
ANNUAL
REPORT
2018
PharmaMar

C O N T E N T S

BOARD
OF DIRECTORS

		COMMITTEES			
	CATEGORY	EXECUTIVE	AUDIT	APPOINTMENTS AND REMUNERATION	LEAD INDEPEND-ENT 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 on-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		●	●	
VALENTÍN DE TORRES-SOLANOT DEL PINO Director	Independent				

●● Committee Chair ● Committee Member

CONSOLIDATED INFORMATION AND MILESTONES IN THE YEAR

PHARMAMAR GROUP: 2018 FIGURES

599 employees

94% on indefinite contract

56% women

Diversity: 25 nationalities

Total revenues in 2018:
162.6 M€

In over 80 markets

63% from the oncology segment

16 companies
in **12** countries
on **4** continents

€74 million invested in R&D in 2018

86% in oncology
7% in diagnostics
7% in RNAi

Biopharmaceutical area
1,313 patents granted

134 patents pending

2 new licensing and development agreements for our compounds signed in 2018

12 licensing agreements in force

Non-financial information (CSR)

The group **reduced** water consumption by **21%**

Support for not-for-profit institutions **increased by 12%**

MILESTONES AND KEY FIGURES

ONCOLOGY

> PharmaMar licensed a number of proprietary molecules to Seattle Genetics Inc. for the development of antibody-drug conjugates (ADC).

> PharmaMar signed a licensing agreement with Pint Pharma International, S.A. for the marketing of Aplidin® in twelve Latin America countries, including Argentina, Chile and Brazil.

Additionally,

> The Australian regulator granted our partner, Specialised Therapeutics Asia Pte, Ltd (STA), approval to market Aplidin® in Australia and New Zealand for treating multiple myeloma.

> Yondelis® has around 30% of the European market in second-line treatment for soft tissue sarcoma.

Net sales of Yondelis®:

74.2 M€

56% of Group revenues.

Other licensing and royalty revenues:

28.6 M€

DIAGNOSTICS

> Genómica signed agreements with HuaSin Science, NingboMedicore Technology and Beijing Clear Meid-tec to register its diagnostic kits with the Chinese regulator (CFDA) and subsequently market them.

> Genómica incorporated a subsidiary in China to commercialize its products there directly in the future.

Net revenues in diagnostics:

6 M€

4% of Group revenues.

CONSUMER CHEMICALS

> The Consumer Chemicals division increased net revenues by 4.4%.

> Within this segment, the Group sold Xylazel, a company that produces specialty paints, varnishes and wood and metal protectors, for 21.8 M€.

Consumer Chemicals revenues:

54 M€

40% of Group revenues.

Income from discontinued operations **10.7** M€

MAIN R&D ACTIVITIES

ONCOLOGY

> PharmaMar completed enrolment for the ATLANTIS registration trial with lurbinectedin in relapsed small cell lung cancer. A total of 613 patients were enrolled at 160 centers in 20 countries.

> PharmaMar concluded enrolment of the 105 patients for the Phase II basket trial with Zepsyre® as monotherapy for treating small cell lung cancer.

> The FDA designated lurbinectedin as an orphan drug for the treatment of small cell lung cancer.

R&D expenditure:

63.8 M€

86% of Group capital expenditure.

DIAGNOSTICS

> Lanzamiento de los kits de diagnóstico CLART® PneumoVir 2 en formato liofilizado y Pneumo CLART bacteria® en formato liofilizado.

> Genomica ha implantado en su sistema Autoclart el producto CLART® CMA ALK.ROS1 para la detección e identificación genética de las principales translocaciones cromosómicas en los genes ALK y ROS.1 en pacientes con cáncer de pulmón.

> Avances en la línea de "diagnóstico de acompañamiento de fármacos" mediante el uso de las tecnologías de secuenciación masiva (NGS).

R&D expenditure:

5.0 M€

7% of Group capital expenditure.

RNA i

> The results of the HELIX clinical trial with Tivanisiran in eye pain/dry eye syndrome were released. Although the trial did not attain its primary end-point in terms of ocular pain and total corneal staining outcomes, it evidenced an improvement vs. the comparator in reducing central corneal damage in patients with dry eye syndrome

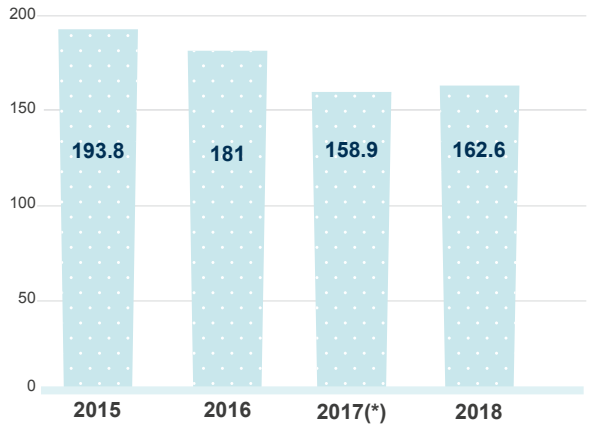
> Progress with a new line of research to develop RNAi candidates for treating eye allergies and diseases of the retina.

R&D expenditure:

5.2 M€

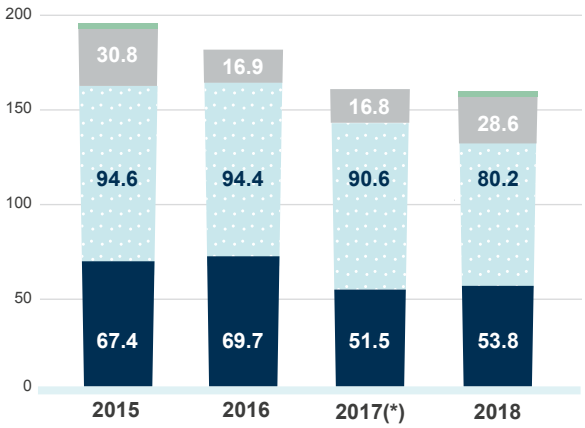
7% of Group capital expenditure.

Total Group revenues



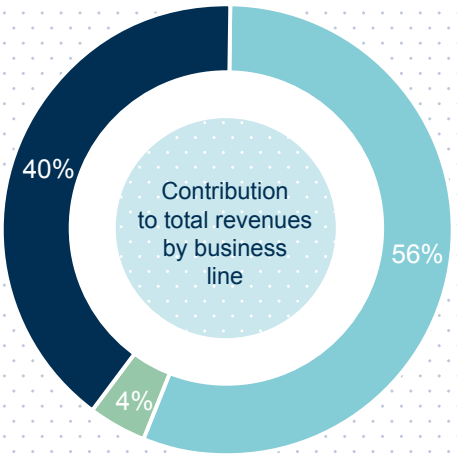
(*) Restated due to deconsolidation of Xylazel.

Breakdown of revenues by category

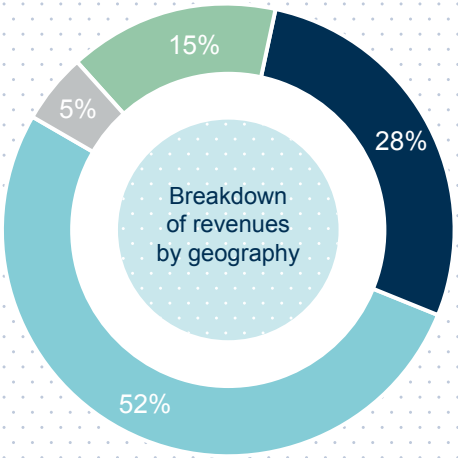


Oncology licensing revenues
Biopharmaceutical revenues (Oncology and Diagnostics)
Consumer chemical revenues

(*) Restated due to deconsolidation of Xylazel.

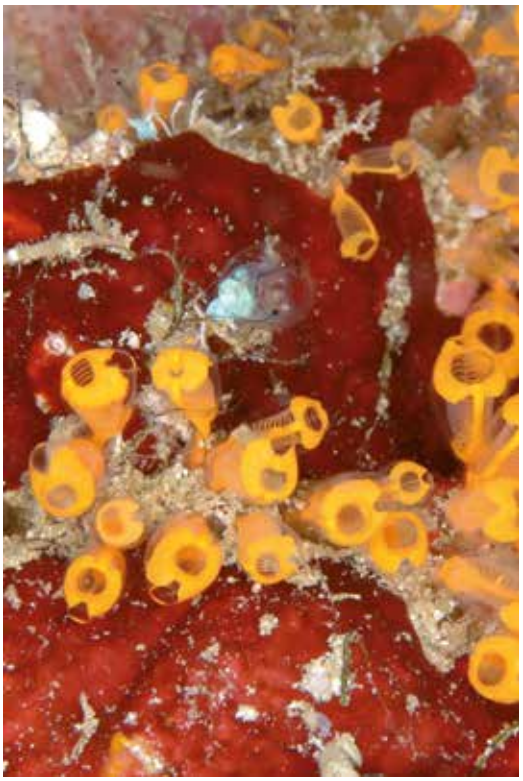


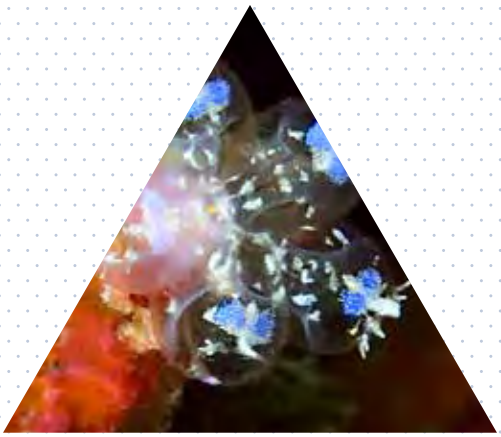
Oncology
Diagnostics
Insecticides and air fresheners



Spain
Rest of Europe
USA
Rest of World

PATENTS	Filed	Granted
Genómica	15	39
Sylentis	18	194
PharmaMar	101	1,080
TOTAL	**134**	**1,313**





PRODUCT
PIPELINE

CLINICAL DEVELOPMENT

PROGRAM / INDICATION		PHASE I	PHASE II	PHASE III	MARKET	MILESTONE TIMING
Yondelis®						
Soft tissue sarcoma 2nd/3rd line	Single agent					
Ovarian cancer 2nd/3rd line(1)	Yondelis+Doxil(2)					
Aplidin®						
R/R Multiple Myeloma 3th/4th line(3)	Aplidin + Dexameth					
Zepsyre®						
Small cell lung cancer relaps	Zepsyre(4) + Doxo	ATLANTIS				2020E
Basket trial (small cell lung cancer expansion cohort)	Single agent					COMPLETED
Basket trial (other)(5)	Single agent					2T2019E
PM184						
Colorectal cancer 3rd line	Agente único					
Solid tumors	Agente único y estudios en combinación					
PM14						
Solid tumors	Agente único y estudios en combinación					

(1) Not approved in the USA
(2) Pegylated liposomal doxorubicin (PLD)
(3) Approved in Australia
(4) Doxorubicin
(5) Breast BRCA+, Head & neck, Endometrial, Biliary tract, Ewing sarcoma, NET, Germ cell, CUP

GENOMICA Portfolio of IVD Products in the market

NAME OF THE KIT	Description	DEVELOPMENT	MARKET
CLART® HPV 2	Kit for detecting 35 high- and low- risk human papilloma virus genotypes.		
CLART® HPV2L	Kit for detecting 35 high- and low- risk human papilomavirus genotypes, with lyophilized reagents.		
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.		
CLART® PneumoVir 2L	Kit for detecting viruses that cause respiratory infections, with lyophilized reagents.		
PneumoCLART® Bacteria	Kit for detecting bacteria that cause respiratory infections.		
PneumoCLART bacteria® L	Kit for detecting bacteria that cause respiratory infections, with lyophilized reagents.		
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 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 proessess for visualization of CLART® arrays.		
CAR®	CLART® arrays reader.		
autoclart® plus	Equipment that combines visualization and reading of CLART® arrays.		

sylentis

PIPELINE

ARNi		RESEARCH	PRECLINICAL	PHASE I	PHASE II	PHASE III	REGISTRATION
Ophthalmology							
Dry Eye Syndrome	Tivanisiran						
Glaucoma	Bamosiran						
Ocular Alergies	SYL116011						
Retina	SYL1801						
Technology development							
Technological developments	Formulations						
	Modifications						

CHAIRMAN'S
LETTER

CHAIRMAN'S LETTER

Dear Shareholders:

It is my pleasure to address to you to review our year 2018. A year in which there have been historic milestones for the company and in which the progress made in the development of our trials has brought us very close to achieving very important objectives that we have been waiting for a long time.

During 2018 we have made key advances in our development of Zepsyre® (lurbinectedin) for the treatment of small cell lung cancer (SCLC). In July we announced that the Phase III pivotal trial ATLANTIS, using Zepsyre® (lurbinectedin) in combination with doxorubicin for the treatment of relapsed SCLC had completed its recruitment. This trial has been conducted at more than 160 sites in 20 countries and 613 patients have been recruited. The primary endpoint of this trial, which is overall survival (OS) is expected to read out during the first quarter of next year.

Also, in June 2018, the interim results of the Phase II trial for the treatment of recurrent SCLC with Zepsyre® (lurbinectedin) in monotherapy were presented at the ASCO (American Society of Clinical Oncology) congress. This trial completed the recruitment of its 105 patients in November 2018 and during the first quarter of 2019 we have learned that the primary endpoint has been met by both the investigator and the independent review committee (IRC). The results of this trial were featured in an oral presentation at ASCO in June 2019

Continuing with Zepsyre® (lurbinectedin), in September 2018 the mature OS data from the B cohort of patients in the Phase I/II trial with lurbinectedin in combination with doxorubicin were presented at the International Association for the Study of Lung Cancer (IASLC) conference in Toronto. An overall survival of 10.2 months was presented, possibly the best data from a combination trial seen to date in the second line of treatment in this indication. This is very important considering that the ATLANTIS trial is using the same treatment regimen as the one used to obtain these very positive data in this trial.

It is also worth mentioning that Zepsyre® (lurbinectedin) was granted orphan drug designation for the treatment of SCLC by the US FDA in August 2018 and by the EMA for Europe in January 2019. This is important because, among other things, it gives a marketing exclusivity for the drug of 7 years in the U.S. and 10 years in the European case after approval.

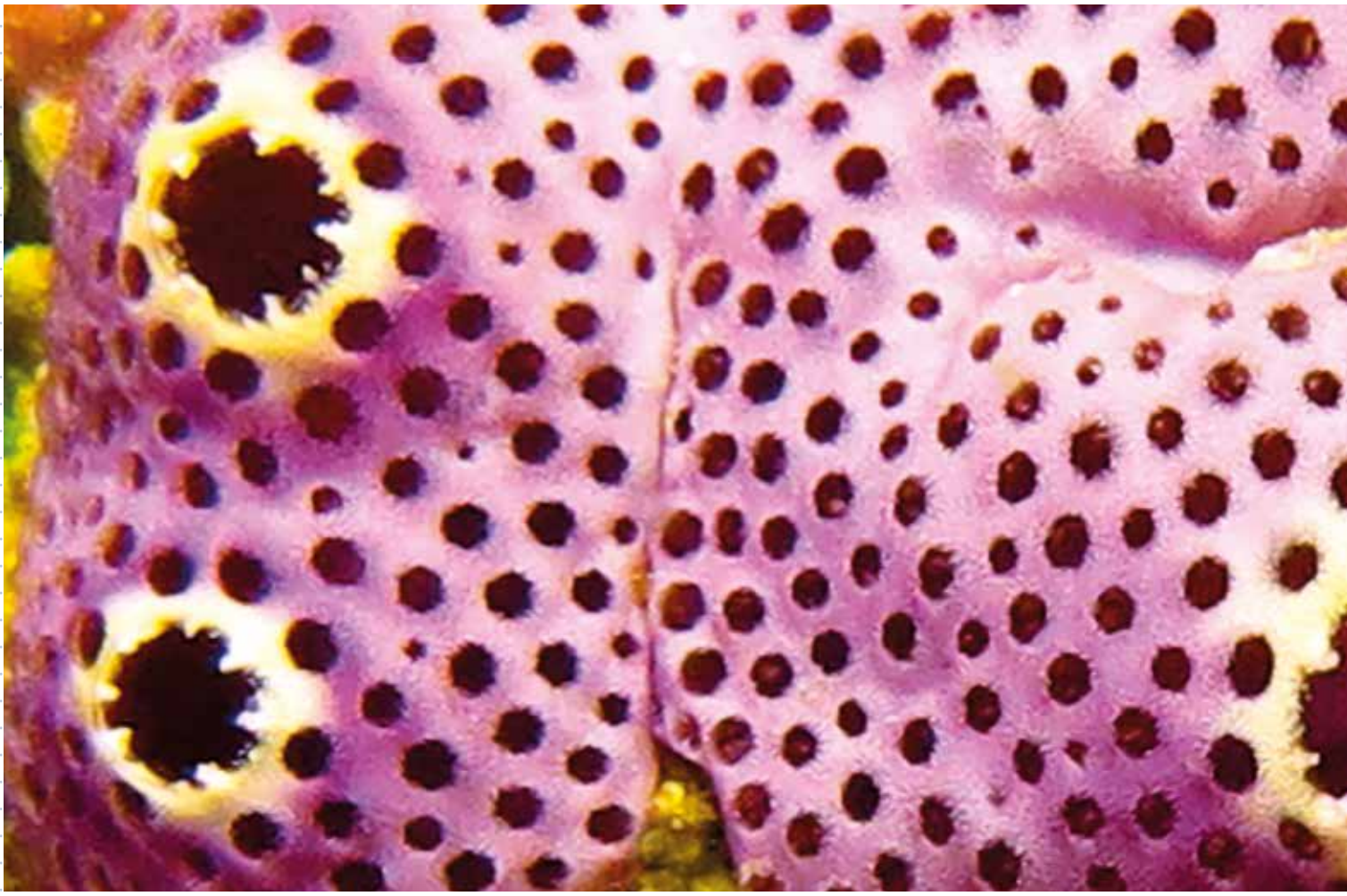
All these achievements with Zepsyre® (lurbinectedin) and the consistency of the data obtained, both in monotherapy and in

combination, makes us confident in achieving the objectives of approval that we have set with our compound in an indication with a therapeutic need as pressing as is SCLC, defined by the NCI (National Cancer Institute) as a "recalcitrant cancer" (Recalcitrant Cancer Research Act signed by President Obama).

Another historic news item for the company in 2018 was the approval obtained by our partner Specialised Therapeutics from the Australian Therapeutics Goods Administration for the marketing of Aplidin® (plitidepsin) in Australia and New Zealand for the treatment of multiple myeloma in patients relapsing after three lines treatment. This new approval means that a new PharmaMar product has reached the market with a second drug in addition to Yondelis. This approval potentially opens the door to Aplidin® to other markets in South America, Mexico, Canada, Asia Pacific, the Middle East and North Africa, among others.

Continuing with our oncology segment, in February 2018 we announced the signing of the first agreement in relation to the development of antibody drug conjugates (ADCs). We announced the licensing agreement for synthetic molecules of marine origin to be used as payloads of ADCs. This agreement was signed with Seattle Genetics, a world leader in this type of technology. The contract had an upfront payment of 5 million dollars and has conditional additional payments if and when our partner moves into clinical development of ADCs using our molecules.

In 2018, the PharmaMar group advanced in its strategy of concentrating in its oncology business. Thus, in September, we announced the sale of Xylazel to the Dutch multinational Akzo Nobel for 21.8 million euro. In addition, this sale helped to strengthen the group's financial position. Also, in line with this strategy, PharmaMar announced in January 2019 that we had mandated the sale of our other remaining consumer chemicals subsidiary, Zelnova.



Despite all this good news, 2018 was not a good year for Pharma Mar's share price. The stock was punished after the news at the end of 2017 and early January and the share price fell throughout the year, which was also pushed down by the significant drop in the biotechnology sector, particularly during the last quarter of the year. However, the share price recorded a significant recovery during the beginning of 2019, driven in part by the achievements I mentioned earlier.

Before ending, I would like to convey my confidence in the company and my enthusiasm for the important milestones we hope to achieve in the near future. We expect to see our objectives met soon and at the same time to open up new challenges and set new and ambitious objectives for the PharmaMar group.

As Chairman of the PharmaMar Group, I would like to express my gratitude to the Board of Directors and also to the company's employees for their day-to-day efforts and for the trust and enthusiasm they have shown for our project. Their commitment, hard work and ability to sacrifice as they have shown in the most necessary moments make me feel proud and confident to face our new challenges for the future.

And of course, I would like to convey to you, our shareholders, on behalf of the Board of Directors, our employees and my own, our gratitude for your support and trust in the Pharma Mar group. Without you it would not have been possible to get where we are and we hope that the trust you place in us will be rewarded by the forthcoming successes I am convinced will come in the near future.

Very truly yours,

José María Fernández Sousa-Faro.
Chairman.

DIRECTORS' REPORT

DIRECTORS' REPORT

1. COMPANY SITUATION

1.1 Organizational structure

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

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.

PharmaMar sees its strengths as being:

- A unique, integrated technology platform based on marine organisms which has led us to Yondelis® being authorized of sale in numerous markets.
- An oncological compound at a very advanced stage of clinical trials and other antitumor candidates in earlier stages of development in a range of indications.
- An established sales infrastructure in Europe that is focused on oncology.
- A revenue flow in the oncology business from sales of Yondelis® and licensing agreements for other compounds under development, as well as in the consumer chemicals businesses.

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.

The biopharmaceutical area's strategy also includes the search for strategic alliances with partners, preferably in the same industry, that will invest and collaborate in advancing the compounds through the various research phases and in subsequent marketing.

In the area of consumer chemicals, the Group produces and distributes consumer products such as domestic and ecological insecticides, and household air fresheners and cleaning products through ZelnovaZeltia and Copyr. In September 2018, PharmaMar sold subsidiary Xylazel, which produced and marketed special protectors and treatments for wood and metal, as well as varnishes and specialty paints. The buyer, Akzo Nobel Coatings, S.L., acquired 100% of the shares of Xylazel for a total of €21.8 million.

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.

The key components of the Group's strategy are:

- Advance the clinical development of our main candidate product, Zepsyre®, and achieve regulatory approval in the indication of recurrent small cell lung cancer.
- Leverage and expand our existing commercial infrastructure to efficiently market Zepsyre® in Europe and obtain the support of partners to sell it in the United States.
- Maximize the commercial value of Zepsyre® in markets outside the United States and Europe through partnerships with third parties that can potentially increase its value.
- Leverage our unique technology platform, based on the sea, to continue feeding our pipeline of compounds.
- Continue supporting Yondelis® in the European oncology community and work with our partners and researchers.

Although our oncology business is our main strategic focus, we also operate in the biopharmaceutical sector and in the consumer chemical sector through our subsidiaries.

2. BUSINESS PERFORMANCE AND RESULTS

REVENUES	31-12-2018	31-12-2017	
Net Sales	**133,588**	**142,046**	**-6.0%**
Oncology segment	74,179	84,574	-12.3%
Diagnostics segment	5,592	5,929	-5.7%
Consumer Chemical segment	53,817	51,543	4.4%
Royalties			
Oncology segment	**3,916**	**4,362**	**-10.2%**
License and co-development agreements			
Oncology segment	**24,659**	**12,357**	**99.6%**
Other revenues	**424**	**113**	
Oncology segment	126	26	
Diagnostics segment	298	87	
TOTAL REVENUES	**162,587**	**158,878**	**2.3%**

Figures in thousand of euro

2.1 Total revenues

Oncology revenues, which are for sales of Yondelis®, amounted to €74.2 million in 2018, a 12% year-on-year decline (vs. €84.6 million in 2017). Isolating for the effect of raw material sales to partners, commercial sales declined by 10%.

	2018	2017	Change
Commercial sales of Yondelis	73,835	82,055	-10%
Sale of raw materials to partners	344	2,519	-86%
TOTAL YONDELIS SALES	**74,179**	**84,574**	**-12.3%**

(thousand euro)

The Diagnostics segment (Genómica) attained €5.6 million in sales, plus €0.3 million in other revenues in 2018 (€5.9 million plus €0.1 million, respectively, in 2017).

Revenues in the Consumer Chemicals division amounted to €53.8 million in 2018, i.e. 4.4% more than in 2017 (€51.5 million).

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 €3.9 million in 2018 (€4.4 million in 2017).

Revenues from licensing and other co-development agreements, which also correspond entirely to the Oncology segment, amounted to €24.7 million in 2018, compared with €12.4 million in 2017. The breakdown of these revenues in 2018 is as follows: €15.1 million in recognition as deferred revenue of part of the up-front payment under the licensing contract for Zepsyre® (Lurbinectedin) signed with Chugai Pharmaceutical Co, Ltd. in 2016, which was terminated early in 2018; €3 million corresponding to the termination of that contract; €4.1 million under the licensing agreement with Seattle Genetics Inc. under which the latter 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; €2 million under the contract with Impilo Pharma for the distribution of Yondelis® in Scandinavia; and €0.5 million under other contracts related to Aplidin®.

As a result, total revenues amounted to €162.6 million in 2018, compared with €158.9 million in 2017 (+2.3%).

2.2 Margins: Gross margin and EBITDA

The Group's gross margin was 73% in 2018 (75% in 2017) (Calculated with respect to sales only, not including royalties or licensing revenues).

The Group's EBITDA amounted to €-6.5 million in 2018 (€-9.7 million in 2017).

	31-12-2018	31-12-2017
Net result of continuing operations	(16,205)	(28,211)
Income tax	(2,499)	3,509
Net financial income	4,632	5,165
Depreciation and amortization	6,862	6,611
Assets impairment and other provisions	(1,804)	2,386
Indemnities	2,486	850
EBITDA	**(6,528)**	**(9,690)**

Figures in thousand of euro

(EBITDA: revenues and expenses before interest, taxes, depreciation and amortization, and indemnities).

The adjustment for indemnities corresponds to workforce restructuring in the oncology segment in 2018, which was a one-time, non-recurring event. The adjustment for indemnities in 2017 corresponds to compensation for termination (non-recurring expense) of a manager in the consumer chemicals segment.

The positive variation in EBITDA reflects an improvement in EBIT due to the steady increase in licensing revenues and a decline in operating expenses, particularly research and development expenses.

The EBITDA contribution by the business segments is as follows:

EBITDA BY SEGMENT	2018	2017
Oncology segment	8,897	2,918
Diagnostics segment	(5,668)	(1,550)
RNAi segment	(5,187)	(5,231)
Consumer chemical segment	2,595	3,216
Not asigned	(7,165)	(9,043)
	(6,528)	**(9,690)**

Figures in thousand of euro

2.3 R&D expenditure

R&D spending declined year-on-year, to €74.0 million in 2018 (€78.5 million in 2017). The Oncology area spent €63.7 million on research and development (€71.2 million in 2017). PharmaMar concentrated R&D spending on Zepsyre®, in clinical trials on small cell lung cancer (SCLC), while deferring other clinical trials and earlier stage development activities.

