



2001 MID-YEAR REPORT

Madrid. 26 July 2001

- Net sales increased by 21% to 34.9 million euros (28.9 million euros in June 2000)
- Ordinary income grew by 111% to 8.12 million euros (3.84 million euros in June 2000)
- Net cash position: 122.4 million euros
- Clinical trials of ET-743 on soft tissue sarcoma have concluded and an application for European registration is being drafted.
- The clinical trials of Aplidin and Kahalalide F are progressing.
- Progress is being made with the licensing agreement to market ET-743 in non-European countries, and an announcement is expected shortly.

Mr. José M^a Fernández Sousa-Faro, President of Zeltia: *"We are very satisfied with Group performance in the first half of this year. We met our expectations, and our plans are on schedule. We are convinced that we will continue to meet our targets in the coming months."*

Isabel Lozano
Chief Executive Officer
PHARMAMAR, S.A.
C/ Calera, 3. Tres Cantos. Madrid
Telephone: 91.803.20.00

Inmaculada Abella
Marketing Manager
PHARMAMAR, S.A.
C/ Calera, 3. Tres Cantos. Madrid
Telephone: 91.803.20.00

M^a Luisa de Francia
Chief Financial Officer
ZELTIA, S.A.
José Abascal, 2. Madrid
Telephone: 91.444.45.00

1. KEY AGGREGATES.

	2000	30 JUNE 2000	30 JUNE 2001	% CHANGE
<i>Millions of euros</i>				
SALES	55.71	28.93	34.90	21%
TOTAL REVENUES	77.55	39.25	50.03	27%
EARNINGS BEFORE EXTRAORDINARY ITEMS	7.94	3.84	8.12	111%

The increase in sales (explained below) is due to good performance by Group companies Zelnova and Xylazel.

Total revenues include the Group's capitalized R&D investments.

Earnings before extraordinary items, which increased by 111% with respect to the same period of last year, include not only the aforementioned increase in sales but also the financial revenues from short-term financial investments and the parent company's gains on divesting non-strategic assets (e.g. Pescanova shares).

There were no extraordinary items in the first half of 2001, unlike 1H00, when the company booked 1.552 billion pesetas (9.33 million euros) in extraordinary gains due mainly to the capital gains on the sale of shares of the controlling company.

2. BUSINESS PERFORMANCE.

A) Consumer chemicals:

The Group companies in this sector, **Zelnova and Xylazel**, together provide 91% of Group revenues, which totaled 5.807 billion pesetas (34.9 million euros) at 30 June 2001, up 21% from 4.814 billion pesetas (28.9 million euros) in the same period of 2000.

Zelnova increased net sales by 27.4% to 3.595 billion pesetas (21.6 million euros) at 30 June 2001, compared with 2.823 billion pesetas (16.9 million euros) at 30 June 2000. Xylazel's net sales also increased, by 12% to 1.697 billion pesetas (10.2 million euros), as against 1.519 billion pesetas (9.1 million euros) at 30 June 2000.

Zelnova's considerable sales growth was due to an increase in exports to the US (+138% with respect to last year) and to higher domestic sales, especially retailer brand products (+68%).

The main reason behind Xylazel's sales growth was the launch of a new water-based paint in the Xyladecor range, which also contributed to boosting sales of other products in the range.

B) Biotechnology:

In the first half of 2001, the Group's biotechnology companies performed positively. **PharmaMar** made progress in clinical trials. Milestones in the period were as follows:

ET-743

- ET-743 was designated as an "orphan drug" in Europe for treatment of soft tissue sarcoma, meaning that the company will receive incentives such as a centralized registration procedure and a 10-year exclusive marketing period following approval.
- Conclusions from the AACR (American Academy of Cancer Research) meeting in New Orleans in March 2001:
 - Results at the meeting show that the proteins in nucleotide excision repair (a DNA-repair mechanism) are essential in ET-743 anti-proliferation activity. This new action mechanism distinguishes ET-743 from other drugs that interact with DNA, according to research by the NCI (US National Cancer Institute).
 - Oncologists stated that the effectiveness of ET-743 is also being tested on other tumors.
- Conclusions from the ASCO (American Society of Clinical Oncology) meeting in San Francisco in May 2001:
 - The results of Phase II clinical trials on 70 patients indicate that ET-743 can control the disease and increase the survival rate of patients with soft tissue sarcoma.
- The NCI approved a Phase I clinical pediatric trial program with ET-743 for treatment of bone and soft tissue sarcoma that is resistant to other treatments. The most noteworthy feature of this approval is that pediatric trials are not usually authorized before successful completion of Phase II trials on adult patients. These pediatric trials will take place in 54 hospitals in the US and Canada. The NCI will collaborate financially in this program.

