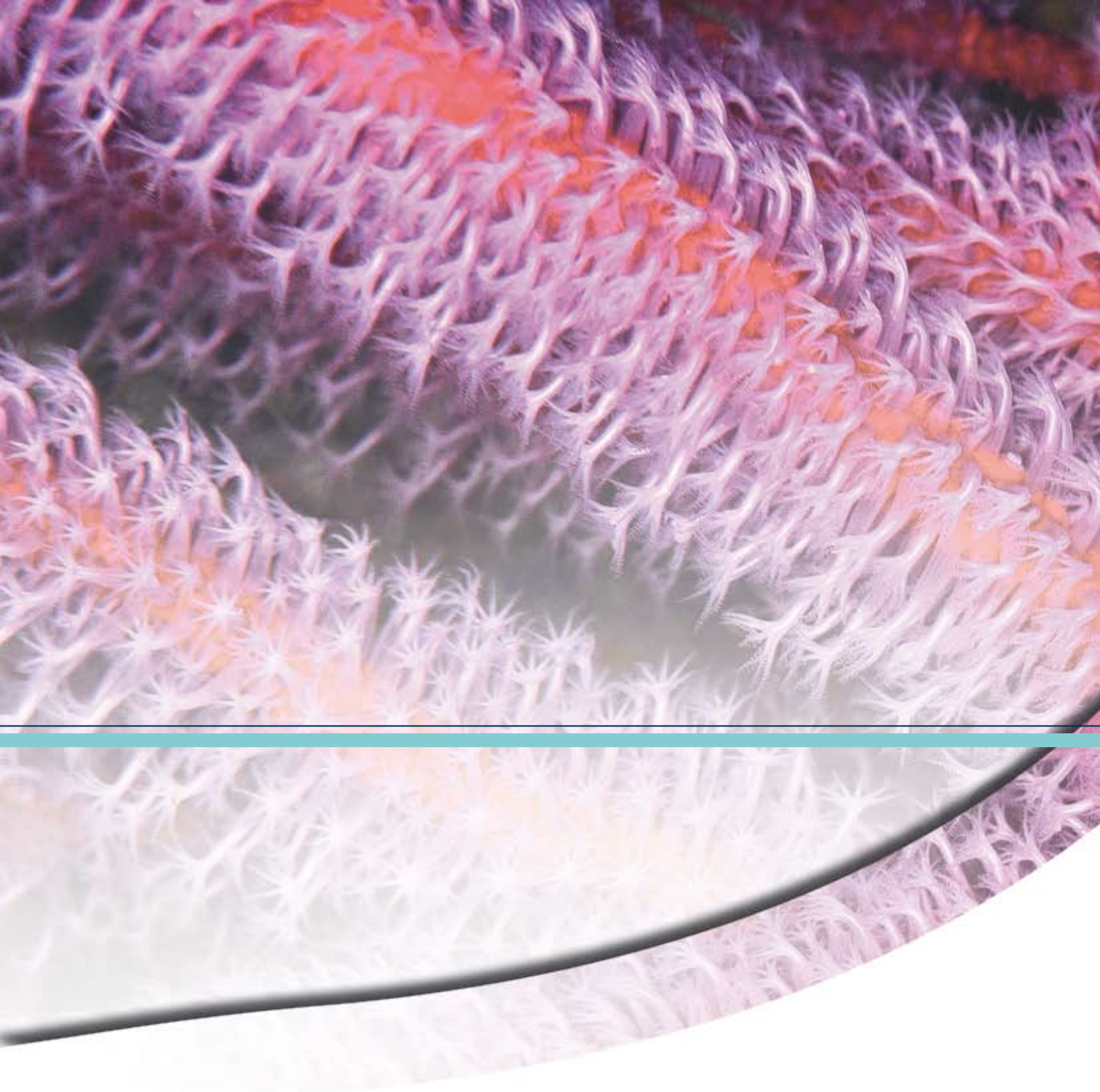
We are satisfied with the recognition of our work and achievements in 2012. In February, PharmaMar was rated "Excellent" once again by the Committee for the Plan to Promote Scientific Research and Technological Development and Innovation in the Spanish pharmaceutical industry (PROFARMA).

Since our approach of using the sea as a source of drugs is now firmly established in the world oncology market, we reaffirm our vision that the oceans can be a source of improvements for our patients' lives. The broad library of marine samples that we have collected around the world down through the years, which reached 135,000 in 2012, offers an inexhaustible supply of candidates for future drugs, and our teams tasked with discovering new molecular entities work tirelessly to expand our portfolio of compounds in pre-clinical development.

Once again, dedication and hard work by all the people of PharmaMar made 2012 an important year in our history. Consequently, I would like to thank our employees very particularly for their contribution this year. Without their support and commitment, it would have been impossible to address the challenging situation and achieve success in 2012.

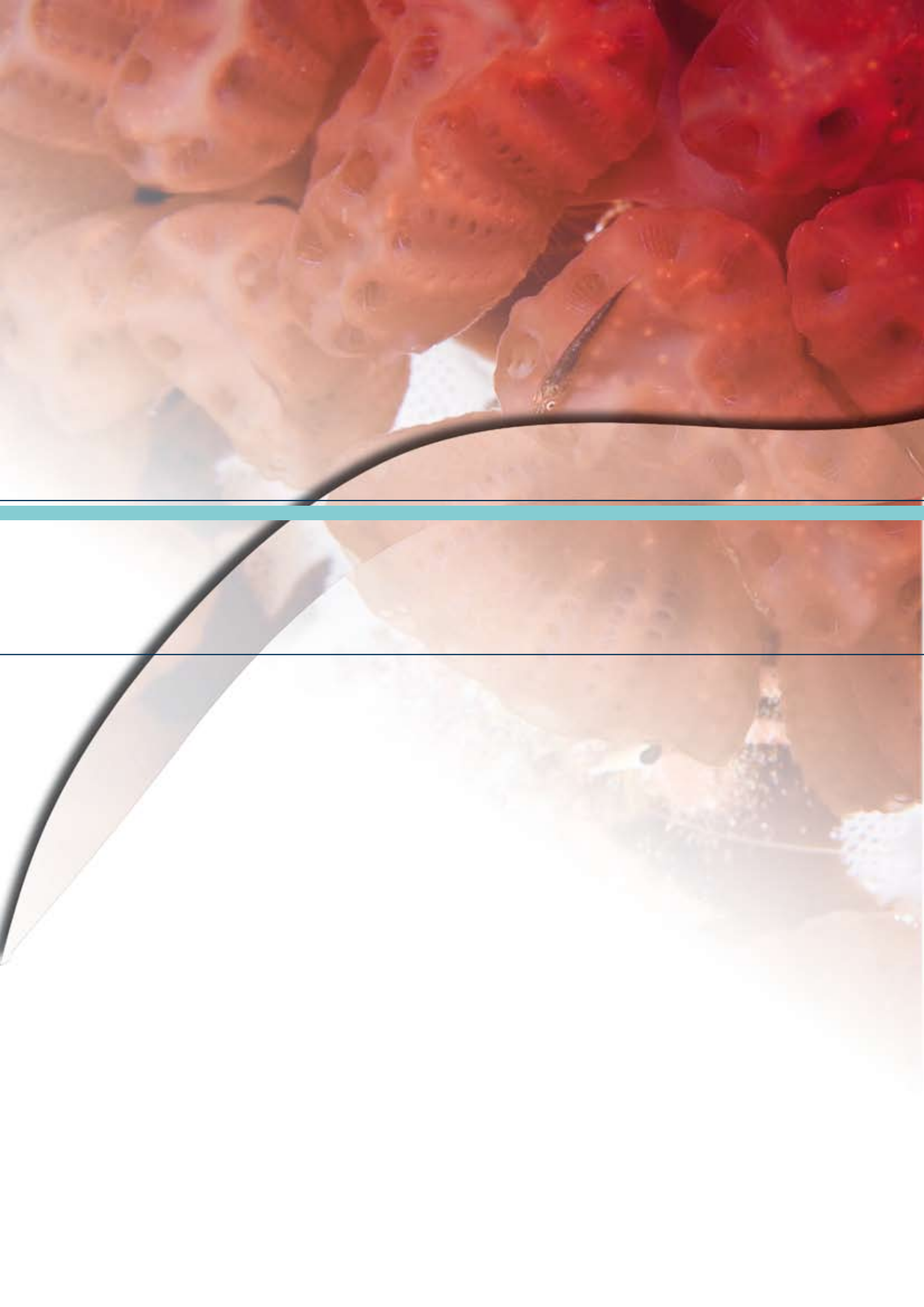
José María Fernández Sousa-Faro

Chairman



Company Directors

Chairman:	Mr. José María Fernández Sousa-Faro
Vice-Chairman	Mr. Pedro Fernández Puentes
Directors:	Mr. José Félix Pérez-Orive Carceller
	Ms. Ana Palacio Vallelersundi
	Mr. Bruce Chabner
	Ms. Martine J. Piccart
	Ms. Cora N. Sternberg
	Mr. Fernando Cabanillas
Secretary (not a director)	Mr. Sebastián Cuenca Miranda



Auditors' report 2012

PHARMA MAR, S.A.
SOCIEDAD UNIPERSONAL

A free translation of an auditors' report originally issued in Spanish. In the event of a discrepancy, the Spanish language version prevails.

AUDITORS' REPORT ON FINANCIAL STATEMENTS

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

1. We have audited the financial statements of Pharma Mar, S.A.U., consisting of the balance sheet as of 31 December 2012 and the statement of income, the statement of changes in equity, the cash flow statement and the notes to the financial statements for the year then ended. The directors are responsible for drawing up the company's financial statements in accordance with the financial reporting framework that is applicable to the company (identified in Note 2 in the accompanying notes to financial statements) and, in particular, with the accounting principles and standards contained in same. Our responsibility is to express an opinion on those financial statements taken as a whole, based on work performed in accordance with the auditing regulations in force in Spain, which require the examination, by selective tests, of the evidence supporting the financial statements and the evaluation of whether their presentation, the accounting principles and standards applied and the estimates made are in conformity with the applicable financial reporting regulatory framework.

2. In our opinion, the accompanying 2012 financial statements give, in all material respects, a true and fair view of the equity and financial position of Pharma Mar, S.A.U. as of 31 December 2012 and the results of its operations and its cash flows in the year then ended, in accordance with the applicable financial reporting regulatory framework and, in particular, with the accounting principles and standards contained therein.

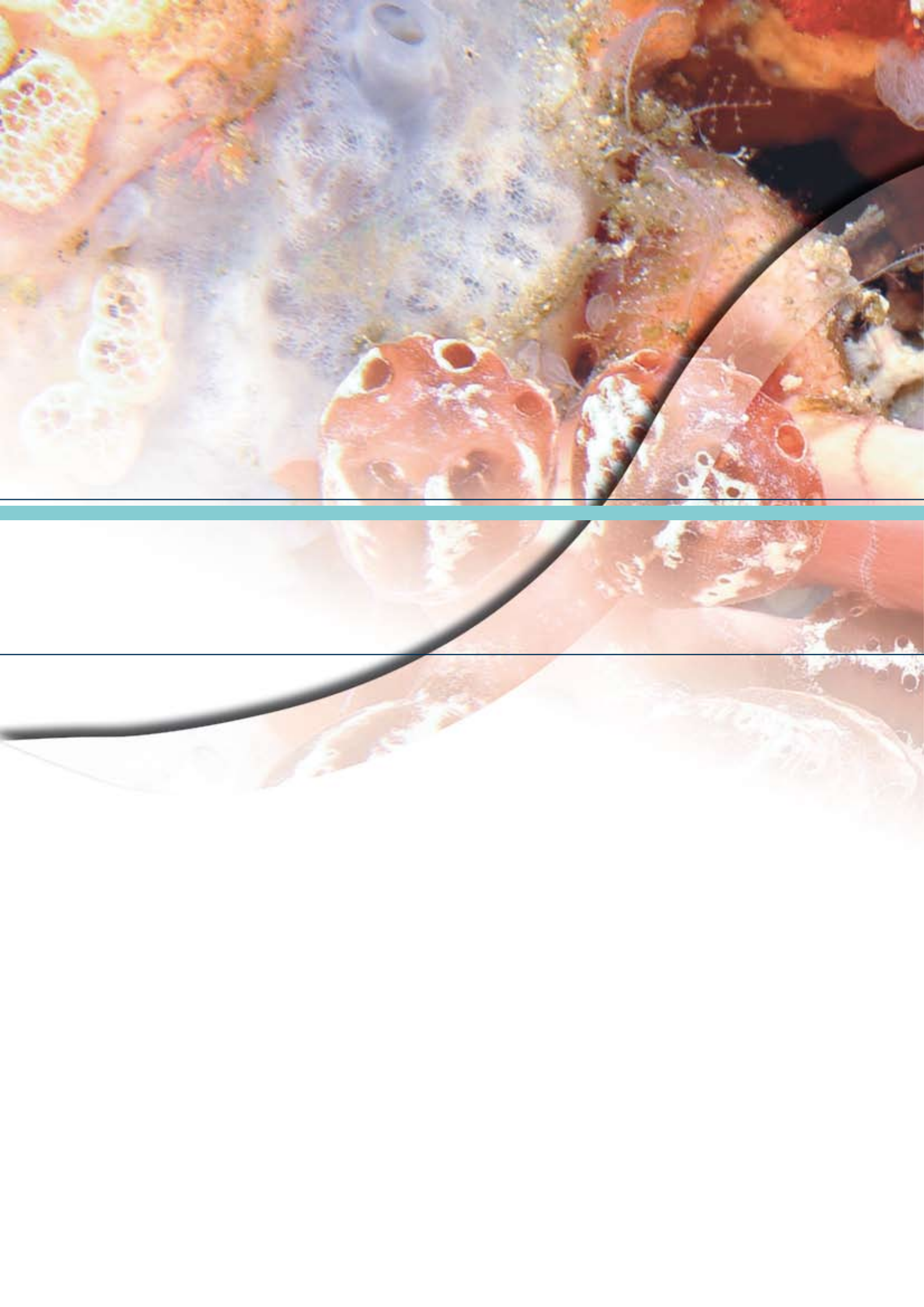
3. Although this does not affect our audit opinion, we draw attention to the disclosure contained in note 1 in the accompanying notes to financial statements to the effect that the Company's activity in 2012 consisted essentially of commercialising Yondelis for treating soft tissue sarcoma and ovary and of continuing the development of the bioactive principles in the research lines detailed in note 6.

Nevertheless, at year-end, the Company's equity consisted, to a great extent, of the research and development expenses incurred in the various drug development programmes under way and of those incurred on Yondelis for soft tissue sarcoma and refractory ovarian cancer, which began to be amortised in 2007 and 2009, respectively, and, to a lesser extent, of the revenues from the sale and assignment of the rights to same.

The directors have capitalised the expenses corresponding to those drug development programmes on the assumption that they will reach a favourable outcome and since they consider that they meet the conditions set out in note 4.1.1 to the financial statements, in line with those established in this connection in the Spanish General Accounting Plan and its implementing regulations; they have also recognised, within that same accounting regulatory framework, the amounts obtained to date for partial assignment of the rights associated with those programmes, matching the revenues recognised with the expenses incurred, as indicated in note 4.13.

4. The accompanying directors' report for 2012 contains such explanations on the state of the affairs of Pharma Mar, S.A.U., the performance of its business and other matters as the directors consider appropriate, and does not form an integral part of the financial statements. We verified that the financial information contained in that directors' report is consistent with the 2012 financial statements. Our work as auditors is limited to checking the directors' report with the scope set out in this paragraph and it does not include the review of information not derived from the Company's accounting records.