The Diagnostics section increased R&D expenditure due to the new NEDXA point-of-care diagnostics platform. In 2018, RNA interference continued with the Helix clinical trial in dry eye syndrome.

The breakdown of R&D expenditure is shown in the next table:

R&D	31-12-18	31-12-17	Var.	%
Oncology segment	63,741	71,190	(7,449)	-10%
Diagnostics segment	4,941	1,980	2,961	150%
RNAi segment	5,105	5,371	(266)	-5%
Consumer chemical segment	223	-	223	
TOTAL R&D	**74,010**	**78,541**	**(4,531)**	**-6%**

Figures in thousand of euro

Zepsyre® (lurbinectedin) accounted for most of R&D spending in 2018, 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.

2.4 Marketing expenses

The Group spent €41.8 million on marketing and commercial expenses in 2018, a 4% increase year-on-year (€40.3 million in 2017). The increase was driven mainly by the Consumer Chemicals segment, for the development of new marketing projects and to expand sales and marketing departments. The Diagnostics segment also increased commercial expenses due to opening a marketing subsidiary in Brazil.

2.5 Income from continuing operations

As noted above, total revenues were 2% higher year-on-year (€162.6 million in 2018 vs. €158.9 million in 2017) while operating expenses decreased with respect to 2017 (€142.7 million in 2018 vs. €147.0 million in 2017), resulting in an improvement in income from continuing operations to a loss of €-16.2 million in 2018, from €-28.2 million in 2017.

2.6 Income from discontinued operations

On 20 September 2018, PharmaMar sold subsidiary Xylazel, S.A., which manufactured, supplied and distributed products for wood and metal treatment, protection and decoration, special paints and other similar and related products, as well as other products for the construction industry. The buyer, Akzo Nobel Coatings, S.L. (a Spanish subsidiary of the Akzo Nobel Group), acquired 100% of the shares of Xylazel for a cash price of €21.8 million. As a result, these consolidated figures present that subsidiary under discontinued operations in both 2018 and 2017.

In 2018, income from discontinued operations amounted to €10.7 million (€1.4 million in 2017), including both income obtained by that subsidiary up to the date of sale and the capital gain on the transaction.

2.7 Other events that impacted the 2018 financial statements

New licensing agreements and strategic alliances:

In 2018, PharmaMar signed two licensing agreements with respect to molecules under development:

Seattle Genetics Inc. (other molecules and ADCs)

In February 2018, PharmaMar signed a licensing agreement with Seattle Genetics Inc. under which the latter receives worldwide exclusive rights over certain molecules owned by PharmaMar to develop antibody-drug conjugates (ADC) for its own account; PharmaMar did not undertake any additional obligation with respect to development.

Under the terms of the agreement, PharmaMar received an upfront payment of €4,074 thousand in 2018, which it recognized as revenues, and may receive other payments in the future if Seattle Genetics carries out clinical development of the ADCs.

Pint Pharma International, S.A. (Aplidin®)

In May 2018, PharmaMar signed a licensing agreement with Swiss-based Pint Pharma International, S.A. under which Pint received certain exclusive rights and licenses to commercialize Aplidin® for treating multiple myeloma. The contract establishes a number of payments for attaining regulatory milestones, in addition to royalties. The approval of Aplidin® by the Australian authorities in December 2018 resulted in recognition of revenue in the amount of €263 thousand. PharmaMar retains exclusive production rights and will supply the finished product to Pint for commercialization.

It also signed a contract for Yondelis® with Impilo Pharma for distribution of the drug in northern Europe.

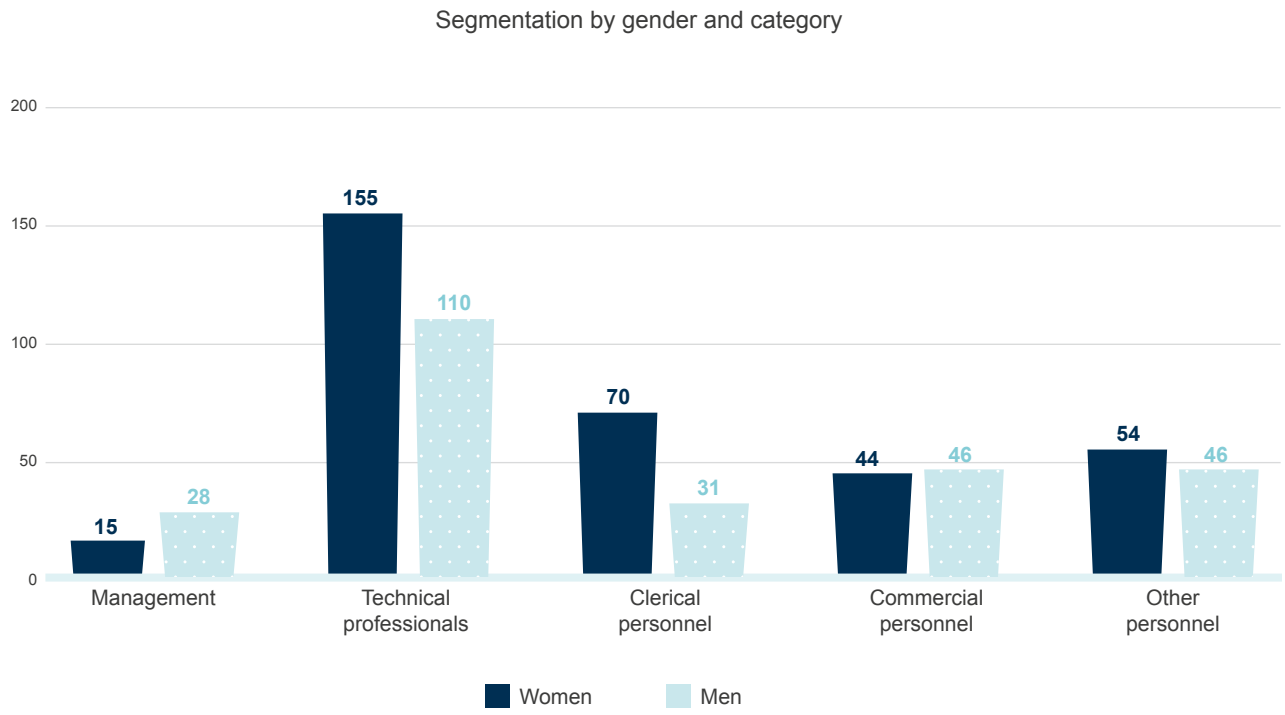
The consumer chemicals companies increased revenues by 4% year-on-year to €53.8 million (vs. €51.5 million in 2017). The new line of OTC pharmaceutical products, launched at the beginning of the year, achieved 66% growth in sales. This line of business has been enhanced by expanding the portfolio and restyling the ZZ brand image. The air freshener business also performed well: +11% as a result of the launch of the "A tu aire" line. Both lines are important for the companies' future growth because of the good results obtained by ZelnovaZeltia in the strategic pharmacy channel and the major product diversification under way.

2.8 Personnel

The Group had an average of 599 employees in 2018 (619 in 2017). There are 382 employees in the oncology segment, 61 in diagnostics, 21 in RNAi, 110 in consumer chemicals, and 25 in the corporate area who are not assigned to any specific segment.

Women accounted for 56.4% of the workforce in 2018.

The graph below illustrates 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 2018 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:

	31-12-2018 Days
Average period taken to pay suppliers	47
Transactions paid	61
Transactions outstanding	50

The average supplier payment lag in the year between 1 January and 31 December 2018 was 47 days (49 days in 2017).

Payments totalled €66,468 thousand in 2018 (€78,540 thousand in 2017). The balance of outstanding payments was €10,277 thousand as of 31 December 2018 (€11,204 thousand in 2017).

3. LIQUIDITY AND CAPITAL

The net cash position (cash + cash equivalents + current financial assets) amounted to €26.9 million euro as of 31 December 2018 (€31.7 million euro as of 31 December 2017). Including non-current financial assets, the total was €27.8 million as of 31 December 2018 (€32.7 million euro in 2017).

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

	31-12-2018	31-12-2017
Non-current debt	**64,922**	**73,607**
Bank loans	24,279	33,394
Bonds	16,501	16,350
Loans from official authorities	24,142	23,863
Current debt	**28,483**	**26,395**
Credit lines	12,911	9,974
Discounted bills	2,064	2,203
Loans	10,244	8,676
Loans from official authorities	2,248	4,730
Interest, etc.	1,016	812
Total interest-bearing debt	**93,405**	**100,002**
Cash & cash equivalents + non current and current financial investment	**27,760**	**32,736**
TOTAL NET DEBT	**(65,645)**	**(67,266)**

Figures in thousand of euro

Net debt declined to €-65.6 million in 2018 (from €-67.3 million in 2017) as a result of a €6.6 reduction in net interest-bearing debt that was partly offset by a €-4.9 million decline in cash and cash equivalents.

New loans were arranged in 2018 for an amount of €6.9 million, while €16.8 million of long-term loans were repaid on maturity.

As of 31 December 2018, the Company had €4.2 million available in credit lines. In the early months of 2019, it arranged new credit lines for €3.0 million in the early months of 2019 and renewed other lines amounting to €2.5 million.

The directors expect R&D spending in 2019 to be lower than in previous years, based on the decision to concentrate that spending mainly on Zepsyre®.The Group has also identified a number of activities (outside oncology) that, if necessary, could be postponed without impairing the core of the business, which gives it enough flexibility to adapt spending to the company's available resources and avoid cash stress, and it could also dispose of certain non-strategic assets as a source of additional funding.

The Group expects to strengthen its liquidity position in 2019 through new licensing agreements that are currently under negotiation.

The Group has additional debt-bearing capacity based on certain tangible assets and accounts receivable that could serve as collateral for new funding.

The Group has also granted a mandate for the sale of its stake in Zelnova Zeltia. The goal is to maximize the price of that sale and maintain the strategy of growth in the oncology business (in line with the divestment of its subsidiary Xylazel in 2018).

4. MAIN RISKS AND UNCERTAINTIES

4.1 Situation risks

Competition

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

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

Industrial property. Patents

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

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

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

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

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

Regulation

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

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 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 has 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 are subject to sharp variations that are not always predictable (butane, solvents, plastics, etc.).

Health and safety

Failure to provide a safe workplace for its employees would expose the Group to 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 enables 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 centers. 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 on available-for-sale equity instruments and on 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.

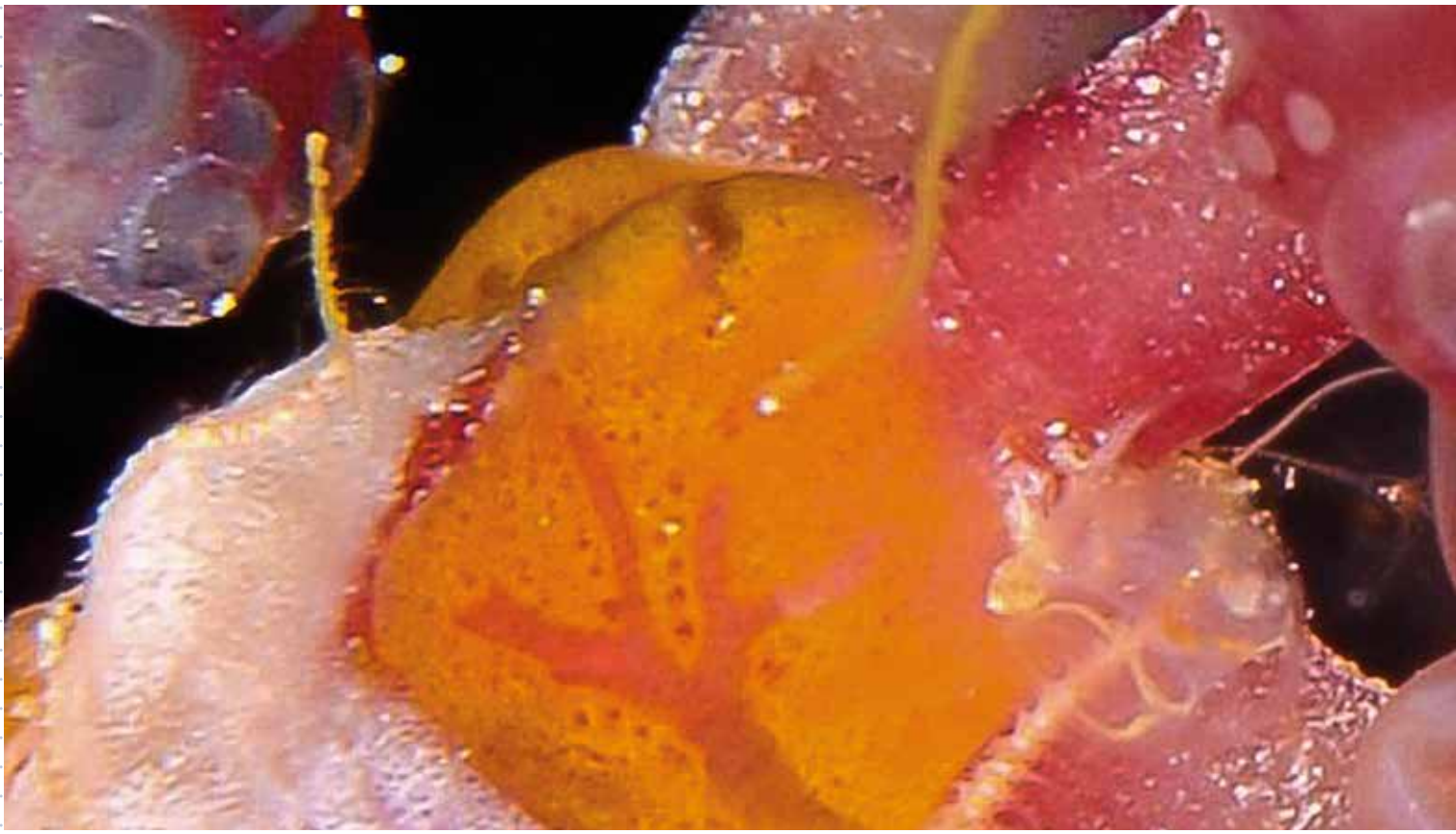
4.4. B). Credit risk

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 priority is given to security in exchange for a slightly lower yield 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 (see Note 3).

4.5. Tax risks

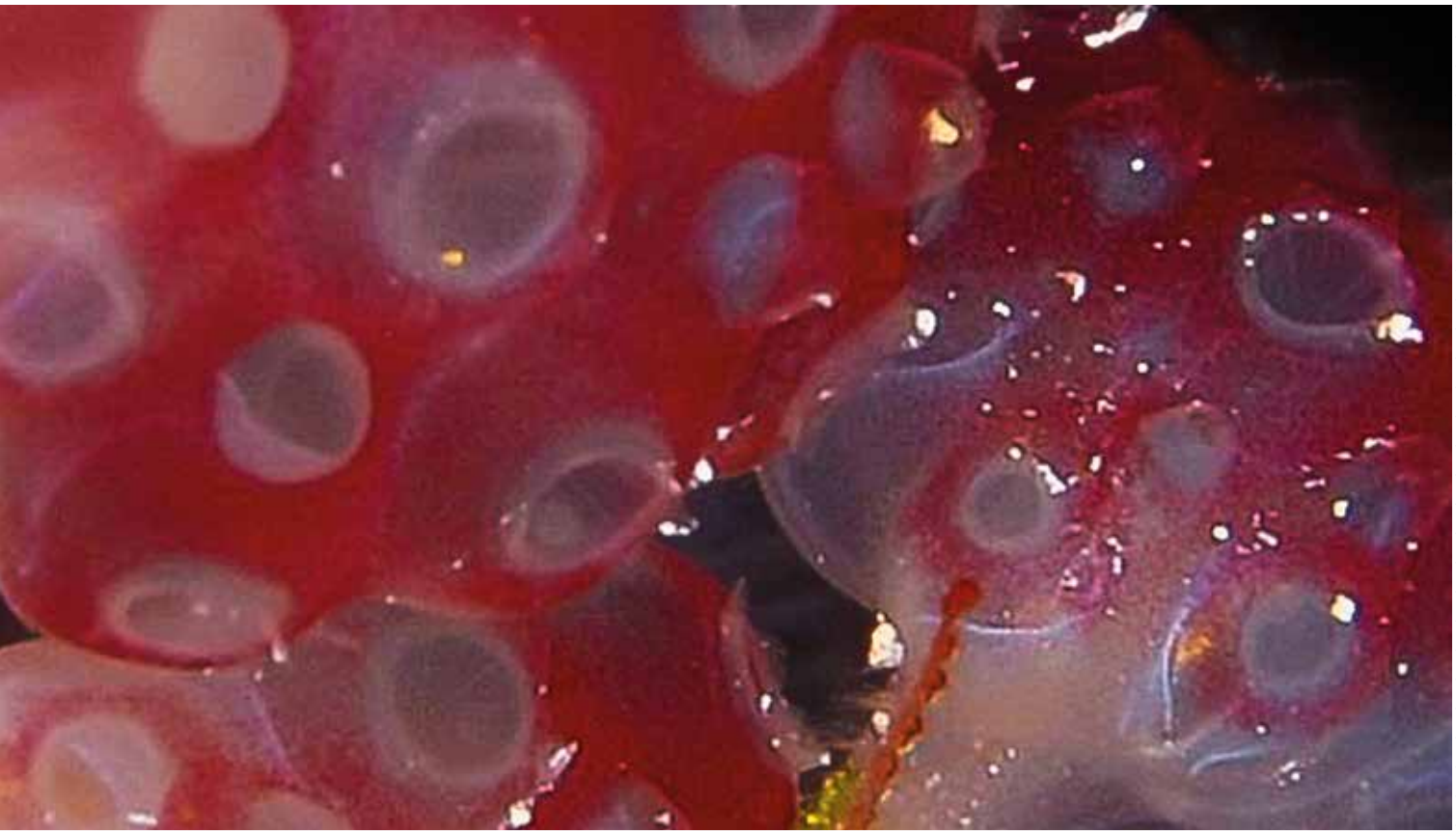
Tax risks are inherent to the Company's activity and are influenced by the unique features of our tax regime, its complexity and the existence of gray areas that might lead to non-compliance or discrepancies with the tax administration in the application of the regulations. The Group must comply with a number of tax obligations, both material (i.e. payments) and formal, consisting of filing returns without having to make any payments. The Group tries to identify risks and then minimize them.

The Group does not use structures outside its own activities for the purpose of reducing its tax burden, nor does it carry out transactions with related undertakings whose sole purpose is to reduce taxable income or transfer profits to low-tax territories.

The Group does not have opaque structures for tax purposes nor does it constitute or acquire companies in countries or territories that Spanish regulations designate as tax havens or that are on the European Union's list of non-cooperative jurisdictions.

The Group has external advisors who help it to constantly analyze new legislation, case law and decisions in the tax area and quantify their impact.

In specific issues such as transfer pricing, it has an external consultant to ensure it has the proper documentation. In one specific case of transfer pricing, a formal valuation agreement was reached with the Administration beforehand.

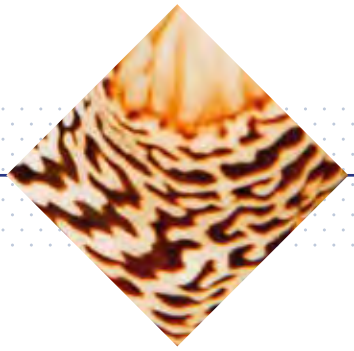


5. SUBSEQUENT EVENTS

On 28 January, 2019, the Company informed the CNMV that it had granted a mandate to Alantra Corporate Finance, S.A.U. for the sale of its stake in subsidiary Zelnova Zeltia, S.A. with the objective of maximizing the price of the sale and, in this way, continuing to implement its growth strategy in the oncology business.

In 2019, the Company rolled over credit lines amounting to €2,500 thousand and signed new credit lines for 3,000, as well as a loan for €475 thousand.

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. 2019 OUTLOOK

2019 will be a very important year for PharmaMar because of the results expected in our oncology trial with Zepsre® (Lurbinectedin). The outcome of the ATLANTIS Phase III trial, using Zepsyre® (Lurbinectedin) in combination with doxorubicin for treating small cell lung cancer is expected in late 2019. This trial has recruited more than 600 patients in more than 100 centers around the world and, if the outcome is positive, it could offer the opportunity for second-line approval of a new drug in an indication in which nothing new has been approved since 1996. Additionally, enrollment concluded in 2018 for a Phase II trial with Zepsyre® (Lurbinectedin) for the treatment of small cell lung cancer. That trial, using Zepsyre® as monotherapy, recruited slightly over 100 patients. The results of this trial are expected to be available in the second quarter of 2019.

Additionally, there is the possibility of commencing a number of combination trials with Zepsyre® with a number of immunotherapies which, given the action mechanism of Zepsyre®, might prove highly synergic with it.

Discussions are currently under way with a number of partners with a view to signing strategic agreements to license Zepsyre® for marketing in territories outside the euro area.

In 2018, the consumer chemicals division divested Xylazel, providing an influx of €21.8 million for the company. The sale price was 11 times EBITDA. In line with our strategy of concentrating on the oncology business, a mandate has been given for the sale of our other consumer chemical company, ZelnovaZetia.

7. R&D AND INNOVATION

R&D and innovation are a key component of the Group's strategy, and it spent €74 million in this area in 2018 (€78.5 million in 2017).

Of that total, €63.7 million was in oncology, €5.1 million for RNAi in ophthalmology, €4.9 million in diagnostics, and €0.2 million in consumer chemicals.

The main progress and results in R&D in 2018 by area of activity are as follows:

1. ONCOLOGY: PHARMA MAR, S.A.

The activities and progress for each of the group's compounds in 2018 are detailed below:

a) YONDELIS®

Post-authorization trials with Yondelis® performed satisfactorily in 2018. Research into the efficacy and safety of Yondelis® resulted in a total of 17 abstracts at conferences and 12 papers in international journals in 2018.

Soft Tissue Sarcoma

At 2018 year-end, there were a total of 22 ongoing post-authorization trials in collaboration with a number of European cooperatives, 13 of which were actively enrolling patients at a satisfactory pace. There were also three trials in the activation stage, while two trials had been cancelled. The NiTraSarc and TRAMUNE investigator-mediated trials in combination with immunotherapy drugs nivolumab and durvalumab commenced in 2018.

Ovarian cancer

Ten post-approval trials are currently under way in this indication, of which six are recruiting and four are in the activation phase. Interim data from one of them, 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, were presented at the European Society for Medical Oncology (ESMO) congress.

Other indications

Recruitment concluded in the ATREUS Phase II trial promoted by the Mario Negri Institute for Pharmacological Research (IRCCS) in cooperation with the Department of Medical Oncology at San Gerardo Hospital (Monza, Italy) to evaluate the activity and safety of Yondelis® in malignant pleural mesothelioma (MPM), and the data analysis process was under way as of 31 December 2018.

b) APLIDIN®

Multiple Myeloma

In December 2018, Australia's Therapeutic Goods Administration (TGA) informed Specialised Therapeutics Asia Pte. Ltd. (STA) that it had approved Aplidin® (Plitidepsin) for use in treating multiple myeloma in combination with dexemethasone.

In December 2017, PharmaMar received a negative opinion from the CHMP (Committee for Medicinal Products for Human Use) with regard to its application to commercialize Aplidin® in Europe for treating multiple myeloma. The company applied for the dossier to be re-examined, and the CHMP confirmed its negative opinion in March 2018.

c) ZEPSYRE®

Small-cell lung cancer

Recruitment concluded in August 2018 for the ATLANTIS pivotal Phase III trial that compares the activity and safety of the combination of Zepsyre® (lurbinectidin), a drug of marine origin, plus doxorubicin, against 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. The trial is currently monitoring survival, which is its primary endpoint. A total of 613 patients were enrolled.

The trial was conducted in Europe, the United States, Latin America and the Middle East. The trial's Independent Data Monitoring Committee (IDMC) met in October 2018 and recommended

continuing with the trial unchanged after an analysis of the safety data obtained from the 500 patients treated to date.

Additionally, the competent authorities in the territories where the ATLANTIS trial is being conducted approved a request by PharmaMar to change the primary end-point from Progression Free Survival to Overall Survival. This change was requested on the basis of recent Overall Survival data in Phase II trials with Zepsyre® (Lurbinectedin) as monotherapy against small cell lung cancer, which were presented at the American Society of Clinical Oncology (ASCO) meeting in Chicago in June 2018.

In August 2018, Lurbinectedin was designated as an orphan drug for the treatment of small cell lung cancer by the FDA's Office of Orphan Product Development. Orphan drug status in the US offers a number of benefits, including a 7-year period of exclusivity in the market if the drug is finally approved, tax credits for clinical trials and exemption from fees on applications to the FDA for marketing approval.

Combination trials

As regards Phase I combination trials, enrolment concluded for the combinations with doxorubicin, cisplatin, capecitabine and paclitaxel with or without bevacizumab.

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

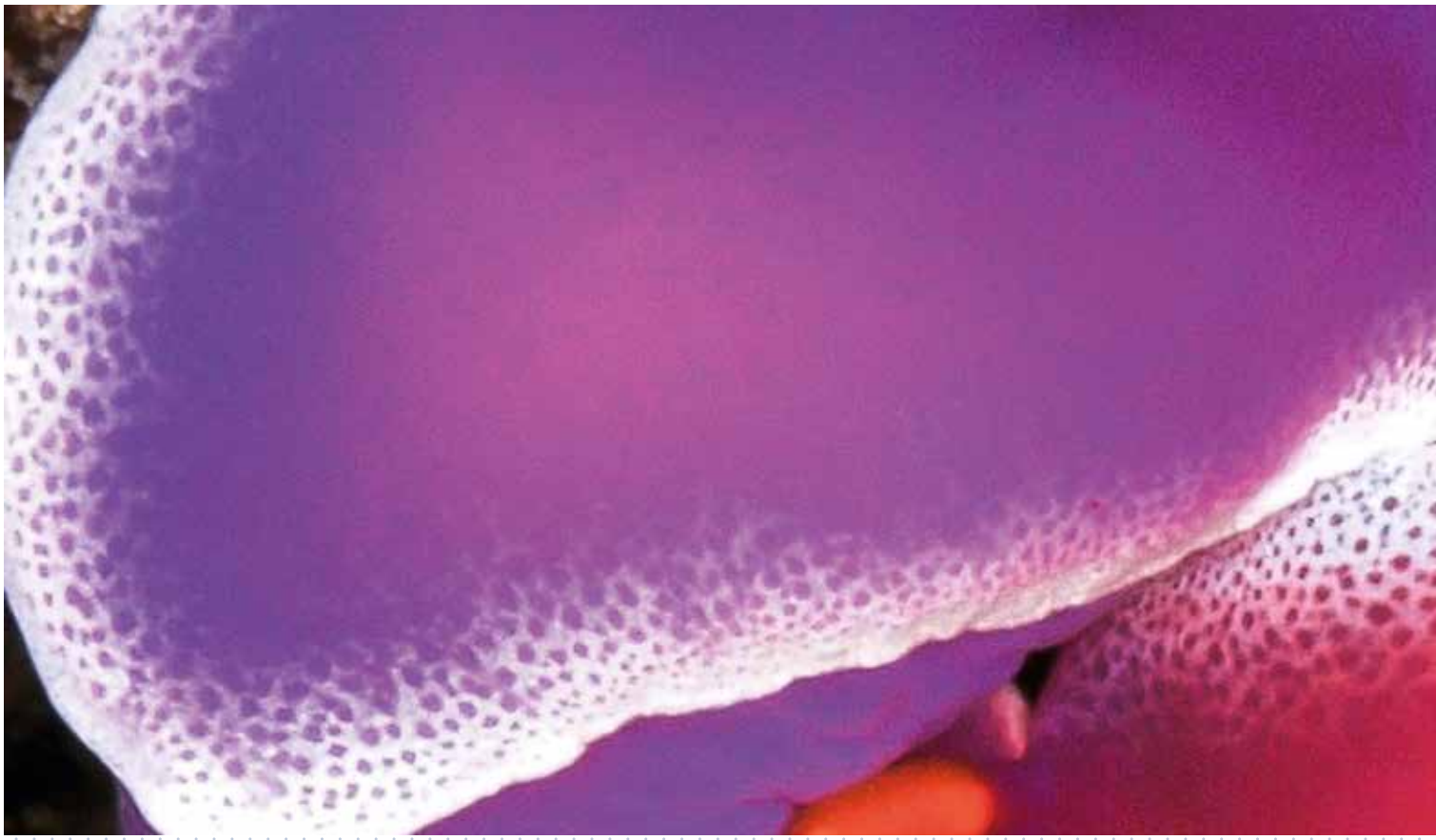
Phase I trial in Japan

This trial, designed to ascertain the dosage for Zepsyre® in Japanese patients, is still in the active enrollment phase. The preliminary results of this trial were presented at the annual meeting of the American Society of Clinical Oncology (ASCO), held in Chicago on 1-5 June 2018.

