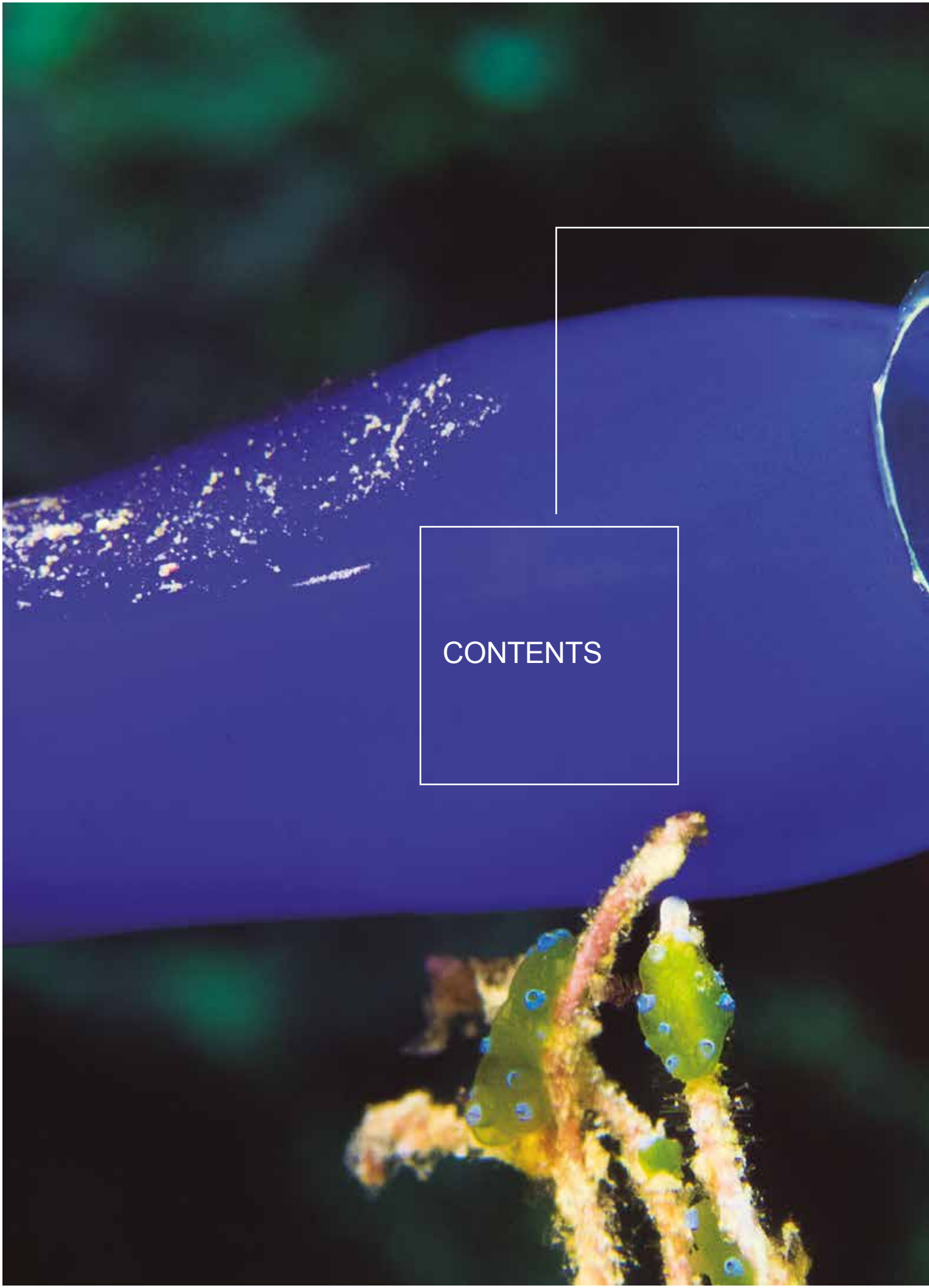
ANNUAL REPORT

2019

Pharma Mar



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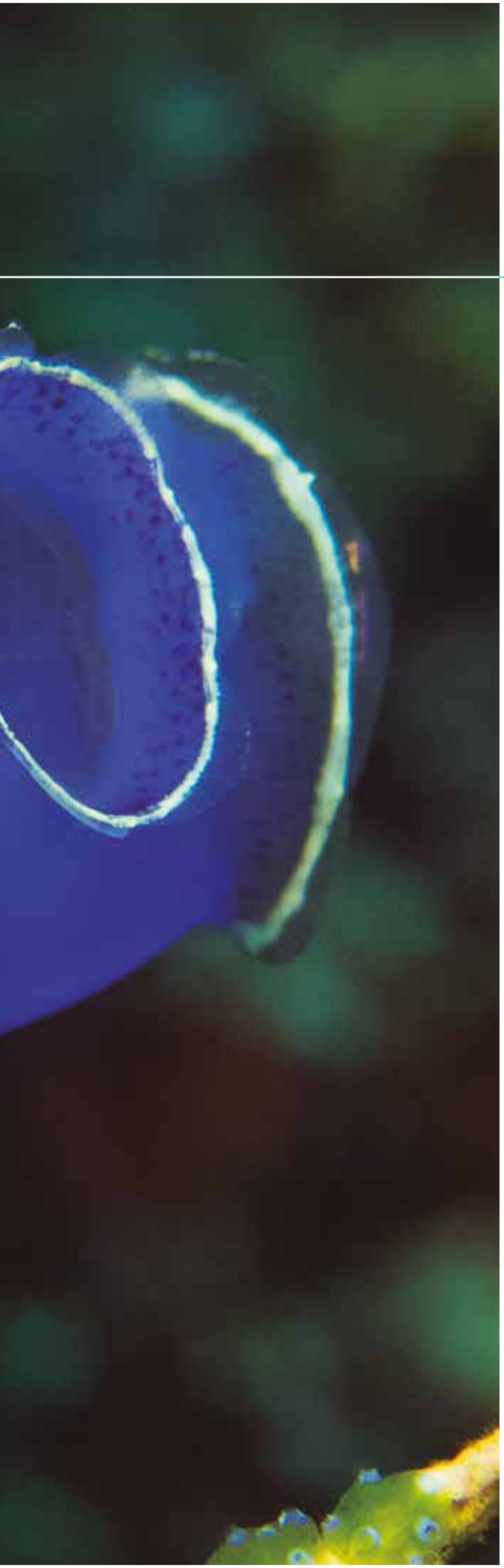

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BOARD OF DIRECTORS

COMMITTEES

	CATEGORY	EXECUTIVE	AUDIT	APPOINTMENTS AND REMUNERATION	LEAD INDEPENDENT DIRECTOR
JOSÉ Mª FERNÁNDEZ SOUSA-FARO Chairman	Executive	●●			
PEDRO FERNÁNDEZ PUENTES Vice-Chairman	Executive	●			
JOSÉ FÉLIX PÉREZ-ORIVE CANCELLER Director	Other external	●	●		
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	Other external			●	
CARLOS SOLCHAGA CATALÁN Director	Independent		●		
CARLOS PAZOS CAMPOS Director	Independent			●	●
MONTSERRAT ANDRADE DETRELL Director	Proprietary			●	
ANA PALACIO VALLELERSUNDI Director	Independent		●	●●	
BLANCA HERNÁNDEZ RODRÍGUEZ Director	Independent			●	
VALENTÍN DE TORRES-SOLANOT DEL PINO Director	Independent		●●		

●● Committee Chair ● Committee Member

CONSOLIDATED INFORMATION AND **MILESTONES** IN THE YEAR

PHARMAMAR GROUP

JANUARY

- The Phase II trial with Lurbinectedin as monotherapy for treating relapsed small cell lung cancer attained its primary endpoint.
- The European Medicines Agency (EMA) gave a positive opinion on granting orphan drug status to Lurbinectedin for treating small cell lung cancer.

FEBRUARY

- At the International Association for the Study of Lung Cancer (IASLC) 2020 Targeted Therapies of Lung Cancer meeting in Santa Monica, California, PharmaMar gave an oral presentation of the ATLANTIS trial with Lurbinectedin in combination to treat small cell lung cancer.

MARCH

- PharmaMar participated in the 3rd international conference on Soft Tissue Sarcoma: Evidence & Experience.
- Genómica commenced clinical trials with a view to registering two of its products, CLART Enterobac and CLART Sepsis, with the Chinese regulator.

APRIL

- PharmaMar signed an out-licensing agreement with Luye Pharma Group for the development and marketing of Lurbinectedin in China, Hong Kong and Macao.
- Sylentis presented the results of the Helix trial with Tivanisiran in dry-eye syndrome at the Association for Research in Vision and Ophthalmology (ARVO) meeting in Vancouver, Canada.

MAY

- The American Society of Clinical Oncology (ASCO) selected a paper from PharmaMar: "*Efficacy and safety profile of Lurbinectedin in second-line SCLC patients: results from a phase II single-agent trial*", for the "Best of ASCO" meetings.

JUNE

- PharmaMar's Shareholders' Meeting authorized the sale of consumer chemicals subsidiary Zelnova Zeltia as part of the strategy of focusing on Oncology.

JULY

- Genómica signed an exclusive agreement with Marusan Biotech Corporation for the distribution of its products in Japan.

AUGUST

- PharmaMar and Janssen signed a framework transfer agreement under which Janssen transferred to PharmaMar all rights to Yondelis® in the other territories licensed to Janssen, i.e. all the countries in the world except the United States, Europe and Japan (the latter licensed to Taiho Pharmaceuticals Co.).

- The Phase I trial with Lurbinectedin as monotherapy for treating advanced solid tumors in Japanese patients reached its endpoint.

SEPTEMBER

- PharmaMar presented the results from the Phase II trial with Trabectedin in combination with low-dose radiation therapy to treat soft-tissue sarcoma at the European Society for Medical Oncology (ESMO) meeting. It also presented the results of the Phase II trial with Lurbinectedin in progressive malignant pleural mesothelioma.

- PharmaMar organized a National Sarcoma Awareness Day.

OCTOBER

- PharmaMar signed an out-licensing agreement with Specialised Therapeutics Australia Pty, Ltd for the commercialization of Yondelis® in Australia, New Zealand and Southeast Asia.

NOVEMBER

- The Swiss Agency for Therapeutic Products granted orphan drug status to Lurbinectedin for treating small cell lung cancer.

- PharmaMar signed a new out-licensing agreement with Megapharm, Ltd. to commercialize Yondelis® in Israel.

DECEMBER

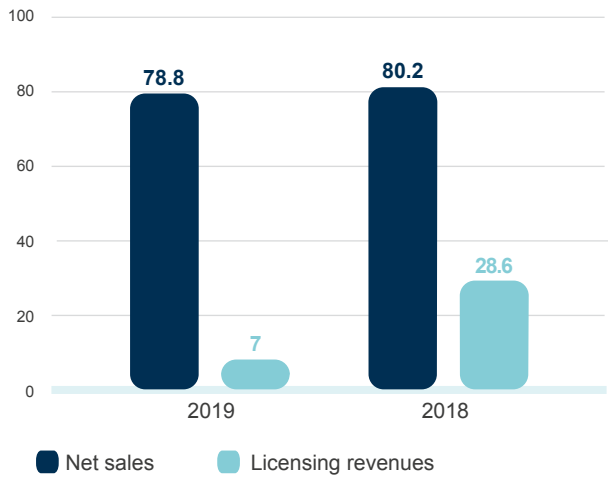
- PharmaMar filed a new drug application (NDA) with the FDA for accelerated approval of Lurbinectedin as monotherapy for treating patients with relapsed small-cell lung cancer.

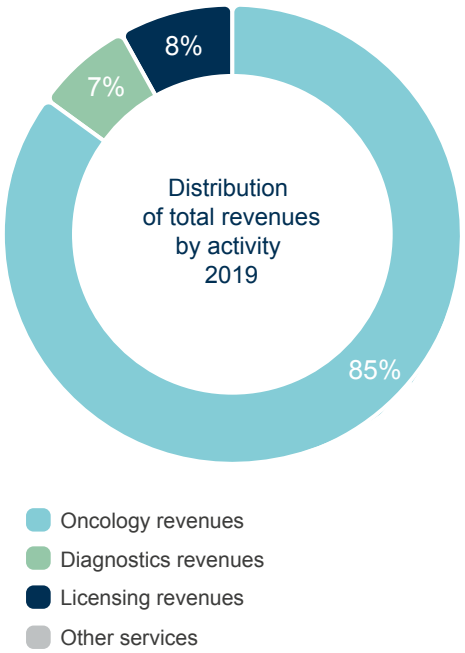
- PharmaMar and Jazz Pharmaceuticals signed an exclusive licensing agreement for marketing anti-tumor compound Lurbinectedin in the US for treating relapsed small-cell lung cancer.

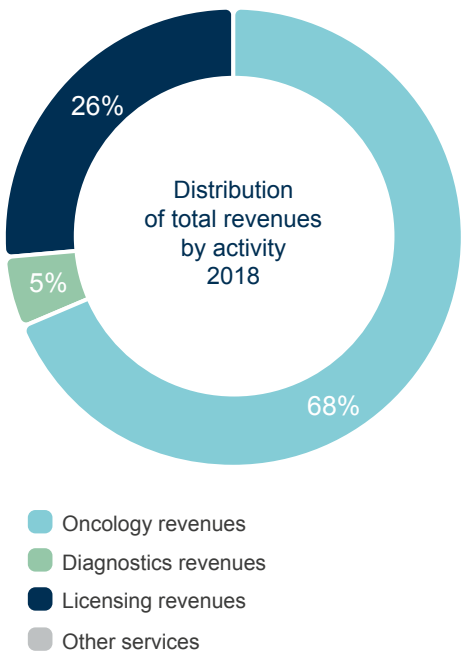
Key indicators

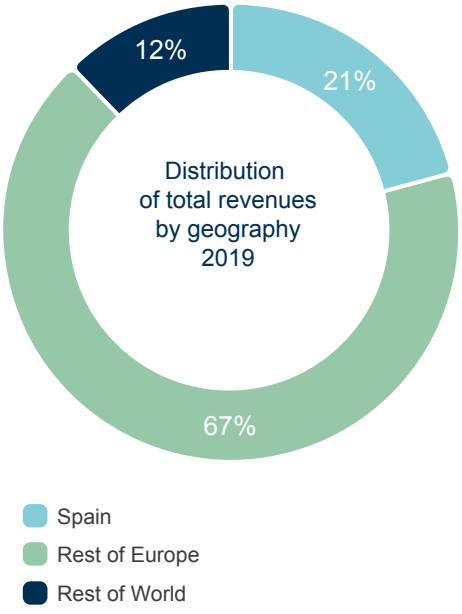
	31-12-19	31-12-18
TOTAL REVENUES	85.8	108.8
NET SALES	78.8	80.2
R&D EXPENDITURE	50.6	73.8

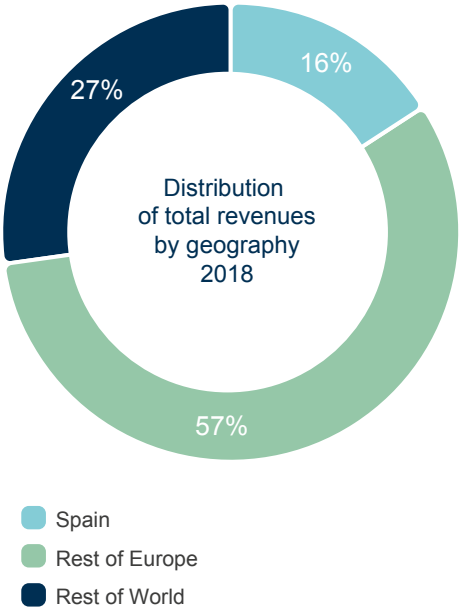
Total revenues

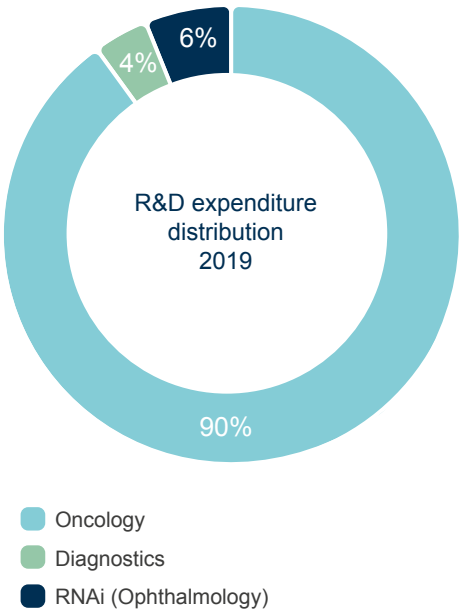


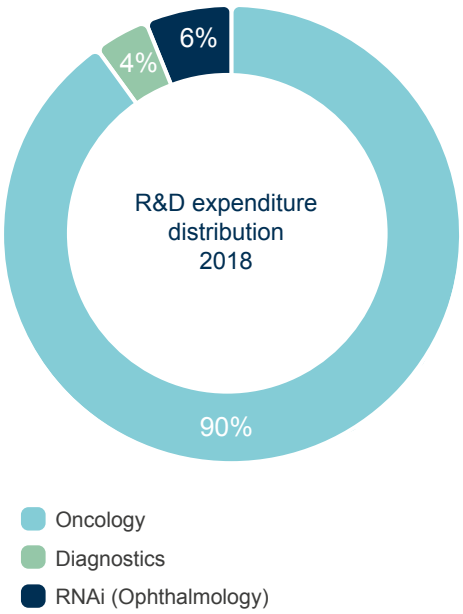





12%
21%
Distribution of total revenues by geography 2019
67%
Spain
Rest of Europe
Rest of World


27%
16%
Distribution of total revenues by geography 2018
57%
Spain
Rest of Europe
Rest of World


6%
4%
R&D expenditure distribution 2019
90%
Oncology
Diagnostics
RNAi (Ophthalmology)


6%
4%
R&D expenditure distribution 2018
90%
Oncology
Diagnostics
RNAi (Ophthalmology)

PRODUCT
PIPELINE

PRODUCT PIPELINE

PROGRAM / INDICATION		PHASE I	PHASE II	PHASE III	MARKET
Yondelis®					
Soft tissue sarcoma 2nd/3rd line	Single agent				
Ovarian cancer 2nd/3rd line *(1)*	Yondelis® + Doxil *(2)*				
Aplidin®					
R/R Multiple Myeloma 3rd/4th line *(3)*	Aplidin® + Dexameth				
Lurbinectedin					
Small cell lung cancer relapsed	Lurbin + Doxo *(4)*	ATLANTIS			
Basket trial (small cell lung cancer expansion cohort)	Single agent				
Basket trial (other) *(5)*	Single agent				
Solid tumors	Single agent and combinations				
PM184					
Solid tumors	Single agent and combinations				
PM14					
Solid tumors	Single agent				

February 2020: the FDA accepted for priority review a New Drug Application (NDA) seeking accelerated approval.

(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.

Portfolio of IVD Products in the market

KIT	Description	DEVELOPMENT	MARKET
CLART® HPV2	Kit for detecting 35 high- and low- risk human papilloma virus genotypes.		
CLART® HPV3	Kit for detecting 49 high-, low-, and indeterminate -risk human papilloma virus genotypes.		
CLART® HPV4	Kit for detecting 35 high- and low -risk human papilloma virus genotypes without requiring DNA extraction.		
CLART® HPV4s	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.		
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.		
CLART® COVID-19	Kit for in vitro diagnosis of SARS-CoV-2 using genetic identification based on CLART® technology.		
CLART® qCOVID-19	Kit for in vitro diagnosis of SARS-CoV-2 based on Real Time RT-PCR.		
LABORATORY EQUIPMENT			
autoclart®	Automation of post-PCR processes 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 disease	Tivanisirán (SYL 1001)						
Glaucoma	Bamosirán (SYL 040012)						
Macular degeneration	SYL1801						
Ocular allergies	SYL116011						
Retinitis pigmentosa	SYL A SYL B						
RNAi technology development							
Delivery Optimization	Formulations						
	Modifications						

CHAIRMAN'S LETTER

CHAIRMAN'S LETTER

Fellow shareholder:

The year 2019 was a historic one for the company. We made achievements that changed the company's future prospects and may well open the door to a new era for PharmaMar.

Excellent results from the Phase II trial with Lurbinectedin as a single agent for treating relapsed small cell lung cancer were presented at the American Society of Clinical Oncology (ASCO) meeting. The trial achieved its endpoint, overall response rate (ORR), and was picked for an oral presentation at ASCO.

In view of the superb results from this trial, the US Food and Drug Administration (FDA) reached an agreement for PharmaMar to file a new drug application (NDA) for accelerated approval of Lurbinectedin as monotherapy for second-line treatment of patients with relapsed small-cell lung cancer. This procedure allows a dossier to be filed on the basis of Phase II trial results in the case of drugs that treat serious conditions and fill an unmet medical need. The company worked hard to prepare the dossier, which was filed on 16 December 2019. In February 2020, the FDA gave notice that it had accepted the NDA and set itself a PDUFA deadline of 16 August 2020 for issuing a decision.

These positive trial results and the FDA filing, one year ahead of our original plans for Lurbinectedin in small cell lung cancer, generated interest among other companies in acquiring rights to this drug. After considering a number of options, it was decided to sign a licensing agreement to grant Jazz Pharmaceuticals commercialization rights to Lurbinectedin in the US. In exchange, PharmaMar received a 200-million-dollar upfront payment in January 2020. The agreement provides the possibility of collecting another 250 million dollars based on regulatory milestones if the FDA grants conditional and/or full approval of Lurbinectedin by specified deadlines. PharmaMar may also collect 550 million dollars for sales targets and will receive royalties on net sales of Lurbinectedin in the US. We are very satisfied with the agreement with our new partner, Jazz Pharmaceuticals. Because of their strategic interest in Lurbinectedin and the unwavering commitment they have shown, we are confident that they are the ideal candidate with which to launch our compound in the US.

Other major developments at the company in 2019 include the licensing agreement for Lurbinectedin in China, which we signed with Luye Pharma in March.

At mid-year we divested our consumer chemicals subsidiary, Zelnova Zeltia, for 33.4 million euro,

once the Shareholders' Meeting had given its approval; this transaction, on top of the Xylazel divestment in 2018, culminated the process of focusing on our core business, Oncology.

As for clinical development, in the second half of 2020 we expect to have the results of the ATLANTIS phase III trial with Lurbinectedin in combination with Doxorubicin for the treatment of relapsed small cell lung cancer. This trial, which enrolled 613 patients, was conducted at over 160 centers in 20 countries. If the trial, whose endpoint is overall survival, produces positive results, we expect it will provide the basis for an application to commercialize Lurbinectedin in Europe.

These major events in 2019 were transformative for the company and mark the beginning of a new era for PharmaMar. In the short term, we expect that Lurbinectedin will be approved in the US for commercialization as a single agent to treat small cell lung cancer. Such approval would provide rising revenues and positive earnings. Because of our confidence in the future and in our new projects and also in our ability to overcome the challenges ahead, we have decided to propose that the Shareholders' Meeting approve a dividend, fulfilling a long-standing commitment to our shareholders.

