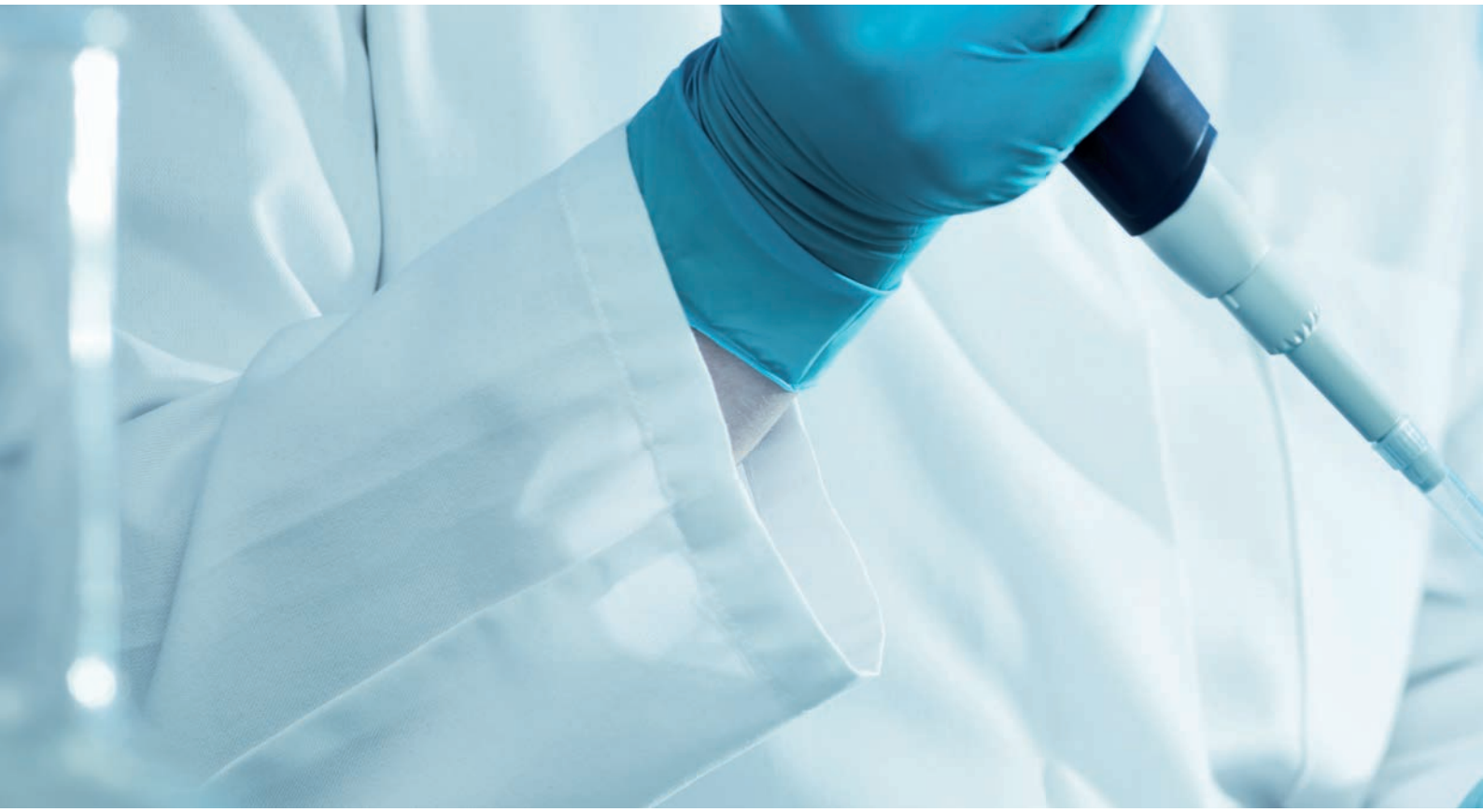
Pharma Mar

ANNUAL REPORT

2015



CONTENTS


Pharma
Mar

CONTENTS

BOARD
OF DIRECTORS


Pharma
Mar

BOARD OF DIRECTORS

	COMMITTEES		
	EXECUTIVE	AUDIT	REMUNERATION AND APPOINTMENTS
Mr. JOSÉ Mª FERNÁNDEZ SOUSA-FARO Chairman	**		
Mr. PEDRO FERNÁNDEZ PUENTES Vice-Chairman	*		
JEFPO, S.L. (represented by Mr. JOSE FÉLIX PÉREZ-ORIVE CARCELLER) Director	*	*	
ROSP CORUNNA PARTICIPACIONES EMPRESARIALES, S.L. (represented by Mr. JOSÉ LEYTE VERDEJO) Director		*	
EDUARDO SERRA Y ASOCIADOS, S.L. (represented by Mr. EDUARDO SERRA REXACH) Director			**
Mr. JAIME ZURITA SÁENZ DE NAVARRETE Director			*
Mr. CARLOS SOLCHAGA CATALÁN Director		**	
Ms. MONTSERRAT ANDRADE DETRELL Director			*
Ms. ANA PALACIO VALLELERSUNDI Director		*	*

** Chairman of the Committee

* Member of the Committee

CONSOLIDATED INFORMATION & **MILESTONES** IN THE **PERIOD**


Pharma
Mar

CONSOLIDATED INFORMATION

(thousand euro)	2012	2013	2014	2015
TOTAL REVENUES	158.6	161.9	174.8	193.8
EBITDA	2.4	23.8	25.7	19.3
NET ATTRIBUTABLE INCOME	6.6	11.3	13.1	6.6
GROSS R&D EXPENDITURE	40.4	42.7	52.5	63.5
AV. WORKFORCE	640	628	665	700

MILESTONES IN 2015

Corporate

- Group revenues amounted to 193.8 million euro, up 10.5% from 174.8 million euro in 2014.
- Group net sales amounted to 162 million euro (+9.5%).
- Of that figure, 88.4 million euro (+15%) were from Yondelis® (80.7 million euro in commercial sales plus 7.7 million euro from the sale of raw materials to licensees).
- Sales by the Consumer Chemicals segment increased by 2.7% to 67.3 million euro.
- Group EBITDA amounted to 19.4 million euro (25.7 million euro in 2014).This difference in EBITDA is attributable to higher R&D spending, mainly on pivotal (registration) clinical trials being conducted by the Group, which resulted in an 11 million euro increase in R&D expenditure with respect to 2014.
- The reverse merger of Zeltia into PharmaMar was entered in the companies register on 30 October. PharmaMar's shares have been listed on the four Spanish stock exchanges since 2 November.
- The non-convertible bonds issued by the Company in the amount of 17 million euro were subscribed and paid for on 7 July, and they were listed on the Mercado Alternativo de Renta Fija (“MARF”) on 8 July 2015.

Business

Oncology

- Janssen Biotech Inc. received approval from the US Food and Drug Administration (FDA) to commercialise Yondelis® (trabectedin) for treating patients with liposarcoma (LPS) or leiomyosarcoma (LMS), the two most common forms of soft tissue sarcoma. This is the first treatment approved specifically for LPS in the US.

- Taiho Pharmaceutical received authorisation from Japan's Ministry of Health, Labour and Welfare to commercialise Yondelis® in Japan for the treatment of soft tissue sarcoma.

- PharmaMar signed a licensing and commercialisation agreement for Aplidin® with TTY Biopharm in the oncology field.

- PharmaMar signed a licensing and commercialisation agreement for Aplidin® with Therapeutics Australia Pty, Ltd in the oncology field.

- Patient recruitment concluded for the pivotal Phase III trial with Aplidin® in multiple myeloma. The results of the trial are currently being analysed.

- Recruitment commenced for the CORAIL pivotal Phase III trial with PM1183 in patients with platinum-resistant ovarian cancer. If the trial's endpoints are attained, it will serve as the basis for an application to register PM1183 for this therapeutic use.

- A multicentre, international open exploratory Phase II Basket trial (NCT02454972) has begun in order to assess the efficacy and safety of development anti-tumour drug PM1183 (lurbinectedin) in patients with various tumour types at an advanced stage.

- The first patient was enrolled for a Phase II trial with trabectedin in meningioma, a type of brain cancer, which is being conducted in conjunction with the European Organisation for Research and Treatment of Cancer (EORTC).

Diagnostics

- Launch of a kit for detecting melanoma biomarkers.
- Genómica is to participate in a programme in Turkey for early detection of cervical cancer using Human Papilloma Virus (HPV) genotyping; this will be the largest HPV screening programme in the world.
- Brazil authorised the sale and commercialisation of the CLART® kit for STIs (sexually transmitted infections).
- Exports increased by 32%, while domestic diagnostic sales increased by 16% with respect to 2014.

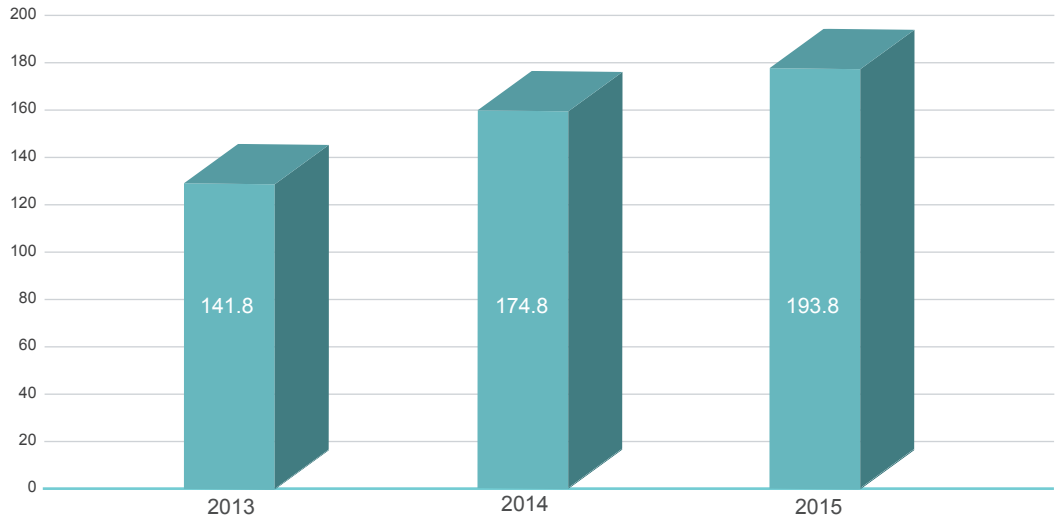
RNAi

- The results of the Phase IIb dose-seeking trial with Bamosiran were presented
- Recruitment concluded for the Phase II trial with this compound, for treating eye discomfort associated with dry eye syndrome

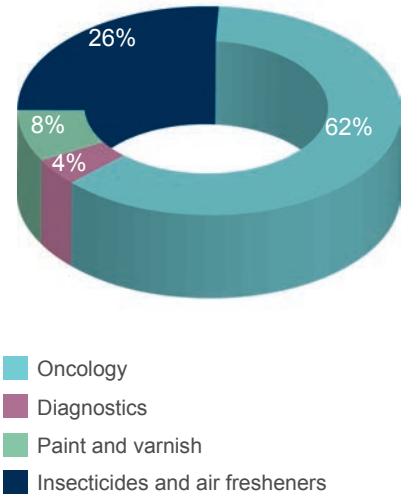
Chemicals

- Sales in this segment increased by 2.7%.

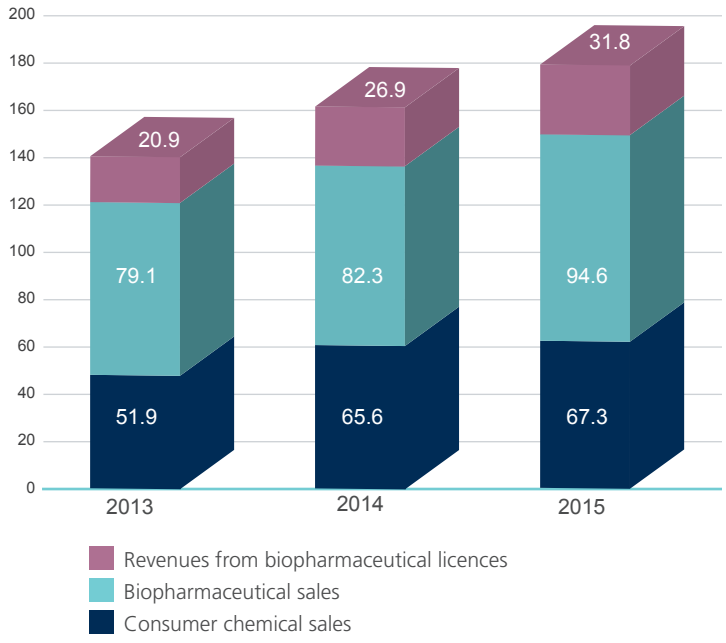
Total Group revenues



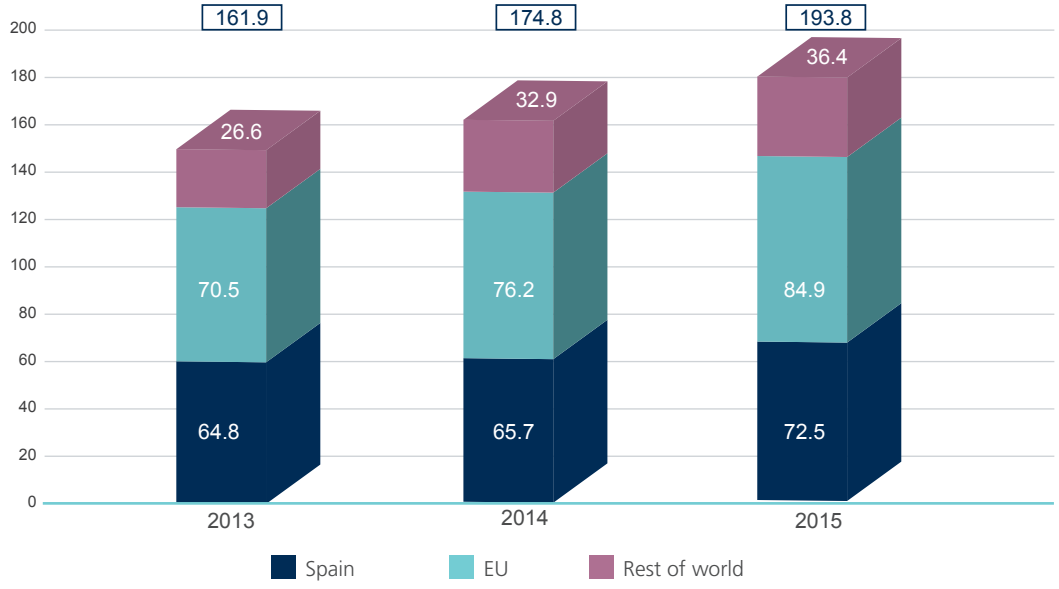
Contribution to total revenues by business in 2015



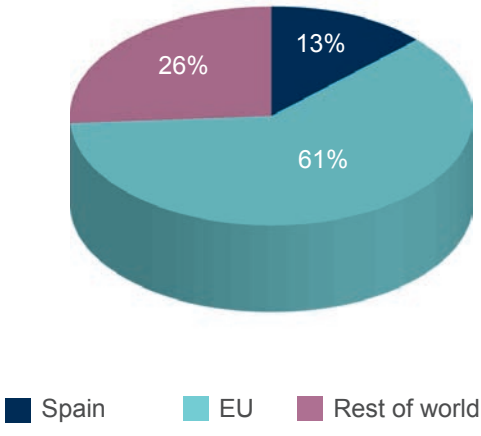
Breakdown of revenues by category



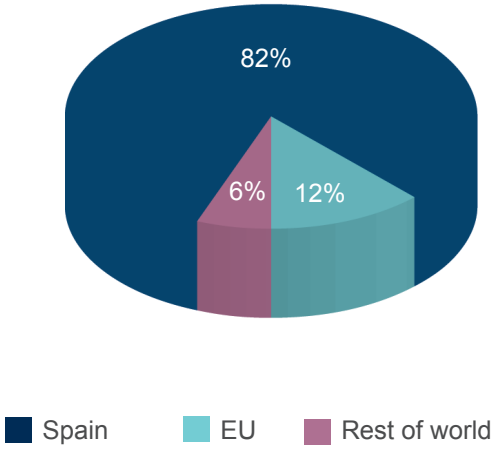
Revenues by territory



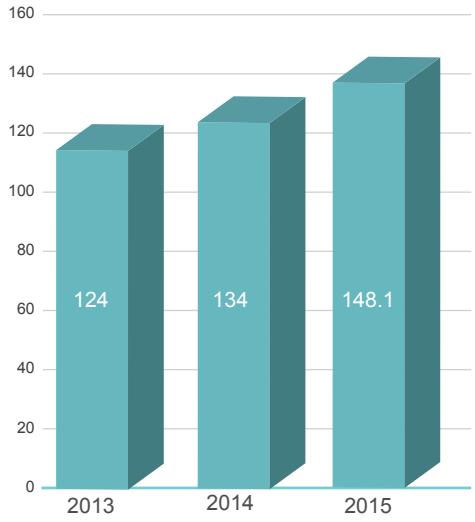
Biopharmaceuticals



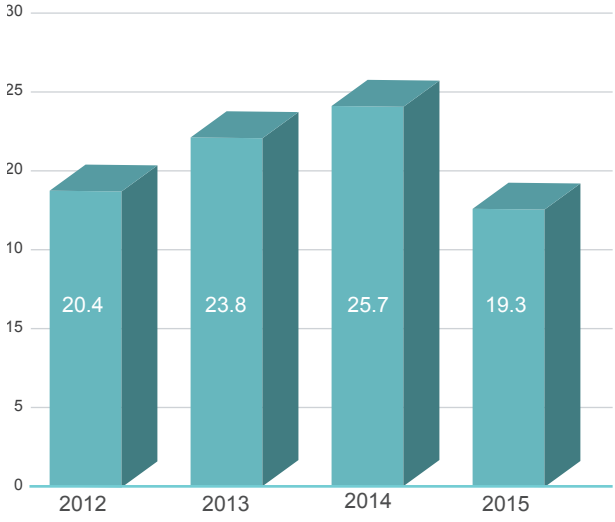
Consumer chemicals



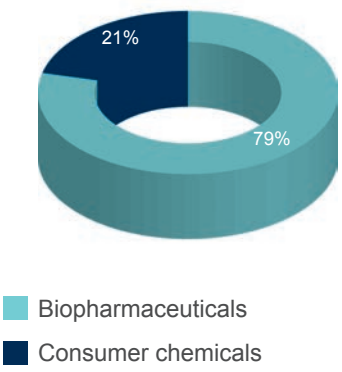
Group gross margin



Consolidated EBITDA

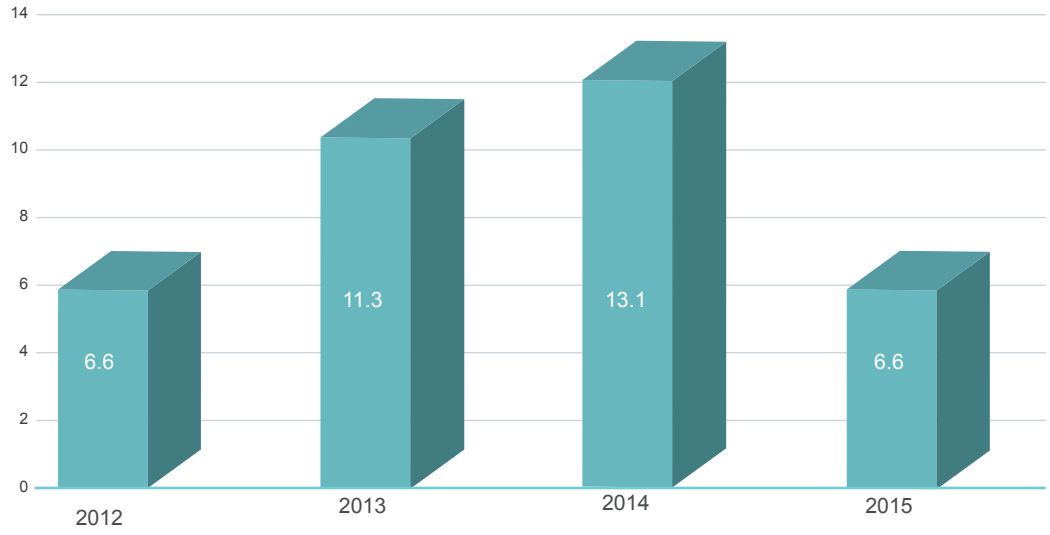


Contribution to gross income by business, 2015

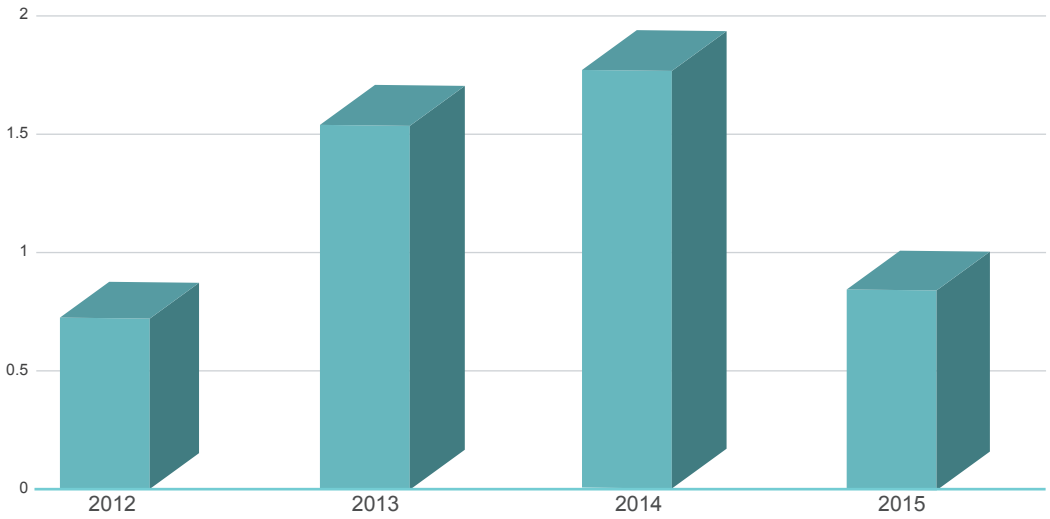


EBITDA by business segment	2012	2013	2014	2015
Biopharmaceuticals	22.8	26.2	28.9	14.4
Consumer chemicals	4.9	3.8	5.8	5.1
Unallocated	(7.3)	(6.2)	(9.0)	(0.2)
TOTAL	**20.4**	**23.8**	**25.7**	**19.3**

Net income attributable to the parent company



Group net monthly operating cash flow



PIPELINES


Pharma
Mar

CLINICAL DEVELOPMENT

ONCOLOGY INDICATION	PHASE I	PHASE II	PHASE III	REGULATORY	MARKET
Yondelis® Trabectedin					
Relapsed ovarian cancer (platinum-sensitive)					
Soft tissue sarcoma (STS) 2nd/3rd line					
Soft tissue sarcoma (STS) 2nd/3rd line. United States					
Relapsed ovarian cancer. United States					
Soft tissue sarcoma (STS) 2nd/3rd line. Japan					
Mesothelioma. European Union/Others					
Aplidin® Plitidepsin					
Multiple Myeloma					
T cell lymphoma					
Multiple myeloma, in comb. with Bortezomib					
PM1183					
Ovarian cancer (platinum-resistant)					
Small-cell lung cancer (SCLC)					
Breast cancer associated with BRCA 1/2					
Combination trials					
PM184					
Breast cancer					
Solid tumours					

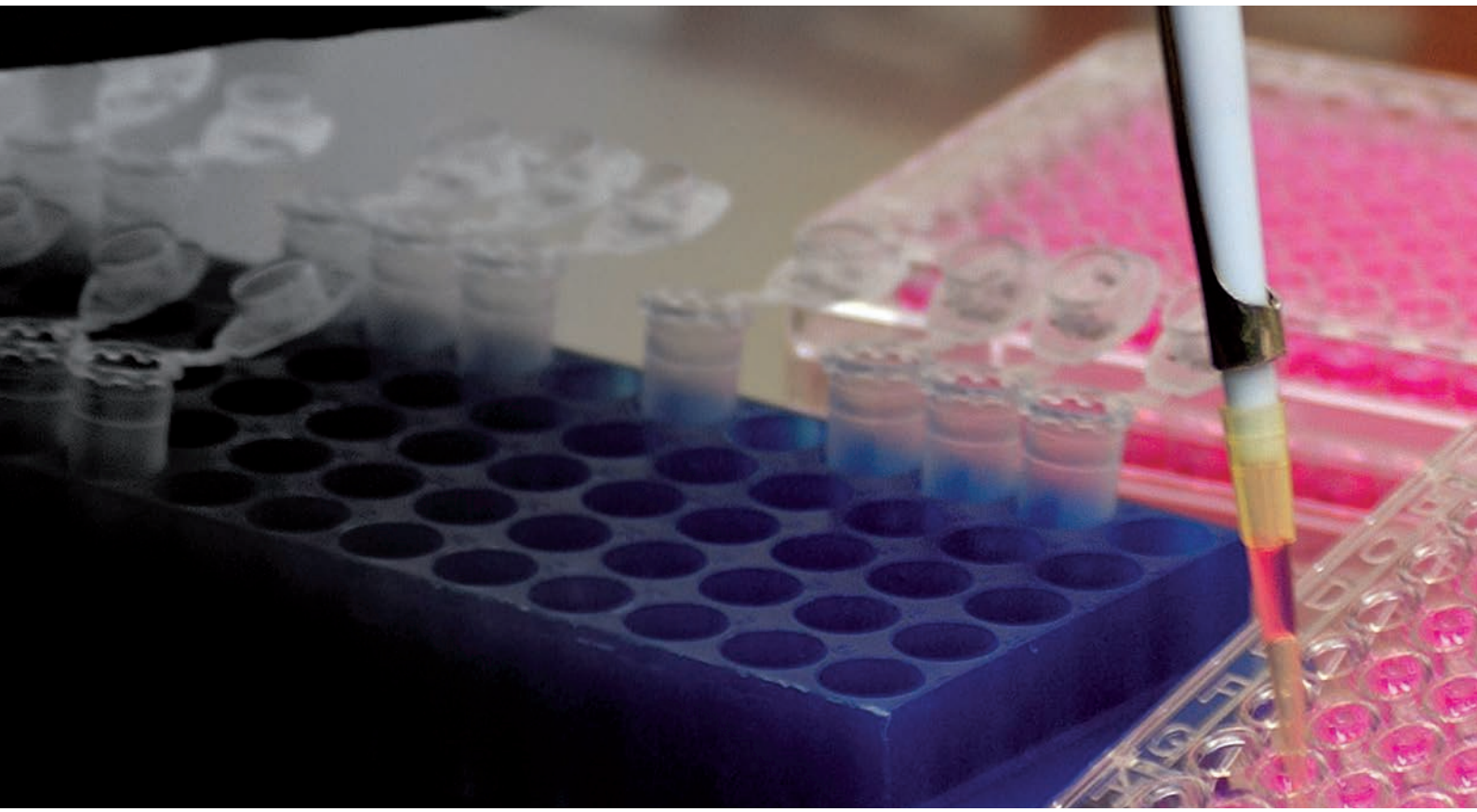
GENOMICA

DIAGNOSTICS	KIT FOR GENETIC DIAGNOSTICS and DNA analysis	DEVELOPMENT	MARKET
CLART® HPV2	Kit for detection and genotyping of 35 subtypes of human papillomavirus (HPV), both high and low risk.		
CLART® CMA KRAS•BRAF•PI3K	Kit for detection of somatic mutations in genes involved in the response to anti-tumour therapy with monoclonal antibodies.		
CLART® PneumoVir	Kit for detection and simultaneous differentiation of viruses causing respiratory diseases.		
PneumoCLART® bacteria	Kit for detection and differentiation of bacteria causing respiratory infections.		
CLART® STIs A&B	Kit for detection and identification of bacteria, fungi and parasites causing urinary tract infections in humans.		
CLART® ENTHERPEX	Kit for detection and identification of human herpes viruses and enteroviruses.		
CLART® SeptiBac	Kit for detection and differentiation of Gram-positive and Gram-negative bacteria, yeast and fungi most prevalent in patients with sepsis.		
CLART® EnteroBac	Kit for detection and differentiation of the main bacteria which cause infectious diarrhoea.		
AutoCLART®	Platform for automatic processing of the CLART® technology.		
AutoCLART® PLUS	Platform for automatic processing and reading of arrays (CLART) for diagnosis.		
CLART® HPV4 & HPV4s	Detection and genotyping of subtypes of human papillomavirus (HPV), both high and low risk, without DNA extraction.		
CLART® CMA EGFR	Kit for detection of somatic mutations in genes involved in the response to therapy in non-small cell lung cancer.		
CLART® CMA BRAF·MEK1·AKT1	Kit for detection of somatic mutations in genes involved in the response to therapy in melanoma.		
CLART® CMA ALK·ROS1	Kit for detection of somatic mutations in genes that determine the response to therapy in non-small cell lung cancer.		

sylentis

DEVELOPMENT

RNAi		RESEARCH	PRECLINICAL	PHASE I	PHASE II	PHASE III	REGISTRATION
Ophthalmology							
Glaucoma	Bamosiran						
Eye discomfort/Dry eye	SYL1001						
Eye allergies	SYL116011						
Retina	Product A						



LETTER
FROM THE CHAIRMAN

Fellow shareholder,

A year has passed and I am pleased to report not only that our company attained significant milestones in 2015 but also that the PharmaMar Group is at a superb point in its history. I would also like to share the excitement that I feel at the changes that the company is experiencing and the future prospects for our projects, which, I am confident, will be successful and translate into growth.

The year 2015 was a historic one for the company. It saw the culmination of the Zeltia-PharmaMar merger. This was a major step forward in our strategy of focusing on oncology and it enables our shareholders to invest directly in the largest listed oncology company in the Spanish market. We also achieved a long-held aspiration: FDA approval to commercialise Yondelis® in the US for treating soft tissue sarcoma. This represents an important addition to the therapeutic options for US patients and opens the doors of the world's largest oncology market to Yondelis®. Yondelis® also obtained approval for commercialisation in Japan to treat soft tissue sarcoma. It is the first oncology drug developed by a Spanish company to achieve this.

It was also a very good year for research. We concluded the Phase III registration trial with Aplidin® for treating multiple myeloma, in which the primary endpoint was finally achieved. That will enable us to present a registration dossier to seek approval to commercialise the drug in Europe and other territories.

We also commenced a Phase III registration trial with PM1183 for treating platinum-resistant ovarian cancer. If the magnificent results achieved with PM1183 in Phase IIb are confirmed in this indication, that will enable us to present another registration application once the trial concludes. With that same compound, we are about to commence another pivotal Phase III trial in small-cell lung cancer (SCLC). This is particularly interesting because of the serious lack of therapeutical options for this disease, which has a high level of incidence. Following the positive results achieved in Phases I and II in this indication, this registration trial is due to commence in the next few weeks. We are also awaiting the outcome of the Phase II trial with PM1183 in breast cancer with BRCA 1/2 mutations, which might also lead to a registration trial.

As for the PharmaMar group's finances, 2015 saw record total revenues, €194 million, 9% more than the previous year. Yondelis® accounted for over €100 million in sales.

The superb results being achieved in our research projects are attributable to our people and to our commitment to spending on R&D and innovation (RDI). We have been steadily increasing expenditure in this area for years. The advanced status of our product pipeline and the fact that we have several Phase III trials under way or about to commence means that we must continue to spend heavily on RDI. We are aware of the impact on our bottom line, but this is an investment today to achieve the future growth that we expect for the PharmaMar group. Aware of the upcoming RDI spending needs, in 2015 we restructured close to €30 million of short-term debt. That transaction released funds that can be invested in our projects and enables us to move forward with a robust financial position.