Enrolment is continuing on schedule.

Basket trial in advanced solid tumours

In November 2018, enrolment concluded for the Phase II trial with Zepsyre® as monotherapy in



selected indications such as small cell lung cancer, neuroendocrine tumors, carcinoma of the head and neck, germ cell cancer, endometrial cancer, bile duct cancer, cancer of unknown primary, Ewing sarcoma and breast cancer with BRCA 1/2 mutation. The patients are currently under observation. A total of 345 patients were recruited — 110 in the small cell lung cancer cohort. The trial is being conducted in Spain, France, Belgium, the United States, Germany, Italy, Switzerland and the United Kingdom.

Efficacy data in small cell lung cancer and Ewing sarcoma were presented at the annual meeting of the American Society of Clinical Oncology (ASCO), held in Chicago on 1-5 June 2018.

d) PM184

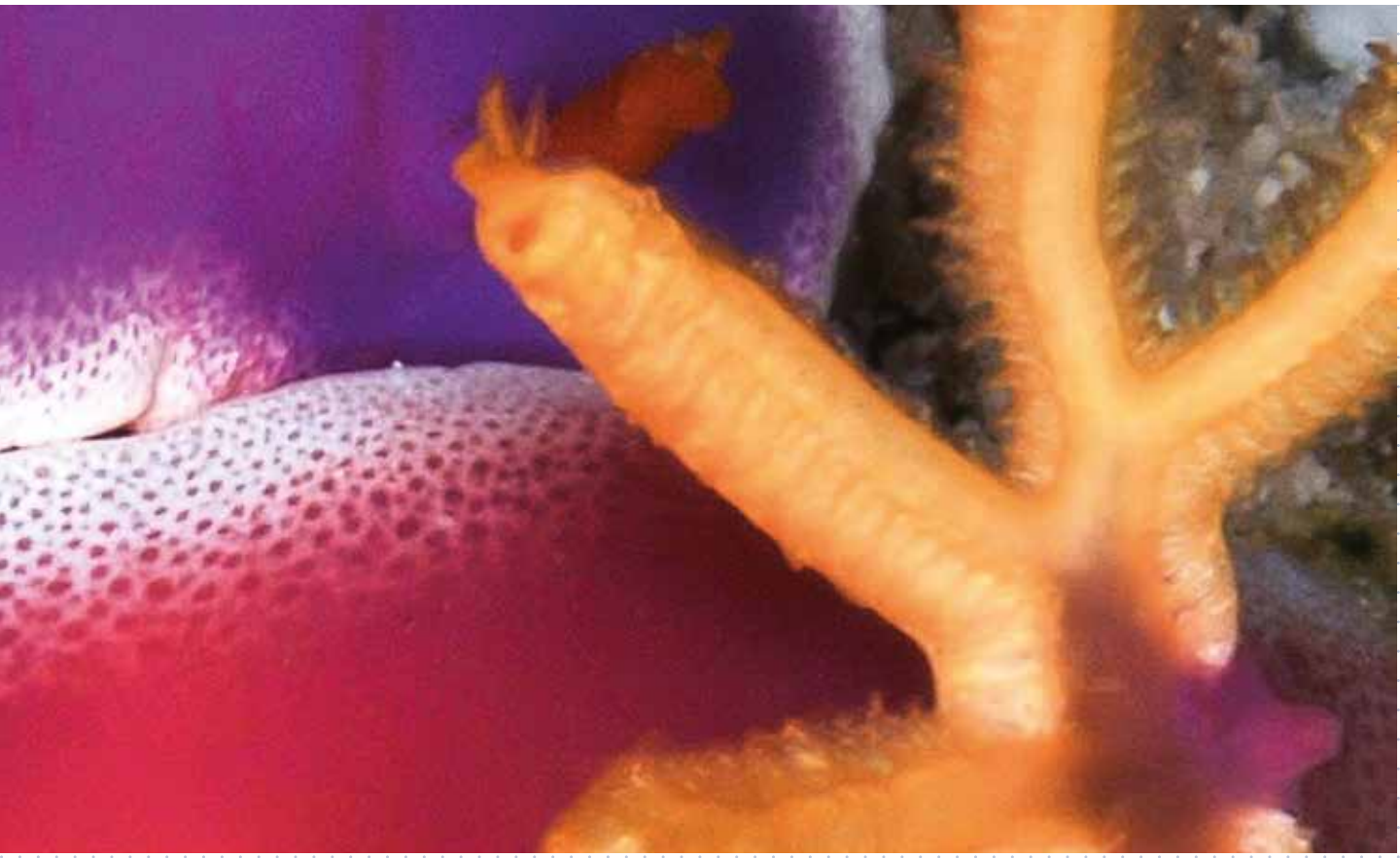
The Phase I dose escalation trial assessing the combination of PM184 with gemcitabine continues recruitment on schedule. This trial is being conducted at two centres: one in Spain and the other in the United States. Enrollment will be focused on specific diseases where clinical benefit has been observed, such as non-small cell lung cancer, breast cancer, and head and neck tumors.

Colorectal cancer

The Phase II trial in colorectal cancer completed enrolment in May 2018, having enrolled 36 patients and treated 30. The trial data are currently being analysed.

e) PM14

Recruitment continues for the clinical development program with this new molecule. 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 the compound's safety profile and assess its pharmacokinetics and pharmacogenetics in treated patients. The trial, being conducted at Vall d'Hebron hospital (Barcelona), Doce de Octubre hospital (Madrid) and Institut Gustave Roussy (Paris), is expected to enroll approximately 50 patients with a confirmed diagnosis of advanced solid tumor for which there is no standard treatment available.



2. DIAGNOSTICS: GENÓMICA S.A.U.

In 2018, R&D at Genómica focused on the Point of Care space, developing a new technology platform for diagnostics called NedxA (Nano Electronics Diagnostic Arrays), which provides greater speed and automatation in diagnosis. Both a disposable cartridge and a reading machine are being developed. NEDxA will integrate several laboratory processes in a single chip through a microfluid system within an electrochemical system. The first application that will be developed in this nanosystem is the detection and identification of 14 types of human papillomavirus from human samples.

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

The results of the HELIX Phase III trial with SYL1001 (Tivanisiran), an RNAi compound for treating dry eye syndrome, were released in January 2019. Although the trial did not attain its primary end-point, in terms of ocular pain and total corneal staining outcomes, it evidenced an improvement (p=0.035) vs. the comparator in reducing central corneal damage in patients with moderate to severe dry eye syndrome following one month of tivanisiran. This had been established as a secondary end-point of the trial.

Enrolment for the trial had ended in November, after which participating centres were closed and statistical analysis of the data commenced. A total of 330 patients were recruited, of whom 289 were randomised in the trial. There were 39 participating hospitals in 6 European countries: Spain, Germany, Italy, Estonia, Slovakia and Portugal.

In 2018, the company advanced with its research and development of new products based on RNA interference (RNAi) for treating eye diseases. Specifically, a line of research was pursued to develop RNAi candidates for treating diseases of the retina.

8. ACQUISITION AND DISPOSAL OF OWN SHARES

As of 31 December 2018, 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 these shares were fully subscribed and paid and have the same political and economic rights.

As of 31 December 2018, the Company held 1,415,934 own shares representing 0.64% of capital stock.

In 2018, the Company acquired 2,434 thousand own shares for a total of €3,446 thousand. The Company sold 2,164 thousand own shares for a total of €5,672 thousand, resulting in a loss of €2,163 thousand, which was recognized against the Company's reserves.

In the scope of the employee share ownership plan, a total of 227 thousand shares were allocated in 2018 to 149 beneficiaries at a value of €1.6723 per share. Additionally, a total of 30,568 shares were canceled under this plan in 2018.

9. SHARE INFORMATION

General situation

2018 was a very complicated year in which the markets experienced considerable instability. This instability, and the resulting volatility, particularly in the fourth quarter, were due to a number of factors. The trade war led by the US and China, and the effect this can have on the economy, was one of the main factors driving instability in the markets, though others included Brexit, oil price fluctuations and other geopolitical factors, such as the political situation in Italy. The resulting complex situation of uncertainty had a negative impact on the stock markets. The trade war unleashed by the President of the USA played a major role in the markets' decline. The list of products (mainly Chinese) that would be subject to tariffs continued to grow as the year advanced, affecting other trade partners. The trade war had been attenuated with a number of agreements by year-end, not just in connection with tariffs on China but also the signature of a new free trade agreement between the USA, Mexico and Canada. This was accompanied by considerable volatility in oil prices, triggered largely by President Trump's decision not to ratify the nuclear agreement with Iran, along with the rather confusing messages from OPEC. In Europe, Italy was in the headlines as its government defied the EU with its 2019 Budget and a budget deficit well in excess of what Brussels demanded. The other focus of attention in Europe was Brexit and the tension generated by the lack of consensus in the negotiations on the future relationship between the United Kingdom, on the one hand, and the EU and the rest of the world, on the other.

Spain's economy weakened in 2018 due to two factors: consumer spending flagged as a result of progressive exhaustion of demand, and exports declined due to less dynamic performance by Europe and the emerging markets. Consequently, the Bank of Spain, the European Commission and the OECD were forced to reduce their growth estimates for the next two years.

As a result, Spain's IBEX-35 lost 15% in the year, its largest full-year decline since 2010. Whereas the index had been expected to top 11,000 points, it ended the year below 9,000.

PharmaMar Stock Market indicators

INDICADORES BURSÁTILES 2018	
Total number of shares	222,649,287
Par value (euro)	0.05
Average daily trading (no. of shares)	868,549
Average daily trading (euro)	1,370,256
Trading days	255
Daily trading low (13 September) (euro)	224,136
Daily trading high (19 January) (euro)	36,360,941
Total trading in the year (million euro)	349.4
	(euro)
Lowest share price (26 October)	0.92
Highest share price (15 January)	2.724
Share price at 31 December	1.09
Average share price in the year	1.57
Market capitalization as of 31 December (million euro)	**242.6**

Source: Bloomberg

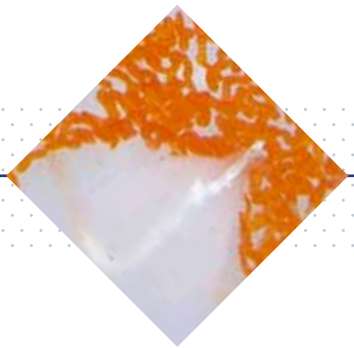
PharmaMar share performance

In 2018, PharmaMar continued to make progress with its core projects and achieved major clinical milestones. Nevertheless, the share was affected negatively early in the year due to failure to achieve the primary endpoint in the Corail trial with Zepsyre® in relapsed ovarian cancer. The market's reaction was very severe: the stock lost 33% on the day the news was announced. On the business front, PharmaMar focused on developing projects with Zepsyre®. It continued to drive development of this product in small cell lung cancer, a key indication. By mid-year, enrolment had concluded for the ATLANTIS Phase III trial in small cell lung cancer with Zepsyre® in combination with doxorubicin. In August 2018, the FDA designated Zepsyre® as an orphan drug for the treatment of small cell lung cancer, a status it also received from the EMA early in 2019. In June 2018, interim data from a Phase II trial, including a Basket trial, using Zepsyre® as monotherapy against small cell lung cancer was presented at the American Society of Clinical Oncology meeting in Chicago. The data presented referred to 61 patients of the 100 planned for the trial. The preliminary data presented at ASCO were the best overall survival figures presented to date for this difficult disease. By the end of 2018, this Phase II trial had ended recruitment and the results are expected in the first half of 2019. In September 2018, the company announced the sale of its subsidiary Xylazel, another step in PharmaMar's strategy of focusing on its oncology business. There was another piece of good news for the company at the end of the year, as Aplidin® was approved in Australia for use in combination with dexamethasone to treat multiple myeloma.

Despite the progress attained with the company's projects, the share was penalised by the news on the CORAIL trial at the beginning of the year and the poor performance of the biotechnology industry in general, particularly in the US, where the biotech indexes suffered their worst quartely decline in 16 years in the fourth quarter. These factors, combined with the geopolitical situation described above, made for a very difficult year for PharmaMar's stock, which lost 57% in 2018.

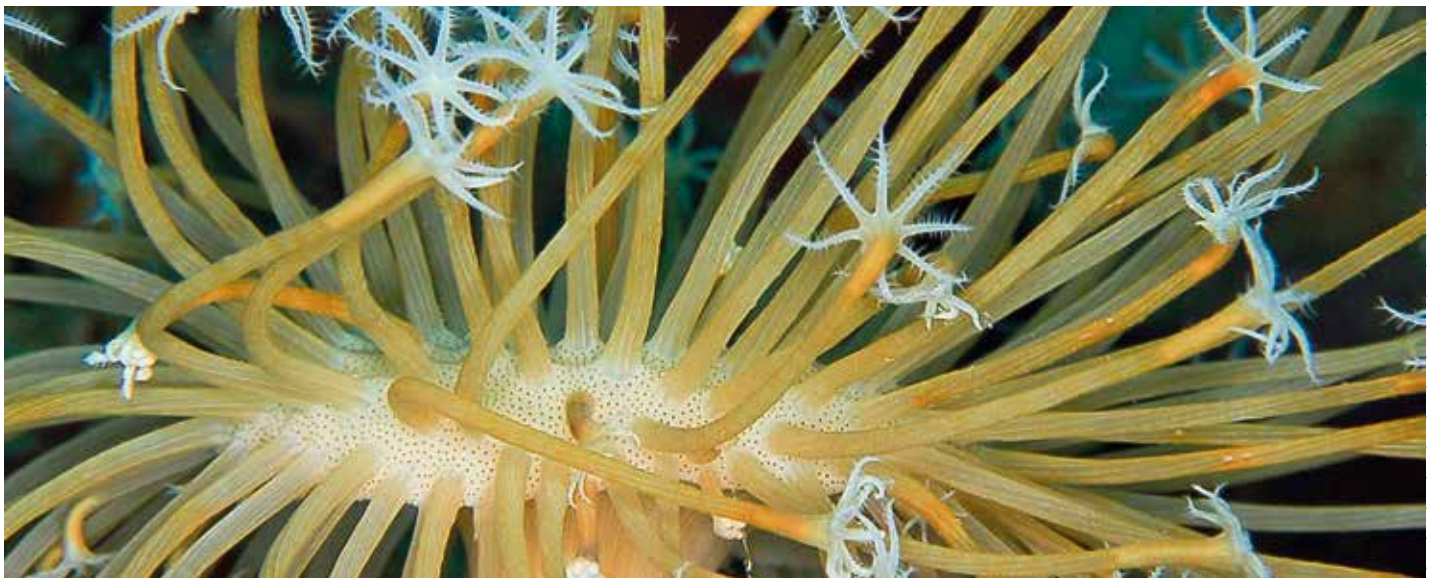
Source: Bloomberg

Trading in PharmaMar shares amounted to €349.4 million in 2018. An average of 868,549 shares changed hands per day.



10. CONSOLIDATED NON-FINANCIAL DISCLOSURES

The consolidated non-financial disclosures are presented separately.



CONSOLIDATED FINANCIAL STATEMENTS AND AUDITORS' REPORT

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

Independent auditor´s report on 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, 2018, 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, 2018, 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 activity requires 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 consolidated financial statements, in 2019 management expects to maintain the level of research and development investments in line with the financial resources available, being the primary objective to complete the Zepsyre study. As set out in note 3C to the accompanying consolidated 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 provides a breakdown of the directors' assessment of liquidity risk and the measures they consider to be available to fund investments in ongoing research and development and meet short-term payment commitments. 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 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. Finally, we analysed whether the Group has additional sources of funds to obtain the necessary cash resources should there be significant departures from management's liquidity forecasts. 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 2018, the Group's balance sheet contains EUR 29,768 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.	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.

Pharma Mar, S.A. and subsidiaries

Key audit matters	How our audit addressed the matter
The main source of information used to prepare the projections was the budget approved by the parent company's directors, which includes estimates to 2023. In addition, Group management extends the projections to 2028 based on its best estimates. Future taxable income 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.

Sale of Xylazel, S.A.

As set out in notes 1 and 25 of the accompanying consolidated financial statements, in September 2018 the Group sold 100% of the share capital of the subsidiary Xylazel, S.A., a company engaged in developing, producing and marketing products to treat and protect wood and metal, and special decorative paints. As a result of this transaction, the Group recognised a profit of EUR 9,591 thousand. As set out in Notes 1 and 25 of the accompanying consolidated financial statements, under IFRS 5 *Non-current assets held for sale and discontinued operations*, the sale of Xylazel, S.A. qualifies as a discontinued operation. Accordingly, the accompanying income statement and cash flow statement reflect the transactions of Xylazel, S.A. as discontinued operations for 2018 and 2017. We have considered this matter as a key audit matter due to being a significant transaction of the year and having a material impact on the consolidated financial statements.	We analysed the agreement for the sale of the subsidiary entered into with the buyer so as to assess the commitments made by the parties and the related accounting treatment. We checked that the agreed price was collected. We also analysed costs inherent in the transaction to check whether they are correctly allocated and must therefore be discounted from the profit obtained. We also checked the Group's calculations of the profit recognised in the consolidated income statement. As regards the presentation of Xylazel, S.A.'s transactions as discontinued operations, we verified compliance with the requirements of IFRS 5 for correct classification and we analysed the reclassification to discontinued operations of the transactions and cash flows for 2018 and 2017, as well as the disclosures included in note 25 of the accompanying notes to the consolidated financial statements. Based on the procedures described we have no observations to make as a result with respect to the recognition and disclosure of the transaction in the accompanying consolidated financial statements.

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 2018 financial year, and its content and presentation are in accordance with the applicable regulations.

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.

Pharma Mar, S.A. and subsidiaries

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 to 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 audit. 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 with relevant ethical requirements, including those relating to independence, and we communicate with the 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 current period and are therefore the key audit matters.

We describe these matters in our auditor´s report unless law or regulation precludes public disclosure 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, 2019.

Appointment period

The General Ordinary Shareholders' Meeting held on June 28, 2018 appointed us as auditors of the Group for a period of one year, as for the year ended December 31, 2018.

Previously, we were appointed by resolution of the General Shareholders' Meeting for an initial period 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 Note 41 of the consolidated annual accounts.

PricewaterhouseCoopers Auditores, S.L. (S0242)

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

February 28, 2019

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

as of 31 December 2018

CONSOLIDATED BALANCE SHEET (thousand euro)	**Note**	**31-12-18**	**31-12-17**
ASSETS			
Non-current assets			
Property, plant and equipment	6	26,637	31,207
Investment property	7	6,071	6,119
Intangible assets	8	16,658	20,212
Goodwill	9	2,548	2,548
Financial assets	10	884	977
Deferred tax assets	24	29,768	33,481
		82,566	**94,544**
Current assets			
Inventories	15	20,616	23,904
Trade receivables	13	23,549	31,388
Financial assets at amortized cost	10	4,131	7,671
Other assets	14	4,069	6,125
Cash and cash equivalents	16	22,745	24,088
		75,110	**93,176**
TOTAL ASSETS		**157,676**	**187,720**

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

CONSOLIDATED BALANCE SHEET (thousand euro)	**Note**	**31-12-18**	**31-12-17**
EQUITY			
Share capital	17	11,132	11,132
Share premium account	17	71,278	71,278
Own shares	17	(2,243)	(4,470)
Revaluation reserves and other reserves		12	13
Retained earnings and other reserves		(58,806)	(51,087)
Total capital and reserves attributable to equity-holders of the parent company		**21,373**	**26,866**
Non-controlling interests	19	**(3,900)**	**(3,882)**
TOTAL EQUITY		**17,473**	**22,984**
LIABILITIES			
Non-current liabilities			
Borrowings	23	64,922	73,607
Deferred revenues	21	2,120	7,234
Other liabilities	22	779	785
		67,821	**81,626**
Current liabilities			
Supplier and other accounts payable	20	34,511	37,436
Borrowings	23	28,483	26,395
Provisions for other liabilities and expenses	26	6,266	6,232
Deferred revenues	21	168	10,221
Other liabilities	22	2,954	2,826
		72,382	**83,110**
TOTAL LIABILITIES		**140,203**	**164,736**
TOTAL EQUITY AND LIABILITIES		**157,676**	**187,720**

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

CONSOLIDATED INCOME STATEMENT (thousand euro)	**Note**	**31-12-18**	***Restated 31-12-17**
Revenues from contracts with customers:			
Product sales	5 & 27	133,588	142,133
Licensing and development agreements	5 & 27	24,659	12,357
Royalties	5 & 27	3,916	4,362
Services provided		424	26
		162,587	**158,878**
Cost of sales	5	(35,866)	(34,936)
Gross income		**126,721**	**123,942**
Marketing expenses	30	(41,819)	(40,294)
Administrative expenses	29	(17,431)	(17,324)
R&D expenses	28	(74,010)	(78,541)
Net impairment of financial assets	3 & 13	77	-
Other operating expenses	29	(9,476)	(10,843)
Other gains/(losses), net	31	1,866	3,522
Operating profit		**(14,072)**	**(19,538)**
Financial expenses		(5,155)	(5,913)
Financial revenues		523	748
Net financial income	34	**(4,632)**	**(5,165)**
Income before taxes		**(18,704)**	**(24,703)**
Income tax	24	2,499	(3,509)
Income from continuing operations		**(16,205)**	**(28,212)**
Discontinued operations			
Income from discontinued operations	25	**10,652**	**1,447**
Attributable to equity-holders of the parent company		10,652	1,447
Income for the year		**(5,553)**	**(26,765)**
Attributable to:			
Equity-holders of the parent company		(5,535)	(26,746)
Non-controlling interests	19	(18)	(19)

Euro per share	**Note**	**31-12-18**	***Restated 31-12-17**
Basic earnings per share			
- Attributable to equity holders of the parent company		(0.025)	(0.121)
- From continuing operations	35	(0.070)	(0.128)
- From discontinued operations		0.0483	0.007
Diluted earnings per share			
- Attributable to equity holders of the parent company		(0.025)	(0.121)
- From continuing operations	35	(0.073)	(0.128)
- From discontinued operations		0.0482	0.007

(*) Figures restated because of the deconsolidation of Xylazel, to show discontinued operations
The accompanying notes are an integral part of these consolidated financial statements

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(thousand euro)

	31-12-18	31-12-17
CONSOLIDATED INCOME FOR THE YEAR (from the consolidated income statement)	**(5,553)**	**(26,765)**
ITEMS THAT MAY BE RECYCLED THROUGH PROFIT OR LOSS		
Change in value of financial assets available for sale	(1)	2
Foreign exchange difference	(9)	6
Other comprehensive income for the year, net of taxes	**(10)**	**8**
Comprehensive income for the year	**(5,563)**	**(26,757)**
Attributable to:		
Equity-holders of the parent company	(5,545)	(26,738)
Non-controlling interests	(18)	(19)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**(5,563)**	**(26,757)**

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 2017	**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	-	-	2
- Other revenues and expenses recognized directly in equity	-	-	-	-	6	-	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)**
Shares purchased (Note 17)	-	-	(6,186)	-	-	-	(6,186)
Shares sold (Note 17)	-	-	4,378	-	611	-	4,989
Value of employee services — Employee share ownership plan	-	-	585	-	(108)	-	477
Capital increase	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**
Change in accounting policy (note 2a)					**(84)**		**(84)**
Balance as of 1 January 2018	**11,132**	**71,278**	**(4,470)**	**13**	**(51,171)**	**(3,882)**	**22,900**
Fair value gain / (loss), gross:							
- Available-for-sale financial assets (Note 12)	-	-	-	(1)	-	-	(1)
- Other revenues and expenses recognized directly in equity directly in equity	-	-	-	-	(9)	-	(9)
Other comprehensive income	**-**	**-**	**-**	**(1)**	**(9)**	**-**	**(10)**
2018 income	-	-	-	-	(5,535)	(18)	(5,553)
Comprehensive income for the year	**-**	**-**	**-**	**(1)**	**(5,544)**	**(18)**	**(5,563)**
Shares purchased (Note 19)	-	-	(3,446)	-	-	-	(3,446)
Shares sold (Note 19)	-	-	4,949	-	(2,162)	-	2,787
Value of employee services — Employee share ownership plan (Note 37)	-	-	724	-	71	-	795
Balance as of 31 December 2018	**11,132**	**71,278**	**(2,243)**	**12**	**(58,806)**	**(3,900)**	**17,473**

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

CONSOLIDATED CASH FLOW STATEMENT (thousand euro)	**Note**	**31-12-18**	***Restated** **31-12-17**
Income before taxes:		**(7,689)**	**(22,861)**
Income before taxes from continuing operationss		(18,704)	(24,703)
Income before taxes from discontinued operations	25	11,015	1,842
Adjustments for:		**1,508**	**13,204**
Depreciation and amortization	6,8	6,862	7,059
Impairment of accounts receivable	13	(513)	(79)
Fixed asset impairment	6	(2,142)	2,142
Financial revenues	33	(811)	(102)
Financial expenses	33	4,708	5,124
Income from sale of intangible assets		2,059	-
Share-based payments	36	795	476
Deferred revenues - subsidies	21	7	(660)
Gain on sale of subsidiary	25	(9,591)	-
Change in provisions		143	(756)
Other adjustments to income		(9)	-
Changes in working capital		**(13,439)**	**10,200**
Inventories	15	(2,029)	(1,746)
Customer and other receivables	13,21	3,235	22,657
Other assets and liabilities	24	(21)	(8,973)
Supplier and other accounts payable	21	550	(1,738)
Deferred and accrued items		(15,174)	-
Other operating cash flows:		**3,280**	**(2,002)**
Interest paid	33	(4,708)	(5,104)
Interest received	33	69	102
Income tax received/(paid)	24	7,919	3,000
TOTAL NET OPERATING CASH FLOW		**(16,340)**	**(1,459)**
Investment payments:		**(2,391)**	**(4,665)**
Group and associated undertakings and business units		(16)	-
Property, plant and equipment, intangible assets and investment property	6,8	(2,375)	(4,665)
Divestment receipts:		**24,644**	**10,660**
Group and associated undertakings and business units	25	21,273	-
Property, plant and equipment, intangible assets and investment property	6,7,8	43	85
Other assets		3,328	10,575
Other investing cash flow		**-**	**-**
TOTAL NET INVESTING CASH FLOW		**22,253**	**5,995**
Receipts and (payments) in connection with equity instruments:		**(660)**	**769**
Issuance of equity instruments		-	1,966
Acquisition	17	(3,446)	(6,186)
Disposal	17	2,786	4,989
Receipts and (payments) in connection with financial liabilities:		**(9,911)**	**3,291**
Loans received	23	6,917	19,944
Loans repaid	23	(16,828)	(16,653)
Other financing cash flow		**3,314**	**1,202**
Credit lines drawn/(repaid)		3,314	1,202
TOTAL NET FINANCING CASH FLOW		**(7,257)**	**5,262**
TOTAL NET CASH FLOW FOR THE YEAR		**(1,344)**	**9,798**
Beginning balance of cash and cash equivalents	16	24,089	14,290
ENDING BALANCE OF CASH AND CASH EQUIVALENTS		**22,745**	**24,088**

(*) Figures restated because of the deconsolidation of Xylazel, to show discontinued operations
The accompanying notes are an integral part of these consolidated financial statements

NOTES TO THE **CONSOLIDATED** FINANCIAL STATEMENTS

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

of Pharma Mar, S.A. and Subsidiaries

as of 31 December 2018

(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. The Group also produces and commercializes domestic insecticides and air fresheners as well as home care 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.