These events had a very positive impact on the PharmaMar share, which appreciated by 227% in 2019. PharmaMar was the stock that gained

the most in Spain's electronic market in 2019, accompanied by strong growth in trading volumes and positive recommendations from the analysts who cover the stock.

Last year we logged some major achievements, but we must not rest on our laurels. We need to look ahead; this is the beginning of a new era in which we will undertake exciting projects and ambitious challenges, always with enthusiasm.

As Chairman of the PharmaMar Group, I would like to thank the Board of Directors and the company's employees for their hard work, dedication and trust in our venture; indisputably, they have played a key role in bringing us to our current position. I am proud of their commitment, efforts and sacrifice, and I have full confidence in the ability of our people to meet the coming challenges.

On behalf of the Board of Directors, the employees and personally, I am also grateful to you, the shareholders, for your support for, and confidence in, the PharmaMar Group. Our achievements to date would not have been possible without you. We trust that your confidence in us will be rewarded with further successes in the 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) whose financial disclosures are presented in three segments: Oncology, Diagnostics and RNA interference.

Until June 2019, the Group had another segment of activity — Consumer Chemicals; however, following the sale in that month of Zelnova Zeltia, a wholly-owned subsidiary of PharmaMar dedicated to the manufacture and sale of domestic insecticides and home care products, this segment was discontinued, in line with the strategic decision to focus the Group's activity in the area of biopharmaceuticals, specifically oncology. The other subsidiary in that segment, Xylazel, which produced and sold wood-protecting products, paint and varnish, was divested in 2018.

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 main business within the Biopharmaceutical area is the development and marketing of antitumor drugs of marine origin, which is the Group's main activity. 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 to Yondelis® being authorized for sale in numerous markets and Aplidin® being authorized in Australia.
- One oncological compound currently being evaluated for marketing approval by the FDA and other antitumor candidates in earlier phases of development for various indications.
- An established sales infrastructure in Europe that is focused on oncology.
- Generation of revenues in the Oncology business from sales of Yondelis®.
- Out-licensing agreements in advantageous conditions for other compounds in development that have been signed and are in force (see 1.3).
- In addition to Oncology, the Group has other smaller businesses; the first is 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 Company'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.

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:

- Achieve regulatory approval for Lurbinectedin for treating relapsed small cell lung cancer in both the United States and Europe.
- Leverage and expand our existing commercial infrastructure to efficiently market Lurbinectedin in Europe and obtain the support of partners to sell it in other geographies outside the United States, since an out-licensing agreement for that territory was signed in 2019.
- Maximize the commercial value of Lurbinectedin in markets outside the US and Europe through partnerships third parties that might 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.

1.3 / Notable events in 2019

In line with the strategy defined in the preceding section, in 2019 PharmaMar focused its growth in Oncology, promoted the most advanced compound in its pipeline, Lurbinectedin, and reached agreements with new partners in new geographical areas to maximally exploit its compounds under development.

In April 2019, the Group signed an out-licensing agreement with Luye Pharma Group for the development and marketing of Lurbinectedin for treating small cell lung cancer and potentially other indications in the territories of China, Hong Kong and Macao. Under the agreement, PharmaMar collected an upfront payment of USD 5,000 thousand (€4,452 thousand), of which €3,200 thousand were recognized as revenues in 2019

on the basis of progress with the Atlantis Phase III trial. The agreement provides for other payments for attaining regulatory or sales milestones, as well as royalties. Luye undertook to develop Lurbinectedin for treating small-cell lung cancer in China, while PharmaMar retains exclusive production rights.

On 26 May 2019, the Board of Directors agreed to sell 100% of Zelnova Zeltia, a company in the consumer chemicals division, to Allentia Invest, S.L. y Safoles, S.A. (together, the "Buyer"), which are owned directly and indirectly by, among others, Mr. Pedro Fernández Puentes, a director of PharmaMar, and persons related to him. The Board resolved to refer the transaction to the Shareholders' Meeting for approval. By doing so, it complied with the provisions of article 230 of the Capital Companies Act with regard to shareholders waiving the prohibition on the company transacting with its directors, and also with article 160.f) of the Capital Companies Act, regarding shareholder approval for the sale of assets considered to be essential to the Company. Completion of the transaction and, consequently, the Company's commitment to sell and transfer the shares of Zelnova Zeltia to the Buyer was conditional upon that authorization by the Shareholders' Meeting. Once the shareholders had authorized the transaction, the sale was completed on 28 June 2019. The total consideration received from the Buyer was €33,417 thousand, paid in cash upon completion.

In August 2019, PharmaMar and Janssen signed a framework transfer agreement under which Janssen transferred to PharmaMar all rights to Yondelis® in the other territories licensed to Janssen, i.e. all the countries in the world except the United States, Europe and Japan (the latter licensed to Taiho Pharmaceuticals Co. Ltd).

This transfer agreement will be phased in gradually, depending on the regulatory requirements in each country. Janssen will continue to sell the product until the commercialization authorizations have been transferred. PharmaMar plans to market Yondelis® in the transferred territories via local partners.

In December 2019, PharmaMar filed a new drug application (NDA) for accelerated approval with the FDA for Lurbinectedin as monotherapy for treating patients with relapsed small-cell lung cancer. The FDA granted Priority Review to the NDA.

On 19 December 2019, PharmaMar and Jazz Pharmaceuticals signed an exclusive licensing agreement for marketing anti-tumor compound Lurbinectedin in the US for treating relapsed small-cell lung cancer. The entry into force of the agreement was conditional upon approval by the US anti-trust authorities under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended. That authorization was obtained on 21 January 2020; consequently, the agreement came into force in 2020 and had no accounting impact in 2019. The contract terms include a non-refundable upfront payment of USD 200 million (€181 million) which PharmaMar collected in January 2020, plus additional payments of up to USD 250 million for achieving regulatory milestones, if the FDA grants conditional and/or full approval for Yondelis® by specific deadlines. PharmaMar may also collect USD 550 million for sales targets and will collect royalties on net sales of Lurbinectedin.

2 / BUSINESS PERFORMANCE AND RESULTS

REVENUES	31-12-19	31-12-18	Change
Revenues	**78,529**	**79,772**	**-3.1%**
Oncology segment	73,022	74,179	-1.6%
Diagnostics segment	5,507	5,593	-1.5%
Royalties			
Oncology segment	**3,102**	**3,916**	**-20.8%**
Licensing and co-development agreements			
Oncology segment	**3,950**	**24,659**	**-84.0%**
Other revenues	**238**	**424**	**-43.9%**
Oncology segment	-	126	
Diagnostics segment	238	298	
TOTAL REVENUES	**85,819**	**108,771**	**-21.1%**

(thousand euro)

2.1 / Total revenues

Revenues in the Oncology segment, amounting to €73.0 million (€74.2 million in 2018), were almost entirely from Yondelis®, and include sales in 2019 of Yondelis® and Aplidin® raw materials to our partners and compassionate-use sales of Lurbinectedin for a total of €1.1 million. Revenues in this segment declined by 1.6% year-on-year.

	31-12-19	31-12-18	Change
Commercial sales of Yondelis®	71,880	73,835	-2.7%
Sale of raw materials, etc.	1,142	344	232.0%
TOTAL ONCOLOGY SALES	**73,022**	**74,179**	**-1.6%**

(thousand euro)

The Diagnostics segment (Genómica) attained €5.5 million in sales, plus €0.2 million in other revenues in 2019 (€5.6 million plus €0.3 million, respectively, in 2018).

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 €3.1 million in 2019 (€3.9 million in 2018).

Revenues from out-licensing and other co-development agreements, which also correspond entirely to the Oncology segment, amounted to €4.0 million in 2019, compared with €24.7 million in 2018.

The agreements in 2019 from which those revenues arose were as follows:

- An out-licensing agreement with Luye Pharma Group for the development and marketing of Lurbinectedin for treating small cell lung

cancer in the territories of China, Hong Kong and Macao. Under this agreement, PharmaMar collected an upfront payment of €4.5 million, of which €3.2 million were recognized as revenues in 2019.

- A milestone payment amounting to €0.3 million was collected under the licensing agreement for Lurbinectedin in South Korea.

- After PharmaMar signed a new out-licensing agreement for Yondelis® with Janssen that allows PharmaMar to distribute Yondelis® in over 40 countries where it is already approved (outside the US, which is retained by Janssen), PharmaMar signed two out-licensing contracts for Yondelis® in 2019, covering Australia and Israel, for which it collected a total of €0.5 million in upfront payments from the licensees.

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 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®.

Consequently, total revenues amounted to €85.8 million in 2019, compared with €108.8 million in 2018.

2.2 / Margins: Gross margin and EBITDA

The Group's gross margin was 93.3% in 2019 (93.8% in 2018) (Calculated with respect to sales only, not including royalties or licensing revenues).

The Group's EBITDA amounted to €-9.5 million in 2019 (€-7.0 million in 2018).

	31-12-19	31-12-18
Income from continuing operations	(9,180)	(17,103)
Taxes	(12,474)	(2,883)
Interest (net)	4,168	4,035
Depreciation and amortization	8,035	6,374
Fixed asset impairment and change in other provisions	(81)	-
Impairment and changes in trade provisions	19	110
Indemnities	-	2,486
EBITDA	**(9,513)**	**(6,981)**

(thousand euro)

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

The variation in EBITDA reflects the decline in licensing revenues, partly offset by a reduction in operating expenses.

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

The EBITDA contribution by the business segments is as follows:

EBITDA BY SEGMENT	31-12-19	31-12-18
Oncology	5,334	11,041
Diagnostics	(1,450)	(5,668)
RNAi	(3,057)	(5,187)
Unallocated	(10,340)	(7,167)
	(9,513)	**(6,981)**

(thousand euro)

2.3 / R&D expenditure

R&D spending declined year-on-year to €50.6 million in 2019 (€73.8 million in 2018).

R&D and innovation spending in Oncology amounted to €48.7 million, of which €3.0 million were related to the cost of the NDA for Lurbinectedin filed with the FDA, resulting in net R&D spending of €45.7 million in 2019 (€63.7 million in 2018). PharmaMar concentrated R&D spending on Lurbinectedin in clinical trials on small cell lung cancer (SCLC), while deferring other clinical trials and earlier stage development activities.

The reduction in R&D spending in the Diagnostics section was due to conclusion of the NEDXA point-of-care diagnostics platform project, with priority being given to development of the conventional CLART platform.

In 2019, the RNAi section worked on designing a new Phase III clinical trial in dry-eye syndrome after completing the Helix Phase III trial in that indication.

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

R&D	31-12-19	31-12-18	Difference	Change
Oncology segment	48,694	63,742	(15,048)	-24%
Diagnostics segment	2,060	4,941	(2,881)	-58%
RNAi segment	2,909	5,105	(2,196)	-43%
TOTAL GROUP R&D SPENDING	**53,663**	**73,788**	**(20,125)**	**-27%**
Capitalized expenses in the Oncology segment	(3,021)	-	(3,021)	
TOTAL GROUP R&D SPENDING, NET	**50,642**	**73,788**	**(23,146)**	**-31%**

(thousand euro)

2.4 / Marketing expenses

The Group spent €23.9 million on marketing and commercial expenses in 2019, a 9% decline year-on-year (€26.4 million in 2018). This was due mainly to the closure of the PharmaMar subsidiary in the United Kingdom, which enabled marketing expenses to be reduced by close to €1 million.

2.5 / Income from continuing operations

The decline in revenues in 2019 (mainly licensing agreements: €-20.7 million year-on-year) was offset by a reduction in operating expenses. As a result, income before taxes fell by just €-1.6 million year-on-year, from €-20.0 million in 2018 to €-21.6 million in 2019.

Nevertheless, recognition of income tax, which was positive (€2.9 million) in 2018 and also in 2019 (€12.5 million), meant that operating income continued to improve year-on-year, from €-17.1 million in 2018 to €-9.1 million in 2019.

2.6 / Income from discontinued operations

On 28 June 2019, PharmaMar completed the sale of its subsidiary, Zelnova Zeltia, S.A., which manufactures, supplies and distributes insecticide products for domestic use, air fresheners and other home care products. The buyers, Allentia Invest, S.L. and Safoles, S.A, acquired 100% of the company for €33.4 million in cash. As a result, the consolidated figures present that subsidiary under discontinued operations in both 2019 and 2018.

On 28 June 2019, PharmaMar sold subsidiary Xylazel, S.A., which manufactures, supplies and distributes products for wood and metal treatment, protection and decoration, special paints and similar products. 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, which was sold in September 2018, under discontinued operations in 2018.

Income from discontinued operations in 2019 and 2018 includes both the income booked by the divested subsidiaries up to the date of their sale and any capital gain or loss on the transactions. Income from discontinued operations amounted to €-2.2 million in 2019, compared with €11.6 million in 2018.

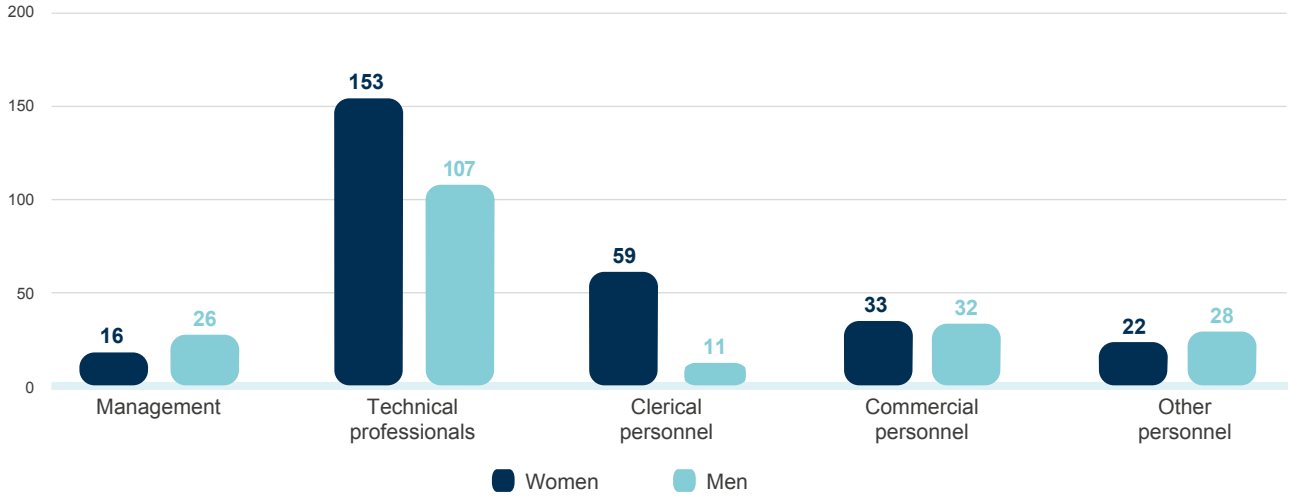
2.7 / Personnel

The Group had an average of 487 employees in 2019 (599 in 2018). The 2018 figures include 110 employees at Zelnova Zeltia, a company which was deconsolidated in June 2019. The average number of employees is 347 in the Oncology section, 45 in Diagnostics, 20 in RNAi, and 23 in the corporate area, who are not assigned to any specific segment. The annual average number of employees in the Consumer Chemicals segment during the six months that they formed part of the Group was 51 employees.

Women accounted for 58.2% of the workforce in 2019.

The graph below illustrates segmentation by gender and category:

Segmentation by gender and category



2.8 / Environmental issues

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

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

2.9 / Average period taken to pay suppliers

Information on payments for commercial transactions performed in 2019 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:

31-12-19	Days
Average period taken to pay suppliers	64
Proportion of transactions paid	67
Proportion of transactions outstanding	71

The average supplier payment lag in the year between 1 January and 31 December 2019 was 64 days (51 days in 2018).

Payments totaled €31,246 thousand in 2019 (€41,209 thousand in 2018). The balance of outstanding payments was €4,511 thousand as of 31 December 2019 (€5,463 thousand in 2018).

3 / LIQUIDITY AND CAPITAL

The balance of cash and cash equivalents amounted to €20.9 million euro as of 31 December 2019 (€26.9 million euro as of 31 December 2018). Including non-current financial assets, the total was €21.9 million as of 31 December 2019 (€27.8 million euro in 2018).

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:

	31-12-19	31-12-18
Non-current debt	**53,063**	**64,922**
Bank loans	15,291	24,279
Bonds	16,549	16,501
Loans from official authorities	21,223	24,142
Current debt	**29,655**	**28,483**
Credit lines	11,583	12,911
Discounted bills	2,241	2,064
Loans	10,497	10,244
Loans from official authorities	4,883	2,248
Interest, etc.	451	1,016
Total interest-bearing debt	**82,718**	**93,405**
Cash and cash equivalents plus current and non-current financial assets	**21,924**	**27,760**
TOTAL NET DEBT	**60,794**	**65,645**

(thousand euro)

Net debt declined to €60.8 million in 2019 (from €65.6 million in 2018) as a result of a €10.7 reduction in total interest-bearing debt that was partly offset by a €5.8 million decline in cash and cash equivalents.

New loans were arranged in 2019 for an amount of €4.7 million, while €14.4 million of long-term loans were repaid on maturity.

As of 31 December 2019, the Company had €2.1 million available in credit lines. It arranged new credit lines for €4 million in the early months of 2020.

As detailed in section 1.7 above, on 19 December 2019, PharmaMar and Jazz Pharmaceuticals signed an exclusive licensing agreement for marketing anti-tumor compound Lurbinectedin in the US for treating relapsed small-cell lung cancer. The entry into force of the agreement was conditional upon approval by the US anti-trust authorities. Once that authorization had been granted, the Company collected from Jazz the non-refundable upfront payment of USD 200 million (€181 million) under the licensing agreement in January 2020.

Under that Agreement, the Company may receive a payment of USD 100 million from Jazz Pharmaceuticals in the second half of 2020 for obtaining conditional approval of Lurbinectedin from the FDA. The payment could amount to USD 250 million if full approval is obtained.

The directors estimate that R&D expenditure in 2020 will be similar to 2019 and that the other operating expenses will not increase significantly.

Consequently, at the time of authorizing these consolidated financial statements, the directors consider that the Group has ample liquidity to cover its research and development projects and honor its future payment obligations.

4 / PRIMARY RISKS AND UNCERTAINTIES

4.1 / Situation risks

Competition

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

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

Industrial property. Patents

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

Patents run for 20 years in most countries, including the USA and the European Union. The effective period of protection depends on how long drug development takes before launch. To compensate partly for such a long development period and the need to obtain authorization before marketing a drug, a number of markets (including the USA and the European Union) offer patent extensions 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 varied aspects of 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, while the marketing and prescription of generics and biosimilar products have been facilitated.

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 developing innovative products in therapeutic areas where treatment options are very limited. The Group also constantly obtains 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 incurs significant R&D expenditure 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. These are monitored monthly in case any modifications are necessary.

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.

Pharma Mar, S.A., whose workforce accounts for 71.3% of all Group employees, 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 have a low risk of environmental impact (noise, smoke, discharges, etc.) and generate almost no waste.

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.

Pharma Mar, S.A. is certified to the ISO 14001 standard, a management tool for the 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.

Breach of transparency and market integrity rules is classified as a serious or very serious violation of current law, incurring punishment under the consolidated text of the Securities Market Act, with the possibility of reputational damage to the Company and/or loss of credibility among investors.

PharmaMar's management and Board of Directors and certain of the company's executives and employees have access to privileged information about the Group's performance.

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 Act, in the area of inside information.

The Market Abuse Regulation provides a tool for regulators to investigate possible market abuses due to the use of inside information, namely "insider lists", a list of all the persons who have access to inside information that the Company must draw up and keep updated. The Rules of Conduct Steering Committee, made up of four 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

If the company's information systems malfunctioned or were not sufficiently robust, this might adversely affect the continuity of the organization's critical processes and operations.

If the computer security and access control systems fail to work properly, this might lead to unauthorized discovery, unauthorized access to data or the untimely delivery of same, and improper use of confidential information.

The PharmaMar Group is aware of the importance of computer systems to support the main business processes; for that reason, it continuously invests to maintain the infrastructure and information systems, and to keep its physical and legal security policies aligned with technological progress.

The PharmaMar Group has a strategic plan for Information Systems whose main objective is to align the information technology strategies with the company's strategic objectives, guarantee compliance with the strict regulatory framework, and ensure efficacy, security and robustness of the information systems that support the company's business processes.

The strategic plan for Information Systems addresses key issues for attaining those goals, including:

- Organization, roles and responsibilities within the IT unit.
- Corporate computing architecture and infrastructure.
- Catalog of corporate services provided by the Information Systems unit.
- Quality assurance and compliance commitments.
- General policies and procedures of the IT unit.
- Information security policies, procedures and infrastructure.

Where third-party technology infrastructures or IT solutions are used, the Group has service level agreements to minimize the impact on its operations of any degradations in those services.

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.

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

Interest rate risk on cash flows and fair values

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

Floating-rate debt securities expose the Company to interest rate risk on the 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, mainly deposits.

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

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

- Acquisition of fixed-income funds that invest in public- or private-sector debt (government bonds, treasury bills and commercial paper), generally secure, which pay periodic coupons.
- Acquisition of money market funds comprising short-term fixed-income securities (18 months maximum) where security is given priority in exchange for a 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 (Note 3).

4.5 / Tax risk

Tax risk is inherent to the Company's activity and is 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 necessarily 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

The Lurbinectedin licensing and marketing agreement for the United States territory, signed on 19 December 2019 by PharmaMar and Jazz Pharmaceuticals, came into effect on 21 January 2020 once it had been cleared by the US antitrust authorities. Under the terms of the agreement, the company collected an upfront payment of USD 200 million (€181 million). In accordance with the Group's revenue recognition policy, that upfront payment will be recognized initially as deferred revenues and will subsequently be recognized in the profit and loss account on the basis of fulfillment of the commitments established based on the degree of progress with the project. On the basis of the degree of fulfilment of the obligations projected for 2020, management estimates that the amount of revenue to be recognized could exceed €100 million.

On 5 February 2020, the Group collected €4,833 thousand from the Spanish tax authorities for monetization of certain research and development tax credits under 2018 corporate income tax.

The Group renewed €4,000 thousand in credit lines in 2020.

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 / 2020 OUTLOOK

The year 2020 may be a landmark one for PharmaMar as Lurbinectedin is expected to be approved in the US for commercialization as monotherapy for the treatment of small cell lung cancer. In December 2019, the company filed a new drug application (NDA) for accelerated approval with the FDA for Lurbinectedin as monotherapy for treating patients with relapsed small-cell lung cancer. The dossier is expected to receive priority review and might be approved by August. If that is the case, Lurbinectedin might begin to be marketed in the US in 2020, given that country's drug pricing system.

