SEPARATE **FINANCIAL STATEMENTS**

2017

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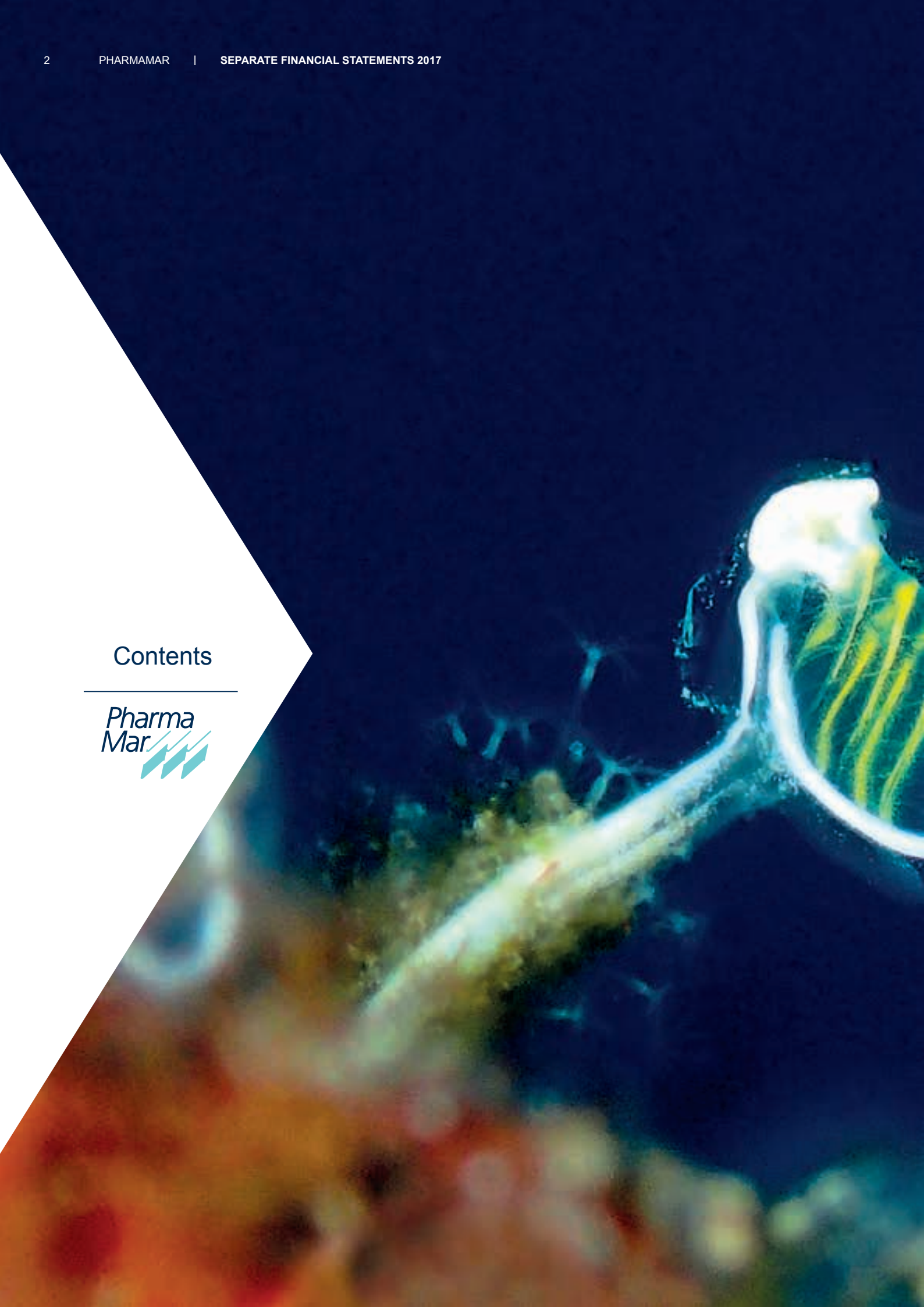

Financial statements and auditors' report

PharmaMar

PHARMA MAR, S.A.

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

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

Independent auditor 's report on the annual accounts

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

Report on the annual accounts

Opinion

We have audited the annual accounts of Pharma Mar, S.A. (the Company), which comprise the balance sheet as at December 31, 2017, and the income statement, statement of changes in equity, cash flow statement and related notes for the year then ended.

In our opinion, the accompanying annual accounts present fairly, in all material respects, the equity and financial position of the Company as at December 31, 2017, as well as its financial performance and cash flows for the year then ended, in accordance with the applicable financial reporting framework (as identified in Note 2 of the notes to the annual accounts), and, in particular, with the accounting principles and criteria included therein.

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 annual accounts* section of our report.

We are independent of the Company in accordance with the ethical requirements, including those relating to independence, that are relevant to our audit of the 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 annual accounts of the current period. These matters were addressed in the context of our audit of the annual accounts as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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Key audit matters	How our audit addressed the matter
Recognition and recoverability of capitalised development costs The Company's main activity is research, development and marketing of bio-active principles, particularly those of marine origin, in the antitumoral area. As set out in note 6 to the accompanying financial statements, in 2017, the Company capitalised as an increase in the value of its assets, EUR 36,562 thousand of development costs, and recognised write-offs and impairment losses on intangible assets arising from relevant events occurring in two of the Company's ongoing investigations (Zepsyre for the treatment of ovarian cancer, and Aplidin for multiple myeloma), for EUR 138,847 thousand, as well as a depreciation charge for the year of EUR 25,217 thousand. The net book value amount of capitalised development costs on the balance sheet at 31 December 2017 is EUR 169,962 thousand. The Company capitalises development costs as part of the costs of its intangible assets when they meet the conditions set out in note 4.1 to the financial statements. The conditions are normally considered to be met when the compound reaches the clinical development stage (phase I); i.e. when clinical tests on humans begins. To arrive at this conclusion, the Company carries out a compound-by-compound analysis, presenting the findings in supporting memorandums. As set out in note 4.1 to the financial statements, subsequent measurement is based on: i) Impairment tests, provided the research gives indications of impairment and, accordingly, there are doubts surrounding fulfilment of the conditions. At 31 December 2017, the tests led to the write-off and impairment of aforementioned indications.	We have assessed the correct application of the policy for recognising development costs set out in note 4.1 to the financial statements, and the design and implementation of relevant controls in respect of development costs. For capitalised development costs in 2017, we obtained a breakdown of the costs by project and reconciled the figures with the amounts recognised in the financial statements. For a sample of invoices in the disclosure, we checked that the items were eligible for capitalisation and that the Company allocated the costs by nature, department and research appropriately. We also held meetings with the heads of the clinical development and R&D departments to obtain an understanding of the various research phases, and analysed the memorandums prepared by management supporting fulfilment of the capitalisation requirements described in note 4.1 to the financial statements, to evaluate whether the ongoing projects included in the balance sheet at 31 December 2017 met these requirements. Regarding write-offs and impairment for the year, we obtained a breakdown of all expenses capitalised related to research on Aplidin and Zepsyre and assessed that the items written off and impaired related to the indications for which the research no longer satisfied the requirements for capitalisation. For the assessment of potential impairment at year-end, we reviewed, with the involvement of our valuation experts, the approach used in the impairment models based on business plans per molecule, and the discount rate used. We also analysed the key assumptions underlying those models and performed a sensitivity analysis of the key variables used. We have compared the findings with information published by third parties and analysts regarding the potential values assigned to the research, as well as with renowned oncologists, who did not uncover any matters that raised doubts surrounding the technical viability of the compounds capitalised in the balance sheet.

Key audit matters	How our audit addressed the matter
ii) Annual assessments of the recoverability of the capitalised amount. These included, *interalia*, an evaluation of individual business plans per molecule, the key assumptions of which are estimated prices of refunds and the potential population to be treated, and the valuations of independent third-party experts and research reports. We have considered this to be a key audit matter given the level of judgement required when interpreting the accounting standard for consideration of the fulfilment of the conditions for capitalisation, and the significant level of judgement and estimation to be made by management regarding recovery of the amount capitalised in the balance sheet as development costs.	Based on this analysis, we believe the audit evidence obtained is sufficient and appropriate to consider that management's judgements and estimates regarding development expenditure capitalised at the end of 2017 and the impacts of write-downs and impairments recognised in the income statement for the year are reasonable.

Financial capacity

The Company's research activities require sufficient cash flow to fund and, where appropriate, complete ongoing research in accordance with the established investment plan. As described in note 5.1.3 to the accompanying financial statements, management expects the level of research and development spend in 2018 to be similar to the 2017 year.

As set out in note 5.1.3 to the accompanying financial statements, at least annually, the Company's finance department provides the directors with a business plan, together with cash flow estimates, covering a 5-year period. The plan includes a number of scenarios regarding the source and use of funds based on ongoing research.

Note 5.1.3 to the accompanying financial statements, discloses directors' assessment of liquidity risk with forecasts to fund ongoing research.

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

For future years' budgets, which include sales of products already in the marketing phase, forecast revenue from royalties and milestones on licensing agreements signed, and revenue from potential licenses for ongoing research, we have analysed the supporting documentation to assess the reasonableness of the estimates based on the information available at any given time.

We also analysed management's capacity to make more flexible the allocation of financial resources to ongoing research, understanding which investments are a priority in the short term and which can be delayed if circumstances do not evolve as envisaged in the business plan, so as to adapt costs to each scenario.

Key audit matters	How our audit addressed the matter
We have focused on this area as we consider a key audit matter the assessment of whether the Company has sufficient funds to execute the budgeted research plan and make its short-term payment commitments, and the appropriate disclosure in the notes to the accompanying financial statements.	Regarding disclosures in the notes, we have concluded that they contain the requirements of section 9.3 of Spain's General Accounting Plan (Plan General de Contabilidad) regarding qualitative and quantitative disclosures about liquidity risk. As a result of our audit, we consider management's assessment of the Company's financial capacity to be reasonable and consistent with the information disclosed in the annual financial statements.

Recognition and recoverability of deferred tax assets

At 31 December 2017, the Company's balance sheet contains EUR 20,520 thousand and EUR 695 thousand, respectively, of deferred tax assets and deferred tax liabilities, as set out in note 20 to the financial statements, recognised based on the tax planning strategies of the companies composing the Spanish tax group, as described in notes 2.2 and 4.11 to the accompanying financial statements.

The source of information used to prepare the projections was the budget approved by the Company's directors, which includes estimates to 2022. In addition, the Company's management extends the projections to 2027 based on its best estimates.

Future taxable income considers the estimated probability of success of each research based on the various molecules' current stage of development. Therefore, these assumptions are particularly relevant in the calculations.

The evaluation of both the initial recognition and subsequent ability to recovery the deferred tax assets recognised is a complex exercise requiring a high degree of judgement and estimation by management, which is subject to significant risk of material misstatement. Therefore, we consider it to be a key audit matter.

We have obtained an understanding and evaluated management's estimation process.

We have focused our procedures on the evaluation of the reasonableness of the budgets drawn up and the analysis of whether the calculation model and approach used by the Company to define future taxable income are appropriate.

For the key assumptions, mainly focused in the oncology segment, we obtained supporting documentation via information prepared internally by the Company. We consider the judgements made to be reasonable. We checked that the probabilities of success assigned to each research based on the current stage of development are aligned with general industry practice.

Based on the procedures described, we consider the estimates made by the Company regarding the recognition of the deferred tax assets to be reasonable.

Key audit matters	How our audit addressed the matter
Recognition of revenue from complex licensing, development, marketing and manufacturing contracts Inherent in its business, the Company signs licensing, development and marketing and, where appropriate, manufacturing agreements with certain pharmaceutical companies. These agreements generally entail upfront payments when the agreement is signed and subsequent payments based on the achievement of milestones. As set out in note 4.14 to the financial statements, the Company makes the following considerations when analysing the licensing, development and marketing agreements: • Identification of the various performance obligations. • Determination of the transaction price, understood as the value of the agreement signed with the counterparty. • Allocation of the transaction price for the various performance obligations. • Estimation of when the obligations are considered to be performed and, accordingly, the timing of the accrual and subsequent recognition of the consideration received. For the 2017 financial statements, these considerations are especially relevant regarding the accounting recognition of the contract signed with Chugai Pharmaceutical Co. in 2016, for which EUR 10,888 thousand of revenue was recognised in 2017 and deferred revenue at the year-end of EUR 15,322 thousand, as set out in note 19. Total revenue recognised at 31 December 2017 for this type of contract amounted to EUR 12,357 thousand (note 21.1.3). The analysis of the revenue to be recognised and the timing is generally complex and involves significant judgements and estimates, which can significantly impact the financial statements. Therefore, this is considered a key audit matter.	To evaluate the Company's recognition of revenue from these contracts, we held meetings with the various department heads involved in the negotiation to obtain an understanding of the interpretation of the contracts signed, the economic substance of the transaction, and the expectations of the parties involved in relation to performance obligations. We verified, for the main revenue recognised in the 2017 financial statements, the performance obligations identified and the price related to each based on an analysis of the underlying contracts. We also analysed the revenue recognised in 2017 related to the obligations satisfied in the period and whether there could be other unrecognised obligations performed. After performing our procedures, we consider the judgements and estimates made by the Company in determining and recognising revenue from complex licensing, development, marketing and manufacturing contracts in 2017 to be appropriate.

Pharma Mar, S.A.

Other information: Management report

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

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

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

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

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

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

The Company´s directors are responsible for the preparation of the accompanying annual accounts, such that they fairly present the equity, financial position and financial performance of the Company, in accordance with the financial reporting framework applicable to the entity in Spain, and for such internal control as the directors determine is necessary to enable the preparation of annual accounts that are free from material misstatement, whether due to fraud or error.

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

The audit committee is responsible for overseeing the process of preparation and presentation of the annual accounts.

Auditor's responsibilities for the audit of the annual accounts

Our objectives are to obtain reasonable assurance about whether the 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 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 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 Company´s internal control.

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

- Conclude on the appropriateness of the 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 Company´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 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 Company to cease to continue as a going concern.

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

We communicate with the 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 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 Company´s audit committee, we determine those matters that were of most significance in the audit of the 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.

Report on other legal and regulatory requirements

Report to the audit committee

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

Appointment period

The General Ordinary Shareholders' Meeting held on June 29, 2017 appointed us as auditors for a period of 1 year, for the year ended on December 31, 2017.

Previously, we were appointed by resolution of the General Shareholders' Meeting for an initial period and we have audited the accounts continuously since the year ended December 31, 1997.

Services provided

Services provided to the Company for services other than the audit of the accounts, are disclosed in Note 31 of the annual accounts.

PricewaterhouseCoopers Auditores, S.L. (S0242)

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

February 28, 2018

FINANCIAL STATEMENTS OF PHARMA MAR, S.A.

as of 31 December 2017

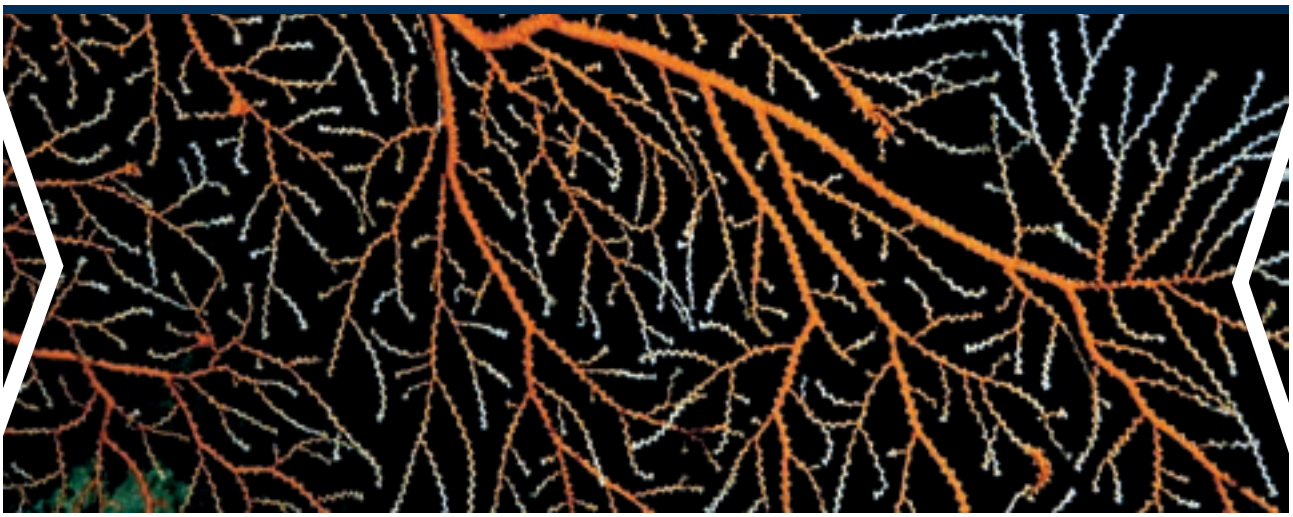
ASSETS (thousand euro)	Note	31-12-17	31-12-16
A) Non-current assets		**280,778**	**395,802**
I. Intangible assets		**171,090**	**298,708**
1. Development	6	169,962	297,465
5. Computer software	6	1,128	1,243
II. Property, plant and equipment		**20,809**	**20,516**
1. Land and structures	7	13,442	13,960
2. Technical installations and other property, plant and equipment	7	6,788	4,366
3. Construction in progress and advances	7	579	2,190
III. Investment property		**1,492**	**1,492**
1. Land	8	1,492	1,492
IV. Non-current investment in Group and associated undertakings		**66,366**	**57,184**
1. Equity instruments	11	48,590	44,693
2. Loans to Group undertakings	28	17,776	12,491
V. Non-current financial assets		**501**	**568**
1. Equity instruments	12	327	326
2. Loans to third parties		51	118
5. Other financial assets	14	123	124
VI. Deferred tax assets	20	**20,520**	**17,334**
B) Current assets		**46,176**	**80,781**
II. Inventories		**7,137**	**6,089**
2. Raw materials and other supplies used	13	72	88
3. Products in process	13	6,673	5,596
4. Finished products	13	392	405
III. Trade and other accounts receivable		**18,321**	**48,560**
1. Customer receivables for sales and services	14	7,475	38,979
2. Receivable from Group and associated undertakings	28	7,003	7,655
3. Sundry debtors	14	542	469
4. Personnel	14	110	113
5. Current tax assets		779	306
6. Other receivables from public authorities	22	2,412	1,038
IV. Current investment in Group and associated undertakings		**1,422**	**2,030**
5. Other financial assets	14	1,422	2,030
V. Current financial assets		**4,590**	**14,993**
5. Other financial assets	14	4,590	14,993
VI. Accruals	14	**1,986**	**1,848**
VII. Cash and cash equivalents		**12,720**	**7,261**
1. Cash	15	12,720	7,261
Total assets (A+B)		**326,954**	**476,583**

EQUITY AND LIABILITIES (thousand euro)	Note	31-12-17	31-12-16
A) Equity		**180,144**	**321,455**
A-1) Capital and reserves		**176,716**	**312,297**
I. Capital		**11,132**	**11,110**
1. Share capital	16	11,132	11,110
II. Share premium account	16	**71,278**	**69,189**
III. Reserves		**302,499**	**302,126**
1. Legal and bylaw reserves	17	2,226	2,222
2. Other reserves	17	300,273	299,904
IV. (Own shares and equity instruments)	16	**(4,470)**	**(3,246)**
V. Prior years' income		**(66,882)**	**(55,408)**
2. (Prior years' loss)		(66,882)	(55,408)
VII. Income for the year		**(136,841)**	**(11,474)**
A-2) Value adjustments		**13**	**12**
II. Hedge transactions		13	12
A-3) Subsidies, donations and legacies received	6, 18	**3,415**	**9,146**
B) Non-current liabilities		**73,587**	**77,526**
I. Long-term provisions		**150**	**150**
4. Other provisions		150	150
II. Non-Current debt		**67,637**	**61,737**
1. Bonds and other marketable securities	19	16,350	16,350
2. Bank debt	19	33,231	24,794
5. Other financial liabilities	19	18,056	20,593
IV. Deferred tax liabilities	20	**695**	**1,639**
V. Long-term accruals	19	**5,105**	**14,000**
C) Current liabilities		**73,223**	**77,602**
III. Current debt		**23,828**	**24,357**
1. Bonds and other marketable securities	19	510	466
2. Bank debt and debt to official authorities	19	22,644	23,223
5. Other financial liabilities	19	674	668
IV. Current accounts payable to Group and associated undertakings	19, 28	**8,895**	**9,209**
V. Trade and other payables		**30,283**	**34,036**
1. Suppliers	19	292	187
2. Due to Group and associated undertakings	19, 28	2,541	2,174
3. Sundry creditors	19	21,410	25,086
4. Personnel (compensation payable)	19	4,483	4,490
6. Other debt to public authorities	22	897	865
7. Customer advances	19	660	1,234
VI. Short-term accruals	19	**10,217**	**10,000**
Total equity and liabilities (A+B+C)		**326,954**	**476,583**

STATEMENT OF INCOME (thousand euro)	Note	31-12-17	31-12-16
A) Continuing operations			
1. Net revenues	21.1, 21.2	**88,932**	**92,775**
a) Product sales		71,563	75,228
b) Licensing and co-development agreements		12,357	11,129
c) Royalties		4,362	5,779
d) Other revenues		650	639
2. Variation in finished goods and work-in-process inventories	13	**1,027**	**(1,695)**
3. Capitalized in-house work	6	**36,562**	**40,443**
4. Purchases		**(5,425)**	**(5,866)**
b) Raw materials and other consumables consumed	21.4	(2,928)	(4,179)
c) Outside work		(2,497)	(1,687)
5. Other operating revenues		**14**	**31**
b) Operating subsidies recognized in income for the year		14	31
6. Personnel expenses	21.5	**(30,757)**	**(30,147)**
a) Wages, salaries and similar		(25,013)	(24,714)
b) Employee welfare expenses		(5,744)	(5,433)
7. Other operating expenses	21.6	**(66,979)**	**(68,841)**
a) Outside services		(66,399)	(67,951)
b) Taxes other than income tax		(580)	(798)
c) Losses, impairment and changes in trade provisions		-	(92)
8. Depreciation and amortization	6, 7	**(26,957)**	**(29,724)**
9. Recognition of subsidies for non-financial assets and other	18	**8,233**	**434**
11. Impairment losses and income from disposal of assets	21.7	**(138,876)**	**(171)**
a) Impairments and losses	21.7	(97,942)	(171)
b) Income from disposals and other	6,7	(40,934)	-
A.1) Operating income (1+2+3+4+5+6+7+8+9+11)		**(134,226)**	**(2,761)**
12. Financial revenues	23	**603**	**1,272**
a) Equity instruments		**39**	**579**
a 1) Group and associated undertakings		39	579
b) Marketable securities and other financial instruments		**564**	**693**
b 1) Group and associated undertakings		521	516
b 2) Third parties		43	177
13. Financial expenses	23	**(3,941)**	**(4,176)**
a) On debts to Group and associated undertakings		(140)	(206)
b) On debts to third parties		(3,801)	(3,970)
15. Exchange differences	23	**(212)**	**(306)**
16. Impairment losses and income from disposal of financial instruments	23	**(960)**	**202**
a) Impairments and losses		-	52
b) Income from disposals and other		(960)	150
A.2) Financial income (12+13+15+16)		**(4,510)**	**(3,008)**
A.3) Income before taxes (A.1 + A.2)		**(138,736)**	**(5,769)**
17. Income tax	22	**1,895**	**(5,705)**
A.4) Income for the year from continuing operations (A.3+17)		**(136,841)**	**(11,474)**

STATEMENT OF CHANGES IN EQUITY (thousand euro)	Note	31-12-17	31-12-16
A) Income, per income statement		**(136,841)**	**(11,474)**
Revenues and expenses recognized directly in equity			
III. Subsidies, donations and legacies received	18	592	281
V. Tax effect	18	(148)	(70)
B) Total revenues and expenses recognized directly in equity		**444**	**211**
Transfers to profit or loss			
VIII. Subsidies, donations and legacies received	18	(8,233)	(465)
IX. Tax effect	18	2,058	116
C) Total transfers to profit or loss (VI+VII+VIII+IX)		**(6,175)**	**(349)**
TOTAL RECOGNIZED REVENUES AND EXPENSES (A + B + C)		**(142,572)**	**(11,612)**

	Share Capital	Share premium account	Reserves	(Own shares and equity instruments)	Prior years' income	income for the year	Subsidies, donations and legacies received	Value adjustments	Total
Ending balance 2015	**11,110**	**69,189**	**302,248**	**(2,944)**	**(12,301)**	**(43,107)**	**9,284**	**8**	**333,487**
Total recognized revenues and expenses	-	-	-	-	-	(11,474)	(138)	-	(11,612)
Other changes in equity	-	-	-	-	-	-	-	4	**4**
Share ownership plan	-	-	206	-	-	-	-	-	**206**
Transactions with own shares (purchases)	-	-	-	(4,163)	-	-	-	-	**(4,163)**
Transactions with own shares (sales)	-	-	(328)	3,861	-	-	-	-	**3,533**
Distribution of income	-	-	-	-	(43,107)	43,107	-	-	**-**
Ending balance 2016	**11,110**	**69,189**	**302,126**	**(3,246)**	**(55,408)**	**(11,474)**	**9,146**	**12**	**321,455**
Total recognized revenues and expenses	-	-	-	-	-	(136,841)	(5,731)	-	**(142,572)**
Transactions with shareholders or owners	22	2,089	(145)	-	-	-	-	-	**1,966**
Other changes in equity	-	-	-	-	-	-	-	1	**1**
Share ownership plan	-	-	(93)	584	-	-	-	-	**491**
Transactions with own shares (purchases)	-	-	-	(6,186)	-	-	-	-	**(6,186)**
Transactions with own shares (sales)	-	-	611	4,378	-	-	-	-	**4,989**
Merger reserve	-	-	-	-	-	-	-	-	**-**
Gain on sale of own shares	-	-	-	-	-	-	-	-	**-**
Distribution of income	-	-	-	-	(11,474)	11,474	-	-	**-**
Ending balance 2017	**11,132**	**71,278**	**302,499**	**(4,470)**	**(66,882)**	**(136,842)**	**3,415**	**13**	**180,144**



