ANNUAL REPORT

2017

Pharma Mar

Contents

Board of Directors of Pharma Mar, S.A.

Pharma Mar

		COMMITTEES			
	CATEGORY	EXECUTIVE	AUDIT	APPOINTMENTS AND REMUNERATION	LEAD INDEPENDENT DIRECTOR
JOSÉ Mª FERNÁNDEZ SOUSA-FARO Chairman	Executive	●●			
PEDRO FERNÁNDEZ PUENTES Vice-Chairman	Executive	●			
JEFPO, S.L. (represented by JOSÉ FÉLIX PÉREZ-ORIVE CARCELLER). Director	Other non-executive	●	●		
ROSP CORUNNA PARTICIPACIONES EMPRESARIALES, S.L. (represented by JOSÉ LEYTE VERDEJO) Director	Proprietary		●		
EDUARDO SERRA Y ASOCIADOS, S.L. (represented by EDUARDO SERRA REXACH) Director	Independent			●●	
CARLOS SOLCHAGA CATALÁN Director	Independent		●●		
JAIME ZURITA SÁENZ DE NAVARRETE Director	Independent		●	●	●
MONTSERRAT ANDRADE DETRELL Director	Proprietary			●	
ANA PALACIO VALLELERSUNDI Director	Independent		●	●	

●● Committee Chair ● Committee Member

Consolidated information and milestones in the year

PHARMA MAR GROUP: 2017 FIGURES

727 employees

93% on indefinite contract

54% women

179.4 €mn in revenues in 2017

In over 80 markets

56% from the oncology segment

15 companies

in **12** countries

on **3** continents

78.5 €mn invested in R&D in 2017

90% in oncology

3% in diagnostics

7% in RNAi

Biopharmaceutical area **1,316** patents granted

193 patents pending

4 new licensing agreements signed in 2017

12 licensing agreements in force

CONSOLIDATED INFORMATION

(million euro)	2013	2014	2015	2016	2017
TOTAL REVENUES	161.9	174.8	193.8	181.0	179.4
EBITDA	23.8	25.7	19.3	(11.0)	(7.4)
NET ATTRIBUTABLE INCOME	11.3	13.1	6.6	(24.1)	(26.7)
GROSS R&D EXPENDITURE	42.7	52.5	63.5	79.8	78.5
AV. WORKFORCE	628	665	700	713	727

MILESTONES AND KEY FIGURES

ONCOLOGY

- PharmaMar signed two new licensing contracts for Zepsyre™, with Specialised Therapeutics Asia PTE., Ltd. for Australia, New Zealand and some other countries in south-east Asia, and with Boryung Pharmaceutical Co. for the territory of South Korea. PharmaMar also signed licensing contracts for Aplidin® with Eip Eczacibasi Ilac Pazarlama A.S., for Turkey, and with MegaPharm Ltd., for Israel.

- Yondelis® maintains a 31% market share in soft tissue sarcoma in Europe.

Net sales of Yondelis®:

84.6 €mn

52% of Group revenues

Other licensing and royalty revenues:

16.8 €mn

DIAGNOSTICS

- Genómica incorporated a subsidiary in Brazil to commercialize its products there directly.

- Korea's Food and Drug Administration has approved the CLART® HPV (Human Papillomavirus) diagnostic kit for sale.

- Genómica was awarded a contract for the cervical cancer screening programme by the Castilla & León Regional Government.

- Distribution agreements were signed for two additional countries: India and Thailand.

Net revenues in diagnostics:

6 €mn

4% of Group revenues.

CONSUMER CHEMICALS

- Growth in the market share in varnishes and paints for the third consecutive year in a very mature industry experiencing very limited growth.

  This area increased the presence of its products in large DIY retailers in Spain and Portugal

- In the area of insecticides and home care products, the brands were promoted during the year and work was done to develop new business lines, with particular emphasis on international expansion, having achieved significant levels of integration of both the product portfolio and of human and technical teams, while attaining additional synergies in both costs and competitiveness.

Net revenues in Consumer Chemicals:

72€mn

44% of Group revenues

Revenues by area:

- Household insecticides, air fresheners and other household cleaning products:

  51.5 €mn

- Varnish, metal and wood protection products, and paints for indoor decorating:

  20.5 €mn

MAIN R&D ACTIVITIES

ONCOLOGY

- PM14: a new molecule undergoing clinical development in cancer patients.
- The ATLANTIS pivotal Phase III trial with Zepsyre™ in small cell lung cancer is continuing based on the Committee's recommendation.
- A total of 610 patients have been recruited in 16 clinical trials being conducted by PharmaMar in 180 centers worldwide.

R&D expenditure:

71.2 €mn

90% of Group capital expenditure.

DIAGNOSTICS

- Work is continuing actively in the area of fluid phase biopsy. A project to determine that Streck tubes are compatible with our product has concluded. These tubes make it possible to store blood from a cancer patient for 14 days while preserving the circulating tumor DNA, and are vital for the implementation of our system in hospital logistics.
- Work on companion diagnostics continues with studies to optimize and analyze panels of specific genes using massive sequencing (NGS), quantitative amplification (qPCR) and DNA methylation analysis.

R&D expenditure:

2.0 €mn

3% of Group capital expenditure.

RNAI

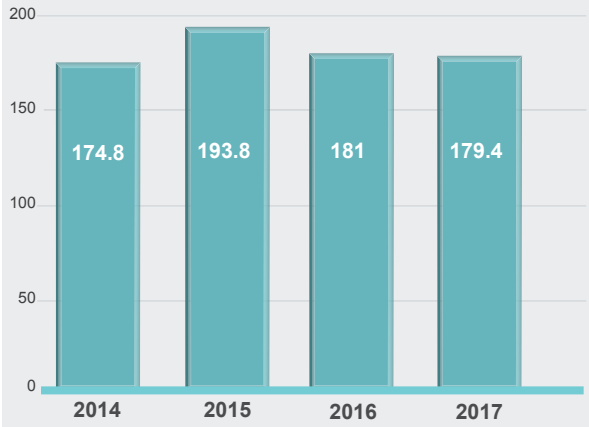
- The Helix Phase III clinical trial to test SYL1001 (Tivanisiran), an RNAi product for dry-eye syndrome has commenced.
- Progress with a new line of research to develop RNAi candidates for treating diseases of the retina.

R&D expenditure:

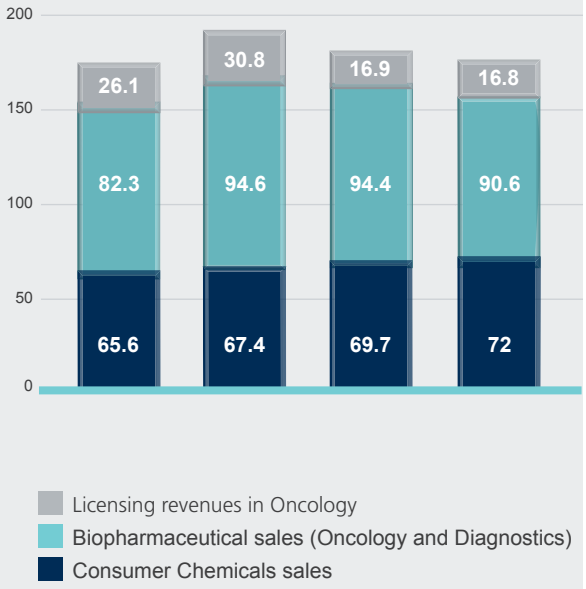
5.4 €mn

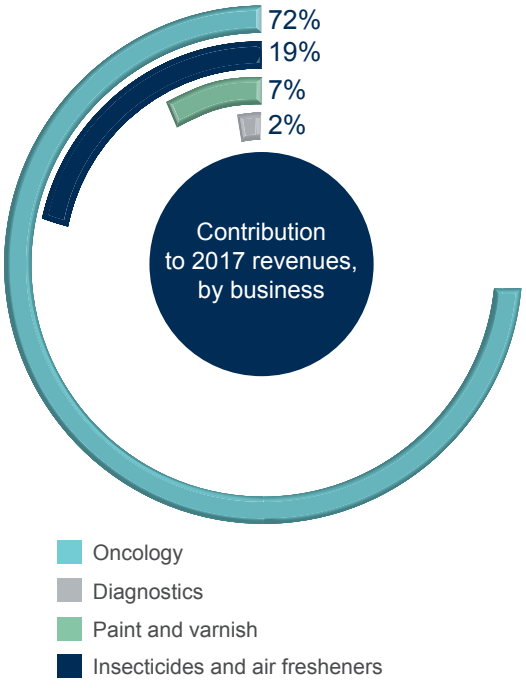
7% of Group capital expenditure.

Total Group revenues



Breakdown of revenues by category





Product pipeline

Pharma Mar

CLINICAL DEVELOPMENT

ONCOLOGY INDICATION		PHASE I	PHASE II	PHASE III	MARKET	PARTNER	CALENDAR
Yondelis® (trabectedin)							
Soft Tissue Sarcoma (STS) 2nd/3rd Line	Monotherapy	EU, US, Japan				J&J (US) Taiho (Japan)	
Ovarian Cancer 2nd/3rd Line	Yondelis® + Doxil	EU/Other					
Lurbinectedin (PM1183)						**Chugai (Japan) STA***	
Small-cell lung cancer (SCLC) 2nd Line	Lurbinectedin + Doxorubicin	Global					1H 2019
Endometrial Cancer 2nd Line	Lurbinectedin + Doxorubicin	Global					Under review
Basket trial	Monotherapy	Global					Under way
PM184							
Colorectal Cancer 3rd Line	Monotherapy	Global					FPI 1H 2018
Solid Tumors	Monotherapy and combinations	Global					Under way
PM14							
Solid Tumors	Monotherapy and combinations	Global					Under way

* STA (Australia, New Zealand and 12 Asian countries)

GENOMICA

IVD pipeline

DIAGNOSTICS	KIT FOR GENETIC DIAGNOSTICS and DNA analysis	DEVELOPMENT	MARKET
CLART® HPV 2	Kit for detecting 35 high- and low-risk human papilloma virus genotypes.		
CLART® HPV 3	Kit for detecting 49 high-, low- and indeterminate-risk human papilloma virus genotypes.		
CLART® HPV 4	Kit for detecting 35 high- and low-risk human papilloma virus genotypes without requiring DNA extraction.		
CLART® HPV 4s	Kit for detecting 14 high-risk and 2 low-risk human papilloma virus genotypes without requiring DNA extraction.		
CLART® PneumoVir CLART® PneumoVir 2	Kit for detecting viruses that cause respiratory infections.		
PneumoCLART® Bacteria	Kit for detecting bacteria that cause respiratory infections.		
CLART® ENTHERPEX	Kit for detecting enteroviruses and human herpes viruses.		
CLART® SeptiBac	Kit for detecting microorganisms that cause sepsis.		
CLART® EnteroBac	Kit for detecting bacteria that cause infectious diarrhea.		
CLART® STDs	Kit for detecting microorganisms that cause sexually transmitted infections.		
CLART® CMA KRAS · BRAF · Pi3K CLART® CMA NRAS · iKRAS	Kit for detecting specific mutations involved in oncogenes associated with colorectal cancer.		
CLART® CMA EGFR CLART® CMA EGFR LB CLART® CMA ALK · ROS1	Kit for detecting specific mutations in oncogenes associated with non-small cell lung cancer.		
CLART® CMA BRAF · AKT1 · MEK1	Kit for detecting specific mutations in oncogenes associated with melanoma.		
Laboratory equipment			
autoclart®	Automation of post-PCR processess for visualization of CLART® arrays.		
CAR®	CLART® arrays reader		
autoclart® plus	Equipment that combines visualization and reading of CLART® arrays.		

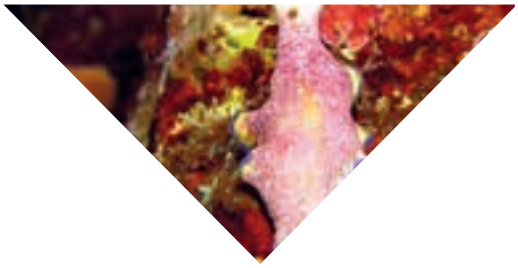
sylentis

DEVELOPMENT

RNAi		RESEARCH	PRECLINICAL	PHASE I	PHASE II	PHASE III	REGISTRATION
Ophthalmology							
Dry-eye syndrome	SYL1001						
Glaucoma	Bamosiran						
Eye allergies	SYL116011						
Retina	Product A						
Technology development							
Technology development	Formulations						
	Modifications						

Letter from the Chairman

Letter from the Chairman



Fellow shareholder,

It is a pleasure to address you to review our activities in 2017. It was a year in which we achieved most of the objectives set. However, and despite our efforts, we did not achieve all of them as we would have liked.

We attained some major milestones in 2017 which, we are convinced, will lead to results in the near future. In September 2017, the results of the second cohort of patients in the phase I/II trial with Zepsyre™ in patients with Small Cell Lung Cancer were presented at the European Society of Medical Oncology (ESMO) meeting in Madrid. Those results not only confirmed the positive data obtained with the first cohort of patients but also improved progression-free survival (PFS), which is the primary end-point of the Phase III trial with Zepsyre™ in this indication. The trial, called ATLANTIS, is being conducted in more than 100 centers around the world and plans to enroll at least 600 patients. We expect to conclude enrolment in the third quarter of 2018. If that is achieved, the results of the trial could be available in the first quarter of 2019.

Small Cell Lung Cancer represents around 15% of all lung cancer, and lung cancer is the second-most prevalent form of all cancers. Additionally, since no new treatment for this type of cancer has been approved in the last 20 years, there is an important therapeutic need and we are very well positioned with our compound to meet that need.

Also with Zepsyre™, promising results from a Phase Ib trial in endometrial cancer were presented at the American Society of Clinical Oncology (ASCO) meeting in Chicago in June 2017. This is another important indication, with about 50,000 new cases diagnosed every year in the United States and around 70,000 in Europe. Endometrial cancer is another area where there is considerable therapeutic need. Because of the positive results obtained to date, we are designing our next steps in this type of cancer.

However, we experienced difficulties in 2017, when it was announced that the EMA's CHMP had issued a negative opinion for the approval of Aplidin® for the treatment of multiple myeloma in Europe. This outcome was entirely unexpected

since the registration dossier that we had presented to the EMA met its primary endpoint and patients with this disease were hopeful about gaining the option of using Aplidin® because of its novel mechanism of action and because it is better tolerated than most drugs used to treat multiple myeloma

As mentioned before, my intention in this letter is to review our activity in 2017, but I think I should mention an adverse development that we announced in January 2018, namely that the CORAIL Phase III trial with Zepsyre™ in platinum-resistant ovarian cancer did not meet its primary endpoint. That was evidently a setback for the company. Nevertheless, there are several points I wish to emphasize in this regard:

In the CORAIL trial, Zepsyre™ proved to be as active as the two compounds in the control arm, which are the only two approved drugs for the treatment of ovarian platinum resistant patients.

Zepsyre™ showed a superior safety profile to the comparator arm in many of the important adverse events measured.

In the event that Zepsyre™ is approved in the US to treat Small Cell Lung Cancer, it might be possible that some patients could benefit from this compound for treating resistant ovarian cancer under a compendia listing.

Therefore, the fact that the CORAIL trial did not meet the expected result in treating platinum-resistant ovarian cancer does not change our expectations and hopes for the various indications in which we are conducting trials with Zepsyre™.

We have commenced Phase II trials with PM-184 (plocabulin) in colorectal cancer, for which we have great hopes.

Early in 2018, a licensing agreement was signed with Seattle Genetics for the development, production and commercialization of conjugated antibodies.

Therefore, I have full confidence in the projects in which the company is currently engaged despite the aforementioned adverse developments. The company is prepared to continue with its plans for investment in R&D and to maintain the projects that we have under way.

The company's achievements up until the announcement of the CHMP opinion on Aplidin® led to a strong rally by the share, which appreciated by over 50% at certain moments during the year. However, the severe correction after the Aplidin® news resulted in the share ending the year in negative territory. I would like to point out that it is my opinion that the market overreacted severely, as the shares lost 33% on the day the news was released, whereas the actual impact on the company's valuation in terms of fundamentals was not even one-third of that amount based on our internal estimates.

To conclude, I would like to reiterate my confidence in the company and its future and to emphasize that the financial measures taken in recent years will enable us to face with confidence the near future. We must now move forward and look ahead at the challenges and successes that the future will bring for the PharmaMar group.

As Chairman, I would like to thank the Board of Directors and the employees for their hard work and for their confidence and enthusiasm for our project, which they convey to me on a daily basis. Their tenacity, commitment and trust will enable us to achieve our goals.

On behalf of the Board of Directors, our employees and on my own behalf, I would like to thank you, our shareholders, for the trust you place in PharmaMar. I would also like to express my gratitude for your support at difficult times. Without that support, it would not be possible to achieve our goals; we hope that your trust in us will be rewarded by the successes that I am convinced will come in the near future.

Very truly yours,

José María Fernández Sousa-Faro
Chairman

Directors' report

Pharma Mar

Directors' report

1. COMPANY SITUATION

1.1 Organizational structure

Pharma Mar, S.A. (the Company) is the holding company of a group of companies (Pharma Mar Group or the Group) which operates in two segments: biopharmaceuticals and consumer chemicals. The financial information is presented in four segments: Oncology, Diagnostics, RNA interference, and Consumer Chemicals.

PharmaMar became the parent company of the Group in 2015 through a reverse merger of Zeltia (absorbed company) into PharmaMar (acquiring company). 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 Appointments and Remuneration Committee.

1.2 Operations: business model, strategy

The Pharma Mar Group obtains its revenues from two separate 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 anti-tumor drugs of marine origin. Oncology is the Group's fastest-growing and most strategic area.

The oncology business model focuses on discovering new marine-based antitumor 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, that will invest and collaborate in 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 opportunities to develop new drugs for the company. The Group has several antitumor molecules in its pipeline at various stages of development, the goal being to bring new compounds to market. PharmaMar's business model includes having its own sales network covering Europe. This network not only enables it to sell its products directly in the EU, 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 kits and DNA analysis, 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 domestic and ecological insecticides, air fresheners and household cleaning products through ZelnovaZeltia and Copyr. Also within this area, through Xylazel, the Group produces and markets special protectors and treatments for wood and metal, as well as varnishes and specialty paints.

Most of the Group's R&D and innovation spending is focused on oncology, the Group's 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 (thousand euro)	31-12-2017	31-12-2016	
Sales	**162,618**	**164,035**	**-0.9%**
Biopharmaceutical area	**90,590**	**94,374**	**-4.0%**
Oncology segment	84,574	88,194	-4.1%
Diagnostics segment	6,016	6,180	-2.7%
Consumer chemicals segment	**72,028**	**69,660**	**3.4%**
Royalties			
Oncology segment	**4,362**	**5,779**	**-24.5%**
Licensing and co-development agreements			
Oncology segment	**12,357**	**11,129**	**11.0%**
Services provided			
Unallocated	**26**	**5**	**420.0%**
TOTAL REVENUES	**179,363**	**180,948**	**-0.9%**

2.1 Total revenues

Net sales in the Biopharmaceutical segment amounted to €90.6 million, 4% less than the €94.4 million figure booked in 2016. Of that figure, €84.6 million were from Yondelis® sales in the Oncology division (PharmaMar), a decline of 4% with respect to 2016 (€88.2 million). Sales in the Diagnostic segment (Genómica) totaled €6.02 million, i.e. slightly lower than the €6.2 million in 2016.

Net sales by the Consumer Chemicals companies totalled €72.03 million (€69.7 million in 2016), a 3.4% increase year-on-year.

Royalty revenues correspond to the Oncology segment. Royalties received from Janssen Products and Taiho Pharmaceutical Co for sales of Yondelis® in the United States, Japan and the rest of the world except the European Union amounted to €4.4 million in 2017 (€5.8 million in 2016).

Revenues from licensing and other co-development agreements, which also correspond entirely to the Oncology segment, amounted to €12.4 million in 2017, compared with €11.1 million in 2016. The breakdown of that figure is as follows: €8.9 million in recognition as revenue of the 2017 part of the upfront payment under the licensing contract signed in 2016 with Chugai Pharmaceutical Co, Ltd. for Zepsyre™ (Lurbinectedin), as a result of progress with the contractual obligations, which consist of performing clinical trials. Also in connection with that contract, €2 million were recognized in 2017 for the first milestone of clinical development in the lung cancer trial. Additionally, two licensing contracts were signed for Zepsyre™ with Specialised Therapeutics Asia Pte., Ltd, for the territories of Australia and New Zealand, and Boryung Pharmaceutical, for the territory of South Korea. Revenues amounting to €1 million were recognized in 2017 for these two contracts. A licensing contract for Aplidin® was signed in 2017 with Eip Eczacibasi Ilac Pazarlama A.S for the territory of Turkey, for which €500 thousand were received.

Consequently, **total revenues** amounted to €179.4 million in 2017, compared with €180.9 million in 2016 (-0.9%).

2.2 Revenues from other countries

Out of total 2017 revenues, 58%, i.e. €103.9 million, came from sales and transactions in other countries (59%, €106.4 million in 2016).

2.3 Margins: Gross margin and EBITDA

The Group's gross margin was 72% of total revenues in 2017 (73% in 2016). (Calculated with respect to sales only, not including royalties or licensing revenues).

Adjusted Group EBITDA in 2017 amounted to €-7.4 million (€-11.0 million in 2016).

	31-12-2017	31-12-2016
Net Income	(26,764)	(24,107)
Taxes	3,904	(592)
Interest (Net)	5,179	5,993
Depreciation and amortization	9,462	7,672
EBITDA	**(8,219)**	**(11,034)**
Indemnities	850	-
ADJUSTED EBITDA	**(7,369)**	**(11,034)**

The positive variation in EBITDA reflects an improvement in operating income, in which the slight (-0.9%) decline in revenues was offset mainly by containment of commercial expenses and also by other operating revenues (principally official subsidies for R&D).

The adjustment to EBITDA is the indemnity for termination of an executive's contract in the Consumer Chemicals segment.

The adjusted EBITDA contribution by the business segments is as follows:

	31-12-2017	31-12-2016
Oncology	2,916	(506)
Diagnostics	(1,550)	(1,664)
RNAi	(5,231)	(4,359)
Consumer chemicals	5,539	5,308
Unallocated	(9,043)	(9,813)
TOTAL ADJUSTED EBITDA	**(7,369)**	**(11,034)**

(EBITDA: earnings before interest, taxes, depreciation and amortization). Adjusted EBITDA includes the adjustment referred to in the preceding paragraph.

2.4 R&D expenditure

R&D expenditure was maintained year-on-year: €78.5 million in 2017, compared with €78.4 million in 2016.

The Oncology area spent €71.2 million in 2017 (€70.9 million in 2016), while the Diagnostics and RNA interference area spent €7.3 million (€7.3 million in 2016).

			Change	
R&D (thousand euro)	**31-12-2017**	**31-12-2016**	**€**	**%**
Oncology segment	71,190	70,944	246	0.3%
Diagnostics segment	1,980	2,426	(446)	-18.4%
RNAi segment	5,371	4,890	481	9.8%
Consumer chemicals segment	-	163	(163)	-100.0%
TOTAL GROUP R&D SPENDING, NET	**78,541**	**78,423**	**118**	**0.2%**

The bulk of R&D spending in 2017 was on Zepsyre™ (lurbinectedin), mainly due to considerable progress with clinical trials with this compound in small cell lung cancer, and to other pre-clinical and clinical trials with this compound.

As of 31 December 2017, the company recognized €2,142 million in impairment of the amount capitalized for the compound Aplidin® after it received a negative opinion in December from the European Committee for Medicinal Products for Human Use (CHMP) with respect to its application for permission to commercialize Aplidin® (plitidepsin) for treating relapsed multiple myeloma patients. The Group has requested a review from the European Commission, which may issue a final decision in March or April 2018. The Group impaired this asset pending the final decision.

2.5 Marketing and commercial expenses

Marketing and commercial expenses amounted to €44.8 million in 2017 (€47.7 million in 2016), i.e. a 6% decrease. The biopharmaceutical segment accounted for €26.3 million (€29 million in 2016). Commercial expenses in the consumer chemicals segment amounted to €18.5 million in 2017 (€18.6 million in 2016). The sharpest decline was in Oncology, mainly due to greater rotation of sales staff in some countries, a reduction in commercial actions, and an improvement in costs due to in-sourcing distribution logistics in this segment.

2.6 Income attributable to the parent company

Income attributable to the parent company amounted to €-26.7 million, compared with €-24.1 million in 2016.

As noted above, although total revenues were slightly lower than in 2016, operating expenses also declined, with the result that operating profit increased by 5.5% year-on-year. Net financial revenues also improved, resulting in a 7.4% improvement in income before taxes with respect to 2016. Nevertheless, because of income tax, net profit was €2.6 million lower than last year.

2.7 Other events that impacted the 2017 financial statements

New licensing agreements and strategic alliances:

In 2017, PharmaMar signed two licensing agreements with respect to Zepsyre™.

The first, signed in May with Specialised Therapeutics Asia Pte, Ltd., refers to the marketing of the aforementioned anti-tumor drug of marine origin in Australia, New Zealand and 12 other Asian countries. Additionally, under that agreement, STA Trust (an undertaking controlled by STA) signed a contract under which STA

Trust subscribed for 444,400 new common shares of PharmaMar, representing 0.2% of its share capital, at a price of €4.75 per share, equivalent to 130% of the arithmetic mean of the weighted average daily market prices of PharmaMar shares during the 20 business days prior to the signature of the licensing agreement. Accordingly, capital was increased by €2,110,900.

The second Zepsyre™ licensing agreement was signed in November 2017, with Boryung Pharma, covering marketing of that compound in South Korea.

In May 2017, PharmaMar signed an agreement with Turkish company Eip Eczacibasi Ilac Pazarlama A.S. to market marine-derived anti-tumor compound Aplidin® for the treatment of hematological tumors in Turkey.

In December, the Company received a negative opinion from the European Committee for Medicinal Products for Human Use (CHMP) with respect to its application for permission to commercialize Aplidin® (plitidepsin) for treating relapsed multiple myeloma patients. The Company has requested a review from the European Commission, the outcome of which is expected in the second quarter of the year. As a result, the Group impaired the capitalized development expenses for this compound.

In January 2018, the results of the CORAIL trial conducted by PharmaMar with the compound Zepsyre™ (lurbinectedin) in resistant ovarian cancer were announced. The Company was informed that it had not attained its primary end-point: progression free survival (PFS). The Group has not capitalized any amount in connection with this compound.

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

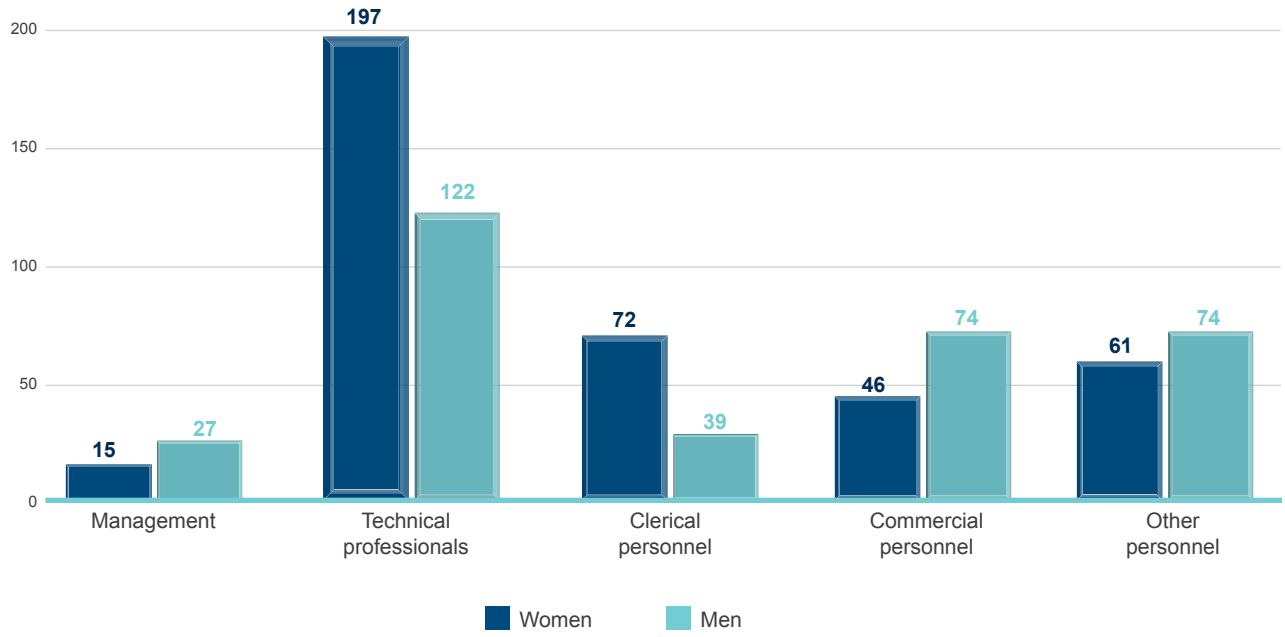
2.8 Personnel

The Group has an average of 727 employees (713 in 2016). There are 416 employees in the oncology segment, 53 in diagnostics, 20 in RNAi, 215 in consumer chemicals, and 23 unassigned to a specific segment.

