Annual Report 2014

Pharma Mar

1. Contents

We continue to expand our foothold, investing in innovation

Letter from the CHAIRMAN

Dear shareholder,

2014 was a decisive year for the company's growth and for its roadmap to strengthen its value in the global oncology market. The progress and milestones attained this year continue to lay the foundation for the structural changes that will enable us to increase profit and maintain our commitment to discovering new drugs.

This will be an important year for all of us at PharmaMar, and it is my pleasure to share with you the good results obtained in 2014 and the goals we achieved thanks to strong execution by everyone at PharmaMar. Human potential is the lifeblood of this company, and this year we saw how investment in innovation and a culture of excellence are bearing fruit, with the development of novel molecules and the strong positioning of our business in the oncology space. Our commitment to innovation remains a fundamental pillar of our business. R&D spending totalled 42 million euro in 2014, accounting for 45% of gross revenues, and we worked with external collaborators to promote the exchange of knowledge and the rapid advancement of projects that contribute to patient care.

As a result, Grupo Zeltia received the University-Business Award for ongoing cooperation between companies and academic institutions, given our collaboration with faculty in the search

for new treatments. Additionally, PharmaMar was again rated "excellent" in the PROFARMA programme, which promotes scientific research, development and technological innovation in Spain's pharmaceutical industry. Last year, we received the Madrid Healthcare Silver Plaque from the President of the Madrid Regional Government in recognition of our pioneering biotechnology programme to discover new marine-based drugs. That award also recognised PharmaMar's position as a job creator, employing more than 350 highly-qualified professionals from over 15 countries. In line with our commitment to research and responsibility, PharmaMar adopted the recent Nagoya Protocol to continue to share technology and expertise with those countries where we conduct sea expeditions in search of new anti-tumour compounds. We therefore continue to achieve our goals with integrity while respecting the biological diversity of the oceans and the sustainable use of organisms.

PharmaMar's unique approach of researching new marine-based cancer drugs continues to make progress in the area of gynaecological tumours and soft-tissue sarcoma. Late-stage clinical development is also advancing in other indications, including lung cancer and blood tumours such as multiple myeloma. These new indications reflect our capacity to contribute new treatments for illnesses that are in need of alternative therapies, and our ability to identify new challenges and market opportunities. This focus on innovation, together with our strategy of growth through alliances, was validated once again in 2014 by the agreement with Chugai Pharma Marketing for the sale of our drug Aplidin® (plitidepsin) for multiple myeloma in eight European countries, except Spain, Italy, Switzerland, Portugal, Poland and the Czech Republic, and the Scandinavian countries, where we have a very strong sales network. This reement connects us with a company that has experience in haematological tumours, and will benefit the launch of Aplidin® (plitidepsin). We made considerable progress during the year on the strength of our capacity and experience in marketing drugs for solid tumours. In 2014, PharmaMar acquired its first marketing license, to distribute Politrate® (leuprorelin acetate)—a prostate cancer drug manufactured by Spanish company GP Pharm—in Italy, expanding our sales network and diversifying our oncology product portfolio. This strategy is perfectly aligned with the goal of strengthening our international foothold, an area in which we continue to work diligently. Our subsidiary based in Paris commenced sales activity. The French team will initially have 14 people (including sales staff and medical experts) and will enable us to sign new agreements that will help us grow and strengthen our position in the oncology market.

In this framework of internationalisation and development, it is important to highlight a major milestone in the successful track record of Yondelis®. Not only did gross sales of our drug worldwide increase by 8% year-on-year, but we also achieved more approvals worldwide. And, even more importantly, we expect Yondelis® to be approved for soft-tissue sarcoma in the US in 2015 based on the application to market the drug filed by Janssen Products LP, our partner in that country, which was granted priority review status by the FDA. Approval will represent a turning point for the company, as our drug would become available in the world's largest oncology market, which accounts for 45% of the total. In 2014, the NCCN (National Comprehensive Cancer Network) Clinical Practice Guidelines in Oncology recommended the inclusion of patients with a type of soft-tissue sarcoma in clinical trials with Yondelis® in view of data demonstrating the efficacy of the drug in that indication. Given the global influence of those guidelines, the inclusion of Yondelis® following its approval could further strengthen the use of our drug in clinical practice for this type of tumour. Also, Taiho Pharmaceutical, our partner in Japan, filed a request to market Yondelis® for soft-tissue sarcoma with the Japanese regulatory authorities. The trial with Japanese patients, which was presented at the 2014 ASCO (American Society of Clinical Oncology) Annual Meeting, yielded very good results, which could lead to approval in Japan in 2015 as well. Japan is another major oncology market, accounting for 12% of the world total. These two approvals would represent a milestone for our first drug and further confirm its value as anti-tumour therapy.

We remain focused on investigating drugs for relapsed ovarian cancer, which is the fifth leading cause of cancer death in women, and we plan on strengthening our position as a leader in this area of research. A new trial that continues to recruit patients in Italy is studying how to position Yondelis® in sequential therapy in between platinum-based treatments, and to demonstrate its usefulness in increasing survival, which would be extremely important in clinical practice. Our partner

for Yondelis® in the US continues to recruit women with this illness for a registration trial. We also recently announced the preliminary results of the Phase II trial with our new compound PM01183 in women with platinum-resistant or refractory ovarian cancer, which indicated an improvement in overall survival compared with the drug topotecan. This year we will launch a registration trial with PM01183 to treat this type of tumour, which will enable us to maintain our strong position in this pathology and to contribute to the therapeutic armamentarium against this type of cancer.

With the development of our most promising candidate, PM01183, which was recently rated a potential blockbuster drug by two investment firms, we have been able to demonstrate potential in combination against another tumour type—small cell lung cancer—which poses a challenge for society and remains an unmet medical need. The data obtained in a Phase II trial encouraged the company to start a registration trial in patients with this type of cancer and prepare a strategy to launch PM01183 worldwide in the medium term. The FDA approved our proposal on the drug production process in 2014, which validates our capacity to meet future demands. Although still at a very early stage, we expect PM01183 to yield interesting results in two other very common types of cancer: breast cancer with BRCA1 and BRCA2 mutations, and non-small cell lung cancer. Strengthening our position in these indications would represent outstanding progress for PM01183 and for PharmaMar.

The company remains committed to innovation-based medicine and, to that end, we are reinforcing our strategy of identifying first-in-class marine-based drugs with a programme for elucidating the mechanism of action of Yondelis®, PM01183 and Aplidin®. With this strategy, PharmaMar harnesses its expertise in the biology of the illness and the molecular and pharmacological properties of its drugs to optimise treatments, develop targeted therapies, identify those patients that can benefit the most and improve their quality of life. We continue to participate in international oncology conferences, where we demonstrate our capacity to advance basic research. Our contribution to applied research has led to more than 20 clinical trials, which were presented at leading international conferences such as ASCO and ESMO (European Society of Medical Oncology), two of the most important clinical oncology events. At the latter, which was held in Madrid in 2014, we played a key role with the presentation of several trials, including one that was recently published in *The Lancet Oncology*, with notable implications for the routine clinical use of Yondelis® in patients with soft-tissue sarcoma. This international presence strengthened our position among innovative biopharmaceutical companies and enhanced our interest in and ability to cooperate with research groups around the world.

Last year was a positive one for PharmaMar, and thanks to the hard work by all the company's people, we obtained gross revenues of 93 million euro, an increase of 8% with respect to 2013. With new expeditions planned in 2015, we expect to continue to enrich our product portfolio with new candidates. In 2014, we saw how our commitment to conjugated antibodies, a therapeutic strategy targeting the tumour with a powerful marine-based anti-cancer drug, is providing proof of concept in preclinical and animal models. Our tireless team of marine scientists and our experienced researchers once again laid the foundation for the rest of the PharmaMar team, contributing to improvements in the health of patients.

Last, but not least, I would like to outline the process approved by the Board of Directors by which PharmaMar will absorb Zeltia in 2015. The merger decision is based on the future outlook for the companies and on trends in the oncology business. The strategy is to focus our efforts on a single goal—the development of cancer drugs—so as to compete with the large biopharmaceutical companies. The objective of being able to market our future products at global level and to strengthen our business in the US—the core market in biotechnology—requires restructuring the companies. This is simply a small step that will place us in an even stronger position in the global oncology market, and enable us to continue to prosper at all levels. The goals of this initiative include establishing ourselves as a productive, competitive company with a unique business model in the pharmaceutical industry, and continuing to grow as a responsible company and as an example of the unstinting hard work of all of our employees and collaborators.

I encourage everyone whose contribution enabled us to exceed our expectations in 2014 to continue to work together for the future of PharmaMar, and to look ahead with enthusiasm. We will continue to collaborate, inside and outside the lab, to overcome setbacks, frustration and competition with perseverance, creativity and professionalism. The Board of Directors of PharmaMar and I would like to thank our employees for their hard work; thanks to them, we continued to be successful in 2014 and can seize new opportunities that arise.

José María Fernández Sousa-Faro

Chairman

2. 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
	Mr. Fernando Cabanillas
	Rosp Corunna Participaciones Empresariales, S.L. (represented by Mr. José Leyte Verdejo)
Secretary (not a director)	Mr. Sebastián Cuenca Miranda

3. Auditors' Report 2014

Auditors' Report 2014

Pharma Mar, S.A. Sociedad Unipersonal

INDEPENDENT AUDITORS' REPORT ON FINANCIAL STATEMENTS

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

We have audited the accompanying financial statements of Pharma Mar, S.A.U., consisting of the balance sheet as of 31 December 2014 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.

Directors' responsibility in connection with the financial statements

The directors are responsible for authorizing the accompanying financial statements such as to give a true and fair view of the equity, financial position and results of Pharma Mar, S.A.U. in accordance with the financial reporting regulatory framework that is applicable to the undertaking in Spain, which is identified in the accompanying note 2, and the internal control that they deem necessary to enable the financial statements to be drawn up free of material inaccuracies due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on the accompanying financial statements based on our audit. We performed our audit in accordance with the regulations governing auditing in Spain. Those regulations requires us to fulfil ethics requirements and to plan and execute the audit in order to obtain reasonable assurance that the financial statements are free of material inaccuracies.

An audit requires the application of procedures to obtain audit evidence in connection with the amounts and the information disclosed in the financial statements. The procedures selected depend on the auditor's judgement, including an assessment of the risks of material inaccuracies in the financial statements as a result of fraud or error. When performing that risk assessment, the auditor considers the internal control that is germane to the authorization of the financial statements by the undertaking in order to design the audit procedures that are appropriate to the circumstances, and not to express an opinion on the efficacy of the company's internal controls. An audit also includes an assessment of the appropriateness of the accounting policies that are applied and of the reasonableness of the accounting estimates made by management, as well as an evaluation of the presentation of the financial statements taken as a whole.

We consider that the audit evidence that we obtained provides a sufficient and appropriate basis for our audit opinion.

Opinion

In our opinion, the accompanying 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 2014 and the results of its operations and 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.

Information about other legal and regulatory requirements

The accompanying directors' report for 2014 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 2014 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
25 March 2015

4. Annual Accounts

Annual Accounts 2014

Pharma Mar, S.A. Sociedad Unipersonal

BALANCE SHEETS AS OF 31 DECEMBER 2014 AND 2013

(Thousand euro)

ASSETS	Note	31/12/2014	31/12/2013
A) NON-CURRENT ASSETS		**448,169**	**440,424**
I. INTANGIBLE ASSETS		416,878	412,410
1. Development	6	416,430	411,949
5. Computer software	6	448	461
II. PROPERTY, PLANT AND EQUIPMENT		20,390	19,565
1. Land and structures	7	15,563	16,052
2. Technical installations and other property, plant and equipment	7	3,321	3,384
3. Construction in progress and advances	7	1,506	129
IV. LONG-TERM INVESTMENT IN GROUP AND ASSOCIATED UNDERTAKINGS		1,089	639
1. Equity instruments	10	1,089	639
V. LONG-TERM FINANCIAL ASSETS		375	375
1. Equity instruments	11	302	302
5. Other financial assets	13	73	73
VI. DEFERRED TAX ASSETS	19	9,437	7,435
B) CURRENT ASSETS		**55,615**	**51,434**
II. INVENTORIES		12,099	10,307
2. Raw materials and other supplies	12	79	62
3. Products in process	12	11,642	9,752
4. Finished products	12	378	493
III. TRADE AND OTHER ACCOUNTS RECEIVABLE		21,606	26,225
1. Customer receivables for sales and services	13	10,075	10,923
2. Receivable from group and associated undertakings	26	9,000	11,538
3. Sundry debtors	13	18	4
4. Personnel	13	6	5
6. Other receivables from public authorities	21	2,507	3,755
IV. SHORT-TERM INVESTMENT IN GROUP AND ASSOCIATED UNDERTAKINGS		3,644	2,860
5. Other financial assets	26	3,644	2,860
V. SHORT-TERM FINANCIAL ASSETS		11,022	1,891
5. Other financial assets	13	11,022	1,891
VI. ACCRUALS		471	483
VII. CASH AND CASH EQUIVALENTS		6,773	9,668
1. Cash	14	273	78
2. Other liquid assets	14	6,500	9,590
TOTAL ASSETS (A+B)		**503,784**	**491,858**

BALANCE SHEETS AS OF 31 DECEMBER 2014 AND 2013

(Thousand euro)