PricewaterhouseCoopers Auditores, S.L.
Luis Sánchez Quintana
Partner - Auditor
11 March 2013



Annual Accounts 2012

PHARMA MAR, S.A.
SOCIEDAD UNIPERSONAL

BALANCE SHEET FOR THE YEARS ENDED 31 DECEMBER 2012 AND 2011

(In thousand euro)

ASSETS	Note	31/12/2012	31/12/2011
A) NON-CURRENT ASSETS		**434,920**	**429,856**
I. INTANGIBLE ASSETS		**409,000**	**406,931**
▪ 1. Development	6	408,572	406,278
▪ 5. Computer software	6	428	653
II. PROPERTY, PLANT AND EQUIPMENT		**20,186**	**22,200**
▪ 1. Land and structures.	7	16,541	17,030
▪ 2. Technical installations and other property, plant and equipment	7	3,549	5,075
▪ 3. Construction in progress and advances	7	96	95
IV. LONG-TERM INVESTMENT IN GROUP AND ASSOCIATED UNDERTAKINGS		**215**	**165**
▪ 1. Equity instruments	10	215	165
V. LONG-TERM FINANCIAL ASSETS		**355**	**355**
▪ 1. Equity instruments	11	282	282
▪ 5. Other financial assets	13	73	73
VI. DEFERRED TAX ASSETS	19	**5,164**	**205**
B) CURRENT ASSETS		**49,674**	**50,446**
II. INVENTORIES		**11,945**	**14,088**
▪ 2. Raw materials and other supplies	12	32	47
▪ 3. Products in process	12	11,387	13,290
▪ 4. Finished products	12	526	638
▪ 6. Supplier advances	12	-	113
III. TRADE AND OTHER ACCOUNTS RECEIVABLE		**27,531**	**31,278**
▪ 1. Customer receivables for sales and services	13	22,865	28,225
▪ 2. Receivable from group and associated undertakings	26	924	1,268
▪ 3. Sundry debtors	13	11	7
▪ 4. Personnel	13	9	2
▪ 6. Other receivables from public authorities	21	3,722	1,776
IV. SHORT-TERM INVESTMENT IN GROUP AND ASSOCIATED UNDERTAKINGS		**3,742**	**1,621**
▪ 5. Other financial assets	26	3,742	1,621
V. SHORT-TERM FINANCIAL ASSETS		**3,083**	**2,198**
▪ 5. Other financial assets	13	3,083	2,198
VI. ACCRUALS		**663**	**342**
VII. CASH AND CASH EQUIVALENTS		**2,710**	**919**
▪ 1. Treasury	14	444	919
▪ 2. Other liquid assets	14	2,266	-
TOTAL ASSETS (A+B)		**484,594**	**480,302**

BALANCE SHEET FOR THE YEARS ENDED 31 DECEMBER 2012 AND 2011

(In thousand euro)

NET EQUITY AND LIABILITIES	Note	31/12/2012	31/12/2011
A) NET EQUITY		**113,956**	**103,374**
A-1) CAPITAL AND RESERVES		**100,824**	**91,209**
I. CAPITAL		69,805	69,805
▪ 1. Share capital	15	69,805	69,805
II. SHARE PREMIUM	15	59,676	59,676
III. RESERVES		5,027	2,477
▪ 1. Legal and bylaw reserves	16	4,996	2,446
▪ 2. Other reserves	16	31	31
IV. (OWN SHARES AND EQUITY INSTRUMENTS)		-379	-463
V. PRIOR YEARS' INCOME		-42,836	-65,784
▪ 2. (Prior years' loss)		-42,836	-65,784
VII. INCOME FOR THE YEAR		9,531	25,498
A-2) VALUE ADJUSTMENTS		**419**	**419**
II. HEDGE TRANSACTIONS		419	419
A-3) SUBSIDIES, DONATIONS AND LEGACIES RECEIVED	6 and 17	**12,713**	**11,746**
B) NON-CURRENT LIABILITIES		**262,578**	**273,640**
II. LONG-TERM DEBT		45,031	52,043
▪ 2. Bank debt	18	31,079	37,884
▪ 5. Other financial liabilities	18	13,952	14,159
III. LONG-TERM ACCOUNTS PAYABLE TO GROUP AND ASSOCIATED UNDERTAKINGS	18	212,107	216,571
IV. DEFERRED TAX LIABILITIES	19	5,440	5,026
C) CURRENT LIABILITIES		**108,060**	**103,288**
III. SHORT-TERM DEBT		30,059	31,672
▪ 2. Bank debt and debt to official authorities	18	30,059	31,672
IV. SHORT-TERM ACCOUNTS PAYABLE TO GROUP AND ASSOCIATED UNDERTAKINGS	18 and 26	59,433	52,118
V. TRADE AND OTHER ACCOUNTS PAYABLE		18,568	19,498
▪ 1. Due to suppliers	18	194	185
▪ 2. Due to group and associated undertakings	18 and 26	800	277
▪ 3. Sundry creditors	18	13,401	15,284
▪ 4. Personnel (compensation payable)	18	2,894	2,513
▪ 6. Other debt to public authorities	21	619	579
▪ 7. Customer advances	18	660	660
TOTAL NET EQUITY AND LIABILITIES (A+B+C)		**484,594**	**480,302**

STATEMENTS OF INCOME FOR THE YEARS ENDED 31 DECEMBER 2012 AND 2011

(In thousand euro)

STATEMENT OF INCOME	Note	31/12/2012	31/12/2011
A) CONTINUING OPERATIONS			
1. NET REVENUES		**66,080**	**74,112**
▪ a) Sales	20.2	65,958	74,030
▪ b) Services provided	20.2	122	82
2. VARIATION IN FINISHED GOODS AND WORK-IN-PROCESS INVENTORIES	12	**-2,015**	**-3,659**
3. CAPITALISED IN-HOUSE WORK	6	**32,635**	**32,469**
4. PURCHASES		**-3,336**	**-2,547**
▪ b) Raw materials and other consumables consumed	20.3	-2,130	-1,740
▪ c) Outside work		-1,206	-807
5. OTHER OPERATING REVENUES		**21,103**	**20,983**
▪ a) Ancillary and other current revenues	20.1 and 20.2	20,525	20,652
▪ b) Operating subsidies recognised in income for the year		578	331
6. PERSONNEL EXPENSES	20.4	**-20,435**	**-20,441**
▪ a) Wages, salaries and similar		-16,700	-16,670
▪ b) Employee welfare expenses		-3,735	-3,771
7. OTHER OPERATING EXPENSES	20.5	**-41,198**	**-43,126**
▪ a) Outside services		-40,753	-42,736
▪ b) Taxes other than income tax		-445	-390
▪ c) Losses, impairment and changes in trade provisions		-	-
8. DEPRECIATION AND AMORTISATION	6 and 7	**-47,473**	**-25,617**
9. RECOGNITION OF SUBSIDIES FOR NON-FINANCIAL ASSETS AND OTHER		**315**	**414**
11. IMPAIRMENT LOSSES AND INCOME FROM DISPOSAL OF ASSETS		**-31**	**-**
▪ b) Income on disposals and other		-31	-
A.1) OPERATING INCOME (1+2+3+4+5+6+7+8+9+10+11)		**5,645**	**32,588**
12. FINANCIAL REVENUES	22	**209**	**77**
▪ b) Marketable securities and other financial instruments		209	77
▪ b 2) Third parties		209	77
13. FINANCIAL EXPENSES	22	**-18,103**	**-17,271**
▪ a) On debts to group and associated undertakings		-14,292	-13,640
▪ b) On debts to third parties		-3,811	-3,631
14.1 CAPITALISED FINANCIAL EXPENSES	22 and 6	**14,417**	**14,435**
15. EXCHANGE DIFFERENCES	22	**-54**	**67**
16. IMPAIRMENT LOSSES AND INCOME FROM DISPOSAL OF FINANCIAL INSTRUMENTS	22	**-6**	**-13**
▪ b) Income from disposals and other		-6	-13
A.2) FINANCIAL INCOME (12+13+14+15+16)		**-3,537**	**-2,705**
A.3) INCOME BEFORE TAXES (A.1 + A.2)		**2,108**	**29,883**
17. INCOME TAX	21	**7,423**	**-4,385**
A.4) INCOME FOR THE YEAR FROM CONTINUING OPERATIONS (A.3+17)		**9,531**	**25,498**

STATEMENT OF CHANGES IN NET EQUITY FOR THE YEARS ENDED 31 DECEMBER 2012 AND 2011

(In thousand euro)

A) STATEMENT OF RECOGNISED REVENUES AND EXPENSES (THOUSAND EURO)

STATEMENT OF CHANGES IN NET EQUITY	Note	31/12/2012	31/12/2011
A) INCOME, PER INCOME STATEMENT		**9,531**	**25,498**
REVENUES AND EXPENSES RECOGNISED DIRECTLY IN EQUITY			
III. Subsidies, donations and legacies received	17 and 18.2	1,696	3,940
V. Tax effect	19	-509	-1,182
B) TOTAL REVENUES AND EXPENSES RECOGNISED DIRECTLY IN NET EQUITY (I+II+III+IV+V)		**1,187**	**2,758**
TRANSFERS TO P&L			
VIII. Subsidies, donations and legacies received		-315	-414
IX. Tax effect	19	95	124
C) TOTAL TRANSFERS TO PROFIT OR LOSS (VI+VII+VIII+IX)		**-220**	**-290**
TOTAL RECOGNISED REVENUES AND EXPENSES (A + B + C)		**10,498**	**27,966**

B) TOTAL STATEMENT OF CHANGES IN NET EQUITY (THOUSAND EURO)

	Share capital	Share premium	Reserves	(Own shares and equity instruments)	Prior years' losses	Income for the year	Value adjustments	Subsidies, donations and legacies received	TOTAL
CLOSING BALANCE 2010	**69,805**	**59,676**	**1,462**	**-453**	**-74,918**	**10,149**	**419**	**9,278**	**75,418**
Total recognised revenues and expenses	-	-	-	-	-	25,498	-	2,468	**27,966**
Transactions with shareholders or owners	-	-	-	-	-	-	-	-	**-**
▪ Transactions with own shares and equity instruments (net)	-	-	-	-10	-	-	-	-	**-10**
Other changes in net equity	-	-	1,015	-	9,134	-10,149	-	-	**-**
CLOSING BALANCE 2011	**69,805**	**59,676**	**2,477**	**-463**	**-65,784**	**25,498**	**419**	**11,746**	**103,374**
Total recognised revenues and expenses	-	-	-	-	-	9,531	-	967	**10,498**
Transactions with shareholders or owners	-	-	-	-	-	-	-	-	**-**
▪ Transactions with own shares and equity instruments (net)	-	-	-	84	-	-	-	-	**84**
Other changes in net equity	-	-	2,550	-	22,948	-25,498	-	-	**-**
CLOSING BALANCE 2012	**69,805**	**59,676**	**5,027**	**-379**	**-42,836**	**9,531**	**419**	**12,713**	**113,956**

CASH FLOW STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2012 AND 2011

(In thousand euro)

	Notes	31/12/2012	31/12/2011
A) OPERATING CASH FLOW			
1. INCOME FOR THE YEAR BEFORE TAXES		**2,108**	**29,883**
2. ADJUSTMENTS TO INCOME		**65,143**	**42,342**
a) Depreciation and amortisation (+)	6 and 7	47,473	25,617
b) Impairment losses (+/-)		31	-
c) Change in provisions (+/-)		6	13
d) Subsidies recognised (-)		-315	-415
g) Financial revenues (-)	22	-209	-77
h) Financial expenses (+)	22	18,103	17,271
i) Exchange differences (+/-)	22	54	-67
j) Change in fair value of financial instruments (+/-)		-	-
3. CHANGES IN WORKING CAPITAL		**4,979**	**-6,113**
a) Inventories (+/-)		2,143	3,543
b) Debtors and other accounts receivable (+/-).		3,423	-8,877
d) Creditors and other accounts payable (+/-).		-930	-779
f) Other non-current assets and liabilities (+/-)		343	-
4. OTHER OPERATING CASH FLOW		**-5,380**	**-3,641**
a) Interest paid (-)		-3,390	-3,704
c) Interest received (+)		217	63
d) Income tax received/paid		-2,207	-
5. OPERATING CASH FLOW (+/-1+/-2+/-3+/-4)		**66,850**	**62,471**
B) INVESTING CASH FLOW			
6. INVESTMENT PAYMENTS (-)		**-48,488**	**-47,598**
a) Group and associated undertakings.		-50	-25
b) Intangible assets	6	-47,111	-47,094
c) Property, plant and equipment	7	-451	-360
e) Other financial assets		-876	-119
7. DIVESTMENT RECEIPTS (+)		**-**	**-**
e) Other financial assets		-	-
8. INVESTING CASH FLOW (7-6)		**-48,488**	**-47,598**
C) FINANCING CASH FLOW			
9. COLLECTIONS AND PAYMENTS IN CONNECTION WITH EQUITY INSTRUMENTS		**912**	**1,993**
c) Acquisition and disposal of own equity instruments (+/-)		84	-
e) Subsidies, donations and legacies received (+)	17	828	1,993
10. COLLECTIONS AND PAYMENTS IN CONNECTION WITH INSTRUMENTS REPRESENTING FINANCIAL LIABILITIES		**-17,429**	**-16,601**
a) Issuance		31,985	38,080
▪ 2. Bank debt and debt to official authorities (+)		13,985	12,980
▪ 3. Due to group and associated undertakings (+)	18.3 and 18.4	18,000	25,100
b) Refund and amortisation of:		-49,414	-54,681
▪ 1. Due to group and associated undertakings (-)	18.3 and 18.4	-27,149	-32,949
▪ 2. Bank debt and debt to official authorities (-)		-22,265	-21,732
12. FINANCING CASH FLOW (+/-9+/-10-11)		**-16,517**	**-14,608**
D) EFFECT OF EXCHANGE RATE VARIATIONS		**-54**	**-**
E) NET INCREASE/DECREASE IN CASH AND CASH EQUIVALENTS (+/-5+/-8+/-12+/-D)		**1,791**	**265**
Beginning cash and cash equivalents		919	654
Ending cash and cash equivalents		2,710	919

1. COMPANY BUSINESS

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

The main activity of PharmaMar is research, development and marketing of bio-activeprinciples, particularly those of marine origin, for application in human medicine, especially in the antitumour, antiviral and immunomodulation fields and the area of tropical diseases.

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

On 2 November 2009, the European Commission granted authorisation for PharmaMar to commercialise 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.

At year-end, the company had not begun to sell its other products, which are all in the research and development phase.

The Company is part of the Zeltia Group, whose direct controlling company is Zeltia, S.A., with registered offices in Vigo (Pontevedra) at Calle Príncipe 24.

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, as amended by Royal Decree 1159/2010, (GAP 2007) 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 net equity, cash flow statement and these notes to financial statements) are expressed in thousand euro.

The Company's Directors consider that the 2012 financial statements, which were authorised on 27 March 2013, 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 judgements 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.

2.2.1. Deferred tax assets

Deferred tax assets due to tax losses carried forward and unused tax credits are recognised to the extent that the Company is likely to obtain future taxable income enabling them to be offset. Accordingly, for the purpose of the 2012 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. Consequently, the amount which, at this date, can be considered as

probable for the purposes of quantifying the deferred tax assets to recognise was recognised: 4,977 thousand euro (Note 19).

Changes in Management assumptions about future results as a result of unforeseen future events may affect the amounts recognised as of 31 December 2012 and the assets not recognised by application of this approach.

2.2.2. 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.

2.3. GROUPING OF ITEMS

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

2.4 CONSOLIDATED FINANCIAL STATEMENTS

The accompanying separate financial statements are not consolidated with those of the subsidiaries in which the Company has a majority interest because the Company has availed itself of the exemption provided by article 9 of Royal Decree 1815/1991, dated 20 December.

3. APPLICATION OF RESULTS

The proposed distribution of 2012 income which will be presented to the Shareholders' Meeting, and the distribution approved for 2011, are as follows:

(Thousand euro)	2012	2011
DISTRIBUTION BASIS		
Income for the year	9,531	25,498
	9,531	**25,498**
DISTRIBUTION		
Legal reserve	953	2,550
Prior years' losses	8,578	22,948
	9,531	**25,498**

The proposed distribution of income for the year ended 31 December 2012 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 10% of income for the year (953 thousand euro) to the legal reserve and the difference, amounting to 8,578 thousand euro, to offset prior years' losses.