Women account for 53.8% 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.

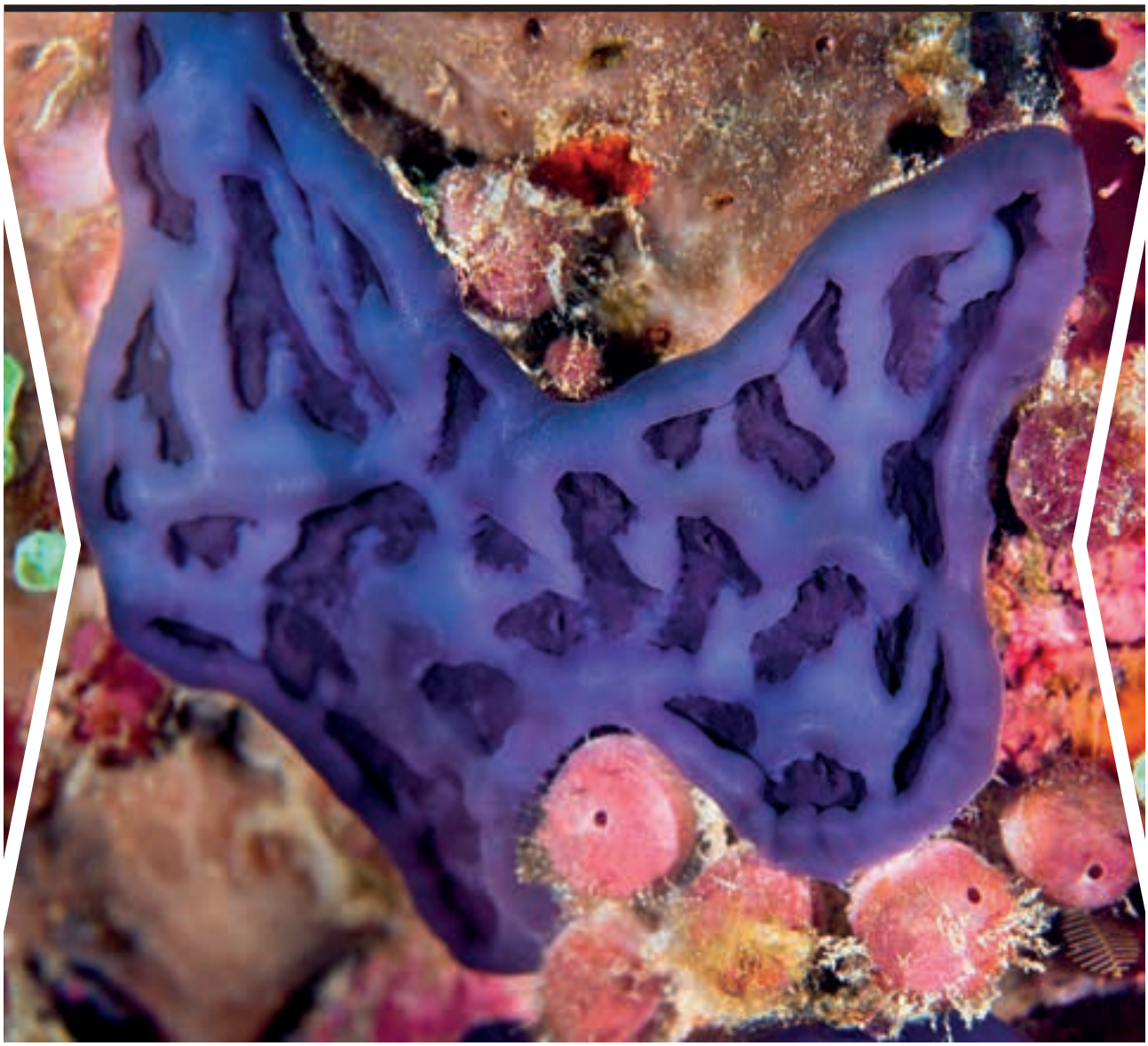
Since there were no contingencies relating to environmental protection and improvement and there are no risks that could have been transferred to other companies, it was not necessary to recognize any provisions for environmental actions in the year.

2.10 Average period taken to pay suppliers

Information on payments for commercial transactions performed in 2017 and pending payment at the end of the year in relation to the maximum legal payment periods envisaged in Act 15/2010 is as follows:

	2017 Days
Average period taken to pay suppliers	49
Transactions paid	50
Transactions outstanding	46
Total payments made (thousand euro)	**78,540**
Total payments outstanding (thousand euro)	**11,204**

The average supplier payment lag in the year between 1 January and 31 December 2017 was 49 days (51 days in 2016).



3. LIQUIDITY AND CAPITAL

The net cash position (cash + cash equivalents + current financial assets) amounted to €31.7 million as of 31 December 2017 (€32.4 million in 2016). Including non-current financial assets, the total was €32.7 million as of 31 December 2017 (€33.5 million in 2016).

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

(thousand euro)	31-12-2017	31-12-2016
Non-current debt	**73,607**	**67,583**
Bank loans	33,394	25,351
Bonds	16,350	16,350
Loans from official authorities	23,863	25,882
Current debt	**26,395**	**27,906**
Credit lines	9,974	10,958
Discounted bills	2,203	1,238
Loans	8,676	10,685
Loans from official authorities	4,730	4,438
Interest, etc.	812	587
Total financial debt	**100,002**	**95,489**
Cash and cash equivalents plus current and non-current financial assets	**32,736**	**33,505**
TOTAL NET DEBT	**(67,266)**	**(61,984)**

The balance of cash and cash equivalents was maintained between years despite sizable spending on R&D (€78 million).

In 2017, the Group collected over €30 million under licensing agreements, which contributed to enhancing its financial position, as well as receipts for sales in the various business segments and royalty revenues.

During 2017, the Group obtained new long-term loans to refinance loans that matured in the year. Additionally, long-term debt increased by €6 million.

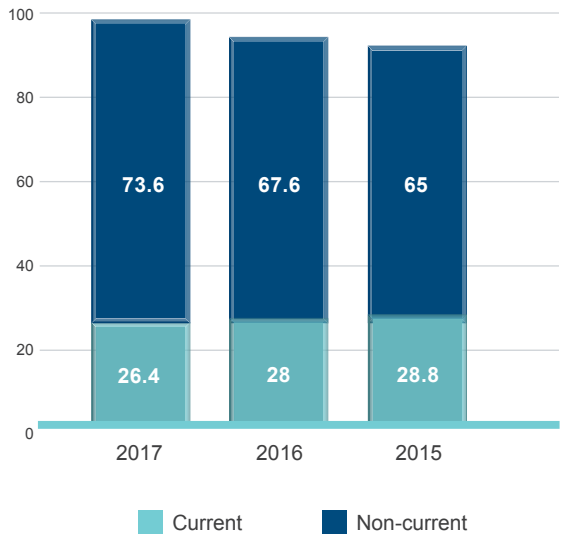
Interest-bearing debt, both short and long term, has a balanced structure and funding sources are diversified; this situation is expected to be maintained in the coming years.

The directors expect to maintain a level of R&D spending in 2018 that is in line with previous years.

The Group expects to strengthen its liquidity position in 2018 through new licensing agreements that are currently under negotiation. In fact, in February a licensing agreement was signed with Seattle Genetics Inc. under which the latter receives exclusive worldwide rights over certain molecules and conjugated antibodies (ADC), for which €4.1 million were collected.

The Group has also decided to prioritize certain projects in order to adapt costs and avoid treasury stresses. The Group has sufficient flexibility to adapt investment needs to the resources available at any given time.

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



4. MAIN RISKS AND UNCERTAINTIES

4.1 Situation risks

Powers

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

The Pharma Mar 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 Pharma Mar 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 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 Pharma Mar 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.

In most countries, pharmaceutical prices are controlled and regulated by the government, which has the power to authorize, disallow or even rule out reimbursement for the products. In recent years, prices have been reduced and reference prices have been approved.

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 by prestigious external experts where necessary.

Capital availability

Because the markets are not always open and the 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 their 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 their 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 (butane, solvents, plastics, etc.) are subject to sharp variations that are not always predictable.

Health and safety

Failure to provide a safe workplace for its employees would expose the Group to sizable 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 company, whose workforce accounts for 51.3% 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, property or the environment as a result of pollution.

The Group's production processes, particularly in the biopharmaceutical area, have a low risk of environmental impact (noise, smoke, discharges, etc.) and generate almost no waste. The production processes of the companies in the consumer chemicals segment are subject to regular review, both internally and by external oversight bodies.

Waste management is outsourced to recycling and waste management companies that are authorized by the pertinent environmental administration. 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 (particularly in the consumer chemicals segment).

Two of the Group's largest subsidiaries have an environmental management system certified to ISO 14001 that enable systematic oversight of the degree of interaction between the companies' activities and processes and the environment, the goal being to enhance environmental performance and minimize the impact. The environmental management system is audited annually by independent firms.

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 Board of Directors have inside information about the Group's progress.

There are control systems in place in order to be aware of who is in possession of such information at any given time, mainly in order to comply with Regulation (EU) No 596/2014 of the European Parliament and of the Council of 16 April 2014 on market abuse and with Spain's Securities Market Law, in the area of inside information.

The Steering Committee, made up of three members appointed by the Board of Directors, is tasked with ensuring proper application of the Internal Rules of Conduct in matters related to the securities market.

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 centers use the same technology so as to minimize technological diversity and share services that are susceptible to use by more than one business unit (basically in the area of security, support and maintenance).

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

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

4.4 Financial risks

4.4 A Market risk

Price risk

The Group is exposed to price risk of available-for-sale equity instruments and of shares in exchange-traded funds at fair

value through profit or loss. As for traded commodities, the consumer chemical segment's operations are affected by the price of oil.

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

Cash flow and fair value interest rate risk

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 honor 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.

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

- The Group's equity position is sound, as annual debt maturities are manageable.
- The Group is able to renegotiate its debt if it is considered necessary.
- There are unused credit lines in the amount of close to €20 million.
- The Group ended the year with cash and cash equivalents plus current and non-current financial assets amounting to €32.7 million.

- The Group has decided to prioritize certain projects in order to reduce costs and avoid treasury stresses.

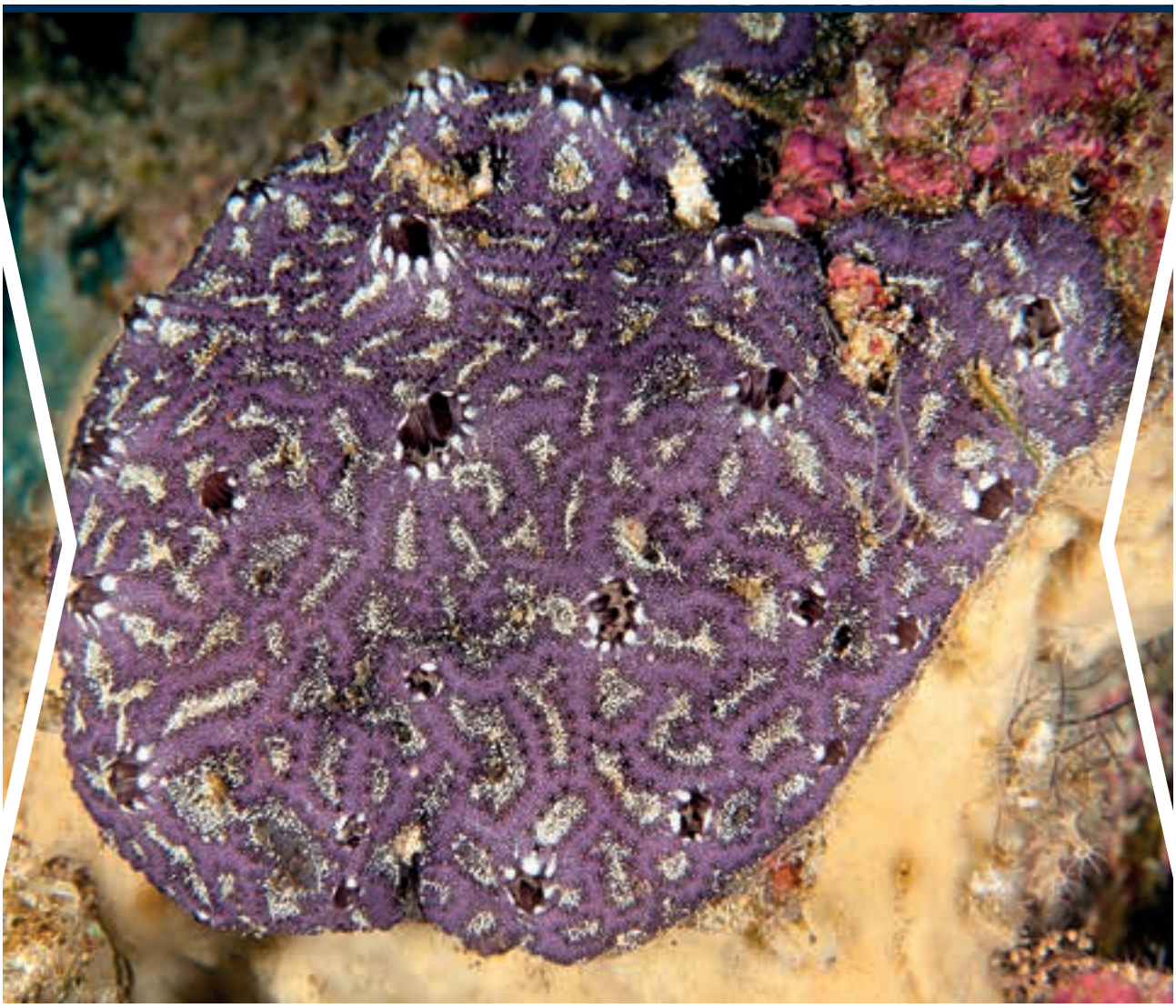
- In addition, as in previous years, the Group expects to renegotiate bank debt maturing during the year. Bank debt maturities in 2018 amount to €14 million, of which at least one-third are loans from official authorities (€5 million) and will be covered with new loans related to milestones that have already been attained in projects approved in previous years. The aforementioned cost reduction would facilitate the payment of all maturities if they cannot be fully renegotiated.

- The Group expects to strengthen its liquidity position in 2018 through new licensing agreements that are currently under negotiation.

- In the early months of 2018, up to the authorization of the financial statements, the Group received:

  - An amount of €4.1 million for signing a licensing agreement with Seattle Genetics Inc. under which the latter receives worldwide exclusive rights over certain molecules and antibody-drug conjugates (ADC).

  - An amount of €3 million as a result of monetizing unused R&D tax credits. In 2017, the Group received €3 million under this same heading, and it intends to continue availing itself of this possibility allowed under current legislation to monetize unused R&D tax credits.



5. SUBSEQUENT EVENTS

On 3 January 2018, the Company informed the CNMV that it had applied to the European Medicines Agency (EMA) for a re-examination of the application for Aplidin® for the treatment of relapsed or refractory multiple myeloma. The outcome will be known in March or April 2018.

On 18 January 2018, the Company informed the CNMV of the results of the Phase III clinical trial of Zepsyre™ in patients with platinum-resistant ovarian cancer. The trial did not reach the primary endpoint of progression-free survival, which was the same as that of other approved compounds, although it had been shown to have a better safety profile.

In 2018, the Company rolled over credit lines amounting to €3,000 thousand in total.

On 14 February, the Company notified the CNMV that it had signed a licensing agreement with Seattle Genetics Inc. under which Seattle Genetics receives exclusive worldwide rights over certain molecules and conjugated antibodies (ADCs) owned by Pharma Mar, S.A. for the development, production and commercialization of conjugated antibodies. Under the terms of the agreement, the Company receives an upfront payment of 5 million dollars and may receive other payments if Seattle Genetics carries out clinical development of conjugated antibodies.

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

6. OUTLOOK FOR 2018

The Group's main line of business, oncology, will continue in 2018 with the development plan for its compounds; the bulk of R&D spending is earmarked for Zepsyre™ (Lurbinectedin). During 2018, enrollment is expected to be completed for the Phase III trial being carried out with Zepsyre™ for the treatment of small cell lung cancer. It is planned to enroll 600 patients at over 100 centers around the world, mainly in the EU and the US. Also in 2018, a Phase III is expected to commence with Zepsyre™ for the treatment of endometrial cancer. The trial is planned to recruit 500 patients. If recruitment is completed as planned, the result of this important trial might be available in the first quarter of 2019.

Also in the oncology area, an agreement was signed in 2018 with a partner for the development of a compound within the family of products known as antibody-drug conjugates (ADC). To develop ADCs, PharmaMar produces powerful payloads that bind to an antibody in order to attack tumor cells; it plans to continue developing payloads of this type in order to sign further development agreements with partners that are specialized in this type of compound.

In the oncology area, efforts will continue to sign additional licensing agreements and/or to create new strategic alliances with other companies and to expand existing alliances, since they strengthen our positioning as an oncology company.

The consumer chemicals segment is expected to continue expanding domestic sales and exports and adding new products (both in-house and third-party) to its portfolio.

7. R&D AND INNOVATION

R&D and innovation are a key component of the Group's strategy, and it spent €78.5 million in this area in 2017.

Of that total, €71.2 million was in oncology, €5.4 million in RNAi in ophthalmology, and €1.9 million in diagnostics.

The main progress and results in R&D in 2017 by area of activity are as follows:

7.1. ONCOLOGY: PHARMA MAR, S.A.

The activities and progress for each of the group's compounds in 2017 are detailed below:

a) Yondelis®

Soft-tissue sarcoma

During 2017, a total of 18 clinical trials in soft tissue sarcoma were active, eleven of which were actively recruiting. Of particular note was the trial in cooperation with the European Organisation for Research and Treatment of Cancer (EORTC) to assess the activity of trabectedin as maintenance therapy after first-line treatment with doxorubicin in patients with advanced or metastatic soft tissue sarcoma, and the Phase III multi-center trial comparing the efficacy of trabectedin with doxorubicin followed by trabectedin as monotherapy in patients who had not progressed following initial therapy, compared with doxorubicin as first-line monotherapy in patients with metastatic or non-resectable leiomyosarcoma, which is sponsored by Institut Gustave Roussy in France.

Ovarian cancer

Ten post-authorization trials are currently under way in this indication; they include 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, for which enrolment is continuing satisfactorily.

Also of note is the INNOVATYON Phase III trial comparing the Yondelis® + PLD combination with the carboplatin + PLD combination, led by Gruppo MaNGO (Mario Negri Gynecologic Oncology), which concluded enrollment in eleven European countries in 2017 and is awaiting a partial data analysis in 2018; final data are expected in 2019-2020. The MITO 23 Phase III trial comparing Yondelis® as monotherapy vs. investigator-choice chemotherapy in patients with a BRCA mutation or a BRCAness phenotype, which is being conducted in cooperation with the Italian MITO group, continues enrollment.

Other indications

Recruitment continues 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), whose aim is to evaluate the activity and safety of Yondelis® in malignant pleural mesothelioma (MPM).

The EORTC 1320-BTG trial, conducted in cooperation with the European Organization for Research and Treatment of Cancer (EORTC) to compare Yondelis® with standard treatment in patients with highly recurrent meningioma, which commenced in 2015, was concluded following an interim analysis in the third quarter of 2017.

Work has commenced to activate the TOP-ART trial, which combines trabectedin and olaparib in treating solid tumors with DNA repair defects.

b) Aplidin®

Multiple Myeloma

In September 2016, PharmaMar filed an application with the European Medicines Agency (EMA) for authorization to market Aplidin® (plitidepsin) in combination with dexamethasone for fourth-line treatment of relapsed or refractory multiple myeloma on the basis of the ADMYRE pivotal Phase III trial. In December 2017, it received a negative opinion from the Committee for Medical Products for Human Use (CHMP) in

connection with its application to commercialize this compound in Europe. The ADMYRE trial attained its primary end-point; consequently, the company has applied for a review of the dossier. A response may be obtained in the second quarter of 2018.

T cell lymphoma

The registration trial with Aplidin® as monotherapy in patients with angioimmunoblastic T-cell lymphoma continues recruiting at centers in Spain, the Czech Republic, Italy and the United States. The trial will include 60 patients at approximately 25 centers in Europe and the US.

c) Zepsyre™

Platinum-resistant ovarian cancer

The CORAIL pivotal Phase III trial in patients with platinum-resistant ovarian cancer to assess Zepsyre™ as monotherapy vs. topotecan or pegylated liposomal doxorubicin completed recruitment in October 2016. The results of the CORAIL trial, which were released in January 2018, showed that the trial had not attained its primary end-point: progression free survival (PFS).

Small-cell lung cancer

Recruitment is continuing satisfactorily for the ATLANTIS pivotal Phase III trial that 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. Recruitment is currently ongoing in Europe, the United States, Latin America and the Middle East. The Independent Data Monitoring Committee (IDMC) conducted an interim safety data analysis in November, after which it recommended continuing the trial without change.

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 still being assessed.

Updated efficacy data for the combination with doxorubicin were presented as an oral communication at the IASLC 18th World Conference on Lung Cancer, held in Yokohama (Japan) on 15-18 October 2017.

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

Phase I trial in Japan

This important trial, designed to ascertain the dosage for Zepsyre™ in Japanese patients in order to continue with clinical development in that country, is still in the active enrollment phase.

Basket trial in advanced solid tumors

The Phase II trial with Zepsyre™ as monotherapy in indications chosen on the basis of the drug's action mechanism or on the basis of its activity as observed in combination trials. Those indications are small cell lung cancer, neuroendocrine tumors, carcinoma of the head and neck, germ cell cancer, endometrial cancer, bile duct cancer, cancer of unknown primary and Ewing sarcoma; the trial continues recruiting in the small cell lung cancer and breast cancer cohorts. The trial is being conducted in Spain, France, Belgium, the United States, Germany, Italy, Switzerland and the United Kingdom.

Efficacy results in Ewing sarcoma were presented as an oral communication at the Connective Tissue Oncology Society (CTOS) Annual Meeting, held in Maui (Hawaii) on 8-11 November 2017.

d) PM184

The Phase I dose escalation trial assessing the combination of PM184 with gemcitabine continues recruitment on schedule. This trial is being conducted at two centers: one in Spain and the other in the United States. Enrollment

is expected to be focused on specific diseases where clinical benefit has been observed, such as non-small cell lung cancer, breast cancer, and head and neck tumors.

Advanced breast cancer

The first stage of the Phase II trial with PM184 in hormone-receptor positive advanced breast cancer patients concluded, and there will not be a second stage as the necessary efficacy threshold was not attained.

Colorectal cancer

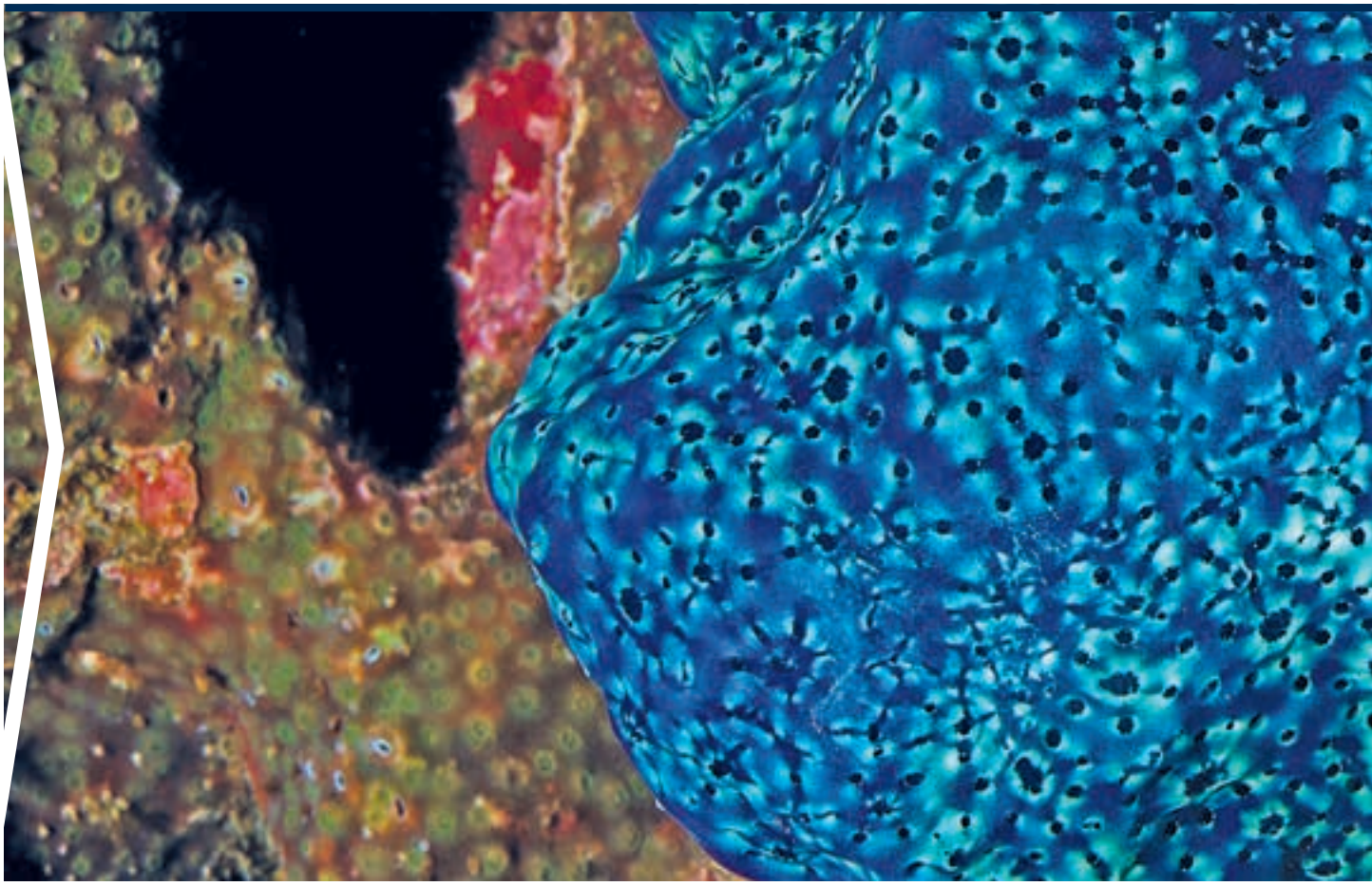
A second Phase II trial in colorectal cancer will begin enrollment in the first quarter of 2018 after completing the administrative requirements in 2017.

e) PM14

On 13 September, the first patient was enrolled in a clinical development program for a new molecule: PM14. The main endpoint of this trial is to identify the optimal dose for administration of PM14 in patients with advanced solid tumors, and to define its safety profile and assess the compound's pharmacokinetics and pharmacogenetics in treated patients. The trial is being conducted at the Vall d'Hebron hospital (Barcelona), and another two centers will join in the next year: Hospital Doce de Octubre (Madrid) and Institut Gustave Roussy (Paris); it is expected that approximately 50 patients will be enrolled with a confirmed diagnosis of advanced solid tumor for which there is no standard treatment available.

7.2. DIAGNOSTICS: GENÓMICA

The Oncology area is working very actively in the area of fluid phase biopsy, and GENÓMICA has a product on the market: CLART® EGFR BL. A project to determine that Streck tubes are compatible with our product has concluded. These tubes make it possible to store blood



from a cancer patient for 14 days while preserving the circulating tumor DNA, and are vital for the implementation of our system in hospital logistics.

Work on companion diagnostics continues with studies to optimize and analyze panels of specific genes using massive sequencing (NGS), quantitative amplification (qPCR) and DNA methylation analysis.

During the year, 36% of revenue was allocated to R&D and innovation.

7.3. RNA Interference, OPTHALMOLOGY: SYLENTIS

In 2017, the company advanced with its research and development of new products based on RNA interference (RNAi) for treating eye diseases. Specifically, a new line of research is being pursued to develop RNAi candidates for treating diseases of the retina.

The HELIX Phase III clinical trial commenced in 2017 testing SYL1001 (Tivanisiran), an RNAi product for dry-eye syndrome. HELIX is being conducted in over 30 hospitals in 6 European countries in order to assess the effect of an ophthalmic solution of SYL1001 on the signs and symptoms of 300 patients with this pathology. By the end of 2017, 93 patients had been randomized in the various countries participating in the trial.

During the year, research was conducted into the possibility of combining SYL04012 (Bamosiran) with other treatments that have been approved for glaucoma.

The company is also working on other RNAi candidates for treating eye allergies and retinal diseases. Those candidates' efficacy was analyzed using pre-clinical models of those pathologies.