In December 2017, the Company received a negative opinion from the CHMP (Committee for Medical Products for Human Use) with regard to the application for approval to market Aplidin (Plitidepsin) for treating multiple myeloma in Europe. In March 2018, the EMA confirmed the negative opinion issued by the CHMP in December 2017 in which it recommended not granting marketing authorization for Aplidin® for treating multiple myeloma. In October 2018, PharmaMar filed a case with the General Court of the European Union against the European Commission requesting the annulment of the Commission's final Execution Decision by which marketing authorization of Aplidin® was denied. In January 2019, the European Commission rejected PharmaMar's claim.

In December 2018, Australia's Therapeutic Goods Administration (TGA) informed Specialised Therapeutics Asia Pte. Ltd. (STA) that it had approved Aplidin® (Plitidepsin) for use in treating multiple myeloma in combination with dexemethasone. The approval covers treating patients who have relapsed after three lines of treatment. PharmaMar has licensed Aplidin® to its partner STA for Australia, New Zealand and several Southeast Asian countries.

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

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).

In April 2018, Chugai Pharmaceutical, Co. Ltd. gave notice to PharmaMar of its decision to exercise its right to terminate without cause, with one year's notice, the licensing agreement for development and marketing it had signed in connection with Zepsyre® for the Japan territory in December 2016. The two companies reached an agreement for early termination in June 2018.

As of 31 December 2018, PharmaMar continued to develop its other products.

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).

On 20 September 2018, PharmaMar sold subsidiary Xylazel, S.A. (hereinafter "Xylazel"), which manufactured, supplied and distributed products for wood and metal treatment, protection and decoration, special paints and other similar and related products, as well as other products for the construction industry. The buyer, Akzo Nobel Coatings, S.L. (a Spanish subsidiary of the Akzo Nobel Group), acquired 100% of the shares of Xylazel for a cash price of €21.8 million, calculated net of cash and debt.

Under IFRS 5 "Non-current assets classified as held for sale and discontinued operations", Xylazel was classified as a discontinued operation. As a result, these consolidated financial statements present that subsidiary, which was sold in September 2018, under discontinued operations in both 2018 and 2017 (note 25).

Genomica S.A.U. established a subsidiary in China in January 2018.

There were no material changes in the consolidation scope of the PharmaMar Group (hereinafter, the "Group") in 2017 apart from the incorporation of Genómica Brasil Ltda.

The list of the consolidated Group's subsidiaries as of 31 December 2018 is as follows:

Name	Registered offices	% Stake		
		Direct	Indirect	Total
Genómica, S.A.U.	Via de los Poblados, 1, Edif. B, Parq. Emp. Alvento, Madrid, Spain	100.00%	-	100.00%
Genómica, A.B. (*)	Ideon Science Park, Scheelevägen 17, Lund, Sweden	-	100.00%	100.00%
Genómica Brasil Consultoria e Intermediaçao Ltda (*)	Avda. Presidente Wilson, 231, sala 1402, Rio de Janeiro, Brazil	-	100.00%	100.00%
Genómica (Wuhan) Trading Co.Ltd. (*)	No.401-421 (Wuhan Free Trade Area) 4/F, Office Building A, · No.777, Guanggu 3 Road, Wahan East Lake High-tech, Development Zone	-	100.00%	100.00%
Sylentis, S.A.U.	Pza. del Descubridor Diego de Ordás 3, Madrid, Spain	100.00%	-	100.00%
Pharma Mar USA INC	205 East 42nd Street, Suite 15003, New York, NY 10017, USA	100.00%	-	100.00%
PharmaMar AG	Aeschenvorstadt, 71 - Basle - Switzerland	100.00%	-	100.00%
Pharma Mar Sarl	6 Rue de l'Est, 92100 Boulogne Billancourt, Paris, France	100.00%	-	100.00%
Pharma Mar GmbH	Uhlandstraße 14 - 10623 Berlin - Germany	100.00%	-	100.00%
Pharma Mar Srl	Via Lombardia 2/A C/O Innov. Campus 20068 Peschiera Borromeo Milano - Italy	100.00%	-	100.00%
Pharma Mar, Ltd (***)	Soane Point 6-8 Market Place, Reading RG1 2EG. United Kingdom	100.00%	-	100.00%
Pharma Mar, Sprl	Avenue du Port 86C, Boite 204, 1000 Brussels, Belgium	100.00%	-	100.00%
Pharma Mar Ges.m.b.H	Mooslackengasse 17- 1190 Vienna, Austria	100.00%	-	100.00%
Noscira, S.A. en liquidación (***)	Pza. del Descubridor Diego de Ordás 3, Madrid, Spain	73.00%	-	73.00%
Zelnova Zeltia. S.A.	Torneiros - Porriño, Pontevedra	100.00%	-	100.00%
Copyr S.p.A.(**)	Via Giorgio Stephenson, 73 - Milan - Italy	-	100.00%	100.00%

(*) Genómica A.B., Genómica Ltda and Genómica Ltd are wholly-owned subsidiaries of Genómica, S.A.U.

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

(***) In liquidation

Below is a list of the Group's subsidiaries and the firms that audited their 2018 financial statements:

Name	Statutory audit
Genómica, S.A.U.	Yes - KPMG
Genómica, A.B.	Yes - KPMG
Genómica Brasil Consultoria e Intermediaçao Ltda	Yes - KPMG
Genómica (Wuhan) Trading Co.Ltd.	Yes - Grant Thornton
Sylentis, S.A.U.	Yes - KPMG
Pharma Mar USA INC	Yes - Walter & Shuffain, PC
PharmaMar AG	Yes - PwC
Pharma Mar Sarl	Yes - PwC
Pharma Mar GmbH	No
Pharma Mar Srl	Yes - Prorevi Auditing, S.r.L.
Pharma Mar, Ltd	No
Pharma Mar, Sprl	Yes - PwC
Pharma Mar Ges.m.b.H	No
Noscira, S.A. en liquidación	No
Zelnova Zeltia, S.A.	Yes - PwC
Copyr S.p.A.	Yes - 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 2018 and 2017, 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. Xylazel was sold and deconsolidated in September 2018.
- 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. Belgium: Marketing pharmaceutical products in the Belgian market.
- Pharma Mar Ltd. (UK): Marketing pharmaceutical products in the UK market. The liquidation of this company commenced in 2018.
- Pharma Mar Ges.m.b.H AT (Austria): 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.
- Genómica (Wuhan) Trading Co., Ltd.(China).: Wholesale trade, import and export of Class III and Class I medical devices, R&D and sales of Class III IVD reagents; commission agency (excluding auctions) and supplier of related support services.
- 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.

A. Basis of presentation

These consolidated financial statements for 2018 and those for 2017 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 using the historical cost method, though modified in the case of available-for-sale financial assets and financial assets and liabilities (including derivatives) at fair value through profit or loss.

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 2018 are consistent with those used to prepare the consolidated financial statements for the year ended 31 December 2017. The material estimates made in the 2018 financial statements are also consistent with those made in the 2017 financial statements. The 2017 column presented for comparison purposes in the income statement was restated to reflect the effect of classifying Xylazel as a discontinued operation as a result of its deconsolidation in September 2018.

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

Standards, amendments and interpretations that are obligatory for all annual periods beginning on or after 1 January 2018

A number of new or amended standards came into force in the reporting period and the group had to modify its accounting policies as a result of the adoption of the following standards (only for the adoption of IFRS 9):

- IFRS 9 "Financial Instruments", and
- IFRS 15 "Revenue from contracts with customers".

The impact of the adoption of these standards and of the new accounting policies is described below.

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 on the adoption date, but it is not necessary to modify the comparative information (practical convenience). In this case, any difference between the previous carrying amounts in accordance with IAS 39 and the carrying amounts on the date of initial application of IFRS 9 will be recognized in the initial reserves for retained earnings. For hedge accounting, the requirements are generally applied prospectively, with a few limited exceptions.

PharmaMar adopted the new standard on 1 January 2018 and did not restate the comparative

information. PharmaMar did not identify material 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. PharmaMar identified an increase in losses due to impairment, which will have a negative impact on equity, as detailed below.

a) Classification and measurement

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

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

Financial assets at amortized cost and trade accounts receivable are held to receive the contractual cash flows and are expected to comprise only principal and interest payments. PharmaMar 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.

(b) Impairment

IFRS 9 requires PharmaMar to recognize expected credit losses on all its debt securities, loans and trade accounts receivable, either on a 12-month or lifetime basis. PharmaMar applied the simplified model and recognized expected losses in the lifetime of all trade debtors. PharmaMar determined that, due to the nature of its loans and receivables, impairment losses will increase by €113 thousand, with a corresponding increase of €28 thousand in deferred tax assets.

c) Hedge accounting

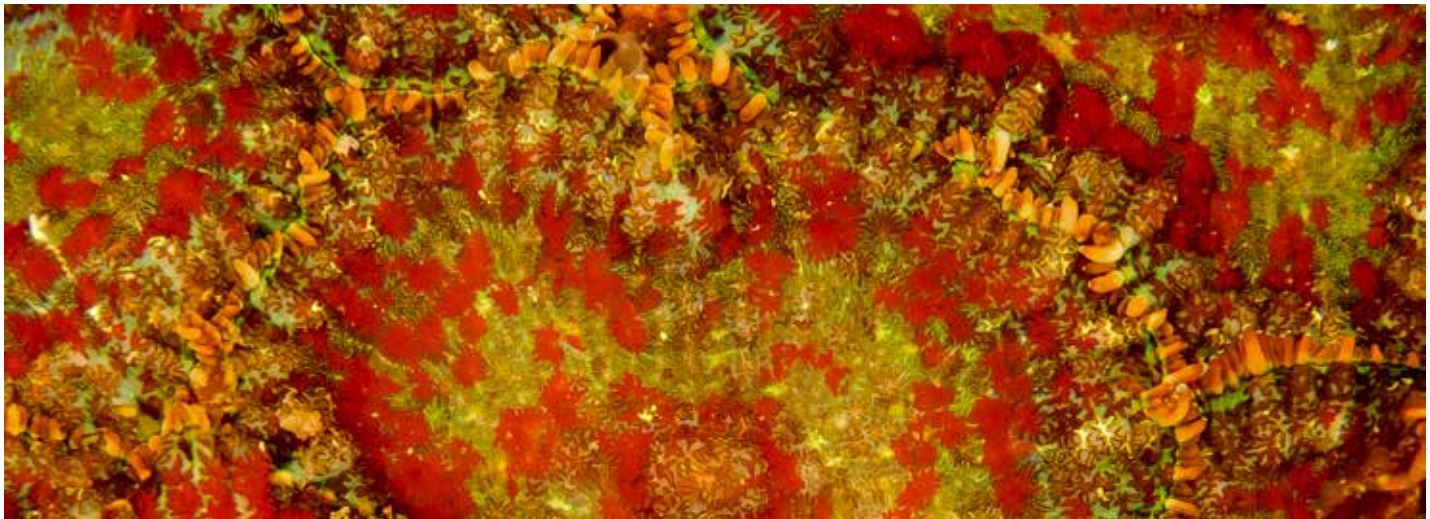
PharmaMar determined that hedge accounting does not have any impact since it had not arranged any derivative instruments as of 2018 and 2017 year-end.

d) Debt restructuring

PharmaMar has not carried out debt restructurings in the past; consequently, the application of IFRS 9 has no effect in this regard.

In summary, the impact of the adoption of IFRS 9 as of1 January 2018 is as follows (in thousand euro), which was recognized in the opening balance sheet as of 1 January 2018:

Assets	**2017 Amount**
Other financial assets	(96)
Trade and other accounts receivable	(17)
TOTAL ASSETS	**(113)**
Liabilities	
Deferred tax liabilities	(28)
TOTAL LIABILITIES	**(28)**
IMPACT ON EQUITY	**(85)**



IFRS 15- "Revenue from contracts with customers"

IFRS 15 applies for annual periods beginning on or after 1 January 2018, but early adoption was 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 adopted the new standard on 1 January 2018 using the modified partial retroactive method, which entails recognition of the impact of application of the new standard to all those contracts that were in force on 1 January 2018 under retained earnings in the opening equity for the year 2018, without having to restate the comparative data.

The Group has two distinct business areas:

- Biopharmaceuticals (Oncology, Diagnostics and RNAi), and
- Consumer chemical products.

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.

Identification of performance obligations and recognition of revenues:

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

This standard did not have a impact on the Group's results in connection with 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, 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 it depends 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 (as in the case of the transfer of services, or where what is being transferred is a right of access).

The revenue recognition described above does not differ materially from that which the Group had been applying to date; therefore, as of 31 December 2017, no revenue had been recognized that had not already accrued, nor were there any revenues already accrued that had not been recognized as a result of performance obligations; therefore, there is no impact on the Company's equity at the time of the adoption of IFRS 15.

b) Sale of products (oncology and consumer chemicals segments)

The standard did not have an impact on the Group's results due to the sale of products in the oncology segment or the chemicals segment.

In this case, revenues are recognized at the time when 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

The standard did not have an impact on Group earnings from contracts of this type since they identify the following performance obligations: supply of test results, and equipment maintenance (technical assistance). These revenues are recognized when the goods are delivered to the end customer, since that is when control of the goods is transferred to the customer. Revenue for equipment maintenance is recognized generally 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 was modified in terms of the breakdown, but without having a material impact. Based on this segment's revenues in 2017, €87 thousand were reclassified as equipment rental, training and maintenance, under services. The amount recognized in 2018 under this heading was €298 thousand.

For massive sequencing contracts and the production of reports on the conclusions of this analysis, the first service is deemed to modify the second, since they are correlated, and these services are treated as a single performance obligation, namely the presentation of results and conclusions in a single analysis report. Consequently, the adoption of IFRS 15 is not expected to change the Company's current approach to accounting for service provision contracts. Revenue from these services will continue to be recognized over time, as they do not create an asset with an alternative use to the Group and the Group is entitled to an advance payment for the service provided plus a margin in accordance with the contract. 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.

It should be noted that, in equipment sales contracts, generally there are no agreed prices guaranteed by the overall transaction and, therefore, the sale of the equipment (first compliance obligation fulfilled) guarantees reception only for that obligation.

Analysis of other material aspects of the application of IFRS 15:

a) Variable consideration

Under IFRS 15, a variable consideration will only be recognized to the extent that it is highly likely that there will not be a material reversal in the amount of cumulative revenue recognized when the uncertainty associated with the variable consideration is subsequently resolved.

Some contracts with clients provide the right to returns, trade discounts and volume discounts. Until 2017, the Group recognized 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 had no impact. Returns are deducted from revenue; accordingly, they do not result in adjustments by application of IFRS 15.

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

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 the financial structure of the Group is stable. These advance receipts are common practice in the biopharmaceutical industry.

Standards, amendments and interpretations that have not yet been adopted by the Group

IFRS 16 - "Leases"

IFRS 16 was published in January 2016. It will result in almost all leases being recognized by tenants on the balance sheet since it eliminates the distinction between operating and financial leases. Under the new standard, an asset (the right to use the leased asset) and a financial liability for the lease payment are recognized. The only exceptions are short-term and low-value leases.

During the last year, the Group reviewed all lease agreements in light of the new lease accounting rules under IFRS 16. The standard will mainly affect the accounting treatment of the group's operating leases.

At the date of presentation of the financial information, the Group has non-cancellable operating lease commitments for €6,561 thousand (note 40).

In connection with the other lease commitments, the Group expects to recognize assets for the right to use in the amount of approximately €5,745 thousand as of 1 January 2019, and liabilities for the same amount. No material impacts are expected in the profit and loss account as a result of the application of the new standard.

The group's activities as a lessor are not material and, therefore, the group does not expect a significant impact on the financial statements. However, additional disclosures will be required as of next year.

The Group will apply the standard from its obligatory adoption date, i.e. 1 January 2019. The group intends to apply the simplified transition approach and will not restate the comparative figures for the year prior to initial adoption. The right-of-use assets for real estate leases will be measured at the time of the transition as if the new rules had always applied. Other right-of-use assets will be measured at the amount of the lease liability at the time of adoption (adjusted for any advance payment or accrued lease expense).

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:

IFRS Annual Improvements Cycle 2015 – 2017: The amendments affect IFRS 3, IFRS 11, IAS 12 and IAS 23 and will apply to annual periods beginning on or after 1 January 2019, all of which are subject to adoption by the EU. The main amendments refer to:

- IFRS 3 "Business Combinations": A previously held share in a joint operation is re-measured when control of the business is attained.
- IFRS 11 "Joint Arrangements". A previously held share in a joint operation is not re-measured once joint control of the business is attained.
- IAS 12 "Income tax": All the tax consequences of dividend payments are accounted for in the same way.
- IAS 23 "Interest costs": Any specific loan originally made to develop a qualifying asset is considered part of generic loans when the asset is ready for use or sale.
- IFRS 3 (Amendment) "Definition of a business".
- IAS 1 (Amendment) and IAS 8 (Amendment) "Definition of material".

B. 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 at acquisition-date fair value. Any gain or loss arising from such remeasurement is 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 at 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 revenues and expenses on transactions between Group undertakings are eliminated.

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

C. Segment reporting

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

D. Foreign currency transactions

i. Functional and presentation currency

Items 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 PharmaMar'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 Genomica, AB, the Swedish subsidiary, their functional currencies in 2018 and 2017 were the Swiss franc, the pound sterling and the Swedish krona, respectively, as their sales are in local currency. Also, the two subsidiaries of Genómica in Brazil and China operated with reais and yuan, respectively, as their functional currency during 2018. 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 transaction dates. 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 transaction dates), 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 the 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 exchange rate.

E. 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). At 2017 year-end, property, plant and equipment also included the items relating to Xylazel, which was sold in September 2018. 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.

F. 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.

G. 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 considered to be fulfilled in 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 2008 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 in the year it is 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 recognised under assets must be amortized in accordance with a systematic plan over their useful life, beginning in the year in which the project concluded. The 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,

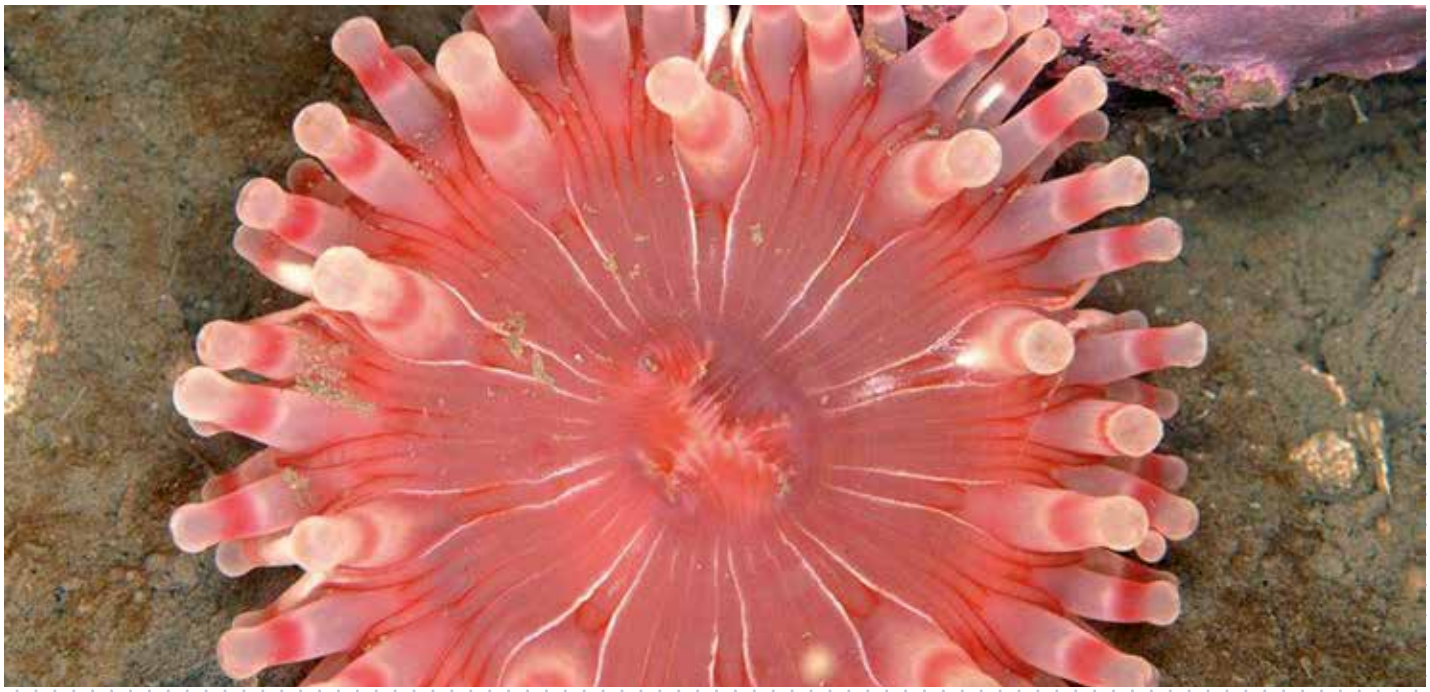
ii) cost of raw materials, consumables and services used directly in the project,

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 useful 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.

H. 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.

I. Impairment losses on non-financial assets

Intangible assets that have an indefinite useful life and intangible assets under development are not amortized and are tested annually for impairment. 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.

J. Investments and other financial assets

i. Classification

Since 1 January 2018, the Group classifies its financial assets in the following measurement categories:

- those that are subsequently measured at fair value (with changes through either profit and loss or other comprehensive income), and
- those that are measured at amortized cost.

The classification depends on the business model used by the undertaking to manage the financial assets and on the contractual terms of the cash flows.

For assets at fair value, gains and losses are recognized in profit and loss or other comprehensive income. For investments in equity instruments that are not held for trading, it will depend on whether the Group made an irrevocable choice at the time of initial recognition to account for the equity investment at fair value with changes in other comprehensive income.

The Group reclassifies investments in debt if and only if it changes its business model for managing those assets.

ii. Recognition and derecognition

Conventional acquisitions or disposals of financial assets are recognized on the trade date, i.e. the date on which the Group undertakes to acquire or sell the asset. Financial assets are derecognized when the rights to receive the related cash flows have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

iii. Measurement

At the time of initial recognition, the Group measures a financial asset at fair value plus, in the case of financial assets not at fair value through profit or loss, the transaction costs that are directly attributable to the acquisition of the financial asset. The transaction costs of financial assets at fair value through profit or loss are expensed through profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely the payment of principal and interest.

Debt instruments

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the characteristics of the asset's cash flows. The group classifies debt instruments into one of three measurement categories:

- Amortized cost: Assets held for the collection of contractual cash flows, when those cash flows represent only payments of principal and interest, are measured at amortized cost. Interest revenues from these financial assets are recognized under financial revenues according to the effective interest rate method. Any gain or loss that arises on derecognition is recognized directly in profit or loss along with gains and losses from exchange differences. Impairment is recognised separately in the income statement.
- Fair value through other comprehensive income Assets held for the collection of contractual cash flows and financial assets held for sale, when the cash flows of the assets represent only payments of principal and interest, are measured at fair value with changes through other comprehensive income. Changes in the carrying amount are recognized in other comprehensive income, except for the recognition of impairment gains or losses, ordinary interest revenues, and gains or losses from exchange differences, which are recognized in profit or loss. When the financial asset is derecognized, the accumulated gain or loss recognized previously in other comprehensive income is reclassified from equity to profit or loss. Interest revenues from these financial assets are recognized under financial revenues according to the effective interest rate method. Exchange gains and losses are presented in other gains and losses and the impairment

expense is presented as a separate item in the income statement.

- Fair value through profit or loss: Assets that do not qualify for amortized cost or for fair value through other comprehensive income are recognized at fair value through profit or loss. A gain or loss on an investment in debt that is recognized subsequently at fair value through profit or loss is recognized in income and is netted in the income statement within other gains/(losses) in the year in which it arises.

Equity instruments

The group subsequently measures all investments in equity at fair value. Where the group's management has chosen to present the fair value gains and losses on investments in equity through other comprehensive income, there is no subsequent reclassification of the fair value gains and losses to profit or loss following derecognition in the investment accounts. Dividends from such investments continue to be recognized in profit or loss as other revenues when the company's right to receive payments is established.

iv. Impairment

As of 1 January 2018, the group measures the expected credit losses associated with its assets at amortized cost and at fair value through other comprehensive income on a prospective basis. The methodology applied to impairment depends on whether there has been a significant increase in credit risk.

For trade accounts receivable, the group applies the simplified approach allowed by IFRS 9, which requires that the expected losses over their lifetime be recognized from the point of initial recognition of the accounts receivable (see note 3.B credit risk for more details).

v. Accounting policies applied up to 31 December 2017

The Group applied IFRS 9 retroactively but elected not to restate the comparative information. As a result, the comparative information provided continues to be presented in accordance with the group's previous accounting policy.

Classification

Until 31 December 2017, the Group classified its financial assets in the following categories:

- financial assets at fair value through profit or loss,
- loans and receivables,
- available-for-sale financial assets,
- cash and cash equivalents.

