Pharma Mar, S.A.

Financial statements and Directors' report as of 31 December 2018

Pharma Mar, S.A.

Independent auditor´s report on the annual accounts
at December 31, 2018

Pharma Mar, S.A.

"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, 2018, 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, 2018, 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. As set out in note 6 to the accompanying financial statements, in 2018, the Company capitalised as an increase in the value of its assets EUR 17,349 thousand, disposals for a net amount of EUR 8,941 thousand, impairment losses on intangible assets totalling EUR 27,028 thousand and a depreciation charge of EUR 20,963 thousand in the income statement for the year. The net book value amount of capitalised development costs on the balance sheet at 31 December 2018 is EUR 130,379 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. For the purposes of subsequent measurement, as explained in Note 4.1 of the notes to the accompanying annual accounts: i) Impairment is assessed, provided the research reflects any sign of impairment or could generate doubts as to the fulfilment of conditions for capitalisation. At 31 December 2018, this assessment resulted in the write-off and impairment of certain indications capitalised. ii) Annual assessments of the recoverability of the capitalised amount, among other aspects, the evaluation of individual business plans per molecule, the key assumptions of which are the estimated reimbursement prices and the potential population to be treated, as well as evaluations of independent third-party experts and available analyst reports.	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. As regards the recognition of development costs as an increase in the value of assets in 2018, we obtained a breakdown of development costs by project and reconciled it 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 allocates the costs by nature, department and research appropriately. In addition, we met with the heads of the clinical development and R&D departments to obtain an understanding of the various phases of research and development projects in progress and we analysed the memorandums prepared by management that support the fulfilment of the development capitalisation costs conditions described in Note 4.1 of the notes to the accompanying financial statements. Regarding write-offs and impairment for the year, we obtained a breakdown of all expenses capitalised related to those researches, 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. Based on this analysis, we obtained sufficient and suitable audit evidence to confirm the reasonableness of management's judgements and estimates related to the development costs capitalised at the end of 2018 and the impacts of write-downs and impairments recognised in the income statement for the year are reasonable.

Key audit matters	How our audit addressed the matter
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.	

Financial capacity

The Company's research activity requires sufficient cash flows to fund and, where appropriate, complete ongoing research in accordance with the established investment plan. As described in note 5.1.3 of the notes to the accompanying financial statements, in 2019 management expects to maintain the level of research and development investments in line with the financial resources available, being the primary objective to complete the Zepsyre study.

As set out in note 5.1.3 of the notes 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, including different scenarios for the sources and use of financial resources, based on the status of current projects.

Note 5.1.3 to the accompanying financial statements provides a breakdown of the directors' assessment of liquidity risk and the measures they consider to be available to fund investments in ongoing research and development and meet short-term payment commitments.

We have focused on this area as we consider a key audit matter the assessment of whether the Company has sufficient funds to execute the budgeted research plan and make its short-term payment commitments, and the appropriate disclosure in the notes to the accompanying financial statements.

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

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

We also analysed the degree of flexibility available to management when assigning financial resources to research and development projects in progress so as to gain an understanding of which are the priority investments in the short term and which could be delayed if the circumstances do not turn out as envisaged in the business plan.

Finally, we analysed whether the Company has additional sources of funds to obtain the necessary cash resources should there be significant departures from management's liquidity forecasts.

Regarding disclosures in the notes, we have concluded that they contain the requirements of 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.

Key audit matters	How our audit addressed the matter
Recognition and recoverability of deferred tax assets	
At 31 December 2018, the Company's balance sheet contains EUR 20,441 thousand and EUR 758 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 main source of information used to prepare the projections was the budget approved by the Company's directors, which includes estimates to 2023. In addition, the Company's management extends the projections to 2028 based on its best estimates. Future taxable income considers the estimated probability of success of each research based on the various molecules' current stage of development. Therefore, these assumptions are particularly relevant in the calculations. The evaluation of both the initial recognition and subsequent ability to 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.
Sale of Xylazel, S.A.	
As set out in note 11.3 of the accompanying notes to the financial statements, in September 2018 the Company sold 100% of the share capital of its subsidiary Xylazel, S.A., a company engaged in developing, producing and marketing products to treat and protect wood and metal, and special decorative paints. As a result of this transaction, the Company recognised a profit of EUR 16,533 thousand.	We analysed the agreement for the sale of the subsidiary entered into with the buyer so as to assess the commitments made by the parties and the related accounting treatment. We checked that the agreed price was collected. We also analysed costs inherent in the transaction to check whether they are correctly allocated and must therefore be discounted from the profit obtained. We also checked the Company's calculations in order to obtain the profit recognised in the income statement.

Key audit matters	How our audit addressed the matter
As set out in note 24 of the accompanying financial statements, under standard 7 ª, paragraph 11 on the preparation of annual accounts, the sale of Xylazel, S.A. qualifies as a discontinued operation. Accordingly, the accompanying income statement reflects the transactions of Xylazel, S.A. as discontinued operations for 2018 and 2017. We have considered this matter as a key audit matter due to being a significant transaction of the year and having a material impact on the annual accounts.	Regarding the presentation of Xylazel, S.A.'s transactions as discontinued operations, we verified compliance with the requirements of standard 7 ª, paragraph 11 on the preparation of annual accounts for correct classification, and we analysed the reclassification to discontinued operations of the transactions effected during 2018 and 2017, as well as the disclosures included in note 24 of the accompanying financial statements. Based on the procedures described we have no observations to make as a result with respect to the recognition and disclosure of the transaction in the accompanying financial statements.