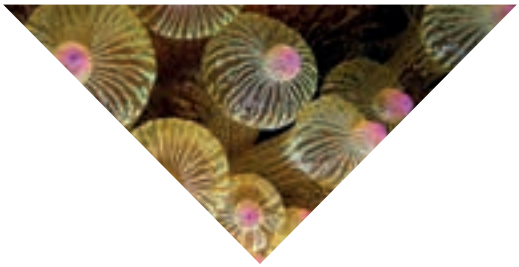
CASH FLOW (thousand euro)	Notes	31-12-17	31-12-16
A) OPERATING CASH FLOW			
1. Income for the year before taxes		**(138,736)**	**(5,769)**
2. Adjustments to income		**162,601**	**32,630**
a) Depreciation and amortization (+)	6, 7, 8	26,957	29,724
c) Change in provisions		-	(43)
d) Subsidies recognized (-)	18	(8,233)	(434)
e) Income from derecognitions and disposals of property, plant and equipment (+/-)	6, 7, 23	138,876	171
f) Income from derecognitions and disposals of financial instruments (+/-)		960	(202)
g) Share-based payments		491	206
h) Financial revenues (-)	23	(603)	(1,273)
i) Financial expenses (+)	23	3,941	4,175
j) Exchange differences (+/-)	23	212	306
3.Changes in working capital		**13,623**	**9,461**
a) Inventories (+/-)	13	(1,048)	1,717
b) Debtors and other accounts receivable (+/-)	14	27,456	1,206
d) Creditors and other accounts payable (+/-)	19	(12,648)	6,529
f) Other non-current assets and liabilities (+/-)		(137)	10
4. Other operating cash flow		**(902)**	**(2,043)**
a) Interest paid (-)		(3,941)	(2,810)
c) Interest received (+)		39	767
d) Corporate income tax receipts/payments	22	3,000	-
5.Operating cash flow (+/-1+/-2+/-3+/-4)		**36,585**	**34,280**
B) INVESTING CASH FLOW			
6. Investment payments (-)		**(47,989)**	**(45,062)**
a) Group and associated undertakings		(9,577)	(1,728)
b) Intangible assets	6	(36,655)	(40,974)
c) Property, plant and equipment	7	(1,757)	(2,360)
7. Divestment receipts (+)		**11,079**	**19,927**
a) Group and associated undertakings		607	1,016
c) Property, plant and equipment		1	-
e) Other financial assets		10,471	18,911
8. Investing cash flow (7-6)		**(36,910)**	**(25,135)**
C) FINANCING CASH FLOW			
9. Collections and payments in connection with equity instruments		**1,361**	**(487)**
a) Issuance of own equity instruments (+)		1,966	-
c) Acquisition of own equity instruments (-)		(6,186)	(4,163)
d) Disposal of own equity instruments (+)		4,989	3,533
e) Subsidies, donations and legacies received (+)	18	592	143
10. Collections and payments in connection with instruments representing financial liabilities		**4,633**	**(4,257)**
a) Issuance		**24,865**	**29,259**
2. Bank debt and debt to official authorities (+)	19	20,551	17,510
3. Debt to Group and associated undertakings (+)	19	4,314	11,749
b) Refund and amortization of:		**(20,232)**	**(33,516)**
1. Debt to Group and associated undertakings (-)	19	(5,051)	(17,185)
2. Bank debt and debt to official authorities (-)	19	(15,181)	(16,331)
12. Financing cash flow (+/-9+/-10)		**5,994**	**(4,745)**
D) EFFECT OF EXCHANGE RATE VARIATIONS		**(212)**	**(306)**
E) NET INCREASE/DECREASE IN CASH AND CASH EQUIVALENTS (+/-5+/-8+/-12+/-D)		**5,459**	**4,094**
Beginning cash and cash equivalents		7,261	3,167
Ending cash and cash equivalents		12,720	7,261

Notes to financial statements

PharmaMar

Notes to financial statements of Pharma Mar, S.A. as of 31 December 2017

(Thousand euro)



1. COMPANY BUSINESS

Pharma Mar, S.A.(hereafter "PharmaMar" or the "Company") was incorporated on 30 April 1986 as a limited company (sociedad anónima) for an indefinite period. Its registered offices are at Avenida de los Reyes nº 1 (Pol. Industrial La Mina Norte) Colmenar Viejo (Madrid).

The main activity of Pharma Mar, S.A. (the Company) is research, development and commercialization of bio-active principles, particularly those of marine origin, for application in human medicine, especially in the antitumor, antiviral and immunomodulation fields and the area of tropical diseases, as well as management, support and development of its investees, mainly in the chemical and biopharmaceutical businesses.

On 20 September 2007, PharmaMar received authorization from the European Commission to commercialize its first compound, Yondelis® (Trabectedin), to treat soft tissue sarcoma; commercial sales began in the fourth quarter of 2007.

On 2 November 2009, the European Commission granted authorization for PharmaMar to commercialize Yondelis® (Trabectedin) 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.

In 2015, Yondelis® (Trabectedin) was authorized for sale by the Japanese regulatory authorities, via PharmaMar partner Taiho Pharmaceutical Co, and by the US Food and Drug Administration (FDA), via PharmaMar partner Janssen Biotech Inc., for treating certain types of soft tissue sarcoma.

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

In September 2016, PharmaMar filed an application with the European Medicines Agency (EMA) for authorization to market one of its compounds, Aplidin® (Plitidepsin), for treating multiple myeloma. In December 2017, the Company received a negative opinion from the Committee for Medical Products for Human Use (CHMP) in connection with its application to commercialize this compound in Europe. The ADMYRE trial, on which the application was based, achieved its primary endpoint, as a result of which the company applied for the application dossier to be re-examined. A response may be obtained in the second quarter of 2018. The Company has estimated the direct costs related to development for multiple myeloma, as well as the indirect costs attributable to this trial, and recognized impairment for the full amount, i.e. €97,942 thousand, as of 31 December 2017.

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

On 18 January 2018, the results of the CORAIL trial conducted by PharmaMar with the compound Zepsyre™ (Lurbinectedin) in resistant ovarian cancer were announced. The compound proved to be at least as active as the two compounds in the control arm, which are the current standard for treatment. Nevertheless, the trial did not reach its primary end-point, namely to improve progression-free survival (PFS). As of 31 December 2017, the amount capitalized by PharmaMar in connection with the compound Zepsyre™ was €123,521 thousand. The CORAIL trial represents €40,905 thousand of that figure, including direct costs and attributable indirect costs. The aforementioned amount was derecognized under capitalized development expenses as a consequence of the results obtained in the CORAIL trial.

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

The Company's financial statements are presented in euro, which is the Company's functional and presentation currency.

The Company's directors consider that the 2017 financial statements, which were authorized on 28 February 2018, will be approved without changes by the Shareholders' Meeting.

In accordance with the provisions of Royal Decree 1.159/2010, of 17 September, on 28 February 2018, the Company authorized the Consolidated Financial Statements as of 31 December 2017 for the group of companies of which it is the controlling company, which disclose a consolidated net loss of €26,745 thousand, equity (including the loss for the year) of €22,984 thousand, assets amounting to €187,720 thousand and revenues amounting to €179,363 thousand.

Those Consolidated Financial Statements were drawn up in accordance with the International Financial Reporting Standards adopted by the European Union (IFRS-EU).

The Consolidated Financial Statements contain all the Group companies, using the applicable consolidation method in each case, in conformity with article 42 of the Commercial Code.

2. BASIS OF PRESENTATION

2.1 True and fair view

The financial statements were prepared from the Company's accounting records and are presented in accordance with the current mercantile legislation and the rules established in Spain's General Accounting Plan approved by Royal Decree 1514/2007 (GAP 2007), as amended by Royal Decree 1159/2010 and Royal Decree 602/2016, in order to present a true and fair view of the equity, financial position and income of the Company and the veracity of the cash flows set out in the cash flow statement.

The figures in the documents comprising these financial statements (balance sheet, income statement, statement of changes in equity, cash flow statement and these notes to financial statements) are expressed in thousand euro.

2.2 Critical aspects of measuring and estimating uncertainty

The preparation of the financial statements requires the Company to use certain estimates and judgments in connection with the future that are evaluated continuously and are based on past experience and other factors, including expectations about future events that are considered to be reasonable in the circumstances.

By definition, these estimates seldom coincide with the actual results. The estimates and judgments with a significant risk of having a material impact on the carrying amounts of assets and liabilities in the next financial year are detailed below.

Deferred tax assets

Deferred tax assets due to tax losses carried forward and unused tax credits are recognized to the extent that the Company is likely to obtain future taxable income enabling them to be offset. Accordingly, for the purpose of the 2017 financial statements, the projections of revenues and expenses were re-estimated using management's best estimates about the Company's business and the current and foreseeable economic situation.

In calculating expected future income and assessing the recoverability of the tax credits, only the companies belonging to the consolidated tax group of which PharmaMar is the head are considered.

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

The main assumptions made in calculating expected future income and, therefore, the recoverability of the tax credits generated by the undertakings that belong to the tax group in Spain are as follows:

- Projections through 2027 are made for all the businesses of the Spanish tax group.
- The information for preparing the tax plan is the budget presented to the Board of Directors, which includes projections through 2022, extended to 2027 using the Company's best estimates of future earnings based on past experience, and the assumptions made in the first 5 years of estimation.
- The main variables used in projections for the oncology segment are as follows: a) the probability assigned to ongoing developments (revenue expected for each product under development is assigned a probability of occurrence based on the degree of progress with current research); b) the estimated selling price; and c) a penetration rate as a function of the number of patients that could potentially be treated with the product under development.
- The tax plan also uses the following significant assumptions:

- No revenues are assumed from products under development that have not yet reached Phase III.
- Average 22% growth in sales in the oncology segment. That growth is due mainly to the good prospects for Zepsyre™, a product currently under development.
- Average 5% growth in sales in the consumer chemicals segment.
- Average 6% sustained growth in operating expenses.

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

- Increasing the probability assigned to revenues from Phase III research by 1% would result in the recognition of an additional €552 thousand.
- A 5% reduction in the estimated price for the main research compound (Zepsyre™) would result in the derecognition of €1,833 thousand.
- A 5% reduction in the prevalence in the population for Yondelis® would result in derecognition of €158 thousand.

Recognition of revenue under licensing and/or co-development agreements

PharmaMar enters into licensing and/or co-development agreements that generally include many factors, and the associated revenues must be matched with the costs and considerations to be paid.

When deciding how to recognize the revenues from those transactions (Note 4.14.2), the directors consider the following factors:

- The economic basis of the transaction.
- The nature of the components of the transaction (payments, asset swaps, etc.).
- The valuation and distribution, on a fair value basis, of each item of consideration.
- The transfer of material risks and benefits deriving from ownership of the goods and the assumption of future obligations.
- The degree of progress with the project (milestones).

Capitalization of research and development expenses

Developing new drugs is subject to uncertainty due to the long period of maturation for the drugs and the technical results obtained at the various 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, technical and/or regulatory standards or because it proves unprofitable. Consequently, the Company assesses each development project to ascertain when the conditions set out in the measurement standard (Note 4.1.1) are met.

Useful life of property, plant and equipment

Company management determines the estimated useful life and the corresponding depreciation charge for the property, plant and equipment. This may change significantly as a result of technical innovations and actions by competitors in response to severe economic cycles in the industry. Management will increase the depreciation charges where the useful lives are shorter than those previously estimated, or it will impair or write off assets that are technically obsolete or non-strategic and have been abandoned or sold.

Fair value of other financial instruments

The fair value of financial instruments traded in active markets (such as investments acquired for

trading and those available for sale) is based on year-end market prices.

The fair value of financial instruments that are not traded in an active market is determined by using measurement techniques. The Company uses a variety of methods and makes assumptions based on the market conditions at each balance sheet date. For long-term debt, the market price for similar instruments is used. To determine the fair value of other financial instruments, other techniques are used, such as discounted estimated cash flow.

The carrying amount of accounts receivable and payable, minus any provision for impairment, is assumed to approximate to their fair value, given their short-term nature.

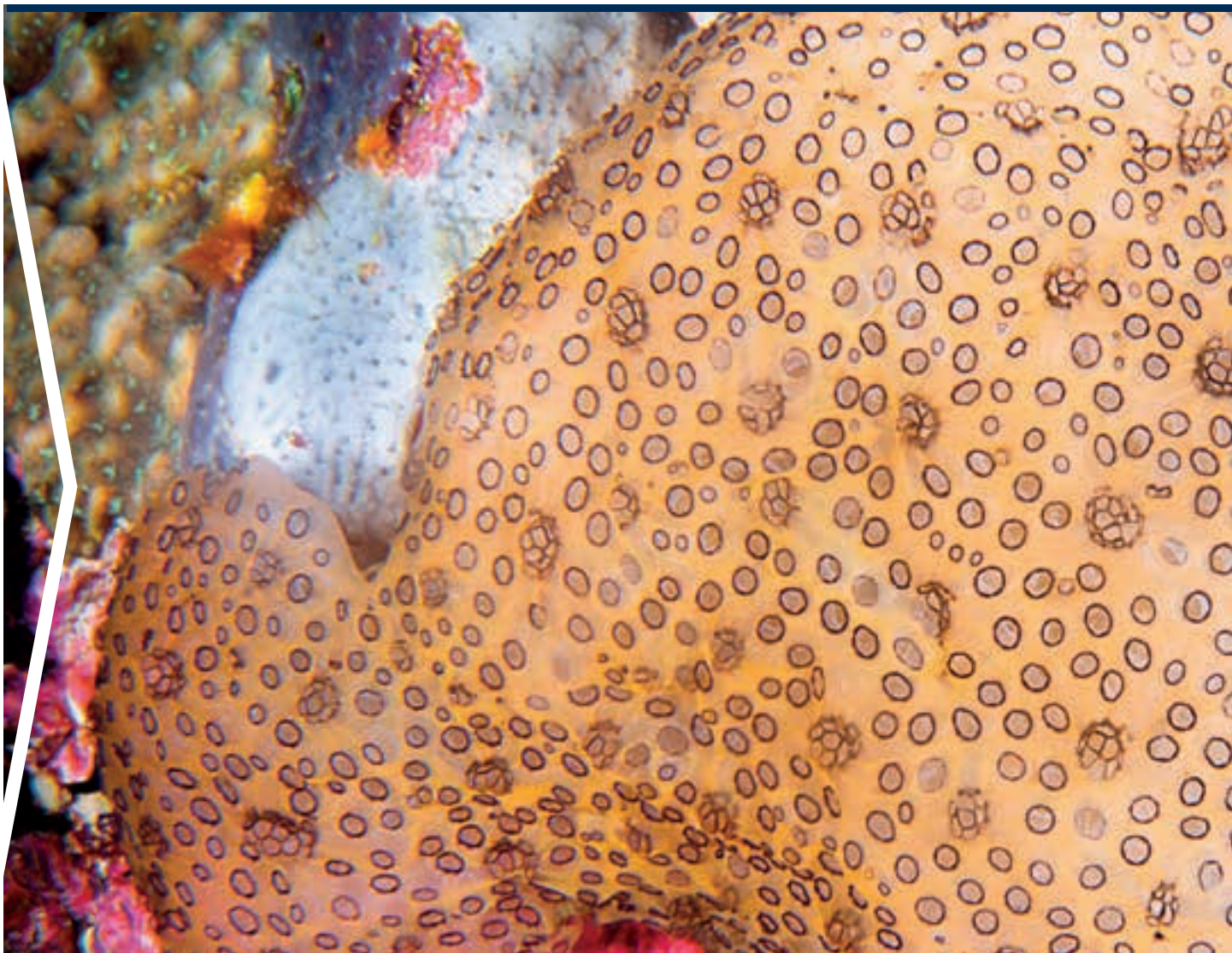
The fair value of financial liabilities for the purposes of presenting the financial information is estimated by discounting the contractual future cash flow at the current market interest rate available to the Company for similar financial instruments.

2.3 Comparative information

The amounts for 2016 are presented alongside those for 2017 for comparison purposes.

2.4 Grouping of items

To facilitate comprehension of the balance sheet, income statement, statement of changes in equity and cash flow statement, those financial statements are presented in grouped form, and the necessary breakdown is given in the notes to financial statements.

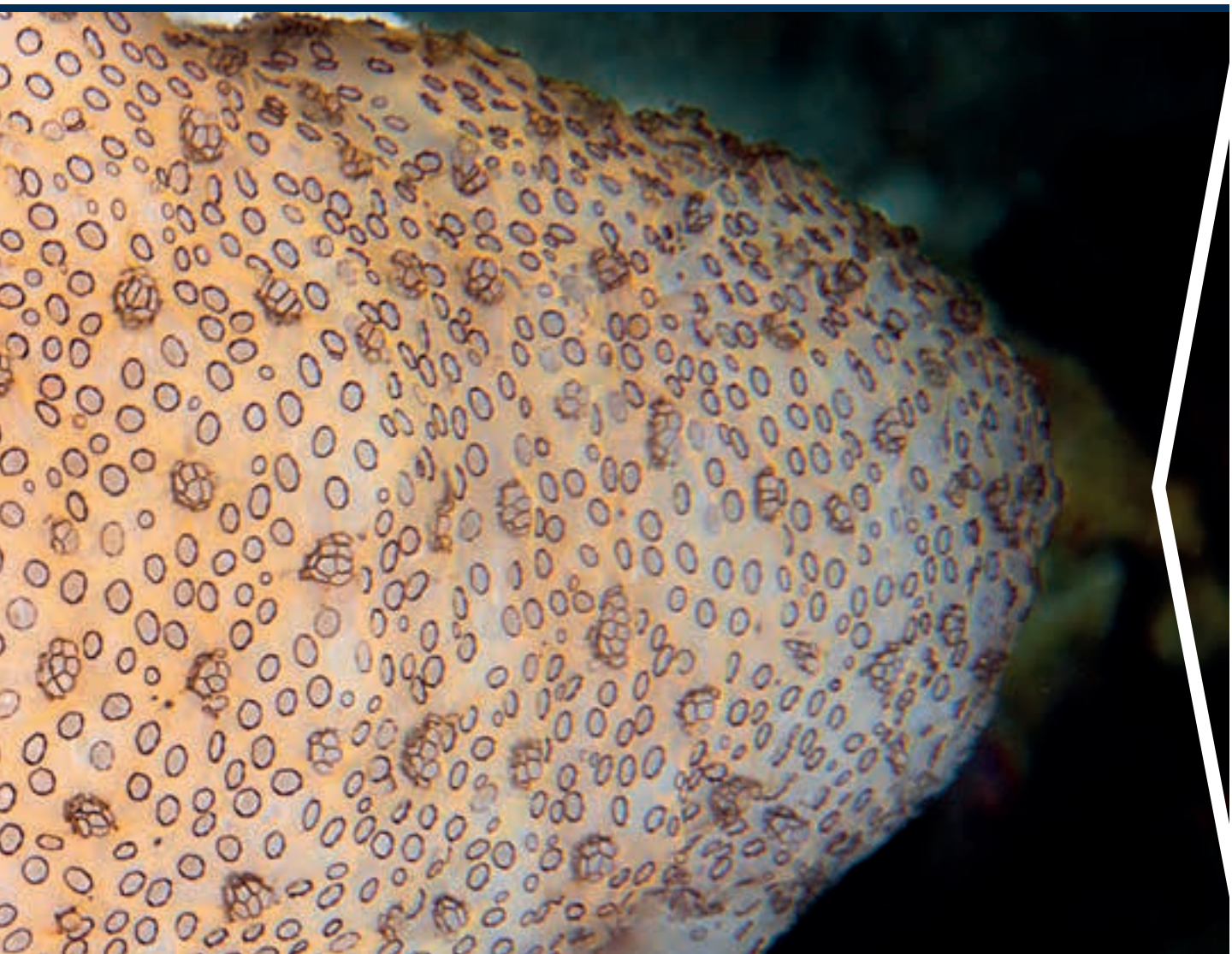


3. APPLICATION OF RESULTS

The proposed distribution of 2017 income which will be presented to the Shareholders' Meeting, and the distribution approved for 2016 by the shareholders on 29 June 2017, are as follows:

(thousand euro)	2017	2016
BASIS OF DISTRIBUTION		
Income for the year	(136,841)	(11,474)
	(136,841)	**(11,474)**
DISTRIBUTION		
Prior years' losses	(136,841)	(11,474)
	(136,841)	**(11,474)**

The proposed distribution of income for the year ended 31 December 2017 which will be proposed to the Shareholders' Meeting, in accordance with article 274 of the Consolidated Text of the Capital Companies Act, approved by the Legislative Royal Decree of 2 July 2010, will consist of allocating the loss for the year to prior years' losses (€136,841 thousand).



4. ACCOUNTING AND VALUATION STANDARDS

The valuation standards applied for the various items are as follows:

4.1 Intangible assets

Intangible assets are recognized initially if:

i) they fulfill the definition of asset contained in the Accounting Conceptual Framework: "Rights, goods and other resources controlled economically by the company as a result of past events and from which the company expects to obtain profits or economic yields in the future",

ii) they fulfill the condition for recognition in the accounts, in line with the Accounting Conceptual Framework: "Assets must be recognized on the balance sheet where they are likely to provide profits or economic yields for the company in the future, and provided that they can be measured reliably",

iii) they fulfill the identifiability requirement "that the intangible asset fulfills either of the following two conditions:

- it must be possible to separate it from the company and sell, assign, deliver for exploitation, lease or exchange it, or
- it must arise from rights in rem or contractual rights, regardless of whether those rights are transferable or can be separated from the company or from its other rights or obligations.

4.1.1 Research & development expenses

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

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

Research expenditure is expensed when incurred.

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

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

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

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

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

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

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

Fulfillment of those conditions is assessed each year.

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

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

For the purposes of subsequent remeasurement:

- We assess impairment during the year-end close or whenever progress with development gives any indication of impairment and, therefore, there are doubts about fulfillment of the conditions for capitalization. As of 31 December, that assessment resulted in the derecognition and impairment of the indications set out in Note 6.1.

- Annual evaluation of the recoverability of the capitalized amount, which includes, among others, specific business plans for each molecule whose main assumptions are prevalence in the population, market share and reimbursement price, as well as independent third-party expert appraisals and analysts' reports.

Measurement of research and development projects

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

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

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

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

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

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

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

Recognition of research and development expenses in consolidated financial statements

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

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

In 2006, with the first-time application of International Financial Reporting Standards (EU-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 approaches that were more in line with comparable companies in other countries.

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

The notes to the consolidated financial statements indicate the following:

"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) the undertaking has the capacity to use or sell the intangible asset;

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

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

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

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

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

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

Note 6.1 details the effects of applying the foregoing recognition criteria.

4.1.2 Computer software

Computer software licenses acquired from third parties 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, i.e. 4 or 5 years.

Computer program maintenance costs are recognized in profit or loss as incurred.

4.2 Property, plant and equipment

Property, plant and equipment are recognized at acquisition or production cost. Property, plant and equipment are presented on the balance sheet at cost less the accumulated amount of depreciation and impairment adjustments.

The amount of capitalized in-house work on property, plant and equipment is calculated as the sum of the acquisition costs of consumables and the direct and indirect costs allocable to those assets.

The costs of expanding, modernizing or improving property, plant and equipment are capitalized solely when they increase the assets' capacity or productivity or extend their useful life, provided that it is possible to ascertain or estimate the carrying amount of the items that are retired from inventory due to being replaced.

The cost of major repairs is capitalized and depreciated over their estimated useful lives, whereas recurring maintenance costs are recognized in profit or loss in the year in which they are incurred.

Apart from land, which is not depreciated, depreciation of property, plant and equipment is taken systematically on a straight-line basis over the asset's useful life, having regard to actual

loss of functionality and usability. The estimated useful lives are as follows:

	Years
Buildings and structures	25-30
Technical installations and machinery	10
Vehicles	4-7
Furniture and fixtures	10
Computer hardware	4-7

The residual value and the useful life of an asset are measured, 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.

Losses and gains on the disposal of property, plant and equipment are calculated by comparing the revenue from the sale with the carrying amount, and are recognized in profit or loss.

4.3 Investment property

Investment property comprises land and buildings held for the purpose of generating rent over the long term and not occupied by the Company. The items in this heading are presented at acquisition cost less accumulated depreciation and impairment losses.

Depreciation is taken on investment property on a straight-line basis over the estimated useful life (25 years).

4.4 Leases

Where the Company is the lessee - Finance lease

Leases of property, plant and equipment in which the Company has substantially all the risks and rewards incidental to ownership of the assets are classified as finance leases. Finance leases are capitalized initially for the fair value of the leased item or the present value of the agreed minimum lease payments, whichever is lower. The present value is calculated using the interest rate implicit in the contract; if that cannot be determined, the interest rate paid by the Company on similar transactions is used.

Each lease payment is split into liabilities and financial charges. The total financial charge is distributed over the lease term and recognized in profit or loss in the year in which it accrues, using the effective interest method. Contingent charges are recognized as expenses in the year in which they are incurred. The related lease obligations, net of financial charges, are recognized under "Finance lease liabilities". Assets acquired under finance leases are depreciated over their useful lives or the contract term, whichever is shorter.