Aplidin™:

- Conclusions from the AACR (American Academy of Cancer Research) meeting in New Orleans in March 2001:
 - The studies presented confirmed that L-carnitine can protect patients treated with high doses of Aplidin. Patients treated with L-carnitine tolerate doses of Aplidin that would otherwise cause muscular problems.
- Conclusions from the ASCO (American Society of Clinical Oncology) meeting in San Francisco in May 2001:
 - A report was presented on a Phase I study on 58 patients with advanced tumors who had been previously treated with

other chemotherapy agents. The results indicate that Aplidin can be administered safely at several dosage levels. Additional studies were presented confirming L-carnitine's protective effect.

- The process to obtain synthetic Aplidin™ was completed successfully. This will enable the Company to obtain the compounds it requires to complete the clinical trials and for future sales at a lower cost.

Kahalalide F:

- The Phase I trials that commenced in December 2000 are still under way.

Clinical development program at 30 June 2001

	NO. OF CURRENT STUDIES	PATIENTS TREATED
Phase I ET-743	8	219
Phase II ET-743	15	584
Compassionate use of ET-743		257
Phase I Aplidin	4	192
Phase I Kahalalide F	1	8
TOTAL	28	1,260

3. CAPITAL EXPENDITURE

- **Acquisition of new facilities**

PharmaMar acquired new facilities at Colmenar Viejo, which are over 6,000 m2 larger than its current premises. The aim is to meet the needs of areas such as industrial operations and marketing due to the projected launch of ET-743 for sarcoma in late 2002.

An additional 8,500 m2 can be built at the new site. The planned investment totals 2.27 billion pesetas (13.6 million euros).

Pharma Mar USA Inc. also expanded its pre-clinical laboratory facilities by 2,713 m2, investing a total of US\$ 1.4 million.

- **R&D expenditure:**

The Group invested 2.207 billion pesetas (13.26 million euros) in R&D in the first half of 2001, i.e. 53% more than in the same period of 2000 (1.444 billion pesetas—8.68 million euros).

PharmaMar's R&D budget for 2001 amounts to 6.157 billion pesetas (37.0 million euros), i.e. 85% more than in 2000.

4. OTHER SIGNIFICANT EVENTS

1) The sales and marketing department was reinforced and is preparing to launch PharmaMar's first product on the market. Accordingly, the department has hired an international product manager, a medical affairs manager, a communications manager and a congress manager. The Company is currently creating a European sales structure to distribute and sell ET-743.

2) Growth in the Regulatory area: the department was expanded with the addition of five technical experts. During the first half of 2001, the Company held talks with the European health authorities to assess the chances of success of our proposal for a clinical registration program. The centralized registration system of the EMEA (European Medicines Evaluation Agency) will be used; the Company has already commenced discussions with this agency. Further meetings are planned for the second half of 2001.

3) The Zeltia Group also increased the workforce from 325 at 30 June 2000 to 446 at 30 June 2001; the increase was mostly at PharmaMar.

5. FUTURE OUTLOOK

- 1) Licensing agreement. Discussions on the licensing agreement to market ET-743 in non-European countries are at an advanced stage. An announcement is expected shortly.
- 2) PharmaMar maintains its objective to present the dossier on ET-743 for use in soft tissue sarcoma to the EMEA for registration.
- 3) PharmaMar will attend the following scientific conferences:
 - SEOM (Spanish Society of Medical Oncology): 6-9 October in Valencia.
 - ECCO 11: 21-25 October in Lisbon. PharmaMar will present 4 papers: 3 on ET-743 and 1 on Aplidin.
 - AACR-NCI-EORTC: 29 October-2 November in Miami. PharmaMar will present 23 papers: 15 on ET-743, 7 on Aplidin and 1 on Kahalalide F.
- 4) We expect Aplidin to enter Phase II clinical development for thyroid and neuroendocrine cancers in the second half of 2001.

