PharmaMar

Annual Report
2016

Annual Report 2016
Pharma Mar, S.A.

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PharmaMar

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** Chairman of the Comittee * Member of the Comittee

CONSOLIDATED INFORMATION & MILESTONES IN THE PERIOD

PHARMAMAR GROUP: 2016 KEY FIGURES

713 employees worldwide

Our products are available in more than **80** countries

32 clinical trials under way (including post-approval trials)

€ 181 million in total revenues in 2016

€ 80 million spent on R&D

3 new licensing agreements for our products in 2016

1,285 patents granted

205 patents pending

CONSOLIDATED INFORMATION

(Thousand euro)	2012	2013	2014	2015	2016
TOTAL REVENUES	158.6	161.9	174.8	193.8	181.0
EBITDA	20.4	23.8	25.7	19.3	(11.0)
NET ATTRIBUTABLE INCOME	6.6	11.3	13.1	6.6	(24.1)
GROSS R&D EXPENDITURE	40.4	42.7	52.5	63.5	79.8
AV. WORKFORCE	640	628	665	700	713

MILESTONES AND KEY FIGURES

ONCOLOGY

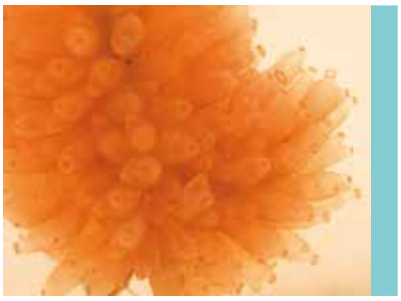
- Licensing, development and marketing agreement for Lurbinectedin signed with Chugai Pharmaceutical Co. Ltd. for Japan. The agreement provides for an upfront payment of €30 million (collected in full in January 2017) and a series of payments for attaining development, regulatory and sales milestones that could amount to up to €100 million.
- A number of lesser licensing agreements were signed for Aplidin for the treatment of haematological tumors in several Asian countries.

Yondelis net sales:
€ 88.2 million

54% of Group revenues.

Commercial sales of Yondelis increased by:
7.4%

Other licensing revenues and royalties: :
€ 16.9 million



DIAGNOSTICS

- Clinical diagnostics is the main area, accounting for 94% of revenues.
- Exports account for 46% of sales.
- Sales in South America increased by 22%.
- In 2015, three new distribution agreements were signed, for India (ICS Incorporation Ltd.), South Korea (AG Bio Diagnostics Co.) and Malaysia.

Diagnostics net revenues:
€ 6.2 million

4% of Group revenues.

CONSUMER CHEMICALS

- Increased exposure to European with the line of ecological products based on natural pyrethrin.
- Excellent prospects for natural pyrethrin as the star product for ecological farming.
- The wood and metal varnish and primer area increased revenues by 16% year-on-year.
- It was an important year in the interior decoration business, as the "chalky finish" paints for furniture proved very successful.

Consumer Chemicals net revenues:
€ 69.7 million

42% of Group revenues.

Revenues by area:

- Household insecticides, air fresheners and other household cleaning products:
  € 50.2 million
- Wood and metal protectors and products for interior decoration:
  € 19.5 million

MAIN R&D ACTIVITIES

ONCOLOGY

- A Marketing Authorization Application (MMA) for Aplidin to treat relapsed multiple myeloma was presented to the European Medicines Agency in September.
- In October, recruitment concluded for the pivotal clinical trial with lurbinectedin in platinum-resistant ovarian cancer patients after receiving clearance from the Independent Data Monitoring Committee (IDMC).
- A Phase III registration trial commenced with Lurbinectedin (PM1183) in patients with small-cell lung cancer who had been treated previously with platinum.
- The Phase II trial with Lurbinectedin in patients with BRCA 1/2 metastatic breast cancer acheived its primary endpoint.

R&D expenditure:

€ 72.3 million

91% of Group investment.

DIAGNOSTICS

- The new CLART® PneumoVir2 kit for detecting viral respiratory infections was launched.
- Launch of the CLART® EGFR kit for detecting oncological mutations associated with lung cancer in liquid biopsies.
- Launch of a second CLART® ALK / ROS-1 kit for detecting chromosome translocations in the ALK and ROS1 genes in patients with lung cancer.

R&D expenditure:

€ 2.4 million

3% of Group investment.

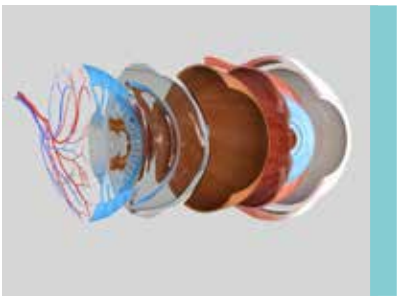
RNA i

- The second Phase II trial with SYL1001 in dry eye syndrome concluded in March 2016.
- The Phase II results and the clinical strategy for subsequent stages were presented to the FDA. The protocol for Phase III clinical development has been defined.

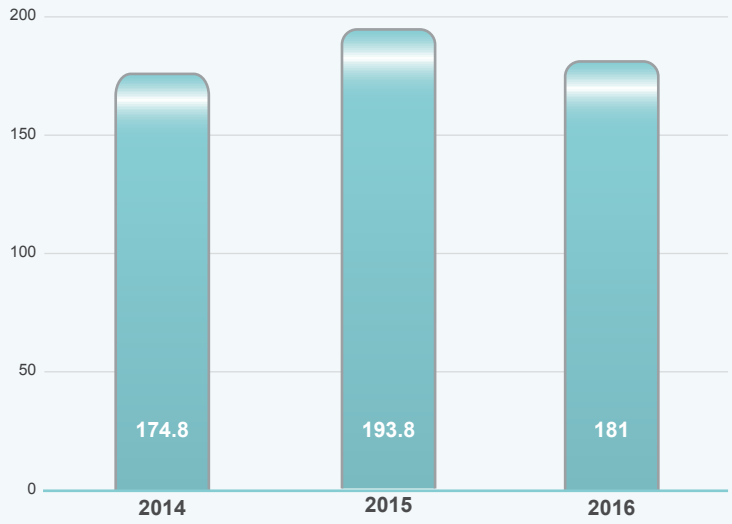
R&D expenditure:

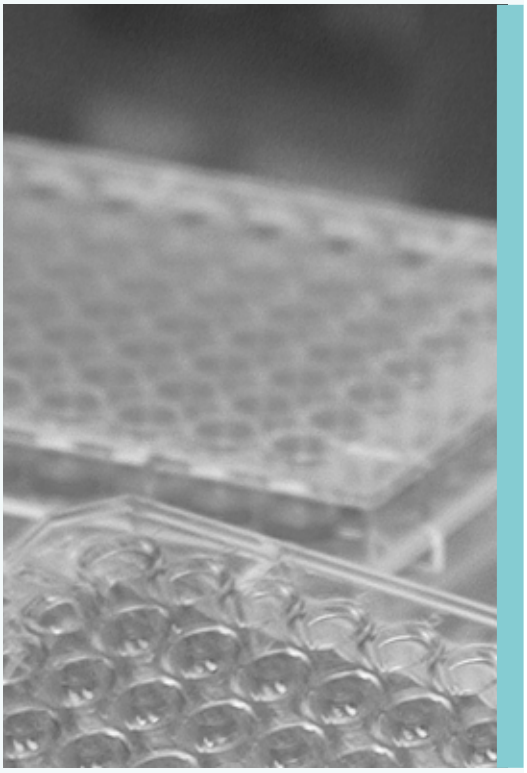
€ 4.9 million

6% of Group investment.

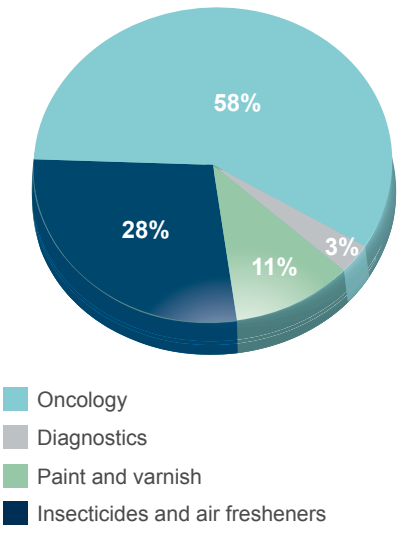


Total Group revenues

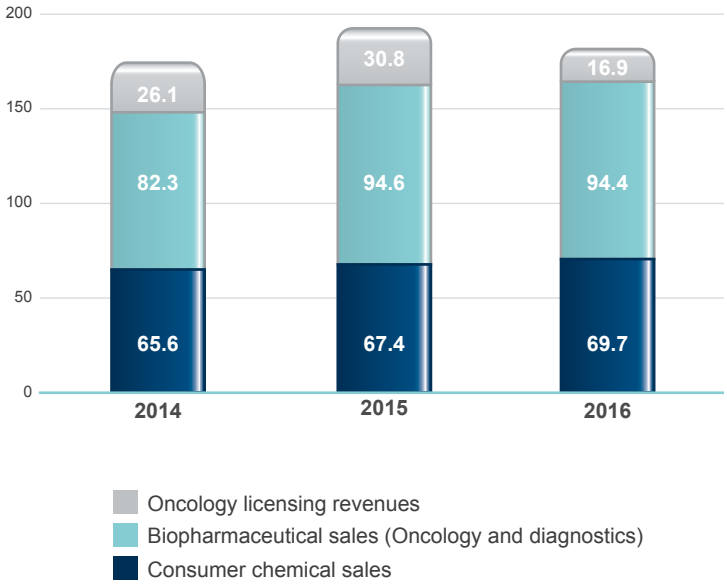




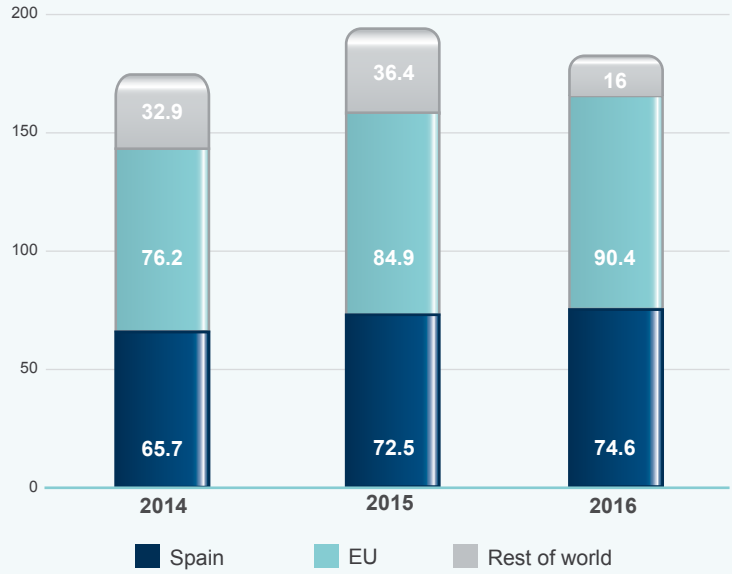
Contribution to total revenues by business in 2016



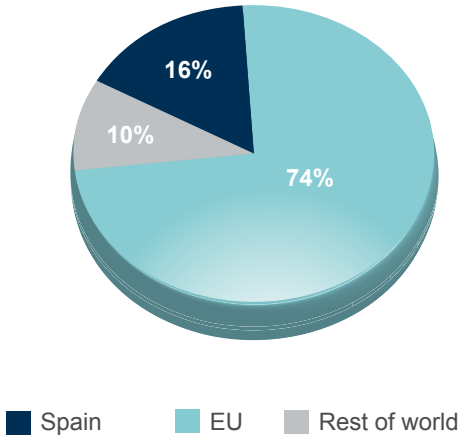
Breakdown of revenues by category



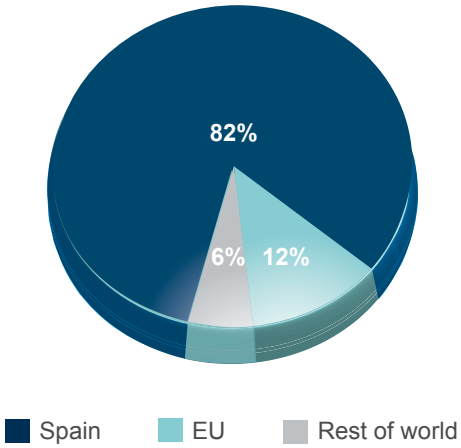
Revenues by territory



Biopharmaceuticals



Consumer chemicals



PIPELINES

CLINICAL DEVELOPMENT

ONCOLOGY INDICATION		PHASE I	PHASE II	PHASE III	REGISTRATION	MARKET	PARTNER
Yondelis® (trabectedin)							**J&J (US) Taiho (Japan)**
Soft Tissue Sarcoma 2nd/3rd line	Single agent	UE, US, Japan, others					
Ovarian cancer 2nd/3rd line	Yondelis® + Doxil	UE/Others					
Meningioma		UE					
Aplidin® (plitidepsin)							
R/R multiple myeloma 4th line	Plitidepsin + Dexamethasone	UE/Others					Chugai/ Regionals*
R/R T-cell lymphoma Pivotal	Single agent	UE/Others					
R/R multiple myeloma	Plitidepsin + Bortezomib + Dexameth.	UE/Others					
PM1183 (lurbinectedin)							**Chugai (Japan)**
Plat. Resistant ovarian cancer	Single agent	Global					
SCLC 2nd line	Lurbinectedin + Doxorubicin	Global					
BRCA breast cancer	Single agent	Global					
Basket trial	Single agent	Global					
Solid tumors	Combinations	Global					
PM184							
Advanced Breast Cancer 3rd/4th line	Single agent	Global					
Solid tumors	Single agent and combinations	Global					

* TTY Biopharm (Taiwan), STA (Australia, New Zealand and 12 Asian countries), Boryung Pharm (Korea).

GENOMICA

IVD Product portfolio

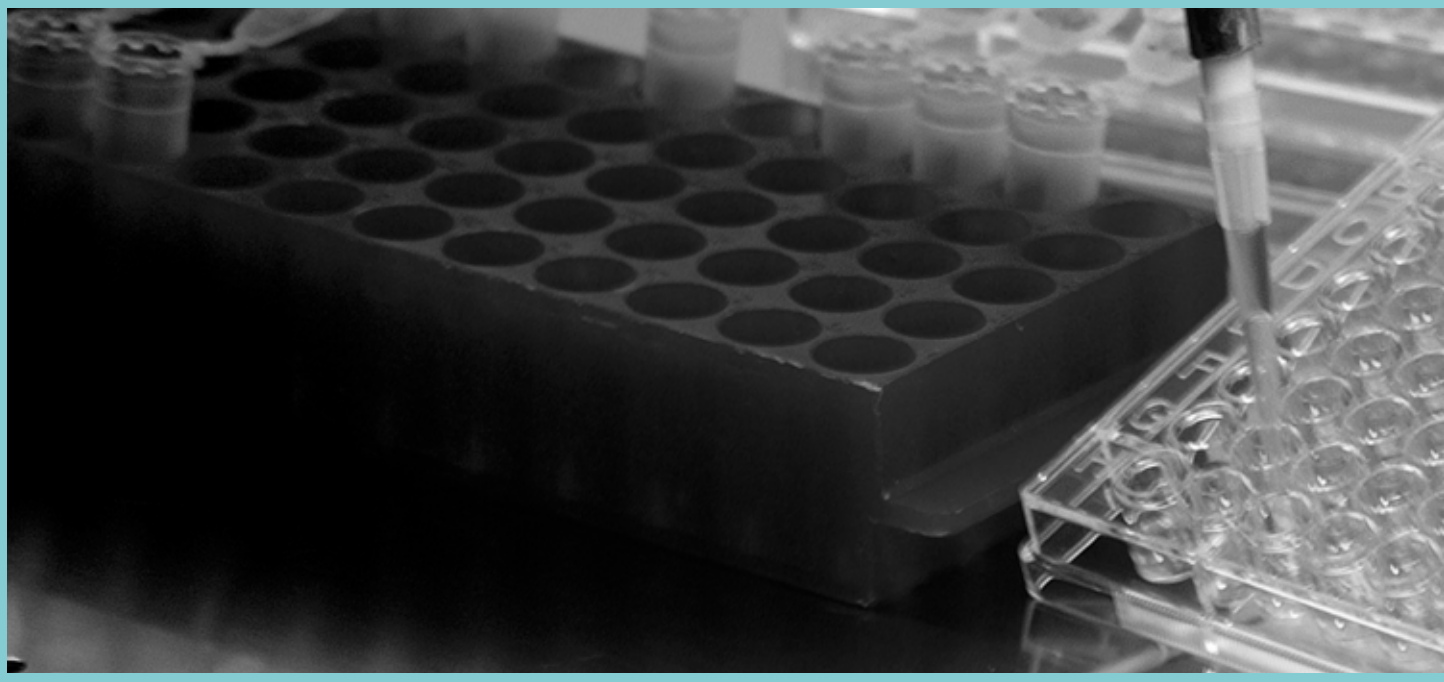
DIAGNOSTICS KIT FOR GENETIC DIAGNOSTICS and DNA analysis		DEVELOPMENT	MARKET
CLART® HPV 2	Kit for the detection of 35 high and low risk genotypes of human papillomavirus.		
CLART® HPV 3	Kit for the detection of 49 high-risk, low-risk and undetermined genotypes of human papillomavirus.		
CLART® HPV 4	Kit for the detection of 35 genotypes of high and low risk of human papillomavirus. No DNA extraction required.		
CLART® HPV 4s	Kit for the detection of 14 types of high risk and 2 low risk genotypes of human papillomavirus without DNA extraction required. No DNA extraction required.		
CLART® PneumoVir **CLART® PneumoVir 2**	Kits for the detection of viruses causing respiratory infections.		
PneumoCLART® Bacteria	Kit for the detection of bacteria causing respiratory infections.		
CLART® ENTHERPEX	Kit for the detection of enterovirus and human herpesvirus.		
CLART® SeptiBac	Kit for the detection of microorganisms causing Sepsis.		
CLART® EnteroBac	Kit for the detection of bacteria causing infectious diarrhea.		
CLART® STIs A&B	Kit for the detection of microorganisms causing urogenital tract infections.		
CLART® CMA KRAS · BRAF · Pi3K **CLART® CMA NRAS · iKRAS**	Kit for the detection of specific mutations in oncogenes associated with colorectal cancer.		
CLART® CMA EGFR **CLART® CMA EGFR LB** **CLART® CMA ALK · ROS1**	Kit for the detection of specific mutations in oncogenes associated with non-small cell lung cancer.		
CLART® CMA BRAF · AKT1 · MEK1	Kit for the detection of specific mutations in oncogenes associated with melanoma.		
Laboratory Instruments			
autoclart®	Full automation of post-PCR process for CLART arrays visualization.		
CAR®	Clinical Array Reader.		
autoclart® plus	Combining automated visualization processes with a Clinical Array reader.		

sylentis

DEVELOPMENT

RNAi		RESEARCH	PRECLINICAL	PHASE I	PHASE II	PHASE III	REGISTRATION
Ophthalmology							
Dry Eye Syndrome	SYL1001						
Glaucoma	Bamosiran						
Ocular Allergies	SYL116011						
Retina	Product A						
Technology development							
Formulations	Technological developments						
Modifications							

LETTER FROM THE CHAIRMAN



Fellow shareholder,

I am pleased to report that the company had a very positive year in 2016. We achieved the milestones we had set and, consequently, are now closer to our goal of bringing two new compounds to market in the coming years. I am satisfied with our achievements, and excited about the prospects for the near future, when I expect us to achieve the goals for which we are working so hard and which should result in considerable growth for the company.

PharmaMar made some important achievements in 2016. The Phase III trial with Aplidin in multiple myeloma achieved its primary endpoint, enabling us to present a marketing authorization application to the European Medicines Agency (EMA) in this indication. A positive recommendation by the EMA will enable us to bring a new product to market, providing an alternative therapy for multiple myeloma patients. During the year, we also concluded enrolment for the Phase III registration trial with Lurbinectedin (PM1183) in patients with platinum-resistant ovarian cancer. We expect to have the results of this trial in the second half of 2017. If it achieves its endpoint, that will enable us to initiate another registration process, in this case to seek authorization to market Lurbinectedin in both the EU and the US for treating ovarian cancer. Moreover, in 2016 we initiated another Phase III registration trial with that same compound for treating small-cell lung cancer. This is a very aggressive cancer type with a high level of prevalence worldwide for which there is a pressing medical need. Not a single new treatment for this type of lung cancer has been approved in the last fifteen years. Also in the area of clinical development, the results of the Phase II trial with Lurbinectedin in treating breast cancer with BRCA1/2 mutations were presented at the European Society of Medical Oncology (ESMO) meeting in Copenhagen in September 2016. Based on the trial's superb results, we are concluding the design of a Phase III registration trial in breast cancer that could commence in 2017. This means that we might have two Phase III trials under way with Lurbinectedin in 2017 while awaiting the results of another Phase III trial that has already concluded. A notable achievement.

This was also the first full year in which Yondelis was for sale to treat soft tissue sarcoma in both Japan and the US. As I have mentioned in the past, this is the first drug developed by a Spanish company to be approved for sale in those two countries and we are confident that Yondelis sales will continue to grow as our compound becomes available to more patients.

However, one of the key developments in 2016 was undoubtedly the signature of a licensing

agreement for Lurbinectedin in Japan with Chugai Pharmaceutical. This exclusive licensing deal provided the Company with a €30 million upfront payment and envisages over €70 million in payments as future milestones are attained. The fact that we have already collected the €30 million upfront payment in full enables us to undertake the necessary investments in the coming years without any strain on cash.

The considerable progress with the clinical development of our compounds in recent years is due to our sizeable investment in R&D and innovation. We consider this expenditure is absolutely vital if we are to achieve our goals and continue expanding. Although that R&D expenditure, which increased by 30% year-on-year in 2016, had an impact on the bottom line, we were already prepared for this and had focused on managing cash flow in order to be able to undertake the additional spending on R&D and innovation without affecting the development of our pipeline. And we did it.

All these achievements had an evident impact on the market. Despite the difficult macroeconomic situation and the uncertainty that dominated the markets in 2016 –with tensions arising from Brexit and the US elections, among other factors– PharmaMar's share gained 8% while the Ibex-35 lost 2% and the Nasdaq Biotech Index (NBI), the main index for the US biotech industry, lost 21%.

In short, the PharmaMar group ended 2016 with a sound financial and business position that enables us to look to the future with optimism, confident that we are very close to achieving the goal we set years ago, which will undoubtedly result in considerable growth by the company and will enable us to consider even more ambitious objectives in the future.

As Chairman, I would like to convey the thanks of the Board of Directors to all the employees of the PharmaMar Group, whose talent, hard work 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. Our achievements would not be possible without your support, and we hope to be able to share with you the successes that are yet to come.

Very truly yours,

José María Fernández Sousa-Faro.
Chairman

DIRECTORS' REPORT

DIRECTORS' REPORT

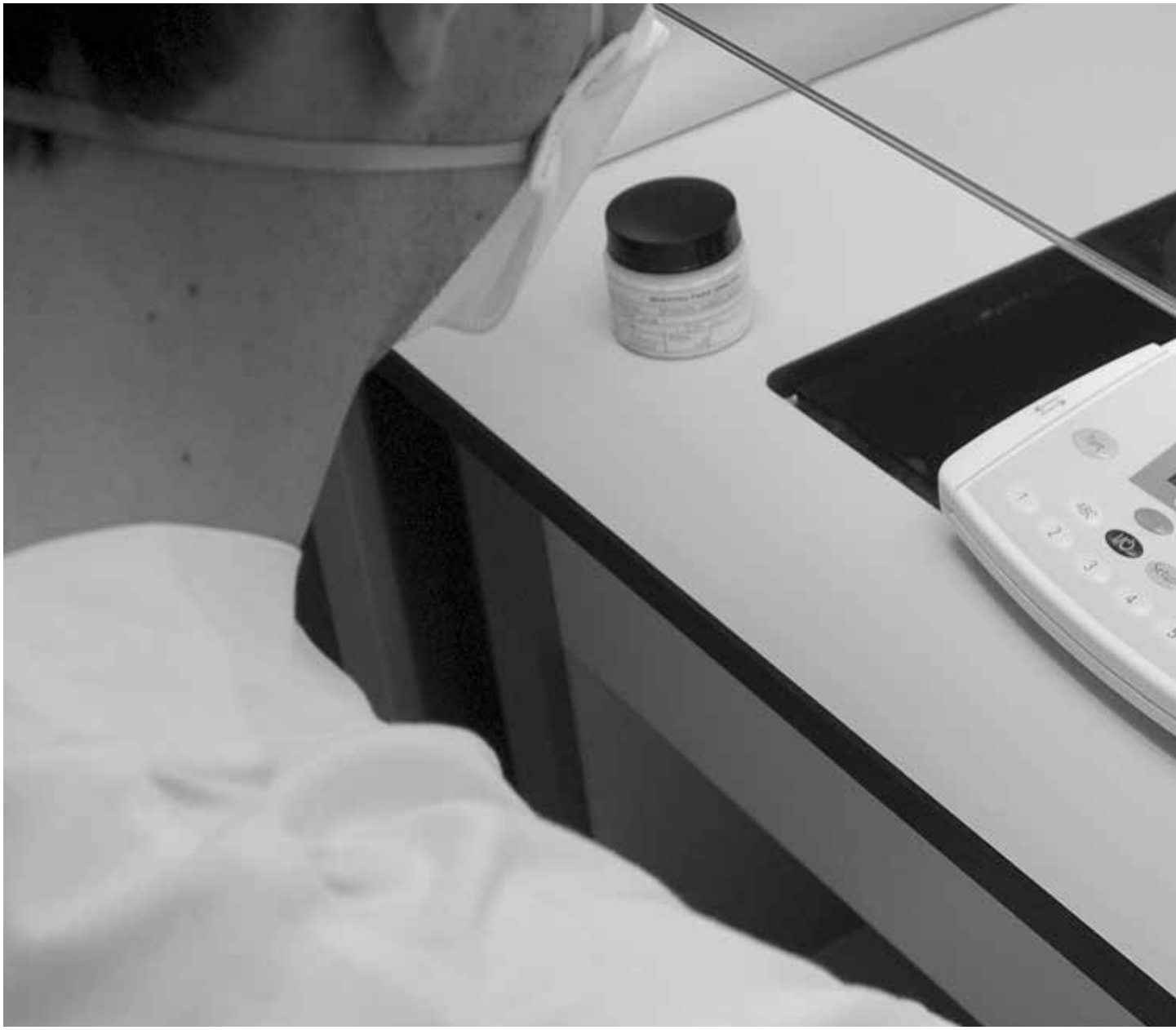
1. COMPANY SITUATION

1.1 Organizational structure

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

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

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

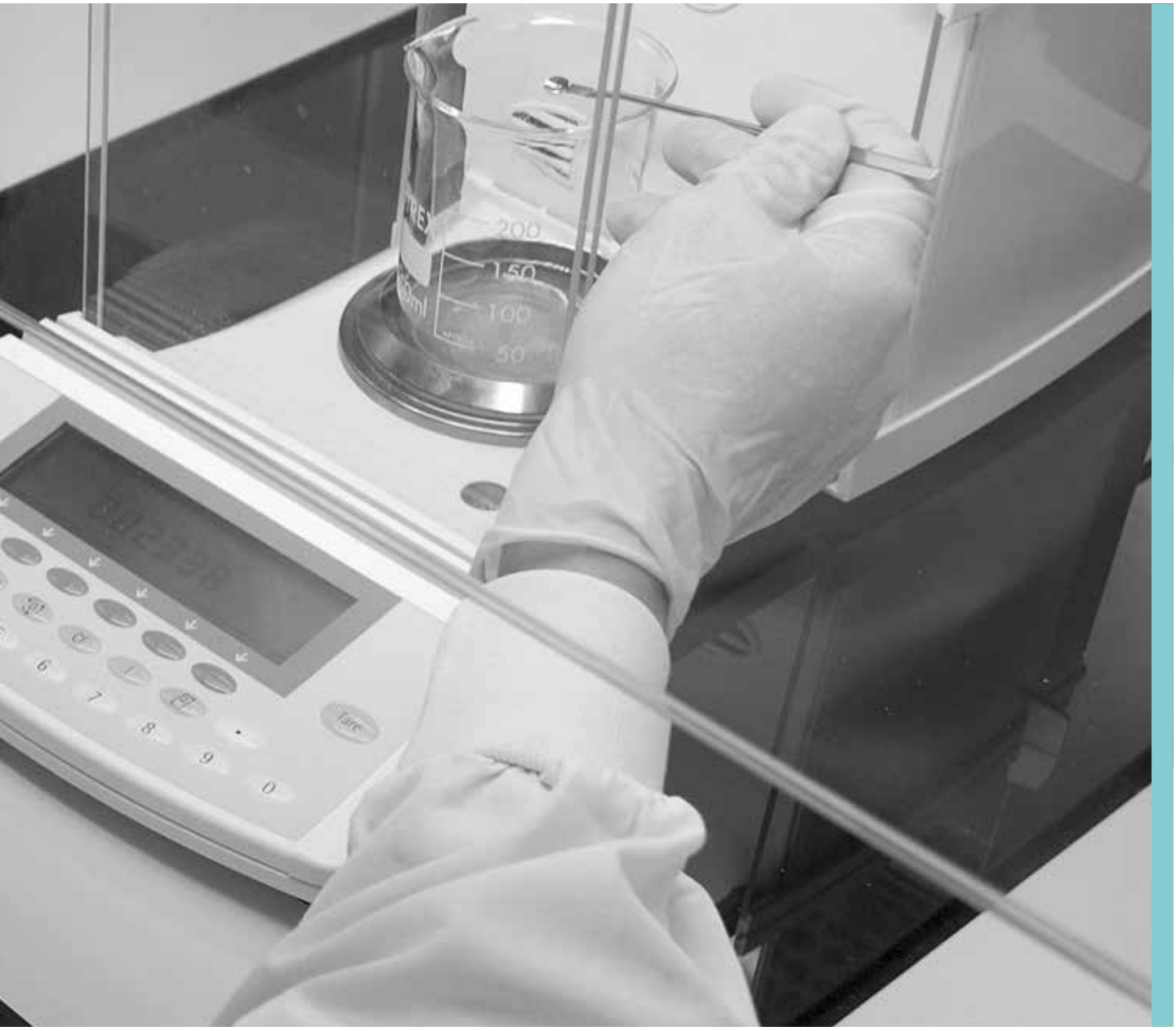


1.2 Operations: Business model, strategy

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

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

One of the distinguishing factors of the oncology business model is the capacity to discover new molecules for the pipeline, thereby generating new drug opportunities for the company. The group has several antitumour molecules in its pipeline



at various stages of development, the goal being to bring new compounds to market. PharmaMar also has its own sales network covering Europe. This not only allows it to sell its products directly, but also provides scope to leverage future opportunities to sell third-party products.