4. VALUATION STANDARDS

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

4.1. INTANGIBLE ASSETS

Intangible assets are carried at acquisition or production cost and are amortised on a straight-line basis.

4.1.1. Research & Development expenses

Research expenses are capitalised once the corresponding conditions under GAP 2007 are fulfilled, and they are amortised from the time they are incurred over their useful lives, applying a systematic approach over a period of five years, while development expenses incurred on a project are recognised as intangible assets if the project is technically, economically and commercially viable, there are sufficient technical and financial resources available to complete it, the costs incurred can be determined reliably, and it is likely to generate a profit. These development expenses are amortised over a period of ten years.

Development costs that were previously expensed are not capitalised in a subsequent year.

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

Development projects are stated at acquisition cost, if outsourced, or at production cost, if carried out in-house. The production cost comprises personnel, material and services expenses pertaining directly to the projects plus the portion of indirect costs which is reasonably allocable to them, which are capitalised by crediting the “Capitalised in-house work” account in the income statement.

In the event of a change in the circumstances of the project that enabled the development expenses to be capitalised, the unamortised amount is recognised in income in the year in which those circumstances changed.

Capitalised development expenses are amortised according to a specific systematic plan for each project, generally commencing in the year in which the project is completed and extending over the period in which it generates revenues. In the case of licences granted before the drug is approved, including upfront and milestone payments prior to commercialisation, an amortisation plan is established on the basis of revenue recognition.

4.1.2. Computer software

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

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

4.2 PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are recognised 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 capitalised 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 capitalised and depreciated over their estimated useful lives, whereas recurring maintenance costs are recognised 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:

	years	%
Buildings and structures	30	3,33
Technical installations and machinery	10	10
Vehicles	7	14
Furniture and fixtures	10	10
Computer hardware	7	14

The residual value and the useful life of an asset is 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 recognised in profit or loss.

4.3. INTEREST EXPENSES

Financial expenses directly attributable to the acquisition or construction of fixed assets that require more than one year to be ready for use are capitalised up until the point when the asset is ready for use.

4.4. IMPAIRMENT OF NON-FINANCIAL ASSETS

Assets that have an indefinite useful life, such as goodwill, are not amortised and are measured annually to detect impairment. Amortisable 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 recognised 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.

4.5. FINANCIAL ASSETS

4.5.1. 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 recognised under "Trade and other accounts receivable", "Short-term investment in group and associated undertakings" and "Short-term financial assets" on the balance sheet.

These financial assets are recognised initially at fair value, including directly allocable transaction costs, and subsequently at amortised cost, recognising 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 recognised in profit or loss.

4.5.2. 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 recognised directly in equity are maintained in equity until the asset is retired.

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 net equity corrected for any unrealised capital gains existing at the measurement date. Value adjustments, and any reversals of same, are recognised in profit or loss in the year in which they occur.

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

If there is objective evidence of impairment, the accumulated losses previously recognised in net equity as the reduction in fair value are recognised in profit or loss. Impairment losses recognised in profit or loss for equity instruments 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 judgements.

4.6. INVENTORIES

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

4.7. NET 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 recognised in equity.

4.8. FINANCIAL LIABILITIES

4.8.1. 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.

These debts are recognised initially at fair value adjusted for directly-allocable transaction costs, and subsequently at amortised 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.

4.9. SUBSIDIES RECEIVED

Repayable subsidies are recognised as liabilities until the conditions rendering them non-repayable are met; non-repayable subsidies are recognised as revenues directly in net equity and are recognised as revenue on a systematic, rational basis in line with the expenses arising from the subsidy. Non-repayable subsidies from shareholders are recognised directly in net 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 recognised 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 recognised in profit or loss in proportion to the depreciation/amortisation of the related assets or when the asset is disposed of, impaired or derecognised.

Non-repayable subsidies related to specific expenses are recognised in profit or loss in the year in which the corresponding expenses accrue, and those granted to offset an operating deficit are recognised 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 recognised in those years.

4.10. 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 recognised in profit or loss. Nevertheless, the tax effect of items that are recognised directly in equity is recognised in equity.

Current tax assets and liabilities are recognised 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 recognised. 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 realised or the deferred tax liability is settled.

Deferred tax liabilities are recognised insofar as it is probable that there will be future taxable income to offset timing differences.

4.11. EMPLOYEE BENEFITS

4.11.1. Share-based compensation

The company operates a share-based compensation plan. On the one hand, the Company recognises employee services received in exchange for shares or stock options as an expense at the time of obtainment, and it also recognises the corresponding increase in net equity. The total amount that is expensed over the vesting period is determined by reference to the fair value of the shares or options granted.

In accordance with the existing plans, the Company decides that executives and employees designated for this purpose receive from their employer, free of charge, the previously-established amount in shares and/or options, and it also establishes a multiplier coefficient, based on each beneficiary's performance, which is applied to the amount of shares that the employee purchases. The vesting period is three years for plans until 2010 and four years for plans for 2011 and 2012, from the date of delivery of the shares.

The delivery of shares 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 shares are deemed to have vested. The shares over which the condition subsequent exists are only those that should have remained under lock-up for three or four years, according to the specific plan.

4.11.2. 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 recognises 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.

4.12. PROVISIONS AND CONTINGENT LIABILITIES

4.12.1. Provisions and contingent liabilities

Provisions for environmental restoration, restructuring costs and litigation are recognised 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. No provisions are recognised for future operating losses.

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 recognised 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 recognised as a separate asset provided that its collection is practically assured.

Obligations arising as a result of past events whose materialisation 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 recognised in the accounts but are disclosed in detail in the notes to financial statements (Note 23).

Under "Other provisions", the Company recognises the provision for the estimated amount which it must pay as a result of possible litigation whose final outcome is unknown at the date of authorising the financial statements.

4.12.2. Environment

The elements included in the Company's assets for the purpose of long-term use in its activity and whose main objective is to minimise environmental impact and to protect and improve the environment are recognised as property, plant and equipment at their acquisition price or cost of production and are depreciated over their estimated useful life on the basis of the rates indicated for similar property, plant and equipment.

Environmental expenses arising from the aforementioned activities are treated as operating expenses in the year in which they accrue and as extraordinary expenses when they fall outside the Company's normal activity.

An environmental provision is recorded for expenses arising in the year or previous years or when, at year-end, they are likely or certain but the exact amount and date have not been determined. A provision is also recognised for environmental actions due to the Company's legal or contractual obligations and to commitments made to prevent or undo environmental damage.

4.13. RECOGNITION OF REVENUES

Revenues are recognised 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 recognises 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.

4.13.1. Revenues from the sale of pharmaceutical products

The Company began commercialisation of the product Yondelis® in the European Union in the fourth quarter of 2007. The Company has established a specialised regional sales structure to commercialise Yondelis® which covers the European Union and the Scandinavian countries that are not members of the EU, by entering into agreements with prestigious European organisations.

In certain Western European markets, PharmaMar has its own sales network in cooperation with Innovex (Quintiles Group) and a logistics agreement for product distribution in that market with UK company IDIS. The product becomes the property of the distributor once it is shipped from the warehouse to hospitals, and it is at that time, in accordance with the established conditions, that the Company invoices the logistics operator and recognises the sale, since that is the point at which the significant risks and benefits inherent to ownership of the goods are transferred, as the goods are on consignment at the distributor's UK warehouse up to that point.

On 1 November 2009, PharmaMar began commercialising Yondelis® in Spain directly to hospitals using its own sales network.

In the rest of Europe, promotional and commercial distribution agreements have been signed with Swedish Orphan Biovitrium International for the Nordic countries and Eastern Europe, and with Genesis Pharma for Greece and Cyprus. 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.

Pharma Mar S.A. began selling Yondelis® in Switzerland via subsidiary PharmaMar AG in June 2010, and in Portugal via distributor Movianto in May 2011.

Prices and, where appropriate, reimbursement prices for our product are established by each country's health authorities. The price obtained for Yondelis® is similar in all the countries where it is being sold.

Since it is a pharmaceutical product that requires special handling conditions, it is Company policy not to accept returns.

4.13.2 Revenues derived from the contract signed with Janssen Products LP

In 2011, the Company signed another cooperation agreement with Jansen Products LP by virtue of which the initial payment was recognised as a revenue in the year, since it was a milestone that was not linked to future performance. Subsequent payments correspond to the attainment of specific milestones linked to the development of Yondelis® and will be treated as revenues when they are attained. The corresponding milestone was attained in 2012 (Note 20).

4.13.3. Royalties

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

4.13.4.Interest revenues

Interest revenues are recognised 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 recognised using the effective interest rate method.

4.14. LEASES

When the company is the lessee, leases where the lessor retains a substantial part of the risks and benefits of ownership are classified as operating leases. Operating lease payments (net of any incentive received from the lessor) are recognised in profit or loss on a straight-line basis over the lease term.

4.15. FOREIGN CURRENCY TRANSACTIONS

4.15.1. Foreign currency transactions

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

4.15.2. 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 recognised in profit or loss, except when deferred in net 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 analysed as the exchange differences resulting from changes in the amortised cost of the instrument and other changes in the security's carrying amount. Exchange differences are recognised in profit or loss and other changes to the carrying amount are recognised in net 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 net equity.

4.16. RELATED-PARTY TRANSACTIONS

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

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 programme focuses on the uncertainty of the financial markets and tries to minimise the potential adverse effects on the Company's returns.

Risk management is controlled by the Company's Finance Department, which identifies, evaluates and hedges financial risks in accordance with the overall policies of Grupo Zeltia and those approved by the Board of Directors.

Grupo Zeltia establishes written 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.

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.

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, recognised assets and liabilities, and net investments in foreign operations.

Transactions denominated in currencies other than the euro, basically in US dollars, Swiss francs and pounds sterling, amounted to approximately 27,670 thousand euro in the year ended 31 December 2012 (26,558 thousand euro in 2011) (see Note 20). The increase in transactions with respect to 2011 is due fundamentally to the increase in sales and in general services expenses in pounds sterling. The main transaction in foreign currency in 2012 and 2011 was the revenue from Janssen Products LP (25 million dollars in each year).

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 has interest rate risk on the cash flows related to long-term debt at floating rates. Nevertheless, a sizeable part of the debt is in the form of repayable advances that are not subject to interest rate risk.

The Company's interest rate risk arises on long-term 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. It is Company policy for as much of its debt as possible to be due to official authorities.

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 liabilities.

5.1.2. Credit risk

Credit risk is managed in groups. Credit risk arises from cash and cash equivalents arranged 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.

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

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.

As of 31/12/12 (Thousand euro)	2013	2014	2015	2016	2017 and thereafter	TOTAL
Bank loans	27,093	16,358	13,828	893	-	58,172
Debt to group	60,233	17,148	194,959	-	-	272,340
Debt to official authorities	2,966	2,546	2,571	2,216	6,619	16,918
Debt to suppliers and accounts payable	17,768	-	-	-	-	17,768
TOTAL	**108,060**	**36,052**	**211,358**	**3,109**	**6,619**	**365,198**

As of 31/12/11 (Thousand euro)	2012	2013	2014	2015	2016 and thereafter	TOTAL
Bank loans	28,415	9,766	9,111	8,277	10,730	66,299
Debt to group	52,396	17,148	17,148	182,274	-	268,966
Debt to official authorities	3,257	3,023	2,710	2,352	6,074	17,416
Debt to suppliers and accounts payable	19,221	-	-	-	-	19,221
TOTAL	**103,289**	**29,937**	**28,969**	**192,903**	**16,804**	**371,902**

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 to 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 subsidised 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. For the purposes of presenting the financial information, the fair value was calculated at year-end by applying the existing yield curve, plus the corresponding spread, to the outstanding payments.

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 2012 and 2011 are as follows:

2012 (Thousand euro)	Development	Computer software	Other assets	TOTAL
Cost				
BALANCE AS OF 01.01.2012	516,399	2,182	195	518,776
Recognitions	47,052	59	-	47,111
Transfers	-	-131	-	-131
Derecognitions	-	-	-	-
BALANCE AS OF 31.12.2012	563,451	2,110	195	565,756
Accumulated depreciation and amortisation				
BALANCE AS OF 01.01.2012	-110,121	-1,529	-195	-111,845
Provisions	-44,758	-153	-	-44,911
Derecognitions	-	-	-	-
BALANCE AS OF 31.12.2012	-154,879	-1,682	-195	-156,756
NET CARRYING AMOUNT AS OF 31.12.2012	**408,572**	**428**	**-**	**409,000**

2011 (Thousand euro)	Development	Computer software	Other assets	TOTAL
Cost				
BALANCE AS OF 01.01.2011	469,495	1,992	195	471,682
Recognitions	46,904	190	-	47,094
Derecognitions	-	-	-	-
BALANCE AS OF 31.12.2011	516,399	2,182	195	518,776
Accumulated depreciation and amortisation				
BALANCE AS OF 01.01.2011	-87,310	-1,376	-195	-88,881
Provisions	-22,811	-153	-	-22,964
Derecognitions	-	-	-	-
BALANCE AS OF 31.12.2011	-110,121	-1,529	-195	-111,845
NET CARRYING AMOUNT AS OF 31.12.2011	**406,278**	**653**	**-**	**406,931**

6.1 RESEARCH AND DEVELOPMENT

Capitalised research and development expenses relate to the following projects:

PROJECT (Thousand euro)	2012 Cost	2012 Accum. amort.	2012 Net	2011 Cost	2011 Accum. amort.	2011 Net
Performed in-house						
Antitumour	559,224	-150,652	408,572	512,172	-105,894	406,278
Antimalarial	2,774	-2,774	-	2,774	-2,774	-
Immunosuppressors	858	-858	-	858	-858	-
Antiviral	595	-595	-	595	-595	-
TOTAL	**563,451**	**-154,879**	**408,572**	**516,399**	**-110,121**	**406,278**

In 2012, the Company amortised a part of the expenses capitalised for the compound Irvalec® in the amount of 17,076 thousand euro, after notifying the National Securities Market Commission of its intention to suspend development of that compound for all therapeutic uses except for the oesophageal cancer subtype.

The Company also amortised the entire unamortised balance of capitalised expenses relating to certain compounds, which amounted to 2,531 thousand euro as of 31 December 2011 (1,295 thousand euro in 2010). Other expenses amortised in 2012 in connection with antitumour projects amounted to 6,223 thousand euro (6,017 thousand euro in 2011).

In 2012 and 2011, the Company amortised 4,675 thousand euro for platinum-sensitive relapsed ovarian cancer and 8,817 thousand euro for soft tissue sarcoma; the amortisation calendar for both indications is 10 years. Other amortisations in 2012 associated with Yondelis® amounted to 1,187 thousand euro.

6.2. CAPITALISED FINANCIAL EXPENSES

Financial expenses arising on debt obtained for research and development activities in the amount of 1,002 thousand euro (1,224 thousand euro in 2011) and on funding obtained from the Group in the amount of 13,415 thousand euro (13,211 thousand euro in 2011) were capitalised in 2012.

They were determined using a capitalisation rate of 3.8239% (3.6113% in 2011), i.e. the average interest rate on the credit lines used to finance research and development activities in the year.

In November 2009, the company started amortising over 10 years the capitalised financial expenses associated with soft tissue sarcoma and platinum-sensitive relapsed ovarian cancer; it amortised 2,354 thousand euro in 2012 (2,008 thousand euro in 2011).

Additionally, in 2012 the Company amortised 1,895 thousand euro of financial expenses relating to certain therapeutic uses of Irvalec® (Note 6.1).

6.3. INTANGIBLE ASSETS LOCATED IN OTHER COUNTRIES

As of 31 December 2012 and 2011, the Company had the following intangible assets located in other countries:

FIXED ASSETS (Thousand euro)	2012 Cost	2012 Amortisation	2012 Net value	2011 Cost	2011 Amortisation	2011 Net value
Development	37,425	-18,307	19,118	37,222	-16,095	21,127
TOTAL	**37,425**	**-18,307**	**19,118**	**37,222**	**-16,095**	**21,127**

These intangible assets located in other countries correspond solely to the research and development costs paid by the Company under the licence agreement signed with Ortho Biotech Products LP, a subsidiary of Johnson & Johnson.