The results of the ATLANTIS Phase III trial, using Lurbinectedin in combination with doxorubicin for treating small cell lung cancer, are also expected in 2020. If the result of this trial is positive, and depending on the deadlines, the registration dossier for approval to market Lurbinectedin in Europe could be presented to the EMA by the end of 2020. Additionally, at least one new compound is expected to be added to the oncology pipeline in 2020.

There are also plans to sign a number of marketing agreements with partners for both Lurbinectedin and Yondelis®.

7 / R&D AND INNOVATION

R&D and innovation are a key component of the Group's strategy, and it spent €50.6 million in this area in 2019 (€74 million in 2018).

Of that total, €45.7 million was spent in oncology, €2.9 million in RNAi in ophthalmology, and €2.0 million in diagnostics.

The main progress and results in R&D in 2019 by area of activity are as follows:

7.1 / Oncology: Pharma Mar, S.A.

The activities and progress for each of the group's compounds in 2019 are detailed below:

a / Yondelis®:

Post-authorization trials with Yondelis® performed satisfactorily in 2019. Research into the efficacy and safety of Yondelis® resulted in a total of 15 abstracts at conferences and 8 papers in international journals in 2019.

Soft tissue sarcoma

At 2019 year-end, 26 post-authorization trials were under way, 13 of them active (10 enrolling). The other trials were in the process of closing and data analysis or were pending the presentation of results. Five additional trials are scheduled to commence in the coming months.

The trials with trabectedin in soft tissue sarcoma include notably the NiTraSarc and TRAMUNE investigator mediated trials in combination with immunotherapy drugs (nivolumab and durvalumab), in which enrolment is continuing satisfactorily, and the TRASTS trial combining trabectedin with radiotherapy, sponsored by the Spanish sarcoma group GEIS, whose initial results have been presented at international conferences.

Ovarian cancer

There are 14 trials ongoing in this indication, nine of them active and five enrolling.

Regarding the combination of trabectedin with liposomal doxorubicin in sensitive ovarian cancer, the INNOVATYON Phase III trial comparing the Yondelis® + PLD combination with the carboplatin + PLD combination, led by Gruppo MaNGO (Mario Negri Gynecologic Oncology), continued in 2019 and the initial data were scheduled for presentation in 2020.

Other indications

The MITO 23 Phase III trial comparing Yondelis® as monotherapy vs. investigator-choice chemotherapy in patients with a BRCA mutation or a BRCAness phenotype, which is being conducted in cooperation with the Italian MITO group, was closed with very satisfactory results and is awaiting data analysis.

b / Lurbinectedin:

Small-cell lung cancer

Basket trial in small-cell lung cancer and advanced solid tumors

In November 2018, enrolment concluded for the Phase II trial with Lurbinectedin 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. A total of 335 patients were treated, 105 of them in the small-cell lung cancer cohort. That cohort attained the trial's primary endpoint: overall response rate. For that reason, in December, PharmaMar filed a new drug application (NDA) for accelerated approval with the FDA for Lurbinectedin as monotherapy for treating patients with relapsed small-cell lung cancer. Under the FDA's accelerated approval process, an application for approval for drugs for serious conditions that fill an unmet medical need can be presented on the basis of the results of Phase II trials.

Efficacy data on the cohort of patients with small cell lung cancer were presented at the

annual meeting of the American Society of Clinical Oncology (ASCO) and were selected for the “Best of ASCO” meetings in three US cities and 30 other cities on the five continents. “Best of ASCO” is an initiative that condenses the most outstanding content of the ASCO Annual Meeting in a two-day program. The goal of this initiative is to provide worldwide access to cutting-edge science.

Additionally, PharmaMar has an ongoing pivotal Phase III trial in small-cell lung cancer: the ATLANTIS trial.

Recruitment in that pivotal trial, which compares the activity and safety of the combination of Lurbinectedin, 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, concluded in August 2018. A total of 613 patients were enrolled at hospitals in Europe, the United States, Latin America and the Middle East. The trial is currently monitoring survival, which is its primary endpoint. The next update of ATLANTIS data will be given when they are available, which is expected to occur in the first half of 2020.

In 2019, PharmaMar received a positive response from the European Medicines Agency (EMA) and Swissmedic, the Swiss Agency for Therapeutic Products, with regard to the designation of Lurbinectedin as an orphan drug for small cell lung cancer.

Previously, 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

The analysis of combination trials with Lurbinectedin+paclitaxel and Lurbinectedin+irinotecan in the cohort of patients with small cell lung cancer was presented as a poster at the IASLC World Conference on Lung Cancer in Barcelona in September.

The results of the Phase I trial in combination with irinotecan were presented as a poster at the European Society for Medical Oncology (ESMO) meeting in Barcelona in September 2019. Enrolment for this trial continues on schedule.

The first patient for the trial in combination with atezolizumab in small-cell lung cancer was enrolled in December 2019. The trial is being undertaken at three centers in Spain.

Phase I trial in Japan

This trial, designed to ascertain the dosage for Lurbinectedin in Japanese patients, attained its primary endpoint by determining the recommended dose for that population. Enrolment concluded and the treated patients are in the process of being evaluated.

c / PM184

The Phase I dose escalation trial assessing the combination of PM184 with gemcitabine, conducted at two centers (one in Spain and one in the United States), concluded enrolment and is now in the patient tracking phase.

d / 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. This trial is still actively recruiting.

7.2 / Diagnostics: Genómica

With regard to R&D activities, the technical trials required by the Chinese regulator (NMPA) for registration of the Genómica kits in that market were performed in 2019.

The microbiology area began developing a new FAST-CLART technology applied to the CLART® PneumoVir kit for rapid detection and identification of pathogens associated with respiratory infections.

Genómica obtained €5.84 million in revenues in 2019, i.e. 4% less than in 2018 (€6.06 million). Exports, which accounted for 36% of revenues, totaled €2.08 million (€2.29 million in 2018). Clinical Diagnostics accounted for 89% of total revenues.

Other notable events in 2019:

In the first quarter of 2019, our partner in China, Beijing Clear Medi-tech Co., Ltd, commenced the process for registering the Genómica products CLART®Enterobac and CLART®Septibac with the Chinese National Medical Products Administration (NMPA).

An exclusive distribution agreement for Genómica products in Japan was signed with Marusan Pharma Biotech Corporation in July. Work to register CLART®HPV and autoclart® plus with the Japanese regulator (PMDA) will commence in the fourth quarter of this year.

In the fourth quarter of 2019, Genómica signed an exclusive distribution agreement for the Brazilian market with D-MED MATERIAL MEDICO, LTDA, a company specialized in diagnostics, the goal being to maintain Genómica sales in Brazil via a distributor.

Following signature of a contract with HuaSin Science early in 2019, the production of the first 6 automatic machines fully adapted to that Asian brand has been completed, with a specific corporate image and user software in Chinese. HuaSin Science will produce molecular diagnostic kits based on Genómica's CLART® technology to analyze human papilloma virus.

7.3 / RNA Interference, ophthalmology: Sylentis

The centers involved in the Helix Phase III trial with tivanisiran (SYL1001), an RNAi for treating dry-eye syndrome, were closed and the final report on the trial was drafted. The next clinical trial is currently being designed in order to advance with the product's clinical development, focused particularly on patients in whom the disease is most severe, such as patients with Sjögren syndrome, as the Helix trial evidenced a particular improvement in signs and symptoms.

The company is also working on other RNAi candidates for treating eye allergies and retinal diseases. Those candidates' efficacy was analyzed using pre-clinical models of those pathologies. Candidate SYL1801 for topical treatment of age-related macular degeneration completed regulatory pre-clinical toxicology trials in two animal species which evidenced that the product has a good safety profile, with no toxicological effects of SYL1801 being observed following continuous ocular administration. Design of the phase I trial for SYL1801 was completed in 2019, with commencement scheduled for 2020.

8 / ACQUISITION AND DISPOSAL OF OWN SHARES

As of 31 December 2019, 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 2019, the Company held 691,988 own shares representing 0.31% of capital stock.

In 2019, the Company acquired 3,987 thousand own shares for a total of €7,467 thousand.

The Company sold 4,711 thousand own shares for a total of €8,210 thousand, resulting in a gain of €596 thousand, which was recognized in the Company's reserves.

In the scope of the employee share ownership plan, a total of 164 thousand shares were allocated in 2019 to 99 beneficiaries at a value of €2.0768 per share. Additionally, a total of 5,392 shares were canceled under this Plan in 2019.

9 / SHARE INFORMATION

General situation

The year 2019 was very positive for the markets, with a gains by almost all indices on both sides of the Atlantic. Key factors that supported the markets' positive performance in 2019 include notably the change in the Fed's monetary policy position, lowering of trade tensions between the United States. and China, and the Brexit outcome. Early in 2019, the markets were discounting that the Fed would continue its policy of raising interest rates in the US. Nevertheless, the Fed cut rates three times in 2020 despite the strong labor market and good consumer spending numbers. It was the first time that the Federal Reserve had reduced rates since the 2008 crisis, and it did so primarily to protect the US economy from the signs of weakness being observed in the other economies, largely caused by the uncertainty over a tariff war between the US and China. Additionally, the US central bank began to inject liquidity into the market after the summer, and this undoubtedly helped the final phase of the rebound by equity markets in the year. As for the trade war between the United States and China, the two countries finally reached an agreement under which a set of U.S. tariffs that were scheduled to materialize in late 2019 were canceled, and tariffs that were already in place were reduced. In exchange, China agreed to increase purchases of US products and to improve protection for intellectual property. In Europe, Johnson's resounding victory in the December elections eliminated the uncertainty about Brexit, making it a reality which will culminate in 2020 through negotiation of the agreement on the post-Brexit relationship between the United Kingdom and Europe.

Overall, 2019 was a year of economic growth driven by favorable performance by employment and low interest rates. By the end of the year, it was clear that Spain's economy had entered a more mature phase of the cycle, slowed mainly by a degree of deceleration in the global and European economies and by political uncertainty.

All these factors were reflected in the Spanish index, IBEX-35, which appreciated by 13% in the year; it is worth noting that 66% of the stocks in the index gained ground in 2019.

PharmaMar stock market indicators

SHARE INFORMATION 2019	
Total number of shares	222,649,287
Par value (euro)	0.05
Average daily trading (no. of shares)	1,260,500
Average daily trading (euro)	2,560,122
Trading days	255
Year trading low (13 September) (euro)	279,398
Year trading high (19 January) (euro)	29,605,267
Total trading in the year (million euro)	652.8

	(euro)
Lowest share price (26 October)	1.20
Highest share price (15 January)	3.60
Share price as of 31 December	3.57
Average share price in the year	1.83
Market capitalization as of 31 December (million euro)	**794.80**

Source: Bloomberg

PharmaMar's share performance

The year 2019 was a historic one for PharmaMar and this was reflected in the share performance. The company reported very positive results in clinical trials: the Phase II trial with Lurbinectedin as monotherapy for treating relapsed small cell lung cancer attained its primary endpoint (ORR) while evidencing a very favorable safety profile. These results were presented at the ASCO (American Society of Clinical Oncology) in an oral session and the trial abstract was picked for the "Best of ASCO". Due to the excellent results from this phase II trial and given that it covers an unmet therapeutic need, in August the FDA gave PharmaMar the go-ahead to file an application for accelerated approval to register Lurbinectedin in the United States for the treatment of small cell lung cancer. The company filed the accelerated approval dossier with the FDA on 16 December. The superb results obtained with Lurbinectedin made it possible to sign major out-licensing agreements, such as the one signed in April with Luye Pharma for the development and marketing of Lurbinectedin in China, Hong Kong and Macao.

However, the most outstanding event in 2019 was the signature in December of an out-licensing agreement with Jazz Pharmaceuticals for marketing of Lurbinectedin in the United States.

Under the contract terms, PharmaMar collected an upfront payment of USD 200 million, and it may receive additional payments of up to USD 250 million for achieving regulatory milestones, if the FDA grants accelerated and/or full approval for Lurbinectedin. PharmaMar may also collect up to USD 550 million for sales targets. It will also collect royalties on net sales of Lurbinectedin, ranging from the high teens to at most 30%.

Another event in 2019 was the sale of Zelnova Zeltia, a company in the Consumer Chemicals segment, for €33.4 million.

As a result, PharmaMar was the share that registered the highest appreciation in the Spanish market in 2019: 227%.

Trading in PharmaMar shares amounted to €652.8 million euro in 2019. Daily trading averaged 1,260,500 shares, peaking in December.

10 / CONSOLIDATED NON-FINANCIAL INFORMATION STATEMENT

The consolidated non-financial disclosures are presented separately.

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

CONSOLIDATED FINANCIAL STATEMENTS AND **AUDITORS' REPORT**

"This version of our report is a free translation of 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, 2019, 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, 2019, 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.

Key audit matters	How the matters were addressed in the audit

Financial capacity

The Group's research activity requires sufficient cash flows to fund and, where appropriate, complete the ongoing research in accordance with the established investment plan. As indicated in note 3.1 C. of the notes to the accompanying consolidated financial statements, which includes an analysis of the liquidity risk, in 2020 management expects R&D investments to continue at a similar level to 2019.

The aforementioned note 3.1 C. indicates that at least annually, the Group's finance department presents a liquidity plan to the parent company's directors, with cash flow estimates and which includes different scenarios for the source and application of funds, based on the level of completion of projects in progress. The measures that the directors consider could be carried out in order to finance investments in ongoing research and development and meet short-term payment commitments are also disclosed.

In the evaluation carried out by the parent company's directors of the liquidity risk, the situation described in note 43 to the accompanying consolidated annual accounts has been taken into account, indicating that the parent company signed a licensing agreement with Jazz Pharmaceuticals Ireland Limited in December 2019 for the marketing of Lurbinectedin in the USA. This agreement was subject to suspensive clauses that were resolved in January 2020. The above resulted in a non-refundable initial collection of EUR 181 million in January 2020. The agreement envisages additional compliance milestones that, if delivered on, could give rise to additional collections in the future.

We focused on this area as we consider it a key audit matter to assess if the Group 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 consolidated financial statements.

First, we obtained an understanding and evaluated management's forecasting process and the reasonableness of past budgets compared to actual outcomes.

With respect to future year budgets, which include sales of products in different marketing phase and forecast royalty revenues and milestones under current licensing agreements, we assessed the reasonableness of the estimates made in accordance with the available information.

With respect to the licensing agreement between the parent company and Jazz Pharmaceuticals Ireland Limited signed on 19 December 2019, we analysed the terms included in that agreement, including compliance with the suspensive clauses in January 2020 and the collection of EUR 181 million received in January 2020 in respect of a non-refundable initial payment.

Regarding disclosures in the notes, we have concluded that they contains the requirements under *IFRS 7 Financial Instruments: Disclosures* in qualitative and quantitative terms about the liquidity risk.

Based on the procedures carried out, we consider that the assessment performed by Group management concerning the Group's financial capacity is consistent with the information disclosed in the consolidated financial statements.

Key audit matters	How the matters were addressed in the audit
Recognition and recoverability of deferred tax assets	
At 31 December 2019 the Group records in the consolidated balance sheet a net deferred tax asset amounting to EUR 40,984 thousand, as detailed in note 24 to the accompanying consolidated financial statements, recognised based on the tax budgeting exercise performed for the companies that form part of the Spanish tax Group, in accordance with the criterion described in notes 2.T and 4 to the accompanying consolidated financial statements. The main source of information to prepare the projections is the budget provided to the parent company's directors, which includes estimates to 2024. In addition, Group management extends the projections to 2029 based on its best estimates. Note 4 to the accompanying consolidated financial statements indicates that future tax gains take into account the estimated probability of success of each research, based on the current phase of development of the different molecules. The evaluation of both initial recognition and subsequent capacity to recover the deferred tax assets recognised is a complex exercise that requires a high degree of judgement and estimation by management, subject to the risk of significant material misstatement, and so we consider this to be a key audit matter.	We have obtained an understanding and assessed the estimation process carried out by management and the reasonableness of the budgets prepared in the past, compared with real figures. We focused our procedures on assessing the reasonableness of the budgets prepared and the analysis of the model and calculation methodology used by the Group to estimate future tax amounts. With respect to budgets, we analysed their reasonableness and, specifically, for relevant contracts with a significant impact on the projections, we analysed, among other things, the estimation of the product price projected by management based on comparable products that have been approved in the same territory and the incidence of the disease in the market, using external sources. Additionally, we verified that the probabilities of success assigned to each project, based on the current phase of development, are aligned with general practice in the sector. With respect to the information disclosed in the consolidated annual accounts, we assessed that it includes the disclosures required under *IAS 12 Income Taxes*. Based on the procedures described, we consider that the Group's estimates concerning the recognition of deferred tax assets and their disclosure in the accompanying consolidated financial statements are reasonable.

Key audit matters	How the matters were addressed in the audit
Sale of Zelnova Zeltia, S.A.	
As set out in notes 1 and 25 to the accompanying consolidated financial statements, in June 2019 the Group sold 100% of the share capital of its subsidiary Zelnova Zeltia, S.A., that carries out the manufacture and sale of chemical products for domestic and industrial use. As a result of this transaction, the Group recognised a loss of EUR 3,269 thousand. As set out in in notes 1, 2.X and 25 to the accompanying consolidated financial statements, in accordance with *IFRS 5 Non-current assets held for sale and discontinued operations*, the sale of Zelnova Zeltia, S.A. qualifies as a discontinued operation. Therefore the accompanying consolidated income statement shows the operations of the subsidiary Zelnova Zeltia, S.A as discontinued operations in 2019 and 2018. We have considered this a key audit matter since it is a significant transaction in the year and has had a relevant impact on the accompanying consolidated annual accounts.	We analysed the agreement for the sale of the subsidiary signed between the Group and the buyer in order to assess the commitments entered into between the parties and their recognition in the accounts. We verified collection of the price agreed in the contract. Similarly, we analysed the costs incurred inherent in the transaction to verify whether they are allocable to the transaction and should therefore be discounted from the profit obtained. Additionally, we assessed the calculations performed by the Group to obtain the result recognised on the consolidated income statement. With respect to the presentation of the impact of the sale of Zelnova Zeltia, S.A under discontinued operations, we assessed whether the requirements of IFRS 5 are met for the purposes of its correct classification and analysed the reclassification to discontinued operations of transactions in 2019 and 2018 and the disclosures included in note 25 to the accompanying consolidated financial statements. We have no observations to make in relation to the recognition and disclosure of the transaction described in the accompanying consolidated annual accounts.

Other information: Consolidated management report

Other information comprises only the consolidated management report for the 2019 financial year, 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 for the information contained in the consolidated management report is defined in legislation governing the audit practice in Spain, which distinguishes two different levels of responsibility:

a) A specific level applicable to the consolidated statement of non-financial information, as well as certain information included in the Corporate Governance Report, as defined in article 35.2 b) of the Auditing Act 22/2015, which solely requires that we verify whether the aforementioned information has been included in the management report or, where applicable, that the management report includes a reference to a separate statement of non-financial information as stipulated under prevailing regulations, and if not, we are obliged to disclose 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 this 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 verified that the non-financial information mentioned in paragraph a) above has been provided in a separate report, the "Consolidated Statement of Non-Financial Information" referred to in the consolidated management report, that the information in the Corporate Governance Report, mentioned in that paragraph, has been included 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 2019 and its content and presentation are in accordance with 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 aforementioned directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

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

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

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

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

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

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group´s internal control.

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

- Conclude on the appropriateness of the Parent company´s directors´ use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group´s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required 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.

Pharma Mar, S.A. and subsidiaries

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 26, 2020.

Appointment period

The General Ordinary Shareholders' Meeting held on June 26, 2019 appointed us as auditors of the Group for a period of one year, for the year ended December 31, 2019.

Previously, we were appointed by resolution of the General Shareholders' Meeting for an initial period and we have been auditing the accounts uninterruptedly since the year ended 31 December 1996.

Services provided

Services provided to the Group for services other than the audit of the accounts, are detailed in note 41 to the consolidated annual accounts.