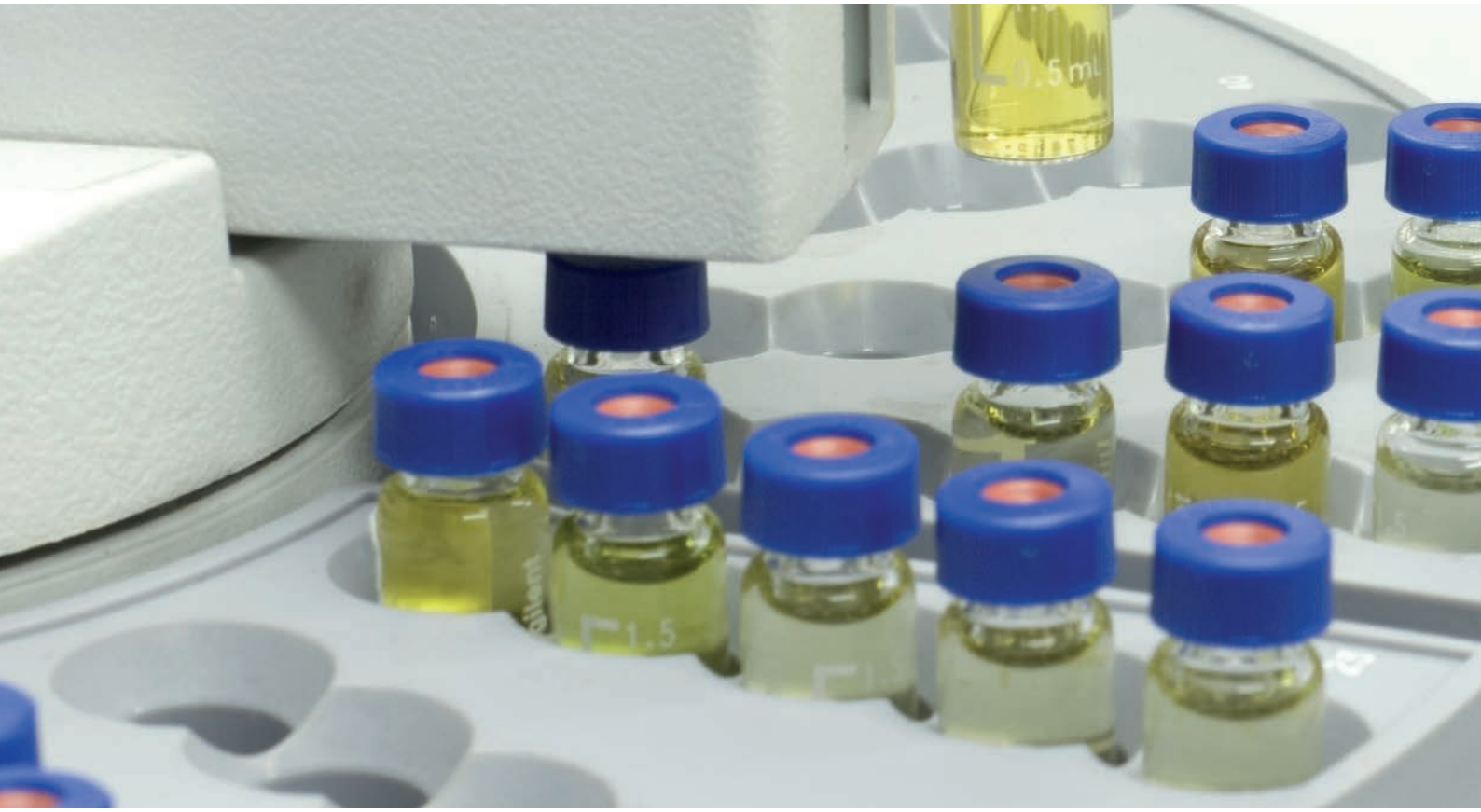
This is one of the best times in the company's history, as was partly recognised by the market up to shortly after the summer, when our share reached a five-year high. Nevertheless, macroeconomic uncertainties, the lack of liquidity in the markets, and the volatility created by factors outside the company's control resulted in a sharp correction unrelated to the PharmaMar Group's fundamentals, with the result that the market failed to reflect its true value. We will continue working with the same enthusiasm and zeal to achieve our goals and we are convinced that this will eventually be fairly reflected in the share price.

As Chairman of the Board of Directors, I would like to thank all the employees of the PharmaMar Group, whose talent and commitment enable us to achieve our objectives.

To conclude, on behalf of the Board of Directors and of our employees, and on my own behalf, I would like to thank you, our shareholders, for the trust you place in the PharmaMar Group. Together we are travelling along a road that we know will not be easy, but on which we expect to achieve great success through our combined efforts.

Very truly yours,

José María Fernández Sousa-Faro
Chairman


1.5

DIRECTORS' **REPORT**


Pharma
Mar

1. COMPANY SITUATION

1.1 Organizational structure

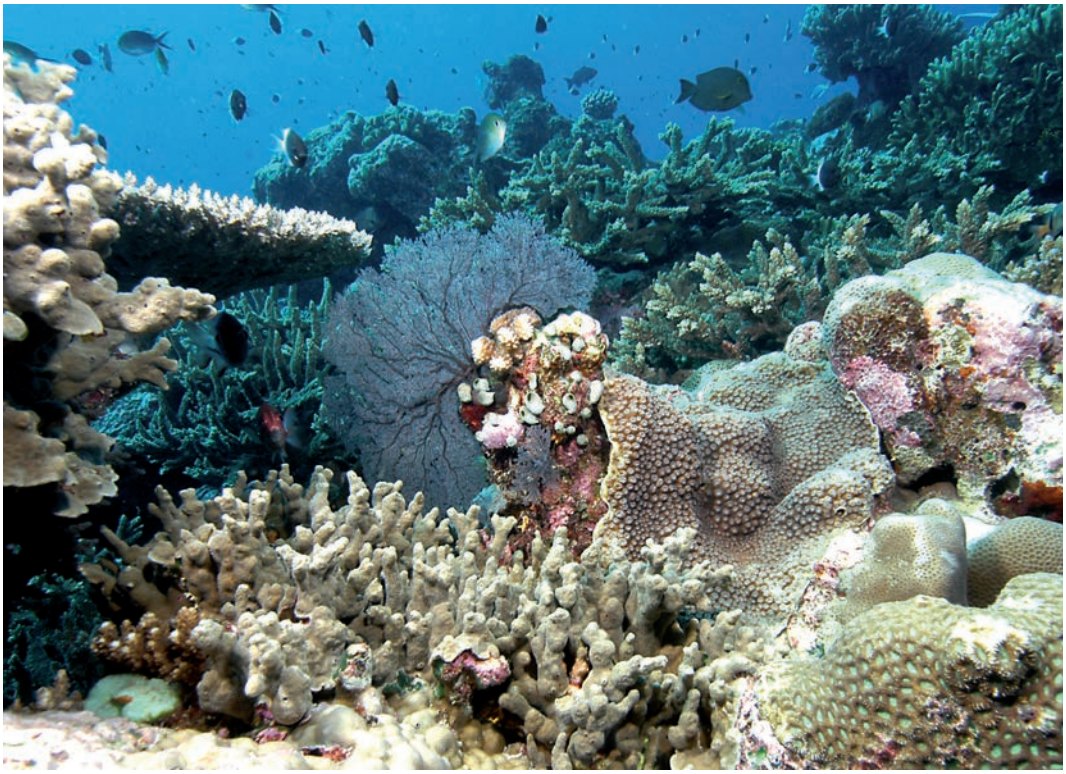
Pharma Mar, S.A. (the Company) is the holding company of a group of companies (PharmaMar Group or the Group) which operates in two segments: biopharmaceuticals and consumer chemicals.

PharmaMar became the parent company of the Group in 2015 through a reverse merger of Zeltia (absorbed company) into PharmaMar (acquiring company) that is described below:

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

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

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



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

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

As a result of that merger, the entire net worth of Zeltia, with its rights and obligations, was transferred en bloc to the acquiring company, PharmaMar.

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

1.2 Operations: Business model, strategy

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

The oncology activity is carried on by the Company. Its business model focuses on discovering new marine-based antitumour molecules and developing them in

preclinical and clinical trials with a view to producing new drugs with therapeutic advantages for oncology patients. The Group's strategy also includes the search for strategic alliances with partners, preferably industrial, to collaborate not only financially, but also on advancing the compounds through the various research phases and in subsequent marketing.

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

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

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

Most of the Group's R&D and innovation spending is focused on oncology, the Group's main strategic business. Oncology has become the main contributor to EBITDA and the area of greatest growth, and the company maintains a firm commitment to R&D to bring new drugs to market.

2. BUSINESS PERFORMANCE AND RESULTS

	31/12/2015	31/12/2014	Δ%
Net revenue			
Sales			
Biopharmaceuticals	94,644	82,259	*15%*
Consumer chemicals	67,348	65,583	*3%*
Licensing and co-development agreements			
Biopharmaceuticals	30,822	26,150	*18%*
Unallocated	1,003	810	*24%*
Group total	**193,817**	**174,802**	***11%***
Cost of sales	45,705	40,765	*12%*
Gross margin	**148,112**	**134,037**	***11%***
Gross margin %	72.0%	72.6%	
EBITDA			
Biopharmaceuticals	14,411	28,907	
Consumer chemicals	5,128	5,778	
Unallocated	(197)	(8,985)	
Group total	**19,342**	**25,700**	**(25%)**
R&D			
Oncology	55,610	45,346	*23%*
Other business	7,939	7,110	*12%*
(Capitalised and R&D)	3,258	5,979	*(46%)*
Group total	**60,291**	**46,477**	**30%**
Marketing and commercial expenses			
Biopharmaceuticals	29,000	23,110	*25%*
Consumer chemicals	19,592	18,052	*9%*
Unallocated	22	11	
Group total	**48,614**	**41,173**	**18%**
Income for the year attributable to equity-holders of the parent company	**6,588**	**13,115**	**(50%)**

2.1 Net sales

Net sales comprise net revenues in the various business segments and revenues in the biopharmaceutical area under licensing agreements for products or compounds under development, plus royalties under the same heading.

Group net revenues totalled 193.8 million euro in 2015, 11% more than in 2014 (174.8 million euro).

Net sales in the Biopharmaceutical business amounted to 94.6 million euro, a 15% increase with respect to 2014 (82.3 million euro). That figure breaks down as follows: 88.4 million euro at PharmaMar, including commercial sales of Yondelis® (80.7 million euro, +7.6%) and the sale to Janssen of raw materials for Yondelis® (7.7 million euro). Commercial sales of Yondelis® amounted to 74.9 million euro in 2014.

Net sales by the Consumer Chemicals subsidiaries totalled 67.3 million euro (65.6 million euro in 2014), a 2.7% increase year-on-year.

Revenues under licensing agreements amounted to 29.1 million euro in 2015, 20% higher than in 2014 (24.3 million euro).

Royalties on sales by our licensees amounted to 1.7 million euro (1.9 in 2014).

Breakdown of licensing revenues

Licensing revenues in the biopharmaceutical segment amounted to 29.1 million euro in 2015, broken down as follows:

Group net revenues totalled 193.8 million euro in 2015, 11% more than in 2014

- 8.764 million euro from Janssen for attaining certain milestones in the Yondelis® development plan, under the agreement signed in 2011 (18.265 million euro in 2014).
- 9.453 million euro from Janssen as a result of achieving approval to commercialize Yondelis® in the US for soft tissue sarcoma, under the licence agreement signed in 2001.
- 1.486 million euro from Taiho Pharmaceutical Ltd for presentation of the dossier on Yondelis® to the Japanese regulatory authorities to seek approval for use in treating soft tissue sarcoma.
- 4.447 million euro from Taiho upon obtaining the approval referred to in the previous paragraph.
- 4.484 million euro from Janssen for approval of Yondelis® in Japan.
- 401 thousand euro under the agreements to licence Aplidin® in Australia, New Zealand and Taiwan.

Revenues from other countries

Out of total 2015 revenues, 63%, i.e. 121.3 million euro, came from sales and transactions in other countries (109.1 million euro in 2014).

2.2 Margins: Gross margin and EBITDA

The Group's gross margin was 72.0% of total revenues in 2015 (72.6% in 2014). (Cost of sales divided by total revenues plus unassigned services).

Group EBITDA in 2015 amounted to 19.3 million euro (25.7 million euro in 2014). The difference is due mainly to higher R&D spending (+29.7% year-on-year).

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

2.3 R&D expenditure

Expenditure on R&D is shown net of the amount capitalized in the year due to fulfilling the necessary conditions, as shown below:

	2015	2014
R&D expenses in the year	63,549	52,456
Capitalized R&D expenses	(3,258)	(5,979)
Net R&D expenses	**60,291**	**46,477**

R&D expenditure increased by 21% year-on-year. The Oncology area spent 55.6 million euro in 2015 (45.3 million euro in 2014), while the Diagnostics and RNA interference area spent 7.9 million euro (6.6 million euro in 2014). The R&D expenses capitalized in both years related to clinical trials with Yondelis®.

This increase in oncology R&D spending was due mainly to the development of PM1183, specifically the pivotal registration trial in platinum-resistant relapsed ovarian cancer, recruitment for which commenced in the second half of the year. A total of 112 centres in 13 countries in Europe and North America are participating. Additionally, Phase I and II trials are being conducted with PM1183 in several solid tumour types, as well as preclinical trials and chemical development trials to obtain as much information as possible about the compound.

2.4 Marketing and commercial expenses

Marketing and commercial expenses amounted to 48.6 million euro in 2015 (41.2 million euro in 2014). The biopharmaceutical segment accounted for 29 million euro (23.1 in 2014). This increase in the oncology segment is the result of promotional efforts for Yondelis® in the indications for which it is approved and of the provision of scientific and medical information about Yondelis® to healthcare professionals, together with setting up direct distribution. Commercial expenses in the chemical segment amounted to 19.6 million euro in 2015 (18 million euro in 2014).

R&D expenditure increased by 21% year-on-year

2.5 Income attributable to the parent company

Income attributable to the parent company amounted to 6.6 million euro, compared with 13.1 million euro in 2014. This difference is due mainly to a 13.8 million euro increase in R&D expenditure in 2015 with respect to 2014. Spending also increased on product promotion, conferences, medical affairs and opening of foreign subsidiaries to commercialize products, resulting in a 7.4 million euro increase in marketing and commercialization expenses which also impacted net profit; the two items together offset the 19 million euro increase in revenues with respect to 2014.

2.6 Other events that impacted the 2015 financial statements

Approvals/authorizations:

Janssen Biotech Inc. received approval from the US Food and Drug Administration (FDA) to commercialize Yondelis® (trabectedin) for treating patients with non-resectable or metastatic liposarcoma (LPS) or leiomyosarcoma (LMS)—both types of soft tissue sarcoma (STS)—who had received at least one round of treatment with anthracycline. LPS and LMS are the most common types of STS and this is the first treatment approved specifically for patients in the US with LPS. As a result, as provided in the 2001 license and co-development agreement, PharmaMar received 9.5 million euro (10 million dollars) as a result of reaching a milestone consisting of approval by the US regulator.

Taiho Pharmaceutical received authorization from Japan's Ministry of Health, Labour and Welfare to commercialize Yondelis® for the treatment of soft tissue sarcoma. This approval triggered two payments for PharmaMar: 4.5 million euro (600 million yen) from its Japanese partner and 4.4 million euro (5 million dollars) from Janssen Products.

Licensing agreements and strategic alliances:

In July, PharmaMar signed a licensing agreement with TTY Biopharm covering the commercialization of Aplidin® in Taiwan. Under the terms of the agreement, PharmaMar

will collect an upfront payment for signing the agreement, recurring payments for sales, and additional remuneration for sales and regulatory milestones attained by Aplidin®. PharmaMar will retain exclusive production rights and will supply the product to TTY Biopharm for sale in Taiwan.

In August, PharmaMar signed a licensing agreement with Specialised Therapeutics Australia Pty, Ltd for the commercialization of Aplidin® in Australia and New Zealand. Under the terms of the agreement, PharmaMar will collect an upfront payment for signing the agreement, recurring payments for sales, and additional remuneration for sales and regulatory milestones attained by Aplidin®. PharmaMar will retain exclusive production rights and will supply the product to Specialised Therapeutics Australia Pty, Ltd for sale in Australia and New Zealand.

The two companies in the consumer chemicals segment increased both revenues and exports. Zelnova Zeltia continued to expand to other countries; early in the year, it began selling its products in large retail chains in France under the stores' own brands. Xylazel moved strongly into the interior decoration niche, successfully distributing chalky finish paints for furniture.

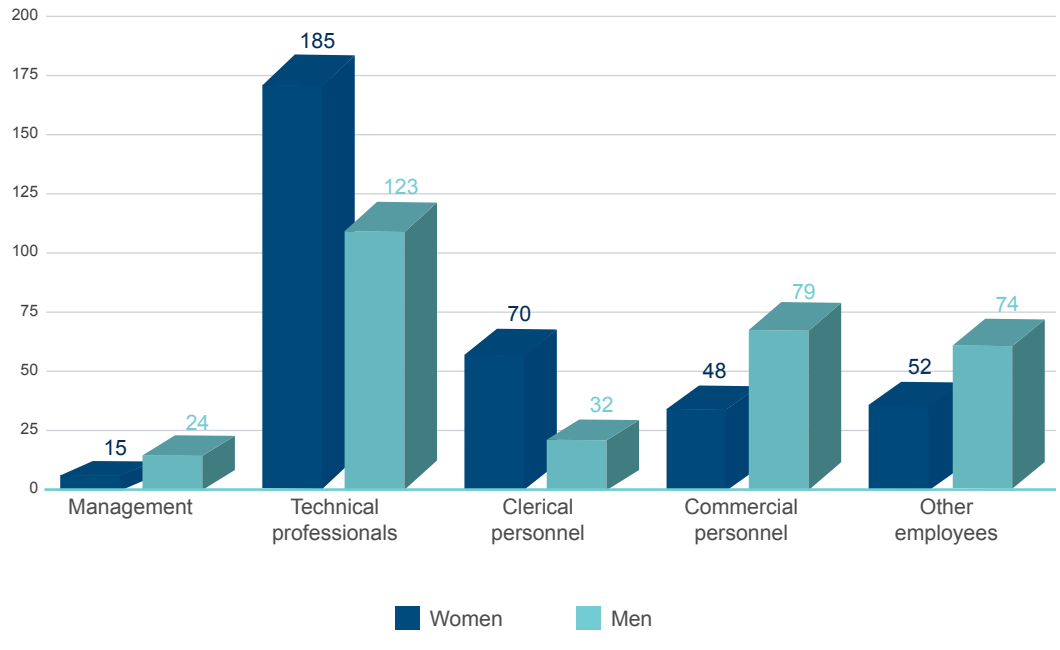
2.7 Personnel

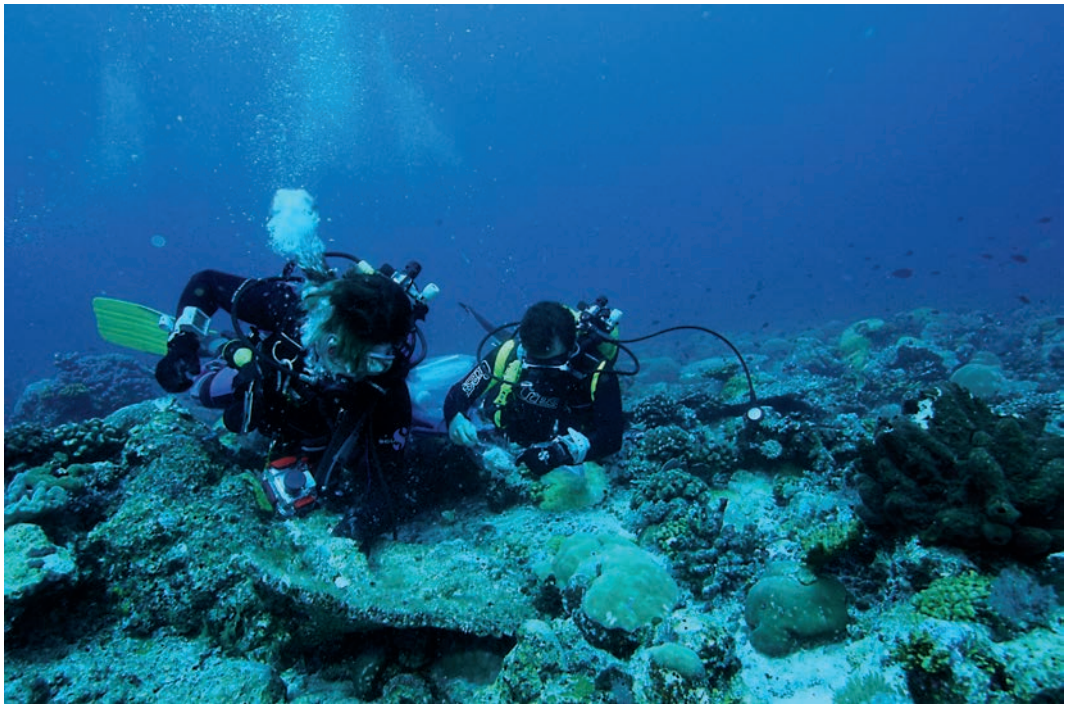
The Group had 700 employees at year-end (665 in 2014). There were 471 employees in the biopharmaceutical segment, 206 in consumer chemicals, and 23 unassigned to either segment.

Women account for 52.6% of the workforce.

The bar graph below illustrates segmentation by gender and category:

Segmentation by gender and category





2.8 Environmental issues

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

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

2.9 Average period taken to pay suppliers:

Information on payments for commercial transactions performed in 2015 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:

	2015 Days
Average period taken to pay suppliers:	50
Ratio of paid transactions	51
Ratio of outstanding transactions	43
Total payments made (thousand euro)	**81,621**
Total payments outstanding (thousand euro)	**10,293**

The supplier payment lag in the year between 1 January and 31 December 2015 was 50 days (41.3 days in 2014).

3. LIQUIDITY AND CAPITAL

The net cash position (cash + cash equivalents + current financial assets) amounted to 45.6 million euro as of 31 December 2015 (35.5 million euro in 2014). Including non-current financial assets, the total was 46.7 million euro as of 31 December 2015 (36.5 million euro in 2014).

The Group's total net interest-bearing debt at amortized cost in the last two years is detailed below:

	2015	2014
Non-current debt	**64,973**	**47,003**
Bank loans	20,651	20,911
Loans from official authorities	27,972	26,092
Bonds issued	16,350	0
Current debt	**28,629**	**44,466**
Credit lines	10,558	7,685
Discounted bills	2,148	2,172
Loans	11,585	25,873
Loans from official authorities	3,753	3,512
Interest, etc.	585	5,223
Total interest-bearing debt	**93,602**	**91,469**
Cash and cash equivalents plus non-current and current financial assets	**46,692**	**36,583**
Total net debt	**(46,910)**	**(54,886)**

Group net debt declined by 15% year-on-year in 2015.

After analysing a range of options for improving its current financial structure, in 2015 the Company decided to issue non-convertible bonds for an amount of 17 million euro in order to strengthen its financial position and extend its debt maturity profile.

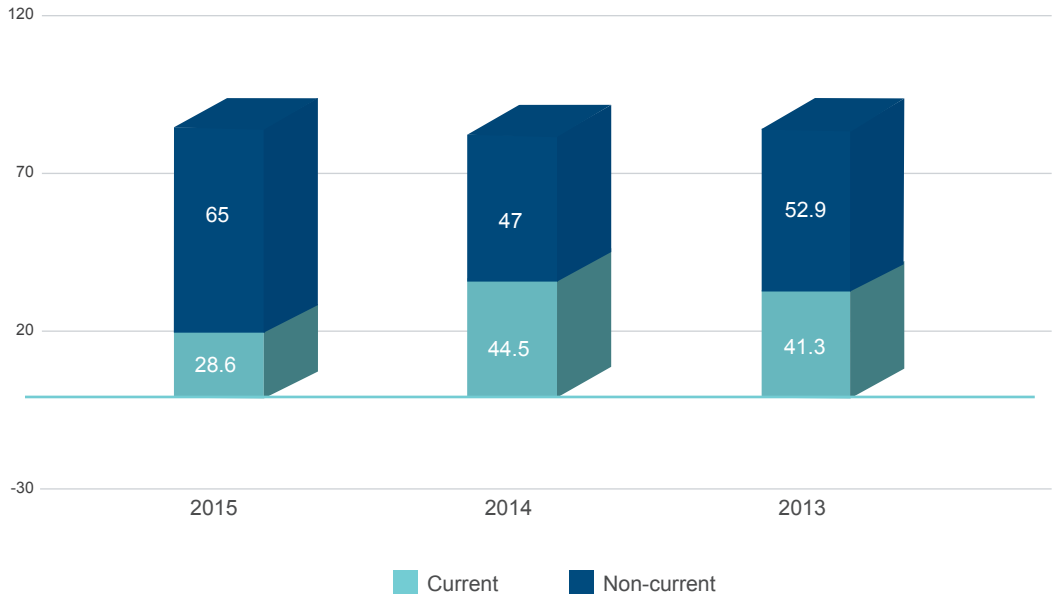
The principal terms and conditions of the bonds are as follows:

- The nominal amount of the issue is seventeen million euro (€17,000,000);
- Maturity is 12 years from disbursement;
- The issue was targeted at a single qualified Spanish investor, via a private placement;
- The bonds were issued at par, each with a nominal value of one hundred thousand euro (€100,000), represented by book entries;
- The bonds pay a fixed coupon of 4.75% per annum, payable in arrears every year counting from the date of disbursement;

- The Company is liable for the obligations arising from the bonds with all its assets and no specific guarantee will be granted;
- The terms and conditions of the bonds are governed by Spanish law;
- The Company applied to list the bonds on the Alternative Fixed-Income Market (MARF) on 7 July 2015.

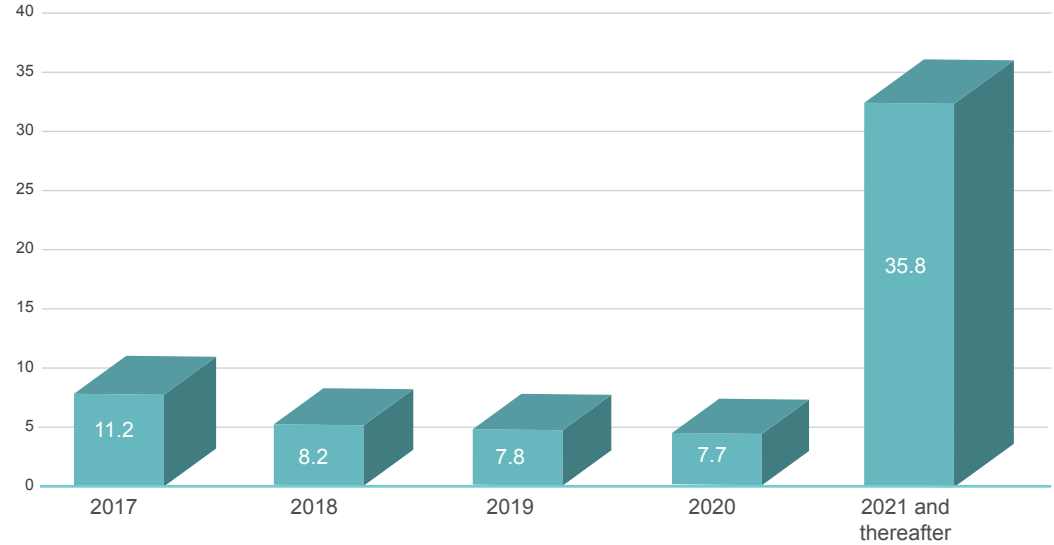
The graph below shows the Group's debt, both current and non-current, in the last three years.

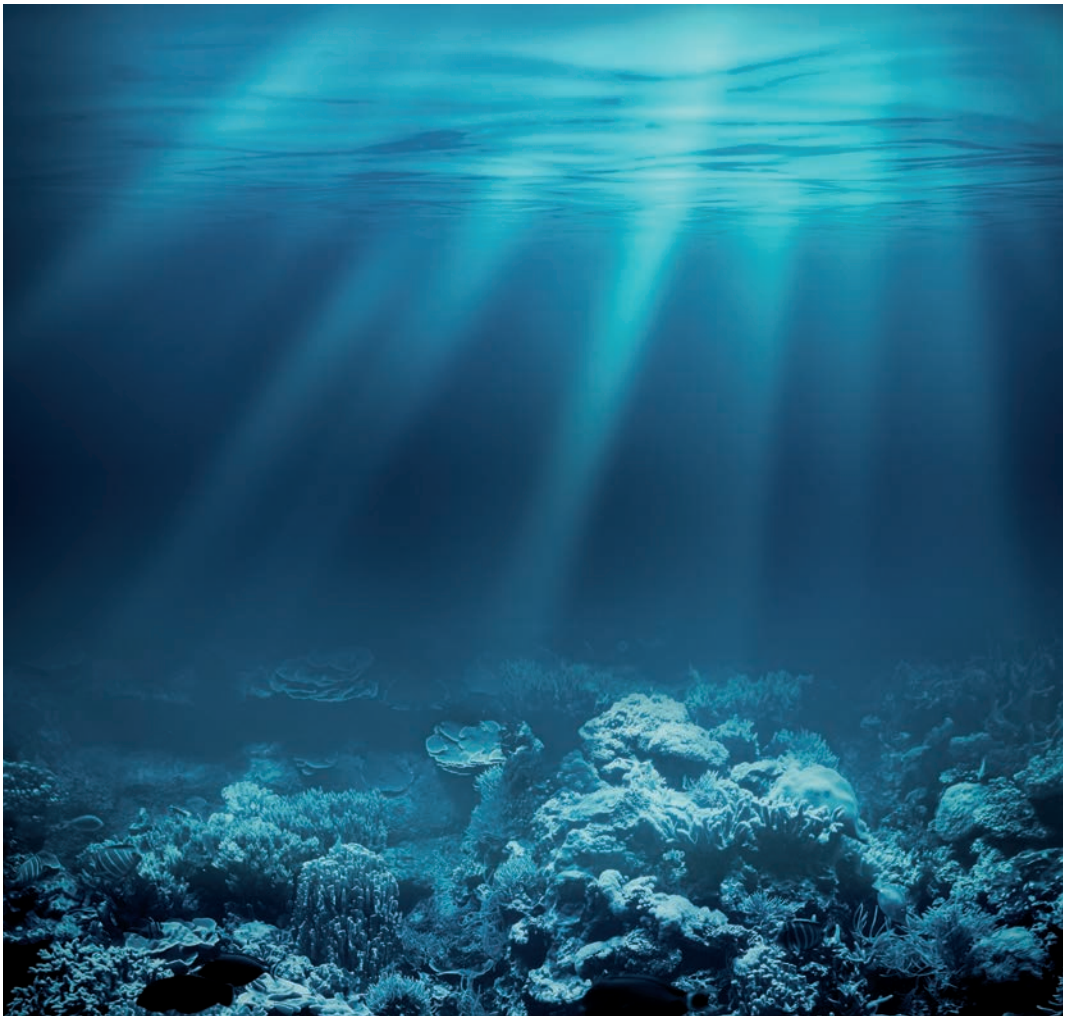
Group debt



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

Annual maturities of long-term financial debt principal





The following table shows the equity and debt structure as well as the indebtedness ratio. Net debt performance has been very favourable in recent years. This trend is expected to continue in the coming years. It is attributable not only to the decline in debt but also to the increase in equity resulting from the improvement in Group net income.

	2015	2014
Net debt	46,910	54,886
Capital employed	119,868	114,955
Debt cover	**39.1%**	**47.7%**

* Capital employed is equivalent to net equity plus net debt.

In 2015, 32% of total net financial debt was attributable to official institutions, interest free and maturing in 10 years.

Liquidity in 2015 came from Group operations: operating cash flow totalled 11.2 million euro; additionally, 34.9 million euro of debt that matured in the year was renegotiated at a longer term and more favourable conditions. Disposal of equity instruments raised 10 million euro.

4. PRIMARY RISKS AND UNCERTAINTIES

4.1 Situation risks

Competition

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

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

Industrial property. Patents

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

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

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

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

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

Regulation

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

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

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

Capital availability

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

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

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

Shareholders

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

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

4.2 Operating risks

Commodity prices

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

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

Health and safety

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

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

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

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

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

One Group undertaking, whose workforce accounts for 57% of the Group total, is certified to the OHSAS 18001 Occupational Health and Safety Management System standard.

Environmental

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

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

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

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

Product development

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

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

4.3 Information risks

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

Market disclosures

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

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

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

Information systems

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

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

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

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

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

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

4.4 Financial risks

4.4 A Market risk

Price risk

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

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

Interest rate risk on cash flows and fair values

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

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

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

Exchange rate risk

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

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

4.4 B Credit risk

Credit risk arises from financial assets arranged with banks.

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

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

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

4.4 C Liquidity risk

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

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

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

- The Group's sound equity position as of 31 December 2015, net equity having increased by 21.6% in 2015.
- Positive operating income in the Group's two main business segments.
- The Group generated operating cash flow of 11.2 million euro in 2015 (22.8 million euro in 2014).
- The Group's net debt/EBITDA ratio was 2.4 as of 31 December 2015.
- As of 31 December 2015, the leverage ratio had improved with respect to the end of the previous year, to just 39.1%.
- The Group's ability to renegotiate its debt if it is considered necessary.
- The company has unused credit lines in the amount of 26.5 million euro.
- The Group ended the year with cash and cash equivalents plus current financial assets of 45.6 million euro, 28% more than in 2015.

5. SIGNIFICANT EVENTS AFTER YEAR-END

Some credit lines are renewed automatically and, to date, experience shows that they have been renewed systematically with the same banks. Credit lines amounting to 2,000 thousand euro were renewed in January and February. Additionally, a new 7 million euro loan was arranged.

No other material circumstances or events have come to light that might affect these separate and consolidated financial statements of Pharma Mar, S.A.

6. 2016 OUTLOOK

In our main business line, oncology, we expect to expand clinical development of our products in 2016, focusing particularly on PM1183. We expect to complete recruitment for the Phase III registration trial in relapsed ovarian cancer and commence a Phase III trial in small-cell lung cancer. The results of the Phase III registration trial with Aplidin® in multiple myeloma are expected; if they are positive, a registration dossier will be filed in 2016.

Efforts will continue to obtain new licensing agreements and/or to create new strategic alliances with other companies which can offer not only economic resources to the Group, but also strengthen our positioning as an oncology company.

Following the approval of Yondelis® for treating soft tissue sarcoma by the US and Japanese authorities, we expect to collect royalties on sales in those two major markets in 2016.