NET EQUITY AND LIABILITIES	Note	31/12/2014	31/12/2013
A) NET EQUITY		**163,856**	**126,576**
A-1) CAPITAL AND RESERVES		150,702	112,689
I. CAPITAL		85,292	69,805
1. Share capital	15	85,292	69,805
II. SHARE PREMIUM ACCOUNT	15	69,189	59,676
III. RESERVES		7,580	5,980
1. Legal and bylaw reserves	16	7,136	5,949
2. Other reserves	16	444	31
IV. (OWN SHARES AND EQUITY INSTRUMENTS)		-310	-383
V. PRIOR YEARS' INCOME		-23,576	-34,257
2. (Prior years' loss)		-23,576	-34,257
VII. INCOME FOR THE YEAR		12,527	11,868
A-2) VALUE ADJUSTMENTS		-	419
II. HEDGE TRANSACTIONS		-	419
A-3) SUBSIDIES, DONATIONS AND LEGACIES RECEIVED	6 & 17	13,154	13,468
B) NON-CURRENT LIABILITIES		**241,458**	**247,840**
II. LONG-TERM DEBT		34,565	34,675
2. Bank debt	18	17,550	20,104
5. Other financial liabilities	18	17,015	14,571
III. LONG-TERM ACCOUNTS PAYABLE TO GROUP AND ASSOCIATED UNDERTAKINGS	18	202,439	207,401
IV. DEFERRED TAX LIABILITIES	19	4,454	5,764
C) CURRENT LIABILITIES		**98,470**	**117,442**
III. SHORT-TERM DEBT		33,083	31,257
2. Bank debt and debt to official authorities	18	32,360	30,752
5. Other financial liabilities	18	723	505
IV. SHORT-TERM ACCOUNTS PAYABLE TO GROUP AND ASSOCIATED UNDERTAKINGS	18 & 26	44,008	67,938
V. TRADE AND OTHER ACCOUNTS PAYABLE		21,379	18,247
1. Due to suppliers	18	211	276
2. Due to group and associated undertakings	18 & 26	1,244	794
3. Sundry creditors	18	15,339	12,710
4. Personnel (compensation payable)	18	3,179	3,140
6. Other debt to public authorities	21	746	667
7. Customer advances	18	660	660
TOTAL NET EQUITY AND LIABILITIES (A+B+C)		**503,784**	**491,858**

STATEMENTS OF INCOME FOR THE YEARS ENDED 31 DECEMBER 2014 AND 2013

(Thousand euro)

STATEMENT OF INCOME	Note	31/12/2014	31/12/2013
A) CONTINUING OPERATIONS			
1. NET REVENUES		69,837	74,350
a) Sales	20.2	69,665	74,145
b) Services provided	20.2	172	205
2. VARIATION IN FINISHED GOODS AND WORK-IN-PROCESS INVENTORIES	12	1,613	-1,668
3. CAPITALIZED IN-HOUSE WORK	6	42,042	34,336
4. PURCHASES		-6,651	-3,406
b) Raw materials and other consumables consumed	20.3	-2,152	-1,977
c) Outside work		-4,499	-1,429
5. OTHER OPERATING REVENUES		26,421	20,487
a) Ancillary and other current revenues	20.2	26,151	20,111
b) Operating subsidies recognized in income for the year		270	376
6. PERSONNEL EXPENSES	20.4	-22,411	-21,229
a) Wages, salaries and similar		-17,969	-17,176
b) Employee welfare expenses		-4,442	-4,053
7. OTHER OPERATING EXPENSES	20.5	-42,419	-39,607
a) Outside services		-41,893	-39,198
b) Taxes other than income tax		-526	-409
8. DEPRECIATION AND AMORTIZATION	6 & 7	-31,132	-33,576
9. RECOGNITION OF SUBSIDIES FOR NON-FINANCIAL ASSETS AND OTHER		2,695	144
11. IMPAIRMENT LOSSES AND INCOME FROM DISPOSAL OF ASSETS		-19,968	-11,297
a) Impairments and losses	6	-	-11,268
b) Income on disposals and other	6	-19,968	-29
A.1) OPERATING INCOME (1+2+3+4+5+6+7+8+9+10+11)		**20,027**	**18,534**
12. FINANCIAL REVENUES	22	346	411
b) Marketable securities and other financial instruments		346	411
b 1) Group and associated undertakings		3	5
b 2) Third parties		343	406
13. FINANCIAL EXPENSES	22	-19,894	-19,199
a) On debts to group and associated undertakings		-14,316	-14,529
b) On debts to third parties		-5,578	-4,670
14.1 CAPITALIZED FINANCIAL EXPENSES	22 & 6	12,187	12,442
15. EXCHANGE DIFFERENCES	22	32	470
16. IMPAIRMENT LOSSES AND INCOME FROM DISPOSAL OF FINANCIAL INSTRUMENTS	22	17	-13
b) Income on disposals and other		17	-13
A.2) FINANCIAL INCOME (12+13+14+15+16)		**-7,312**	**-5,889**
A.3) INCOME BEFORE TAXES (A.1 + A.2)		**12,715**	**12,645**
17. INCOME TAX	21	-188	-777
A.4) INCOME FOR THE YEAR FROM CONTINUING OPERATIONS (A.3+17)		**12,527**	**11,868**

STATEMENTS OF CHANGES IN NET EQUITY FOR THE YEARS ENDED 31 DECEMBER 2014 AND 2013

(Thousand euro)

A) STATEMENT OF RECOGNIZED REVENUES AND EXPENSES

(thousand euro)

STATEMENT OF CHANGES IN NET EQUITY	Note	31/12/2014	31/12/2013
A) INCOME, PER INCOME STATEMENT		**12,527**	**11,868**
REVENUES AND EXPENSES RECOGNIZED DIRECTLY IN EQUITY			
III. Subsidies, donations and legacies received	17 & 18.2	1,068	1,223
V. Tax effect	19	-321	-367
V. Variation in deferred taxes due to change in the tax rate		823	-
B) TOTAL REVENUES AND EXPENSES RECOGNIZED DIRECTLY IN NET EQUITY (I+II+III+IV+V)		**1,570**	**856**
TRANSFERS TO P&L			
VIII. Subsidies, donations and legacies received		-2,692	-144
IX. Tax effect	19	808	43
C) TOTAL TRANSFERS TO PROFIT OR LOSS (VI+VII+VIII+IX)		**-1,884**	**-101**
TOTAL RECOGNIZED REVENUES AND EXPENSES (A + B + C)		**12,213**	**12,623**

B) TOTAL STATEMENT OF CHANGES IN NET EQUITY

(Thousand euro)

	Share capital	Share premium account	Reserves	(Own shares and equity instruments)	Prior years' income	Income for the year	Value adjustments	Subsidies, donations and legacies received	Total
CLOSING BALANCE 2012	**69,805**	**59,676**	**5,027**	**-379**	**-42,836**	**9,531**	**419**	**12,713**	**113,956**
Total recognized revenues and expenses	-	-	-	-	-	11,868	-	755	12,623
Transactions with shareholders or owners									
Transactions with own shares and equity instruments (net)	-	-	-	-4	-	-	-	-	-4
Other changes in net equity	-	-	953	-	8,579	-9,531	-	-	-
ENDING BALANCE 2013	**69,805**	**59,676**	**5,980**	**-383**	**-34,257**	**11,868**	**419**	**13,468**	**126,576**
Total recognized revenues and expenses	-	-	-	-	-	12,527	-	-314	12,213
Transactions with shareholders or owners (Note 15)	15,487	9,513	-6	-	-	-	-	-	24,994
Transactions with own shares and equity instruments (net)	-	-	-	73	-	-	-	-	73
Other changes in net equity	-	-	1,606	-	10,681	-11,868	-419	-	-
ENDING BALANCE 2014	**85,292**	**69,189**	**7,580**	**-310**	**-23,576**	**12,527**	**-**	**13,154**	**163,856**

CASH FLOW STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2014 AND 2013

(Thousand euro)

	Notes	31/12/2014	31/12/2013
A) OPERATING CASH FLOW			
1. INCOME FOR THE YEAR BEFORE TAXES		12,715	12,645
2. ADJUSTMENTS TO INCOME		67,904	63,060
a) Depreciation and amortization (+)	6 & 7	31,132	33,576
b) Impairment losses (+/-)	6	19,968	11,297
c) Change in provisions		0	13
d) Subsidies recognized (-)		-2,695	-144
f) Income from derecognitions and disposals of financial instruments (+/-)		-17	-
g) Financial revenues (-)	22	-346	-411
h) Financial expenses (+)	22	19,894	19,199
i) Exchange differences (+/-)	22	-32	-470
j) Change in fair value of financial instruments (+/-)		-	-
3. CHANGES IN WORKING CAPITAL		1,697	941
a) Inventories (+/-)	12	-1,792	1,638
b) Debtors and other accounts receivable (+/-)		4,631	1,507
d) Creditors and other accounts payable (+/-)		3,132	-615
f) Other non-current assets and liabilities (+/-)		-4,274	-1,589
4. OTHER OPERATING CASH FLOW		-2,723	-2.812
a) Interest paid (-)		-3,060	-3,233
c) Interest received (+)		337	421
d) Income tax received/paid		-	-
5. OPERATING CASH FLOW (+/-1+/-2+/-3+/-4)		79,593	73,834
B) INVESTING CASH FLOW			
6. INVESTMENT PAYMENTS (-)		-65,975	-46,944
a) Group and associated undertakings		-450	-470
b) Intangible assets	6	-54,361	-47,065
c) Property, plant and equipment	7	-2,033	-572
e) Other financial assets		-9,131	1,163
7. DIVESTMENT RECEIPTS (+)		-	12
a) Group and associated undertakings		-	12
8. INVESTING CASH FLOW (7-6)		-65,975	-46,932
C) FINANCING CASH FLOW			
9. COLLECTIONS AND PAYMENTS IN CONNECTION WITH EQUITY INSTRUMENTS		26,383	-158
a) Issuance of equity instruments (+)		25,000	-
c) Acquisition of own equity instruments (-)		73	-310
e) Subsidies, donations and legacies received (+)	17	1,310	152
10. COLLECTIONS & PAYMENTS IN CONNECTION WITH INSTRUMENTS REPRESENTING FINANCIAL LIABILITIES		-42,928	-20,256
a) Issuance		44,398	30,252
▸2. Bank debt and debt to official authorities (+)	18	27,398	14,252
▸3. Due to group and associated undertakings (+)	18.3 & 18.4	17,000	16,000
b) Refund and amortization of:		-87,326	-50,508
▸1. Due to group and associated undertakings (-)	18.3 & 18.4	-60,149	-26,649
▸2. Bank debt and debt to official authorities (-)		-27,177	-23,859
12. FINANCING CASH FLOW (+/-9+/-10-11)		-16,545	-20,414
D) EFFECT OF EXCHANGE RATE VARIATIONS		32	470
E) NET INCREASE/DECREASE IN CASH AND CASH EQUIVALENTS (+/-5+/-8+/-12+/-D)		-2,895	6,958
Beginning cash and cash equivalents		9,668	2,710
Ending cash and cash equivalents		6,773	9,668

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 at 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-active principles, particularly those of marine origin, for application in human medicine, especially in the antitumour, antiviral and immunomodulation fields and the area of tropical diseases.

On 20 September 2007, PharmaMar received authorization 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 authorization for PharmaMar to commercialize Yondelis® (trabectedin) in combination with pegylated liposomal doxorubicin to treat relapsed platinum-sensitive ovarian cancer in the 27 EU countries plus Norway, Iceland and Liechtenstein. The first sales for this therapeutic use were made at the end of 2009.

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 2014 financial statements, which were authorized on 16 March 2015, 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.

Deferred tax assets

Deferred tax assets due to tax losses carried forward and unused tax credits are recognized to the extent that the Company is likely to obtain future taxable income enabling them to be offset. Accordingly, for the purpose of the 2014 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. As a result, the Company recognised deferred tax assets in the amount of 858 thousand euro in 2014. No deferred taxes were recognized in 2013 (Note 19).

Changes in Management assumptions about future results due to unforeseen future events may affect the amounts recognized as of 31 December 2014 and the assets not recognized by application of this approach.

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 2014 income which will be presented to the Shareholders' Meeting, and the distribution approved for 2013, are as follows:

(Thousand euro)	2014	2013
DISTRIBUTION BASIS		
Income for the year	12,527	11,868
	12,527	**11,868**
DISTRIBUTION		
Legal reserve	1,253	1,187
Prior years' losses	11,274	10,681
	12,527	**11,868**

The proposed distribution of income for the year ended 31 December 2014 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 (1,253 thousand euro) to the legal reserve and the difference, amounting to 11,274 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 amortized on a straight-line basis.

4.1.1 Research & Development expenses

Research expenses are capitalized once the corresponding conditions under GAP 2007 are fulfilled, and they are amortized 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 recognized 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 amortized over a period of ten years.

Development costs that were previously expensed are not capitalized 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 capitalized by crediting the "capitalized 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 capitalized, the unamortized amount is recognized in income in the year in which those circumstances changed.

Capitalized development expenses are amortized according to a specific systematic plan for each project, generally commencing in the year in which marketing approval is obtained 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 commercialization, an amortization plan is established on the basis of revenue recognition.