8. ACQUISITION AND DISPOSAL OF OWN SHARES

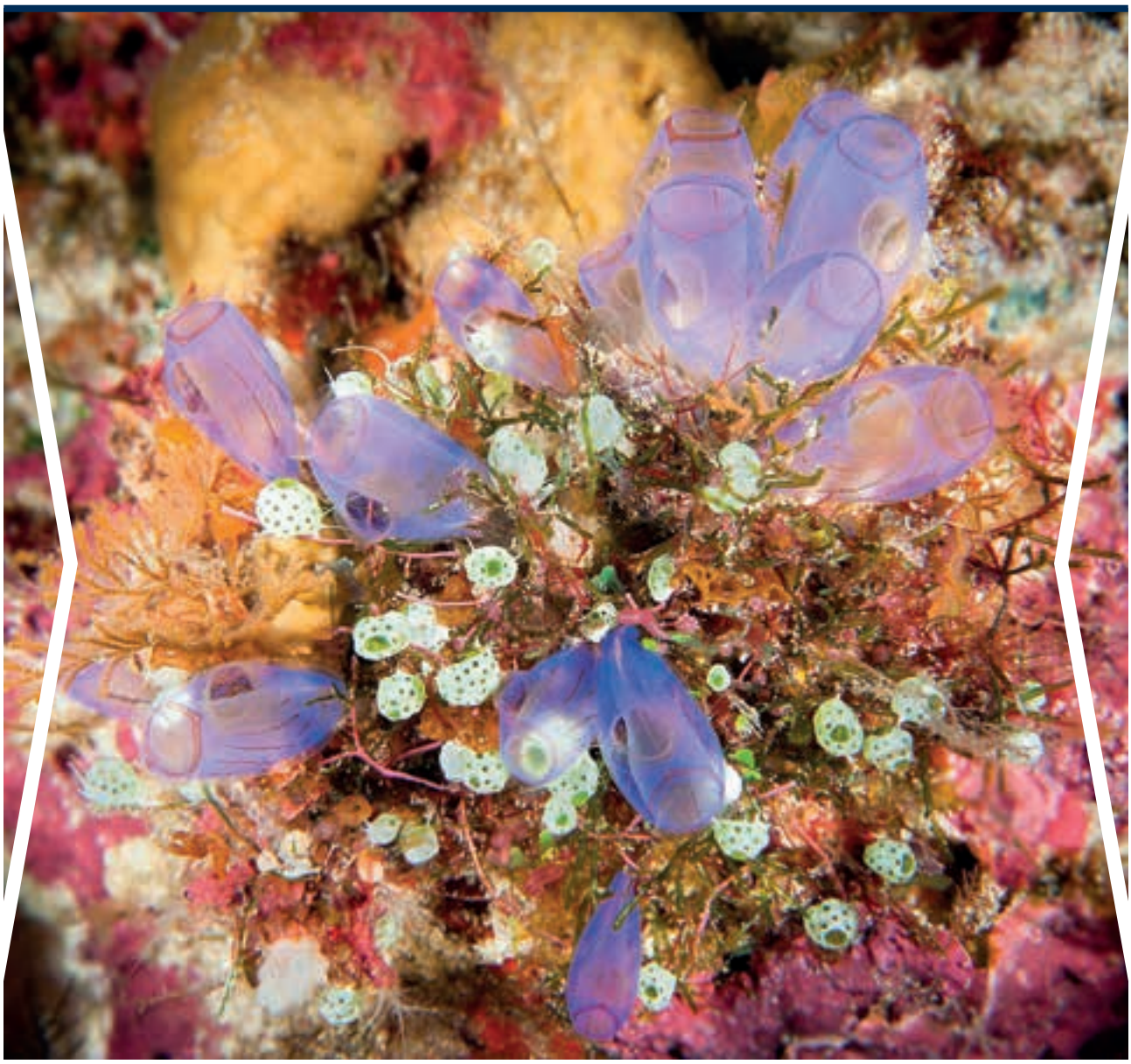
As of 31 December 2017, the Company's capital amounted to €11,132 thousand and was represented by 222,649,287 bearer shares with a par value of €0.05 per share. All the shares are fully subscribed and paid and have the same political and economic rights.

As of 31 December 2017, the Company held 1,373,745 own shares representing 0.62% of capital stock.

In 2017, the Company acquired 1,905,697 own shares for a total of €6,186 thousand.

The Company sold 1,530,369 own shares for a total of €4,962 thousand, resulting in a gain of €611 thousand, which was recognized in the Company's reserves.

In the scope of the employee share ownership plan, a total of 211,664 shares were allocated in 2017 to 173 beneficiaries at a value of €2.7680 per share. Additionally, a total of 1,083 shares were canceled under this Plan in 2017.



9. SHARE INFORMATION

9.1 General situation

The year 2017 was one of the best in a decade in economic and financial terms. It appeared to mark the end of the decade of deep worldwide financial crisis that commenced in 2017. Improved world economic growth, with steady upward revisions of the forecasts, and the prospects for the coming years were among the factors driving stock market performance. In contrast, the bond markets were more stable due to the application of more restrictive monetary policies by the main central banks. The US Federal Reserve implemented three 0.25-point increases to its benchmark rate, while the European Central Bank began the process of normalizing its monetary policy in the fourth quarter. This had not occurred before in Europe because of doubts that the 2% target for inflation expectations would be attained. In this context of upward revisions to Europe's economic growth prospects, the euro appreciated by over 15% against the dollar.

In Spain, despite the political uncertainty in the second half of the year due to the Catalan question, macroeconomic performance was significantly better than the European average. With 2017 GDP growth of over 3%, Spain was at the head of the group of developed countries. However, the high unemployment rate, the high government deficit and the dependence on external funding mean that the Spanish economy is still viewed with a degree of uncertainty.

The IBEX-35, Spain's main equities index, started the year as one of the top performers among the developed countries, appreciating by over 15%, but the trend changed in the second half of the year, mainly as a result of the resolution of Banco Popular and the uncertainty caused by the Catalan crisis.

9.2 PharmaMar Stock Market indicators 2017

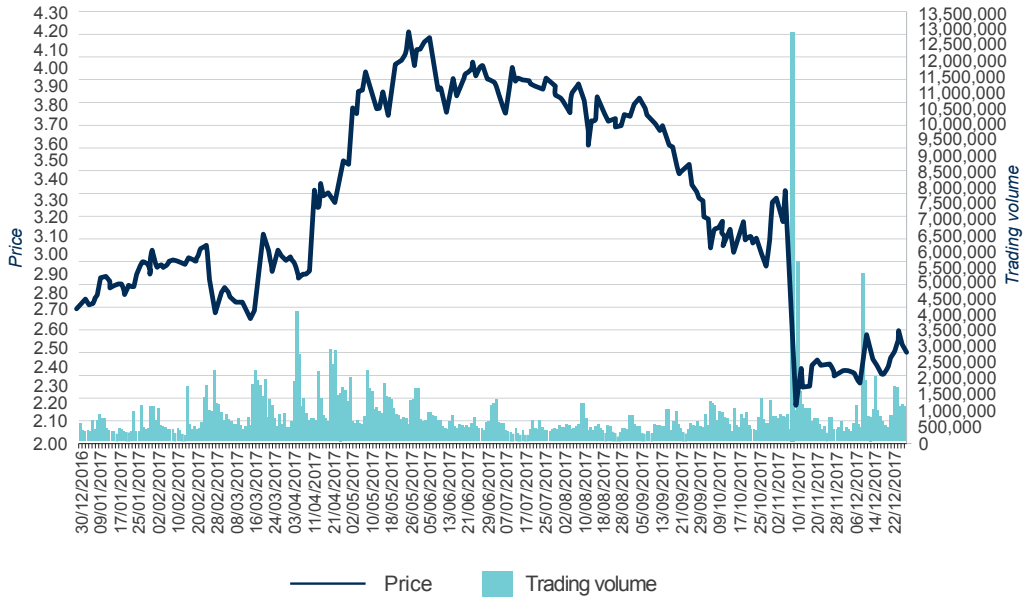
Total number of shares	222,204,887
Number of outstanding shares	221,275,542
Par value (euro)	0.05
Average daily trading (no. of shares)	805,031
Average daily trading (euro)	2,634,061
Trading days	255
Daily trading low (25 August) (euro)	328,778
Daily trading high (9 November) (euro)	27,614,498
Total trading in the year (million euro)	650.6
	(euro)
Lowest share price (9 November)	2.17
Highest share price (25 May)	4.19
Share price at 30 December	2.48
Average share price in the year	3.27
Market capitalization as of 31 December (million euro)	**551.1**

Source: Bloomberg

9.3 PharmaMar's share performance

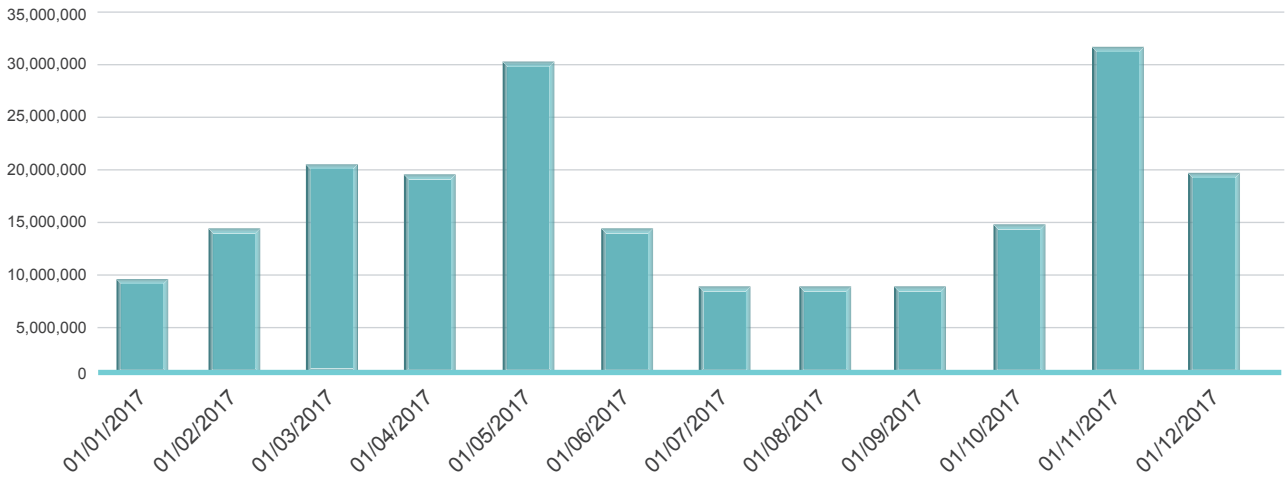
During 2017, PharmaMar achieved some very important clinical milestones, resulting in a 50% increase in the share price in the first half of the year. The share price reached its high for the year in May: €4.19. This was achieved after the company held an "R&D Day" in New York at which it detailed the progress with its pipeline and ongoing and potential clinical trials. In June 2017, promising results with Zepsyre™ in a Phase Ib trial in endometrial cancer were presented at the American Society of Clinical Oncology (ASCO) meeting in Chicago. Because of the positive results obtained to date, the company is designing a Phase III trial in this type of cancer that is expected to commence in 2018. In September 2017, the results of the second cohort of patients in the phase I/II trial with Zepsyre™ in patients with small cell lung cancer were presented at the European Society of Medical Oncology (ESMO) meeting in Madrid. These results not only confirmed the positive data obtained with the first cohort of treated patients but also improved progression-free survival, which is the primary end-point of the Phase III trial in this indication.

However, the share experienced difficulties in 2017, such as in November, when it was announced that the EMA's CHMP had issued a negative opinion as to the approval of Aplidin® for treating multiple myeloma in Europe. The market reacted severely, and the share lost 30% on the day the news was released, whereas the analyst consensus was that the impact on the valuation in terms of fundamentals was not even one-third of that amount. The political turmoil due to the Catalan situation also had an impact on the market towards the end of the year. As a result, despite a strong rally in December, PharmaMar's share ended 2017 down 8%.



Source: Bloomberg

Trading in PharmaMar shares amounted to €551.1 million in 2017. Daily trading averaged 805,031 shares, peaking in November.



Source: Bloomberg

10. NON-FINANCIAL INFORMATION

10.1 Social and personnel matters

The Oncology unit (which accounts for 57% of Group personnel) has an Equality Plan that sets out measures and actions in the following areas:

- Continuous training area: provide training for both men and women in order to enhance their performance and drive promotion grounded in equality.
- Promotion and career development area.
- Remuneration area: to ensure that persons with the same job earn the same pay, apart from incentives for seniority and similar, such as merits achieved within the organization.
- Work/life balance area.
- Workplace health and safety area: training for risk prevention, and raising awareness about gender violence and sexual harassment.
- Communication and Corporate Image area: adoption of measures to inform staff of the corporate culture with respect to equality, with the aim of raising awareness and securing participation.
- Equality awareness-raising and training: training in equality for all members of the organization. This makes it possible to reach a broader audience by ensuring that employees share acquired knowledge.

The oncology unit has an Equality Committee made up of 4 employee representatives (2 men and 2 women) and 2 representatives of the company (2 men). The Equality Committee meets quarterly and monitors compliance with the Equality Plan.

The Equality Committee also has an email address through which all employees may post suggestions and proposals to improve compliance with the Equality Act.

Over 93% of the Group's employees have indefinite contracts. A total of 47 persons were hired on indefinite contracts by Group companies in 2017.

10.2 Environmental issues

The oncology business unit and one of the companies in the consumer chemicals segment have ISO 14001-certified environmental management systems which are audited annually by independent firms.

The companies in the consumer chemicals segment are members of the ECOEMBES waste management systems and undergo regular external audits on air emissions and discharges. In 2017, they progressively modernized their lighting equipment by installing LED lights and improving natural lighting.

The oncology segment has signed the Pact for Biodiversity, which aims to promote economic development that is compatible with biodiversity conservation.

10.3 Preventing corruption and bribery

The Group has a Code of Conduct whose purpose is to formalize the principles and values that should guide the conduct of all people forming part of companies in the Pharma Mar group, among themselves and in their relationships with customers, partners, suppliers and, generally, all those people and institutions, whether public or private, with which they interact in the course of their work.

The Code of Conduct is applicable to the members of the Board of Directors, senior management and, generally, to all employees and executives of the companies that form part of the Pharma Mar group, without exception and regardless of their position, responsibility or workplace.

The PharmaMar Code of Conduct provides guidelines for conduct in accordance with applicable laws, regulations and industrial codes, respect among people, workplace safety and health, responsible use of resources, the environment and sustainable development, relations with contractors, suppliers and the market, transparent relations with investors and shareholders of the Group, relations with authorities and public administrations, corruption and bribery, the Pharma Mar group's corporate reputation, conflicts of interest and loyalty to the Pharma Mar group, confidentiality of information, personal data protection, intellectual and industrial property rights, accounting and financial reporting obligations, tax obligations and obligations with regard to computer systems and information technology.

Specifically with regard to corruption and bribery, the Code establishes that: *"PharmaMar understands corruption as the use of unethical practices to obtain a benefit.*

Under no circumstances may Bound Persons engage in unethical practices to influence persons outside the company in order to obtain an illicit benefit for the company or for themselves. They must also remain alert to ensure that other people or organizations do not engage in such practices in their relations with the Pharma Mar group.

Accordingly, Bound Persons may not make, offer or receive, directly or indirectly, any payment in cash or in kind or any other benefit which, because of its value, characteristics or circumstances, might be considered to be unethical or reasonably to alter the commercial, administrative or professional relationships between the parties.

Likewise, Bound Persons under the Code must not make payments consisting of the delivery of money or other valuable consideration, whatever the amount, in exchange for securing or expediting the performance of any process or action before any judicial body, public administration or government agency anywhere in the world."

The Group also has a whistleblower channel through which its employees, executives and directors must report any type of irregularity of which they become aware; the channel is managed by the Conduct Committee, which was created by resolution of the Board on 26 January 2016. The Audit Committee is in charge of supervising this mechanism, which enables employees to report irregularities of potential importance.

The Group also has an Internal Audit unit that reports functionally to the Audit Committee.

As a listed company, PharmaMar has an Internal Regulation on conduct in matters relating to the securities markets, which is available on the company's website. A Steering Committee, comprising three members appointed by the Board of Directors, oversees application of the Internal Regulation on conduct in matters relating to the securities markets.

All segments of the Group interact with a large number of suppliers who provide a broad range of products and services for our production process. Suppliers are selected on the basis of compliance with quality standards, reputation in the market, suitability to our needs, and an excellent price-quality ratio while also applying sustainable procurement principles. Our companies apply purchasing processes certified to ISO standards. There is no discrimination against suppliers for reasons of race, creed, nationality or gender.

The Annual Corporate Governance Report, which is an integral part of this Directors' Report, may be viewed at www.cnmv.es.

Consolidated Financial Statements and Auditors' Report

Pharma Mar

Pharma Mar, S.A. and subsidiaries

Independent auditor´s report on the
consolidated annual accounts at December 31,2017

"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 the consolidated annual accounts

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

Report on the consolidated annual accounts

Opinion

We have audited the consolidated annual accounts of Pharma Mar, S.A. (the Parent company) and its subsidiaries (the Group), which comprise the balance sheet as at December 31, 2017, and the income statement, statement of other comprehensive income, statement of changes in equity, cash flow statement and related notes, all consolidated, for the year then ended.

In our opinion, the accompanying consolidated annual accounts present fairly, in all material respects, the equity and financial position of the Group as at December 31, 2017, as well as its financial performance and cash flows, all consolidated, for the year then ended, in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS-EU) and other provisions of the financial reporting framework applicable in Spain.

Basis for opinion

We conducted our audit in accordance with legislation governing the audit practice in Spain. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated annual accounts* section of our report.
We are independent of the Group in accordance with the ethical requirements, including those relating to independence, that are relevant to our audit of the consolidated annual accounts in Spain, in accordance with legislation governing the audit practice. In this regard, we have not rendered services other than those relating to the audit of the accounts, and situations or circumstances have not arisen that, in accordance with the provisions of the aforementioned legislation, have affected our necessary independence such that it has been compromised.

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

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated annual accounts of the current period. These matters were addressed in the context of our audit of the consolidated annual accounts as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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

Pharma Mar, S.A. and subsidiaries

Key audit matters	How our audit addressed the matter
Financial capacity	
The Group's research activities require sufficient cash flow to fund and, where appropriate, complete ongoing research in accordance with the established investment plan. As described in note 3C to the accompanying financial statements, management expects the level of research and development spend in 2018 to be similar to the 2017 year. As set out in note 3C to the accompanying financial statements, at least annually, the Group's finance department provides the directors with a business plan, together with cash flow estimates, covering a 5-year period. The plan includes a number of scenarios regarding the source and use of funds based on ongoing research. Note 3C to the accompanying financial statements, discloses directors' assessment of liquidity risk with forecasts to fund ongoing research. We have focused on this area as we consider a key audit matter the assessment of whether the Company has sufficient funds to execute the budgeted research plan and make its short-term payment commitments, and the appropriate disclosure in the notes to the accompanying financial statements.	First, we obtained an understanding of and evaluated management's forecasting process, and the reasonableness of past budgets compared to actual outcomes. For future years' budgets, which include sales of products already in the marketing phase, forecast revenue from royalties and milestones on licensing agreements signed, and revenue from potential licenses for ongoing research, we have analysed the supporting documentation to assess the reasonableness of the estimates based on the information available at any given time. We also analysed management's capacity to make more flexible the allocation of financial resources to ongoing research, understanding which investments are a priority in the short term and which can be delayed if circumstances do not evolve as envisaged in the business plan, so as to adapt costs to each scenario. Regarding disclosures in the notes, we have concluded that they contain the requirements of IFRS 7 *Financial Instruments: Disclosures* regarding qualitative and quantitative disclosures about liquidity risk. As a result of our audit, we consider management's assessment of the Group's financial capacity to be reasonable and consistent with the information disclosed in the annual financial statements.
Recognition and recoverability of deferred tax assets	
At 31 December 2017, the Group's balance sheet contains EUR 33,481 thousand of net deferred tax assets, as explained in note 24 to the accompanying consolidated financial statements, based on the tax planning strategies of the companies composing the Spanish tax group, as described in notes 2T and 4 to the accompanying consolidated financial statements. The source of information used to prepare the projections was the budget approved by the parent company's directors, which includes estimates to 2022. In addition, Group management extends the projections to 2027 based on its best estimates.	We have obtained an understanding and evaluated management's estimation process. We have focused our procedures on the evaluation of the reasonableness of the budgets drawn up and the analysis of whether the calculation model and approach used by the Group's management to define future taxable income are appropriate.

Key audit matters	How our audit addressed the matter
Future taxable income for the oncology segment considers the estimated probability of success of each research based on the various molecules' current stage of development. Therefore, these assumptions are particularly relevant in the calculations. The evaluation of both the initial recognition and subsequent ability to recover the deferred tax assets recognised is a complex exercise requiring a high degree of judgement and estimation by management, which is subject to significant risk of material misstatement. Therefore, we consider this to be a key audit matter.	For the key assumptions, mainly focused in the oncology segment, we obtained supporting documentation via information prepared internally by the Group. We consider the judgements made to be reasonable. We checked that the probabilities of success assigned to each research based on the current stage of development are aligned with general industry practice. Based on the procedures described, we consider the estimates made by the Group regarding the recognition of the deferred tax assets to be reasonable.
Recognition of revenue from complex licensing, development, marketing and manufacturing contracts Inherent in its business, the Group signs licensing, development and marketing and, where appropriate, manufacturing agreements with certain pharmaceutical companies. These agreements generally entail upfront payments when the agreement is signed and subsequent payments based on the achievement of milestones. As set out in note 2W to the financial statements, the Group makes the following considerations when analysing the licensing, development and marketing agreements: • Identification of the various performance obligations. • Determination of the transaction price, understood as the value of the agreement signed with the counterparty. • Allocation of the transaction price to the various performance obligations. • Estimation of when the obligations are considered to be performed and, accordingly, the timing of the accrual and subsequent recognition of the consideration received.	To evaluate the Group's recognition of revenue from these contracts, we held meetings with the various department heads involved in the negotiation to obtain an understanding of the interpretation of the contracts signed, the economic substance of the transaction, and the expectations of the parties involved in relation to performance obligations. We verified, for the main revenue recognised in the 2017 consolidated financial statements, the performance obligations identified and the price related to each based on an analysis of the underlying contracts. We also analysed the revenue recognised in 2017 related to the obligations satisfied in the period and whether there could be other unrecognised obligations performed. After performing our procedures, we consider the judgements and estimates made by the Group in determining and recognising revenue from complex licensing, development, marketing and manufacturing contracts in 2017 to be appropriate.

Key audit matters	How our audit addressed the matter
For the 2017 consolidated financial statements, these considerations are especially relevant regarding the accounting recognition of the contract signed with Chugai Pharmaceutical Co. in 2016, for which EUR 10,888 thousand of revenue was recognised in 2017 and deferred revenue at the year-end of EUR 15,322 thousand, as set out in note 21. Total revenue recognised at 31 December 2017 for this type of contract amounted to EUR 12,357 thousand (note 26). The analysis of the revenue to be recognised and the timing is generally complex and involves significant judgements and estimates, which can significantly impact the financial statements. Therefore, this is considered a key audit matter.	

Other information: Consolidated management report

Other information comprises only the consolidated management report, the formulation of which is the responsibility of the Parent company´s directors and does not form an integral part of the consolidated annual accounts.

Our audit opinion on the consolidated annual accounts does not cover the consolidated management report. Our responsibility regarding the information contained in the consolidated management report is defined in the legislation governing the audit practice, which establishes two distinct levels in this regard:

a) A specific level applicable to the consolidated statement of non-financial information and certain information included in the Annual Corporate Governance Report, as defined in article 35.2 b) of Audit Act 22/2015, that consists of verifying solely that the aforementioned information has been provided in the management report or, if appropriate, that the consolidated management report includes the pertinent reference in the manner provided by the legislation and if not, we are required to report that fact.

b) A general level applicable to the rest of the information included in the consolidated management report that consists of evaluating and reporting on the consistency between that information and the consolidated annual accounts as a result of our knowledge of the Group obtained during the audit of the aforementioned financial statements and does not include information different to that obtained as evidence during our audit, as well as evaluating and reporting on whether the content and presentation of that part of the consolidated management report is in accordance with applicable regulations. If, based on the work we have performed, we conclude that material misstatements exist, we are required to report that fact.

On the basis of the work performed, as described above, we have ascertained that the information mentioned in paragraph a) above has been provided in the consolidated management report and that the rest of the information contained in the consolidated management report is consistent with that contained in the consolidated annual accounts for the 2017 financial year, and its content and presentation are in accordance with the applicable regulations.

Pharma Mar, S.A. and subsidiaries

Responsibility of the directors and the audit committee for the consolidated annual accounts

The Parent company´s directors are responsible for the preparation of the accompanying consolidated annual accounts, such that they fairly present the consolidated equity, financial position and financial performance of the Group, 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 the directors determine is necessary to enable the preparation of consolidated annual accounts that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated annual accounts, the Parent company´s directors are responsible for assessing the Group´s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The Parent company´s audit committee is responsible for overseeing the process of preparation and presentation of the consolidated annual accounts.

Auditor's responsibilities for the audit of the consolidated annual accounts

Our objectives are to obtain reasonable assurance about whether the consolidated annual accounts as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor´s report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with legislation governing the audit practice in Spain will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated annual accounts.

As part of an audit in accordance with legislation governing the audit practice in Spain, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated annual accounts, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 Group´s internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Parent company´s directors.

- Conclude on the appropriateness of the Parent company´s directors´ use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group´s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required draw attention in our auditor´s report to the related disclosures in the consolidated annual accounts or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor´s report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated annual accounts, including the disclosures, and whether the consolidated annual accounts represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated annual accounts. We are responsible for the direction, supervision and performance of the group aud We remain solely responsible for our audit opinion.

We communicate with the Parent company´s audit committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Parent company´s audit committee with a statement that we have complied wit relevant ethical requirements, including those relating to independence, and we communicate with audit committee those matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Parent company´s audit committee, we determine those matters that were of most significance in the audit of the consolidated annual accounts of the curren period and are therefore the key audit matters.

We describe these matters in our auditor´s report unless law or regulation precludes public disclosu about the matter.

Report on other legal and regulatory requirements

Report to the Parent company´s audit committee

The opinion expressed in this report is consistent with the content of our additional report to the Parent company's audit committee dated February 28, 2018.

Appointment period

The General Ordinary Shareholders' Meeting held on June 30, 2015 appointed us as auditors of the Group for a period of three years, as from the year ended December 31, 2015.

Previously, we were appointed by resolution of the General Shareholders' Meeting for an initial peri and we have audited the accounts continuously since the year ended December 31, 1996.

Services provided

Services provided to the Group for services other than the audit of the accounts, are disclosed in No 40 of the consolidated annual accounts.