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

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

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

2. BUSINESS PERFORMANCE AND RESULTS

REVENUES	12-31-16	12-31-15
Sales	**164,034**	**161,992**
Biopharmaceutical Area	94,374	94,644
Oncology Segment	*88,194*	*88,442*
Diagnostic Segment	*6,180*	*6,202*
Consumer Chemicals Segment	69,660	67,348
Royalties		
Oncology Segment	**5,779**	**1,788**
Licenses and co-developement agreements		
Oncology Segment	**11,129**	**29,034**
Services Rendered		
Not asigned	**5**	**1,003**
TOTAL REVENUES	**180,947**	**193,817**

EBITDA	12-31-16	12-31-15
Biopharmaceutical Area	(6,530)	23,670
Consumer Chemicals Segment	5,308	5,122
Not asigned	(9,813)	(9,452)
TOTAL EBITDA	**(11,035)**	**19,340**

(Thousand euro)

2.1 Total revenues

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

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

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

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

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

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

2.2 Revenues from other countries

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

2.3 Margins: Gross margin and EBITDA

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

Group EBITDA in 2016 amounted to -€11.0 million (€19.3 million in 2015).

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

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

2.4 R&D expenditure

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

R & D	2016	2015	Dif[a]	Var.
Oncology Segment	72,301	55,610	16,691	30%
Diagnostic Segment	2,426	2,218	208	9%
RNAi Segment	4,890	5,687	(797)	(14%)
Consumer Chemicals Segment	163	34	129	379%
	79,780	**63,549**	**16,231**	**25%**
- Capitalization R&D	(1,357)	(3,258)	1,901	(58%)
TOTAL R & D EXPENSES	**78,423**	**60,291**	**18,132**	**30%**

(Thousand euro)

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

2.5 Marketing and commercial expenses

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

2.6 Income attributable to the parent company

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

2.7 Other events that impacted the 2016 financial statements

Licensing agreements and strategic alliances:

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

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

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

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

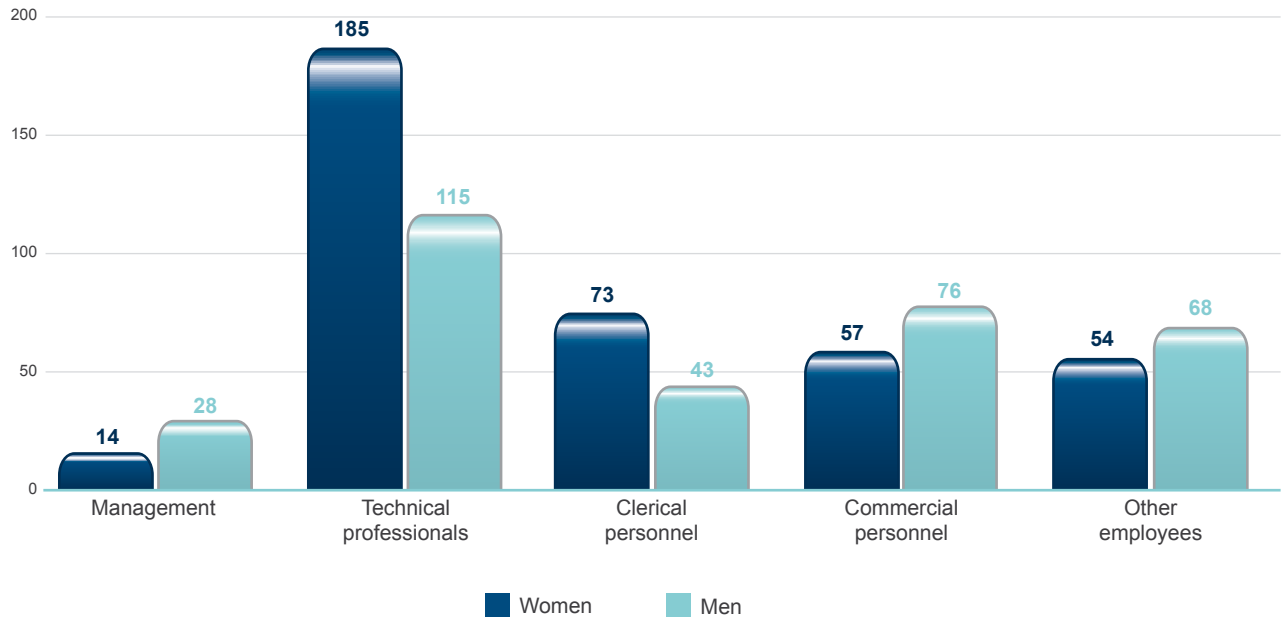
2.8 Personnel

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

Women account for 53.7% of the workforce.

The bar graph below illustrates segmentation by gender and category:

Segmentation by gender and category



2.9 Environmental issues

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

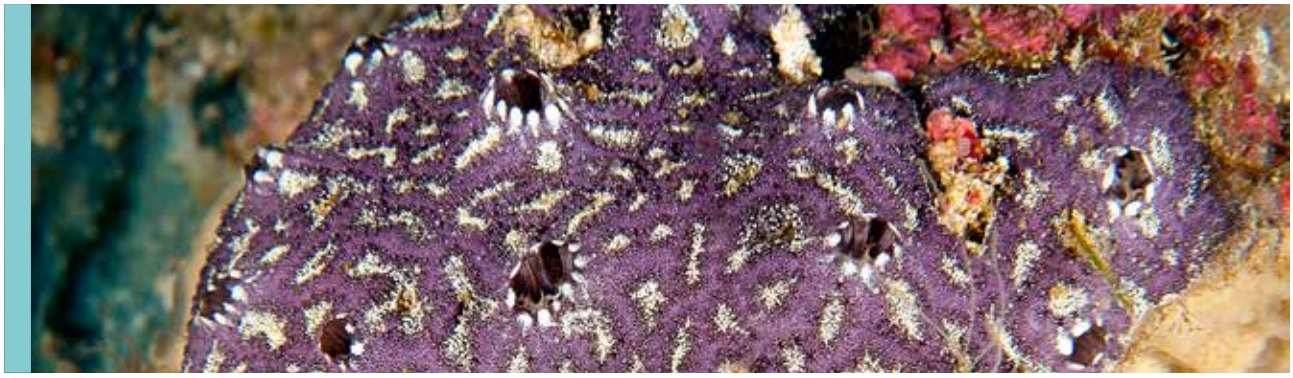
Since there were no contingencies relating to environmental protection and improvement and there are no risks that could have been transferred to other companies, it was not necessary to recognize any provisions for environmental actions in the year.

2.10 Average period taken to pay suppliers

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

	2016 Days
Average period taken to pay suppliers	51
Ratio of paid transactions	53
Ratio of outstanding transactions	25
Total payments made (€' 000)	**82,721**
Total payments outstanding (€' 000)	**10,676**

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



3. LIQUIDITY AND CAPITAL

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

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

	2016	2015
Long term debt	**67,583**	**64,973**
Bank debt	25,351	20,651
Govt, agencies: R&D funding (interest free debt)	16,350	16,350
Obligations and bonds	25,882	27,972
Short term debt	**27,906**	**28,629**
Credit facilities	10,958	10,558
Effects and certifications	1,238	2,148
Bank loan	10,685	11,585
Govt, agencies: R&D funding (interest free debt)	4,438	3,753
Interest and others	587	585
Total financial debt	**95,489**	**93,602**
Cash & cash equivalents + no current and current financial investments	**33,505**	**46,692**
TOTAL NET DEBT	**(61,984)**	**(46,910)**

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

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

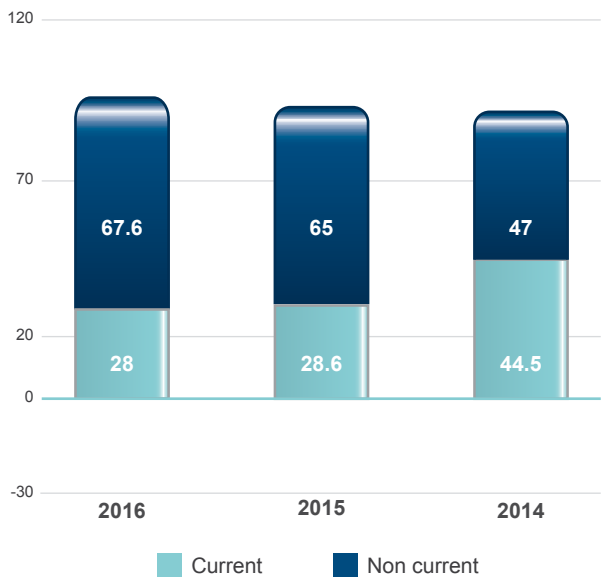
Cash and cash equivalents plus current financial assets declined in year-on-year terms in line with the increase in R&D expenditure in the year.

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

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

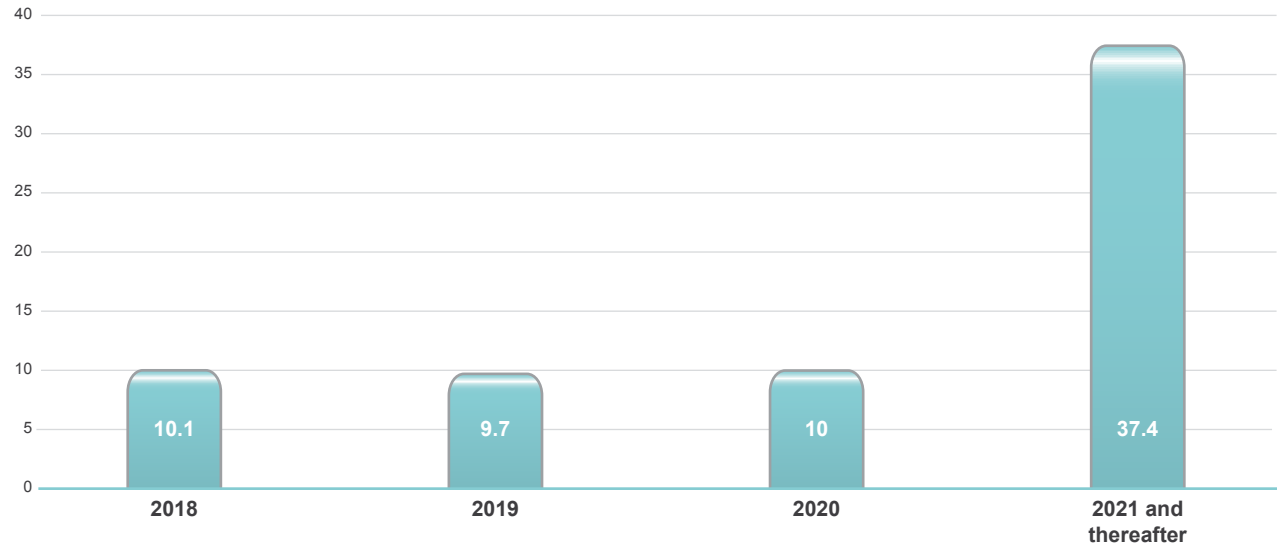
The graph below shows the Group's debt, both current and non-current, in the last three years.

Group debt



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

Annual maturities of long-term financial debt principal



4. PRIMARY RISKS AND UNCERTAINTIES

4.1 Situation risks

Competition

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

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

Industrial property. Patents

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

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

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

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

processes, medical applications and even new methods of drug administration.

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

Regulation

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

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

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

Capital availability

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

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

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

Shareholders

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

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

4.2 Operating risks

Commodity prices

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

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

Health and safety

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

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

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

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

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

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

Environmental

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

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

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

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

Product development

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

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

4.3 Information risks

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

Market disclosures

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

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

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

Information systems

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

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

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

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

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

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

4.4 Financial risks

4.4 A Market risk

Price risk

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

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

Interest rate risk on cash flows and fair values

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

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

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

Exchange rate risk

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

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

4.4 B Credit risk

Credit risk arises from financial assets arranged with banks.

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

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

- Acquisition of fixed-income funds that invest in public- or private-sector debt (government bonds, treasury bills and commercial paper), generally secure, which pay periodic coupons.
- Acquisition of money market funds comprising short-term fixed-income securities (18 months maximum), where security is given priority in exchange for a yield that is generally lower than other investments.

4.4 C Liquidity risk

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

Prudent liquidity risk management entails having sufficient cash and marketable securities, financing via sufficient credit facilities, and the capacity to settle market positions. The goal of the Group's financial department is to maintain flexibility in

funding by having credit lines and sufficient funds in financial assets to cover obligations, particularly in the biopharmaceutical segment.

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

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

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

5. SUBSEQUENT EVENTS

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

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

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

6. 2017 OUTLOOK

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

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

After one year of sales of Yondelis in the US and Japan for treating soft tissue sarcoma, the royalties from sales in those two major countries are expected to grow in 2017 in line with our partners' sales projections.

The consumer chemicals segment is expected to continue expanding domestic sales and exports in 2017 and to add new products, both proprietary and under license.

7. R&D AND INNOVATION

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

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

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

1. ONCOLOGY: PHARMA MAR, S.A.

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

a) Yondelis®

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

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

Soft-tissue sarcoma

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

Ovarian cancer

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

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

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

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

Other indications

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

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

b) Aplidin®

Multiple Myeloma

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

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

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

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

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

T-cell lymphoma

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

c) PM1183

Platinum-resistant ovarian cancer

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

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

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

Small-cell lung cancer (SCLC)

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

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

Advanced breast cancer

In the Phase II clinical trial in advanced breast cancer, recruitment is ongoing in the A1 arm, consisting of breast cancer patients with BRCA 1 or 2 mutations who had been pre-treated with PARP inhibitors.

The clinical data obtained from analysing the A arm (breast cancer patients with a BRCA 1 or 2 mutation) were selected for an oral presentation at the European Society for Medical Oncology (ESMO) 2016 Conference, held in Copenhagen from 7 to 11 October 2016.

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

Basket trial in advanced solid tumours

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

Combination trials

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

Congress, which was held in Amsterdam on 27-30 January 2017.

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

d) PM184

The Phase I dose escalation trial assessing the combination of PM184 with gemcitabine is recruiting on schedule. It is being conducted at two centres, one in Spain and one in the US. There are plans to enrol patients with specific diseases in which clinical benefit has been observed, such as non-small-cell lung cancer, breast cancer and tumours of the head and neck.

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

2. DIAGNOSTICS: GENÓMICA

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

As for oncology, the CLART® EGFR BL kit for detection in blood of 39 mutations of the EGFR gene which are significant in lung cancer was released. This kit makes it possible to track and monitor an oncological patient without requiring a solid biopsy.

Additionally, the CLART®CMA ALK-ROS1 kit, launched in 2016, detects and provides genetic identification of the main chromosome translocations in the ALK and ROS1 genes in patients with lung cancer.

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

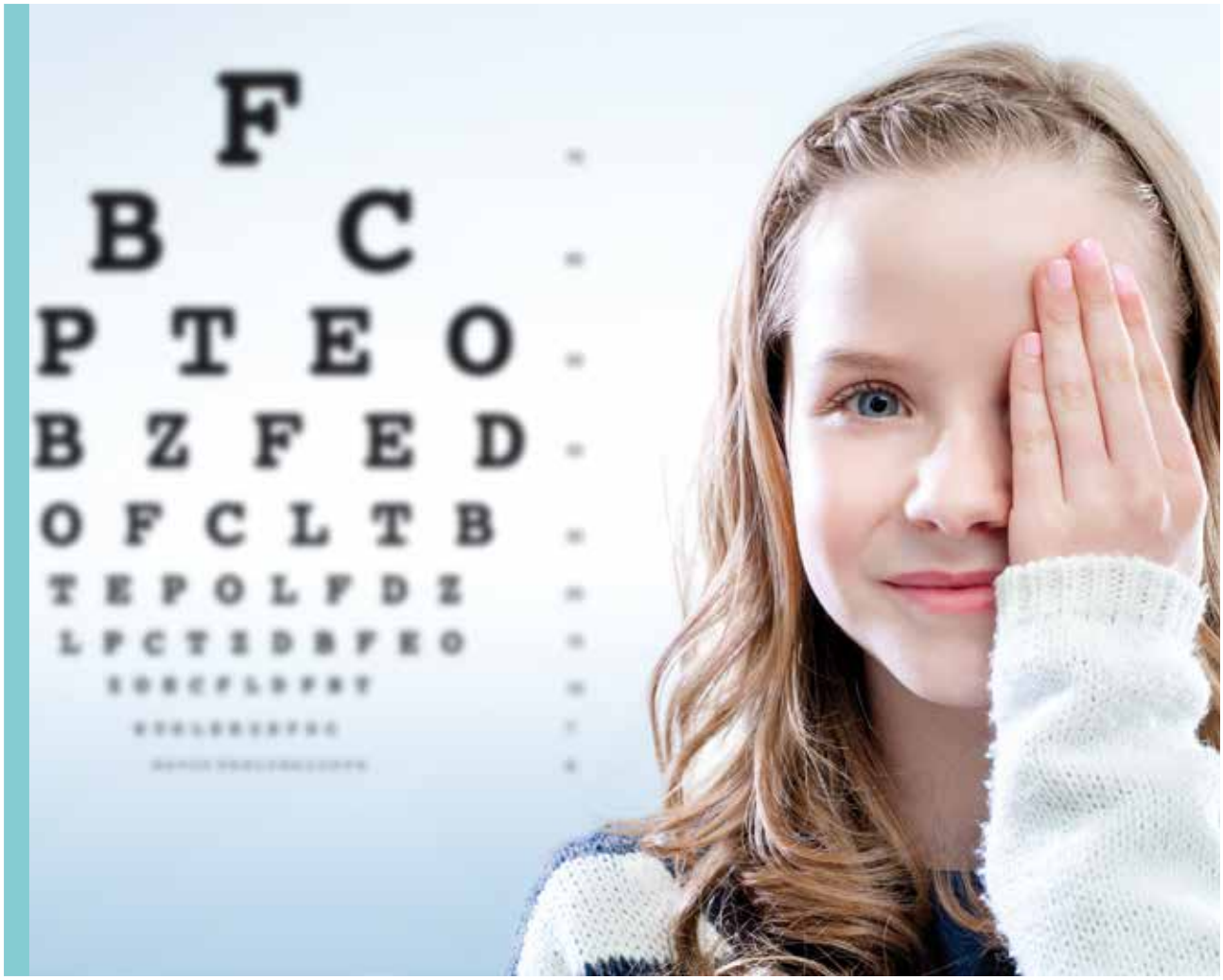
3. RNA Interference, OPHTHALMOLOGY: SYLENTIS, S.A.

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

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

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

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



8. ACQUISITION AND DISPOSAL OF OWN SHARES

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

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

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

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

9. SHARE INFORMATION

General situation

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

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

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

Share information in 2016	
Total number of shares	222,204,887
Number of outstanding shares	220,994,806
Par value (euro)	0,05
Average daily trading (no. of shares)	550,406
Average daily trading (euro)	1,366,107
Trading days	256
Year trading low (24 December) (euro)	235,060
Year trading high (6 February) (euro)	9,875,512
Total trading in year (million euro)	**550.3**
	(euro)
Lowest share Price (11 February)	1,72
Highest share Price (22 April)	3,19
Share price at 31 December	2,71
Average share price in the year	2,48
Market capitalization at 31 December (million euro)	**602,2**

Source: Bloomberg

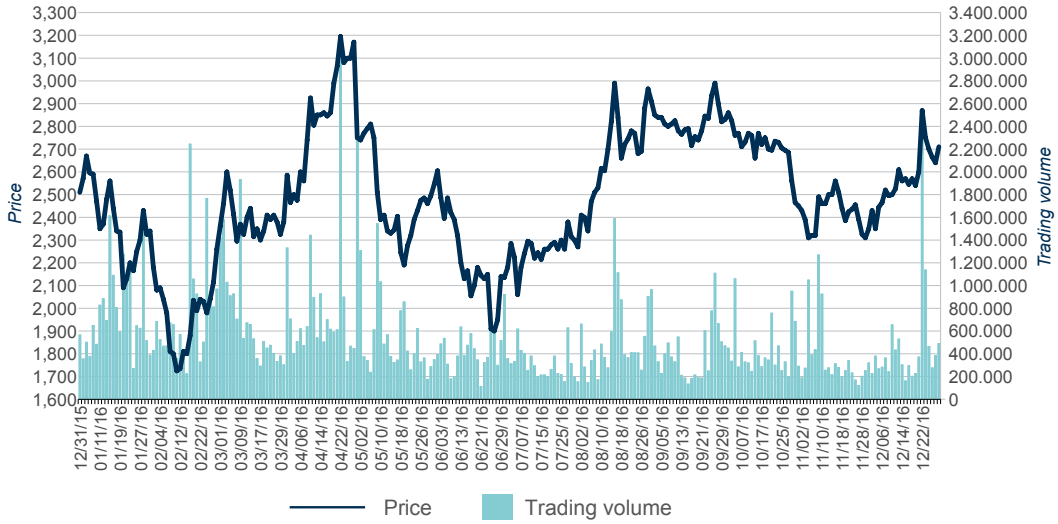
PharmaMar share performance

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

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

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

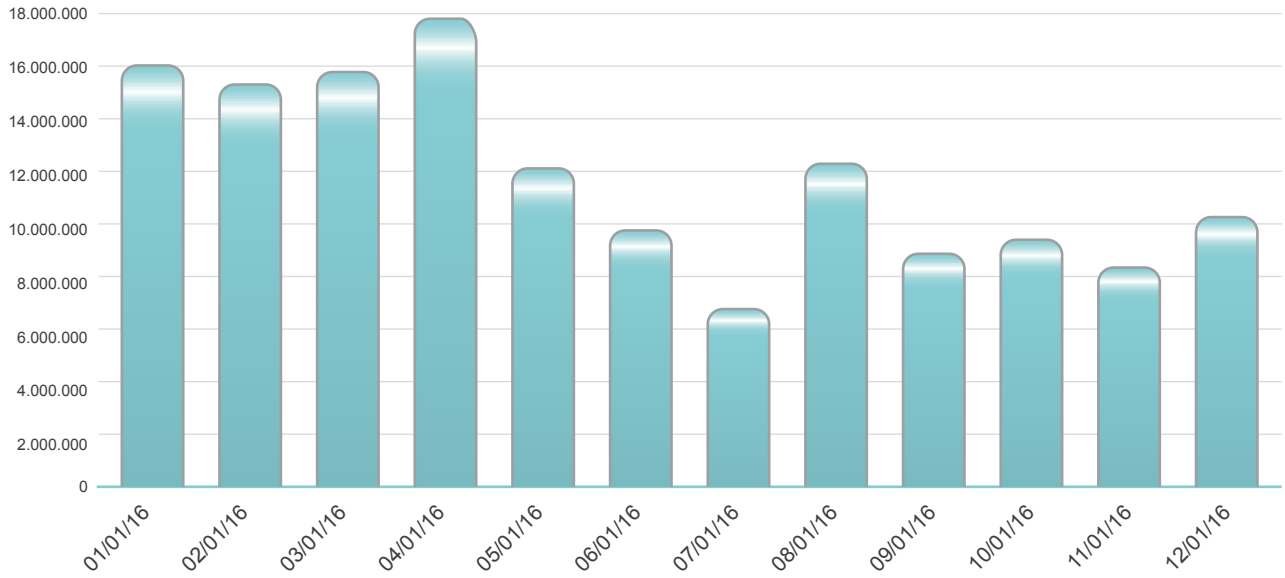
Accumulated 2016



Source: Bloomberg

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

Average daily trading volume



CONSOLIDATED FINANCIAL STATEMENTS AND AUDITORS´ REPORT

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

INDEPENDENT AUDITOR´S REPORT ON CONSOLIDATED ANNUAL ACCOUNTS

To the shareholders of Pharma Mar, S.A.

Report on the Consolidated Annual Accounts

We have audited the accompanying consolidated annual accounts of Pharma Mar, S.A. and its subsidiaries, which comprise the consolidated statement of financial position as at December 31, 2016, and the consolidated income statement, statement of other comprehensive income, statement of changes in equity, cash flow statement and related notes for the year then ended.

Directors' Responsibility for the Consolidated Annual Accounts

The parent company´s directors are responsible for the preparation of these consolidated annual accounts, so that they present fairly the consolidated equity, financial position and financial performance of Pharma Mar, S.A. and its subsidiaries, in accordance with International Financial Reporting Standards, as adopted by the European Union, and other provisions of the financial reporting framework applicable to the Group in Spain and for such internal control as directors determine is necessary to enable the preparation of consolidated annual accounts that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

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

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

Opinion

In our opinion, the accompanying consolidated annual accounts present fairly, in all material respects, the consolidated equity and financial position of Pharma Mar, S.A. and its subsidiaries as at December 31, 2016, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards, as adopted by the European Union, and other provisions of the financial reporting framework applicable in Spain.