Where the Company is the lessee - Operating lease

Leases where the lessor retains substantially all the risks and rewards incidental to ownership are classified as operating leases. Operating lease payments (net of any incentive received from the lessor) are recognized in profit or loss on a straight-line basis over the lease term.

Where the Company is the lessor

Assets leased under operating leases are recognized in the balance sheet on the basis of their nature. The revenues from the lease are recognized on a straight-line basis over the lease term.

4.5 Impairment of non-financial assets

Amortizable assets are measured for impairment whenever an event or change in circumstances indicates that the carrying amount may not be recoverable.

An impairment loss is recognized for the amount by which the carrying amount exceeds the recoverable amount, the latter being understood to mean the lower of the fair value less the selling cost or the value in use.

To perform the impairment tests, assets are grouped at the lowest level of cash flow that cannot be identified separately (cash-generative units - CGU). Non-financial assets other than goodwill that have suffered impairment are measured at each balance sheet date to ascertain whether the loss has been reversed.

4.6 Financial assets

4.6.1 Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are classified as current assets, except for those maturing over 12 months from the balance sheet date, which are classified as non-current assets. Loans and accounts receivable are recognized under "Trade and other accounts receivable", "Current investment in group and associated undertakings" and "Current financial assets" on the balance sheet.

These financial assets are recognized initially at their fair value, including directly allocable transaction costs, and subsequently at amortized cost, recognizing accrued interest on the basis of the effective interest rate, i.e. the discount rate that matches the instrument's carrying amount with the total estimated cash flows to maturity. Nevertheless, trade accounts receivable maturing at over one year are measured both initially and subsequently at their nominal value provided that the effect of not discounting the cash flow is not material.

At least at year-end, value adjustments are made for impairment if there is objective evidence that not all amounts receivable will be collected.

The amount of impairment loss is the difference between the asset's carrying amount and the present value of estimated effective future cash flows, discounted at the effective interest rate applying at the time of initial recognition. Value corrections and their reversals are recognized in profit or loss.

4.6.2 Investments in equity of group, multi-group and associated undertakings

These are carried at cost less accumulated impairment, if any. Nevertheless, where the investment preceded its classification as a group, multi-group or associated undertaking, the cost of the investment is taken to be the carrying amount before it was so classified. Pre-existing value adjustments recognized directly in equity are maintained in equity until the asset is derecognized.

Where there is objective evidence that the carrying amount is not recoverable, it is written down to the recoverable value, the latter being the fair value less selling costs or the present value of the effective cash flows arising from the investment, whichever is higher. Except where there is better evidence of the recoverable value, the impairment of these investments is estimated taking account of the investee company's equity corrected for any unrealized capital gains existing at the valuation date. Value adjustments, and any reversals of same, are recognized in profit or loss in the year in which they occur.

4.6.3 Available-for-sale financial assets

This category includes debt securities and equity instruments not classified in any of the preceding categories. They are classified as non-current assets unless management plans to sell them within 12 months from the balance sheet date.

They are recognized at fair value and any changes are recognized directly in equity until the asset is disposed of or written off, at which point the accumulated gains and losses in equity are recognized in profit or loss. If the fair value cannot be determined, the asset is recognized at cost less impairment.

If there is objective evidence of impairment, the accumulated losses previously recognized in equity as the reduction in fair value are recognized in profit or loss. Impairment losses

on equity instruments recognized in profit or loss are not reversed through profit or loss.

The fair value of listed investments is based on current purchase prices. If the market in a financial asset is not active (or if the securities are not listed), the Company establishes the fair value using valuation techniques that include recent transactions between duly-informed interested parties, references to other substantially similar instruments, discounting estimated future effective cash flows, and option pricing models, making the maximum use of observable market data and placing as little reliance as possible on the Company's subjective judgments.

4.6.4 Available-for-sale financial assets and other financial assets at fair value through profit or loss

All assets available for sale that are acquired for the purpose of being sold in the short term and form part of a portfolio of instruments identified and managed jointly for short-term gains, and financial assets that the Company designated as such on initial recognition (for clarity), are classified as financial assets at fair value through profit or loss. Derivatives are classified as acquired for trading unless they are a financial collateral arrangement or are designated as hedges.

These financial assets are recognized at fair value both initially and in subsequent measurements, and any changes are recognized in profit or loss. Transaction costs directly attributable to the acquisition are recognized in profit or loss.

4.7 Inventories

Inventories are measured at the lower of cost or net realizable value. Where the net realizable value of inventories is lower than cost, the appropriate valuation adjustments are recognized as an expense in profit or loss. If the circumstances leading to the valuation adjustment cease to exist, the adjustment is reversed and recognized as revenue in profit or loss.

The cost price is obtained as follows:

- Raw materials and other supplies: weighted average cost price.
- 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 valued at standard costs (based on normal production capacity). No adjustment to inventory is recognized if the difference between standard cost and actual cost is not material.

The net realizable value is the estimated sale price in the normal course of business less the estimated costs required for the sale and, in the case of raw materials and products in process, the estimated costs required to complete production.

4.8 Equity

Share capital is represented by ordinary shares.

The cost of issuing new shares or options is presented directly under equity as a reduction of reserves.

In the case of acquisition of own shares by the Company, the consideration paid, including any directly attributable incremental cost, is deducted from equity until the shares are canceled, re-issued or disposed of. If the shares are sold or re-issued, any amount received, net of any directly attributable incremental cost of the transaction, is recognized in equity.

4.9 Financial liabilities

Debts and accounts payable

This category includes both trade and non-trade accounts payable. This debt is classified as current liabilities unless the Company has

an unconditional right to defer the liability settlement for at least twelve months from the balance sheet date, in which case it is classified under non-current liabilities.

These debts are recognized initially at fair value adjusted for directly-allocable transaction costs, and are subsequently recognized at amortized cost in accordance with the effective interest rate method. The effective interest rate is the discount rate that matches the carrying amount of the instrument with the projected flow of future payments up to the liability's maturity.

Nevertheless, trade accounts payable maturing at over one year which do not have a contractual interest rate are measured, both initially and subsequently, at their nominal value provided that the effect of not discounting the cash flows is not material.

If existing debts are renegotiated, no material changes are considered to exist if the new lender is the same as the initial lender and the present value of the cash flows, including net fees, does not differ by more than 10% from the present value of the outstanding cash flows payable on the original liability calculated using the same method.

4.10 Subsidies received

Repayable subsidies are recognized as liabilities until the conditions rendering them non-repayable are met; non-repayable subsidies are recognized as revenues directly in equity and are recognized as revenue on a systematic, rational basis in line with the expenses arising from the subsidy. Non-repayable subsidies from shareholders are recognized directly in equity.

For these purposes, a subsidy is considered to be non-repayable when there is an individual agreement to grant the subsidy, all the conditions established for granting it have been fulfilled, and there are no reasonable doubts that it will be collected.

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.

Non-repayable subsidies related to the acquisition of intangible assets, property, plant and equipment and investment property are recognized in profit or loss in proportion to the depreciation/amortization of the related assets or when the asset is disposed of, impaired or derecognized.

Non-repayable subsidies related to specific expenses are recognized in profit or loss in the year in which the corresponding expenses accrue, and those granted to offset an operating deficit are recognized in the year in which they are granted, except where they are allocated to offset operating deficits in future years, in which case they are recognized in those years.

Additionally, implicit interest on zero-rate loans from the Ministry of Industry is recognized as a non-refundable subsidy in equity. These subsidies are recognized as revenue for the year in proportion to the associated expenses.

4.11 Current and deferred taxes

The income tax expense (revenue) is the amount accruing under this heading in the year and comprises the expense (revenue) for current and deferred taxes.

The expense (revenue) for current and deferred taxes is recognized in profit or loss. Nevertheless, the tax effect of items that are recognized directly in equity is recognized in equity.

Current tax assets and liabilities are recognized for the amount expected to be paid to, or recovered from, the tax authorities, in accordance with the legislation enacted or substantively enacted at year-end.

Deferred taxes are measured, in accordance with the liability method, based on the timing differences arising between the tax base of the assets and liabilities and their carrying amounts. 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 tax base at the time of recognition are not recognized. The deferred tax is determined by

applying the tax regulations and rates enacted or substantively enacted on the balance sheet date and which are expected to apply when the corresponding deferred tax asset is realized or the deferred tax liability is settled.

Deferred tax liabilities are recognized insofar as it is probable that there will be future taxable income to offset timing differences (Note 2.2).

At each accounting close, deferred tax assets are re-measured and impairment is recognized to the extent that there are doubts as to their recovery in the future. Also, at each accounting close, the deferred tax assets not recognized on the balance sheet are re-measured and are recognized to the extent that they are likely to be recovered against future taxable income.

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 subject to a 20% discount on the tax payable, subject to certain conditions. The Company recognizes this tax incentive for investment at the time that the investment is deemed to have materialized, which normally coincides with the collection date.

Consolidated income tax

Pharma Mar, S.A. is the leading company of the group of companies for corporate income tax purposes number 29/93.

The companies comprising the tax group in 2017 are: Zelnova Zeltia, S.A. Xylazel, S.A., Genómica, S.A. and Sylentis, S.A., with Pharma Mar, S.A. as leading company.

It is consolidated Group policy to recognize the tax expense at individual undertakings in accordance with the resolution of the ICAC (Spanish Accounting and Audit Institute) dated 9 February 2016.

4.12 Employee benefits

4.12.1 Share-based compensation

The company operates share-based incentive plans for employees. Those plans are subject to a lock-up period during which employees must continue to work for the Company.

The fair value of the services provided by the employees in exchange for the shares is recognized under personnel expenses as the services are provided, during the lock-up period, and a reserve for the incentive plans is recognized simultaneously in equity for the same amount.

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 during the vesting period. The Company regularly reviews its assumptions and adjusts any deviation resulting from employee rotation.

4.12.2 Termination indemnities

Termination indemnities are paid to employees as a result of the Company's decision to terminate the employment contract before the normal retirement age or when the employee agrees to resign in exchange for those benefits.

The Company recognizes these benefits when it has demonstrably decided to terminate the employees in accordance with an irrevocable formal detailed plan or to provide termination indemnities as a result of an offer to encourage voluntary retirement. Benefits that are not to be paid in the twelve months following the balance sheet date are discounted to their present value.

4.13 Provisions and contingent liabilities

Provisions for environmental restoration, restructuring costs and litigation are recognized when the Company has a present obligation, either legal or implicit, as a result of past events, an outflow of funds is likely to be necessary in the future to settle the obligation, and the amount can be estimated reliably. Restructuring provisions include lease cancellation penalties and employee termination indemnities.

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. Adjustments due to updating the provision are recognized as a financial expense as they accrue.

Provisions maturing at one year or less that do not have a material financial effect are not discounted.

When part of the disbursement required to settle the provision is expected to be paid by a third party, the reimbursement is recognized as a separate asset provided that its collection is practically assured.

Obligations arising as a result of past events whose materialization is conditional upon the occurrence or non-occurrence of one or more future events outside the Company's control are treated as contingent liabilities. Those contingent liabilities are not recognized in the accounts but are disclosed in detail in the notes to financial statements (Note 25).

4.14 Recognition of revenues

Revenues are recognized for the fair value of the consideration receivable and they represent amounts receivable for goods delivered and services provided in the ordinary course of the Company's business, less returns, rebates, discounts and Value Added Tax.

The Company recognizes revenues when their amount can be measured reliably, the future economic benefits are likely to flow to the Company and the specific conditions for each activity are met, as detailed below. It is considered that the amount of revenues cannot be measured reliably until all the contingencies related to the sale have been resolved. The Company bases its estimates on past results, having regard to the type of customer, the type of transaction and the specific terms of each agreement.

4.14.1 Revenues from the sale of pharmaceutical products

The Company sells in the European Union by virtue of the marketing approval received from the European Medicines Agency (EMA) for soft tissue sarcoma (since 2007) and relapsed platinum-sensitive ovarian cancer (since 2009).

Where the Company distributes its products directly, the sale is recognized once the product is delivered to the end customer, since that is the point at which the significant risks and benefits inherent to ownership of the goods are transferred.

Where the Company sells to subsidiaries, it recognizes the amount of sales at the time of product delivery to the subsidiary.

Where sales are made through distributors, three different situations may arise:

- sales to the distributor in Portugal: sales are recognized once the product is delivered to that distributor, since that is the point at which the significant risks and benefits inherent to ownership of the goods are transferred.

- sales to the distributors in the Nordic countries, Eastern Europe, Greece and Cyprus: the Company has various agreements for commercial promotion and distribution. In this model, the sale occurs once the product is shipped from the Company's warehouse in Spain to the two distributors, since that is the point at which the significant risks and benefits inherent to ownership of the goods are transferred. The commission collected by the aforementioned partners is recognized as a reduction in the sale amount when it occurs.

- sales to other distributors: ownership of the product passes to the distributor once it leaves the latter's warehouse for delivery to a hospital. Under the established conditions, that is when the invoice is triggered from the Company to the logistics operators and the sale is recognized, since that is the point at which the significant risks and benefits inherent to ownership of the goods are transferred

Distribution costs are recognized as period expenses.

4.14.2 Licensing, co-development and other similar agreements

In the normal course of its business, the Company 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 Company and/or are given access to products under development (generally through co-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 revenues must be matched with the costs and considerations to be paid by the Company.

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

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

Development phases

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

Marketing phase

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

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

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

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

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

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

4.14.3 Royalties

Royalties received from sales in countries outside of the European Union are recognized on an accrual basis.

4.14.4 Interest revenues

Interest revenues are recognized using the effective interest rate method. Where an account receivable is impaired, the Company writes the carrying amount down to the recoverable value, by discounting estimated future cash flows at the instrument's original effective interest

rate, and carries the discount as a reduction in interest revenues. Interest revenues on loans that have suffered impairment are recognized using the effective interest rate method.

4.14.5 Dividends

Dividend revenues are recognized in profit or loss when the Company becomes entitled to collect them. Nevertheless, if the dividends paid are from profits obtained prior to the acquisition date, they are not recognized as revenues but, rather, are deducted from the carrying amount of the investment.

4.14.6 Provision of services

The Company provides advisory and support services to Group undertakings.

4.15 Foreign currency transactions

4.15.1 Functional and presentation currency

The Company's financial statements are presented in euro, which is the Company's functional and presentation currency.

4.15.2 Transactions and balances

Foreign currency transactions are translated to the functional currency at the exchange rates ruling on the transaction date. Exchange gains or losses arising on the settlement of those transactions and on translating monetary assets and liabilities denominated in foreign currency at the year-end exchange rate are recognized in profit or loss, except when deferred in equity as a qualifying cash flow hedge or qualifying net investment hedge.

Changes in the fair value of available-for-sale financial assets denominated in foreign currency are analyzed as the exchange differences resulting from changes in the amortized cost of the instrument and other changes in the security's carrying amount. Exchange differences are recognized in profit or loss and other changes to the carrying amount are recognized in equity.

Exchange differences on non-monetary items, such as equity instruments at fair value through profit or loss, are presented as part of that gain or loss in fair value. Exchange differences on non-monetary items, such as available-for-sale equity instruments, are recognized in equity.

4.16 Related-party transactions

Related-party transactions are generally recognized initially at fair value. If the agreed price differs from fair value, the difference is recognized on the basis of the economic reality of the transaction. Subsequent measurements are performed in accordance with the applicable standards.

Nevertheless, in mergers, demergers and contributions of business lines, the items comprising the acquired business line are recognized for the amount that would correspond to them, upon completion of the transaction, in the consolidated financial statements of the group or subgroup.

When the controlling company of the group or subgroup, and its subsidiary, are not involved, the financial statements to be considered for this purpose will be those of the largest group or subgroup into which the equity items are integrated whose controlling company is Spanish.

In these cases, any difference disclosed between the net value of the acquiree's assets and liabilities, adjusted for the balance of grants, donations and bequests received, impairments, and any amount of capital and issue premium issued by the acquiring company, is recognized in reserves.

4.17 Business combinations

Mergers, demergers and non-monetary contributions of a business between group undertakings are recognized in accordance with the rules for related-party transactions (Note 4.16).

Mergers and demergers other than the above and business combinations arising from the acquisition of all the equity of a company or of a part comprising one or more businesses are recognized in accordance with the acquisition method.

4.18 Non-recourse factoring

The Company derecognizes financial assets when it assigns/sells the rights to the cash flows of the financial asset and has transferred the risks and rewards inherent to ownership, such as factoring of trade accounts receivable in which the company does not retain any credit or default risk (Note 14.3).

5. RISK POLICY AND MANAGEMENT

5.1 Financial risk factors

The Company's activities are subject to a number of financial risks: market risk (including exchange rate risk, interest rate risk and price risk), credit risk, and liquidity risk. The Company's overall risk management program focuses on the uncertainty of the financial markets and tries to minimize the potential adverse effects on the Company's returns. The Finance Department is responsible for risk management in accordance with the guidelines provided by the Board of Directors. That department identifies, assesses and hedges financial risks. The Board establishes guidelines for overall risk management and for specific areas such as interest rate risks, liquidity risks, the use of derivatives and non-derivatives, and investment of surplus liquidity.

5.1.1. Market risk

5.1.1.1 Price risk

The Company's long-term financial investments are securities of biopharmaceutical companies. The volume of investment in this type of asset is not material in the context of the Company's operations; accordingly, the related price risk is very low.

The Company's policy with regard to financial assets is to place cash in low-risk highly-liquid financial assets in order to ensure the availability of funds. For this reason, those financial assets are almost entirely government bonds and deposits at banks with good credit quality, with the result that their value does not fluctuate significantly.

5.1.1.2 Exchange rate risk

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

Transactions denominated in currencies other than the euro, basically in US dollars, Japanese yen, Swiss francs and pounds sterling, amounted to €18,557 thousand in the year ended 31 December 2017 (€18,109 thousand in 2016) (Note 21.3). The main transactions in foreign currency in 2017 were revenues from the Johnson & Johnson Group (Note 21.1.3) and sales in the United Kingdom.

If, as of 31 December 2017, the euro had appreciated by 5% with respect to the US dollar while all other variables remained constant, income after taxes for the year would have been lower by €19 thousand euro (€82 thousand in 2016), mainly as a result of translation into euro of customer and other accounts receivable and debt denominated in US dollars.

If, as of 31 December 2017, 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 €21 thousand (€91 thousand in 2016). The material impact of variations in the dollar as of 31 December 2017 is due mainly to the amounts in dollars collected in both years, detailed in Note 21.1.

If, as of 31 December 2017, the euro had appreciated by 5% with respect to the pound sterling while all other variables remained constant, income after taxes for the year would have been lower by €140 thousand (€132 thousand in 2016), mainly as a result of translation into euro of customer and other accounts receivable and debt denominated in pounds sterling.

If, as of 31 December 2017, the euro had depreciated by 5% with respect to the pound sterling while all other variables remained constant, income after taxes for the year would have been higher by €155 thousand (€146 thousand in 2016). The material impact of variations in the dollar as of 31 December 2017 is due mainly to the amounts in dollars collected in both years, detailed in Note 21.1.

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

5.1.1.3 Interest rate risk on cash flows and fair values

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

The Company's interest rate risk arises from interest-bearing debt. Floating-rate debt exposes the Company to interest rate risk. Additionally, fixed-rate debt exposes the Group to interest rate risk on the fair value. A sizable part of the debt is in the form of repayable advances that are not subject to interest rate risk.

The Company 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 Company 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 liability positions.

5.1.2 Credit risk

Credit risk is managed in groups. Credit risk arises from cash and cash equivalents placed with banks and financial institutions, and from customer balances.

The banks and financial institutions with which the Company works generally have independent ratings. Where customers have an independent rating, that rating is used; otherwise, the Company assesses the risk based on 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.

Where the Company acquires financial assets other than government bonds, 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 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 Company had balances as of 31 December 2017 and 2016 is set out in Note 10.3.

5.1.3 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 Company's goal is to maintain flexible financing by having sufficient funds in financial assets to settle its obligations.

The Company's dependence on funds generated by the other Group companies has declined as its revenues from sales and licensing agreements has increased and it has generated its own positive operating cash flow (realized in research and development).

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

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

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

- The Company ended 2017 with cash and cash equivalents plus current financial assets amounting to €17,310 thousand.
- The Company also had unused credit lines in the amount of €17,933 thousand as of 31 December 2017.
- The structure of the Company's financial debt is balanced, as annual debt maturities are manageable, and the funding sources are diversified.
- In the early months of 2018, up to the authorization of the financial statements, the Company received:
  - Revenue in the amount of €4.1 million for signing a licensing agreement with Seattle Genetics Inc. under which the latter receives worldwide exclusive rights over certain molecules and antibody-drug conjugates (ADC).
  - An amount of €3 million as a result of monetizing unused R&D tax credits. In 2017, the Group received €3 million under this same heading, and it intends to continue availing itself of this possibility allowed under current legislation to monetize unused R&D tax credits.
- The Company expects to strengthen its liquidity position in 2018 through new licensing agreements that are currently under negotiation.
- The Company has decided to prioritize certain projects in order to reduce costs and avoid treasury stresses, and it has sufficient flexibility to adapt investment needs to the resources available at any given time.
- In addition, as in previous years, the Company expects to renegotiate financial debt maturing during the year. That amounts to €12.2 million in 2018, of which at least €5 million will be covered with new loans related to milestones already achieved in projects granted in previous years. The aforementioned cost reduction would facilitate the payment of all maturities if they cannot be fully renegotiated.
- If necessary, the Company could draw on the cash balances of the other group companies, which amounted to €11.4 million euro at 2017 year-end.

The table below shows an analysis of the Company's financial liabilities grouped by maturity based on the period remaining between the balance sheet date and the contractual maturity date, excluding the corresponding interest.

31-12-17 (thousand euro)	2018	2019	2020	2021	2022	2023 and thereafter	Total non-current	TOTAL
Bonds and other marketable securities	**510**	**-**	**-**	**-**	**-**	**16,350**	**16,350**	**16,860**
Bank loans	18,691	8,950	9,155	8,123	5,037	1,966	33,231	**51,922**
Debt to official authorities	3,953	3,429	3,681	2,902	2,890	5,153	18,056	**22,009**
Bank debt and debt to official authorities	**22,644**	**12,379**	**12,836**	**11,025**	**7,927**	**7,119**	**51,287**	**73,931**
Other financial liabilities	**674**	**-**	**-**	**-**	**-**	**-**	**-**	**674**
Current accounts payable to Group and associated undertakings	**8,895**	**-**	**-**	**-**	**-**	**-**	**-**	**8,895**
Supplier accounts payable	**292**	**-**	**-**	**-**	**-**	**-**	**-**	**292**
Supplier accounts payable, Group and associated undertakings	**2,541**	**-**	**-**	**-**	**-**	**-**	**-**	**2,541**
Sundry creditors	**21,410**	**-**	**-**	**-**	**-**	**-**	**-**	**21,410**
Personnel (compensation payable)	**4,483**	**-**	**-**	**-**	**-**	**-**	**-**	**4,483**
Public administrations	**897**	**-**	**-**	**-**	**-**	**-**	**-**	**897**
Customer advances	**660**	**-**	**-**	**-**	**-**	**-**	**-**	**660**
TOTAL	**63,006**	**12,379**	**12,836**	**11,025**	**7,927**	**23,469**	**67,637**	**130,643**

31-12-16 (thousand euros)	2017	2018	2019	2020	2021	2022 and thereafter	Total non-current	TOTAL
Bonds and other marketable securities	**466**	**-**	**-**	**-**	**-**	**16,350**	**16,350**	**16,816**
Bank loans	19,395	5,256	5,396	5,539	4,444	4,160	24,794	**44,189**
Debt to official authorities	3,828	3,848	3,507	3,706	2,767	6,765	20,593	**24,421**
Bank debt and debt to official authorities	**23,223**	**9,104**	**8,903**	**9,245**	**7,211**	**10,925**	**45,387**	**68,610**
Other financial liabilities	**668**	**-**	**-**	**-**	**-**	**-**	**-**	**668**
Current accounts payable to Group and associated undertakings	**9,209**	**-**	**-**	**-**	**-**	**-**	**-**	**9,209**
Supplier accounts payable	**187**	**-**	**-**	**-**	**-**	**-**	**-**	**187**
Supplier accounts payable to Group and associated undertakings	**2,174**	**-**	**-**	**-**	**-**	**-**	**-**	**2,174**
Sundry creditors	**25,086**	**-**	**-**	**-**	**-**	**-**	**-**	**25,086**
Personnel (compensation payable)	**4,490**	**-**	**-**	**-**	**-**	**-**	**-**	**4,490**
Public administrations	**865**	**-**	**-**	**-**	**-**	**-**	**-**	**865**
Customer advances	**1,234**	**-**	**-**	**-**	**-**	**-**	**-**	**1,234**
TOTAL	**67,602**	**9,104**	**8,903**	**9,245**	**7,211**	**27,275**	**61,737**	**129,339**

5.2 Fair value estimates

The fair value of financial instruments that are traded in an active market (e.g. securities held for trading and available for sale) is based on the market prices on the balance sheet date. The market price used for financial assets is the current bid price.

The fair value of financial instruments that are not traded in an active market is determined by using measurement techniques. The Company uses a variety of methods and makes assumptions based on the market conditions at each balance sheet date. Listed market prices or agent quotations are used for long-term debt. To determine the fair value of the other financial instruments, other techniques are used, such as discounting estimated cash flow. The fair value of forward exchange rate contracts is determined by using the exchange rates quoted in the market on the balance sheet date.

The carrying amount of trade accounts payable and receivable is assumed to approximate to their fair value. The fair value for the purposes of presenting the financial information is estimated by discounting the contractual future cash flow at the current market interest rate available to the Company for similar financial instruments.

The fair value of repayable advances that are interest-free or at a subsidized interest rate is determined by applying, to the repayments to be made, the yield curve in force on the date of receipt of the advance plus the spread normally paid by the Company on loans.