PricewaterhouseCoopers Auditores, S.L. (S0242)

The original Spanish version was signed by Julio Balaguer Abadía (15418)

February 28, 2018

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

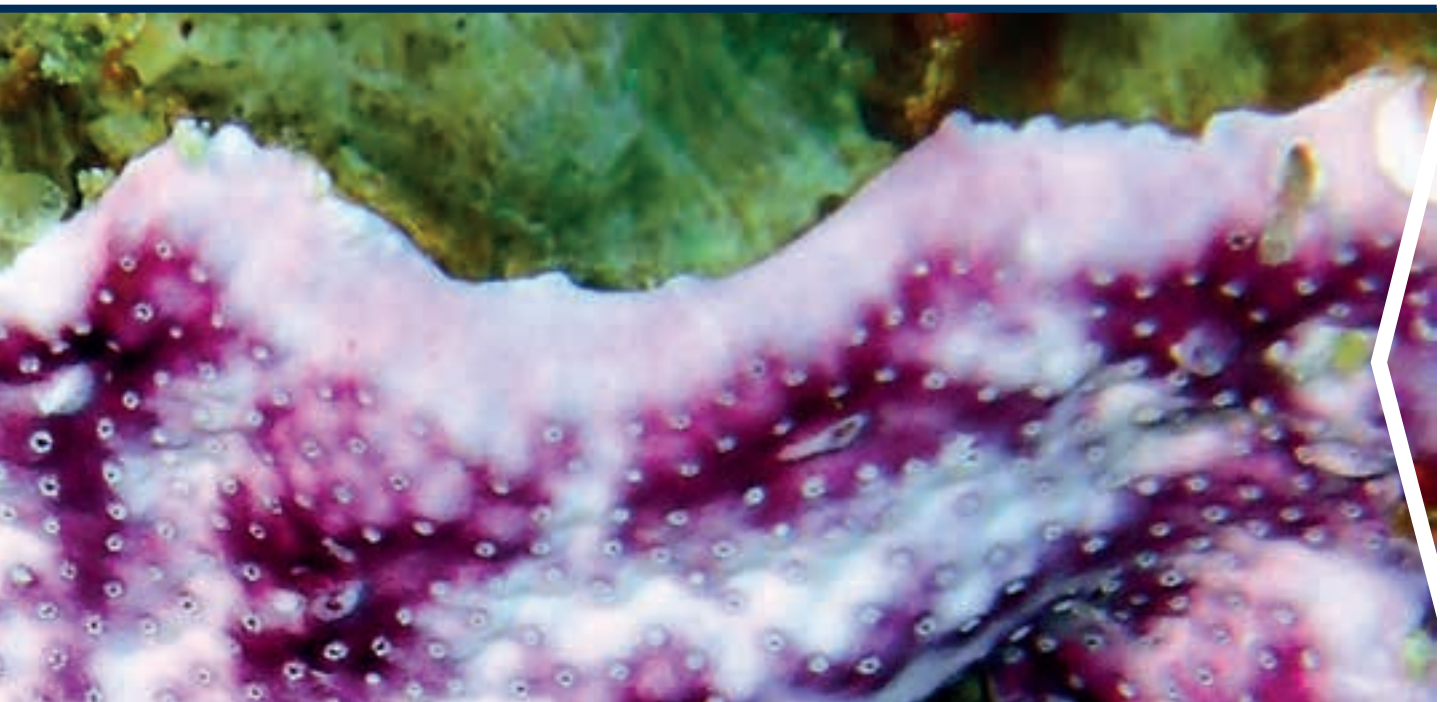
as of 31 December 2017

CONSOLIDATED BALANCE SHEET (thousand euro)	Note	31-12-17	31-12-16
ASSETS			
Non-current assets			
Property, plant and equipment	6	31,207	31,141
Investment property	7	6,119	6,119
Intangible assets	8	20,212	24,900
Goodwill	9	2,548	2,548
Non-current financial assets	10	977	1,138
Deferred tax assets	24	33,481	34,299
		94,544	**100,145**
Current assets			
Inventories	15	23,904	22,158
Customer and other accounts receivable	13	31,388	62,652
Current financial assets	10	7,671	18,077
Other current assets	14	6,125	3,815
Cash and cash equivalents	16	24,088	14,290
		93,176	**120,992**
TOTAL ASSETS		**187,720**	**221,137**

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

CONSOLIDATED BALANCE SHEET (thousand euro)	Note	31-12-17	31-12-16
EQUITY			
Share capital	17	11,132	11,110
Share premium account	17	71,278	69,189
Own shares	17	(4,470)	(3,247)
Revaluation reserves and other reserves		13	11
Retained earnings and other reserves		(51,087)	(24,705)
Total capital and reserves attributable to equity-holders of the parent company		**26,866**	**52,358**
Non-controlling interests	19	**(3,882)**	**(3,863)**
TOTAL EQUITY		**22,984**	**48,495**
LIABILITIES			
Non-current liabilities			
Borrowings	23	73,607	67,583
Non-current deferred revenues	21	7,234	16,790
Other non-current liabilities	22	785	1,105
		81,626	**85,478**
Current liabilities			
Supplier and other accounts payable	20	37,436	39,175
Borrowings	23	26,395	27,906
Provisions for other liabilities and expenses	25	6,232	6,988
Current deferred revenues	21	10,221	10,012
Other current liabilities	22	2,826	3,083
		83,110	**87,164**
TOTAL LIABILITIES		**164,736**	**172,642**
TOTAL EQUITY AND LIABILITIES		**187,720**	**221,137**

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



CONSOLIDATED INCOME STATEMENT (thousand euro)	Note	31-12-17	31-12-16
Revenues:			
Product sales	5 & 26	162,618	164,035
Licensing and development agreements	5 & 26	12,357	11,129
Royalties	5 & 26	4,362	5,779
Services provided		26	5
		179,363	**180,948**
Cost of sales	5	(45,668)	(43,971)
Gross income		**133,695**	**136,977**
Marketing expenses	29	(44,756)	(47,688)
Administrative expenses	28	(20,745)	(20,328)
R&D expenses	27	(78,541)	(78,423)
Other operating expenses	28	(11,158)	(10,777)
Other revenues	30	3,824	1.533
Operating profit		**(17,681)**	**(18,706)**
Financial expenses		(5,936)	(6,661)
Financial revenues		757	668
Net financial income	33	**(5,179)**	**(5,993)**
Income before taxes		**(22,860)**	**(24,699)**
Income tax	24	(3,904)	592
Income for the year		(26,764)	(24,107)
Attributable to:			
Equity-holders of the parent company		**(26,745)**	**(24,082)**
Non-controlling interests	19	(19)	(25)

Earnings per share attributable to equity-holders of the parent company			
(euro per share)	Note		
- Basic	34	(0.12)	(0.11)
- Diluted	34	(0.12)	(0.11)

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (thousand euro)	31-12-17	31-12-16
CONSOLIDATED INCOME FOR THE YEAR (from the consolidated income statement)	**(26,764)**	**(24,107)**
ITEMS THAT MAY BE RECYCLED THROUGH PROFIT OR LOSS		
Change in value of financial assets available for sale	2	2
Foreign exchange difference	6	26
Other comprehensive income for the year, net of taxes	**8**	**28**
Comprehensive income for the year	**(26,756)**	**(24,079)**
Atributable to:		
Equity-holders of the parent company	(26,737)	(24,054)
Non-controlling interests	(19)	(25)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**(26,756)**	**(24,079)**

STATEMENT OF CHANGES IN CONSOLIDATED EQUITY
(thousand euro)

	Share capital	Share premium account	Own shares	Revaluation and other reserves	Reserves and other retained earnings	Non-controlling interests	Total equity
Balance as of 1 January 2016	**11,110**	**69,189**	**(2,944)**	**9**	**(490)**	**(3,838)**	**73,036**
Fair value gain / (loss), gross:							
- Available-for-sale financial assets (Note 12)	-	-	-	2	-	-	2
- Other revenues and expenses recognised directly in equity	-	-	-	-	26	-	**26**
Other comprehensive income	**-**	**-**	**-**	**2**	**26**	**-**	**28**
2016 income	-	-	-	-	(24,082)	(25)	(24,107)
Comprehensive income for the year	**-**	**-**	**-**	**2**	**(24,056)**	**(25)**	**(24,079)**
Shares purchased (Note 17)	-	-	(4,165)	-	-	-	**(4,165)**
Shares sold (Note 17)	-	-	3,862	-	(329)	-	**3,533**
Value of employee services - Employee share ownership plan	-	-	-	-	303	-	**303**
Other movements	-	-	-	-	(133)	-	**(133)**
Balance as of 31 December 2016	**11,110**	**69,189**	**(3,247)**	**11**	**(24,705)**	**(3,863)**	**48,495**
Fair value gain / (loss), gross:							
- Available-for-sale financial assets (Note 12)	-	-	-	-	-	-	2
- Other revenues and expenses recognised directly in equity	-	-	-	-	-	-	6
Other comprehensive income	**-**	**-**	**-**	**2**	**6**	**-**	**8**
2017 income	-	-	-	-	(26,745)	(19)	(26,764)
Comprehensive income for the year	**-**	**-**	**-**	**2**	**(26,739)**	**(19)**	**(26,756)**
Merger effect (Note 17)	-	-	(6,186)	-	-	-	(6,186)
Shares purchased (Note 17)	-	-	4,378	-	611	-	4,989
Value of employee services - Employee share ownership plan	-	-	585	-	(108)	-	477
Capital increase (note 17)	22	2,089	-	-	-	-	2,111
Capital increase expenses	-	-	-	-	(146)	-	(146)
Balance as of 31 December 2017	**11,132**	**71,278**	**(4,470)**	**13**	**(51,087)**	**(3,882)**	**22,984**

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

CONSOLIDATED CASH FLOW STATEMENT (thousand euro)	Note	31-12-17	31-12-16
TOTAL NET OPERATING CASH FLOW		**(1,459)**	**(8,414)**
Income before taxes:		**(22,860)**	**(24,699)**
Adjustments for:		**13,204**	**13,678**
Depreciation and amortization	6 & 8	7,059	7,243
Loss/(Gain) in activities due to impairment of accounts receivable	13	(79)	258
Fixed asset impairment	6	2,142	171
Fair value loss/(gain) on financing activities	33	-	(14)
Financial revenues	33	(102)	(255)
Financial expenses	33	5,124	5,214
Share-based payments	36	476	303
Deferred revenues - subsidies	21	(660)	76
Change in provisions	25	(756)	682
Changes in working capital		**10,199**	**7,981**
Inventories	15	(1,746)	832
Customer and other receivables	13	22,657	1,290
Other assets and liabilities		(8,973)	(1,357)
Supplier and other accounts payable	20	(1,739)	7,216
Other operating cash flows:		**(2,002)**	**(5,374)**
Interest paid	33	(5,104)	(5,241)
Interest received	33	102	241
Income tax received/(paid)	24	3,000	(374)
TOTAL NET INVESTING CASH FLOW		**5,995**	**13,779**
Investment payments:		**(32,332)**	**(38,674)**
Property, plant and equipment, intangible assets and investment property	6 & 8	(4,665)	(6,093)
Other financial assets	10	(27,667)	(32,581)
Divestment receipts:		**38,327**	**52,558**
Property, plant and equipment, intangible assets and investment property	6, 7 & 8	85	129
Other financial assets	10	38,242	52,429
Other investing cash flow		**-**	**(105)**
Other investment receipts/(payments)		-	(105)
TOTAL NET FINANCING CASH FLOW		**5,262**	**1,296**
Receipts and (payments) in connection with equity instruments:		**769**	**(632)**
Issuance of equity instruments	17	1,966	-
Acquisition	17	(6,186)	(4,165)
Disposal	17	4,989	3,533
Receipts and (payments) in connection with financial liabilities:		**3,291**	**1,926**
Loans received	23	19,944	20,140
Loans repaid	23	(16,653)	(18,214)
Other financing cash flow		**1,202**	**2**
Credit lines drawn/(repaid)		1,202	2
TOTAL NET CASH FLOW FOR THE YEAR		**9,798**	**6,661**
Beginning balance of cash and cash equivalents	16	14,290	7,629
ENDING BALANCE OF CASH AND CASH EQUIVALENTS		**24,088**	**14,290**

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

Notes to the Consolidated Financial Statements

Pharma Mar

Notes to the consolidated financial statements of Pharma Mar, S.A. and Subsidiaries as of 31 December 2017

(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 30 April 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 research, development, production and commercialization of bio-active principles of marine origin for application in oncology, as well as management, support and development of its investees, mainly in the chemical and biopharmaceutical businesses. In addition, the Group produces and markets insecticides and air fresheners for household use, household products, wood treatment and decoration products, paints, and similar products.

On 20 September 2007, PharmaMar received authorization from the European Commission to sell Yondelis® to treat soft tissue sarcoma. This approval marked the commencement of the sale of PharmaMar’s pharmaceutical compounds, as it had no drugs in the market until then.

Two years later, on 2 November 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 28 September 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, Labor and Welfare to commercialize Yondelis® in Japan for the treatment of soft tissue sarcoma. On 23 October 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.

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

In September 2016, PharmaMar filed an application with the European Medicines Agency (EMA) for authorization to market one of its compounds, Aplidin® (Plitidepsin), for treating multiple myeloma. In December 2017, the Company received a negative opinion from the Committee for Medical Products for Human Use (CHMP) in connection with its application to commercialize this compound in Europe. The ADMYRE trial, on which the application was based, achieved its primary endpoint, as a result of which the company applied for the application dossier to be re-examined. A response may be obtained in the second quarter of 2018.

PharmaMar continued with the registration trial with Aplidin® (Plitidepsin) as monotherapy in patients with angioimmunoblastic T-cell lymphoma, and with other combination trials.

On 18 January 2018, the results of the CORAIL trial conducted by PharmaMar with the compound Zepsyre™ (lurbinectedin) in resistant ovarian cancer were announced. The compound proved to be at least as active as the two compounds in the control arm, which are the current standard for treatment. Nevertheless, the trial did not reach its primary end-point, namely to improve progression-free survival (PFS).

As of 31 December 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 a controlling company has one or more subsidiaries over which it has control, directly or indirectly.

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

There were no material changes in the consolidation scope of the Pharma Mar group (hereinafter, the "Group") in 2017 apart from the incorporation of Genómica Brasil Ltda. In 2016, the company Pharma Mar Ges.m.b.H AT (Austria) was incorporated, and Promaxsa Protección de Maderas, S.L. was divested.

The list of the consolidated Group's subsidiaries as of 31 December 2017 is as follows:

Subsidiaries	Registered offices	Stake (%)		
		Direct	Indirect	Total
Genómica, S.A.U.	Parque Empresarial Alvento, Calle Vía de los Poblados, 1, 28033 Madrid, Spain	100%	-	100%
Zelnova Zeltia, S.A.	Torneiros - Porriño - Pontevedra, Spain	100%	-	100%
Xylazel, S.A.	Las Gándaras - Porriño - Pontevedra, Spain	100%	-	100%
Noscira, S.A. en liquidación	Plaza del Descubridor Diego de Ordás, 3 Planta 5ª Madrid, Spain	73.32%	-	73.32%
Pharma Mar USA	Cambridge - Massachusetts - U.S.A.	100%	-	100%
PharmaMar AG (Switzerland)	Aeschenvorstadt, 71 - Basel - Switzerland	100%	-	100%
Pharma Mar SARL (France)	120, Av. Charles Gaulle - Neuilly-sur-Seine - France	100%	-	100%
Pharma Mar GmbH (Germany)	Rosenheimer Platz, 6 - Munich - Germany	100%	-	100%
Pharma Mar Ltd (United Kingdom)	90 High Holborn, 7th floor - London - United Kingdom	100%	-	100%
Pharma Mar, S.r.L. (Italy)	Via Giorgio Stephenson, 29 Milan, Italy	100%	-	100%
Pharma Mar, Sprl (Belgium)	100 Brussels, Avenue du Port 86c, boite 204, Belgium	100%	-	100%
*Pharma Mar Ges.m.b.H (Austria)	Teinfaltstraβe 9 / Top 7, 1010 Vienna, Austria	100%	-	100%
**Copyr, S.p.A. (Italy)	Via Giorgio Stephenson, 29 Milan, Italy	-	100% **	100%
***Genómica, A.B. (Sweden)	Ideon Science Park, Scheelevägen, 17 Lund, Sweden	-	100%***	100%
***Genómica Brasil Consultoria e Intermediaçao Ltda (Brazil)	Avda. Presidente Wilson, 231, sala 1402, Rio de Janeiro, Brazil	-	100% ***	100%
Sylentis, S.A.U.	Plaza del Descubridor Diego de Ordás, 3 Planta 5ª Madrid, Spain	100%	-	100%

(*) Incorporated in 2016

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

(**) Genómica A.B. and Genómica Brasil Consultoria e intermediario Ltda. are wholly owned by Genómica, S.A.U.

Below is a list of the Group's subsidiaries and the firms that audited their 2017 financial statements:

Name and domicile	Statutory audit
Genómica, S.A.U	KPMG
Genómica, A.B. (Sweden)	KPMG
Genómica Brasil Consultoria e Intermediaçao Ltda (Brazil)	No
Sylentis, S.A.U.	KPMG
Pharma Mar USA	Walter & Shufain, PC
PharmaMar AG (Switzerland)	PwC
Pharma Mar SARL (France)	PwC
Pharma Mar GmbH (Germany)	No
Pharma Mar, S.r.L. (Italy)	Prorevi Auditing, S.r.L.
Pharma Mar Ltd (United Kingdom)	Scrutton Bland LLP
Pharma Mar, Sprl (Belgium)	PwC
Pharma Mar Ges.m.b.H (Austria)	No
Noscira, S.A. en liquidación	No
Zelnova Zeltia, S.A.	PwC
Xylazel, S.A.	PwC
Copyr, S.p.A. (Italy)	Trevor Auditing, S.r.L.

A. Description of subsidiaries

The principal activity of the Group companies, all of which were fully consolidated as of 31 December 2017 and 2016, 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.
- Noscira, S.A. en liquidación (Noscira): Currently in liquidation. On 18 December 2012, the Shareholders' Meeting of Noscira resolved to dissolve the company and commence the period of liquidation of same, since the company had an equity imbalance and was in one of the situations of dissolution established by article 363.1.e) of the Capital Companies Act as its net equity had declined to less than one-half of its capital stock.
- Pharma Mar USA: Business development in the US.
- PharmaMar AG: Marketing pharmaceutical products in the Swiss market.
- Pharma Mar SARL: 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 Austrian 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.
- Genómica Brasil, Ltda.: Provision of business intermediation, consulting and representation services in Brazil and other countries, as well as research, collection, examination, storage, and delivery of business information.
- Sylentis, S.A.U. (Sylentis): Research, development, production and sale of products with therapeutic activity based on reducing or silencing gene expression, and pharmaceutical derivatives of same in a range of formulations and applied in various ways to all types of diseases; it does not yet have any products on the market.

2. ACCOUNTING POLICIES

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

2.1 Basis of presentation

These consolidated financial statements for 2017 and those for 2016 presented for comparison were prepared in accordance with the International Financial Reporting Standards and IFRIC interpretations adopted for use in the European Union in accordance with Regulation (EC) No 1606/2002 of the European Parliament and of the Council of 19 July 2002, by virtue of which all companies governed by the law of a Member State of the European Union and whose shares are listed on a regulated market of a Member State must prepare their consolidated accounts, for annual periods beginning on or after 1 January 2005, in accordance with the IFRS adopted by the European Union.

The consolidated financial statements were drawn up under the historical cost method, though modified in the case of available-for-sale financial assets and financial assets and liabilities (including derivatives) and investment property, which are recognized 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. Note 4 details the areas that require greater judgment or are more complex and the areas where significant assumptions and estimates are made for the consolidated financial statements.

The accounting policies applied in preparing the consolidated financial statements as of 31 December 2017 are consistent with those used to prepare the consolidated financial statements for the year ended 31 December 2016. The material estimates made in the 2017 financial statements are also consistent with those made in the 2016 financial statements.

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

A. Standards, amendments and interpretations that are obligatory for all annual periods beginning on or after 1 January 2017

In 2017, the following standards and amendments to existing standards were adopted by the European Union and entered into force on 1 January 2017; they have been applied by Pharma Mar group or their application may affect the Group in the future:

- IAS 7 (Amendments) "Disclosure initiative".
- IAS 12 (Amendments) "Recognition of deferred tax assets for unrealised losses".

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

B. Standards, amendments and interpretations that have not yet entered into force but which may be adopted early for annual periods commencing on or after 1 January 2017

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 which have been endorsed by the EU, although the Group has not adopted them in advance.

IFRS 9 - "Financial instruments"

In July 2014, the IASB published the final version of IFRS 9 Financial Instruments, which replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. This standard combines the three phases of the financial instruments project: classification and measurement, impairment, and hedge accounting. IFRS 9 is applicable for annual periods beginning on or after 1 January 2018, although it can also be applied before that date. Except for hedge accounting, retroactive application is required, but it is not necessary to modify the comparative information. For hedge accounting, the requirements are generally applied prospectively, with a few limited exceptions.

The Pharma Mar group plans to adopt the new standard on the required application date and will not re-state the comparative information. During 2017, the Pharma Mar group carried out a detailed evaluation of the impact of the three aspects of IFRS 9. This evaluation was based on currently available information and may be subject to changes as a result of additional information that becomes available in 2018 when the Pharma Mar group adopts IFRS 9. In general, the Pharma Mar group does not expect major changes in its statement of financial position and statement of equity, except for the effect of applying the requirements to determine impairment under IFRS 9. The Pharma Mar group expects an increase in losses due to impairment, which will have a negative impact on equity, as detailed below, although this will not be material in any event.

(a) Classification and measurement

The Pharma Mar group does not expect major changes in its statements of financial position or equity due to the application of the classification and measurement requirements of IFRS 9. It expects to continue to use fair value to measure all financial assets currently measured at fair value. Listed shares classified as available-for-sale financial assets are valued against other comprehensive income, which will not cause an increase in the volatility of the results.

Shares in unlisted undertakings are expected to be held for the foreseeable future. The Pharma Mar group will apply the option to present changes in fair value through other comprehensive income and, therefore, considers that the application of IFRS 9 will not have a significant impact.

Loans and trade accounts receivable are held in order to receive the contractual cash flows and are expected to represent cash flows comprising only principal and interest payments. The Pharma Mar group analyzed the characteristics of the cash flows from these instruments and concluded that they meet the criteria to be valued at amortized cost in accordance with IFRS 9. Consequently, it is not necessary to reclassify these instruments.

(b) Impairment

IFRS 9 requires the Pharma Mar group to recognize expected credit losses on all its debt securities, loans and trade accounts receivable, either on a 12-month or lifetime basis. PharmaMar will apply the simplified model and recognize expected losses in the lifetime of all trade debtors. PharmaMar has determined that, due to the nature of its loans and receivables, impairment losses will increase by €113,351, with a corresponding decrease of €28,338 in deferred tax liabilities.

(c) Hedge accounting

The Pharma Mar group has determined that hedge accounting will not have any impact since it did not have any designated hedging relationship at 2017 year-end.

(d) Debt restructuring

The Pharma Mar group has not carried out debt restructurings in the past; consequently, the application of IFRS 9 will have no effect on the Pharma Mar group in this regard.

(e) Other adjustments

In addition to the adjustments described above, other items in the financial statements, such as deferred taxes, available-for-sale assets

and their related liabilities, will be adjusted if necessary in the adoption of IFRS 9.

To summarize, the impact of adopting IFRS 9 is expected to be as follows:

Assets	Importe
Other financial assets	(96,153)
Trade and other accounts receivable	(17,198)
Total assets	**(113,351)**

Liabilities	
Deferred tax liabilities	(28,338)
Total Liabilities	**(28,338)**
Impact on equity	**(85,014)**

IFRS 15 - "Revenue from contracts with customers"

IFRS 15 applies for annual periods beginning on or after 1 January 2018, but early adoption is allowed.

IFRS 15, which was published in May 2014 and amended in April 2016, establishes a new five-step model that applies to accounting for revenue from contracts with customers. In accordance with IFRS 15, revenue is recognized for an amount that reflects the consideration that an undertaking expects to be entitled to receive in exchange for transferring goods or services to a customer. This new standard derogates all previous standards regarding the recognition of revenue. Retroactive application, total or partial, is required for annual periods beginning on or after 1 January 2018. The Group plans to adopt the new standard on the required effective date using the partial retroactive method, which entails recognition of the impact of application of the new standard to all those contracts that are in force on 1 January 2018 in the beginning equity for the year 2018, without restating comparative data. During 2017, the Group carried out a preliminary evaluation of IFRS 15, which had been completed at the date of authorization of these financial statements.

The Group has two distinct business areas:

- Biopharmaceuticals (divided into oncology, diagnostics and RNAi), 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 anti-tumor drugs of marine origin. Oncology is the Group's fastest-growing and most strategic area.

Analysis of the identification of performance obligations and the method for recognizing revenue in the sale of licenses, medical supplies and chemical products:

a) Sale of licenses, and development and marketing agreements for pharmaceutical compounds under development

This standard is not expected to have a significant impact on the Group's results for licensing, development and marketing contracts. These contracts generally provide for an initial fixed component (upfront payment) that must be distributed across the performance obligations that are identified in the contract (such as the license to use a formula or medication, another type of license, the performance of clinical trials, or the delivery of other goods or services), based on the estimated individual sale price of each license, good or service. Contracts of this type also have components that are variable (clinical or regulatory milestones) and that depend on events or circumstances that are not under the control of the company and, therefore, are not recognized as revenue until they occur, by application of the provisions of the standard regarding the limitations to the recognition of variable consideration when they depend on events that are beyond the control of the Company.

This revenue is recognized at the point at which control of the asset is transferred to the client, which may be at a certain point in time (as in the sale of licenses for use), or over a period of time

(in the case of the transfer of services, or where what is being transferred is a right of access).

This treatment does not differ materially from the one that the Group had been applying to date; accordingly, as of 31 December 2017, no revenue had been recognized that had not already been accrued nor, conversely, was there any revenue that had already accrued but not been recognized as a result of the outcome of performance obligations; consequently, there would be no impact on the Company's equity.

b) Sale of chemical products for domestic use

This standard is not expected to have a significant impact on the Group's results from the sale of domestic chemical products such as insecticides, air fresheners, varnishes, wood and metal protectors, household cleaning products, etc.

The Group expects that the revenue will be recognized at the time in which control of the asset is transferred to the customer, generally when the goods are delivered to the final customer; this transfer of control does not differ from the transfer of significant risks and benefits inherent in the ownership of the goods; consequently, that treatment does not differ from what had been applied under the former standard.

c) Sale of medical supplies for clinical diagnosis (test results)

In contracts of this type, the standard is expected to impact the time at which revenues are recognized, since they identify various performance obligations: supplies of test results, leases of equipment and maintenance of equipment (technical assistance), not all of which had been differentiated as separate services under the former standard.

Based on this identification, the recognition of revenue in the case of supplies of test results will occur at the point when control of the asset is transferred to the customer, generally when the goods are delivered to the final customer, since that is when control of the goods is transferred to the customer. With regard to leases, although not regulated in IFRS 15, the Company considers that they are a separate component in the contract for the sale of goods and services and will allocate the part of the total price attributable to the lease of the asset on the basis of the distribution of the total agreed price. Revenue for equipment maintenance will be recognized at a moment in time, since these are agreed regular reviews performed on specific dates rather than a continuous service. This approach differs partially from that applied under the former standard, in which the delivery of test results was basically identified as a sale. Therefore, the revenue information presented by the Group in relation to this segment of activity will be modified in terms of the breakdown, but without having a material impact. Based on this segment's revenues in 2017, it would be necessary to classify about €87 thousand as equipment rental, training and maintenance.

In some similar contracts, the equipment is sold to the end customer instead of being leased. In these contracts there are usually no agreed prices guaranteed by the overall transaction and, consequently, the sale of the equipment (first completed performance obligation) guarantees receipt only for that obligation.

There are other similar contracts in which two types of services are performed: massive sequencing analysis, and the production a report on the conclusions of same. For contracts of this type, it is considered that the first service modifies the second service, understanding that they are correlated and will be treated as a single performance obligation, namely the presentation of results and conclusions in a single analysis report. The service delivery contracts as of 31 December 2017 do not have any impact on the Group's equity.

Revenue for the services described in the preceding paragraph will be recognized over time as it does not create an asset with an alternative use to the Group and the Group is entitled to payment of an advance for the service provided plus a margin in accordance with the contract, unlike the current approach, in which the revenue was recognized on the basis of the amounts invoiced. Considering that these

projects may have a learning curve component, the pattern that best reflects the progress of the service provided would be an input method, that is, the recognition of the costs incurred with respect to the expected costs.

Analysis of other aspects of the application of IFRS 15:

a) Variable consideration

Some contracts with clients provide the right to returns, trade discounts, volume discounts and penalties. At present, the Group recognizes revenue from the sale of assets at the fair value of the consideration received or receivable; however, considering the lack of materiality of the foregoing items, the application of the new standard is not expected to have a material impact. Returns are deducted from revenue; accordingly, they do not result in adjustments by application of IFRS 15. Penalties have a very limited impact: €30 thousand calculated for 2017.

In addition to the variable consideration mentioned in the preceding paragraph, amounts are collected for achieving milestones and there are also royalties; these items will be recognized when it is virtually certain that the recognized revenue will not have to be adjusted in the future, which does not differ from the current treatment.

IFRS 15 requires that there be no significant revenue reversals when estimating variable consideration.

b) Financial component of customer advances

The Group receives long-term advances from its customers under license contracts.

Based on the nature of the services offered and the terms of collection, the Group has determined that, in the case of license contracts that require customers to pay advances that in some cases may be long-term, the terms of collection were structured mainly for reasons other than the obtainment of finance for the Group since its financial structure is perfectly stable, as detailed in note 3.1. In fact, these advance receipts are common practice in the biopharmaceutical industry.

c) Presentation and disclosure requirements

The presentation and disclosure requirements under IFRS 15 are more detailed than in the current standards. The presentation requirements represent a significant departure from current practice and significantly increase the volume of disclosures required in the Group's financial statements. Many of the disclosure requirements under IFRS 15 are completely new and the Group has determined that the impact of some of these requirements will be significant. In particular, the Group expects that the notes to the financial statements will be expanded by the disclosures with regard to material judgments: when determining the transaction price of those contracts that include variable consideration, how the transaction price was assigned to the various performance obligations and the assumptions used to estimate the standalone selling price of each performance obligation.

Additionally, in accordance with the requirements of IFRS 15, the Group will break down the revenue recognized from contracts with customers into categories that describe how the nature, amount, timing and uncertainty of the revenue and cash flow are affected by economic factors. It will also disclose information on the relationship between the disclosed revenue and the revenue information broken down for each reporting segment. In 2017, the Group continued to check the systems, internal controls, policies and procedures that are necessary to collect and disclose the required information.

IFRS 16 - “Leases”

IFRS 16 was issued in January 2016 and replaces IAS 17 Leases, IFRIC 4 Determining Whether an Arrangement Contains a Lease, SIC-15 Operating leases - Incentives, and SIC-27 Evaluating the Substance of Transactions in the Legal Form of a Lease. IFRS 16 establishes the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single balance sheet model similar to the current accounting approach for finance leases in accordance with IAS 17. The standard includes two exemptions for the

recognition of leases by lessees: leases of low value assets (e.g. personal computers) and short-term leases (i.e. with term of 12 months or less). On the start date of a lease, the lessee must recognize a liability for the lease payments to be made (i.e. the liability for the lease) and an asset that represents the right to use the underlying asset during the term of the lease (i.e. the asset for the right of use). Lessees must recognize separately the interest expense corresponding to the lease liability and the amortization expense of the right of use.