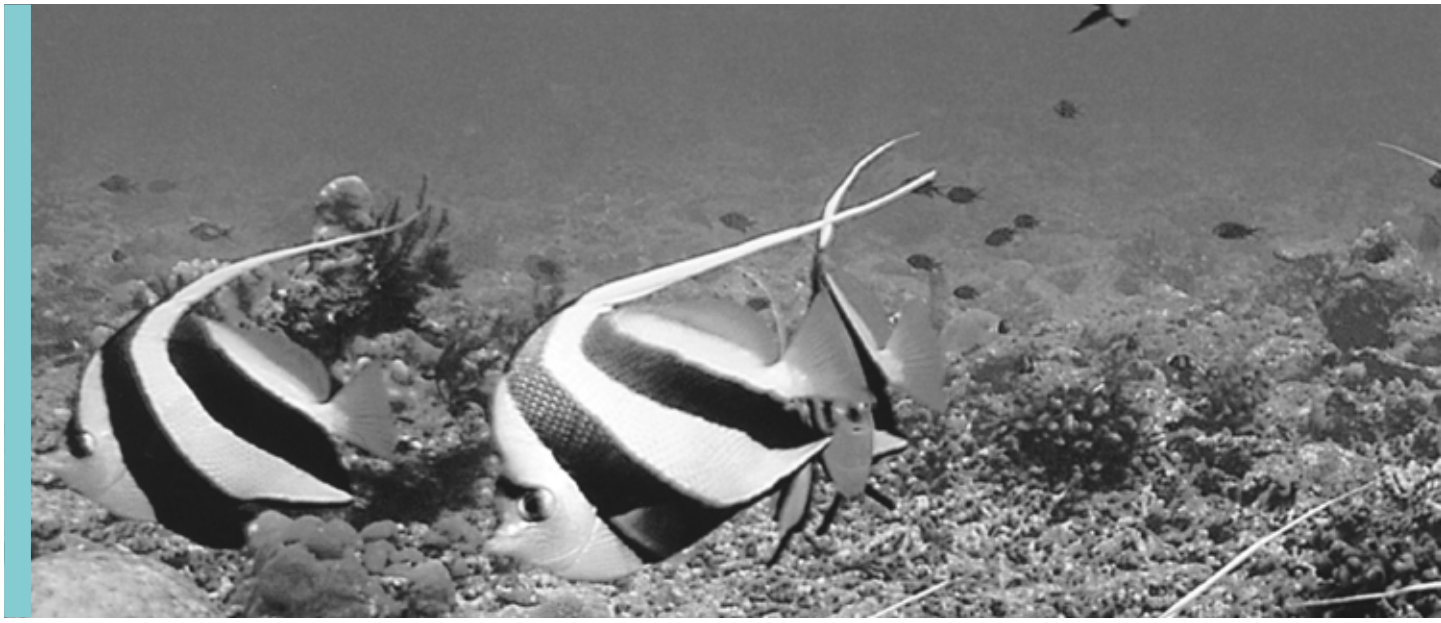
Report on Other Legal and Regulatory Requirements

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

PricewaterhouseCoopers Auditores, S.L.

The original Spanish version was signed by Julio Balaguer Abadía

February 23, 2017



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

as of December 31, 2016

CONSOLIDATED BALANCE SHEET (Thousand euro)	**Note**	**12-31-16**	**12-31-15**
ASSETS			
Non-current assets			
Property, plant and equipment	6	31,141	30,624
Investment property	7	6,119	6,157
Intangible assets	8	24,900	26,829
Goodwill	9	2,548	2,548
Non-current financial assets	10	1,138	1,067
Deferred tax assets	25	34,299	32,579
		100,145	**99,804**
Current assets			
Inventories	16	22,158	22,990
Trade and other receivables	14	62,652	40,200
Current financial assets	10	18,077	37,996
Other current assets	15	3,815	3,320
Cash and cash equivalents	17	14,290	7,629
		120,992	**112,135**
TOTAL ASSETS		**221,137**	**211,939**

The accompanying notes are an integral part of these consolidated financial statements

CONSOLIDATED BALANCE SHEET (Thousand euro)	Note	12-31-16	12-31-15
EQUITY			
Share capital	18	11,110	11,110
Share premium	18	69,189	69,189
Treasury shares	18	(3,247)	(2,944)
Revaluation reserves		11	9
Retained earnings and other reserves		(24,705)	(490)
Total capital and reserves attributable to equity-holders of the parent company		**52,358**	**76,874**
Non-controlling interests	20	**(3,863)**	**(3,838)**
TOTAL EQUITY		**48,495**	**73,036**
LIABILITIES			
Non-current liabilities			
Borrowings	24	67,583	64,973
Non-current deferred income	22	16,790	2,709
Other non-current liabilities	23	1,105	598
		85,478	**68,280**
Current liabilities			
Trade and other payables	21	39,175	31,959
Borrowings	24	27,906	28,629
Derivatives	13	0	14
Provisions for other liabilities and charges	26	6,988	6,306
Current deferred income	22	10,012	54
Other current liabilities	23	3,083	3,661
		87,164	**70,623**
TOTAL LIABILITIES		**172,642**	**138,903**
TOTAL EQUITY AND LIABILITIES		**221,137**	**211,939**

The accompanying notes are an integral part of these consolidated financial statements

CONSOLIDATED INCOME (Thousand euro)	**Note**	**12-31-16**	**12-31-15**
Revenue:			
Sale of goods	5, 27	164,035	161,992
Revenue from licensing and development agreements (excluding royalties)	5, 27	11,129	29,034
Royalties	5, 27	5,779	1,788
Other		5	1,003
		180,948	**193,817**
Cost of sales	5	(43,971)	(45,705)
Gross profit		**136,977**	**148,112**
Marketing expenses	30	(47,688)	(48,614)
Administrative expenses	29	(20,328)	(19,984)
Research and development expenses	28	(78,423)	(60,291)
Other operating expenses	29	(10,777)	(11,750)
Other income	31	1,533	3,824
Operating profit		**(18,706)**	**11,297**
Finance costs		(6,661)	(6,320)
Finance income		668	932
Finance costs - net	34	**(5,993)**	**(5,388)**
Result of the period before income taxes		**(24,699)**	**5,909**
Income tax profit / (expense)	25	592	654
Profit for the period		(24,107)	6,563
Profit is attributable to:			
Equity holders of the parent company		**(24,082)**	**6,588**
Non-controlling interests	20	(25)	(25)

Earnings/(Loss) per share for profit from operations and profit for the period attributable to equity holders of the parent company:			
(Euro per share)	Note		
- Basic earnings per share	35	(0.11)	0.03
- Diluted earnings per share	35	(0.11)	0.03

The accompanying notes are an integral part of these consolidated financial statements

CONSOLIDATED OF COMPREHENSIVE INCOME (Thousand euro)	12-31-16	12-31-15
PROFIT FOR THE PERIOD	**(24,107)**	**6,563**
OTHER COMPREHENSIVE INCOME		
Items that may be reclassified to profit or loss		
Changes in the fair value of available-for-sale financial assets	2	1
Exchange differences on translation of foreign operations	26	(76)
	28	(75)
OTHER COMPREHENSIVE INCOME FOR THE PERIOD, NET OF TAX	**28**	**(75)**
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	**(24,079)**	**6,488**
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD IS ATTRIBUTABLE TO:		
Equity holders of the parent company	(24,054)	6,513
Non-controlling interests	(25)	(25)
TOTAL COMPREHENSIVE INCOME FOR EQUITY HOLDERS	**(24,079)**	**6,488**

CHANGES IN CONSOLIDATED SHAREHOLDERS´ EQUETY

(Thousand euro)	Share capital	Share premium	Treasury shares	Revaluation reserves	Retained earnings and other reserves	Non-controlling interests	Total equity
Balance as of January 1, 2015	**11,110**	**323,286**	**(6,810)**	**8**	**(263,712)**	**(3,813)**	**60,069**
Fair value gain / (loss), gross:							
- Available-for-sale financial assets (Note 12)	0	0	0	1	0	0	**1**
- Exchange differences on translation of foreign operation	0	0	0	0	(76)	0	**(76)**
Other comprehensive income	**0**	**0**	**0**	**1**	**(76)**	**0**	**(75)**
2015 result of the period	0	0	0	0	6,588	(25)	**6,563**
Comprehensive income for the year	**0**	**0**	**0**	**1**	**6,512**	**(25)**	**6,488**
Merger effect (Note 18)	0	(254,097)	0	0	254,097	0	**0**
Purchase of treasury shares (Note 18)	0	0	(4,684)	0	0	0	**(4,684)**
Proceeds from shares issued (Note 18)	0	0	7,966	0	2,887	0	**10,853**
Value of employee services - Employee share ownership plan	0	0	584	0	(276)	0	**308**
Other movements	0	0	0	0	2	0	**2**
Balance as of December 31, 2015	**11,110**	**69,189**	**(2,944)**	**9**	**(490)**	**(3,838)**	**73,036**
Fair value gain / (loss), gross:							
- Available-for-sale financial assets (Note 12)	0	0	0	2	0	0	**2**
- Exchange differences on translation of foreign operations	0	0	0	0	26	0	**26**
Other comprehensive income	**0**	**0**	**0**	**2**	**26**	**0**	**28**
2016 result of the period	0	0	0	0	(24,082)	(25)	**(24,107)**
Comprehensive income for the year	**0**	**0**	**0**	**2**	**(24,056)**	**(25)**	**(24,079)**
Purchase of treasury shares (Note 18)	0	0	(4,165)	0	0	0	**(4,165)**
Proceeds from shares issued (Note 18)	0	0	3,862	0	(329)	0	**3,533**
Value of employee services - Employee share ownership plan	0	0	0	0	303	0	**303**
Other movements	0	0	0	0	(133)	0	**(133)**
Balance as of December 31, 2016	**11,110**	**69,189**	**(3,247)**	**11**	**(24,705)**	**(3,863)**	**48,495**

The accompanying notes are an integral part of these consolidated financial statements

CONSOLIDATED STATEMENT OF CASH FLOW (Thousand euro)	Note	12-31-16	12-31-15
NET CASH IN FLOW FROM OPERATING ACTIVITIES		**(8,414)**	**11,084**
Income before taxes:		**(24,699)**	**5,909**
Adjustments for:		**13,678**	**12,594**
Depreciation and amortization	6, 7, 8	7,243	6,281
Provision for impairment of accounts receivable	14	258	(44)
Impairment losses of property, plant and equipment and investment property	6, 37	171	1,774
Fair value loss/(gain) on financial assets	13	(14)	(26)
Finance income	34	(255)	(258)
Finance costs	34	5,214	5,509
Share based payments	37	303	308
Deferred income - grants	22	76	(1,036)
Provisions	26	682	86
Changes in working capital:		**7,981**	**(1,755)**
Inventories	16	832	1,414
Trade and other receivables	14	1,290	(3,167)
Other assets and liabilities		(1,357)	(3,251)
Trade and other accounts payable	21	7,216	3,249
Other cash flows from operations:		**(5,374)**	**(5,664)**
Interest paid		(5,241)	(5,529)
Interest received		241	230
Income tax paid		(374)	(365)
NET CASH (OUTFLOW) FROM INVESTING ACTIVITIES		**13,779**	**(28,328)**
Acquisitions:		**(38,674)**	**(63,632)**
Property, plant and equipment, intangible assets and investment property	6, 7, 8	(6,093)	(9,288)
Other financial assets	10	(32,581)	(54,344)
Proceeds from:		**52,558**	**35,378**
Property, plant and equipment, intangible assets and investment property	6, 7, 8	129	70
Other financial assets	10	52,429	35,308
Other investing cash flow:		**(105)**	**(74)**
Other investment receipts/(payments)		(105)	(74)
NET CASH (OUTFLOW) FROM FINANCING ACTIVITIES		**1,296**	**8,322**
Receipts and (payments) in connection with equity instruments:		**(632)**	**6,169**
Purchase of treasury shares	18	(4,165)	(4,684)
Proceeds from shares issued	18	3,533	10,853
Receipts and (payments) in connection with financial liabilities:		**1,926**	**(23)**
Proceeds from borrowings	24	20,140	34,867
Repayment of borrowings	24	(18,214)	(34,890)
Other financing cash flow		**2**	**2,176**
Other financing receipts/(payments)		2	2,176
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		**6,661**	**(8,922)**
Cash and cash equivalents at beginning of the year	10	7,629	16,551
CASH AND CASH EQUIVALENTS AT PERIOD ENDED SEPTEMBER 30		**14,290**	**7,629**

The accompanying notes are an integral part of these consolidated financial statements

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS OF PHARMA MAR, S.A. AND SUBSIDIARIES as of December 31, 2016

(Thousand euro)

1. GENERAL INFORMATION

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

PharmaMar's main activity is the research, development, production and commercialization of bio-active principles of marine origin for application in oncology, as well as the management, support and development of its subsidiaries, mainly in the chemical and biopharmaceutical businesses. In addition, the Group produce and market insecticides and air fresheners for household use, household products, wood treatment and decoration products, paints, and similar products.

On September 20, 2007, PharmaMar received authorization from the European Commission for marketing Yondelis® for the treatment of soft tissue sarcoma. This approval meant the commencement of PharmarMar's pharmaceutical compounds sales, as it had no drugs in the market until then.

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

On September 28, 2015, Taiho, a company with which PharmaMar had previously signed an agreement to develop and commercialize Yondelis® in Japan, received authorization from Japan's Ministry of Health, Labour and Welfare to commercialize Yondelis® in Japan for the treatment of soft tissue sarcoma. Additionally, on October 23, 2015, Janssen, PharmaMar's partner for the development and commercialization of Yondelis® in the US, obtained authorization from the FDA to commercialize Yondelis® in the US for the treatment of certain soft tissue sarcoma types.

As of December 31, 2016, PharmaMar was continuing to develop its other products and was also developing Yondelis® for therapeutic uses other than soft tissue sarcoma and ovarian cancer.

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

PharmaMar'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 2016 and 2015 apart from the incorporation of Pharma Mar Ges.m.b.H AT (Austria) in September 2016 and apart from the sale of Promaxa Protección de Maderas, S.L. in July 2016. In 2015, the merger between Zeltia, S.A. and Pharma Mar, S.A. took place. The list of the consolidated Group's subsidiaries as of December 31, 2016 and 2015 is as follows:

Subsidiary	Registered offices	Stake (%)		
		Direct	Indirect	Total
Genómica, S.A.U.	Vía de los Poblados, 1, Edif. B, Parq. Emp. Alvento, Madrid, Spain	100%	-	100%
Zelnova Zeltia, S.A.	Torneiros - Porriño - Pontevedra, Spain	100%	-	100%
Xylazel, S.A.	Las Gándaras - Porriño - Pontevedra, Spain	100%	-	100%
*Promaxsa Protección de Maderas, S.L.	Avda. Fuentemar, 16, 1º - Coslada - Madrid, Spain	100%	-	100%
Noscira, S.A. on liquidation	Plaza del Descubridor Diego de Ordás, 3, Madrid, Spain	73.32%	-	73.32%
Pharma Mar USA	205 East 42nd Street Suite 15003 New York, NY 10017 USA	100%	-	100%
PharmaMar AG (Switzerland)	Seschenvorstadt, 71 - Basel - Switzerland	100%	-	100%
Pharma Mar Sarl (France)	120, Av. Charles Gaulle - Neuilly sur Seine - France	100%	-	100%
Pharma Mar GmbH (Germany)	Uhlandstraße, 14, D 10623 Berlin - Germany	100%	-	100%
Pharma Mar Ltd (UK)	Regus Abbey House, 1650 Arlington Business Park - London - UK	100%	-	100%
Pharma Mar, S.r.L. (Italy)	Via Giorgio Stephenson, 29 Milan, Italy	100%	-	100%
Pharma Mar, Sprl (Belgium)	Avenue du Port 86C, bolte 204, 1000 Brussels, Belgium	100%	-	100%
**Pharma Mar Ges.m.b.H. (Austria)	Mooslackengasse 17, 1190 Wien, Austria	100%	-	100%
***Copyr, S.p.A. (Italy)	Via Giorgio Stephenson, 29 Milan, Italy	-	100% ***	100%
****Genómica, A.B. (Sweden)	Ideon Science Park Sheelevage, 17 Lund, Sweden	-	100% ****	100%
Sylentis, S.A.U.	Plaza del Descubridor Diego de Ordás, 3, Madrid, Spain	100%	-	100%

(*) Disposed in 2016

(**) Incorporated in 2016

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

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

A. PharmaMar- Zeltia merger

On June 30, 2015, the Shareholders' Meeting of Zeltia and the sole shareholder of PharmaMar approved a reverse merger of Zeltia into PharmaMar, through dissolution without liquidation of Zeltia and the whole transfer of Zeltia's net worth to PharmaMar. On October 30, 2015, the merger was registered with the Spanish Mercantile Registers in question and, as a result, Zeltia ceased to exist.

The structure chosen was that of a "reverse merger", in which a subsidiary absorbs its parent company, since Zeltia (the absorbed company) directly owned 100% of the shares of 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 Spanish Structural Modifications Act, to apply, mutatis mutandis, the rules for the absorption of wholly-owned subsidiaries. Consequently, the merger qualified for the special simplified procedure provided in article 49.1 of the Spanish Securities Market Act.

B. Description of subsidiaries

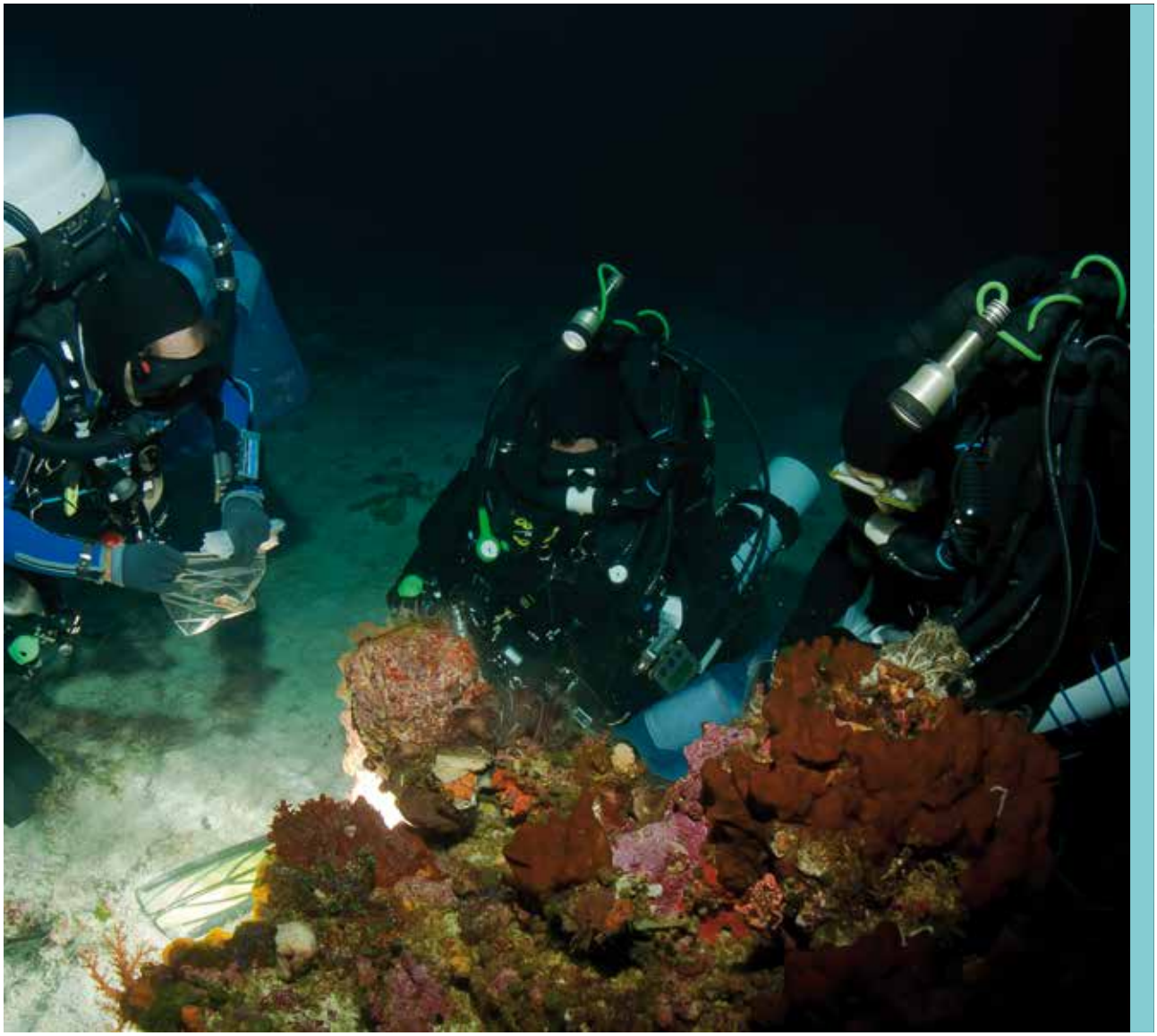
The principal activity of the Group companies, all of which were fully consolidated as of December 31, 2016 and 2015, is as follows:

- Genómica, S.A.U. (Genómica): Development and marketing of diagnostic applications and related services.
- Zelnova Zeltia, S.A. (ZelnovaZeltia): Manufacture and marketing of domestic and industrial insecticides and air fresheners.
- Xylazel, S.A. (Xylazel): Manufacture and sale of wood and metal protective and decorative products, paints and similar products.
- Promaxsa Protección de Maderas, S.L. (Promaxsa): Provision of services for treating and protecting wood, and repairing and preserving buildings, as well as insect control and disinfection. This company was sold in 2016.
- Noscira, "S.A. in liquidation" (Noscira): This Company is in liquidation. On 18 December

2012, the Shareholders' Meeting of Noscira resolved to dissolve the company and commence the period of liquidation, since the company had an equity imbalance and was in one of the situations of dissolution established by article 363.1.e) of the Spanish Capital Companies Act as its net equity had declined to less than one-half of its capital stock.

- Pharma Mar USA: Business development in the US market.
- PharmaMar AG: Marketing pharmaceutical products in the Swiss market.
- Pharma Mar SAR: Marketing pharmaceutical products in the French market.
- Pharma Mar GmbH: Marketing pharmaceutical products in the German market.
- Pharma Mar S.r.L.: Marketing pharmaceutical products in the Italian market.
- Pharma Mar S.p.r.l.: Marketing pharmaceutical products in the Belgian market.
- Pharma Mar Ltd.: Marketing pharmaceutical products in the UK market.
- Pharma Mar Ges.m.b.H.: This Company was founded in 2016 and it is primarily engaged in marketing pharmaceutical products in the Austria market.
- Copyr, S.p.A. (Copyr): Manufacture and sale of automatic aerosol dispensers under its Copyrmatic brand. Copyr also produces products for ecological farming.
- Genómica, A.B.: Marketing diagnostic applications and related services in the Scandinavian market.
- Sylentis, S.A.U. (Sylentis): Research, development, production and sale of products with therapeutic activity based on reducing or silencing gene expression, and pharmaceutical derivatives of same in a range of formulations and applied in various ways to all types of diseases; it does not yet have any products on the market.


G-204 SERIE B
G-204



2. ACCOUNTING PRINCIPLES

The main accounting principles adopted in preparing these consolidated financial statements are described below. Those principles were applied on a consistent basis for all the years covered by these consolidated financial statements, except where indicated otherwise.

A. Basis of presentation

These consolidated financial statements for 2016 and those for 2015 presented for comparison were prepared in accordance with the International Financial Reporting Standards and IFRIC interpretations adopted for use in the European union in accordance with Regulation (EC) No 1606/2002 of the European Parliament and of the Council of 19 July 2002, by virtue of which all companies governed by the law of a Member State of the European Union and whose shares are listed on a regulated market of a Member State must prepare their consolidated accounts, for annual periods beginning on or after 1 January 2005, in accordance with the IFRS adopted by European Union.

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

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4.

The accounting policies applied in preparing the consolidated financial statements as of December 31, 2016 are consistent with those used to prepare the consolidated financial statements for the year ended December 31, 2015. Significant estimates made in the 2016 financial statements are also consistent with those made in the 2015.

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

Standards, amendments and interpretations mandatory for all annual periods commencing on or after January 1, 2016

- IAS 1 (Modification) "Disclosure initiative".
- IFRS Annual Improvements Cycle 2012-2014.
- IAS 16 (Modification) /IAS 38 (Modification) "Clarification of acceptable methods of depreciation and amortization".

The adoption of these standards and modifications has not had significant impact on the financial statements of the Group.

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

At the date of signing these consolidated financial statements, the IASB and the IFRS Interpretations Committee had published the standards, amendments and interpretations described below whose has been endorsed by UE, although the Group has not adopted them in advance.

- IFRS 9 "Financial instruments". The Group management does not expect significant impacts.
- IFRS 15 "Revenue from contracts with customers", effective for annual periods beginning on or after 1 January 2018), although anticipated adoption is allowed. The Group, specially the oncology segment, signed with several customers certain license and co-development agreements containing multiple components, for its compounds in development or already commercialized (Note 27). The adoption of this IFRS 15 will have no significant impact on the financial statements of the Group.

Standards, amendments and interpretations to the existing rules that cannot be adopted in advance or that have not been adopted by EU

At the date of preparation of these consolidated financial statements, the IASB and the IFRS Interpretations Committee published the standards, amendments and interpretations set out below, which are pending adoption by the European Union. The Group considers that the following could be applicable to the Group:

- NIF 10 (Modification) and IAS 28 (Modification) "Sale or contribution of assets between an investor and its associates or joint ventures" - No significant impacts are expected.
- NIIF 16 "Leases" - The Group has certain operating lease contracts, mainly lease agreements for offices and vehicles (Note 40). Such contracts grant the right to use an asset for a period of time in exchange for a consideration. The Group must recognize the current value of the lease payments and count them as assets, and recognize a financial liability that represents its future payment obligation. At the moment there is no quantification of the effect on the annual accounts for the year 2019, year in which the norm will come into force.

- NIC 7 (Modification) "Disclosure Initiative" - No significant impacts are expected.
- NIC 12 (Modification) "Recognition of deferred tax assets for unrealized losses" - No significant impacts are expected.
- Annual Improvements to IFRS. Cycle 2014 - 2016 - No significant impacts are expected.

B. Consolidation principles

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

The Group uses the acquisition method to account for business combinations. Consideration for the acquisition of a subsidiary is measured as the fair value of the transferred assets, the liabilities incurred with the previous owners of the acquiree, and the equity instruments issued by the Group. The consideration will also include the fair value of any asset or liability which arises from any contingent consideration.

The identifiable assets acquired and the liabilities and contingent liabilities assumed in a business combination are carried initially at their fair value on the acquisition date.

For each business combination, the Group may elect to measure non-controlling interests at fair value or at the proportionate share of the recognized amounts of the acquiree’s identifiable net assets.

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

If the business combination takes place in stages, the acquisition-date carrying amount of the acquirer's previously-held equity interest in the acquiree is remeasured to fair value at the acquisition-date. Any gain or losses arising from such remeasurement are recognised in profit or loss.

Contingent consideration is classified either as equity or a financial liability. Amounts classified as a financial liability are subsequently remeasured to fair value with changes in fair value recognised in profit or loss.

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

If the subsidiary is fully consolidated, intercompany transactions, balances, and revenue and expenses on transactions between Group entities are eliminated.

Also eliminated are gains and losses on intragroup transactions recognized as assets. The accounting policies of the subsidiaries have been modified where necessary to ensure conformity with the Group's policies.