The consumer chemicals segment is expected to continue expanding in the domestic market and internationally.

7. R&D AND INNOVATION

R&D and innovation are a key component of the Group's strategy, and it spent 63.5 million euro in this area in 2015.

Of that total, 55.6 million euro was allocated for R&D in oncology, 5.7 million euro for RNAi in ophthalmology, 2.2 million euro for the diagnostic area, and 0.03 million euro for the Consumer Chemicals companies. The net amount capitalized in the year (3.3 million euro) is shown on the balance sheet.

The main progress and results in R&D in 2015 by area of activity are as follows:

1. ONCOLOGY: PHARMAMAR

The activities and progress for each of the group's compounds in 2015 are detailed below:

a) Yondelis®:

Soft-tissue sarcoma

During 2015, recruitment continued in Japan for the Phase II trial at Japan's National Cancer Centre, sponsored by our partner Taiho, with a view to allowing access to Yondelis® on a compassionate use basis.

Recruitment continues for the observational and post-authorization trials with Yondelis® in soft tissue sarcoma in collaboration with several cooperative groups. A new trial (TARMIC) commenced in the fourth quarter of 2015 in combination with cyclophosphamide in this indication at Institut Bergonie (France). During 2015, a total of eleven observational and post-authorization trials in collaboration with various European cooperative groups continued recruitment satisfactorily.

The Y-IMAGE observational trial on real-life use of Yondelis®, which concluded recruitment in 2014, presented its interim results at the European Cancer Congress (ESMO) in Vienna in late September 2015, and at the Connective Tissue Oncology Society (CTOS) Annual Meeting.

Ovarian cancer

Recruitment continues on schedule for the pivotal clinical trial in ovarian cancer in the US, sponsored by Janssen. This trial will form the basis of a potential registration for this indication in the US and other countries where Yondelis® is not yet approved for ovarian cancer.

At present, seven post-approval trials are under way in this indication, and recruitment is proceeding satisfactorily. The INOVATYON international Phase III trial, promoted by the MANGO cooperative, and the PROSPECTYON prospective trial (GINECO group in France), which describes real-life use of the Yondelis®+PLD combination, are particularly noteworthy.

The retrospective trial with the two-drug combination performed by the GEICO group in Spain was presented at the European Society of Gynaecological Oncology (ESGO) Congress.

Regarding combinations with other drugs for this indication, recruitment continues for the Phase II trial (IRFMN-OVA 6152) to evaluate the efficacy of trabectedin + bevacizumab, with and without carboplatin, which is being promoted by the Mario Negri Institute in Milan.

Three new trials in ovarian cancer commenced in 2016: PR-trab-Pt (Hospital San Carlos, Madrid) and TRANSITION1 (Università Cattolica Del Sacro Cuore, Roma), which were proposed by researchers, and an international prospective observational trial (NIMES-ROC) on the efficacy and safety of the combination Yondelis® + PLD in real life in patients previously treated, or not, with antiangiogenics.

Recruitment for the OvaYond observational multi-centre trial in Germany concluded in December 2015.

Other indications

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

In cooperation with the European Organization for Research and Treatment of Cancer (EORTC), a new Phase II clinical trial commenced in 2015 with Yondelis® in patients with

highly recurrent meningioma to assess its efficacy and safety in comparison with the standard treatment.

Data from the ATREUS Phase II trial promoted by the Mario Negri Institute for Pharmacological Research (IRCCS) in cooperation with the Department of Medical Oncology at San Gerardo Hospital (Monza, Italy) to evaluate the activity and safety of Yondelis® in malignant pleural mesothelioma (MPM) were presented at the American Society of Clinical Oncology (ASCO): efficacy numbers are good and recruitment continues.

A new Phase II randomised clinical trial (EORTC 1320-BTG) commenced in 2015 with Yondelis® in patients with highly recurrent meningioma to assess its efficacy and safety in comparison with the standard treatment. The trial is being conducted in cooperation with the European Organization for Research and Treatment of Cancer (EORTC).

b) Aplidin®

Multiple Myeloma

At the end of May, recruitment concluded for the Phase III registration trial of Aplidin® in combination with dexametasone in patients with relapsed or refractory multiple myeloma that is being carried out in hospitals in Europe, the US, New Zealand, Australia, Taiwan and Korea. Once patient tracking for the time established in the protocol has concluded (expected in the first quarter of 2016), if the trial results after database closure are positive, a registration dossier will be drafted for the fourth quarter of 2016.

The dose for the combination of Aplidin®+Bortezomib was defined: it is the full dose of each drug as if taken separately. The results of the trial will be presented at a scientific meeting in 2016. The trial was conducted on patients with multiple myeloma with a view to allowing the use of Aplidin® at earlier stages of the disease.

The mass balance trial, which is essential for obtaining information on the metabolism and elimination of Aplidin® for the registration dossier, completed recruitment in 2015, as expected.

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

c) PM1183

Resistant/refractory ovarian cancer

As a result of the excellent results of the Phase II clinical trial with PM1183 as monotherapy in platinum-resistant/refractory ovarian cancer patients, PharmaMar commenced a pivotal Phase III trial in patients with platinum-resistant ovarian cancer in 2015. This trial is evaluating PM1183 as monotherapy vs. a control arm with topotecan or pegylated liposomal doxorubicin in 420 patients. A total of 112 hospitals in 13 countries in Europe and North America are participating. The first patient was enrolled in June 2015 and recruitment is expected to conclude in 18 months. It is advancing faster than initially expected.

Advanced breast cancer

Recruitment continues on schedule for the Phase II clinical trial in patients with advanced breast cancer with known BRCA 1 or 2 gene mutations (hereditary cancer). Very significant anti-tumour activity has been observed in this subgroup of patients. Recruitment is expected to be completed in the first quarter of 2016, and there are plans to present the trial data some time this year.

Small-cell lung cancer (SCLC)

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, PharmaMar designed an international registration trial for this indication. Since the trial design has been cleared by the regulators, recruitment is expected to commence in 2016.

Basket trial in advanced solid tumours

In August 2015, recruitment commenced for a Phase II trial with PM1183 as monotherapy in 9 indications chosen on the basis of the drug's action mechanism or on the basis of its activity as observed in combination trials. Those indications are small cell lung cancer, head and neck cancer, neuroendocrine tumours, germ cell cancer, bile duct cancer, breast cancer in patients with BRCA gene mutations, endometrial cancer, cancer of unknown origin, and the Ewing family of tumours.

Combination trials

As regards Phase I combination trials, recruitment was completed for the combinations with doxorubicin, capecitabine and paclitaxel with or without bevacizumab. The latter two trials produced promising preliminary results in a range of breast cancer types and, consequently, the next stages of development for this indication are currently being assessed. Recruitment continues for the trial in combination with cisplatin.

d) PM184

The Phase I development trial with PM184 as monotherapy has concluded. The programme of combination trials continues with the current trial in combination with gemcitabine and another planned for 2016 with cisplatin.

The first Phase II protocol with this product for breast cancer was designed and presented to the regulators and ethics committees; authorization was obtained to commence the trial early in 2016.

2. DIAGNOSTICS: GENÓMICA

Genómica obtained 6.35 million euro in revenues in 2015, i.e. 17% more than in 2014 (5.44 million euro). Clinical diagnostics is the main area, accounting for 97% of revenues.

The domestic market in diagnostics performed well, as expected, providing 2.94 million euro in revenues (2.97 million euro in 2014). The company's strategic bid to internationalize resulted in a 40% increase in exports to 3.24 million euro in 2015 (from 2.31 million euro in 2014). Sales expanded in all the territories worldwide where Genómica has a presence, including Genómica AB, a wholly owned-subsidiary created to serve the Scandinavian market, which contributed approximately 700 thousand euro in revenues in 2015.

The contract with the Castilla León Regional Government's Health Ministry for the "Supply of reagents, taking of samples, and disposable material necessary for genotyping human papillomavirus (HPV) using molecular biological in vitro diagnosis as part of the Programme for the Prevention and Early Detection of Cervical Cancer" was renewed in 2015. Revenues under this contract amounted to 297 thousand euro in 2015, compared with 635 thousand euro in 2014, due to the delay in signing the contract.

Within Genómica's strategic plan aimed at maintaining a strong leading position in the markets where it operates, the company inaugurated new facilities in April 2015.

In accordance with the plan and on schedule. As part of its R&D work in the area of biomarkers, in 2015 Genómica launched CLART®CMA MELANOMA, designed to detect the presence of the most prevalent spot mutations in the BRAF gene and mutations of the MEK1 and AKT1 genes, which are involved in cell proliferation and apoptosis inhibition associated with melanoma.

Closely linked with the latter, the first part of the action plan to optimise production and manufacturing processes was completed in 2015. At 2015 year-end, the biomarker diagnostics line was being manufactured entirely at Genómica facilities, with the resulting positive impact on margins.

Additionally, equipment is being developed for processing diagnostic assays automatically.

3. RNA Interference, OPHTHALMOLOGY: SYLENTIS, S.A.

Sylentis, S.A. focuses on research and development of new drugs based on gene silencing (interference RNA, RNAi) for treating eye diseases.

In 2015, the company advanced with its research and development of new products based on RNAi and formulations for treating eye diseases. Specifically, a new line of research is being pursued to develop RNAi candidates for treating diseases of the retina.

The product that is most advanced in the process of clinical trials is SYL040012 (Bamosiran) for treating glaucoma and ocular hypertension. The SYLTAG Phase IIb dose-seeking trial with Bamosiran, which also compared efficacy with comparator Timolol, has concluded. After 28 days' treatment, the four groups treated with Bamosiran exhibited a similar reduction in intra-ocular pressure (IOP). The secondary endpoint, non-inferiority to Timolol, was not attained. However, the 1.125% dose (450 micrograms) proved most effective in patients with a basal IOP of 25 mm Hg or higher, and it was not inferior to the comparator, Timolol, in this group of patients. Bamosiran demonstrated very good tolerance, with very low hyperaemia (under 8%).

The company's second product, SYL1001, for treating eye discomfort associated with dry eye syndrome, is undergoing Phase II clinical trials. Recruitment for the first Phase II dose-response trial with 60 patients in 6 Spanish centres concluded in July 2015. At the same time, an application was filed with the Spanish Agency of Medicines and Medical Devices (AEMPS) for authorization of a second dose-response trial in

order to ascertain the product's full response range. In July 2015, authorization was given to conduct this trial in 6 centres in Spain and Estonia; recruitment had been completed by year-end.

8. ACQUISITION AND DISPOSAL OF OWN SHARES

As of 31 December 2015, the Company's capital amounted to 11,110 thousand euro and was represented by 222,204,887 bearer shares with a par value of 0.05 euro per share. All the shares are fully subscribed and paid and have the same political and economic rights.

As of 31 December 2015, the controlling company had 895,790 own shares, representing 0.40% of capital stock.

The Group acquired 1,493,572 shares in 2015, representing 0.5% of capital, for a total amount of 4.7 million euro, and sold 2,803,216 shares for a total amount of 11.3 million euro, resulting in a net gain of 4.5 million euros that was recognized in reserves.

A total of 167 thousand shares were delivered as part of the Share Delivery Plan in 2015.

A total of 345 thousand shares vested under the Share Delivery Plan in 2015, due either to the end of the lock-up or to other conditions set out in the plans, such as terminations.

9. SHARE INFORMATION

General situation

The markets on both sides of the Atlantic were dominated by volatility in 2015. After exceeding 11,600 points in the first half of the year, the IBEX-35 index ended the year at 9,544.2 points, a 7.15% decline with respect to 2014, and a departure from the positive trend of the previous two years.

There were several predominant macroeconomic issues during 2015. The year began under the shadow of the Greek economic crisis and the uncertainty as to whether Greece would be able to meet Europe's demands with regard to debt repayment. Those uncertainties appeared to have been dispelled momentarily by the formation of a government and the approval of the third bail-out.

However, global growth continued to be the main source of uncertainty in the markets. Market corrections after the summer were driven by doubts about the Chinese economy. There was also a severe correction in commodity markets, particularly a decline in crude oil prices, driven mainly by a demand crisis. The result was a sharp correction in the markets, as macroeconomic factors took precedence over companies' fundamentals.

The markets also focused on central banks in 2015. While the US Federal Reserve forewarned of a change in its monetary policy, with an end to its liquidity injection programmes and an increase in interest rates in the US, the ECB expanded its asset purchase programme in view of the European economy's weakness.

Crude oil was the main source of concern at year-end, having reached an 11-year low, with the result that the IBEX-35 closed in negative territory.

Share information in 2015	
Total number of shares	222,204,887
Number of outstanding shares	221,309,097
Par value (euro)	0.05
Average daily trading (no. of shares)	754,957
Average daily trading (euro)	2,755,592
Trading days	256
Year trading low (24 December) (euro)	185,300
Year trading high (6 February) (euro)	14,950,144
Total trading in year (million euro)	**711.3**
	(euro)
Lowest share price (31 December)	2,51
Highest share price (27 April)	4,32
Share price at 31 de December	2,51
Average share price in the year	3,65
Market capitalization at 31 December (million euro).	**557,7**

Source: Bloomberg

PharmaMar's share performance

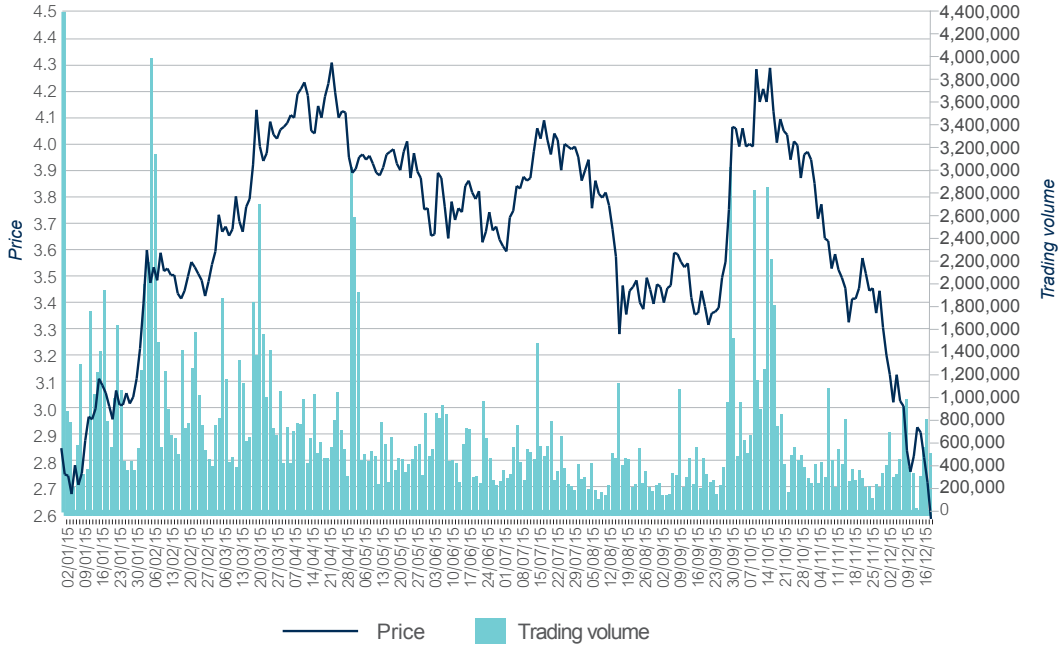
Zeltia and PharmaMar merged in 2015. The merger took place on 2 November, and PharmaMar's shares commenced trading on that date.

PharmaMar's share performance was dominated by the prevailing market volatility. After reaching a 5-year high in October, the stock experienced a sharp correction unrelated to its robust position or good prospects for the coming years. PharmaMar ended 2015 5.9% lower than at 2014 year-end.

Notable events in the year included progress with clinical trials with its most strategic product, PM1183, and also with Yondelis®. Early in 2015, Taiho Pharmaceutical presented the registration dossier to seek authorization to commercialize Yondelis® in Japan for treating soft tissue sarcoma. As for clinical development, a Phase III trial with PM1183 in platinum-resistant ovarian cancer commenced mid-year, and the good clinical results presented at ASCO were well received by the stock market. The share reached a 5-year high: 4.3 euro.

On 2 November, the merger of Zeltia into PharmaMar was completed successfully, reflecting the company's decision to focus strategically on its main business: development of oncology products. On 23 October, the FDA (Food and Drug Administration) finally approved commercialization of Yondelis® for treating soft tissue sarcoma in the US. This is the first oncology drug from a Spanish company to achieve FDA approval. The share responded very well to the news, rising to over 4 euro.

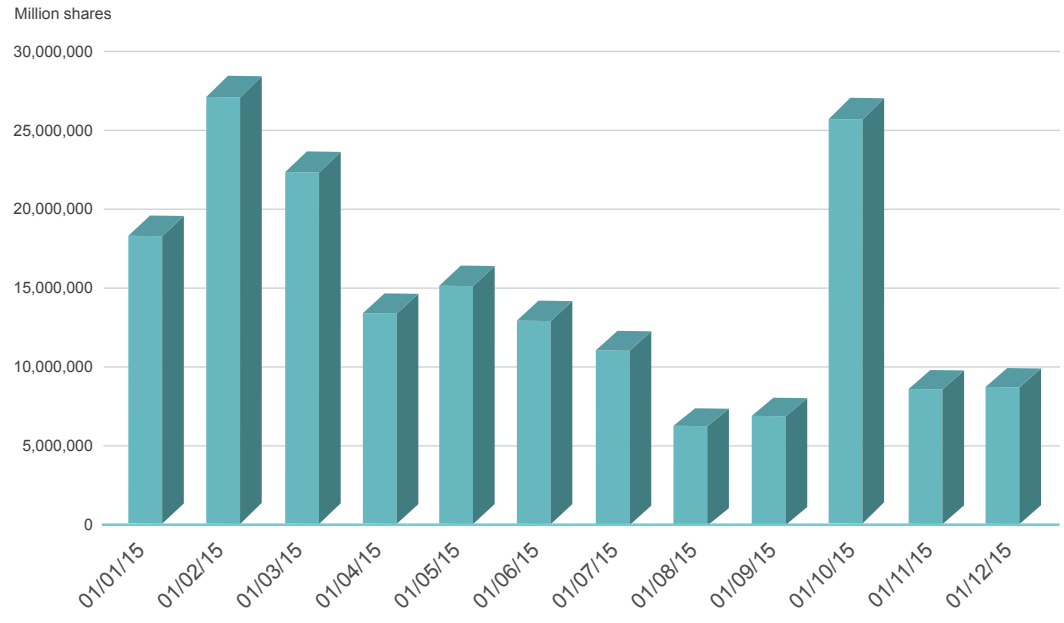
The stock experienced a sharp correction at year-end, driven mainly by strong market volatility and poor index performance, commencing with a bout of profit-taking and continuing because of the difficult market environment, in which investors appeared to ignore the company's robust fundamentals.



Source: Bloomberg

Trading in PharmaMar shares amounted to 711.3 million euro in 2015. Average daily trading amounted to 754,957 shares, having peaked in February.

Average daily trading volume



CONSOLIDATED FINANCIAL STATEMENTS & **AUDITORS'** REPORT

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

INDEPENDENT AUDITORS' REPORT ON CONSOLIDATED FINANCIAL STATEMENTS

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

Report on consolidated financial statements

We have audited the accompanying consolidated financial statements of Pharma Mar, S.A. and subsidiaries consisting of the consolidated balance sheet as of 31 December 2015, the consolidated statement of income, the consolidated statement of comprehensive income, the statement of changes in consolidated equity, the statement of consolidated cash flow, and the notes to the consolidated financial statements for the year then ended.

Directors' responsibility in connection with the consolidated financial statements

The directors of the controlling company are responsible for authorizing the accompanying consolidated financial statements such as to give a true and fair view of the equity, financial position and results of Pharma Mar, S.A. and subsidiaries in accordance with the International Financial Reporting Standards as adopted by the European Union and the other provisions of the financial reporting regulatory framework that are applicable to the Group in Spain, and the internal control that they deem necessary to enable the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements. The procedures selected depend on the auditor's judgement, including an assessment of the risks of material inaccuracies in the consolidated 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 consolidated financial statements by the controlling company's directors 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 consolidated 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 consolidated financial statements give, in all material respects, a true and fair view of the consolidated equity and consolidated financial position of Pharma Mar, S.A. and subsidiaries as of 31 December 2015 and their consolidated results and consolidated cash flow in the year then ended in accordance with the International Financial Reporting Standards as adopted by the European Union and the other provisions of the financial reporting regulatory framework that are applicable in Spain.

Information about other legal and regulatory requirements

The accompanying consolidated directors' report for the year 2015 contains such explanations on the state of Pharma Mar, S.A. and subsidiaries, their business performance and other matters as the parent company's directors consider appropriate and does not form an integral part of the consolidated financial statements.

We verified that the financial information contained in the Directors' Report matches the accompanying 2015 consolidated financial statements. Our work as auditors is limited to checking the consolidated directors' report with the scope set out in this paragraph and it does not include the review of information not derived from the accounting records of Pharma Mar, S.A. and subsidiaries.

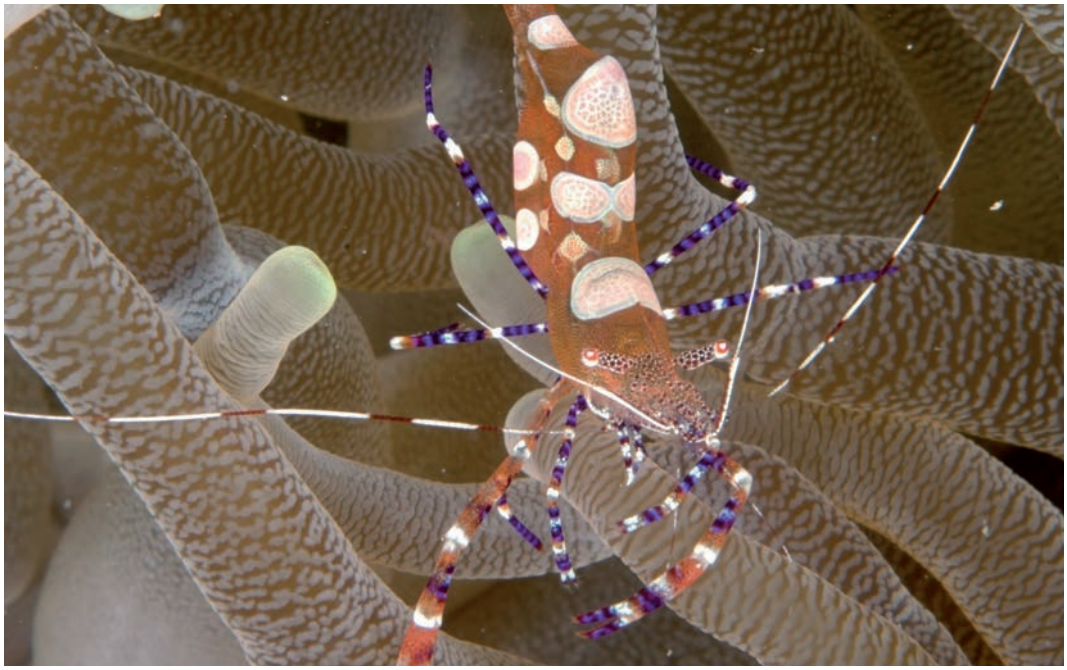
PricewaterhouseCoopers Auditores, S.L.
Julio Balaguer Abadía
29 February 2016

CONSOLIDATED FINANCIAL STATEMENTS OF PHARMA MAR, S.A. AND SUBSIDIARIES

as of 31 December 2015

CONSOLIDATED BALANCE SHEET (thousand euro)	Note	31/12/15	31/12/14
ASSETS			
Non-current assets			
Property, plant and equipment	6	30,624	29,218
Investment property	7	6,157	6,939
Intangible assets	8	26,829	26,288
Goodwill	9	2,548	2,548
Non-current financial assets	10	1,067	1,072
Deferred tax assets	26	32,579	26,247
		99,804	**92,312**
Current assets			
Inventories	16	22,990	24,404
Customer and other accounts receivable	10 & 14	40,200	36,989
Current financial assets	10	37,996	18,960
Current tax assets	15	1,315	2,685
Other current assets	15	2,005	2,327
Cash and cash equivalents	10 & 17	,629	16,551
		112,135	**101,916**
TOTAL ASSETS		**211,939**	**194,228**

The accompanying Notes 1 to 44 are an integral part of these consolidated financial statements



CONSOLIDATED BALANCE SHEET (thousand euro)	Note	31/12/15	31/12/14
EQUITY			
Share capital	19	11,110	11,110
Share premium	19	69,189	323,286
Own shares	19	(2,944)	(8,750)
Revaluation and other reserves		8	6
Retained earnings and other reserves	20	(489)	(261,770)
Total capital and reserves attributable to Equity-holders of the controlling company		**76,874**	**63,882**
Minority interests	21	**(3,838)**	**(3,813)**
TOTAL EQUITY		**73,036**	**60,069**
LIABILITIES			
Non-current liabilities			
Financial debt	10 & 25	64,973	47,003
Derivatives	10 & 13	0	42
Non-current deferred revenues	23	2,709	3,783
Other non-current liabilities	24	598	705
		68,280	**51,533**
Current liabilities			
Supplier and other accounts payable	10 & 22	31,959	28,710
Financial debt	10 & 25	28,629	44,466
Derivatives	10 & 13	14	0
Provisions for other liabilities and expenses	27	6,306	6,220
Current deferred revenues	23	54	16
Other current liabilities	24	3,661	3,214
		70,623	**82,626**
TOTAL LIABILITIES		**138,903**	**134,159**
TOTAL EQUITY AND LIABILITIES		**211,939**	**194,228**

The accompanying Notes 1 to 44 are an integral part of these consolidated financial statements

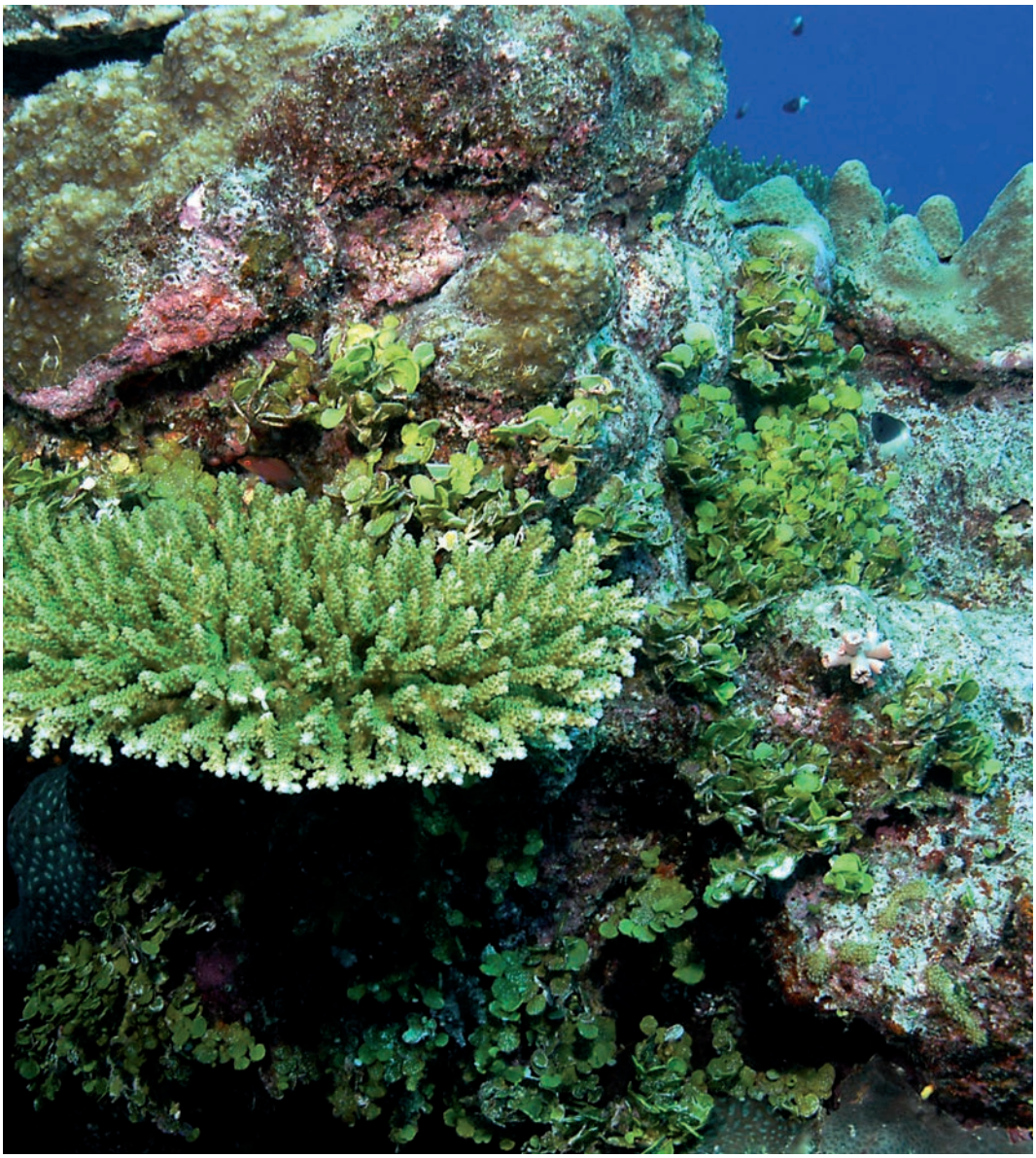
CONSOLIDATED INCOME STATEMENT (thousand euro)	Note	31/12/15	31/12/14
Revenues:			
Product sales	5 & 28	161,992	147,842
Licensing and co-development agreements	32	29,034	24,278
Royalties	32	1,788	1,872
Provision of services		1,003	810
		193,817	**174,802**
Cost of sales	5	(45,705)	(40,765)
Gross income		**148,112**	**134,037**
Other net gains		3,824	2,258
Marketing expenses	31	(48,614)	(41,173)
Administrative expenses	30	(19,984)	(18,658)
R&D expenses	29	(60,291)	(46,477)
Other operating expenses		(11,718)	(9,750)
Operating income		**11,329**	**20,237**
Net financial income	35	(5,327)	(5,762)
Income before taxes		**6,002**	**14,475**
Income tax	26	654	(1,304)
Income from continuing operations		**6,656**	**13,171**
Discontinued operations			
Income from discontinued operations	18	**(93)**	**(76)**
Attributable to equity-holders of the parent company		(68)	(56)
Attributable to non-controlling interests		(25)	(20)
Income for the year		6,563	13,095
Attributable to:			
Equity-holders of the parent company		**6,588**	**13,115**
Non-controlling interests	21	(25)	(20)

Earnings per share from continuing operations and discontinued operations attributable to equity holders of the parent company in the year/income for the year attributable to equity holders of the parent company (euro per share)	Note	31/12/15	31/12/14
Basic earnings per share			
- From continuing operations	36	0.03	0.06
- From discontinued operations		(0.00)	(0.00)
		0.03	**0.06**
Diluted earnings per share			
- From continuing operations	36	0,03	0.06
- From discontinued operations		(0,00)	(0.00)
		0.03	**0.06**

The accompanying Notes 1 to 44 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (thousand euro)	31/12/15	31/12/14
CONSOLIDATED INCOME FOR THE YEAR (from the consolidated income statement)	**6,563**	**13,095**
ITEMS THAT MAY BE RECYCLED THROUGH PROFIT OR LOSS		
Change in value of financial assets available for sale	2	3
Foreign exchange difference	(77)	(1)
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAXES	**(75)**	**2**
COMPREHENSIVE INCOME FOR THE YEAR	**6,488**	**13,097**
Attributable to:		
Equity-holders of the parent company	6,513	13,117
Non-controlling interests	(25)	(20)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**6,488**	**13,097**
Continuing operations	6,581	13,173
Discontinued operations	(68)	(56)
TOTAL COMPREHENSIVE INCOME FOR EQUITY HOLDERS:	**6,513**	**13,117**

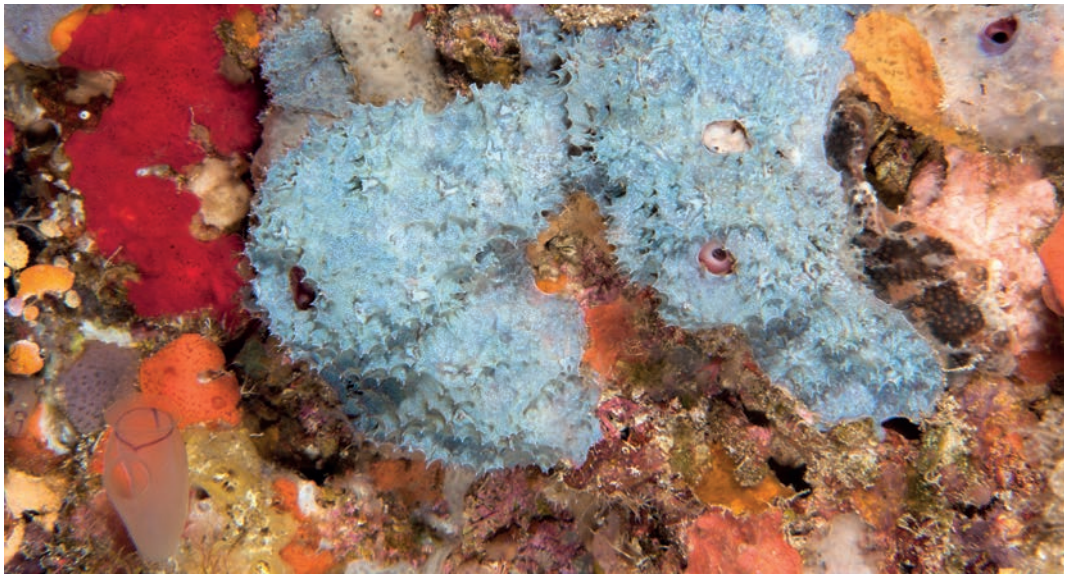
The accompanying Notes 1 to 44 are an integral part of these consolidated financial statements.