4.1.2 Computer software

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

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

4.2 PROPERTY, PLANT AND EQUIPMENT

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

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

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

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

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

	Year	%
Buildings and structures	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 recognized 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 capitalized up until the point when the asset is ready for use.

4.4 IMPAIRMENT OF NON-FINANCIAL ASSETS

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

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

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

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

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

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

4.5.2 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 recognized directly in equity are maintained in equity until the asset is derecognized.

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

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

If there is objective evidence of impairment, the accumulated losses previously recognized in net equity as the reduction in fair value are recognized in profit or loss. Impairment losses recognized 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 realizable value. Where the net realizable value of inventories is lower than cost, the appropriate valuation adjustments are recognized as an expense in profit or loss. If the circumstances leading to the valuation adjustment cease to exist, the adjustment is reversed and recognized as revenue in profit or loss.

The cost price is obtained as follows:

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

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

4.7 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 recognized 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 recognized initially at fair value adjusted for directly-allocable transaction costs, and are subsequently recognized at amortized cost in accordance with the effective interest rate method.

The effective interest rate is the discount rate that matches the carrying amount of the instrument with the projected flow of future payments up to the liability's maturity.

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

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

4.9 SUBSIDIES RECEIVED

Repayable subsidies are recognized as liabilities until the conditions rendering them non-repayable are met; non-repayable subsidies are recognized as revenues directly in net equity and are recognized as revenue on a systematic, rational basis in line with the expenses arising from the subsidy. Non-repayable subsidies from shareholders are recognized directly in 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 recognized at the fair value of the amount granted and non-monetary subsidies at the fair value of the received asset, at the time of recognition in both cases.

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

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

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

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

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

Deferred taxes are measured, in accordance with the liability method, based on the timing differences arising between the tax base of the assets and liabilities and their carrying amounts. However, deferred taxes arising from the initial recognition of an asset or liability in a transaction other than

a business combination that does not affect the accounting result or the tax base at the time of recognition are not recognized. The deferred tax is determined by applying the tax regulations and rates enacted or substantially enacted on the balance sheet date and which are expected to apply when the corresponding deferred tax asset is realized or the deferred tax liability is settled.

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

4.11 EMPLOYEE BENEFITS

4.11.1 Share-based compensation

The company operates a share-based compensation plan. On the one hand, the Company recognizes employee services received in exchange for shares or stock options as an expense at the time of obtainment, and it also recognizes 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.

Under 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 four years for the plans for 2011 and thereafter, counted 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 any other cause, 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 four years.

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

4.12 PROVISIONS AND CONTINGENT LIABILITIES

4.12.1 Provisions and contingent liabilities

Provisions for environmental restoration, restructuring costs and litigation are recognized when the Company has a present obligation, either legal or implicit, as a result of past events, an outflow of funds is likely to be necessary in the future to settle the obligation, and the amount can be estimated reliably. Restructuring provisions include lease cancellation penalties and employee termination indemnities. No provisions are recognized 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 recognized as a financial expense as they accrue.

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

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

Obligations arising as a result of past events whose materialization is conditional upon the occurrence or non-occurrence of one or more future events outside the Company's control are treated as contingent liabilities. Those contingent liabilities are not recognized in the accounts but are disclosed in detail in the notes to financial statements (Note 23).

Under "Other provisions", the Company recognizes 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 authorizing 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 minimize environmental impact and to protect and improve the environment are recognized 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 described 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 recognized 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 recognized 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 recognized for the fair value of the consideration receivable and they represent amounts receivable for goods delivered and services provided in the ordinary course of the Company's business, less returns, rebates, discounts and Value Added Tax.

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

4.13.1 Revenues from the sale of pharmaceutical products

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

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 recognizes 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.

PharmaMar began selling Yondelis® in Switzerland via subsidiary PharmaMar AG in June 2010, in Portugal via distributor Movianto in May 2011, in Italy via subsidiary Pharma Mar S.r.l. in February 2013, and in Germany via subsidiary Pharma Mar GmbH in August 2014.

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 2001, the Company signed a licensing and co-development agreement with Ortho Biotech Products L.P. (OBP), a subsidiary of US group Johnson & Johnson. That agreement includes certain payments to PharmaMar, including an upfront payment and certain milestone payments connected with the development of Yondelis®.

In 2014, the Company recognized 1,250 thousand dollars in revenues under the agreement referred to in the preceding paragraph since it attained the milestone consisting of the presentation to the US Food and Drug Administration (FDA) of an application to market Yondelis® for treating certain patients with soft tissue sarcoma (Note 20.2).

In 2011, the Company signed another cooperation agreement with Janssen Products LP by virtue of which the initial payment was recognized as a revenue in the year, since it was a milestone that was not linked to future performance. Subsequent receipts correspond to the attainment of specific milestones linked to the development of Yondelis® and will be treated as revenues when they are attained (Note 20.2).

4.13.3 Revenues under the contract signed with Chugai Pharmaceutical Co., Ltd.

In 2014, the Company and Chugai Pharmaceutical Co., Ltd. signed an agreement to market Aplidin® in eight European countries, as a result of which the upfront payment envisaged in the contract was recognized as revenues in the year since it was linked to the conclusion of the Phase III trial in multiple myeloma and, consequently, directly related to the number of patients enrolled in that trial to date (Note 20.2).

Any subsequent receipts will be linked to the attainment of specific milestones linked to the development of Aplidin® and other regulatory and commercial goals and will be recognized as revenues when they are attained.

4.13.4 Revenues under the contract signed with Taiho Pharmaceutical Co.

In 2009, PharmaMar signed a licensing agreement with Taiho Pharmaceutical Co. for the development and marketing of Yondelis® in the Japanese market. Upon receipt of the agreement, PharmaMar collected an upfront payment of 1 billion yen. The agreement envisages additional payments by Taiho for attaining milestones in the development and marketing of Yondelis®, and the payment of royalties to PharmaMar for sales made by Taiho once authorisation is obtained to market the drug in Japan. In January 2015, Taiho filed an application with the Japanese regulator (PMDA) for authorisation to commercialize Yondelis® for the treatment of several soft tissue sarcoma subtypes (Note 29).

4.13.5 Royalties

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

4.13.6 Interest revenues

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

4.14 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 recognized in profit or loss on a straight-line basis over the lease term.

4.15 FOREIGN CURRENCY TRANSACTIONS

4.15.1 Functional and presentation currency

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 recognized 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 amortized cost of the instrument and other changes in the security's carrying amount. Exchange differences are recognized in profit or loss and other changes to the carrying amount are recognized in 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 recognized initially at fair value. If the agreed price differs from fair value, the difference is recognized on the basis of the economic reality of the transaction. Subsequent measurements are performed in accordance with the corresponding regulations.

4.17 NON-RECOURSE FACTORING

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

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, recognized 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 28,510 thousand euro in the year ended 31 December 2014 (25,790 thousand euro in 2013) (Note 20). The main transaction in foreign currency in 2014 and 2013 was the revenue from the Johnson & Johnson Group (25 million dollars in each year). The increase in transactions with respect to 2013 is due fundamentally to receipt of one of the milestone payments under the cooperation agreement signed in 2001 with Johnson & Johnson (Note 4.13.2).

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.

A 31/12/14 (Thousand euro)	2015	2016	2017	2018	2019 & thereafter	TOTAL
Bank loans	30,501	7,432	3,938	867	5,313	**48,051**
Debt to group	45,252	202,439	-	-	-	**247,691**
Debt to official authorities	2,582	2,411	2,735	2,598	9,271	**19,597**
Debt to suppliers and accounts payable	20,135	-	-	-	-	**20,135**
TOTAL	**98,470**	**212,282**	**6,673**	**3,465**	**14,584**	**335,474**

As of 31/12/13 (Thousand euro)	2014	2015	2016	2017	2018 and thereafter	TOTAL
Bank loans	28,558	16,851	3,253	-	-	**48,662**
Debt to group	68,731	207,401	-	-	-	**276,132**
Debt to official authorities	2,699	2,719	2,484	2,382	6,986	**17,270**
Debt to suppliers and accounts payable	17,453	-	-	-	-	**17,453**
TOTAL	**117,441**	**226,971**	**5,737**	**2,382**	**6,986**	**359,517**

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 subsidized interest rate is determined by applying, to the repayments to be made, the yield curve in force on the date of receipt of the advance plus the spread normally paid by the Company on loans.

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 2014 and 2013 are as follows:

2014 (Thousand euro)	Development	Computer software	Other assets	TOTAL
Cost				
BALANCE AS OF 01.01.2014	610,229	1,904	195	612,328
Recognitions	54,228	133	-	54,361
Transfers	-	-	-	-
Derecognitions	-31,236	-	-195	-31,431
BALANCE AS OF 31.12.2014	633,221	2,037	-	635,258
Accumulated depreciation and amortization				
BALANCE AS OF 01.01.2014	-198,280	-1,443	-195	-199,918
Provisions	-29,778	-146	-	-29,924
Derecognitions	-	-	195	195
Write-offs	11,267	-	-	11,267
BALANCE AS OF 31.12.2014	-216,791	-1,589	-	-218,380
NET CARRYING AMOUNT AS OF 31.12.2014	**416,430**	**448**	**-**	**416,878**

2013 (Thousand euro)	Development	Computer software	Other assets	TOTAL
Cost				
BALANCE AS OF 01.01.2013	563,451	2,110	195	565,756
Recognitions	46,778	287	-	47,065
Transfers	-	-105	-	-105
Derecognitions	-	-388	-	-388
BALANCE AS OF 31.12.2013	610,229	1,904	195	612,328
Accumulated depreciation and amortization				
BALANCE AS OF 01.01.2013	-154,879	-1,683	-195	-156,756
Provisions	-32,133	-148	-	-32,281
Derecognitions	-	388	-	388
Impairment	-11,268	-	-	-11,268
BALANCE AS OF 31.12.2013	-198,280	-1,443	-195	-199,918
NET CARRYING AMOUNT AS OF 31.12.2013	411,949	461	-	412,410

6.1 RESEARCH AND DEVELOPMENT

Capitalized research and development expenses relate to the following projects:

	2014				2013			
PROJECT (Thousand euro)	Cost	Accum. Depr.	Impairment	Net	Cost	Accum. Depr.	Impairment	Net
Performed in-house								
Antitumour	628,994	-212,564	-	416,430	606,003	-182,786	-11,268	411,949
Antimalarial	2,774	-2,774	-	-	2,774	-2,774	-	-
Immunosuppressors	858	-858	-	-	858	-858	-	-
Antiviral	595	-595	-	-	595	-595	-	-
TOTAL	633,221	-216,791	-	416,430	610,230	-187,013	-11,268	411.949

In the fourth quarter of 2014, the Company derecognised certain compounds whose carrying amount was 19,968 thousand euro as of the date of derecognition. Although the results were still positive at that date, it was decided to discontinue the research for strategic reasons.

In 2013, the Company derecognised certain compounds amounting to 11,268 thousand euro, since the specific research programmes in those compounds had not yielded favourable results. In 2014, the Company derecognised those compounds and their corresponding impairment with no impact on the profit and loss account.

In 2012, the Company amortized a part of the expenses capitalized 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. In 2014, it amortized 1,927 thousand euro (1,927 thousand euro in 2013).

In 2014 and 2013, the Company amortized 4,675 thousand euro and 8,817 thousand euro for platinum-sensitive relapsed ovarian cancer and soft tissue sarcoma, respectively; the amortization calendar for both indications is 10 years. Other amortizations in 2014 associated with Yondelis® amounted to 1,985 thousand euro (1,277 thousand euro in 2013).

In 2014, 1,909 thousand euro were amortized as a result of the revenue collected under the contract signed with Chugai Pharmaceutical Co., Ltd (Note 4.13.3).

Other expenses amortized in 2014 in connection with anti-tumour projects amounted to 6,403 thousand euro (6,209 thousand euro in 2013).

6.2 CAPITALIZED FINANCIAL EXPENSES

No financial expenses on debt obtained for research and development activities were capitalized in 2014. Financial expenses on borrowings from the Group were capitalized in the amount of 12,187 thousand euro in 2014 (12,442 thousand euro in 2013).

They were determined using a capitalization rate of 4.9% (5.5% in 2013), 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 amortizing over 10 years the capitalized financial expenses associated with soft tissue sarcoma and platinum-sensitive relapsed ovarian cancer; it amortized 2,795 thousand euro in 2014 (2,577 thousand euro in 2013) (Note 6.1).

Additionally, in 2014, as in 2013, the Company amortized 162 thousand euro of financial expenses relating to certain therapeutic uses of Irvalec® and 789 thousand euro relating to other anti-tumour compounds (6,489 thousand euro in 2013) (Note 6.1).

6.3 INTANGIBLE ASSETS LOCATED IN OTHER COUNTRIES

As of 31 December 2014 and 2013, the Company had the following intangible assets located in other countries:

	2014			2013		
FIXED ASSETS (Thousand euro)	Cost	Depreciation & amortization	Net value	Cost	Depreciation & amortization	Net value
Development	37,425	-22,459	14,966	37,425	-20,448	16,977
TOTAL	**37,425**	**-22,459**	**14,966**	**37,425**	**-20,448**	**16,977**

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 summarized below:

	2014			2013		
FIXED ASSETS (Thousand euro)	Cost	Depreciation & amortization	Net value	Cost	Depreciation & amortization	Net value
Development	33,453	-11,403	22,050	33,453	-10,816	22,637
TOTAL	**33,453**	**-11,403**	**22,050**	**33,453**	**-10,816**	**22,637**

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

6.5 FULLY AMORTIZED ASSETS

The assets that were fully amortized as of 31 December 2014 and 2013 are as follows:

FULLY AMORTIZED INTANGIBLE ASSETS (Thousand euro)	2014	2013
R&D expenses	8,415	8,415
Computer software	1,135	950
TOTAL	**9,550**	**9,365**

6.6 IMPAIRMENT LOSSES AND INCOME FROM DISPOSAL OF ASSETS, ETC.

Impairment losses and income from disposal of assets, etc. amounted to 19,968 thousand euro in 2014 and 11,297 thousand euro in 2013, as detailed in Note 6.1.