The classification depends on the purpose for which the investments were acquired. Management classified the investments upon initial recognition and, in the case of assets classified as held-to-maturity, reviewed the classification on each balance sheet date.

Reclassification

The group could opt to reclassify a non-derivative financial asset out of the held-for-trading category if the financial asset were no longer held for the purpose of sale in the immediate future. Financial assets, other than loans and receivables, could be reclassified out of the held-for-trading category only in rare circumstances that arose from a unique event that was unusual and highly unlikely to recur in the near future. In addition, the group could choose to reclassify financial assets that met the definition of loans and receivables out of the held-for-trading or available-for-sale categories if the group had the intention and ability, at the date of reclassification, to hold such financial assets for the immediate future or until maturity.

Reclassifications were made at fair value as of the reclassification date. Fair value became the new cost or amortized cost, as applicable, and fair value gains or losses recognized before the reclassification date were not subsequently reversed. Effective interest rates for financial assets reclassified to loans and receivables and held to maturity were determined at the reclassification date. In the event of additional increases in cash flow estimates, the effective interest rates were adjusted prospectively.

Subsequent re-measurement

Measurement at the time of recognition did not change with the adoption of IFRS 9 (see description above).

Subsequent to initial measurement, loans and receivables and held-to-maturity investments were carried at amortized cost using the effective interest rate method.

Available-for-sale financial assets and financial assets at fair value through profit or loss were subsequently carried at fair value. Fair value gains or losses were recognized as follows:

- financial assets at fair value through profit or loss — in profit or loss
- available-for-sale financial assets that were monetary assets denominated in foreign currency — translation differences related to the changes in the amortized cost of the instrument were recognized in profit or loss, and other changes in the security's carrying amount were recognized in other comprehensive income.
- available-for-sale monetary and non-monetary financial assets — in other comprehensive income.

Subsequent re-measurement

When available-for-sale securities were sold, accumulated fair value adjustments recognised in other comprehensive income were reclassified to profit or loss as gains or losses on investment securities.

Impairment

At each balance sheet date, the group assessed whether there was objective evidence that a financial asset or group of financial assets had been impaired. A financial asset or group of financial assets was deemed to be impaired, and impairment losses were recognized, only if there was 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(s) had an impact on the estimated future cash flows from the financial asset or group of financial assets that could be estimated reliably. In the case of investments in

equity instruments classified as available for sale, a material or prolonged decline in the fair value of the instrument below its cost was also considered to be evidence of impairment.

Assets recognized at amortized cost

For loans and accounts receivable, the amount of the loss was 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 had not been incurred), discounted at the original effective interest rate of the financial asset. The carrying amount of the asset was written down and the amount of the impairment wais recognised in profit or loss. Where a loan or an investment held to maturity had a floating interest rate, the discount rate for measuring any impairment was the current effective interest rate determined in accordance with the contract. As a practical expedient, the group could 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 was reduced and that reduction could 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 was reversed through profit or loss.

Assets classified as available-for-sale

Where there was objective evidence of impairment of available-for-sale financial assets, the accumulated loss — measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in profit or loss — was eliminated through equity and recognized in profit or loss.

Impairment losses on equity instruments recognised in profit or loss were not reversed through profit or loss in subsequent periods.

If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increased and the increase could be objectively attributed to an event that occurred after the impairment loss was recognized in profit or loss, the impairment was reversed through profit or loss.

K. Derivatives and hedging

Derivatives are recognised initially at fair value on the date of signature of the derivative contract and are subsequently re-measured at fair value on each balance sheet date. Recognition of subsequent fair value changes depends on whether the derivative is designated as a hedge instrument and, if so, the nature of the hedged item. The group designates certain derivatives as:

- fair value hedges of recognized assets or liabilities or a firm commitment (fair value hedges),
- hedges of a particular risk associated with the cash flows from recognized assets and liabilities and highly likely planned transactions (cash flow hedges), or
- hedges of net investment in a foreign operation (net investment hedges).

At the beginning of the hedge relationship, the group documents the economic relationship between the hedging instruments and the hedged items, including whether changes in the cash flows of the hedging instruments are expected to offset the changes in the cash flows of the hedged items. The group documents its risk management objective and its hedging strategy.

L. Leases

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

M. Inventories

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

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.

N. Trade receivables

Trade receivables are recognized initially at fair value and subsequently at amortized cost based on the effective interest rate method, less any impairment. See note 13 for additional information on how the group accounts for trade accounts receivable and note 3B “credit risk” for a description of the group’s policies in relation to impairment.

Trade accounts receivable are amounts owed by customers for goods or services provided in the ordinary course of business. They are usually settled between 60 and 90 days and, therefore, are classified as current. Trade accounts receivable are initially recognized at the amount of the consideration that is unconditional, unless they contain a material financial component, in which case they are recognized at fair value. The group holds trade accounts receivable in order to collect the contractual cash flows and, therefore, they are measured subsequently at amortized cost using the effective interest rate method. Details of the accounting policies regarding impairment and the calculation of the impairment are provided in note 3B "credit risk".

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.

O. 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.

P. Share capital and distribution of dividends

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

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.

Q. Government grants

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

Government grants related to the acquisition of fixed assets are included under "Non-current deferred 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.

R. Trade and other accounts payable

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

S. 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 rate 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 rate 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.

T. Current and deferred taxes

The income tax expense includes both current and deferred taxes. The tax is recognized in profit or loss except to the extent that it refers to items recognized directly in 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 as revenue at the time that the investment is deemed to have materialized, which normally coincides with the collection date.

U. 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.

V. Provisions

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

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

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

(iii) the amount 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 an interest expense.

W. Revenue from contracts with customers

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. Sale of products (oncology and consumer chemicals segments)

In this case, revenues are 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 the material risks and benefits inherent in the ownership of the goods.

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. Sale of medical supplies for clinical diagnosis

The following performance obligations are identified in contracts of this type: supply of test results, and equipment maintenance (technical assistance). These revenues are recognized when the goods are delivered to the end customer, since that is when control of the goods is transferred to the customer. Revenue for equipment maintenance is recognized generally at a moment in time, since these are agreed regular reviews performed on specific dates rather than a continuous service.

For massive sequencing contracts and the production of reports on the conclusions of this analysis, the first service is deemed to modify the second, since they are correlated, and these services are treated as a single performance obligation, namely the presentation of results and conclusions in a single analysis report. Revenue from these services will continue to be recognized over time, as they do not create an asset with an alternative use to the Group and the Group is entitled to an advance payment for the service provided plus a margin in accordance with the contract. 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.

It should be noted that, in equipment sales contracts, generally there are no agreed prices guaranteed by the overall transaction and, therefore, the sale of the equipment (first compliance obligation fulfilled) guarantees reception only for that obligation.

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.

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).

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®) attains 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 not recognized as revenue in the year that the agreement is signed. They are recognized as revenue in the year that they are collected provided that:

- they are not refundable,
- the Group does not assume material future obligations (except those for which separate consideration is provided for under arm's-length conditions), and
- control of the asset is transferred. Otherwise, they are recognized as deferred revenues.

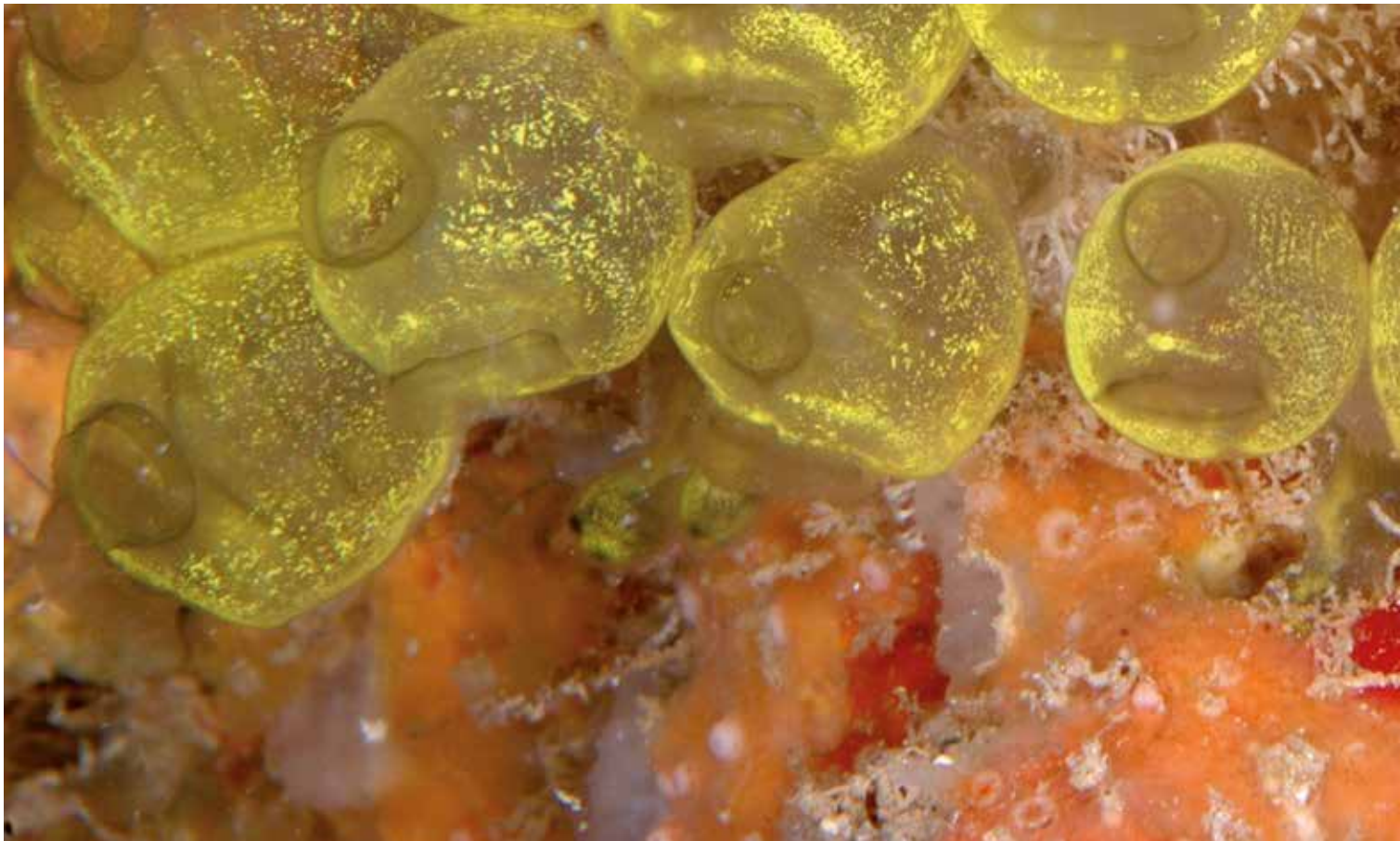
Deferred revenues are recognized in profit or loss over the term of the related commitments as a function of the degree of progress of the project, measured using an input model, as the obligations set out in the contract are met.

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. Variable consideration

Some contracts with clients provide the right to returns, trade discounts and volume discounts. The Group currently recognizes revenues from the sale of assets at the fair value of the consideration received or receivable. Returns are deducted from revenues.

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

v. 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 the financial structure of the Group is stable. These advance receipts are common practice in the biopharmaceutical industry.

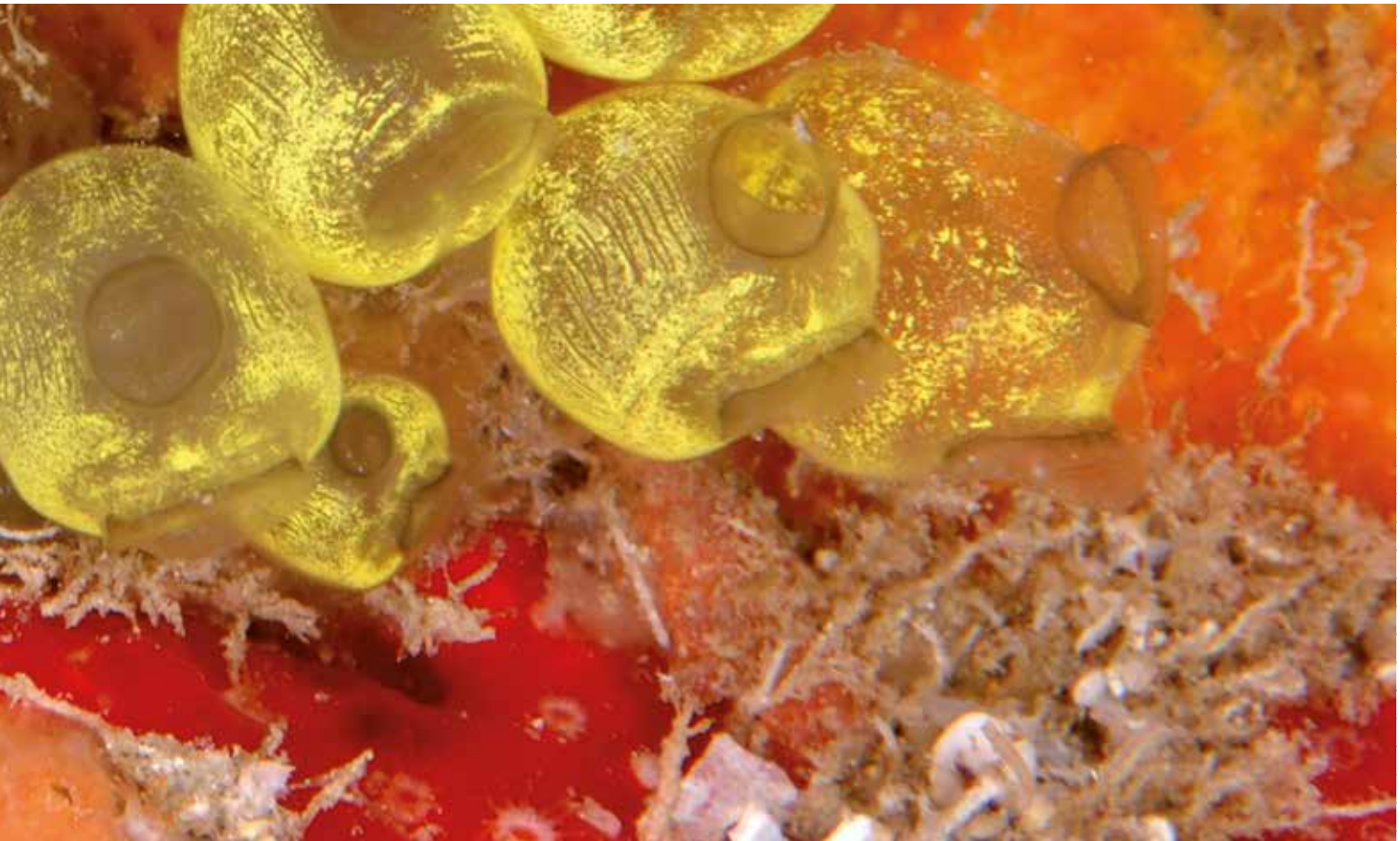
vi. Services

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.

This item includes equipment rental, training and maintenance revenues in the diagnostic segment, as detailed in note 2.a).

X. Discontinued operations

A discontinued operation is a component of the undertaking that has been disposed of or classified as held-for-sale, and represents a line of business or a geographical area of operations that is material and separate from the rest, is part of an individual coordinated plan to dispose of such line of business or operational area, or is a subsidiary acquired exclusively for the purpose of resale. The results of discontinued operations are presented separately in the income statement.



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.

PharmaMar's Finance Department is responsible for risk management in accordance with the Board of Directors' guidelines. That Department identifies, evaluates and hedges 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 2018 and 2017 and during the years ended on those dates, the consumer chemicals segment did not have balances or material activities in foreign currencies (purchases amounting to €5,668 thousand in 2018 and €4,360 thousand in 2017); 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 2018 and 2017, 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 €11,023 thousand in 2018 and €9,754 thousand in 2017. Group management did not consider it necessary to establish a hedging policy in 2018 and 2017.

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 2018, 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 €158 thousand (€145 thousand in 2017), mainly as a result of translation into euro of trade and other receivables and debt denominated in US dollars. If, as of 31 December 2018, 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 €166 thousand (€160 thousand in 2017).

ii. Cash flow and fair value interest rate risk

The Group's interest rate risk arises from remunerated financial assets recognized at amortized cost and from 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 2018 and 2017, interest rate risk was basically due to the Group's bank debt, of which approximately 59% (55% as of 31 December 2017) is at floating rates indexed to Euribor. As of 31 December 2018, bank debt amounted to €50,109 thousand (€54,396 thousand as of 31 December 2017).

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.

If, as of 31 December 2018, 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 €163 thousand lower (€11.5 thousand in 2017).

iii. Price risk

The Group is exposed to price risk on available-for-sale equity instruments and on 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 arises on cash and cash equivalents, contractual cash flows from investments in debt recognized at amortized cost, at fair value through other comprehensive income and at fair value through profit or loss, favorable derivative financial instruments and deposits with banks and financial institutions, as well as on exposure to credit to customers, including accounts receivable.

i. Risk management

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 2018 and 2017 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 2018, the Group had government bonds and bank products at three credit institutions amounting to €22,889 thousand (€23,526 thousand in 2017).

ii. Impairment losses on financial assets

The Group has two types of financial assets that are subject to the expected credit loss model:

- Trade accounts receivable for the sale of products.
- Current financial assets at amortized cost.

Trade receivables

The Group applies the simplified approach allowed by IFRS 9 for measuring expected credit losses,

under which an impairment is recognized for the losses expected over the lifetime of the trade accounts receivable.

To measure expected credit losses, trade accounts receivable are grouped on the basis of the characteristics of shared credit risk and days past due.

To calculate the expected loss on trade accounts receivable, the weighted average maturity of these accounts was calculated together with their nominal amount.

Then, the average rating of the pharmaceutical sector was taken from the latest issue of the S&P Industry Trends Health Care report.

The CDS curve for pharmaceutical companies for the rating in question was obtained from Reuters and converted into probability of default (PD), applying this probability to the nominal weighted average maturity calculated to obtain the expected loss.

Trade accounts receivable are written off when there is no reasonable prospect of recovery. Indicators that there is no reasonable prospect of recovery include failure by the debtor to commit to a payment plan with the Group, and failure to make the contractual payments.

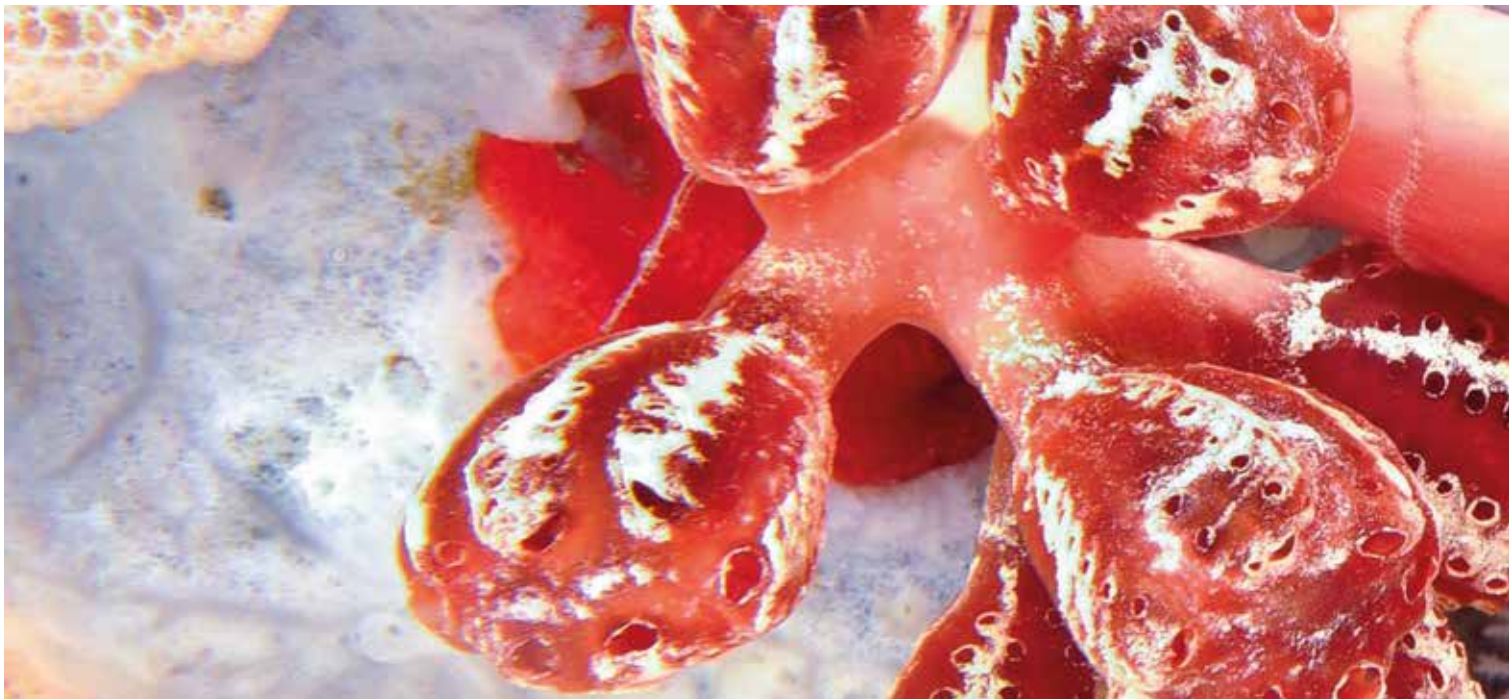
With regard to credit risk with public authorities, management analyzes the credit quality and recoverability of outstanding balances and generally claims default interest when the average collection period exceeds 365 days (Note 13).

Current financial assets at amortized cost

All of the undertaking's investments in debt at amortized cost are considered to have a low credit risk and, therefore, impairment recognized during the year was confined to expected losses in 12 months. Management considers that "low risk" for listed bonds is an investment grade credit rating from at least one major credit rating agency. Other instruments are considered to be of low credit risk when they have a low default risk and the issuer has considerable capacity to comply with its contractual cash flow obligations in the short term.

Previous accounting policy in connection with impairment of trade accounts receivable

In the previous year, impairment of trade accounts receivable was measured on the basis of the losses incurred model. Individual accounts receivable known to be uncollectible were eliminated by writing down the carrying amount directly. Other accounts receivable were assessed jointly to determine if there was objective evidence of impairment that had not yet been identified. For these accounts receivable, estimated impairment was recognized via a separate provision from value impairment. The group considered that there was evidence of impairment if any of the following indicators were present:



- significant financial difficulties on the part of the debtor,
- probability that the debtor might be declared insolved or go into receivership, and
- nonpayment or delays in payment (depending on the specific case).

Accounts receivable for which a provision for impairment was recognized were eliminated against the provision when there was no prospect of recovering additional cash.

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 (€26,876 thousand in 2018, €31,759 thousand in 2017) less short-term borrowings (€28,483 thousand in 2018, €26,395 thousand in 2017), was negative in the amount of €1,607 thousand at the end of 2018 (positive in the amount of €5,364 thousand in 2017).

Long-term interest-bearing debt amounted to €64,922 thousand (€73,607 thousand in 2017), of which €24,142 thousand (€23,863 thousand in 2017) 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 Yondelis®, 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. Additionally, in December 2018, Australia's Therapeutic Goods Administration (TGA) informed Specialised Therapeutics Asia Pte. Ltd. (STA) that it had approved Aplidin® (Plitidepsin) for use in treating multiple myeloma. PharmaMar has licensed Aplidin® to its partner STA for Australia, New Zealand and several Southeast Asian countries, and it will begin to receive payments on sales by STA when it can begin to sell Aplidin® in its territories.

The other compounds are in the development phase. Whereas this segment was previously dependent on funds from the Group's other businesses, it currently generates revenues from sales and from licensing contracts, and through credit transactions, capital raising and, to a lesser extent, funds from other segments of the Group, as

well as the ability 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 and payment commitments 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 for the next five years, together with cash flow estimates, 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 €16.3 million in 2018 and €1.5 million in 2017, mainly due to the intensive capital expenditure on R&D in both years (€74 and €78 million, respectively — Note 28). The difference between the two years is due mainly to receipts under licensing agreements (€9 million in 2018, vs. €30 million in 2017).

The directors expect R&D spending in 2019 to be lower than in previous years, as the Group has decided to concentrate resources on Zepsyre®, the most advanced molecule in its pipeline and, therefore, the one closest to the market (if it is finally approved for commercialization). According to the Company's forecasts, concentration of resources in this molecule may reduce costs by around €10 million with respect to the previous year. Nevertheless, it is estimated that the operating cash flow burn in 2019 will not be less than in 2018.

The following should be noted in connection with the Group's liquidity position at 2018 year-end:

- The Group ended 2018 with cash and cash equivalents plus current financial assets amounting to €26,876 thousand.
- The Group had unused credit lines in the amount €4,158 thousand as of 31 December 2018.
- Working capital is positive in the amount of €2,597 thousand.

PharmaMar's directors analyzed the liquidity situation for the twelve months following the date of authorization of these consolidated financial statements and they believe that,

although there may be a treasury shortfall at the end of this period, the Group has sufficient liquidity to cover its research and development projects and fulfill its future commitments, for the following reasons:

- The Group has identified a number of activities (relating to to non-oncological businesses) that, if necessary, could be postponed without impairing the core of the business, which gives it enough flexibility to adapt spending to the company's available resources.
- As it has done in the past, the Group's objective in the biopharmaceutical segment is to sign new licensing agreements for its compounds under development. The Group expects to strengthen its liquidity position in 2019 through new agreements that are currently under negotiation.
- Maturities of net interest-bearing debt amount to €12,493 thousand in 2019, of which around €2,000 thousand will be covered with new loans related to already attained milestones under loans granted in previous years by official bodies for R&D projects. The Company expects to arrange new loans for an amount similar to that attained in 2018.
- In February 2019, the group arranged new credit lines for a total of €2,500 thousand.
- The Company has additional debt-bearing capacity based on certain tangible assets that would enable it to arrange new mortgage loans.
- There are also collection rights that could serve as collateral for new funding with which to meet the aforementioned maturities.
- As indicated in note 43 on post-closing events, the Group granted a mandate to Alantra Corporate Finance SAU for the sale of its stake in ZelnovaZeltia. The goal is to maximize the price of that sale and maintain the strategy of growth in the oncology business (in line with the divestment of its subsidiary Xylazel in 2018).
- PharmaMar also has the option of raising funds with which to fund future investments via the capital market.

The directors consider that the Company has sufficient alternatives to generate the necessary liquidity with which to maintain the ordinary course of business and to advance with the development of Zepsyre® in order to obtain the results of clinical trials in small cell lung cancer at the end of 2019 or the beginning of 2020.

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.