STATEMENT OF CHANGES IN CONSOLIDATED EQUITY

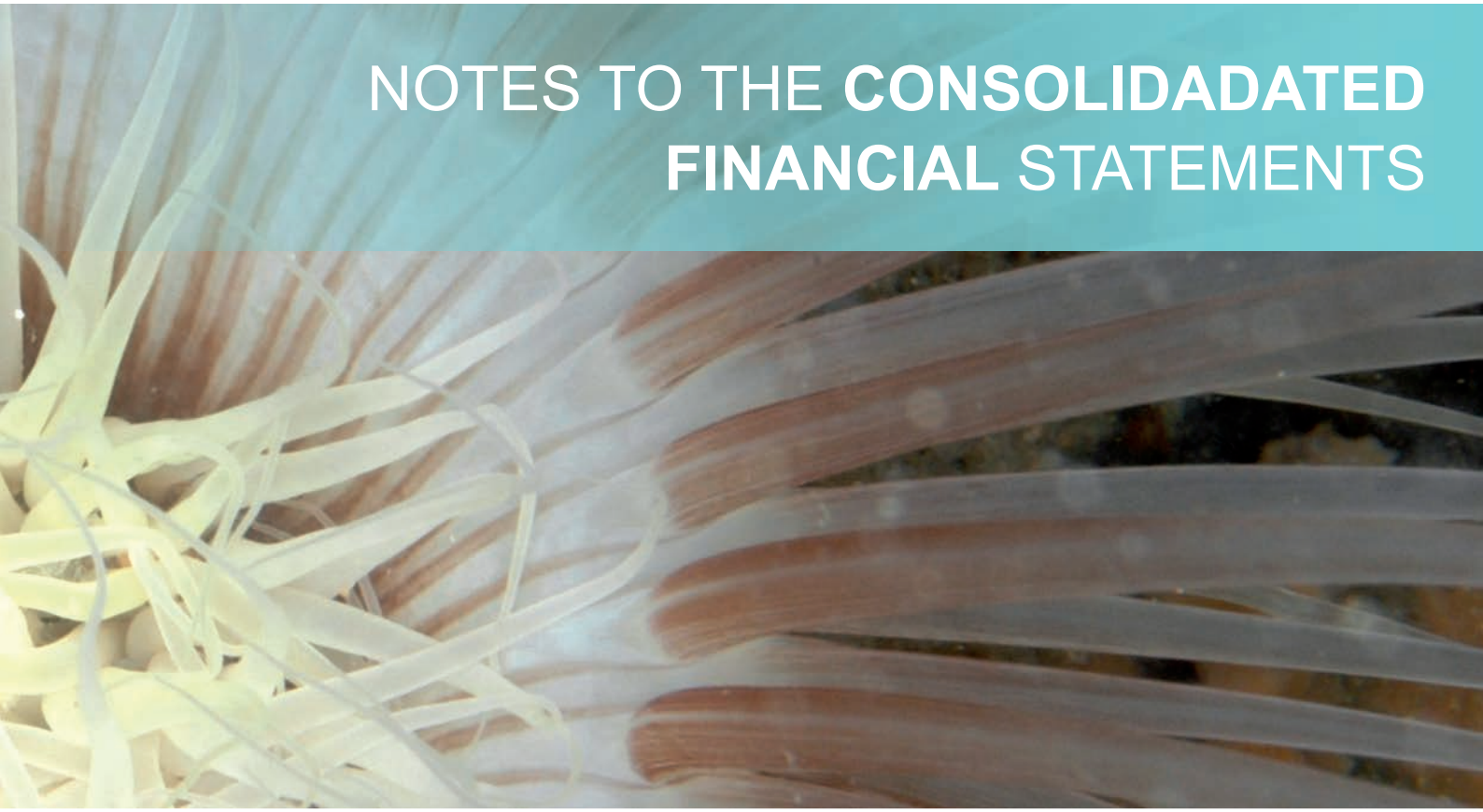
(thousand euro)	Share capita	Share premium account	Own share	Revaluation and other reserves	Reserves and other retained earnings	Non-controlling interests	Total equity
Balance as of 1 January 2014	**11,110**	**323,286**	**(6,029)**	**3**	**(275,142)**	**(3,793)**	**49,435**
Fair value gain / (loss), gross:							
- Available-for-sale financial assets (Note 12)	0	0	0	3	0	0	**3**
- Other revenues and expenses recognised directly in equity	0	0	0	0	(1)	0	**(1)**
Other comprehensive income	**0**	**0**	**0**	**3**	**(1)**	**0**	**2**
2014 income	0	0	0	0	13,115	(20)	**13,095**
Comprehensive income for the year	**0**	**0**	**0**	**3**	**13,114**	**(20)**	**13,097**
Shares purchased (Note 19)	0	0	(3,159)	0	0	0	**(3,159)**
Shares sold (Note 19)	0	0	438	0	(184)	0	**254**
Value of employee services - Employee share ownership plans	0	0	0	0	452	0	**452**
Other movements	0	0	0	0	(10)	0	**(10)**
Balance as of 31 December 2014	**11,110**	**323,286**	**(8,750)**	**6**	**(261,770)**	**(3,813)**	**60,069**
Fair value gain / (loss), gross:							
- vailable-for-sale financial assets (Note 12)	0	0	0	2	0	0	**2**
- Other revenues and expenses recognised directly in equity	0	0	0	0	(77)	0	**(77)**
Other comprehensive income	**0**	**0**	**0**	**2**	**(77)**	**0**	**(75)**
2015 income	0	0	0	0	6,588	(25)	**6,563**
Comprehensive income for the year	**0**	**0**	**0**	**2**	**6,511**	**(25)**	**6,488**
Merger effect (Note 19)	0	(254,097)	0	0	254,097	0	**0**
Shares purchased (Note 19)	0	0	(4,684)	0	0	0	**(4,684)**
Shares sold (Note 19)	0	0	7,966	0	2,887	0	**10,853**
Value of employee services - Employee share ownership plans	0	0	0	0	308	0	**308**
Transfers between equity accounts	0	0	2,524	0	(2,524)	0	**0**
Other movements	0	0	0	0	2	0	**2**
Balance as of 31 December 2015	**11,110**	**69,189**	**(2,944)**	**8**	**(489)**	**(3,838)**	**73,036**

The accompanying Notes 1 to 44 are an integral part of these consolidated financial statements.



CONSOLIDATED CASH FLOW STATEMENT (thousand euro)	Note	31/12/15	31/12/14
TOTAL NET OPERATING CASH FLOW		**11,101**	**22,787**
Income before taxes:		**5,909**	**14,399**
Income before taxes from continuing operations		6,002	14,475
Income before taxes from discontinued operations		(93)	(76)
Adjustments for:		**12,593**	**13,097**
Depreciation and amortization	6, 7 & 8	6,282	5,263
Impairment of accounts receivable	14	(43)	204
Value adjustments to fixed assets	6 & 7	1,774	0
Fair value loss/(gain) on financing activities		(28)	(53)
Financial revenues	35	(259)	(514)
Share-based payments	34	308	452
Financial expenses	35	5,509	6,399
Deferred revenues - subsidies	23	(1,036)	608
Change in provisions		86	738
Changes in working capital		**(1,794)**	**1,524**
Inventories		1,414	(2,172)
Customer and other receivables		(3,168)	1,437
Other assets and liabilities		3,425	(571)
Supplier and other accounts payable		(3,465)	2,830
Other operating cash flows:		**(5,607)**	**(6,233)**
Interest paid		(6,513)	(6,379)
Interest received		252	512
Income tax received/(paid)		654	(366)
TOTAL NET INVESTING CASH FLOW		**(28,325)**	**(22,990)**
Investment payments:		**(28,252)**	**(22,990)**
Property, plant and equipment, intangible assets and investment property	6, 7 & 8	(9,221)	(10,179)
Other financial assets		(19,031)	(12,807)
Other assets		0	(4)
Other investing cash flow		**(73)**	**0**
Other investment receipts/(payments)		(73)	0
TOTAL NET FINANCING CASH FLOW		**8,302**	**(5,704)**
Receipts and (payments) in connection with equity instruments:		**6,169**	**(2,905)**
Acquisition	19	(4,684)	(3,159)
Disposal	19	10,853	254
Receipts and (payments) in connection with financial liabilities:		**(43)**	**1,309**
Loans received	25	34,867	31,068
Loans repaid	25	(34,910)	(29,759)
Other financing cash flow		**2,176**	**(4,108)**
Credit lines drawn/(repaid)	25	2,176	(4,108)
TOTAL NET CASH FLOW FOR THE YEAR		**(8,922)**	**(5,907)**
Beginning balance of cash and cash equivalents	10	16,551	22,458
ENDING BALANCE OF CASH AND CASH EQUIVALENTS		**7,629**	**16,551**

The accompanying Notes 1 to 44 are an integral part of these consolidated financial statements.



NOTES TO THE **CONSOLIDADATED FINANCIAL** STATEMENTS

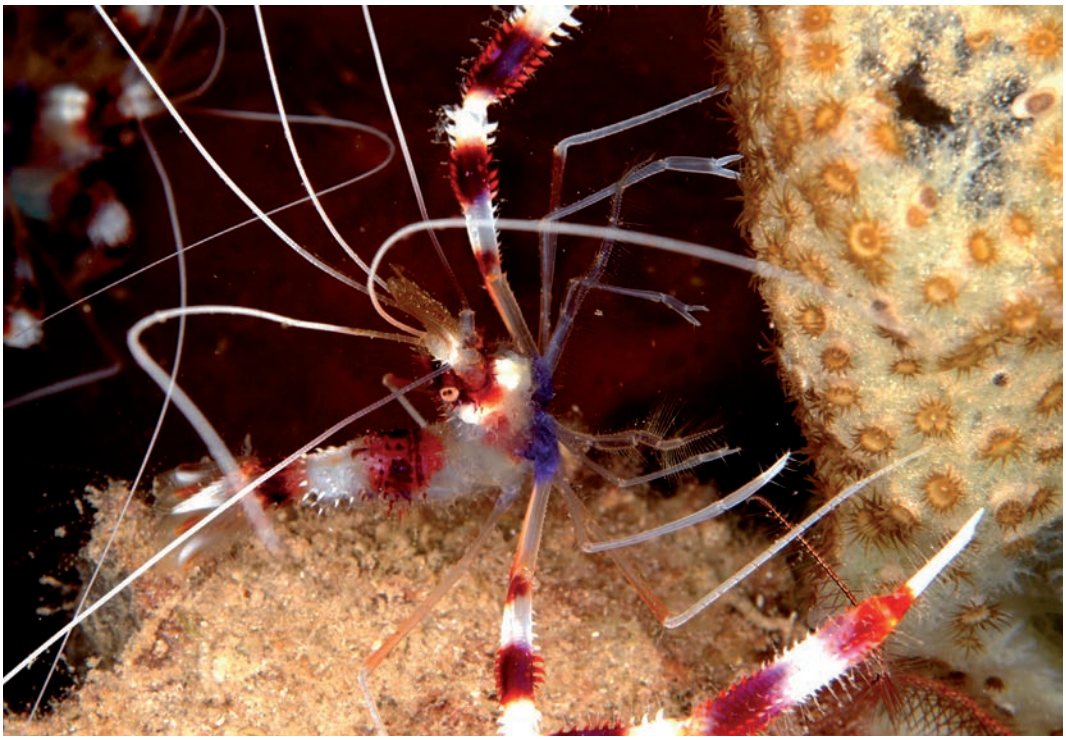

Pharma
Mar

1. GENERAL INFORMATION

Pharma Mar, S.A. is the company that resulted from the merger of Zeltia, S.A. (absorbed company) into Pharma Mar, S.A. (acquiring company). Pharma Mar, S.A., the Group's controlling company (hereinafter, "PharmaMar" or "the Company"), was incorporated as a limited company in Spain for an indefinite period on 30 April 1986. Its registered offices are in Colmenar Viejo (Madrid) at Avenida de los Reyes, 1 (Pol. Industrial La Mina – norte).

PharmaMar's main activity is research, development, production and commercialization of bio-active principles of marine origin for application in oncology, as well as management, support and development of its investees, mainly in the chemical and biopharmaceutical businesses.

September 20, 2007, PharmaMar received authorization from the European Commission for the marketing of 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. On 28 September 2015, Taiho, a company with which PharmaMar has signed an agreement to develop and commercialize Yondelis® in Japan, received authorization from Japan's Ministry of Health, Labour and Welfare to commercialize Yondelis® in Japan for the treatment of soft tissue sarcoma. Also, on 23 October 2015, Janssen, a company with which PharmaMar signed an agreement in 2011 for the development and commercialization of Yondelis® in the US, obtained authorization from the FDA to commercialize Yondelis® in the US for treating sarcoma soft tissue (liposarcoma and unresectable or metastatic leiomyosarcoma in patients who have received at least one cycle of anthracycline).



As of 31 December 2015, Pharma Mar was continuing to develop its other products and was also developing Yondelis® for therapeutic uses other than soft tissue sarcoma and ovarian cancer.

Through 2015, when the merger described in this note took place, Zeltia, S.A. owned 100% of the shares of PharmaMar, which, consequently, was a subsidiary of Zeltia, S.A. up to that point.

For the purposes of drafting these financial statements, a group is considered to exist when the controlling company has one or more subsidiaries over which it has control, directly or indirectly.

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

There were no material changes in the consolidation scope of the PharmaMar Group (hereinafter, the "Group") in 2015 and 2014 apart from the incorporation of PharmaMar (Belgium) and PharmaMar Ltd. (UK) in 2015. The list of the consolidated Group's subsidiaries as of 31 December 2015 and 2014 is as follows:

	Stake (%)			
	Direct	Indirect	Total	Registered offices
Genómica, S.A.U. (6)	100%	-	100%	Alcarria, 7 – Coslada – Madrid, Spain
Zelnova Zeltia, S.A. (1)	100%	-	100%	Torneiros – Porriño – Pontevedra, Spain
Xylazel, S.A. (1)	100%	-	100%	Las Gándaras – Porriño – Pontevedra, Spain
Promaxsa Protección de Maderas; S.L. (2)	100%	-	100%	Avda. Fuentemar, 16, 1º – Coslada – Madrid, Spain
Noscira, S.A. in liquidactión	73.32%	-	73.32%	Plaza del Descubridor Diego de Ordás, 3 5ª Floor Madrid, Spain
Pharma Mar USA (3)	100%	-	-	Cambridge – Massachusetts – U.S.A.
PharmaMar AG (Switzerland) (5)	100%	-	-	Aeschenvorstadt, 71 – Basilea – Switzerland
Pharma Mar SARL (France)	100%	-	-	120, Av. Charles Gaulle – Neuilly Sur Seine – France
Pharma Mar GMBH (Germany) (7)	100%	-	-	Rosenheimer Platz, 6 – München – Germany
Pharma Mar Ltd (UK)	100%	-	-	90 High Holborn, 7 Floor -London - U.K.
Pharma Mar, S.r.L. (Italy) (8)	100%	-	-	Via Giorgio Stephenson, 29 Milán, Italy
Pharma Mar, sprl (Belgium) (9)	100%	-		100 Brussels, Avenue du Port 86c, boite 204, Belgium
Copyr, S.p.A. (Italy) (4)	-	100% *	100%	Via Giorgio Stephenson, 29 Milán, Italy
Genómica, A.B.	-	100% **	100%	Ideon Science Park Sheelevage, 17 Lund, Sweden
Sylentis, S.A. (6)	100%	-	100%	Plaza del Descubridor Diego de Ordás, 3 5ª Floor Madrid, Spain

(*) Copyr, S.A. is wholly owned by ZelnovaZeltia, S.A.

(**) Genómica, A.B. fis wholly owned by Genómica, S.A.U.

(1) Audited by PricewaterhouseCoopers Auditores, S.L.

(2) Audited by Audinvest, S.A.

(3) Audited by Walter &Suffain, P.C.

(4) Audited by Trevor, S.R.L.

(5) Audited by PricewaterhouseCoopers AG

(6) Audited by KPMG Auditores, S.L.

(7) Audited by PricewaterhouseCoopers AG (Wirtschaftsprüfungsgesellschaft)

(8) Audited by ProreviAuditing, Srl

(9) Audited by PricewaterhouseCoopers Bedrijfsrevisoren bcvba

A) Pharma Mar, S.A.- Zeltia, S.A. merger

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

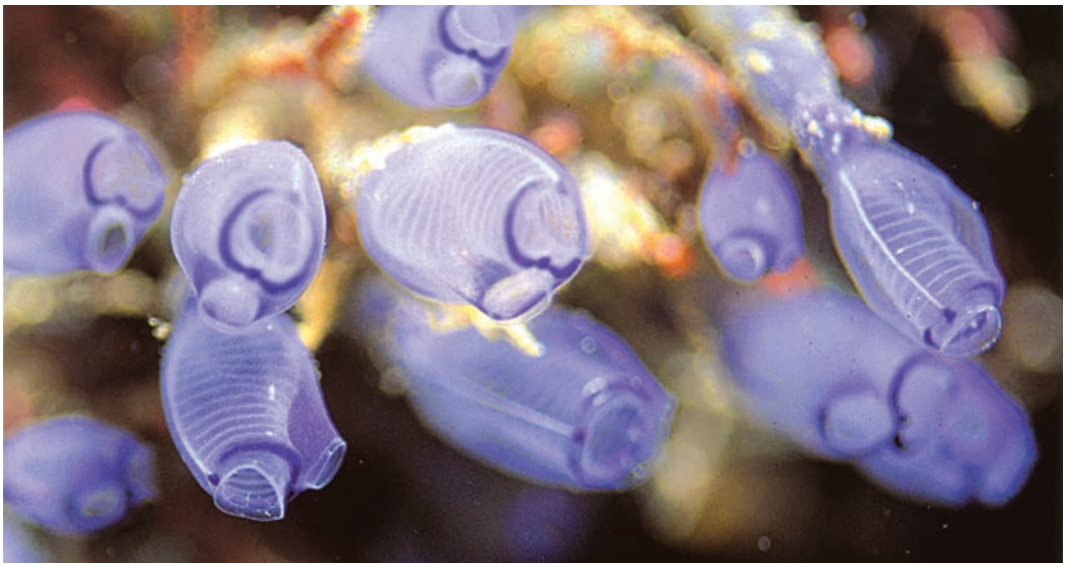
The structure chosen was that of a "reverse merger", in which a subsidiary absorbs its parent company, since Zeltia (the absorbed company) directly owned 100% of the shares of PharmaMar (acquiring company).

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

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

To this end, PharmaMar approved a reduction in share capital by means of an increase in voluntary reserves and the establishment of a new number and a new par value for its shares such that, following the reduction in the par value of the shares and the consequent increase in their number, the number of shares into which the capital stock of PharmaMar was divided coincided with the number of shares of Zeltia. The capital reduction amounted to 74.181 thousand euro.

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



B) Comparative information

As detailed in section A) above, PharmaMar was a subsidiary of Zeltia, which owned 100% of its capital until the merger. The merger of Zeltia (absorbed company) into PharmaMar (acquiring company) did not fall under the scope of IFRS 3, Business Combinations, since it was a combination of two undertakings under common control.

Insofar as the new group arising legally from the merger is, in essence, a continuation of the group of which Zeltia was the parent company immediately before the merger, the Board of Directors of PharmaMar concluded that it would be appropriate to recognize the transaction using the historical values in Zeltia's consolidated financial statements, since the figures to be disclosed in the consolidated financial statements of PharmaMar following the merger would, under a reasonable interpretation of the EU-IFRS currently in force, be the same, even as regards the numbers presented for the purposes of comparison, as those that would be disclosed in the consolidated financial statements of Zeltia if the merger did not take place and if PharmaMar continued as a subsidiary of Zeltia (except for any differences in the equity structure, there being no difference in total equity figures).

The amounts of the licensing agreements and royalties recognized under Other operating revenues in 2014 were reclassified to Net revenues in both years, 2015 and 2014, since they are considered to form part of the Company's day-to-day business.

Deferred tax assets and liabilities in 2015 are presented net on the balance sheet in accordance with IAS 12. To ensure comparability of these financial statements, the deferred taxes in 2014 are also presented net.

C) Description of subsidiaries

The principal activity of those companies, all of which were fully consolidated as of 31 December 2015 and 2014, is as follows:

- Genómica, S.A.U. (Genómica): In 2015 and 2014, it was engaged in the development and marketing of diagnostic applications and related services.
- Zelnova Zeltia, S.A. (ZelnovaZeltia): In 2015 and 2014, it was engaged in the manufacture and marketing of domestic and industrial insecticides and air fresheners.
- Xylazel, S.A. (Xylazel): In 2015 and 2014, it was engaged in the manufacture and sale of wood and metal protective and decorative products, paints and similar products.
- Promaxsa Protección de Maderas, S.L.U. (Promaxsa): In 2015 and 2014, it was engaged mainly in the provision of services for treating and protecting wood, and repairing and preserving structures, as well as insect control and disinfection.
- Noscira, S.A. in liquidation (Noscira): This company is in liquidation (Note 18). On 18 December 2012, the Shareholders' Meeting of Noscira resolved to dissolve the company and commence the period of liquidation of same, since the company had an equity imbalance and was in one of the situations of dissolution established by article 363.1.e) of the Capital Companies Act as its net equity had declined to less than one-half of its capital stock.
- Pharma Mar USA: In 2015 and 2014, it was primarily engaged in business development in the US market.

- PharmaMar AG: In 2015 and 2014 it was primarily engaged in marketing pharmaceutical products in the Swiss market.
- Pharma Mar SARL.: In 2015 and 2014 it was primarily engaged in marketing pharmaceutical products in the French market.
- Pharma Mar GMBH: In 2015 and 2014 it was primarily engaged in marketing pharmaceutical products in the German market.
- Pharma Mar S.r.L.: In 2015 and 2014 it was primarily engaged in marketing pharmaceutical products in the Italian market.
- Pharma Mar Belgium: This company was founded in 2015, and in 2015 it was primarily engaged in marketing pharmaceutical products in the Belgian market.
- Pharma Mar L.t.d. (UK): This company was founded in 2015, and in 2015 it was primarily engaged in marketing pharmaceutical products in the UK market.
- Copyr, S.p.A. (Copyr): In 2015 and 2014, it was primarily engaged in the manufacture and sale of automatic aerosol dispensers under its Copyrmatic brand. Copyr also produces products for ecological farming.
- Genómica, A.B.: In 2015 and 2014, it was engaged mainly in marketing diagnostic applications and related services in the Scandinavian market.
- Sylentis, S.A.U. (Sylentis): This company's main activity is the research, development, production and sale of products with therapeutic activity based on reducing or silencing gene expression, and pharmaceutical derivatives of same in a range of formulations and applied in various ways to all types of diseases; it does not yet have any products on the market.

The figures contained in the documents comprising these consolidated financial statements are expressed in thousands of euro.

2. ACCOUNTING PRINCIPLES

Below are described the main accounting principles adopted in drafting these consolidated financial statements. Those principles were applied on a uniform basis for all the years covered by these consolidated financial statements except where indicated otherwise.

A. Basis of presentation

These consolidated financial statements for 2015 and those for 2014 presented for comparison were prepared in accordance with the International Financial Reporting Standards and IFRIC interpretations adopted for use in the European Union in accordance with Regulation (EC) No 1606/2002 of the European Parliament and of the Council of 19 July 2002, by virtue of which all companies governed by the law of a Member State of the European Union and whose shares are listed on a regulated market of a Member State must prepare their consolidated accounts, for annual periods beginning on or after 1 January 2005, in accordance with the IFRS adopted by the European Union.

The consolidated financial statements were drawn up under the historical cost method, though modified in the case of available-for-sale financial assets and financial assets and liabilities (including derivatives) at fair value through profit or loss.

In order to draft the financial statements under IFRS, certain critical accounting estimates must be used. Management must also use its judgement when applying the Group's accounting policies. Note 4 details the areas that require greater judgement or are more complex and the areas where significant assumptions and estimates are made for the consolidated financial statements.

Except as indicated in Note 1, the accounting policies applied in drawing up the consolidated financial statements as of 31 December 2015 are coherent with those used to prepare the consolidated financial statements for the year ended 31 December 2014, as described in those consolidated financial statements, and no material estimates were made that are not consistent with those made in 2014.

Standards, amendments and interpretations that are obligatory for all annual periods beginning on or after 1 January 2015

The Group adopted the following standards for the first time during the financial year that commenced on 1 January 2015:

- IFRIC 21 "Levies"
- IFRS - Annual Improvements cycle 2011-2013

The application of the aforementioned standards and amendments did not have a material impact on the consolidated financial statements.

Standards, amendments and interpretations that have not yet entered into force but which may be adopted before annual periods commencing on or after 1 January 2016

At the date of signing these consolidated financial statements, the IASB and the IFRS Interpretations Committee had published the standards, amendments and interpretations described below whose application is mandatory from the year 2016 and which have been endorsed by the EU, although the Group has not adopted them in advance.

- IFRS - Annual Improvements cycle 2011-2012
- IAS 19 "Defined contribution plans: Employee benefits"
- IAS 16/IAS 38 "Clarification of acceptable methods of depreciation and amortization" Annual Improvements Cycle 2012-2014
- IAS 1 "Presentation of Financial Statements"

B. Consolidation principles

All undertakings over which the Group has control, including structured undertakings, are classified as subsidiaries. The Group is considered to control an undertaking when it is exposed, or has rights, to variable income from its involvement in the investee and it can use its power over it to influence such income. Subsidiaries are consolidated on the date on which their control is transferred to the Group and are deconsolidated on the date on which control ceases.

The Group uses the acquisition method for recognizing business combinations. Consideration for the acquisition of a subsidiary is measured as the fair value of the transferred assets, the liabilities incurred with the previous owners of the acquiree, and the equity instruments issued by the Group. The consideration will also include the fair value of any asset or liability which arises from any contingent consideration agreement. The identifiable assets and liabilities acquired and the liabilities and contingent liabilities assumed in a business combination are carried initially at their fair value on the acquisition date. For each business combination, the Group may elect to measure non-controlling interests at fair value or at the proportionate share of the recognized amounts of the acquiree's identifiable net assets.

Acquisition-related costs are recognized in profit or loss in the years that they are incurred.

If the business combination takes place in stages, the acquisition-date carrying amount of the acquirer's previously-held equity interest in the acquiree is re-measured at acquisition-date fair value through profit or loss.

Any consideration is recognized at acquisition-date fair value. Subsequent changes in the fair value of contingent consideration considered as an asset or liability are recognized in accordance with IAS 39 in profit or loss or as a change in other comprehensive income. Contingent consideration classified as equity is not re-measured and its subsequent settlement is recognized in equity.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previously-held equity interest in the acquiree with respect to the fair value of the identifiable net assets acquired is recognized as goodwill. If the total of the consideration transferred, the recognized non-controlling interest and previously-held equity interest is lower than the fair value of the net assets of a subsidiary acquired in very advantageous conditions, the difference is recognized directly in profit or loss.

If the subsidiary is fully consolidated, intercompany transactions, balances, and revenues and expenses on transactions between Group undertakings are eliminated. Also eliminated are gains and losses on intragroup transactions recognized as assets. The accounting policies of the subsidiaries have been modified where necessary to ensure uniformity with the Group's policies.

Note 1 details the identification data of the subsidiaries that are consolidated.

The financial year of all the subsidiaries is the calendar year.

Transactions with non-controlling interests

The Group recognizes transactions with minority interests as transactions with holders of Group equity. In acquisitions of minority interests, the difference between the price paid and the related proportion of the carrying value of the subsidiary's net assets is recognized in equity. Gains or losses resulting from the sale of minority interests are also recognized in equity.

C. Segment reporting

Operating segments are presented coherently with the internal information presented to the chief operating decision maker (CODM). The CODM is responsible for allocating resources to operating segments and for evaluating their performance. The Board of Directors has been identified as the CODM.

D. Foreign currency transactions

(a) Functional and presentation currency

The items in the financial statements of each Group undertaking are measured in the currency of the main economic environment in which the undertaking operates. Pharma Mar USA, the US subsidiary, has the euro as its functional currency, mainly because of its financing sources and its activity.

Regarding PharmaMar AG, the Swiss subsidiary, Pharma Mar Ltd, the UK subsidiary, and Genómica, AB, the Swedish subsidiary, their functional currencies in 2015 and 2014 were the Swiss franc, the pound sterling and the Swedish krona, respectively, as they have begun marketing pharmaceuticals and their sales are in local currency. The impact of translation to euro is not material given the small volume which their transactions represent with respect to the Group.

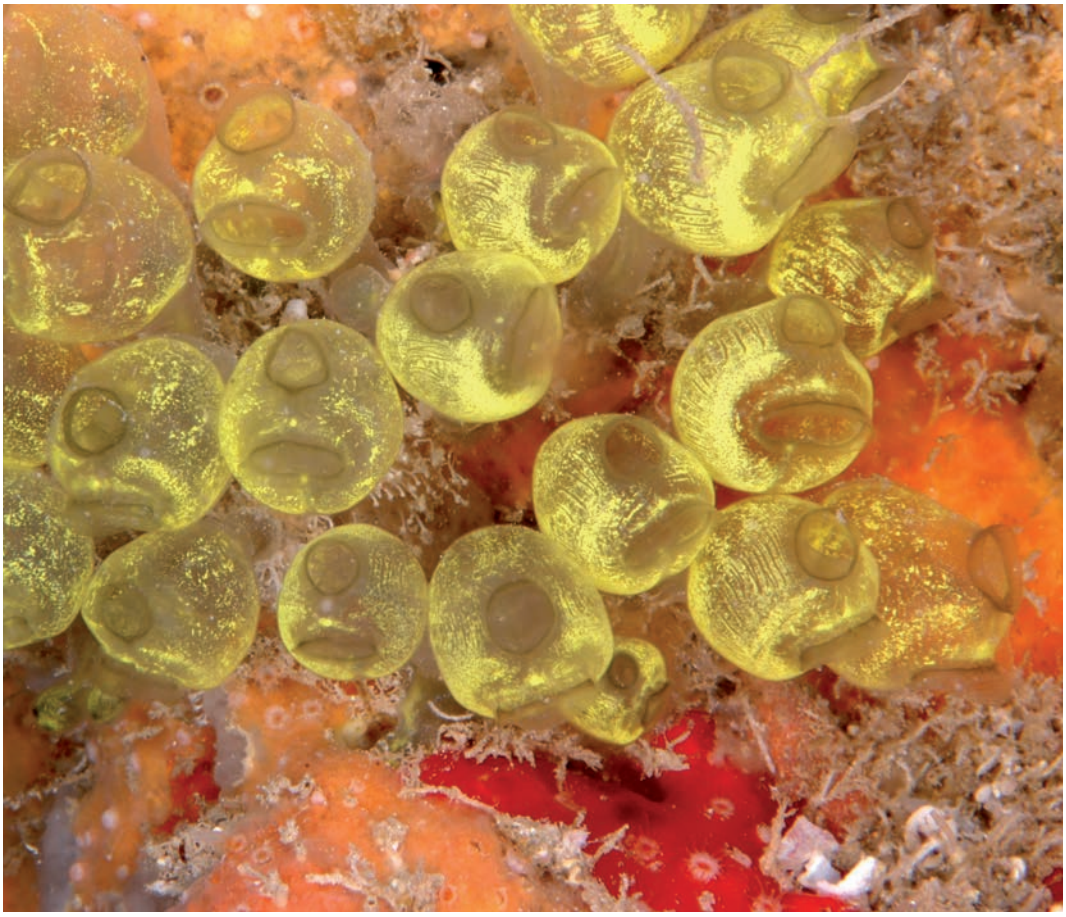
The consolidated financial statements are presented in thousands of euro, the Controlling Company's functional currency and the Group's presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated to the functional currency at the exchange rates ruling on the transaction dates, or the measurement dates in the case of revalued items. 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 other comprehensive income as a qualifying cash flow hedge or qualifying net investment hedge.

Exchange gains and losses are recognized in profit and loss under "Net financial income".

Changes in the fair value of available-for-sale financial assets denominated in foreign currency are analysed considering the exchange differences resulting from changes in the amortized cost of the instrument and other changes in the security's carrying amount. Translation differences related to changes in the amortized cost are recognized in profit and loss and other changes to the net carrying value are recognized in comprehensive income.



Translation differences on non-monetary financial assets and liabilities, such as equity instruments at fair value through profit or loss, are recognized in profit or loss as a component of that fair value gain or loss. Translation differences on non-monetary financial assets and liabilities, such as equity instruments classified as available for sale, are included in other comprehensive income.