6.4. INTANGIBLE ASSETS ACQUIRED FROM GROUP AND ASSOCIATED UNDERTAKINGS

The intangible assets acquired from group and associated undertakings are summarised below:

FIXED ASSETS (Thousand euro)	2012 Cost	2012 Amortisation	2012 Net value	2011 Cost	2011 Amortisation	2011 Net value
Development	33,453	-9,133	24,320	33,453	-7,059	26,394
TOTAL	**33,453**	**-9,133**	**24,320**	**33,453**	**-7,059**	**26,394**

These assets refer to investments made in prior years by subsidiary Pharma Mar USA Inc. (Note 10.1).

6.5. FULLY AMORTISED ASSETS

The assets that were fully amortised as of 31 December 2012 and 2011 are as follows:

FULLY AMORTISED INTANGIBLE ASSETS (Thousand euro)	2012	2011
R&D expenses	21,992	19,461
Computer software	1,274	1,109
TOTAL	**23,266**	**20,570**

6.6. ASSETS DESIGNATED AS COLLATERAL AND SUBJECT TO OWNERSHIP RESTRICTIONS

As of 31 December 2012 and 2011, there were no intangible assets subject to ownership restrictions or pledged as collateral for liabilities.

6.7. SUBSIDIES RECEIVED TO FINANCE R&D

As of 31 December 2012, the Company had 12,713 thousand euro (11,746 thousand euro in 2011) under "Official capital subsidies" to finance research and development activities. That balance includes 4,665 thousand euro (4,345 thousand euro in 2011) of subsidies in the form of repayable loans to finance research and development activities and considers their subsidy component, having regard to finance obtained at zero interest rates compared with market interest rates (Notes 5.2 and 17).

7. PROPERTY, PLANT AND EQUIPMENT

The detail and changes in the Property, Plant and Equipment account as of 31 December 2012 and 2011 are as follows:

2012 (Thousand euro)	Land and buildings	Installations	Construction in progress and advances	TOTAL
COST				
BALANCE AS OF 01.01.2012	21,377	25,030	95	46,502
Recognitions	-	304	147	451
Other transfers	-	277	-146	131
Derecognitions	-	-106	-	-106
BALANCE AS OF 31.12.2012	21,377	25,505	96	46,978
ACCUMULATED DEPRECIATION AND AMORTISATION				
BALANCE AS OF 01.01.2012	-4,347	-19,955	-	-24,302
Provisions	-489	-2,073	-	-2,562
Derecognitions	-	72	-	72
BALANCE AS OF 31.12.2012	-4,836	-21,956	-	-26,792
NET CARRYING AMOUNT AS OF 31.12.2012	**16,541**	**3,549**	**96**	**20,186**

2011 (Thousand euro)	Land and buildings	Installations	Construction in progress and advances	TOTAL
COST				
BALANCE AS OF 01.01.2011	21,377	25,077	129	46,583
Recognitions	-	233	127	360
Other transfers	-	161	-161	-
Derecognitions	-	-441	-	-441
BALANCE AS OF 31.12.2011	21,377	25,030	95	46,502
ACCUMULATED DEPRECIATION AND AMORTISATION				
BALANCE AS OF 01.01.2011	-3,857	-18,233	-	-22,090
Provisions	-490	-2,163	-	-2,653
Derecognitions	-	441	-	441
BALANCE AS OF 31.12.2011	-4,347	-19,955	-	-24,302
NET CARRYING AMOUNT AS OF 31.12.2011	**17,030**	**5,075**	**95**	**22,200**

The principal additions in 2012 were laboratory machinery and installations. The derecognitions in the year related mainly to fully depreciated items which were obsolete.

7.1 IMPAIRMENT LOSSES

No impairment losses on any property, plant and equipment items were recognised or reversed in 2012 or 2011.

7.2 ASSETS ACQUIRED FROM GROUP AND ASSOCIATED COMPANIES

The investments in property, plant and equipment acquired from group and associated undertakings are as follows:

(Thousand euro)	2012 Cost	2012 Accum. depr.	2012 Carrying amount	2011 Cost	2011 Accum. depr.	2011 Carrying amount
Technical installations and machinery	150	-114	36	150	-84	66

These investments correspond entirely to the purchase of equipment from Pharma Mar USA Inc.

7.3 FULLY DEPRECIATED ASSETS

As of 31 December 2012, the Company was using assets with a carrying amount of 16,497 thousand euro which had been fully depreciated (4,463 thousand euro as of 31 December 2011). The increase between years in the amount of fully depreciated assets is attributable mainly to the company's installations in Tres Cantos.

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

LOCATION (Thousand euro)	Net value 31/12/12	Amount of loan	Amount outstanding 31/12/2012	Maturity
Av. de los Reyes nº 1 Colmenar Viejo (Madrid)	12,162	12,600	4,028	September 2015

LOCATION (Thousand euro)	Net value 31/12/11	Amount of loan	Amount outstanding 31/12/2011	Maturity
Av. de los Reyes nº 1 Colmenar Viejo (Madrid)	12,651	12,600	5,401	September 2015

The outstanding amount of the mortgage loan under "Long-term bank debt" is 2,608 thousand euro (4,029 thousand euro in 2011), and the amount under "Short-term bank debt" is 1,420 thousand euro (1,372 thousand euro in 2011).

7.5 ASSETS ACQUIRED UNDER FINANCE LEASES

There were no finance leases outstanding at the end of 2012 and 2011.

7.6. SUBSIDIES RECEIVED

In 2012, fixed assets amounting to 176 thousand euro were acquired with subsidies from public authorities. No fixed assets were acquired with subsidies in 2011. All the conditions attached to the subsidies received in connection with property, plant and equipment were met.

7.7. INSURANCE

The Company has arranged insurance policies to cover the risks to which its tangible fixed assets 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. OPERATING LEASES

The Company has equipment leases (vehicles, computers and software) and operating lease contracts (laboratories, cold stores, document 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)	2012	2011
Less than 1 year	839	900
1 to 5 years	277	431
TOTAL	**1,116**	**1,331**

The expense recognised in profit or loss amounted to 885 thousand euro in 2012 (919 thousand euro in 2011).

9. ANALYSIS OF FINANCIAL INSTRUMENTS

9.1. 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, is as follows:

9.1.1. Long-term and short-term financial assets:

2012 (Thousand euro)	Equity instruments	Loans, derivatives, etc.	TOTAL
SHORT-TERM FINANCIAL ASSETS			
Loans and accounts receivable (Note 13)	-	30,634	30,634
	-	**30,634**	**30,634**
LONG-TERM FINANCIAL ASSETS			
Loans and accounts receivable (Note 13)	-	73	73
Available-for-sale assets (Note 11)	282	-	282
TOTAL	**282**	**73**	**355**

2011 (Thousand euro)	Equity instruments	Loans, derivatives, etc.	TOTAL
SHORT-TERM FINANCIAL ASSETS			
Loans and accounts receivable (Note 13)	-	33,321	33,321
	-	**33,321**	**33,321**
LONG-TERM FINANCIAL ASSETS			
Loans and accounts receivable (Note 13)	-	73	73
Available-for-sale assets (Note 11)	282	-	282
TOTAL	**282**	**73**	**355**

9.1.2. Long-and short-term financial liabilities

2012 (Thousand euro)	Bank debt	Others	TOTAL
LONG-TERM FINANCIAL LIABILITIES			
Debts and accounts payable (Note 18)	45,031	212,107	257,138
	45,031	**212,107**	**257,138**
SHORT-TERM FINANCIAL LIABILITIES			
Debts and accounts payable (Note 18)	30,059	77,382	107,441
TOTAL	**30,059**	**77,382**	**107,441**

2011 (Thousand euro)	Bank debt	Others	TOTAL
LONG-TERM FINANCIAL LIABILITIES			
Debts and accounts payable (Note 18)	52,043	216,571	268,614
	52,043	**216,571**	**268,614**
SHORT-TERM FINANCIAL LIABILITIES			
Debts and accounts payable (Note 18)	31,672	71,037	102,709
TOTAL	**31,672**	**71,037**	**102,709**

9.2. ANALYSIS BY MATURITY

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

FINANCIAL ASSETS BY MATURITY 2012 (Thousand euro)	2013	2014	2015	2016	2017	Subsequent years	TOTAL
AASSETS AVAILABLE							
FOR SALE	-	-	-	-	-	282	282
At fair value (Note 11)	-	-	-	-	-	282	282
OTHER FINANCIAL ASSETS	30,634	73	-	-	-	-	30,707
Other financial assets (Note 13)	-	73	-	-	-	-	73
Loans and accounts receivable (Note 13)	30,634	-	-	-	-	-	30,634
TOTAL	**30,634**	**73**	**-**	**-**	**-**	**282**	**30,989**

FINANCIAL ASSETS BY MATURITY 2011 (Thousand euro)	2012	2013	2014	2015	2016	Subsequent years	TOTAL
ASSETS AVAILABLE							
FOR SALE	-	-	-	-	-	282	282
At fair value (Note 11)	-	-	-	-	-	282	282
OTHER FINANCIAL ASSETS	33,321	73	-	-	-	-	33,394
Other financial assets (Note 13)	-	73	-	-	-	-	73
Loans and accounts receivable (Note 13)	33,321	-	-	-	-	-	33,321
TOTAL	**33,321**	**73**	**-**	**-**	**-**	**282**	**33,676**

9.3. CREDIT QUALITY OF FINANCIAL ASSETS

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

ACCOUNTS RECEIVABLE (Thousand euro)	2012	2011
CUSTOMERS WITHOUT AN EXTERNAL CREDIT RATING		
New customers	95	166
Customers from previous years	22,892	28,059
TOTAL ACCOUNTS RECEIVABLE	**22,987**	**28,225**
CASH AT BANK AND SHORT-TERM BANK DEPOSITS MOODY'S RATING		
A1	-	-
A2	-	932
A3	-	1,322
Ba1	3,662	-
Ba2	31	-
Baa1	2	743
BBB+	1,314	120
WR	784	-
TOTAL SHORT-TERM FINANCIAL INVESTMENT AND CASH AND CASH EQUIVALENTS	**5,793**	**3,117**

10. INVESTMENT IN GROUP, MULTI-GROUP AND ASSOCIATED COMPANIES

10.1.EQUITY INSTRUMENTS

The detail of holdings in group companies as of 31 December 2012 and 2011 is as follows (in thousand euro):

(Thousand euro)	As of 31 December 2012			As of 31 December 2011		
COMPANY	Cost	Provisions	Net value	Cost	Provisions	Net value
Pharma Mar USA INC	5,010	-5,010	-	5,010	-5,010	-
PharmaMar AG	107	-52	55	107	-52	55
Pharma Mar Sarl	100	-37	63	100	-37	63
Pharma Mar GmbH	50	-29	21	50	-29	21
Pharma Mar Ltd	50	-24	26	50	-24	26
Pharma Mar Srl	50	-	50	-	-	-
TOTAL	**5,367**	**-5,152**	**215**	**5,317**	**-5,152**	**165**

The company Pharma Mar Srl was incorporated in 2012. Its share capital amounts to 50,000 euro and is fully paid-up.

The registered address and activity of those companies and the percentage of ownership by the Company are as follows:

		Percentage of ownership	
NAME AND DOMICILE	Line of business	2012 Direct %	2011 Direct %
Pharma Mar USA INC Cambridge (USA)	Research & production of pharmaceuticals	100%	100%
PharmaMar AG Basel (Switzerland)	Research, production and commercialisation of pharmaceuticals	98%	98%
Pharma Mar Sarl Paris (France)	Research, production and commercialisation of pharmaceuticals	100%	100%
Pharma Mar Gmb Berlin (Germany)	Research, production and commercialisation of pharmaceuticals	100%	100%
Pharma Mar Ltd London (UK)	Research, production and commercialisation of pharmaceuticals	100%	100%
Pharma Mar Srl Milan (Italy)	Research, production and commercialisation of pharmaceuticals	100%	-

None of the Group companies in which the Company has an ownership interest are listed.

The amounts of capital, reserves, period income and other information of interest relating to 2012 and 2011, as stated in the financial statements of the subsidiaries, translated to euro at the year-end exchange rate, are as follows:

(Thousand euro)	2012				2011			
COMPANY	Capital	Reserves	2012 income	Carrying amount	Capital	Reserves	2012 income	Carrying amount
Pharma Mar USA INC	2,118	-2,144	-4	-30	2,118	-2,159	9	-32
Pharma Mar Sarl	100	-37	24	87	100	-38	1	63
Pharma Mar GmbH	50	-29	-17	4	50	-29	-3	18
Pharma Mar Ltd	50	-19	-6	25	50	-19	-6	25
PharmaMar AG	107	-44	5	68	107	-38	8	77
Pharma Mar SRL	50	-	-63	-13	-	-	-	-
TOTAL	**2,475**	**-2,273**	**-61**	**141**	**2,425**	**-2,283**	**9**	**151**

11. FINANCIAL ASSETS AVAILABLE FOR SALE

11.1. HOLDINGS IN COMPANIES

The available-for-sale financial assets consist entirely of holdings in biotechnology companies.

		Percentage of ownership	
Holding in the capital of	Line of business	2012 Direct %	2011 Direct %
Instituto BIOMAR	Pharmaceutical research	3.37%	4.11%
Pangaea Biotech SA	Consulting services	0.33%	0.33%

The value of those holdings is as follows:

(Thousand euro)	2012	2011
Instituto BIOMAR	232	232
Pangaea Biotech SA	50	50
TOTAL	**282**	**282**

No impairment losses were recognised in 2012 and 2011 on financial assets available for sale.

12. INVENTORIES

The Group classifies inventories as follows:

(Thousand euro)	2012	2011
Raw materials and other supplies used	32	47
Semi-finished products and products in process	11,387	13,290
Finished products	526	638
Advances	-	113
TOTAL	**11,945**	**14,088**

The reduction in inventories is due basically to sales.

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

There are no future (option) contracts relating to inventories as of 31 December 2012 and 2011.

No material impairment losses were recorded for inventories in 2012 and 2011. 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.

13. LOANS AND ACCOUNTS RECEIVABLE

(Thousand euro)	2012	2011
LONG-TERM LOANS AND ACCOUNTS RECEIVABLE	**73**	**73**
▪ Long-term deposits and guarantees provided (Note 9)	73	73
SHORT-TERM LOANS AND ACCOUNTS RECEIVABLE	**30,634**	**33,321**
▪ Customer receivables (Note 9)	22,865	28,225
▪ Customer receivables from group and associated undertakings (Note 26)	924	1,268
▪ Short-term investment in group and associated undertakings (Note 26)	3,742	1,621
▪ Sundry debtors	11	7
▪ Personnel	9	2
▪ Short-term deposits	3,070	2,185
▪ Long-term deposits and guarantees provided	13	13
TOTAL	**30,707**	**33,394**

Long-term deposits and guarantees as of 31 December 2012 and 2011 include mainly the deposit for the lease of a 216 square metre laboratory in the Tres Cantos Technology Park (Madrid).

The detail of customer balances by age is as follows:

(Thousand euro)	2012	2011
CURRENT BALANCES	**7,088**	**8,373**
BALANCES PAST-DUE BUT NOT PROVISIONED	**17,548**	**22,575**
▪ Up to 3 months	2,660	5,554
▪ 3-6 months	4,413	5,388
▪ Over 6 months	10,475	11,633
BALANCES PAST-DUE AND PROVISIONED		
▪ Over 6 months	-	-
▪ Under 6 months	-	-
TOTAL CUSTOMER RECEIVABLES	**24,636**	**30,948**
Provisions	-1,771	-2,723
TOTAL NET CUSTOMER RECEIVABLES	**22,865**	**28,225**

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 1,771 thousand euro (2,723 thousand euro in 2011) correspond to the provision recognised by virtue of the risk sharing agreement signed with the Italian Medicines Agency (AIFA) and the provision for the discounts applicable in Germany under domestic law.