Lessees will also be required to remeasure the lease liability when certain events occur (e.g. a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognize the amount by which the lease liability has been remeasured as an adjustment to the asset for the right of use.

The lessor's accounting under IFRS 16 does not differ substantially from that currently applied under IAS 17. Lessees will continue to classify leases with the same classification principles as in IAS 17 and will recognize two types of leases: operating leases and finance leases.

IFRS 16 also requires lessees and lessors to present more extensive disclosures than those stipulated in IAS 17.

IFRS 16 applies for annual periods beginning on or after 1 January 2019, and early adoption is allowed but not before an undertaking applies IFRS 15. A lessee may choose to apply the rule retroactively, either wholly or partly, through a modified retroactive transition. The transitory provisions of the standard allow certain exemptions.

In 2018, the Group will continue to evaluate the potential effect of IFRS 16 on its consolidated financial statements although, as detailed in note 39 to the consolidated financial statements, lease commitments will represent a liability and an asset for right of use, at least in an amount similar to that stated in said note, since only those commitments relating to low value goods and leases of less than one year will not be recognized.

C. Standards, amendments and interpretations of existing standards that cannot be adopted early or have not been adopted by the European Union

At the date of adopting these consolidated financial statements, the IASB and the IFRS Interpretations Committee had published the standards, amendments and interpretations described below, which are pending adoption by the European Union. The Group is currently evaluating whether the following may be applicable to the Group:

- IAS 40 (Amendments) - Transfers of investment property
- IFRS 2 (Amendments) - Classification and measurement of share-based payment transactions
- IAS 7 (Amendments) - Disclosure initiative - No material impact expected.
- IAS 12 (Amendments) - Recognition of deferred tax assets for unrealised losses - No material impact expected.
- IFRS - Annual Improvements cycle 2014-2016 - No material impact expected.
- IFRIC 23 - Uncertainty over Income Tax Treatments

2.2. Consolidation principles

All undertakings over which the Group has control are classified as subsidiaries. The Group is considered to control an undertaking when it is exposed to variable returns from its involvement in the investee or is entitled to obtain or use them, 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 agreement.

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

For each business combination, the Group may elect to measure non-controlling interests in the acquiree 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 pre-existing 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 recognized in profit or loss.

Contingent consideration is classified either as equity or as a financial liability. Amounts classified as a financial liabilities are subsequently remeasured to fair value with changes through 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 undertakings are eliminated.

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

The subsidiaries within the consolidation scope are detailed in Note 1.

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 amount 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.

2.3. 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.

2.4 Foreign currency transactions

i. Functional and presentation currency

Items in the financial statements of each of the group's undertakings are measured using the currency of the primary economic environment in which the undertaking operates ('the functional currency'). The consolidated financial statements are presented in euro, which is the Pharma Mar group's functional and presentation currency.

Pharma Mar USA, the US subsidiary, has the euro as its functional currency, mainly because of its financing sources and its activity.

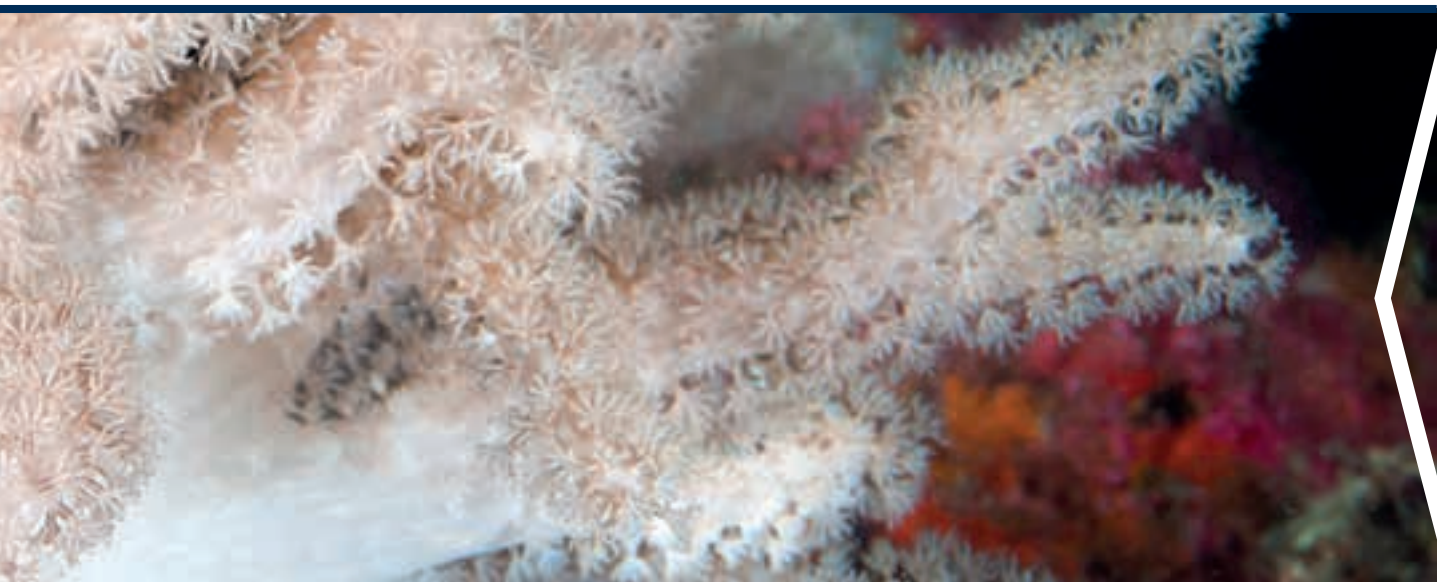
Regarding PharmaMar AG, the Swiss subsidiary, Pharma Mar Ltd, the UK subsidiary, and Genómica, AB, the Swedish subsidiary, their functional currencies in 2017 and 2016 were the Swiss franc, the pound sterling and the Swedish krona, respectively, as their sales are in local currency. The impact of translation to euro is not material given the small volume which their transactions represent with respect to the Group.

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 recognized 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 recognized in profit or loss as part of the fair value gain or loss, and translation differences on non-monetary assets such as equity securities classified as available-for-sale financial assets are recognized in other comprehensive income.

iii. Group undertakings

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;
- revenues and expenses in each statement of profit or loss and statement of other 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 revenues and expenses are translated at the dates of the transactions), and
- all resulting exchange differences are recognized in other comprehensive income.

On consolidation, exchange differences arising from the translation of any net investment in foreign undertakings, and of borrowings and other financial instruments designated as hedges of such investments, are recognized 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.

2.5. Property, plant and equipment

Land and buildings comprise mainly buildings and installations of the parent company and subsidiaries in Colmenar Viejo and Tres Cantos, Madrid (PharmaMar), Porriño and 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	
Structures	17-50
Machinery and installations	5-10
Tools and equipment	3-10
Furniture and fixtures	3-10
Vehicles	4-7
Computer hardware	4-7
Other assets	7-15

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

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

2.6. Investment property

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

2.7. Intangible assets

i. Research & Development expenses

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

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

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

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

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

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

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

Considering the nature of the 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 a finite useful life that are recognized as an asset are amortized on a straight-line basis from the end of the project, understood as the moment in which appropriate approvals have been received from the regulatory bodies and the Company has the capacity to sell in the market for which the authorization has been received. That useful life is estimated as the period in which profits are expected to be generated, which normally coincides with the period of validity 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.

Recognition of research and development expenses in separate financial statements

In order to facilitate comparison of the recognition criteria for development expenses in the separate financial statements of Pharma Mar, S.A. and in those of the consolidated Group companies, the following is placed on record:

Pharma Mar, S.A. has maintained the same approach for recognition of development expenses in its separate financial statements since 1996, the first year in which a compound produced by the company entered Phase I clinical trials. The adoption from 2007 of Spain's General Accounting Plan (PGC) for the preparation of the financial statements did not result in a material change since the PGC rules for development expenses are similar to those in the preceding standard that it replaced.

In 2006, with the first-time application of International Financial Reporting Standards (IFRS) to draw up the group's consolidated financial statements for 2005, the Group's controlling company at the time, Zeltia, S.A., adopted an approach for capitalization of development expenses that differed from that being applied in its subsidiaries' separate financial statements. This decision was adopted mainly to ensure that the consolidated financial statements used criteria that were more in line with comparable companies in other countries.

The main difference in the treatment of development expenses in producing the Group's separate and consolidated financial statements lies in the time at which development expenses are capitalized: in the separate financial statements, the Company considers that the conditions for capitalization have been fulfilled once a compound reaches Phase I clinical trials, in accordance with the criteria traditionally applied by the Company; in the Group's consolidated financial statements, research and development expenses are capitalized from the time the drug is registered, subject to fulfillment of the conditions in the IFRS, in line with standard practice in the biopharmaceutical industry at international level.

The notes to the separate financial statements indicate the following:

4.1.1 Research & Development expenses

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

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

Research expenditure is expensed when incurred.

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

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

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

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

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

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

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

Fulfillment of those conditions is assessed each year.

Development expenses recognized under assets must be amortized in accordance with a systematic plan over their useful life, which is presumed not to exceed five years (Note 6.1) except where there is evidence to the contrary, beginning in the year in which the project concluded. That useful life normally coincides with the term of the patent.

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

Measurement of research and development projects

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

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

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

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

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

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

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

ii. Trademarks and licenses

These assets are carried at historical cost. Trademarks acquired from third parties 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 licenses 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.

2.8. Goodwill

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

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

Goodwill is measured for impairment on an annual basis, or more frequently if events or changes in circumstances indicate a potential impairment loss. The carrying amount of the cash-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.

2.9. 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. 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 selling costs, 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.

2.10. 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 financial assets. 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 or to generate profits through fluctuations in their value. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are also categorized 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 those maturing at over 12 months from the end of the reporting period, which are classified as non-current assets. The Group's loans and receivables are reported under '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' notice 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 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 short 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 an event that is unusual and highly unlikely to recur in the near future. In addition, the Group may choose to reclassify financial assets that 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 fair value gains or losses recognized before the reclassification date are not subsequently reversed.

Effective interest rates for financial assets reclassified to loans and receivables are determined at the reclassification date. In the event of additional increases in cash flow estimates, the effective interest rates are adjusted 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 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 available-for-sale equity instruments are recognized in profit and loss under “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 (e.g. an improvement in the debtor's credit quality), the previously recognized impairment is reversed through consolidated profit or loss (Note 13).

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, 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 on equity instruments recognized in consolidated profit or loss 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. The Group does not consider there to be material nettable assets and liabilities.

2.11. 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".

2.12. 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 remainder).

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.

2.13. Inventories

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

Cost is determined as follows:

- Trade 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 labor 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.

2.14. 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, the proceeds from the transfer are treated as borrowings.

At the end of each year, past-due debt is analyzed and a decision is made as to how to proceed on the basis of its age and the prospects of collection. It is Group policy to claim default interest and principal due on late payment of amounts owed by certain public authorities (Note 13).

2.15. Cash and cash equivalents

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

2.16. 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 revenues.

When any Group undertaking acquires shares of the parent company, the consideration paid, including any directly attributable incremental costs (net of income taxes), is accounted for under “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 the consideration and acquisition cost), increasing equity attributable to the parent company's equity holders.

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

2.17. 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 revenues” and are recognized in profit or loss on a straight-line basis over the expected life of those assets under “Other revenues”.

Subsidies related to the Group's research and development projects are recognized in profit or loss in proportion to the amortization of these

intangible assets or when the asset is disposed of, impaired or derecognized. Subsidies tied to specific expenses are recognized in profit or loss in the year in which the related expenses are incurred.

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

2.18. 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.

2.19. Financial debt

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

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

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

2.20. 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 equity. In that case, the tax is also recognized directly in equity.

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 laws enacted or substantively 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 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 undertaking or taxable subject, or on different undertakings

or taxable subjects that settle current tax assets and liabilities for their net amount.

As a result of the application of Spanish Act 27/2014, of 17 December, on Corporate Income Tax, certain deductions for research and development may be monetized in the form of a 20% discount on the tax payable, subject to certain conditions. The Company recognizes this tax incentive for investment at the time that the investment is deemed to have materialized, which normally coincides with the collection date.

2.21. Employee benefits

i. Pensions and similar obligations

Some Group undertakings 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 undertaking 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.

2.22. Provisions

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

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

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

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

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

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

2.23. Revenue recognition

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

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

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

i. Sales of products

The Group recognizes revenue from sales of goods marketed at the selling price. Buyers are entitled to return sold goods. The Group bases its estimate of such returns on historical figures, the type of customer, the type of transaction and the specifics of each contract.

Receivables from official authorities as a result of sales of products are generally recognized for the amount receivable, which does not differ significantly from fair value. Balances with official authorities are monitored for late payment analysis purposes and late payment interest is claimed when the standard terms are not met (Note 13).

ii. Services

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 Group's performance obligations.

The Company takes account of the following considerations when analyzing licensing, development and marketing contracts:

- Identification of the performance obligations.
- Determination of the transaction price, taken as the value of the contract signed with the counterparty.
- The allocation of the transaction price to the various performance obligations.
- The estimate of when those obligations are considered to have been discharged and, therefore, when the consideration received is accrued and subsequently recognized.

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 Zepsyre™) achieves development milestones, generally of a regulatory or commercial nature.

Marketing phase

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

As a general rule, upfront payments are recognized as revenues in the year that the agreement is signed, provided that: they are not refundable, the Group does not assume significant future obligations (except those for which a separate arm's-length consideration is provided), and it transfers substantially all the risks and rewards inherent to the asset. Otherwise, they are recognized as deferred revenues. Deferred revenues are recognized in profit or loss over the term of the related commitments as a function of the degree of progress of the project, measured using an input model, as the obligations set out in the contract are met.

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

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

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

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

iv. Interest

Interest is 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 program focuses on the uncertainty of the financial markets and tries to minimize the potential adverse effects on the Group's returns. The Group occasionally uses financial derivatives to hedge certain risk exposures. The Group occasionally uses financial derivatives to hedge certain risk exposures.

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

A. Market risk

i. Exchange rate risk

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

As of 31 December 2017 and 2016 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 €4,360 thousand in 2017 and €3,134 thousand in 2016); accordingly, Group management did not consider it necessary to establish a specific policy for hedging exchange rate risk, and it evaluates the need for hedges specifically on the basis of projected transactions. Consequently, as of 31 December 2017 and 2016, 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, they relate to licensing and development agreements in US dollars amounting to €9,754 thousand in 2017 and €8,760 thousand in 2016. Group management did not consider it necessary to establish hedging policy in 2017 and 2016.

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

If, as of 31 December 2017, 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 €145 thousand (€194 thousand in 2016), mainly as a result of translation into euro of trade and other receivable and debt denominated in US dollars. If, as of 31 December 2016, the euro had depreciated by 5% with respect to the US dollar while all other variables remained constant, income after taxes for the year would have been higher by €160 thousand (€214 thousand in 2016).

ii. Interest rate risk on cash flows and fair values

The Group's interest rate risk arises from remunerated financial assets recognized at amortized cost and from borrowings 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 31 December 2017 and 2016, interest rate risk was basically due to the Group’s bank debt, of which approximately 55% is at floating rates indexed

to Euribor. As of 31 December 2017, bank debt amounted to €54,396 thousand (€48,353 thousand as of 31 December 2016).

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.

If, as of 31 December 2017, the interest rates on the interest-bearing debt and remunerated assets at variable interest rates had been 100 basis points higher, while all other variables remained constant, profit after income tax would have been €11.5 thousand lower (€79 thousand in 2016).

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.

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 invests, cash and cash equivalents, and trade receivables (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 fixed-income securities, where security is given priority in exchange for a slightly lower yield than other investments.

The credit quality of the financial assets and of customers with which the Group had balances as of 31 December 2017 and 2016 is set out in Note 11. The composition of the Group's financial assets is set out in Notes 12 and 13.

Regarding credit risk concentration, as of 31 December 2017, the Group had government bonds and bank products at three credit institutions amounting to €23,526 thousand (€28,050 thousand in 2016).

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 13).

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 (€31,759 thousand in 2017, €32,367 thousand in 2016) less short-term borrowings (€26,395 thousand in 2017, €27,906 thousand in 2016), was positive in the amount of €5,364 thousand at the end of 2017 (positive in the amount of €4,461 thousand in 2016).

Long-term interest-bearing debt amounted to €73,607 thousand (€67,583 thousand in 2016), of which €23,863 thousand (€25,882 thousand in 2016) was in the form of research and development loans from official bodies which are repayable over 10 years, with a three-year grace period, at zero or below-market interest rates.

As indicated in Note 1, sales in the oncology segment commenced in the fourth quarter of 2007 for one of the products, and they gained in strength with the marketing approval for a second therapeutic use in the second half of 2009; Yondelis® was approved for commercialization for the treatment of soft tissue sarcoma in both Japan and the US in the fourth quarter of 2015; the other products are still in the development phase. As its revenues from sales and licensing contracts gradually increase, this segment is steadily becoming 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.

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, tradable securities and credit lines available to meet its liquidity needs within the time horizon that is considered to be necessary.

At least once per year, the Company's finance department presents the directors with a business plan and cash flow estimates for the next five years, including a range of scenarios for the source and application of funds, based on progress with ongoing research.

The Group generated negative operating cash flow amounting to €1.5 million in 2017 and €8.4 million in 2016, mainly due to the intensive capital expenditure on R&D in both years (€78 and €79 million, respectively — Note 27). The directors expect to maintain a level of R&D spending in 2018 that is in line with previous years.

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

- The Group ended 2017 with cash and cash equivalents plus current financial assets amounting to €31,759 thousand,
- As of 31 December 2017, the Group had unused credit lines in the amount of €19,146 thousand, which have been rolled over each year in the past.
- The structure of the Group's financial debt is balanced (in terms of the proportion between short-term and long-term debt) and the funding sources are diversified.
- In the early months of 2018, up to the authorization of the financial statements, the Group received:
  - An amount of €4.1 million for signing a licensing agreement with Seattle Genetics

Inc. under which the latter receives worldwide exclusive rights over certain molecules and antibody-drug conjugates (ADC).

- An amount of €3 million as a result of monetizing unused R&D tax credits. In 2017, the Group received €3 million under this same heading, and it intends to continue availing itself of this possibility allowed under current legislation to monetize unused R&D tax credits.

- The Group expects to strengthen its liquidity position in 2018 through new licensing agreements that are currently under negotiation.

- The Group has decided to prioritize certain projects in order to reduce costs and avoid treasury stresses, and it has sufficient flexibility to adapt investment needs to the resources available at any given time.

- In addition, as in previous years, the Group expects to renegotiate bank debt maturing during the year. That amounts to €14 million in 2018, of which the part corresponding to maturities of loans from official authorities (€5 million) will be covered with new loans related to milestones already achieved in projects granted in previous years. The aforementioned cost reduction would facilitate the payment of all maturities if they are not all renegotiated.

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.

31 December 2017 (thousand euro)	**Less than 1 year**	**1 to 2 years**	**2 to 5 years**	**Over 5 years**	**Total**
Liabilities on balance sheet					
Bank debt and other interest-bearing debt	23,274	21,148	17,259	20,979	**82,660**
Debt to official authorities	5,550	9,868	12,469	5,782	**33,669**
Finance lease liabilities	153	-	-	-	**153**
Suppliers / Accounts payable	36,490	-	-	-	**36,490**
Other accounts payable	946	-	-	-	**946**
	66,413	**31,016**	**29,728**	**26,761**	**153,918**

31 December 2016 (thousand euro)	**Less than 1 year**	**1 to 2 years**	**2 to 5 yearss**	**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	-	-	-	**153**
Suppliers / Accounts payable	36,712	-	-	-	**36,712**
Other accounts payable	2,463	-	-	-	**2,463**
	68,428	**13,806**	**33,741**	**34,746**	**150,721**

3.2 Capital management

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

In order to maintain or adjust the capital structure, the Group could issue new shares or sell assets to reduce the 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 equity, per the consolidated financial statements, plus net debt.

(thousand euro)	31-12-17	31-12-16
Long-term interest-bearing debt	(73,607)	(67,583)
Short-term interest-bearing debt	(26,395)	(27,906)
Cash and cash equivalents	24,088	14,290
Non-current and current financial assets	8,648	19,215
Equity	(22,984)	(48,495)
Total capital	**(90,250)**	**(110,479)**
Leverage	**74.53%**	**56.10%**

The increase in the leverage ratio is due mainly to the decrease in equity as a result of losses in 2017 and to the €6 million increase in long-term financial debt.

3.3 Fair value estimates

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

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

The table below presents the Group's assets and liabilities at fair value as of 31 December 2017:

31 December 2017 (thousand euro)	Level 1	Total
Loans and receivables		
- Term financial assets (note 10)	320	**320**
Available-for-sale financial assets		
- Equity securities, net (note 12)	25	**25**
Total Assets	**345**	**345**

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

31 December 2016 (thousand euro)	Level 1	Total
Loans and receivables		
- Term financial assets (note 10)	320	**320**
Available-for-sale financial assets		
- Equity securities, net (note 12)	24	**24**
Total Assets	**344**	**344**

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

The fair value of financial instruments that are not traded in an active market (e.g. over-the-counter derivatives) is determined by using measurement techniques. Measurement techniques make the maximum use of observable market data and are based as little as possible on specific estimates by the undertakings. 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 of input that is significant to the measurement of fair value in its entirety.

The fair value of unquoted fixed-income 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 JUDGMENTS

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 the Group's performance obligations.

The Company takes a number of factors into account when analyzing licensing, development and marketing contracts, which are described in note 2.W.

Deferred tax assets (Note 2.T)

The Spanish undertakings in the Group (except Noscira, S.A. en liquidación, Zelnova Zeltia, S.A. and Xylazel, S.A.) have significant unused tax losses and credits as well as other deductible timing differences (Note 24).

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 income and, therefore, the recoverability of the tax credits generated by the undertakings that belong to the tax group in Spain are as follows:

- Projections through 2027 are included for all the businesses of the Spanish tax group.
- The information for preparing the tax plan is the budget presented to the Board of Directors, which includes projections through 2022, extended to 2027 using the Group's best estimates of future earnings based on past experience, and the assumptions made in the first 5 years of estimation.
- The main variables used in projections for the oncology segment are as follows: a) the probability assigned to ongoing developments (revenues expected for each product under development is assigned a probability of occurrence based on the degree of progress with current research); b) the estimated selling price; and c) a penetration rate as a function of the number of patients that could potentially be treated with the product under development.
- The tax plan also uses the following significant assumptions:
  - No revenues are assumed from products under development that have not yet reached Phase III.
  - Average 22% growth in sales in the oncology segment. That growth is due mainly to the good prospects for PM1183, a product currently under development.
  - Average 4.4% growth in sales in the consumer chemicals segment.
  - Average 6% sustained growth in operating expenses.

Variations with respect to management's assumptions in estimating future taxable income, especially the assumptions used in the Oncology segment, may materially affect the amounts recognized as deferred tax assets. The main factors that may affect this estimate are: the probability of occurrence assigned to the revenues expected from compounds currently in development depending on their current phase of research, the estimated price of the medicine, and the prevalence 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 €2,080 thousand,
- A 5% reduction in the estimated price for the main research compound (PM1183) would result in the derecognition of €7,334 thousand,
- A 5% reduction in the prevalence in the population for Yondelis® would result in derecognition of €635 thousand.

Note 24 details the assets recognized by the Group as of 31 December 2017 and 2016 and the assets not recognized 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 follows standard practice in the biopharmaceutical industry and considers that uncertainty to have been dissipated only when the product being developed has attained at least the registration phase.

Goodwill and intangible assets (trademarks) having indefinite useful lives (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 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 (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 as a result of the acquisition of Copyr, S.p.A. Refer to Note 9.

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 the 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 the Group income statement.

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

- Brands with a carrying amount of €9,786 thousand, 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, As described in Note 9, the recovery of the goodwill is considered to be assured in the current context of growth and profitability of the cash-generative unit comprising Copyr (consumer chemicals segment).

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 and 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:

- Revenue from each operating segment is the revenue metric used for reporting to the Board of Directors.
- Adjusted EBITDA from each operating segment (calculated as detailed in the segment disclosures below) is the profit metric used for reporting to the Board of Directors.
- Corporate costs are not allocated to individual operating segments and, therefore, are presented as "unallocated". They basically consist of expenses associated with the central corporate services that should not distort the operating business segments, including personnel expenses, rent, expenses related to being listed on the stock market, etc.
- Total assets and liabilities are broken down in the same way as the operating segments provide this information to the Board of Directors on a regular basis.
- Transactions between the operating segments are not material in 2017 and 2016.

The qualitative elements used in aggregating segments include the following:

- Similar economic characteristics in terms of ratios such as sales margin, R&D expenses as a percentage of revenues, marketing and distribution expenses as a percentage of revenues, and the prospects for business growth.
- The products, services and production processes of the companies in the Consumer Chemicals segment are similar.
- Similar types of customers and distribution channels.

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

Therefore, the four identified reporting business segments as of 31 December 2017 and 2016 are as follows:

5.1. Oncology.

This segment encompasses the Group undertakings whose object is to research, develop and market anti-tumor 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).

5.2. Diagnostics.

This segment encompasses the development and marketing of diagnostic kits (Genómica, S.A.U. and its subsidiaries: Genómica AB and Genómica Brasil, L.T.D.A).

5.3. RNAi.

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

5.4. Consumer chemicals.

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

Income statement information by reporting segment for the year ended 31 December 2017 is as follows:

	Biopharmaceuticals					
(thousand euro)	**Oncology**	**Diagnostics**	**RNAi**	**Consumer chemicals**	**Unallocated**	**Group**
Revenues	101,319	6,016	-	72,028	-	**179,363**
Cost of sales	(2,734)	(2,526)	-	(40,408)	-	**(45,668)**
Other operating revenues / Other net gains	2,891	64	655	214	-	**3,824**
R&D expenses	(71,190)	(1,980)	(5,371)	-	-	**(78,541)**
Other expenses	(34,816)	(3,947)	(623)	(28,230)	(9,043)	**(76,659)**
Net operating income	**(4,530)**	**(2,373)**	**(5,339)**	**3,604**	**(9,043)**	**(17,681)**
Net financial income	**(4,107)**	**(202)**	**(324)**	**(546)**	**-**	**(5,179)**
Income before taxes	**(8,637)**	**(2,575)**	**(5,663)**	**3,058**	**(9,043)**	**(22,860)**
Income tax expense	(3,178)	11	8	(745)	-	**(3,904)**
Income for the year attributable to:	**(11,815)**	**(2,564)**	**(5,655)**	**2,313**	**(9,043)**	**(26,764)**
Equity-holders of the parent company	(11,815)	(2,564)	(5,655)	2,313	(9,024)	**(26,745)**
Non-controlling interests	-	-	-	-	(19)	**(19)**
Income from operations (1)	(11,815)	(2,564)	(5,655)	2,313	(9,043)	**(26,764)**
Tax expense (2)	3,178	(11)	(8)	745	-	**3,904**
Financial income (3)	4,107	202	324	546	-	**5,179**
Depreciation and amortization (4)	5,304	689	108	958	-	**7,059**
Fixed asset impairment losses (5)	2,142	-	-	-	-	**2,142**
Impairment and changes in trade provisions (6)	-	134	-	127	-	**261**
Indemnities (7)	-	-	-	850	-	**850**
Adjusted EBITDA (1)+(2)+(3)+(4)+(5)+(6)+(7)	**2,916**	**(1,550)**	**(5,231)**	**5,539**	**(9,043)**	**(7,369)**

The adjustment for indemnities corresponds to compensation for termination of contract (non-recurring expense) of a manager in the consumer chemicals segment.