(c) Group undertakings

The income and financial position of all the Group undertakings having a functional currency other than the presentation currency are translated to the presentation currency as follows:

- Assets and liabilities on each balance sheet are translated at the closing exchange rate on the balance sheet date;
- Revenues and expenses in each income statement are translated at the average exchange rates;
- All resulting translation differences are recognized in other comprehensive income;

Goodwill and fair value adjustments arising on the acquisition of a foreign undertaking are treated as assets and liabilities of the foreign undertaking and translated at the exchange rate applicable at the accounting close. The resulting translation differences are recognized in other comprehensive income.

E. Property, plant and equipment

Land and structures comprise mainly the buildings and installations of the parent company and subsidiaries in Colmenar Viejo and Tres Cantos, Madrid (PharmaMar) and Porriño, Pontevedra (ZelnovaZeltia and Xylazel). Items of property, plant & equipment are recognized at cost less any accumulated depreciation and impairment except in the case of land, which is presented net of impairment.

The historical cost includes expenses directly attributable to the acquisition of the items.

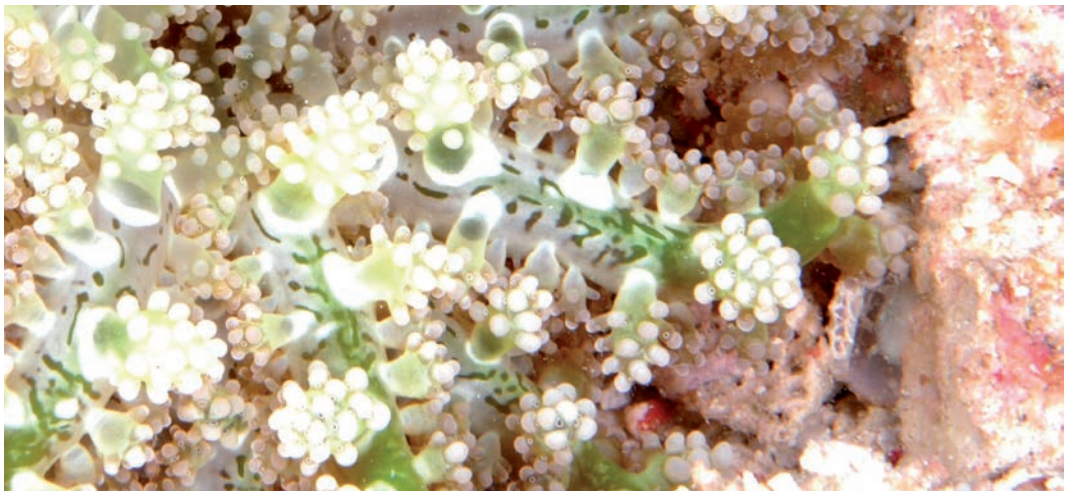
Subsequent costs are included in the asset's carrying amount or recognized as a separate asset only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. Other repairs and maintenance are expensed as incurred.

Land is not depreciated. Other assets are depreciated by the straight-line method to assign the difference between the cost and residual value over their estimated useful lives:

Years of useful life	
Structures	17-50
Machinery and installations	5-10
Tools and equipment	3-10
Furniture and fixtures	3-10
Vehicles	4-7
Computer hardware	4-7
Other assets	7-15

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

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



Gains and losses on the sale of property, plant & equipment, calculated by comparing the proceeds with the carrying amount, are recognized in profit and loss.

F. Investment property

The Group classifies as "investment property" the land and structures held to earn rent or for capital appreciation, or both, which are not occupied by the Group. The Group uses the cost model.

G. Intangible assets

a) Goodwill

Goodwill is recognized initially at fair value (see Note 2.B). Goodwill recognized separately is measured for impairment each year and carried at its cost less accumulated impairment losses. Impairment of goodwill is not reversible. Gains and losses on the sale of an undertaking include the carrying amount of the goodwill related to the sold undertaking.

For the purposes of impairment tests, goodwill acquired in a business combination is allocated to the cash-generating units or groups of cash-generating units that are expected to benefit from the synergies in the combination. Each unit or group of units to which goodwill is assigned represents the lowest level within the undertaking at which goodwill is monitored for internal management purposes.

Goodwill is measured for impairment on an annual basis, or more frequently if events or changes in circumstances indicate a potential impairment loss. The carrying amount of the cash-generative units containing goodwill is compared with their recoverable value, which is the value in use or the fair value less selling costs, whichever is higher. Impairment losses on goodwill are recognized immediately in profit or loss and are not reversed subsequently.

b) Trademarks and licences

These assets are carried at historical cost. Trademarks acquired from third parties are assumed to have an indefinite life; therefore, they are capitalized at their acquisition cost and not amortized. Consequently, they are measured for impairment at the end of each year.

c) Computer programs

Acquired computer software licences are capitalized based on the costs incurred to acquire and prepare them for using the specific program. Those costs are amortized over their estimated useful lives (mainly 5 years).

Computer program maintenance costs are recognized in profit or loss as incurred. Development expenses directly attributable to the design and testing of computer programs that are identifiable, unique and susceptible to being controlled by the Group are recognized as intangible assets when the following conditions are met:

- It is technically possible to complete production of the intangible asset so that it may be available for use or sale;
- Management intends to complete the intangible asset in question for use or sale;
- There is the capacity to use or sell the intangible asset;
- The form in which the intangible asset will generate likely economic benefits in the future is demonstrable;
- Sufficient technical, financial and other resources are available to complete development and to use or sell the intangible asset; and
- The cost attributable to the intangible asset during development can be measured reliably.

H. Research & development expenses

Research and development expenses are expensed as incurred. Development project costs (design and testing of new and improved products) are recognized as intangible assets when it is probable that the project will be successful, based on its technical and commercial viability; specifically, they are capitalized when the following requirements are met: (i) it is technically possible to complete production of the intangible asset so that it may be available for use or sale; (ii) management intends to complete the intangible asset in question for use or sale; (iii) there is the capacity to use or sell the intangible asset; (iv) the form in which the intangible asset will generate likely economic benefits in the future is demonstrable; (v) sufficient technical, financial and other resources are available to complete development and to use the intangible asset; and (vi) the cost attributable to the intangible asset during development can be measured reliably. Considering the nature of the bulk of development expenses incurred by the Group, i.e. connected to pharmaceutical development, and in line with standard practice in the industry, the requirements for capitalization are not considered to be fulfilled prior to the registration phase.

Development costs with finite useful lives that are recognized as an asset are amortized from the start of the product's commercial production on a straight-line basis over the period in which income is expected to be generated, which is at least the lifetime of the patent. Other development expenses are expensed as incurred.

Development costs that were previously expensed are not capitalized as an intangible asset in a subsequent year.

I. Impairment losses on non-financial assets

Intangible assets that have an indefinite useful life or intangible assets that are not capable of being used are not amortized and are tested annually for impairment losses. The assets that are amortized are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds the recoverable amount. The recoverable amount is determined as the fair value less the cost of sale, or the value in use, whichever is higher. To perform the impairment tests, the assets are grouped at the lowest level of separately identifiable cash flows (cash-generating units). Pre-existing impairment losses on non-financial assets (other than goodwill) are measured at each reporting date to consider the possibility of reversing the impairment.

J. Financial assets

Clasification

The Group classifies its financial assets as follows: financial assets at fair value through profit or loss, loans and receivables, and available-for-sale financial assets. The classification depends on the purpose for which the financial assets were acquired. Management classifies financial assets upon initial recognition.

- Financial assets at fair value through profit or loss

  These are financial assets held for trading which were acquired primarily to realize a gain as a result of fluctuations in their value. The assets in this category are classified as current assets if they are expected to be realized within 12 months from the balance sheet date. Derivatives are also classified as available for sale unless designated as hedges.

- 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 at over 12 months as from the balance sheet date, which are classified as non-current assets. The Group's loans and receivables include mainly the customer and other accounts receivable and the cash and cash equivalents on the balance sheet.

- Available-for-sale financial assets

  Available-for-sale financial assets are non-derivative financial assets that are designated as available for sale or are not classified in any of the other categories. They are included in non-current assets unless management plans to sell them within 12 months from the balance sheet date. Changes are recognized through equity (revaluation reserves).

Recognition and measurement

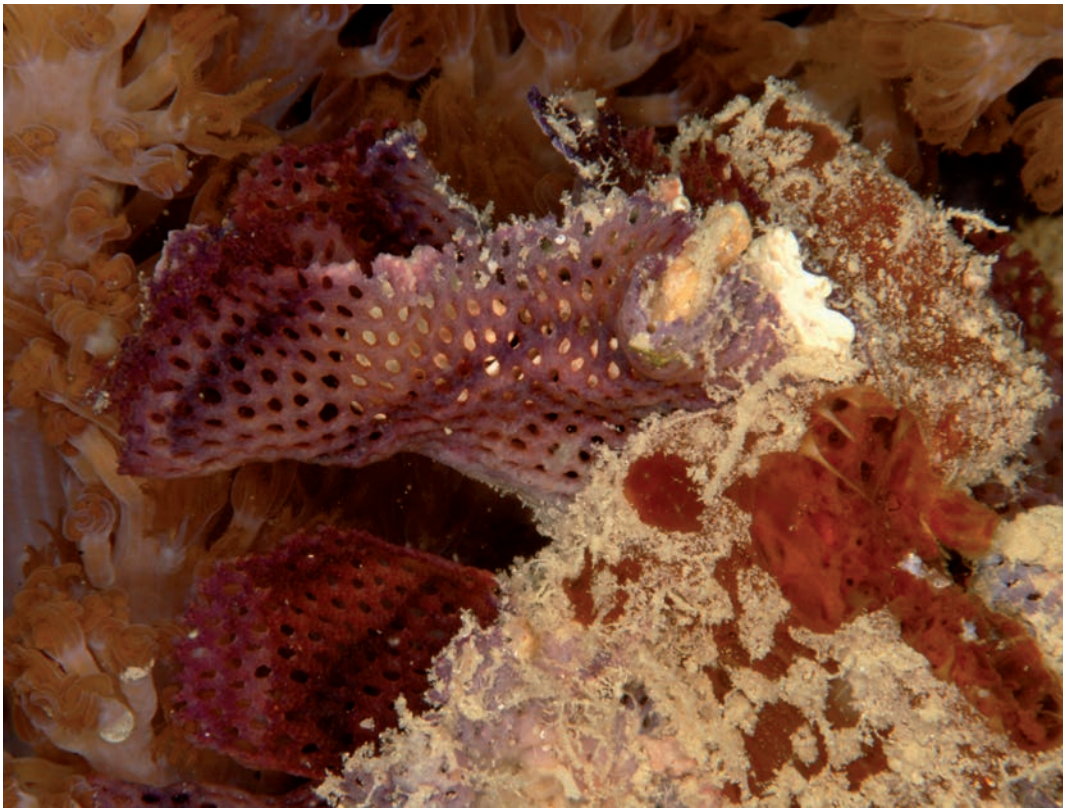
Habitual acquisitions or disposals of investments are recognized on the trade date, i.e. the date on which the Group undertakes to acquire or sell the asset. In the case of financial assets not at fair value through profit or loss, investments are initially recognized at fair value plus transaction costs. Financial assets at fair value through profit or loss are recognized initially at their fair value, and the transaction costs are recognized in profit or loss. Financial assets are derecognized when the rights to receive the investments' cash flows have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are carried at amortized cost using the effective interest method.

Gains or losses arising from fair value changes in "financial assets at fair value through profit or loss" are recognized in profit or loss under "Net financial income" in the year in which they arise.

Fair value changes in available-for-sale monetary and non-monetary financial assets are recognized in other comprehensive income.

When available-for-sale securities are sold or impaired, accumulated adjustments in the fair value through equity are recognized in profit or loss as "Net financial income".

Interest on instruments available for sale, calculated by the effective interest method, is recognized in profit or loss under other revenues. Dividends from equity instruments available for sale are recognized in profit and loss under other revenues when the Group becomes entitled to collect them.



Impairment losses on financial assets

Assets at amortized cost

At the balance sheet date, the Group assesses whether there is objective evidence that a financial asset or group of financial assets has been impaired. A financial asset or group of financial assets is deemed to be impaired if and only if there is objective evidence of a loss of value as a result of one or more events that occurred after initial recognition of the asset (a "triggering event") and such triggering event has an impact on the estimated future cash flows from the financial asset or group of financial assets that can be estimated reliably.

Evidence of impairment may include indications that a debtor or group of debtors is experiencing material financial difficulties, is in default or is late in paying interest or principal, the likelihood that they may enter a situation of insolvency or any other financial reorganization, and where there is observable evidence of a measurable decrease in the estimated future cash flows, such as changes in the payment conditions or in economic conditions that are correlated with defaults.

For the category of loans and accounts receivable, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows (ignoring future credit losses that have not been incurred), discounted at the original effective interest rate of the financial asset. The carrying amount of the asset is written down and the amount of the impairment is recognized in consolidated profit and loss. In practice, the Group can measure the impairment as a function of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment is reduced and that reduction can be attributed objectively to an event that took place after the impairment was recognized (e.g. an improvement in the debtor's credit quality), the previously recognized impairment is reversed through consolidated profit or loss.

Assets classified as held for sale

At the end of each accounting period, the Group assesses whether there is objective evidence that a financial asset or group of financial assets has been impaired.

If such evidence exists for debt instruments, the accumulated loss—measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset recognized previously in profit or loss—is eliminated in equity and is recognized in profit or loss. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively attributed to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss is reversed through consolidated profit or loss.

In the case of investments in equity instruments, a material or prolonged decline in the fair value of the instrument below its cost is also considered to be evidence of impairment. If such evidence exists, the accumulated loss— measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset recognized previously in profit or loss—is eliminated in equity and is recognized in profit or loss. Impairment losses recognized in consolidated profit or loss on net equity instruments are not reversed through consolidated profit or loss.

Offset of financial instruments

Financial assets and financial liabilities are offset and presented net on the balance sheet when the Group has a legally enforceable right to offset the amounts recognized and intends to settle them at their net amounts or to realize the asset and settle the liability simultaneously. The legally enforceable right should not be contingent upon future events and should be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the company or the counterparty. The Group does not consider there to be material nettable assets and liabilities.

K. Derivatives

The derivatives arranged by the Group do not qualify for hedge accounting; they are recognized at fair value on the contract date and subsequently measured at fair value. Changes in fair value are recognized immediately in profit or loss under “Net financial income".

L. Leases

Leases of property, plant and equipment in which the Group acts as lessor and has substantially all the risks and rewards incidental to ownership of the assets are classified as finance leases. Finance leases are capitalized at the start of the lease term at the fair value of the leased property or the present value of the minimum lease payments, whichever is lower. Each lease payment is apportioned between the reduction of the outstanding liability and the finance charge so as to produce a constant interest rate on the outstanding balance of the liability. The payment liability arising from the lease, net of the finance charge, is recognized in long-term liabilities, and the part payable in the next twelve months in current liabilities. The interest part of the finance charge is expensed during the lease term so as to produce a constant periodic interest rate on the outstanding balance of the liability in each period.

Leases where the lessor retains a significant portion of the risks and rewards incidental to ownership are classified as operating leases. Operating lease payments (net of any incentive received from the lessor) are expensed on a straight-line basis during the lease term.

M. Inventories

Inventories are measured at the lower of cost or net realizable value. Net realizable value is the estimated selling price in the ordinary course of business less the variable costs necessary to make the sale.

The cost price is obtained as follows:

- Commercial inventories, 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 (based on normal production capacity).

Inventories acquired and/or produced for the purposes of commercializing drugs are capitalized when it is determined that there is a strong likelihood that they will be commercialized, which is considered to occur when the requirements indicated in Note 2.H are met. Inventories are impaired up to that point, and the impairment charge is reversed once the strong probability of commercialization is demonstrable.

N. Trade receivables

Trade receivables are recognized initially at fair value and subsequently at amortized cost based on the effective interest method, minus any impairment. Impairment is recognized for trade receivables when there is objective evidence that the Group will not be able to collect all the outstanding amounts in accordance with the original terms of the receivables.

Part of the sales by the group undertakings is instrumented in the form of commercial bills and certifications, accepted by the customers or otherwise. In the accompanying consolidated balance sheets, the balances of customer accounts and commercial drafts receivable include the bills and certifications which had been discounted but had not yet matured as of 31 December, on which the Group has bad debt risk, and the same amount is recognized as a contra-item under bank loans.

At the end of each year, past-due debt is analysed and a decision is made as to how to proceed on the basis of its age and the prospects of collection. It is Group policy to claim default interest and principal due on late payment of amounts owed by certain public authorities (Note 14).

O. Cash and cash equivalents

Cash and cash equivalents include cash on hand, demand deposits at banks, and short-term, highly-liquid investments with an initial maturity of three months or less, and bank overdrafts. Bank overdrafts are classified as financial debt under current liabilities in the balance sheet.

P. Share capital and distribution of dividends

Ordinary shares are classified as equity. Incremental costs directly attributable to the issuance of new shares and options are shown in equity as a deduction, net of tax, from the proceeds obtained.

When any Group undertaking acquires shares of the Company (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes), is deducted from equity attributable to the Company's equity holders until cancellation, re-issuance or disposal. Where such shares are subsequently sold or re-issued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the Company's equity holders.

Dividends on ordinary shares are recognized in liabilities in the year that they are approved by the Company's shareholders.

Q. Government grants

Government grants are recognized at fair value when there is reasonable assurance that the grants will be received and the Group will comply with all the conditions attached to them. These grants are recognized on the basis of their maturity.

Government grants related to the acquisition of fixed assets are included under non-current liabilities as deferred official subsidies and are recognized in profit or loss on a straight-line basis over the expected life of those assets.

Subsidies related to the Group's research and development projects are recognized in profit or loss in proportion to the amortization of these intangible assets or when the asset is disposed of, impaired or derecognized. Subsidies tied to specific expenses are recognized in profit or loss in the year in which the related expenses are incurred.

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.

R. Trade accounts payabler

Trade accounts payable are obligations to pay for goods or services acquired from suppliers in the ordinary course of business. Accounts payable are classified as current liabilities if the payments fall due in one year or less.

S. Financial debt

Interest-bearing debt is recognized initially at fair value, net of the transaction costs incurred. Subsequently, debt is measured at amortized cost based on the effective interest method. The difference between the funds obtained (net of the necessary costs to obtain them) and the reimbursement value is recognized in profit or loss over the debt term based on the effective interest method.

Financial debt is classified under current liabilities unless the Group has an unconditional right to defer the liability settlement for at least twelve months from the balance sheet date.

When a loan is renegotiated, a decision is made whether or not to derecognize it as a financial liability depending on whether the initial loan varies and whether the present value of the cash flows, including net fees, using the effective interest rate of the original contract, varies by more than 10% with respect to the present value of the payment cash flows prior to renegotiation.

T. Current and deferred taxes

The income tax expense includes both current and deferred taxes. The tax is recognized in profit or loss except to the extent that it refers to items recognized directly in other comprehensive income or directly in equity. In that case, the tax is also recognized in other comprehensive income or directly in equity, respectively.

The current tax expense is calculated on the basis of tax law enacted or substantively enacted on the balance sheet date. Management regularly evaluates positions adopted in connection with tax returns regarding situations where the tax laws are open to interpretation, and recognizes any necessary provisions on the basis of the amounts expected to be paid to the tax authorities.

Deferred taxes are measured on the basis of the timing differences arising between the tax base of the assets and liabilities and their carrying amounts in these consolidated financial statements. However, deferred taxes arising from the initial recognition of an asset or liability in a transaction other than a business combination that does not affect the accounting result or the taxable gain or loss at the transaction date are not recognized. The deferred tax is determined by applying the tax rates (and regulations) enacted or substantially enacted on the balance sheet date and which will be applicable when the corresponding deferred tax asset is realized or the deferred tax liability is settled.

Deferred tax assets are recognized when it is probable that there will be future taxable income to offset the timing differences.

Deferred tax assets are recognized for tax-deductible timing differences arising from investments in subsidiaries, associates and joint agreements only to the extent that the timing difference is likely to be reversed in the future and a sufficient taxable profit is expected to be obtained against which to offset the timing difference.

Deferred tax assets and liabilities are offset if and only if there is a legally acknowledged right to offset current tax assets against current tax liabilities and when the deferred tax assets and liabilities arise from the tax on income levied by the same

tax authority on the same entity or taxable subject, or on different entities or taxable subjects wishing to settle current tax assets and liabilities for their net amount.

U. Employee benefits

a) Pensions and similar obligations

Some Group undertakings have been recognizing supplementary defined-contribution pensions for certain employees. These supplementary pensions are covered through a system of insurance policies arranged with an insurance company. The annual premium is recognized as a period expense.

b) Share-based payments

The Group has share-based equity-settled employee incentive plans which vest after employees have worked at the Group for a specific period.

The fair value of the services to be provided by those employees is determined with respect to the fair value of the shares granted. That amount is recognized in profit or loss as a personnel expense over the accrual period, while simultaneously recognizing a reserve for the incentive plans, for the same amount, under equity. The Group regularly reviews its assumptions and adjusts any deviation arising from employee rotation.

c) Termination indemnities

Termination indemnities are paid to employees as a result of the Group's decision to terminate the employment contract before the normal retirement age or when the employee agrees to resign voluntarily in exchange for those benefits. The group recognizes these benefits on the following dates, whichever is earlier: (a) when the Group can no longer withdraw the offer of such indemnities, or (b) when the entity recognizes the costs of a restructuring in the scope of IAS 37 which entails the payment of termination indemnities. When an offer to encourage voluntary termination by employees is made, termination indemnities are measured on the basis of the number of employees expected to accept the offer. Benefits that are not to be paid in the twelve months following the balance sheet date are discounted to their present value.

V. Provisions

Provisions for environmental restoration, and restructuring and litigation costs are recognized when: (i) the group has a present obligation, legal or implicit, as a result of past events; (ii) a cash outflow is likely to be needed to settle the obligation; and (iii) the amount has been estimated reliably. Restructuring provisions include lease cancellation penalties and employee termination indemnities. No provisions are recognized for future operating losses.

Where there are a number of similar obligations, the probability of the need for a cash outflow to settle them is determined considering the obligations as a whole. A provision is recognized even if the probability of an outflow in connection with any item contained in the same class of obligations is low.

Provisions are calculated at the present value of the disbursement expected to be needed to settle the obligation, using a pre-tax rate that reflects current market measurements of the time value of money and the specific risks attached to the obligation. An increase in the provision due to the passage of time is recognized as an interest expense.

W. Revenue recognition

Revenue is measured at the fair value of the consideration to be received, net of value-added tax, returns and discounts, after eliminating sales between Group undertakings.

Revenue is recognized only when there is sufficient evidence of an agreement with other parties, the products have been delivered or the services have been provided, the fees have been established, and collection is reasonably assured.

Product sales

The Group recognized revenue from total sales of products marketed in 2015 and 2014 at nominal value and claimed any applicable default interest from public authorities. Buyers are entitled to return sold goods. Based on past experience with similar sales, the Group considers that the return rate will not be material and, accordingly, considers that the conditions for recognizing ordinary revenue are met.

Provision of services

Revenues recognized for the provision of services are for treating and protecting wood, repairing and preserving structures, and for clinical analysis services.

Revenues from the provision of services are recognized in the accounting period in which the service is delivered, by reference to the degree of completion of the specific transaction, and measured on the basis of the current service expressed as a percentage of the total services to be provided.

Licensing, co-development and other similar agreements

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

Development phases

- Upfront payments collected by PharmaMar, which are generally non-refundable.
- Milestone payments, triggered when the compound to which the agreement refers (Yondelis® or Aplidin®) achieves development milestones, generally of a regulatory or commercial nature.

Marketing phase

- Royalty payments,
- Revenues from the supply of products (compounds).

As a general principle, the up-front payment is classified as revenue in the year in which the agreement is signed if: it is non-refundable, it is to offset costs incurred prior to the signature of the agreement, the Group does not assume material future obligations other than at arm's-length conditions, and the risks and advantages inherent to the asset are substantially transferred.

Otherwise, the amount is recognized as deferred revenue over the period of the commitments that are established, the product's remaining useful life or the applicable period on the basis of the project's degree of progress and its estimated total costs.

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

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

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

Interest revenues

They are recognized using the effective interest method.

Default interest on late payment of accounts receivable from public administrations is recognized once it has been collected.

Dividend revenues

These are recognized when the Group’s right to receive payment is established.

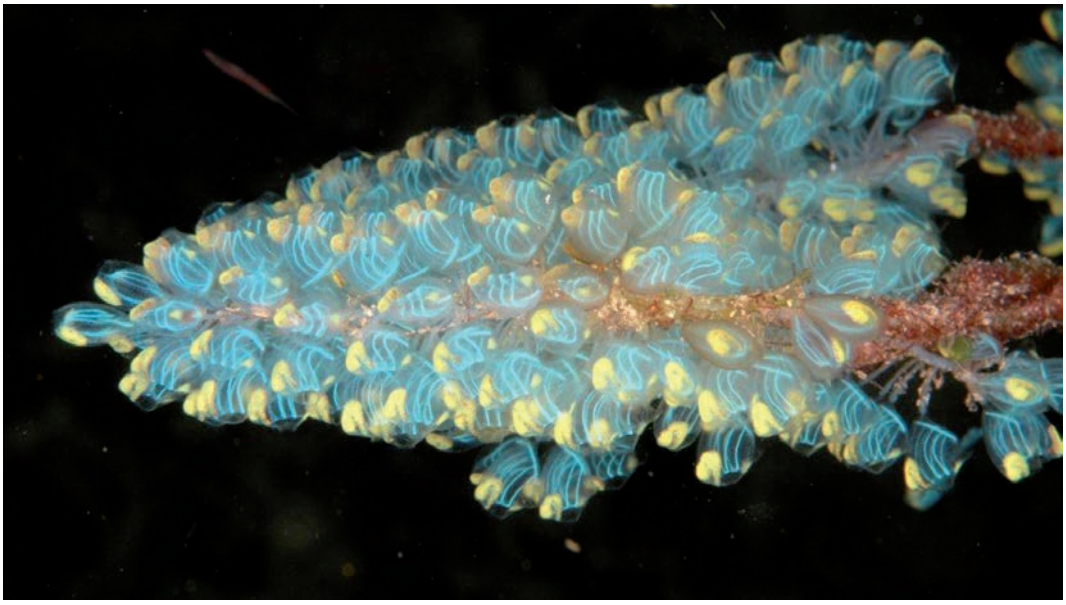
X. Non-current assets classified as held for sale and discontinued operations

a) Non-current assets classified as held for sale

Non-current assets are classified as held for sale if it is considered that their carrying amount will be recovered principally through a sale transaction rather than through ongoing use. This condition is considered to be met only where the sale is highly probable, the asset or group of assets is available for immediate sale in its present condition, and the sale is expected to be completed within one year from the date of classification. The total amount of such assets is presented in a single line-item and they are measured at the lower of their carrying amount and fair value less the necessary costs for the sale; depreciation and amortization cease to be taken from the time the assets are classified as available for sale.

b) Discontinued operations

Discontinued operations are those that have been sold or otherwise disposed of or which have been classified as available for sale and represent a geography or line of business that is material for the consolidated Group, or form part of a material line of business or geography for which there is a unique plan, or constitute a subsidiary



acquired exclusively for the purposes of resale. Income from discontinued operations, both in the current year and in those presented with it, are presented net of taxes in a specific line-item in the income statement identified as "Income from discontinued operations".

3. FINANCIAL RISK MANAGEMENT

3.1 Financial risks

The Group's activities are subject to a number of financial risks: market risk (including exchange rate risk, interest rate risk, fair value risk and price risk), credit risk, and liquidity risk. The Group's overall risk management programme focuses on the uncertainty of the financial markets and tries to minimise the potential adverse effects on the Group's returns. The Group uses financial derivatives to hedge certain risk exposures.

PharmaMar's Finance Department is responsible for risk management in accordance with the Board of Directors' guidelines. That Department identifies, evaluates and hedges the financial risks in close cooperation with the Group's operating units. The Board establishes guidelines for overall risk management and for specific areas such as exchange rate risks, interest rate risks, liquidity risks, the use of derivatives and non-derivatives, and investment of surplus liquidity.

a) Market risk

i) Exchange rate risk

Exchange rate risks arise from future commercial transactions, recognized assets and liabilities, and net investments in foreign operations.

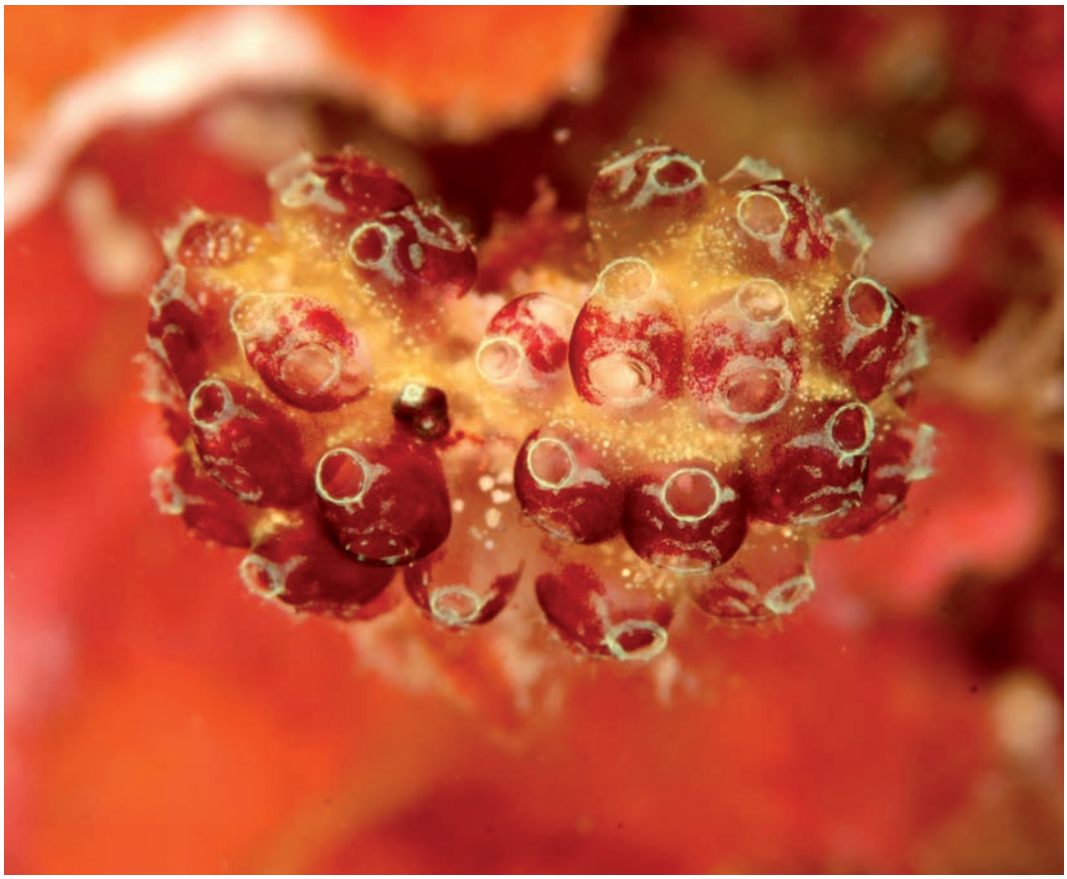
As of 31 December 2015 and 2014 and during the years ended on those dates, the consumer chemicals segment did not have balances and had not performed transactions in foreign currencies for material amounts (purchases amounting to

3,185 thousand euro in 2015 and 1,918 thousand euro in 2014); accordingly, Group management did not consider it necessary to establish a specific policy for hedging exchange rate risk, and it evaluates the need for hedges specifically on the basis of projected transactions. Consequently, as of 31 December 2015 and 2014, this segment did not have any type of exchange rate hedge in force.

The oncology segment engages in material transactions in foreign currencies. Although the amounts recognized on the balance sheet are not material, the volume of transactions in currencies other than the euro is material. Specifically, transactions in US dollars amounted to 27,495 thousand euro in 2015 (23,493 thousand euro in 2014). Group management did not consider it necessary to establish any policy for hedging in 2015 and 2014.

The Group has several investments in companies in other countries whose net assets are exposed to exchange rate risk, although the amounts are non-material in the context of the Group's operations.

If, as of 31 December 2015, the euro had appreciated by 5% with respect to the US dollar while all other variables remained constant, income after taxes for the year would have been lower by 778 thousand euro (298 thousand euro in 2013), mainly as a result of translation into euro of customer and other accounts receivable and debt denominated in US dollars. If, as of 31 December 2015, the euro had depreciated by 5% with respect to the US dollar while all other variables remained constant, income after taxes for the year would have been higher by 860 thousand euro (1,116 thousand euro in 2014). The material impact of variations in the dollar as of 31 December 2015 is due mainly to the amounts in dollars collected in both years, detailed in Note 32.



ii) Price risk

The Group is exposed to price risk of available-for-sale equity instruments and of shares in exchange-traded funds at fair value through profit or loss.

Investments in available-for-sale equity instruments are securities of foreign biopharmaceutical companies. Nevertheless, the Group's volume of investment in this type of asset is not material in the context of the Group's operations (Note 12).