6.7 ASSETS DESIGNATED AS COLLATERAL AND SUBJECT TO OWNERSHIP RESTRICTIONS

As of 31 December 2014 and 2013, there were no intangible assets subject to ownership restrictions or pledged as collateral for liabilities.

6.8 SUBSIDIES RECEIVED TO FINANCE R&D

As of 31 December 2014, the Company had 13,154 thousand euro (13,468 thousand euro in 2013) under "Official capital subsidies" to finance research and development activities. That balance includes 5,947 thousand euro (5,319 thousand euro in 2013) 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 2014 and 2013 are as follows:

2014 (Thousand euro)	Land and buildings	Installations	Construction in progress and advances	TOTAL
Cost				
BALANCE AS OF 01.01.2014	21,377	26,125	129	47,631
Recognitions	-	373	1,660	2,033
Other transfers	-	283	-283	-
Derecognitions	-	-4	-	-4
BALANCE AS OF 31.12.2014	21,377	26,777	1,506	49,660
Accumulated depreciation and amortization				
BALANCE AS OF 01.01.2014	-5,325	-22,741	-	-28,066
Provisions	-489	-719	-	-1,208
Derecognitions	-	4	-	4
BALANCE AS OF 31.12.2014	-5,814	-23,456	-	-29,270
Net carrying amount as of 31.12.2014	**15,563**	**3,321**	**1,506**	**20,390**

As of 31 December 2014, the net carrying amount of land and structures was 6,699 thousand euro and 8,864 thousand euro, respectively (6,699 thousand euro and 9,353 thousand euro, respectively, in 2013).

2013 (Thousand euro)	Land and buildings	Installations	Construction in progress and advances	TOTAL
Cost				
BALANCE AS OF 01.01.2013	21,377	25,505	96	46,978
Recognitions	-	392	180	572
Other transfers	-	249	-147	102
Derecognitions	-	-21	-	-21
BALANCE AS OF 31.12.2013	21,377	26,125	129	47,631
Accumulated depreciation and amortization				
BALANCE AS OF 01.01.2013	-4,836	-21,956	-	-26,792
Provisions	-489	-820	-	-1,309
Derecognitions	-	35	-	35
BALANCE AS OF 31.12.2013	-5,325	-22,741	-	-28,066
Net carrying amount as of 31.12.2013	**16,052**	**3,384**	**129**	**19,565**

The main recognition in 2014 was the construction of a fermentation chamber which had not been completed at year-end.

7.1 IMPAIRMENT LOSSES

No impairment losses on any property, plant and equipment items were recognized or reversed in 2014 and 2013.

7.2 ASSETS ACQUIRED FROM GROUP AND ASSOCIATED UNDERTAKINGS

No assets were acquired from group or associated companies in 2014 or 2013.

7.3 FULLY DEPRECIATED ASSETS

As of 31 December 2014, the Company was using assets with a carrying amount of 20,038 thousand euro which had been fully depreciated (19,357 thousand euro as of 31 December 2013).

7.4 PROPERTY, PLANT AND EQUIPMENT PLEDGED AS COLLATERAL

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

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

LOCATION (Thousand euro)	Net value 31/12/14	Amount of loan	Amount outstanding 31/12/14	Maturity
Av. de los Reyes nº 1 Colmenar Viejo (Madrid)	11,184	9,000	8,617	June 2024

LOCATION (Thousand euro)	Net value 31/12/13	Amount of loan	Amount outstanding 31/12/13	Maturity
Av. de los Reyes nº 1 Colmenar Viejo (Madrid)	11,673	12,600	2,608	September 2015

The outstanding amount of the mortgage loan under "Long-term bank debt" is 7,831 thousand euro (1,137 thousand euro in 2013), and the amount under "Short-term bank debt" is 786 thousand euro (1,471 thousand euro in 2013). See note 18.1.

7.5 ASSETS ACQUIRED UNDER FINANCE LEASES

There were no finance leases outstanding as of the end of 2014 and 2013.

7.6 SUBSIDIES RECEIVED

No fixed assets financed by subsidies from public authorities were acquired in 2014. In 2013, fixed assets amounting to 46 thousand euro were acquired with subsidies from public authorities. 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)	2014	2013
Less than 1 year	909	909
1 to 5 years	442	571
TOTAL	**1,351**	**1,480**

The expense recognized in profit or loss amounted to 1,155 thousand euro in 2014 (1,069 thousand euro in 2013) (Note 20.5)

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

2014 (Thousand euro)	Equity instruments	Loans, derivatives, etc.	TOTAL
SHORT-TERM FINANCIAL ASSETS			
Loans and accounts receivable (Note 13)	-	33,765	33,765
	-	**33,765**	**33,765**
LONG-TERM FINANCIAL ASSETS			
Loans and accounts receivable (Note 13)	-	73	73
Available-for-sale assets (Note 11)	302	-	302
	302	**73**	**375**

2013 (Thousand euro)	Equity instruments	Loans, derivatives, etc.	TOTAL
SHORT-TERM FINANCIAL ASSETS			
Loans and accounts receivable (Note 13)	-	27,221	27,221
	-	**27,221**	**27,221**
LONG-TERM FINANCIAL ASSETS			
Loans and accounts receivable (Note 13)	-	73	73
Available-for-sale assets (Note 11)	302	-	302
	302	**73**	**375**

9.1.2 Long- and short-term financial liabilities

2014 (Thousand euro)	Bank debt	Other	TOTAL
LONG-TERM FINANCIAL LIABILITIES			
Debts and accounts payable (Note 18)	34,565	202,439	237,004
	34,565	**202,439**	**237,004**
SHORT-TERM FINANCIAL LIABILITIES			
Debts and accounts payable (Note 18)	32,360	65,364	97,724
	32,360	**65,364**	**97,724**

2013 (Thousand euro)	Bank debt	Other	TOTAL
LONG-TERM FINANCIAL LIABILITIES			
Debts and accounts payable (Note 18)	34,675	207,401	242,076
	34,675	207,401	**242,076**
SHORT-TERM FINANCIAL LIABILITIES			
Debts and accounts payable (Note 18)	30,752	86,023	116,775
	30,752	**86,023**	**116,775**

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 2014 (Thousand euro)	2015	2016	2017	2018	2019	Subsequent years	TOTAL
ASSETS AVAILABLE FOR SALE	-	-	-	-	-	302	302
At fair value (Note 11)	-	-	-	-	-	302	302
OTHER FINANCIAL ASSETS	33,765	73	-	-	-	-	33,838
Other financial assets (Note 13)	-	73	-	-	-	-	73
Loans and accounts receivable (Note13)	33,765	-	-	-	-	-	33,765
TOTAL	**33,765**	**73**	**-**	**-**	**-**	**302**	**34,140**

FINANCIAL ASSETS BY MATURITY 2013 (Thousand euro)	2014	2015	2016	2017	2018	Subsequent years	TOTAL
ASSETS AVAILABLE FOR SALE	-	-	-	-	-	302	302
At fair value (Note 11)	-	-	-	-	-	302	302
OTHER FINANCIAL ASSETS	27,221	73	-	-	-	-	27,294
Other financial assets (Note 13)	-	73	-	-	-	-	73
Loans and accounts receivable (Note 13)	27,221	-	-	-	-	-	27,221
TOTAL	**27,221**	**73**	**-**	**-**	**-**	**302**	**27,596**

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)	2014	2013
Customers with an external credit rating (Moody's)		
A	-	-
BB	-	-
BBB	-	-
Customers without an external credit rating		
New customers	184	14
Customers from previous years	9,891	10,909
TOTAL ACCOUNTS RECEIVABLE	**10,075**	**10,923**
CASH AT BANK AND SHORT-TERM BANK DEPOSITS	-	-
Moody's rating		
A1	-	-
A2	-	78
A3	-	-
B1	500	-
B1u	701	-
Ba1	-	9,675
Ba2	4,532	-
Ba3	6,228	1,020
Baa1	-	-
Baa3	4,000	-
BBB+	-	740
Caa1	741	-
WR	1,093	45
TOTAL CASH AT BANK AND SHORT-TERM BANK DEPOSITS	**17,795**	**11,558**

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

10.1 EQUITY INSTRUMENTS

The detail of holdings in group companies as of 31 December 2014 and 2013 is as follows (in thousand euro):

(Thousand euro)	As of 31 December 2014			As of 31 December 2013		
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	500	-29	471	50	-29	21
Pharma Mar SRL	500	-	500	500	-	500
TOTAL	**6,217**	**-5,128**	**1,089**	**5,767**	**-5,128**	**639**

In 2014, the company contributed 450 thousand euro in equity to its German subsidiary, Pharma Mar GmbH, in order to improve its liquidity position.

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

NAME AND DOMICILE	Line of business	Percentage of ownership 2014 Direct %	2013 Direct %
Pharma Mar USA INC			
NY (USA)	Research & production of pharmaceuticals	100%	100%
PharmaMar AG			
Basel (Switzerland)	Research, production and commercialization of pharmaceuticals	100%	100%
Pharma Mar Sarl			
Paris (France)	Research, production and commercialization of pharmaceuticals	100%	100%
Pharma Mar GmbH			
Berlin (Germany)	Research, production and commercialization of pharmaceuticals	100%	100%
Pharma Mar Srl			
Milan (Italy)	Research, production and commercialization of pharmaceuticals	100%	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 2014 and 2013, as stated in the financial statements of the subsidiaries, translated to euro at the year-end exchange rate, are as follows:

(Thousand euro)	2014				2013			
COMPANY	Capital	Reserves	2014 income	Next value	Capital	Reserves	2013 income	Next value
Pharma Mar USA INC	5,010	-5,036	2	-25	5,010	-5,036	11	-15
Pharma Mar Sarl	100	2	24	126	100	-13	15	102
Pharma Mar GmbH	500	-25	-208	267	50	-32	8	26
PharmaMar AG	107	15	11	133	107	-7	3	103
Pharma Mar SRL	500	-167	1	334	500	-38	-129	333
TOTAL	**6,217**	**-5,211**	**-170**	**836**	**5,767**	**-5,126**	**-92**	**549**

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	
		2014	2013
Holding in the capital of	Line of business	Direct %	Direct %
Instituto BIOMAR	Pharmaceutical research	3,55%	3,55%
Pangaea Biotech SA	Consulting services	0,33%	0,33%

The value of those holdings is as follows:

(Thousand euro)	2014	2013
Instituto BIOMAR	252	252
Pangaea Biotech SA	50	50
TOTAL	**302**	**302**

No impairment losses were recognized in 2014 and 2013 on financial assets available for sale.

12. INVENTORIES

The Group classifies inventories as follows:

(Thousand euro)	2014	2013
Raw materials and other supplies used	79	62
Semi-finished products and products in process	11,642	9,752
Finished products	378	493
TOTAL	**12,099**	**10,307**

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

There are no future (option) contracts relating to inventories as of 31 December 2014 and 2013.

No material impairment losses were recognized for inventories in 2014 and 2013. 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

Loans and accounts receivable are classified as follows:

(Thousand euro)	2014	2013
LONG-TERM LOANS AND ACCOUNTS RECEIVABLE	73	73
Long-term deposits and guarantees provided (Note 9)	73	73
SHORT-TERM LOANS AND ACCOUNTS RECEIVABLE	33,765	27,221
Customer receivables (Note 9)	10,075	10,923
Customer receivables from group and associated undertakings (Note26)	9,000	11,538
Short-term investment in group and associated undertakings (Note26)	3,644	2,860
Sundry debtors	18	4
Personnel	6	5
Short-term deposits	11,006	1,879
Long-term deposits and guarantees provided	16	12
TOTAL	**33,838**	**27,294**

Long-term deposits and guarantees as of 31 December 2014 and 31 December 2013 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)	2014	2013
CURRENT BALANCES	5,418	7,096
BALANCES PAST-DUE BUT NOT PROVISIONED	5,046	4,857
Up to 3 months	2,229	964
3-6 months	615	517
Over 6 months	2,202	3,376
BALANCES PAST-DUE AND PROVISIONED		
Over 6 months	-	-
Under 6 months	-	-
TOTAL CUSTOMER RECEIVABLES	**10,464**	**11,953**
Provisions	-389	-1,030
TOTAL NET CUSTOMER RECEIVABLES	**10,075**	**10,923**

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 389 thousand euro (1,030 thousand euro in 2013) correspond mainly to the provision recognized in previous years by virtue of the risk sharing agreement signed with the Italian Medicines Agency (AIFA) and the provision for the discounts applicable in Germany under German law.

As of 31 December 2014, accounts receivable from public authorities totalled 6,143 thousand euro (6,493 thousand euro in 2013).