PricewaterhouseCoopers Auditores, S.L. (S0242)

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

February 26, 2020

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

as of 31 December 2019

CONSOLIDATED BALANCE SHEET (thousand euro)	Note	31-12-19	31-12-18
ASSETS			
Non-current assets			
Property, plant and equipment	6	22,452	26,637
Investment property	7	845	6,071
Intangible assets	8	6,074	16,658
Right-of-use assets	3	3,345	-
Goodwill	9	-	2,548
Financial assets	10	1,029	884
Deferred tax assets	24	40,984	29,768
		74,729	**82,566**
Current assets			
Inventories	15	8,902	20,616
Trade receivables	13	11,530	23,549
Financial assets at amortized cost	10	3,257	4,131
Other assets	14	8,649	4,069
Cash and cash equivalents	16	17,638	22,745
		49,976	**75,110**
TOTAL ASSETS		**124,705**	**157,676**

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

CONSOLIDATED BALANCE SHEET (thousand euro)	Note	31-12-19	31-12-18
EQUITY			
Share capital	17	11,132	11,132
Share premium account	17	71,278	71,278
Own shares	17	(1,499)	(2,243)
Revaluation reserves and other reserves		15	12
Retained earnings and other reserves		(69,552)	(58,806)
Total capital and reserves attributable to equity-holders of the parent company		**11,374**	**21,373**
Non-controlling interests	19	**(3,918)**	**(3,900)**
TOTAL EQUITY		**7,456**	**17,473**
LIABILITIES			
Non-current liabilities			
Financial debt	23	53,063	64,922
Lease liabilities	3	1,719	-
Deferred revenues	21	1,851	2,120
Other liabilities		177	779
		56,810	**67,821**
Current liabilities			
Supplier and other accounts payable	20	19,332	34,511
Financial debt	23	29,655	28,483
Lease liabilities	3	1,678	-
Provisions for other liabilities and expenses	26	5,734	6,266
Deferred revenues	21	1,465	168
Other liabilities	22	2,575	2,954
		60,439	**72,382**
TOTAL LIABILITIES		**117,249**	**140,203**
TOTAL EQUITY AND LIABILITIES		**124,705**	**157,676**

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

CONSOLIDATED INCOME STATEMENTS (thousand euro)	Note	31-12-19	Restated* 31-12-18
Revenues from contracts with customers:			
Product sales	4 & 27	78,529	79,772
Licensing and development agreements	4 & 27	3,950	24,659
Royalties	4 & 27	3,102	3,916
Services provided		238	424
		85,819	**108,771**
Cost of sales	5	(5,228)	(4,925)
Gross income		**80,591**	**103,846**
Marketing expenses	30	(23,936)	(26,363)
Administrative expenses	29	(13,881)	(12,492)
R&D expenses	28	(50,642)	(73,788)
Net impairment of financial assets	3 & 13	(11)	77
Other operating expenses	29	(10,573)	(8,875)
Other gains/(losses), net	31	966	1,644
Operating profit		**(17,486)**	**(15,951)**
Financial expenses		(4,371)	(4,454)
Financial revenues		203	419
Net financial income	34	**(4,168)**	**(4,035)**
Income before taxes		**(21,654)**	**(19,986)**
Income tax		12,474	2,883
Income from continuing operations		**(9,180)**	**(17,103)**
Discontinued operations			
Income from discontinued operations	25	**(2,217)**	**11,550**
Attributable to equity-holders of the parent company		(2,217)	11,550
Income for the year		**(11,397)**	**(5,553)**
Attributable to:			
Equity-holders of the parent company		(11,379)	(5,535)
Non-controlling interests		(18)	(18)

Euro per share	Note	31-12-19	Restated* 31-12-18
Basic profit/(loss) per share			
- Attributable to equity holders of the parent company		(0.05)	(0.03)
- From continuing operations	35	(0.04)	(0.08)
- From discontinued operations		(0.01)	0.05

(*) Figures restated as a result of deconsolidation of Zelnova Zeltia, S.A., which was reclassified under discontinued operations
The accompanying notes are an integral part of these consolidated financial statements

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (thousand euro)	31-12-19	31-12-18
CONSOLIDATED PROFIT OR LOSS FOR THE YEAR	**(11,397)**	**(5,553)**
ITEMS THAT MAY BE RECLASSIFIED TO PROFIT OR LOSS		
Value change in financial assets at fair value through other comprehensive income	3	(1)
Foreign exchange difference	28	(9)
Other comprehensive income for the year, net of taxes	**31**	**(10)**
Comprehensive income for the year	**(11,366)**	**(5,563)**
Attributable to:		
Equity-holders of the parent company	(11,348)	(5,545)
Non-controlling interests	(18)	(18)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**(11,366)**	**(5,563)**

CONSOLIDATED STATEMENTS OF CHANGES OF 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 31 December 2017	**11,132**	**71,278**	**(4,470)**	**13**	**(51,087)**	**(3,882)**	**22,984**
Change in accounting policy per IAS 9	**-**	**-**	**-**	**-**	**(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:							
- Financial assets at fair value through other comprehensive income (note 12)	-	-	-	(1)	-	-	(1)
- Other revenues and expenses recognized 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 17)	-	-	(3,446)	-	-	-	(3,446)
Shares sold (Note 17)	-	-	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**
Balance as of 1 January 2019	**11,132**	**71,278**	**(2,243)**	**12**	**(58,806)**	**(3,900)**	**17,473**
Fair value gain / (loss), gross:							
- Financial assets at fair value through other comprehensive income (note 12)	-	-	-	3	-	-	3
- Other revenues and expenses recognized directly in equity	-	-	-	-	28	-	28
Other comprehensive income	**-**	**-**	**-**	**3**	**28**	**-**	**31**
2019 income	-	-	-	-	(11,379)	(18)	(11,397)
Comprehensive income for the year	**-**	**-**	**-**	**3**	**(11,351)**	**(18)**	**(11,366)**
Shares purchased (Note 17)	-	-	(7,467)	-	-	-	(7,467)
Shares sold (Note 17)	-	-	7,904	-	596	-	8,500
Value of employee services — Employee share ownership plan (Note 37)	-	-	307	-	23	-	330
Other movements	-	-	-	-	(14)	-	(14)
Balance as of 31 December 2019	**11,132**	**71,278**	**(1,499)**	**15**	**(69,552)**	**(3,918)**	**7,456**

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

CONSOLIDATED CASH FLOW STATEMENTS (thousand euro)	Note	31-12-19	31-12-18
Income before taxes:		**(23,322)**	**(7,689)**
Adjustments for:		**13,188**	**431**
Depreciation and amortization	6,7	6,055	6,375
Impairment of accounts receivable		28	(578)
Fixed asset impairment	6,7	(81)	-
Financial revenues	34	(35)	(764)
Financial expenses	34	3,888	4,136
Income from sale of fixed assets		4	-
Share-based payments		265	795
Deferred revenues - subsidies		(285)	7
(Gain)/Loss on sale of subsidiary	25	3,269	(9,591)
Change in provisions		-	60
Other adjustments to income		80	(9)
Changes in working capital		**(13,582)**	**(13,373)**
Inventories	15	(2,418)	(2,029)
Customer and other receivables	13	(16,521)	3,300
Other assets and liabilities		(2,147)	(21)
Supplier and other accounts payable	20	5,499	551
Deferred and accrued items	21	2,005	(15,174)
Other operating cash flows:		**(2,421)**	**3,805**
Interest paid	34	(2,456)	(4,136)
Interest received	34	35	22
Income tax received/(paid)	24	-	7,919
TOTAL NET OPERATING CASH FLOW		**(26,137)**	**(16,826)**
Investment payments:		**(3,981)**	**(1,908)**
Group and associated undertakings and business units		-	(16)
Property, plant and equipment, intangible assets and investment property	6,7	(3,911)	(1,888)
Other financial assets		(70)	(4)
Divestment receipts:		**36,049**	**24,648**
Group and associated undertakings and business units	25	33,386	21,273
Property, plant and equipment, intangible assets and investment property	6,7	26	43
Other assets		2,637	3,332
TOTAL NET INVESTING CASH FLOW		**32,068**	**22,740**
Receipts and (payments) in connection with equity instruments:		**1,083**	**(660)**
Issuance of equity instruments	17	(14)	-
Acquisition	17	(7,467)	(3,446)
Disposal	17	8,564	2,786
Receipts and (payments) in connection with financial liabilities:		**(12,121)**	**(6,597)**
Loans received	23	4,792	10,231
Loans repaid	23	(16,913)	(16,828)
TOTAL NET FINANCING CASH FLOW		**(11,038)**	**(7,257)**
TOTAL NET CASH FLOW FOR THE YEAR		**(5,107)**	**(1,343)**
Beginning balance of cash and cash equivalents	16	22,745	24,088
ENDING BALANCE OF CASH AND CASH EQUIVALENTS		**17,638**	**22,745**

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 2019
(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 subsidiaries in the diagnostics and interference RNA area, and subsidiaries whose object is to commercialize oncology products in Europe.

Until June 2019, the Group had a business line focused on chemical products for consumers, which it has disinvested in the last two years.

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

Yondelis®

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.

Aplidin®

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 dexamethasone. 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.

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) in Europe for treating multiple myeloma. The Company filed a case with the General Court of the European Union against the European Commission, requesting annulment of the final decision; a hearing has been scheduled for March 2020.

Lurbinectedin

Although at year-end company had not begun to sell its other products, which are all in the research and development phase, in December 2019 the Group filed a new drug application (NDA) for accelerated approval with the FDA for Lurbinectedin as monotherapy for treating patients with relapsed small-cell lung cancer; a decision is expected in the coming months.

On 19 December 2019, PharmaMar and Jazz Pharmaceuticals Ireland Limited (hereinafter "Jazz Pharmaceuticals") signed an exclusive licensing agreement for marketing anti-tumor compound Lurbinectedin in the US to treat relapsed small-cell lung cancer. The entry into force of the agreement was conditional upon approval by the US anti-trust authorities under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended; that authorization was issued on 21 January 2020. Under the contract terms, PharmaMar collected a non-refundable upfront payment of USD 200 million (€181 million) in January 2020, and it may receive additional payments of up to USD 250 million for achieving regulatory milestones, if the FDA grants accelerated and/or full approval for Lurbinectedin by specific deadlines. Additionally, PharmaMar may collect up to USD 550 million for achieving sales targets, as well as royalties on net sales of Lurbinectedin.

In January 2018, the results of the CORAIL trial conducted by PharmaMar with Lurbinectedin in relapsed ovarian cancer were announced. Although the compound evidenced activity, the trial did not reach its primary end-point, namely to improve progression-free survival (PFS). Consequently, Chugai Pharmaceutical Co. Ltd., with which PharmaMar had signed a licensing, development and marketing agreement in December 2016 for Lurbinectedin in the territory of Japan, gave notice to PharmaMar that it was exercising its right to terminate. The two companies reached an agreement for early termination in June 2018.

As of 31 December 2019, PharmaMar continued to develop its other products.

Consolidation scope

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.

On 26 May 2019, the company's Board of Directors approved the signature of an agreement for the sale of 100% of Zelnova Zeltia S.A. to the companies Allentia Invest, S.L. and Safoles, S.A. (together, the "Buyer"), which are owned directly and indirectly by, among others, Mr. Pedro Fernández Puentes, a director of PharmaMar, and parties related to him. The Board of Directors resolved to submit the authorization to the Shareholders' Meeting. By doing so, it complied with the provisions of article 230 of the Capital Companies Act with regard to shareholders waiving the prohibition on the company transacting with its directors, and also with article 160.f) of the

Capital Companies Act, regarding shareholder approval for the sale of assets considered to be essential to the Company. Completion of the transaction and, consequently, the Company's commitment to sell and transfer the shares of Zelnova Zeltia, S.A. to the Buyer was conditional upon that authorization by the Shareholders' Meeting. Once the shareholders had authorized the transaction, the sale was completed on 28 June 2019. The total consideration received from the Buyer was €33,417 thousand, paid in cash upon completion.

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 €21,776 thousand, calculated net of cash and debt.

Under IFRS 5 "Non-current assets classified as held for sale and discontinued operations", Zelnova Zeltia, S.A. and Xylazel, S.A. were classified as discontinued operations. As a result, these consolidated financial statements present the operations of Zelnova Zeltia, S.A., which was sold in June 2019, under discontinued operations in both 2019 and 2018, and Xylazel, sold in September 2018, under discontinued operations in 2018 (Note 25).

Genómica S.A.U. established a subsidiary in China in January 2018. The company Genómica Brasil Consultoria e Intermediaçao Ltda was liquidated in October 2019.

The list of the consolidated Group's subsidiaries as of 31 December 2019 is as follows:

Name	Registered offices	Stake		
		Direct	Indirect	Total
Genómica, S.A.U.	Vía 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 (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 Ordas, 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 – 92 100 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 (**)	5 New Street Square London, United Kingdom EC4A 3TW	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 Ordas, 3 Madrid, Spain	73.00%	-	73.00%

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

(**) In liquidation.

Below is a list of the Group's subsidiaries and the firms that audited their 2019 financial statements:

Name and domicile	Statutory audit
Genómica, S.A.U.	Yes - KPMG
Genómica, A.B.	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 - PwC
Pharma Mar, Ltd	No
Pharma Mar, Sprl	Yes - PwC
Pharma Mar Ges.m.b.H	No
Noscira, S.A. en liquidación	No

A / Description of subsidiaries

The principal activity of the Group companies, all of which were fully consolidated as of 31 December 2019 and 2018, is as follows:

- Genómica, S.A.U. (Genómica): Development and marketing of diagnostic applications and related services.
- Zelnova Zeltia, S.A. (Zelnova Zeltia): Manufacture and marketing of domestic and industrial insecticides and air fresheners. Zelnova Zeltia was sold and deconsolidated in June 2019.
- 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. Copyr S.p.A., which was wholly owned by Zelnova Zeltia, was sold and deconsolidated in June 2019.
- 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. The company was liquidated in October 2019.
- 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 2019 and those for 2018 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 financial assets at fair value through other comprehensive income 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 2019 are consistent with those used to prepare the consolidated financial statements for the year ended 31 December 2018, except for the entry into force of IFRS 16. The material estimates made in the 2019 financial statements are also consistent with those made in the 2018 financial statements. The 2018 column presented for comparison purposes in the income statement was restated to reflect the effect of classifying Zelnova Zeltia as a discontinued operation as a result of its deconsolidation in June 2019.

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 2019

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.

- IFRS 16 - "Leases"

This note details the impact of adopting IFRS 16 in the Group's consolidated financial statements and describes the new accounting policies that have been applied since 1 January 2019.

The Group adopted IFRS 16 retroactively as of 1 January 2019 but did not restate the comparative figures for the previous period, as allowed by the transitional arrangements under the standard. Accordingly, reclassifications and adjustments arising from the new standard on finance leases are recognized in the balance sheet as of 1 January 2019.

Right-of-use assets in connection with leases relate to the following classes of assets:

RIGHT-OF-USE ASSETS IN CONNECTION WITH LEASES (thousand euro)	31-12-19	01-01-19
Offices, premises, warehouses	1,719	3,155
Vehicles	1,432	1,428
Laboratory equipment	184	453
Computer hardware	10	12
TOTAL RIGHT-OF-USE ASSETS (*)	**3,345**	**5,048**

(*) The difference between periods in the right-of-use assets in connection with leases is mainly due to the fact that Zelnova Zeltia was still part of the Group as of 1 January 2019.

As of 1 January 2019, a financial lease liability was recognized for the same amount as the right-of-use assets in connection with leases.

On adopting IFRS 16, the Group recognized lease debt in relation to leases that had previously been classified as operating leases in accordance with the principles of IAS 17 Leases. Those liabilities were measured at the present value of the outstanding lease payments, discounted using the lessee's incremental borrowing rate applied to lease liabilities as of 1 January 2019.

In the case of leases previously classified as finance leases, the entity recognized the carrying amount of the asset and the lease liability immediately before the transition as the carrying amount of the right-of-use asset in the lease and the lease debt on the date of initial application.

No adjustments were recognized as of 1 January 2019 as a result of the adoption of the new standard.

i. Impact on segment disclosures

Adjusted EBITDA, assets and liabilities of the segments as of 31 December 2019 increased as a result of application of the new standard. The following table shows that impact in the various segments:

IMPACT OF IFRS 16 (thousand euro)	Adjusted EBITDA	Assets, by segment	Liabilities, by segment
Oncology	1,590	2,929	2,962
Diagnostics	334	183	185
RNAi	139	247	250
GROUP TOTAL	**2,063**	**3,359**	**3,397**

The Group leases a number of offices, warehouses, items of equipment and automobiles. The leases are normally for fixed terms ranging from 3 to 8 years, and may contain extension options. The lease conditions are negotiated individually and their terms and conditions vary considerably. The lease terms do not impose any commitments on the Group and the leased assets cannot be used as collateral for loans.

Through 31 December 2018, leases of property, plant and equipment were classified as operating leases. Operating lease payments (net of any incentive received from the lessor) are recognized in consolidated profit or loss on a straight-line basis over the lease term.

From 1 January 2019, leases are recognized as a right-of-use asset and a lease liability on the date

the leased asset is available for use by the Group. Each lease payment is split into a liability and a financial charge. The interest part is expensed over the lease term so as to produce a constant periodic interest rate on the outstanding balance of the liability in each period. The right-of-use asset is amortized on a straight-line basis over the asset's useful life or the lease term, whichever is shorter.

Assets and liabilities derived from leases are initially measured on the basis of present value. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments) less any outstanding lease incentive.
- variable lease payments depending on an index or a rate.

Lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee's incremental borrowing rate is used, i.e. the rate that the lessee would have to pay to borrow the funds required to acquire an asset of similar value in a similar economic environment in similar conditions.

Right-of-use assets are measured at cost, comprising the initial measurement of the lease liability.

Payments for short-term leases and leases of low-value assets are expensed on a straight-line basis. Leases for 12 months or less are classified as short-term leases. Computer hardware and small items of office furniture are classified as low-value assets.

ii. Extension and termination options

Some leases for offices and equipment contain extension or early termination options. Those options can be exercised at the election of the Group, not of the respective lessor.

- IFRIC 23 - Uncertainty over Income Tax Treatments

  This Interpretation provides guidance on accounting for current and deferred tax liabilities and assets in circumstances where there is uncertainty about the income tax treatment. The Interpretation is effective for annual periods beginning on or after 1 January 2019.

  The adoption of this interpretation did not have a material impact on the Group's consolidated financial statements.

- IFRS Annual Improvements Cycle 2015 – 2017: The amendments affect IFRS 3, IFRS 11, I AS 12 and IAS 23 and 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".

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 authorizing 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 standards may be applicable:

- IFRS 10 (Amendment).
- IAS 28 (Amendment) “Sale or Contribution of Assets between an Investor and its Associate or Joint Venture”.
- IFRS 3 (Amendment) “Definition of a business”.
- IAS 1 (Amendment) “Classification of Liabilities as Current or Non-Current”.

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 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 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 Genómica, AB, the Swedish subsidiary, their functional currencies in 2019 and 2018 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 2019. 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 financial assets at fair value through other comprehensive income 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

The property comprises mainly the buildings and installations of the parent company in Colmenar Viejo, Madrid (PharmaMar). As of 2018 year-end, property, plant and equipment also included the items in Porriño (Pontevedra) relating to Zelnova Zeltia, which was sold in June 2019. 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.

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 the 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 there are solid grounds for assuming technical success once the compound reaches Phase I clinical trials, in accordance with the criteria traditionally applied by the Company; in the Group's consolidated financial statements, they are recognized 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.

For the purposes of subsequent remeasurement:

- *Impairment is assessed during the year-end close or whenever progress with projects gives any indication of impairment or there are doubts about fulfillment of the conditions for capitalization. As of 31 December 2019, that assessment did not*

result in the derecognition or impairment of any developments. As of 31 December 2018, that assessment resulted in the derecognition and impairment of the developments set out in Note 6.1.

- *Annual assessments of the recoverability of the amounts capitalized in ongoing development projects, which include, among others, (i) assessment of the recoverability of the compound based on the fair value of the contracts, or (ii) assessment of the recoverability of the asset based on the Company's specific business plans for the molecule.*

Measurement of research and development projects

Where projects are carried out with the company's own resources, they are measured at production cost and 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 (generally 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. 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 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 recognized 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

Since 1 January 2018, the group measures on a prospective basis the expected credit losses associated with its assets at amortized cost and at fair value through other comprehensive income. 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).

K / Derivatives and hedging

Derivatives are recognized 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

The Group leases a number of offices, warehouses, items of equipment and automobiles. The leases are normally arranged for fixed terms between 6 months and 4 years.

The contracts may contain lease and non-lease components. The Group assigns the consideration in the contract to the lease and non-lease components based on their independent relative prices. However, for leases of properties in which the Group is a lessee, it has chosen not to separate the lease and non-lease components and, instead, accounts for them as a single lease component.

The lease conditions are negotiated individually and their terms and conditions vary considerably. The leases do not impose any covenants other than the lessor's rights in rem over the leased assets. Leased assets cannot be used as collateral for indebtedness purposes.

Through 2018, leases of property, plant and equipment were classified as finance or operating leases. From 1 January 2019, leases are recognized as a right-of-use asset and a corresponding liability on the date the leased asset is available for use by the Group.

Assets and liabilities derived from leases are initially measured on the basis of present value. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments) less any outstanding lease incentive.
- variable lease payments depending on an index or rate, initially measured according to the index or rate on the initial date.
- amounts expected to be paid by the Group as residual value guarantees.
- the strike price of a purchase option if the Group is reasonably certain that it will exercise that option, and
- payment of lease termination penalties, if the Group has the choice of terminating under the lease terms.

Lease payments to be made under reasonably certain extension options are also included when measuring the liability.

Lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case in the Group's leases, the lessee's incremental borrowing rate is used, i.e. the rate that the individual lessee would have to pay to borrow the funds required to acquire an asset of similar value to the right-of-use asset in a similar economic environment in similar terms, guarantees and conditions.

To determine the incremental borrowing rate, the Group calculates its risk premium each year and applies the following indices for each functional currency:

EUR: EURIBOR
USD: LIBOR
SEK: STIBOR

Moreover, since each lease has a different term, the variable references (EURIBOR, LIBOR and STIBOR) are replaced by the swap rate at each expiration date. In this way, each contract has a different discount rate that is adapted to its term but always calculated on the basis of the same risk premium.

The Group is exposed to potential future increases in variable lease payments based on an index or rate, which are not included in the lease liability until they take effect. When adjustments to lease payments based on an index or rate take effect, the lease liability is re-measured and adjusted against the right-of-use asset.

Lease payments are split between the principal and the interest cost. The interest cost is expensed over the lease term so as to produce a constant periodic interest rate on the outstanding balance of the liability in each period.

Right-of-use assets are measured at cost, comprising:

- the amount of the initial measurement of the lease liability
- any lease payment made on or before the initial date, less any lease incentive received
- any initial direct cost, and
- restoration costs.

Right-of-use assets are generally amortized on a straight-line basis over the asset's useful life or the lease term, whichever is shorter. If the Group is sure that it will exercise the purchase option, the right-of-use asset is amortized over the asset's useful life.

Payments for short-term leases of machinery and equipment and all leases of low-value assets are expensed on a straight-line basis. Leases for 12 months or less are classified as short-term leases. Leases of low-value assets include computer hardware and small items of office furniture.

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 “Own shares”, deducting equity attributable to the parent company’s equity holders until cancelation, 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 Own 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 gains”.

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, differs 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 with a 20% discount on the tax payable, subject to certain conditions. The Company recognizes this tax incentive for investment as a tax revenue at the time that it is considered to be assured, which normally coincides with the date on which there is certainty that it will be collected.

U / Employee benefits

i. 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.

ii. 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 date, 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 for 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 cancelation 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 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 bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

i. Sales of products

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.

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

Compound development phase:

- Upfront payments collected by PharmaMar, which are generally non-refundable.
- Milestone payments, triggered when the compound to which the agreement refers 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.

In the event that the conditions are not met, they are recognized as deferred revenues.

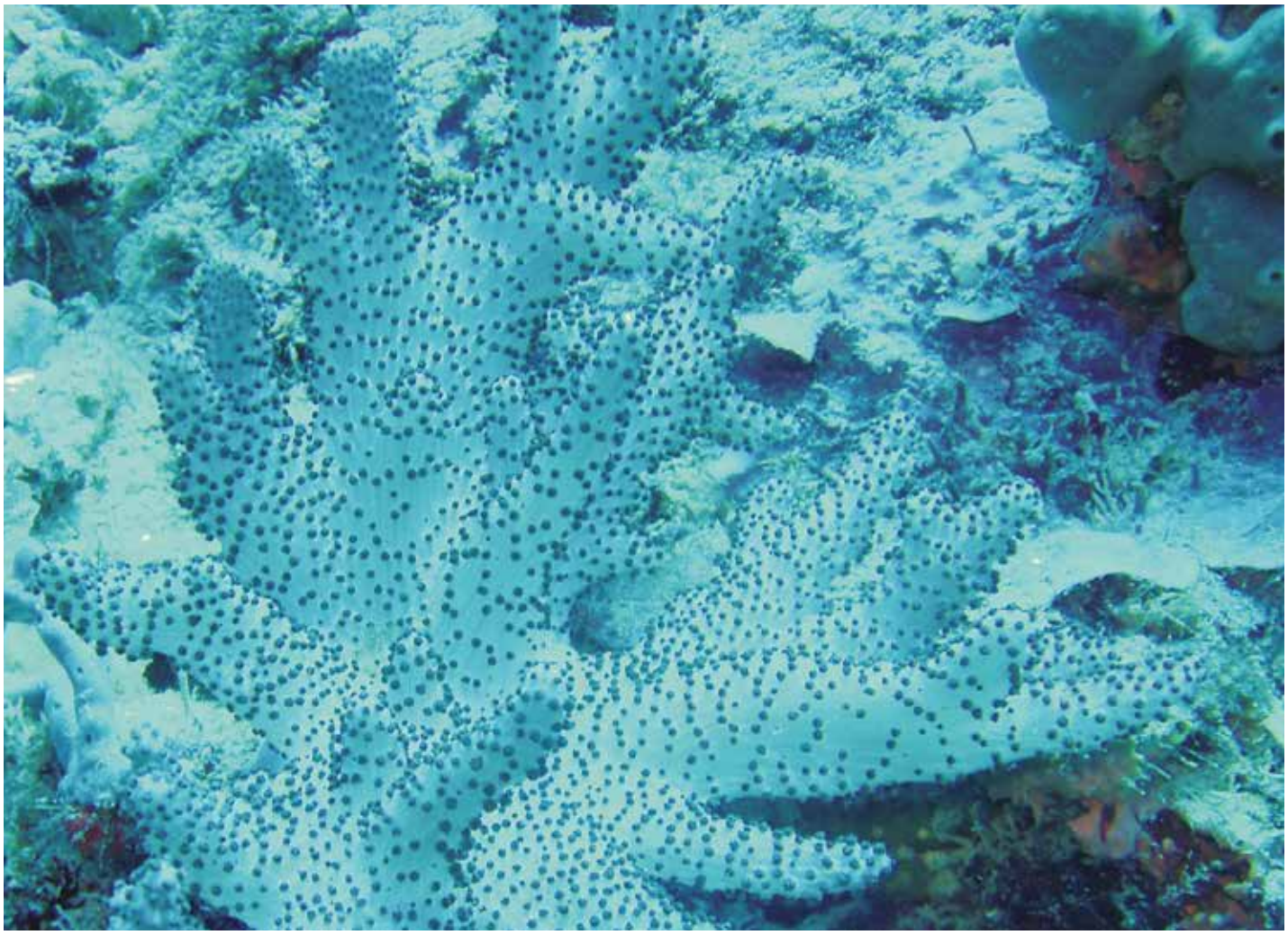
Deferred revenues are recognized in profit or loss over the term of the related commitments as a function of the degree of progress of the project, as the obligations set out in the contract are met.