Refer to Note 1 to see consolidated subsidiaries details.

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

Transactions with non-controlling interests

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

C. Segment reporting

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

D. Foreign currency transactions

i. Functional and presentation currency

Items included in the financial statements of each of the group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in euros (€), which is PharmaMar's functional and presentation currency.

In the case of US-based Pharma Mar USA, its functional currency is the euro, essentially taking into account its sources of funding and its activity.

With regard to PharmaMar AG, a Swiss subsidiary, Pharma Mar Ltd, a British dependent and Genómica, AB, a Swedish subsidiary, its functional currencies in 2016 and 2015 have been the Swiss franc, the pound sterling and the Swedish krona respectively, Marketing of products being their sales in local currency. The impact of translation to euro is not material, given the small volume of its operations with respect to the Group.

ii. Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year end exchange rates are generally recognised in profit or loss. They are deferred in equity if they relate to qualifying cash flow hedges and qualifying net investment hedges or are attributable to part of the net investment in a foreign operation.

Foreign exchange gains and losses are presented in the statement of profit or loss within "Finance costs - net".

Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Translation differences on assets and liabilities carried at fair value are reported as part of the fair value gain or loss. For example, translation differences on non-monetary assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss and translation differences on non-monetary assets such as equities classified as available-for-sale financial assets are recognised in other comprehensive income.

iii. Group companies

The results and financial position of foreign operations (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- Assets and liabilities on each balance sheet are translated at the closing exchange rate on the balance sheet date;
- Income and expenses for each statement of profit or loss and statement of comprehensive income are translated at average exchange rates (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions), and
- All resulting exchange differences are recognised in other comprehensive income.

On consolidation, exchange differences arising from the translation of any net investment in foreign entities, and of borrowings and other financial instruments designated as hedges of such investments, are recognised in other comprehensive income. When a foreign operation is sold or any borrowings forming part of the net

investment are repaid, the associated exchange differences are reclassified to profit or loss, as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the closing rate.

E. Property, plant and equipment

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

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

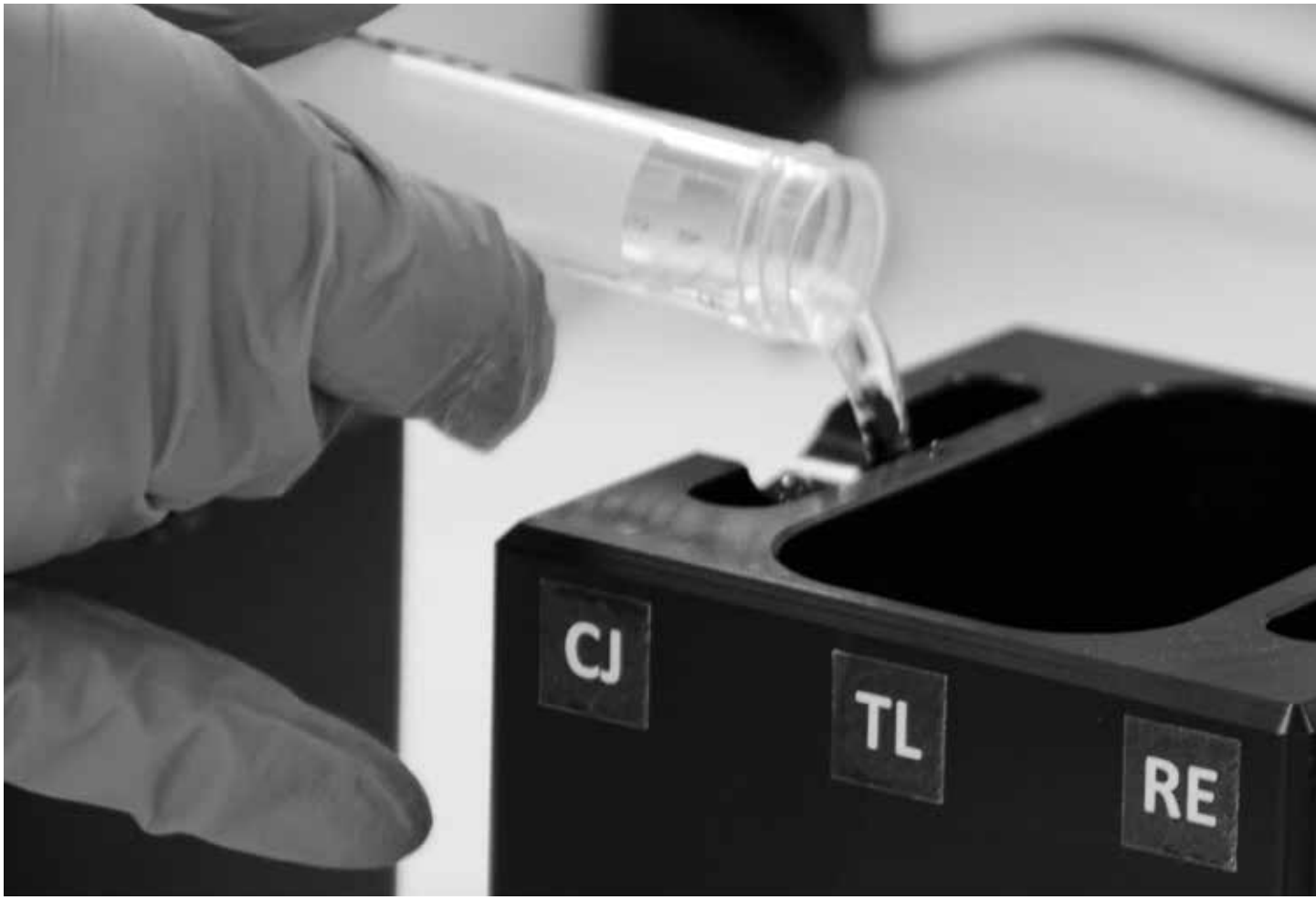
Subsequent costs are included in the asset's carrying amount or recognized as a separate asset only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All repairs and maintenance are expensed as incurred.

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

YEARS OF USEFUL LIFE	
Buildings	17-50
Machinery and installations	5-10
Tools and equipment	3-10
Furniture and fixtures	3-10
Vehicles	4-7
Computer hardware	4-7
Other assets	7-15

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

When the carrying amount of an asset exceeds its estimated recoverable amount, its value is written down immediately to the recoverable amount. Gains and losses on the sale of property, plant and equipment, which are calculated by comparing the proceeds with their carrying amount, are recognized in profit and loss.



F. Investment property

The Group classifies as "Investment property" the land and buildings held to earn rent or for capital appreciation, or both, which are not occupied by the Group. The investment property is recognized at the cost value depreciated during the useful life. The depreciation is disclosed in Note 7.

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

G. Intangible assets

i. Development expenses

Research and development expenses are expensed as incurred. Development project costs (design and testing of new and improved products) are recognized as intangible assets when it is probable that the project will be successful, based on its technical and commercial viability; specifically, they are capitalized when the following requirements are met:

(i) it is technically possible to complete production of the intangible asset so that it may be available for use or sale;

(ii) management intends to complete the intangible asset in question for use or sale;

(iii) there is the capacity to use or sell the intangible asset;

(iv) the form in which the intangible asset will generate likely economic benefits in the future is demonstrable;

(v) sufficient technical, financial and other resources are available to complete development and to use the intangible asset; and

(vi) the cost attributable to the intangible asset during development can be measured reliably.

Considering the nature of the development expenses incurred by the Group, i.e. connected to pharmaceutical development, and in line with standard practice in the industry, the requirements for capitalization are not considered to be fulfilled prior to the registration phase.

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

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

ii. Trademarks and licences

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

iii. Computer programs

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

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

intangible assets when the following conditions are met:

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

H. Goodwill

Goodwill is recognized initially as described in Note 2.B. Goodwill is tested for impairment each year and carried at its cost less accumulated impairment losses. Impairment of goodwill is not reversible. Gains and losses on the sale of an entity include the carrying amount of the goodwill related to the sold entity.

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

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

I. Impairment losses on non-financial assets

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

J. Financial assets

i. Classification

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

- Financial assets at fair value through profit or loss.

  Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified

as current assets if expected to be settled within 12 months, otherwise they are classified as non-current.

- Loans and receivables.

  Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets. The Group's loans and receivables comprise 'trade and other receivables' in the balance sheet.

- Cash and cash equivalents.

  Term deposits are presented as cash equivalents if they have a maturity of three months or less from the date of acquisition and are repayable with 24 hours notices with no loss of interest.

- Available-for-sale financial assets.

  Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless the investment matures or management intends to dispose of it within 12 months.

ii. Reclassification

The Group may choose to reclassify a non-derivative trading financial asset out of the held for trading category if the financial asset is no longer held for the purpose of selling it in the near term.

Financial assets other than loans and receivables are permitted to be reclassified out of the held for trading category only in rare circumstances arising from a single event that is unusual and highly unlikely to recur in the near term. In addition, the Group may choose to reclassify financial assets that would meet the definition of loans and receivables out of the held for trading or available-for-sale categories if the Group has the intention and ability to hold these financial assets for the foreseeable future or until maturity at the date of reclassification.

Reclassifications are made at fair value as of the reclassification date. Fair value becomes the new cost or amortized cost as applicable, and no reversals of fair value gains or losses recorded before reclassification date are subsequently made.

Effective interest rates for financial assets reclassified to loans and receivables are determined at the reclassification date. Further increases in estimates of cash flows adjust effective interest rates prospectively.

iii. Recognition and measurement

Regular acquisitions or disposals of investments are recognized on the trade date, i.e. the date on which the Group undertakes to acquire or sell the asset. In the case of financial assets not at fair value through profit or loss, investments are initially recognized at fair value plus transaction costs. Financial assets at fair value through profit or loss are recognized initially at their fair value, and the transaction costs are recognized in profit or loss. Financial assets are derecognized when the rights to receive the investments' cash flows have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are carried at amortized cost using the effective interest method.

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

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

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

Dividends from equity instruments available-for-sale are recognized in profit and loss within “Other gains – net”.

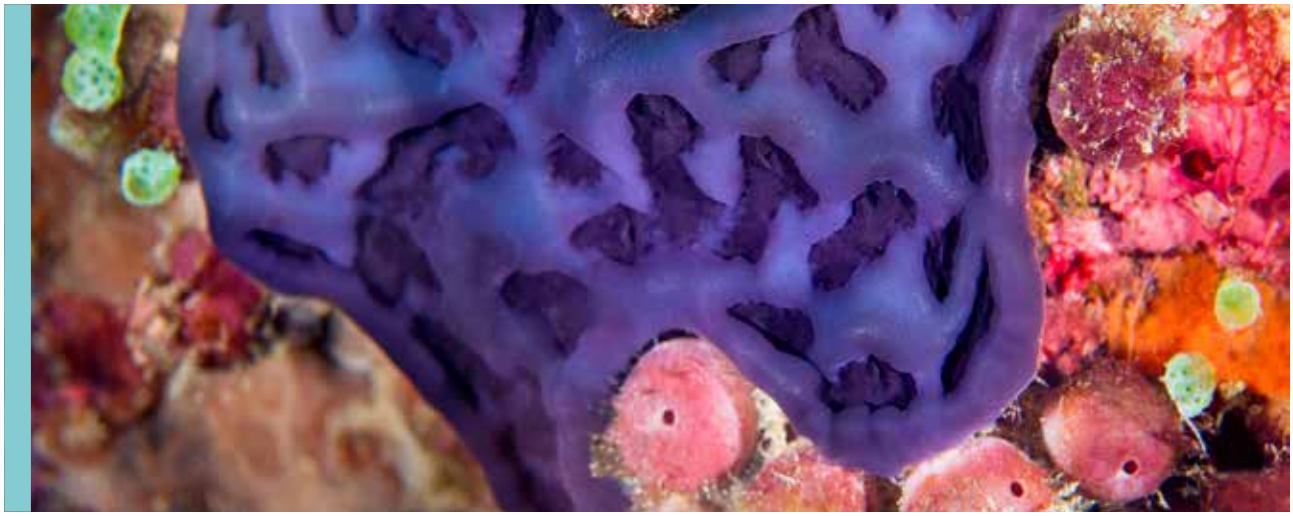
iv. Impairment losses on financial assets

Assets at amortized cost

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

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

For the category of loans and accounts receivable, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of the estimated future



cash flows (ignoring future credit losses that have not been incurred), discounted at the original effective interest rate of the financial asset. The carrying amount of the asset is written down and the amount of the impairment is recognized in consolidated profit and loss. As a practical expedient, the Group can measure the impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment is reduced and that reduction can be attributed objectively to an event that took place after the impairment was recognized (i.e. an improvement in the debtor's credit quality), the previously recognized impairment is reversed through consolidated profit or loss (Note 14).

Assets classified as available-for-sale

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

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

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

v. Offset of financial instruments

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

K. Derivatives

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

L. Leases

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

The interest part of the finance charge is expensed during the lease term so as to produce a constant periodic interest rate on the outstanding balance of the liability in each period.

Leases where the lessor retains a significant portion of the risks and rewards incidental to ownership are classified as operating leases. Operating lease payments (net of any incentive

received from the lessor) are expensed on a straight-line basis during the lease term.

M. Inventories

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

Cost is determined as follows:

- Commercial inventories, raw materials and other supplies: weighted average cost.
- Finished and semi-finished products and products in process: weighted average cost of the raw and ancillary materials used, plus the applicable amount of direct labour and general manufacturing expenses (based on normal production capacity).

Inventories acquired and/or produced for the purposes of commercializing drugs are capitalized when the requirements indicated in Note 2.G.i are met. Inventories are impaired up to that point, and the impairment charge is reversed once those requirements are met.

N. Trade receivables

Trade receivables are recognized initially at fair value and subsequently at amortized cost based on the effective interest method, minus any impairment. Impairment is recognized for trade receivables when there is objective evidence that the Group will not be able to collect all the outstanding amounts in accordance with the original terms of the receivables. Refer to Note 2.W i with respect to receivables resulting from sales to governmental bodies.

Transfers of receivables result in derecognition when the Group has transferred substantially all the risks and rewards of ownership, including those related to late payment. Otherwise, proceeds from the transfer are treated as borrowings.

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

O. Cash and cash equivalents

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

P. Share capital and distribution of dividends

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

When any Group entity acquires shares of the parent company, the consideration paid, including any directly attributable incremental costs (net of income taxes), is accounted for within “Treasury shares”, deducting equity attributable to the parent company's equity holders until cancellation, re-issuance or disposal.

Where such shares are subsequently sold or re-issued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is accounted for within Treasury shares (acquisition cost) and Retained earnings (difference between proceeds and acquisition cost), increasing equity attributable to the parent company's equity holders.

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

Q. Government grants

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

Government grants related to the acquisition of fixed assets are included under "Non-current deferred income" and are recognized in profit or loss on a straight-line basis over the expected life of those assets under "Other income".

Grants related to the Group's research and development projects are recognized as income for the year in proportion to the amortization of these intangible assets, or, where applicable, when they are disposed, impaired or written-off. Grants related to specific expenses are recognized in the income statement in the same period in which the corresponding expenses are accrued.

Monetary grants are recognised at the fair value of the amount granted and the non-monetary grants at the fair value of the asset received, both referred to at the time of recognition.

R. Trade accounts payable

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

S. Borrowings

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

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

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

T. Current and deferred taxes

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

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

Deferred taxes are measured on the basis of the temporary differences arising between the tax base of the assets and liabilities and their carrying amounts in these consolidated financial statements. However, deferred taxes arising from the initial recognition of an asset or liability in a transaction other than a business combination that does not affect the accounting result or the taxable gain or loss at the transaction date are not recognized.

The deferred tax is determined by applying the tax rates (and regulations) enacted or substantially enacted on the balance sheet date and which will be applicable when the corresponding deferred tax asset is realized or the deferred tax liability is settled.

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

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

Deferred tax assets and liabilities are offset if and only if there is a legally acknowledged right to offset current tax assets against current tax liabilities and the deferred tax assets and liabilities arise from the tax on income levied by the same tax authority on the same entity or taxable subject, or on different entities or taxable subjects that settle current tax assets and liabilities for their net amount.

U. Employee benefits

i. Pensions and similar obligations

Some Group entities have been granting pension supplements that qualify as defined-contribution benefits. These supplementary pensions are covered through a system of insurance policies arranged with an insurance company. The annual premium is recognized as a period expense.

ii. Share-based payments

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

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

iii. Termination indemnities

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

V. Provisions

Provisions for environmental restoration, restructuring and litigation costs are recognized when:

(i) the Group has a present obligation, legal or implicit, as a result of past events;

(ii) a cash outflow is likely to be needed to settle the obligation; and

(iii) the amount can be reliably estimated. Restructuring provisions include lease cancellation penalties and employee termination indemnities. No provisions are recognized for future operating losses.

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

Provisions are calculated at the present value of the disbursement expected to be needed to settle the obligation, using a pre-tax rate that reflects current market measurements of the time value

of money and the specific risks attached to the obligation. An increase in the provision due to the passage of time is recognized as interest expense.

W. Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Amounts disclosed as revenue are net of returns, trade allowances, rebates and amounts collected on behalf of third parties.

The group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the group's activities as described below.

The group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

i. Sale of goods

The Group recognizes revenue from sales of goods marketed at sales price. Buyers are entitled to return sold goods. The Group bases its estimate of return on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

Receivables from governmental authorities as a result of sales of products are generally recognized based on the amount due, which does not differ significantly from fair value at initial recognition. Balances with governmental authorities are monitored for late payment analysis purposes and late payment interests are claimed when customary terms are not met (Note 14).

ii. Services

Revenue recognized for the sale of services are for treating and protecting wood, repairing and preserving buildings, and for clinical analysis services. The subsidiary that provided wood protection services was sold in 2016 (Note 1).

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

iii. Licensing, co-development and other similar agreements

In the normal course of its business, the Group has developed intellectual property on certain compounds and has signed licensing and co-development agreements with certain pharmaceutical companies. Under these agreements, third parties are granted licenses to use the products developed by the Group and/or

are given access to products under development (generally through development agreements). The agreements under which these transfers, assignments or accesses are granted are generally complex and include multiple components in two distinct phases: development and marketing. The associated revenue must be matched with the obligations to be delivered by the Group.

Development phases

- Upfront payments collected by PharmaMar, which are generally non-refundable.
- Milestone payments, triggered when the compound to which the agreement refers (Yondelis®, Aplidin® or PH1183 (Lurbinectedin) achieves development milestones, generally of a regulatory or commercial nature.

Marketing phase

- Royalty payments.
- Revenue from the supply of products (raw materials).

As a general principle, the upfront payment is classified as revenue in the year in which the agreement is signed if: it is non-refundable, the Group does not assume future obligations (other than those for which separate consideration at arm's-length conditions is granted), and the risks and advantages inherent to the asset are substantially transferred. Otherwise, the amount is recognized as deferred revenue. Deferred revenue is taken to income over the period in which the commitments that are established are fulfilled, on the basis of the project's degree of progress, measured on a cost to cost model.

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

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

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

Royalties and supply contracts prices represent market rates and manufacturing margins respectively.

iv. Interest

They are recognized using the effective interest method.

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

3. FINANCIAL RISK MANAGEMENT

3.1 Financial risks

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

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

A. Market risk

i. Exchange rate risk

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

As of December 31, 2016 and 2015 and during the years ended on those dates, the consumer chemicals segment did not have balances and

did not have significant activities in foreign currencies (purchases amounting to 3,134 thousand euro in 2016 and 3,185 thousand euro in 2015); accordingly, Group management did not consider it necessary to establish a specific policy for hedging exchange rate risk, and it evaluates the need for hedges specifically on the basis of projected transactions. Consequently, as of December 31, 2016 and 2015, this segment did not have any type of exchange rate hedge in force.

The oncology segment engages in material transactions in foreign currencies. Although the amounts recognized on the balance sheet are not material, the volume of transactions in currencies other than the euro is material.

Mainly, related to licensing and development agreements in US dollars amounted to 8,760 thousand euro in 2016 and 27,495 thousand euro in 2015. Group management did not consider it necessary to establish any policy for hedging in 2016 and 2015.

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

If, as of December 31, 2016, the euro had appreciated by 5% with respect to the US dollar while all other variables remained constant, income after taxes for the year would have been lower by 194 thousand euro and 778 thousand euro in 2015, mainly as a result of translation into euro of trade and other receivable and debt denominated in US dollars. If, as of December 31, 2016, the euro had depreciated by 5% with respect to the US dollar while all other variables remained constant, income after taxes for the year would have been higher by 214 thousand euro and 860 thousand euro in 2015. The material impact of variations in the dollar as of December 31, 2016 is due mainly to the amounts in dollars collected in both years.

ii. Cash flow and fair value interest rate risk

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

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

With respect to financial liabilities, as of December 31, 2016 and 2015, interest rate risk was basically driven by the Group’s bank debt, which is generally agreed at floating rates indexed to three-month Euribor. As of December 31, 2016, bank debt had been increased to 48,353 thousand euro (bank debt as of December 31, 2015 amounted to 45,044).

The Group analyses its exposure to interest rate risk dynamically. It simulates a number of scenarios considering refinancing, roll-overs, alternative financing and hedging. Based on those scenarios, the Group calculates the effect on income of a given variation in interest rates.

In a given simulation, it assumes the same change in interest rates in all currencies. The scenarios are applied only to the largest interest-bearing assets and liabilities.

Based on the scenarios, the Group manages the interest rate risk of its cash flow by means of variable-to-fixed interest rate swaps. The economic impact of these swaps is to convert floating-rate debt into fixed-rate debt. Under interest rate swaps, the Group undertakes, vis-à-vis the counterparties, to exchange at regular intervals (generally each quarter) the difference between the fixed and floating interest rates on the notional amounts of principal established in the swaps. In 2011, the Group arranged an interest rate hedge contract which was still in force at 2015 year-end (Note 13). The Group does not apply hedge accounting.

If, as of December 31, 2016, the interest rates on the interest-bearing debt and remunerated assets had been 100 basis points higher, while all other variables remained constant, profit after income taxes for the period would have been 79 thousand euro lower and 42 thousand euro in 2015.

iii. Price risk

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

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

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

B. Credit risk

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

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

Where customers are independently rated, that rating is used. Otherwise, the Group assesses the risk on the basis of the customer's financial position, past experience and other factors. Where there is no doubt about a customer's solvency, no credit limits are set.

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

- Fixed-income funds that invest in sovereign or private sector debt (bonds, bills, commercial paper), generally secured, which pay periodic coupons.

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

The credit quality of the financial assets and of customers with which the Group had balances as of December 31, 2016 and 2015 is set out in Note 11. The composition of the Group's financial assets is set out in Notes 12, 13 and 14.

Regarding credit risk concentration, as of December 31, 2016, the Group had government bonds and bank products at 4 credit institutions amounting to 28,050 thousand euro (36,340 thousand euro in 2015).

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

C. Liquidity risk

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

The net cash position defined as cash and cash equivalents and current financial assets (32,367 thousand euro in 2016, 45,625 thousand euro in 2015) less short-term borrowings (27,906 thousand euro in 2016, 28,629 thousand euro in 2015) was positive in the amount of 4,461 thousand euro at the end of 2016 (positive in 16,996 thousand euro in 2015).

Long-term debt amounted to 67,583 thousand euro (64,973 thousand euro in 2015), of which 25,882 thousand euro (27,972 thousand euro in 2015) was in the form of research and development loans from official bodies which are repayable over 10 years, with a three-year grace period, at zero or below-market interest rates.

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

This dependency has been declining as the segment's revenue increase, both from sales and from licence agreements, particularly since the segment's investments are now focused on oncology. The Group regularly monitors liquidity projections on the basis of expected cash flows, particularly in this segment, and Management considers that it has sufficient cash, tradeable securities and credit lines available to meet its liquidity needs within the time horizon that is considered to be necessary.

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

- On 22 December 2016, PharmaMar signed a licensing, development and commercialisation agreement with Chugai Pharmaceutical Co. Ltd. relating to Lurbinectedin (PH1183) for Japan (Note 27), which contemplates a non-refundable upfront payment to PharmaMar amounting to 30 million euros. Only a part of that upfront payment (6 million euro) was recognised as revenues in 2016, based on the degree of attainment of certain milestones. The outstanding amount will be recognised as a function of progress with the clinical trials agreed upon in the licensing agreement, which are to be performed by the Company. PharmaMar collected the 30 million euro up-front payment in the first weeks of 2017; accordingly, the effect of that receipt will be reflected in the cash flow statement for the first quarter of 2017. This payment, received in January 2017, strengthens the Group's financial position.
- The Group has a balanced debt structure.
- The Group has sufficient ability to renegotiate its debt if it is considered necessary; this ability has increased in view of growth in revenues in recent years.
- The company had unused credit lines in the amount of 20,462 thousand euro as of 31 December 2016.
- The Group ended the year with cash and cash equivalents plus current financial assets amounting to 32,367 thousand euro.

The table below shows an analysis of the Group's financial liabilities grouped by maturity based on the period remaining between the balance sheet date and the contractual maturity date, including the corresponding interest. The amounts in the table are the contractual cash flows, which have not been discounted. Since those amounts have not been discounted, and they include future interest, they are not comparable with the amount of borrowings, derivatives and supplier and other accounts payable recognized in the balance sheet.

December 31, 2016 (Thousand euros)	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	23,822	7,231	18,789	25,466	**75,308**
Debt to official authorities	5,278	6,575	14,952	9,280	**36,085**
Finance lease liabilities	153	0	0	0	**153**
Suppliers / Accounts payable	36,712	0	0	0	**36,712**
Other accounts payable	2,463	0	0	0	**2,463**
TOTAL	**68,428**	**13,806**	**33,741**	**34,746**	**150,721**

December 31, 2015 (Thousand euros)	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**
TOTAL	**62,867**	**12,584**	**25,214**	**43,463**	**144,128**

3.2 Capital management

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

To maintain or adjust the capital structure, the Group may issue new shares, or sell assets to reduce debt.

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

(Thousand euro)	12-31-16	12-31-15
Long-term borrowings	(67,583)	(64,973)
Short-term borrowings	(27,906)	(28,629)
Cash and cash equivalents	14,290	7,629
Non-current and current financial assets	19,215	39,063
Equity	(48,495)	(73,036)
Total capital	**(110,479)**	**(119,946)**
Leverage	**56.10%**	**39.11%**

The increase of in the leverage ratio is mainly due to the decrease in cash and current financial assets, as a result of the greater investment in R & D, as well as the decrease in Equity as a result of the losses in 2016.