The fair value of floating-rate loans is assumed to coincide with the carrying amount.

6. INTANGIBLE ASSETS

The breakdown and changes in the "Intangible Assets" account as of 31 December 2017 and 2016 are as follows:

Year 2017 (thousand euro)	Development	Computer software	TOTAL
Cost			
Balance as of 31-12-16	483,720	4,492	488,212
Recognitions	36,562	191	36,753
Derecognitions	(40,905)	(673)	(41,578)
Impairment	(97,942)	-	(97,942)
Balance as of 31-12-2017	**381,434**	**4,010**	**385,444**
Accumulated amortization			
Balance as of 31-12-16	(186,255)	(3,249)	(189,504)
Provisions	(25,217)	(301)	(25,518)
Derecognitions	-	668	668
Balance as of 31-12-17	**(211,472)**	**(2,882)**	**(214,354)**
Net carrying amount as of 31-12-2017	**169,962**	**1,128**	**171,090**

Year 2016 (thousand euro)	Development	Computer software	TOTAL
Cost			
Balance as of 31-12-15	443,277	3,960	447,237
Recognitions	40,443	532	40,975
Transfers	-	-	-
Derecognitions	-	-	-
Balance as of 31-12-16	**483,720**	**4,492**	**488,212**
Accumulated amortization			
Balance as of 31-12-15	(158,267)	(2,979)	(161,246)
Provisions	(27,988)	(270)	(28,258)
Derecognitions	-	-	-
Balance as of 31-12-16	**(186,255)**	**(3,249)**	**(189,504)**
Net carrying amount as of 31-12-2016	**297,465**	**1,243**	**298,708**

6.1 Development

In 2017, the Company continued to develop all the molecules in its pipeline. The main investment in the year was in work on Zepsyre™.

In September 2016, the Company filed an application with the European Medicines Agency (EMA) for authorization to market one of its compounds, Aplidin® (Plitidepsin), for treating multiple myeloma. In December 2017, the

Company received a negative opinion from the Committee for Medical Products for Human Use (CHMP) in connection with its application to commercialize this compound in Europe. The ADMYRE trial, on which the application was based, achieved its primary endpoint, as a result of which the Company applied for the application dossier to be re-examined. A response may be obtained in the second quarter of 2018 The Company has estimated the direct costs related to development for multiple myeloma, as well as the indirect costs attributable to this trial, and recognized impairment for the full amount, i.e. €97,942 thousand, as of 31 December 2017.

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

On 18 January 2018, the results of the CORAIL trial conducted by PharmaMar with the compound Zepsyre™ (Lurbinectedin) in resistant ovarian cancer were announced. The trial results showed the compound to be at least as active as the two compounds in the control arm, which are the current standard for treatment, while offering lower toxicity. Nevertheless, the trial did not reach its primary end-point, namely progression-free survival (PFS). The Company has estimated the direct costs related to development for platinum-resistant ovarian cancer, as well as the indirect costs attributable to this trial, and recognized impairment for the full amount, i.e. €40,905 thousand, as of 31 December 2017. The aforementioned amount was derecognized under capitalized development expenses as a consequence of the results obtained in the CORAIL trial.

The amount amortized in 2017 is as follows: (i) €4,675 thousand and €6,575 thousand (€4,675 thousand and €8,817 thousand in 2016) for platinum-sensitive relapsed ovarian cancer and soft tissue sarcoma, under the amortization schedule established for both indications for Yondelis® over 10 years due to approval for commercialization in Europe; (ii) other amortizations associated with Yondelis®, due to approval in the United States and Japan, amounting to €10,614 thousand in 2017 (€10,953 thousand in 2016); and (iii) €3,353 thousand was also recognized in connection with other Yondelis® projects (€3,543 thousand in 2016).

"Development" expenses are measured at cost, corrected at year-end if there is objective evidence that the investment will not be recovered. The carrying amount must be corrected to the recoverable amount, i.e. the fair value less selling costs or the present value of the future cash flows arising from the investment, whichever is higher.

The basis for the impairment test applied to capitalized "Development" expenses on the balance sheet varies depending on the available information, and the best evidence for each project is selected on the basis of its current phase of development.

Yondelis®

Since Yondelis® was approved for marketing by the regulatory authorities in Europe (EMA: for soft tissue sarcoma in 2007 and for ovarian cancer in 2009) and the US (FDA: for soft tissue sarcoma in 2015) and Japan (PDMA: for soft tissue sarcoma in 2015), the method used is the discounted free cash flows using projections based on the following key assumptions: direct sales of Yondelis® in Europe for soft tissue sarcoma and ovarian cancer, royalties on sales of Yondelis® to be collected from Janssen and Taiho, the licensees for the United States and Japan, as well as the sale of raw materials to the latter two, and milestone payments under the licensing agreement. The following costs are considered: costs directly related to the product, such as production and selling, marketing and commercialization costs, the sales network and a proportional part of overheads and administrative expenses, patenting expenses, quality control and regulatory affairs expenses incurred by the Company. All of them were calculated on the basis of available historical information.

Cash flows were projected over ten years, plus a perpetual income with 5% negative growth.

The discount rate used for free cash flow was the weighted average cost of capital (WACC). The main inputs used to calculate this variable are: the proportion between the fair value

of the group's equity and debt, which were approximately 85% and 15%, respectively, at the analysis date; the cost of debt, estimated at approximately 2.99%; the cost of equity was 11.22% calculated using, as risk-free interest rate, the Spanish 5-year bond yield: 0.36%; the company's beta volatility coefficient at the analysis date: 0.84; and the company's risk premium, estimated with respect to historical series of certain indices (IBEX-35, based on nationality, and NASDAQ Biotech, based on the industry and risk profile), which was 12.8% after deducting the risk-free return; and a tax rate of 25%. The resulting weighted average cost of capital is 9.8%.

The key parameters which affect the calculation of recoverable value are revenues, expenses, total free cash flow, and the WACC.

Below are detailed the changes that would be required in the key parameters in each of the ten years, while maintaining all other variables constant, in order for the recoverable value to match the carrying amount as of 31 December 2017 for both compounds.

In the case of Yondelis®, the two items would match in the event that revenues declined by 48.11%. Alternatively, expenses would have to increase by 131.19%. Applying the same analysis to free cash flow, the two figures would match if that variable declined by 79.66%. Likewise, the same result would be achieved by increasing the discount rate by 616.11%.

Aplidin®

In September 2016, the Company filed an application with the European Medicines Agency (EMA) for authorization to market one of its compounds, Aplidin® (Plitidepsin), for treating multiple myeloma. In December 2017, the Company received a negative opinion from the Committee for Medical Products for Human Use (CHMP) in connection with its application to commercialize this compound in Europe. The ADMYRE trial, on which the application was based, achieved its primary endpoint, as a result of which the Company applied for the application dossier to be re-examined. A response may be obtained in the second quarter of 2018. The Company has estimated the direct costs related to development for multiple myeloma, as well as the indirect costs attributable to this trial, and recognized impairment for the full amount, i.e. €97,942 thousand, as of 31 December 2017.

PharmaMar continued with the registration trial with Aplidin® (Plitidepsin) as monotherapy in patients with angioimmunoblastic T-cell lymphoma, and with other combination trials. The following were taken in to consideration when determining the recoverable value of this line of research:

- the value in use based on the Company's projections, discounting free cash flow
- licensing agreements signed to date and the associated potential revenues
- an appraisal of Aplidin® in the indication of T-cell lymphoma obtained from an independent expert.

The various estimates of value in use and market value did not disclose any impairment on the capitalized amount.

Zepsyre™

On 18 January 2018, the results of the CORAIL trial conducted by PharmaMar with the compound Zepsyre™ (Lurbinectedin) in resistant ovarian cancer were announced. The trial results showed the compound to be at least as active as the two compounds in the control arm, which are the current standard for treatment, while offering lower toxicity. Nevertheless, the trial did not reach its primary end-point, namely progression-free survival (PFS). The Company has estimated the direct costs related to development for platinum-resistant ovarian cancer, as well as the indirect costs attributable to this trial, and recognized impairment for the full amount, i.e. €40,905 thousand, as of 31 December 2017. The aforementioned amount was derecognized under capitalized development expenses as a consequence of the results obtained in the CORAIL trial.

The Company continues with trials in connection with Zepsyre™, which is one of the main

research lines at this time: (i) ATLANTIS Phase III trial in small cell lung cancer. Small cell lung cancer accounts for about 15% of all lung cancers and is a particularly aggressive type of tumor for which no new drug has been approved in the last 20 years. (ii) Basket Phase II trial in a range of solid tumors, including notably a trial in small cell lung cancer, as monotherapy in this case. (iii) A number of Phase I trials in combination with other therapeutic agents.

When measuring this compound for impairment, the Company considered that the best evidence on which to gage the recoverability of the investment was from several sources: (i) valuations by market analysts who are specialized in biotechnology; (ii) analysis of licensing contracts signed to date, and those under negotiation, whose financial terms can be extrapolated to an overall valuation; (iii) the Company's own projections based on third-party surveys.

The discounted free cash flow method was applied, using projections based on the following key assumptions: direct sales by PharmaMar for the indication of small cell lung cancer in Europe and the United States, as well as license revenues from the licensing agreements currently in place with Chugai Pharma Marketing Co., Specialised Therapeutics Asia Pte, Ltd. and Boryung Pharmaceutical and potential future licensees. The following costs are considered: costs directly related to the product, such as production and selling, marketing and commercialization costs, the sales network and a proportional part of overheads and administrative expenses, patenting expenses, quality control and regulatory affairs expenses incurred by the Company. All of them were calculated on the basis of available historical information. Marketing expenses were assumed to increase significantly in 2019-2022 to establish the sales structure required to launch this molecule in the US market.

Cash flows were projected over ten years, plus a perpetual income with 5% negative growth.

The discount rate used for free cash flow was the weighted average cost of capital (WACC). The main inputs used to calculate this variable are: the proportion between the fair value of the group's equity and debt, which were approximately 85% and 15%, respectively, at the analysis date; the cost of debt, estimated at approximately 2.99%; the cost of equity was 11.22% calculated using, as risk-free interest rate, the Spanish 5-year bond yield: 0.36%; the company's beta volatility coefficient at the analysis date: 0.84; and the company's risk premium, estimated with respect to historical series of certain indices (IBEX-35, based on nationality, and NASDAQ Biotech, based on the industry and risk profile), which was 12.8% after deducting the risk-free return; and a tax rate of 25%. The resulting weighted average cost of capital is 9.8%.

The key parameters which affect the calculation of recoverable value are revenues, expenses, total free cash flow, and the WACC.

In order for the recoverable value of Zepsyre™ to align with its carrying amount, revenues would have to decline by 44.89%. Alternatively, expenses would have to increase by 95.11%. Applying the same analysis to free cash flow, the two figures would match if that variable declined by 87.65%. The same result would be achieved by increasing the discount rate by 404.18%.

PM184

When measuring this compound (which has just entered Phase II of development) for impairment, the Company considered that the best evidence on which to gage the recoverability of the investment was from revenue and sales projections by the Company itself based on third-party surveys.

The Company also commissioned an appraisal of the compound's market value from an independent expert.

To this end, it discounted free cash flow using projections based on the following key assumptions: direct sales by the Company in Europe and the United States for the indications in which the Company intends to pursue the next phases of development, and revenues from the licensing agreements that are in place and others that may be signed for commercialization of this compound in Japan and rest of the world. The following costs are considered: costs directly related to the product, such as production and selling, marketing and commercialization costs, the sales network and a proportional part of overheads and administrative expenses,

patenting expenses, quality control and regulatory affairs expenses incurred by the Company.

The two items would match in the event that revenues declined by 58.93%. Alternatively, expenses would have to increase by 183.40%. Applying the same analysis to EBITDA, the two figures would match if that variable declined by 88.83%. The same result would be achieved by increasing the discount rate by 294.29%.

The Company regularly evaluates the technical viability of the compounds under development, based on internal analyses and the opinion of prestigious oncologists who lead clinical trials at hospitals in Spain and other countries.

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

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

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

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

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

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

Separate balance sheet (thousand euro)	Yondelis®	Aplidin®	Zepsyre™	PM184	PM14	Total development
Ending balance 31-12-16	**76,594**	**101,576**	**93,672**	**25,623**	**-**	**297,465**
Recognitions	-	5,317	29,849	1,041	356	36,562
Derecognitions	-	-	(40,905)	-	-	(40,905)
Impairment	-	(97,942)	-	-	-	(97,942)
Amortization	(25,217)	-	-	-	-	(25,217)
Ending balance 31-12-17	**51,377**	**8,951**	**82,616**	**26,664**	**356**	**169,963**

Consolidated balance sheet (Miles de euros)	Yondelis®	Aplidin®	Zepsyre™	PM184	PM14	Total development
Ending balance 31-12-16	**12,186**	**1,357**	**-**	**-**	**-**	**13,543**
Recognitions	-	785	-	-	-	785
Derecognitions	-	-	-	-	-	-
Impairment	-	(2,142)	-	-	-	(2,142)
Amortization	(3,352)	-	-	-	-	(3,352)
Ending balance 31-12-17	**8,834**	**-**	**-**	**-**	**-**	**8,834**

6.2 Capitalized financial expenses

At the end of 2017 and 2016, €2,379 thousand of net financial expenses had been capitalized in connection with funding from third parties for research and development activities.

6.3 Intangible assets located in other countries

There are no intangible assets located in other countries.

6.4 Intangible assets acquired from Group and associated undertakings

No assets were acquired from group or associated undertakings in 2017 and 2016.

6.5 Fully amortized assets

The assets that were fully amortized as of 31 December 2017 and 2016 are as follows:

Fully amortized intangible assets (thousand euro)	2017	2016
Computer software	2,169	2,783
TOTAL	**2,169**	**2,783**

6.6 Income from disposals and other

As detailed in Note 6.1, derecognitions as of 31 December 2017 amounted to €40,934 thousand, of which €40,905 thousand related to Zepsyre™ ("CORAIL") and €29 thousand to computer hardware and software.

6.7 Assets designated as collateral and subject to ownership restrictions

As of 31 December 2017 and 2016, there were no intangible assets subject to ownership restrictions or pledged as collateral for liabilities.

6.8 Subsidies received to finance R&D

As of 31 December 2017, the Company had €3,415 thousand (€9,146 thousand in 2016) under "Official capital subsidies" to finance research and development activities. That balance includes €2,094 thousand (€4,736 thousand in 2016) corresponding to the subsidy component that is calculated to exist in repayable loans obtained at zero interest from official authorities to finance research and development activities, as compared with finance obtained at market rates (Notes 5.2 and 18).

7. PROPERTY, PLANT AND EQUIPMENT

The detail of, and changes in, the Property, Plant and Equipment account as of 31 December 2017 and 2016 are as follows:

Year 2017 (thousand euro)	Land and structures	Installations	Construction in progress and advances	TOTAL
Cost				
Balance as of 31-12-16	20,784	29,611	2,190	52,585
Recognitions	-	742	1,015	1,757
Other transfers	-	2,626	(2,626)	-
Derecognitions	-	(1,068)	-	(1,068)
Balance as of 31-12-17	**20,784**	**31,911**	**579**	**53,274**
Accumulated depreciation				
Balance as of 31-12-16	(6,824)	(25,245)	-	(32,069)
Provisions	(518)	(921)	-	(1,439)
Derecognitions	-	1,043	-	1,043
Balance as of 31-12-17	**(7,342)**	**(25,123)**	**-**	**(32,465)**
Net carrying amount as of 31-12-17	**13,442**	**6,788**	**579**	**20,809**

Year 2016 (thousand euro)	Land and structures	Installations	Construction in progress and advances	TOTAL
Cost				
Balance as of 31-12-2015	20,955	29,397	250	50,602
Recognitions	-	428	1,940	2,368
Derecognitions	-	(214)	-	(214)
Impairment	(171)	-	-	(171)
Balance as of 31-12-2016	**20,784**	**29,611**	**2,190**	**52,585**
Accumulated depreciation				
Balance as of 31-12-2015	(6,306)	(24,541)	-	(30,847)
Provisions	(518)	(909)	-	(1,427)
Derecognitions	-	205	-	205
Balance as of 31-12-2016	**(6,824)**	**(25,245)**	**-**	**(32,069)**
Net carrying amount as of 31-12-2016	**13,960**	**4,366**	**2,190**	**20,516**

As of 31 December 2017, the net carrying amount of land and structures was €5,495 thousand and €7,947 thousand, respectively (€5,495 thousand and €8,465 thousand, respectively, in 2016).

The most significant additions in property, plant and equipment in 2017 and 2016 related to the expansion of the R&D laboratories; the derecognitions in 2017 related mainly to fully depreciated computer hardware which was retired from use.

7.1 Impairment losses

The Company did not recognize any impairment losses in 2017. During 2016, impairment was recognized on the carrying amount of land owned by PharmaMar amounting to €171 thousand based on an internal analysis and third-party appraisals (Note 21.7).

7.2 Assets acquired from Group and Associated undertakings

No fixed assets were acquired from group or associated companies in 2017 and 2016.

7.3 Fully depreciated assets

As of 31 December 2017, the Company was using assets with a carrying amount of €21,674 thousand which had been fully depreciated (€21,451 thousand as of 31 December 2016).

7.4 Property. plant and equipment pledged as collateral

The Company's building in Colmenar Viejo is mortgaged to secure the repayment of certain loans obtained from financial institutions. The mortgage loan which matured in September 2015 was rolled over into a new mortgage loan maturing in June 2024.

The detail of mortgaged assets and their relation to the loan transactions is as follows (in thousand euro):

Location (thousand euro)	**Net value 31-12-17**	**Amount of loan**	**Amount outstanding 31-12-17**	**Maturity**
Av. de los Reyes nº 1 Colmenar Viejo (Madrid)	10,267	9,000	6,142	June 2024

Location (thousand euro)	**Net value 31-12-16**	**Amount of loan**	**Amount outstanding 31-12-16**	**Maturity**
Av. de los Reyes nº 1 Colmenar Viejo (Madrid)	10,785	9,000	6,997	June 2024

The outstanding amount of the mortgage loan under "Long-term bank debt" is €5,263 thousand (€6,143 thousand in 2016), and the amount under "Short-term bank debt" is €879 thousand (€853 thousand in 2016) (Note 19.2).

7.5 Assets acquired under finance leases

There were no finance leases outstanding as of the end of 2017 and 2016.

7.6 Subsidies received

No fixed assets financed by subsidies from public authorities were acquired in 2017 and 2016.

7.7 Insurance

The Company has arranged insurance policies to cover the risks to which its property, plant and equipment are subject. The cover of these policies is deemed to be sufficient.

7.8 Assets located in other countries

There is no property, plant and equipment located outside Spanish territory.

8. INVESTMENT PROPERTY

As of 31 December 2017, the Company had land which was held for appreciation and rental as "Investment property" for a total net amount of €1,492 thousand (€1,492 thousand in 2016).

On 22 November 2016, the Company signed a lease with a third party for that plot of land, located at Avda. de la Industria no. 52, in Polígono Industrial de Tres Cantos (Madrid); the lease is for 25 years and may not be terminated in the first 10 years. In 2016, the Company recognized €38 thousand in depreciation for certain structures classified as "Investment property".

Revenues under this heading amounted to €26 thousand as of 2017 year-end.

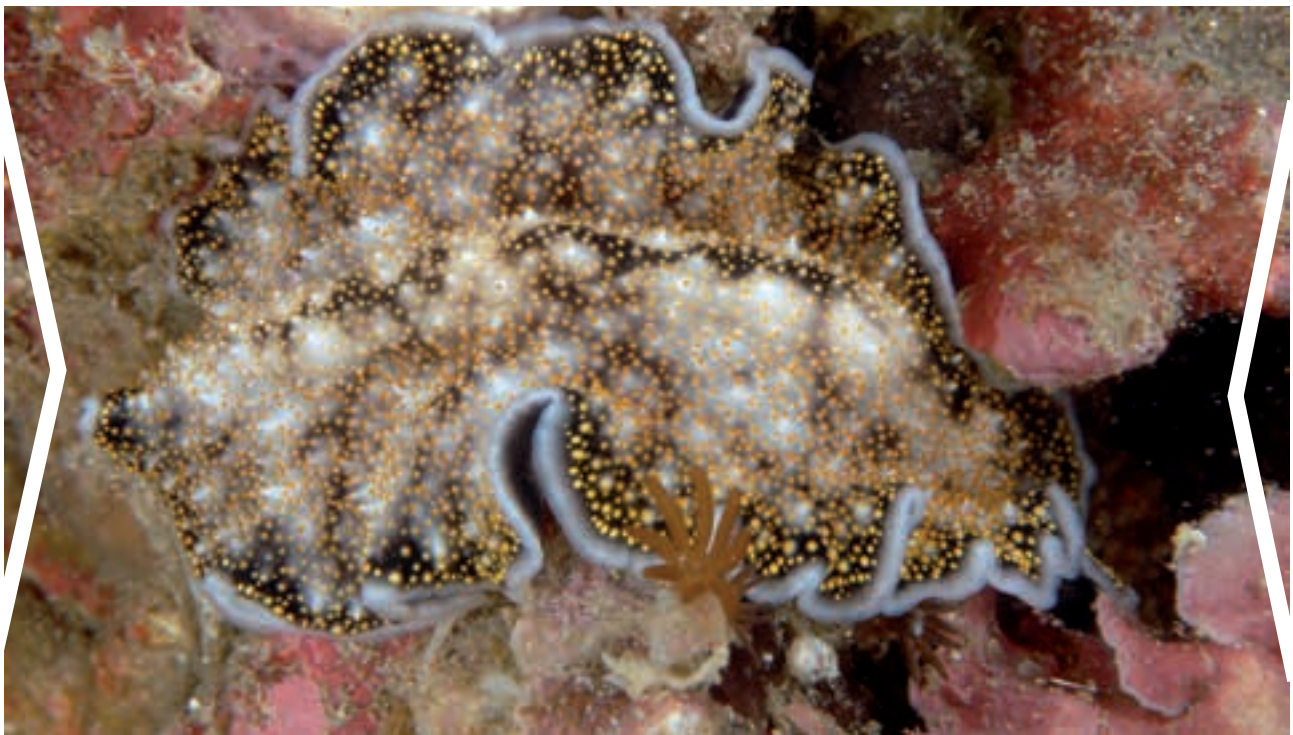
9. OPERATING LEASES

The Company has equipment leases (vehicles, computers and software) and operating lease contracts (laboratories, offices, cold stores, document archives and material stores). The equipment leases can be canceled upon payment of the established penalty and the operating leases can be canceled with the corresponding advance notice.

The minimum total future payments for non-cancelable operating leases are as follows:

Operating lease commitments (thousand euro)	**2017**	**2016**
Under 1 year	1,811	1,714
1-5 years	2,827	3,000
TOTAL	**4,638**	**4,714**

The expense recognized in profit or loss amounted to €2,023 thousand in 2017 (€1,927 thousand in 2016).