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

(Thousand euro)	Credit rating	2014	2013
Andalusia	Ba1	229	527
Madrid	BBB	317	449
Balearic Islands	BBB	33	84
Valencia	Ba2	114	62
Castilla y León	Baa2	99	48
Castilla la Mancha	Ba2	79	109
Aragon	BBB	35	73
Catalonia	Ba2	295	346
Cantabria	BBB	26	15
Galicia	Baa2	85	110
Canary Islands	BBB-	94	188
Extremadura	Baa3	76	31
Basque Country	Baa1	13	7
Murcia	Ba2	41	4
Navarra	A-	12	20
Other	-	4	-
TOTAL		**1,552**	**2,073**

In 2014, the Company collected 3,541 thousand euro of debt owed by various public administrations by arranging non-recourse factoring contracts with financial institutions that specialize in transactions of this type (2,491 thousand euro in 2013).

Past-due debt totalled 273 thousand euro as of 31 December 2014 (1,345 thousand euro in 2013), and no impairments had been recognized 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)	Credit rating	2014	2013
Germany	Aaa	-	1,157
Italy	baa2	675	544
France	Aa1	772	676
United Kingdom	Aa1	345	143
Portugal	Ba1	1,669	977
Austria	Aaa	735	448
Belgium	Aa3	345	301
Luxembourg	A2	18	90
The Netherlands	Aaa	32	78
Ireland	Baa1	-	-
Monaco	-	-	4
TOTAL		**4,591**	**4,418**

"Short-term investment in group and associated undertakings" as of 31 December 2014 includes mainly 3,644 thousand euro receivable from Zeltia, S.A. for tax matters (2,860 thousand euro in 2013), of which 1,152 thousand euro corresponds to value added tax receivable (1,458 thousand euro in 2013) (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, 2,492 thousand euro (1,402 thousand euro in 2013) relates to corporate income tax (Note 26.1).

"Customer receivables from group and associated undertakings" includes mainly 924 thousand euro receivable from PharmaMar AG (1,413 thousand euro in 2013), 5,765 thousand euro receivable from Pharma Mar Srl (10,069 thousand euro in 2013), and 2,244 thousand euro receivable from Pharma Mar GmbH (56 thousand euro in 2013) for the sale of commercial vials to those subsidiaries (Note 26.1).

The Short-term deposits item at 31 December 2014 contains the following material items:

- A number of time deposits amounting to a total of 10,960 thousand euro plus accrued interest at a fixed annual rate of between 0.4% and 0.85%, amounting to 15 thousand euro outstanding at year-end.

This account contained the following material items as of 31 December 2013:

- Two time deposits amounting to 1,820 thousand euro plus accrued interest at a fixed annual rate of between 1% and 1.25%, amounting to 1.4 thousand euro outstanding at year-end.

The interest rate for short-term bank deposits as of 31 December 2014 was approximately 0.72% (1.18% in 2013).

14. CASH AND CASH EQUIVALENTS

The detail of this caption as of 31 December 2014 and 2013 is as follows:

(Thousand euro)	2014	2013
Cash on hand and at banks	273	78
Cash equivalents	6,500	9,590
TOTAL	**6,773**	**9,668**

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

- Fixed-term deposits amounting to 6,500 thousand euro at a fixed annual interest rate of between 0.15% and 0.45%.

In 2013, it included the following deposits:

- Fixed-term deposits amounting to 9,590 thousand euro at a fixed annual interest rate of between 1.15% and 1.25%.

15. CAPITAL STOCK

The detail of this caption as of 31 December 2014 and 2013 is as follows:

(Thousand euro)	2014	2013
CAPITAL		
Share capital	85,292	69,805
TOTAL	**85,292**	**69,805**

The capital stock is represented by 1,419,161 fully-paid common registered shares of 60.10 euro par value each. The shares are freely transferable without restriction.

On 30 September 2014, the sole shareholder approved a capital increase amounting to 15,486,507.90 euro. That capital increase was performed by issuing 257,679 new ordinary registered shares with a par value of 60.10 euro each and an issue premium of 36.92 euro per share. The issue premium totalled 9,513,508.68 euro.

The capital increase was performed by offsetting a past-due account payable by the Company to the sole shareholder which amounts to 25,000,016.58 euro.

The capital increase expenses, amounting to 9 thousand euro, were charged directly against unrestricted reserves, net of their tax effect, for a total of 6 thousand euro.

As of 31 December 2014 and 2013, the company owning 10% or more of the capital stock is as follows:

	Percentage of ownership	
COMPANY	2014	2013
Zeltia S.A.	100%	100%

Share premium:

This reserve is freely distributable and, after the capital increase performed in 2014, amounts to 69,189 thousand euro (59,676 thousand euro in 2013).

16. RESERVES AND PRIOR YEARS' INCOME

The detail of this caption as of 31 December 2014 and 2013 is as follows:

(Thousand euro)	2014	2013
LEGAL AND BYLAW RESERVES	7,136	5,949
Legal reserve	7,136	5,949
OTHER RESERVES	444	31
Other reserves	30	30
Difference due to redenomination of share capital in euro	1	1
Voluntary reserves	413	-
TOTAL	**7,580**	**5,980**

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 2014 is the result of the distribution of the previous year's income (Note 3). As of 31 December 2014, the Company had not fully allocated the legal reserve.

16.2 OTHER RESERVES

This item contains a reserve amounting to 30 thousand euro for Differences in conversion to GAP 2007 because of the treatment of exchange gains that have accrued but not been realised.

16.3 VOLUNTARY RESERVES

This item includes, among other unrestricted reserves, the expenses of the capital increase performed in the year, net of the tax effect, amounting to 6 thousand euro.

16.4 DIFFERENCE DUE TO REDENOMINATION OF SHARE CAPITAL IN EURO

This reserve is restricted.

16.5 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 2014, the "Subsidies, donations and other legacies received" item of the Company's net equity includes 5,947 thousand euro (5,319 thousand euro in 2013) of refundable subsidies from official authorities at zero interest (notes 5.2 and 6.8) and 7,207 thousand euro (8,149 thousand euro in 2013) of non-repayable capital subsidies.

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

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

The changes in these subsidies are as follows:

(Thousand euro)	2014	2013
BEGINNING BALANCE	**13,468**	**12,713**
Increase	747	856
Change in tax rate	823	-
Recognised in profit or loss	-1,884	-101
Other decrease	-	-
ENDING BALANCE	**13,154**	**13,468**

18. DEBTS AND ACCOUNTS PAYABLE

The detail of this caption as of 31 December 2014 and 2013 is as follows:

(Thousand euro)	2014	2013
Bank debt	17,550	20,104
Debt to official authorities	17,015	14,571
Due to Group undertakings (Note 26)	202,439	207,401
LONG-TERM DEBTS AND ACCOUNTS PAYABLE	237,004	242,076
Bank loans	32,360	30,752
Other financial liabilities	723	505
Suppliers	211	276
Due to group undertakings (Note 26)	1,244	794
Accounts payable to related parties (Note 26)	44,008	67,938
Sundry creditors	15,339	12,710
Personnel	3,179	3,140
Customer advances	660	660
SHORT-TERM LOANS AND ACCOUNTS PAYABLE	97,724	116,775
TOTAL DEBTS AND ACCOUNTS PAYABLE	334,728	358,851

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 2014 includes 17,550 thousand euro of bank loans (20,104 thousand euro in 2013) and 17,015 thousand euro of repayable advances received from public authorities (14,571 thousand euro in 2013).

18.1 BANK DEBT

Non-current bank loans consist of the following items:

NON-CURRENT BANK DEBT	2014	2013
Banco Sabadell Atlántico	8,119	1,975
BEI	-	7,509
ICO	-	5,006
Bankinter	2,829	1,801
Banco Popular	1,653	1,384
TargoBank	-	134
Bankia	1,102	146
BBVA	1,916	2,149
Banco Santander	944	-
Ibercaja	500	-
Liberbank (CCM)	487	-
TOTAL	17,550	20,104

- The loan from Banco SabadellAtlántico, which amounted to 1,137 thousand euro as of 2013 year-end, matured 2015 and was cancelled in June 2014. As of 2014 year-end, the debt to Banco Sabadell Atlántico was the mortgage loan amounting to 7,831 thousand

euro referred to in Note 7.4 which matures in 2024 and bears interest at a floating rate of 12-month Euribor plus 2.75 points. Short-term debt, amounting to 786 thousand euro as of 31 December 2014, is recognised under "Short-term debt — Bank debt and debt to official authorities".

The only debt with collateral as of 31 December 2014 and 2013 were the loans from Banco Sabadell Atlántico, BBVA, the European Investment Bank and the Instituto de Crédito Oficial.

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

BANK DEBT - SHORT TERM (Thousand euro)	Drawn in 2014	Limit in 2014	Drawn in 2013	Limit in 2013
Credit lines	4,608	20,950	6,957	13,800
Short-term component of long-term debt	22,383	-	18,507	-
Short-term component of debt to official authorities	2,582	-	2,699	-
Other short-term loans	186	-	173	-
Interest on debt	1,056	-	977	-
Discounting transactions	1,545	-	1,439	7,450
TOTAL	**32,360**	**20,950**	**30,752**	**21,250**

The credit lines bore average interest of 4.84% in 2014 (5.07% in 2013).

The short-term component of the long-term debt includes the balance payable to the European Investment Bank (EIB) and the Instituto de Crédito Oficial (ICO), which amounted to 12,515 thousand euro as of 31 December 2014 (10,710 thousand euro in 2013), broken down as follows:

Of the loan obtained by PharmaMar for an original amount of 50,000 thousand euro from the EIB (whose tranche amounted to 30,000 thousand euro) and ICO (20,000 thousand euro), maturing in nine years (ten years, prior to the novation on 11 December 2012), with a three-year grace period, 12,515 thousand euro are outstanding at the date of these financial statements, classified under current liabilities (10,710 thousand euro as of 31 December 2013). The loan was granted on 7 May 2007 and the guarantors are Zeltia, S.A. and Xylazel, S.A. It was subsequently novated twice, on 17 June 2010 and 11 December 2012.As of 31 December 2014, the amount outstanding to EIB was 7,509 thousand euro (13,935 thousand euro as of 31 December 2013) and the amount outstanding to ICO was 5,006 thousand euro (9,290 thousand euro as of 31 December 2013).

That loan is subject to compliance by the Group and Xylazel with specific ratios (EBITDA, EBIT/financial expenses, debt/EBITDA) linked to the Group's consolidated financial statements and the financial statements of Xylazel, S.A.

As of 31 December 2014, those commitments had not been met. As of the date of authorization of these financial statements, and a waiver had been obtained from the lenders. The total amount of the debt is classified as current. As a result of such breach, Xylazel, S.A. will not make any distribution out of 2014 income.

The EIB/ICO loan is subject to a clause on change of control in the event of a takeover bid.

In 2014, the Company obtained ICO-Empresas loans amounting to a total of 1,000 thousand euro maturing in 2015 and 4,000 thousand euro maturing in 2017 at floating rates referenced to 6-month

Euribor plus a spread of between 3,51 and 4.75 points. It also obtained ICO-Empresas loans amounting to 2,000 thousand euro maturing in 2017 at fixed interest rates of between 5.18% and 5.20%.

The Company has arranged funding from a number of financial institutions totalling 6,700 thousand euro at a fixed interest rate of 3.917% and at floating rates referenced to 6-month and 12-month Euribor plus a spread of between 2.35% and 3.917%.

At 2014 and 2013 year-end, the bank debt matured as follows:

BANK DEBT
(Thousand euro)

MATURING IN	2014	2013
2014	-	18,507
2015	22,383	16,851
2016	7,432	3,253
2017 and thereafter	10,118	-
TOTAL	**39,933**	**38,611**
NON-CURRENT	17,550	20,104
CURRENT	22,383	18,507

18.2 DEBT TO OFFICIAL AUTHORITIES

The non-current debt under this heading as of 31 December 2014 was 17,015 thousand euro (14,571 thousand euro in 2013). These transactions do not accrue interest, except for the following loans arranged in 2014:

- Loan from Centro para el Desarrollo Tecnológico Industrial (C.D.T.I.) amounting to 559 thousand euro bearing a fixed interest rate of 0.65%,
- Loan from Centro para el Desarrollo Tecnológico Industrial (C.D.T.I.) amounting to 200 thousand euro bearing a fixed interest rate of 0.65%, and
- Loan from the Ministry of Economy and Competitiveness amounting to 1,234 thousand euro bearing a fixed interest rate of 1.00%.

The interest-bearing transactions arranged prior to 2014 are as follows:

- Loan from the Ministry of Industry, Energy and Tourism amounting to 62 thousand euro bearing a fixed interest rate of 3.95%,
- Loan from the Ministry of Economy and Competitiveness amounting to 250 thousand euro bearing a fixed interest rate of 1.00%,
- Loan from Centro para el Desarrollo Tecnológico Industrial (C.D.T.I.) amounting to 200 thousand euro bearing a fixed interest rate of 0.65%, and
- Loan from the Ministry of Industry, Energy and Tourism amounting to 862 thousand euro bearing a fixed interest rate of 4.93%.

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 interest rates of between 2.17% and 8.10%.