As of 31 December 2012, accounts receivable from public authorities totalled 18,820 thousand euro (23,730 thousand euro in 2011).

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

(Thousand euro)	Financial rating	2012	2011	Rating agency
Andalusia	Ba2	2,099	3,614	Moody's
Madrid	Baa3	1,211	1,500	Moody's
Balearic Islands	BBB-	197	960	Standard & Poor's
Valencia	B1	694	913	Moody's
Castilla y León	Baa3	216	811	Moody's
Castilla la Mancha	Ba3	309	752	Moody's
Aragon	BBB-	353	622	Standard & Poor's
Catalonia	Ba3	341	409	Moody's
Cantabria	BBB	203	237	Fitch
Galicia	Baa3	471	334	Moody's
Canary Islands	BBB-	145	167	Fitch
Extremadura	Ba1	145	76	Moody's
Basque Country	Baa2	6	82	Moody's
Murcia	Ba3	210	46	Moody's
Navarra	BBB+	10	39	Standard & Poor's
Others	-	27	159	-
TOTAL		**6,637**	**10,721**	

In 2012, the Company collected a total of 7,500 thousand euro from Spain's Public Administrations in payment of accounts receivable from regional governments which were past-due as of 31 December 2011. This payment is part of the Supplier Payment Plan implemented by the Spanish government.

Past-due debt as of 31 December 2012 totalled 5,297 thousand euro (9,384 thousand euro in 2011), and no impairments were booked on those amounts. Claims have been issued to the corresponding public agencies for the default interest accrued on these debts.

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

(Thousand euro)	Financial rating	2012	2011	Rating agency
Germany	Aaa	905	1,793	Moody's
Italy	BBB	8,360	7,305	Dagong Global Credit Rating
France	Aa1	1,056	1,275	Moody's
United Kingdom	Aaa	334	269	Moody's
Portugal	Ba3	857	1,622	Moody's
Austria	Aaa	226	287	Moody's
Belgium	Aa3	279	283	Moody's
Luxembourg	Aaa	43	19	Moody's
The Netherlands	Aaa	112	80	Moody's
Ireland	Ba1	4	76	Moody's
Monaco	-	7	-	-
TOTAL		**12,183**	**13,009**	

"Short-term investments in group and associated undertakings" as of 31 December 2012 includes mainly 3,742 thousand euro receivable from Zeltia, S.A. for tax matters (1,603 thousand euro in 2011), of which 1,263 thousand euro correspond to value added tax receivable (1,594 thousand euro in 2011) (Note 21), since the company has formed part of a tax group for VAT purposes with the Zeltia group since 1 January 2008. The remainder, 2,479 thousand euro, is corporate income tax.

"Customer receivables from group and associated undertakings" includes mainly 802 thousand euro receivable from PharmaMar AG for the sale of commercial vials to that subsidiary (1,268 thousand euro in 2011).

The Short-term deposits item as of 31 December 2012 contains the following material items:

- A time deposit of 1,300 thousand euro plus accrued interest at a fixed annual rate of 3.00%, amounting to 11 thousand euro outstanding at year-end.
- A time deposit of 520 thousand euro plus accrued interest at a fixed annual rate of 3.00%, amounting to 2 thousand euro outstanding at year-end.
- A time deposit of 279 thousand euro plus accrued interest at a fixed annual rate of 3.75%, amounting to 2 thousand euro outstanding at year-end.
- A time deposit of 740 thousand euro at a fixed annual interest rate of 1.80%.

This account contained mainly the following deposits as of 31 December 2011:

- A time deposit of 1,300 thousand euro plus accrued interest at a fixed annual rate of 3.00%, amounting to 22 thousand euro outstanding at year-end.
- A time deposit of 740 thousand euro plus accrued interest at a fixed annual rate of 1.65%, amounting to 2.8 thousand euro outstanding at year-end.

The interest rate for short-term bank deposits as of 31 December 2012 is approximately 3% (2.47% in 2011).

14. CASH AND CASH EQUIVALENTS

The detail of this caption as of 31 December 2012 and 2011 is as follows:

(Thousand euro)	2012	2011
Cash on hand and at banks	444	919
Cash equivalents	2,266	-
TOTAL	**2,710**	**919**

Cash equivalents at year-end included deposits maturing at under 3 months, as follows:

- Time deposit of 1,103 thousand euro at a fixed annual interest rate of 2.75%.
- Time deposit of 1,163 thousand euro at a fixed annual interest rate of 2.25%.

15. CAPITAL STOCK

The capital stock is represented by 1,161,482 fully-paid common registered shares of 60.10 euro par value each. The shares are freely transferable without restriction.

As of 31 December 2012 and 2011, the following companies held 10% or more of the share capital:

	Percentage of ownership	
COMPANY	**2012**	**2011**
Zeltia S.A.	100%	78.48%
Protección de Maderas S.A.U.	-	11.13%

In 2012, the company Protección de Maderas, S.A.U. was merged into Zeltia, S.A. and was consequently extinguished without being liquidated due to the transfer en bloc of its entire equity to the surviving company. That merger was registered with the Mercantile Register in August 2012. As a result of that merger, Zeltia, S.A. obtained the stake in Pharma Mar, S.A. that was held by Protección de Maderas, S.A.U. (11.13%), which increased Zeltia's direct stake in Pharma Mar, S.A. from 88.87% to 100%.

Share premium:

This reserve is unrestricted.

16 RESERVES AND PRIOR YEARS' INCOME

16.1. 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.

The increase in the legal reserve in 2012 is the result of the distribution of the previous year's income (see Note 3). As of 31 December 2012, the Company had not fully allocated the legal reserve.

16.2. DIFFERENCE DUE TO REDENOMINATION OF SHARE CAPITAL IN EURO

This reserve is restricted.

(Thousand euro)	2012	2011
LEGAL AND BYLAW RESERVES		
▪ Legal reserve	4,996	2,446
OTHER RESERVES		
▪ Other reserves	30	30
▪ Difference due to redenomination of share capital in euro	1	1
TOTAL	**5,027**	**2,477**

16.3. OTHER RESERVES

This item contains a reserve amounting to 31 thousand euro for Differences in conversion to GAP 2007 because of the treatment of exchange gains that have accrued but not been realised.

16.4.LIMITATIONS ON DIVIDEND DISTRIBUTION

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

17. SUBSIDIES, DONATIONS AND LEGACIES RECEIVED

As of 31 December 2012, the "Subsidies, donations and legacies received" item of the Company's net equity includes 4,665 thousand euro (4,345 thousand euro in 2011) of refundable subsidies from official bodies at zero interest (notes 5.2 and 6.7) and 8,042 thousand euro (7,401 thousand euro in 2011) of non-repayable capital subsidies. The detail of the non-repayable capital subsidies is as follows:

GRANTING AUTHORITY (Thousand euro)	2012	2011	Year granted
MINISTRY OF SCIENCE AND TECHNOLOGY	120	120	2003
IMADE	30	30	2003
IMADE	85	85	2004
MINISTRY OF EDUCATION AND SCIENCE	272	272	2004
IMADE	180	180	2005
CDTI	6	6	2005
MINISTRY OF INDUSTRY, TOURISM AND TRADE	54	54	2005
MINISTRY OF EDUCATION AND SCIENCE	156	156	2005
MADRID REGIONAL GOVERNMENT - INNOVACION	327	327	2006
CDTI - CENIT	377	377	2006
EUROPEAN COMMUNITY	131	131	2006
MINISTRY OF INDUSTRY, TOURISM AND TRADE	120	120	2006
MINISTRY OF INDUSTRY, TOURISM AND TRADE	48	48	2007
CDTI - CENIT	830	830	2007
MADRID REGIONAL GOVERNMENT - INNOVACION	364	364	2007
CDTI - CENIT	1,204	1,204	2008
IMADE	200	200	2008
MADRID REGIONAL GOVERNMENT - INNOVACION	343	343	2008
MINISTRY OF INDUSTRY, TOURISM AND TRADE	60	60	2008
EUROPEAN COMMUNITY	85	85	2008
CDTI - CENIT	1,223	1,223	2009
IMADE	1,028	1,028	2009
MADRID REGIONAL GOVERNMENT - INNOVACION	88	88	2009
EUROPEAN COMMUNITY	126	126	2009
CDTI - CENIT	909	909	2010
IMADE	502	502	2010
EUROPEAN COMMUNITY	38	38	2010
CDTI - CENIT	1,775	1,775	2011
MADRID REGIONAL GOVERNMENT - INNOVACION	220	222	2011
EUROPEAN COMMUNITY	23	23	2011
CDTI - CENIT	580	-	2012
IMADE	250	-	2012
	11,754	**10,926**	

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

The largest amounts received in 2012 and 2011 were for CENIT projects managed by the CDTI.

The changes in these subsidies are as follows:

(Thousand euro)	2012	2011
BEGINNING BALANCE	**11,746**	**9,278**
Increase	1,329	3,081
Recognised in profit or loss	-220	-290
Other decrease	-142	-323
ENDING BALANCE	**12,713**	**11,746**

18. DEBTS AND ACCOUNTS PAYABLE

(Thousand euro)	2012	2011
Bank debt	31,079	37,884
Debt to official authorities	13,952	14,159
Debt to Group undertakings (Note 26)	212,107	216,571
LONG-TERM DEBTS AND ACCOUNTS PAYABLE	**257,138**	**268,614**
Bank loans	30,059	31,672
Suppliers	194	185
Due to group undertakings (Note 26)	800	277
Accounts payable to related parties (Note 26)	59,433	52,118
Sundry creditors	13,401	15,284
Personnel	2,894	2,513
Customer advances	660	660
SHORT-TERM DEBT AND ACCOUNTS PAYABLE	**107,441**	**102,709**
TOTAL DEBTS AND ACCOUNTS PAYABLE	**364,579**	**371,323**

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

The amount of long-term debts and accounts payable as of 31 December 2012 includes 31,079 thousand euro of bank loans (37,884 thousand euro in 2011) and 13,952 thousand euro of repayable advances received from public authorities (14,159 thousand euro in 2011).

The Company does not have any undrawn credit lines.

18.1. BANK DEBT

Non-current bank debt consists of the following items:

NON-CURRENT BANK DEBT	2012	2011
Banco Sabadell Atlántico	3,319	4,029
EIB	13,935	19,290
ICO	9,290	12,860
Bancaja	-	205
Bankinter	583	1,500
Banco Popular	497	-
TargoBank	392	-
Bankia	396	-
Cajas Rurales Unidas	1,000	-
BBVA	1,667	-
TOTAL	**31,079**	**37,884**

- The loan from Banco Sabadell Atlántico amounting to 2,608 thousand euro (4,029 thousand euro in 2011) matures in 2015 and bears interest at an annual floating rate of Euribor plus 1.25 points. The short-term debt, amounting to 1,420 thousand euro as of 31 December 2012 (1,372 thousand euro in 2011), is recognised under "Short-term bank debt".

- The balance payable to European Investment Bank (EIB) and the Instituto Oficial de Crédito (ICO) amounts to 32,150 thousand euro (39,290 thousand euro in 2011), of which 23,225 thousand euro are recognised as long term (32,150 thousand euro in 2011) and 8,925 thousand euro under "Short-term bank debt" (7,140 thousand euro in 2011).

  The loan originally amounted to 50,000 thousand euro and its term is nine years (10 years prior to the novation dated 11 December 2012), with a three-year grace period. The loan was granted on 7 May 2007 (there were two subsequent novations, on 17 June 2010 and 11 December 2012); the guarantors are Zeltia, S.A. and Xylazel, S.A.

  That loan is subject to compliance with specific indicators linked to the Group's consolidated financial statements and the financial statements of Xylazel, S.A. Under the terms of the novation dated 11 December 2012, those indicators will not apply until 31 December 2013; therefore, clause 20.25.e) of the loan agreement, as amended in the novation in June 2010, will not apply until that date; under that clause, Xylazel, S.A. agreed that, if the indicators were not met, it would not pay dividends and would allocate 80% of profit to a restricted account for paying principal and interest.

  Once the covenants are met, any monies paid into the restricted account will be released and Xylazel, S.A. may distribute dividends.

The only debt with collateral as of 31 December 2012 were the loans from Banco Sabadell Atlántico, BBVA, the European Investment Bank (EIB) and the Instituto de Crédito Oficial (ICO).

The detail of the "Short-term debt to credit institutions and official authorities" caption is as follows:

SHORT TERM BANK DEBT (Thousand euro)	Drawn in 2012	Limit in 2012	Drawn in 2011	Limit in 2011
Credit lines	9,221	14,000	11,927	16,150
Short-term component of long-term debt	15,523	-	12,698	-
Short-term component of debt to official authorities	2,966	-	3,257	-
Other short-term loans	111	-	64	-
Interest on debt	189	-	311	-
Discounting transactions	2,049	9,450	3,415	6,750
TOTAL	**30,059**	**23,450**	**31,672**	**22,900**

The credit lines bore average interest of 4.73% in 2012 (3.91% in 2011).

The Company obtained the following funding in 2012:

- Loan from Banco Sabadell for 741 thousand euro maturing in 2014 at a floating annual rate of 6-month Euribor plus 1 point, solely and exclusively to finance a project managed by the CDTI.
- ICO Liquidez loan granted by Banco Santander for 1,600 thousand euro maturing in 2013, at a fixed interest rate of 6.348%.
- ICO Liquidez loan granted by Banco Popular for 1,000 thousand euro maturing in 2015, at a fixed interest rate of 6.576%.
- ICO Liquidez loan granted by Targobank for 750 thousand euro maturing in 2015, at a fixed interest rate of 5.915%.
- ICO Liquidez loan granted by Bankia for 750 thousand euro maturing in 2015, at a fixed interest rate of 7.037%.
- ICO Liquidez loan from Cajamar (Cajas Rurales Unidas, S.C.C.) for 1,000 thousand euro maturing in 2014, at an annual floating rate of 6-month Euribor plus 7.75%.
- Loan from BBVA for 3,000 thousand euro maturing in 2015, at fixed interest rate of 7.50%.

At 2012 and 2011 year-end, the bank debt matured as follows:

BANK DEBT
(Thousand euro)

MATURING IN	2012	2011
2012	-	12,698
2013	15,523	9,766
2014	16,358	9,111
2015	13,828	8,277
2016	893	7,140
2017 and thereafter	-	3,590
TOTAL	**46,602**	**50,582**
NON-CURRENT	**31,079**	**37,884**
CURRENT	**15,523**	**12,698**

18.2. DEBT TO OFFICIAL AUTHORITIES

The non-current debt under this heading as of 31 December 2012 was 13,952 thousand euro (14,159 thousand euro in 2011). These loans do not accrue interest except for the 62 thousand euro loan from the Ministry of Industry, Energy and Tourism, which accrues fixed annual interest of 3.95%. 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); as a result, those debts accrued interest at effective rates of between 2.1707% and 8.1038%.

Repayable subsidies received in 2012 are detailed below:

(Thousand euro) 2012

AGENCY	Project	Nominal amount	Initial fair value	Repayment period (years)
Centre for Industrial Technological Development (CDTI)	(1)	1,131	825	11
Ministry of Education and Innovation	(2)	192	137	11
Ministry of Education and Innovation	(3)	360	257	11
Ministry of Education and Innovation	(4)	33	25	9
Ministry of Education and Innovation	(5)	765	551	11
Centre for Industrial Technological Development (CDTI)	(6)	1,084	703	11
Ministry of Industry, Energy and Tourism	(7)	62	62	10
		3,627	**2,560**	

1) Preclinical multidisciplinary evaluation of the compound PM60184.

2) Development of biological processes to supply antitumour compounds of marine origin using biotechnology (BIOKETIDO)

3) Development of micro/nanostructured dispersions of solids for the oral administration of marine antitumour compounds (ORALBEADS).

4) Progress with knowledge about the physical and chemical stability in plasma and aqueous vehicles of four new antitumour molecules undergoing preclinical assessment.