CONSOLIDATED BALANCE SHEET

<i>(in thousand euros)</i>	June 2001	2000 Full year	Changes %		June 2001	2000 Full year	Changes %
Assets				Liabilities			
Intangible fixed assets	91.057,92	78.346,95	16,22%	Share capital	9.985,69	7.988,56	25,00%
Tangible fixed assets	35.546,96	25.677,68	38,44%	Share premium account	206.211,81	221.891,88	-7,07%
Financial fixed assets	57.640,48	47.671,12	20,91%	Other reserves	99.789,44	73.579,05	35,62%
Total fixed assets	184.245,36	151.695,75	21,46%	Profit and loss account	6.025,82	12.709,82	-52,59%
Goodwill in consolidation	9.540,47	9.406,84	1,42%	Total Capital & Reserves	322.012,76	316.169,31	1,85%
Deferred expenses	452,60	539,34	-16,08%	Minorities	703,16	383,92	83,15%
Stocks	8.856,61	6.138,92	44,27%	Negative difference in consolidation	449,15	449,14	0,00%
Receivables	36.116,22	21.627,73	66,99%	Deferred income	677,43	559,68	21,04%
Current asset investments	59.440,78	113.188,37	-47,49%	Provisions for liabilities and charges	926,30	927,34	-0,11%
Controlling company shares held at short term	61.991,45	44.178,95	40,32%	Total creditors falling due after one year	9.351,45	10.058,53	-7,03%
Cash at bank and in hand	4.269,04	7.513,68	-43,18%	Banks loan	3.261,83	3.960,17	-17,63%
Deferred expenses	640,06	470,69	35,98%	Trade account payable	20.419,06	16.387,89	24,60%
Total current assets	171.314,16	193.118,34	-11,29%	Other liabilities	7.383,72	5.855,64	26,10%
				Accruals and deferred income	367,73	8,65	4151,21%
				Total creditors falling due in less than one year	31.432,34	26.212,35	19,91%
Total Assets	365.552,59	354.760,27	3,04%	Total liabilities	365.552,59	354.760,27	3,04%

CONSOLIDATED PROFIT & LOSS ACCOUNT

<i>(in thousand euros)</i>	June 2001	June 2000	Change %	2000 Full year
Net turnover	34.900,58	28.930,10	21%	55.712,76
Cost of sales	-17.571,16	-14.996,16	17%	-21.857,12
Gross margin	17.329,42	13.933,94	24%	33.855,64
Research and development expenses	-13.637,04	-8.679,99	57%	-20.020,23
Capitalized in-house work on R & D	13.637,04	8.679,99	57%	20.020,23
Profit before other operating items	17.329,42	13.933,94	24%	33.855,64
General and administration	-5.879,37	-4.383,67	34%	-12.246,29
Marketing expenses	-5.434,47	-4.001,59	36%	-9.088,52
Depreciation	-2.622,18	-1.149,92	128%	-3.489,30
Other operating expenses	-1.903,36	-2.016,00	-6%	-5.308,10
Other operating income	1.498,12	1.641,21	-9%	1.744,66
Operating profits	2.988,16	4.023,97	-26%	5.468,09
Financial items net	5.339,26	184,30	2797%	3.032,47
Amortization on goodwill in consolidation	-706,07	-757,53	-7%	-1.403,41
Equity in income of equity-accounted affiliates	496,83	391,30	27%	844,62
Profits before exceptionals	8.118,18	3.842,04	111%	7.941,77
Extraordinary items net	-78,28	9.328,04	-101%	9.387,34
Profit before tax	8.039,90	13.170,08	-39%	17.329,11
Tax on the profit period	2.026,00	1.543,29		4.625,35
Profit for the period before minority interest	6.013,90	11.626,79	-48%	12.703,76
Minority interest's share of the profit	11,92	16,88	-29%	6,06
Profit for the period	6.025,82	11.643,67	-48%	12.709,82

CASH FLOW JUNE 2001

(in thousand euros)

Operating profit	2.988,16
Depreciation	2.622,18
Capitalized in-house work on R & D	-13.637,04
Increase in Stoks	-2.717,69
(Increase) decrease in debtors	-14.488,49
Increase in creditors	4.031,00
Provisions	43,31
Other items	
Net cash inflow from operating activities	-21.158,57
Dividends from associated companies	219,92
Returns on investments and servicing of finance	
Interest received	1.978,08
deferred interest	-824,52
Interest paid	-593,69
	559,87
Tax paid	-1.291,17
Capital expenditure and financial investment	
Purchase of fixed assets investments	-2.317,98
Purchase of tangible fixed assets	-10.813,00
Sale of tangible fixed assets	
	-13.130,98
Acquisitions and disposals	
Acquisitions and purchases of minority interests	-93,16
Disposal of investments	5.825,66
	5.732,51
Equity dividends paid	0
Net cash flow before financing activities	-29.628,30
Financing	
Issue of ordinary share capital (net)	0,00
Early cancellation	-707,08
Transfer of investments to long term	-8.146,04
Net debt	-38.481,42
<i>Opening net cash</i>	<i>160.920,83</i>
<i>Closing net cash</i>	<i>122.439,41</i>