Additionally, any consideration linked to fulfillment of certain technical or regulatory requirements (milestones) in the framework of cooperation agreements with third parties is 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 aforementioned variable consideration, amounts are also received for achieving milestones, which are recognized using the "most likely" method.

There are also royalties; these items are recognized when it is highly likely that the recognized revenues will not have to be adjusted in the future. Royalties are based on the partner's actual sales, considering also that the intellectual property license is the principal item to which the royalty refers.

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 is 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.

When an operation is classified as discontinued, the comparative consolidated profit and loss account and the comparative consolidated statement of cash flows are restated as if the operation had been discontinued since the beginning of the comparison year.

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 risk, interest rate risk, liquidity risk, the use of derivatives and non-derivatives, and investment of surplus liquidity.

A / Market risk

i. Exchange rate risk

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

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

Mainly, they relate to licensing and development agreements in US dollars amounting to €9,482 thousand in 2019 and €11,023 thousand in 2018. Group management did not consider it necessary to establish a hedging policy in 2019 and 2018.

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 2019, 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 €68 thousand (€158 thousand in 2018), mainly as a result of translation into euro of trade and other receivables and debt denominated in US dollars. If, as of 31 December 2019, 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 €71 thousand (€166 thousand in 2018).

ii. Interest rate risk on cash flows and fair values

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

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

With respect to financial liabilities, as of 31 December 2019, interest rate risk was basically due to the Group's bank debt, of which approximately 59% (the same as of 31 December 2018) is at floating rates indexed to Euribor. As of 31 December 2019, bank debt amounted to €39,658 thousand (€50,109 thousand as of 31 December 2018).

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 2019, 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 €187 thousand lower (€163 thousand in 2018).

iii. Price risk

The Group is exposed to price risk on equity instruments classified as financial assets at fair value through other comprehensive income, and on the price of mutual fund units at fair value through profit or loss.

The investments in equity instruments classified as financial assets at fair value through other comprehensive income are shares 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 2019 and 2018 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 2019, the Group had government bonds and bank products and balances at five credit institutions amounting to €20,606 thousand (€22,889 thousand at three institutions in 2018).

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.
- 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.

Then, the CDS curve for pharmaceutical companies for the rating in question was obtained from Bloomberg 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 losses expected 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 honor 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 incurred loss 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 insolvent 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 (€20,895 thousand in 2019, €26,876 thousand in 2018) less short-term borrowings (€29,655 thousand in 2019, €28,483 thousand in 2018), was negative in the amount of €8,760 thousand at the end of 2019 (negative in the amount of €1,607 thousand in 2018).

Long-term interest-bearing debt amounted to €53,063 thousand (€64,922 thousand in 2018), of which €21,223 thousand (€24,142 thousand in 2018) 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.

The Group generated negative operating cash flow amounting to €26.1 million in 2019 and €16.8 million in 2018, mainly due to the intensive capital expenditure on R&D in both years (€50 and €73 million, respectively — Note 28).

The following should be noted in connection with the Group's liquidity position at 2019 year-end:

- The Group ended 2019 with cash and cash equivalents plus current financial assets amounting to €20,895 thousand.
- The Group had unused credit lines in the amount €2,116 thousand as of 31 December 2019.
- Working capital is negative in the amount of €10,465 thousand.

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 for the following year, including a

range of scenarios for the source and application of funds, based on progress with ongoing research.

As indicated in Note 43, in January 2020 the Company received the non-refundable upfront payment in the amount of USD 200 million (€181 million) corresponding to the exclusive License Agreement signed with Jazz Pharmaceuticals on 19 December 2019 for the commercialization of Lurbinectedin in the United States. The entry into force of the agreement was conditional upon approval by the US anti-trust authorities. That authorization was issued on 21 January 2020, at which time the Agreement took effect.

Under that Agreement, the Company may receive a payment of USD 100 million from Jazz Pharmaceuticals in the second half of 2020 for obtaining conditional approval of Lurbinectedin from the FDA. The payment could amount to USD 250 million if full approval is obtained.

The directors estimate that R&D expenditure in 2020 will be similar to 2019 and that the other operating expenses will not increase significantly.

Consequently, when authorizing these consolidated financial statements, the directors of PharmaMar believe the Group has ample liquidity to cover its research and development projects and fulfill its future payment commitments.

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.

	31-12-19				
FINANCIAL LIABILITIES, BY MATURITY (thousand euro)	**2020**	**2021-2022**	**2023-2025**	**2026 and thereafter**	**Total**
Bank debt and other interest-bearing debt	11,844	15,358	4,441	18,619	**50,262**
Debt to official authorities	5,616	10,337	10,135	4,377	**30,465**
Finance lease liabilities	1,759	1,274	429	127	**3,589**
Suppliers	16,471	-	-	-	**16,471**
Other accounts payable	2,862	-	-	-	**2,862**
TOTAL LIABILITIES	**38,552**	**26,969**	**15,005**	**23,123**	**103,649**

	31-12-18				
FINANCIAL LIABILITIES, BY MATURITY (thousand euro)	**2019**	**2020-2021**	**2022-2024**	**2025 and thereafter**	**Total**
Bank debt and other interest-bearing debt	26,325	19,719	9,586	19,429	**75,059**
Debt to official authorities	2,980	10,590	12,085	5,352	**31,007**
Suppliers	31,231	-	-	-	**31,231**
Other accounts payable	2,195	10	-	-	**2,205**
TOTAL LIABILITIES	**62,731**	**30,319**	**21,671**	**24,781**	**139,502**

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 consolidated 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)	31-12-19	31-12-18
Long-term interest-bearing debt	(53,063)	(64,922)
Short-term interest-bearing debt	(29,655)	(28,483)
Cash and cash equivalents	17,638	22,745
Non-current and current financial assets	4,286	5,015
Equity	(7,456)	(17,473)
TOTAL CAPITAL	**(68,250)**	**(83,118)**
Leverage	**89.08%**	**78.98%**

The increase in leverage is due mainly to the decrease in equity as a result of the losses in 2019.

3.3 / Fair value estimates

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

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

The table below presents the Group's assets and liabilities at fair value as of 31 December 2019:

FAIR VALUE ESTIMATES 2019 (thousand euro)	Level 1	Level 3	Total
Loans and receivables			
- Term financial assets (Note 10)	-	302	**302**
Financial assets at fair value through other comprehensive income			
- Equity securities, net (Note 12)	28	-	**28**
TOTAL ASSETS	**28**	**302**	**330**

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**
Financial assets at fair value through other comprehensive			
- Equity securities, net (Note 12)	24	-	**24**
TOTAL ASSETS	**24**	**320**	**344**

The fair value of financial instruments that are traded in an active market is determined by the market price on the balance sheet date. A financial instrument is considered to be quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency, and those prices represent actual and market transactions occurring regularly 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 Group 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 tax 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 2029 are included for PharmaMar, and through 2024 for Genómica and Sylentis.
- The information for preparing the tax plan is the budget presented to the Board of Directors, which includes projections through 2024, extended to 2029 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 11.5% growth in sales in the Oncology segment. That growth is due mainly to the good prospects for Lurbinectedin, a product currently under development.
  - Average 6.0% sustained growth in operating expenses in the Oncology segment.

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:

- A 1% increase in the probability assigned to revenues from Phase III research would result in the recognition of an additional €1,228 thousand.
- A 5% reduction in the estimated price for the main research compound (Lurbinectedin) would result in the derecognition of €3,332 thousand.
- A 1-year delay in sales of the main compound under development, Lurbinectedin, would result in derecognition of €6,876 thousand.
- A 10% loss of market share for the main compound under development, Lurbinectedin, would result in derecognition of €5,300 thousand.

Note 24 details the assets recognized by the Group as of 31 December 2019 and 2018 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. As of 31 December 2018, the Group owned certain trademarks acquired in prior years in the Consumer Chemicals segment (specifically, brands of cleaning products and insecticides with an established market presence) amounting to €9,786 thousand that were not being amortized and were subject to an annual impairment test since Group management considered that they had an indefinite useful life. Also, as of 31 December 2018, the Group had goodwill with a carrying amount of €2,548 thousand as a result of the acquisition of Copyr, S.p.A., also in the Consumer Chemicals segment. (Note 9). The companies that made up the Consumer Chemicals segment (Zelnova Zeltia and Copyr) were sold in June 2019; consequently, the intangible assets and goodwill referred to in this note have not formed part of the Group's assets since that date.

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's products, the services it provides, 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 because it eliminates the tax effect. In the case of the PharmaMar group, the tax item often 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 in which the operating segments provide this information to the Board of Directors on a regular basis.

- Transactions between the operating segments are not material in 2019 and 2018.

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 the chemicals business 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 2019 and 2018 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 operated in this segment are Zelnova Zeltia, S.A. and Copyr, S.p.A. As indicated in note 1, Zelnova Zeltia, owner of 100% of the shares of Copyr, was sold on 28 June 2019 once authorization had been obtained from the shareholders. Therefore, in the segment information shown below, the results of Zelnova Zeltia and Copyr are shown under “Income from discontinued operations” in the consolidated income statement for the years ended 31 December 2019 and 2018.

Also, 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 as of 31 December 2018 under the heading “Income from discontinued operations”.

Income statement information by reporting segment for the year ended 31 December 2019 is as follows:

	Biopharmaceuticals			Consumer chemicals		
SEGMENT INCOME 2019 (thousand euro)	**Oncology**	**Diagnostics**	**RNAi**	**Discontinued operations**	**Unallo-cated**	**Group**
Revenues	80,074	5,745	-	-	-	85,819
Cost of sales	(2,766)	(2,462)	-	-	-	(5,228)
Other operating revenues / Other net gains	894	50	11	-	-	955
R&D expenses	(45,673)	(2,060)	(2,909)	-	-	(50,642)
Other expenses	(33,919)	(3,754)	(377)	-	(10,340)	(48,390)
Net operating income	**(1,390)**	**(2,481)**	**(3,275)**	**-**	**(10,340)**	**(17,486)**
Net financial income	**(3,424)**	**(406)**	**(338)**	**-**	**-**	**(4,168)**
Income before taxes	**(4,814)**	**(2,887)**	**(3,613)**	**-**	**(10,340)**	**(21,654)**
Corporate income tax (expense)/revenue	12,390	(8)	92	-	-	12,474
Income from continuing operations	**7,576**	**(2,895)**	**(3,521)**	**-**	**(10,340)**	**(9,180)**
Income from discontinued operations	**-**	**-**	**-**	**(2,217)**	**-**	**(2,217)**
Equity-holders of the parent company	7,576	(2,895)	(3,521)			
Income from continuing operations (1)	7,576	(2,895)	(3,521)			
Corporate income tax (expense)/revenue (2)	(12,390)	8	(92)			
Financial income (3)	3,424	406	338			
Depreciation and amortization (4)	6,790	1,027	218			
Fixed asset impairment losses (5)	(81)	-	-			
Impairment and changes in trade provisions (6)	15	4	-			
Adjusted EBITDA (1)+(2)+(3)+(4)+(5)+(6)	**5,334**	**(1,450)**	**(3,057)**			

Assets and liabilities by reporting segment as of 31 December 2019 are presented as supplementary information:

	Biopharmaceuticals				
SEGMENT ASSETS AND LIABILITIES 2019 (thousand euro)	**Oncology**	**Diagnostics**	**RNAi**	**Unallo-cated**	**Group**
Non-current assets	70,674	3,256	799	-	**74,729**
Current assets	43,673	2,405	2,386	1,512	**49,976**
Non-current liabilities	51,211	804	4,795	-	**56,810**
Current liabilities	56,100	2,687	1,444	208	**60,439**
Investment in fixed assets	3,582	328	9	-	**3,919**

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

	Biopharmaceuticals			Consumer chemicals		
SEGMENT INCOME 2018 (thousand euro)	**Oncology**	**Diagnostics**	**RNAi**	**Discontinued operations**	**Unallo-cated**	**Group**
Revenues	102,754	5,891	-	-	126	**108,771**
Cost of sales	(2,114)	(2,811)	-	-	-	**(4,925)**
Other operating revenues / Other net gains	1,703	(16)	34	-	-	**1,721**
R&D expenses	(63,742)	(4,941)	(5,105)	-	-	**(73,788)**
Other expenses	(35,612)	(4,596)	(230)	-	(7,292)	**(47,730)**
Net operating income	**2,989**	**(6,473)**	**(5,301)**	**-**	**(7,166)**	**(15,951)**
Net financial income	**(3,523)**	**(191)**	**(321)**	**-**	**-**	**(4,035)**
Income before taxes	**(534)**	**(6,664)**	**(5,622)**	**-**	**(7,166)**	**(19,986)**
Corporate income tax (expense)/revenue	2,789	(7)	101	-	-	**2,883**
Income from continuing operations	**2,255**	**(6,671)**	**(5,521)**	**-**	**(7,166)**	**(17,103)**
Income from discontinued operations	**-**	**-**	**-**	**11,550**	**-**	**11,550**
Equity-holders of the parent company	2,255	(6,671)	(5,521)			
Income from continuing operations (1)	2,255	(6,671)	(5,521)			
Corporate income tax (expense)/revenue (2)	(2,789)	7	(101)			
Financial income (3)	3,523	191	321			
Depreciation and amortization (4)	5,570	691	114			
Fixed asset impairment losses (5)	-	-	-			
Impairment and changes in trade provisions (6)	(4)	114	-			
Indemnities (7)	2,486	-	-			
Adjusted EBITDA (1)+(2)+(3)+(4)+(5)+(6)+(7)	**11,041**	**(5,668)**	**(5,187)**			

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			Consumer chemicals		
SEGMENT ASSETS AND LIABILITIES 2018 (thousand euro)	**Oncology**	**Diagnostics**	**RNAi**	**Discontinued operations**	**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**

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 2019, there were no material transactions between reporting segments, and no goodwill impairment losses were recognized.

In 2019 and 2018, the Group recognized losses due to impairment of inventories and trade accounts receivable amounting, respectively, to €9 thousand and €170 thousand, mainly in the Diagnostics and Consumer Chemicals segments in 2018.

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

NON-CURRENT ASSETS (thousand euro)	**31-12-19**	**31-12-18**
Spain	29,177	48,310
Rest of the European Union	194	1,056
	29,371	**49,366**

Most of the Group's sales are made in Spain and other European Union countries. The euro area accounted for 88.6% of total sales in 2019 (80.2% in 2018).

The reduction in non-current assets shown in the table above is due mainly to the Group's abandonment of the Consumer Chemicals business. Almost all the investment in property, plant and equipment, intangible assets and investment property in 2019 and 2018 was concentrated in Spain.

The following tables show 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 2019.

REVENUES BY SEGMENT IN 2019 (thousand euro)	Oncology	Diagnostics	Total
Product sales	91,592	5,507	**97,099**
Returns, discounts	(18,570)	-	**(18,570)**
Licensing and co-development agreements	3,950	-	**3,950**
Royalties	3,102	-	**3,102**
Other revenues	-	238	**238**
TOTAL REVENUES FROM CONTRACTS WITH CUSTOMERS	**80,074**	**5,745**	**85,819**
Geographies			
Spain	14,486	3,666	**18,152**
Italy	20,643	51	**20,694**
Germany	16,485	-	**16,485**
Rest of the European Union	19,726	947	**20,673**
Japan	615	-	**615**
United States	2,389	-	**2,389**
Other	5,730	1,081	**6,811**
TOTAL REVENUES FROM CONTRACTS WITH CUSTOMERS	**80,074**	**5,745**	**85,819**
Point of recognition of revenues			
At a point in time	76,874	5,745	**82,619**
Over a period of time	3,200	-	**3,200**
TOTAL REVENUES FROM CONTRACTS WITH CUSTOMERS	**80,074**	**5,745**	**85,819**

REVENUES BY GEOGRAPHY IN 2019 (thousand euro)	Spain	Italy	Germany	Rest of the European Union	Japan	United States	Other	Total
Product sales	18,474	22,127	18,141	35,305	-	69	2,983	**97,099**
Returns, discounts	(560)	(1,433)	(1,656)	(14,632)	-	(167)	(122)	**(18,570)**
Licensing and co-development agreements	-	-	-	-	-	-	3,950	**3,950**
Royalties	-	-	-	-	615	2,487	-	**3,102**
Other revenues	238	-	-	-	-	-	-	**238**
TOTAL REVENUES FROM CONTRACTS WITH CUSTOMERS	**18,152**	**20,694**	**16,485**	**20,673**	**615**	**2,389**	**6,811**	**85,819**

REVENUES BY SEGMENT IN 2018 (thousand euro)	Oncology	Diagnostics	Unallo-cated	Total
Product sales	92,572	5,593	-	**98,165**
Returns, discounts	(18,393)	-	-	**(18,393)**
Licensing and co-development agreements	24,659	-	-	**24,659**
Royalties	3,916	-	-	**3,916**
Other revenues	-	298	126	**424**
TOTAL REVENUES FROM CONTRACTS WITH CUSTOMERS	**102,754**	**5,891**	**126**	**108,771**
Geographies				
Spain	14,000	3,597	126	**17,723**
Italy	19,201	108	-	**19,309**
Germany	14,833	7	-	**14,840**
Rest of the European Union	26,928	828	-	**27,756**
Japan	18,659	-	-	**18,659**
United States	7,481	-	-	**7,481**
Other	1,652	1,351	-	**3,003**
TOTAL REVENUES FROM CONTRACTS WITH CUSTOMERS	**102,754**	**5,891**	**126**	**108,771**
Point of recognition of revenues				
At a point in time	87,432	5,891	126	**93,449**
Over a period of time	15,322	-	-	**15,322**
TOTAL REVENUES FROM CONTRACTS WITH CUSTOMERS	**102,754**	**5,891**	**126**	**108,771**

REVENUES BY GEOGRAPHY IN 2018 (thousand euro)	Spain	Italy	Germany	Rest of the European Union	Japan	United States	Other	Total
Product sales	17,828	20,641	16,394	40,675	-	38	2,589	**98,165**
Returns, discounts	(529)	(1,332)	(1,554)	(14,919)	-	-	(59)	**(18,393)**
Licensing and co-development agreements	-	-	-	2,000	18,112	4,074	473	**24,659**
Royalties	-	-	-	-	547	3,369	-	**3,916**
Other revenues	424	-	-	-	-	-	-	**424**
TOTAL REVENUES FROM CONTRACTS WITH CUSTOMERS	**17,723**	**19,309**	**14,840**	**27,756**	**18,659**	**7,481**	**3,003**	**108,771**

6 / PROPERTY, PLANT AND EQUIPMENT

The breakdown of, and changes in, this caption in 2019 and 2018 are as follows:

PROPERTY, PLANT AND EQUIPMENT (thousand euro)	31-12-18	Recognitions	Derecognitions	Reclassifications and transfers	Exchange rate effect	31-12-19
Land and structures	24,540	35	(2,585)	-	-	21,990
Technical installations and machinery	31,834	375	(10,918)	453	(8)	21,736
Other installations, tools and furniture	21,242	45	(1,403)	651	-	20,535
Advances & construction in progress	1,166	416	(280)	(1,107)	-	195
Other property, plant & equipment	2,931	153	(374)	3	-	2,713
Provisions	(1,288)	-	81	-	-	(1,207)
Cost	**80,425**	**1,024**	**(15,479)**	**-**	**(8)**	**65,962**
Structures	(9,636)	(725)	1,983	-	-	(8,378)
Technical installations and machinery	(24,500)	(1,022)	8,854	-	7	(16,661)
Other installations, tools and furniture	(17,264)	(600)	1,607	-	-	(16,257)
Other property, plant & equipment	(2,388)	(218)	392	-	-	(2,214)
Accumulated depreciation	**(53,788)**	**(2,565)**	**12,836**	**-**	**7**	**(43,510)**
PROPERTY, PLANT AND EQUIPMENT	**26,637**	**(1,541)**	**(2,643)**	**-**	**(1)**	**22,452**

PROPERTY, PLANT AND EQUIPMENT (thousand euro)	31-12-17	Recognitions	Derecognitions	Reclassifications and transfers	Exchange rate effect	31-12-18
Land and structures	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 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	**(56,413)**	**(3,360)**	**5,983**	**-**	**2**	**(53,788)**
PROPERTY, PLANT AND EQUIPMENT	**31,207**	**(525)**	**(4,044)**	**1**	**(2)**	**26,637**

The main items recognized in 2019 and 2018 relate to warehouse expansion and the packing and serialization room.