5) Polymer nanocapsules for controlled release of antitumour drugs (POLYSFERA).

6) Clinical development of marine-derived compound Aplidin® in haematological neoplasia.

7) Production process re-engineering to obtain PM01183.

The following advances were received in 2011:

(Thousand euro) 2011

AGENCY	Project	Nominal amount	Initial fair value	Repayment period (years)
Ministry of Education and Innovation	(1)	377	255	11
Ministry of Education and Innovation	(2)	418	279	10
Ministry of Education and Innovation	(3)	270	180	10
Ministry of Industry, Tourism & Commerce	(4)	355	171	15
Centre for Industrial Technological Development (CDTI)	(5)	1,156	823	11
Centre for Industrial Technological Development (CDTI)	(6)	640	455	11
Centre for Industrial Technological Development (CDTI)	(7)	300	190	11
Centre for Industrial Technological Development (CDTI)	(8)	2,901	2,140	11
Centre for Industrial Technological Development (CDTI)	(9)	1,265	927	11
Centre for Industrial Technological Development (CDTI)	(10)	300	177	11
		7,982	**5,597**	

1) Polymer nanocapsules for controlled release of antitumour drugs (POLYSFERA).

2) New antitumour metabolites produced by marine fungi.

3) Assessment of inhalation administration systems for studying lung cancer in rodent models.

4) New high-capacity, sustainable, safe and effective processes for innovative products and therapies for treating cancer.

5) Clinical development of marine-based anti-cancer drug PM0104 (Zalypsis).

6) Phase I clinical trial for the marine-based antitumour drug PM01183 (TRYPTAMICIDINA).

7) Preclinical multidisciplinary evaluation of the compound PM060184

8) Clinical development of marine-based antitumour drug Yondelis® for advanced cancer.

9) Clinical development of marine-based drug Irvalec® for advanced cancer. Trials in combination and commencement of exploratory Phase II trial.

10) Phase I trial with antitumour drug PM060184.

As of 31 December 2012 and 2011, the amounts due to official authorities (recognised at fair value) matured as follows:

DEBT TO OFFICIAL AUTHORITIES
(Thousand euro)

MATURING IN	2012	2011
2012	-	3,257
2013	2,966	3,023
2014	2,546	2,710
2015	2,571	2,352
2016	2,216	1,887
2017 and thereafter	6,619	4,187
TOTAL	**16,918**	**17,416**
NON-CURRENT	**13,952**	**14,159**
CURRENT	**2,966**	**3,257**

18.3. PARTICIPATION LOAN

On 1 October 2005, the Company signed a participation loan with Zeltia, S.A. in which the outstanding balance due to Zeltia at that date was included initially; that amount was 117,028 thousand euro and it has been increased since then by the amounts given to PharmaMar to finance its activities. The Company did not receive any additional contributions in 2012 or 2011 and it paid an instalment amounting to 17,148 thousand euro in each of those years. As of 31 December 2012, the loan amounted to 148,877 thousand euro (166,025 thousand euro in 2011).

The participation loan, which accrues variable annual interest rate according to the contract's terms, has a 10-year duration and matures on 30 September 2015; it accrues annual interest in favour of Zeltia, S.A. which is claimable as from 30 April 2006. Nevertheless, that interest will accrue only in the years in which PharmaMar recognised accounting profit under IAS/IFRS, excluding the following amounts: (1) extraordinary revenues, (2) the year's interest on the participating loan itself, and (3) any amount of tax on profits in the actual year.

Discounting projected interest in accordance with the previous paragraph at the effective interest rate and updating the loan to amortised cost, the loan is worth 229,255 thousand euro as of 31 December 2012 (233,719 thousand euro in 2011), of which 17,148 thousand euro are recognised under "Short-term accounts payable to group and associated undertakings" as of 31 December 2012 (17,148 thousand euro in 2011).

18.4. OTHER LOANS FROM GROUP COMPANIES

On 31 October 2009, the Company signed a loan from Zeltia, S.A. against which 39,830 thousand euro had been drawn as of 31 December 2012 (31,830 thousand euro in 2011). In 2012, the Company received 18,000 thousand euro (25,100 thousand euro in 2011) and repaid 10,000 thousand euro (15,800 thousand euro in 2011).

The unpaid accrued interest on this loan amounted to 2,455 thousand euro as of 31 December 2012 (948 thousand euro in 2011).

The applicable interest rate is 5%; consequently, since it is remunerated on an arm's-length basis, its carrying amount is approximately the same as its fair value.

18.5. INFORMATION ON DEFERRAL OF PAYMENTS TO SUPPLIERS. ADDITIONAL PROVISION 3 "DISCLOSURE OBLIGATION" OF ACT 15/2010, OF 5 JULY

Information on payments for commercial transactions performed in 2012 and 2011 and pending payment at the end of the year in relation to the maximum legal payment periods envisaged in Act 15/2010 is as follows:

PAYMENTS COMPLETED AND OUTSTANDING ON THE BALANCE SHEET DATE (Thousand euro)	Balance as of 31/12/12	
	Importe	%
Within the maximum legal period	30,171	87.43%
Remainder	4,338	12.57%
TOTAL PAYMENTS IN THE YEAR	**34,509**	**100%**
Weighted average delay in payment (days)	22	-
Deferrals which exceeded the maximum legal limit as of the balance sheet date (thousand euro)	18	-

PAYMENTS COMPLETED AND OUTSTANDING ON THE BALANCE SHEET DATE (Thousand euro)	Balance as of 31/12/11	
	Importe	%
Within the maximum legal period	24,913	78.72%
Remainder	6,735	21.28%
TOTAL PAYMENTS IN THE YEAR	**31,648**	**100%**
Weighted average delay in payment (days)	17	-
Deferrals which exceeded the maximum legal limit at the balance sheet date (thousand euro)	164	-

19. DEFERRED TAXES

The detail of this caption as of 31 December 2012 and 2011 is as follows:

(Thousand euro)	2012	2011
DEFERRED TAX ASSETS	**5,164**	**205**
Timing differences (Note 21)	187	205
Capitalised tax credits (Note 21)	4,977	-
DEFERRED TAX LIABILITIES	**5,440**	**5,026**
Timing differences	5,440	5,026
DEFERRED TAXES (NET)	**-276**	**-4,821**

The change in the year in deferred tax assets and liabilities, without offsetting balances, is as follows:

DEFERRED TAX LIABILITIES (Thousand euro)	Subsidies, donations and legacies received	TOTAL
BALANCE AS OF 31 DECEMBER 2010	**3,968**	**3,968**
Charge (credit) to profit or loss	-124	-124
Charge to equity	1,182	1,182
BALANCE AS OF 31 DECEMBER 2011	**5,026**	**5,026**
Charge (credit) to profit or loss	-95	-95
Charge to equity	509	509
BALANCE AS OF 31 DECEMBER 2012	**5,440**	**5,440**

DEFERRED TAX ASSETS (Thousand euro)	Provisions	TOTAL
BALANCE AS OF 31 DECEMBER 2010	**273**	**273**
Charge (credit) to profit or loss	-68	-68
BALANCE AS OF 31 DECEMBER 2011	**205**	**205**
Charge (credit) to profit or loss	4,959	4,959
BALANCE AS OF 31 DECEMBER 2012	**5,164**	**5,164**

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

(Thousand euro)	2012	2011
Subsidies, donations and legacies received	509	1,182
TOTAL	**509**	**1,182**

Deferred tax assets due to tax losses carried forward are recognised to the extent that the Company is likely to obtain future taxable income enabling them to be offset. Net deferred tax assets amounting to 4,977 thousand euro were recognised in 2012 (Note 2.2).

As of 31 December 2012, the Company's unused tax credits were as follows:

(Thousand euro)

Years	Amount of tax credit as of 31/12/2012	Used in 2012	Unused as of 31/12/2012	Years
2006	211	-	211	**2024**
2007	3,967	-	3,967	**2025**
2008	2,170	-	2,170	**2026**
2012	2,426	-	2,426	**2030**
TOTAL	**8,774**	**-**	**8,774**	

Those tax credits were not capitalised by the Company as of 31 December 2012 (Note 2.2).

As of 31 December 2012, the Company had not offset any tax losses. In 2011, the company offset 4,940 thousand euro of tax losses that had not been capitalised (Note 21).

20. REVENUES AND EXPENSES

20.1. FOREIGN CURRENCY TRANSACTIONS

The detail of foreign currency transactions is as follows (Note 5.1.1.2):

(Thousand euro)	2012	2011
Services received	20,390	20,652
Other expenses	536	510
Sales	2,896	2,319
Procurement	3,848	3,077
TOTAL	**27,670**	**26,558**

20.2 SALES AND OTHER REVENUES

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

(Thousand euro)	2012	2011
DOMESTIC MARKET	**9,309**	**8,986**
EXPORTS	**56,771**	**65,126**
European Union	55,588	63,187
OECD countries	1,183	1,939
Other countries	-	-
TOTAL	**66,080**	**74,112**

The "Sales" item basically refers to commercial sales of Yondelis® for soft tissue sarcoma and relapsed ovarian cancer, and of Trabectedin and intermediates primarily to Janssen Pharmaceutical and Taiho Pharmaceutical, Ltd.

"Other operating revenues" as of 31 December 2012 includes the royalties from Johnson & Johnson sales, which totalled 1,754 thousand euro (1,708 thousand euro in 2011), and the payment received from Janssen Products LP by virtue of the agreement reached in 2011. The agreement responds to a new plan of action to strengthen development of Yondelis® in the US, about which the Spanish National Securities Market Commission was informed on 27 December 2011.

As a result, Janssen will conduct a pivotal Phase III trial with Yondelis® in recurrent ovarian cancer; the trial design will be submitted to the FDA in the near future. Janssen will also complete the Phase III trial in L-sarcoma which commenced at the beginning of 2011. In the framework of that agreement, PharmaMar collected an initial payment of 25 million dollars in 2011 and a second payment of the same amount after attaining the contractually-stipulated milestone. Additionally, PharmaMar will receive another 60 million dollars as milestones based solely on the Yondelis® development plan are attained in 2013-2015 (25 million each in 2013 and 2014, and 10 million in 2015).

20.3. MERCHANDISE, RAW MATERIALS AND OTHER CONSUMABLES CONSUMED

(Thousand euro)	2012	2011
▪ Purchased in Spain	1,503	1,497
▪ Purchased in other EU countries	266	88
▪ Imports	346	157
▪ Change in inventories	15	-2
TOTAL	**2,130**	**1,740**

20.4. PERSONNEL EXPENSES

(Thousand euro)	2012	2011
Wages, salaries and similar	16,454	15,795
Indemnities	246	875
Employee welfare expenses		
▪ Employer social security	2,970	2,996
▪ Other welfare expenses	765	775
TOTAL	**20,435**	**20,441**

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

	2012	2011
NUMBER IN CATEGORY (MEN)		
Executives and managers	7	7
Technical personnel	70	69
Clerical staff	24	26
Commercial personnel	7	8
Assistants and others	4	5
TOTAL (MEN)	**112**	**115**

	2012	2011
NUMBER IN CATEGORY (WOMEN)		
Executives and managers	6	6
Technical personnel	105	112
Clerical staff	36	38
Commercial personnel	7	3
Assistants and others	12	12
TOTAL (WOMEN)	**166**	**171**
TOTAL	**278**	**286**

The breakdown of the workforce by category and gender as of 2012 and 2011 year-end does not differ materially from the reported average workforce breakdown.

20.5 OUTSIDE SERVICES

The detail of this caption as of 31 December 2012 and 2011 is as follows:

(Thousand euro)	2012	2011
Research & development expenses	9,839	11,000
Leases and fees	885	919
Repairs and maintenance	1,485	1,308
Independent professional services	8,227	7,666
Transport	657	713
Insurance premiums	376	446
Advertising and public relations	13,565	15,166
Utilities	899	876
Other services	4,820	4,642
Other taxes	445	390
TOTAL	**41,198**	**43,126**

21. INCOME TAX AND TAX SITUATION

The balances with public authorities as of 31 December 2012 and 2011 are as follows:

	2012		2011	
(Thousand euro)	Payable	Receivable	Payable	Receivable
Personal income tax	-	320	-	284
Social security	-	299	-	295
Other balances with public authorities	3,722	-	1,776	-
TOTAL	**3,722**	**619**	**1,776**	**579**

Since 2002, the Company has filed tax returns as part of the consolidated taxation group headed by Zeltia, S.A. As a result, in the "Short-term investment in group and associated undertakings" (Note 13) captions, the Company recognises the balances resulting from the settlement of corporate income tax and value added tax under this special tax regime.

The "Other balances with public authorities" account as of 31 December 2012 and 2011 mainly reflects withholdings from royalties and payments received from Janssen Products LP under the agreement signed in 2011.

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

	2012			
(Thousand euro)	Income Statements		Revenues and expenses recognised directly in equity	
BALANCE OF REVENUES AND EXPENSES IN THE YEAR	**9,531**			
	Increase	Decrease	Increase	Decrease
Corporate income tax		-7,423		
Permanent differences		-10,262	1,696	-315
Timing differences:				
▪ Arising in the year	317			
▪ Arising in prior years		-375		
TAX BASE		**-8,212**		
Tax losses carried forward		-		
TAXABLE INCOME		**-8,212**		**1,381**

(Thousand euro)	2011			
	Income Statements		Revenues and expenses recognised directly in equity	
BALANCE OF REVENUES AND EXPENSES IN THE YEAR	**25,498**			
	Increase	**Decrease**	**Increase**	**Decrease**
Corporate income tax	4,385			
Permanent differences		-10,326	3,940	-414
Timing differences:				
▪ Arising in the year	385			
▪ Arising in prior years		-615		
TAX BASE		**19,327**		
Tax losses carried forward		-4,940		
TAXABLE INCOME		**14,387**		**3,526**

The current income tax expense is the result of multiplying the taxable base by 30%:

(Thousand euro)	2012	2011
CURRENT TAX	-2,443	4,316
▪ Deferred tax	-3	69
▪ Others	-4,977	-
TOTAL TAX EXPENSE	**-7,423**	**4,385**

In 2009, the Company availed itself of article 23 of the Corporate Income Tax Act, under which only 50% of revenues from the assignment of rights to use or exploit patents, drawings, models, plans, or secret formulas or procedures, rights on information relating to industrial, commercial or scientific experience are counted for corporate income tax purposes.

Accordingly, the permanent difference in 2012 and 2011 refers to the 25 million dollar payment received from Johnson & Johnson in both years and to royalties paid by Johnson & Johnson under the agreement to licence Yondelis® (Note 20.2). Royalties in 2012 totalled 1,754 thousand euro (1,708 thousand euro in 2011).

In 2012, the company recognised an account receivable from the consolidated group amounting to 2,480 thousand euro under "Short-term investment in Group and associated undertakings" (2,192 thousand euro in 2011 under "Short-term debt to group and associated undertakings"), which is 30% of taxable income less tax withholdings and prepayments. No tax credits were applied in calculating corporate income tax in 2012 (2,124 thousand euro in 2011).

The timing differences in 2012 and 2011 refer to the employee stock ownership plan.

The "Others" caption refers to deferred tax assets arising from tax losses recognised in 2012 (Notes 2.2 and 19).

As of 31 December 2012, the unused tax credits earned by the Company, mainly for R&D, were as follows (in thousand euro):

2012	(Thousand euro)			
Years	Used in 31/12/2012	Used in 2012	Unused as of 31/12/2012	Years
1999	2,149	-	2,149	2014
2000	4,478	-	4,478	2015
2001	4,890	-	4,890	2016
2002	12,096	-	12,096	2017
2003	13,023	-	13,023	2018
2004	9,400	-	9,400	2019
2005	10,565	-	10,565	2020
2006	10,251	-	10,251	2021
2007	9,477	-	9,477	2022
2008	10,059	-	10,059	2023
2009	8,625	-	8,625	2024
2010	8,211	-	8,211	2025
2011	7,980	-	7,980	2026
2012	6,915	-	6,915	2027
TOTAL	118,119		118,119	

The Company has 2008, 2009, 2010, 2011 and 2012 open for review for all applicable taxes including 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.