Assets and liabilities by reporting segment as of 31 December 2017 are presented as supplementary information:

	Biopharmaceuticals					
(thousand euro)	Oncology	Diagnostics	RNAi	Consumer chemicals	Unallocated	Group
Non-current assets	70,610	3,850	714	19,370	-	**94,544**
Current assets	47,691	2,995	3,940	36,947	1,603	**93,176**
Non-current liabilities	75,003	1,339	4,675	609	-	**81,626**
Current liabilities	66,074	2,933	1,362	12,534	207	**83,110**
Investment in fixed assets	2,005	535	213	1,126	-	**3,879**

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

	Biopharmaceuticals					
(thousand euro)	Oncology	Diagnostics	RNAi	Consumer chemicals	Unallocated	Group
Revenues	105,108	6,180	-	69,660	-	**180,948**
Cost of sales	(2,951)	(2,499)	-	(38,521)	-	**(43,971)**
Other operating revenues / Other net gains	218	136	741	438	-	**1,533**
R&D expenses	(70,944)	(2,426)	(4,890)	(163)	-	**(78,423)**
Other expenses	(37,866)	(3,679)	(353)	(27,087)	(9,808)	**(78,793)**
Net operating income	**(6,435)**	**(2,288)**	**(4,502)**	**4,327**	**(9,808)**	**(18,706)**
Net financial income	**(4,118)**	**(223)**	**(333)**	**(678)**	**(641)**	**(5,993)**
Income before taxes	**(10,553)**	**(2,511)**	**(4,835)**	**3,649**	**(10,449)**	**(24,699)**
Income tax expense	1,371	92	81	(952)	-	**592**
Income for the year attributable to:	**(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	-	-	-	-	(25)	**(25)**
Income from operations (1)	(9,182)	(2,419)	(4,754)	2.697	(10.449)	**(24,107)**
Tax expense (2)	(1,371)	(92)	(81)	952	-	**(592)**
Financial income (3)	4,118	223	333	678	641	**5,993**
Depreciation and amortization (4)	5,539	623	142	939	-	**7,243**
Fixed asset impairment losses (5)	171	-	-	-	-	**171**
Impairment and changes in trade provisions (6)	220	-	-	43	(5)	**258**
Adjusted EBITDA (1)+(2)+(3)+(4)+(5)+(6)	**(505)**	**(1,665)**	**(4,360)**	**5,309**	**(9,813)**	**(11,034)**

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

	Biopharmaceuticals					
(thousand euro)	Oncology	Diagnostics	RNAi	Consumer chemicals	Unallocated	Group
Non-current assets	76,113	4,068	753	19,211	-	**100,145**
Current assets	77,750	3,308	3,340	34,940	1,651	**120,989**
Non-current liabilities	78,819	1,726	4,186	747	-	**85,478**
Current liabilities	71,074	2,721	882	12,275	212	**87,164**
Investment in fixed assets	4,784	410	27	876	-	**6,097**

In 2017 and 2016, there were no material transactions between reporting segments, and no goodwill impairment losses were recognized.

In 2017 and 2016, the Group recognized losses due to impairment of inventories and trade accounts receivable amounting, respectively, to €266 thousand and €358 thousand, mainly in the oncology segment in both years.

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

Revenues (thousand euro)	2017	2016
Spain	60,650	60,162
Italy	35,790	36,937
Germany	16,452	18,392
Rest of the European Union	41,196	43,499
Japan	12,668	6,832
United States	3,619	5,223
Rest of the world	8,988	9,903
	179,363	**180,948**

Non-current assets (thousand eurs)	2017	2016
Spain	56,482	60,974
Rest of the European Union	1,056	1,186
	57,538	**62,160**

Most of the Group's sales are made in Spain and other European Union countries. The euro area accounted for 85.9% of total sales in 2017 (87.87% in 2016).

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 2017 and 2016 was concentrated in Spain.

Revenue of companies in the consumer chemical sector amounted to €72,028 thousand (€69,660 thousand in 2016), of which €51,543 thousand correspond to the insecticides/home care division (€50,237 thousand in 2016) and €20,485 thousand to the wood treatment/ paint division (€19,423 thousand in 2016). This segment accounted for 40.16% of the Group's total revenue in 2017 (38.50% in 2016).

6. PROPERTY, PLANT AND EQUIPMENT

The breakdown of, and changes in, this caption in 2017 and 2016 are as follows:

(thousand euro)	Balance as of 31-12-16	Recognitions	Derecognitions	Reclassifications and transfers	Exchange rate effect	Balance as of 31-12-17
Land and structures	27,229	135	-	-	-	27,364
Technical installations and machinery	31,214	1,435	(867)	333	(9)	32,106
Other installations tools and furniture	18,941	85	(27)	2,274	-	21,273
Advances & construction in progress	2,189	1,015	-	(2,626)	-	578
Other property, plant & equipment	7,765	837	(1,034)	19	-	7,587
Provisions	(1,288)	-	-	-	-	(1,288)
Cost	**86,050**	**3,507**	**(1,928)**	**-**	**(9)**	**87,620**
Structures	(9,491)	(657)	-	-	-	(10,148)
Technical installation and machinery	(23,336)	(1,631)	818	-	2	(24,147)
Other installations tools and furniture	(16,293)	(491)	27	-	-	(16,757)
Other property, plant & equipment	(5,789)	(582)	1,010	-	-	(5,361)
Accumulated amortization	**(54,909)**	**(3,361)**	**1,855**	**-**	**2**	**(56,413)**
PROPERTY, PLANT AND EQUIPMENT	**31,141**	**146**	**(73)**	**-**	**(7)**	**31,207**

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

Recognitions in 2017 correspond to the expansion of the R&D room in the Oncology segment and to the acquisition of CAR, Autoclart and AutoclartPlus processing and reading equipment in the Diagnostics area.

The main recognitions of property, plant and equipment in 2016 were the expansion of the chemical laboratories in the Oncology segment.

The "Other changes in consolidation scope" column in the 2016 table reflects the sale of Promaxsa Protección de Maderas, S.L. (Note 1).

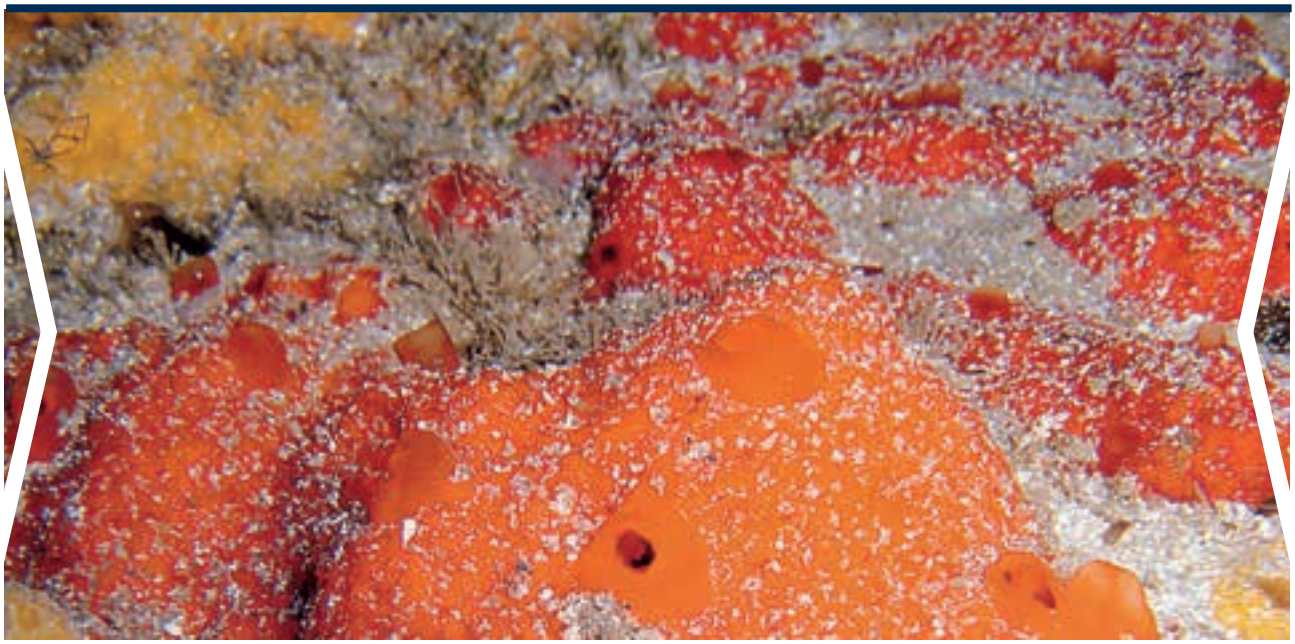
During 2016, impairment was recognized on the carrying amount of land owned by PharmaMar amounting to €171 thousand based on an internal analysis and third-party appraisals.

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)	31-12-2017	31-12-2016
Cost of goods sold	821	832
Marketing expenses	598	580
Administrative expenses	1,132	925
Research & development expenses	810	961
Other operating expenses	-	2
Depreciation and amortization	**3,361**	**3,300**

There are a number of assets under finance leases: plant, machinery, tools and furniture with a net carrying amount of €153 thousand as of 31 December 2017 (€306 thousand in 2016).

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 €10,267 thousand as of 31 December 2017 (€10,785 thousand in 2016). The original financial liability was canceled in 2014 and a new financial liability was recognized subsequently. The initial amount of the transaction, signed in 2014, was €9,000 thousand, maturing in 2024. As of 31 December 2017, the unamortized balance of the loan amounted to €6,142 thousand (€6,997 thousand in 2016).



7. INVESTMENT PROPERTY

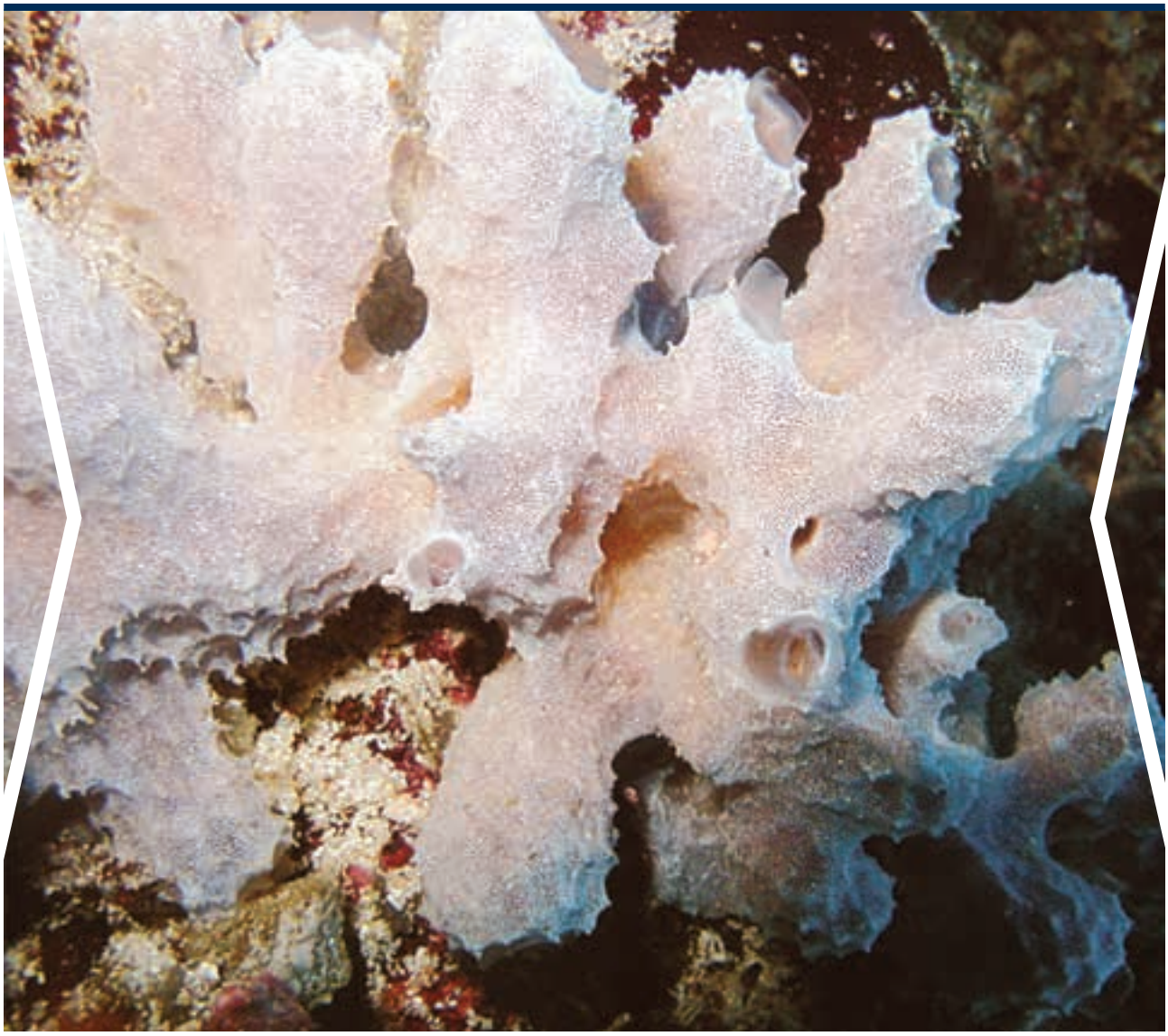
The Group has land recognized as investment property in the amount of €6,119 thousand that is held to produce revenue and is not occupied by the Group. It is recognized at cost.

This heading contains a plot of land valued at €1 million which the Group owns in Tres Cantos, for which it signed a 25-year lease with a third party in 2016 (non-cancellable in the first ten years).

Receipts for non-cancelable operating leases on investment property that are not recognized in the financial statements are as follows:

(thousand euro)	Balance as of 31-12-17	Balance as of 31-12-16
Up to 1 year	59	24
1-5 years	293	288
5-10 years	176	230
	528	**542**

At the beginning of 2018, the Group sold a plot of land measuring 5,475 square meters, located in the province of Pontevedra, for an amount of €125 thousand; the land was valued at €47.6 thousand.



8. INTANGIBLE ASSETS

The breakdown of, and changes in, this caption in 2017 and 2016 are as follows:

(thousand euro)	Balance as of 31-12-16	Recognitions	Derecognitions	Balance as of 31-12-17
Development expenses	24,543	785	-	25,328
Concessions, patents & trade marks	10,765	-	-	10,765
Computer software	6,381	372	(813)	5,940
Advances on intangible assets	38	-	-	38
Provisions	-	(2,142)	-	(2,142)
Cost	**41,727**	**(985)**	**(813)**	**39,929**
Development expenses	(11,000)	(3,352)	-	(14,352)
Concessions, patents & trade marks	(833)	-	-	(833)
Computer software	(4,994)	(346)	808	(4,532)
Accumulated Amortización	**(16,827)**	**(3,698)**	**808**	**(19,717)**
INTANGIBLE ASSETS	**24,900**	**(4,683)**	**(5)**	**20,212**

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

Development expenses

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

As of 31 December 2017, 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.

As of 31 December 2016, the Group had capitalized the costs in the amount of €1,357 thousand that it incurred during the year in the preparation of the Aplidin® registration dossier for the indication of multiple myeloma that was submitted to the European Medicines Agency (EMA) in September 2016. In December 2017, the European Committee for Medicinal Products for Human Use (CHMP) issued a negative opinion with respect to the application for permission to commercialize Aplidin® (plitidepsin) for treating relapsed multiple myeloma patients in combination with dexamethasone. The Group had capitalized €785 thousand in 2017. The Group has requested a review from the European Commission, which may issue a final decision in March or April 2018. The Group impaired this asset pending the final decision.

Comparative information on Research and Development expenses according to the approach applied in the separate financial statements

The main difference in the treatment of the development expenses between the separate and consolidated financial statements lies in the point at which the conditions for capitalization of development expenses are considered to be fulfilled: in the separate financial statements, they have traditionally been capitalized upon attaining Phase I clinical trials; in the Group's consolidated financial statements, they are capitalized upon conclusion of Phase III clinical trials, when the drug is registered, provided that the conditions of the IFRS are fulfilled.

In order to facilitate the comparison of the balances in the separate financial statements of Pharma Mar, S.A. and in the Group's consolidated financial statements, the table below breaks down the movement of intangible fixed assets (development) in the separate and consolidated balance sheets.

(thousand euro)	Separate balance sheet	Consolidated balance sheet
Beginning balance Cost 01-01-2016	**443,277**	**23,186**
Recognitions	40,443	1,357
Total Cost 31-12-2016	**483,720**	**24,543**
Beginning balance Amortization 01-01-2016	**(158,267)**	**(7,457)**
Recognitions	(27,988)	(3,543)
Total Amortization 31-12-2016	**(186,255)**	**(11,000)**
Net carrying amount as of 31-12-2016	**297,465**	**13,543**
Beginning balance Cost 01-01-2017	**483,720**	**24,543**
Recognitions	36,562	785
Derecognitions	(40,905)	-
Impairment	(97,942)	(2,142)
Total Cost 31-12-2017	**381,435**	**23,186**
Beginning balance Amortization 01-01-2017	**(186,255)**	**(11,000)**
Recognitions	(25,217)	(3,352)
Total Amortization 31-12-2017	**(211,472)**	**(14,352)**
Net carrying amount 31-12-2017	**169,963**	**8,834**

The application in Pharma Mar, S.A.'s separate financial statements of the approach used in the Group's financial statements would reduce the amount of development expenses recognized in assets and the equity by €284 million as of 31 December 2016, and by €161 million as of 31 December 2017.

The following table completes the information per capitalized compound, reflecting the net carrying amount of each of them in the separate and consolidated financial statements as of 31 December 2017, as well as the changes during the year:

Separate balance sheet						
	Yondelis®	**Aplidin®**	**Zepsyre™**	**PM0184**	**PM14**	**TOTAL**
Beginning balance 01-01-2017	**76,594**	**101,576**	**93,672**	**25,623**	**-**	**297,465**
Recognitions	-	5,316	29,849	1,040	356	36,561
Derecognitions	-	-	(40,905)	-	-	(40,905)
Depreciation and amortization	(25,217)	-	-	-	-	(25,217)
Impairment	-	(97,942)	-	-	-	(97,942)
Ending balance 31-12-2017	**51,377**	**8,950**	**82,616**	**26,663**	**356**	**169,962**

Consolidated balance sheet						
	Yondelis®	**Aplidin®**	**Zepsyre™**	**PM0184**	**PM14**	**TOTAL**
Beginning balance 01-01-2017	**12,186**	**1,357**	**-**	**-**	**-**	**13,543**
Recognitions	-	785	-	-	-	785
Derecognitions	-	-	-	-	-	-
Depreciation and amortization	(3,352)	-	-	-	-	(3,352)
Impairment	-	(2,142)	-	-	-	(2,142)
Ending balance 31-12-2017	**8,834**	**-**	**-**	**-**	**-**	**8,834**

Computer software

Computer software is mainly licenses 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:

	31-12-2017	**31-12-2016**
Administrative expenses	117	111
Research & development expenses	3,581	3,794
Depreciation and amortization	**3,698**	**3,905**

Concessions, patents and trademarks

This caption mainly includes trademarks (Thomil and Casajardin) amounting to €9,786 thousand. 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 the 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: 53% of revenues
- Annual growth rate: 4.4%
- 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 (i.e. the net amount of assets and liabilities from the cash-generating unit made up of Copyr, S.p.A. and Zelnova Zeltia, S.A.) by €70 million.

Taken in isolation, a 5-10% reduction in the sales margin, 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 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 products 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 reporting 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 the cash flow projections contained in the 5-year business plan approved by management.

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

- Projection periods: 10 years
- Gross margin: 53% of revenues
- Annual growth rate: 4.4 %
- Pre-tax discount rate: 7%

The recoverable amount estimated from the value in use exceeds the carrying amount (i.e. the net amount of assets and liabilities from the cash-generating unit made up of Copyr, S.p.A. and Zelnova Zeltia, S.A.) by €70 million.

Taken in isolation, a 5-10% reduction in the sales margin, 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:

31 December 2017 (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	-	320	-	320
Available for sale (Note 12)	-	-	25	25
Accounts receivable	632	-	-	632
Current financial assets				
Customer receivables (Note 13)	30,521	-	-	30,521
Accounts receivable (Nota 13)	798	-	-	798
Supplier advances (Note 13)	69	-	-	69
Current financial assets	7,671	-	-	7,671
Cash and cash equivalents (Note 16)	24,088	-	-	24,088
	63,779	**320**	**25**	**64,124**
Liabilities on balance sheet				
Non-current borrowings (Note 23)	73,607	-	-	73,607
Current borrowings (Note 23)	26,395	-	-	26,395
Suppliers and other accounts payable (Note 20)	37,436	-	-	37,436
	137,438	**-**	**-**	**137,438**

31 December 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	-	320	-	**320**
Available for sale (Note 12)	-	-	24	**24**
Accounts receivable	794	-	-	**794**
Current financial assets				
Customer receivables (Note 13)	61,859	-	-	**61,859**
Accounts receivable (Nota 13)	710	-	-	**710**
Supplier advances (Note 13)	83	-	-	**83**
Current financial assets	18,077	-	-	**18,077**
Cash and cash equivalents (Note 16)	14,290	-	-	**14,290**
	95,813	**320**	**24**	**96,157**
Liabilities on balance sheet				
Non-current borrowings (Note 23)	67,583	-	-	**67,583**
Current borrowings (Note 23)	27,906	-	-	**27,906**
Supplier and other accounts payable (Note 20)	39,175	-	-	**39,175**
	134,664	**-**	**-**	**134,664**

Other current financial assets include mainly deposits, time deposits and commercial paper arranged 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)		2017	2016
Accounts receivable:			
Customers without an external credit rating			
	Group 1	370	675
	Group 2	29,810	60,043
	Group 3	1,208	1,934
Total accounts receivable		**31,388**	**62,652**
Cash and cash equivalents plus non-current and current financial assets:			
	STANDARD & POOR´S rating		
	A1	15	76
	A3	3,004	3,935
	B1	310	11
	Ba1	-	7,005
	Ba3	9	-
	Baa1	4,873	476
	Baa2	16,888	16,324
	Baa3	5,016	1,636
	B3	-	1,209
	B2u	-	68
	NR	2,621	2,760
Total cash and cash equivalents		**32,736**	**33,505**

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

None of the unmatured financial assets was renegotiated during the year. See credit quality of accounts receivable from public authorities, in Note 13.

12. AVAILABLE-FOR-SALE FINANCIAL ASSETS

All of the available-for-sale financial assets consist of shares listed on the US market, all of them in the biopharmaceutical sector. Their fair value matches their listed market price: €25 thousand (€24 thousand in 2016).

Marking these securities to market in 2017 on the basis of their official listed prices led to a positive change of €1.4 thousand (€4 thousand in 2016) that was recognized in other comprehensive income.

13. CUSTOMER AND OTHER ACCOUNTS RECEIVABLE

The detail of this caption as of 31 December 2017 and 2016 is as follows:

Customer and other accounts receivable (thousand euro)	Balance as of 31-12-17	Balance as of 31-12-16
Customer receivables for sales and services	32,055	63,472
Provisions	(1,534)	(1,613)
Net	**30,521**	**61,859**
Other receivables	798	710
Supplier advances	69	83
Total	**31,388**	**62,652**

Customer receivables discounted with credit institutions totaled €2,203 thousand as of 31 December 2017 (€1,238 thousand in 2016). Those discounts were recognized as secured loans since the Group retains the default and late payment risk.

As of 31 December 2016, the balance of customer receivables included recognition of the right to collected €30,000 thousand as an upfront payment for the signature of a licensing, development and marketing agreement for Zepsyre™ with Chugai Pharmaceuticals (Note 26), which was received in January 2017.

As of 31 December 2017, accounts receivable amounting to €1,653 thousand were past due (€2,989 thousand in 2016) but had not suffered impairment. The analysis of those accounts receivable by age is as follows (thousand euro):

(thousand euro)	Balance as of 31-12-17	Balance as of 31-12-16
3 - 6 months	1,092	1,162
Over 6 months	561	1,827
Total	**1,653**	**2,989**

The past-due accounts that had not been impaired as of 31 December 2017 and 2016 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 2017, the Group arranged non-recourse factoring agreements with institutions specialized in this type of transaction for €7,178 thousand of debt owed by various public authorities in Spain and Italy (€8,908 thousand in 2016).

The breakdown of the factored debt by country and the interest cost as of 31 December 2017 and 2016, is as follows:

2017	Factored	Interest	Total received
Spain	2,779	17	**2,762**
Italy	4,399	127	**4.272**
	7,178	**144**	**7,034**

2016	Factored	Interest	Total received
Spain	2,651	26	2,625
Italy	6,257	175	6,082
	8,908	**201**	**8,707**

As of 31 December 2017, an impairment loss on accounts receivable was recognized amounting to €266 thousand (€358 thousand in 2016). The changes in provisions for impairment are as follows:

(thousand euro)	Balance as of 31-12-17	Balance as of 31-12-16
Beginning balance	**(1,613)**	**(1,355)**
Provision	(266)	(358)
Reversal	86	5
Bad debts	276	69
Other	(17)	26
Ending balance	**(1,534)**	**(1,613)**

In 2017, provisions were recognized for impairment of debts less than three months past due in the amount of €134 thousand (€220 thousand in 2016) and for debts more than six months past due in the amount of €132 thousand (€137 thousand in 2016). Additionally, €86 thousand in allowances recognized in prior years were reversed (€5 thousand in 2016).

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

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

(thousand euro)	Balance as of 31-12-17	Balance as of 31-12-16
Under 3 months	134	220
Over 6 months	1,400	1,393
Total	**1,534**	**1,613**

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

(thousand euro)	Balance as of 31-12-17	Balance as of 31-12-16
Euro	29,097	62,580
Pound sterling	1,112	-
US dollar	992	-
Other currencies	187	72
Total	**31,388**	**62,652**

The breakdown as of 31 December 2017 and 2016 of receivables from public authorities for sales and services, by geography, is as follows:

(thousand euro)	Balance as of 31-12-17	Balance as of 31-12-16
Spain	2,366	2,310
Austria	201	274
Belgium	214	216
France	362	512
Germany	674	678
United Kingdom	144	114
The Netherlands	-	5
Ireland	32	42
Italy	1,533	3,911
Luxembourg	18	12
Portugal	357	411
Total	**5,901**	**8,485**

As of 31 December 2017 and 2016, the credit rating of the accounts receivable from public authorities, by geography, is as follows:

(thousand euro)	Credit rating	Balance as of 31-12-17		Credit rating	Balance as of 31-12-16
Germany	Aaa	674	Germany	Aaa	678
Andalusia	Baa3	211	Andalusia	Baa3	150
Aragón	BBB-	120	Aragón	BBB-	65
Asturias	BBB	36	Asturias	BBB	69
Austria	Aaa	201	Austria	Aaa	274
Balearic Islands	BBB	128	Balearic Islands	BBB	26
Belgium	AA-	214	Belgium	AA-	216
Canary Islands	BBB-	297	Canary Islands	BBB-	133
Cantabria	BBB	75	Cantabria	BBB	95
Castilla la Mancha	Ba2	114	Castilla la Mancha	Ba2	93
Castilla y León	Baa2	176	Castilla y León	Baa2	138
Catalonia	Ba3	294	Catalonia	Ba3	430
Ceuta and Melilla	-	6	Ceuta and Melilla	-	-
Extremadura	Baa3	5	Extremadura	Baa3	6
France	Aa2	362	France	Aa2	512
Galicia	Baa2	259	Galicia	Baa2	151
United Kingdom	Aa1	144	United Kingdom	Aa1	114
The Netherlands	Aaa	-	The Netherlands	Aaa	5
Ireland	A3	32	Ireland	A3	42
Italy	Baa2	1,531	Italy	Baa2	3,911
Luxembourg	Aaa	18	Luxembourg	Aaa	12
Madrid	Baa2	242	Madrid	Baa2	538
Murcia	Ba2	20	Murcia	Ba2	71
Navarra	A	14	Navarra	A	3
Other	-	-	Other	-	72
Basque Country	Baa1	31	Basque Country	Baa1	27
Portugal	Ba1	357	Portugal	Ba1	411
Rioja	BBB	-	Rioja	BBB	22
Valencia	Ba2	340	Valencia	Ba2	221
Total		**5,901**	**Total**		**8,485**

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 favor of claims for default interest, they are recognized in profit or loss on the date they are collected.

14. OTHER CURRENT ASSETS

The breakdown of “Other current assets” as of 31 December 2017 and 2016 is as follows:

(thousand euro)	Balance as of 31-12-17	Balance as of 31-12-16
Prepaid expenses	2,357	2,149
Balances with public authorities	3,768	1,666
Total	**6,125**	**3,815**

The detail of the balance with public authorities as of 31 December 2017 and 2016, is as follows:

(thousand euro)	Balance as of 31-12-17	Balance as of 31-12-16
VAT	2,917	1,301
Other	851	365
Total	**3,768**	**1,666**

15. INVENTORIES

(thousand euro)	Balance as of 31-12-17	Balance as of 31-12-16
Trade inventories	1,805	2,094
Raw materials and other supplies used	5,237	4,531
Semi-finished products and products in process	7,301	6,209
Finished products	9,371	9,131
By-products, residues and recovered materials	190	193
Total	**23,904**	**22,158**

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 €44,195 thousand in 2017 (€44,120 thousand in 2016) (Note 31).

No material impairment losses were recognized for inventories in 2017 and 2016.

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

16. CASH AND CASH EQUIVALENTS

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

(thousand euro)	Balance as of 31-12-17	Balance as of 31-12-16
Cash on hand and at banks	21,131	12,181
Cash equivalents	2,957	2,109
Total	**24,088**	**14,290**

Cash equivalents as of 31 December 2017, include short-term bank deposits yielding between 0.02% and 0.1% (between 0.05% and 0.15% in 2016) maturing between January and March 2018.

There were no bank overdrafts at the closing date.

17. CAPITAL AND SHARE PREMIUM

As of 31 December 2017, PharmaMar's authorized share capital amounted to €11,132 thousand and was represented by 222,649 thousand shares, with a par value of €0.05 per share. All PharmaMar shares have been fully subscribed and paid.