Repayable subsidies received in 2014 are detailed below:

(Thousand euro) 2014

AGENCY	Project	Nominal amount	Initial fair value	Repayment period(years)
Centre for Industrial Technological Development (CDTI)	(1)	1,061	835	11
Centre for Industrial Technological Development (CDTI)	(2)	200	135	11
Centre for Industrial Technological Development (CDTI)	(3)	559	426	11
Ministry of Economy and Competitiveness	(4)	684	461	11
Ministry of Economy and Competitiveness	(5)	619	417	11
Ministry of Economy and Competitiveness	(6)	1,234	1012	8
		4,357	**3,286**	

1) C.D.T.I: Initial Phase I trials with antitumour drug PM60184.

2) C.D.T.I: Evaluation of marine anti-tumour drug lurbinectidin in patients with non-small-cell lung cancer and in combination with Paclitaxel in patients with advanced solid tumours.

3) C.D.T.I: Technological development of the synthesis, scaling and formulation for manufacture of the marine anti-tumour drug lurbinectidin (PM01183).

4) ORALBEADS: Development of micro/nanostructured dispersions of solids for the oral administration of marine anti-tumour compounds.

5) BIOKETIDO (Marine polyketides in oncology): Development of bioprocesses for supplying marine anti-tumour compounds via biotechnology.

6) MARINMAB: Development of new-generation therapies: Antibody conjugates for marine drugs.

The following advances were received in 2013:

(Thousand euro) 2013

AGENCY	Project	Nominal amount	Initial fair value	Repayment period (years)
Ministry of Economy and Competitiveness	(1)	574	414	11
Ministry of Economy and Competitiveness	(2)	250	213	8
Ministry of Economy and Competitiveness	(3)	654	472	11
Centre for Industrial Technological Development (CDTI)	(4)	200	134	11
Ministry of Economy and Competitiveness	(5)	385	283	11
Ministry of Industry, Energy and Tourism	(6)	862	862	10
Ministry of Economy and Competitiveness	(7)	575	410	11
Centre for Industrial Technological Development (CDTI)	(8)	1,235	876	11
		4,735	**3,664**	

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

2) MARINMAB: Development of new-generation therapies: Antibody conjugates for marine drugs.

3) ORALBEADS: Development of micro/nanostructured dispersions of solids for the oral administration of marine anti-tumour compounds.

4) LURBINECTEDINA: Study of the pharmacological and clinical performance in combination with capecitabine and assessment of anti-tumour activity in breast cancer.

5) BIOKETIDO (Marine polyketides in oncology): Development of bioprocesses for supplying marine anti-tumour compounds via biotechnology.

6) Innovations for Trabectedin production.

7) POLYSFERA: Polymer nanocapsules for controlled release of anti-tumour drugs.

8) PM01183: Assessment of safety in combination or with new administration schemes, and examination of activity in ovarian and pancreatic cancers.

As of 31 December 2014 and 2013, the amounts due to official authorities (recognised at fair value) matured as follows:

DEBT TO OFFICIAL AUTHORITIES
(Thousand euro)

MATURING IN	2014	2013
2015	2,582	2,699
2016	2,411	2,719
2017	2,735	2,484
2018	2,598	2,382
2019 and thereafter	9,271	6,986
TOTAL	**19,597**	**17,270**
NON-CURRENT	17,015	14,571
CURRENT	2,582	2,699

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 by Zeltia to PharmaMar to finance its activities. As of 31 December 2014, the nominal amount of the loan was 214,357 thousand euro (214,357 thousand euro in 2013).

The participation loan accrues variable annual interest with a cap of 8% and a floor of 3.32%. The interest rate is calculated using a formula established in the contract. The minimum interest rate has been applied from 31 December 2009. The loan initially had a duration of 10 years, maturing on 30 September 2015. In September 2014, this loan's maturity was extended by 27 months while keeping all other conditions unchanged. Under measurement standard 9.3.5 of the Spanish General Accounting Plan 2007, the change in loan maturity did not lead to a change of more than 10% in the present value of future cash flows between the new and old contracts. The novation was treated for accounting purposes as a continuation of the initial financial instrument. The funds were paid out up to 30 September 2009, and they accrue annual interest, claimable as from 30 April 2006. Nevertheless, that interest will accrue only in the years in which PharmaMar recognises 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.

At the date the participation loan was granted, it was estimated that the loan was being remunerated at market rates, i.e. the fair value of the loan did not differ materially from its nominal value.

Financial instruments are recognised at fair value. Under measurement standard 4.5.1, financial assets are initially recognised at fair value and subsequently at amortised cost.

To calculate the amortised cost, the Company considered the contributions which, at the loan grant date, it estimated would be made under that contract in accordance with the Company's financial needs. The contributions to date do not differ substantially from management's estimates made in 2005.

The effective interest rate used to calculate the amortised cost was calculated considering the Company's arm's-length funding cost at the date of the loan for a financial instrument of similar duration (the estimate was 5.43%).

As a result of discounting projected interest at the effective interest rate and adjusting the loan to amortised cost, the loan was worth 219,588 thousand euro as of 31 December 2014, of which 202,439 thousand euro were recognised as long term and 17,149 thousand euro as short term (207,400 thousand euro as long term in 2013). The Company recognised 12,187 thousand euro in financial expenses in 2014 (12,442 thousand euro in 2013). That calculation method is coherent with the opinion issued by Spain's Accounting and Audit Institute (ICAC) and published in its official gazette (BOICAC 78).

18.4 OTHER LOANS FROM GROUP COMPANIES

On 31 October 2009, the Company signed a loan from Zeltia, S.A. against which 20,330 thousand euro had been drawn as of 31 December 2014 (46,330 thousand euro in 2013). In 2014, the Company received contributions amounting to 17,000 thousand euro, repaid 18,000 thousand euro and used 25,000 thousand euro for the capital increase referred to in note 15.

The unpaid accrued interest on this loan amounted to 6,529 thousand euro as of 31 December 2014 (4,459 thousand euro in 2013).

The applicable interest rate is 6.18% (5.48% in 2013); 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 2014 and 2013 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	Balance as of 31/12/2014	
(thousand euro)	Payment	%
Within the maximum legal period	27,037	79%
Remainder	7,276	21%
TOTAL PAYMENTS IN THE YEAR	**34,313**	**100%**
Weighted average delay in payment (days)	24	-
Deferrals which exceeded the maximum legal limit at the building date (thousand euro)	614	-

PAYMENTS COMPLETED AND OUTSTANDING ON THE BALANCE SHEET DATE	Balance as of 31/12/2013	
(thousand euro)	Payment	%
Within the maximum legal period	25,053	79%
Remainder	6,618	21%
TOTAL PAYMENTS IN THE YEAR	**31,671**	**100%**
Weighted average delay in payment (days)	22	-
Deferrals which exceeded the maximum legal limit at the building date (thousand euro)	379	-

19. DEFERRED TAXES

The detail of this caption as of 31 December 2014 and 2013 is as follows:

(Thousand euro)	2014	2013
DEFERRED TAX ASSETS	9,437	7,435
Timing differences (Note 21)	4,638	2,914
Capitalisation of tax credits (Note 21)	4,799	4,521
DEFERRED TAX LIABILITIES	4,454	5,764
Timing differences	4,454	5,764
DEFERRED TAXES (NET)	**4,983**	**1,671**

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 2012	5,440	5,440
Charge (credit) to profit or loss	-43	-43
Charge to equity	367	367
BALANCE AS OF 31 DECEMBER 2013	5,764	5,764
Charge (credit) to profit or loss	-808	-808
Charge to equity	-502	-502
BALANCE AS OF 31 DECEMBER 2014	**4,454**	**4,454**

DEFERRED TAX ASSETS (Thousand euro)	Provisions	TOTAL
BALANCE AS OF 31 DECEMBER 2012	5,164	5,164
Charge (credit) to profit or loss	2,271	2,271
BALANCE AS OF 31 DECEMBER 2013	7,435	7,435
Charge (credit) to profit or loss	2,002	2,002
BALANCE AS OF 31 DECEMBER 2014	**9,437**	**9,437**

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

(Thousand euro)	2014	2013
Subsidies, donations and legacies received	-502	367
TOTAL	**-502**	**367**

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. Deferred tax assets amounting to 858 thousand euro were recognized in 2014. No deferred tax assets were recognized in 2013 (Note 2.2).

As of 31 December 2014, the tax credits earned by the Company for use in future years were as follows:

(Thousand euro) Year	Amount of tax credit as of 31/12/2013	Used in 2014	Unused as of 31/12/2014	Year
2007	3,722	-994	2,728	2025
2008	2,170	-	2,170	2026
2012	2,464	-	2,464	2030
TOTAL	**8,356**	**-994**	**7,362**	

Of those tax credits, the Company capitalized 858 thousand euro in 2014 (Note 2.2).

As shown in the table above, the Company offset tax losses in 2014 and in 2013.

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)	2014	2013
Services received	21,145	20,111
Other expenses	274	522
Sales	3,907	2,352
Procurement	3,184	2,805
TOTAL	**28,510**	**25,790**

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)	2014	2013
DOMESTIC MARKET	9,357	10,681
EXPORTS	60,480	63,669
European Union	59,105	61,439
OECD countries	885	2,230
Other countries	490	-
TOTAL	**69,837**	**74,350**

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

"Other operating revenues" as of 31 December 2014 and 2013 include the royalties from sales by Johnson & Johnson, which totalled 1,872 thousand euro (1,660 thousand euro in 2013), and the payment received from Johnson & Johnson 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, the Johnson & Johnson group will conduct a pivotal Phase III trial with Yondelis® in relapsed ovarian cancer (ROC); the trial design will be submitted to the FDA in the near future, and the Phase III trial in L-sarcoma which commenced at the beginning of 2011 will also be completed. In the framework of that agreement, PharmaMar collected three payments of 25 million dollars each in 2011, 2012 and 2013 and a fourth payment of the same amount in 2014 upon attaining the milestone stipulated in the contract. It will collect another 10 million dollars as milestones are attained based solely on the Yondelis® development plan in 2015 (Note 29).

In addition to the revenues referred to in the preceding paragraphs, the "Other operating revenues" account includes the 1,250 thousand dollars collected from the Johnson & Johnson group under the agreement signed in 2001 due to attaining the milestone consisting of presentation to the FDA of the application to commercialize Yondelis® for certain patients with soft tissue sarcoma.

The "Other operating revenues" account also contains the 5,000 thousand euro collected from Chugai Pharmaceutical Co. Ltd. under the licensing agreement signed in July 2014 for the commercialization

of Aplidin®, a PharmaMar product, for treating multiple myeloma, in eight European countries (France, Germany, the UK, Benelux, Ireland and Austria).

20.3 MERCHANDISE, RAW MATERIALS AND OTHER CONSUMABLES CONSUMED

(Thousand euro)	2014	2013
Purchased in Spain	2,022	1,647
Purchased in other EU countries	218	320
Imports	90	41
Change in inventories	-178	-31
TOTAL	**2,152**	**1,977**

20.4 PERSONNEL EXPENSES

(Thousand euro)	2014	2013
Wages, salaries and similar	17,368	16,885
Indemnities	601	291
Employee welfare expenses		
Employer social security	3,513	3,185
Other welfare expenses	929	868
TOTAL	**22,411**	**21,229**

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

NUMBER IN CATEGORY (MEN)	2014	2013
Executives and managers	6	7
Technical personnel	80	69
Clerical staff	21	22
Commercial personnel	7	7
Assistants and others	3	3
TOTAL	**117**	**108**

NUMBER IN CATEGORY (WOMEN)	2014	2013
Executives and managers	5	6
Technical personnel	119	113
Clerical staff	37	39
Commercial personnel	6	7
Assistants and others	18	14
TOTAL	**185**	**179**
TOTAL	**302**	**287**

The breakdown of the workforce by category and gender at 2014 and 2013 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 2014 and 2013 is as follows:

(Thousand euro)	2014	2013
Research & Development expenses	15,902	10,125
Leases and fees	1,155	1,069
Repairs and upkeep	1,541	1,345
Independent professional services	4,513	5,127
Transport	514	575
Insurance premiums	330	426
Advertising and public relations	11,981	13,887
Utilities	850	922
Other services	5,107	5,722
Other taxes	526	409
TOTAL	**42,419**	**39,607**

21. INCOME TAX AND TAX SITUATION

The balances with public authorities as of 31 December 2014 and 2013 are as follows:

	2014		2013	
(Thousand euro)	Payable	Receivable	Payable	Receivable
Personal income tax	-	378	-	353
Social security	-	368	-	314
Other balances with public authorities	2,507	-	3,755	-
TOTAL	**2,507**	**746**	**3,755**	**667**

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" account (Note 13), the Company reports 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 2014 and 2013 mainly refers to withholdings on the royalty revenues and on the payments collected from the Johnson & Johnson group under the agreements signed in 2001 and 2011.