	31-12-2018				
FINANCIAL LIABILITIES, BY MATURITY (thousand euro)	**Less than 1 year**	**1 to 2 years**	**2 to 5 years**	**Over 5 years**	**Total**
Bank debt and other interest-bearing debt	26,325	10,483	17,255	20,575	**74,638**
Debt to official authorities	2,980	5,057	11,107	5,747	**24,891**
Suppliers	31,231	-	-	-	**31,231**
Other accounts payable	2,195	10	-	-	**2,205**
TOTAL LIABILITIES	**62,731**	**15,550**	**28,362**	**26,322**	**132,965**

	31-12-2017				
FINANCIAL LIABILITIES, BY MATURITY (thousand euro)	**Less than 1 year**	**1 to 2 years**	**2 to 5 years**	**Over 5 years**	**Total**
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	36,490	-	-	-	**36,490**
Other accounts payable	946	-	-	-	**946**
TOTAL LIABILITIES	**66,413**	**31,016**	**29,728**	**26,761**	**153,918**

3.2 Capital management

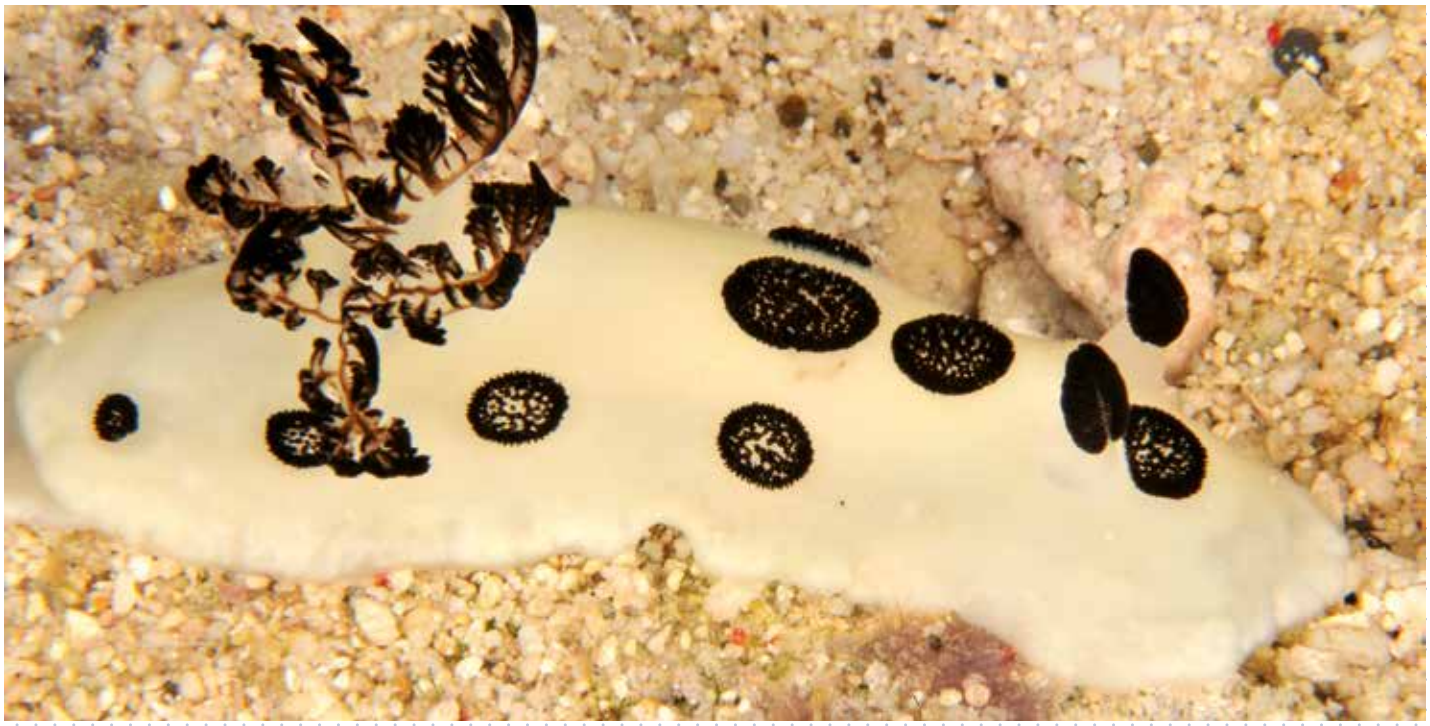
To date, the Group's objectives with regard to capital have been to safeguard its capacity to continue as a going concern and to raise sufficient liquid funds to finance operations, basically in the oncology segment, having regard to the projected timelines for product launches in the market, research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

TOTAL CAPITAL AND LEVERAGE (thousand euro)	**Balance as of 31-12-2018**	**Balance as of 31-12-2017**
Long-term interest-bearing debt	(64,922)	(73,607)
Short-term interest-bearing debt	(28,483)	(26,395)
Cash and cash equivalents	22,745	24,088
Non-current and current financial assets	5,015	8,648
Equity	(17,473)	(22,984)
TOTAL CAPITAL	**(83,118)**	**(90,250)**
Leverage	**78.98%**	**74.53%**

The increase in leverage is due mainly to the decrease in equity as a result of the losses in 2018.



3.3 Fair value estimate

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

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

The table below presents the Group's assets and liabilities at fair value as of 31 December 2018:

FAIR VALUE ESTIMATES 2018 (thousand euro)	**Level 1**	**Level 3**	**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	**24**	**320**	**344**

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

FAIR VALUE ESTIMATES 2017 (thousand euro)	**Level 1**	**Level 3**	**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	**25**	**320**	**345**

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 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 2028 are included for PharmaMar, and through 2023 for Genómica and Sylentis.
- The information for preparing the tax plan is the budget presented to the Board of Directors, which includes projections through 2023, extended to 2028 in the case of PharmaMar, 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 9.5% growth in sales in the oncology segment. That growth is due mainly to the good prospects for Zepsyre®, a product currently under development.
  - Average 5.33% 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 €1,138 thousand.

- A 5% reduction in the estimated price for the main research compound (Zepsyre®) would result in the derecognition of €5,895 thousand.
- A 5% reduction in sales of Yondelis® would result in derecognition of €505 thousand.
- A 1-year delay in sales of the main compound under development, Zepsyre®, would result in derecognition of €7,269 thousand.
- A 10% loss of market share for the main compound under development, Zepsyre®, would result in derecognition of €2,267 thousand.

Note 24 details the assets recognized by the Group as of 31 December 2018 and 2017 and the assets not recognized by application of this approach.

Capitalized development expenses (Note 2.G.i)

New drug development 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. — 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 contexts. 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. This is an indicator of the company's direct activity as it eliminates the tax effect. In the case of the PharmaMar group, the tax item occasionally has a positive sign and varies considerably between years, which distorts the comparability of net profit. Moreover, the financial burden that this indicator eliminates is not the Group's most significant expense and it is quite stable between years. EBITDA is the indicator that best reflects the Company's activity.

- Corporate costs are not allocated to individual operating segments and 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 2018 and 2017.

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, although Xylazel is presented under discontinued operations, as indicated below. The three biopharmaceutical operating segments are not aggregated due to qualitative differences.

Therefore, the four identified reporting business segments as of 31 December 2018 and 2017 are as follows:

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 AT).

2. Diagnostics. This segment encompasses the development and marketing of diagnostic kits (Genómica, S.A.U. and subsidiaries, Genómica AB, Genómica Brasil, L.T.D and Genómica (Wuhan) Trading Co. Ltd.).

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

4. Consumer chemicals. This segment comprises the Group undertakings that produce and market insecticides and air fresheners for household use, and household products. The subsidiaries that operate in this segment are Zelnova Zeltia, S.A. and Copyr, S.p.A.

As indicated in Note 1, Xylazel, S.A., which was part of the consumer chemicals segment, was sold on 20 September 2018 and, consequently, this company's operations are presented under discontinued operations in the consolidated profit and loss account under the heading "Income from discontinued operations".

Income statement information by reporting segment for the year ended 31 December 2018 is as follows:

	Biopharmaceuticals					
SEGMENT INCOME 2018 (thousand euro)	**Oncology**	**Diagnostics**	**RNAi**	**Consumer chemicals**	**Unallo-cated**	**Group**
Revenues	102,753	5,891	-	53,817	126	**162,587**
Cost of sales	(2,115)	(2,811)	-	(30,940)	-	**(35,866)**
Other operating revenues / Other net gains	1,703	(16)	34	222	-	**1,943**
R&D expenses	(63,741)	(4,941)	(5,105)	(223)	-	**(74,010)**
Other expenses	(35,612)	(4,596)	(230)	(20,997)	(7,291)	**(68,726)**
Net operating income	**2,988**	**(6,473)**	**(5,301)**	**1,879**	**(7,165)**	**(14,072)**
Net financial income	**(3,523)**	**(191)**	**(321)**	**(597)**	**-**	**(4,632)**
Income before taxes	**(535)**	**(6,664)**	**(5,622)**	**1,282**	**(7,165)**	**(18,704)**
Income tax expense	2,789	(7)	101	(384)	-	**2,499**
Income from continuing operations	**2,254**	**(6,671)**	**(5,521)**	**898**	**(7,165)**	**(16,205)**
Income from discontinued operations	**-**	**-**	**-**	**10,652**	**-**	**10,652**
Equity-holders of the parent company	2,254	(6,671)	(5,521)	11,550		
Income from continuing operations (1)	2,254	(6,671)	(5,521)	898		
Tax expense (2)	(2,789)	7	(101)	384		
Financial income (3)	3,523	191	321	597		
Depreciation and amortization (4)	5,569	691	114	488		
Fixed asset impairment losses (5)	(2,142)	-	-	-		
Impairment and changes in trade provisions (6)	(4)	114	-	228		
Indemnities (7)	2,486	-	-	-		
Adjusted EBITDA (1)+(2)+(3)+(4)+(5)+(6)+(7)	**8,897**	**(5,668)**	**(5,187)**	**2,595**		

The adjustment for indemnities corresponds to workforce restructuring in the oncology segment in 2018, which was a one-time, non-recurring event.

Assets and liabilities by reporting segment as of 31 December 2018 are presented as supplementary information:

	Biopharmaceuticals					
SEGMENT ASSETS AND LIABILITIES 2018 (thousand euro)	**Oncology**	**Diagnostics**	**RNAi**	**Consumer chemicals**	**Unallo-cated**	**Group**
Non-current assets	60,668	3,475	553	17,870	-	**82,566**
Current assets	41,215	3,185	3,201	25,953	1,556	**75,110**
Non-current liabilities	61,348	978	4,892	603	-	**67,821**
Current liabilities	55,803	4,573	1,981	9,817	208	**72,382**
Investment in fixed assets	1,246	386	127	664	-	**2,423**

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

	Biopharmaceuticals					
SEGMENT INCOME 2017 (thousand euro)	**Oncology**	**Diagnostics**	**RNAi**	**Consumer chemicals**	**Unallo-cated**	**Group**
Revenues	101,319	6,016	-	51,543	-	**158,878**
Cost of sales	(2,734)	(2,526)	-	(29,676)	-	**(34,936)**
Other operating revenues / Other net gains	2,891	(70)	655	46	-	**3,522**
R&D expenses	(71,190)	(1,980)	(5,371)	-	-	**(78,541)**
Other expenses	(34,816)	(3,813)	(623)	(20,166)	(9,043)	**(68,461)**
Net operating income	**(4,530)**	**(2,373)**	**(5,339)**	**1,747**	**(9,043)**	**(19,538)**
Net financial income	**(4,107)**	**(202)**	**(324)**	**(532)**	**-**	**(5,165)**
Income before taxes	**(8,637)**	**(2,575)**	**(5,663)**	**1,215**	**(9,043)**	**(24,703)**
Income tax expense	(3,178)	11	8	(350)	-	**(3,509)**
Income from continuing operations	**(11,815)**	**(2,564)**	**(5,655)**	**865**	**(9,043)**	**(28,212)**
Income from discontinued operations	**-**	**-**	**-**	**1,447**	**-**	**1,447**
Equity-holders of the parent company	(11,815)	(2,564)	(5,655)	2,312		
Non-controlling interests	-	-	-	-		
Income from continuing operations (1)	(11,815)	(2,564)	(5,655)	865		
Tax expense (2)	3,178	(11)	(8)	350		
Financial income (3)	4,107	202	324	532		
Depreciation and amortization (4)	5,305	689	108	509		
Fixed asset impairment losses (5)	2,142	-	-	-		
Impairment and changes in trade provisions (6)	-	134	-	110		
Indemnities (7)	-	-	-	850		
Adjusted EBITDA (1)+(2)+(3)+(4)+(5)+(6)+(7)	**2,917**	**(1,550)**	**(5,231)**	**3,216**		

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					
SEGMENT ASSETS AND LIABILITIES 2017 (thousand euro)	**Oncology**	**Diagnostics**	**RNAi**	**Consumer chemicals**	**Unallo-cated**	**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**

In December 2018, PharmaMar sold to Zelnova Zeltia, S.A., for €2,160 thousand, a plot of land that PharmaMar was carrying on its books for €599 thousand. PharmaMar had an independent appraisal of the land by an independent expert dated January 2018 showing that the transaction was performed at market prices.

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

In 2018 and 2017, the Group recognized losses due to impairment of inventories and trade accounts receivable amounting, respectively, to €170 thousand and €266 thousand, mainly in the diagnostics and consumer chemicals segments 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 BY REGION (thousand euro)	**31-12-18**	**31-12-17**
Spain	45,390	40,165
Italy	35,286	35,790
Germany	15,058	16,452
Rest of the European Union	34,633	41,196
Japan	18,659	12,668
United States	7,481	3,619
Rest of the world	6,080	8,988
	162,587	**158,878**

NON-CURRENT ASSETS BY REGION (thousand euro)	**31-12-18**	**31-12-17**
Spain	48,336	56,482
Rest of the European Union	1,030	1,056
	49,366	**57,538**

Most of the Group's sales are made in Spain and other European Union countries. The euro area accounted for 80.2% of total sales in 2018 (84.1% in 2017).

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 2018 and 2017 was concentrated in Spain.

Total revenue of companies in the consumer chemical sector amounted to €53,817 thousand (€51,543 thousand in 2017), all of which correspond to the insecticides/home care division since the wood treatment/paint division ceased to exist following the sale of Xylazel, S.A. This segment represented 33.1% of total Group revenues in 2018 (32.4% in 2017).

The following table shows the breakdown of the Group's revenues from contracts with customers based on the type of goods or services provided to customers, the geographical area and the time of transfer of goods and services, classified by reporting segment, in 2018.

	Biopharmaceuticals					
REVENUES BY SEGMENT (thousand euro)	**Oncology**	**Diagnostics**	**RNAi**	**Consumer chemicals**	**Unallo-cated**	**Total**
Product sales	92,571	5,593	-	57,275	-	**155,439**
Returns, discounts	(18,393)	-	-	(3,458)	-	**(21,851)**
Licensing and co-development agreements	24,659	-	-	-	-	**24,659**
Royalties	3,916	-	-	-	-	**3,916**
Other revenues	-	298	-	-	126	**424**
TOTAL REVENUE FROM CONTRACTS WITH CUSTOMERS	**102,753**	**5,891**	**-**	**53,817**	**126**	**162,587**
Geographies						
Spain	14,000	3,596	-	27,668	126	**45,390**
Italy	17,428	108	-	15,977	-	**33,513**
Germany	13,279	7	-	-	-	**13,286**
Rest of the European Union	30,256	827	-	7,095	-	**38,178**
Japan	18,659	-	-	-	-	**18,659**
United States	7,481	-	-	-	-	**7,481**
Other	1,652	1,351	-	3,077	-	**6,080**
TOTAL REVENUE FROM CONTRACTS WITH CUSTOMERS	**102,755**	**5,889**	**-**	**53,817**	**126**	**162,587**
Point of recognition of revenues						
At a point in time	87,433	5,889	-	53,817	126	**147,265**
Over a period of time	15,322	-	-	-	-	**15,322**
TOTAL REVENUE FROM CONTRACTS WITH CUSTOMERS	**102,755**	**5,889**	**-**	**53,817**	**126**	**162,587**

REVENUES BY GEOGRAPHY (thousand euro)	**Spain**	**Italy**	**Germany**	**Rest of the European Union**	**Japan**	**United States**	**Other**	**Total**
Product sales	48,472	35,286	14,840	51,220	-	38	5,583	**155,439**
Returns, discounts	(3,456)	(1,773)	(1,554)	(15,064)	-	-	(4)	**(21,851)**
Licensing and co-development agreements	-	-	-	2,000	18,112	4,074	473	**24,659**
Royalties	-	-	-	-	547	3,369	-	**3,916**
Other revenues	374	-	-	22	-	-	28	**424**
TOTAL REVENUE FROM CONTRACTS WITH CUSTOMERS	**45,390**	**33,513**	**13,286**	**38,178**	**18,659**	**7,481**	**6,080**	**162,587**

6. PROPERTY, PLANT AND EQUIPMENT

The breakdown of, and changes in, this caption in 2018 and 2017 are as follows:

PROPERTY, PLANT AND EQUIPMENT (thousand euro)	**Balance as of 31-12-17**	**Recognitions**	**Derecognitions**	**Reclassifications and transfers**	**Exchange rate effect**	**Balance as of 31-12-18**
Land and structuress	27,364	183	(3,007)	-	-	24,540
Technical installations and machinery	32,106	1,170	(1,438)	-	(4)	31,834
Other installations, tools and furniture	21,273	109	(211)	71	-	21,242
Advances & construction in progress	578	659	-	(71)	-	1,166
Other property, plant & equipment	7,587	714	(5,371)	1	-	2,931
Provisions	(1,288)	-	-	-	-	(1,288)
Cost	**87,620**	**2,835**	**(10,027)**	**1**	**(4)**	**80,425**
Structures	(10,148)	(623)	1,135	-	-	(9,636)
Technical installations and machinery	(24,147)	(1,601)	1,246	-	2	(24,500)
Other installations, tools and furniture	(16,757)	(694)	187	-	-	(17,264)
Other property, plant & equipment	(5,361)	(442)	3,415	-	-	(2,388)
Accumulated depreciation and amortization	**(56,413)**	**(3,360)**	**5,983**	**-**	**2**	**(53,788)**
PROPERTY, PLANT AND EQUIPMENT	**31,207**	**(525)**	**(4,044)**	**1**	**(2)**	**26,637**

PROPERTY, PLANT AND EQUIPMENT (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 installations 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 depreciation and amortization	**(54,909)**	**(3,361)**	**1,855**	**-**	**2**	**(56,413)**
PROPERTY, PLANT AND EQUIPMENT	**31,141**	**146**	**(73)**	**-**	**(7)**	**31,207**

The main recognitions in 2018 were the expansion of the warehouse and packing and serialization room, in the oncology segment; and the acquisition of CAR, Autoclart and AutoclartPlus processing and reading machinery, in the diagnostics segment.

The main 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 "Derecognitions" column mainly includes the derecognition of assets resulting from the sale of Xylazel (note 1) for a net amount of €3,981 thousand.

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

DEPRECIATION OF PROPERTY, PLANT AND EQUIPMENT (thousand euro)	**31-12-2018**	**31-12-2017**
Cost of goods sold	555	584
Marketing expenses	469	596
Administrative expenses	1,045	934
Research & development expenses	1,062	810
Research & development expenses	**3,131**	**2,924**

As of 31 December 2018, the Company did not have any property, plant and equipment under finance lease: At 2017 year-end, the net carrying amount under this heading was €153 thousand under plant, machinery, tools and furniture.

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 €9,749 thousand as of 31 December 2018 (€10,267 thousand in 2017). 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 2018, the unamortised balance of the loan amounted to €5,263 thousand (€6,142 thousand in 2017).

7. INVESTMENT PROPERTY

The Group has land recognized as investment property in the amount of €6,071 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-cancellable operating leases on investment property that are not recognized in the financial statements are as follows:

Receipts for non-cancellable operating leases on investment property (thousand euro)	**Balance as of 31-12-18**	**Balance as of 31-12-17**
Up to 1 year	60	59
1-5 years	299	293
5-10 years	120	176
	479	**528**

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 2018 and 2017 are as follows:

INTANGIBLE ASSETS (thousand euro)	Balance as of 31-12-17	Recognitions	Derecognitions	Reclassifications and transfers	Balance as of 31-12-18
Development expenses	25,328	-	(2,142)	-	23,186
Concessions, patents & trade marks	10,765	-	-	-	10,765
Computer software	5,940	215	(186)	86	6,055
Advances on intangible assets	38	30	-	-	68
Provisions	(2,142)	-	2,142	-	-
Cost	**39,929**	**245**	**(186)**	**86**	**40,074**
Development expenses	(14,352)	(3,352)	-	-	(17,704)
Concessions, patents & trade marks	(833)	-	-	-	(833)
Computer software	(4,532)	(384)	126	(89)	(4,879)
Accumulated depreciation and amortization	**(19,717)**	**(3,736)**	**126**	**(89)**	**(23,416)**
INTANGIBLE ASSETS	**20,212**	**(3,491)**	**(60)**	**(3)**	**16,658**

INTANGIBLE ASSETS (thousand euro)	Balance as of 31-12-16	Recognitions	Derecognitions	Reclassifications and transfers	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 depreciation and amortization	**(16,827)**	**(3,698)**	**808**	**-**	**(19,717)**
INTANGIBLE ASSETS	**24,900**	**(4,683)**	**(5)**	**-**	**20,212**

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 2018, the Group had capitalized the cost of several clinical trials with Yondelis® in both soft tissue sarcoma and ovarian cancer. Those trials were performed mainly for two purposes:

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

In 2018, derecognitions amounting to €2,142 million in development expenses referred to amounts

capitalized in connection with Aplidin. That amount was written off in 2017 when the CHMP issued a negative opinion as to granting authorization to market Aplidin for treating multiple myeloma. PharmaMar booked impairment for that amount until the outcome of the review of that negative opinion requested by PharmaMar was issued. When the CHMP confirmed its previous negative opinion in March 2018, the Company derecognized the asset and the associated impairment.

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.

CHANGES IN R&D (thousand euro)	**Separate balance sheet**	**Consolidated balance sheet**
Beginning balance Cost 01-01-2017	**483,720**	**24,543**
Recognitions	36,562	785
Derecognitions	(40,905)	-
Total Cost 31-12-2017	**479,377**	**25,328**
Beginning balance Impairment 01-01-2017	**-**	**-**
Provision	(97,942)	(2,142)
Reversal	-	-
Total Impairment 31-12-2017	**(97,942)**	**(2,142)**
Beginning balance Amortization 01-01-2017	**(186,255)**	**(11,000)**
Recognitions	(25,218)	(3,352)
Total Amortization 31-12-2017	**(211,473)**	**(14,352)**
NET CARRYING AMOUNT 31-12-2017	**169,962**	**8,834**
Beginning balance Cost 01-01-2018	**479,377**	**25,328**
Recognitions	17,349	-
Derecognitions	(108,946)	(2,142)
Total Cost 31-12-2018	**387,780**	**23,186**
Beginning balance Impairment 01-01-2018	**(97,942)**	**(2,142)**
Provision	(27,028)	-
Reversal	97,942	2,142
Total Impairment 31-12-2018	**27,028**	**-**
Beginning balance Amortization 01-01-2018	**(211,473)**	**(14,352)**
Recognitions	(20,963)	(3,352)
Derecognitions	2,063	-
Total Amortization 31-12-2018	**(230,373)**	**(17,704)**
NET CARRYING AMOUNT 31-12-2018	**130,379**	**5,482**

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 €161 million as of 31 December 2017, and by €125 million as of 31 December 2018.

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 2018, as well as the changes during the year:

CHANGES IN R&D, BY CAPITALIZED COMPOUND (thousand euro)	Separate balance sheet					
	Yondelis®	Aplidin®	Zepsyre®	PM184	PM14	Total development
Ending balance 31-12-2017	**51,378**	**8,941**	**82,615**	**26,672**	**356**	**169,962**
Recognitions	-	-	17,349	-	-	17,349
Derecognitions	-	(8,941)	-	-	-	(8,941)
Impairment	-	-	-	(26,672)	(356)	(27,028)
Depreciation and amortization	(20,963)	-	-	-	-	(20,963)
Ending balance 31-12-2018	**30,415**	**-**	**99,964**	**-**	**-**	**130,379**

	Consolidated balance sheet					
	Yondelis®	Aplidin®	Zepsyre®	PM184	PM14	Total development
Ending balance 31-12-2017	**8,834**	**-**	**-**	**-**	**-**	**8,834**
Derecognitions	-	(2,142)	-	-	-	(2,142)
Impairment	-	2,142	-	-	-	2,142
Depreciation and amortization	(3,352)	-	-	-	-	(3,352)
Ending balance 31-12-2018	**5,482**	**-**	**-**	**-**	**-**	**5,482**

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:

AMORTIZATION OF INTANGIBLE ASSETS (thousand euro)	31-12-2018	31-12-2017
Administrative expenses	120	105
Research & development expenses	3,611	3,582
Depreciation and amortization	**3,731**	**3,687**

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: 56% of revenues.
- Annual growth rate: 3.8%.
- 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 €68 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: 56% of revenues.
- Annual growth rate: 3.8%.
- Pre-tax discount rate: 7%.

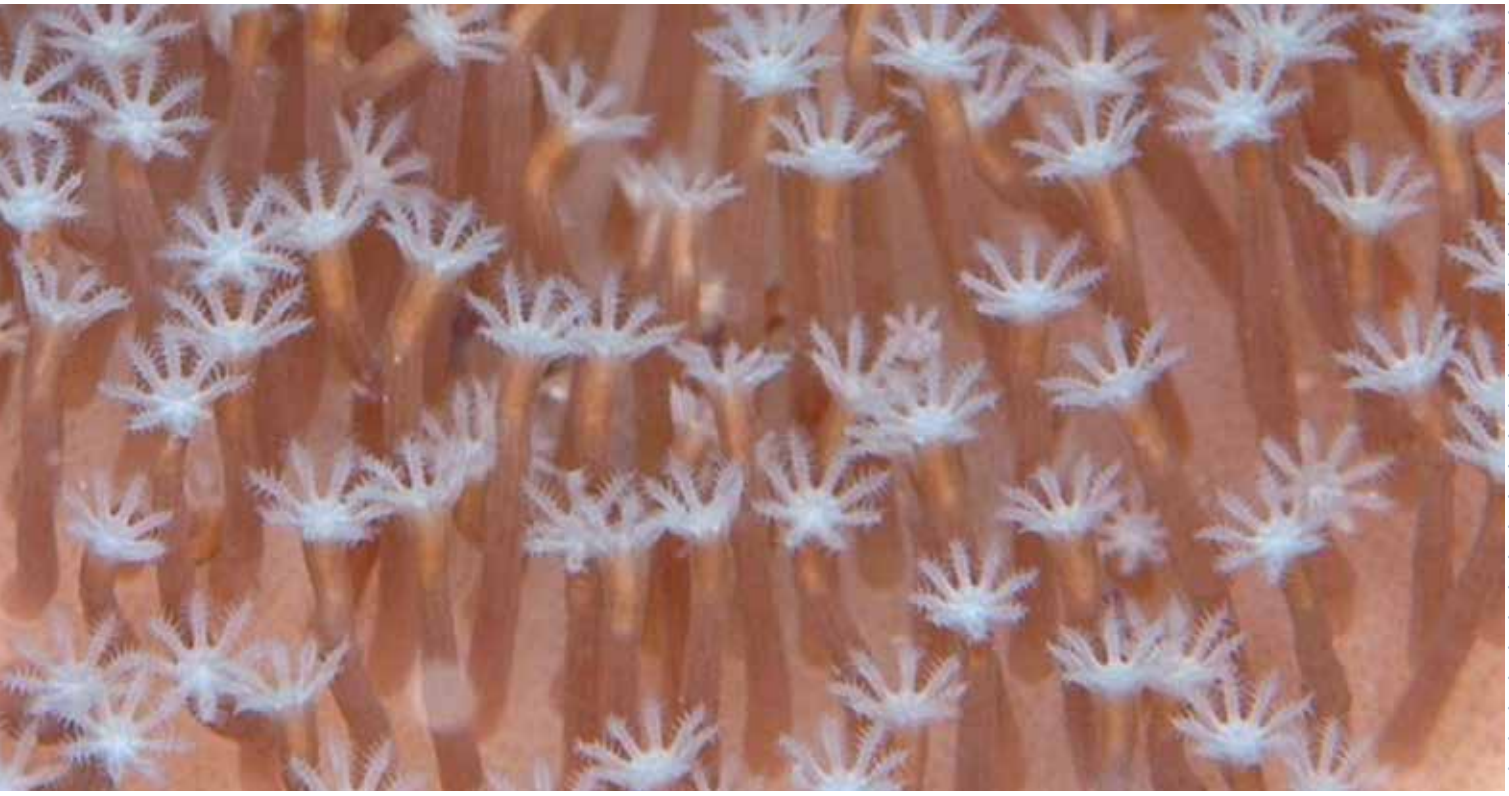
The recoverable amount estimated from the value in use exceeds the carrying amount (i.e. the net amount of assets and liabilities from the cash-generating unit made up of Copyr, S.p.A. and Zelnova Zeltia, S.A.) by €68 million.