3.3 Fair value estimate

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

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

The table below presents the Group's assets and liabilities at fair value as of December 31, 2016:

December 31, 2016 (Thousand euros)	**Level 1**	**Total**
Assets		
Financial assets at fair value through profit or loss		
- Financial assets (note 10)	320	**320**
Available-for-sale financial assets		
- Equity securities, net (note 12)	24	**24**
Total assets	**344**	**344**

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

December 31, 2015 (Thousand euros)	**Level 1**	**Level 2**	**Total**
Assets			
Financial assets at fair value through profit or loss			
- Financial assets (note 10)	319	0	**319**
Available-for-sale financial assets			
- Equity securities, net (note 12)	20	0	**20**
Total assets	**339**	**0**	**339**
Liabilities			
Liabilities at fair value through profit or loss			
- Trading derivatives (note 13)	0	14	**14**
Total Liabilities	**0**	**14**	**14**

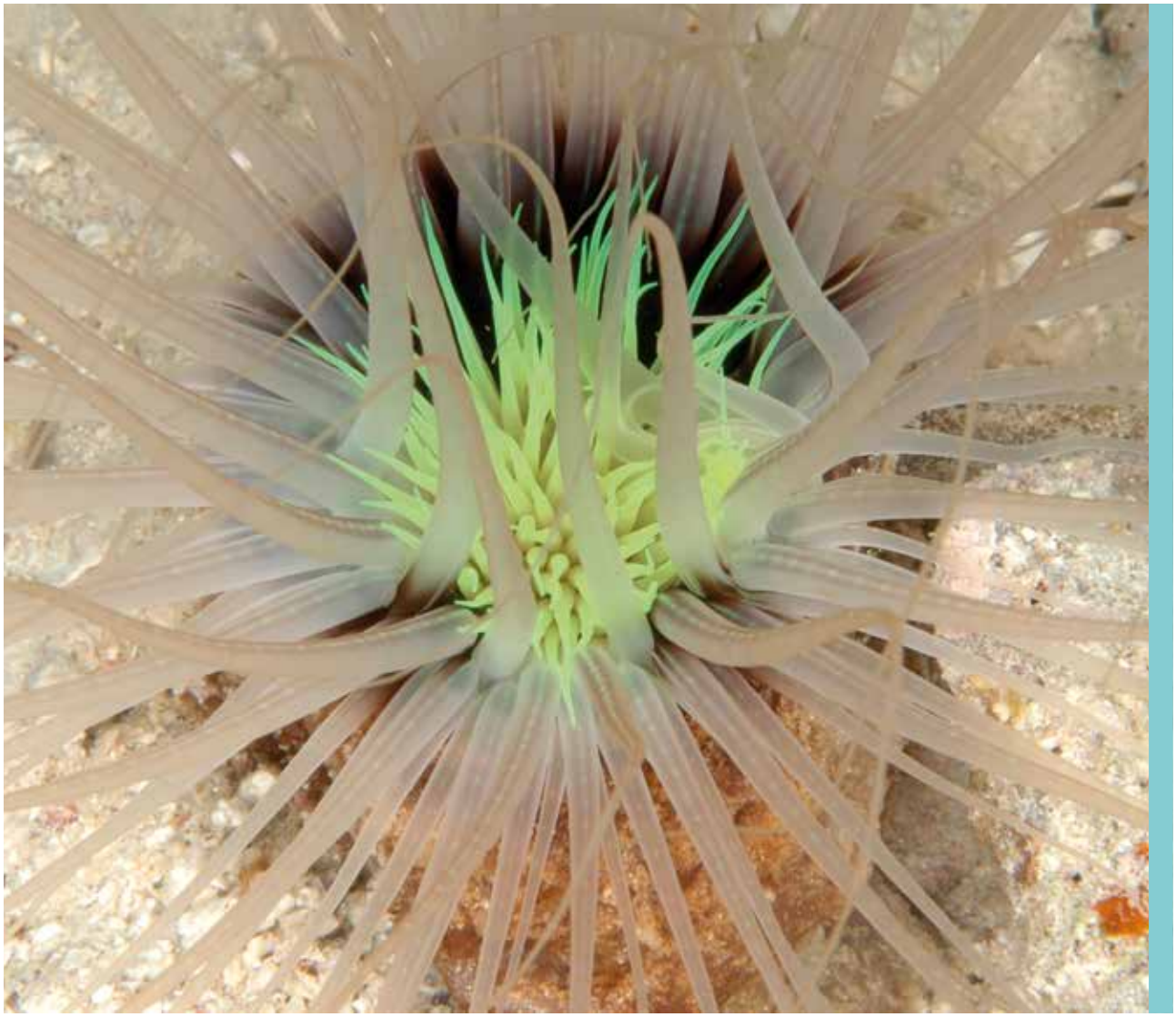
The fair value of financial instruments that are traded in an active market is determined by the market price on the balance sheet date. A financial instrument is considered to be quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry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

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

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

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

The fair value of unquoted fixed-rate debt securities is the price at which the internal rate of return matches the market yields in the government bond market at any given time.



4. ACCOUNTING ESTIMATES AND JUDGEMENTS

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

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

The oncology segment of the Group enters into licensing and/or co-development agreements with third parties. Those agreements generally include multiple components and the associated revenue must be matched with the development costs incurred and with the counterparts to be met be by the Group. When deciding how to recognize the revenue (Note 2.W) from those transactions, the Group's management considers the following factors:

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

Deferred tax assets (Note 2.T)

The Spanish entities of the Group (except Noscira, SA in liquidation), all of which file their income tax return on a consolidated basis, have significant unused tax losses and credits as well as other deductible temporary differences (Note 25).

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

The main assumptions made in calculating expected future profits and assessing the recoverability of the tax credits generated by the entities in the Spanish tax group are as follows:

- Projections up to 2025 are included for all businesses in the Spanish tax group.
- The information used to prepare the tax plan is the budget presented to the Board of Directors, which includes projections through 2021, extended to 2025 by means of the Company's best estimates of future earnings based on past experience, and the assumptions made in the first 5 years of estimation.
- The main variables used in projections for the oncology segment are as follows: a) the probability assigned to ongoing developments (revenues expected for each product under development are assigned a probability of occurrence based on the degree of progress with current research), b) the estimated selling price, and c) a penetration rate as a function of the number of patients that could potentially be treated with the product under development.
- The tax plan also uses the following significant assumptions:
    - No revenues are assumed from products under development that have not yet reached Phase III.
    - Average 25% growth in sales in the oncology segment. That growth is due mainly to the good prospects for PM1183, a product currently under development.
    - Average 3% growth in sales in the consumer chemicals segment.
    - Average 12% sustained growth in operating expenses.

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

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

Note 25 describe the assets recognised by the Group as of 31 December 2016 and 2015, and the assets not recognised by application of this approach.

Capitalized development expenses (Note 2.G.i)

Developing new drugs is subject to uncertainty due to the long period of maturation for the drugs and the technical results obtained at different stages of trials involved in the development process. It may prove necessary to abandon

development at any stage of the process, whether because the drug does not meet medical or regulatory standards or because it proves unprofitable. For these reasons, the Group considers that uncertainty to have been dissipated once the product being developed has attained at least the registration phase.

Goodwill and intangible assets (trademarks) having indefinite useful life (Note 2.H)

When intangible assets are acquired from third parties, they are capitalized insofar as the requirements for asset recognition are met. Certain trademarks acquired by the Group for 9,786 thousand euro are not amortized and are subject to an annual impairment test since Group management considers that they have an indefinite useful life. Those trademarks were acquired in previous years and form part of the consumer chemical segment (these are cleaning products and insecticides trademarks in particular), which have a long-established presence in the market. In addition, the Group maintains goodwill with a carrying amount of 2,548 thousand euro as a result of the acquisition of Copyr, S.p.A. Refer to Note 9.

The impairment tests are based on discounting future cash flow using the appropriate discount rates, in line with industry practices. Future cash flow is based on Group´s performance expectations and, therefore, involves a judgment. As described in Note 9, the recovery of these trademarks and goodwill is considered to be assured in the current and expected context. Future events might impair those assets, which would have a negative effect on Group income statement.

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

- Trademarks with a carrying amount of 9,786 thousand euro. The recovery of the brands is considered to be assured by their value in use or, otherwise, through their fair value less selling costs (Note 8).
- Goodwill with a carrying amount of 2,548 thousand euro. As described in Note 9, the recovery of the goodwill is considered to be assured in the current context of growth and profitability of the cash generating unit comprising Copyr (consumer chemicals).

5. SEGMENT REPORTING

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

In identifying its operating segments, management takes into account the Group products, services rendered, types of customers as well as quantitative criteria.

The Board of Directors evaluates the performance of the operating segments by monitoring revenue, gross margin, cost of sales, R&D expenses, marketing and distribution expenses and Adjusted EBITDA. These magnitudes are also used as indicators for determining which operating segments have similar economic characteristics:

- The measure of revenue reported to the Board of Directors operating decision maker to assess performance is revenue for each operating segment.
- The measure of profit reported to the Board of Directors operating decision maker to assess performance is adjusted EBITDA for each operating segment.

- Corporate costs are not allocated to individual operating segments, and therefore are presented as "unallocated".

- Total assets and liabilities are disclosed as this information is provided by operating segment to the Board of Directors on a regular basis.

- Operations between the different operating segments are not significant for the period ended December 2016 or December 2015.

Taking into account both, the economic and qualitative aspects of the different operating segments, the Board concludes that the chemical sector operating segments can be aggregated due to their similarities. The three biopharmaceutical operating segments are not aggregated due to dissimilar qualitative aspects between the operating segments included within.

Therefore, the four identified reporting business segments as of December 31, 2016 and 2015 are the following ones:

1. Oncology. This segment encompasses the Group entities whose object is to research, develop and market anti-tumour drugs (Pharma Mar, S.A., Pharma Mar USA, PharmaMar AG, Pharma Mar Sarl, Pharma Mar GmbH, Pharma Mar Ltd, Pharma Mar, S.r.L.,Pharma Mar, Sprl and Pharma Mar Ges.m.b.H.).

2. Diagnostics. This segment encompasses the development and marketing of diagnostic kits (Genómica, S.A.U. and its subsidiary, Genómica AB).

3. RNAi. This segment encompasses the development of drugs with therapeutic activity based on reducing or silencing gene expression (Sylentis, S.A.U.).

4. Consumer chemicals. This segment comprises Group entities that produce and market insecticides and air fresheners for household use, household products, wood treatment and decoration products, paints, and similar products. The subsidiaries that operate in this segment are Zelnova Zeltia,S.A., Xylazel, S.A. and Copyr, S.p.A.

Income statement information by reporting segment for the year ended December 31, 2016 is as follows:

	Biopharmaceuticals					
(Thousand euros)	Oncology	Diagnostics	RNAi	Consumer chemicals	Unallocated	Group
Revenues	105,108	6,180	0	69,660	0	**180,948**
Cost of sales	(2,951)	(2,499)	0	(38,521)	0	**(43,971)**
Other operating revenues / Other net gains	218	136	741	438	0	**1,533**
R&D expenses	(70,944)	(2,426)	(4,890)	(163)	0	**(78,423)**
Other expenses	(37,866)	(3,679)	(353)	(27,087)	(9,808)	**(78,793)**
Operating profit	**(6,435)**	**(2,288)**	**(4,502)**	**4,327**	**(9,808)**	**(18,706)**
Finance costs - net	**(4,118)**	**(223)**	**(333)**	**(678)**	**(641)**	**(5,993)**
Profit before income taxes	**(10,553)**	**(2,511)**	**(4,835)**	**3,649**	**(10,449)**	**(24,699)**
Income tax income (expense)	1,371	92	81	(952)	0	**592**
Profit for the period	**(9,182)**	**(2,419)**	**(4,754)**	**2,697**	**(10,449)**	**(24,107)**
Equity holders of the parent company	(9,182)	(2,419)	(4,754)	2,697	(10,424)	**(24,082)**
Non-controlling interests	0	0	0	0	(25)	**(25)**
Profit from continuing operations (1)	(9,182)	(2,419)	(4,754)	2,697	(10,449)	**(24,107)**
Income tax profit / (expense) (2)	(1,371)	(92)	(81)	952	0	**(592)**
Finance costs - net (3)	4,118	223	333	678	641	**5,993**
Depreciation and amortization (4)	5,539	623	142	939	0	**7,243**
Impairment losses of property, plant and equipment and investment property (5)	171	0	0	0	0	**171**
Provision for impairment of accounts receivable (6)	220	0	0	43	(5)	**258**
Adjusted EBITDA (1)+(2)+(3)+(4)+(5)+(6)	**(505)**	**(1,665)**	**(4,360)**	**5,309**	**(9,813)**	**(11,034)**

Note that the Oncology segment is strongly impacted by the tax regime applicable to a significant portion of its revenue from license agreements, which results non-taxable, as well as by tax credits as a result of its R&D activity in Spain.

Assets and liabilities by reporting segment as of December 31, 2016 are presented as supplementary information:

	Biopharmaceuticals					
(Thousand euros)	Oncology	Diagnostics	RNAi	Consumer chemicals	Unallocated	Group
Non-current assets	76,113	4,068	753	19,211	0	**100,145**
Current assets	77,750	3,311	3,340	34,940	1,651	**120,992**
Non-current liabilities	78,819	1,726	4,186	747	0	**85,478**
Current liabilities	71,074	2,721	882	12,275	212	**87,164**
Investment in fixed assets and intangible assets	4,613	410	27	876	0	**5,926**

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

	Biopharmaceuticals					
(Thousand euros)	Oncology	Diagnostics	RNAi	Consumer chemicals	Unallocated	Group
Revenues	119,245	6,202	0	67,348	1,022	**193,817**
Cost of sales	(6,375)	(2,609)	0	(35,928)	(793)	**(45,705)**
Other operating revenues / Other net gains	2,426	393	701	304	0	**3,824**
R&D expenses	(52,352)	(2,218)	(5,687)	(34)	0	**(60,291)**
Other expenses	(38,651)	(3,434)	(197)	(28,153)	(9,913)	**(80,348)**
Operating profit	**24,293**	**(1,666)**	**(5,183)**	**3,537**	**(9,684)**	**11,297**
Finance costs - net	**(3,198)**	**(174)**	**(259)**	**(723)**	**(1,034)**	**(5,388)**
Profit before income taxes	**21,095**	**(1,840)**	**(5,442)**	**2,814**	**(10,718)**	**5,909**
Income tax income (expense)	281	521	738	(993)	107	**654**
Profit for the period	**21,376**	**(1,319)**	**(4,704)**	**1,821**	**(10,611)**	**6,563**
Equity holders of the parent company	21,376	(1,319)	(4,704)	1,821	(10,586)	**6,588**
Non-controlling interests	0	0	0	0	(25)	**(25)**
Profit from continuing operations (1)	21,376	(1,319)	(4,704)	1,821	(10,611)	**6,563**
Income tax profit / (expense) (2)	(281)	(521)	(738)	993	(107)	**(654)**
Finance costs - net (3)	3,198	174	259	723	1,034	**5,388**
Depreciation and amortization (4)	4,547	497	140	897	200	**6,281**
Impairment losses of property, plant and equipment and investment property (5)	1,042	0	0	732	0	**1,774**
Provision for impairment of accounts receivable (6)	0	0	0	(44)	0	**(44)**
Adjusted EBITDA (1)+(2)+(3)+(4)+(5)+(6)	**29,882**	**(1,169)**	**(5,043)**	**5,122**	**(9,484)**	**19,308**

Note that the Oncology segment is strongly impacted by the tax regime applicable to a significant portion of its revenue from license agreements, which results non-taxable, as well as by tax credits as a result of its R&D activity in Spain.

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

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

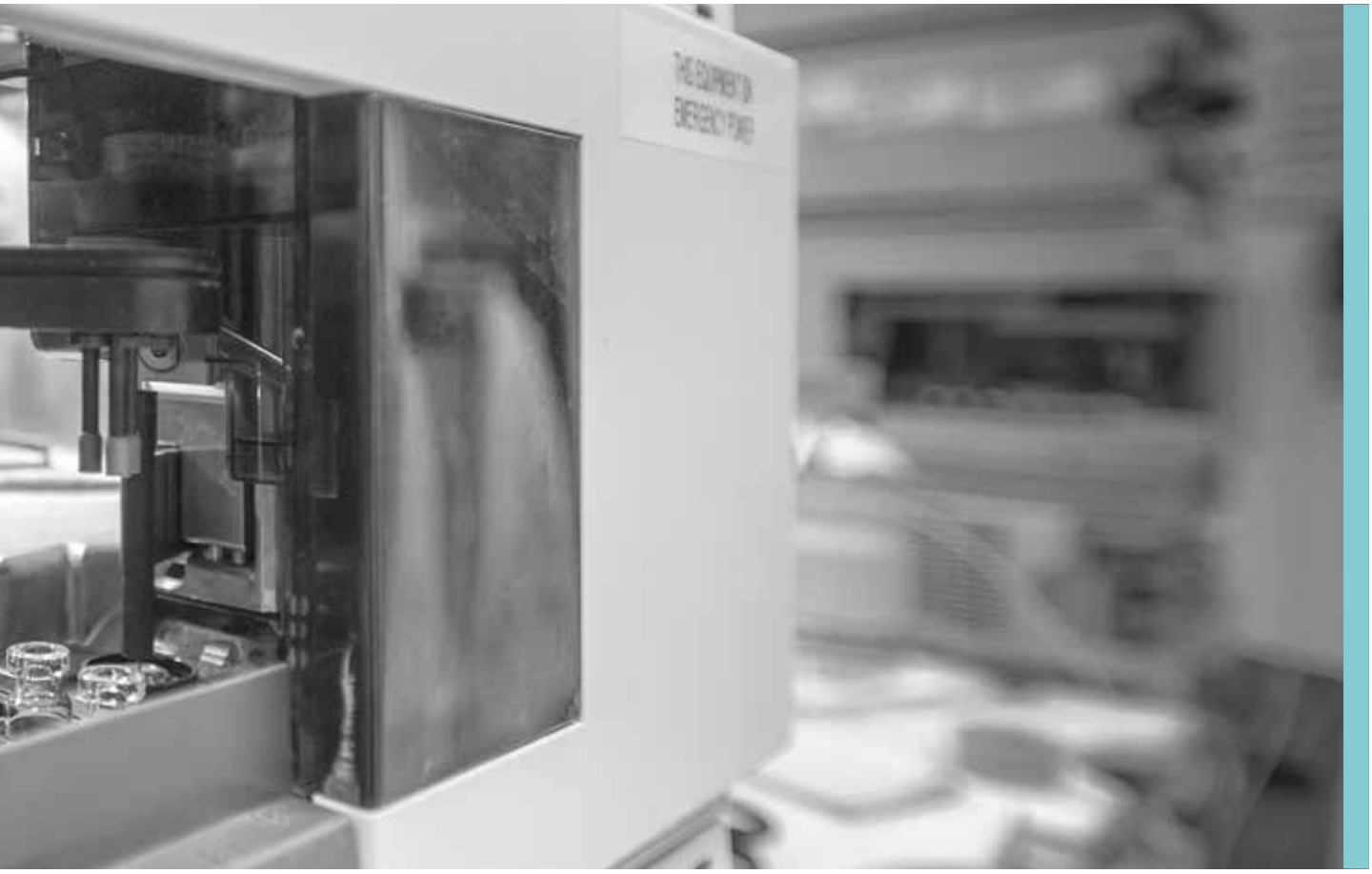
In 2016 and 2015, there were no material transactions between reporting segments, and no goodwill impairment losses were recognized.

In 2016 and 2015, the Group recognized losses due to impairment of inventories and trade accounts receivable amounting, respectively, to 358 thousand euro and 103 thousand euro, mainly in the oncology segment in both years.

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

Revenue (Thousand euro)	**2016**	**2015**
Spain	74,771	72,554
Rest of European Union	84,436	84,908
United States and other countries	21,958	36,355
	181,165	**193,817**

Non-current assets (Thousand euro)	**2016**	**2015**
Spain	60,974	63,307
Rest of European Union	1,186	303
	62,160	**63,610**



Most of the Group's sales are made in Spain and other European Union countries. The euro area accounted for 87.87% of total sales in 2016 (81.24% in 2015).

The assets in other countries refer primarily to the Group's offices in Italy. Almost all the investment in property, plant and equipment, intangible assets and investment property in 2016 and 2015 was concentrated in Spain.

Revenue of companies in the consumer chemical sector amounted to 69,660 thousand euro (67,348 thousand euro in 2015), of which 50,237 thousand euro correspond to the insecticides/ home care division (50,775 thousand euro in 2015) and 19,423 thousand euro to the wood treatment/paint division (16,573 thousand euro in 2015). This segment accounted for 38.50% of the Group's total revenue in 2016 (34.75% in 2015).

6. PROPERTY, PLANT AND EQUIPMENT

The breakdown of, and changes in, this caption in 2016 and 2015 are as follows:

(Thousand euro)	Balance as of 12-31-15	Additions	Disposals	Perimeter change	Reclassifications and transfer	Exchange rate effect	Balance as of 12-31-16
Land and buildings	27,093	136	0	0	0	0	27,229
Technical installations and machinery	30,046	1,454	(115)	(64)	(103)	(4)	31,214
Other installations, tools and furniture	18,879	24	0	(24)	62	0	18,941
Advances & construction in progress	355	2,038	(39)	0	(165)	0	2,189
Other property, plant & equipment	7,323	469	0	(27)	0	0	7,765
Impairments	(1,117)	(171)	0	0	0	0	(1,288)
Cost	**82,579**	**3,950**	**(154)**	**(115)**	**(206)**	**(4)**	**86,050**
Buildings	(8,830)	(661)	0	0	0	0	(9,491)
Technical installations and machinery	(21,907)	(1,732)	37	60	206	0	(23,336)
Other installations, tools and furniture	(15,843)	(472)	0	22	0	0	(16,293)
Other property, plant & equipment	(5,375)	(435)	0	21	0	0	(5,789)
Accumulated depreciation and amortization	**(51,955)**	**(3,300)**	**37**	**103**	**206**	**0**	**(54,909)**
PROPERTY, PLANT AND EQUIPMENT	**30,624**	**650**	**(117)**	**(12)**	**0**	**(4)**	**31,141**

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

The most significant additions in 2016 are related to new chemistry laboratories in oncology segment. In 2015 mainly refer to new fermentation plant and logistics warehouse for product distribution from Spain to the rest of Europe in the oncology segment, and new facilities in the diagnostics area.

In the column “Perimeter Change” in 2016 is shown the disposal of Promaxa Protección de Maderas, S.L. (Note 1)

During 2016, an impairment was recognized on the carrying amount of land owned by PharmaMar amounting 171 thousand euro based on its internal analysis and third party valuations (1,033 thousand euro in 2015) (Note 32). Until mid-2015 the aim for this land was to be used as a new facilities in order to expand the production capacity of the company. During 2015 management decided to invest in the current facilities rather than invest in a new ones, being this the triggering event.

Since the Group chose to prepare the income statement by function, the depreciation charge for property, plant and equipment is distributed as follows:

(Thousand euro)	12-31-2016	12-31-2015
Cost of sales	832	939
Marketing expenses	580	271
Administrative expenses	925	759
Research and development expenses	961	893
Other operating expenses	2	2
Depreciation	**3,300**	**2,864**

There are a number of assets under finance leases: plant, machinery, tools and furniture with a net carrying amount of 306 thousand euro in 2016 (59 thousand euro in 2015).

One building is collateral for one of the bank loans. It is a building owned by PharmaMar (oncology segment) in Colmenar Viejo, Madrid province, with a net carrying amount of 10,785 thousand euro as of December 31, 2016 (11,303 thousand euro in 2015). The original financial liability was cancelled in 2014 and a new financial liability was recognized subsequently. The initial amount of the transaction, signed in 2014, was 9,000 thousand euro, maturing in 2024. As of December 31, 2016, the unamortized balance of the loan amounted to 6,997 thousand euro.

7. INVESTMENT PROPERTY

The Group has land and buildings classified as investment property, that are maintained for yields and are not occupied by the group. They are recorded at fair value. Changes in fair value are presented in the statement of income for the year.

Investment property (Thousand euro)	**Balance as of 12-31-16**	**Balance as of 12-31-15**
Beginning balance	**6,157**	**6,939**
Net gain / loss on fair value adjustments	0	(741)
Amortization	(38)	(41)
ENDING BALANCE	**6,119**	**6,157**

During 2015 was accounted for an impairment amounting to 741 thousand euro based on its internal analysis and third party valuations (Note 32). Until 2015 management expectation about the value of the lands was high, due to some industry relocation announced in press and media. During 2015, the industry relocation took place in other area of the same region and therefore that was the triggering event for these assets valuation.

Investment property includes a land of one million euro that the Group has in Tres Cantos (Madrid). PharmaMar has signed a lease with a third party for 25 years with the first ten mandatory.

The minimum lease payments under non-cancellable operating leases of real estate investments not recognized in the financial statements are receivable as follows:

(Thousand euro)	**Balance as of 12-31-16**
Up to one year	24
1 to 5 years	288
5 to 10 years	230
	542

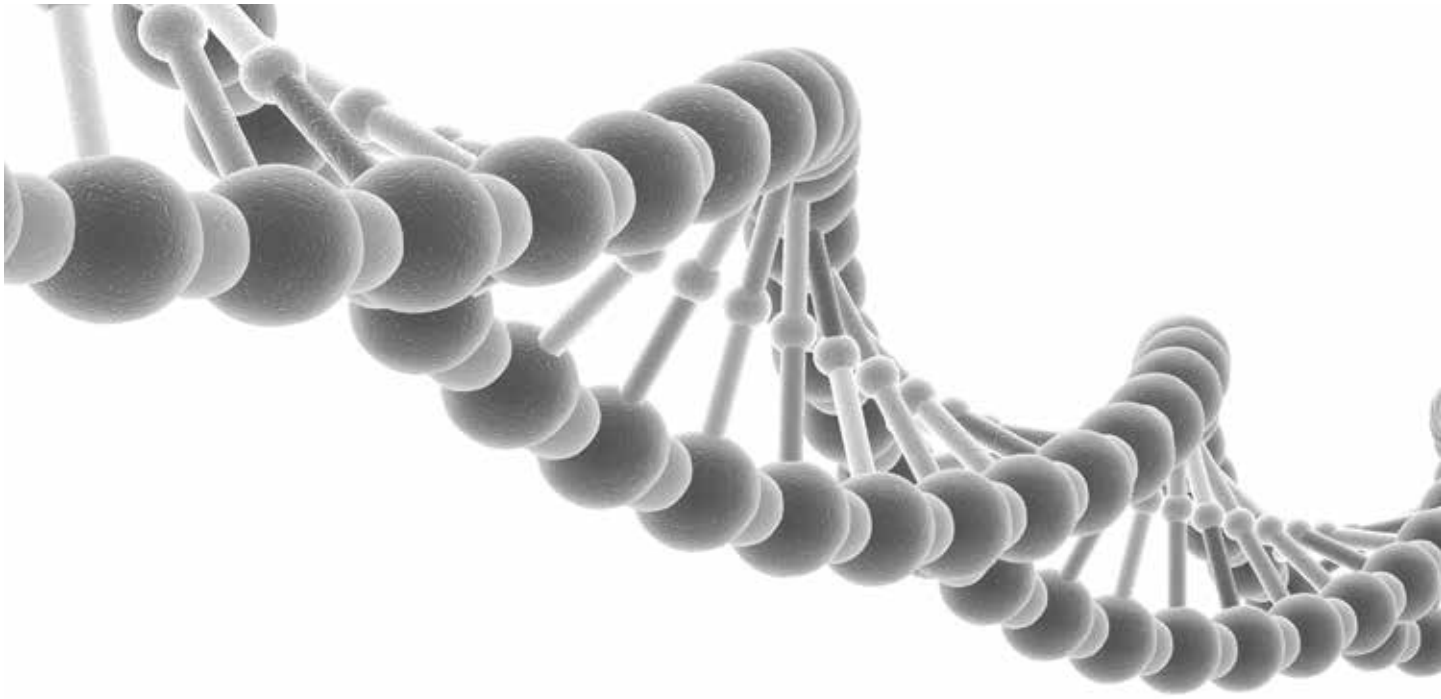
Since the Group chose to prepare the income statement by function, the depreciation charge for investment property is distributed to other operating expenses.