10. ANALYSIS OF FINANCIAL INSTRUMENTS

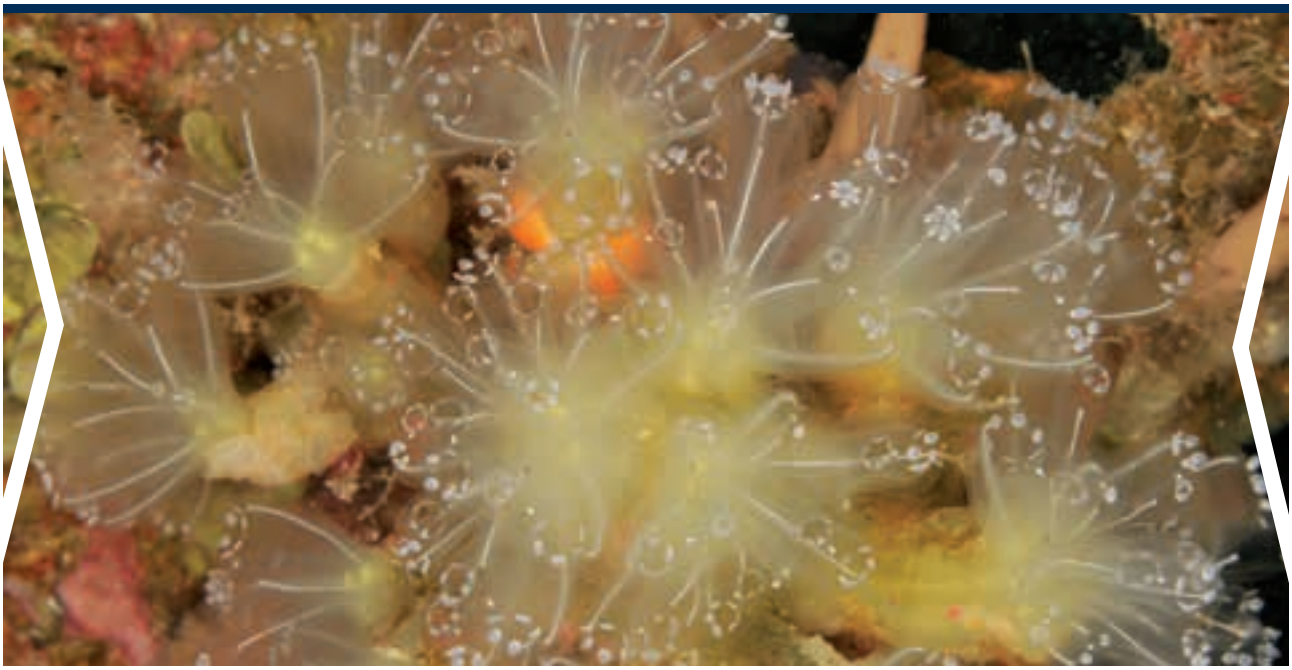
10.1 Analysis by category

The carrying amount of each category of financial instrument established in the accounting and measurement rules for "Financial Instruments", except for investments in the equity of group, multi-group and associated undertakings (Note 11) and liabilities with public authorities (Note 22), is as follows:

10.1.1. Current and non-current financial assets and liabilities

2017 (thousand euro)	Loans and accounts receivable/ payable	Available-for-sale assets	Total
Non-current financial assets			
Financial assets - Group undertakings (Note 14.2)	17,776	-	**17,776**
Non-current financial assets (Note 12)	51	327	**378**
Other financial assets (Note 14.1)	123	-	**123**
Current financial assets			
Customer and other accounts receivable (Note 14.3)	7,475	-	**7,475**
Customer and other accounts receivable - Group undertakings (Note 28)	7,003	-	**7,003**
Financial assets - Group undertakings (Notes 14 and 28)	1,422	-	**1,422**
Current financial assets (Note 14.5)	4,590	-	**4,590**
Other financial assets (Note 14)	2,638	-	**2,638**
TOTAL	**41,078**	**327**	**41,405**
Non-current financial liabilities			
Bonds and other marketable securities (Note 19.1)	16,350	-	**16,350**
Bank loans (Note 19.2)	33,231	-	**33,231**
Other financial liabilities (Note 19.3)	18,056	-	**18,056**
Current financial liabilities			
Bonds and other marketable securities (Note 19.1)	510	-	**510**
Bank loans (Notes 19.2 and 19.3)	22,644	-	**22,644**
Other financial liabilities	674	-	**674**
Current accounts payable to Group and associated undertakings	8,895	-	**8,895**
Debt to Group undertakings (Note 28)	2,541	-	**2,541**
Supplier accounts payable	292	-	**292**
Sundry creditors	21,410	-	**21,410**
Personnel (compensation payable)	4,483	-	**4,483**
Customer advances	660	-	**660**
TOTAL	**129,746**	**-**	**129,746**

2016 (thousand euro)	Loans and accounts receivable/ payable	Available-for-sale assets	Total
Non-current financial assets			
Financial assets Group undertakings (Note 14.2)	12,491	-	**12,491**
Non-currents financial assets (Note 12)	118	326	**444**
Other financial assets (Note 14.1)	124	-	**124**
Current financial assets			
Customer and other accounts receivable (Note 14.3)	38,979	-	**38,979**
Customer and other accounts receivable - Group undertakings (Note 28)	7,655	-	**7,655**
Financial assets - Group undertakings (Notes 14 and 28)	2,030	-	**2,030**
Current financial assets (Note 14.5)	14,993	-	**14,993**
Other financial assets (Note 14)	2,430	-	**2,430**
TOTAL	**78,820**	**326**	**79,146**
Non-current financial liabilities			
Bonds and other marketable securities (Note 19.1)	16,350	-	**16,350**
Bank loans (Note 19.2)	24,794	-	**24,794**
Other financial liabilities (Note 19.3)	20,593	-	**20,593**
Current financial liabilities			
Bonds and other marketable securities (Note 19.1)	466	-	**466**
Bank loans (Notes 19.2 and 19.3)	23,223	-	**23,223**
Other financial liabilities	668	-	**668**
Current accounts payable to Group and associated undertakings	9,209	-	**9,209**
Debt to Group undertakings (Note 28)	2,174	-	**2,174**
Supplier accounts payable	187	-	**187**
Sundry creditors	25,086	-	**25,086**
Personnel (compensation payable)	4,490	-	**4,490**
Customer advances	1,234	-	**1,234**
TOTAL	**128,474**	**-**	**128,474**



10.2 Analysis by maturity

The amounts of financial instruments with a fixed or determinable maturity, by year of maturity, are as follows:

2017 FINANCIAL ASSETS/LIABILITIES BY MATURITY (thousand euro)	2018	2019	2020	2021	2022	Subsequent years	Total non-current	TOTAL
Financial assets								
Available-for-sale assets	**-**	**-**	**-**	**-**	**-**	**378**	**378**	**378**
Equity instruments (Note 12)	-	-	-	-	-	327	327	327
Loans to third parties	-	-	-	-	-	51	51	51
Loans and receivables	**-**	**-**	**-**	**-**	**-**	**17,776**	**17,776**	**17,776**
Financial assets - Group undertakings (Note 14.2)	-	-	-	-	-	17,776	17,776	17,776
Other financial assets	**23,128**	**123**	**-**	**-**	**-**	**-**	**123**	**23,251**
Other financial assets (Note 14.1)	-	123	-	-	-	-	123	123
Loans and accounts receivable (Note 14.5)	4,590	-	-	-	-	-	-	4,590
Financial assets - Group undertakings (Notes 14 and 28)	1,422	-	-	-	-	-	-	1,422
Sundry debtors	542	-	-	-	-	-	-	542
Personnel	110	-	-	-	-	-	-	110
Accruals	1,986	-	-	-	-	-	-	1,986
Customer receivables for sales and services (Note 14)	7,475	-	-	-	-	-	-	7,475
Customer receivables from Group and associated undertakings (Note 28)	7,003	-	-	-	-	-	-	7,003
TOTAL	**23,128**	**123**	**-**	**-**	**-**	**18,154**	**18,277**	**41,405**
Financial liabilities								
Bonds and other marketable securities (Note 19.1)	**510**	**-**	**-**	**-**	**-**	**16,350**	**16,350**	**16,860**
Bank loans (Note 19.2)	18,691	8,950	9,155	8,123	5,037	1,966	33,231	51,922
Debt to official authorities (Note 19.3)	3,953	3,429	3,681	2,902	2,890	5,153	18,056	22,009
Bank debt and debt to official authorities	**22,644**	**12,379**	**12,836**	**11,025**	**7,927**	**7,119**	**51,287**	**73,931**
Current accounts payable to Group and associated undertakings	**8,895**	**-**	**-**	**-**	**-**	**-**	**-**	**8,895**
Supplier accounts payable - Group and associated undertakings	**2,541**	**-**	**-**	**-**	**-**	**-**	**-**	**2,541**
Supplier accounts payable	**292**	**-**	**-**	**-**	**-**	**-**	**-**	**292**
Sundry creditors	**21,410**	**-**	**-**	**-**	**-**	**-**	**-**	**21,410**
Personnel (compensation payable)	**4,483**	**-**	**-**	**-**	**-**	**-**	**-**	**4,483**
Customer advances	**660**	**-**	**-**	**-**	**-**	**-**	**-**	**660**
Other financial liabilities	**674**	**-**	**-**	**-**	**-**	**-**	**-**	**674**
TOTAL	**62,109**	**12,379**	**12,836**	**11,025**	**7,927**	**23,469**	**67,637**	**129,746**

Additionally, the "Long-term accruals" and "Short-term accruals" in the Company's liabilities include a number of advance revenues under licensing contracts whose maturity is established on the basis of their recognition in revenues (Note 21.1.3).

2016 FINANCIAL ASSETS/LIABILITIES BY MATURITY (thousand euro)	2017	2018	2019	2020	2021	Subsequent years	Total non-current	TOTAL
Financial assets								
Available-for-sale assets	**-**	**-**	**-**	**-**	**-**	**444**	**444**	**444**
Equity instruments (Note 12)	-	-	-	-	-	326	326	326
Loans to third parties	-	-	-	-	-	118	118	118
Loans and receivables	**-**	**-**	**-**	**-**	**-**	**12,491**	**12,491**	**12,491**
Financial assets - Group undertakings (Note 14.2)	-	-	-	-	-	12,491	12,491	12,491
Other financial assets	**66,087**	**124**	**-**	**-**	**-**	**-**	**124**	**66,211**
Other financial assets (Note 14.1)	-	124	-	-	-	-	124	124
Loans and accounts receivable (Note 14.5)	14,993	-	-	-	-	-	-	14,993
Financial assets - Group undertakings (Notes 14 and 28)	2,030	-	-	-	-	-	-	2,030
Sundry debtors	469	-	-	-	-	-	-	469
Personnel	113	-	-	-	-	-	-	113
Accruals	1,848	-	-	-	-	-	-	1,848
Customer receivables for sales and services (Note 14)	38,979	-	-	-	-	-	-	38,979
Customer receivables from Group and associated undertakings (Note 28)	7,655	-	-	-	-	-	-	7,655
TOTAL	**66,087**	**124**	**-**	**-**	**-**	**12,935**	**13,059**	**79,146**
Financial liabilities								
Bonds and other marketable securities (Note 19.1)	**466**	**-**	**-**	**-**	**-**	**16,350**	**16,350**	**16,816**
Bank loans (Note 19.2)	19,395	5,255	5,396	5,539	4,444	4,160	24,794	44,189
Debt to official authorities (Note 19.3)	3,828	3,848	3,507	3,706	2,767	6,765	20,593	24,421
Bank debt and debt to official authorities	**23,223**	**9,103**	**8,903**	**9,245**	**7,211**	**10,925**	**45,387**	**68,610**
Current accounts payable to Group and associated undertakings	**9,209**	**-**	**-**	**-**	**-**	**-**	**-**	**9,209**
Supplier accounts payable - Group and associated undertakings	**2,174**	**-**	**-**	**-**	**-**	**-**	**-**	**2,174**
Supplier accounts payable	**187**	**-**	**-**	**-**	**-**	**-**	**-**	**187**
Sundry creditors	**25,086**	**-**	**-**	**-**	**-**	**-**	**-**	**25,086**
Personnel (compensation payable)	**4,490**	**-**	**-**	**-**	**-**	**-**	**-**	**4,490**
Customer advances	**1,234**	**-**	**-**	**-**	**-**	**-**	**-**	**1,234**
Other financial liabilities	**668**	**-**	**-**	**-**	**-**	**-**	**-**	**668**
TOTAL	**66,737**	**9,103**	**8,903**	**9,245**	**7,211**	**27,275**	**61,737**	**128,474**

The "Non-current financial assets - Group undertakings" account as of 31 December 2017 and 2016 contained the loans indicated in Note 14.2. Those loans were classified as non-current since they have no fixed maturity and the directors do not intend to repay them in the short term.

10.3 Credit quality of financial assets

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

ACCOUNTS RECEIVABLE (thousand euro)	2017	2016
Customers without an external credit rating		
New customers	134	173
Customers from previous years	7,341	38,806
TOTAL ACCOUNTS RECEIVABLE	**7,475**	**38,979**
Cash at bank and short-term bank deposits Moody's rating		
A2	-	5
A3	918	1,574
B1	1	-
B2u	-	1,209
Ba1	-	6,347
Ba3	7	-
Baa1	3,610	1
Baa2	8,005	12,325
Baa3	3,333	-
WR	1,436	-
NR	-	793
TOTAL CASH AT BANK AND SHORT-TERM BANK DEPOSITS	**17,310**	**22,254**

11. HOLDINGS IN GROUP COMPANIES

11.1 Description of Group undertakings: registered offices and line of business

The registered office and line of business of each of PharmaMar's investees as of 31 December 2017 are summarized below:

Company	Registered offices	Line of business
Genómica, S.A.U Madrid (Spain)	Via de los Poblados, 1, Edif. B, Parq. Emp. Alvento, Madrid, Spain	Research, development and commercialization of biotechnology applications, diagnosis and services related to these activities.
Genómica, A.B. Sweden	Ideon Science Park, Scheelevägen, 17 Lund, Sweden	Research, development and commercialization of biotechnology applications, diagnosis and services related to these activities.
Genómica Brasil Consultoria e Intermediaçao Ltda (Brazil)	Avda. Presidente Wilson 231, sala 1402, Rio de Janeiro, Brazil	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. Equity holdings in other companies.
Sylentis, S.A.U. Madrid (Spain)	Pza. del Descubridor Diego de Ordás, 3 Madrid	Research, development, production and sale of products with therapeutic activity based on reducing or silencing gene expression. The company does not have any products on the market.
Pharma Mar, USA INC NY (USA)	205 East 42nd Street, Suite 15003, New York, NY 10017 USA	Research, production and marketing of pharmaceutical products.
PharmaMar, AG Basle (Switzerland)	Aeschenvorstadt, 71 Basle - Switzerland	Research, production and marketing of pharmaceutical products.
Pharma Mar, Sarl París (France)	120, Av. Charles Gaulle Neuilly Sur Seine - France	Research, production and marketing of pharmaceutical products.
Pharma Mar, GmbH Berlin (Germany)	Uhlandstraße 14 10623 Berlin - Germany	Research, production and marketing of pharmaceutical products.
Pharma Mar, Srl Milán (Italy)	Via Giorgio Stephenson, 29 Milan - Italy	Research, production and marketing of pharmaceutical products.
Pharma Mar, Ltd Reading (UK)	Soane Point 6-8 Market Place, Reading RG1 2EG-United Kingdom	Research, production and marketing of pharmaceutical products.
Pharma Mar, Sprl Brussel (Belgium)	Avenue du Port 86C, boite 204 1000 Brussels, Belgium	Research, production and marketing of pharmaceutical products.
Pharma Mar Ges.m.b.H Vienna (Austria)	Mooslackengasse 17 1190 Vienna, Austria	Research, production and marketing of pharmaceutical products.
Noscira, S.A. En liquidación Madrid (Spain)	Pza. del Descubridor Diego de Ordás, 3 Madrid	In October 2012, the ARGO clinical trial in Alzheimer's disease failed to reach its end points. Noscira wrote off the amount of capitalized R&D expenses, with the result that the company was in a position in which it is required by law to be dissolved, since equity had been reduced to less than one-half of capital stock. On 18 December of that same year, the shareholders resolved to dissolve and liquidate Noscira.
Zelnova Zeltia, S.A. Porriño - Pontevedra (Spain)	Torneiros - Porriño Pontevedra	Manufacture and marketing of chemical products for household, agricultural and industrial use.
Xylazel, S.A. - Porriño Pontevedra (Spain)	Las Gándaras - Porriño Pontevedra	Manufacture and sale of wood protection and decoration products.
Copyr S.p.A. Milan (Italy)	Via Giorgio Stephenson, 29 Milan - Italy	Manufacture and marketing of chemical products for household, agricultural and industrial use.

11.2 PharmaMar stakes in Group undertakings

The breakdown of holdings in group companies as of 31 December 2017 and 2016 is as follows:

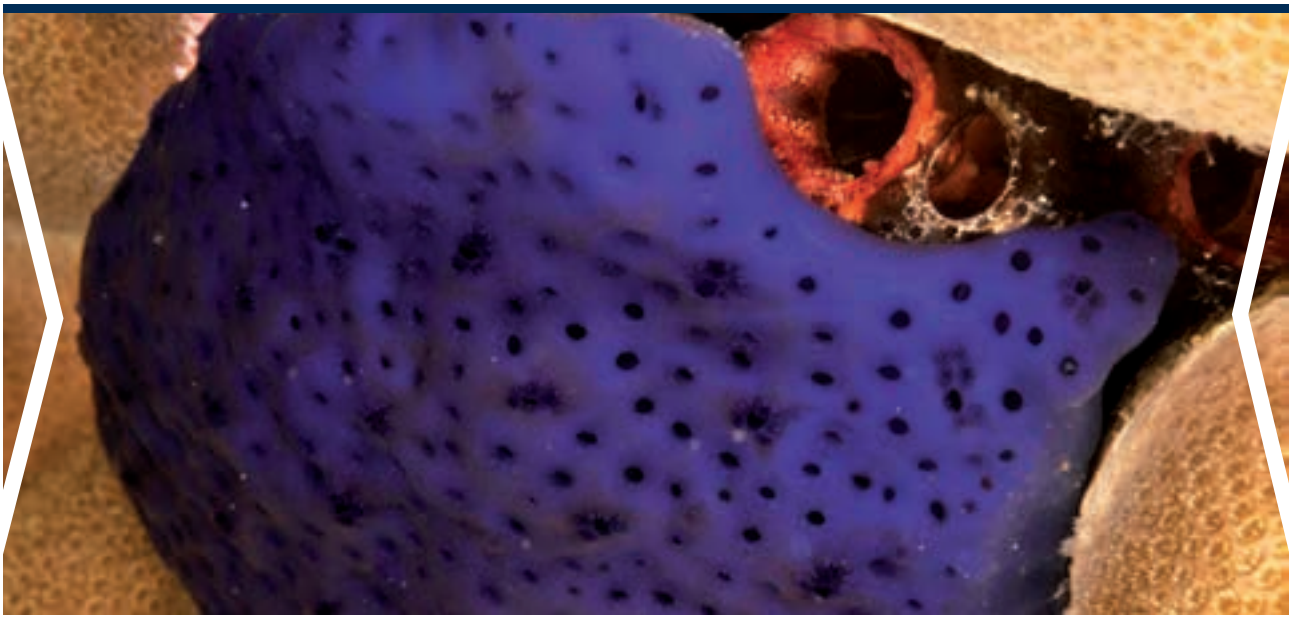
Name and domicile	Statutory audit	Percentage of ownership Direct % 2017	Percentage of ownership Indirect % 2017	Percentage of ownership Direct % 2016	Percentage of ownership Indirect % 2016
Genómica, S.A.U. - Madrid (Spain)	KPMG	100.00%	-	100.00%	-
Genómica, A.B. - Sweden (*)	KPMG	-	100.00%	-	100.00%
Genómica Brasil Consultoria e Intermediaçao Ltda (Brazil) (*)	No	-	100.00%	-	-
Sylentis , S.A.U. - Madrid (Spain)	KPMG	100.00%	-	100.00%	-
Pharma Mar USA INC - NY (USA)	Walter & Shufain, PC	100.00%	-	100.00%	-
PharmaMar AG - Basel (Switzerland)	PwC	100.00%	-	100.00%	-
Pharma Mar Sarl - París (France)	PwC	100.00%	-	100.00%	-
Pharma Mar GmbH - Berlin (Germany)	No	100.00%	-	100.00%	-
Pharma Mar Srl - Milan (Italy)	Prorevi Auditing, S.r.L.	100.00%	-	100.00%	-
Pharma Mar, Ltd - Reading (UK)	Scrutton Bland LLP	100.00%	-	100.00%	-
Pharma Mar, Sprl - Brussels (Belgium)	PwC	100.00%	-	100.00%	-
Pharma Mar Ges.m.b.H- Vienna (Austria)	No	100.00%	-	100.00%	-
Noscira, S.A. en liquidación - Madrid (Spain)	No	73.32%	-	73.32%	-
Zelnova Zeltia, S.A. - Porriño - Pontevedra (Spain)	PwC	100.00%	-	100.00%	-
Xylazel, S.A. - Porriño - Pontevedra (Spain)	PwC	99.93%	-	99.93%	-
Copyr S.p.A.- Italy (**)	Trevor Auditing, S.r.L.	-	100.00%	-	100.00%

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

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

The percentage of voting rights is proportional to the stake in capital.

The Company periodically receives economic and financial information from all its investees. In compliance with article 155 of the consolidated text of the Capital Companies Act, PharmaMar has presented the required notifications to the companies in which it has direct and/or indirect holdings of more than 10%.



11.3 Changes in holdings in Group undertakings: Capital increases, business combinations

The changes in the holdings in group undertakings in 2017 and 2016 as follows:

Company	Cost	Provision	Balance as of 31-12-16	Recognition due to capital increase	Newly created	Derecognitions Capital reduction	Derecognitions Provision	Balance as of 31-12-17
Holdings in group companies								
Genómica, S.A.U.	8,106	-	8,106	2,356	-	-	-	10,462
Sylentis, S.A.U.	26,068	-	26,068	-	-	-	-	26,068
Pharma Mar, USA INC	5,010	(5,010)	-	-	-	-	-	-
PharmaMar, AG	107	(52)	55	-	-	-	-	55
Pharma Mar, Sarl	100	(37)	63	2,500	-	959	-	1,604
Pharma Mar, GmbH	500	(29)	471	-	-	-	-	471
Pharma Mar, Srl	500	-	500	-	-	-	-	500
Pharma Mar, Ltd	70	-	70	-	-	-	-	70
Pharma Mar, Sprl	150	-	150	-	-	-	-	150
Pharma Mar Ges.m.b.H	100	-	100	-	-	-	-	100
Noscira, S.A. en liquidación	44,254	(44,254)	-	-	-	-	-	-
Zelnova Zeltia, S.A.	4,385	-	4,385	-	-	-	-	4,385
Xylazel, S.A	4,725	-	4,725	-	-	-	-	4,725
	94,075	**(49,382)**	**44,693**	**4,856**	**-**	**959**	**-**	**48,590**

Company	Cost	Provision	Balance as of 31-12-15	Recognition due to capital increase	Newly created	Derecognitions Capital reduction	Derecognitions Provision	Balance as of 31-12-16
Holdings in group companies								
Genómica, S.A.U.	6,606	-	6,606	1,500	-	-	-	8,106
Sylentis, S.A.U.	26,068	-	26,068	-	-	-	-	26,068
Pharma Mar, USA INC	5,010	(5,010)	-	-	-	-	-	-
PharmaMar, AG	107	(52)	55	-	-	-	-	55
Pharma Mar, Sarl	100	(37)	63	-	-	-	-	63
Pharma Mar, GmbH	500	(29)	471	-	-	-	-	471
Pharma Mar, Srl	500	-	500	-	-	-	-	500
Pharma Mar, Ltd	70	-	70	-	-	-	-	70
Pharma Mar, Sprl	150	-	150	-	-	-	-	150
Pharma Mar Ges.m.b.H	-	-	-	-	100	-	-	100
Noscira, S.A. en liquidación	44,254	(44,254)	-	-	-	-	-	-
Zelnova Zeltia, S.A.	4,385	-	4,385	-	-	-	-	4,385
Xylazel, S.A.	4,725	-	4,725	-	-	-	-	4,725
Promaxsa, S.L.	1,530	(1,530)	-	-	-	(1,530)	1,530	-
	94,005	**(50,912)**	**43,093**	**1,500**	**100**	**(1,530)**	**1,530**	**44,693**

The changes in holdings in 2017 were due to the capital increase and reduction at Pharma Mar, Sarl and a capital increase at Genómica.

The changes in holdings in 2016 were due to the capital increase at Genómica, S.A.U., the sale of Promaxsa, S.L. and the incorporation of a subsidiary in Austria: Pharma Mar, Ges.m.b.H.

Genómica increased capital in 2017 by issuing 10,705 new shares of €60.10 par value each, with an issue premium of €160 per share, i.e. amounting to a total of €2,356,170, by offsetting a debt claim by the Company against Genómica, S.A.U.

In order to restore its equity position, Pharma Mar Sarl performed an accordion recapitalization in 2017 consisting of a capital increase of €2,500,000 by issuing 2,500 new shares of €1,000 par value each (Note 23), and a subsequent capital reduction amounting to €959,400, by reducing the par value of these shares by €369 each. As a result, as of 31 December 2017, the company's capital stock was composed of 2,600 shares with a par value of €631 each.

Genómica increased capital in 2016 by issuing 6,816 new shares of €60.10 par value each, with an issue premium of €160 per share, i.e. amounting to a total of €1,500,201.60, by offsetting a debt claim by the Company against Genómica, S.A.U.

In July 2016, the Company sold 100% of subsidiary Promaxsa Protección de Maderas, S.L. to a third party for €150 thousand. Prior to the sale, that company increased capital by €631 thousand (€6 thousand capital and €625 thousand issue premium) by offsetting debt claims by the Company against Promaxsa. The total amount of PharmaMar's interest in Promaxsa, and the loans granted to it in the amount of €683 thousand, had been provisioned at the date of the sale. As a result of the sale, a gain of €202 thousand was recognized in the income statement (Note 23).

11.3.1 Disclosures on equity of the Group undertakings and their net carrying amount at PharmaMar. Valuation methods for the holdings in Group undertakings

The amounts of capital, reserves, period income and other information of interest as of 31 December 2017 and 2016, as stated in each company's separate financial statements, and the net carrying amount at which PharmaMar has recognized its holding in each subsidiary, are as follows:

2017 Company	Capital	Reserves	Other items	Operating profit	2017 income	Total equity	Carrying amount at parent company
Genómica, S.A.U.	3,230	(137)	2,209	(2,081)	(2,298)	3,004	10,462
Genómica, A.B. (**)	-	-	-	-	-	-	-
Genómica Brasil Consultoria e Intermediaçao Ltda (**)	-	-	-	-	-	-	-
Sylentis, S.A.U.	1,523	130	10,184	(2,543)	(3,156)	8,681	26,068
Pharma Mar, USA INC	5,010	(5,010)	-	26	7	7	-
Pharma Mar, Sarl	1,641	28	-	(663)	(650)	1,020	1,604
Pharma Mar, GmbH	25	298	-	(40)	(38)	285	471
PharmaMar, AG	107	(28)	-	4	3	82	55
Pharma Mar, Srl	500	443	-	1,634	1,118	2,061	500
Pharma Mar, Ltd	70	18	-	(3)	(8)	80	70
Pharma Mar, Sprl	150	(15)	-	4	-	135	150
Pharma Mar Ges.m.b.H	35	(10)	-	73	69	94	100
Noscira, S.A. en liquidación	27,615	(1,467)	(40,624)	(39)	(71)	(14,547)	-
Zelnova Zeltia, S.A.	3,034	22,586	920	202	(110)	26,429	4,385
Copyr, S.p.A. (*)	-	-	-	-	-	-	-
Xylazel, S.A.	811	9,357	19	1,630	1,220	11,407	4,725
TOTAL	**43,751**	**26,193**	**(27,293)**	**(1,797)**	**(3,914)**	**38,738**	**48,590**

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

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

Under point 2.5 ("Investments in the equity of Group undertakings") of Accounting and Measurement Standard 9, "Financial Instruments", of Spain's New General Accounting Plan, these investments must be carried at cost, corrected at year-end if there is objective evidence that the investment is not recoverable. The carrying amount must be corrected to the recoverable amount, i.e. the fair value less selling costs or the present value of the future cash flows arising from the investment, whichever is higher.