In 2012, the Company did not offset any tax losses. In 2011, it offset 4,940 thousand euro in tax losses.

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 accounting income. 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.

22. FINANCIAL INCOME

22.1. FINANCIAL INCOME

The detail of the financial income is as follows:

(Thousand euro)	2012	2011
FINANCIAL REVENUES	**209**	**77**
▪ From third parties	209	77
FINANCIAL EXPENSES	**-18,103**	**-17,271**
▪ On debts to group and associated undertakings	-14,292	-13,640
▪ On debts to third parties	-3,811	-3,631
CAPITALISED FINANCIAL EXPENSES	**14,417**	**14,435**
EXCHANGE DIFFERENCES	**-54**	**67**
IMPAIRMENT LOSSES AND INCOME FROM DISPOSAL OF FINANCIAL INSTRUMENTS	**-6**	**-13**
▪ Income from disposals and other	-6	-13
FINANCIAL INCOME	**-3,537**	**-2,705**

As a result of the participation loan arranged with Zeltia (Note 18.3), 12,685 thousand euro (12,914 thousand euro in 2011) in financial expenses were recognised under debts to group and associated undertakings, calculated in accordance with the loan's internal rate of return since inception and market prices, applied to the present value of the loan.

22.2. IMPAIRMENT LOSSES AND INCOME FROM DISPOSAL OF FINANCIAL INSTRUMENTS

(Thousand euro)	2012	2011
INCOME FROM DISPOSALS AND OTHER:		
Income from disposals and other	-6	-13
	-6	**-13**

23. CONTINGENCIES

23.1. CONTINGENT LIABILITIES

The Company does not have contingent liabilities.

24. COMMITMENTS

24.1. PURCHASE AND SALE COMMITMENTS

The Company has no purchase or sale commitments in 2013. The Company did not have any purchase or sale commitments in 2012.

24.2. OPERATING LEASE COMMITMENTS

The minimum future payments for non-cancellable operating leases as of 31 December 2012 and 2011 are detailed in Note 8.

25. DIRECTOR AND SENIOR MANAGEMENT REMUNERATION

25.1. DIRECTOR REMUNERATION

Directors' remuneration totalled 289 thousand euro in 2012 (339 thousand euro in 2011). No advances or loans have been granted to members of the Board of Directors and there are no pension or life insurance obligations to them.

25.2. SENIOR MANAGEMENT REMUNERATION AND LOANS

Senior management, i.e. general managers and similar who report directly to the Company's governing bodies, collected 386 thousand euro in remuneration in 2012 (379 thousand euro in 2011).

25.3. DIRECTORS' DUTY OF LOYALTY

The following disclosures are made in accordance with articles 229 et seq. the Consolidated Text of the Capital Companies Act.

A) Based on disclosures by the individual members of the Company's Board of Directors as of 31 December 2012, there follows a list of the companies, other than those in the Zeltia Group, whose object is the same as, or similar or complementary to, that of PharmaMar and in which the directors owned equity holdings as of 31 December 2012, and/or any offices they held in such companies:

DIRECTOR	COMPANY	ACTIVITY	STAKE	OFFICES/FUNCTIONS
MARTINE J. PICCART	BOEHRINGER INGELHEIM	DRUG RESEARCH AND DEVELOPMENT	-	Advisor
	SYNTHON		-	Consultant
	ASTELLAS		-	Consultant
	ABLYNX		-	Consultant
	ROCHE		-	Consultant and patent co-author
	SANOFI-AVENTIS		-	Advisor
	AMGEM		-	Advisor
	INVIVIS		-	Advisor
	PFIZER		-	Consultant
PEDRO FERNÁNDEZ PUENTES	CZ VETERINARIA, S.A.	RESEARCH PHARMACEUTICALS	45.25% (1)	Chairman of Board of Directors
	BIOFABRI, S.L. (2)		(2)	Chairman of Board of Directors
FERNANDO CABANILLAS	ALLOS-Spectrum	DRUG RESEARCH AND DEVELOPMENT	-	Consultant
	Talon Pharmaceuticals	DRUG RESEARCH AND DEVELOPMENT	-	Contribution to patent

(1) Total of direct and indirect stakes.

(2) Company owned 93% by CZ Veterinaria, S.A.

B) Additionally, a number of directors have disclosed, in accordance with article 229.2 of the Capital Companies Act, that their related parties held the following direct or indirect stakes in the capital of companies, other than companies in the Zeltia Group, whose object is the same as, or similar or complementary to, that of PharmaMar and the following offices or functions in those companies as of 31 December 2012:

- Persons related to Pedro Fernández Puentes (siblings, sister-in-law) own 29.37% of Instituto Biomar, S.A.

C) The directors not listed in the preceding two sections have presented negative declarations to the Company with respect to themselves and their related parties, as defined in the Capital Companies Act.

D) The list of members of the Board of Directors of PharmaMar who were also directors of other Group undertakings and/or who had stakes in them as of 31 December 2012, and the percentage of their stake, is as follows:

	Zeltia, S.A.	% (*)	Pharma Mar S.A.	%	Pharma Mar USA, Inc.	%	Genómica S.A.U.	%	Sylentis S.A.U.	%	Noscira S.A in liquidation	%	Zelnova, S.A.	%	Xylazel, S.A.	%
José Mª Fdez. Sousa-Faro	X	11.037	X	-	X	-	X	-	X	-	-	0.5198	X(1)	0.00049	-	0.037
Pedro Fdez.-Puentes	X	4.501	X	-	-	-	-	-	-	-	-	-	X	0.00049	-	0.037
José Antonio Urquizu Iturrarte	X	0.180	-	-	-	-	-	-	-	-	-	0.070	X	-	X	-
JEFPO, S.L. (2)	X	0	X	-	-	-	X	-	-	-	-	-	X	-	X	-
Rosp Corunna Participaciones Empresariales S.L.	X	5.00	-	-	-	-	-	-	-	-	-	2.847	-	-	-	-
Santiago Fernández Puentes	X	1.384	-	-	-	-	-	-	-	-	-	-	-	-	X	-
Monserrat Andrade Detrell	X	4.615	-	-	-	-	-	-	-	-	-	0.345	-	-	-	-

(*) Information disclosed by the directors to the National Securities Market Commission (CNMV).

(1) As representative of Zeltia, S.A.

(2)Either JEFPO, S.L. or José Félix Pérez-Orive Carceller, in his personal capacity (he is the person representing JEFPO, S.L. on the Board of Directors of Zeltia, S.A.)

26. OTHER TRANSACTIONS WITH RELATED PARTIES

26.1. BALANCES WITH GROUP COMPANIES

The detail of accounts payable to and receivable from group undertakings as of 31 December 2012 and 2011 is as follows:

(Thousand euro) 2012	Parent company	Group undertakings	TOTAL
CUSTOMER RECEIVABLES FROM GROUP AND ASSOCIATED UNDERTAKINGS (NOTE 13)			
▪ PharmaMar, AG	-	924	924
OTHER FINANCIAL ASSETS (NOTE 13)			
▪ Zeltia S.A.	3,742	-	3,742
▪ Noscira S.A.	-	-	-
TOTAL ASSETS	**3,742**	**924**	**4,666**
DEBT TO GROUP AND ASSOCIATED UNDERTAKINGS (NOTE 18)			
▪ Pharma Mar, USA	-	34	34
▪ Pharma Mar, Sarl	-	115	115
▪ Pharma Mar, Srl	-	250	250
▪ Pharma Mar, GmbH	-	170	170
▪ Genómica S.A.	-	231	231
INTEREST-BEARING DEBT TO GROUP AND ASSOCIATED UNDERTAKINGS (NOTES 18.3 AND 18.4)			
▪ Zeltia S.A.	271,540	-	271,540
TOTAL LIABILITIES	**271,540**	**800**	**272,340**

(Thousand euro) 2011	Parent company	Group undertakings	TOTAL
CUSTOMER RECEIVABLES FROM GROUP AND ASSOCIATED UNDERTAKINGS (NOTE 13)			
▪ PharmaMar, AG	-	1,268	1,268
OTHER FINANCIAL ASSETS (NOTE 13)			
▪ Zeltia S.A.	1,603	-	1,603
▪ Noscira S.A.	-	18	18
TOTAL ASSETS	**1,603**	**1,286**	**2,889**
DEBT TO GROUP AND ASSOCIATED UNDERTAKINGS (NOTE 18)			
▪ Protección de Maderas, S.A.U.	-	2	2
▪ Zeltia, S.A.	2,325	-	2,325
▪ Genómica S.A.	-	139	139
▪ Sylentis S.A.	-	3	3
INTEREST-BEARING DEBT TO GROUP AND ASSOCIATED UNDERTAKINGS (NOTES 18.3 AND 18.4)			
▪ Zeltia S.A.	266,497	-	266,497
TOTAL LIABILITIES	**268,822**	**144**	**268,966**

The debt owed by Zeltia, S.A., recognised under "Other financial assets", primarily includes the amount receivable for corporate income tax (2,480 thousand euro) and value added tax (1,262 thousand euro) for 2012. In 2011, the Debt to Group and associated undertakings referred to corporate income tax payable (2,193 thousand euro).

26.2 TRANSACTIONS WITH GROUP UNDERTAKINGS

The amounts of the Company's transactions with group undertakings as of 31 December 2012 and 2011 are as follows:

TRANSACTIONS WITH GROUP UNDERTAKINGS

EXPENSES (Thousand euro) 2012	Parent company	Group undertakings	TOTAL
SOFTWARE LICENCE AGREEMENTS			
▪ Zeltia S.A.	221	-	221
SERVICES RECEIVED			
▪ Zeltia S.A.	74	-	74
▪ Pharma Mar USA	-	359	359
▪ PharmaMar AG	-	177	177
▪ Pharma Mar Sarl	-	418	418
▪ Pharma Mar SRL	-	751	751
▪ Pharma Mar GmbH	-	480	480
▪ Protección de Maderas S.A.U	-	8	8
▪ Sylentis S.A.	-	3	3
▪ Genómica S.A.	-	53	53
PROCUREMENT			
▪ Zeltia S.A.	338	-	338
FINANCIAL			
▪ Zeltia S.A.	14,191	-	14,191
▪ Xylazel S.A.	-	101	101
TOTAL EXPENSES 2012	**14,824**	**2,350**	**17,174**

TRANSACTIONS WITH GROUP UNDERTAKINGS

EXPENSES (Thousand euro) 2011	Parent company	Group undertakings	TOTAL
SOFTWARE LICENCE AGREEMENTS			
▪ Zeltia S.A.	42	-	42
SERVICES RECEIVED			
▪ Zeltia S.A.	70	-	70
▪ Pharma Mar USA	-	363	363
▪ PharmaMar AG	-	148	148
▪ Pharma Mar Sarl	-	111	111
▪ Protección de Maderas S.A.U	-	11	11
▪ Sylentis S.A.	-	4	4
PROCUREMENT			
▪ Zeltia S.A.	596	-	596
FINANCIAL			
▪ Zeltia S.A.	13,524	-	13,524
▪ Xylazel S.A.	-	118	118
TOTAL EXPENSES 2011	**14,232**	**755**	**14,987**

REVENUES (Thousand euro) 2012	Parent company	Group undertakings	TOTAL
SALES			
PhamaMar AG	-	1,183	1,183
PROVISION OF SERVICES			
▪ Zeltia S.A.	21	-	21
▪ Pharma Mar, Srl	44	-	44
▪ Pharma Mar, GmbH	78	-	78
TOTAL REVENUES 2012	**143**	**1,183**	**1,326**

REVENUES (Thousand euro) 2011	Parent company	Group undertakings	TOTAL
SALES			
▪ PhamaMar AG	-	1,939	1,939
▪ Noscira S.A.	-	82	82
TOTAL REVENUES 2011	**-**	**2,021**	**2,021**

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

27. 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 2012 and 2011 are as follows:

FINANCIAL INSTITUTION (Thousand euro)	2012 Amount	2011 Amount
Banco Sabadell-Atlántico	5,946	4,840
Bankinter	-	222
Commerzbank	1,442	1,767
Novagalicia Banco	6,038	6,954
Banco Pastor	407	760
Catalunya Caixa	603	875
Unicaja	115	193
Banco Santander	133	158
Banca Cívica (La Caixa)	464	464
Banco Popular	1,611	857
TOTAL	**16,759**	**17,090**

28. ENVIRONMENT

Investments related to the environment amounted to 176 thousand euro in 2012 (Note 7.6). No investments were made in 2011.

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

- Atmospheric emissions: to control and clean emissions, the Company installed 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 homogenise discharges, and a discharge valve, pursuant to the Madrid Region Law 10/93.

- Waste: the Company built two special rooms to store waste prior to removal and disposal.

Environmental protection and improvement expenses amounted to 64 thousand euro in 2012 (83 thousand euro in 2011) and relate mainly to waste disposal by third parties.

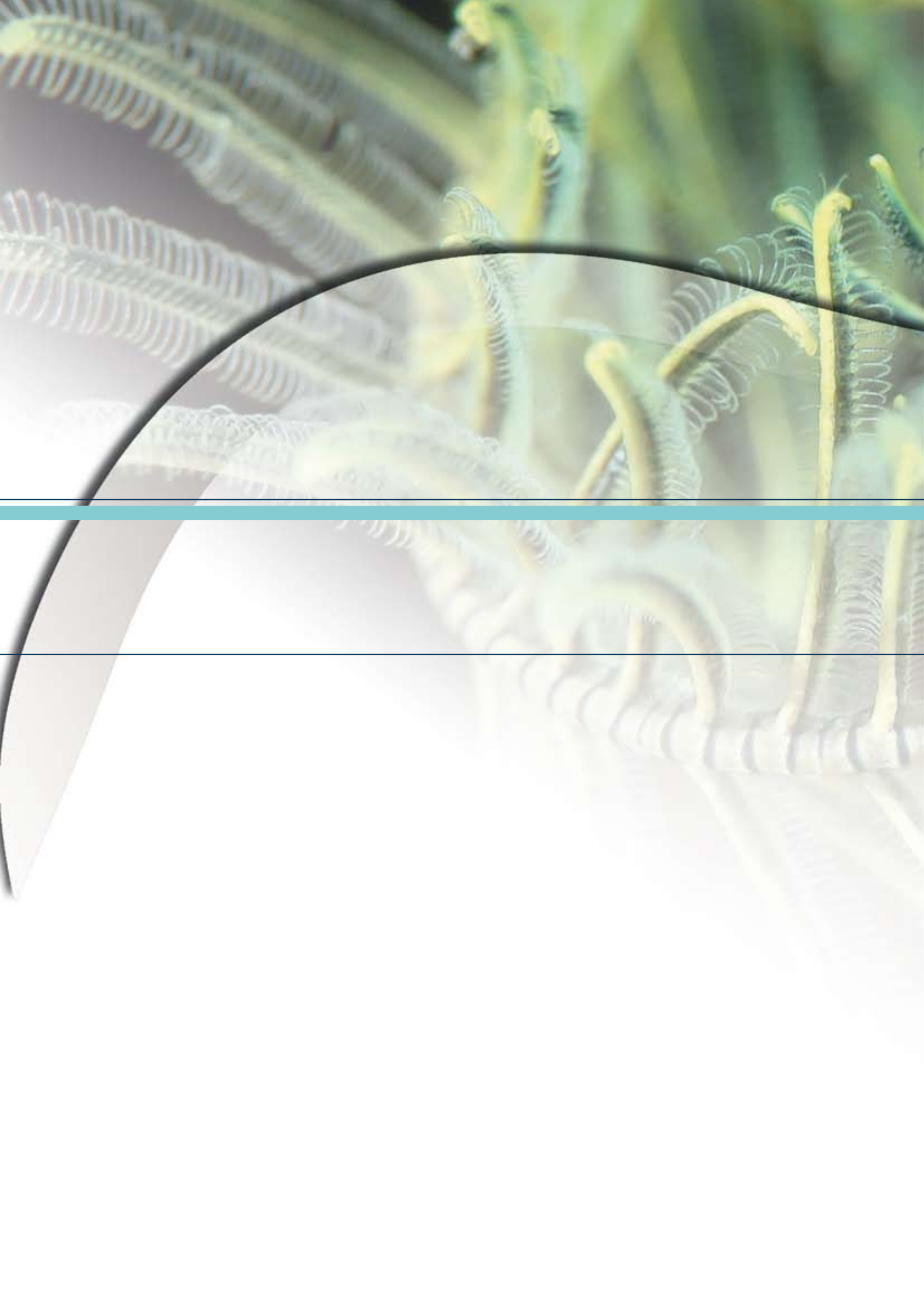
The Company is not aware of any significant environmental contingencies as a result of its activities.