(thousand euro / thousand shares)	No. of shares	Share capital	Share premium account	Own shares
Balance as of 1 January 2016	**221,309**	**11,110**	**69,189**	**(2,944)**
Own shares sold	1,395	-	-	3,862
Own shares purchased	(1,709)	-	-	(4,165)
Balance as of 1 January 2017	**220,995**	**11,110**	**69,189**	**(3,247)**
Own shares sold	1,530	-	-	4,378
Own shares purchased	(1,906)	-	-	(6,186)
Share ownership plans	212	-	-	585
Capital increase	444	22	2,089	-
Balance as of 31 December 2017	**221,275**	**11,132**	**71,278**	**(4,470)**

The number of shares in the foregoing table has been adjusted to take account of own shares acquired by the Group, including shares delivered to employees under share-ownership plans which, under the conditions of those plans, are subject to lock-up and may not be disposed of by the employees to whom they have been granted.

In May 2017, the Company carried out a capital increase by issuing 444,400 new ordinary shares representing 0.2% of share capital at a subscription price per share of €4.75 (€0.05 par value plus €4.70 issue premium). The capital increase was subscribed in full by The Specialised Therapeutics Unit Trust (STA Trust). This transaction was carried out within the scope of a licensing agreement signed on the same date with Specialised Therapeutics Asia Pte, Ltd.

The total amount of the capital increase (par value plus share premium) amounted to €2,110,900 (€22,220 par value and €2,088,680 total issue premium).

Own shares

The number of shares outstanding as of 31 December 2017, was 221,275 thousand (220,995 thousand in 2016). 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 31 December 2017, the parent company held 1,374 thousand treasury shares (1,210 thousand shares in 2016).

In 2017, the Group acquired 1,906 thousand own shares (1,709 thousand in 2016) for €6,186 thousand (€4,165 thousand in 2016), and sold 1,530 thousand own shares (1,395 thousand in 2016), recognizing a gain of €611 thousand (a loss of €329 thousand in 2016).

According to information in the official registers of the National Securities Market Commission as of 31 December 2017, the 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 (1)	14,318,261	6.431%	10,354,841	4.651%	11.082%

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

18. 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 (€2,226 thousand) can be used to increase capital provided that the remaining balance of the reserve is not 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 controlling 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 controlling 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 research and development expenses under assets on the controlling company's balance sheet.

The proposed distribution of 2017 income and other reserves to be submitted to the Shareholders' Meeting for approval, and the distribution approved for 2016, are as follows:

(thousand euro)	2017	2016
Basis of distribution		
Income for the year	(136,841)	(11,474)
	(136,841)	**(11,474)**
Distribution		
Prior years' losses	(136,841)	(11,474)
	(136,841)	**(11,474)**

The only restrictions on distribution of dividends are those laid down by law.

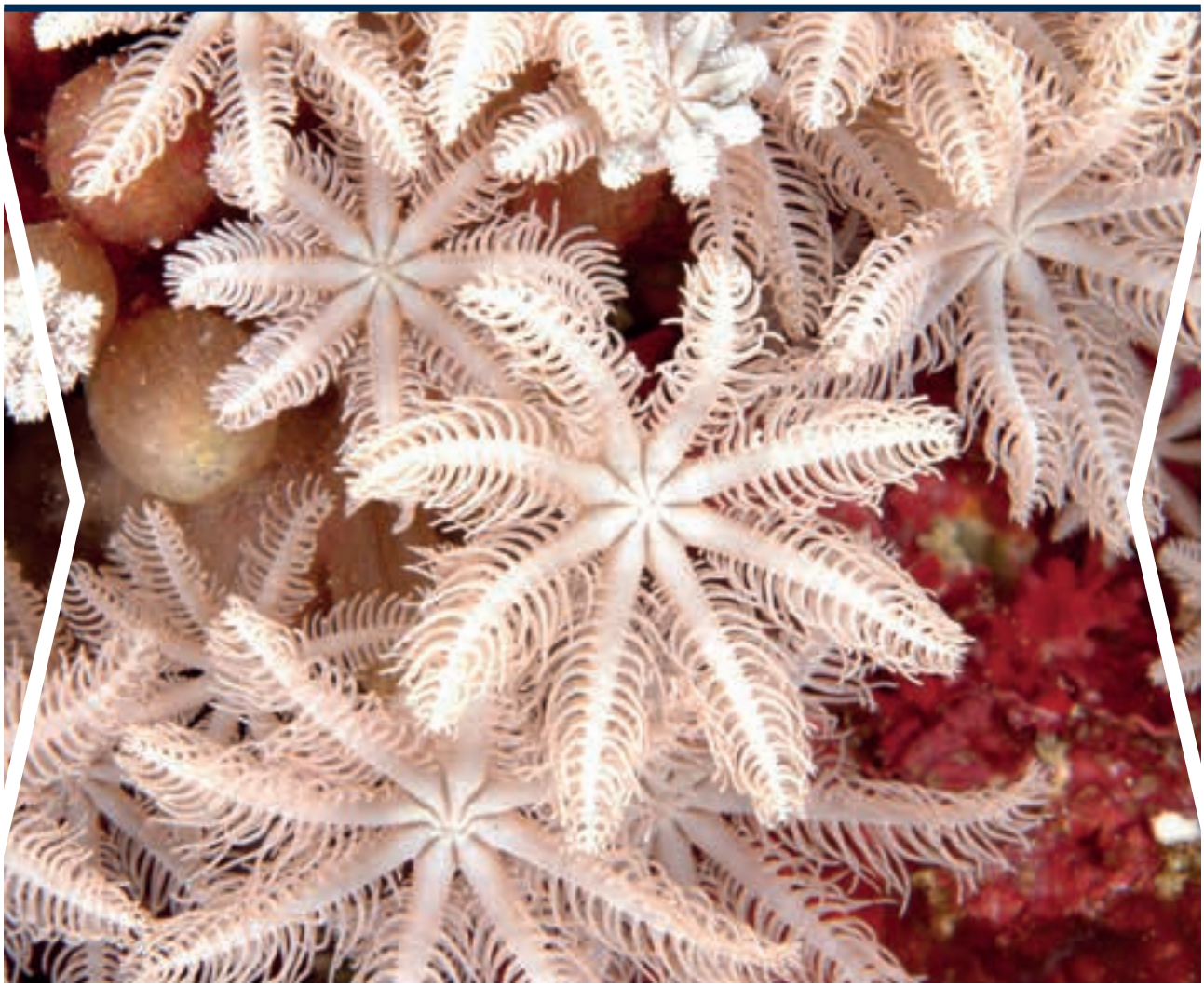
19. NON-CONTROLLING INTERESTS

There were no changes in 2017 and 2016 in the share capital of "Noscira, S.A. en liquidación", the only undertaking in the group in which there are minority shareholders.

The changes in non-controlling interests in 2017 and 2016 are as follows:

(thousand euro)	Minority Interest
Balance as of 1 January 2016	**(3,838)**
2016 income	(25)
Balance as of 1 January 2017	**(3,863)**
2017 income	(19)
Balance as of 31 December 2017	**(3,882)**

Noscira reported a net loss of €71 thousand in 2017 (a net loss of €92 thousand in 2016), of which €19 thousand corresponded to non-controlling interests (€25 thousand in 2015), in line with their 26.7% stake in the company.



20. SUPPLIER AND OTHER ACCOUNTS PAYABLE

The composition of this caption is as follows:

(thousand euro)	Balance as of 31-12-17	Balance as of 31-12-16
Debts for purchases and services received	35,830	36,712
Debts to related parties	777	752
Advances received for orders	659	1,234
Other accounts payable	170	477
Total	**37,436**	**39,175**

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 and are outstanding (€674 thousand as of 31 December 2016, €663 thousand as of 31 December 2016), and accrued outstanding allocations to directors of Genómica who are also directors of PharmaMar (€28 thousand as of 31 December 2017, and €14 thousand in 2016) and €75 thousand for directors of Noscira in 2017 and 2016.

Information on payments for commercial transactions performed in 2017 and pending payment at the end of the year in relation to the maximum legal payment periods envisaged in Act 15/2010 is as follows:

	2017	2016
Average period taken to pay suppliers (days):	49	51
Transactions paid (days)	50	53
Transactions outstanding (days)	46	25
Total payments made (thousand euro)	78,540	82,721
Total payments outstanding (thousand euro)	11,204	10,676

The average supplier payment lag in the year between 1 January and 31 December 2017 was 49 days (51 days in 2016).

The foregoing disclosure refers only to companies domiciled in Spain.

21. CURRENT AND NON-CURRENT DEFERRED REVENUES

The breakdown of these items as of 31 December 2017 and 2016, is as follows:

Non-current deferred revenues

The composition of this caption is as follows:

- The deferred revenue component refers to €5,104 thousand corresponding to the non-current portion of the upfront payment under the licensing and development contract signed by PharmaMar and Chugai Pharmaceuticals. The upfront payment totaled €30,000 thousand, of which €8,888 thousand were recognized as revenue in 2017 (Note 26).
- grants to fund 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 subsidized interest rates.

(thousand euro)	Balance as of 31-12-17	Balance as of 31-12-16
Subsidies	2,130	2,790
Deferred revenues	5,104	14,000
Total	**7,234**	**16,790**

Current deferred revenues

This item refers to the short-term part of deferred revenue basically from the upfront payment under the licensing and development contract signed by PharmaMar and Chugai Pharmaceuticals. The up-front payment totaled €30,000 thousand of which €6,000 thousand was recognized as revenue in 2016 (Note 26).

(thousand euro)	Balance as of 31-12-17	Balance as of 31-12-16
Deferred revenues	10,221	10,012
Total	**10,221**	**10,012**

22. OTHER CURRENT AND NON-CURRENT LIABILITIES

Other non-current liabilities, amounting to €785 thousand (€1,105 thousand in 2016), refer mainly to retirement benefit obligations amounting to €599 thousand (€607 thousand in 2016).

Other current liabilities amounting to €2,826 thousand (€3,083 thousand in 2016) refer basically to balances owed to public authorities amounting to €2,478 thousand (€2,996 thousand in 2016).

23. BORROWINGS

The breakdown of the Group's non-current and current interest-bearing debt as of 31 December 2017 and 2016, is as follows:

Breakdown of non-current debt:

(thousand euro)	Balance as of 31-12-17	Balance as of 31-12-16
Bank debt	33,394	25,351
Bonds and other marketable securities	16,350	16,350
Interest-bearing debt to official authorities	23,863	25,882
Total	**73,607**	**67,583**

Breakdown of current debt:

(thousand euro)	Balance as of 31-12-17	Balance as of 31-12-16
Bank debt	21,002	23,002
Bonds and other marketable securities	510	466
Interest-bearing debt to official authorities	4,730	4,438
Finance lease liabilities	153	-
Total	**26,395**	**27,906**

A) Bank debt

Non-current and current debt consists of bank loans, credit lines and discounted bills, as detailed in the table below as of 31 December 2017 and 2016:

(thousand euro)	No. of products	Maturities	Balance as of 31-12-17	No. of products	Maturities	Balance as of 31-12-16
Non-current debt						
PharmaMar	10	2021-2024	33,231	5	2018 a 2022	24,794
Genómica	1	2019	163	3	2019	431
Zelnova	-	-	-	1	2018	126
Total non-current debt	**11**		**33,394**	**9**		**25,351**
Current debt						
Bank loans						
PharmaMar	10	2021-2024	8,278	16	-	9,891
Genómica	3	2019	273	3	-	293
Zelnova	1	2017	125	1	-	501
	14		**8,676**	**20**		**10,685**
Credit lines						
PharmaMar	15	2018	8,784	17	-	9,673
Genómica	6	2018	1,190	7	-	1,015
Zelnova	3	-	-	4	-	270
	24		**9,974**	**28**		**10,958**
Bills and certificates						
PharmaMar	-	-	1,799	-	-	5
Xylazel	-	-	404	-	-	1,233
			2,203			**1,238**
Interest and other accounts payable						
PharmaMar	-	-	95	-	-	74
Xylazel	-	-	54	-	-	44
Sylentis	-	-	-	-	-	3
			149			**121**
Total current debt			**21,002**			**23,002**

Non-current debt

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

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

(thousand euro)	Balance as of 31-12-17	Balance as of 31-12-16
2018	-	5,649
2019	9,113	5,559
2020	9,155	5,539
2021	8,123	4,444
2022 and thereafter	7,003	4,160
Total	**33,394**	**25,351**

Current debt

Current bank debt is broken down as follows:

(thousand euro)	Balance as of 31-12-17	Balance as of 31-12-16
Bank loans	8,676	10,685
Credit lines	9,974	10,958
Discounted bills and certifications	2,203	1,238
Interest and other accounts payable	149	121
Total	**21,002**	**23,002**

Some credit lines are renewed automatically and experience to date shows that they have been renewed systematically with the same banks. As of 31 December 2017, the Group had 24 credit lines (28 in December 2016) with a total limit of €29,120 thousand (€31,420 thousand in 2016).

At the date of authorization of these consolidated financial statements, the Group had signed agreements which extend the maturity of €3,000 thousand of current debt (€5,000 thousand in 2016).

The vast majority of the loans and credit lines are at floating interest rates consisting of Euribor plus a spread of between 1.25% and 3.25% (between 1.45% and 3.75% in December 2016).

The effective interest rates as of 31 December are:

	2017	2016
Bank overdrafts	25.50%	29.00%
Bank loans	2.37%	3.85%
Credit lines	2.90%	2.59%
Discounted notes	2.05%	1.41%

The Group's exposure to bank debt at floating rates is €22,953 thousand as of 31 December 2017 (€31,748 thousand in 2016), indexed mainly to three-month Euribor.

All the bank loans are arranged in euro.

Bonds and other marketable securities

In 2015, the controlling company issued non-convertible bonds for an amount of €17,000 thousand 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;
- 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 €100 thousand, represented by book entries.
- The bonds bear a fixed coupon of 4.75% per annum payable in arrears every year from the date of disbursement;
- The Company is liable for the obligations arising from the bonds with all its assets and no specific guarantee is granted;
- The terms and conditions of the bonds are governed by Spanish law;
- The controlling company applied to list the bonds on the Alternative Fixed-Income Market (MARF) on July 7, 2015.

B) Interest-bearing debt to public authorities

This item refers mainly to funding from official authorities consisting of loans and advances that are interest-free (or at rates substantially below market rates) and are repayable in seven years, after a three-year grace period, which finance research and development projects.

As of 31 December 2017, the Group had debt balances with official authorities for a total of €28,593 thousand, calculated on the basis of cash flows discounted at Euribor plus a spread based on the Group's risk (€30,320 thousand in 2016), of which €23,863 thousand were non-current (€25,882 thousand in 2016) and €4,730 thousand were current (€4,438 thousand in 2016).

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

(thousand euro)	Balance as of 31-12-17	Balance as of 31-12-16
2018	-	4,479
2019	4,454	4,163
2020	4,780	4,457
2021	4,079	4,457
2022 and thereafter	10,550	8,326
Total	**23,863**	**25,882**

C) Fair value

The fair value and carrying amount of the non-current and current interest-bearing debt as of 31 December 2017 and 2016 are as follows:

	Fair value		Carrying amount	
(thousand euro)	2017	2016	2017	2016
Non-current				
Bank loans	33,394	25,351	33,394	25,351
Due to official authorities	29,000	30,807	23,863	25,882
Bonds	17,000	17,000	16,350	16,350
Total	**79,394**	**73,158**	**73,607**	**67,583**
Current				
Bank loans	8,676	10,955	8,676	10,955
Credit lines	9,973	10,689	9,974	10,689
Unmatured discounted bills and certifications	2,203	1,238	2,203	1,238
Interest payable	94	74	94	74
Due to official authorities	5,470	5,278	4,730	4,438
Bonds	510	466	510	466
Finance lease liabilities	153	-	153	-
Other debt	54	46	55	46
Total	**27,133**	**28,746**	**26,395**	**27,906**

24. DEFERRED TAXES AND INCOME TAX

i. Deferred taxes

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

Deferred tax assets, net (thousand euro)	**2017**	**2016**
Deferred tax assets	37,684	40,127
Deferred tax liabilities	(4,203)	(5,828)
Total	**33,481**	**34,299**

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

Deferred tax assets (thousand euro)	**R&D expenses / Tax loss carryforwards**	**Tax withholding**	**Intangible assets and property, plant and equipment**	**Other**	**TOTAL**
As of 1 January 2016	**23,552**	**6,220**	**4,523**	**4,067**	**38,362**
Tax withholding	-	508	-	-	508
Recognised in profit or loss	1,781	-	(485)	(39)	1,257
As of 31 December 2016	**25,333**	**6,728**	**4,038**	**4,028**	**40,127**
Tax withholding	-	3,696	-	-	3,696
Recognised in profit or loss	(4,877)	-	(504)	(758)	(6,139)
As of 31 December 2017	**20,456**	**10,424**	**3,534**	**3,270**	**37,684**

The "Tax credits for R&D" item includes differences in accounting treatment for research and development expenses between local and international standards and unused tax losses that have been capitalized on the balance sheet.

The "Withholding tax recoverable" column as of 31 December 2017 and 2016 includes taxes withheld from royalties and payments received from other countries under licensing agreements.

Deferred tax liabilities (thousand euro)	Revaluation of investment property	Revaluation of brands with indefinite useful lives	Capital subsidies and other	TOTAL
As of 1 January 2016	**(1,025)**	**(2,149)**	**(2,609)**	**(5,783)**
Recognised in profit or loss	-	(80)	35	(45)
As of 31 December 2016	**(1,025)**	**(2,229)**	**(2,574)**	**(5,828)**
Recognised in profit or loss	-	-	1,625	1,625
As of 31 December 2017	**(1,025)**	**(2,229)**	**(949)**	**(4,203)**

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

The Group analyzed the amounts of unused tax losses and the differences due to different accounting treatment to be used in the tax returns for the years 2018 to 2027. As a result of this analysis, the Group did not take account of €102 million in unused tax losses (€55 million in 2016) or differences in accounting treatment amounting to €75 million (€157 million in 2016).

At the same date, there are also unused tax credits that have not been recognized in the balance sheet amounting to €197,494 thousand (€189,982 thousand in 2016).

Those unused tax losses and the differences due to different accounting treatment and deductions were not recognized in relation to deferred tax assets at the end of 2017 and 2016 as a result of the analysis performed by the Group as described in Note 4 "Accounting estimates and judgments".

The following table shows the validity periods of unused tax credits that have specific expiry dates but were not recognized as deferred tax assets as of 31 December 2017:

Tax credits generated by:	Total amount	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032 and thereafter
Unused R&D tax credits	191,299	4,890	12,522	13,383	9,776	11,012	10,854	10,118	11,469	9,809	9,452	9,342	8,127	10,669	9,146	50,730
Other unused tax credits	6,195	-	-	5,273	370	168	384	-	-	-	-	-	-	-	-	-
TOTAL	**197,494**	**4,890**	**12,522**	**18,656**	**10,146**	**11,180**	**11,238**	**10,118**	**11,469**	**9,809**	**9,452**	**9,342**	**8,127**	**10,669**	**9,146**	**50,730**

ii.Income tax

In 2017, the corporate income tax return was filed on a group basis by the tax group headed by PharmaMar and comprising the following Group undertakings: Genómica, S.A.U., Zelnova Zeltia, S.A., Xylazel, S.A., and Sylentis, S.A.U. The other companies, namely 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, Genómica Brasil Ltda, Copyr, SpA and Noscira, S.A. en liquidación, file individual tax returns.

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)	2017	2016
Income before taxes	**(22,860)**	**(24,699)**
Tax rate (25%)	**5,715**	**6,175**
Tax effect of:		
- Exempt revenues and other minor items	2,090	1,541
- Reversal of impairment	(2,213)	(2,213)
- Other adjustments	(12,496)	(4,911)
- Monetization of tax credits	3,000	-
Tax revenue (expense)	**(3,904)**	**592**

In the preceding table, the tax-exempt revenue is 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.

One-fifth of the impairment recognized in previous years was reversed for tax purposes in 2017 and 2016 due to the investment in subsidiary Noscira (in liquidation), resulting in an increase in the tax expense in the amount of €2.2 million each year.

As of 31 December 2017 and 2016, the Other adjustments item includes the effect of not recognizing all the prepaid taxes that would arise from the tax losses generated in the year.

Additionally, during 2017, the company recognized €3,000 thousand in revenue under the tax expense heading as a result of monetizing research and development tax credits.

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

(thousand euro)	2017	2016
Current tax	610	(620)
Deferred tax	(4,514)	1,212
Total	**(3,904)**	**592**

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 29%. The effect of differences with respect to the tax rates applicable to the other subsidiaries located outside Spain is not material.

On 3 December 2016, Royal Decree-Law 3/2016, approved on Friday, 2 December, was published in Spain's Official State Gazette (BOE). The main measures introduced by this legislation affect corporate income tax, many of which have an impact on the 2016 financial year.

They include notably:

- The new regulation capping the offset of tax losses by companies with turnover exceeding €60 million reduces the scope for offsetting tax losses from 70% to 25%.
- Double taxation tax credits are capped at 50% of the gross tax payable.
- Reversal of impairment of equity holdings that was deductible in tax years prior to 2013 must be recognized on a straight-line basis over at least 5 years.

All these developments affected the controlling company's calculation of corporate income tax and also had an impact on the plans for recovery of deferred taxes recognized by the Company.

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

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

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

	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.U.	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. Currently, there are 14 appeals before the Regional Economic-Administrative Tribunal (TEAR) and 7 appeals before the Central Economic-Administrative Tribunal (TEAC).

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 group's appeals were to fail, the tax payable would be zero and no late payment interest would accrue.

The amount of tax due plus late payment interest and penalties that would be payable in the event that none of the appeals succeeded would not result in a material reduction in the assets recognized by the Group.

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

25. PROVISIONS FOR OTHER LIABILITIES AND EXPENSES

As of 31 December 2017 and 2016, 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 euro)	Balance as of 31-12-17	Balance as of 31-12-16
Beginning balance	**6,988**	**6,306**
Provision for expenses	5,019	6,687
Payments	(5,776)	(5,997)
Transfers and other	1	(8)
Ending balance	**6,232**	**6,988**

26. NET REVENUES

Revenue in 2017 and 2016, as disclosed in Note 5, broken down by segment and geography, is as follows:

(thousand euro)	Balance as of 31-12-17	Balance as of 31-12-16
Product sales	185,807	187,392
Returns, rebates and volume discounts	(23,189)	(23,357)
Net sales	**162,618**	**164,035**
Licensing and co-development agreements	12,357	11,129
Royalties	4,362	5,779
Services provided	26	5
Total	**179,363**	**180,948**

The Group has licensing and co-development agreements with a number of pharmaceutical companies. The breakdown of revenue as a result of these agreements, including royalties, in 2017 and 2016 is as follows:

(thousand euro)	2017	2016
Johnson & Johnson Group (Janssen Products LP) (Yondelis®)	3,913	5,202
Taiho (Yondelis®)	449	577
Total royalties	**4,362**	**5,779**
Other contracts (PM183)	969	1,129
Chugai Pharma (Aplidin®)	-	4,000
Eczacibasi (Aplidin®)	500	-
Chugai Pharma (PM1183)	10,888	6,000
Total licenses	**12,357**	**11,129**
Total	**16,719**	**16,908**

Janssen Products LP (Yondelis®)

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

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

- Co-development of Yondelis® from the date of signature of the agreement up to marketing, and financing of a percentage of total development costs incurred by the two parties;
- Assignment to OBP of the future marketing rights for the United States and the rest of the world except Europe (retained by the Group). For this assignment, the Group will collect royalties based on OBP's sales.
- The Group retains the exclusive right to manufacture the active ingredient, which will be supplied to OBP on a cost-plus basis;

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

The amounts attributed to the development phase are recognized as revenue during the development phase based on the degree of progress with development and the project's total estimated costs. As of 31 December 2017, the Group did not have any amounts pending recognition since all the necessary obligations had been fulfilled and the related expenses had already been incurred by PharmaMar. Consequently, PharmaMar did not recognize any amount under this heading in 2017 and 2016.

The amounts attributed to the marketing phase are royalties, which are recognized on an accrual basis. In 2017, royalties were recognized in the amount of €3,913 thousand for sales of Yondelis® (€5,202 thousand in 2016).

Taiho Pharmaceutical Co (Yondelis®)

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

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

- 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 2015, Taiho obtained authorization from the Japanese regulator (PMDA) to market Yondelis® for the treatment of several subtypes of soft tissue sarcoma.

As a result, royalties for marketing Yondelis® in Japan were recognized in the amount of €449 thousand in 2017 (€577 thousand in 2016).

Chugai Pharma Marketing Co. (Aplidin®)

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

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

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

The Group did not collect any amount under this agreement in 2017.

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

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

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

The Company did not collect any amount under this agreement in 2017.

Specialised Therapeutics Asia Pte, Ltd (Aplidin®)

In February 2016, a licensing agreement was signed with Singapore-based Specialised Therapeutics Asia Pte, Ltd (STA) to market marine-based anti-tumor compound Aplidin® (plitidepsin) for the treatment of hematological tumors in 12 Asian countries: PharmaMar received, and recognized as revenue, an up-front payment in the amount of €229 thousand in 2016. The Company did not collect any amount under this agreement in 2017.

Boryung Pharmaceutical (Aplidin®)

In October 2016, a licensing agreement was signed with Boryung Pharm to commercialize the marine-derived anticancer drug Aplidin® (plitidepsin) in South Korea. Under the terms of the agreement, PharmaMar will receive an upfront payment along with royalties and additional remuneration upon achieving regulatory milestones with Aplidin®. PharmaMar will retain exclusive production rights and will supply the finished product to Boryung for commercial use. In 2016, PharmaMar received, and recognized as revenue, an up-front payment amounting to €450 thousand and a regulatory milestone amounting to €450 thousand. The Group did not collect any amount under this agreement in 2017.

Eip Eczacibasi Ilac Pazarlama A.S. (Aplidin®)

In May 2017, an agreement was signed with Turkish company Eip Eczacibasi Ilac Pazarlama A.S to market marine-based anti-tumor compound Aplidin® (plitidepsin) in Turkey for the treatment of hematological tumors. PharmaMar received, and recognized as revenue, an up-front payment in the amount of €500 thousand.

Chugai Pharmaceutical Co. (Zepsyre™)

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

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

- Assignment to Chugai of the future marketing rights for Japan. For this assignment, the Group will collect tiered royalties based on Chugai's sales in Japan. The agreement also

established milestone payments as a function of accumulated sales.

- The Group retains the exclusive right to manufacture the active ingredient, which will be supplied to Chugai.
- PharmaMar will carry out certain clinical trials outside Japan, which are described in the agreement and had already commenced at the time it was signed.
- PharmaMar will carry out certain clinical trials with the molecule for Japan.
- Under the terms of the agreement, PharmaMar will receive an upfront payment of €30,000 thousand, along with royalties and additional payments based on development, regulatory and commercial milestones. Additionally, PharmaMar will receive payments related to the clinical trials performed with the molecule for Japan.

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

In 2017, PharmaMar recognized revenue in the amount of €8,888 thousand under the heading "Licensing and development agreements" that correspond to the part of the upfront payment accrued by the company on the basis of the degree of progress with the Phase III trials in 2017.

Additionally, in 2017 the Company collected €2,000 thousand for reaching the first of the clinical milestones contemplated in the agreement, and it recognized that amount as revenue in the year.

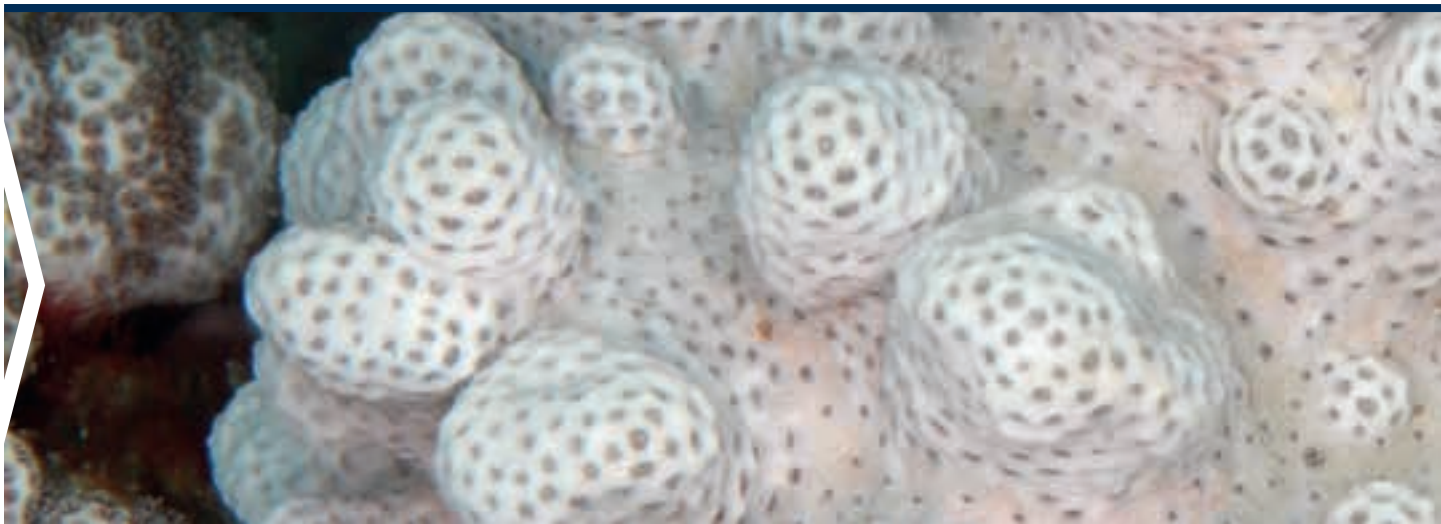
At December 2016, the Group recognized €6,000 thousand under “Licensing and development agreements”, relating to the part of the upfront payment accrued by the Company as consideration for the progress already attained at the date of the signature of the agreement, namely: enrollment of the first patients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

Specialised Therapeutics Asia Pte, Ltd (Zepsyre™)

In May 2017, PharmaMar signed a licensing agreement with Singapore-based Specialised Therapeutics Asia Pte, Ltd (STA) for commercialization of marine-derived anti-tumor compound Zepsyre™ (Lurbinectedin). PharmaMar collected €179 thousand as the upfront payment and recognized €147 thousand as revenue on the basis of the degree of progress with the Phase III trials. In connection with this licensing agreement, STA subscribed for 444,400 shares of PharmaMar for a total amount of €2,211 thousand (Note 17).