The basis for the impairment test applied to investments in group undertakings varies depending on the available information and the best evidence for each investee.

In the case of companies in the consumer chemical business and also the commercial subsidiaries of PharmaMar and Genómica, S.A.U., the best evidence of recoverable value is their own business projections. In the case of Genómica, an impairment test was conducted by discounting free cash flow over a period of ten years using the Group's weighted average cost of capital as the discount rate and assuming that revenues and the discount rate are the key parameters affecting calculation of the recoverable value. A reduction of five basis points in the discount rate or of 5% in revenues, while keeping all other variables constant, would not result in the recognition of any impairment of the financial investment.

In the case of other investees in the biopharmaceutical business whose research projects are at an early stage (e.g. Sylentis), business projections do not provide the most reliable evidence of recoverable value. In this case, the Company mainly uses appraisals by

independent experts based on the company's projects under way, and other references based on deals signed in the market for comparable pharmaceutical compounds at similar stages of development. An independent appraisal of Sylentis gives an amount in excess of 100 million euro, which is well above the recognized cost of the investment and the loans granted to that company.

No other impairments of investments in Group undertakings were recognized apart from those shown in the preceding table.

12. AVAILABLE-FOR-SALE FINANCIAL ASSETS

Holdings in companies

Holding in the capital of	Line of business	Percentage of ownership 2017 Direct %	Percentage of ownership 2016 Direct %
Instituto BIOMAR	Pharmaceutical research	3.49%	3.52%
Pangaea Biotech SA	Consulting services	0.21%	0.21%
Johnson & Johnson	Manufacture of pharmaceuticals, consumer products, devices and medical diagnostics	0.00001%	0.00001%

The value of those holdings is as follows:

(thousand euro)	2017	2016
Instituto BIOMAR	252	252
Pangaea Biotech SA	50	50
Johnson & Johnson	25	24
	327	**326**

No impairment losses were recognized in 2017 and 2016 on available-for-sale financial assets.

Unlisted securities: the available-for-sale financial assets consist entirely of holdings in biotechnology companies. The balance of this item as of 31 December 2017 and 2016 was €302 thousand.

Listed securities: Available-for-sale financial assets include securities traded on official markets that are denominated in US dollars. The available-for-sale financial assets consist of shares listed on the US market, all of them in the biopharmaceutical sector. Their fair value matches their listed market price. The balance of this item was €25 thousand as of 31 December 2017 (€24 thousand in 2016).

13. INVENTORIES

The Group classifies inventories as follows:

(thousand euro)	2017	2016
Raw materials and other supplies used	72	88
Semi-finished products and products in process	6,673	5,596
Finished products	392	405
	7,137	**6,089**

The increase in the balance of products in process and semi-finished products is due to the addition of inventories of an intermediate product for the production of Trabectedin.

No financial expenses have been capitalized as the inventory production cycle does not exceed one year.

There are no future (option) contracts relating to inventories as of 31 December 2017 and 2016.

No material impairment losses were recognized for inventories in 2017 and 2016. No inventories have been committed as collateral for obligations or debt.

The Company has arranged several insurance policies to cover the risks to which the inventories are exposed. The cover of these policies is deemed to be sufficient.

14. LOANS AND RECEIVABLES

Loans and accounts receivable are classified as follows:

(thousand euro)	2017	2016
Long-term loans and accounts receivable	**17,950**	**12,733**
Long-term deposits and guarantees provided (Note 14.1)	123	124
Loans to third parties	51	118
Loans to Group undertakings (Notes 14.2 and 28)	17,776	12,491
Current loans and accounts receivable	**23,128**	**66,087**
Customer receivables (Note 14.3)	7,475	38,979
Customer receivables from Group and associated undertakings (Notes 14.4 and 28)	7,003	7,655
Current financial assets - Group and associated undertakings (Notes 14.2 and 28)	1,422	2,030
Sundry debtors	542	469
Personnel	110	113
Accruals	1,986	1,848
Short-term deposits (Note 14.5)	4,580	14,987
Short-term deposits and guarantees provided	10	6
TOTAL	**41,078**	**78,820**

14.1 Deposits and sureties

Long-term deposits and guarantees as of 31 December 2017 and 2016 include mainly deposits for leases.

14.2 Loans to Group undertakings

The "Non-current financial assets - Group undertakings" account as of 31 December 2017 contained the following loans to Group undertakings:

(thousand euro)	2017	2016
Sylentis, S.A.U.	16,792	10,919
Genómica, S.A.	984	1,572
Noscira, S.A.	7,612	7,611
Impairments	(7,612)	(7,611)
	17,776	**12,491**

Those loans were classified as non-current since they have no fixed maturity and the directors do not intend them to be repaid in the short term.

The loan to Noscira, S.A. (which is in liquidation) has been written off due to doubts about its recoverability.

The loan to Noscira, S.A. (which is currently being liquidated) amounting to €7.6 million arose as a result of subrogation in 2013 by Zeltia, S.A. (merged company) to two loans granted by Centro de Desarrollo Tecnológico e Industrial (CDTI) to Noscira, S.A. (currently in liquidation) for that amount, in which Zeltia, S.A. acted as guarantor. The subrogation was under the same conditions and for the same term as the original contract, i.e. zero interest rate and a 10-year maturity.

The "Current financial assets – Group undertakings" account comprises the following items:

(thousand euro)	2017	2016
Current financial assets		
Corporate income tax receivable (Note 22)	425	507
VAT receivable (Note 22)	57	155
Current accounts with Group undertakings	940	830
Account receivable from Zelnova Zeltia, S.A.	-	538
	1,422	**2,030**

The balances with Group undertakings under current financial assets and liabilities in 2017 consist mainly of those arising between the parent company and the subsidiaries as a result of tax consolidation—both corporate income tax and value added tax (Note 22).

14.3 Customer receivables

The detail of customer balances by age is as follows:

(thousand euro)	2017	2016
Current balances	**5,031**	**36,244**
Balances past due by	**2,504**	**2,795**
Up to 3 months	1,305	1,774
3-6 months	210	13
Over 6 months	989	1,008
CUSTOMER RECEIVABLES	**7,535**	**39,040**
Provisions	(60)	(60)
NET	**7,475**	**38,979**

Past-due receivables have not been impaired and the Company expects to recover the total amount due plus any default interest that it claims.

The amount of €60 thousand at 2017 year-end relates to a provision for bad debts recognized in 2016.

Due from official authorities

As of 31 December 2017, accounts receivable from public authorities totaled €2,847 thousand (€2,946 thousand in 2016).

The geographic breakdown of receivables from public authorities in Spain is as follows:

(thousand euro)	Credit rating	2017	2016
Andalusia	Baa3	211	133
Madrid	Baa2	117	370
Balearic Islands	BBB	128	26
Valencia	Ba2	226	129
Castilla and León	Baa2	84	90
Castilla la Mancha	Ba2	68	74
Aragón	BBB-	50	33
Catalonia	Ba3	201	369
Cantabria	BBB	23	64
Galicia	Baa2	224	127
Canary Islands	BBB	285	125
Extremadura	Baa3	-	6
Basque Country	Baa1	31	10
Murcia	Ba2	10	48
Navarra	A	14	(2)
Rioja	BBB	-	22
Asturias	-	24	55
Other	-	6	-
TOTAL		**1,702**	**1,679**

In 2017, the Company collected €2,553 thousand of debt owed by various public administrations by arranging non-recourse factoring contracts with financial institutions that specialize in transactions of this type (€5,267 thousand in 2016).

Past-due debt as of 31 December 2017 totaled €993 thousand (€1,095 thousand in 2016), and no impairments had been recognized on those amounts.

Debt owed by public authorities at year-end in other territories where the Company operates was as follows:

(thousand euro)	Credit rating	2017	2016
Italy	Baa2	193	193
United Kingdom	Aa1	128	114
Portugal	Ba1	359	411
Austria	Aaa	201	274
Belgium	AA-	214	216
Luxembourg	Aaa	18	12
The Netherlands	Aaa	-	5
Ireland	A3	32	42
TOTAL		**1,145**	**1,267**

14.4 Trade receivables from group and associated undertakings

The balances and transactions with group undertakings in 2017 and 2016 are detailed in Note 28.

14.5 Short-term deposits

The Short-term deposits item as of 31 December 2017 contains the following material items:

- A number of time deposits amounting to a total of €4,580 thousand plus accrued interest at a fixed annual rate of between 0.02% and 0.10%, amounting to €1 thousand outstanding at year-end.

This account contained the following material items as of 31 December 2016:

- A number of time deposits amounting to a total of €14,987 thousand plus accrued interest at a fixed annual rate of between 0.035% and 0.05%, amounting to €4 thousand outstanding at year-end.

The interest rate for short-term bank deposits as of 31 December 2017 was approximately 0.10%.

15. CASH AND CASH EQUIVALENTS

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

(thousand euro)	2017	2016
Cash on hand and at banks	12,720	7,261
TOTAL	**12,720**	**7,261**

16. SHARE CAPITAL

16.1 Share capital

As of 31 December 2018, the Company's capital stock was represented by 222,649,287 fully subscribed and paid ordinary shares (222,204,887 ordinary shares in 2016) with a par value of €0.05 each, which are listed on the four Spanish stock exchanges.

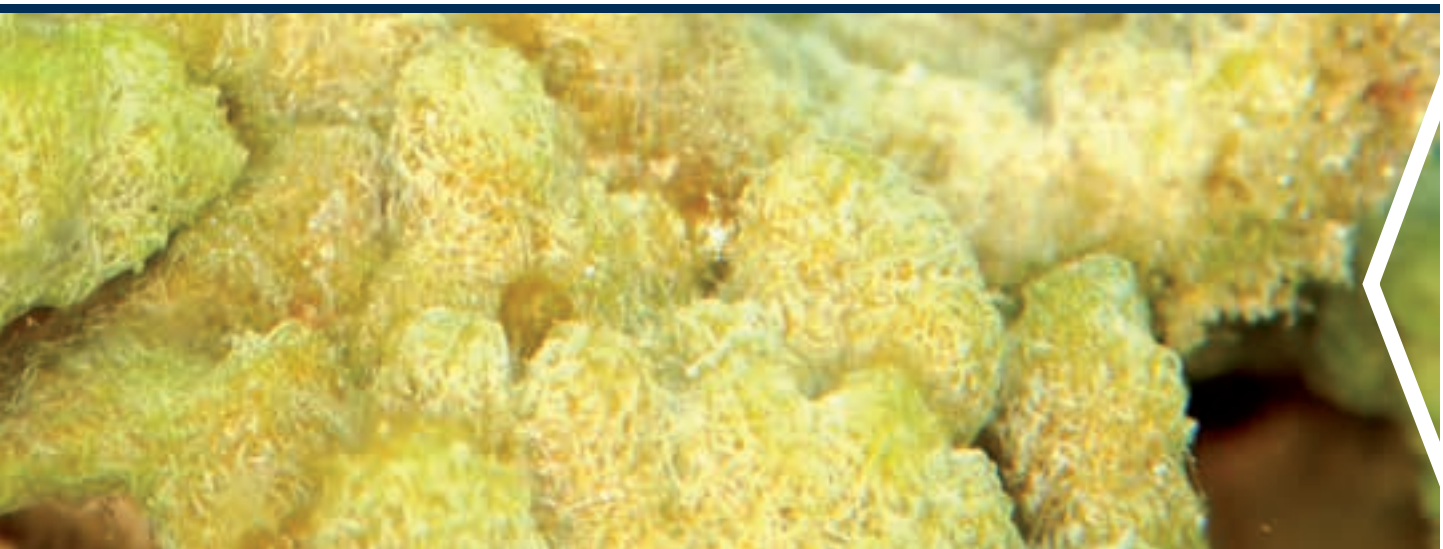
In May 2017, the Company carried out a capital increase by issuing 444,400 new ordinary shares representing 0.2% of share capital at a subscription price per share of €4.75 (€0.05 par value plus €4.70 issue premium). The capital increase was subscribed in full by The Specialised Therapeutics Unit Trust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

The total amount of the capital increase (par value plus share premium) amounted to €2,110,900 (€22,220 par value and €2,088,680 total issue premium) (Note 21.1.3).

According to information in the official registers of the National Securities Market Commission as of 31 December 2017, holders of significant stakes in PharmaMar, either directly or indirectly, amounting to over 10% are as follows:

	DIRECT STAKE		INDIRECT STAKE (1)		TOTAL
	No. of shares	%	No. of shares	%	%
José Mª Fernández Sousa-Faro	14,318,261	6.431	10,354,841	4.651	11.082

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



16.2 Share premium account

The share issue 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. As of 31 December 2017, the issue premium amounted to €71,278 thousand euro (€68,189 in 2016).

16.3 Own shares

In 2017, the Company acquired 1,905,697 own shares for a total of €6,186 thousand. The Company sold 1,742,033 own shares for a total of €4,962 thousand, resulting in a gain of €611 thousand, which was recognized in the Company's reserves. As of 31 December 2017, the Company held 1,373,745 own shares representing 0.62% of capital stock.

In 2016, the Company acquired 1,709,350 own shares for a total of €4,163 thousand. The Company sold 1,395,059 own shares for a total of €3,861 thousand, resulting in a loss of €328 thousand, which was recognized against the Company's reserves. As of 31 December 2016, the Company held 1,210,081 own shares representing 0.55% of capital stock.

The changes in holdings in own equity instruments in 2017 and 2016 are as follows:

	No. of shares	Amount (euro)
Balance as of 31-12-16	1,210,081	(3,246,192)
Own shares purchased	1,905,697	(6,186,254)
Sold	(1,530,369)	4,378,008
Share ownership plan	(211,664)	584,404
Balance as of 31-12-17	**1,373,745**	**(4,470,033)**

	No. of shares	Amount (euro)
Balance as of 31-12-15	895,790	(2,944,492)
Own shares purchased	1,709,350	(4,163,901)
Sold	(1,395,059)	3,862,201
Balance as of 31-12-16	**1,210,081**	**(3,246,192)**

17. RESERVES AND PRIOR YEARS' INCOME

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

(thousand euro)	2017	2016
Legal and bylaw reserves		
Legal reserve	2,226	2,222
Voluntary reserves		
Voluntary reserves	85,427	84,967
Merger reserves	215,160	215,160
Other reserves		
Other reserves	31	30
Difference due to redenomination of share capital in euro	1	1
Own shares and equity instruments	(347)	(254)
TOTAL	**302,499**	**302,126**

17.1 Legal reserve

Under article 274 of the Consolidated Text of the Capital Companies Act, approved by the Legislative Royal Decree of 2 July 2010, 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 may not be distributed and may only be used to offset losses if there are not sufficient unrestricted reserves available for this purpose, in which case it must be restored out of future income.

The capital increase performed by the Company in May 2017 (Note 16.1) increased the legal reserve by €4 thousand.

As of 31 December 2017, the Company had fully allocated the legal reserve.

17.2 Voluntary reserves

In 2017, voluntary reserves were modified by €462 thousand as a result of the gain from transactions with own shares (€611 thousand) and capital increase costs (€149 thousand) (Note 16.1).

In 2016, the balance of voluntary reserves was reduced by €328 thousand as a result of transactions with own shares.

The merger reserve, which arose in 2015 as a result of the reverse merger described in Note 1, amounts to €215,160 thousand.

17.3 Other reserves

The "Other reserves" item includes:

- A reserve amounting to €31 thousand for Differences in conversion to PGC 2007 because of the treatment of exchange gains that have accrued but not been realized.
- Difference due to redenomination of share capital in euro (this reserve is restricted); and
- A reduction of €93 thousand in the balance of own equity instruments as a result of accrual of expenses during the lock-up period of the employee stock ownership plan.

17.4 Limitations on dividend distribution

The distribution of reserves designated elsewhere in this note as unrestricted is subject to the limits established by law.

Under the Capital Companies Act, profits may not be distributed unless the amount of available reserves is at least equal to the amount of research and development expenses shown on the assets side of the balance sheet.

18. SUBSIDIES, DONATIONS AND LEGACIES RECEIVED

As of 31 December 2017, the "Subsidies, donations and other legacies received" item of the Company's equity includes €2,094 thousand (€4,736 thousand in 2016) of refundable subsidies from official authorities at zero or below-market interest rates (notes 5.2 and 6.8) and €1,321 thousand (€4,410 thousand in 2016) of non-repayable capital subsidies.

Non-repayable capital subsidies were granted mainly by the Ministry of Science and Technology, IMADE, CDTI, the Ministry of Industry, Tourism and Trade, the Madrid Regional Government, and the European Union.

Those subsidies were granted for the implementation of a number of development programmes by the Company's projects, and the conditions under which they were granted have been met.

The changes in these subsidies are as follows:

(thousand euro)	2017	2016
Beginning balance	**9,146**	**9,284**
Increase	444	211
Recognized in profit or loss	(6,175)	(349)
Ending balance	**3,415**	**9,146**

In 2017, the Company derecognized certain compounds due to technical developments and, consequently, recognized the associated subsidies in profit or loss.

19. DEBTS AND ACCOUNTS PAYABLE

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

(thousand euro)	2017	2016
Bonds and other marketable securities	16,350	16,350
Bank debt	33,231	24,794
Debt to official authorities	18,056	20,593
Prepaid revenues	5,105	14,000
Non-current debts and accounts payable	**72,742**	**75,737**
Bonds and other marketable securities (Note 19.1)	510	466
Bank loans (Note 19.2)	18,691	19,395
Debt to official authorities (Note 19.3)	3,953	3,828
Other financial liabilities	674	668
Supplier accounts payable	292	187
Supplier accounts payable - Group undertakings (Note 28)	2,541	2,174
Debt to related parties (Notes s 19.4 and 28)	8,895	9,209
Sundry creditors	21,410	25,086
Personnel	4,483	4,490
Customer advances	660	1,234
Prepaid revenues	10,217	10,000
Current debts and accounts payable	**72,326**	**76,737**
TOTAL DEBTS AND ACCOUNTS PAYABLE	**145,068**	**152,474**

The "Prepaid revenues" item includes part of the amount of the licensing, development and commercialization agreement signed with Chugai Pharmaceutical Co., Ltd. in 2016 with respect to Zepsyre™, as detailed in Note 21.1.3. Those amounts will be recognized in profit or loss as a function of the degree of progress with the Company's performance obligations.

The carrying amount of short-term debt is approximately the fair value since the effect of discounting is not material.

19.1 Bonds and other marketable securities

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

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

a) The nominal amount of the issue is seventeen million euro;

b) The maturity is 12 years from disbursement;

c) The issue was targeted at a single qualified Spanish investor via a private placement;

d) The bonds, which are uncertificated, were issued at par, each with a unit nominal value of €100,000;

e) The bonds bear a fixed coupon of 4.75% per annum payable in arrears every year from the date of disbursement;

f) The Company is liable for the obligations arising from the bonds with all its assets and no specific guarantee is granted;

g) The terms and conditions of the bonds are governed by Spanish law;

h) The Company applied to list the bonds on the Alternative Fixed-Income Market (MARF) on 7 July 2015.

The debt is recognized at amortized cost under non-current liabilities.

The unpaid accrued interest amounted to €510 thousand as of 31 December 2017 (€466 thousand in 2016).

19.2 Bank debt

Current and non-current bank debt is broken down as follows:

	2017		2016	
(thousand euro)	Non-current	Current	Non-current	Current
Bank loans	33,231	8,278	24,794	9,892
Credit lines	-	8,520	-	9,424
Interest payable	-	94	-	74
Other interest-bearing debt	-	1,799	-	5
TOTAL DEBTS AND ACCOUNTS PAYABLE	**33,231**	**18,691**	**24,794**	**19,395**

Non-current bank debt includes a mortgage loan of €5,263 thousand (€6,143 thousand in 2016) described in Note 7.4, maturing in 2024 and bearing interest at Euribor 12 months plus a spread of 2.75 points. The short-term part of the loan amounted to €879 thousand as of 31 December 2017 (€853 thousand as of 31 December 2016) and is recognized under “Short-term debt — Bank debt and debt to official authorities".

In 2017, the Company obtained long-term financing from two financial institutions for a total amount of €17,500 thousand. It pays interest at fixed rates between 1.90% and 2.50%.

In 2016, the Company obtained long-term financing from two financial institutions for a total amount of €15,000 thousand. The interest rate for the transactions is fixed: 2.20% and 2.25%, respectively.

The limit of the credit lines is €26,500 thousand (€27,700 thousand in 2016), of which the Company had drawn €8,567 thousand as of 31 December 2016 (€9,424 thousand in 2016). The credit lines bore average interest of 1.88% in 2017 (2.21% in 2016).

The maturity calendar of the bank debt in 2017 and 2016 is detailed in Note 10.2.

19.3 Debt to official authorities

The amounts under this item, recognized at amortized cost as non-current debt, amounted to €18,056 thousand as of 31 December 2017 (€20,593 thousand in 2016).

A total of €3,953 thousand were recognized as current under this heading in 2017 (€3,828 thousand in 2016).

These transactions do not accrue interest, except for 12 loans that bear interest at between 0.06% and 1%.

The difference between initial fair value and the nominal value is accrued on the basis of market interest rates (Euribor and Spanish government bond yields plus a spread based on the Group's risk).

In 2017, seven subsidized loans were received for a nominal amount of €1,766 thousand, with an initial fair value of €1,303 thousand, repayable in 7-8 years.

In 2016, four subsidized loans were received for a nominal amount of €1,010 thousand, with an initial fair value of €760 thousand, repayable in 7-8 years.

The maturities of the amounts due to official authorities which are recognized at fair value as of 31 December 2017 and 2016 are detailed in Note 10.2.

19.4 Current accounts payable to Group undertakings

The detail of accounts payable to related parties is as follows:

(thousand euro)	2017	2016
Current financial liabilities		
Corporate income tax payable (Note 22)	2,340	2,286
VAT payable (Note 22)	215	271
Current accounts with Group undertakings	90	-
Loans from Zelnova Zeltia, S.A.	6,250	6,652
	8,895	**9,209**

The balances of current financial assets and liabilities with Group undertakings in 2017 consist mainly of accounts between the parent company and its subsidiaries as a result of tax consolidation —both corporate income tax and value added tax (Note 22)— plus a loan from ZelnovaZeltia with a balance of €6,250 thousand (€6,652 thousand in 2016).

19.5 Information on deferral of payments to suppliers

Information on payments for commercial transactions performed in 2017 and 2016 and pending payment at the end of the year in relation to the maximum legal payment periods envisaged in Act 15/2010 is as follows:

	2017 Days	2016 Days
Average period taken to pay suppliers	53	53
Transactions paid	54	55
Transactions outstanding	43	39
Total payments made (thousand euro)	28,922	32,403
Total payments outstanding (thousand euro)	3,666	4,170

20. DEFERRED TAXES

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

(thousand euro)	2017	2016
Deferred tax assets	**20,520**	**17,334**
Timing differences (Note 22)	3,519	3,750
Capitalized tax credits (Note 22)	6,577	6,856
Tax withholdings receivable	10,424	6,728
Deferred tax liabilities	**695**	**1,639**
Timing differences	695	1,639
DEFERRED TAXES (NET)	**19,825**	**15,695**

The "Tax withholdings receivable" account as of 31 December 2017 and 2016 included taxes withheld from royalties and payments received from the Johnson & Johnson Group by virtue of the agreements signed in 2001 and 2011, and from Taiho Pharmaceutical Co. Ltd. and Chugai Pharmaceutical Co.

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

DEFERRED TAX LIABILITIES (thousand euro)	Subsidies, donations and legacies received	Capitalized financial revenues	TOTAL
Balance as of 31 December 2015	**3,096**	**212**	**3,308**
Reclassification	(1,548)	(106)	(1,654)
Charge (credit) to profit or loss	23	8	31
Charge to equity	(46)	-	(46)
Balance as of 31 December 2016	**1,525**	**114**	**1,639**
Charge (credit) to profit or loss	955	11	966
Charge to equity	(1,910)	-	(1,910)
Balance as of 31 December 2017	**570**	**125**	**695**

DEFERRED TAX ASSETS (thousand euro)	Tax credits	Timing differences	Withholdings	TOTAL
Balance as of 31 December 2015	**10,117**	**8,218**	**6,220**	**24,555**
Reclassification	2,455	(4,109)	-	(1,654)
Charge (credit) to profit or loss	(5,716)	(359)	-	(6,075)
Other movements	-	-	508	508
Balance as of 31 December 2016	**6,856**	**3,750**	**6,728**	**17,334**
Charge (credit) to profit or loss	(279)	(231)	-	(510)
Other movements	-	-	3,697	3,697
Balance as of 31 December 2017	**6,577**	**3,519**	**10,425**	**20,521**

Tax assets and liabilities were reclassified in 2016 to present them on the basis of their nature.

Deferred taxes charged to equity in the year are as follows:

(thousand euro)	2017	2016
Subsidies, donations and legacies received	(1,910)	(46)
TOTAL	**(1,910)**	**(46)**

Deferred tax assets due to tax losses carried forward are recognized to the extent that the Company is likely to obtain future taxable income enabling them to be offset.

21. REVENUES AND EXPENSES

21.1 Net revenues

The net amount of revenues is broken down as follows:

(thousand euro)	2017	2016
Product sales	71,563	75,228
Royalty revenues	4,362	5,779
Licensing contract revenues	12,357	11,129
Corporate services rendered	650	639
TOTAL	**88,932**	**92,775**

21.1.1 Product sales

The “Product sales” item basically refers to commercial sales of Yondelis® for treating soft tissue sarcoma and relapsed ovarian cancer, made by PharmaMar in the European Union (€69,044 thousand in 2016 and €73,693 thousand in 2016), and of Trabectedin and intermediates to the Johnson & Johnson group and to Taiho Pharmaceutical, Ltd. (€2,519 thousand in 2017 and €1,535 thousand in 2016).