The Group's policy with regard to those financial assets is to place cash in low-risk financial assets in order to ensure the availability of funds as they are needed for research and development operations in the oncology segment.

iii) Interest rate risk on cash flows and fair values

The Group's interest rate risk arises from remunerated financial assets recognized at amortized cost and from interest-bearing debt at floating rates.

Remunerated financial assets consist basically of government bonds, bank commercial paper and time deposits remunerated at floating interest rates, generally referenced to Euribor.

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

Based on the scenarios, the Group manages the interest rate risk of its cash flow by means of variable-to-fixed interest rate swaps. The economic impact of these swaps is to convert floating-rate debt into fixed-rate debt. Under interest rate swaps, the Group undertakes, vis-à-vis the counterparties, to exchange at regular intervals (generally each quarter) the difference between the fixed and floating interest rates on the notional amounts of principal established in the swaps. In 2011, the Group arranged an interest rate hedge contract which was still in force at 2015 year-end (Note 13).

If, as of 31 December 2015, the interest rates on the interest-bearing debt and remunerated assets had been 100 basis points higher, while all other variables remained constant, income after taxes for the period would have been 42 thousand euro lower (72 thousand euro in 2014).

b) Credit risk

Credit risk is managed in groups. Credit risk arises on deposits, time deposits and commercial paper arranged with banks and financial institutions, debt held through mutual funds in which the Group invests, cash and cash equivalents, and customer accounts receivable (Note 11).

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

Where customers are independently rated, that rating is used. Otherwise, the Group assesses the risk on the basis of the customer's financial position, past experience

and other factors. Where there is no doubt about a customer's solvency, no credit limits are set.

The policies of the funds in which the Group holds investments are as follows:

- Fixed-income funds that invest in sovereign or private sector debt (bonds, bills, commercial paper), generally secured, which pay periodic coupons.
- Money market funds comprising short-term fixed-income securities (18 months maximum), where security is given priority in exchange for a slightly lower yield than other investments.

The credit quality of the financial assets and of customers with which the Group had balances as of 31 December 2015 and 2014 is set out in Note 11. The composition of the Group's financial assets is set out in Notes 12, 13 and 14.

Regarding credit risk concentration, as of 31 December 2015, the Group had government bonds and bank products at 3 credit institutions amounting to 36,340 thousand euro (24,883 thousand euro in 2014).

With regard to credit risk with public authorities, management analyzes the credit quality and recoverability of outstanding balances and generally claims default interest when the average collection period exceeds 365 days (Note 14).

c) Liquidity risk

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

The net cash position—defined as cash and cash equivalents, plus current financial assets (45,625 thousand euro in 2015, 35,511 thousand euro in 2014) minus short-term financial debt (28,629 thousand euro in 2015, 44,466 thousand euro in 2014)—was negative in the amount of 16,996 thousand euro at the end of 2015 (-8,955 thousand euro in 2015).

Long-term debt amounted to 64,973 thousand euro (47,003 thousand euro in 2014), of which 27,972 thousand euro (26,092 thousand euro in 2014) was in the form of research and development loans from official bodies which are repayable over 10 years, with a three-year grace period, at zero or below-market interest rates.

As indicated in Note 1, sales in the oncology segment commenced in the fourth quarter of 2007 for one of the products, and they gained in strength with the marketing approval for a second therapeutic use in the second half of 2009; Yondelis® was approved for commercialization for the treatment of soft tissue sarcoma in both Japan and the US in the fourth quarter of 2015; the other products are still in the development phase. As in prior years, this segment is dependent upon the funds generated by the Group either through credit transactions, capital-raising or, to a lesser extent, funds generated by other segments of the Group, and on the Group's capacity to obtain new sources of finance on the market. This dependency will decline as the segment's revenues increase, both from sales and from licence agreements, particularly since

the segment's investments are now focused on oncology, following the decision in 2012 to discontinue investments in connection with the central nervous system (Alzheimer's disease). The Group regularly monitors liquidity projections on the basis of expected cash flows, particularly in this segment, and Management considers that it has sufficient cash, tradeable securities and credit lines available to meet its liquidity needs within the time horizon that is considered to be necessary.

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

- The Group's sound equity position as of 31 December 2015, net equity having increased by 21.6% in 2015.
- Positive operating income in the Group's two main business segments (oncology and consumer chemicals).
- The Group generated operating cash flow amounting to 11,101 thousand euro in 2015 (22,787 thousand euro in 2014).
- As of 31 December 2015, the Group's net debt/EBITDA ratio was 2.4 (2.1 at 2014 year-end). EBITDA is defined as earnings before interest, taxes, depreciation and amortization.

	2015	2014
Income before taxes	6,002	14,475
Net financial income	(5,327)	(5,762)
Amortization	(6,282)	(5,263)
Depreciation	(1,731)	(200)
EBITDA	19,342	25,700
Non-current and current financial assets	39,063	20,032
Cash and cash equivalents	7,629	16,551
Long-term & short-term interest-bearing debt	93,602	91,469
NET DEBT	(46,910)	(54,886)
NET DEBT/EBITDA	2.4	2.1

- As of 31 December 2015, the leverage ratio had improved by 8.66% with respect to the end of the previous year. Only 39.11% of funding is in the form of debt.
- The Group's ability to renegotiate its debt if it is considered necessary; this ability has increased in view of the improvement in net debt in recent years.
- The company has unused credit lines in the amount of 26.849 million euro.
- The Group ended the year with cash and cash equivalents plus current financial assets amounting to 45,625 thousand euro, 28.48% more than the previous year.

The table below shows an analysis of the Group's financial liabilities grouped by maturity based on the period remaining between the balance sheet date and the

contractual maturity date, including the corresponding interest. The amounts in the table are the contractual cash flows, which have not been discounted. Since those amounts have not been discounted, and they include future interest, they are not comparable with the amount of financial debt, derivatives and supplier and other accounts payable recognized in the balance sheet.

31 December 2015 (thousand euro)	Less than 1 year	1 to 2 years	2 to 5 years	Over 5 years	Total
Liabilities on balance sheet					
Bank debt and other interest-bearing debt	26,136	7,435	11,897	28,982	**74,450**
Debt to official authorities	4,699	5,149	13,317	14,481	**37,646**
Derivatives	14	0	0	0	**14**
Finance lease liabilities	59	0	0	0	**59**
Suppliers / Accounts payable	30,880	0	0	0	**30,880**
Other accounts payable	1,079	0	0	0	**1,079**
	62,867	**12,584**	**25,214**	**43,463**	**144,128**

31 December 2014 (thousand euro)	Less than 1 year	1 to 2 years	2 to 5 year	Over 5 years	Total
Liabilities on balance sheet					
Bank debt and other interest-bearing debt	42,389	10,625	7,279	4,863	**65,156**
Debt to official authorities	4,248	4,523	14,159	13,147	**36,077**
Derivatives	0	42	0	0	**42**
Suppliers / Accounts payable	26,070	0	0	0	**26,070**
Other accounts payable	2,640	0	0	0	**2,640**
	75,347	**15,190**	**21,438**	**18,010**	**129,985**

3.2. Capital management

To date, the Group's objectives with regard to capital have been to safeguard its capacity to continue as a going concern and to raise sufficient liquid funds to finance operations, basically in the oncology segment, having regard to the projected timelines for product launches in the market, research and development cash needs, and the costs of the various sources of funding.

To maintain or adjust the capital structure, the Group may adjust the amount of dividends payable to shareholders, refund capital to shareholders, issue new shares, or sell assets to reduce debt.

The group monitors its capital on the basis of the leverage ratio. This is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including current and non-current borrowings, as shown in the balance sheet) less cash and cash equivalents and financial assets. Capital is calculated as net equity, per the consolidated financial statements, plus net debt.

(thousand euro)	Balance as of 31/12/15	Balance as of 31/12/14
Long-term interest-bearing debt	64,973	47,045
Short-term interest-bearing debt	28,629	44,466
Cash and cash equivalents	(7,629)	(16,551)
Non-current and current financial assets	(39,063)	(20,032)
Equity	73,036	60,069
Total capital	**119,946**	**114,997**
Leverage	**39.11%**	**47.76%**

The good trend in leverage is attributable not only to the increase in the balance of cash and cash equivalents but also to the improvement in net equity.

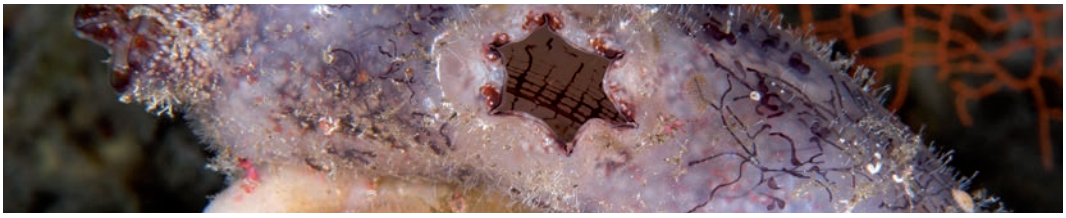
3.3. Fair value estimate

Financial instruments are classified as follows on the basis of the valuation method:

- Level 1. Quoted prices in active markets for identical assets or liabilities.
- Level 2. Observable inputs for the instrument, either direct (prices) or indirect (price-based).
- Level 3. Inputs not based on observable market data.

The table below presents the Group's assets and liabilities at fair value as of 31 December 2015:

31 December 2015 (thousand euro)	**Level 1**	**Level 2**	**Total**
Assets			
Loans and receivables			
- Term financial assets (Note 10)	0	38,315	**38,315**
Available-for-sale financial assets			
- Equity securities, net (Note 10)	20	0	**20**
Total assets	**20**	**38,315**	**38,335**
Liabilities			
Liabilities at fair value through profit or loss			
- Trading derivatives (Note 14)	0	14	**14**
Total Liabilities	**0**	**14**	**14**



The table below presents the Group's assets and liabilities at fair value as of 31 December 2014:

31 December 2014 (thousand euro)	Level 1	Level 2	Total
Assets			
Financial assets at fair value through profit or loss			
- Financial assets (Note 10)	18	19,263	**19,281**
Available-for-sale financial assets			
- Equity securities, net (Note 10)	19	0	**19**
Total assets	**37**	**19,263**	**19,300**
Liabilities			
Liabilities at fair value through profit or loss			
- Trading derivatives (Note 13)	0	42	**42**
Total Liabilities	**0**	**42**	**42**

The fair value of financial instruments that are traded in an active market is determined by the market price on the balance sheet date. A financial instrument is considered to be quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's-length basis. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in level 1.

The fair value of financial instruments that are not traded in an active market (e.g. over-the-counter derivatives) is determined by using measurement techniques. Measurement techniques make the maximum use of available observable market data and are based as little as possible on specific estimates by the entities. If all material data items required to measure an instrument's fair value are observable, the instrument is classified as Level 2.

If one or more of the significant items of data is not based on observable market data, the instrument is classified as level 3.

An instrument is classified on the basis of the lowest level input that is significant to the measurement of fair value in its entirety.

The fair value of unquoted fixed-rate debt securities is the price at which the internal rate of return matches the market yields in the government bond market at any given time, plus a spread or margin determined at the time of measurement.

4. ACCOUNTING ESTIMATES AND JUDGEMENTS

Assumptions and estimates are reviewed periodically and are based on past experience and other factors, including future expectations or future events that are considered to be reasonable in certain circumstances. The outcome of those events may differ from the initial projections.

Recognition of revenue under licensing and/or co-development agreements (Note 2.W)

Considering one of the Group's lines of business, it enters into licensing and/or co-development agreements with third parties in the oncology segment. Those agreements generally include many factors and the associated revenues must be matched with the costs and considerations to be paid by the Group. When deciding how to recognize the revenues (Note 2.W) from those transactions, the Group's directors consider the following factors, which determine the amount of revenues, if any, to be recognized:

- The economic base of the transaction.
- The valuation and distribution, on a fair value basis, of each item of consideration.
- The transfer of material risks and benefits deriving from ownership of the goods and whether there are any future performance obligations for the Group.
- The degree of progress with the project (milestones) and the estimated total costs.

Deferred tax assets (Note 2.T)

The Group is taxed on its income in a number of jurisdictions. In order to calculate the income tax expense (revenue), it is necessary to interpret the current tax legislation. The Group assesses the recoverability of deferred tax assets on the basis of estimates of future taxable income. The recoverability of deferred tax assets depends ultimately on the Group's ability to generate sufficient taxable income in the periods in which those deferred taxes are deductible. Changes in future tax rates or in the prospects of generating taxable income against which to recover the carrying amount of deferred tax assets may result in changes in that carrying amount.

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 2015 financial statements, the projections of revenues and expenses were re-estimated using Management's best estimates about the Company's business and the current and foreseeable economic situation.

In calculating expected future income and assessing the recoverability of the tax credits, only the companies belonging to the consolidated tax group of which PharmaMar is the head are considered. The main assumptions made in calculating expected future income and assessing the recoverability of the tax credits generated by the Group undertakings in Spain, all of which belong to the same consolidated tax group, are as follows:

- 2% average annual sales growth,
- 5% average annual growth in royaltie,
- 2% sustained annual growth in operating expenses.

Variations with respect to the management's assumptions in estimating future taxable income, especially the assumptions used in the Oncology segment, may materially affect the amounts recognized as deferred tax assets. If the actual outcome

of the key EBITDA assumptions in the business plans differs by 10% from management estimates, the Group will need to:

- Reduce the balance of deferred tax assets by 3,258 thousand euro to 29,321 thousand euro, if the difference is adverse, or
- Increase the balance of deferred tax assets by 3,258 thousand euro to 35,837 thousand euro, if the difference is favourable.

Note 26 details the assets recognized by the Group as of 31 December 2015 and 2014, and the assets not recognized by application of this approach.

Capitalized development expenses (Note 2.H)

Developing new drugs is subject to uncertainty due to the long period of maturation for the drugs and the technical results obtained at different stages of trials involved in the development process. It may prove necessary to abandon development at any stage of the process, whether because the drug does not meet medical or regulatory standards or because it proves unprofitable. For these reasons, the Group considers that uncertainty to have been dispelled once the product being developed has attained at least the registration phase.

Recoverable value of assets with an indefinite useful life (brands and goodwill) (Note 2.G)

When intangible assets are acquired from third parties, they are capitalized insofar as the requirements for asset recognition are met. Certain trademarks acquired by the Group for 9,786 thousand euro are not amortized and are subject to an impairment

test every year since Group Management considers that they have an indefinite life. Those trademarks were acquired in previous years and refer to chemical products, specifically cleaning products and insecticides with a long-established presence in the market. The impairment test is based on discounting future cash flow using the appropriate discount rates, in line with industry practices. Future cash flow is based on company projections and, therefore, involves a judgement. Future events may impair those assets, which would have a negative effect on Group earnings.

The principal types of asset to be recovered that are shown in the consolidated financial statements are as follows:

- Brands with a carrying amount of 9,786 thousand euro. The recovery of the brands is considered to be assured by their value in use or, otherwise, through their fair value less selling costs (Note 8).

- Goodwill with a carrying amount of 2,548 thousand euro. As described in Note 9, the recovery of the goodwill is considered to be assured in the current context of growth and profitability of the cash-generative unit comprising Copyr (consumer chemicals).

5. SEGMENT REPORTING

The Board of Directors is the highest decision-making body in operating matters. Management has determined the operating segments based on the information submitted to the Board of Directors for the purpose of assigning resources and assessing performance.

The Board of Directors evaluates the performance of the operating segments by monitoring revenue, gross margin, cost of sales, R&D expenses, marketing and distribution expenses and EBITDA. These figures represent a reasonable quantitative indicator for determining the operating segments that can be aggregated into a reporting segment because they have similar economic characteristics. Based on this analysis, the Group has identified four reporting business segments as of 31 December 2015 and 2014:

- Oncology. This segment encompasses the Group undertakings whose object is to research, develop and market anti-tumour drugs (Pharma Mar, S.A., Pharma Mar USA, PharmaMar AG, Pharma Mar SARL, Pharma Mar GmbH, Pharma Mar Ltd, Pharma Mar, S.r.L. and Pharma Mar, sprl).

- Diagnostics. This segment encompasses the development and marketing of diagnostic kits (Genómica and its subsidiary).

- RNAi. This segment encompasses the development of drugs with therapeutic activity based on reducing or silencing gene expression (Sylentis).

- Consumer chemicals. This segment comprises Group undertakings that produce and market insecticides and air fresheners for household use, household products, wood treatment and decoration products, paints, and similar products. The subsidiaries that operate in this segment are ZelnovaZeltia, Xylazel and Copyr.

  Unassigned amounts relate mainly to corporate functions.

  Income by reporting segment for the year ended 31 December 2015 is as follows:

	Biopharmaceuticals					
(thousand euro)	Oncology	Diagnostics	RNAi	Consumer chemicals	Unallocated	Group
Revenues	119,245	6,202	0	67,348	1,022	**193,817**
Cost of sales	(6,375)	(2,609)	0	(35,928)	(793)	**(45,705)**
Other operating revenues / Other net gains	2,426	393	701	304	0	**3,824**
R&D expenses	(52,352)	(2,218)	(5,687)	(34)	0	**(60,291)**
Other expenses	(38,651)	(3,434)	(197)	(28,153)	(9,881)	**(80,316)**
Net operating income	**24,293**	**(1,666)**	**(5,183)**	**3,537**	**(9,652)**	**11,329**
Net financial income	**(3,198)**	**(174)**	**(259)**	**(723)**	**(973)**	**(5,327)**
Income before taxes	**21,095**	**(1,840)**	**(5,442)**	**2,814**	**(10,625)**	**6,002**
Income tax expense	281	521	738	(993)	107	**654**
Income from continuing operations	**21,376**	**(1,319)**	**(4,704)**	**1,821**	**(10,518)**	**6,656**
Discontinued operations: Income from discontinued operations	**0**	**0**	**0**	**0**	**(93)**	**(93)**
Attributable to equity-holders of the parent company	0	0	0	0	(68)	**(68)**
Attributable to non-controlling interests	0	0	0	0	(25)	**(25)**
Income for the year attributable to:	**21,375**	**(1,318)**	**(4,704)**	**1,823**	**(93)**	**6,563**
Equity-holders of the parent company	21,375	(1,318)	(4,704)	1,823	(68)	**6,588**
Non-controlling interests	0	0	0	0	(25)	**(25)**
Net operating income	24,293	(1,666)	(5,183)	3,537	(9,652)	**11,329**
Depreciation and amortization	(4,548)	(497)	(140)	(897)	(200)	**(6,282)**
Provisions	(1,042)	0	0	(692)	3	**(1,731)**
EBITDA	**29,883**	**(1,169)**	**(5,043)**	**5,126**	**(9,455)**	**19,342**

Assets and liabilities by reporting segment as of 31 December 2015 are presented as supplementary information:

	Biopharmaceuticals					
(thousand euro)	Oncology	Diagnostics	RNAi	Consumer chemicals	Unallocated	Group
Non-current assets	75,139	4,400	899	19,340	26	**99,804**
Current assets	71,041	4,211	3,159	31,647	2,077	**112,135**
Non-current liabilities	62,544	1,804	3,318	614	0	**68,280**
Current liabilities	54,793	3,099	901	11,547	283	**70,623**
Investment in fixed assets	4,435	2,290	156	1,372	2	**8,255**

The income by reporting segment for the year ended 31 December 2014 is as follows:

	Biopharmaceuticals					
(thousand euro)	Oncology	Diagnostics	RNAi	Consumer chemicals	Unallocated	Group
Revenues	102,922	5,487	0	65,583	810	**174,802**
Cost of sales	(2,909)	(2,099)	0	(35,123)	(634)	**(40,765)**
Other operating revenues / Other net gains	1,068	38	802	348	2	**2,258**
R&D expenses	(39,368)	(1,459)	(5,166)	(484)	0	**(46,477)**
Other expenses	(30,622)	(3,381)	(540)	(25,634)	(9,404)	**(69,581)**
Net operating income	**31,091**	**(1,414)**	**(4,904)**	**4,690**	**(9,226)**	**20,237**
Net financial income	**(3,842)**	**(130)**	**(191)**	**(760)**	**(839)**	**(5,762)**
Income before taxes	**27,249**	**(1,544)**	**(5,095)**	**3,930**	**(10,065)**	**14,475**
Income tax expense	720	446	915	(765)	(2,620)	**(1,304)**
Income from continuing operations	**27,969**	**(1,098)**	**(4,180)**	**3,165**	**(12,685)**	**13,171**
Discontinued operations: Income from discontinued operations	**0**	**0**	**0**	**0**	**(76)**	**(76)**
Attributable to equity-holders of the parent company	0	0	0	0	(56)	**(56)**
Attributable to non-controlling interests	0	0	0	0	(20)	**(20)**
Income for the year attributable to:	**27,971**	**(1,099)**	**(4,180)**	**3,165**	**(12,761)**	**13,095**
Equity-holders of the parent company	27,971	(1,099)	(4,180)	3,165	(12,741)	**13,115**
Non-controlling interests	0	0	0	0	(20)	**(20)**
Net operating income	31,091	(1,414)	(4,904)	4,690	(9,226)	**20,237**
Depreciation and amortization	(3,481)	(403)	(250)	(922)	(208)	**(5,264)**
Provisions	0	0	0	(166)	(33)	**(199)**
EBITDA	**34,572**	**(1,011)**	**(4,654)**	**5,778**	**(8,985)**	**25,700**

Assets and liabilities by reporting segments as of 31 December 2014 are presented as supplementary information:

	Biopharmaceuticals					
(thousand euro)	Oncology	Diagnostics	RNAi	Consumer chemicals	Unallocated	Group
Non-current assets	60,855	2,695	987	19,443	8,332	**92,312**
Current assets	51,707	4,022	1,878	29,229	15,080	**101,916**
Non-current liabilities	38,592	1,517	2,584	1,398	7,442	**51,533**
Current liabilities	57,257	2,030	678	11,029	11,632	**82,626**
Investment in fixed assets	8,246	1,326	48	836	63	**10,519**

In 2015 and 2014, there were no material transactions between reporting segments, and no goodwill impairment losses were recognized.

In 2015 and 2014, the Group recognized losses due to impairment of inventories and trade accounts receivable amounting, respectively, to 103 thousand euro and 204 thousand euro, mainly in the consumer chemicals segment in both years.

The following tables show revenues and non-current assets (property, plant and equipment, and intangible assets) of the Group, by geographical area:

Revenues (thousand euro)	**2015**	**2014**
Spain	72,554	65,655
Rest of the European Union	84,908	76,174
United States and rest of the world	36,355	32,973
	193,817	**174,802**

Non-current assets (thousand euro)	**2015**	**2014**
Spain	63,307	61,307
Rest of the European Union	303	1,138
	63,610	**62,445**

Most of the Group's sales are in Spain and other European Union countries. The euro area accounted for 81.24% of total sales in 2015 (81.14% in 2014).

The assets in other countries refer primarily to the Group's offices in Italy. Almost all the investment in property, plant and equipment, intangible assets and investment property in 2015 and 2014 was concentrated in Spain.

Revenues of companies in the consumer chemical sector amounted to 67,348 thousand euro (65,583 thousand euro in 2014), of which 50,775 thousand euro correspond to the insecticides/home care division (50,379 thousand euro in 2014) and 16,573 thousand euro to the wood treatment/paint division (15,204 thousand euro in 2014).

6. PROPERTY, PLANT AND EQUIPMENT

The breakdown of, and changes in, this caption in 2015 and 2014 are as follows:

(thousand euro)	Balance as of 31-12-14	Recognitions	Derecognitions	Reclassifications and transfers	Exchange rate effect	Balance as of 31-12-15
Land and structures	26,145	337	0	611	0	27,093
Technical installations and machinery	27,342	2,423	(106)	385	2	30,046
Other installations, tools and furniture	16,205	1,102	0	1,572	0	18,879
Advances & construction in progress	1,786	1,135	0	(2,566)	0	355
Other property, plant & equipment	7,153	364	(122)	(72)	0	7,323
Provisions	(84)	(1,033)	0	0	0	(1,117)
Cost	**78,547**	**4,328**	**(228)**	**(70)**	**2**	**82,579**
Structures	(8,208)	(622)	0	0	0	(8,830)
Technical installations and machinery	(20,443)	(1,510)	46	0	0	(21,907)
Other installations, tools and furniture	(15,539)	(302)	0	(2)	0	(15,843)
Advances & construction in progress	0	0	0	0	0	0
Other property, plant & equipment	(5,139)	(430)	122	72	0	(5,375)
Accumulated depreciation and amortization	**(49,329)**	**(2,864)**	**168**	**70**	**0**	**(51,955)**
PROPERTY, PLANT AND EQUIPMENT	**29,218**	**1,464**	**(60)**	**0**	**2**	**30,624**

(thousand euro)	Balance as of 31-12-13	Recognitions	Derecognitions	Reclassifications and transfers	Exchange rate effect	Balance as of 31-12-14
Land and structures	25,923	222	0	0	0	26,145
Technical installations and machinery	26,692	1,844	(1,375)	180	1	27,342
Other installations, tools and furniture	16,731	13	(10)	(529)	0	16,205
Advances & construction in progress	132	1,940	(3)	(283)	0	1,786
Other property, plant & equipment	7,104	316	(264)	(3)	0	7,153
Provisions	(84)	0	0	0	0	(84)
Cost	**76,498**	**4,335**	**(1,652)**	**(635)**	**1**	**78,547**
Structures	(7,589)	(619)	0	0	0	(8,208)
Technical installations and machinery	(20,243)	(1,456)	1,036	220	0	(20,443)
Other installations, tools and furniture	(15,538)	(221)	10	210	0	(15,539)
Advances & construction in progress	0	0	0	0	0	0
Other property, plant & equipment	(5,169)	(439)	264	205	0	(5,139)
Accumulated depreciation and amortization	**(48,539)**	**(2,735)**	**1,310**	**635**	**0**	**(49,329)**
PROPERTY, PLANT AND EQUIPMENT	**27,959**	**1,600**	**(342)**	**0**	**1**	**29,218**

The additions in 2015 are basically acquisitions of plant and other installations. Of the plant added in 2015, approximately 42% were acquisitions by the diagnostics segment and approximately 27% by the consumer chemical segment; derecognitions in the year were mainly in the oncology segment. All additions of new facilities were in the oncology and diagnostics segments, specifically the new fermentation plant and logistics warehouse for product distribution from Spain to the rest of Europe, and the new facilities in the diagnostics area.

At year-end, impairment had been recognized on the carrying amount of land owned by PharmaMar in the amount of 1,033 thousand euro.

Since the Group chose to prepare the income statement by function, the depreciation charge for property, plant and equipment is distributed as follows: the 2,864 thousand euro depreciation charge (2,735 thousand euro in 2014) includes cost of goods sold amounting to 939 thousand euro (708 thousand euro in 2014), marketing expenses amounting to 271 thousand euro (345 thousand euro in 2014), administration expenses amounting to 759 thousand euro (598 thousand euro in 2014), research and development expenses amounting to 893 thousand euro (1,062 thousand euro in 2014), and other operating expenses amounting to 2 thousand euro (22 thousand euro in 2014).

The additions in 2014 are basically acquisitions of plant as well as supplier advances and construction in progress. Of the plant added in 2014, approximately 79% were acquisitions by the biopharmaceutical companies; the remainder were in the consumer chemical segment; derecognitions in the year were concentrated in the biopharmaceutical segment (approximately 82%). The increase in supplier advances for construction in progress relate entirely to the biopharmaceutical companies, mainly the new fermentation plant at PharmaMar (1,661 thousand euro) and in-house work performed by Genómica (279 thousand euro). Derecognitions of plant and equipment in 2014 were due to Genómica's move to new installations.

There are a number of assets under finance leases: plant, machinery, tools and furniture with a net carrying amount of 59 thousand euro in 2015 (178 thousand euro in 2014).

One building is collateral for one of the bank loans. It is a building owned by PharmaMar (biopharmaceutical segment) in Colmenar Viejo, Madrid province, with a net carrying amount of 9,659 thousand euro as of 31 December 2015 (11,184 thousand euro in 2014). The original financial liability was cancelled in 2014 and a new financial liability was recognized subsequently. The initial amount of the transaction, signed in 2014, was 9,000 thousand euro, maturing in 2024. As of 31 December 2015, the unamortized balance of the loan amounted to 7,824 thousand euro.

7. INVESTMENT PROPERTY

The Group has land and structures classified as investment property.

In 2015, the land was appraised by an independent appraiser and, as a result, an impairment of 741 thousand euro was recognized.

Based on independent appraisals, the Company has concluded that the fair value of the structures does not differ materially from their carrying amount at year-end.

Since the Group chose to prepare the income statement by function, the depreciation charge for investment property was distributed to other operating expenses.

8. INTANGIBLE ASSETS

The breakdown of, and changes in, this caption in 2015 and 2014 are as follows:

(thousand euro)	Balance as of 31/12/14	Recognitions	Derecognitions	Reclassifications and transfers	Balance as of 31/12/15
Development expenses	19,928	3,258	0	0	23,186
Concessions, patents & trade marks	10,765	0	(15)	0	10,750
Computer software	5,043	669	(5)	70	5,777
Advances on intangible assets	38	0	0	0	38
Cost	**35,774**	**3,927**	**(20)**	**70**	**39,751**
Development expenses	(4,449)	(3,008)	0	0	(7,457)
Concessions, patents & trade marks	(795)	(25)	15	0	(805)
Computer software	(4,242)	(343)	(5)	(70)	(4,660)
Accumulated depreciation and amortization	**(9,486)**	**(3,376)**	**10**	**(70)**	**(12,922)**
INTANGIBLE ASSETS	**26,288**	**551**	**(10)**	**0**	**26,829**

(thousand euro)	Balance as of 31/12/13	Recognitions	Derecognitions	Balance as of 31/12/14
R&D expenses	13,949	5,979	0	19,928
Concessions, patents & trade marks	10,765	0	0	10,765
Computer software	4,908	205	(70)	5,043
Advances on intangible assets	38	0	0	38
Cost	**29,660**	**6,184**	**(70)**	**35,774**
R&D expenses	(2,464)	(1,985)	0	(4,449)
Concessions, patents & trade marks	(662)	(133)	0	(795)
Computer software	(3,944)	(368)	70	(4,242)
Accumulated depreciation and amortization	**(7,070)**	**(2,486)**	**70**	**(9,486)**
INTANGIBLE ASSETS	**22,590**	**3,698**	**0**	**26,288**

Computer software is mainly licences for office, communication and management software acquired from third parties.

Development expenses

The Group capitalizes the amount of clinical trials performed with drugs developed in-house that fulfil the conditions described in Notes 2.H and 4.

As of 31 December 2015, the Group had capitalized the cost of several clinical trials with Yondelis® (trabectedin) in both soft tissue sarcoma and ovarian cancer. Those trials were performed for two purposes:

- To support and provide the necessary input for the process of approval by the FDA and other regulators.
- To obtain a reimbursement price in other locations in response to requirements by the regulatory agencies of certain countries.

There were no signs of impairment of the expenses capitalized under "Development expenses" as of 31 December 2015.

Since the Group chose to prepare the income statement by function, the amortization charge for intangible assets in 2015, i.e. 3,376 thousand euro (2,486 thousand euro in 2014) is distributed as follows: 124 under administrative expenses (106 thousand euro in 2014), 3,252 thousand euro in research and development expenses (2,101 in 2014) and zero other operating expenses (279 thousand euro in 2014).

Brands

Trademarks comprise practically the entire balance of this caption. The trademarks belong to one of the consumer chemical companies and were acquired from third parties. They are measured at the price paid on acquisition (in 1994 and 2003, fundamentally) and, since they are considered to have an indefinite life, they are not amortized. They are assessed for impairment each year with the goodwill referred to in the next note. The net carrying amount of the brands under assets is currently 9,786 thousand euro.

The recoverable amount of the brands is determined on the basis of calculating their value in use.

These calculations are based on cash flow projections contained in the 5-year business plan approved by management.

The key assumptions used to calculate the value in use are as follows:

- Projection periods: 5 years.
- Gross margin between 54% and 61% of revenues (53% and 59% in 2014).
- Annual growth rate of 3% (the same as in 2014).
- Pre-tax discount rate: 6% (9% in 2014).

Apart from the discount rates, the most sensitive factors contained in the projections that are used, which are based on industry projections and past experience, are as follows:

- Maintenance of the current domestic customer base, and expansion of exports,
- Normal weather conditions,
- Stable regulatory framework,
- Stable commodity prices,

The recoverable amount estimated from the value in use exceeds the carrying amount by 31,262 euro. Taken in isolation, a gross margin of 23-28% of revenues (22-27% in 2014), 0% annual growth in revenues (the same as in 2014) or an increase of 10% in the discount rate before tax would not result in impairment.

9. GOODWILL

Subsidiary Zelnova Zeltia, within the Group's consumer chemicals division, acquired 100% of the shares of Copyr from third parties in 2006. The Group recognized 2,548 thousand euro in goodwill.