29. SUBSEQUENT EVENTS

On 4 February 2013, it was disclosed to the National Securities Market Commission that Jansen Products LP had made a third payment to Pharma Mar, S.A. in the amount of 25 million dollars for attaining a milestone in the Yondelis® development plan.

30. AUDITORS' FEES

In 2012, PricewaterhouseCoopers Auditores, S.L. accrued 53 thousand euro, excluding VAT (53 thousand euro in 2011, excluding VAT), in auditors' fees and 8 thousand euro for additional work (1 thousand euro in 2011); no other amount was paid to any company in the same group of companies as the auditor or to any company related to the auditor through joint ownership, management or control.



Directors' Report 2012

PHARMA MAR, S.A.
SOCIEDAD UNIPERSONAL

DIRECTORS' REPORT

The year just ended was yet another difficult one for practically all sectors of the economy. The economic situation was very restrictive for the second consecutive year. In the area of pharmaceuticals, those restrictions led primarily to price cuts, discounts and limits on reimbursements for certain treatments, especially in oncology, due to their high cost. This situation was exacerbated by the shortage of Caelyx, an antitumour drug belonging to Johnson&Johnson that is marketed in combination with Yondelis® to treat ovarian cancer; as a result PharmaMar's gross revenues fell by approximately 11% with respect to 2011.

Nevertheless, PharmaMar remains the leader in R&D of marine-origin antitumour drugs and it continued active clinical development of five of its compounds: Yondelis®, Aplidin®, Zalypsis®, PM01183 and PM060184.

COMMERCIAL ACTIVITY:

September marked the fifth anniversary of the approval of our first product, Yondelis®, for soft tissue sarcoma. Yondelis® is currently approved in 73 countries, 30 of which are in the European Economic Area (EEA). Specifically, it is approved in 74 countries for soft tissue sarcoma and in 67 countries for platinum-sensitive relapsed ovarian cancer.

Sales of Yondelis® provided PharmaMar with 71.4 million euro in revenues in 2012, i.e. a decrease of 11% with respect to 2011. That decline was due broadly to problems with the supply of Caelyx (pegylated liposomoal doxorubicin), which is currently marketed in combination with Yondelis® for treating relapsed platinum-sensitive ovarian cancer. To mitigate the temporary shortage of Caelyx in Spain, the Spanish Medicines Agency gave PharmaMar a temporary authorisation to distribute, in Spain, the drug Lipodox, produced by Sun Pharma Global FZW, which can be administered in combination with Yondelis® to treat ovarian cancer, among other conditions.

Additionally, to increase sales in certain European countries, in September Pharma Mar Srl began sales work with a staff of 14 persons based in Milan, and in November Pharma Mar GmbH, based in Berlin, commenced sales work with a staff of 15.

The Company continued to collect royalties from Johnson&Johnson for sales in territories other than Europe: 1,754 thousand euro in 2012.

In April, a second payment of 25 million dollars was received under the agreement with Janssen Products LP, our partner in the US, with which a new plan of action has been agreed to promote development of Yondelis® in the US for both therapeutic uses. This new agreement has provided PharmaMar with payments of 50 million dollars, and future payments totalling 60 million dollars, which will be received as milestones are achieved in the clinical development of Yondelis® in 2013-2015, without prejudice to the milestones and royalties envisioned in the original license agreement signed in 2011.

PIPELINE OF PRODUCTS UNDERGOING CLINICAL DEVELOPMENT:

The main events in the clinical development of our compounds are detailed below:

YONDELIS®: With regard to soft tissue sarcoma, enrolment concluded for the first stage of the Phase III trial in patients with gene translocation-related sarcomas, the patients are being treated and monitored and the data is being analysed.

Recruitment progressed on schedule for the trials in cooperation with the Spanish Sarcoma Research Group (GEIS), the European Organisation for Research and Treatment of Cancer (EORTC), the US Sarcoma Alliance for Research Through Collaboration (SARC), the German Interdisciplinary Sarcoma Group (GISG), the Italian Sarcoma Group (ISG), the French Sarcoma Group (GSF), as well as for the observational trial in The Netherlands.

Recruitment for the Phase III registration trial in L-sarcoma performed by Janssen in the US is advancing faster than expected.

The two Phase II trials sponsored by our partner in Japan, Taiho Pharmaceutical, in patients with translocation-related sarcomas are progressing as expected.

As regards breast cancer, a Phase II trial commenced during the year on patients with luminal breast cancer (subtypes HR+ and HER 2) stratified on the basis of XPG expression.

As for ovarian cancer, recruitment commenced in 2012 for the Phase II trial in patients with advanced breast cancer with the BRCA1 and BRCA2 mutations and the BRCAness phenotype.

Recruitment for the Phase III trial with Yondelis® in combination with pegylated liposomal doxorubicin (PLD), being carried out by our partner, Janssen, in the US is expected to commence in the first half of 2013.

Recruitment concluded in 2012 for a Phase II trial in patients with metastatic pancreatic adenocarcinoma.

Aplidin®: The IDMC (Independent Data Monitoring Committee) recommended continuing the ADMYRE Phase III trial with Aplidin® in combination with dexametasone in patients with relapsed or refractory multiple myeloma. This recommendation follows a comprehensive analysis of 60 patients in the first stage of the trial, in which the study comfortably met the minimum required efficacy and safety levels.

With the support of the French Sarcoma Group, enrolment has commenced in France for a trial in dedifferentiated liposarcoma.

Zalypsis®: Recruitment concluded in 2012 for the second stage of the Phase II trial in multiple myeloma being performed entirely in Spain. Data from the patients who were treated with the compound is currently being analysed.

Irvalec®: Once the Phase II trials in gastroesophageal tumours with Irvalec® had concluded, the company decided to halt development of this compound even though it had evidenced notable activity in a tumour subtype that has a very low incidence.

PM01183: With regard to resistant ovarian cancer, recruitment is advancing on schedule for the second stage of the clinical trial in patients with platinum-refractory/resistant ovarian cancer; recruitment for the first stage concluded in 2012.

Both the EMA and the FDA have granted orphan drug status for this indication.

Since recruitment concluded in 2012 for the first and second stages of the Phase II clinical trial in patients with pancreatic cancer where gemcitabine-based therapies have failed, the Company is waiting for all test participants to complete treatment in order to analyse the data.

Recruitment continues on schedule for the Phase II trial that commenced in 2012 in patients with advanced breast cancer, selected depending on the presence of BRCA1&2 mutations (hereditary cancer), known or otherwise.

The Ethics Committees have approved an amendment to the phase I trial of this compound as monotherapy against advanced leukaemia that commenced in 2011. The purpose of the amendment is to obtain an administration pattern that is more appropriate for patients with this pathology.

Recruitment was completed for the Phase I clinical trial to evaluate a different infusion scheme on days 1 and 8 every three weeks in patients with solid non-colorectal tumours, after the recommended dose was defined.

Recruitment concluded for the Phase I clinical trials in combination with gemcitabine and doxorubicin in solid tumours, the recommended dose having been defined for both combinations. In view of the excellent results obtained with these combinations, new Phase II trials are being designed in lung cancer.

PM060184: Recruitment continued in 2012 for two Phase I trials in solid tumours in the US, France and Spain; the primary endpoint is to identify dose limiting toxicities, the maximum tolerated dose and the recommended dose.

OTHER SIGNIFICANT EVENTS

Significant events in 2012 in other areas of the company include the following:

- PharmaMar was rated "Excellent" once again by the Spanish Committee for the Plan to Promote Scientific Research and Technological Development and Innovation (R&D and innovation) in the pharmaceutical industry (PROFARMA).

- In June 2012, PharmaMar recovered worldwide rights to Kahalalide F and two of it analogues after reaching an agreement with Medimetriks Pharmaceuticals Inc. to terminate the licence agreement that had been signed on 10 June 2009.

- PharmaMar collected a total of 7.5 million euro in payment of outstanding invoices to regional governments which were past-due as of 31 December 2011. Those payments are part of the Supplier Payment Plan implemented by the Spanish government.

As in previous years, the company attended many conferences, in Spain and around the world, at which it presented the results of the clinical development of its compounds. The following presentations in other countries were particularly noteworthy:

- The American Association for Cancer Research (AACR) Annual Meeting, held in Chicago in April, at which activity data on our compounds Aplidin®, PM01183, Zalypsis® and Irvalec® was presented.

- Annual Meeting of the American Society of Clinical Oncology (ASCO), held in Chicago from 1 to 5 June; new data from trials with Yondelis® was presented.

- The Scientific Committee of the Congress of the European Society for Medical Oncology, held in Vienna from 28 September to 2 October, selected an abstract on PM01183 in resistant/refractory ovarian cancer for oral presentation at a special session. Additional data on PM01183, Yondelis® and Zalypsis® was also presented.

- The results of 6 trials on PM01183 and Yondelis® were presented at the EORTC-NCI-AACR Congress, held in Dublin from 7 to 9 November.

SEARCH FOR NEW MARINE SAMPLES

The search for new marine samples was particularly intense in 2012. Approximately 15,000 new samples (micro- and macro-organisms) were added to our collection, which now holds over 135,000, assuring PharmaMar's world-leading position in the discovery and development of new drugs of marine origin.

PATENT PORTFOLIO

By the end of 2012, the company had 1,422 patent applications on file, 1,165 of which had been granted and 257 were pending.

They represent a total of 64 families of patents, each protecting a specific invention.

FINANCIAL INFORMATION

A total of 33 million euro of R&D expenses were capitalised in 2012, similar to the 2011 figure. Income after taxes in 2012 amounted to 9,531 million euro, significantly less than in 2011 due broadly to additional amortisation of intangible assets and to the decline in sales.

In 2011, PharmaMar acquired 5,300 shares of its parent company, Zeltia, S.A., and sold the same number of shares. These acquisitions were a result of the Zeltia Group employee stock ownership plans for the years 2010 to 2012.

FINANCIAL RISKS

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 programme focuses on the uncertainty of the financial markets and tries to minimise the potential adverse effects on the Company's returns.

Risk management is controlled by the Company's Finance Department, which identifies, evaluates and hedges financial risks in accordance with the overall policies of Grupo Zeltia and those approved by the Board of Directors. Grupo Zeltia establishes written 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.

Price risk, which is concentrated in the Group's investments in biopharmaceutical companies, is non-material given the small size of those investments.

Transactions in currencies other than the euro, primarily US dollars, Swiss francs and pounds sterling, amounted to 27,670 thousand euro in 2012; the largest transaction in the year was the collection of 25 million dollars from Janssen Products LP. Management does not consider it necessary to establish any policy for hedging the foreign currency risk vs. the functional currency.

Part of the company's debt is from official authorities in the form of repayable advances, which are not subject to interest rate risk. It is Company policy for as much of its debt as possible to be due to official authorities. Nevertheless, the Company actively analyses its exposure to interest rate risk. 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 liabilities.

As regards credit risk, the banks and financial institutions with which the Company works generally have independent ratings. As for customer-related credit risk, 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.

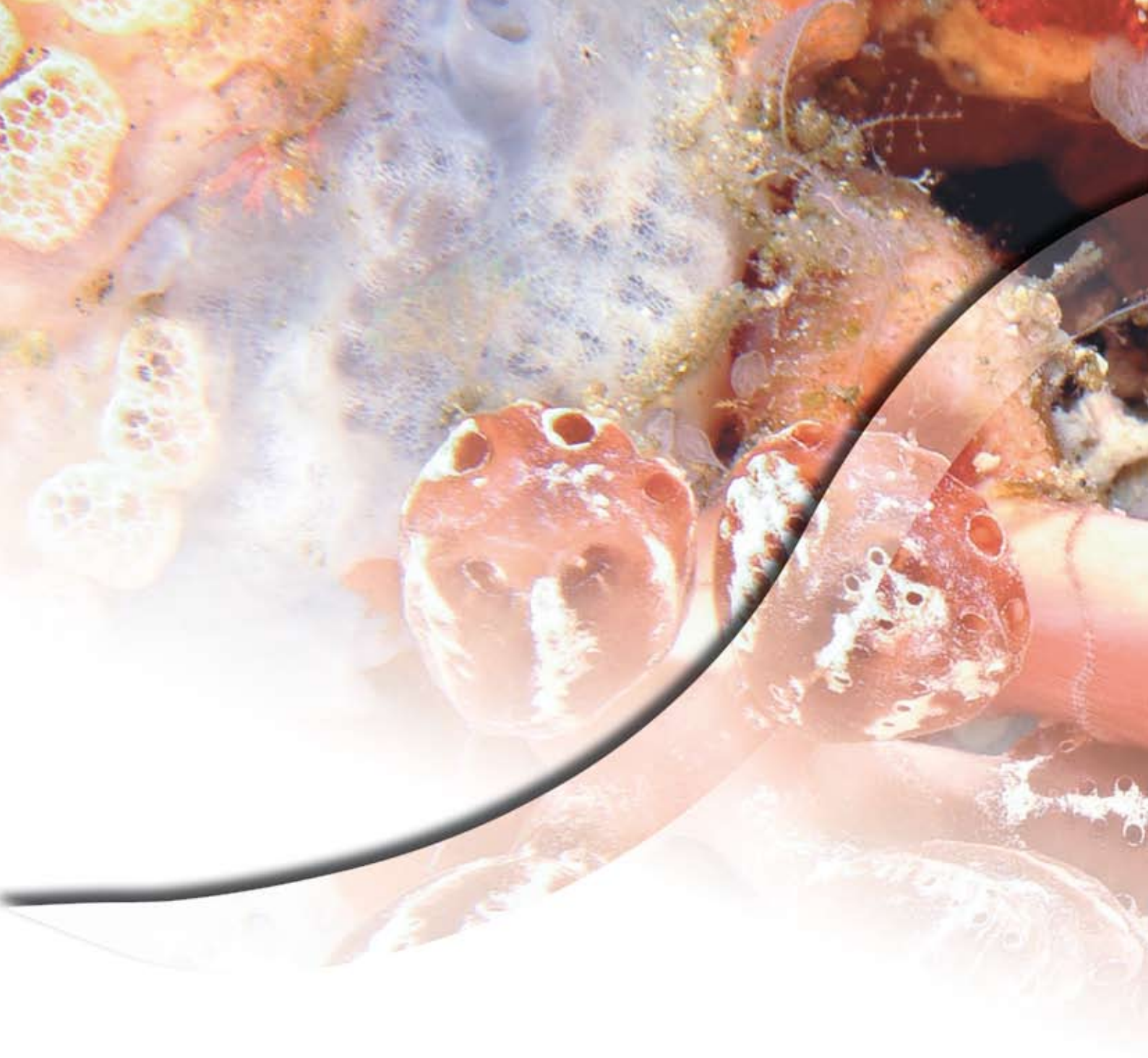
In terms of liquidity risk, the goal of the Company's Finance Department is to maintain flexible financing by having sufficient funds in financial assets to settle its obligations.

SUBSEQUENT EVENTS

On 4 February 2013, it was disclosed to the National Securities Market Commission that Janssen Products LP had made a third payment to Pharma Mar, S.A. in the amount of 25 million dollars for attaining a milestone in the Yondelis® development plan.

OWN SHARES

The company did not perform any material transactions with own shares in 2012.



Pharma Mar