21.1.2 Royalty revenues

This item as of 31 December 2017 and 2016 refers to the amount of royalties on sales by Janssen Products Lp., which amounted to €3,913 thousand (€5,202 thousand in 2016) and €449 thousand of royalties from Taiho Pharmaceutical, Ltd. (€577 thousand in 2016). Janssen commercializes Yondelis® under license for the entire world except the European Union and Japan. Taiho Pharmaceutical holds the commercialization license for Japan.

21.1.3 Licensing revenues

The Group has licensing and co-development agreements with a number of pharmaceutical companies. The breakdown of, and changes in, revenues in 2017 and 2016 are as follows:

(thousand euro)	2017	2016
Other contracts (Aplidin®)	-	1,129
Other contracts (PM1183)	969	-
Chugai Pharma (Aplidin®)	-	4,000
Chugai Pharma (PM1183)	10,888	6,000
Eczacibasi (Aplidin®)	500	-
TOTAL	**12,357**	**11,129**

Janssen Products LP (Yondelis®)

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

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

The Company will retain the patents associated with Yondelis® and is responsible for complying

with the administrative requirements relating to maintaining the patents and any other requirements that may apply for their effective use.

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

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

Taiho Pharmaceutical Co (Yondelis®)

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

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

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

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

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

Chugai Pharma Marketing Co. (Aplidin®)

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

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

- Development of Aplidin® from the date of signature of the agreement up to marketing, and financing of a percentage of the total development costs incurred by PharmaMar;
- Assignment to Chugai of the future marketing rights for eight European countries. For this assignment, the Company will collect royalties based on Chugai's sales.
- The Company retains the exclusive right to manufacture the active ingredient, which will be supplied to Chugai.

Under the terms of the agreement, PharmaMar received an upfront payment of €5 million in 2014 for signing the agreement, which also envisages additional payments of up to more than €30 million subject to attainment of certain milestones in connection with development of the active principles and other regulatory and commercial objectives.

PharmaMar did not collect any amount under this agreement in 2017.

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

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

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

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

Specialised Therapeutics Asia Pte, Ltd (Aplidin®)

In February 2016, a licensing agreement was signed with Singapore-based Specialised Therapeutics Asia Pte, Ltd (STA) to market marine-based anti-tumor compound Aplidin® 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. The Company did not collect any amount under this agreement in 2017.

Boryung Pharmaceutical Co.(Aplidin®)

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

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

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

Chugai Pharmaceutical Co. (Zepsyre™)

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

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

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

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

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

Phase III trials contemplated in the agreement.

Additionally, in 2017 the Company collected €2,000 thousand for reaching the first of the clinical milestones contemplated in the agreement.

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

Specialised Therapeutics Asia Pte, Ltd (Zepsyre™)

In May 2017, PharmaMar signed a licensing agreement with Singapore-based Specialised Therapeutics Asia Pte, Ltd (STA) for commercialization of marine-derived anti-tumor compound Zepsyre™ (Lurbinectedin). PharmaMar collected €179 thousand as the upfront payment and recognized €147 thousand as revenue on the basis of the degree of progress with the Phase III trials. In connection with this licensing agreement, STA subscribed for 444,400 shares of PharmaMar for a total amount of €2,211 thousand (Note 16.1).

Boryung Pharmaceutical Co.(Zepsyre™)

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

21.2 Breakdown of revenues

The net amount of the Company's revenues, in thousand euro, by geographical region, is as follows:

Market (thousand euro)	**2017**	**2016**
Spain	13,588	14,686
European Union	54,329	58,269
America	3,913	5,224
Japan	12,668	10,832
OECD countries	2,965	2,633
Other countries	1,469	1,131
TOTAL	**88,932**	**92,775**

21.3 Foreign currency transactions

The detail of foreign currency transactions is as follows:

(thousand euro)	**2017**	**2016**
Assignment of intellectual property	4,509	6,008
Sales	6,360	5,898
Purchases and services received	7,688	6,203
TOTAL	**18,557**	**18,109**

21.4 Merchandise, raw materials and other consumables consumed

(thousand euro)	**2017**	**2016**
Purchased in Spain	2,402	2,772
Purchased in other EU countries	678	1,215
Imports	92	170
Change in inventories	(244)	22
TOTAL	**2,928**	**4,179**

21.5 Personnel expenses

(thousand euro)	**2017**	**2016**
Wages, salaries and similar	24,394	24,381
Indemnities	619	333
Employee welfare expenses		
Employer social security	4,470	4,185
Other welfare expenses	1,274	1,248
TOTAL	**30,757**	**30,147**

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

Number in category (men)	2017	2016
Executives and managers	13	13
Technical personnel	96	93
Clerical personnel	24	30
Commercial personnel	5	5
Assistants and others	17	5
TOTAL	**155**	**146**

Number in category (women)	2017	2016
Executives and managers	6	6
Technical personnel	139	136
Clerical personnel	39	40
Commercial personnel	6	8
Assistants and others	28	25
TOTAL	**218**	**215**
TOTAL	**373**	**361**

The breakdown of the workforce by category and gender at 2017 and 2016 year-end does not differ materially from the reported average workforce breakdown.

There were an average of 5 employees in the year with disability of 33% or greater: 3 administrative staff and 2 technicians.

21.6 Outside services

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

(thousand euro)	2017	2016
Research & Development expenses	36,255	37,653
Leases and fees	2,074	1,975
Repairs and upkeep	1,520	1,703
Independent professional services	6,775	7,288
Transport	894	940
Insurance premiums	617	519
Advertising and public relations	10,268	9,952
Utilities	872	893
Other services	7,124	7,028
Other taxes	580	798
Losses, impairment and changes in trade provisions	-	92
TOTAL	**66,979**	**68,841**

21.7 Impairment losses and income from disposal of assets. etc.

As indicated in Note 6.1, impairment of intangible assets amounted to €138,847 thousand as of 31 December 2017, of which €97,942 thousand related to Aplidin® (ADMYRE trial) and €40,905 thousand to Zepsyre™ (CORAIL trial).

Additionally, obsolete property, plant and equipment was derecognized and disposed of, resulting in a loss of €29 thousand.

In 2016, a plot of land was impaired by €171 thousand. See note 7.1.

22. INCOME TAX AND TAX SITUATION

The balances with public authorities as of 31 December 2017 and 2016 are as follows:

	2017		2016	
(thousand euro)	Payable	Receivable	Payable	Receivable
Personal income tax	4	443	-	455
Social security	-	454	-	410
Other balances with public authorities	2,408	-	1,038	-
TOTAL	**2,412**	**897**	**1,038**	**865**

The balances with public authorities relate principally to value added tax refunds outstanding to the Group.

In 2017, the Company filed corporate income tax returns on a consolidated basis. The following companies are included in the group's consolidated tax return: Genómica, ZelnovaZeltia, Xylazel, PharmaMar and Sylentis.

Because certain transactions are treated differently for corporate income tax purposes and in the preparation of these financial statements, the taxable base for the year differs from the book result. The deferred or prepaid taxes arise from the recognition of revenues and expenses in different periods under current tax regulations and for the purpose of preparing the financial statements.

The reconciliation of net revenues and expenses in 2017 to the income tax base is as follows:

(thousand euro)		
Balance of revenues and expenses in the year	**-**	**(136,841)**
	Increase	**Decrease**
Corporate income tax	-	(1,895)
Permanent differences	99,377	-
Timing differences:		
Arising in the year	206	(144)
Arising in prior years	53	(2,056)
TAX BASE	**-**	**(41,300)**
Tax losses carried forward	-	-
TAXABLE INCOME	**-**	**(41,300)**

The corporate income tax expense at year-end is as follows:

(thousand euro)	2017	2016
Current tax	(371)	(508)
Deferred tax	1,476	6,083
Change in tax rate	-	130
Tax credits monetized	(3,000)	-
TOTAL TAX EXPENSE / (REVENUE)	**(1,895)**	**5,705**

The corporate income tax expense is the result of applying the tax rate to taxable income, considering applicable research and development tax credits.

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

As a result of tax consolidation, the Company recognized €371 thousand euro in current tax revenues as a result of tax losses for the period that were offset within the Group.

Since 2009, the Company has availed itself of article 23 of the Corporate Income Tax Act, which provides an exemption for revenues from the assignment of rights to use or exploit patents, drawings, models, plans, or secret formulas or procedures, and rights on information relating to industrial, commercial or scientific experience.

The increase in permanent differences in 2017 included mainly impairments of intangible assets (Note 21.7) in the amount of €97,942 thousand, and €8,851 thousand of reversal of impairments recognized in previous years (before 2013) at a Group undertaking (Noscira, S.A. en liquidación) and which, by virtue of Royal Decree 3/2016, must be recognized in equal installments in the Group's tax base in the five tax years beginning in 2016. The entire provision may be deducted from the tax base in the year in which that company is disposed of or definitively liquidated.

Additionally, the decrease in permanent differences in 2017 corresponds mainly to the application of Article 23 of the Consolidated Text of the Corporate Income Tax Act in connection with revenue from the transfer of certain intangible assets created by the company, amounting to €8,360 thousand (€6,163 thousand in 2016). Specifically, royalties were collected in 2017 from Johnson & Johnson and Taiho Pharmaceutical, giving rise to €4,362 thousand in revenues (€5,779 thousand in 2016) from the assignment of rights to commercialize Yondelis®.

In 2017, the timing differences are due mainly to reversal of amortization taken in previous years that was not tax deductible, in the amount of €1,781 thousand (€1,781 thousand in 2016).

As of 31 December 2017, the tax credits earned by the Company that are available for use in future years, after deducting the tax losses used by other group undertakings, are as follows:

2017		(thousand euro)		
Year	Amount of tax credit as of 31-12-2016	Used 2017	Earned in 2017	Unused as of 31-12-2017
2006	4,527	-	-	4,527
2007	17,615	-	-	17,615
2008	7,316	-	-	7,316
2010	2,245	-	-	2,245
2011	3,603	-	-	3,603
2012	15,661	-	-	15,661
2015	39,798	-	-	39,798
2016	6,275	-	-	6,275
2017	-	-	39,723	39,723
TOTAL	**97,040**	**-**	**39,723**	**136,763**

As of 31 December 2017, the unused tax credits earned by the Company, mainly for R&D, were as follows (in thousand euro):

2017		(thousand euro)			
Year	Amount of tax credit as of 31-12-2017	Used 2017	Earned 2017	Unused as of 31-12-2017	Expires in
1999	2,149	-	-	2,149	2017
2000	4,478	-	-	4,478	2018
2001	4,890	-	-	4,890	2019
2002	12,096	-	-	12,096	2020
2003	13,023	-	-	13,023	2021
2004	9,400	-	-	9,400	2022
2005	10,565	-	-	10,565	2023
2006	10,251	-	-	10,251	2024
2007	9,477	-	-	9,477	2025
2008	10,059	-	-	10,059	2026
2009	8,625	-	-	8,625	2027
2010	8,211	-	-	8,211	2028
2011	7,980	-	-	7,980	2029
2012	6,915	-	-	6,915	2030
2013	9,076	-	-	9,076	2031
2014	11,403	3,866	-	7,537	2032
2015	13,827	-	-	13,827	2033
2016	19,213	-	-	19,213	2034
2017	-	-	16,559	16,559	2035
TOTAL	**171,638**	**3,866**	**16,559**	**184,331**	

The Company's balances with the other companies in the tax group in respect of corporate income tax and VAT as a result of tax consolidation are as follows:

(thousand euro)	Corporate income tax
Xylazel	389
ZelnovaZeltia	36
TOTAL RECEIVABLE	**425**
Genómica	632
Sylentis	1,710
TOTAL PAYABLE	**2,341**

(thousand euro)	VAT
Genómica	57
TOTAL RECEIVABLE	**57**
Sylentis	215
TOTAL PAYABLE	**215**

In June 2003, the Company (Zeltia, the merged company) sold an item of property, plant and equipment for €36,069 thousand. The total amount obtained from the sale was reinvested in subsequent years as follows:

In the year ended 31 December 2003, the Company applied the system envisaged in article 21 of Act 43/1995, dated 27 December, on Corporate Income Tax, to the amount of €27,054 thousand. That benefit was obtained due to the sale of certain items of property, plant and equipment for a sale price of €36,069 thousand. The total amount was reinvested as follows: €16,384 thousand in the year ended 31 December 2002 (from 16 June 2002), €18,892 thousand in the year ended 31 December 2003, and €794 thousand in the year ended 31 December 2004. These acquisitions did not obtain any other tax benefit.

In 2004, the Group sold certain items of property, plant and equipment for €3,178 thousand. It also availed itself of the benefits of article 21 of Act

43/1995, dated 27 December, on Corporate Income Tax. That amount was partly reinvested in 2004 (€2,015 thousand) and in 2005 (€1,768 thousand).

The breakdown of these reinvestments in euro, by asset type, is as follows:

(euro)	Brands	Structures	Laboratory equipment	Other	Total
Since June 2002	-	14,225	500	1,659	16,384
2003	8,700	6,353	1,317	2,522	18,892
2004	-	521	-	2,288	2,809
2005	-	122	-	1,646	1,768
TOTAL	**8,700**	**21,221**	**1,817**	**8,115**	**39,853**

In 2006, Noscira (currently in liquidation) ceased to form part of the tax group as a result of a capital increase in which the holding in that subsidiary was reduced to below 75%. Noscira (currently in liquidation) is one of the companies in which the extraordinary gains obtained by the tax group in previous years had been reinvested. For greater legal certainty and so as not to forfeit the reinvestment tax credit earned in previous years, the assets (from June 2002 to December 2005) of Noscira (currently in liquidation) were replaced with assets acquired by PharmaMar in 2006.

In 2015, PharmaMar applied to the Spanish tax authorities for inclusion in the special tax regime for Value Added Tax Groups as the leading company.

As of 31 December 2017, that VAT tax group was comprised of Pharma Mar, S.A., as lead company, together with Genómica, S.A.U. and Sylentis, S.A.U., since the Company considered that all of them, both controlling company and controlled companies, met the requirements of articles 163 quinquies and 163 sexies of the Value Added Tax Act and their Boards of Directors or equivalent governing bodies had approved the proposal to create a group under the Special VAT Group regime provided by Act 38/2006, using the "simple aggregation system".

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.

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 four years open for review for the main taxes applicable to it (three years in the case of corporate income tax).

As a result, inter alia, of possible differing interpretations of the current tax legislation, additional liabilities might arise as a result of a tax audit. However, the Company's directors consider that such liabilities, if any, would not materially affect the financial statements.

On 6 January 2015, the Spanish tax authorities notified the company of plans to commence a partial tax audit of corporate income tax for the years 2010 to 2012, which would be confined to examining revenues from certain intangible assets reported by PharmaMar. On 20 January 2015, the Company applied to the tax authorities for the partial tax audit to be converted into a general tax audit covering the taxes and periods in question.

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

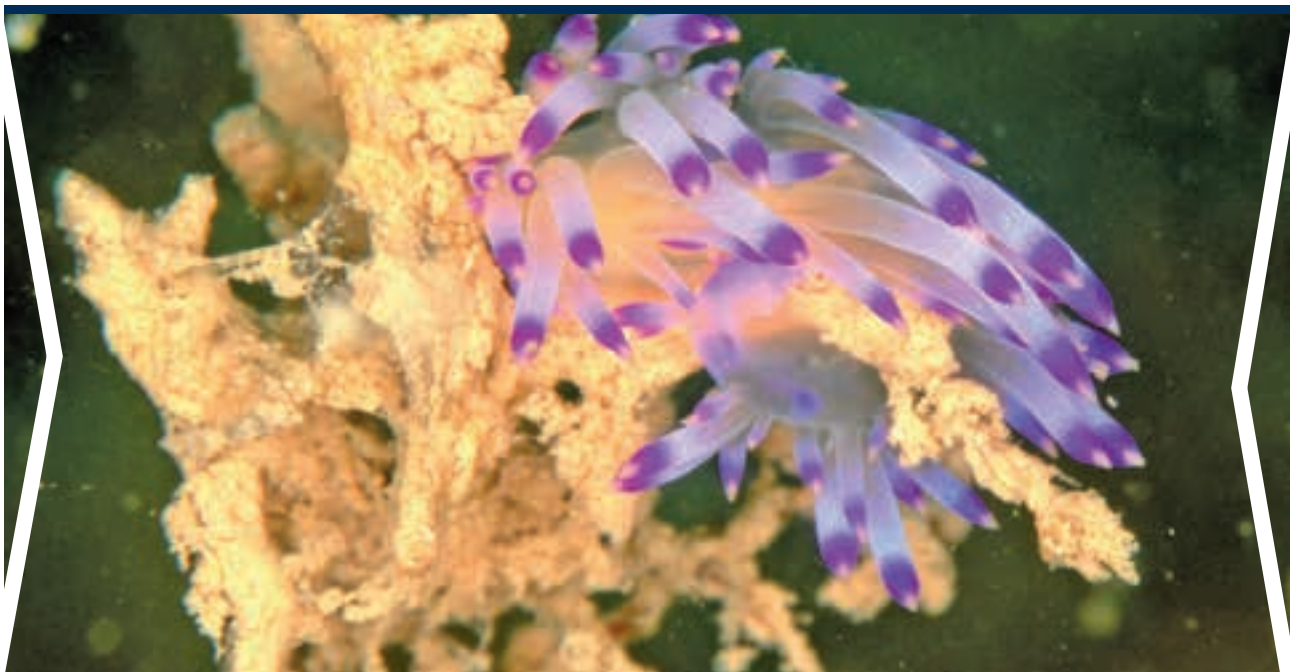
	Corporate income tax	VAT	Personal income tax Spanish residents	Personal income tax Non-residents	Income from capital
Zeltia, S.A.	2010-2013	2011-2013	2Q 2011 - 4Q 2013	2Q 2011 - 4Q 2013	2Q 2011 - 4Q 2013
Genómica, S.A.U.	2010-2013	2011-2013	2Q 2011 - 4Q 2013	2Q 2011 - 4Q 2013	2Q 2011 - 4Q 2013
Pharma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

The tax audit concluded in September 2016. The company accepted an assessment that resulted in a reduction in the tax base, and it disputed assessments for corporate income tax, personal income tax withholdings and prepayments, value added tax and non-residents' personal income tax. Currently, there are 14 appeals before the Regional Economic-Administrative Tribunal (TEAR) and 7 appeals before the Central Economic-Administrative Tribunal (TEAC).

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

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

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



23. FINANCIAL INCOME

The detail of financial income is as follows:

(thousand euro)	2017	2016
Financial revenues	**603**	**1,272**
Equity instruments	**39**	**579**
Group and associated undertakings (Note 28.2)	39	579
Marketable securities and other equity instruments	**564**	**693**
Group and associated undertakings (Note 28.2)	521	516
Third parties	43	177
Financial expenses	**(3,941)**	**(4,176)**
On debts to Group and associated undertakings (Note 28.2)	(140)	(206)
On debts to third parties	(3,801)	(3,970)
Capitalized financial expenses exchange differences	**(212)**	**(306)**
Impairment and income from disposal of financial instruments	**(960)**	**202**
Impairment of loans to group undertakings	-	52
Income from disposals and other	(960)	150
FINANCIAL INCOME	**(4,510)**	**(3,008)**

The equity instruments item refers mainly to dividends from Group undertakings.

Revenues from marketable securities and other instruments of Group undertakings refer basically to interest received on loans granted to Group companies.

The balance of the "Impairment losses and income from disposal of financial instruments" item, -€959 thousand, relates to the capital increase and reduction at a subsidiary (Note 11.3).

The €202 thousand gain under this heading in 2016 referred to disposal of Promaxsa Protección de Maderas, S.L. (Note 11).

24. SHARE-BASED PAYMENTS

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The Shareholders' Meeting of PharmaMar on 29 June 2017 approved a new plan for the delivery of shares free of charge with a double objective, as in previous years: to reward employees and executives whose performance in 2017 was satisfactory, and to incentivize beneficiaries to stay in the Group. The maximum number of shares that can be allocated for the execution of this Plan was set by the General Meeting at 500,000, which will be taken from treasury stock held by the Company at the time the plan is implemented. The Shareholders' Meeting determined the Plan's beneficiaries as Group employees and executives (excluding directors of Pharma Mar, S.A.) who have a permanent contract, have completed any trial period and collect variable remuneration in 2018 relating to attainment of objectives in 2017, provided that they attained over 50% of the targets

established by their Department head or hierarchical superior.

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

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

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

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

25. CONTINGENCIES

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

A tax inspection of the Spanish Group for the years 2010, 2011, 2012 and 2013 concluded in September 2016 for the following taxes: corporate income tax, VAT, personal income tax (withholdings), non-residents' personal income tax, and withholdings from income from capital. PharmaMar's management has made its best estimates of the tax risk represented by the tax assessments. This tax risk is not material in relation to the financial statements.

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

26. COMMITMENTS

26.1 Purchase and sale commitments

The company does not have any purchase or sale commitments for 2017.

26.2 Operating lease commitments

The minimum future payments for non-cancelable operating leases as of 31 December 2017 and 2016 are detailed in Note 9.

26.3 Share-based incentive plans

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

26.4 Other commitments

The company has provided comfort letters to credit institutions. Those comfort letters were mainly for Genómica.

The Company has also obtained several credit and guarantee lines from financial institutions in the amount of €1,809 thousand under which the company is listed as a borrower alongside Genómica and Pharma Mar USA. PharmaMar is jointly and severally liable for the full amounts drawn against those credit and guarantee lines, including amounts drawn by Genómica and Pharma Mar USA.

PharmaMar is also listed a borrower on a loan to Genómica (€375 thousand as of 31 December 2017), for which PharmaMar is jointly and severally liable vis-à-vis the bank.

PharmaMar is the guarantor for Sylentis and Genómica vis-à-vis official bodies, such as the Centro para el Desarrollo Tecnológico e Industrial, for loans granted by the latter in the amount of €1,498 thousand.

27. DIRECTOR AND SENIOR MANAGEMENT REMUNERATION

27.1 Director remuneration.

The following table shows the remuneration paid in 2017 and 2016 to directors of PharmaMar:

(thousand euro)	2017	2016
Fixed remuneration for executive directors	1,128	1,111
Variable remuneration for executive directors	157	257
Fixed remuneration for belonging to the Board of Directors	567	559
Board and Board committee attendance fees	386	393
Fixed remuneration for belonging to Board committees	529	515
Fixed remuneration for belonging to Boards of other Group companies	109	115
Remuneration for Lead Independent Director	16	16
Other remuneration	335	337
TOTAL	**3,227**	**3,303**

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

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

With respect to the executive director's variable remuneration, €157 thousand have accrued to date as a result of evaluation of objectives approved by the Board of Directors at its meeting of 28 February 2018, based on a proposal by the Appointments and Remuneration Committee. That evaluation of objectives has not concluded, since an additional €52 thousand would accrue in the event of a favorable outcome to the pending appeal (re-examination) against the negative opinion with regard to authorization to market Aplidin® in the European Union, as detailed in the following paragraphs. That compensation, if it accrues, would be charged against the fulfillment of the targets for 2017 variable remuneration and would be classified as 2017 variable remuneration.

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

27.2 Senior management remuneration and loans

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

27.3 Companies related to the directors and executives and their close relatives

Transactions with companies related to directors and executives of the company and their close relatives in 2017 and 2016 were not material, formed part of the normal business of the Company or its subsidiaries, and were performed on an arm's-length basis.

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

27.4 Directors' duty of loyalty

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 situations of conflict of interest as envisaged in article 229 of the Consolidated Text of the Capital Companies Act, except where they were authorized (see Note 27.3 Companies related to the directors and executives and their close relatives).

28. OTHER TRANSACTIONS WITH RELATED PARTIES

28.1 Balances with group companies

The detail of accounts payable to and receivable from group undertakings as of 31 December 2017 and 2016 is as follows:

(thousand euro) 2017	Non-current assets	Current assets	Current liabilities
Loans and other financial assets/liabilities	**17,776**	**1,423**	**8,896**
Genómica, S.A.U.	984	340	632
Sylentis, S.A.U.	16,792	47	1,924
Noscira-en liquidación	-	611	-
Zelnova Zeltia, S.A.	-	36	6,271
Xylazel, S.A.	-	389	69
Trade debtors/creditors	**-**	**7,003**	**2,540**
Pharma Mar USA	-	-	221
Pharma Ma, Srl	-	991	-
Pharma Mar GmbH	-	2,124	900
Pharma Mar Sarl	-	2,676	572
Pharma Mar Sprl	-	51	205
Pharma Mar Ltd	-	21	104
Pharma Mar Ges.m.b.H.	-	20	236
PharmaMar AG	-	1,012	54
Genómica S.A.U.	-	108	205
Zelnova Zeltia S.A.	-	-	43
TOTAL	**17,776**	**8,426**	**11,437**

(thousand euro) 2016	Non-current assets	Current assets	Current liabilities
Loans and other financial assets/liabilities	**12,491**	**2,030**	**9,209**
Genómica, S.A.U.	1,572	269	609
Sylentis, S.A.U.	10,919	33	1,812
Noscira-en liquidación	-	584	-
Zelnova Zeltia, S.A.	-	822	6,768
Xylazel, S.A.	-	322	20
Trade debtors/creditors	**-**	**7,655**	**2,174**
Pharma Mar USA	-	-	138
PharmaMar AG	-	733	65
Pharma Mar Srl	-	3,277	-
Pharma Mar GmbH	-	1,646	829
Pharma Mar Sarl	-	1,860	561
Pharma Mar Sprl	-	36	266
Pharma Mar Ltd	-	67	148
Pharma Mar Ges.m.b.H.	-	7	80
Genómica, S.A.U.	-	29	85
Instituto Biomar	-	-	2
TOTAL	**12,491**	**9,685**	**11,383**

The non-current assets, comprising loans to group undertakings, refer to loans granted by the Company to its subsidiaries. One of them, to Noscira (currently in liquidation) and amounting to €7,611 thousand, has been written off.