8. INTANGIBLE ASSETS

The breakdown of, and changes in, this caption in 2016 and 2015 are as follows:

(Thousand euro)	Balance as of 12-31-15	Additions	Reclassifications and transfers	Balance as of 12-31-16
Development expenses	23,186	1,357	0	24,543
Concessions, patents & trade marks	10,750	0	15	10,765
Computer software	5,777	580	24	6,381
Advances on intangible assets	38	39	(39)	38
Cost	**39,751**	**1,976**	**0**	**41,727**
Development expenses	(7,457)	(3,543)	0	(11,000)
Concessions, patents & trade marks	(805)	(28)	0	(833)
Computer software	(4,660)	(334)	0	(4,994)
Accumulated depreciation and amortization	**(12,922)**	**(3,905)**	**0**	**(16,827)**
INTANGIBLE ASSETS	**26,829**	**(1,929)**	**0**	**24,900**

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



Development expenses

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

As of December 31, 2016, the Group had capitalized the cost of several clinical trials with Yondelis® in both soft tissue sarcoma and ovarian cancer. Those trials were performed mainly for two purposes:

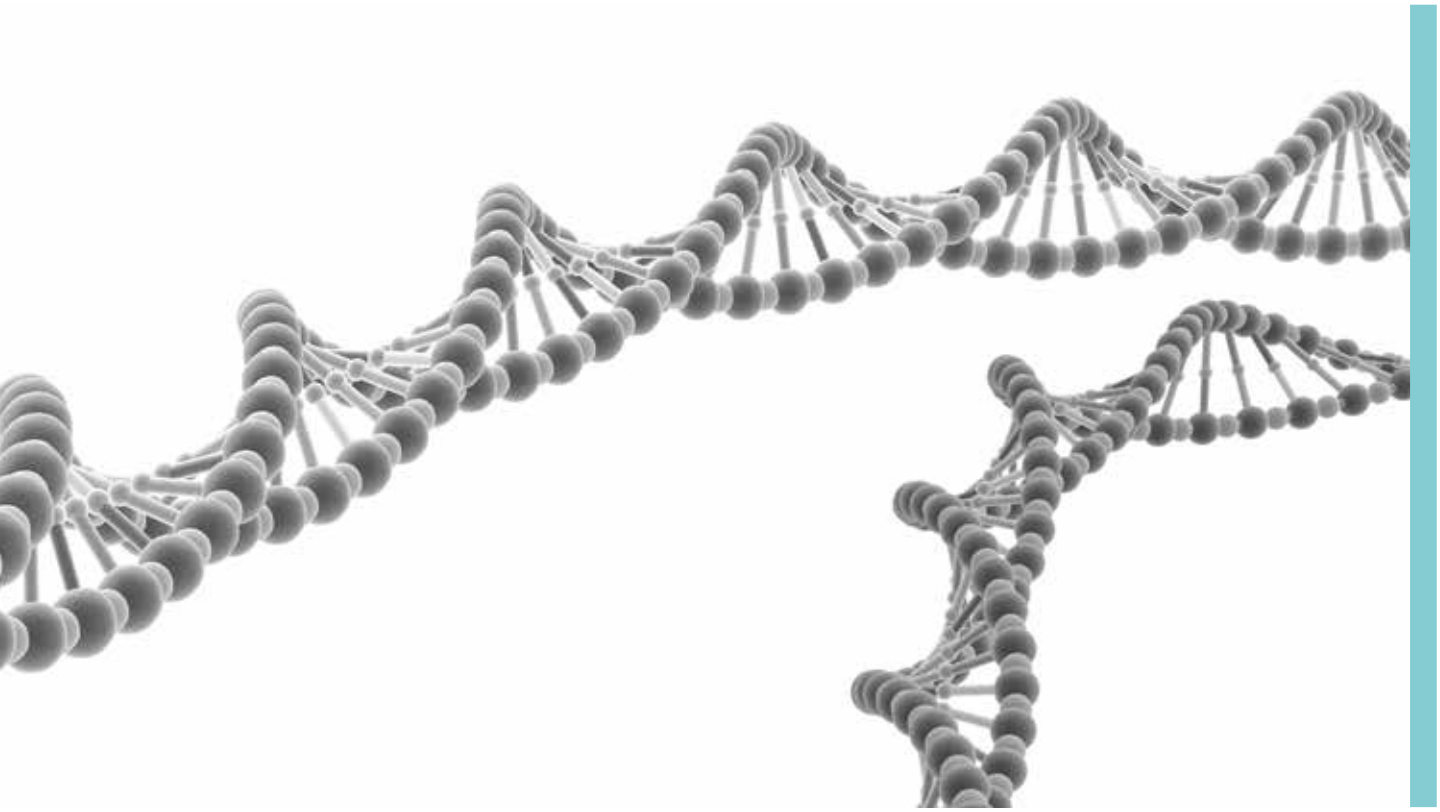
- To support and provide the necessary input for the process of approval by the FDA and other regulators.
- To obtain a reimbursement price in other locations in response to requirements by the regulatory agencies of certain countries.

In addition, the Group has capitalized during 2016 the costs incurred in the preparation of the registration dossier of Aplidin® for the indication of multiple myeloma submitted to the EMA (European Medicine Agency) in September 2016.

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

Since the Group chose to prepare the income statement by function, the amortization charge for intangible assets is distributed as follows:

(Thousand euro)	12-31-2016	12-31-2015
Administration expenses	111	124
Research and development expenses	3,794	3,252
Amortization	**3,905**	**3,376**



Concessions, patents and trademarks

This caption mainly includes trademarks amounting 9,786 thousand euro. The trademarks belong to one of the consumer chemical companies and were acquired from third parties. They are measured at the price paid on acquisition (in 1994 and 2003, fundamentally) and, since they are considered to have an indefinite life, they are not amortized. They are assessed for impairment each year with the goodwill referred to in the next note.

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

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

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

- Projection periods: 10 years.
- Gross margin: 47% of revenue.
- Annual growth rate of 2%.
- Pre-tax discount rate: 7%.

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

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

The recoverable amount estimated from the value in use exceeds the carrying amount by 36 million euro. Taken in isolation, a decrease in margin between 5% and 10% of revenue, 0% annual growth in revenue or an increase of 10% in the discount rate before tax, would not result in impairment.

9. GOODWILL

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

The business of the acquired company, which is very similar to that of ZelnovaZeltia, consists of selling automatic aerosol dispensers, air fresheners and insecticides, and treatments for ecological agriculture.

The factors contributing to the cost of the transaction, which led to the recognition of goodwill, included the possibility of taking advantage of Copyr S.p.A.'s potential as an independent unit, the promotion of Zelnova Zeltia, S.A.'s range of consumer products in the Italian and other European markets (mainly in the Mediterranean area) where Copyr S.p.A. operates, and synergies in raw material procurement costs and other production costs for both Zelnova Zeltia, S.A. and Copyr S.p.A.. For this reason, the goodwill arising from this business combination was assigned to the group of cash-generating units

formed by Copyr, S.p.A. and Zelnova Zeltia, S.A., which form an operating segment included in the consumer chemicals reportable segment.

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

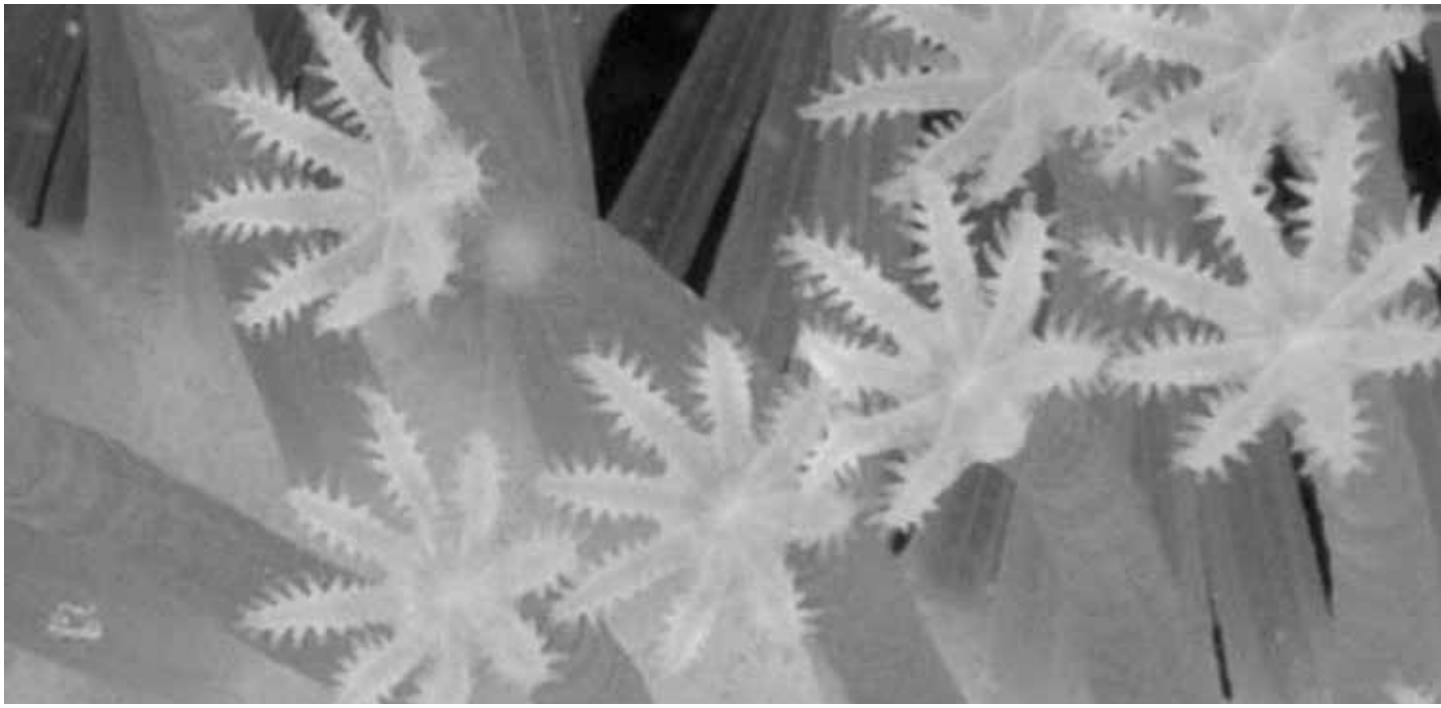
The recoverable amount is determined based on calculations of value in use.

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

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

- Projection periods: 10 years.
- Gross margin: 47% of revenue.
- Annual growth rate of 2%.
- Pre-tax discount rate: 7%.

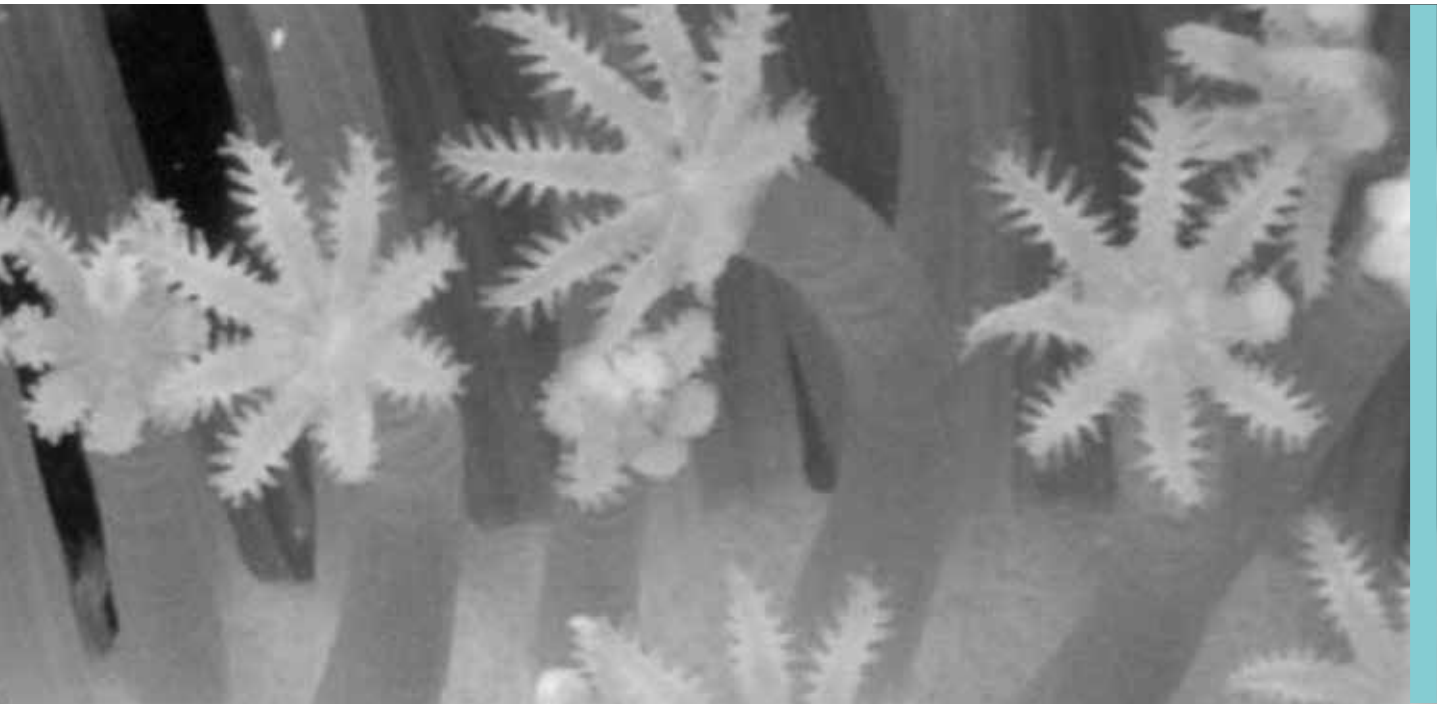
The recoverable amount estimated from the value in use exceeds the carrying amount by 36 million euro. Taken in isolation, a decrease in margin between 5% and 10% of revenue, 0% annual growth in revenue or an increase of 10% in the discount rate before tax, would not result in impairment.



10. FINANCIAL INSTRUMENTS BY CATEGORY

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

2016 (Thousand euro)	**Loans and accounts receivable / payable**	**Assets/liabilities at fair value through profit or loss**	**Available-for-sale assets**	**Total**
Assets on balance sheet				
Non-current financial assets				
Equity instruments	0	320	0	**320**
Available for sale (Note 12)	0	0	24	**24**
Deposits	794	0	0	**794**
Current financial assets				
Trade receivable (Note 14)	61,859	0	0	**61,859**
Other receivable (Note 14)	710	0	0	**710**
Supplier advances payments (Note 14)	83	0	0	**83**
Current financial assets	18,077	0	0	**18,077**
Cash and cash equivalents (Note 17)	14,290	0	0	**14,290**
Total assets	**95,813**	**320**	**24**	**96,157**
Liabilities on balance sheet				
Non-current borrowings (Note 24)	67,583	0	0	**67,583**
Current borrowings (Note 24)	27,906	0	0	**27,906**
Trade and other payable (Note 21)	39,175	0	0	**39,175**
Total liabilities	**134,664**	**0**	**0**	**134,664**



2015 (Thousand euro)	Loans and accounts receivable / payable	Assets/liabilities at fair value through profit or loss	Available-for-sale assets	Total
Assets on balance sheet				
Non-current financial assets				
Equity instruments	0	319	0	**319**
Available for sale (Note 12)	0	0	20	**20**
Deposits	728	0	0	**728**
Current financial assets				
Trade receivable (Note 14)	39,513	0	0	**39,513**
Other receivable (Note 14)	609	0	0	**609**
Supplier advances payments (Note 14)	78	0	0	**78**
Current financial assets	37,996	0	0	**37,996**
Cash and cash equivalents (Note 17)	7,629	0	0	**7,629**
Total assets	**86,553**	**319**	**20**	**86,892**
Liabilities on balance sheet				
Non-current borrowings (Note 24)	64,973	0	0	**64,973**
Current borrowings (Note 24)	28,629	0	0	**28,629**
Trade and other payable (Note 21)	31,959	0	0	**31,959**
Derivatives (Note 13)	0	14	0	**14**
Total liabilities	**125,561**	**14**	**0**	**125,575**

Other current financial assets included mainly deposits, time deposits and promissory notes with banks and financial institutions (Note 3.b).

11. CREDIT QUALITY OF FINANCIAL ASSETS

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

(Thousand euro)		2016	2015
Accounts receivable:			
Customers without an external credit rating			
	Group 1	675	4,654
	Group 2	60,043	33,365
	Group 3	1,934	1,781
Customers with an external credit rating		0	400
Total accounts receivable		**62,652**	**40,200**
Cash and cash equivalents plus non-current and current financial assets:			
	Moody's rating		
	A1	76	40
	A2	5	0
	A3	3,935	1,705
	Aa3	0	23
	B1	11	29
	Ba1	7,005	7,623
	Ba2	0	2
	Ba3	0	63
	Baa1	476	11,093
	Baa2	16,324	76
	Baa3	1,636	22,254
	B3	1,209	0
	B2u	68	0
	Caa1	0	1,721
	Unrated	2,760	2,063
Total		**33,505**	**46,692**

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

None of the un-matured financial assets was renegotiated during the year. See credit quality of accounts receivable from public authorities, in Note 14.

12. FINANCIAL ASSETS AVAILABLE-FOR-SALE

All of the financial assets available-for-sale consist of shares listed on the US market, all of them in the biopharmaceutical sector. Their fair value matches their published market price: 24 thousand euro (20 thousand euro in 2015).

Marking these securities to market in 2016 on the basis of their official quoted prices led to a positive change of 4 thousand euro (1 thousand euro in 2015) in other comprehensive income.

13. DERIVATIVE FINANCIAL INSTRUMENTS

As of December 2015, one of the floating-rate loan contracts had an associated derivative financial instrument to hedge floating interest rate risk at a fixed rate, (Note 3.1.ii). Such derivative did not qualify for hedge accounting in 2015, that derivative generated a gain of 26 thousand euro that was recognized in “"Finance costs - net” (Note 34). This derivative had a balance sheet value of 14 thousand euro in 2015.

As of December 31, 2016 there is not derivative financial instruments.

14. TRADE AND OTHER RECEIVABLES

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

(Thousand euro)	Balance as of 12-31-16	Balance as of 12-31-15
Trade receivables for sales and services	63,472	40,868
Provisions	(1,613)	(1,355)
Net	**61,859**	**39,513**
Other receivables	710	609
Supplier advances payments	83	78
Total	**62,652**	**40,200**

The balance of Trade receivables for sales and services as of 2016, includes the total amount of the up-front payment due by Chugai Pharmaceuticals to PharmaMar as consequence of the license, development and commercialization agreement signed in December 2016, amounting to 30.000 thousand euro (Note 27)

Customer receivables discounted with credit institutions totalled 1,238 thousand euro as of December 31, 2016 (2,148 thousand euro in 2015). Those discounts were recognized as secured loans since the Group retains the default and late payment risk.

As of December 31, 2016, accounts receivable amounting to 2,989 thousand euro were past due (8,272 thousand euro in 2015), but there had been no impairment loss. The analysis of those accounts receivable by age is as follows (thousand euro):

(Thousand euro)	Balance as of 12-31-16	Balance as of 12-31-15
3-6 months	1,162	5,120
Over 6 months	1,827	3,152
Total	**2,989**	**8,272**

The past-due accounts that had not been impaired as of December 31, 2016 and 2015 are mainly due from public hospitals belonging to the Spanish national health system and from distributors of vials for the two therapeutic uses which have been approved for Yondelis®. The average collection period from the Spanish national health system does not exceed one year. The Group does not impair past-due receivables with public authorities and expects to recover the total amount due plus any default interest that it claims. The average collection period for public authorities outside Spain is not more than one year.

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

In 2016, the Group factored 8,908 thousand euro of debt owed by various public authorities in Spain, Italy and Portugal for which it had signed non-recourse factoring agreements with institutions specialised in this type of transaction (7,973 thousand euro in 2015).

The detail of this caption as of December 31, 2016:

2016 (Thousand euro)	**Factored**	**Interest**	**Collected**
Spain	5,267	26	**2,625**
Italy	3,641	175	**6,082**
	8,908	**201**	**8,707**

The detail of this caption as of December 31, 2015:

2015 (Thousand euro)	**Factored**	**Interest**	**Collected**
Portugal	782	44	**738**
Spain	5,214	145	**5,069**
Italy	1,977	77	**1,900**
	7,973	**266**	**7,707**

As of December 31, 2016, an impairment loss on accounts receivable was recognized amounting to 358 thousand euro (103 thousand euro in 2015). The movement of the provision for impairment is as follows:

(Thousand euros)	**Balance as of 12-31-16**	**Balance as of 12-31-15**
Beginning balance	**(1,355)**	**(1,399)**
Provision	(358)	(103)
Reversion	5	147
Bad-debt expense	69	0
Others	26	0
Ending balance	**(1,613)**	**(1,355)**

In 2016, was recognized provision for impairment of debts of less than three months past due amounting to 220 thousand euro, and provision for impairment of 137 thousand euro (103 thousand euro in 2015) for debts over six months past due. Additionally, 5 thousand euro in allowances recognized in prior years were reversed (147 thousand euro in 2015).

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

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

(Thousand euro)	Balance as of 12-31-16	Balance as of 12-31-15
Less 3 months	220	0
Over 6 months	1,393	1,355
Total	**1,613**	**1,355**

The carrying amount of the Group's trade and other accounts receivable is denominated in the following currencies:

(Thousand euro)	Balance as of 12-31-16	Balance as of 12-31-15
Euro	62,580	39,528
US dollar	0	457
Other currencies	72	215
Total	**62,652**	**40,200**

The breakdown as of December 31, 2016 and 2015 of receivables from public authorities for sales and services, by geography, is as follows:

(Thousand euro)	Balance as of 12-31-16	Balance as of 12-31-15
Spain	2,310	3,733
Austria	274	455
Belgium	216	366
France	512	1,130
Germany	678	0
United Kingdom	114	1,096
The Netherlands	5	78
Ireland	42	39
Italy	3,911	209
Luxembourg	12	18
Portugal	411	640
Total	**8,485**	**7,764**

As of December 31, 2016 and 2015, the credit rating of the accounts receivable from public authorities, by geography, is as follows:

(Thousand euro)	Credit rating	Balance as of 12-31-16		Credit rating	Balance as of 12-31-15
Germany	Aaa	678	Germany	Aaa	0
Andalusia	Baa3	150	Andalusia	Ba1	500
Aragon	BBB-	65	Aragon	BBB	202
Asturias	BBB	69	Asturias	BBB	45
Austria	Aaa	274	Austria	Aaa	455
Balearic Islands	BBB	26	Balearic Islands	BBB-	21
Belgium	AA-	216	Belgium	Aa3	366
Canary Islands	BBB-	133	Canary Islands	BBB+	77
Cantabria	BBB	95	Cantabria	BBB	160
Castilla la Mancha	Ba2	93	Castilla la Mancha	ba2	113
Castilla y León	Baa2	138	Castilla y León	Baa2	579
Catalonia	Ba3	430	Catalonia	-----	354
Ceuta and Melilla	-----	0	Ceuta and Melilla	Ba2	23
Extremadura	Baa3	6	Extremadura	Baa3	23
France	Aa2	512	France	Aa2	1,130
Galicia	Baa2	151	Galicia	Baa2	208
United Kingdom	Aa1	114	United Kingdom	Aa1	1,096
The Netherlands	Aaa	5	The Netherlands	Aaa	78
Ireland	A3	42	Ireland	Baa1	39
Italy	Baa2	3,911	Italy	Baa2	209
Luxembourg	Aaa	12	Luxembourg	Aaa	18
Madrid	Baa2	538	Madrid	Baa2	756
Murcia	Ba2	71	Murcia	Ba2	109
Navarra	A	3	Navarra	A	39
Other	-----	72	Other	----	0
Basque Country	Baa1	27	Basque Country	Baa1	37
Portugal	Ba1	411	Portugal	Ba1	640
Rioja	BBB	22	Rioja	BBB	12
Valencia	Ba2	221	Valencia	Ba2	475
Total		**8,485**	**Total**		**7,764**

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

Claims of principal and default interest from public authorities

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

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

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

15. OTHER CURRENT ASSETS

The breakdown of "Other current assets" as of December 31, 2016 and 2015 is as follows:

(Thousand euro)	Balance as of 12-31-16	Balance as of 12-31-15
Prepaid expenses	2,149	1,820
Balances with public authorities	1,666	1,500
Total	**3,815**	**3,320**

The detail of the balance with public authorities as of December 31, 2016 and 2015 is as follows:

(Thousand euro)	Balance as of 12-31-16	Balance as of 12-31-15
VAT	1,301	1,394
Other taxes	365	106
Total	**1,666**	**1,500**

16. INVENTORIES

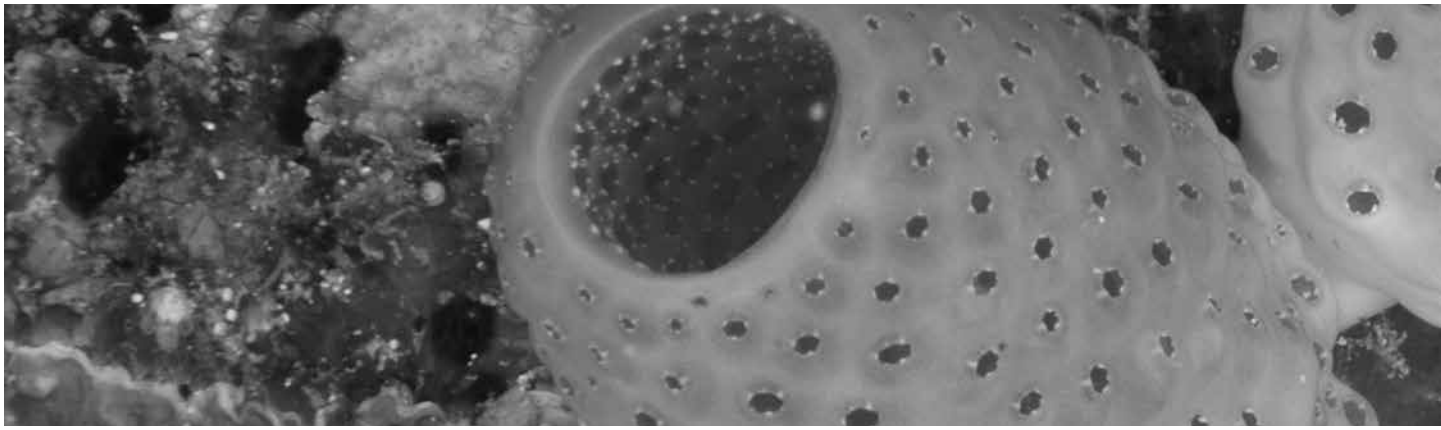
(Thousand euro)	Balance as of 12-31-16	Balance as of 12-31-15
Goods for resale	2,094	1,151
Raw materials and other supplies	4,531	5,169
Semi-finished products and products in process	6,209	8,131
Finished products	9,131	8,325
By-products, residues and recovered materials	193	214
Total	**22,158**	**22,990**

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

The cost of inventories recognized as an expense and included under cost of goods sold amounted to 44,120 thousand euro in 2016 (38,519 thousand euro in 2015) (Note 32).

No material impairment losses were recognized for inventories in 2016 and 2015.

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



17. CASH AND CASH EQUIVALENTS

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

Cash equivalents as of December 31, 2016 include short-term bank deposits yielding between 0.05% and 0.15% (between 0.1% and 0.25% in 2015) maturing between January and March 2016.

There were no bank overdrafts at the closing date.