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:

FINANCIAL INSTRUMENTS BY CATEGORY 31-12-2018 (thousand euro)	**Loans and receivables**	**Assets at fair value through profit or loss**	**Available-for sale assets**	**Total**
ASSETS ON BALANCE SHEET	**50,965**	**320**	**24**	**51,309**
Non-current financial assets				
Equity instruments	-	320	-	320
Available for sale (Note 12)	-	-	24	24
Accounts receivable	540	-	-	540
Current financial assets				
Trade receivables (Note 13)	23,025	-	-	23,025
Accounts receivable (Note 13)	385	-	-	385
Supplier advances (Note 13)	139	-	-	139
Current financial assets at amortized cost	4,131	-	-	4,131
Cash and cash equivalents (Note 16)	22,745	-	-	22,745
LIABILITIES ON BALANCE SHEET	**127,916**	**-**	**-**	**127,916**
Non-current borrowings (Note 23)	64,922	-	-	64,922
Current borrowings (Note 23)	28,483	-	-	28,483
Supplier and other accounts payable (Note 20)	34,511	-	-	34,511



FINANCIAL INSTRUMENTS BY CATEGORY 31-12-2017 (thousand euro)	Loans and receivables	Assets at fair value through profit or loss	Available-for sale assets	Total
ASSETS ON BALANCE SHEET	**63,779**	**320**	**25**	**64,124**
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 (Note 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
LIABILITIES ON BALANCE SHEET	**137,438**	**-**	**-**	**137,438**
Non-current borrowings (Note 23)	73,607	-	-	73,607
Current borrowings (Note 23)	26,395	-	-	26,395
Supplier and other accounts payable (Note 20)	37,436	-	-	37,436

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:

CREDIT QUALITY OF FINANCIAL ASSETS (thousand euro)		**31-12-2018**	**31-12-2017**
Accounts receivable:			
Customers without an external credit rating			
	Group 1	1,008	370
	Group 2	22,541	29,810
	Group 3	-	1,208
TOTAL ACCOUNTS RECEIVABLE		**23,549**	**31,388**

Cash at bank and bank deposits (thousand euro)		**31-12-2018**	**31-12-2017**
	Moody's rating		
	A1	7	15
	A2	3,520	-
	A3	911	3,004
	Aa3	1	-
	B1	12	310
	Ba2	1	-
	Ba3	6	9
	Baa1	11,816	4,873
	Baa2	10,056	16,888
	Baa3	-	5,016
	Unrated	1,430	2,621
		27,760	**32,736**

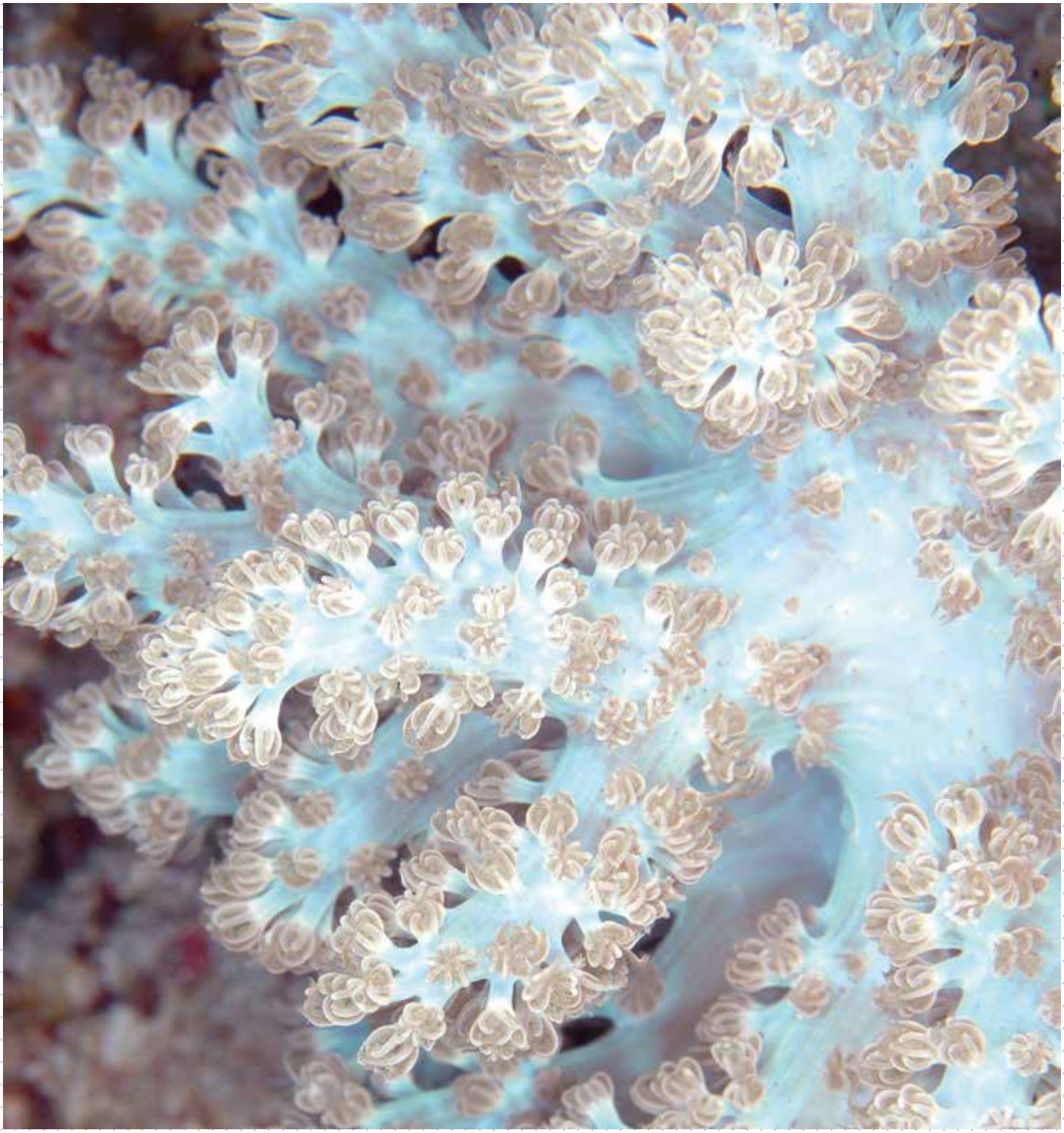
Group 1 - New customers (under 6 months).
Group 2 - Existing customers (over 6 months) with no bad debt history.
Group 3 - Existing customers (over 6 months) with bad debt history.

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: €24 thousand (€25 thousand in 2017).

Marking these securities to market in 2018 on the basis of their official listed prices led to a negative change of €0.8 thousand (€1.4 thousand in 2017) that was recognized in other comprehensive income.



13. TRADE RECEIVABLES

The detail of this caption as of 31 December 2018 and 2017 is as follows:

TRADE RECEIVABLES (thousand euro)	**Balance as of 31-12-18**	**Balance as of 31-12-17**
Customer receivables for sales and services	24,053	32,055
Impairment	(1,028)	(1,534)
Net	**23,025**	**30,521**
Other receivables	385	798
Supplier advances	139	69
TOTAL	**23,549**	**31,388**

Customer receivables discounted with credit institutions totaled €2,064 thousand as of 31 December 2018 (€2,203 thousand in 2017). Those discounts were recognized as secured loans since the Group retains the default and late payment risk.

As of 31 December 2018, accounts receivable amounting to €950 thousand were past due (€1,653 thousand in 2017) but had not suffered impairment. The analysis of those accounts receivable by age is as follows (thousand euro):

ACCOUNTS RECEIVABLE PAST DUE AND NOT PROVISIONED (thousand euro)	**Balance as of 31-12-18**	**Balance as of 31-12-17**
3-6 months	647	1,092
Over 6 months	303	561
TOTAL	**950**	**1,653**

The past-due accounts that had not been impaired as of 31 December 2018 and 2017 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 2018, the Group arranged non-recourse factoring agreements with institutions specialized in this type of transaction for €6,894 thousand of debt owed by various public authorities in Spain and Italy (€7,178 thousand in 2017).

Although the Group has carried out factoring transactions in the past, they are isolated and sporadic.

The breakdown of the factored debt by country and the interest cost as of 31 December 2018 and 2017 is as follows:

2018	Factored	Interest	Total received
Spain	3,361	33	**3,328**
Italy	3,533	101	**3,432**
	6,894	**134**	**6,760**

2017	Factored	Interest	Total received
Spain	2,779	17	2,762
Italy	4,399	127	4,272
	7,178	**144**	**7,034**

As of 31 December 2018, an impairment loss on accounts receivable was recognized amounting to €174 thousand (€266 thousand in 2017). The changes in provisions for impairment are as follows:

CHANGE IN PROVISIONS (thousand euro)	Balance as of 31-12-18	Balance as of 31-12-17
Beginning balance	**(1,534)**	**(1,613)**
Adjustment for adoption of IFRS 9	(17)	-
Provision	(174)	(266)
Reversal	-	86
Irreversible losses	174	276
Other	523	(17)
Ending balance	**(1,028)**	**(1,534)**

The changes in the impairment recognized for expected losses by application of IFRS 9 are detailed in note 3B.

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

AGE OF PROVISION (thousand euro)	Balance as of 31-12-18	Balance as of 31-12-17
Under 3 months	114	134
Over 6 months	893	1,400
TOTAL	**1,007**	**1,534**

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

NET CARRYING AMOUNT OF CUSTOMER AND OTHER ACCOUNTS RECEIVABLE (thousand euro)	Balance as of 31-12-18	Balance as of 31-12-17
Euro	22,159	29,097
Pounds sterling	104	1,112
USD	816	992
Other currencies	470	187
TOTAL	**23,549**	**31,388**

The breakdown as of 31 December 2018 and 2017 of receivables from public authorities for sales and services, by geography, is as follows:

CUSTOMER RECEIVABLES PUBLIC AUTHORITIES (thousand euro)	Balance as of 31-12-18	Balance as of 31-12-17
Spain	2,212	2,366
Austria	210	201
Belgium	261	214
France	178	362
Germany	439	674
United Kingdom	77	144
Ireland	2	32
Italy	1,433	1,533
Luxembourg	22	18
Portugal	-	357
TOTAL CUSTOMER RECEIVABLES PUBLIC AUTHORITIES	**4,834**	**5,901**

As of 31 December 2018 and 2017, the credit rating of the accounts receivable from public authorities, by geography, is as follows:

CREDIT RATING (thousand euro)	Credit rating	Balance as of 31-12-18	CREDIT RATING (thousand euro)	Credit rating	Balance as of 31-12-17
Germany	Aaa	439	Germany	Aaa	674
Andalusia	Baa2	314	Andalusia	Baa3	211
Aragon	BBB	71	Aragon	BBB-	120
Asturias	Baa1	24	Asturias	BBB	36
Austria	Aaa	210	Austria	Aaa	201
Balearic Islands	BBB+	124	Balearic Islands	BBB	128
Belgium	Aaa	261	Belgium	AA-	214
Canary Islands	BBB+	109	Canary Islands	BBB-	297
Cantabria	BBB	183	Cantabria	BBB	75
Castilla la Mancha	Ba1	103	Castilla la Mancha	Ba2	114
Castilla y León	Baa1	174	Castilla y León	Baa2	176
Catalonia	Ba3	248	Catalonia	Ba3	294
Ceuta and Melilla	-----	-	Ceuta and Melilla	-----	6
Extremadura	Baa2	36	Extremadura	Baa3	5
France	Aaa	178	France	Aa2	362
Galicia	Baa1	195	Galicia	Baa2	259
United Kingdom	Aa2	77	United Kingdom	Aa1	144
Ireland	A2	2	Ireland	A3	32
Italy	Baa3	1,433	Italy	Baa2	1,531
Luxembourg	Aaa	22	Luxembourg	Aaa	18
Madrid	Baa1	369	Madrid	Baa2	242
Murcia	Ba1	31	Murcia	Ba2	20
Navarra	A+	2	Navarra	A	14
Basque Country	A3	14	Basque Country	Baa1	31
Portugal	Baa3	-	Portugal	Ba1	357
Rioja	BBB	16	Rioja	BBB	-
Valencia	Ba1	199	Valencia	Ba2	340
TOTAL		**4,834**	**TOTAL**		**5,901**

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 receipt of balances due from 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.

During 2018 and 2017, no default interest was claimed due to the improvement in the periods of payment by the public sector.

14. OTHER CURRENT ASSETS

The breakdown of "Other current assets" as of 31 December 2018 and 2017 is as follows:

OTHER CURRENT ASSETS (thousand euro)	Balance as of 31-12-18	Balance as of 31-12-17
Prepaid expenses	923	2,357
Balances with public authorities	3,146	3,768
TOTAL	**4,069**	**6,125**

The detail of the balance with public authorities as of 31 December 2018 and 2017 is as follows:

BALANCES WITH PUBLIC AUTHORITIES (thousand euro)	Balance as of 31-12-18	Balance as of 31-12-17
VAT	2,287	2,917
Other	859	851
TOTAL	**3,146**	**3,768**

15. INVENTORIES

INVENTORIES (thousand euro)	Balance as of 31-12-18	Balance as of 31-12-17
Trade inventories	521	1,805
Raw materials and other supplies	4,162	5,237
Semi-finished products and products in process	8,871	7,301
Finished products	7,062	9,371
By-products, residues and recovered materials	-	190
TOTAL	**20,616**	**23,904**

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 €35,875 thousand in 2018 (€34,866 thousand in 2017) (Note 31).

No material impairment losses were recognized for inventories in 2018 and 2017.

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.

CASH AND CASH EQUIVALENTS (thousand euro)	**Balance as of 31-12-18**	**Balance as of 31-12-17**
Demand deposits	20,614	21,131
Cash equivalents	2,131	2,957
TOTAL	**22,745**	**24,088**

Cash equivalents as of 31 December 2018 include short-term bank deposits yielding 0.01% (between 0.02% and 0.1% in 2017) maturing between January and March 2019.

There were no bank overdrafts at the closing date.

17. CAPITAL AND SHARE PREMIUM

As of 31 December 2018, 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 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 1 January 2018	**221,275**	**11,132**	**71,278**	**(4,470)**
Own shares sold	2,164	-	-	4,949
Own shares purchased	(2,433)	-	-	(3,446)
Share ownership plans	227	-	-	724
Balance as of 31 December 2018	**221,233**	**11,132**	**71,278**	**(2,243)**

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 €2,111 thousand (€22,2 thousand par value and €2,089 thousand total issue premium).

Own shares

The number of shares outstanding as of 31 December 2018, was 221,233 thousand (221,275 thousand in 2017). 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 2018, the parent company held 1,416 thousand own shares (1,374 thousand shares in 2017).

In 2018, the Group acquired 2,433 thousand own shares (1,906 thousand in 2017) for €3,446 thousand (€6,186 thousand in 2017), and sold 2,391 thousand own shares (1,742 thousand in 2017), recognizing a loss of €2,162 thousand (a loss of €611 thousand in 2017).

According to information in the official registers of the National Securities Market Commission as of 31 December 2018, 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 amount is shown in note 8.

The proposed distribution of 2018 income and other reserves to be submitted to the Shareholders' Meeting for approval, and the distribution approved for 2018, are as follows:

BASIS OF DISTRIBUTION (thousand euro)	**2018**	**2017**
Basis of distribution		
Income for the year	(31,116)	(136,841)
	(31,116)	**(136,841)**
Distribution		
Prior years' losses	(31,116)	(136,841)
	(31,116)	**(136,841)**

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

19. NON-CONTROLLING INTERESTS

There were no changes in 2018 and 2017 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 2018 and 2017 are as follows:

NON-CONTROLLING INTERESTS
(thousand euro)

	Minority interest
Balance as of 1 January 2017	**(3,863)**
2017 income	(19)
Balance as of 1 January 2018	**(3,882)**
2018 income	(18)
Balance as of 31 December 2018	**(3,900)**

Noscira reported a net loss of €67 thousand in 2018 (a net loss of €71 thousand in 2017), of which €18 thousand corresponded to non-controlling interests (€19 thousand in 2017), in line with their 26.7% stake in the company.

20. SUPPLIER AND OTHER ACCOUNTS PAYABLE

The composition of this caption is as follows:

SUPPLIER AND OTHER ACCOUNTS PAYABLE (thousand euro)	Balance as of 31-12-18	Balance as of 31-12-17
Payable for purchases and services received	31,231	35,830
Debts to related parties	836	777
Advances received for orders	2,200	659
Other accounts payable	244	170
TOTAL	**34,511**	**37,436**

All payables mature within 12 months from the closing date of each year. Debt to related parties refers 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 (€714 thousand as of 31 December 2018, €674 thousand as of 31 December 2017), and accrued outstanding allocations to directors of Genómica who are also directors of PharmaMar (€28 thousand as of 31 December 2018, and €28 thousand in 2017) and €94 thousand for directors of Noscira in 2018 (€75 thousand in 2017).

Information on payments for commercial transactions performed in 2018 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:

PAYMENT INFORMATION	31-12-2018 Days	31-12-2017 Days
Average period taken to pay suppliers	47	49
Proportion of transactions paid	61	50
Proportion of transactions outstanding	50	48
Total payments made (thousand euro)	66,468	78,540
Total payments outstanding (thousand euro)	10,277	11,204

The average supplier payment lag in the year between 1 January and 31 December 2018 was 47 days (49 days in 2017).

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 2018 and 2017, is as follows:

Non-current deferred revenues

The composition of this caption is as follows:

- Non-current deferred revenues decreased from €7,234 thousand in December 2017 to €2,120 thousand in December 2018. This variation is mainly due to the recognition of non-current deferred revenues on the agreement with Chugai regarding Zepsyre as a result of the early termination by Chugai Pharmaceutical Co. of the Zepsyre® license agreement for the territory of Japan that was signed with PharmaMar in December 2016; that termination eliminated PharmaMar's obligations under the agreement (notes 1 and 27).
- 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.

NON-CURRENT DEFERRED REVENUES (thousand euro)	Balance as of 31-12-18	Balance as of 31-12-17
Subsidies	2,120	2,130
Deferred revenues	-	5,104
TOTAL	2,120	7,234

Current deferred revenues

As detailed in the preceding paragraph, the early termination by Chugai of the Zepsyre license agreement for the territory of Japan resulted in the recognition of €10,007 thousand as revenues. (Note 27).

CURRENT DEFERRED REVENUES (thousand euro)	Balance as of 31-dic-18	Balance as of 31-dic-17
Deferred revenues	168	10,221
TOTAL	168	10,221

22. OTHER NON-CURRENT AND CURRENT LIABILITIES

Other non-current liabilities, amounting to €779 thousand (€785 thousand in 2017), refer mainly to retirement benefit obligations amounting to €605 thousand (€590 thousand in 2017).

Other current liabilities amounting to €2,954 thousand (€2,826 thousand in 2017) refer basically to balances owed to public authorities amounting to €2,209 thousand (€2,478 thousand in 2017).

23. BORROWINGS

The breakdown of the Group's non-current and current interest-bearing debt as of 31 December 2018 and 2017, is as follows:

BREAKDOWN OF NON-CURRENT INTEREST-BEARING DEBT (thousand euro)	**Balance as of 31-12-18**	**Balance as of 31-12-17**
Bank debt	24,279	33,394
Bonds and other marketable securities	16,501	16,350
Interest-bearing debt to official authorities	24,142	23,863
TOTAL	**64,922**	**73,607**

BREAKDOWN OF CURRENT INTEREST-BEARING DEBT (thousand euro)	**Balance as of 31-12-18**	**Balance as of 31-12-17**
Bank debt	25,830	21,002
Bonds and other marketable securities	405	510
Interest-bearing debt to official authorities	2,248	4,730
Finance lease liabilities	-	153
TOTAL	**28,483**	**26,395**

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 2018 and 2017:

(thousand euro)	No. of products	Maturities	Balance as of 31-12-18	No. of products	Maturities	Balance as of 31-12-17
Non-current debt						
PharmaMar	10	2021-2024	24,279	10	2021-2024	33,231
Genómica	-	-	-	1	2019	163
TOTAL NON-CURRENT DEBT	**10**		**24,279**	**11**		**33,394**
Current debt						
Bank loans						
PharmaMar	11	2021-2024	10,080	10	2021-2024	8,278
Genómica	1	2019	164	3	2019	273
ZelnovaZeltia	-	-	-	1	2017	125
	12		**10,244**	**14**		**8,676**
Credit lines						
PharmaMar	10	2019	12,318	15	2018	8,784
Genómica	3	2019	593	6	2018	1,190
ZelnovaZeltia	1	-	-	3	-	-
	14		**12,911**	**24**		**9,974**
Bills and certificates						
PharmaMar	1	2019	2,064	-	-	1,799
Xylazel	-	-	-	-	-	404
	1		**2,064**	**-**		**2,203**
Interest and other accounts payable						
PharmaMar	-	-	72	-	-	95
Genómica	-	-	539	-	-	54
	-		**611**	**-**		**149**
TOTAL CURRENT DEBT	**27**		**25,830**	**38**		**21,002**

Non-current debt

PharmaMar has a mortgage loan amounting to €5,263 thousand (€6,142 thousand in 2017) that matures 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:

REPAYMENT SCHEDULE FOR NON-CURRENT FINANCIAL DEBT (thousand euro)	Balance as of 31-12-18	Balance as of 31-12-17
2019	-	8,951
2020	9,157	9,320
2021	8,123	8,123
2022	5,034	5,034
2023 and thereafter	1,965	1,966
TOTAL	**24,279**	**33,394**

Current debt

Current bank debt is broken down as follows:

BREAKDOWN OF CURRENT BANK DEBT (thousand euro)	**Balance as of 31-12-18**	**Balance as of 31-12-17**
Bank loans	10,244	8,676
Credit lines	12,911	9,974
Discounted bills and certifications	2,064	2,203
Interest and other accounts payable	611	149
TOTAL	**25,830**	**21,002**

Some credit lines are subject to tacit renewal, although most are renewed annually.
As of 31 December 2018, the Group had 14 credit lines (24 in December 2017) with a total limit of €17,070 thousand (€29,120 thousand in 2017).

The vast majority of the loans and credit lines are at floating interest rates consisting of Euribor plus a spread of between 1% and 3.25% (between 1.25% and 3.25% in December 2017).

The effective interest rates as of 31 December are:

EFFECTIVE INTEREST RATES	**2018**	**2017**
Bank overdrafts	29.00%	25.50%
Bank loans	2.12%	2.37%
Credit lines	2.18%	2.90%
Discounted notes	1.54%	2.05%

The Group's exposure to bank debt at floating rates is €22,736 thousand as of 31 December 2018 (€22,953 thousand in 2017), 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, which are uncertificated, were issued at par, each with a nominal value of €100 thousand;
- The bonds bear a fixed coupon of 4.75% per annum payable in arrears every year from the date of disbursement;
- The Company is liable for the obligations arising from the bonds with all its assets and no specific guarantee is granted;
- The terms and conditions of the bonds are governed by Spanish law;
- The controlling company applied to list the bonds on the Alternative Fixed-Income Market (MARF) on 7 July 2015.

B) Interest-bearing debt to public authorities

This item refers mainly to funding from 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 2018, the Group had debt balances with official authorities for a total of €26,390 thousand, calculated on the basis of cash flows discounted at Euribor plus a spread based on the Group's risk (€28,593 thousand in 2017), of which €24,142 thousand were non-current (€23,863 thousand in 2017) and €2,248 thousand were current (€4,730 thousand in 2017).

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

REPAYMENT SCHEDULE (thousand euro)	Balance as of 31-12-18	Balance as of 31-12-17
2019	-	4,454
2020	4,798	4,780
2021	4,446	4,079
2022	4,390	3,862
2023 and thereafter	10,508	6,688
TOTAL	**24,142**	**23,863**

C) Fair value

The fair value and carrying amount of the non-current and current interest-bearing debt as of 31 December 2018 and 2017 are as follows:

FAIR VALUE AND CARRYING AMOUNT OF FINANCIAL DEBT (thousand euro)	Fair value		Carrying amount	
	Balance as of 31-12-18	Balance as of 31-12-17	Balance as of 31-12-18	Balance as of 31-12-17
Non-current				
Bank loans	24,279	33,394	24,279	33,394
Due to official authorities	28,025	29,000	24,142	23,863
Bonds	17,000	17,000	16,501	16,350
TOTAL	**69,304**	**79,394**	**64,922**	**73,607**
Current				
Bank loans	10,245	8,676	10,244	8,676
Credit lines	12,912	9,973	12,911	9,974
Unmatured discounted bills and certifications	2,064	2,203	2,064	2,203
Interest payable	72	94	72	94
Due to official authorities	2,893	5,470	2,248	4,730
Bonds	404	510	405	510
Finance lease liabilities	-	153	-	153
Other debt	538	54	539	55
TOTAL	**29,128**	**27,133**	**28,483**	**26,395**

24. DEFERRED TAXES AND INCOME TAX EXPENSE

i. Deferred taxes

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

DEFERRED TAX, NET (thousand euro)	**Balance as of 31-12-2018**	**Balance as of 31-12-2017**
Deferred tax assets	33,333	37,684
Deferred tax liabilities	(3,565)	(4,203)
TOTAL DEFERRED TAX ASSETS, NET	**29,768**	**33,481**

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

DEFERRED TAX ASSETS (thousand euro)	**Research & development expenses/ Tax loss carryforwards**	**Tax withholding**	**Intangible assets and property, plant and equipment**	**Other**	**TOTAL**
As of 1 January 2017	**25,333**	**6,728**	**4,038**	**4,028**	**40,127**
Tax withholding	-	3,696	-	-	3,696
Recognized 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**
Tax withholding	-	429	-	-	429
Recognized in profit or loss	(3,476)	-	(497)	(807)	(4,780)
As of 31 December 2018	**16,980**	**10,853**	**3,037**	**2,463**	**33,333**

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 2018 and 2017 includes taxes withheld from royalties and payments received under licensing agreements.