The detail of current assets with Group undertakings in 2017 is as follows:

(thousand euro) 2017	Current accounts	Due for purchases	Total
Genómica S.A.U.	340	108	448
Sylentis S.A.U.	47	-	47
PharmaMar AG	-	1,012	1,012
Pharma Mar Srl	-	991	991
Pharma Mar GmbH	-	2,124	2,124
Pharma Mar Sarl	-	2,676	2,676
Pharma Mar Sprl	-	51	51
Pharma Mar Ltd	-	21	21
Pharma Mar Ges.m.b.H.	-	20	20
Noscira-en liquidación	611	-	611
Zelnova Zeltia, S.A.	36	-	36
Xylazel, S.A.	389	-	389
TOTAL	**1,422**	**7,003**	**8,425**

The total balance payable to Group undertakings in 2017 is:

(thousand euro) 2017	Loans	Taxes	Provision of services	Total
Genómica S.A.U.	-	632	205	837
Sylentis S.A.U.	-	1,924	-	1,924
Pharma Mar USA	-	-	221	221
PharmaMar AG	-	-	54	54
Pharma Mar Srl	-	-	-	-
Pharma Mar GmbH	-	-	900	900
Pharma Mar Sarl	-	-	572	572
Pharma Mar sprl	-	-	205	205
Pharma Mar Ltd	-	-	104	104
Pharma Mar Ges.m.b.H.	-	-	236	236
Zelnova Zeltia, S.A.	6,250	21	43	6,314
Xylazel, S.A.	-	69	-	69
TOTAL	**6,250**	**2,646**	**2,540**	**11,436**

Under current liabilities, taxes due are debts owed by the parent company to its subsidiaries as a result of tax consolidation of both corporate income tax and value added tax. In both cases, the amounts outstanding with the tax administration are recognized at PharmaMar, the head of the group, which also recognizes the account payable to its subsidiaries. Specifically, €2,340 thousand relate to corporate income tax and €215 thousand to VAT pending recovery in 2017. This item also includes the short-term part of two loans granted by ZelnovaZeltia amounting to €6,250 thousand (€6,600 thousand in 2016).

28.2 Transactions with group undertakings

The amounts of the Company's transactions with group undertakings as of 31 December 2017 and 2016 are as follows:

Transactions with group undertakings expenses (thousand euro)	2017	2016
Services received		
Genómica S.A.U.	512	248
Pharma Mar USA	1,111	218
PharmaMar AG	198	107
Pharma Mar Sarl	1,344	1,239
Pharma Mar GmbH	544	301
Pharma Mar Ltd	978	1,144
Pharma Mar Sprl	660	689
Pharma Mar Ges.m.b.H.	1,252	80
Xylazel, S.A.	3	3
Zelnova Zeltia, S.A.	2	-
Financial		
Zelnova Zeltia, S.A.	140	206
TOTAL EXPENSES	**6,744**	**4,235**

Transactions with group undertakings revenues (thousand euro)	2017	2016
Sales		
PhamaMar AG	1,790	1,439
Phama Mar Srl	12,457	13,041
Pharma Mar GmbH	12,638	14,023
Pharma Mar Sarl	3,799	3,973
Services provided		
Genómica S.A.U.	65	21
Sylentis S.A.U.	47	45
Pharma Mar Srl	300	217
Pharma Mar GmbH	454	503
Pharma Mar Ltd	16	19
Pharma Mar Sprl	15	17
Pharma Mar Sarl	173	310
Pharma Mar GesmbH	25	-
Zelnova Zeltia, S.A.	20	22
Xylazel, S.A.	75	19
Financial		
Genómica, S.A.U.	31	78
Sylentis, S.A.U.	458	384
Noscira-en liquidación	33	44
TOTAL REVENUES	**32,396**	**34,703**

The transactions with Group undertakings were conducted on an arm's-length basis.

29. SURETIES AND GUARANTEES

The sureties and guarantees provided by banks for subsidies and advances received by the Company from public authorities as of 31 December 2017 amounted to €7,935 thousand (€10,064 thousand in 2016).

30. ENVIRONMENT

There were no material investments in environmental matters in 2017 and 2016.

The most significant installations that the Company has at present include:

- Atmospheric emissions: To control and clean emissions, the Company has scrubbers for gas from fume cupboards, absolute particle filters in the production area, and particle filters in the R&D department.
- Industrial discharges: the Company installed a network that separates industrial water, two tanks to homogenize discharges, and a discharge valve, pursuant to Madrid Region Law 10/93.
- Waste: the Company invested in the construction of two warehouses to store waste prior to removal and disposal.

Environmental protection and improvement expenses amounted to €69 thousand in 2017 (€57 thousand in 2016) and relate mainly to waste disposal by third parties.

The Company is not aware of any significant environmental contingencies as a result of its activities.

31. AUDITORS' FEES

The fees accrued by PricewaterhouseCoopers Auditores, S.L. and other firms in its network amounted to €236 thousand in 2016 (€200 thousand in 2016) for the statutory audit (of Pharma Mar, S.A. and PharmaMar and dependent companies), €210 thousand in 2017 for audit services other than the statutory audit (€525 thousand in 2016), and €123 thousand for other verification services in 2017 (€5 thousand in 2016).

32. SUBSEQUENT EVENTS

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

On 18 January 2018, the Company informed the CNMV of the results of the Phase III clinical trial of Zepsyre™ in patients with platinum-resistant ovarian cancer. The trial did not reach the primary endpoint of progression-free survival, which was the same as that of other approved compounds, although it was shown to have a better safety profile (Note 6).

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

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

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

Directors' report

PharmaMar

Directors' report

1. COMPANY SITUATION

1.1 Organizational structure

The main activity of Pharma Mar, S.A. (the Company) is research, development and commercialization of bio-active principles, particularly those of marine origin, for application in human medicine, especially in the antitumor, antiviral and immunomodulation fields and the area of tropical diseases, as well as management, support and development of its investees, mainly in the chemical and biopharmaceutical businesses.

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

1.2 Operations: business model, strategy

PharmaMar's main line of business is oncology, specifically, the development and commercialization of anti-tumor drugs of marine origin.

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

One of the distinguishing features 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 Company has several antitumor molecules in its pipeline at various stages of development, the goal being to bring new compounds to market. PharmaMar also has its own sales network covering Europe. This 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 invests heavily in R&D and innovation in oncology and it has a firm commitment to R&D to bring new drugs to market.

2. BUSINESS PERFORMANCE AND RESULTS

2.1 Total revenues

Net revenues amounted to €71.56 million from sales of Yondelis®, 5% less than in 2016 (€75.22 million).

Royalty revenues were 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, amounting to €4.4 million in 2017 (€5.8 million in 2016).

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

2.2 Revenues from other countries

Out of total 2017 revenues, 85%, i.e. €75.5 million, came from sales and transactions in other countries (84%, €78 million in 2016).

2.3 Gross margin

The gross margin was 96% of total revenues in 2017 (96% in 2016). (Calculated with respect to sales only, not including royalties or licensing revenues).

2.4 R&D expenditure

PharmaMar capitalized €36.5 million in development expenses in 2017, mainly in connection with clinical trials with Zepsyre™.

In December, the Company received a negative opinion from the European Committee for Medicinal Products for Human Use (CHMP) with respect to its application for permission to commercialize Aplidin® (plitidepsin) for treating relapsed multiple myeloma patients. The Company has requested a review from the European Commission, the outcome of which is expected in the second quarter of the year. As a result the Company recognized impairment of its investment in Aplidin® for a total of €97.9 million.

Additionally, on 18 January 2018, the results of the CORAIL trial conducted by PharmaMar with the compound Zepsyre™ (lurbinectedin) in resistant ovarian cancer were announced; the trial did not reach its pre-defined primary end-point, progression-free survival (PFS). As a result, €40.9 million corresponding to the CORAIL trial were impaired.

The €25.2 million amortization relates entirely to compound Yondelis®.

The next table shows the changes in amounts capitalized for compounds in 2017:

Separate balance sheet (thousand euro)	**Yondelis®**	**Aplidin®**	**Zepsyre™**	**PM184**	**PM14**	**Total Development**
Ending balance 31-12-16	**76,594**	**101,576**	**93,672**	**25,623**	**-**	**297,465**
Recognitions	-	5,317	29,849	1,041	356	36,562
Derecognitions	-	-	(40,905)	-	-	(40,905)
Impairment	-	(97,942)	-	-	-	(97,942)
Amortization	(25,217)	-	-	-	-	(25,217)
Ending balance 31-12-17	**51,377**	**8,951**	**82,616**	**26,664**	**356**	**169,963**

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

2.5 Operating expenses

The breakdown of operating expenses is shown in the next table. Personnel expenses increased by 2% year-on-year while outside services were reduced by a similar percentage, mainly due to savings on commercial costs.

	2017	2016	Change
Personnel expenses	30,757	30,147	**2.0%**
Outside services	66,399	67,951	**-2.3%**
Purchases	5,425	5,866	**-7.5%**
Taxes other than income tax	580	798	**-27.3%**
Depreciation and amortization	26,957	29,724	**-9.3%**
Impairment of fixed assets	97,942	171	
Derecognition of fixed assets	40,934	-	
	268,994	**134,657**	

2.6 Income for the year

The Company reported an after-tax loss of €136.8 million in 2017, as a result of the R&D derecognitions and impairments discussed in note 2.4.

2.7 Other events that impacted the 2017 financial statements

New licensing agreements and strategic alliances:

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

The first, signed in May with Specialised Therapeutics Asia Pte, Ltd., refers to the marketing of the aforementioned anti-tumor drug of marine origin in Australia, New Zealand and 12 other Asian countries. Additionally, under that agreement, STA Trust (an undertaking controlled by STA) signed a contract under which STA Trust subscribed for 444,400 new common shares of PharmaMar, representing 0.2% of its share capital, at a price of €4.75 per share, equivalent to 130% of the arithmetic mean of the weighted average daily market prices of PharmaMar shares during the 20 business days prior to the signature of the licensing agreement. Accordingly, capital was increased by €2,110,900.

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

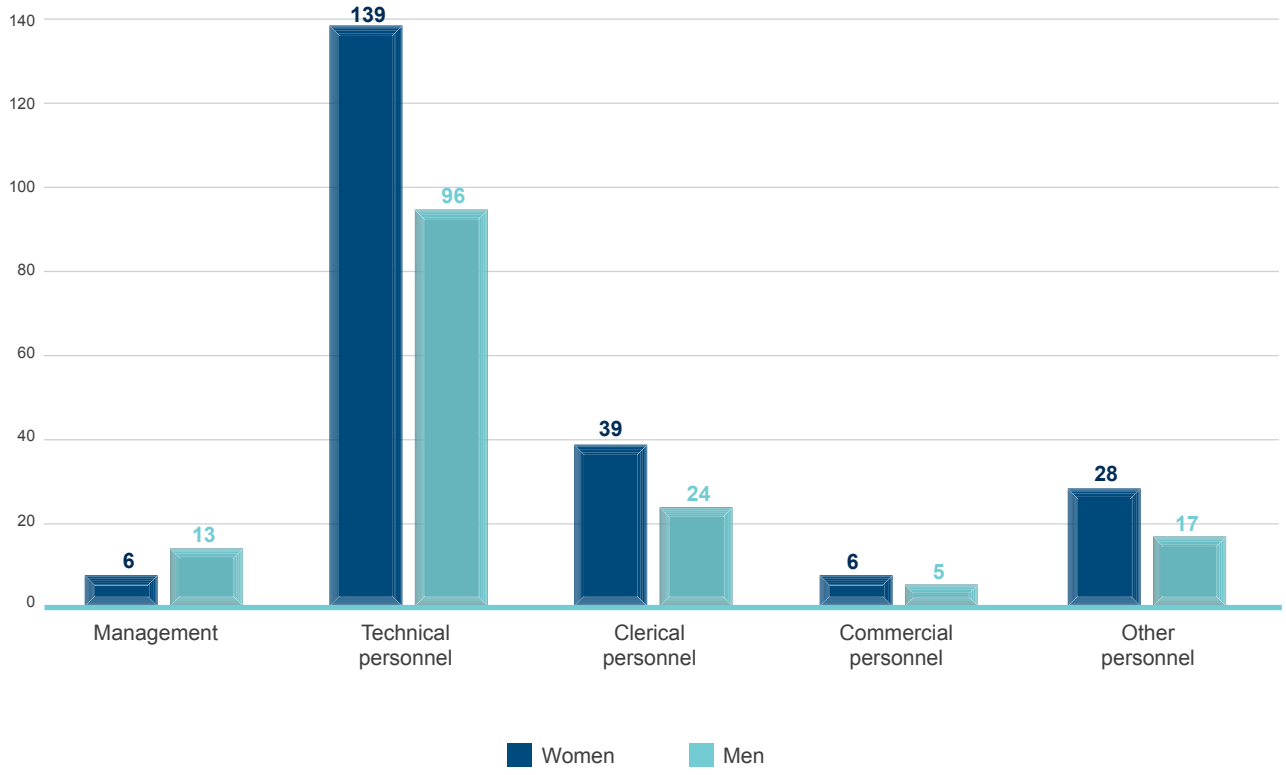
In May 2017, PharmaMar signed an agreement with Turkish company Eip Eczacibasi Ilac Pazarlama A.S. to market marine-derived anti-tumor compound Aplidin® for the treatment of hematological tumors in Turkey.

2.8 Personnel

PharmaMar had 373 employees at year-end (361 in 2016).

Women account for 58.5% of the workforce (59.6% in 2016).

The bar graph below illustrates segmentation by gender and category:



2.9 Environmental issues

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

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

PharmaMar has an ISO 14001-certified environmental management system that is audited annually by independent firms.

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

2.10 Average period taken to pay suppliers

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

	2017 Days	2016 Days
Average period taken to pay suppliers	53	53
Transactions paid	54	55
Transactions outstanding	43	39
Total payments made (thousand euro)	**28,922**	**32,403**
Total payments outstanding (thousand euro)	**3,666**	**4,170**

The average supplier payment lag in the year between 1 January and 31 December 2017 was 53 days (53 days in 2016).

3. LIQUIDITY AND CAPITAL

The net cash position (cash + cash equivalents + current financial assets) amounted to €17.3 million as of 31 December 2017 (€22.3 million in 2016). Including non-current financial assets, the total was €17.8 million as of 31 December 2017 (€22.9 million euro in 2016).

Short-term financial debt amounted to €22.6 million (€23.2 million in 2016) and long-term financial debt amounted to €33.2 million (€24.8 million in 2016).

Additional long-term bank loans were arranged in 2017 (€17.5 million) which were used to repay loans in the year, increasing long-term debt by €8 million.

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 PharmaMar's finance department is to maintain flexibility in funding by having credit lines and sufficient funds in financial assets to cover obligations, particularly in the biopharmaceutical segment.

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

- The Company is able to renegotiate its debt if it is considered necessary.
- There are unused credit lines in the amount of close to €18 million.
- The Company ended the year with cash and cash equivalents plus current and non-current financial assets amounting to €17.8 million.
- The Company has decided to prioritize certain projects in order to reduce costs and avoid treasury stresses.
- In addition, as in previous years, PharmaMar expects to renegotiate financial debt maturing during the year. Maturities in 2018 amount to €12.2 million. At least €5 million will be covered by loans to be received for milestones already attained in projects approved in previous years. The aforementioned cost reduction would facilitate the payment of all maturities if they cannot be fully renegotiated.
- The Company expects to strengthen its liquidity position in 2018 through new licensing agreements that are currently under negotiation.
- In the early months of 2018, up to the authorization of the financial statements, the Company received:
  - An amount of €4.1 million for signing a licensing agreement with Seattle Genetics Inc. under which the latter receives exclusive worldwide rights over certain molecules and antibody-drug conjugates (ADC).
  - An amount of €3 million as a result of monetizing unused R&D tax credits. In 2017, the Company received €3 million under this same heading, and it intends to continue availing itself of this possibility under current legislation to monetize unused R&D tax credits.

4. MAIN RISKS AND UNCERTAINTIES

4.1. Situation risks

Competition.

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

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

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

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

PharmaMar 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.

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

The prices of pharmaceutical products are controlled and regulated by government in most countries. In recent years, prices have been reduced and reference prices have been approved.

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

Capital availability

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

PharmaMar 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.

It 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 Company's Board of Directors or executives is harmful to their interests as a shareholder and file a complaint.

PharmaMar has director and executive liability insurance which covers the risk of a shareholder filing a complaint on the grounds that a decision by the Company's Board of Directors or executives is harmful to their interests.

4.2. Operating risks

Health and safety

Failure to provide a safe workplace for its employees would expose the Company 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 Company 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.

PharmaMar has obtained OHSAS 18001 certification of its workplace health and safety systems.

Environmental

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

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

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

PharmaMar has an environmental management system certified to ISO 14001, evidencing that it is effective in minimizing the environmental impact of profit-seeking activities.

Product development

PharmaMar 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, PharmaMar 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 Company's internal information flows poses the risk of misalignment with strategy and of erroneous or mistimed decisions.

Market disclosures

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

PharmaMar's management and Board of Directors have inside information about the Company's progress.

There are control systems in place in order to be aware of who is in possession of such information at any given time, mainly in order to comply with Spain's Securities Market Law, in the area of inside information.

Information systems

Failure to apply proper access controls in information systems (data and software) may lead to unauthorized discovery, unauthorized access to

data or the untimely delivery of same, and improper use of confidential information.

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

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

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

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

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

4.4. Financial risks

4.4.1. Market risk

Price risk

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

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

Cash flow and fair value interest rate risk

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

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

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

Exchange rate risk

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

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

4.4.2. Credit risk

Credit risk arises from financial assets arranged with banks.

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

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

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

4.4.3. 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 Company's financial department is to maintain flexibility in funding by having credit lines and sufficient funds in financial assets to cover obligations, particularly in the biopharmaceutical segment. (See Note 3).

5. SUBSEQUENT EVENTS.

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

On 18 January 2018, the Company informed the CNMV of the results of the Phase III clinical trial of Zepsyre™ in patients with platinum-resistant ovarian cancer. The trial did not reach the primary endpoint of progression-free survival, which was the same as that of other approved compounds, although it was shown to have a better safety profile (Note 6).

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

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

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

6. 2018 OUTLOOK

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

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

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

7. R&D AND INNOVATION

Research and development is vital to PharmaMar's strategy.

The main progress and results in R&D in 2017 are as follows:

a) Yondelis®:

Soft-tissue sarcoma

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

Ovarian cancer

There are currently ten active post-authorization trials in this indication, one being the NIMES-ROC international prospective observational trial into the efficacy and safety of the Yondelis® + PLD combination in real life in patients previously treated, or not, with antiangiogenics, in which recruitment continues satisfactorily.

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

Other indications

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

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

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

b) Aplidin®

Multiple Myeloma

In September 2016, PharmaMar filed an application with the European Medicines Agency (EMA) for authorization to market Aplidin® (plitidepsin) in combination with dexamethasone for fourth-line treatment of relapsed or refractory multiple myeloma on the basis of the ADMYRE pivotal Phase III trial. In December 2017, it received a negative opinion from the Committee for Medical Products for Human Use (CHMP) in connection with its application to commercialize this compound in Europe. The ADMYRE trial attained its primary end-point; consequently, the company has applied for a review of the dossier. A response may be obtained in the second quarter of 2018.

T cell lymphoma

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

c) Zepsyre™

Platinum-resistant ovarian cancer

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

Small-cell lung cancer

Recruitment is continuing satisfactorily for the ATLANTIS pivotal Phase III trial that compares the activity and safety of the combination of PM1183 (lurbinectedin), a drug of marine origin, plus doxorubicin, vs. topotecan or CAV (cyclophosphamide, adriamycin and vincristine) for treating patients with small cell lung cancer who have relapsed after a first round of platinum treatment. Recruitment is currently ongoing in Europe, the United States, Latin America and the Middle East. The Independent Data Monitoring Committee (IDMC) conducted an interim safety data analysis in November, after which it recommended continuing the trial without change.

Combination trials

As regards Phase I combination trials, recruitment was completed for the combinations with doxorubicin, cisplatin, capecitabine and paclitaxel with or without bevacizumab. The latter two trials produced promising preliminary results in a range of breast cancer types, among others; consequently, the next stages of development for this indication are still being assessed.

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

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

Phase I trial in Japan

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

Basket trial in advanced solid tumors

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

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

d) PM184

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

Advanced breast cancer

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

Colorectal cancer

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

e) PM14

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

8. SHARE INFORMATION

8.1 General situation

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

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

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

8.2 Share information

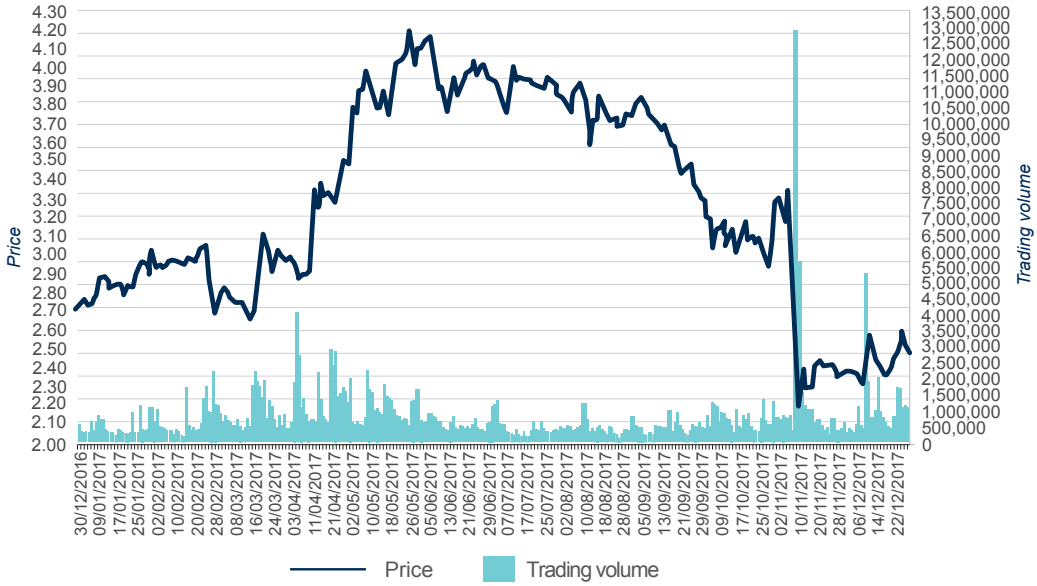
Share information 2017 (thousand euro)	
Total number of shares	222,204,887
Number of outstanding shares	221,275,542
Par value (euro)	0.05
Average daily trading (no. of shares)	805,031
Average daily trading (euro)	2,634,061
Trading days	255
Daily trading low (25 August) (euro)	328,778
Daily trading high (9 November) (euro)	27,614,498
Total trading in the year (million euro)	650.6
	(euro)
Lowest share price (9 November)	2.17
Highest share price (25 May)	4.19
Share price at 30 December	2.48
Average share price in the year	3.27
Market capitalization as of 31 December (million euro)	551.1

Source: Bloomberg

8.3 PharmaMar's share performance

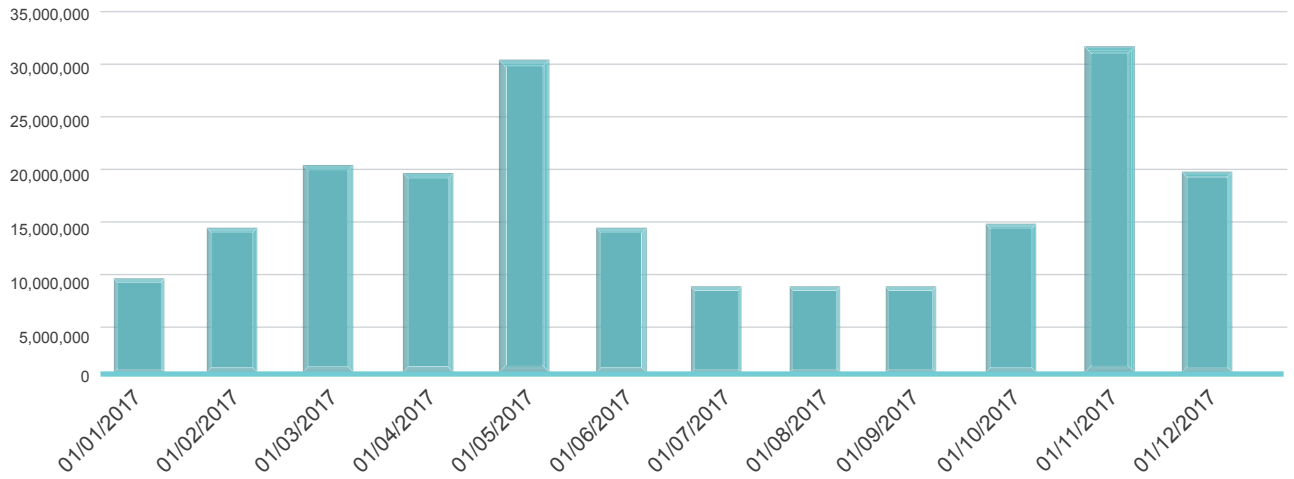
During 2017, PharmaMar achieved some very important clinical milestones, resulting in a 50% increase in the share price in the first half of the year. The share price reached its high for the year in May: €4.19. This was achieved after the company held an "R&D Day" in New York at which it detailed the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

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



Source: Bloomberg

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



Source: Bloomberg

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