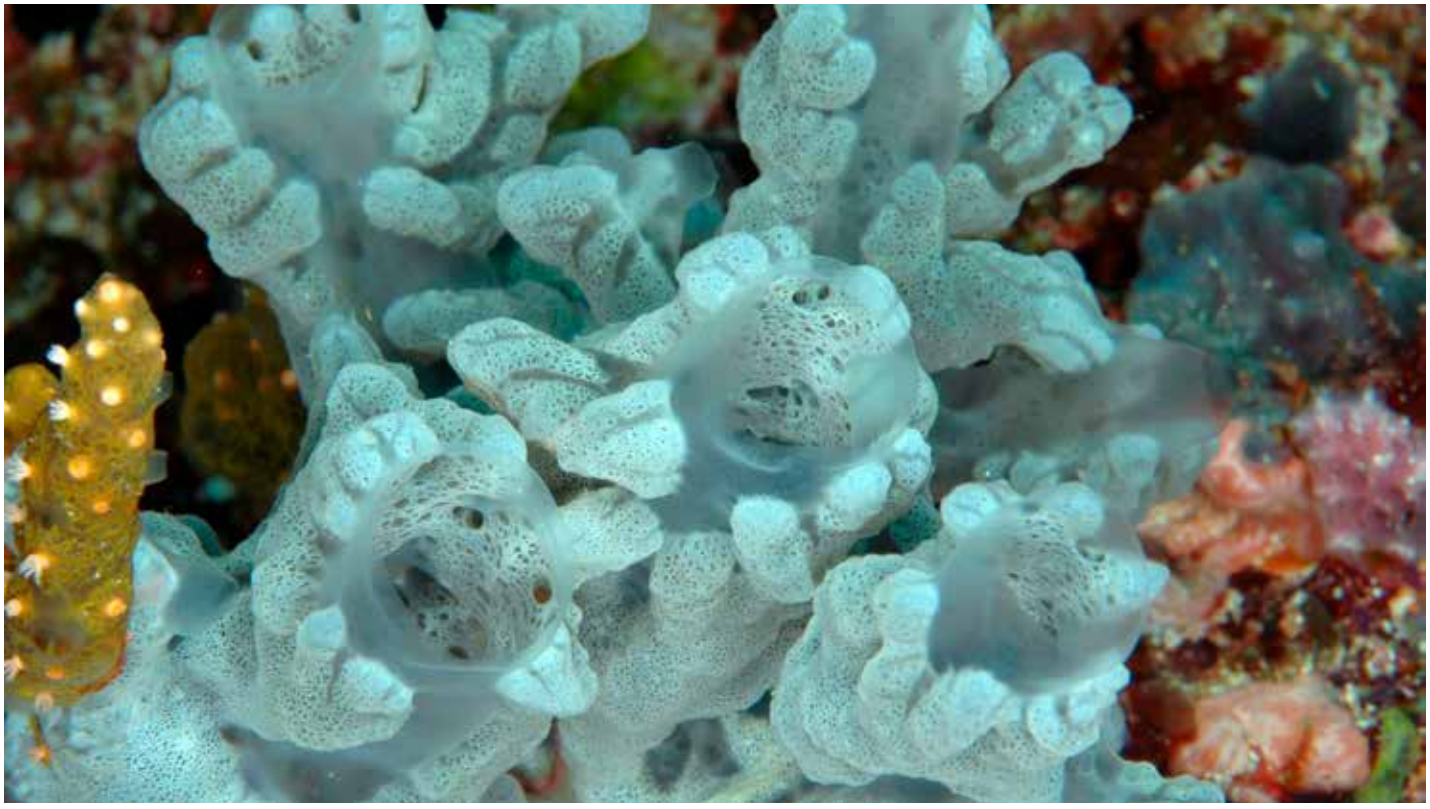
The “Derecognitions” column mainly includes the derecognition of assets resulting from the sale of Zelnova Zeltia (2019) and of Xylazel (2018) (see note 25) for a net amount of €2,600 thousand and €3,981 thousand, respectively.

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)	31-12-19	31-12-18
Cost of goods sold	152	161
Marketing expenses	458	469
Administrative expenses	1,018	976
Research & development expenses	712	1,062
Depreciation and amortization	**2,340**	**2,668**

As of 31 December 2019 and 2018, the Company did not have any property, plant and equipment under finance lease.

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 €9,231 thousand as of 31 December 2019 (€9,749 thousand in 2018). 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 2019, the unamortized balance of the loan amounted to €4,360 thousand (€5,263 thousand in 2018).



7 / INVESTMENT PROPERTY

As of 31 December 2019, this heading contains a plot of land valued at €845 thousand which the Group owns in Tres Cantos, for which it signed a 25-year lease with a third party in 2016 (non-cancelable in the first ten years).

Additionally, as of 31 December 2018, the Group had land recognized as investment property in the amount of €6,071 thousand that was held to produce revenue and was not occupied by the Group, of which land worth €5,226 thousand owned by Zelnova Zeltia was sold in June 2019 (Note 1).

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

Receipts for non-cancelable operating leases on investment property (thousand euro)	31-12-19	31-12-18
Up to 1 year	60	60
1-5 years	300	299
5-10 years	60	120
TOTAL	**420**	**479**

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 2019 and 2018 are as follows:

INTANGIBLE ASSETS (thousand euro)	31-12-18	Recognitions	Derecognitions	Reclassifications and transfers	31-12-19
Development expenses	23,186	3,054	(33)	-	26,207
Concessions, patents & trade marks	10,765	-	(9,786)	-	979
Computer software	6,055	212	(1,709)	-	4,558
Advances on intangible assets	68	-	-	-	68
Cost	**40,074**	**3,266**	**(11,528)**	**-**	**31,812**
Development expenses	(17,704)	(3,352)	-	-	(21,056)
Concessions, patents & trade marks	(833)	(114)	114	-	(833)
Computer software	(4,879)	(378)	1,406	2	(3,849)
Accumulated amortization	**(23,416)**	**(3,844)**	**1,520**	**2**	**(25,738)**
INTANGIBLE ASSETS	**16,658**	**(578)**	**(10,008)**	**2**	**6,074**

INTANGIBLE ASSETS (thousand euro)	31-12-17	Recognitions	Derecognitions	Reclassifications and transfers	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 amortization	**(19,717)**	**(3,736)**	**126**	**(89)**	**(23,416)**
INTANGIBLE ASSETS	**20,212**	**(3,491)**	**(60)**	**(3)**	**16,658**

The “Derecognitions” column includes the derecognition of assets resulting from the sale of Zelnova Zeltia in 2019 (Note 25).

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 2019, the Group had capitalized the cost of preparing the dossier and documentation required to file a new drug application (NDA) with the FDA for Lurbinectedin as monotherapy for treating patients with relapsed small-cell lung cancer as well as a number of clinical trials with Yondelis® in 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 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 there are sound reasons for expecting technical success 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.

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 01-01-2018	**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)	-
Transfer	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**
Beginning balance Cost 01-01-2019	**387,780**	**23,186**
Recognitions	17,291	3,054
Derecognitions	-	(33)
Total Cost 31-12-2019	**405,071**	**26,207**
Beginning balance Impairment 01-01-2019	**(27,028)**	**-**
Total Impairment 31-12-2019	**(27,028)**	**-**
Beginning balance Amortization 01-01-2019	**(230,373)**	**(17,704)**
Recognitions	(20,184)	(3,352)
Total Amortization 31-12-2019	**(250,557)**	**(21,056)**
NET CARRYING AMOUNT 31-12-2019	**127,486**	**5,151**

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 €122 million as of 31 December 2019, 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 2019 and 2018, as well as the changes during the year:

CHANGES IN R&D, BY COMPOUND (thousand euro)	Separate balance sheet		
	Yondelis®	Lurbinectedin	Total development
Ending balance 31-12-18	**30,413**	**99,966**	**130,379**
Recognitions	-	17,291	17,291
Depreciation and amortization	(20,184)	-	(20,184)
Ending balance 31-12-19	**10,229**	**117,257**	**127,486**

CHANGES IN R&D, BY COMPOUND (thousand euro)	Consolidated balance sheet		
	Yondelis®	Lurbinectedin	Total development
Ending balance 31-12-18	**5,482**	**-**	**5,482**
Recognitions	-	3,021	3,021
Depreciation and amortization	(3,352)	-	(3,352)
Ending balance 31-12-19	**2,130**	**3,021**	**5,151**

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)	31-12-19	31-12-18
Administrative expenses	13	96
Research & development expenses	3,702	3,611
Depreciation and amortization	**3,715**	**3,707**

Concessions, patents and trademarks

At 2018 year-end, this item included mainly trademarks (Thomil and Casajardin) amounting to €9,786 thousand belonging to one of the Consumer Chemicals companies that were acquired from third parties. They were measured at the price paid on acquisition (in 1994 and 2003, fundamentally) and, since they were considered to have an indefinite life, they were not amortized.

They were assessed for impairment each year with the goodwill referred to in the next note. As described in note 1, Zelnova Zeltia, a company in the Consumer Chemicals segment that owned the brands referred to in this note, was sold in June 2019; consequently, the brands ceased to form part of the Group's assets at that time.

9 / GOODWILL

As of 31 December 2018, the consolidated balance sheet showed goodwill for an amount of €2,548 thousand arising from the acquisition by Zelnova Zeltia (part of the Consumer Chemicals segment) of 100% of the shares of Copyr from third parties in 2006. The business of the acquired company, which was very similar to that of Zelnova Zeltia, consisted of selling automatic aerosol dispensers, air fresheners and insecticides, and products for ecological agriculture.

As described in note 1, Zelnova Zeltia, the owner of 100% of Copyr, was sold in June 2019; consequently, the goodwill that arose in the acquisition of the latter ceased to be recognized in the Group's financial statements on that date.

10 / FINANCIAL INSTRUMENTS BY CATEGORY

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

Financial instruments by category 31-12-19 (thousand euro)	Loans and receivables	Assets at fair value through profit or loss	Financial assets at fair value through other comprehensive income	Total
ASSETS ON BALANCE SHEET	**33,124**	**302**	**28**	**33,454**
Non-current financial assets				
Equity instruments	-	302	-	302
Financial assets at fair value through other comprehensive income (Note 12)	-	-	28	28
Accounts receivable	699	-	-	699
Current financial assets				
Trade receivables (Note 13)	11,164	-	-	11,164
Accounts receivable (Note 13)	366	-	-	366
Current financial assets at amortized cost	3,257	-	-	3,257
Cash and cash equivalents (Note 16)	17,638	-	-	17,638
LIABILITIES ON BALANCE SHEET	**105,447**	**-**	**-**	**105,447**
Non-current borrowings (Note 23)	53,063	-	-	53,063
Non-current lease liabilities (Note 3)	1,719	-	-	1,719
Current borrowings (Note 23)	29,655	-	-	29,655
Current lease liabilities (Note 3)	1,678	-	-	1,678
Supplier and other accounts payable (Note 20)	19,332	-	-	19,332

Current financial assets include mainly deposits, time deposits and commercial paper arranged with banks and financial institutions (Note 3.b).

Financial instruments by category 31-12-18 (thousand euro)	Loans and receivables	Assets at fair value through profit or loss	Financial assets at fair value through other comprehensive income	Total
ASSETS ON BALANCE SHEET	**50,965**	**320**	**24**	**51,309**
Non-current financial assets				
Equity instruments	-	320	-	320
Financial assets at fair value through other comprehensive income (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

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:

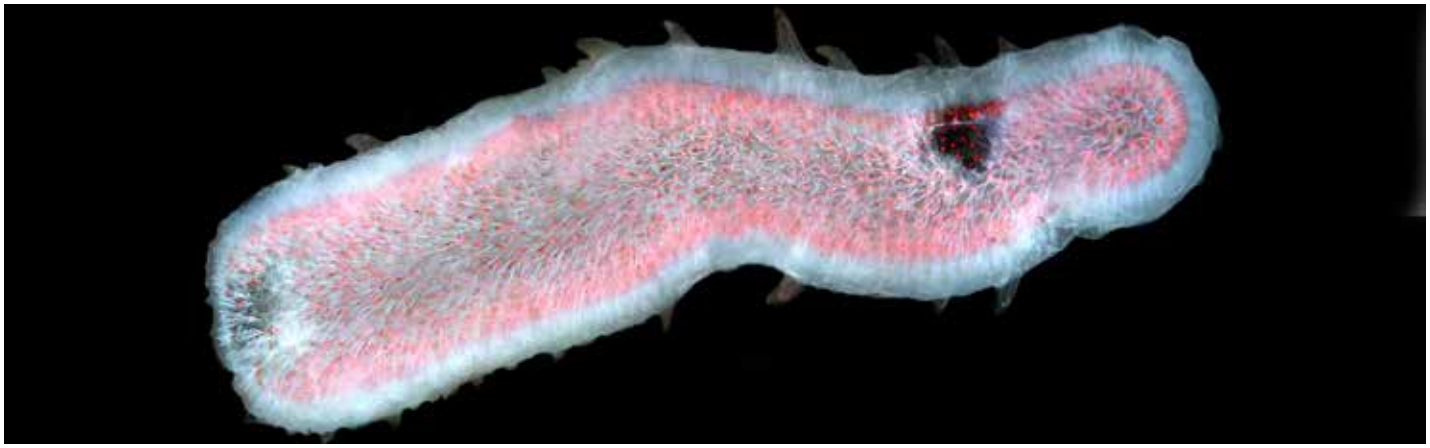
CREDIT QUALITY OF FINANCIAL ASSETS (thousand euro)		31-12-19	31-12-18
Accounts receivable:			
Customers without an external credit rating			
	Group 1	695	1,008
	Group 2	10,835	22,541
TOTAL ACCOUNTS RECEIVABLE		**11,530**	**23,549**

Cash at bank and bank deposits
(thousand euro)

	MOODY'S rating	31-12-19	31-12-18
	A1	-	7
	A2	2,565	3,520
	A3	7,606	911
	Aa3	102	1
	B1	-	12
	Ba2	2	1
	Ba3	7	6
	Baa1	-	11,816
	Baa2	10,611	10,056
	Unrated	1,031	1,430
		21,924	**27,760**

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 / FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

All of these 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: €28 thousand (€24 thousand in 2018).

Marking these securities to market in 2019 on the basis of their official listed prices led to a positive change of €3 thousand (a negative change of €0.8 thousand in 2018) that was recognized in other comprehensive income.

13 / TRADE RECEIVABLES

The detail of this caption as of 31 December 2019 and 2018 is as follows:

TRADE RECEIVABLES (thousand euro)	31-12-19	31-12-18
Customer receivables for sales and services	11,471	24,053
Impairment	(307)	(1,028)
Net	**11,164**	**23,025**
Other receivables	366	385
Supplier advances	-	139
TOTAL	**11,530**	**23,549**

Customer receivables discounted with credit institutions totaled €2,241 thousand as of 31 December 2019 (€2,064 thousand in 2018). Those discounts were recognized as secured loans since the Group retains the default and late payment risk.

As of 31 December 2019, accounts receivable amounting to €135 thousand were past due (€950 thousand in 2018) 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)	31-12-19	31-12-18
3-6 months	129	647
Over 6 months	6	303
TOTAL	**135**	**950**

The past-due accounts that had not been impaired as of 31 December 2019 and 2018 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.

In 2019, the Group arranged non-recourse factoring agreements with institutions specialized in this type of transaction for €10,903 thousand of debt owed by various public authorities in Spain and Italy (€6,894 thousand in 2018).

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 2019 and 2018 is as follows:

31-12-19	Factored	Interest expense	Total received
Spain	6,836	72	**6,764**
Italy	4,067	102	**3,965**
	10,903	**174**	**10,729**

31-12-18	Factored	Interest expense	Total
Spain	3,361	33	**3,328**
Italy	3,533	101	**3,432**
	6,894	**134**	**6,760**

As of 31 December 2019, an impairment loss on accounts receivable was recognized amounting to €9 thousand (€174 thousand in 2018). The changes in provisions for impairment are as follows:

CHANGE IN PROVISIONS (thousand euro)	31-12-19	31-12-18
Beginning balance	**(1,028)**	**(1,534)**
Adjustment for adoption of IFRS 9	-	(17)
Provision	(9)	(174)
Reversal	30	-
Irreversible losses	-	174
Other	700	523
Ending balance	**(307)**	**(1,028)**

The "Other" item as of 31 December 2019 and 2018 relates to bad debt provisions at Zelnova Zeltia and Xylazel that were derecognized as a result of the sale of those two companies (Note 25).

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

AGE OF PROVISION (thousand euro)	31-12-19	31-12-18
Under 3 months	-	114
Over 6 months	307	914
TOTAL	**307**	**1,028**

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)	31-12-19	31-12-18
Euro	10,494	22,159
Pound sterling	-	104
USD	500	816
Other currencies	536	470
TOTAL	**11,530**	**23,549**

The main difference is explained by the fact that the balance as of 31-12-2018 includes €12,490 thousand contributed by Zelnova Zeltia which is no longer recognized as of 2019 year-end due to the sale of that company (Note 25).

The breakdown as of 31 December 2019 and 2018 of receivables from public authorities for sales and services, by geography, is as follows:

CUSTOMER RECEIVABLES FROM PUBLIC AUTHORITIES (thousand euro)	31-12-19	31-12-18
Austria	186	210
Belgium	272	261
France	539	178
Germany	874	439
Ireland	-	2
Italy	2,822	1,433
Luxembourg	19	22
Spain	1,497	2,212
United Kingdom	-	77
TOTAL CUSTOMER RECEIVABLES FROM PUBLIC AUTHORITIES	**6,209**	**4,834**

As of 31 December 2019 and 2018, the credit rating of the accounts receivable from public authorities, by geography, is as follows:

CREDIT RATING (thousand euro)	Credit rating	31-12-19	31-12-18
Andalusia	Baa2	115	314
Aragon	BBB	63	71
Asturias	Baa1	23	24
Austria	Aaa	186	210
Balearic Islands	BBB+	208	124
Basque Country	A3	41	14
Belgium	Aaa	272	261
Canary Islands	BBB+	12	109
Cantabria	BBB	224	183
Castilla la Mancha	Ba1	66	103
Castilla y León	Baa1	122	174
Catalonia	Ba3	84	248
Extremadura	Baa2	14	36
France	Aaa	539	178
Galicia	Baa1	23	195
Germany	Aaa	874	439
Ireland	A2	-	2
Italy	Baa3	2,822	1,433
Luxembourg	Aaa	19	22
Madrid	Baa1	275	369
Murcia	Ba1	18	31
Navarra	A+	14	2
Rioja	BBB	-	16
United Kingdom	Aa2	-	77
Valencia	Ba1	195	199
		6,209	**4,834**

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

Claims of principal and default interest from public authorities

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

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

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

During 2019 and 2018, 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 2019 and 2018 is as follows:

OTHER CURRENT ASSETS (thousand euro)	31-12-19	31-12-18
Prepaid expenses	1,335	923
Balances with public authorities	7,314	3,146
TOTAL	**8,649**	**4,069**

The detail of the balance with public authorities as of 31 December 2019 and 2018 is as follows:

BALANCES WITH PUBLIC AUTHORITIES (thousand euro)	31-12-19	31-12-18
VAT	1,712	2,287
Other	5,602	859
TOTAL	**7,314**	**3,146**

15 / INVENTORIES

INVENTORIES (thousand euro)	31-12-19	31-12-18
Trade inventories	179	521
Raw materials and other supplies	241	4,162
Semi-finished products and products in process	7,918	8,871
Finished products	564	7,062
TOTAL	**8,902**	**20,616**

The reduction in the balance of finished products and raw materials is due to the sale of Zelnova Zeltia in 2019 (Note 25).

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 €3,873 thousand in 2018 (€6,984 thousand in 2018) (Note 32).

No material impairment losses were recognized for inventories in 2019 and 2018.

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)	31-12-19	31-12-18
Cash on hand and at banks	17,638	20,614
Cash equivalents	-	2,131
TOTAL	**17,638**	**22,745**

Cash equivalents as of 31 December 2019 include short-term bank deposits yielding 0.00% (0.01% in 2018) maturing between January and March 2020.

There were no bank overdrafts at the closing date.

17 / CAPITAL AND SHARE PREMIUM

As of 31 December 2019, PharmaMar's authorized share capital amounted to €11,132 thousand and was represented by 222,649,287 shares, with a par value of €0.05 per share. All PharmaMar shares have been fully subscribed and paid.

(thousand euro/thousand shares)	Number of outstanding shares	Share capital	Share premium account	Own shares
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 1 January 2019	**221,233**	**11,132**	**71,278**	**(2,243)**
Own shares sold	4,547	-	-	7,904
Own shares purchased	(3,987)	-	-	(7,467)
Share ownership plans	164	-	-	307
Balance as of 31 December 2019	**221,957**	**11,132**	**71,278**	**(1,499)**

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.

Own shares

The number of shares outstanding as of 31 December 2019 was 221,957 thousand (221,233 thousand in 2018). The reduction in the capital and share premium as a result of the shares treated as not outstanding is reflected in the Own shares account.

As of 31 December 2019, the parent company held 692 thousand own shares (1,416 thousand in 2018).

In 2019, the Group acquired 3,987 thousand own shares (2,433 thousand in 2018) for €7,467 thousand (€3,446 thousand in 2018), and sold 4,711 thousand own shares (2,391 thousand in 2018), recognizing a gain of €596 thousand (a loss of €2,162 thousand in 2018).

According to information in the official registers of the National Securities Market Commission as of 31 December 2019, 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 2019 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)	**31-12-19**	**31-12-18**
Basis of distribution		
Income for the year	17,659	(31,116)
	17,659	**(31,116)**
Distribution		
Dividend	8,906	-
Prior years' losses	8,753	(31,116)
	17,659	**(31,116)**

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

19 / NON-CONTROLLING INTERESTS

There were no changes in 2019 and 2018 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 2019 and 2018 are as follows:

NON-CONTROLLING INTERESTS (thousand euro)	Minority interest
Balance as of 1 January 2018	**(3,882)**
2018 income	(18)
Balance as of 1 January 2019	**(3,900)**
2019 income	(18)
Balance as of 31 December 2019	**(3,918)**

Noscira reported a net loss of €68 thousand in 2019 (a net loss of €67 thousand in 2018), of which €18 thousand corresponded to non-controlling interests (€18 thousand in 2018), 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)	31-12-19	31-12-18
Payable for purchases and services received	16,471	31,231
Debts to related parties	946	836
Advances received for orders	1,655	2,200
Other accounts payable	260	244
TOTAL	**19,332**	**34,511**

The "Payable for purchases and services received" item contained €9,175 thousand as of 31 December 2018 relating to Zelnova Zeltia, which was sold in 2019 (Note 25).

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 PharmaMar's board committees that have accrued and are outstanding (€824 thousand as of 31 December 2019, €714 thousand as of 31 December 2018), and accrued outstanding allocations to directors of Genómica who are also directors of PharmaMar (€28 thousand as of 31 December 2019, and €28 thousand in 2018), and €94 thousand for directors of Noscira in 2019 (€94 thousand in 2018).

Information on payments for commercial transactions performed in 2019 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	31-12-19	31-12-18
Average period taken to pay suppliers (days)	64	51
Proportion of transactions paid (days)	67	59
Proportion of transactions outstanding (days)	71	41
Total payments made (thousand euro)	31,246	41,209
Total payments outstanding (thousand euro)	4,511	5,463

The average supplier payment lag in the year between 1 January and 31 December 2019 was 64 days (51 days in 2018).

The foregoing disclosure refers only to companies domiciled in Spain.