The business of the acquired company, which is very similar to that of Zelnova Zeltia, consists of selling automatic aerosol dispensers, air fresheners and insecticides, and treatments for ecological agriculture. The factors contributing to the cost of the transaction, which led to the recognition of goodwill, include the possibility of taking advantage of Copyr's potential as an independent unit, the promotion of ZelnovaZeltia's range of consumer products in the Italian and other European markets (mainly in the Mediterranean area) where Copyr operates, and synergies in raw material procurement costs and in production costs between ZelnovaZeltia and Copyr. For this reason, the goodwill arising from this business combination was assigned to the group of cash-generative units consisting of Copyr and ZelnovaZeltia, which is part of the consumer chemicals segment.

The annual impairment review of goodwill is performed as of the end of each year.

The recoverable amount is determined based on calculations of value in use.

These calculations are based on cash flow projections contained in the 5-year business plan approved by management.

The key assumptions used to calculate the value in use are as follows:

- Projection periods: 5 years plus the terminal value.
- EBITDA amounting to 9% of revenues (the same as in 2014).
- Annual growth rate of 3% (the same as in 2014).
- Pre-tax discount rate: 6% (9% in 2014).

Taken in isolation, a 1% reduction in EBITDA as a percentage revenues, 0% annual growth in revenues (the same as in 2014) or an increase of 6% in the discount rate before tax would not result in impairment.

10. FINANCIAL INSTRUMENTS BY CATEGORY

The accounting policies with respect to financial instruments were applied to the sections detailed below:

31 December 2015 (thousand euro)	**Loans and accounts receivable / payable**	**Assets/liabilities at fair value through profit or loss**	**Available for-sale assets**	**Total**
Assets on balance sheet				
Non-current financial assets				
Equity instruments	0	319	0	**319**
Available for sale (Note 12)	0	0	20	**20**
Accounts receivable	728	0	0	**728**
Current financial assets				
Customer receivables (Note 15)	39,513	0	0	**39,513**
Accounts receivable (Note 15)	609	0	0	**609**
Supplier advances (Note 15)	78	0	0	**78**
Current financial assets (Note 13)	37,996	0	0	**37,996**
Cash and cash equivalents (Note 18)	7,629	0	0	**7,629**
	86,553	**319**	**20**	**86,892**
Liabilities on balance sheet				
Non-current borrowings (Note 26)	64,973	0	0	**64,973**
Current borrowings (Note 26)	28,629	0	0	**28,629**
Supplier and other accounts payable (Note 23)	31,959	0	0	**31,959**
Derivatives (Note 14)	0	14	0	**14**
	125,561	**14**	**0**	**125,575**

31 December 2014 (thousand euro)	Loans and accounts receivable / payable	Assets/liabilities at fair value through profit or loss	Available for-sale assets	Total
Assets on balance sheet				
Non-current financial assets				
Equity instruments	0	320	0	**320**
Available for sale (Note 12)	0	0	19	**19**
Accounts receivable	733	0	0	**733**
Current financial assets				
Customer receivables (Note 14)	36,218	0	0	**36,218**
Accounts receivable (Note 14)	677	0	0	**677**
Supplier advances (Note 14)	94	0	0	**94**
Current financial assets	18,961	0	0	**18,961**
Cash and cash equivalents (Note 17)	16,551	0	0	**16,551**
	73,234	**320**	**19**	**73,573**
Liabilities on balance sheet				
Non-current borrowings (Note 25)	47,003	0	0	**47,003**
Current borrowings (Note 25)	44,466	0	0	**44,466**
Supplier and other accounts payable (Note 22)	28,710	0	0	**28,710**
Derivatives (Note 13)	0	42	0	**42**
	120,179	**42**	**0**	**120,221**

11. CREDIT QUALITY OF FINANCIAL ASSETS

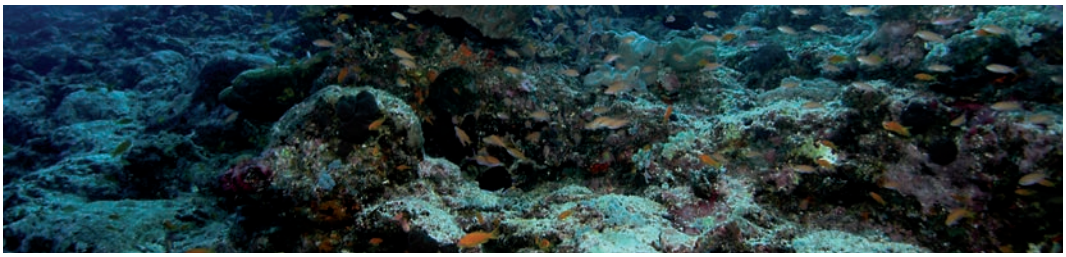
The credit quality of the financial assets that have not yet matured can be assessed on the basis of credit ratings provided by bodies external to the Group or by the past history of default:

(thousand euro)		2015	2014
Accounts receivable:			
Customers without an external credit rating			
	Group 1	4,654	493
	Group 2	33,365	22,607
	Group 3	1,094	846
Customers with an external credit rating		400	12,272
Total accounts receivable		**39,513**	**36,218**

Cash and cash equivalents plus non-current and current financial assets:		
Moody's rating		
	2015	**2014**
A1	40	14
A3	1,705	325
Aa3	23	0
B1	29	653
Ba1	7,623	93
Ba2	2	11,918
Ba3	63	10,344
Baa1	11,093	202
Baa2	76	802
Baa3	22,254	7,703
B1u	0	764
Caa1	1,721	225
Unrated	2,063	3,540
Total	**46,692**	**36,583**

Group 1 - New customers (under 6 months)
Group 2 - Existing customers (over 6 months) with no bad debt history
Group 3 - Existing customers (over 6 months) with bad debt history
All receivables were ultimately collected

None of the unmatured financial assets was renegotiated during the year. See credit quality of accounts receivable from public authorities, in Note 15.



12. FINANCIAL ASSETS AVAILABLE FOR SALE

Available-for-sale financial assets include securities traded on official markets that are denominated in US dollars. All of the financial assets available for sale consist of shares listed on the US market, all of them in the biopharmaceutical sector. Their fair value matches their published market price: 20 thousand euro (19 thousand euro in 2014).

Marking these securities to market in 2015 on the basis of their official quoted prices led to a positive change of 1 thousand euro (5 thousand euro in 2014) in other comprehensive income.

13. DERIVATIVE FINANCIAL INSTRUMENTS

One of the floating-rate loan contracts has an associated derivative financial instrument to hedge floating interest rate risk at a fixed rate, with the characteristics shown in the table below (Note 3.1.iii):

						Fair value as of 31 December	
Starting date	**Notional amount**	**Maturity date**	**Fixed interest rate**	**Floating interest rate**	**Frequency**	**2015**	**2014**
8 July 2011	5,000,000	8 July 2016	7.90%	Euribor 180 + 5%	Quarterly	14	42

The Group's hedge does not qualify for hedge accounting. In 2015, that derivative generated a gain of 28 thousand euro (53 thousand euro in 2014) that was recognized in financial income (Note 35). There were no exchange rate hedge contracts as of 31 December 2015 or 2014.

14. CUSTOMER AND OTHER ACCOUNTS RECEIVABLE

The detail of this caption as of 31 December 2015 and 2014 is as follows:

(thousand euro)	Balance as of 31/12/15	Balance as of 31/12/14
Customer receivables for sales and services	40,868	37,617
Provisions	(1,355)	(1,399)
Net	**39,513**	**36,218**
Other receivables	609	677
Supplier advances	78	94
Total	**40,200**	**36,989**

Customer receivables discounted with credit institutions totalled 2,148 thousand euro as of 31 December 2015 (2,172 thousand euro in 2014). Those discounts were recognized as secured loans since the Group retains the default and late payment risk.

As of 31 December 2015, accounts receivable amounting to 8,272 thousand euro were past due (5,249 thousand euro in 2014), but there had been no impairment loss. The analysis of those accounts receivable by age is as follows (thousand euro):

(thousand euro)	Balance as of 31/12/15	Balance as of 31/12/14
3-6 months	5,120	2,445
Over 6 months	3,152	2,804
Total	**8,272**	**5,249**

The past-due accounts that had not been provisioned as of 31 December 2015 and 2014 are mainly due from public hospitals in Spain's National Health System and from distributors of vials for the two therapeutic uses which have been approved. The average collection period for the Spanish National Health System does not exceed one year. The Group does not provision past-due receivables and expects to recover the total amount due plus any default interest that it claims. The average collection period for other public authorities is not more than one year.

The fair value of accounts receivable does not differ materially from their respective carrying amount.

The other amounts relate to a number of independent customers in the consumer chemicals segment with no recent history of default.

In 2015, the Group collected 7,191 thousand euro of debt owed by various public administrations in Spain, Italy and Portugal for which it had signed non-recourse factoring agreements with institutions specialised in this type of transaction (10,066 thousand euro in 2014).

	Factored	Interest	Total received
Portugal	782	44	**738**
Spain	5,214	145	**5,069**
Italy	1,977	77	**1,900**
	7,191	**222**	**6,969**

As of 31 December 2015, an impairment loss on accounts receivable was recognized amounting to 103 thousand euro (204 thousand euro in 2014).

In 2015, as in 2014, no provision was recognized for impairment of debts between three and six months past due. The provision of 103 thousand euro (204 thousand euro in 2014) was for debts over six months past due. Additionally, 147 thousand euro in allowances recognized in prior years, mainly in the consumer chemicals segment, were reversed (364 thousand euro in 2014). Also, 121 thousand euro in bad debts were written off (zero in 2014).

The provision for impairment of accounts receivable was included under "Other operating expenses" in consolidated profit or loss.

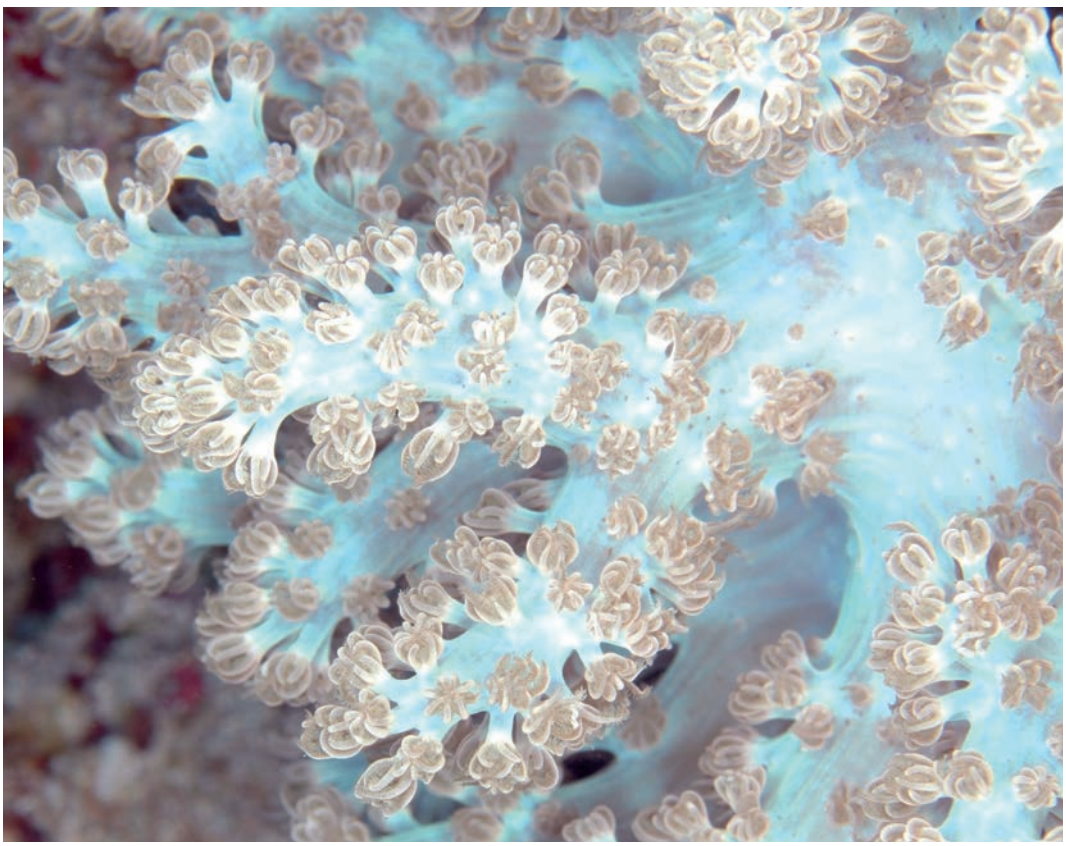
The analysis of the provision by age is as follows (thousand euro):

(thousand euro)	Balance as of 31/12/15	Balance as of 31/12/14
3-6 months	0	8
Over 6 months	1,355	1,391
Total	**1,355**	**1,399**

The carrying amount of the Group's trade and other accounts receivable is denominated in the following currencies, although amounts in currencies other than the euro are not material:

	Balance as of 31/12/15	Balance as of 31/12/14
Euro	39,528	36,666
US dollar	457	0
Other currencies	215	323
Total	**40,200**	**36,989**

The breakdown as of 31 December 2015 and 2014 of receivables from public authorities for sales and services, by geography, is as follows:



(thousand euro)	Balance as of 31/12/15	Balance as of 31/12/14
Spain	3,733	2,583
Austria	455	735
Belgium	366	345
France	1,130	772
Germany	0	2,766
United Kingdom	1,096	345
The Netherlands	78	31
Ireland	39	0
Italy	209	3,008
Luxembourg	18	18
Portugal	640	1,669
Total	**7,764**	**12,272**

As of 31 December 2015 and 2014, the credit rating of the accounts receivable from public authorities, by geography, is as follows:

(thousand euro)	Rating	Balance as of 31/12/15		Rating	Balance as of 31/12/14
Germany	Aaa	0	Germany	Aaa	2,766
Andalusia	Ba1	500	Andalusia	Ba1	245
Aragón	BBB	202	Aragón	BBB	112
Asturias	BBB	45	Asturias	BBB	18
Austria	Aaa	455	Austria	Aaa	735
Balearic Islands	BBB-	21	Balearic Islands	BBB	33
Belgium	Aa3	366	Belgium	Aa3	345
Canary Islands	BBB+	77	Canary Islands	BBB-	111
Cantabria	BBB	160	Cantabria	BBB	71
Castilla la Mancha	ba2	113	Castilla la Mancha	Ba2	128
Castilla and León	Baa2	579	Castilla and León	Baa2	245
Catalonia	Ba2	23	Ceuta and Melilla	-----	295
Ceuta and Melilla	-----	354	Catalonia	Ba2	60
Extremadura	Baa3	23	Extremadura	Baa3	76
France	Aa2	1,130	France	Aa1	772
Galicia	Baa2	208	Galicia	Baa2	92
United Kingdom	Aa1	1,096	United Kingdom	Aa1	345
The Netherlands	Aaa	78	The Netherlands	Aaa	31
Ireland	Baa1	39	Ireland	Baa1	0
Italy	Baa2	209	Italy	baa2	3,008
Luxembourg	Aaa	18	Luxembourg	A2	18
Madrid	Baa2	756	Madrid	BBB	721
Murcia	Ba2	109	Murcia	Ba2	66
Navarra	A	39	Navarra	A-	18
Other business	----	0	Other business	-----	2
Basque Country	Baa1	37	Basque Country	Baa1	22
Portugal	Ba1	640	Portugal	Ba1	1,669
Rioja	BBB	12	Rioja	BBB	0
Valencia	Ba2	475	Valencia	Ba2	268
Total		**7,764**	**Total**		**12,272**

Claims of principal and default interest from public authorities

The Group considers each country and autonomous region as a separate undertaking, since it handles each one separately and considers it to be independent from the others.

The Group files claims before the courts in the event of delays in payment of balances with public authorities. In those cases, the Group claims principal and default interest incurred from the date the invoice fell due up to the date of actual collection.

If a court finds in favour of claims for default interest, they are recognized in profit or loss on the date they are collected.

15. OTHER CURRENT ASSETS AND CURRENT TAX ASSETS

The breakdown of the Group's other current assets as of 31 December 2015 and 2014 is as follows:

(thousand euro)	Balance as of 31/12/15	Balance as of 31/12/14
Prepaid expenses	1,820	1,054
Balances with public authorities	185	1,273
Total	**2,005**	**2,327**

The detail of the balance with public authorities as of 31 December 2015 and 2014 is as follows:

(thousand euro)	Balance as of 31/12/15	Balance as of 31/12/14
VAT	79	1,263
Other business	106	10
Total	**185**	**1,273**

The "Current tax assets" item refers mainly to receivables for corporate income tax withholdings amounting to 1,315 thousand euro as of 31 December 2015 (2,685 thousand euro as of 31 December 2014).

16. INVENTORIES

The Group classifies inventories as follows:

(thousand euro)	Balance as of 31/12/15	Balance as of 31/12/14
Trade inventories	4,885	806
Raw materials and other supplies used	1,435	3,787
Semi-finished products and products in process	8,131	12,242
Finished products	8,325	7,375
By-products, residues and recovered materials	214	194
Total	**22,990**	**24,404**

The volume of products in process and semi-finished products is due broadly to the need to have sufficient inventories to market the drug Yondelis®.

The cost of inventories recognized as an expense and included under cost of goods sold amounted to 38,519 thousand euro in 2015 (33,726 thousand euro in 2014) (Note 33).

No material impairment losses were recognized for inventories in 2015 and 2014.

No inventories have been committed as collateral for obligations or debt.

17. CASH AND CASH EQUIVALENTS

This caption contains the following amounts, which include mainly investments in deposits and other types of investments, such as bank commercial paper with a maturity of not more than 3 months between the acquisition date and maturity.

(thousand euro)	Balance as of 31/12/15	Balance as of 31/12/14
Cash on hand and at banks	7,429	3,802
Cash equivalents	200	12,749
Total	**7,629**	**16,551**

Cash equivalents as of 31 December 2015 include fixed-term deposits yielding between 0.1% and 0.25% (between 0.2% and 0.84% in 2014) maturing between January and March 2016.

There were no bank overdrafts at the closing date.

18. DISCONTINUED OPERATIONS

In 2012, the Group discontinued its activities in the area of illnesses of the central nervous system. Those operations did not have a material impact on profit or loss in 2015 or 2014.

19. CAPITAL AND SHARE PREMIUM

The changes in the capital, share premium and own shares accounts in 2015 and 2014 are as follows:

Thousand euro/Shares	No. of shares	Share capital	Share premium account	Own shares
Balance as of 1 January 2014	**220,242**	**11,110**	**323,286**	**(6,029)**
Own shares sold	118	0	0	406
Own shares purchased	(1,164)	0	0	(3,159)
Share ownership plans	32	0	0	32
Balance as of 1 January 2015	**219,228**	**11,110**	**323,286**	**(8,750)**
Own shares sold	2,709	0	0	7,966
Own shares purchased	(1,484)	0	0	(4,684)
Share ownership plans	856	0	0	2,524
Merger	0	0	(254,097)	0
Balance as of 31 December 2015	**221,309**	**11,110**	**69,189**	**(2,944)**

As of 31 December 2015, the controlling company's capital amounted to 11,110 thousand euro (11,110 thousand euro in 2014) and was represented by 222,204,887 bearer shares (222,204,887 shares in 2014), with a par value of 0.05 euro per share in both 2015 and 2014. All these shares were fully subscribed and paid and have the same political and economic rights. The amounts and numbers of shares include own shares held by the controlling company and shares delivered to employees under share-ownership plans which, under the conditions of those plans, are subject to lock-up and may not be disposed of by the employees to whom they have been granted.

As detailed in Note 1, PharmaMar approved a reduction in share capital by means of an increase in voluntary reserves and the establishment of a new number and a new par value for its shares such that, following the reduction in the par value of the shares and the consequent increase in their number, the number of shares into which the capital stock of PharmaMar was divided coincided with the number of shares of Zeltia. The capital reduction amounted to 74.181 thousand euro.

Subsequently, Zeltia (absorbed company) was merged into PharmaMar (acquiring company).

The share premium account at Zeltia, S.A. exceeded that at Pharma Mar, S.A. by 254,097 thousand euro; consequently, following the merger, that amount is classified as an unrestricted reserve as of 2015 year-end.

Own shares

The number of shares outstanding as of 31 December 2015 was 221,309 thousand (219,228 thousand in 2014). The reduction in the capital and share premium as a result of the shares treated as not outstanding is reflected in the own shares account. As of 31 December 2015, the controlling company held 896 thousand own shares (2,976 in 2014), of which 771 thousand were for acquisition by employees under incentive plans in 2014 (Note 38).

In 2015, the Group acquired 1,484 thousand own shares (1,164 thousand in 2014) for 4,684 thousand euro (3,159 thousand euro in 2014), and it retired 2,709 thousand own shares at a gain of 2,887 thousand euro (135 thousand shares in 2014). Also, a total of 199 thousand own shares vested under stock ownership plans in 2015 (32 thousand in 2014) for an amount of 584 thousand euro (81 thousand euro in 2014).

According to information in the official registers of the National Securities Market Commission as of 31 December 2015, holders of significant stakes in Pharma Mar, S.A., either directly or indirectly, amounting to over 10% are as follows:

	DIRECT PART.		INDIRECT PART.		TOTAL PART.
	No. of shares	%	No. of shares	%	%
José Mª Fernández Sousa - Faro [1]	14,269,511	6.422%	10,354,841	4.660%	11.082%

[1] Indirect stake held through his spouse, Ms Montserrat Andrade Detrell.

20. AVAILABILITY AND RESTRICTIONS ON RESERVES AND RETAINED EARNINGS

Under article 274 of the Capital Companies Act, companies must transfer 10% of income for each year to the legal reserve until it amounts to at least 20% of capital stock. The legal reserve (2,222 thousand euro) can be used to increase capital provided that the remaining balance of the reserve is no less than 10% of the resulting amount of capital. Except for that purpose, until the legal reserve exceeds 20% of capital stock, it can only be used to offset losses, provided that sufficient other reserves are not available for this purpose.

The share premium may be used for the same purposes as the Company's voluntary reserves, including conversion into capital stock, there being no restrictions as to its use or distribution other than the general ones detailed below.

As of 31 December 2015, the Group had 489 thousand euro in retained earnings and other negative reserves (261,770 thousand euro in 2014).

Dividends to shareholders are distributed by PharmaMar. The dividends that the Company distributes are subject to the limitations and restrictions envisaged in the Capital Companies Act. In accordance with current legislation, the maximum amount to be distributed and the applicable limitations and restrictions are based on the amounts presented by the Company in its separate financial statements drafted under Spanish GAAP.

The proposed distribution of 2015 income and other reserves to be submitted to the Shareholders' Meeting for approval, and the distribution approved for 2014, are as follows:

(thousand euro)	PharmaMar 2015	Zeltia 2014
Basis of distribution		
Income for the year	(43,107)	5,087
	(43,107)	**5,087**
Distribution		
Prior years' losses	(43,107)	0
Offset of prior years' losses	0	5,087
	(43,107)	**5,087**

The only restriction on distribution of dividends refers to the legal reserve.

21. NON-CONTROLLING INTERESTS

There were no changes in 2015 and 2014 in the non-controlling interests at Noscira, the only Group undertaking in which there are minority shareholders.

The changes in non-controlling interests in 2015 and 2014 are as follows:

thousand euro	Minority interest
Balance as of 1 January 2014	**(3,793)**
2014 income	(20)
Balance as of 1 January 2015	**(3,813)**
2015 income	(25)
Balance as of 31 December 2015	**(3,838)**

Noscira reported a net loss of 93 thousand euro in 2015 (a net loss of 76 thousand euro in 2014), of which 25 thousand euro corresponded to non-controlling interests (20 thousand euro in 2014), in line with their 26.7% stake in the company.

22. SUPPLIER AND OTHER ACCOUNTS PAYABLE

The composition of this caption is as follows:

(thousand euro)	Balance as of 31/12/15	Balance as of 31/12/14
Payable for purchases and services received	30,880	26,070
Debts to related parties	157	921
Advances received for orders	660	660
Other accounts payable	262	1,059
Total	**31,959**	**28,710**

All payables mature within 12 months from the closing date of each year. Debts to related parties refer mainly to accrued outstanding bylaw-mandated allocations to members of PharmaMar's Board and fees for membership of its board committees that have accrued but are outstanding (137 thousand euro as of 31 December 2015, 827 thousand euro as of 31 December 2014), and accrued outstanding allocations to directors of Genómica who are also directors of PharmaMar (20 thousand euro as of 31 December 2015; 20 thousand euro for directors of Genomica and 74 thousand euro for directors of Noscira in 2014).

Information on payments for commercial transactions performed in 2015 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:

(thousand euro)	2015 Days
Average supplier payment period	50
Proportion of transactions paid	51
Proportion of transactions outstanding	43
Total payments made	81,621
Total payments outstanding	10,293

The supplier payment lag in the year between 1 January and 31 December 2015 was 50 days (41.3 days in 2014).

The foregoing disclosure refers only to companies domiciled in Spain.

23. DEFERRED REVENUES

The breakdown as of 31 December 2015 and 2014 is as follows:

Non-current deferred revenues refer to subsidies recognized under this heading to finance property, plant and equipment for R&D projects in the oncology segment. The directors consider that all the conditions for their recognition have been fulfilled. The subsidies detailed below consist mostly of subsidised interest rates.

(thousand euro)	Balance as of 31/12/15	Balance as of 31/12/14
Subsidies	2,709	3,783
Total	**2,709**	**3,783**

Current deferred revenues refer to the short-term part of the aforementioned subsidies:

(thousand euro)	Balance as of 31/12/15	Balance as of 31/12/14
Subsidies	5	9
Other deferred revenues	49	7
Total	**54**	**16**

24. OTHER NON-CURRENT AND CURRENT LIABILITIES

Other non-current liabilities, amounting to 598 thousand euro (644 thousand euro in 2014), refer mainly to retirement benefit obligations. Retirement benefit obligations amounted to 598 thousand euro (471 thousand euro in 2014).

Other current liabilities, amounting to 3,661 thousand euro (3,214 thousand euro in 2014), refer basically to balances owed to public authorities for personal income tax withholdings amounting to 1,610 thousand euro (1,262 in 2014), social security contributions amounting to 610 thousand euro (951 thousand euro in 2014), other balances with public authorities amounting to 18 thousand euro (152 thousand euro), and 1,423 thousand euro (849 thousand euro in 2014) corresponding to group subsidiaries domiciled elsewhere in the European Union.

25. INTEREST-BEARING DEBT

The breakdown of the Group's non-current and current interest-bearing debt as of 31 December 2015 and 2014 is as follows:

Breakdown of non-current interest-bearing debt:

(thousand euro)	Balance as of 31/12/15	Balance as of 31/12/14
Bank debt	20,651	20,911
Bonds and other marketable securities	16,350	0
Interest-bearing debt to official authorities	27,972	26,092
Total	**64,973**	**47,003**

Breakdown of current interest-bearing debt:

(thousand euro)	Balance as of 31/12/15	Balance as of 31/12/14
Bank debt	24,393	36,836
Bonds and other marketable securities	424	0
Interest-bearing debt to official authorities	3,753	3,512
Finance lease liabilities	59	118
Other interest-bearing debt	0	4,000
Total	**28,629**	**44,466**

a) Bank debt

Non-current and current debt consists of bank loans, credit lines and discounted bills, as detailed in the table below as of 31 December 2015 and 2014:

(thousand euro)	No. of products	Maturities	Balance as of 31/12/15	No. of products	Maturities	Balance as of 31/12/14
Non-current debt						
Bank loans						
Zeltia, S.A. (absorbed company)	0	0	0	3	2016 / 2017	1,570
Pharma Mar, S.A.U.	14	2017 - 2024	19,931	18	2017 / 2024	17,550
Genomica, S.A.U.	4	2017 - 2019	720	3	2019	948
Zelnova, S.A.	0	0	0	1	2016	843
Total non-current debt	**18**		**20,651**	**25**		**20,911**
Current debt						
Bank loans						
Zeltia, S.A. (absorbed company)	0	---	0	3	---	2,161
Pharma Mar, S.A.U.	20	---	10,411	18	---	22,382
Genomica, S.A.U.	4	---	291	3	---	255
Zelnova, S.A.	1	---	847	1	---	1,075
	25		**11,549**	**25**		**25,873**
Credit lines						
Zeltia, S.A. (absorbed company)	0	---	0	6	---	1,853
Pharma Mar, S.A.U.	19	---	9,151	16	---	5,207
Genomica, S.A.U.	11	---	1,220	5	---	576
Zelnova, S.A.	3	---	186	3	---	15
	33		**10,557**	**30**		**7,651**
Bills and certificates						
Pharma Mar, S.A.U.	---	---	752	---	---	1,545
Xylazel, S.A.	---	---	1,396	---	---	627
			2,148			**2,172**
Interest and other accounts payable						
Zeltia, S.A. (absorbed company)	---	---	0	---	---	14
Pharma Mar, S.A.U.	---	---	87	---	---	1,056
Zelnova, S.A.	---	---	15	---	---	35
Xylazel, S.A.	---	---	37	---	---	35
			139			**1,140**
Total current debt			**24,393**			**36,836**

Non-current debt

PharmaMar has a mortgage loan amounting to 7,001 thousand euro maturing in 2024; that loan was arranged in 2014, through cancellation of the original financial liability and recognition of a new financial liability.

The repayment schedule for non-current bank debt is as follows:

(thousand euro)	Balance as of 31/12/15	Balance as of 31-/12/14
2016	0	9,936
2017	6,036	4,378
2018	2,904	1,120
2019	2,883	5,477
2020 and thereafter	8,828	0
Total	**20,651**	**20,911**

Current debt

Current bank debt is broken down as follows:

(thousand euro)	Balance as of 31/12/15	Balance as of 31/12/14
Bank loans	11,549	25,873
Credit lines	10,557	7,651
Unmatured discounted bills and certifications	2,148	2,172
Interest and other accounts payable	139	1,140
Total	**24,393**	**36,836**

The loan obtained in 2007 from the European Investment Bank and the Instituto Oficial de Crédito for an original amount of 50,000 thousand euro (30,000 thousand euro from the EIB and 20,000 thousand euro from the ICO), maturing in nine years (ten years, prior to the novation on 11 December 2012), with a three-year grace period, in which Zeltia, S.A. (absorbed company) and Xylazel, S.A. acted as guarantors, was repaid in full in May 2015. Its balance as of 31 December 2014, recognized as short-term debt, was 12,515 thousand euro. The loan had been fully repaid as of 31 December 2015.

Some credit lines are renewed automatically and, to date, experience shows that they have been renewed systematically with the same banks. As of 31 December 2015, the Group had 35 credit lines (34 as of 31 December 2014) with a total limit of 37,405 thousand euro (33,680 thousand euro in 2014).

At the date of authorization of these consolidated financial statements, the Group had signed agreements which extend the maturity of 2,000 thousand euro of current debt (4,000 thousand euro in 2014).

The vast majority of the loans and credit lines are at floating interest rates consisting of Euribor plus a spread of between 1% and 7% (between 1% and 6.4% in December 2014).

The effective interest rates as of 31 December are:

	Balance as of 31/12/15	Balance as of 31/12/14
Bank overdrafts	29.00%	29.00%
Bank loans	6.10%	5.85%
Credit lines	3.05%	4.58%
Discounted notes	1.77%	3.40%

The Group's exposure to bank debt at floating rates is 38,148 thousand euro as of 31 December 2015 (38,938 thousand euro in 2014), indexed mainly to three-month Euribor.

All the bank loans are arranged in euro.

Bonds and other marketable securities

After analysing a range of options for improving its current financial structure, the controlling company decided to issue non-convertible bonds for an amount of seventeen million euro in order to strengthen its financial position and extend its debt maturity profile.

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

- Nominal amount, 17,000 thousand euro;
- Maturity, 12 years from disbursement;
- The issue was targeted at a single qualified Spanish investor, via a private placement.
- The bonds were issued at par, each with a nominal value of one hundred thousand euro, represented by book entries.
- The bonds bear a fixed coupon of 4.75% per annum payable in arrears every year from the date of disbursement;
- The Company is liable for the obligations arising from the bonds with all its assets and no specific guarantee is granted;
- The terms and conditions of the bonds are governed by Spanish law;
- The controlling company applied to list the bonds on the Alternative Fixed-Income Market (MARF) on 7 July 2015.

b) Interest-bearing debt to public authorities

This item refers mainly to funding from government agencies consisting of loans and interest-free grants repayable in seven years, after a three-year grace period, which finance research and development projects.

As of 31 December 2015, the Group had debt balances with official authorities for a total of 31,725 thousand euro, calculated on the basis of cash flows discounted at Euribor plus a spread based on the Group's risk (29,604 thousand euro in 2014), of

which 27,972 thousand euro were non-current (26,092 thousand euro in 2014) and 3,753 thousand euro were current (3,512 thousand euro in 2014).