DEFERRED TAX LIABILITIES (thousand euro)	**Revaluation of investment property**	**Revaluation of brands with indefinite useful lives**	**Capital subsidies and others**	**TOTAL**
As of 1 January 2017	**(1,025)**	**(2,229)**	**(2,574)**	**(5,828)**
Recognized in profit or loss	-	-	1,625	1,625
As of 31 December 2017	**(1,025)**	**(2,229)**	**(949)**	**(4,203)**
Recognized in profit or loss	-	-	638	638
As of 31 December 2018	**(1,025)**	**(2,229)**	**(311)**	**(3,565)**

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 2019 to 2028. As a result of this analysis, the Group did not take account of €229 million in unused tax losses (€102 million in 2017) or differences in accounting treatment amounting to €69 million (€75 million in 2017).

At the same date, there are also unused tax credits that have not been recognized in the balance sheet amounting to €203,430 thousand (€197,494 thousand in 2017).

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 2018 and 2017 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 2018:

TAX CREDITS GENERATED BY:	**Total amount**	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**	**2031**	**2032**	**2033 and thereafter**
Unused R&D tax credits	197,234	12,522	13,383	9,776	11,002	10,852	10,108	11,455	9,784	9,451	9,342	8,128	10,669	9,146	11,438	50,178
Other unused tax credits	6,196	-	5,273	371	168	384	-	-	-	-	-	-	-	-	-	-
TOTAL	**203,430**	**12,522**	**18,656**	**10,147**	**11,170**	**11,236**	**10,108**	**11,455**	**9,784**	**9,451**	**9,342**	**8,128**	**10,669**	**9,146**	**11,438**	**50,178**

ii. Income tax

In 2018, 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.; and Sylentis, S.A.U. The other companies, i.e. 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, Genómica (Wuhan) Trading Co.Ltd. (China) and Noscira, "S.A. en liquidación", report taxes on an individual basis.

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:

	31-12-18	31-12-17
Income before taxes (thousand euro)	**(18,704)**	**(24,702)**
Tax rate (25%)	**4,676**	**6,176**
Tax effect of:		
- Exempt revenues and other minor items	2,947	2,090
- Reversal of impairment	(2,213)	(2,213)
- Other adjustments	(10,830)	(12,562)
- Monetization of tax credits	7,919	3,000
Tax revenue (expense)	**(2,499)**	**(3,509)**

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 2018 and 2017 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 2018 and 2017, 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 2018, the company recognized €7,919 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:

TAX (EXPENSE)/ REVENUE (thousand euro)	31-12-18	31-12-17
Current tax	6,641	1,005
Deferred tax	(4,142)	(4,514)
TOTAL	**2,499**	**(3,509)**

The tax rate applicable to the Group is generally the standard tax rate in Spain (25%), except for operations whose earnings are taxed in Italy at approximately 30%. The effect of differences with respect to the tax rates applicable to the other subsidiaries located outside Spain is not material.

The amount of current tax, €6,641 thousand, mainly contains the effect of monetization revenues indicated above (€7,919 thousand).

Royal Decree-Law 3/2016, approved on Friday, 2 December, was published in Spain's Official State Gazette (BOE) on 3 December 2016. The main measures introduced by this legislation affect corporate income tax, many of which have an impact on the 2018 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	-	-

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 16 appeals before the Regional Economic-Administrative Tribunal (TEAR) and 2 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. DISCONTINUED OPERATIONS

As indicated in Note 1, on 20 September 2018, the Group sold subsidiary Xylazel, S.A., which manufactured, supplied and distributed products for wood and metal treatment, protection and decoration, special paints and other similar and related products, as well as other products for the construction industry. The buyer, Akzo Nobel Coatings, S.L. (a Spanish subsidiary of the Akzo Nobel Group), acquired 100% of the shares of Xylazel for a cash price of €21.8 million, calculated net of cash and debt.

Xylazel formed part of the consumer chemicals segment.

The financial income and cash flow disclosures refer to the period ended 20 September 2018 and the year ended 31 December 2017.

INCOME FROM DISCONTINUED OPERATIONS (thousand euro)	20-09-18	31-12-17
Revenues	16,377	20,551
Expenses	(14,953)	(18,709)
Income before taxes	**1,424**	**1,842**
Corporate income tax	(363)	(395)
Income after taxes from discontinued operations	**1,061**	**1,447**
Gain after tax on sale of subsidiary	9,591	-
INCOME FROM DISCONTINUED OPERATIONS	**10,652**	**1,447**

CASH REVENUE GENERATED BY SUBSIDIARY (thousand euro)	20-09-18	31-12-17
Net operating cash flow	1,424	1,500
Net investing cash inflow/(outflow)	21,272	(512)
NET CASH REVENUE GENERATED BY SUBSIDIARY	**22,696**	**988**

DETAILS OF THE SALE OF THE SUBSIDIARY (thousand euro)	20-09-18
Cash consideration received	21,776
Selling costs	(504)
Carrying amount of net assets sold	(11,681)
GAIN ON SALE OF SUBSIDIARY	**9,591**

The amounts of assets and liabilities on the subsidiary's books on the sale date were as follows:

BREAKDOWN OF CARRYING AMOUNT OF NET ASSETS SOLD	20-09-18
Property, plant and equipment, intangible assets and other non-current assets	4,187
Inventories	5,366
Customer receivables and other current assets	8,592
Total assets	**18,145**
Non-current liabilities	(10)
Trade creditors	(2,795)
Employee welfare liabilities	(791)
Other current liabilities	(2,868)
Total liabilities	**(6,464)**
NET ASSETS	**11,681**

26. PROVISIONS FOR OTHER LIABILITIES AND EXPENSES

As of 31 December 2018 and 2017, 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:

PROVISION FOR OTHER LIABILITIES AND EXPENSES (thousand euro)	**Balance as of 31-12-18**	**Balance as of 31-12-17**
Beginning balance	**5,860**	**6,988**
Provision for expenses	6,909	5,019
Payments	(6,305)	(5,776)
Transfers and other	(198)	1
TOTAL	**6,266**	**6,232**

27. NET REVENUES

The detail of this caption as of 31 December 2018 and 2017 is as follows:

BREAKDOWN OF REVENUES (thousand euro)	**31-12-18**	**31-12-17**
Product sales	155,439	163,166
Returns, rebates and volume discounts	(21,851)	(21,033)
	133,588	**142,133**
Licensing and co-development agreements	24,659	12,357
Royalties	3,916	4,362
Services provided	424	26
TOTAL	**162,587**	**158,878**

The breakdown of revenue by segment and geography is given in Note 5.

The Group has licensing and co-development agreements with a number of pharmaceutical companies. The breakdown of revenue, including royalties, in 2018 and 2017 is as follows:

BREAKDOWN OF ROYALTIES AND LICENSING (thousand euro)	**31-12-18**	**31-12-17**
Johnson & Johnson Group (Janssen Products LP) (Yondelis®)	3,369	3,913
Taiho Pharmaceuticals Co. (Yondelis®)	547	449
Total Royalties	**3,916**	**4,362**
Chugai Pharmaceutical Co (Zepsyre®)	18,112	10,888
Seattle Genetics Inc.	4,074	-
Impilo	2,000	-
Eczasibasi (Aplidin®)	-	500
Zepsyre®	473	969
Total Licenses	**24,659**	**12,357**
TOTAL	**28,575**	**16,719**

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 2018, 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 2018 and 2017.

The amounts attributed to the marketing phase are royalties, which are recognized on an accrual basis. In 2018, royalties were recognized in the amount of €3,369 thousand for sales of Yondelis® (€3,913 thousand in 2017).

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 €547 thousand in 2018 (€449 thousand in 2017).

Chugai Pharma Marketing Co. (Aplidin®)

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

Under the terms of the agreement, PharmaMar collected an upfront payment of €5 million. In

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

Once the EMA/European Commission rejected the MAA for Aplidin, this contract was terminated.

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 2018 and 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.

In December 2018, Australia's Therapeutic Goods Administration (TGA) informed Specialised Therapeutics Asia Pte. Ltd. (STA) that it had approved Aplidin® (plitidepsin) for use in treating multiple myeloma in combination with dexemethasone.

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. Upon signature of the agreement, PharmaMar received, and recognized as revenue, an up-front payment amounting to €450 thousand and a regulatory milestone amounting to €450 thousand. The Company did not collect any amount under this agreement in 2018 and 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.

The Company did not collect any amount under this agreement in 2018.

Pint Pharma International, S.A. (Aplidin®)

In May 2018, PharmaMar signed a licensing agreement with Swiss-based Pint Pharma International, S.A. under which Pint received certain exclusive rights and licenses to commercialize Aplidin® for treating multiple myeloma. The contract establishes a number of payments for attaining regulatory milestones, in addition to royalties. The approval of Aplidin® by the Australian authorities in December 2018 resulted in recognition of a €263 thousand revenue. PharmaMar retains exclusive production rights and will supply the finished product to Pint for commercialization.

The contract does not provide for additional performance obligations by PharmaMar.

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, Zepsyre® (lurbinectedin), in Japan.

Since PharmaMar undertook to carry out certain clinical trials, recognition of the €30,000 thousand upfront as revenues had to be deferred on the basis of the degree of progress achieved in those clinical trials. As a result, €6,000 thousand were recognized as revenues in 2016 and €8,888 thousand in 2017.

As indicated in Note 1, in April 2018, Chugai notified PharmaMar of its decision to exercise its right to terminate the Agreement without cause, by giving one year's advance notice. In June 2018, the companies reached an early termination agreement by virtue of which the effective termination date of the license agreement was brought forward to the date of signature, both companies being released from any obligation under the agreement from that point onward. Consequently, PharmaMar recovered the rights to Zepsyre® in Japan with immediate effect. The accounting effect of that early termination is recognition as revenue of the balance of deferred revenues in connection with the agreement (€15,112 thousand).

Additionally, in 2018 PharmaMar collected €3,000 thousand from Chugai for early termination of the agreement.

An additional €2,000 thousand were collected in 2017 for attaining the first of the clinical milestones contemplated in the agreement.

Seattle Genetics Inc.

In February 2018, PharmaMar signed a licensing agreement with Seattle Genetics Inc. under which the latter receives worldwide exclusive rights over certain molecules owned by PharmaMar to develop, for its own accouint, antibody-drug conjugates (ADC); PharmaMar did not undertake any additional obligation with respect to development.

Under the terms of the agreement, PharmaMar received an upfront payment of €4,074 thousand in 2018, which it recognized as revenues, and may receive other payments in the future if Seattle Genetics carries out clinical development of the ADCs.

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 2018, the Company recognized the outstanding revenue in the amount of €32 thousand.

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. Revenue in the amount of €178 thousand was recognized in 2018.

28. RESEARCH & DEVELOPMENT EXPENSES

The following table shows the amounts spent on R&D by business segment in 2018 and 2017:

2018					
	Oncology	**Diagnostics**	**RNAi**	**Consumer chemicals**	**TOTAL**
Total expenses	(63,741)	(4,941)	(5,105)	(223)	(74,010)
Capitalized expenses	-	-	-	-	-
Research & development expenses	**(63,741)**	**(4,941)**	**(5,105)**	**(223)**	**(74,010)**

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

29. GENERAL, ADMINISTRATION AND OTHER OPERATING EXPENSES

Consolidated general and administration expenses amounted to €17,431 thousand in 2018, 0.6% more than in 2017 (€17,324 thousand).

Consolidated other operating expenses, mainly related to corporate functions, amounted to €9,476 thousand in 2018, 12.6% less than in 2017 (€10,843 thousand).

30. MARKETING EXPENSES

Commercial and marketing expenses increased by close to 3.8% with respect to 2017, to €41,819 thousand in 2018 (€40,294 thousand in 2017). Expenses under this heading in the oncology segment amounted to €23,596 thousand, compared with €24,118 thousand in 2017. This decline was due mainly to the decrease in medical sales activities, greater turnover of the sales staff, and lower distribution costs. Expenditure by companies in the consumer chemicals segment amounted to €15,456 thousand (€14,035 thousand in 2017); this increase was due to the development of new marketing projects and to expansion of the sales and marketing departments.

31. OTHER NET GAINS / (LOSSES)

The breakdown is as follows:

OTHER NET GAINS / (LOSSES) (thousand euro)	31-12-18	31-12-17
Capital subsidies	1,507	3,574
Other income	359	(52)
TOTAL	**1,866**	**3,522**

32. BREAKDOWN OF EXPENSES BY TYPE

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

BREAKDOWN OF EXPENSES BY TYPE (thousand euro)	31-12-18	31-12-17
Changes in finished product and product-in-process inventories	(426)	(1,235)
Raw materials and other supplies	36,301	36,121
Employee benefit expenses	50,701	50,138
Depreciation and amortization	6,862	6,611
Impairment/Reversal	(2,142)	2,142
Transport	4,647	4,354
Marketing expenses	14,272	15,078
R&D expenses	35,906	37,509
Other expenses	32,404	31,220
TOTAL	**178,525**	**181,938**

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

33. EMPLOYEE WELFARE EXPENSES

The breakdown of employee welfare expenses is as follows:

EMPLOYEE WELFARE EXPENSES (thousand euro)	31-12-18	31-12-17
Salaries and wages	38,199	38,203
Indemnities	2,736	2,020
Social security	7,895	7,852
Pension cost	36	34
Share ownership plans	230	225
Other welfare expenses	1,605	1,804
TOTAL	**50,701**	**50,138**

The average number of employees by category is as follows:

AVERAGE NUMBER OF EMPLOYEES BY CATEGORY	31-12-18	31-12-17
Management	43	41
Technical professionals	265	297
Clerical personnel	101	100
Commercial personnel	90	75
Other employees	100	106
TOTAL	**599**	**619**

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

(MEN)	31-12-18	31-12-17
Management	28	26
Technical professionals	110	120
Clerical personnel	31	33
Commercial personnel	46	41
Other employees	46	47
TOTAL	**261**	**267**

(WOMEN)	31-12-18	31-12-17
Management	15	15
Technical professionals	155	177
Clerical personnel	70	67
Commercial personnel	44	34
Other employees	54	59
TOTAL	**338**	**352**

The average number of employees by gender is as follows:

AVERAGE NUMBER OF EMPLOYEES	31-12-18	31-12-17
Men	261	267
Women	338	352
TOTAL	**599**	**619**

As of 31 December 2018, two of the nine members of the Board of Directors were women (two in 2017). Among PharmaMar's 21 executives (the same number as in 2017), including executive directors at the closing date, there were six women (six in 2017).

The Group companies have an average of eight employees with disability greater than or equal to 33% (13 in 2017).

34. NET FINANCIAL INCOME

NET FINANCIAL RESULT (thousand euro)	31-12-18	31-12-17
On debts to third parties and similar expenses	(4,708)	(5,102)
Exchange loss	(447)	(811)
Financial expenses	**(5,155)**	**(5,913)**
Other interest and similar revenues from other companies	69	94
Exchange gains	454	654
Financial revenues	**523**	**748**
TOTAL NET FINANCIAL INCOME	**(4,632)**	**(5,165)**

35. EARNINGS PER SHARE

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

Basic earnings per share in 2018 and 2017 were as follows:

EARNINGS PER SHARE (BASIC)	2018	2017
Income attributable to equity-holders of the parent company (thousand euro)	(5,535)	(26,746)
Weighted average number of outstanding ordinary shares (thousand shares)	220,516	220,677
BASIC EARNINGS PER SHARE (EURO)	**(0.03)**	**(0.12)**

EARNINGS PER SHARE FROM CONTINUING OPERATIONS (BASIC)	2018	2017
Income from continuing operations (thousand euro)	(16,205)	(28,212)
Weighted av. no. of ordinary shares for diluted earnings per share (thousand shares)	220,516	220,677
BASIC EARNINGS PER SHARE (EURO)	**(0.07)**	**(0.13)**

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 2018 and 2017 were as follows:

EARNINGS PER SHARE (DILUTED)	2018	2017
Income attributable to equity-holders of the parent company (thousand euro)	(5,535)	(26,746)
Weighted av. no. of ordinary shares for diluted earnings per share (thousand shares)	220,945	221,181
DILUTED EARNINGS PER SHARE (EURO)	**(0.03)**	**(0.12)**

EARNINGS PER SHARE FROM CONTINUING OPERATIONS (DILUTED)	2018	2017
Income from continuing activities (thousand euro)	(16,205)	(28,212)
Weighted av. no. of ordinary shares for diluted earnings per share (thousand shares)	220,945	221,181
DILUTED EARNINGS PER SHARE (EURO)	**(0.07)**	**(0.13)**

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.

RECONCILIATION OF BASIC TO DILUTED SHARES	2018	2017
Weighted average number of outstanding ordinary shares (thousand)	220,516	220,677
Adjustments for: Employee share ownership plan (thousand shares)	429	504
WEIGHTED AV. NO. OF ORDINARY SHARES FOR DILUTED EARNINGS PER SHARE	**220,945**	**221,181**

36. 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 2018 and 2017 to directors of PharmaMar:

REMUNERATION (thousand euro)	2018	2017
Fixed remuneration for executive directors	1,141	1,128
Variable remuneration for executive directors	158	157
Remuneration for belonging to the Board of Directors	606	567
Board and Board committee attendance fees	423	386
Fixed remuneration for belonging to Board committees	537	529
Remuneration for belonging to Boards of other Group companies	101	109
Remuneration for Lead Independent Director	17	16
Other remuneration	344	335
TOTAL	**3,327**	**3,227**

The "Other remuneration" item in 2018 and 2017 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, €158 thousand have accrued to date as a result of evaluation of objectives approved by the Board of Directors at its meeting of 29 January 2019, based on a proposal by the Appointments and Remuneration Committee. That evaluation of objectives has not concluded since the Appointments and Remuneration Committee needs to collect additional data. If all objectives for which additional information is pending were met, the variable remuneration could be increased by at most €105 thousand. That compensation, if it

accrued, would be charged against the fulfillment of the targets for 2018 variable remuneration and would be classified as 2018 variable remuneration.

As of 31 December, the advances and loans granted by the Group to the members of the Board of Directors in 2018 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 2018 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 2018 and 2017 were not material, formed part of the normal business of the Company or its subsidiaries, and were performed on an arm's-length basis.

On 5 May 2014, Zeltia signed a consulting and mediation services agreement with one of its directors, and PharmaMar succeeded to its position in that contract as a result of the PharmaMar-Zeltia merger. Under the terms of the agreement, the director undertook to provide certain consultancy and mediation services in connection with the possible sale of some of the assets of PharmaMar and, in the event that such a sale took place, would be entitled to a success fee equivalent to 2% of the total purchase price. In accordance with the terms of this agreement, the director received a fee amounting to €436.5 thousand in 2018 in connection with the sale of Xylazel.

In 2018, a company related to one member of the Board of Directors provided services to two Group undertakings amounting to €13 thousand (€15 thousand in 2017).

Transactions with executives of the controlling company

Company senior management received an aggregate total of €1,908 thousand in 2018 (€1,825 thousand in 2017). One of those executives is a director at one of the Group companies and collected €14 thousand in 2018 (€19 thousand in 2017) as a result, which is included in the foregoing aggregated figure.

37. SHARE-BASED PAYMENTS

At the end of 2018, PharmaMar and the Group companies had three share ownership plans for executives and 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. The Plan approved by the Shareholders' Meeting of Zeltia (merged company) on 12 June 2013, which was executed by the Board of Directors in 2014, expired in March 2018.

The Plan for 2015 was approved by the Shareholders' Meeting of Zeltia (merged company) on 27 May 2014 and executed by its Board of Directors on 19 May 2015. As a result of the merger, PharmaMar succeeded Zeltia in the rights and obligations inherent in that Plan.The Plans for the years 2017 and 2018 were approved by the Shareholders' Meeting of PharmaMar on 23 June 2016 and 29 June 2017, and executed by its Executive Committee on 8 March 2017 and 11 April 2018, respectively.

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 been voluntary until now, 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 is voluntary; 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 2018 year-end, the lock-up period is 3 years (vesting period) from the date of delivery of the shares (4 years in the case of the Plan executed by the Board of Directors on 19 May 2015) from the date of effective delivery of the shares to the beneficiaries; 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 vesting 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 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 27,028 shares were canceled: 3,550 shares purchased by employees and 23,478 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 94,600 shares under this plan were released from lock-up.

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 43,674 shares have been canceled: 5,058 shares purchased by employees and 38,616 shares contributed by the Company.

As of 31 December 2018, there were 76,863 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 2018, 56,908 shares were released from lock-up under this plan.

In relation to this plan, a total of 41,269 shares have been canceled: 12,955 shares purchased by employees and 28,314 shares contributed by the Company.

As of 31 December 2018, there were 113,487 shares contributed by the Company that had not vested.

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

On 29 June 2017, the Shareholders' Meeting of Pharma Mar, S.A. approved a new Share Ownership Plan that was executed in April 2018. The Company allocated 500,000 own shares to execute this plan.

In executing this plan, a total of 227,326 shares were awarded in 2018 to 149 beneficiaries at a value of €1.6723 per share.

In 2018, a total of 30,568 shares were canceled under this plan.

Year 2018 (Share Ownership Plan approved by the Ordinary Shareholders' Meeting on 28 June 2018)

The Shareholders' Meeting of PharmaMar on 28 June 2018 approved a new Share Ownership Plan with a double objective, as in previous years: to reward employees and executives whose performance in 2018 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 by 31 December 2018 and collect variable remuneration in 2019 relating to attainment of objectives in 2018, provided that they attained over 50% of the targets established by their Department head or hierarchical superior.

In the case of 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 that company's Board of Directors, which may not designate more than 25 such employees (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 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 2018:

		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 13 June 2013 (Granted March 2014)	236,070	3,550	114,442	-	23,478	94,600	-	-	2.73	March-18
Plan 14 June 2014 (Granted May 2015)	167,311	5,058	46,774	-	38,616	-	76,863	76,863	3.92	March.-19
Plan 15 June 2016 (Granted March 2017)	211,664	12,955	56,908	-	28,314	-	113,487	113,487	2.77	March-20
Plan 16 June 2017 (Granted April 2018)	227,326	9,218	-	66,663	21,350	-	130,095	196,758	1.67	March-21
TOTAL	**842,371**	**30,781**	**218,124**	**66,663**	**111,758**	**94,600**	**320,445**	**387,108**		

A total of €340 thousand were recognized as reserves for the plans in 2018 (€454 thousand in 2017). Additionally, the amount recognized in the period was €236 thousand (€405 thousand in 2017), and €350 thousand were derecognized (€297 thousand in 2017).

The sale of Xylazel resulted in the derecognition of €65 thousand, equivalent to 26,500 shares, under the various share delivery plans.

38. DUTY OF LOYALTY

Director conflicts of interest

Based on the disclosures presented by each of the Company's directors, they and, to the best of their knowledge and belief, their related parties 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 2018, which forms part of these Financial Statements.

39. 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 (last 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 2018 and 2017.

40. COMMITMENTS

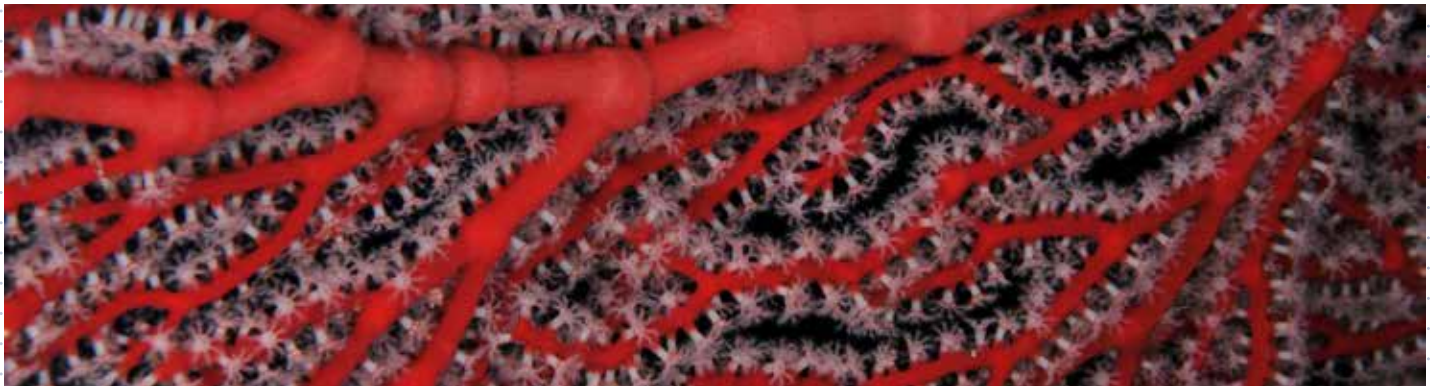
Operating lease commitments

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

OPERATING LEASE COMMITMENTS (thousand euro)	Balance as of 31/12/2018	Balance as of 31/12/2017
Under 1 year	2,677	2,934
1 to 5 years	3,884	4,525
TOTAL	**6,561**	**7,459**

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.



41. AUDITORS' FEES

The fees earned during the year by PricewaterhouseCoopers Auditores, S.L. and other firms in its network amounted to €362 thousand in 2018 (€309 thousand in 2017) for statutory audit services, and €300 thousand (€210 thousand in 2017) for other services. The fees for other verification services provided to PharmaMar Group companies amounted to €203 thousand in 2018 (€123 thousand in 2017).

The fees accrued during the year by other companies in the PwC network amounted to €9 thousand for tax advisory services in 2018 (€13 thousand in 2017), while no other advisory services were provided to the Group in 2018.

The fees accrued during the year by other auditors of subsidiaries amounted to €44 thousand for audit services in 2018 (€45 thousand in 2017) and €20 thousand for other verification services in 2018 (€25 thousand in 2017).

42. ENVIRONMENT

The Group did not need to incur significant investments during the year to protect and improve the environment. Environmental protection expenses amounted to €404 thousand euro in 2017.

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

43. SUBSEQUENT EVENTS

On 28 January, the Company informed the CNMV that it had granted a mandate to Alantra Corporate Finance, S.A.U. for the sale of its stake in subsidiary Zelnova Zeltia, S.A. with the objective of maximizing the price of the sale and, in this way, continuing to implement its growth strategy in the oncology business.

In 2019, the Company rolled over credit lines amounting to €3,000 thousand and signed new credit lines for €2,500 thousand, as well as a new loan for €475 thousand.

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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