21 / NON-CURRENT AND CURRENT DEFERRED REVENUES

The breakdown of these items as of 31 December 2019 and 2018 is as follows:

Non-current deferred revenues

This item relates to 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)	31-12-19	31-12-18
Subsidies	1,851	2,120
TOTAL	**1,851**	**2,120**

Current deferred revenues

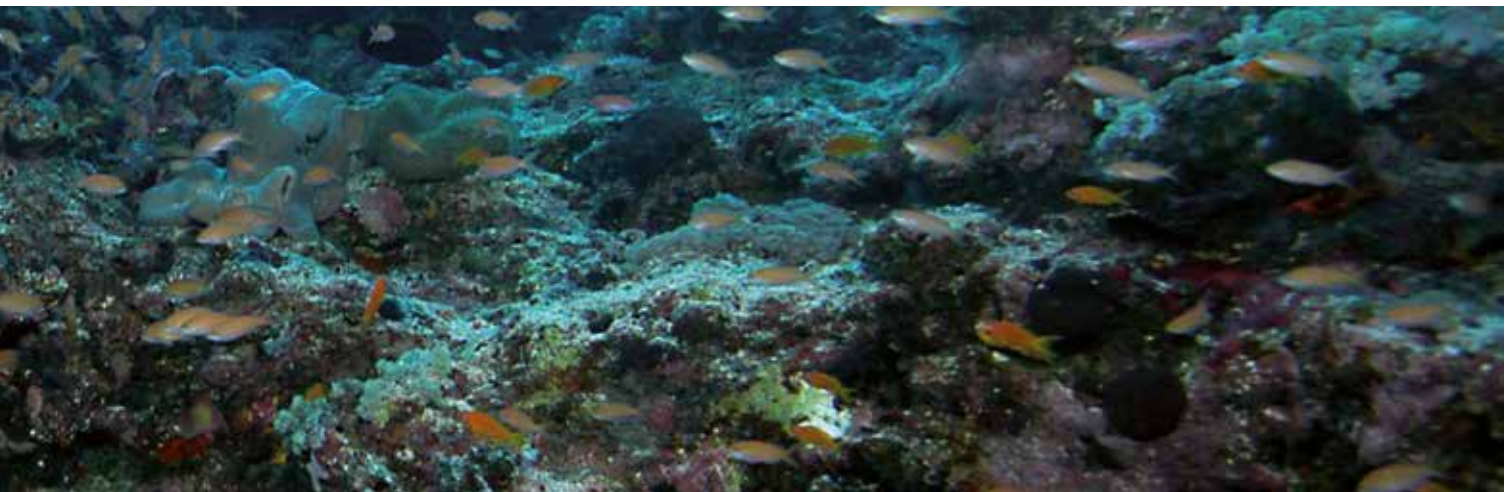
CURRENT DEFERRED REVENUES (thousand euro)	31-12-19	31-12-18
Deferred revenues	1,465	168
TOTAL	**1,465**	**168**

In 2019, the balance of the current “Deferred revenues” item included €1,257 thousand of the upfront payment under the Lurbinectedin licensing agreement signed with Luye Pharma Group Ltd. in June 2019 (amounting to €4,452 thousand) which was not recognized as revenue in 2019 by application of the standard on revenue recognition.

22 / OTHER NON-CURRENT AND CURRENT LIABILITIES

Other non-current liabilities, amounting to €177 thousand (€779 thousand in 2018), refer mainly to provisions for taxes. The decrease with respect to 2018 is explained by the derecognition of retirement benefit obligations amounting to €605 thousand that related to Zelnova Zeltia, a company that was sold in June 2019 (Note 1).

Other current liabilities amounting to €2,575 thousand (€2,954 thousand in 2018) refer basically to balances owed to public authorities amounting to €1,927 thousand (€2,209 thousand in 2018).



23 / FINANCIAL DEBT

The breakdown of the Group's non-current and current interest-bearing debt as of 31 December 2019 and 2018, is as follows:

NON-CURRENT DEBT BREAKDOWN (thousand euro)	31-12-19	31-12-18
Bank debt	15,291	24,279
Bonds and other marketable securities	16,549	16,501
Non-Interest-bearing debt to official authorities	21,223	24,142
TOTAL	**53,063**	**64,922**

CURRENT DEBT BREAKDOWN (thousand euro)	31-12-19	31-12-18
Bank debt	24,367	25,830
Bonds and other marketable securities	405	405
Non-Interest-bearing debt to official authorities	4,883	2,248
TOTAL	**29,655**	**28,483**

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 2019 and 2018:

(thousand euro)	No. of products	Maturities	31-12-19	No. of products	Maturities	31-12-18
Non-current debt						
PharmaMar	11	2021-2024	15,291	10	2021-2024	24,279
TOTAL NON-CURRENT DEBT	**11**		**15,291**	**10**		**24,279**
Current debt						
Bank loans						
PharmaMar	12	2019-2024	10,497	11	2021-2024	10,080
Genómica	-	2019	-	1	2019	164
	12		**10,497**	**12**		**10,244**
Credit lines						
PharmaMar	8	2020	10,886	10	2019	12,317
Genómica	2	2019	697	3	2019	593
	10		**11,583**	**14**		**12,911**
Bills and certificates						
PharmaMar	1	2020	2,241	1	2019	2,064
	1		**2,241**	**1**		**2,064**
Interest and other accounts payable						
PharmaMar	-		46	-		72
Genómica	-		-	-		539
	-		**46**	**-**		**611**
TOTAL CURRENT DEBT	**23**		**24,367**	**27**		**25,830**

Non-current debt

PharmaMar has a mortgage loan amounting to €4,360 thousand (€5,263 thousand in 2018) that matures in 2024; that loan was arranged in 2014 through cancelation 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)	31-12-19	31-12-18
2020	-	9,156
2021	8,293	8,124
2022	5,033	5,034
2023	1,224	1,225
2024 and thereafter	741	740
TOTAL	**15,291**	**24,279**

Current debt

Current bank debt is broken down as follows:

BREAKDOWN OF CURRENT BANK DEBT (thousand euro)	31-12-19	31-12-18
Bank loans	10,497	10,244
Credit lines	11,583	12,911
Discounted bills and certificates	2,241	2,064
Interest and other accounts payable	46	611
TOTAL	**24,367**	**25,830**

Some credit lines are subject to tacit renewal, although most are renewed annually. As of 31 December 2019, the Group had 10 credit lines (14 in December 2018) with a total limit of €13,700 thousand (€17,070 thousand in 2018).

The vast majority of the loans and credit lines are at floating interest rates consisting of Euribor plus a spread of between 1% and 4.18% (between 1% and 3.25% in 2018).

The effective interest rates as of 31 December are:

EFFECTIVE INTEREST RATES	31-12-19	31-12-18
Bank overdrafts	29.00%	29.00%
Bank loans	2.34%	2.12%
Credit lines	2.11%	2.18%
Discounted notes	1.20%	1.54%

The Group's exposure to bank debt at floating rates is €21,938 thousand as of 31 December 2019 (€22,736 thousand in 2018), indexed mainly to three-month Euribor.

All the bank loans are arranged in euro.

The following table reconciles the movement of financial liabilities with financing cash flows, including both those derived from cash flows and those that do not involve cash flows (such as translation gains and losses).

CHANGES IN LIABILITIES DUE TO FINANCING ACTIVITIES (thousand euro)	31-12-18	Cash flows	Reclassification to short term	Other	31-12-19
Long-term bank loans	24,279	927	(9,915)	-	15,291
Short-term bank loans	10,245	(9,662)	9,915	(1)	10,497
Long-term bonds and other marketable securities	16,501	-	-	48	16,549
Short-term bonds and other marketable securities	405	(809)	-	809	405
Credit lines	12,912	(1,329)	-	-	11,583
Discounted bills and certificates	2,064	177	-	-	2,241
Interest and other accounts payable	611	(538)	-	(27)	46
Long-term non-interest-bearing debt to official authorities	24,142	2,035	(4,881)	(73)	21,223
Short-term non-interest-bearing debt to official authorities	2,248	(2,922)	4,881	676	4,883
TOTAL LIABILITIES RELATED TO FINANCING ACTIVITIES	**93,407**	**(12,121)**	**-**	**1,432**	**82,718**

CHANGES IN LIABILITIES DUE TO FINANCING ACTIVITIES (thousand euro)	31-12-17	Cash flows	Reclassification to short term	Other	31-12-18
Long-term bank loans	33,394	-	(9,115)	-	24,279
Short-term bank loans	8,676	(7,544)	9,115	(3)	10,245
Long-term bonds and other marketable securities	16,350	-	113	38	16,501
Short-term bonds and other marketable securities	510	(810)	(113)	818	405
Credit lines	9,974	2,937	-	-	12,912
Discounted bills and certificates	2,203	-	-	(139)	2,064
Interest and other accounts payable	149	-	-	462	611
Long-term non-interest-bearing debt to official authorities	23,863	5,417	(4,378)	(760)	24,142
Short-term non-interest-bearing debt to official authorities	4,730	(6,597)	4,378	(263)	2,248
TOTAL LIABILITIES RELATED TO FINANCING ACTIVITIES	**99,849**	**(6,597)**	**-**	**153**	**93,407**

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 July 7, 2015.

B / Interest-bearing debt to public authorities

This item refers mainly to funding from official authorities consisting of loans and advances that are interest-free (or at 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 2019, the Group had debt balances with official authorities for a total of €26,106 thousand, calculated on the basis of cash flows discounted at Euribor plus a spread based on the Group's risk (€26,390 thousand in 2018), of which €21,223 thousand were non-current (€24,142 thousand in 2018) and €4,883 thousand were current (€2,248 thousand in 2018).

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

REPAYMENT SCHEDULE (thousand euro)	31-12-19	31-12-18
2020	-	4,799
2021	4,358	4,446
2022	4,435	4,390
2023	3,953	3,704
2024 and thereafter	8,477	6,803
TOTAL	**21,223**	**24,142**

C / Fair value

The fair value and carrying amount of the non-current and current interest-bearing debt as of 31 December 2019 and 2018 are as follows:

FAIR VALUE AND CARRYING AMOUNT OF FINANCIAL DEBT (thousand euro)	Fair value		Carrying amount	
	31-12-19	31-12-18	31-12-19	31-12-18
Non-current				
Bank loans	15,291	24,279	15,291	24,279
Due to official authorities	24,883	28,025	21,223	24,142
Bonds	17,000	17,000	16,549	16,501
TOTAL	**57,174**	**69,304**	**53,063**	**64,922**
Current				
Bank loans	10,497	10,244	10,497	10,244
Credit lines	11,583	12,911	11,583	12,911
Unmatured discounted bills and certifications	2,241	2,064	2,241	2,064
Interest payable	44	72	44	72
Due to official authorities	5,552	2,893	4,883	2,248
Bonds	405	405	405	405
Other debt	2	539	2	539
TOTAL	**30,324**	**29,128**	**29,655**	**28,483**

24 / DEFERRED TAXES AND INCOME TAX

i / Deferred taxes

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

DEFERRED TAX ASSETS, NET (thousand euro)	31-12-19	31-12-18
Deferred tax assets	41,561	33,333
Deferred tax liabilities	(577)	(3,565)
TOTAL	**40,984**	**29,768**

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 2018	**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**
Tax withholding	-	328	-	-	328
Recognized in profit or loss	8,348	-	(490)	42	7,900
As of 31 December 2019	**25,328**	**11,181**	**2,547**	**2,505**	**41,561**

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 "Tax withholding" column as of 31 December 2019 and 2018 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 2018	**(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)**
Recognized in profit or loss	-	-	(266)	(266)
Derecognition of Zelnova Zeltia (Note 25)	1,025	2,229	-	3,254
As of 31 December 2019	**-**	**-**	**(577)**	**(577)**

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 2020 to 2029.

As a result of this analysis, the Group did not take account of €220 million in unused tax losses (€229 million in 2018) or differences in accounting treatment amounting to €21 million (€69 million in 2018).

At the same date, there are also unused tax credits that have not been recognized in the balance sheet amounting to €195,595 thousand (€203,430 thousand in 2018).

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 2019 and 2018 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 2019:

Tax credits generated by:	Total amount	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034 and thereafter
Unused R&D tax credits	189,399	13,364	9,775	10,889	10,760	9,977	11,332	9,697	9,376	9,280	8,078	10,603	9,077	11,345	14,573	41,273
Other unused tax credits	6,196	5,273	371	168	384	-	-	-	-	-	-	-	-	-	-	
TOTAL	**195,595**	**18,637**	**10,146**	**11,057**	**11,144**	**9,977**	**11,332**	**9,697**	**9,376**	**9,280**	**8,078**	**10,603**	**9,077**	**11,345**	**14,573**	**41,273**

ii / Income tax

In 2019, 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. and Sylentis, S.A.U. The other companies, namely Pharma Mar USA, PharmaMar AG, Pharma Mar SARL, Pharma Mar GmbH, Pharma Mar Ltd, Pharma Mar Srl, Pharma Mar Sprl, Pharma Mar Ges.m.b.H.AT, Genómica AB, Genómica (Wuhan) Trading Co.Ltd. and "Noscira, S.A. en liquidación", file individual tax returns.

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

	31-12-19	31-12-18
Income before taxes (thousand euro)	**(21,653)**	**(19,986)**
Tax rate (25%)	**5,413**	**4,997**
Tax effect of:		
- Exempt revenues and other minor items	433	2,947
- Timing differences with an impact on earnings	(2,213)	(2,213)
- Other adjustments	4,007	(10,767)
- Monetization of tax credits	4,834	7,919
Tax revenue (expense)	**12,474**	**2,883**

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 2019 and 2018 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, 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, whereas as of 31 December 2019 this item reflected the capitalization of tax losses on the basis of the Group's tax budget.

Additionally, during 2019, the company recognized €4,834 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)	31-12-19	31-12-18
Current tax	4,840	7,025
Deferred tax	7,634	(4,142)
TOTAL	**12,474**	**2,883**

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, €4,840 thousand, mainly contains the effect of monetization revenues indicated above.

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

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

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

The tax audit concluded in September 2016. The company accepted an assessment that resulted in a reduction in the tax base, and it disputed assessments for corporate income tax, personal income tax withholdings and prepayments, value added tax and non-residents' personal income tax. Currently, there are 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 revenues from certain intangible assets reported by PharmaMar, an assessment for taxes due was issued for 2011 and 2012 (not for 2010). However, the net tax due was zero since the assessed increases in taxable bases were offset (up to 50%) with loss carryforwards from previous years and the resulting total tax liability was offset by international double taxation tax credits. 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 described in Note 1, the sale of subsidiary, Zelnova Zeltia (and its subsidiary, Copyr), both of which manufacture and market insecticide products for domestic use, air fresheners and other home care products, was completed on 28 June 2019. Consequently, the consolidated income statement as of 31 December 2019 and 2018 presents Zelnova Zeltia under discontinued operations.

Additionally, on 20 September 2018, the Group sold subsidiary Xylazel, S.A., which manufactures, supplies and distributes 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. Consequently, the consolidated income statement as of 31 December 2018 presents Xylazel under discontinued operations.

Both Zelnova Zeltia and Xylazel formed part of the Consumer Chemicals segment.

Summary of discontinued operations

INCOME FROM DISCONTINUED OPERATIONS (thousand euro)	31-12-19	31-12-18
Xylazel	-	10,652
Zelnova Zeltia	(2,217)	898
INCOME FROM DISCONTINUED OPERATIONS	**(2,217)**	**11,550**

INCOME FROM DISCONTINUED OPERATIONS (thousand euro)	28-06-19	31-12-18
Revenues	33,977	70,643
Expenses	(32,377)	(67,937)
Income before taxes	**1,600**	**2,706**
Corporate income tax	(548)	(747)
Income after taxes from discontinued operations	**1,052**	**1,959**
Income after tax from sale of subsidiary	(3,269)	9,591
INCOME FROM DISCONTINUED OPERATIONS	**(2,217)**	**11,550**

NET CASH REVENUE GENERATED BY DISCONTINUED OPERATIONS (thousand euro)	28-06-19	31-12-18
Net operating cash flow	(6,037)	3,456
Net investing cash inflow/(outflow)	34,844	18,472
Net (outflow) of cash from financing activities	5,081	(57)
NET CASH REVENUE GENERATED BY SUBSIDIARY	**33,888**	**21,871**

Discontinued operations: Zelnova Zeltia

INCOME FROM DISCONTINUED OPERATIONS - ZELNOVA ZELTIA, S.A. (thousand euro)	28-06-19	31-12-18
Revenues	33,977	54,266
Expenses	(32,377)	(52,984)
Income before taxes	**1,600**	**1,282**
Corporate income tax	(548)	(384)
INCOME FROM DISCONTINUED OPERATIONS	**1,052**	**898**

NET CASH REVENUE GENERATED BY ZELNOVA ZELTIA, S.A. (thousand euro)	28-06-19	31-12-18
Net operating cash flow	(6,037)	2,032
Net investing cash inflow/(outflow)	34,844	(2,800)
Net (outflow) of cash from financing activities	5,081	(57)
NET CASH REVENUE GENERATED BY SUBSIDIARY	**33,888**	**(825)**

DETAILS OF THE SALE OF ZELNOVA ZELTIA, S.A. (thousand euro)	28-06-19
Cash consideration received	33,417
Selling costs	(811)
Carrying amount of net assets sold	(35,875)
GAIN ON SALE OF SUBSIDIARY	**(3,269)**

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 - ZELNOVA ZELTIA, S.A. (thousand euro)	28-06-19
Property, plant & equipment and intangible assets	12,704
Investment property	5,226
Right-of-use assets in connection with leases	1,765
Goodwill	2,548
Other non-current assets	19
Inventories	14,133
Customer receivables and other current assets	28,814
Total assets classified as available-for-sale	**65,209**
Non-current liabilities	3,597
Non-current lease debt (IFRS 16)	1,463
Current interest-bearing debt	5,081
Current lease debt (IFRS 16)	318
Trade creditors	18,875
Total liabilities classified as available-for-sale	**29,334**
NET ASSETS	**35,875**

Discontinued operations: Xylazel

INCOME FROM DISCONTINUED OPERATIONS - XYLAZEL, S.A. (thousand euro)	20-09-18
Revenues	16,377
Expenses	(14,953)
Income before taxes	**1,424**
Corporate income tax	(363)
Income after taxes from discontinued operations	**1,061**
Gain after tax on sale of subsidiary	9,591
INCOME FROM DISCONTINUED OPERATIONS	**10,652**

NET CASH REVENUE GENERATED BY XYLAZEL, S.A. (thousand euro)	20-09-18
Net operating cash flow	1,424
Net investing cash inflow/(outflow)	21,272
Net (outflow) of cash from financing activities	-
NET CASH REVENUE GENERATED BY SUBSIDIARY	**22,696**

DETAILS OF THE SALE OF XYLAZEL, S.A. (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**

BREAKDOWN OF CARRYING AMOUNT OF NET ASSETS SOLD - XYLAZEL, S.A. (thousand euro)	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**

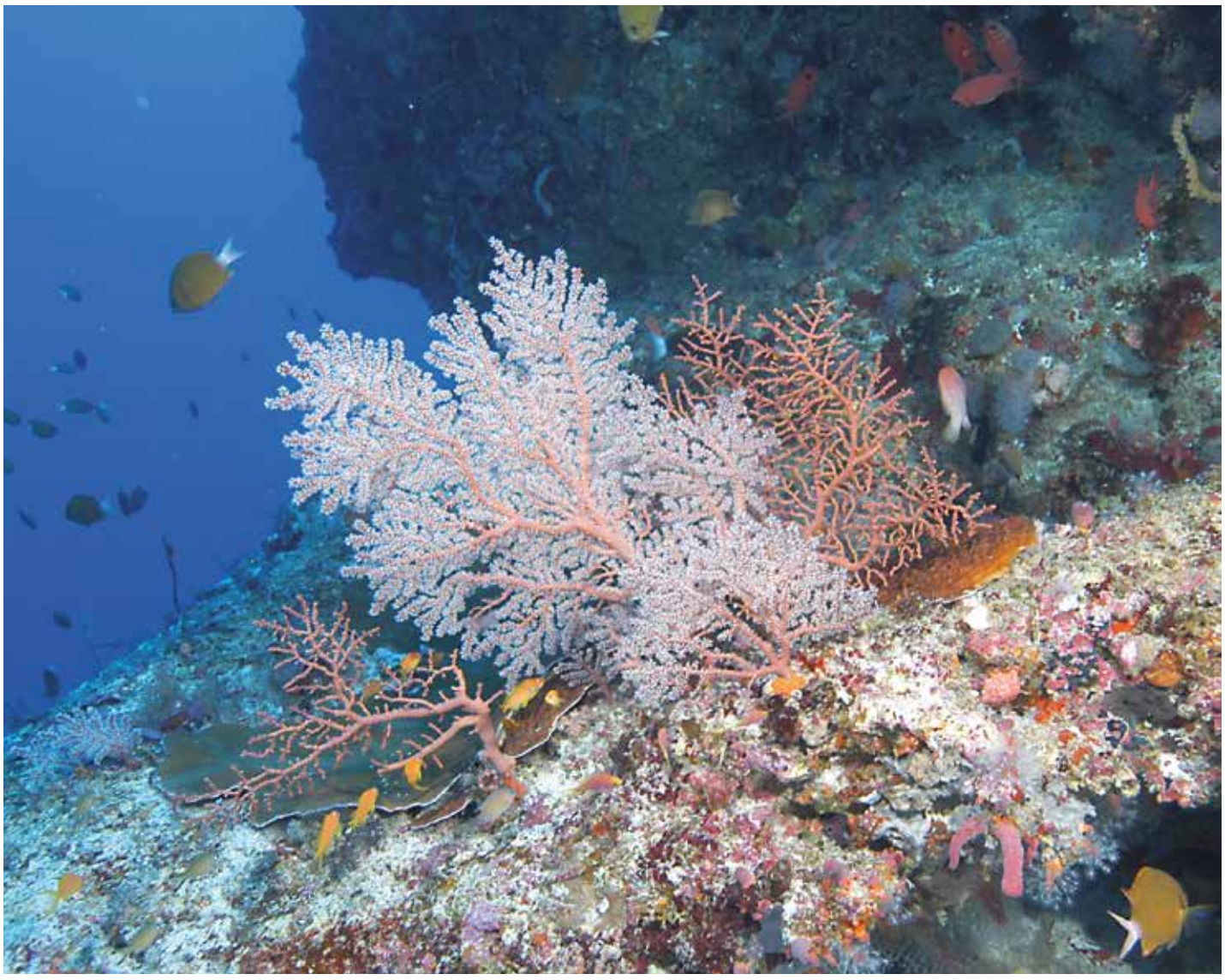
26 / PROVISIONS FOR OTHER LIABILITIES AND EXPENSES

As of 31 December 2019 and 2018, 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)	31-12-19	31-12-18
Beginning balance	**6,266**	**6,232**
Provision for expenses	9,332	6,909
Payments	(9,403)	(6,677)
Transfers and other	(461)	(198)
TOTAL	**5,734**	**6,266**

The “Transfers and other” item refers to remuneration derecognized due to the sale of Zelnova Zeltia (Note 25).