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

(Thousand euro)	2014 Income Statements		Revenues and expenses recognised directly in equity	
BALANCE OF REVENUES AND EXPENSES IN THE YEAR	12,527			
	Increase	Decrease	Increase	Decrease
Corporate income tax	188	-	-	-
Permanent differences	-	-12,985	1,068	-2,702
Timing differences:				
Arising in the year	8,555	-	-	-
Arising in prior years	-	-	-	-
TAX BASE		8,285		
Tax losses carried forward (Note 19)		-994		
TAXABLE INCOME		7,291		-1,634

(Thousand euro)	2013 Income Statements		Revenues and expenses recognised directly in equity	
BALANCE OF REVENUES AND EXPENSES IN THE YEAR	11,868			
	Increase	Decrease	Increase	Decrease
Corporate income tax	777	-	-	-
Permanent differences	-	-10,055	1,222	-144
Timing differences:				
Arising in the year	9,603	-	-	-
Arising in prior years	-	-510	-	-
TAX BASE		11,683		
Tax losses carried forward				
TAXABLE INCOME		11,683		1,078

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

(Thousand euro)	2014	2013
Current tax	-81	3,505
Deferred tax	-855	-2,728
Change in tax rate	1,124	-
TOTAL TAX EXPENSE	188	777

Since 2009, the Company has availed itself of article 23 of the Corporate Income Tax Act, under which 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 decreased for corporate income tax purposes.

The permanent differences in 2014 and 2013 relate mainly to the 25 million dollars collected from Johnson & Johnson in both years, and the royalties collected from Johnson & Johnson under the licensing agreement for marketing Yondelis®, and those relating to the agreement with Chugai Pharmaceutical Co., Ltd (Note 20.2). Royalties totalled 1,872 thousand euro in 2014 (1,660 thousand euro in 2013).

In 2014, the company recognised a net account receivable from the consolidated group amounting to 1,090 thousand euro under the "Short-term accounts receivable from group and associated undertakings" caption (1,401 in thousand euro 2013 under "Short-term accounts payable to group and associated undertakings"), which is 30% of taxable income less tax withholdings and prepayments. In 2014, the Company applied 1,432 thousand euro in tax credits against corporate income tax (1,935 thousand euro in 2013).

The timing differences in 2014 are due to the amount of depreciation that is not tax-deductible under the tax measures implemented in 2013 and to the Company's employee stock ownership plan.

Under Act 27/2014, of 27 November, on Corporate Income Tax, and as a result of the changes in the tax rates, an expense item amounting to 1,124 thousand euro was recognized as of 31 December 2014 which reduced the amount of deferred taxes.

As of 31 December 2014, the unused tax credits earned by the Company, mainly for R&D, were as follows (in thousand euro):

2014	(Thousand euro)			
Year	Amount of tax credit as 31/12/2014	Used in 2014	Unused as of 31/12/2014	Year
1999	2,149	-	2,149	2017
2000	4,478	-	4,478	2018
2001	4,890	-	4,890	2019
2002	12,096	-	12,096	2020
2003	13,023	-	13,023	2021
2004	9,400	-	9,400	2022
2005	10,565	-	10,565	2023
2006	10,251	-	10,251	2024
2007	9,477	-	9,477	2025
2008	10,059	-	10,059	2026
2009	8,625	-	8,625	2027
2010	8,211	-	8,211	2028
2011	7,980	-	7,980	2029
2012	6,915	-	6,915	2030
2013	9,076	-	9,076	2031
2014	11,403	-	11,403	2032
TOTAL	**138,598**		**138,598**	

The Company has 2011, 2012, 2013 and 2014 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 2014, the Company offset corporate income tax losses amounting to 994 thousand euro (Note 19).

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

22. FINANCIAL INCOME

22.1 FINANCIAL INCOME

The detail of the financial income is as follows:

(Thousand euro)	2014	2013
FINANCIAL REVENUES	346	411
From third parties	346	411
FINANCIAL EXPENSES	-19,894	-19,199
On debts to group and associated undertakings	-14,316	-14,529
On debts to third parties	-5,578	-4,670
CAPITALISED FINANCIAL EXPENSES	12,187	12,442
EXCHANGE DIFFERENCES	32	470
IMPAIRMENT AND INCOME FROM DISPOSAL OF FINANCIAL INSTRUMENTS	17	-13
Income from disposals and other	17	-13
FINANCIAL INCOME	-7,312	-5,889

As a result of the participation loan arranged with Zeltia (Note 18.3), 12,187 thousand euro (12,442 thousand euro in 2013) 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)	2014	2013
INCOME FROM DISPOSALS AND OTHER:		
Income from disposals and other	17	-13
	17	-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 sale commitments to Johnson & Johnson and Taiho Pharmaceutical Co., Ltd. amounting to 6.398 thousand euro and 1,066 thousand euro, respectively, in 2015.

24.2 OPERATING LEASE COMMITMENTS

The minimum future payments for non-cancellable operating leases as of 31 December 2014 and 2013 are detailed in Note 8.

25. DIRECTOR AND SENIOR MANAGEMENT REMUNERATION

25.1 DIRECTOR REMUNERATION

Directors' remuneration totalled 425 thousand euro in 2014 (395 thousand euro in 2013). 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 476 thousand euro in remuneration in 2014 (404 thousand euro in 2013).

25.3 DIRECTORS' DUTY OF LOYALTY

In connection with the duty to avoid conflicts of interest with the Company, during the year the members of the Board of Directors fulfilled their obligations under article 228 of the Consolidated Text of the Capital Companies Act. Additionally, both they and their related parties abstained from incurring in the cases of conflict of interest set out in article 229 of that Act, apart from cases where the appropriate authorization was obtained.

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 2014 and 2013 is as follows:

2014 (Thousand euro)	Controlling company	Group undertakings	TOTAL
CUSTOMER RECEIVABLES FROM GROUP AND ASSOCIATED UNDERTAKINGS (NOTE 13)			
PharmaMar AG	-	924	924
Pharma Mar GmbH	-	2,244	2,244
Pharma Mar Srl	-	5,765	5,765
Pharma Mar Sarl	-	67	67
OTHER FINANCIAL ASSETS (NOTE 13)			
Zeltia S.A.	3,644	-	3,644
TOTAL ASSETS	**3,644**	**9,000**	**12,644**
DEBTS TO GROUP AND ASSOCIATED COMPANIES (NOTE 18)			
Pharma Mar USA	-	356	356
Pharma Mar Sarl	-	417	417
Pharma Mar GmbH	-	251	251
PharmaMar AG	-	99	99
Genómica S.A.	-	119	119
Promaxa S.A.	-	2	2
INTEREST-BEARING DEBT TO GROUP AND ASSOCIATED UNDERTAKINGS (NOTES 18.3 AND 18.4)			
Zeltia S.A.	246,447	-	246,447
TOTAL LIABILITIES	**246,447**	**1,244**	**247,691**

2013 (Thousand euro)	Controlling company	Group undertakings	TOTAL
CUSTOMER RECEIVABLES FROM GROUP AND ASSOCIATED UNDERTAKINGS (NOTE 13)			
PharmaMar AG	-	1,413	1,413
Pharma Mar GmbH	-	56	56
Pharma Mar Srl	-	10,069	10,069
OTHER FINANCIAL ASSETS (NOTE 13)			
Zeltia S.A.	2,860	-	2,860
TOTAL ASSETS	**2,860**	**11,538**	**14,398**
DEBTS TO GROUP AND ASSOCIATED COMPANIES (NOTE 18)			
Pharma Mar USA	-	237	237
Pharma Mar Sarl	-	231	231
Pharma Mar GmbH	-	180	180
PharmaMar AG	-	104	104
Genómica S.A.	-	42	42
INTEREST-BEARING DEBT TO GROUP AND ASSOCIATED UNDERTAKINGS (NOTES 18.3 AND 18.4)			
Zeltia S.A.	275,339	-	275,339
TOTAL LIABILITIES	**275,339**	**794**	**276,133**

The debt to Zeltia, S.A. recognised under "Other financial assets" includes the amount of corporate income tax and Value Added Tax receivable for 2014, amounting to 2,492 thousand euro and 1,152 thousand euro, respectively (1,041 thousand euro and 1,458 thousand euro, respectively, in 2013).

26.2 TRANSACTIONS WITH GROUP UNDERTAKINGS

The amounts of the Company's transactions with group undertakings as of 31 December 2014 and 2013 are as follows:

TRANSACTIONS WITH GROUP UNDERTAKINGS 2014 EXPENSES (Thousand euro)	Controlling company	Group undertakings	TOTAL
SOFTWARE LICENCE AGREEMENTS			
Zeltia S.A.	29	-	29
SERVICES RECEIVED			
Zeltia S.A.	32	-	32
Pharma Mar USA	-	88	88
PharmaMar AG	-	178	178
Pharma Mar Sarl	-	1,076	1,076
Pharma Mar GmbH	-	2,036	2,036
Proteccion de Maderas S.A.U	-	12	12
Genómica	-	98	98
PROCUREMENT			
Zeltia	392	-	392
FINANCIAL			
Zeltia S.A.	14,257	-	14,257
Xylazel S.A.	-	59	59
TOTAL EXPENSES 2014	**14,710**	**3,547**	**18,257**

TRANSACTIONS WITH GROUP UNDERTAKINGS 2013 EXPENSES (Thousand euro)	Controlling company	Group undertakings	TOTAL
SOFTWARE LICENCE AGREEMENTS			
Zeltia S.A.	68	-	68
SERVICES RECEIVED			
Zeltia S.A.	40	-	40
Pharma Mar USA	-	325	325
PharmaMar AG	-	206	206
Pharma Mar Sarl	-	429	429
Pharma Mar Srl	-	95	95
Pharma Mar GmbH	-	2,648	2,648
Proteccion de Maderas S.A.U	-	11	11
PROCUREMENT			
Zeltia	310	-	310
FINANCIAL			
Zeltia S.A.	14,4 47	-	14,447
Xylazel S.A.	-	82	82
Pharma Mar Srl	-	5	5
TOTAL EXPENSES 2013	**14,865**	**3,801**	**18,666**

TRANSACTIONS WITH GROUP UNDERTAKINGS 2014 REVENUES (Thousand euro)	Controlling company	Group undertakings	TOTAL
SALES			
PhamaMar AG	-	740	740
Phama Mar Srl	-	12,665	12,665
Pharma Mar GmbH	-	7,599	7,599
PROVISION OF SERVICES			
Zeltia S.A.	5	-	5
Pharma Mar Srl	-	204	204
Pharma Mar GmbH	-	313	313
PhamaMar AG	-	3	3
Pharma Mar Sarl	-	64	64
FINANCIAL			
Pharma Mar GmbH	-	2	2
TOTAL REVENUES 2014	**5**	**21,590**	**21,595**

TRANSACTIONS WITH GROUP UNDERTAKINGS 2013 REVENUES (Thousand euro)	Controlling company	Group undertakings	TOTAL
SALES			
PhamaMar AG	-	2,231	2,231
Phama Mar Srl	-	14,137	14,137
PROVISION OF SERVICES			
Zeltia S.A.	4	-	4
Pharma Mar Srl	-	159	159
Pharma Mar GmbH	-	190	190
TOTAL REVENUES 2013	**4**	**16,717**	**16,721**

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 2014 and 2013 are as follows:

FINANCIAL INSTITUTION (Thousand euro)	2014 Payment	2013 Payment
Banco Sabadell-Atlántico	5,530	5,064
Commerzbank	751	958
Novagalicia Banco	3,583	4,354
Banco Pastor	211	369
Catalinya Caixa	261	285
Unicaja	-	36
Banco Santander	62	-
Banca Cívica (La Caixa)	398	464
Banco Popular	1,324	1,324
Banco Caixa Geral	890	-
Caja Rural de Jaen	825	-
TOTAL	13,835	12,854

28. ENVIRONMENT

In 2014, the Company invested 10 thousand euro in environmental matters (33 thousand euro in 2013).

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

- Atmospheric emissions: To control and clean emissions, the Company has scrubbers for gas from fume cupboards, absolute particle filters in the production area, and particle filters in the R&D department.
- Industrial discharges: the Company installed a network that separates industrial water, two tanks to homogenise discharges, and a discharge valve, pursuant to the Madrid Region Law 10/93.
- Waste: the Company has built two special rooms to store waste prior to removal and disposal.

Environmental protection and improvement expenses amounted to 42 thousand euro in 2014 (53 thousand euro in 2013) 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 1 December 2014, Zeltia, the sole shareholder of Pharma Mar, S.A., announced that its Board of Directors had approved a strategy that envisages merging Zeltia, S.A. with Pharma Mar, S.A. This would be the first step in the strategy approved by the Board, after which the resulting company would apply for a listing in the US market.

On 26 February 2015, the Board of Directors of Zeltia, S.A. resolved to commence the legal paperwork for the merger process whereby Pharma Mar, S.A. would absorb Zeltia, S.A. If the process is completed, Pharma Mar, S.A. would acquire, by universal succession, the equity of Zeltia, S.A., which in turn would be extinguished, and each shareholder of Zeltia, S.A. would receive the proportionate number of shares of Pharma Mar, S.A. to which he/she is entitled, and an application would be filed to list the shares, as announced previously.

In the framework of the licensing contract for the development and marketing of Yondelis® signed by Pharma Mar, S.A. and Taiho Pharmaceutical Ltd. in March 2009, on 4 February 2015, Pharma Mar, S.A. collected from Taiho a payment of 200 million yen as a result of the presentation by Taiho to PMDA (the Japanese regulator) in January of the application for authorization to market Yondelis® (trabectedin) for the treatment of several subtypes of soft tissue sarcoma.

On 5 February 2015, the Company collected a fifth payment of 10 million dollars in the framework of the agreement with the Johnson & Johnson group for attainment of milestones in the Yondelis® development plan.