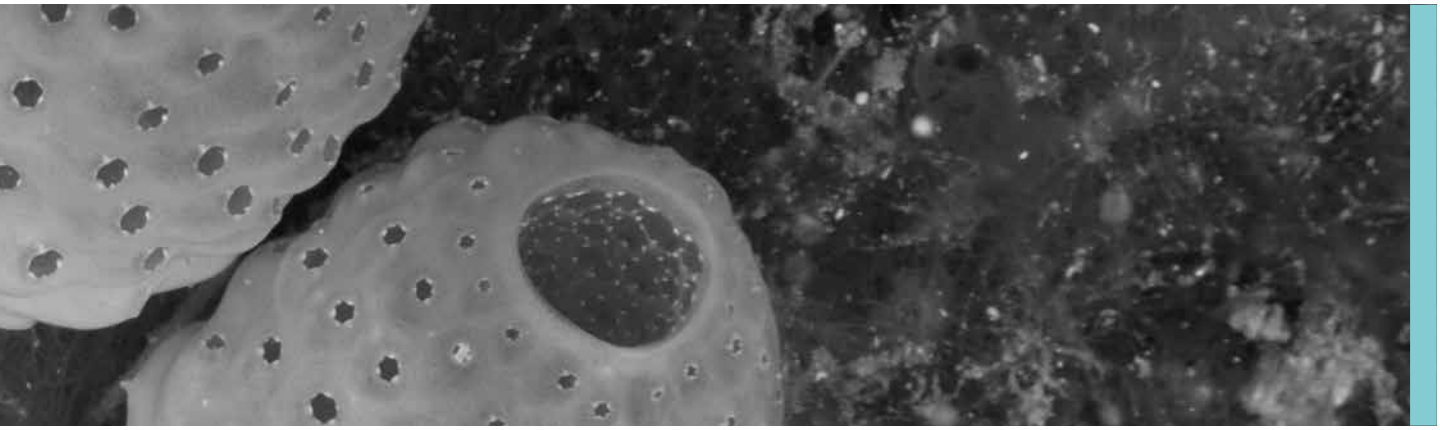
(Thousand euro)	Balance as of 12-31-16	Balance as of 12-31-15
Cash on banks and in hands	12,181	7,429
Short-term bank deposits	2,109	200
Total	**14,290**	**7,629**

18. SHARE CAPITAL AND SHARE PREMIUM

As explained in Note 1, PharmaMar and Zeltia were merged in 2015. For the purpose of presenting number shares, share capital, share premium and treasury shares, Group management considers that the resulting entity is, in essence, a continuation of the previously existing Zeltia group. In 2015 changes in number of shares, share capital, share premium and treasury shares until the merger refer to changes carried out by Zeltia. Changes subsequent to the merger relate to transactions carried out by PharmaMar.

The only effect of the merger relates to a reduction in share premium in order to align this balance to the legally established PharmaMar's share premium (254,097 thousand euro).

As of December 31, 2016, PharmaMar's authorised share capital amounted to 11,110 thousand euro and was represented by 222,205 thousand shares, with a par value of 0.05 euro per share in 2016. All PharmaMar shares have been fully subscribed and paid.



Thousand euro/Shares	No. of shares	Share capital	Share premium	Treasury shares
Balance as of January 1, 2015	**219,885**	**11,110**	**323,286**	**(6,810)**
Proceeds from shared issued	2,709	0	0	7,966
Purchase of treasury shares	(1,484)	0	0	(4,684)
Issue of shares to empoyees - Share based payments	199	0	0	584
Merger	0	0	(254,097)	0
Balance as of January 1, 2016	**221,309**	**11,110**	**69,189**	**(2,944)**
Proceeds from shared issued	1,395	0	0	3,862
Purchase of treasury shares	(1,709)	0	0	(4,165)
Balance as of December 30, 2016	**220,995**	**11,110**	**69,189**	**(3,247)**

The number of shares in the table above is adjusted by treasury shares acquired by the Group, including shares delivered to employees through stock plans that, according to the concession conditions, are blocked and cannot be disposed by the employees who have been granted them.

Treasury shares

The number of shares outstanding as of December 31, 2016 was 220,995 thousand (221,309 thousand in 2015). The reduction in the capital and share premium as a result of the shares treated as not outstanding is reflected in the Treasury shares account. As of December 31, 2016, the parent company held 1,210 thousand treasury shares (896 thousand shares in 2015).

In 2016, the Group acquired 1,709 thousand treasury shares (1,484 thousand treasury shares in 2015) for 4,165 thousand euro (4,684 thousand euro in 2015), and it sold 1,395 thousand treasury shares (2,709 thousand shares in 2015) at a loss of 329 thousand euro (a gain of 2,887 thousand euros in 2015).

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

	DIRECT STAKE		INDIRECT STAKE (1)		TOTAL STAKE
	No. of shares	%	No. of shares	%	%
José Mª Fernández Sousa - Faro	14,318,261	6.444%	10,354,841	4.660%	11.104%

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

19. AVAILABILITY AND RESTRICTIONS ON RESERVES AND RETAINED EARNINGS

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

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

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

Moreover, profits may not be distributed unless the amount of available reserves is at least equal to the amount of development expenses shown on the assets side of the balance sheet.

The proposed distribution of 2016 income and other reserves of the parent company to be submitted to the Shareholders' Meeting for approval, and the distribution approved for 2015, are as follows:

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

20. NON-CONTROLLING INTEREST

There were no changes in 2016 and 2015 in Noscira, S.A. in liquidation's share capital, the only group entity in which there are minority shareholders.

The changes in non-controlling interests in 2016 and 2015 are as follows:

(Thousand euro)	Non-controlling interest
Balance as of January 1, 2015	**(3,813)**
2015 income	(25)
Balance as of January 1, 2016	**(3,838)**
2016 income	(25)
Balance as of December 30, 2016	**(3,863)**

Noscira reported a net loss of 92 thousand euro in 2016 (a net loss of 93 thousand euro in 2015), of which 25 thousand euro corresponded to non-controlling interests (25 thousand euro in 2015), in line with their 26.7% stake in the company.

21. TRADE AND OTHER PAYABLES

The composition of this caption is as follows:

(Thousand euro)	Balance as of 12-31-16	Balance as of 12-31-15
Trade payables for purchases and services received	36,712	30,880
Other payables to related parties	752	232
Advances received for orders	1,234	660
Other accounts payable	477	187
Total	**39,175**	**31,959**

All payables mature within 12 months from the closing date of each year. Other payables to related parties refer mainly to accrued outstanding bylaw-mandated allocations to members of PharmaMar's Board and fees for membership of its board committees that have accrued but are outstanding (663 thousand euro as of December 31, 2016, 137 thousand euro as of December 31, 2015), and accrued outstanding allocations to directors of Genomica who are also directors of PharmaMar (14 thousand euro as of December 31, 2016 (20 thousand euro for directors of Genomica in 2015) and 75 thousand euro for directors of Noscira in 2016 and 2015.

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

(Thousand euro)	2016	2015
Average supplier payment period (Days)	51	50
Proportion of transactions paid (Days)	53	51
Proportion of transactions outstanding (Days)	25	43
Total payments made (Thousand euro)	82,721	81,621
Total payments outstanding (Thousand euro)	10,676	10,293

The supplier payment lag in the year between 1 January and 31 December 2016 was 51 days (50 days in 2015).

The above information refers only to companies domiciled in Spain.

22. NON-CURRENT AND CURRENT DEFERRED INCOME

The breakdown as of December 31, 2016 and 2015 is as follows

(Thousand euro)	Balance as of 12-31-16	Balance as of 12-31-15
Grants	2,790	2,709
Deferred income	14,000	0
Total	**16,790**	**2,709**

Non-current deferred income

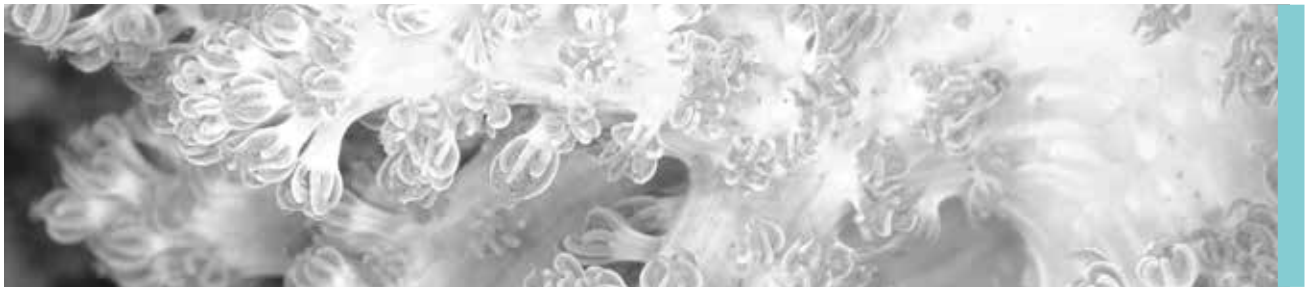
This caption includes the following items:

- 14,000 thousand euro refer to the non-current part of the up-front payment accrued under the license, development and commercialization agreement signed by PharmaMar and Chugai Pharmaceutical. The up-front payment totalled 30,000 thousand euro, of which 6,000 thousand euro were recognised as revenue in 2016 (Note 27).
- Subsidies, which are to finance property, plant and equipment for R&D projects in the oncology segment. The directors consider that all the conditions for their recognition have been fulfilled. The subsidies detailed below consist mostly of interest rate subsidies.

Current deferred income

This caption refers to the current part, amounting to 10,000 thousand euro, of the up-front payment under the licensing and development agreement signed by PharmaMar and Chugai Pharmaceutical. The up-front payment totalled 30,000 thousand euro, of which 6,000 thousand euro were recognised as revenues at 2016 (Note 27).

(Thousand euro)	Balance as of 12-31-16	Balance as of 12-31-15
Grants	0	5
Deferred income	10,012	49
Total	**10,012**	**54**



23. OTHER NON-CURRENT AND CURRENT LIABILITIES

Other non-current liabilities, amounting to 1,105 thousand euro (598 thousand euro in 2015), refer mainly to retirement benefit obligations. Retirement benefit obligations amounted to 607 thousand euro (598 thousand euro in 2015).

Other current liabilities, amounting to 3,083 thousand euro (3,661 thousand euro in 2015), refer primarily to balances owed to public authorities for personal income tax withholdings amounting to 715 thousand euro (1,610 in 2015), social security contributions amounting to 655 thousand euro (610 thousand euro in 2015), other balances with public authorities amounting to 3 thousand euro (18 thousand euro), and 1,622 thousand euro (1,423 thousand euro in 2015) corresponding to Group subsidiaries domiciled elsewhere in the European Union.

24. BORROWINGS

The breakdown of the Group's non-current and current interest-bearing debt as of December 31, 2016 and 2015 is as follows:

Breakdown of non-current debt:

(Thousand euro)	Balance as of 12-31-16	Balance as of 12-31-15
Bank debt	25,351	20,651
Bonds	16,350	16,350
Non-interest-bearing debt to official authorities	25,882	27,972
Total	**67,583**	**64,973**

Breakdown of current debt:

(Thousand euro)	Balance as of 12-31-16	Balance as of 12-31-15
Bank debt	23,002	24,393
Bonds	466	424
Non-interest-bearing debt to official authorities	4,438	3,753
Finance lease liabilities	0	59
Total	**27,906**	**28,629**

i. Bank debt

Non-current and current debt consists of bank loans, credit lines and discounted bills, as detailed in the table below as of December 31, 2016 and 2015:

(Thousand euro)	No. of products	Maturities	Balance as of 12-31-16	No. of products	Maturities	Balance as of 12-31-15
Non-current debt						
Pharma Mar, S.A.	5	2018 - 2022	24,794	14	2017 - 2024	19,931
Genomica, S.A.U.	3	2019	431	4	2017 - 2019	720
Zelnova Zeltia, S.A.	1	2018	126	0	0	0
Total non-current debt	**9**		**25,351**	**18**		**20,651**
Current debt						
Bank loans						
Pharma Mar, S.A.	16	---	9,891	20	---	10,411
Genomica, S.A.U.	3	---	293	4	---	291
Zelnova Zeltia, S.A.	1	---	501	1	---	847
	20		**10,685**	**25**		**11,549**
Credit lines						
Pharma Mar, S.A.	17	---	9,673	19	---	9,151
Genomica, S.A,U.	7	---	1,015	11	---	1,220
Zelnova Zeltia, S.A.	4	---	270	3	---	186
	28		**10,958**	**33**		**10,557**
Bills and certificates						
Pharma Mar, S.A.	---	---	5	---	---	752
Xylazel, S.A.	---	---	1,233	---	---	1,396
			1,238			**2,148**
Interest and other accounts payable						
Pharma Mar, S.A.	---	---	74	---	---	87
Zelnova Zeltia, S.A.	---	---	0	---	---	15
Xylazel, S.A.	---	---	44	---	---	37
Sylentis, S.A.	---	---	3	---	---	0
			121			**139**
Total current debt			**23,002**			**24,393**

Non-current debt

PharmaMar has a mortgage loan amounting to 6,997 thousand euro maturing in 2024; that loan was arranged in 2014, through cancellation of the original financial liability and recognition of a new financial liability.

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

(Thousand euro)	Balance as of 12-31-16	Balance as of 12-31-15
2017	0	6,036
2018	5,649	2,904
2019	5,559	2,883
2020	5,539	2,720
2021 and thereafter	8,604	6,108
Total	**25,351**	**20,651**

Current debt

Current bank debt is broken down as follows:

(Thousand euro)	Balance as of 12-31-16	Balance as of 12-31-15
Bank loans	10,685	11,549
Credit lines	10,958	10,557
Unmatured discounted bills and certifications	1,238	2,148
Interest and other accounts payable	121	139
Total	**23,002**	**24,393**

Some credit lines are renewed automatically and, to date, experience shows that they have been renewed systematically with the same banks. As of December 31, 2016, the Group had 28 credit lines (35 as of December 31, 2015) with a total limit of 31,420 thousand euro (37,405 thousand euro in 2015).

At the date of authorization of these consolidated financial statements, the Group had signed agreements which extend the maturity of 5,000 thousand euro of current debt (2,000 thousand euro in 2015).

The vast majority of the loans and credit lines are at floating interest rates consisting of Euribor plus a spread of between 1.45% and 3.75% (between 1% and 7% in December 2015).

The effective interest rates as of December 31st, are:

	12-31-16	12-31-15
Bank overdrafts	29.00%	29.00%
Bank loans	3.85%	6.10%
Credit lines	2.59%	3.05%
Discounted notes	1.41%	1.77%

The Group's exposure to bank debt at floating rates is 31,748 thousand euro as of December 31, 2016 (38,148 thousand euro in 2015), indexed mainly to three-month Euribor.

All the bank loans are arranged in euro.

ii. Bonds

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

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

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

iii. Non-interest-bearing debt to public authorities

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

As of December 31, 2016, the Group had debt balances with official authorities for a total of 30,320 thousand euro, calculated on the basis of cash flows discounted at Euribor plus a spread based on the Group's risk (31,725 thousand euro in 2015), of which 25,882 thousand euro were non-current (27,972 thousand euro in 2014) and 4,438 thousand euro were current (3,753 thousand euro in 2015).

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

(Thousand euro)	Balance as of 12-31-16	Balance as of 12-31-15
2017	0	4,840
2018	4,479	4,469
2019	4,163	4,400
2020	4,457	4,600
2021 and thereafter	12,783	9,663
Total	**25,882**	**27,972**

iv. Fair value

The carrying amount and fair value of the non-current and current debt as of December 31, 2016 and 2015 are as follows:

	Fair value		Carrying amount	
(Thousand euro)	2016	2015	2016	2015
Non-current				
Bank loans	25,351	20,704	25,351	20,651
Due to official authorities	30,807	33,101	25,882	27,972
Bonds	17,000	21,165	16,350	16,350
Total	**73,158**	**74,970**	**67,583**	**64,973**
Current				
Bank loans	10,955	11,549	10,955	11,549
Credit lines	10,689	10,556	10,689	10,556
Unmatured discounted bills and certifications	1,238	2,148	1,238	2,148
Interest payable	74	101	74	101
Due to official authorities	5,278	4,545	4,438	3,753
Bonds	466	424	466	424
Other debt	46	98	46	98
Total	**28,746**	**29,421**	**27,906**	**28,629**

25. DEFERRED TAXES AND INCOME TAX EXPENSE

i. Deferred taxes

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

(Thousand euro)	2016	2015
Deferred tax assets	40,127	38,362
Deferred tax liabilities	(5,828)	(5,783)
Total	**34,299**	**32,579**

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

Deferred tax assets (Thousand euro)	Tax credits granted for R&D activity / Tax loss carryforwards	Withholding tax recoverable	Fixed and intangible assets	Other	TOTAL
As of January 1, 2015	**27,742**	**2,465**	**5,090**	**576**	**35,873**
Withholdings	0	3,755	0	0	3,755
Income statement credits/(charges)	(4,190)	0	(568)	3,492	(1,266)
As of December 31, 2015	**23,552**	**6,220**	**4,523**	**4,067**	**38,362**
Withholdings	0	508	0	0	508
Income statement credits/(charges)	1,781	0	(485)	(39)	1,257
As of December 31, 2016	**25,333**	**6,728**	**4,038**	**4,028**	**40,127**

The “Tax credits granted for R&D activity / Tax loss carryforwards" column reflects the difference in the accounting treatment of research and development expenses under local and international standards, as well as capitalised tax losses.

The "Withholding tax" column as of 31 December 2016 and 2015 refers to taxes withheld from royalties and payments received under licensing agreements.

Deferred tax liabilities (Thousand euro)	**Investment property**	**Trademarks with indefinite useful lives**	**Capital Grants**	**Other**	**TOTAL**
As of January 1, 2015	**(1,210)**	**(2,105)**	**(3,844)**	**(2)**	**(7,161)**
Income statement credits/(charges)	185	(44)	1,236	0	1,377
As of December 31, 2015	**(1,025)**	**(2,149)**	**(2,608)**	**(2)**	**(5,784)**
Income statement credits/(charges)	0	(80)	35	1	(44)
As of December 31, 2016	**(1,025)**	**(2,229)**	**(2,573)**	**(1)**	**(5,828)**

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

The Group analysed the unused tax losses and the differences arising from differing accounting treatment for the purposes of the tax returns for the years 2017 through 2025. As a result, the Group did not recognise unused tax losses amounting to 55,000 thousand euro (zero in 2015) and accounting differences amounting to 157,000 thousand euro (180,000 thousand euro in 2015).

At the same date, there were also unused tax credits which were not recognised on the balance sheet that amounted to 189,982 thousand euro (172,941 thousand euro in 2015).

Those unused tax losses and the differences in the accounting treatment and tax credits were not recognised in connection with deferred tax assets as of 2016 and 2015 year-end following the analysis performed by the Group as referred to in Note 4 "Accounting Estimates and Judgements".

The following table shows the validity dates of unused tax credits that have specific expiry date but were not recognized as deferred tax assets as of December 31, 2016:

Tax credits generated by:	**Total amount**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**	**2031 and thereafter**
Unused tax credits	183,787	2,149	4,478	4,890	12,522	13,383	9,776	11,012	10,854	10,118	11,469	9,809	9,452	9,342	8,127	56,406
Other unused tax credits	6,195	5,291	353	168	383	0	0	0	0	0	0	0	0	0	0	0
TOTAL	**189,982**	**7,440**	**4,831**	**5,058**	**12,905**	**13,383**	**9,776**	**11,012**	**10,854**	**10,118**	**11,469**	**9,809**	**9,452**	**9,342**	**8,127**	**56,406**

ii. Income tax expense

In 2016, the corporate income tax return was filed on a group basis by the tax group headed by PharmaMar and comprising the following Group entities: Genómica, S.A.U.; Zelnova Zeltia, S.A.; Xylazel, S.A.; and Sylentis, S.A.U., the other companies –Pharma Mar USA, PharmaMar AG, Pharma Mar SARL, Pharma Mar GmbH, Pharma Mar Ltd, Pharma Mar Srl, Pharma Mar sprl, Pharma Mar Ges.m.b.H., Genómica AB, Copyr, SpA and Noscira, "S.A. in liquidation"– file taxes individually.

The reconciliation of the difference between applying a 25% tax rate to the income before taxes and the recognized tax expense is shown in the following table:

(Thousand euro)	2016	2015
Income before taxes	**(24,699)**	**6,002**
Tax rate (25%) 2016 (28%) 2015	**6,175**	**(1,681)**
Tax effect of:		
- Exempt revenues and other minor items	1,541	2,404
- Reversal impairment provision	(2,213)	0
- Other adjustments	(4,911)	(69)
Income tax expense	**592**	**654**

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

In 2016, one-fifth of the impairment recognised in prior years on the investment in Noscira (in liquidation) was reversed for tax purposes, resulting in a 2,200 thousand euro increase in the tax expense.

As of 31 December 2016, the "Other adjustments" item includes the effect of not fully recognising the pre-paid tax that would arise from the tax losses incurred in the year.

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

(Thousand euro)	2016	2015
Current tax	(620)	543
Deferred tax	1,212	111
Total	**592**	**654**

The tax rate applicable to the Group is generally the standard tax rate in Spain (25%), except for Copyr, S.p.A., whose earnings are taxed in Italy at approximately 33%. The effect of differences with the tax rates applicable to the other subsidiaries located outside Spain is not material.

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

On December 3, 2016 was published in the BOE the Royal Decree-Law 3/2016, approved on Friday, December 2. Some of the measures introduced by these regulations affect Corporate Income Tax, many of them having an impact in the 2016 fiscal year:

- Limitation to the compensation of negative tax bases for companies with a net turnover of more than 60 million euros: new regulation reduces the possibility of offsetting negative tax bases from 70% to 25%.

- Limitation on the application of double taxation deductions: new regulation establishes a limit of 50% of the cuota.

- Reversal of impairments of the subsidiaries that were tax deductible in pre-2013 tax periods, such reversal must be carried out in a linear manner for a minimum of 5 years.

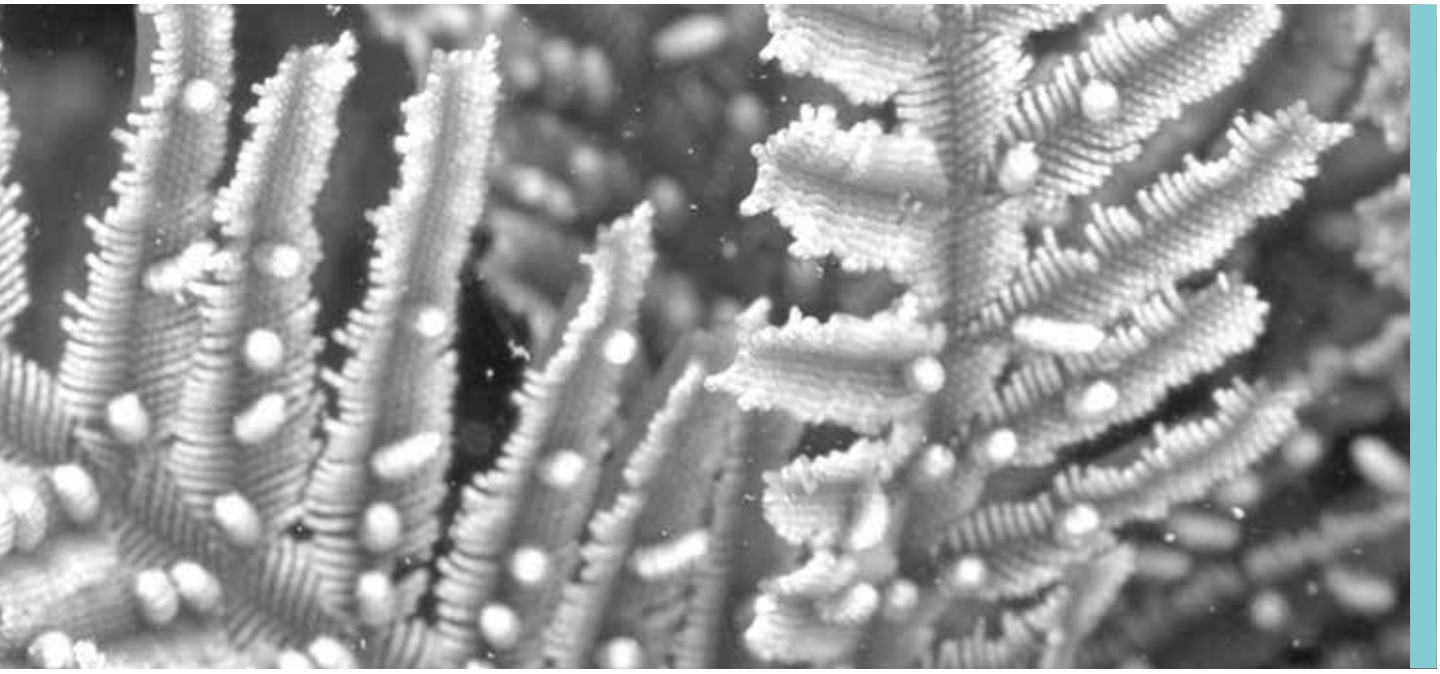
All these developments have affected the corporate tax calculation of the parent company and have also had an impact on the Group's tax planning for the recovery of deferred taxes.

On January 6, 2015, the Spanish tax authorities notified the company of plans to commence a partial tax audit of consolidated corporate income tax for the years 2010 to 2012, which would be confined to examining revenue from certain intangible assets reported by PharmaMar.

On January 20, 2015, the parent company applied to the tax authorities for the partial tax audit to be converted into a general tax audit covering the taxes and periods in question.

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

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



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

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

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

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

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

26. PROVISIONS FOR OTHER CONTINGENCIES AND CHARGES

As of December 31, 2016 and 2015, this caption includes outstanding remuneration to Group employees in relation to bonuses that had accrued and were outstanding, and estimated bonuses accrued and outstanding at year-end, based on the compensation systems agreed by the Group with employees.

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

(Thousand euros)	Balance as of 12-31-16	Balance as of 12-31-15
Beginning balance	**6,306**	**6,220**
Provision	6,687	6,248
Payments	(5,997)	(6,162)
Transfers and other	(8)	0
Ending balance	**6,988**	**6,306**

27. REVENUE

Revenue as of December 31, 2016 and 2015 was as follows (a detail by segment and geography is given in Note 5):

(Thousand euros)	Balance as of 12-31-16	Balance as of 12-31-15
Sales of goods	187,392	182,377
Returns, rebates and volume discounts	(23,357)	(20,385)
Total	**164,035**	**161,992**
Revenue from licensing and co-development agreements (excluding royalties)	11,129	29,034
Royalties	5,779	1,788
Other	5	1,003
Total	**180,948**	**193,817**

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

(Thousand euro)	2016	2015
Grupo Johnson & Johnson (Janssen Produts LP) (Yondelis)	5,202	24,432
Taiho (Yondelis)	577	5,990
Other agreements (Aplidin)	1,129	400
Chugai Pharma Marketing (Aplidin)	4,000	0
Chugai Pharma Pharmaceutical (PM1183)	6,000	0
Total	**16,908**	**30,822**

Janssen Products LP (Yondelis®)

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

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

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

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

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

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

The amounts attributed to the development phase are recognized as revenue during the development phase based on the degree of progress with development and the project's total estimated costs. As of December 31, 2015, the Group did not have any amounts pending recognition at year-end since all the necessary obligations had been fulfilled and the related expenses had already been incurred.

Therefore, no considerations in relation with this agreement have been received by PharmaMar in 2016 (9,453 thousand euro in 2015, due to the achievement one of the milestones set out in the agreement: Approval from the FDA to market Yondelis).

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

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

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

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

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

Taiho Pharmaceutical Co (Yondelis®)

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

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

- Assignment to Taiho of future rights to market Yondelis® in Japan. For this assignment, the Group will collect royalties based on Taiho's sales once authorization is obtained to market the drug in Japan.
- The Group retains the exclusive right to manufacture the active ingredient, which will be supplied to Taiho.
- Taiho assumes the responsibility, at its own expense, for researching, developing and obtaining regulatory approval for Yondelis® in Japan.

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

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

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

Chugai Pharma Marketing Co. (Aplidin®)

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

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

- Development of Aplidin® from the date of signature of the agreement up to marketing, and financing of a percentage of 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 principals and other regulatory and commercial objectives.