27 / NET REVENUES

The detail of this caption as of 31 December 2019 and 2018 is as follows:

BREAKDOWN OF REVENUES (thousand euro)	31-12-19	31-12-18
Product sales	97,099	98,165
Returns, rebates and volume discounts	(18,570)	(18,393)
TOTAL	**78,529**	**79,772**
Licensing and co-development agreements	3,950	24,659
Royalties	3,102	3,916
Services provided	238	424
TOTAL	**85,819**	**108,771**

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

The Group has out-licensing and co-development agreements with a number of pharmaceutical companies. The breakdown of revenue, including royalties, in 2019 and 2018 is as follows:

BREAKDOWN OF ROYALTIES AND LICENSING (thousand euro)	31-12-19	31-12-18
Johnson & Johnson Group (Janssen Products LP) (Yondelis®)	2,487	3,369
Taiho Pharmaceuticals Co. (Yondelis®)	615	547
Total Royalties	**3,102**	**3,916**
Chugai Pharmaceutical Co (Lurbinectedin)	-	18,112
Seattle Genetics Inc.	-	4,074
Impilo	-	2,000
Luye Pharma (Lurbinectedin)	3,200	-
MegaPharm (Yondelis®)	150	-
STA (Yondelis®), Boryung (Lurbinectedin, Yondelis®) and Pint (Yondelis®)	600	473
Total Licenses	**3,950**	**24,659**
TOTAL	**7,052**	**28,575**

1 / Yondelis®

Janssen Products LP

In 2001, the Group signed a licensing and co-development agreement with Ortho Biotech Products L.P. (OBP, now Janssen Products, L.P.), a subsidiary of US group Johnson & Johnson (J&J). That agreement provides for certain payments to PharmaMar, including an upfront payment that was collected on the date of the contract and certain payments connected with subsequent development and regulatory milestones for Yondelis®. Those amounts (upfront and milestone payments), which are collected irrevocably once the corresponding dates and milestones are attained, are recognized initially as deferred revenue and subsequently as revenue over the term of the contract, 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 2019, 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 2019 and 2018.

The amounts attributed to the marketing phase are royalties, which are recognized on an accrual basis. In 2019, royalties were recognized in the amount of €2,487 thousand for sales of Yondelis® (€3,369 thousand in 2018).

In August 2019, the Group and Janssen Products, LP ("Janssen") signed a new licensing agreement that replaces the 2001 licensing agreement under which Janssen reserves the right to sell and distribute, on an exclusive basis, Yondelis® and any other product that contains the active ingredient (trabectedin) in the United States. The milestone payments and royalties on net sales of the product by Janssen in the United States are the same as in the 2001 licensing agreement. The Group retains exclusive rights to produce the active ingredient, trabectedin, which it will supply to Janssen for clinical and commercial purposes.

At the same time, PharmaMar and Janssen signed a framework transfer agreement under which Janssen transferred to PharmaMar all rights to the compound in the other territories licensed to Janssen, i.e. all the countries in the world except the United States, Europe and Japan (the latter licensed to Taiho Pharmaceuticals Co. Ltd). This transfer agreement will be phased in gradually, depending on the regulatory requirements in each country. Janssen will continue to sell the product until the commercialization authorizations have been transferred. PharmaMar plans to market Yondelis® in the transferred territories via local partners.

As a result, in October 2019 the Group signed an agreement with Specialized Therapeutics Asia, Pte. Ltd. (STA) for the commercialization of Yondelis® (trabectedin) in Australia, New Zealand and Southeast Asia. Under the terms of the agreement, PharmaMar collected an upfront payment of €300 thousand and may collect additional revenues, including milestone payments. PharmaMar will retain exclusive rights to produce the product and will sell the product to STA for commercial and clinical use. STA will apply to

the TGA (Therapeutic Goods Administration) for formal approval to market Yondelis® (trabectedin) in Australia and for reimbursement under the Pharmaceutical Benefits Scheme (PBS).

Additionally, in December 2019, the Group entered into a licensing agreement with Megapharm Ltd. for the commercialization of Yondelis® (trabectedin) in Israel and in the territory known as the Palestinian Authority. Under the terms of the agreement, PharmaMar collected a €150 thousand upfront payment and may collect additional revenues, including milestone payments. PharmaMar will retain exclusive rights to produce the product and will sell the product to Megapharm for commercial and clinical use.

Taiho Pharmaceutical Co

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

The commitments assumed by the Group as a result of the agreement include 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 sale of Yondelis® in Japan were recognized in the amount of €615 thousand in 2019 (€547 thousand in 2018).

2 / Aplidin®

From 2014 to 2018, the Company signed several licensing agreements for Aplidin® with partners and for a number of territories or countries.

The agreement signed in 2014 with Chugai Pharma Marketing Co. to market Aplidin® in certain European countries for the treatment of multiple myeloma was terminated after the EMA/European Commission rejected the application for authorization to market Aplidin®.

The following agreements are still in force:

Specialised Therapeutics Asia Pte, Ltd

In February 2016, PharmaMar signed a licensing agreement 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.

The reimbursement price is currently in the process of being established.

TTY Biopharm

In 2015, PharmaMar signed a licensing agreement with TTY Biopharm for the commercialization of Aplidin® in Taiwan. The upfront payment collected upon signing the Agreement amounted to €200 thousand.

The Company did not collect any amount under this agreement in 2019 and 2018.

Boryung Pharmaceutical

In October 2016, a licensing agreement was signed with Boryung Pharma 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 2019 and 2018.

Eip Eczacibasi Ilac Pazarlama A.S.

In May 2017, PharmaMar signed an agreement 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 2019 and 2018.

Pint Pharma International, S.A.

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.

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

3 / Lurbinectedin

As of 31 December 2019, the Company had entered into licensing, development and marketing agreements with a number of partners.

The first was signed in December 2016. PharmaMar signed an exclusive license, development and commercialization agreement with Chugai Pharmaceutical Co. Ltd. for marine-derived anticancer drug Lurbinectedin in Japan.

Since PharmaMar undertook to carry out certain clinical trials, recognition of the €30,000 thousand upfront payment as revenues had to be deferred on the basis of the degree of progress achieved in those clinical trials.

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. The two companies reached an early termination agreement in June. The accounting consequence of that early termination was the recognition as revenue of the balance recognized as deferred revenues in relation to this agreement (€15,112 thousand).

Additionally, in 2018 PharmaMar collected €3,000 thousand from Chugai for early termination of the agreement, which was recognized as revenue in the year.

Specialised Therapeutics Asia Pte, Ltd

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 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 remaining 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.

Boryung Pharmaceutical

In November 2017, a licensing agreement was signed with Boryung Pharma to market the marine-based anti-tumor compound 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.

In 2019, a payment of €300 thousand was received from Boryung for attaining the regulatory milestone consisting of the presentation of the application for registration of Lurbinectedin with the FDA.

Luye Pharma Group

In April 2019, the Group signed an out-licensing agreement with Luye Pharma Group for the development and marketing of Lurbinectedin for treating small cell lung cancer and potentially other indications in the territories of China, Hong Kong and Macao. Under the agreement, PharmaMar collected an upfront payment of USD 5,000 thousand (€4,452 thousand), of which €3,200 thousand were recognized as revenues in 2019 on the basis of progress with the Phase III trials. The agreement provides for other payments for attaining regulatory or sales milestones, as well as royalties. Luye undertakes to develop Lurbinectedin for treating small-cell lung cancer in China, while PharmaMar retains exclusive production rights.

Jazz Pharmaceuticals

As described in Note 43, on 19 December 2019, PharmaMar and Jazz Pharmaceuticals signed an exclusive licensing agreement for marketing anti-tumor compound Lurbinectedin in the US for treating relapsed small-cell lung cancer. The entry into force of the agreement was conditional upon approval by the US anti-trust authorities under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended. That authorization was obtained on 21 January 2020; consequently, the agreement came into force in 2020 and no revenues were recognized under this agreement in 2019.

4 / Other molecules

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 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 collected an upfront payment of €4,074 thousand in 2018 which was recognized as period revenue and it may collect subsequent payments if Seattle Genetics continues with clinical development of the ADCs.

28 / RESEARCH & DEVELOPMENT EXPENSES

The following table shows the amounts spent on R&D by business segment in 2019 and 2018:

	31-12-19			
	Oncology	**Diagnostics**	**RNAi**	**TOTAL**
Total expenses	(48,694)	(2,060)	(2,909)	**(53,663)**
Capitalized expenses	3,021	-	-	**3,021**
Research & development expenses	**(45,673)**	**(2,060)**	**(2,909)**	**(50,642)**

	31-12-18			
	Oncology	**Diagnostics**	**RNAi**	**TOTAL**
Total expenses	(63,742)	(4,941)	(5,105)	**(73,788)**
Research & development expenses	**(63,742)**	**(4,941)**	**(5,105)**	**(73,788)**

29 / GENERAL, ADMINISTRATION AND OTHER OPERATING EXPENSES

Consolidated general and administration expenses amounted to €13,881 thousand in 2019, 11.1% more than in 2018 (€12,492 thousand).

Consolidated other operating expenses, mainly related to corporate functions, increased to €10,573 thousand in 2019, 19.1% more than in 2018 (€8,875 thousand).

30 / MARKETING EXPENSES

Commercial and marketing expenses decreased by close to 9.2% with respect to 2018, to €23,936 thousand in 2019 (€26,363 thousand in 2018). Expenses under this heading in the Oncology segment amounted to €21,972 thousand, compared with €23,596 thousand in 2018. This decline was due mainly to the decrease in medical sales activities, greater turnover of the sales staff, and lower distribution costs.

31 / OTHER NET INCOME

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

BREAKDOWN OF OTHER NET INCOME (thousand euro)	31-12-19	31-12-18
Capital subsidies	768	1,507
Other income	198	137
Total	**966**	**1,644**

32 / BREAKDOWN OF EXPENSES BY TYPE

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

BREAKDOWN OF EXPENSES BY TYPE (thousand euro)	31-12-19	31-12-18
Changes in finished product and product-in-process inventories	(2,144)	(534)
Raw materials and other supplies	6,017	7,518
Employee benefit expenses	42,207	45,060
Depreciation and amortization	8,035	6,375
Impairment/(Reversal)	(81)	-
Transport	913	1,230
Marketing expenses	4,636	5,685
Expenses of third-party R&D	19,491	35,684
Other expenses	25,197	25,348
TOTAL	**104,271**	**126,366**

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)	31-12-19	31-12-18
Salaries and wages	33,202	34,018
Indemnities	1,213	2,508
Social security	6,244	6,773
Pension cost	35	36
Share ownership plans	203	230
Other welfare expenses	1,310	1,495
TOTAL	**42,207**	**45,060**

The average number of employees by category is as follows:

AVERAGE NUMBER OF EMPLOYEES BY CATEGORY	31-12-19	31-12-18
Management	42	43
Technical professionals	260	265
Clerical personnel	70	101
Commercial personnel	65	90
Other employees	50	100
TOTAL	**487**	**599**

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

MEN	31-12-19	31-12-18
Management	26	28
Technical professionals	107	110
Clerical personnel	11	31
Commercial personnel	32	46
Other employees	28	46
TOTAL	**204**	**261**

WOMEN	31-12-19	31-12-18
Management	16	15
Technical professionals	153	155
Clerical personnel	59	70
Commercial personnel	33	44
Other employees	22	54
TOTAL	**283**	**338**

The average number of employees by gender is as follows:

AVERAGE NUMBER OF EMPLOYEES	31-12-19	31-12-18
Men	204	261
Women	283	338
TOTAL	**487**	**599**

As of 31 December 2019, three of the nine members of the Board of Directors were women (in 2018, two of the nine members were women). Among PharmaMar's 21 executives (20 executives in 2018), including executive directors at the closing date, there were eight women (six in 2018).

The Group companies have an average of ten employees with disability greater than or equal to 33% (nine in 2018).

34 / NET FINANCIAL INCOME

NET FINANCIAL RESULT (thousand euro)	31-12-19	31-12-18
On debts to third parties and similar expenses	(3,888)	(4,136)
Losses on financial assets	(258)	-
Exchange loss	(225)	(318)
Financial expenses	**(4,371)**	**(4,454)**
Other interest and similar revenues from other companies	35	22
Exchange gains	168	397
Financial revenues	**203**	**419**
TOTAL NET FINANCIAL INCOME	**(4,168)**	**(4,035)**

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.

Since the Group did not generate a profit in the years ended 31 December 2019 and 2018, the effect of the employee stock ownership plan is anti-dilutive.

Therefore, basic/diluted earnings per share attributable to equity-holders of the parent company and the basic/diluted earnings per share from continuing operations in 2019 and 2018 are shown in the following tables:

EARNINGS PER SHARE (BASIC)	31-12-19	31-12-18
Income attributable to equity-holders of the parent company (thousand euro)	(11,379)	(5,535)
Weighted average number of outstanding ordinary shares (thousand shares)	221,244	220,960
BASIC EARNINGS PER SHARE (EURO)	**(0.05)**	**(0.03)**

EARNINGS PER SHARE FROM CONTINUING OPERATIONS (BASIC)	31-12-19	31-12-18
Income from continuing operations (thousand euro)	(9,180)	(17,103)
Weighted average number of outstanding ordinary shares (thousand shares)	221,244	220,960
BASIC EARNINGS PER SHARE (EURO)	**(0.04)**	**(0.08)**

EARNINGS PER SHARE FROM DISCONTINUED OPERATIONS (BASIC)	31-12-19	31-12-18
Income from discontinued operations (thousand euro)	(2,217)	11,550
Weighted average number of outstanding ordinary shares (thousand shares)	221,244	220,960
BASIC EARNINGS PER SHARE (EURO)	**(0.01)**	**0.05**

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 2019 and 2018 to directors of PharmaMar:

REMUNERATION (thousand euro)	31-12-19	31-12-18
Fixed remuneration for executive directors	1,154	1,141
Variable remuneration for executive directors	267	228
Fixed remuneration for belonging to the Board of Directors	678	606
Board and Board committee attendance fees	497	423
Fixed remuneration for belonging to Board committees	543	537
Remuneration for belonging to Boards of other Group companies	53	101
Remuneration for Lead Independent Director	17	17
Other remuneration	356	344
TOTAL	**3,565**	**3,397**

The “Other remuneration” item in 2019 and 2018 refers to certain benefits paid to the Company’s Chairman and Vice-Chairman, such as casualty and health insurance under the group policy for Company employees. The Chairman also has 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 his 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, €267 thousand have accrued to date as a result of evaluation of objectives approved by the Board of Directors at its meeting of 26 February 2020, based on a proposal by the Appointments and Remuneration Committee.

As of 31 December, the advances and loans granted by the Group to the members of the Board of Directors in 2019 amounted overall to €45 thousand, 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 2019 amounted to €182 thousand.

Companies related to the directors and executives and their close relatives

On 26 May 2019, the Board of Directors approved the sale of 100% of Zelnova Zeltia to Allentia Invest, S.L. y Safoles, S.A. (together, the “Buyer”), which are owned directly and indirectly by, among others, Mr. Pedro Fernández Puentes, a director of PharmaMar, and persons related to him. The Board resolved to refer the transaction to the Shareholders’ Meeting for approval. By doing so, it complied with the provisions of article 230 of the Capital Companies Act with regard to shareholders waiving the prohibition on the company transacting with its directors, and also with article 160.f) of the Capital Companies Act, regarding shareholder approval for the sale of assets considered to be essential to the Company. Completion of the transaction and, consequently, the Company’s commitment to sell and transfer the shares of Zelnova Zeltia to the Buyer was conditional upon that authorization by the Shareholders’ Meeting. Once the shareholders had authorized the transaction, the sale was completed on 28 June 2019. The total consideration received from the Buyer was €33,417 thousand, paid in cash upon completion.

In 2019, a company related to one member of the Board of Directors provided services to two Group undertakings amounting to €13 thousand (€13 thousand in 2018).

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.

Transactions with executives of the controlling company

Company senior management received an aggregate total of €2,130 thousand in 2019 (€1,908 thousand in 2018). One of those executives was a director at one of the Group companies in 2018 and collected €14 thousand in 2018 as a result, which is not included in the foregoing aggregated figure.

37 / SHARE-BASED PAYMENTS

At 2019 year-end, PharmaMar and the Group companies had three Employee Share Ownership plans in force 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 attained at least 50% of the objectives set for the year by their department head or their hierarchical superior.

Below are details of the essential terms and conditions of those share ownership plans. At the start of each year, each Group company that has decided to apply the Share Ownership Plans provides the Board of Directors of PharmaMar 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 preceding year. 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. Based on that information, 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 assigns to each beneficiary a 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: a) the weighted average price of the PharmaMar share in the electronic market on the Plan's execution date; or b) the arithmetic mean of the weighted average price of the PharmaMar share in the electronic market in the month prior to the execution date.

Executives and employees who elect not to participate in the Plans collect their variable remuneration entirely in cash, but without a multiplier being applied.

Beneficiaries hold the voting and dividend rights to the shares delivered to them from the date of effective delivery, although those shares are subject to lock-up for three years from that date (lock-up period); nevertheless, some of the shares will be released from lock-up 18 months after delivery: specifically, the number of shares resulting from dividing the total number of shares that were delivered by the assigned coefficient plus one. The delivery of those shares, which must remain locked up for the above-mentioned lock-up 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 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. (a company that was merged into PharmaMar, which succeeded Zeltia, S.A. in the rights and obligations inherent to that Plan) 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 allocated 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.

This Plan concluded in March 2019 since the four-year lock-up period had expired,

and the shares that were under lock-up were released. A total of 76,863 shares under this plan were released from lock-up.

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 allocated 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 47,325 shares have been canceled: 12,955 shares purchased by employees and 34,370 shares contributed by the Company.

As of 31 December 2019, there were 107,431 shares contributed by the Company that had not accrued.

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 allocated in 2018 to 149 beneficiaries at a value of €1.6723 per share.

In 2019, a total of 63,037 shares were released from lock-up under this Plan.

In relation to this Plan, a total of 43,181 shares have been canceled: 12,844 shares purchased by employees and 30,337 shares contributed by the Company.

As of 31 December 2019, there were 121,108 shares contributed by the Company that had not accrued.

Year 2019 (Share Ownership Plan approved by the Ordinary Shareholders' Meeting on 28 June 2018)

On 28 June 2018, the Shareholders' Meeting of Pharma Mar, S.A. approved a new Share Ownership Plan that was executed in June 2019. The Company allocated 500,000 own shares to execute this plan.

In executing this Plan, a total of 163,631 shares were allocated in 2019 to 99 beneficiaries at a value of €2.0768 per share.

In relation to this Plan, a total of 5,392 shares were canceled in 2019: 1,443 shares purchased by employees and 3,949 shares contributed by the Company.

Year 2020 (Share Ownership Plan approved by the Ordinary Shareholders' Meeting on 26 June 2019)

The Shareholders' Meeting of Pharma Mar, S.A. on 26 June 2019 approved a new Share Ownership Plan with a double objective, as in previous years: to reward employees and executives whose performance in 2019 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 Shareholders' 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 2019 and collect variable remuneration in 2020 relating to attainment of objectives in 2019, provided that they attained over 50% of the targets established by their department head or hierarchical superior.

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 of PharmaMar 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 2019:

		Employee			Company					
	Shares allotted under the Plan	Shares purchased by employees - canceled	Shares purchased by employees - accrued	Shares purchased by employees - not yet accrued	Shares contributed by employer - canceled	Shares contributed by employer - accrued	Shares contributed by employer - not yet accrued	Total number of shares not yet accrued	Fair value per share	Accrual period
	(1)+(2)+(3)+(4)+(5)+(6)	(1)	(2)	(3)	(4)	(5)	(6)	(3)+(6)		
Plan / Grant date										
Plan 14 June 2014 (Granted May 2015)	167,311	5,058	46,774	-	38,616	76,863	-	-	3.92	May-19
Plan 15 June 2016 (Granted March 2017)	211,664	12,955	56,908	-	34,370	-	107,431	107,431	2.77	Mar.-20
Plan 16 June 2017 (Granted April 2018)	227,326	12,844	63,037	-	30,337	-	121,108	121,108	1.67	Mar.-21
Plan 17 June 2018 (Granted June 2019)	163,631	1,443	-	45,415	3,949	-	112,824	158,239	2.08	June-22
TOTAL	**769,932**	**32,300**	**166,719**	**45,415**	**107,272**	**76,863**	**341,363**	**386,778**		

A total of €208 thousand were recognized as reserves for the amortization of the plans in 2019 (€211 thousand in 2018). Additionally, the amount recognized in the period was €228 thousand (€189 thousand in 2018), and €7 thousand were derecognized (€49 thousand in 2018).

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 2019, 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 will 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 2019 and 2018.

40 / COMMITMENTS

Operating lease commitments

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

OPERATING LEASE COMMITMENTS (thousand euro)	31-12-19	31-12-18
Under 1 year	2,696	2,677
1 to 5 years	3,440	3,884
TOTAL	**6,136**	**6,561**

41 / AUDITORS' FEES

The fees earned during the year by PricewaterhouseCoopers Auditores, S.L. and other firms in its network amounted to €336 thousand (€362 thousand in 2018) for statutory audit services, and €238 thousand (€300 thousand in 2018) for other services. The fees for non-audit services provided to PharmaMar Group companies amounted to €436 thousand in 2019 (€203 thousand in 2018).

No fees for tax advisory services were accrued by other companies in the PwC network in 2019 (€9 thousand in 2018), and no other advisory services were provided to the Group in 2019.

The fees accrued during the year by other auditors of subsidiaries amounted to €32 thousand for audit services in 2019 (€44 thousand in 2018) and €14 thousand for other verification services in 2019 (€20 thousand in 2018).

42 / ENVIRONMENT

The Company did not need to incur significant investments during the year to protect and improve the environment. Environmental protection expenses amounted to €51 thousand in 2019 (€299 thousand in 2018). The reduction with respect to 2018 is due to the divestment of Zelnova Zeltia, whose expenses under this heading amounted to €247 thousand.

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 19 December 2019, PharmaMar and Jazz Pharmaceuticals signed an exclusive licensing agreement for marketing anti-tumor compound Lurbinectedin in the US for treating relapsed small-cell lung cancer. The entry into force of the agreement was conditional upon approval by the US anti-trust authorities under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended. That authorization was granted on 21 January 2020, at which point the agreement came into effect and, in accordance with its terms, the Group collected an upfront payment of USD 200 million (€181 million).

In accordance with the Group's revenue recognition policy described in note 2.W, that upfront payment will be recognized initially as deferred revenues and will subsequently be recognized in the profit and loss account on the basis of fulfillment of the commitments established based on the degree of progress with the project. On the basis of the degree of fulfilment of the obligations projected for 2020, management estimates that the amount of revenue to be recognized could exceed €100 million.

On 5 February 2020, the Company collected €4,833 thousand from the Spanish tax authorities for monetization of certain research and development tax credits under 2018 corporate income tax.

In 2020, the Company rolled over credit lines amounting to €4,000 thousand in total.

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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