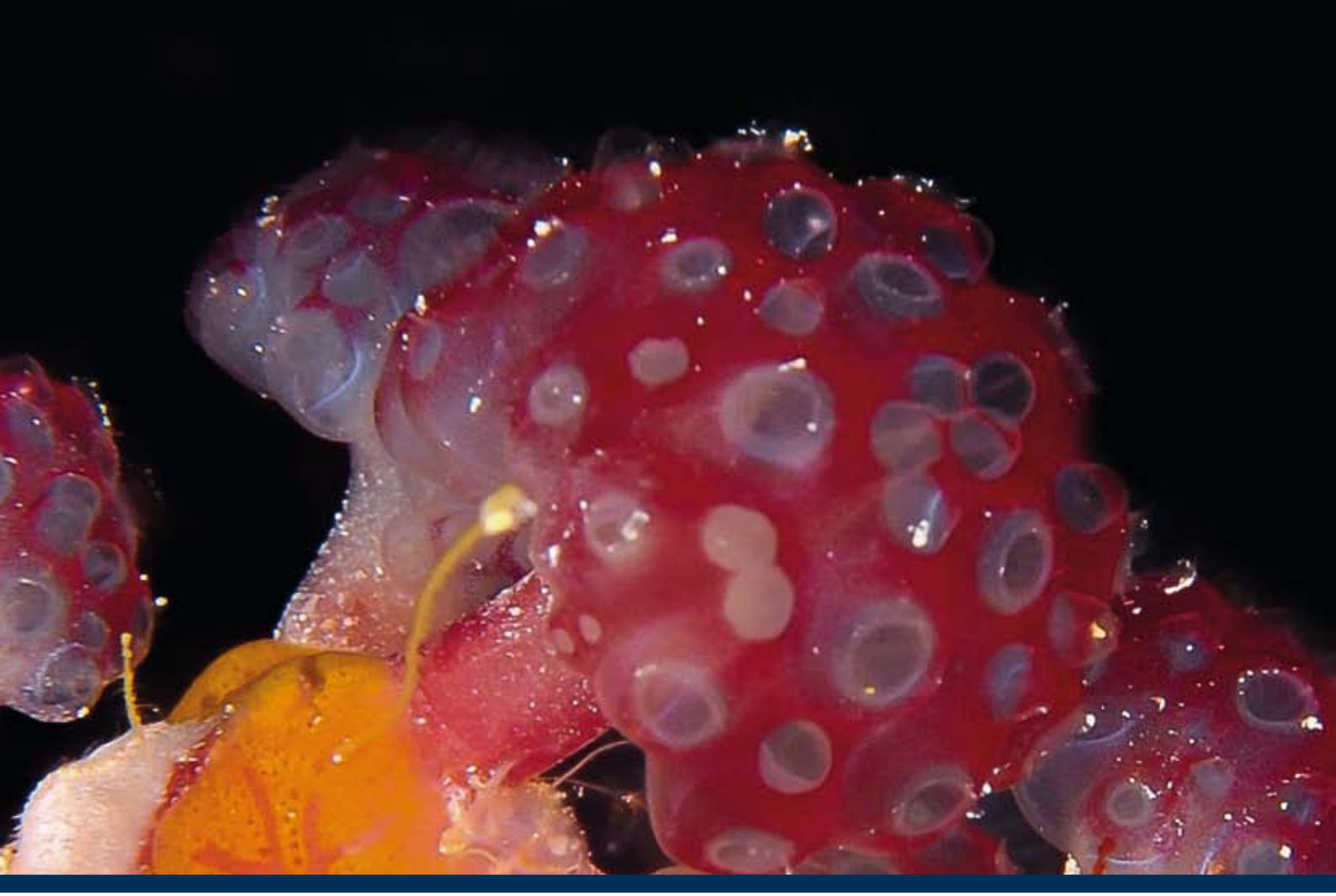
In February, the Company rolled over credit lines amounting to 2,000 thousand euro in total.

On 6 January 2015, the Spanish tax authorities notified the company of plans to commence a partial tax audit of consolidated corporate income tax for the years 2010 to 2012, which would be confined to examining revenues from certain intangible assets reported by PharmaMar. On 20 January 2015, the company applied to the tax authorities for the partial tax audit to be converted into a general tax audit. On the date that these financial statements were authorised, the tax audit is at a very early stage and it is impossible to make any estimate of the outcome. However, the Company's Directors do not believe that the inspection will lead to additional liabilities or that the amount of assets recognised will decline significantly.

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

30. AUDITORS' FEES

In 2014, PricewaterhouseCoopers Auditores, S.L. accrued 55 thousand euro, excluding VAT (55 thousand euro in 2013, excluding VAT), in auditors' fees and 13.5 thousand euro for additional work (8 thousand euro in 2013); 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.



5. Directors' Report

Directors' Report 2014

Pharma Mar, S.A. Sociedad Unipersonal

Directors' report

In 2014, PharmaMar continued to grow and strengthen its position, in both the pharmaceutical space and in the research and development of marine-based cancer products.

Once again, PharmaMar was the Spanish company with the greatest R&D and innovation spending, to which it allocates more than 45% of gross revenues, 7% more than in 2013.

PharmaMar also remains a leader in developing marine-based anti-tumour compounds as it continues active clinical development of its compounds: Yondelis®, Aplidin®, PM01183 and PM060184.

In the pharmaceutical space, gross sales of Yondelis® increased by 8% year-on-year in 2014, despite the adverse economic environment.

In December 2014, the Board of Directors of Zeltia, S.A. announced a strategy through which, in an initial stage, Zeltia would merge with PharmaMar, the company through which it implements its main business strategy, followed by a second phase in which the resulting company would be listed on the US market.

On 26 February 2015, the Board of Directors of Zeltia, S.A. resolved to commence the legal process to merge Zeltia, S.A. into Pharma Mar, S.A. If that process is completed, Pharma Mar, S.A. will acquire Zeltia, S.A.'s equity by universal succession; the latter will cease to exist and each of its shareholders will receive the proportionate number of shares of Pharma Mar, S.A. to which they are entitled at the time of the merger; and those shares will be listed.

SALES AND MARKETING

Yondelis® is currently approved in 77 countries for soft tissue sarcoma and in 70 countries for platin-sensitive ovarian cancer in combination with PLD; 31 of those countries are in the European Economic Area (EEA).

Sales of Yondelis® provided PharmaMar with 93.3 million euro in gross revenues in 2014, i.e. an increase of more than 8% with respect to 2013.

In previous years, PharmaMar expanded its international footprint by opening subsidiaries in Italy and Germany. As part of its ongoing internationalisation, on 15 December 2014, PharmaMar opened an office in Paris via its subsidiary PharmaMar, Sarl, with a team of 13 people.

On 1 July, Pharma Mar, Srl, the company's Italian subsidiary, signed a licensing agreement with Spanish company GP Pharm, S.A. for the distribution in Italy of Politrate®, which is approved for prostate cancer in 23 European Union countries.

That same month, PharmaMar signed a licensing agreement with Chugai Pharma Marketing Ltd., a wholly-owned subsidiary of Chugai Pharmaceuticals Co. Ltd., to market Aplidin® to treat multiple myeloma in eight European countries: France, Germany, the UK, Benelux, Ireland and Austria. After signing this agreement, PharmaMar received an initial payment of 5 million euro and, if specific milestones are achieved in compound development and other regulatory and commercial objectives are attained, it could receive additional payments totalling more than 30 million euro.

Agreements of this type further the company's in-licensing and out-licensing strategy.

The company continued to receive royalties from Johnson & Johnson for sales outside Europe, which amounted to 1,872 thousand euro in 2014. This amount will increase considerably in 2015, once Yondelis® receives authorisation in the US for soft tissue sarcoma, as Johnson & Johnson presented the application for marketing authorisation to the FDA in November and it was granted Priority Review status in February 2015.

Additionally, our partner Taiho Pharmaceutical Co. Ltd., which is responsible for developing Yondelis® in Japan, filed an application to market Yondelis® for soft tissue sarcoma in Japan in January 2015. That application, too, has been granted Priority Review status.

In January 2014, the company received the fourth 25 million dollar milestone payment under the agreement with Janssen Products LP, our partner in the US, with which a new plan of action was agreed to strengthen the development of Yondelis® there. Under this agreement, PharmaMar collected 100 million dollars in the last four years and another 10 million dollars in February 2015.

PIPELINE OF PRODUCTS UNDERGOING CLINICAL DEVELOPMENT

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

- **YONDELIS®**

Soft-tissue sarcoma

Recruitment continued in 2014 for the Phase II trial at Japan's National Cancer Centre, sponsored by our partner Taiho Pharmaceutical Co. Ltd., with a view to allowing access to Yondelis® on a compassionate use basis.

Observational and post-authorisation trials with Yondelis® in collaboration with various European cooperative groups advanced as expected in 2014. Recruitment for three trials concluded, and six new trials in this indication commenced in the year.

Ovarian cancer

Enrolment continued on schedule for the pivotal clinical trial in ovarian cancer in the US, sponsored by Janssen. This trial will lay the foundation for registration in the US and other countries where Yondelis® does not yet have approval.

With respect to the observational and post-authorisation trials with Yondelis®, recruitment for five clinical trials continued to advance very satisfactorily.

Other indications

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

- **APLIDIN®**

Recruitment proceeded apace for the pivotal trial with Aplidin® in combination with dexametasone in multiple myeloma, adding 100 more patients in 2014. Recruitment is expected to conclude in 1Q 2015 and, if the trial results are positive, this will be followed by final analysis of the data and presentation of the registration dossier.

Recruitment commenced in June for a combination trial with Aplidin® and bortezomib in patients with multiple myeloma with a view to determining the recommended dose and allowing for Aplidin® to be used in earlier stages of the illness.

The mass balance trial, which is essential for obtaining information on the metabolism and elimination of Aplidin® for the registration dossier, will begin in the first quarter of 2015 after all of the complex components of this type of trial had been prepared in 2014.

These three trials are part of the clinical development process, which aims to obtain the necessary information to support the use of Aplidin® in various phases of treatment of multiple myeloma.

- PM01183

Monitoring of survival data from the Phase II trial in **resistant/refractory ovarian cancer** concluded in 2014. Following the excellent results obtained, which were presented orally at the annual meeting of the American Society of Clinical Oncology (ASCO), held from 30 May to 3 June in Chicago, a pivotal Phase III trial will commence in this indication in the first half of 2015. This trial will evaluate PM01183 as monotherapy vs. a control arm with topotecan or liposomal doxorubicin.

The interim analysis for the Phase II clinical trial in patients with **advanced breast cancer** selected on the basis of the presence of mutations, known or otherwise, of the BRCA 1 or 2 genes (hereditary cancer), concluded in 2014. Recruitment will continue until 53 patients are included in the branch of patients with mutations of the BRCA 1 or 2 genes, as established in the protocol, and the registration strategy is being prepared in this indication. The data from this trial were presented at the Breast Cancer Symposium, held in December in San Antonio (Texas).

Recruitment is continuing on schedule for the Phase II randomised trial in patients with non-small cell **lung cancer**. This trial commenced after good efficacy results were obtained in the Phase I trial in combination with gemcitabine. In 2015, PharmaMar is planning an international registration trial in small-cell lung cancer, following the excellent results obtained in the Phase I trial in combination with doxorubicin, where patients with SCLC undergoing second-line treatment obtained a tumour response rate of 70%, including 10% complete tumour responses.

As regards the **Phase I combination** trials, recruitment continues for the combinations with doxorubicin, capecitabine, paclitaxel and cisplatin.

- PM060184

The clinical trial conducted in the US and Spain found the optimal dose for future Phase II trials. Recruitment continues for another trial, in France and Spain, with a view to confirming the recommended dose and evaluating the drug's activity in various indications.

A Phase I trial with PM060184 combined with gemcitabine has commenced at two centres, in Spain and the United States. This trial stems from the excellent results obtained with the combination in preclinical trials.

OTHER SIGNIFICANT EVENTS

As in previous years, PharmaMar was rated "Excellent" by PROFARMA, the Spanish government programme to promote competitiveness in the pharmaceutical industry.

We built a fermentation plant at our facilities in Colmenar Viejo with a view to achieving greater flexibility and security in the supply of our drugs.

- SEARCH FOR NEW MARINE SAMPLES

The search for new marine samples was particularly intense in 2014. PharmaMar added more than 10,000 new samples to its collection of micro- and macro-organisms, which now holds over 159,000, assuring its world-leading position in the discovery and development of new drugs of marine origin.

- PATENT PORTFOLIO

By the end of 2014, the company had 1,346 patent applications on file, 1,197 of which had been granted and 149 were pending. They represent a total of 47 families of patents, each protecting a specific invention.

- FINANCIAL INFORMATION

A total of 42 million euro of R&D expenses were capitalised in 2014, 22% more than in 2013. Income after tax amounted to 12,527 thousand euro in 2014.

In 2014, PharmaMar acquired 16,252 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.

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 the Zeltia group and those approved by the Board of Directors. The Zeltia group establishes written guidelines for overall risk management and for specific areas such as exchange rate risk, interest rate risk, liquidity risk, 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 negligible given the small size of those investments.

Transactions in currencies other than the euro, primarily US dollars, Swiss francs and pounds sterling, amounted to 28,510 thousand euro in 2014; the largest transaction in the year was the receipt 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. Each simulation assumes the same change in interest rates in all currencies. The scenarios are applied only to the largest interest-bearing liability positions.

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 they 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.

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

Pharma Mar