Boryung Pharmaceutical (Zepsyre™)

In November 2017, a licensing agreement was signed with Boryung Pharma to market the marine-based anti-tumor compound Zepsyre™ (Lurbinectedin) in South Korea. PharmaMar collected €1,000 thousand as the upfront payment and recognized €822 thousand as revenue on the basis of the degree of progress with the Phase III trials.

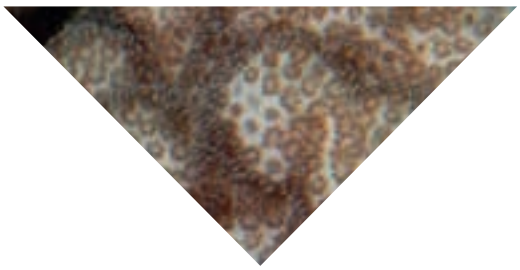


27. RESEARCH & DEVELOPMENT EXPENSES

The following table shows the amounts spent on R&D by business segment in 2017 and 2016:

2017					
	Oncology	**Diagnostics**	**RNAi**	**Consumer chemicals**	**TOTAL**
Total expenses	(71,190)	(1,980)	(5,371)	-	(78,541)
Capitalized expenses	785	-	-	-	785
Research & development expenses	**(70,405)**	**(1,980)**	**(5,371)**	**-**	**(77,756)**

2016					
	Oncology	**Diagnostics**	**RNAi**	**Consumer chemicals**	**TOTAL**
Total expenses	(72,301)	(2,426)	(4,890)	(163)	(79,780)
Capitalized expenses	1,357	-	-	-	1.357
Research & development expenses	**(70,944)**	**(2,426)**	**(4,890)**	**(163)**	**(78,423)**



28. GENERAL, ADMINISTRATION AND OTHER OPERATING EXPENSES

Consolidated general and administration expenses amounted to €20,745 thousand in 2017, 2% more than in 2016 (€20,328 thousand).

Consolidated other operating expenses, mainly related to corporate functions, amounted to €11,158 thousand in 2017, 3.5% more than in 2016 (€10,777 thousand).

29. MARKETING EXPENSES

Commercial and marketing expenses decreased by 6% with respect to 2016, to €44,756 thousand in 2017 (€47,688 thousand in 2016). Expenses under this heading in the oncology segment amounted to €24,118 thousand, compared with €26,884 thousand in 2016. This decline was due mainly to the decrease in medical sales activities, greater turnover of the sales staff, and lower distribution costs. The consumer chemicals division accounted for €18,497 thousand in 2017 (€18,606 thousand in 2016).

30. OTHER REVENUES

The breakdown of other revenue, by type, is as follows:

(thousand euro)	Balance as of 31-12-17	Balance as of 31-12-16
Capital subsidies	3,585	1,078
Other gains	239	455
Total	**3,824**	**1,533**

31. BREAKDOWN OF EXPENSES BY TYPE

The breakdown of operating expenses, by type, is as follows:

(thousand euro)	Balance as of 31-12-17	Balance as of 31-12-16
Changes in finished product and product-in-process inventories	(1,332)	1,116
Raw materials and other supplies used	45,527	43,004
Employee benefit expenses	55,447	53,575
Depreciation and amortization	7,060	7,243
Impairment losses	2,142	171
Transport	5,414	5,363
Marketing expenses	15,967	20,118
Other expenses	70,643	70,814
Total	**200,868**	**201,404**

Other expenses include mainly expenses related to research and development, as well as services received, communications, utilities, travel, security, and directors' remuneration.

32. EMPLOYEE BENEFIT EXPENSES

The breakdown of employee benefit expenses is as follows:

(thousand euro)	Balance as of 31-12-17	Balance as of 31-12-17
Salaries and wages	42,220	42,404
Indemnities	2,020	426
Social security	8,956	8,596
Pension cost	136	138
Share ownership plans	225	303
Other welfare expenses	1,890	1,708
Total	**55,447**	**53,575**

The average number of employees by category is as follows:

	31-12-17	31-12-16
Management	42	42
Technical professionals	319	300
Clerical personnel	111	116
Commercial personnel	120	133
Other employees	135	122
Total	**727**	**713**

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

(Men)	31-12-17	31-12-16
Management	27	28
Technical professionals	122	115
Clerical personnel	39	43
Commercial personnel	74	76
Other employees	74	68
Total	**336**	**330**

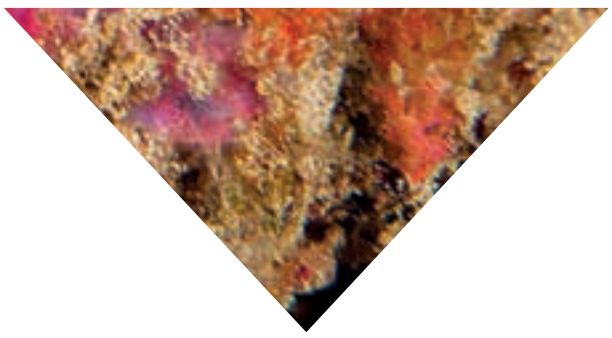
(Women)	31-12-17	31-12-16
Management	15	14
Technical professionals	197	185
Clerical personnel	72	73
Commercial personnel	46	57
Other employees	61	54
Total	**391**	**383**

The average number of employees by gender is as follows:

	31-12-17	31-12-16
Men	336	330
Women	391	383
Total	**727**	**713**

As of 31 December 2017, two of the nine members of the Board of Directors were women (two in 2016). Among PharmaMar's 19 executives (the same number as in 2016), including executive directors at the closing date, there were six women (seven women in 2016).

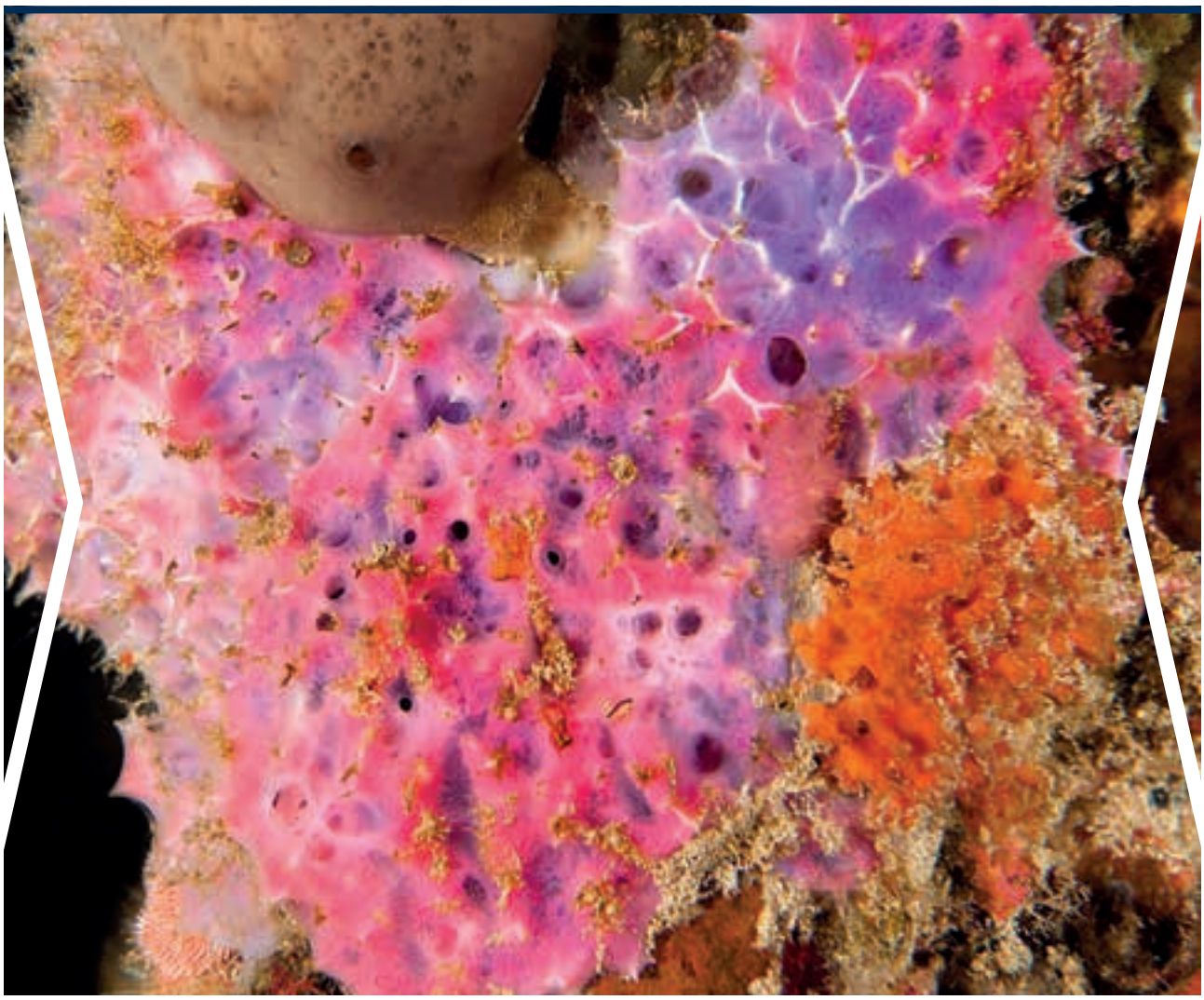
The consolidated Group companies have an average of 13 employees with disabilities greater than or equal to 33% (11 employees in 2016).



33. NET FINANCIAL INCOME

(thousand euro)	Balance as of 31-12-17	Balance as of 31-12-17
On debts to third parties and similar expenses	5,124	5,214
Losses on financial assets	-	642
Exchange loss	812	805
Financial expenses	**5,936**	**6,661**
Other interest and similar revenues from other companies	102	193
Gains on financial assets	-	63
Fair value changes in financial assets	-	14
Exchange gains	655	398
Financial revenues	**757**	**668**
Total net financial income	**(5,179)**	**(5,993)**

The "Losses on financial investments" relates to the loss recognized in 2016 due to the sale of subsidiary Promaxsa Protección de Madera, S.L., as indicated in Note 1.



34. 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.

Basic earnings per share in 2017 and 2016 were as follows:

	2017	2016
Income attributable to equity-holders of the parent company (thousand euro)	(26,745)	(24,082)
Weighted average number of outstanding ordinary shares (thousand)	220,677	220,594
Basic earnings per share (euro)	**(0.12)**	**(0.11)**

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 2017 and 2016 were as follows:

	2017	2016
Income attributable to equity-holders of the parent company (thousand euro)	(26,745)	(24,082)
Weighted av. no. of ordinary shares for diluted earnings per share (thousand shares)	221,181	221,010
Diluted earnings per share (euro)	**(0.12)**	**(0.11)**

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:

	2017	2016
Weighted average number of outstanding ordinary shares (thousand shares)	220,677	220,594
Adjustments for: Employee share ownership plan (thousand shares)	504	416
Weighted av. no. of ordinary shares for diluted earnings per share (thousand shares)	**221,181**	**221,010**

35. RELATED-PARTY TRANSACTIONS

The following are considered to be related parties of the controlling company for the purposes of this note: the Company's significant shareholders, directors and executives, the close relatives of all of them and the companies over which any of those persons have a significant influence.

Significant shareholders are those who own over 3% of 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 paid in 2017 and 2016 to directors of PharmaMar:

Remuneration item (thousand euro)	**31-12-17**	**31-12-16**
Fixed remuneration for executive directors	1,128	1,111
Variable remuneration for executive directors	157	257
Fixed remuneration for belonging to the Board of Directors	567	559
Board and Board committee attendance fees	386	393
Fixed remuneration for belonging to Board committees	529	515
Fixed remuneration for belonging to Boards of other Group companies	109	115
Remuneration for Lead Independent Director	16	16
Other remuneration	335	337
	3,227	**3,303**

The "Other remuneration" item in 2017 and 2016 refers to certain benefits paid to the Company's Chairman and Vice-Chairman, such as casualty and health insurance (both under the group policy for Company employees), an executive office at the Company's operational headquarters, communication equipment, means of payment, support staff, security systems and personnel, and a vehicle commensurate with their functions. Additionally, each year the Company pays €12 thousand in premiums for life and saving insurance (life insurance-savings plan) for each of the two executive directors.

With respect to the executive director's variable remuneration, €156.5 thousand have accrued to date as a result of evaluation of objectives approved by the Board of Directors at its meeting of 28 February 2018, based on a proposal by the Appointments and Remuneration Committee. That evaluation of objectives has not concluded, since an additional €52.2 thousand would accrue in the event of a favorable outcome to the pending appeal (re-examination) against the negative opinion with regard to authorization to market Aplidin® in the European Union, as detailed in the following paragraphs. That compensation, if it accrued, would be charged against the fulfillment of the targets for 2017 variable remuneration and would be classified as 2017 variable remuneration.

As of 31 December, the advances and loans granted by the Group to the members of the Board of Directors in 2017 amounted overall to 45 thousand euro, on which interest is not earned in accordance with the transitory provisions of the Personal Income Tax Act.

The company has arranged a civil liability policy for the members of the Company's Board of Directors. The premium paid in 2017 amounted to €182 thousand.

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 2017 and 2016 were not material, formed part of the normal business of the Company or its subsidiaries, and were performed on an arm's-length basis.

A company related to one member of the Board of Directors provided services to two Group undertakings amounting to €15 thousand (€15 thousand in 2016).

Transactions with executives of the controlling company

Company senior management received an aggregate total of €1,722 thousand in 2017 (€1,661 thousand in 2016). One of those executives is a director at another Group undertaking and collected €19 thousand under this heading in 2017 (€16 thousand in 2016), which are not included in the foregoing aggregate figure.

36. SHARE-BASED PAYMENTS

At the end of 2017, PharmaMar and the Group companies have three share ownership plans for executives and current employees. Those plans are for Group employees and executives (not including directors of Pharma Mar, S.A.) who receive annual variable remuneration, have an indefinite contract, have passed any trial period and have attained at least 50% of the objectives set for the year by their Department Head or their hierarchical superior, excepting the Share Ownership Plan approved by the Shareholders' Meeting of Zeltia (merged company) on 12 June 2013 and implemented by a decision of the Board of Directors on 28 February 2014, for which the threshold was 60%.

The plans for 2014 and 2015 were approved by the Shareholders' Meeting of Zeltia (merged company) and executed by its Board of Directors. As a result of the merger described in Note 1, PharmaMar, succeeded Zeltia in the other rights and obligations inherent in such plans. The Plan for 2017 was approved by PharmaMar's Shareholders' Meeting on 23 June 2016 and executed by the Executive Committee on 8 March 2017.

Below are details of the essential terms and conditions of the current share ownership plans as executed at the date of authorizing these financial statements. At the start of each year, each Group company that has decided to apply the Share Ownership Plan provides the Board of Directors with a list of plan beneficiaries (i.e. employees who meet the conditions established in the relevant decision by the Shareholders' Meeting) which details the degree of attainment by the beneficiary of the objectives set for the year just ended. Given that participation in such plans has, until now, been voluntary, only employees and executives who have decided to participate in the plans and allocate part or all of their variable remuneration to those plans are included in such lists. In the light of the foregoing, the Board of Directors approves that such beneficiaries be granted, by their respective employers, the amounts in shares specified in such lists (in no event can such amounts exceed €12,000 per beneficiary per year), which includes, for each beneficiary, a multiplier coefficient based on their level of attainment of the objectives for the previous year (and which is used as a basis for calculating the amount in shares). The number of shares to be delivered to each beneficiary is the result of dividing the amount of variable remuneration allocated to the plan, multiplied by the corresponding coefficient, by the value attributed to the shares, which is the lower of: the weighted average price of the PharmaMar share in the electronic market on the plan's execution date or the arithmetic mean of the weighted average price of the PharmaMar share in the electronic market in the month prior to execution.

Participation in these Plans by executives and employees has been voluntary to date; those who elect not to participate in the plans collect their variable remuneration entirely in cash, but without a multiplier being applied.

The beneficiaries have the political and economic rights deriving from ownership of all the shares from the moment the shares are actually delivered, although they are subject to a lock-up arrangement. In the Share Ownership Plans that were in force at 2017 year-end, the lock-up period is 4 years (3 years in the plan executed by the Executive Committee on 8 March 2017) from the date of delivery of the shares; nevertheless, some of the shares are released 18 months after delivery: specifically, the number of shares resulting from dividing the total number of shares that were delivered by the coefficient established in the list, plus one. The delivery of those shares, which must remain locked up for the above-mentioned 4-year period, is subject to a condition subsequent which is understood to be met in the event of voluntary severance or fair dismissal of the beneficiary. In the event of cessation of employment due to a cause other than those two, the lock-up is lifted.

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

On 13 June 2012, the Shareholders' Meeting of Zeltia approved a new Share Ownership Plan that was executed in March 2013. For the execution of same, the Company allocated 350,000 own shares.

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

In 2014, 88,812 shares under this Plan were released from lock-up.

In relation to this Plan, a total of 53,700 shares were canceled: 2,969 shares purchased by employees and 50,731 shares contributed by the Company.

This Plan concluded in March 2017 since the four-year lock-up period had expired, and the shares that were under lock-up were released. A total of 207,354 shares under this Plan were released from lock-up.

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

On 12 June 2013, the Shareholders' Meeting of Zeltia, S.A. approved a new Share Ownership Plan that was executed in March 2014. The Company allocated 500,000 own shares to executing this plan.

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

In 2015, 114,442 shares were released from lock-up under this plan.

In relation to this plan, a total of 25,078 shares were canceled: 3,550 shares purchased by employees and 21,528 shares contributed by the Company.

As of 31 December 2017, there were 96,550 shares contributed by the Company that had not vested,

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

On 27 May 2014, the Shareholders' Meeting of Zeltia, S.A. approved a new Share Ownership Plan that was executed in May 2015. The Company allocated 600,000 own shares to execute this plan.

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

In 2016, 46,774 shares were released from lock-up under this plan.

In relation to this Plan, a total of 24,988 shares have been canceled: 5,058 shares purchased by employees and 19,930 shares contributed by the Company.

As of 31 December 2017, there were 95,549 shares contributed by the Company that had not vested,

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

On 23 June 2016, the Shareholders' Meeting of Pharma Mar, S.A. approved a new Share Ownership Plan that was executed in March 2017. The Company allocated 500,000 own shares to execute this plan.

In executing this Plan, a total of 211,664 shares were awarded in 2017 to 173 beneficiaries at a value of €2.7680 per share.

In 2017, a total of 1,083 shares were canceled under this Plan.

Year 2018 (Share Ownership Plan approved by the Ordinary Shareholders' Meeting on 29 June 2017)

The Shareholders' Meeting of PharmaMar on 29 June 2017 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 2017 was satisfactory, and to incentivize beneficiaries to stay in the Group. The maximum number of shares that can be allocated for the execution of this Plan was set by the General Meeting at 500,000, which will be taken from treasury stock held by the Company at the time the plan is implemented. The Shareholders' Meeting determined the Plan's beneficiaries as Group employees and executives (excluding directors of Pharma Mar, S.A.) who have a permanent

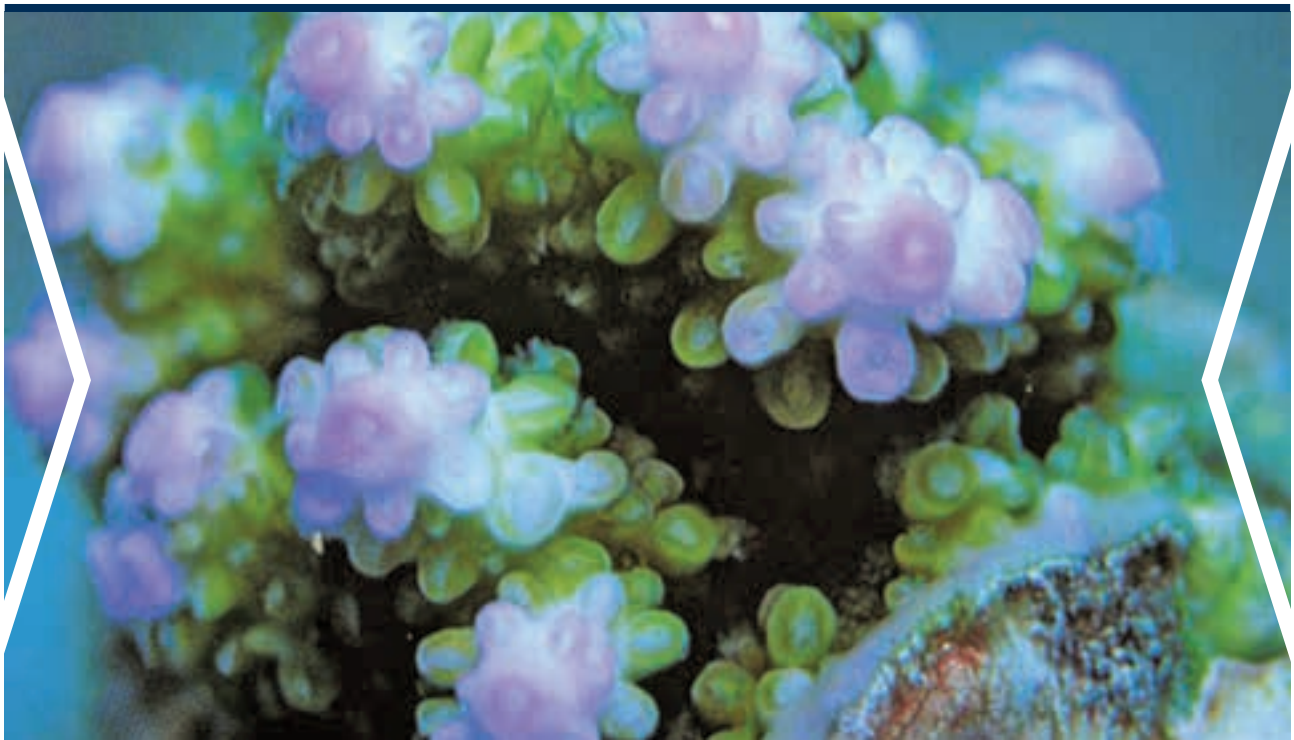
contract, have completed any trial period and collect variable remuneration in 2018 relating to attainment of objectives in 2017, provided that they attained over 50% of the targets established by their Department head or hierarchical superior.

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

The following table shows the number of shares under each plan as of 31 December 2017:

		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 employer - cancelled	Shares contributed by employer - vested	Shares contributed by employer -not yet vested	Total number of shares not yet vested	Fair value per share	Accrual period
	(1)+(2)+(3)+(4) +(5)+(6)	(1)	(2)	(3)	(4)	(5)	(6)	(3)+(6)		
Plan (Grant date)										
Plan 12 June. 2012/ Granted March 2013	349,866	2,969	88,812	-	50,731	207,354		-	1.32	Mar. 17
Plan 13 June. 2013/ Granted March 2014	236,070	3,550	114,442	-	21,528	-	96,550	96,550	2.73	Mar. 18
Plan 14 June. 2014/ Granted May 2015	167,311	5,058	46,774	-	19,930	-	95,549	95,549	3.92	May 19
Plan 15 June. 2016/ Granted March 2017	211,664	1,083	-	68,780	3,252	-	207,329	207,329	2.77	Mar. 20
	964,911	**12,660**	**250,028**	**68,780**	**95,441**	**207,354**	**399,428**	**399,428**		

A total of €208 thousand were recognized as reserves for the amortization of the plans in 2017 (€206 thousand in 2016). Additionally, the amount recognized in the period was €308 thousand (€0 thousand in 2016), and 7 thousand euro were derecognized (€10 thousand in 2016).



37. 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 did not incur 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 authorized by the Company's Board of Directors or its Committees, which are disclosed in Note 27.4 to the Separate Financial Statements, Note 35 to the Consolidated Financial Statements, and section D.3 of the Annual Corporate Governance Report for the year ended 31 December 2017, which forms part of these Financial Statements.

38. CONTINGENCIES

Contingent liabilities

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

A tax inspection of the Spanish Group for fiscal years 2010, 2011, 2012 and 2013 was closed in September 2016 for the following taxes: corporate income tax, VAT, personal income tax (withholdings), non-residents' personal income tax, and withholdings from income from capital.

PharmaMar's management has made its best estimates of the tax risk represented by the tax assessments. This tax risk is not material in relation to the financial statements.

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

Contingent assets

The Group did not have contingent assets as of 31 December 2017 and 2016.

39. COMMITMENTS

Operating lease commitments

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

(thousand euro)	Balance as of 31-12-17	Balance as of 31-12-16
Under 1 year	2,934	2,908
1 to 5 years	4,525	4,602
Total	**7,459**	**7,510**

Share-based incentive plans

- Under the thirteenth plan (June 2013) for delivery of shares free of charge, as of 31 December 2017, 96,550 shares delivered and subject to lock-up will be released in March 2018.
- Under the fourteenth plan (June 2014) for delivery of shares free of charge, as of 31 December 2017, 95,549 shares delivered and subject to lock-up will be released in May 2019.
- Under the fifteenth plan (June 2016) for delivery of shares free of charge, as of 31 December 2017, 207,329 shares delivered and subject to lock-up will be released in March 2020.

40. AUDITORS' FEES

The fees earned during the year by PricewaterhouseCoopers Auditores, S.L. and other firms in its network amounted to €309 thousand as of 31 December 2017 (€273 thousand as of 31 December 2016) for statutory audit services, and €210 thousand (€525 thousand in 2016) for other services. The fees for other verification services provided to Pharma Mar Group companies amounted to €123 thousand as of 31 December 2017 (€5 thousand as of 31 December 2016).

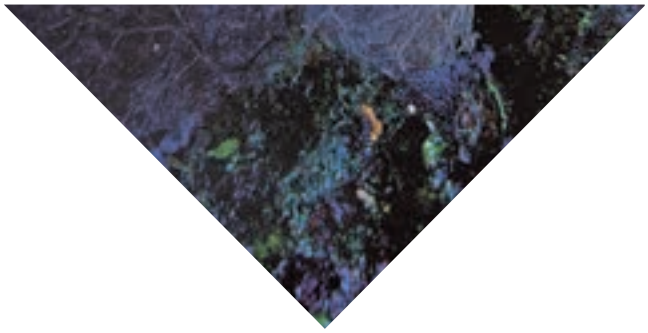
The fees accrued during the year by other companies in the PwC network amounted to €13 thousand for tax advisory services in 2017 (€19 thousand in 2016), while no other advisory services were provided to the Group in 2017.

The fees accrued during the year by other auditors of subsidiaries amounted to €45 thousand for audit services in 2017 (€44 thousand in 2016) and €25 thousand for other verification services in 2017 (€18 thousand in 2016).

41. ENVIRONMENT

The Company did not need to incur significant investments during the year to protect and improve the environment. Environmental protection expenses amounted to €404 thousand in 2017 (€390 thousand in 2016).

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.



42. SUBSEQUENT EVENTS

On 3 January 2018, the Company informed the CNMV that it had applied to the European Medicines Agency (EMA) for a re-examination of the application for Aplidin® for the treatment of relapsed or refractory multiple myeloma. The outcome will be known in March or April (Note 8).

On 18 January 2018, the Company informed the CNMV of the results of the Phase III clinical trial of Zepsyre™ in patients with platinum-resistant ovarian cancer. The trial did not reach the primary endpoint of progression-free survival, which was the same as that of other approved compounds, although it had been shown to have a better safety profile (Note 8).

In 2018, the Company rolled over credit lines amounting to €3,000 thousand in total.

On 14 February, the Company notified the CNMV that it had signed a licensing agreement with Seattle Genetics Inc. under which Seattle Genetics receives exclusive worldwide rights over certain molecules and conjugated antibodies (ADCs) owned by Pharma Mar, S.A. for the development, production and commercialization of conjugated antibodies. Under the terms of the agreement, the Company receives an upfront payment of 5 million dollars and may receive other payments if Seattle Genetics carries out clinical development of conjugated antibodies.

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