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

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

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

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

Specialised Therapeutics Asia Pte, Ltd (Aplidin®)

In February, 2016 an agreement was signed with Singapore-based Specialised Therapeutics Asia Pte, Ltd (STA) to market marine-based anti-tumour compound APLIDIN® (plitidepsin) for the treatment of haematological tumours in 12 Asian countries: Brunei, Cambodia, East Timor, Indonesia, Laos, Malaysia, Myanmar, Papua New

Guinea, Philippines, Singapore,Thailand and Vietnam. PharmaMar received and recognized as revenue, an up-front payment in the amount of 229 thousand euro.

Boryung Pharmaceutical (Aplidin®)

In October, 2016 a licensing agreement was signed with Boryung Pharm to commercialize the marine-derived anticancer drug Aplidin® (plitidepsin) in South Korea. Under the terms of the agreement, PharmaMar will receive an upfront payment along with royalties and additional remunerations upon achieving regulatory milestones with Aplidin®. PharmaMar will retain exclusive production rights and will supply the finished product to Boryung Pharm for commercial use. PharmaMar received and recognized as revenue an up-front payment amounting to450 thousand euro and a regulatory milestone amounting to 450 thousand euro.

Chugai Pharmaceutical Co. (PM1183 (lurbinectedina)

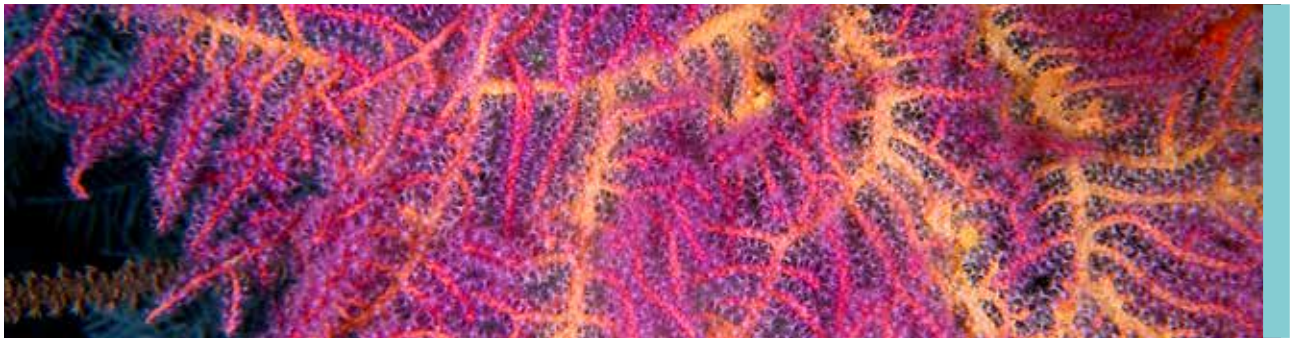
In December, 2016 PharmaMar signed an exclusive licensing, development and commercialisation agreement in Japan with Chugai Pharmaceutical Co. Ltd. for its third marine-derived anticancer drug, PM1183 (lurbinectedin).

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

- Assignment to Chugai of the future marketing rights for Japan. For this assignment, the Group will collect double-digit tiered royalties based on Chugai's sales in Japan. The agreement also established some milestone payments as a function of accumulated sales.
- The Group retains the exclusive right to manufacture the active ingredient, which will be supplied to Chugai.
- PharmaMar will carry out certain clinical trials outside Japan, which are described in the agreement and had already commenced at the time it was signed.
- PharmaMar will carry out certain clinical trials with the molecule for Japan.
- Under the terms of the agreement, PharmaMar will receive an upfront payment of 30,000 thousand euro upon signing the agreement, along with royalties and additional payments based on development, regulatory and commercial milestones. Additionally, PharmaMar will receive payments related to the clinical trials performed with the molecule for Japan.

Both the upfront payment and the payments for development milestones will be recognised as revenues as a function of the degree of progress of the clinical trials agreed in the licensing agreement.

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



28. RESEARCH AND DEVELOPMENT EXPENSES

The following table shows the amounts spent on R&D by business segment in 2016 and 2015.

2016					
	Oncology	Diagnostics	RNAi	Consumer chemicals	TOTAL
Total expenditure	(72,301)	(2,426)	(4,890)	(163)	(79,780)
Capitalization	1,357	0	0	0	1,357
Research and development expenses	**(70,944)**	**(2,426)**	**(4,890)**	**(163)**	**(78,423)**

2015					
	Oncology	Diagnostics	RNAi	Consumer chemicals	TOTAL
Total expenditure	(55,610)	(2,218)	(5,687)	(34)	(63,549)
Capitalization	3,258	0	0	0	3,258
Research and development expenses	**(52,352)**	**(2,218)**	**(5,687)**	**(34)**	**(60,291)**

R&D expenditure increased by 30% year-on-year mainly due to the considerable progress archieved in the clinical trials with Lurbinectedin in platinum resistant ovarian cancer and small-cell lung cancer, as well as a number of preclinical trials with that same compound.

29. GENERAL AND ADMINISTRATION EXPENSES AND OTHER OPERATING EXPENSES

Consolidated general and administration expenses amounted to 20,328 thousand euro in 2016, 1.7% more than in 2015 (19,984 thousand euro).

Consolidated other operating expenses, mainly related with corporate functions, amounted to 10,777 thousand euro in 2016, 1.5% less than in 2015 (11,750 thousand euro).

30. MARKETING EXPENSES

Commercial and marketing expenses decreased by 1.4% with respect to 2015, to 47,688 thousand euro in 2016 (48,614 thousand euro in 2015). Marketing expenses in the oncology segment descended to 26,884 thousand euro (27,108 thousand euro in 2015), while in the diagnostic segment they amounted to 2,198 thousand euro (1,892 thousand euro in 2015). The values show a slightly decrease in the oncology segment due to the impact of establishing own sales network in several countries and its own logistics platform.. The consumer chemicals division accounted for 18,606 thousand euro in 2016 (19,570 thousand euro in 2015).

31. OTHER INCOME

The breakdown of other income by type is as follows:

(Thousand euros)	Balance as of 12-31-16	Balance as of 12-31-15
Capital grants	1,078	3,487
Other earnings	455	337
Total	**1,533**	**3,824**

32. BREAKDOWN OF EXPENSES BY TYPE

The breakdown of operating expenses by type is as follows:

(Thousand euros)	Balance as of 12-31-16	Balance as of 12-31-15
Increase in finished product and product-in-process inventories	1,116	3,161
Raw materials and other supplies used	43,004	35,358
Employee benefit expenses	53,575	50,133
Depreciation and amortization	7,243	6,281
Impairment	171	1,744
Transport	5,363	5,314
Marketing expenses	20,118	19,346
Other expenses	70,814	65,007
Total	**201,404**	**186,344**

Other expenses include expenses related to services received regarding R&D as well as, communications, utilities, travel, security, and directors' remuneration among others.

33. EMPLOYEE BENEFIT EXPENSES

The breakdown of employee benefit expenses is as follows:

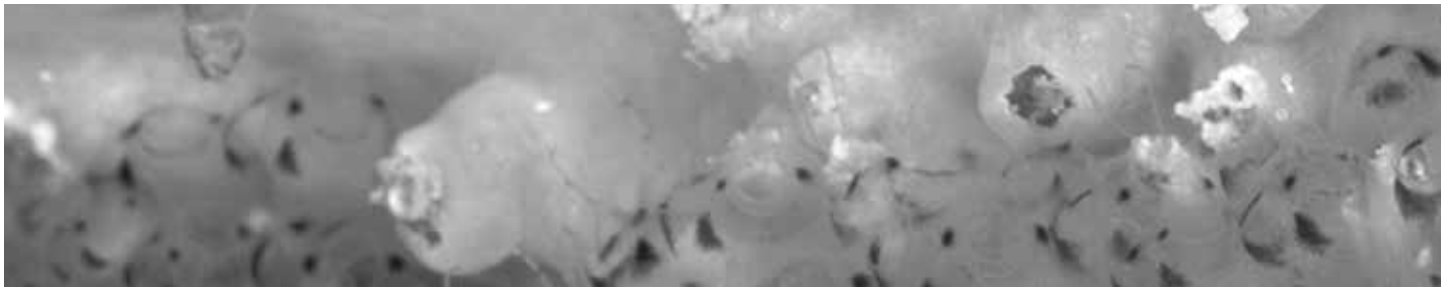
(Thousand euros)	Balance as of 12-31-16	Balance as of 12-31-15
Salaries and wages	42,404	39,106
Severances	426	748
Social security	8,596	8,334
Defined contribution plan	138	135
Share ownership plans	303	308
Other welfare expenses	1,708	1,502
Total	**53,575**	**50,133**

The average number of employees by category is as follows:

	12-31-16	12-31-15
Management	42	39
Technical staff	300	308
Administrative staff	116	102
Commercial staff	133	125
Other employees	122	126
Total	**713**	**700**

The average number of employees by professional category by sex distribution is as follows:

(Men)	12-31-16	12-31-15
Management	28	24
Technical professionals	115	123
Clerical personnel	43	32
Commercial personnel	76	79
Other employees	68	74
Total	**330**	**332**



(Women)	12-31-16	12-31-15
Management	14	15
Technical professionals	185	185
Clerical personnel	73	70
Commercial personnel	57	46
Other employees	54	52
Total	**383**	**368**

As of 31 December 2016, two out of the nine members of the Board were women (two women in 2015). Six out of PharmaMar's 19 senior executives including executive directors, were women (seven in 2015).

The average number of employees distributed by sex is as follows:

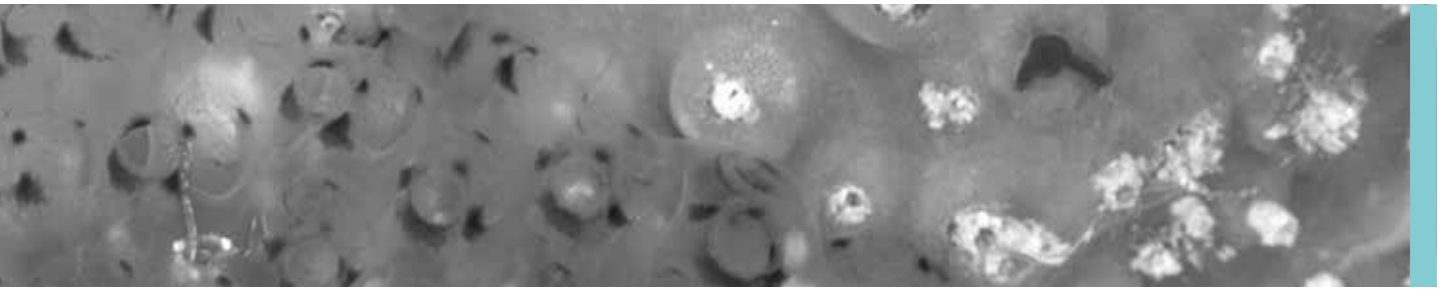
	12-31-16	12-31-15
Men	330	332
Women	383	368
Total	**713**	**700**

The average number of employees with a disability greater than or equal to 33%, were 11 (10 in 2015).

34. FINANCE COST-NET

(Thousand euros)	Balance as of 12-31-16	Balance as of 12-31-15
Finance cost		
Interest expense	(5,214)	(5,574)
Exchange loss	(805)	(746)
Deterioration and disposal of financial instruments	(642)	(0)
	(6,661)	**(6,320)**
Finance income		
Other interest and similar revenues from other companies	193	184
Gains on financial assets	63	78
Fair value changes in financial assets	14	26
Exchange gains	398	644
	668	**932**
Total finance cost - net	**(5,993)**	**(5,388)**

“Deterioration and disposal of financial instruments” is related to the disposal of Promaxsa Protección de Maderas, S.L Note 1.



35. EARNINGS PER SHARE

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

The basic earnings per share in 2016 and 2015 were as follows:

Earnings per share (basic)	2016	2015
Profit from continuing operations attributable to owners of the parent (thousand euro)	(24,082)	6,588
Weighted average number of outstanding ordinary shares (thousand)	220,594	220,581
Basic earnings per share (euro)	**(0.11)**	**0.03**

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

The diluted earnings per share in 2016 and 2015 were as follows:

Earnings per share (diluted)	2016	2015
Profit attributable to equity-holders of the parent company (thousand euro)	(24,082)	6,588
Weighted av. no. of ordinary shares for diluted earnings per share (thousand shares)	221,010	221,239
Diluted earnings per share (euro)	**(0.11)**	**0.03**

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

	2016	2015
Weighted average number of outstaning ordinary shares (thousand)	220,594	220,581
Ajustments for: Employee share ownership plan (thousand shares)	416	658
Weighted av,no,of ordinary shares for diluted earnings per share (thousand shares)	**221,010**	**221,239**

36. TRANSACTIONS WITH RELATED PARTIES

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

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

Board of Directors

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

Remuneration item	12-31-16	12-31-15
Fixed remuneration for executive directors	1,111	929
Variable remuneration for executive directors	257	425
Remuneration for belonging to the Board of Directors	559	235
Board and Board committee attendance fees	393	216
Fixed remuneration for belonging to Board committees	515	87
Fixed remuneration for belonging to Boards of other Group companies	115	894
Remuneration for Lead Independent Director	16	16
Other remuneration	337	1,172
(Thousand euros)	**3,303**	**3,974**

As already explained, in October 2015 took place the reverse merger between PharmaMar and Zeltia.

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

In 2015, the "Remuneration for belonging to Board committees" item (87 thousand euro) refers solely to two months: November-December.

Additionally, regarding the “Remuneration for belonging to Boards of other Group companies” item in 2015 (894 thousand euro), it should be noted that the remuneration paid by Zeltia (merging company) between January and October 2015 (for membership of the Board of Directors and subcommittees of Zeltia) to the persons who were directors of PharmaMar at 31 December 2015 was recognised as remuneration paid by other Group companies. In 2016, only the remuneration paid by ZelnovaZeltia, Genómica and Xylazel was recognised as remuneration for belonging to Boards of other Group companies.

The "Other remuneration" item in 2016 refers to certain benefits (casualty insurance, healthcare, etc.) granted to executive directors, as well as the use of an executive office, telecommunications equipment, high-end vehicle, support staff, etc., by the executive chairman.

In 2015, "Other remuneration" item is also refered to the bonus collected by the Executive Chairman, in the amount of one million euro gross, in accordance with the provisions of the contract for the provision of executive services dated February 26, 2015; such extraordinary remuneration was accrued on the day the Food

and Drug Administration (FDA) approved Yondelis® for commercialization in the United States (October 2015).

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

The company has a civil liability insurance policy in favour of the members of the Board of Directors. The total premium paid in 2016 amounts to 182 thousand euro.

Companies related to the directors and executives and their close relatives

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

In 2016, a company related to one member of the Board of Directors provided services to two Companies of the Group amounting to 15 thousand euro. These amounts are not significant in the context of the operations of this subsidiary or the Group.

In 2015, two societies related to two members of the Board, rendered some services to PharmaMar amounting to 21 thousand euro and two thousand euro respectively. Both societies rendered services also to Zeltia before de merger (Note 1) amounting to 12 thousand euros and eight thousand euro.

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

Transactions with executives of the parent company

The executives received an aggregate total of 1,661 thousand euro in 2015 (1,518 thousand euro in 2014). One of those executives is a director at one of the Group entities and collected 16 thousand euro under this heading in 2015 (19 thousand euro in 2014), which are not included in the foregoing aggregate figure.

37. SHARE-BASED PAYMENTS

At the end of 2016, PharmaMar and its Group companies have three share ownership plans in force for Group employees and executives (not including directors of PharmaMar) who receive annual variable remuneration, have an indefinite contract, have completed the trial period and exceeded 50% of the objectives set for the year, with the exception of the Share Ownership Plan approved by the Shareholders' Meeting of Zeltia held on 12 June 2013 and executed by agreement of the Board of Directors on February 28, 2014 for which the threshold was 60%.

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

Below is an explanation of the essential terms and conditions of the Share Ownership Plans as approved by the Company's Board of Directors at the time of execution for which it was duly authorised by the Shareholders' Meeting. Thus, to date, at the start of each year, each Group company that has decided to apply the Share Ownership Plan has provided the Board of Directors with a list of beneficiaries –i.e. employees who meet the conditions established in the relevant agreement of the Shareholders' Meeting– which details the degree of attainment by the beneficiary of the objectives set for the year ended. Likewise, given that participation in such Plans has, until now, been voluntary,

only employees and executives who decided to participate in the Plans and allocate part of their variable remuneration to those Plans were included in such lists. In the light of the foregoing, the Board of Directors have approved that such beneficiaries be granted, by their respective employers, the amounts in shares specified in that list (in no event can such amounts exceed 12,000 euros per beneficiary per year), which includes, for each beneficiary, a multiplier coefficient based on their level of responsibility and performance during the previous year (and which is used as a basis for calculating the amount in shares). If the employee decided not to participate in the same, their variable remuneration was received, in its entirety, in cash, however in such case no multiplier coefficient was applied to the cash amount.

The number of shares to be delivered to each beneficiary is the result of dividing the relevant amount by the value assigned to the shares, which is usually established, depending on the case, as either the weighted average market price of the share on the date of execution, or the average of the weighted average market price of the share in the month prior to execution.

The beneficiaries have the political rights and economic rights deriving from ownership of all the shares from the moment the shares are actually delivered, although the Board of Directors has resolved to establish a lock-up arrangement. Thus, in relation to the five Share Ownership Plans that were in force at the end of 2016, the vesting period is 4 years from the date on which the shares are delivered to the beneficiaries; however, the number of shares that result from dividing the total number of shares that were delivered by the coefficient established in the list, will be available a year and six months after delivery. The delivery of those shares, which must remain locked up for the aforementioned four-year period, is subject to a determined condition, which shall be understood to be complied with in the event that the beneficiary voluntarily resigns or is dismissed on fair grounds. In the event that the contract of employment is terminated for reasons other than the two reasons stated above, the vesting period shall be deemed to have been complied with.

Year 2012 (Incentives Plan approved by the Shareholders' Meeting held on 15 June 2011)

The Shareholders' Meeting held on June 15, 2011 approved a new plan for the cost-free delivery of shares which was executed in April 2012. For the execution of the same, the Company allocated 350,000 own shares.

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

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

In 2016, this Plan vested given that the four-year lock-up period had lapsed, and the shares that were under lock-up were released, a total of 210,915 shares.

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

Year 2013 (Incentives Plan approved by the Shareholders' Meeting held on 13 June 2012)

The Shareholders' Meeting held on June 13, 2012 approved a new plan for the cost-free delivery of shares which was executed in March 2013. For the execution of the same, the Company allocated 350,000 own shares.

In the execution of this Incentives Plan, a total of 349,866 shares were awarded in 2013 to 234 beneficiaries at a value of 1.3244 euro per share.

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

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

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

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

The Shareholders' Meeting held on June 12, 2013 approved a new plan for the cost-free delivery of shares that was executed in March 2014. For the execution of the same, the Company allocated 500,000 own shares.

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

In 2015, a total of 114,442 shares were released under this Plan.

In relation to this Plan a total of 21,191 shares have been cancelled, of which 3,550 correspond to shares purchased by the employee and 17,641 to shares contributed by the Company.

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

Year 2015 (Incentives Plan approved by the Shareholders' Meeting held on 27 May 2014)

The Shareholders' Meeting held on May 27, 2014 approved a new plan for the cost-free delivery of shares that was executed in May 2015. For the execution of the same, the Company earmarked 600,000 treasury shares.

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

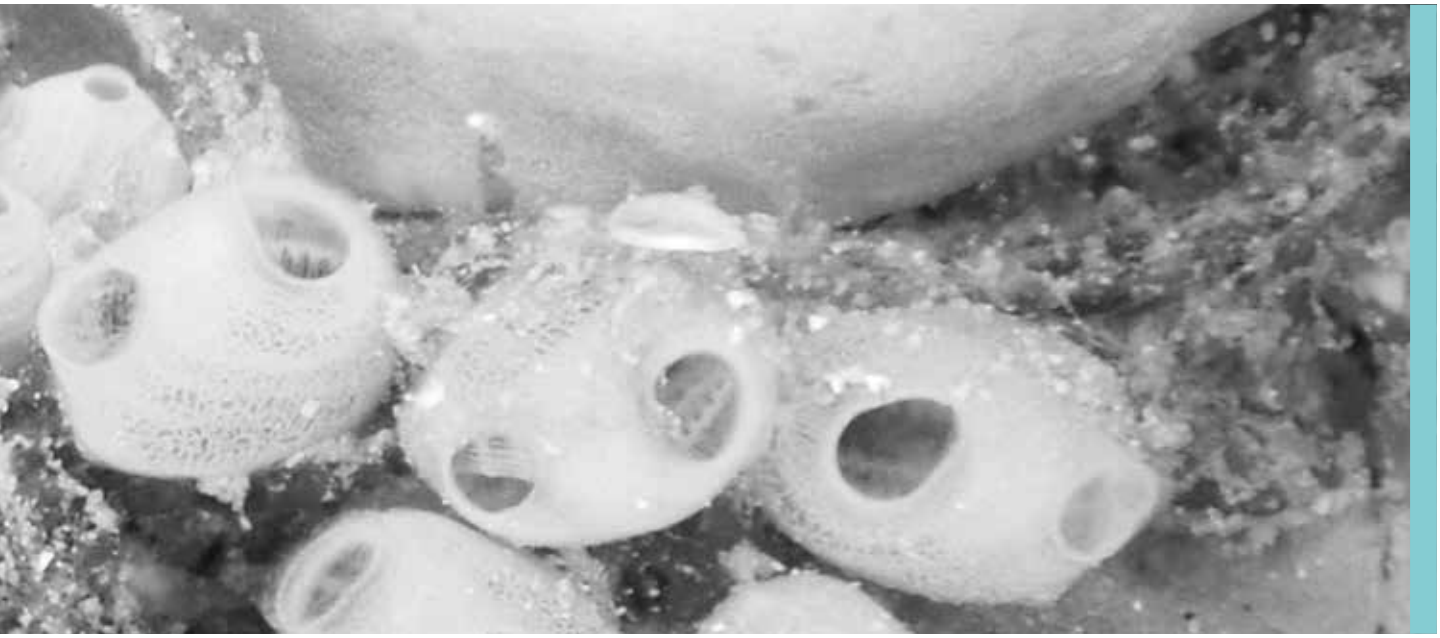
In 2016, a total of 46,774 shares were released under this Plan.

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

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

Year 2017 (Incentives Plan approved by the Shareholders' Meeting held on 23 June 2016)

The General Shareholders' Meeting on 23 Jun 2016 approved a new plan for the delivery of shares free of charge with a double objective, as in previous years: to reward employees and executives whose performance in 2016 was satisfactory, and to incentivize beneficiaries to stay in the Group. The maximum number of shares that can be allocated for the execution of this



Plan was set by the General Meeting in 500,000 that will be taken from treasury stock held by the Company at the time the plan is implemented. The Shareholders' Meeting determined the Plan's beneficiaries as Group employees and executives (excluding Directors of Pharma Mar, S.A.) who have a permanent contract and had completed any trial period and collect variable remuneration in 2017 relating to attainment of objectives in 2016, provided that they attained over 50% of the targets established by their Department head or hierarchical superior. In the case of Zenova Zeltia, S.A. and Xylazel, S.A., only those employees belonging to the professional group 0, as well as those other employees who, not belonging to said group, will determine the Board of directors of said companies, who cannot appoint more of twenty-. five employees per company (other than those belonging to group) The Shareholders' Meeting empowered the Board of Directors to determine the other terms and conditions of the Plan. At the date of authorizing these consolidated financial statements, the Plan was pending execution, and PharmaMar's Board of Directors had yet to establish the conditions of same under the powers granted specifically for this purpose by the Shareholders' Meeting.

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

		Employee			Company					
	Shares awarded under Plan	Shares purchased by employees - cancelled	Shares purchased by employees vested	Shares purchased by employees not yet vested	Shares contributed by Company - cancelled	Shares contributed by Company vested	Shares contributed by Company that have not vested yet	Total number of shares that have not vested	Fair value of share	Vesting period
	(1)+(2)+(3)+(4) +(5)+(6)	(1)	(2)	(3)	(4)	(5)	(6)	(3)+(6)		
Plan / Grant date										
Plan 11 June (Grant Abril 2012)	349,880	10,209	87,672	0	41,084	210,915	0	0	1.43	apr-16
Plan 12 June (Grant March 2013)	349,866	2,969	88,812	0	44,022	0	214,063	214,063	1.32	mar-17
Plan 13 June (Grant March 2014)	236,070	3,550	114,442	0	17,641	0	100,437	100,437	2.73	mar-18
Plan 14 June (Grant May 2015)	167,311	5,058	46,774	0	14,003	0	101,476	101,476	3.92	may-19
	1,103,127	**21,786**	**337,700**	**0**	**116,750**	**210,915**	**415,976**	**415,976**		

38. DUTY OF LOYALTY

Director conflicts of interest

Based on the disclosures presented by each of the Company's directors, they and, to the best of their knowledge and belief, their related parties abstained from incurring in the situations of conflict of interest envisaged in article 229.1 of the consolidated Text of the Capital Companies Act, except in the case of related-party transactions authorised by the Company's board of Directors or its Committees, which are disclosed in Note 27.4 to the separate financial Statements, Note 36 to the Consolidated Financial Statements, and section D.• of the Annual Corporate Governance Report for the year ended 31 December 2016, which forms part of these Financial Statements.

39. CONTINGENCIES

i. Contingent liabilities

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

A Tax inspection of the Spanish Group for fiscal years 2010, 2011, 2012 and 2013 was closed last September 2016 for the following taxes: Corporate Income Tax, VAT, Income tax for individuals (withholding tax), No-resident withholding tax and Withholdings from capital. PharmaMar's management has made its best estimates of the tax risk of the acts drawn up. This tax risk is not significant for the financial statements.

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

ii. Contingent assets

The Group did not have contingent assets as of December 31, 2016 or 2015.

40. COMMITMENTS

i. Operating lease commitments

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

(Thousand euro)	Balance as of 12-31-16	Balance as of 12-31-15
Under 1 year	2,908	1,881
1 to 5 years	4,602	3,116
Total	**7,510**	**4,997**

ii. Share-based incentive plans

- Under the twelfth plan (June 2012) for delivery of shares free of charge, as of December 31, 2016, 214,063 shares delivered and subject to lock-up will vest in March 2017.
- Under the thirteenth plan (June 2013) for delivery of shares free of charge, as of December 31, 2016, 100,437 shares delivered and subject to lock-up will vest in March 2018.
- Under the fourteenth plan (June 2014) for delivery of shares free of charge, as of December 31, 2016, 101,476 shares delivered and subject to lock-up will vest in May 2019.

41. AUDITORS' FEES

The fees accrued by PricewaterhouseCoopers Auditores, S.L. and other firms in its network amounted to 273 thousand euro in 2016 (186 thousand euro in 2015) for audit services, and 525 thousand euro in 2016 (95 thousand euro in 2015) for other verification services, provided to companies in the PharmaMar Group.

The fees accrued during the year by other companies in the PwC network amounted to 19 thousand euro for tax advisory services in 2016 (12 thousand euro in 2015).

The fees accrued during the year by other auditors of subsidiaries amounted to 44 thousand for audit services in 2016 (47 thousand euro in 2015) and 18 thousand euro for other verification services in 2016 (25 thousand euro in 2015).

42. ENVIRONMENT

The Company did not need to incur significant investments during the year to protect and improve the environment. Environmental protection expenses amounted to 390 thousand euro in 2016 (393 thousand euro in 2015).

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

43. SUBSEQUENT EVENTS

In January 2017, the Company received the upfront payment contemplated in the PM1183 licensing, development and commercialisation agreement signed in December 2016 with Chugai Pharmaceutical (Note 27) for a gross amount of 30,000 thousand euro.

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

During the first two months of 2017, the Group renewed credit lines for a total amount of 5,000 thousand euro.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