The repayment schedule of non-current government aid is as follows:

(thousand euro)	Balance as of 31/12/15	Balance as of 31/12/14
2016	0	3,274
2017	4,840	4,033
2018	4,469	3,881
2019	4,400	8,103
2020 and thereafter	14,263	6,801
Total	**27,972**	**26,092**

The breakdown of debt to official authorities is as follows:

	2015		2014	
(thousand euro)	Non-current	Current	Non-current	Current
CDTI	18,259	1,980	15,235	1,519
PROFIT	9,045	1,714	10,431	1,971
INNPACTO	668	59	426	22
Total	**27,972**	**3,753**	**26,092**	**3,512**

c) Fair value

The carrying amount and fair value of the non-current and current interest-bearing debt as of 31 December 2015 and 2014 are as follows:

	Fair value		Carrying amount	
(thousand euro)	2015	2014	2015	2014
Non-current				
Bank loans	20,651	20,911	20,651	20,911
Due to official authorities	33,101	31,829	27,972	26,092
Other debt	17,000	0	16,350	0
Total	**70,752**	**52,740**	**64,973**	**47,003**
Current				
Bank loans	11,553	25,873	11,549	25,873
Credit lines	10,556	7,648	10,556	7,648
Unmatured discounted bills and certifications	2,148	2,172	2,148	2,172
Interest payable	101	1,091	101	1,091
Due to official authorities	4,545	4,248	3,753	3,512
Other debt	500	4,170	522	4,170
Total	**29,403**	**45,202**	**28,629**	**44,466**

26. DEFERRED TAXES AND INCOME TAX

Deferred taxes

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

Deferred tax assets, net	2015	2014
Deferred tax assets	38,362	33,408
Deferred tax liabilities	(5,783)	(7,161)
Total	**32,579**	**26,247**

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

Deferred tax assets (thousand euro)	R&D expenses / Tax loss carryforwards	Other business	Timing differences	TOTAL
As of 1 January 2014	**25,157**	**0**	**7,389**	**32,546**
Recognised in profit or loss	858	0	4	862
Recognised in equity	1,727	0	(1,727)	0
As of 31 December 2014	**27,742**	**0**	**5,666**	**33,408**
Reclasification	(3,653)	2,465	3,653	2,465
Increase/decrease	0	3,755	0	3,755
Recognised in profit or loss	(537)	0	(729)	(1,266)
As of 31 December 2015	**23,552**	**6,220**	**8,590**	**38,362**

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

Deferred tax liabilities (thousand euro)	Revaluation of investment property	Revaluation of brands with indefinite useful lives	Capital subsidies	Other business	TOTAL
As of 1 January 2014	**(1,452)**	**(2,474)**	**(5,105)**	**(1)**	**(9,032)**
Recognised in profit or loss	242	369	1,262	(1)	1,872
As of 31 December 2014	**(1,210)**	**(2,105)**	**(3,843)**	**(2)**	**(7,160)**
Recognised in profit or loss	185	(44)	1,236	0	1,377
As of 31 December 2015	**(1,025)**	**(2,149)**	**(2,607)**	**(2)**	**(5,783)**

The deferred tax assets were recognized on the basis of the future taxable income that the Group expects to generate based on current business plans.

As of 31 December 2015, unrecognized deferred tax assets in relation to research & development expenses amounted to 17,720 thousand euro (23,114 thousand euro

in 2014). At the same date, there are also unused tax credits that have not been recognized in the balance sheet amounting to 172,941 (158,257 thousand euro in 2014). Those differences were not recognized in relation to deferred tax assets as of 2015 and 2014 year-end as a result of the analysis made by the Group as described in Note 4 (Accounting estimates and judgements).

The following table shows the validity dates of unused tax credits that have specific expiry date but were not recognized as deferred tax assets as of 31 December 2015:

Tax credits generated by:	Total amount	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030 and thereafter
Unused tax credits	166,746	2,149	4,478	4,890	12,522	13,383	9,776	11,012	10,854	10,118	11.,469	9,809	9,452	9,342	8,126	39,366
Other unused tax credits	6,195	0	5,291	353	168	384	0	0	0	0	0	0	0	0	0	0
TOTAL	**172,941**	**2,149**	**9,769**	**5,243**	**12,690**	**13,767**	**9,776**	**11,012**	**10,854**	**10,118**	**11,469**	**9,809**	**9,452**	**9,342**	**8,126**	**39,366**

Income tax

In 2015, the corporate income tax return was filed on a group basis by the tax group headed by Pharma Mar, S.A. (Zeltia, S.A. in 2014) and comprising the following Group undertakings: Genómica; Zelnova Zeltia; Xylazel; Sylentis and Promaxsa Protección de Maderas; the other companies—Pharma Mar USA, PharmaMar AG, Pharma Mar SARL, Pharma Mar GmbH, Pharma Mar Ltd, Pharma Mar Srl, Pharma Mar Belgium, Copyr and Noscira—file taxes individually.

The reconciliation of the difference between applying a 28% tax rate to the income before taxes and the recognized tax expense is shown in the following table:

	2015	2014
Income before taxes	**6,002**	**14,476**
Tax rate (28%) 2015 (30%) 2014	**(1,681)**	**(4,343)**
Tax effect of:		
- Exempt revenues and other minor items	1,942	3,035
- Timing differences with an impact on earnings	111	2,734
- Prior years' tax adjustments	0	(2,368)
- Other adjustments	282	(362)
Tax expense	**654**	**(1,304)**

The reconciliation of income tax expense (revenue) in the income statement is as follows:

	2015	2014
Current tax	543	(4,038)
Deferred tax	111	2,734
Total	**654**	**(1,304)**

In the preceding table, the tax-exempt revenues are basically untaxed revenues relating to 50% of license fees and royalties collected in other countries. This item also reflects the different tax rates applicable to foreign subsidiaries.

The tax rate applicable to the Group is generally the standard tax rate in Spain (28%), except for Copyr, whose earnings are taxed in Italy at approximately 33%. The tax rate applicable to the other subsidiaries located outside Spain is not material.

Law 27/2014 on Corporate Income Tax, enacted on 28 November 2014, applies to tax periods beginning on or after 1 January 2015. The main change in this tax is the reduction in the general rate, from 30% to 28% for tax periods commencing on or after 1 January 2015, and to 25% for tax periods commencing on or after 1 January 2016.

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 controlling company applied to the tax authorities for the partial tax audit to be converted into a general tax audit covering the taxes and periods in question.

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

(thousand euro)	Corporate income tax	VAT	Personal income tax - Spanish residents	Personal income tax - Non - residents	Income from capital
Zeltia, S.A.	2010-2013	2011-2013	2Q 2011 - 4Q 2013	2Q 2011 - 4Q 2013	2Q 2011 - 4Q 2013
Genómica, S.A.U.	2010-2013	2011-2013	2Q 2011 - 4Q 2013	2Q 2011 - 4Q 2014	2Q 2011 - 4Q 2014
Pharma Mar, S.A.U.	2010-2013	2011-2013	2Q 2011 - 4Q 2013	2Q 2011 - 4Q 2015	-
Zelnova, S.A.	2010-2013	06/2011-2013	-	-	-
Xylazel, S.A.	2010-2013	06/2011-2013	-	-	-

The audit is still at an early stage and it is not possible to estimate its outcome. However, the Controlling Company's directors do not believe that the audit will lead to additional liabilities or that the amount of assets recognized will be reduced significantly.

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

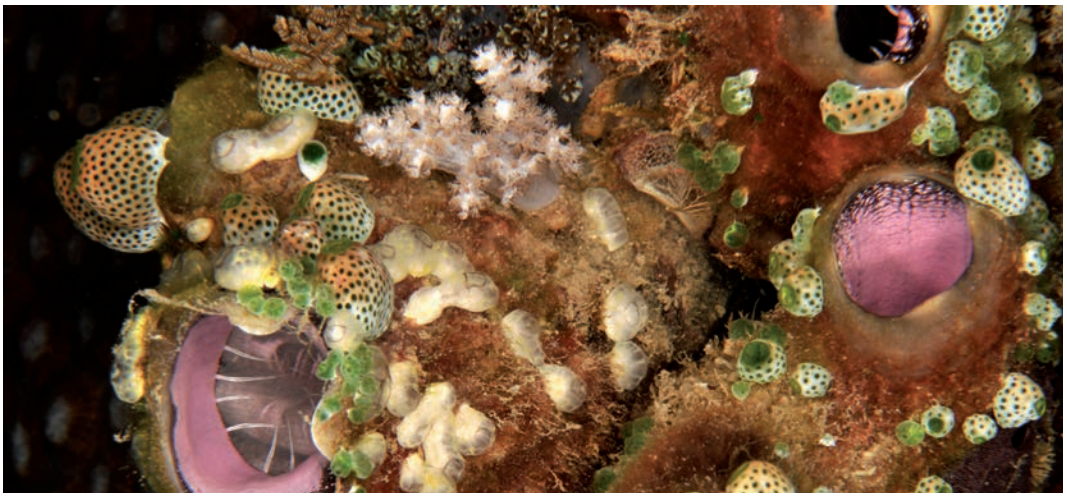
The definition of tax group has been expanded so as to allow consolidation of all Group undertakings that are resident in Spain, regardless of their ownership structure.

27. PROVISIONS FOR OTHER CONTINGENCIES AND EXPENSES

As of 31 December 2015 and 2014, this caption includes outstanding remuneration to Group employees in relation to bonuses that had accrued and were outstanding, and estimated bonuses accrued and outstanding at year-end, based on the compensation systems agreed by the Group with employees.

The variation in the balance of this caption is as follows:

(thousand of euro)	Balance as of 31/12/15	Balance as of 31/12/14
Beginning balance	**6,220**	**5,482**
Provision	6,248	6,947
Payments	(6,162)	(6,207)
Transfers and other	0	(2)
Ending balance	**6,306**	**6,220**



28. NET REVENUES

Revenues as of 31 December 2015 and 2014 were as follows (a detail by segment and geography is given in Note 5):

(thousand of euro)	Balance as of 31/12/15	Balance as of 31/12/14
Product sales	182,377	168,885
Returns, rebates and volume discounts	(20,385)	(21,043)
Total sales	**161,992**	**147,842**
Provision of services	1,003	810
Licensing and co-development agreements	29,034	24,278
Royalties	1,788	1,872
Total	**193,817**	**174,802**

The Group has licensing and co-development agreements with a number of pharmaceutical companies. Revenues recognized in connection with those agreements in 2015 and 2014 are as follows:

(thousand of euro)	2015	2014
Johnson & Johnson Group (Janssen Products LP)	24,432	21,150
Taiho	5,990	0
Other contracts	400	0
Chugai Pharma	0	5,000
Total	**30,822**	**26,150**

License and co-development agreements

A. Johnson & Johnson Group (Janssen Products LP)

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

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

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

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

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

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

The amounts attributed to the development phase are recognized as revenue during the development phase based on the degree of progress with development and the project's total estimated costs.

As of 31 December 2015, the Group did not have any amounts pending recognition at year-end since all the necessary expenses had already been incurred.

The amounts attributed to the marketing phase are royalties, which are recognized on an accrual basis.

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

In 2014, the revenues under licensing and co-development agreements included 1,012 thousand euro for attainment of the milestone consisting of the presentation to the FDA by Janssen of the dossier to apply for marketing approval for Yondelis®

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

That agreement envisaged a series of payments between 2011 and 2015 amounting to up to 110 million dollars if the agreed milestones were met in that period. Those milestones, which were additional to those envisaged in the 2001 licensing agreement, were based solely on the Yondelis® development plan.

These payments are recognized as current revenues as they are collected since they relate to development milestones connected to future performance by Janssen, not by the Group.

In 2015, 8,764 thousand euro were collected from Janssen for attaining the last milestone under this agreement (18,266 thousand euro in 2014).

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

4) In 2015, royalties were recognized in the amount of 1,731 thousand euro (1,872 thousand euro in 2014) on sales of Yondelis® in the countries in which J&J is licensed to market it.

B. Taiho Pharmaceutical Co

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

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

- Assignment to Taiho of future rights to market Yondelis® in Japan. For this assignment, the Group will collect royalties based on Taiho's sales once authorization is obtained to market the drug in Japan.

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

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

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

As a result, the following amounts were collected from Taiho Pharmaceuticals: one for presentation of the Yondelis® registration dossier to the Japanese authorities (1,486 thousand euro) and another for subsequent authorization of commercialization by the Japanese authorities (4,447 thousand euro).

C. Chugai Pharma

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

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

- Co-development of Aplidin® from the date of signature of the agreement up to marketing, and financing of a percentage of total development costs incurred by PharmaMar;
- Assignment to Chugai of the future marketing rights for the eight European countries. For this assignment, the Group will collect royalties based on Chugai's sales.
- The Group retains the exclusive right to manufacture the active ingredient, which will be supplied to Chugai.

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

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

Others contracts:

D. TTY Biopharm / Specialised Therapeutics Australia Pty, Ltd.

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

29. RESEARCH AND DEVELOPMENT EXPENSES

The following table shows the amounts spent on R&D by business segment in 2015 and 2014.

2015				
Oncology	**Diagnostics**	**RNAi**	**Consumer chemicals**	**TOTAL**
(55,610)	(2,218)	(5,687)	(34)	(63,549)
3,258				3,258
(52,352)	**(2,218)**	**(5,687)**	**(34)**	**(60,291)**

2014				
Oncology	**Diagnostics**	**Rnai**	**Consumer chemicals**	**TOTAL**
(45,346)	(1,459)	(5,166)	(484)	(52,455)
5,978				5,978
(39,368)	**(1,459)**	**(5,166)**	**(484)**	**(46,477)**

30. GENERAL AND ADMINISTRATION EXPENSES

Consolidated general and administration expenses amounted to 19,984 thousand euro in 2014, 7.1% more than in 2014 (18,658 thousand euro).

31. MARKETING EXPENSES

Commercial and marketing expenses increased by 18% with respect to 2014, to 48,614 thousand euro in 2015 (41,173 thousand euro in 2014). Marketing expenses in the oncology segment amounted to 27,108 thousand euro (21,473 thousand euro in 2014), while in the diagnostic segment they amounted to 1,892 thousand euro (1,637 thousand euro in 2014).The greatest increase took place in the oncology segment and was due to special efforts (particularly distribution expenses) to promote Yondelis® in both indications, and to considerable spending on scientific and medical education on Yondelis® addressed to medical professionals. The consumer chemicals division accounted for 19,592 thousand euro in 2015 (18,052 thousand euro in 2014).

32. OTHER OPERATING REVENUES / OTHER NET GAINS

This item includes 3,487 thousand euro of capital grants transferred to income for the year in 2015 (1,903 thousand euro in 2014).

33. BREAKDOWN OF EXPENSES BY TYPE

The breakdown of operating expenses by type is as follows:

(thousand of euro)	Balance as of 31/12/15	Balance as of 31/12/14
Changes in finished product and product-in-process inventories	3,161	1,849
Raw materials and other supplies used	35,358	31,877
Employee benefit expenses	50,133	45,870
Depreciation and amortization	6,282	5,263
Impairment charges and other provisions	103	500
Transport	5,314	4,184
Marketing expenses	19,346	21,219
Other expenses	66,659	46,061
Total	**186,356**	**156,823**

Other expenses include services received, communications, utilities, travel, security, and directors' remuneration.

34. EMPLOYEE BENEFIT EXPENSES

The breakdown of employee benefit expenses is as follows:

(thousand of euro)	Balance as of 31/12/15	Balance as of 31/12/14
Salaries and wages	39,106	35,617
Indemnities	748	988
Social security	8,334	7,347
Pension cost	135	98
Share ownership plans	308	452
Other welfare expenses	1,502	1,368
Total	**50,133**	**45,870**

The average number of employees by category is as follows:

	31/12/15	31/12/14
Management	39	37
Technical professionals	308	278
Clerical personnel	102	101
Commercial personnel	125	126
Other employees	126	123
Total	**700**	**665**

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

(Men)	31/12/15	31/12/14
Management	24	24
Technical professionals	123	110
Clerical personnel	32	33
Commercial personnel	79	84
Other employees	74	73
Total	**332**	**324**

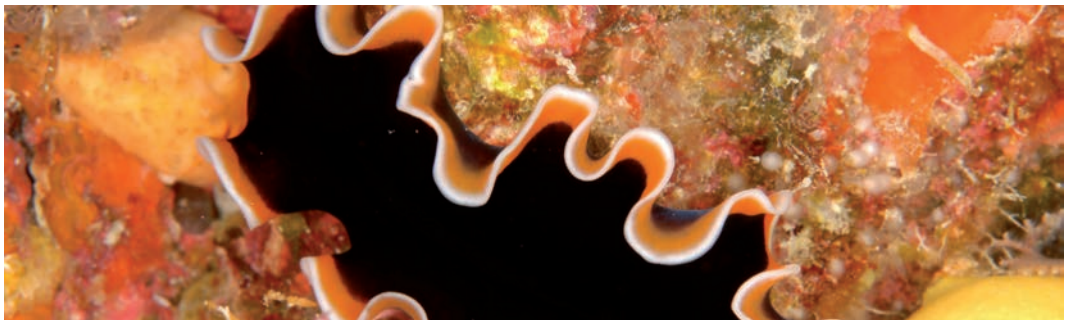
(Women)	31/12/15	31/12/14
Management	15	13
Technical professionals	185	168
Clerical personnel	70	68
Commercial personnel	46	42
Other employees	52	50
Total	**368**	**341**

The average number of employees by gender is as follows:

	31/12/15	31/12/14
Men	332	324
Women	368	341
Total	**700**	**665**

As of 31 December 2015, two of the nine members of the Board of Directors were women (one in 2014). Of PharmaMar's eighteen executives, including executive directors at the closing date (as defined in Note 38), seven were women (two in 2014).

The consolidated Group undertakings have an average of ten employees with disabilities greater than or equal to 33% (nine in 2014).



35. NET FINANCIAL INCOME

(thousand of euro)	Balance as of 31/12/15	Balance as of 31/12/14
Financial expenses		
On debts to third parties and similar expenses	5,509	6,399
Exchange loss	746	244
	6,255	**6,643**
Financial revenues		
Revenues from other tradeable securities and loans to other companies	0	220
Other interest and similar revenues from other companies	180	293
Gains on financial assets	78	17
Fair value changes in financial assets	26	53
Exchange gains	644	298
	928	**881**
Total net financial income	**(5,327)**	**(5,762)**

36. EARNINGS PER SHARE

Basic earnings per share are calculated by dividing income attributable to equity holders of the parent company by the weighted average number of shares outstanding during the year.

The basic earnings per share in 2015 and 2014 were as follows:

Earnings per share (basic)	2015	2014
Income attributable to equity-holders of the parent company (thousand euro)	6,588	13,115
Weighted average number of outstanding ordinary shares (thousand)	220,581	219,857
Basic earnings per share (euro)	**0.03**	**0.06**

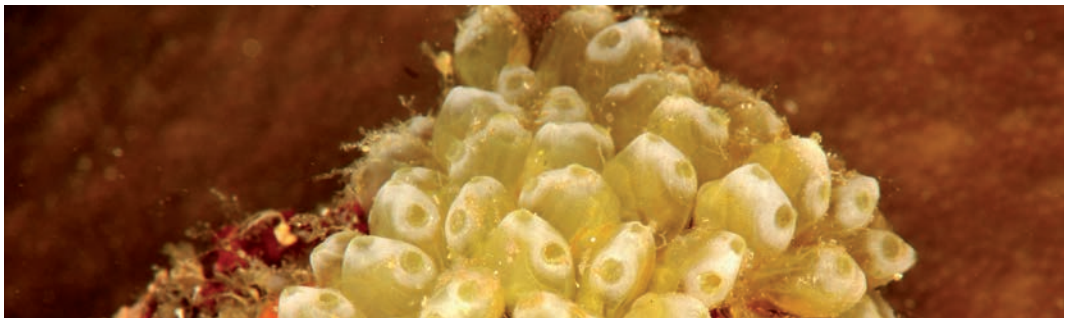
Earnings per share (basic)	2015	2014
Income from discontinued operations	(93)	(76)
Weighted average number of outstanding ordinary shares (thousand)	220,581	219,857
Basic earnings per share (euro)	**(0.00)**	**(0.00)**

Diluted earnings per share are calculated by adjusting the weighted average number of outstanding ordinary shares to reflect conversion of all potentially-dilutive ordinary shares.

The diluted earnings per share in 2015 and 2014 were as follows:

Earnings per share (diluted)	2015	2014
Income attributable to equity-holders of the parent company (thousand euro)	6,588	13,115
Weighted av. no. of ordinary shares for diluted earnings per share (thousand shares)	221,239	220,636
Diluted earnings per share (euro)	**0.03**	**0.06**

Earnings per share (diluted)	2015	2014
Income from discontinued operations	(93)	(76)
Weighted av. no. of ordinary shares for diluted earnings per share (thousand shares)	221,239	220,636
Diluted earnings per share (euro)	**(0.00)**	**(0.00)**



The reconciliation between the weighted average number of ordinary shares outstanding and the weighted average number of ordinary shares for the purposes of diluted earnings per share is shown below:

	2015	2014
Weighted average number of outstanding ordinary shares (thousand)	220,581	219,857
Adjustments for: Employee share ownership plan (thousand shares)	658	779
Weighted av. no. of ordinary shares for diluted earnings per share (thousand shares)	**221,239**	**220,636**

37. TRANSACTIONS WITH RELATED PARTIES

For the purposes of this note, the controlling Company's significant shareholders, directors and executives, the close relatives of all of them and the companies over which any of those persons may have a significant influence are classified as related parties of the Group.

Significant shareholders are those who own over 3% of Company capital. Employees who report to the Chairman, who is the Company's Chief Executive, are classified as executives even if they have an ordinary employment contract (not a senior management contract in accordance with Royal Decree 1382/85).

Board of Directors

The following table shows the remuneration collected in 2015 by directors of PharmaMar who were in office on 31 December 2015:

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

Additionally, four members of the Board of Directors, who were directors of Zeltia, S.A. before the merger of PharmaMar and Zeltia, collected 381 thousand euro, under all headings, for the period during which they were directors. Also, three former directors of PharmaMar who stepped down as a result of the merger with Zeltia collected 88 thousand euro, under all headings, for the period during which they were directors.

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

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

Companies related to the directors and executives and their close relatives

Transactions with companies related to directors and executives of the company and their close relatives in 2015 and 2014 were not material, formed part of the normal business of the Company or its subsidiaries, and were performed on an arm's-length basis.

Two companies related, respectively, to two members of the Board of Directors provided services to the company amounting to 21 thousand euro and 2 thousand euro. Both provided services to Zeltia (absorbed company) before the merger, in the amounts of 12 thousand euro and 8 thousand euro, respectively. Those amounts are not material in the context of the transactions by that subsidiary and the Group.

In 2009, a company related to a member of the Board of Directors granted Zeltia a 2-year loan for an initial amount of 8,000 thousand euro. The transaction was arranged

at market rates in line with other financing transactions offered to the Company at the same time, and without additional collateral; it was rolled over through February 2015, when it was repaid in full. The interest accrued on this loan in those two months of 2015 amounted to 48 thousand euro (297 thousand euro in 2014).

A member of the Board of Directors of Zeltia (absorbed company) was appointed Honorary Director at the Shareholders' Meeting in June 2013. The Board of Directors unanimously resolved to establish that person's remuneration as Honorary Director at 62 thousand euro per twelve-month period starting from the date of appointment and until the fourth anniversary thereof. That amount is fixed and will not be revised in the aforementioned period. An amount of 62 thousand euro accrued in 2015 (62 thousand euro in 2014).

Transactions with executives of the controlling Company

The executives received an aggregate total of 1,518 thousand euro in 2015 (1,243 thousand euro in 2014). One of those executives is a director at one of the Group undertakings and collected 19 thousand euro under this heading in 2015 (19 thousand euro in 2014), which are not included in the foregoing aggregate figure.

38. SHARE-BASED PAYMENTS

As of the end of 2015, PharmaMar and its Group undertakings had four share ownership plans for Group employees and executives (not including directors of Pharma Mar, S.A.) who receive annual variable remuneration, have an indefinite contract, have passed the trial period and attained at least 60% of the objectives set for the year, excepting the Stock Ownership Plan approved by Zeltia's Shareholders' Meeting on 12 June 2013 and implemented by a decision of the Board of Directors on 28 February 2014, for which the threshold was 50%.

All the plans currently in force were approved by the Shareholders' Meeting of Zeltia (absorbed company) and executed by its Board of Directors. As a result of the merger described in Note 1, PharmaMar succeeded to the place of Zeltia in connection with the other rights and obligations inherent to those plans.

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

amount by the value assigned to the share, which is normally established, depending on the case, as either the weighted average price of the share in the electronic market on the execution date or the average of the weighted average price of the share in the month prior to execution.

Employee participation to date in these Plans has been voluntary; if the employee decides not to participate, his/her variable remuneration is delivered entirely in cash; however, no multiplier is applied to the cash amount. The beneficiaries have the political and economic rights deriving from ownership of all the shares from the time the shares are actually delivered to them, although they are under a lock-up agreement. In the five Stock Ownership Plans that were in force at 2014 year-end, the lock-up (vesting) period is 4 years from the date of delivery of the shares; nevertheless, some of the shares will vest 18 months after delivery: specifically, the number of shares resulting from dividing the total number of shares that were delivered by the coefficient established in the list, plus one. The delivery of those shares, which must remain locked up for the above-mentioned 4-year period, is subject to a condition subsequent which is understood to be met in the event of voluntary severance or fair dismissal of the beneficiary. In the event of cessation of employment due to a cause other than those two, the shares are deemed to have vested.

Year 2011 (Incentive Plan approved by the Ordinary Shareholders' Meeting on 29 June 2010)

On 29 June 2010, the Shareholders' Meeting approved another plan for the delivery of shares free of charge; it was executed in April 2011. The company allocated 350,000 own shares under this plan.

A total of 303 beneficiaries were granted 349,839 shares in 2011, at a value of 2.8413 euro per share.

In 2012, 118,447 shares vested under this plan.

This plan vested in 2015 since the four-year lock-up period had expired, and the shares that were under lock-up were released (a total of 198,657 shares).

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

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

A total of 249 beneficiaries were granted 349,880 shares in 2011, at a value of 1.4258 euro per share.

In 2013, 90,906 shares vested under this plan.

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

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

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

In 2014, 88,812 shares vested under this Plan.

Year 2014 (Incentive Plan approved by the Ordinary Shareholders' Meeting on 12 June 2013)

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

Under this plan, a total of 196 beneficiaries were granted 236,070 shares in 2014, at a value of 2.7292 euro per share.

In 2015, 114,442 shares vested under this plan.

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

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

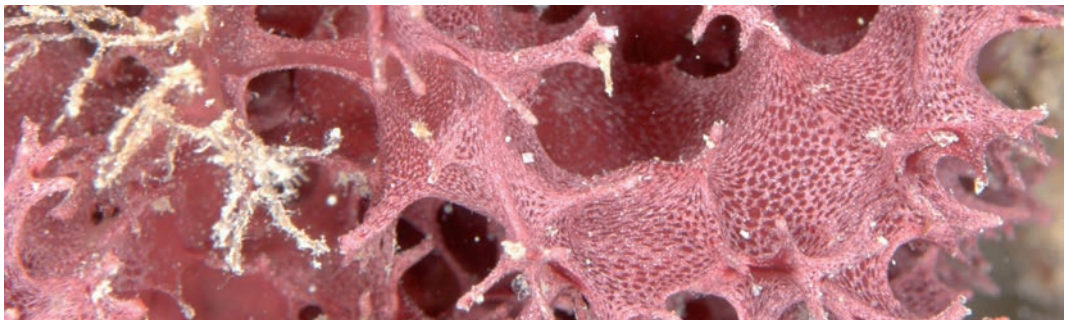
A total of 154 beneficiaries were granted 167,311 shares in 2015, at a value of 3.9239 euro per share.

The changes in 2015 and 2014 and the total balance of shares delivered under the various incentive plans are shown below:

	2015		2014	
	Fair value at grant date (euro)	No. of shares	Fair value at grant date (euro)	No. of shares
Balance as of 1 January	**1,523,129**	**770,972**	**1,259,153**	**684,965**
Granted	453,128	115,479	322,258	118,078
Cancelled / vested	(623,301)	(228,677)	(58,283)	(32,071)
Balance as of 31 December	**1,352,956**	**657,774**	**1,523,129**	**770,972**

The following table shows the number of shares that had not vested under each plan as of 31 December 2015:

	Shares purchased by employees	Shares contributed by the Company	No. of shares	Fair value of share	Vesting period
Plan (Grant date)					
Plan 11 June 2011 (Granted April 2012)	0	211,287	211,287	1.43	Apr-16
Plan 12 June 2012 / (Granted March 2013)	0	226,718	226,718	1.32	Mar-17
Plan 13 June 2013 / (Granted March 2014)	0	107,022	107,022	2.73	Mar-18
Plan 14 June 2014 / (Granted May 2015)	50,467	112,747	163,214	3.92	May-19
		657,774			



39. DUTY OF LOYALTY

Director conflicts of interest

Based on the disclosures presented by each of the Company's directors, they and, to the best of their knowledge and belief, their related parties abstained from incurring in the situations of conflict of interest envisaged in article 229.1 of the Consolidated Text of the Capital Companies Act, except in the case of related-party transactions authorised by the Company's Board of Directors or its Committees, which are disclosed in Note 27.4 to the Separate Financial Statements, Note 38 to the Consolidated Financial Statements, and section D.3 of the Annual Corporate Governance Report for the year ended 31 December 2015, which forms part of these Financial Statements.

40. CONTINGENCIES

a) Contingent liabilities

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

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

b) Contingent assets

The Group did not have contingent assets as of 31 December 2015 (or 2014).

41. COMMITMENTS

a) Operating lease commitments

The minimum future non-cancellable operating lease payments are as follows:

(thousand euro)	Balance as of 31/12/15	Balance as of 31/12/14
Under 1 year	1,881	2,043
1 to 5 years	3,116	3,043
Total	**4,997**	**5,086**

b) Share-based incentive plans

- Under the eleventh plan (June 2011) for delivery of shares free of charge, as of 31 December 2015, 211,287 shares delivered and subject to lock-up will vest in April 2016.
- Under the twelfth plan (June 2012) for delivery of shares free of charge, as of 31 December 2015, 226,718 shares delivered and subject to lock-up will vest in March 2017.
- Under the thirteenth plan (June 2013) for delivery of shares free of charge, as of 31 December 2015, 107,022 shares delivered and subject to lock-up will vest in March 2018.
- Under the fourteenth plan (June 2014) for delivery of shares free of charge, as of 31 December 2015, 50,467 shares delivered and subject to lock-up will vest in November 2016 and 112,747 in May 2019.

42. AUDITORS' FEES

The fees accrued by PricewaterhouseCoopers Auditores, S.L. and other firms in its network amounted to 186 thousand euro in 2015 (168 thousand euro in 2014) for audit

services, and 95 thousand euro in 2015 (19 thousand euro in 2014) for other verification services, provided to companies in the PharmaMar Group.

Part of the fees billed by those auditors are for confirming investments in research consortia in connection with programmes promoted by the CDTI which are led by Group undertakings; they are passed on to the rest of the consortium members.

The fees accrued during the year by other companies in the PwC network amounted to 12 thousand euro for tax advisory services in 2015 (13 thousand euro in 2014), while no other advisory services were provided to the Group in 2015.

The fees accrued during the year by other auditors of subsidiaries amounted to 47 thousand for audit services in 2015 (46 thousand euro in 2014) and 25 thousand euro for other verification services in 2015 (28 thousand euro in 2014).

43. ENVIRONMENT

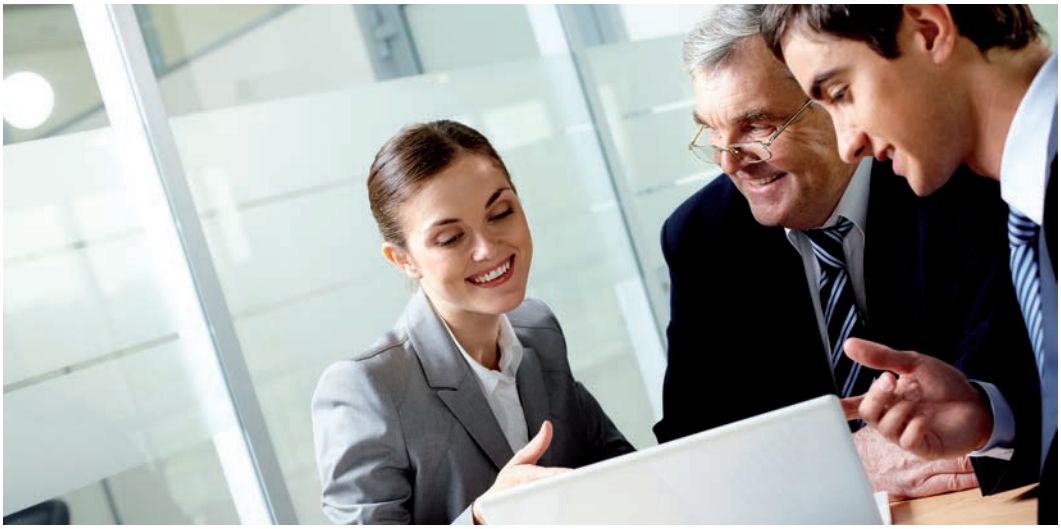
The Company did not need to incur significant investments during the year to protect and improve the environment. Environmental protection expenses amounted to 393 thousand euro in 2015 (400 thousand euro in 2014).

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

44. SUBSEQUENT EVENTS

In the first quarter of 2016, the Company rolled over credit lines amounting to 2,000 thousand euro in total and arranged a loan of 7,000 thousand euro.

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




Pharma
Mar