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.

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, 2019.

Appointment period

The General Ordinary Shareholders' Meeting held on June 28, 2018 appointed us as auditors for a period of 1 year, for the year ended on December 31, 2018.

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

Services provided

Services provided to the Company for services other than the audit of the accounts, are disclosed in Note 32 of the annual accounts.

In relation to the services other than the audit of the accounts that have been rendered to the Company's subsidiaries, refer to auditor's report dated on February 28, 2019 on the consolidated annual accounts of Pharma Mar, S.A, and subsidiaries where it is shown.

PricewaterhouseCoopers Auditores, S.L. (S0242)

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

February 28, 2019

Pharma Mar, S.A.
Balance sheet at 2018 year-end
(Thousand euro)

ASSETS	Note	31/12/18	31/12/17
A) NON-CURRENT ASSETS		**229,345**	**280,778**
I. INTANGIBLE ASSETS		**131,246**	**171,090**
1. Development	6	130,379	169,962
5. Computer software	6	867	1,128
II. Property, plant and equipment		**20,197**	**20,809**
1. Terrenos y construcciones	7	12,925	13,442
2. Technical installations and other property, plant and equipment	7	6,105	6,788
3. Construction in progress and advances	7	1,167	579
III. Investment property		**845**	**1,492**
1. Land	8	845	1,492
IV. Non-current investment in group and associated undertakings		**56,101**	**66,366**
1. Equity instruments	11	35,465	48,590
2. Loans to group undertakings	14 & 29	20,636	17,776
V. Non-current financial investments		**515**	**501**
1. Equity instruments	12	326	327
2. Loans to third parties		51	51
5. Other financial assets	14	138	123
VI. Deferred tax assets	20	**20,441**	**20,520**
B) CURRENT ASSETS		**41,597**	**46,176**
II. Inventories		**8,885**	**7,137**
2. Raw materials and other supplies	13	74	72
3. Products in process	13	8,331	6,673
4. Finished products	13	480	392
III. Trade and other accounts receivable		**12,702**	**18,321**
1. Customer receivables for sales and services	14	5,931	7,475
2. Receivable from group and associated undertakings	14 & 29	5,186	7,003
3. Sundry debtors	14	166	542
4. Personnel	14	106	110
5. Current tax assets		751	779
6. Other receivables from public authorities	22	562	2,412
IV. Current investment in group and associated undertakings		**1,524**	**1,422**
5. Other financial assets	14 & 29	1,524	1,422
V. Current financial assets		**1,057**	**4,590**
5. Other financial assets	14	1,057	4,590
VI. Accruals	14	**507**	**1,986**
VII. Cash and cash equivalents		**16,922**	**12,720**
1. Cash	15	16,922	12,720
Total assets (A+B)		**270,942**	**326,954**

Pharma Mar, S.A.
Balance sheet at 2018 year-end
(Thousand euro)

EQUITY AND LIABILITIES	Note	31/12/18	31/12/17
A) EQUITY		**148,121**	**180,144**
A-1) Capital and reserves		**145,736**	**176,716**
I. Capital		**11,132**	**11,132**
1. Share capital	16	11,132	11,132
II. Share premium account	16	**71,278**	**71,278**
III. Reserves		**300,408**	**302,499**
1. Legal and bylaw reserves	17	2,226	2,226
2. Other reserves	17	298,182	300,273
IV. (Own shares and equity instruments)	16	**(2,243)**	**(4,470)**
V. Prior years' income		**(203,723)**	**(66,882)**
2. (Prior years' loss)		(203,723)	(66,882)
VII. Income for the year		**(31,116)**	**(136,841)**
A-2) Value adjustments		**12**	**13**
II. Hedge transactions		**12**	**13**
A-3) Subsidies, donations and legacies received	6 & 18	**2,373**	**3,415**
B) NON-CURRENT LIABILITIES		**59,981**	**73,587**
I. Long-term provisions		**150**	**150**
4. Other provisions		150	150
II. Non-current debt		**59,073**	**67,637**
1. Bonds and other marketable securities	19	16,501	16,350
2. Bank debt	19	24,279	33,231
5. Other financial liabilities	19	18,293	18,056
IV. Deferred tax liabilities	20	**758**	**695**
V. LONG-TERM ACCRUALS	19	**-**	**5,105**
C) Current liabilities		**62,840**	**73,223**
III. Current debt		**26,599**	**23,828**
1. Bonds and other marketable securities	19	405	510
2. Bank debt and debt to official authorities	19	25,395	22,644
5. Other financial liabilities	19	799	674
IV. Current accounts payable to group and associated undertakings	19 & 29	**7,662**	**8,895**
V. Trade and other accounts payable		**28,579**	**30,283**
1. Due to suppliers	19	135	292
2. Due to group and associated undertakings	19 & 29	4,115	2,541
3. Sundry creditors	19	16,982	21,410
4. Personnel (compensation payable)	19	4,126	4,483
6. Other debt to public authorities	22	1,020	897
7. Customer advances	19	2,201	660
VI. Short-term accruals	19	**-**	**10,217**
Total equity and liabilities (A+B+C)		**270,942**	**326,954**

Pharma Mar, S.A.
Statement of income for the year ended
31 December 2018
(Thousand euro)

STATEMENT OF INCOME	Note	31/12/18	31/12/2017(*)
A) Continuing operations			
1. Revenues	21.1 & 21.2	**94,011**	**88,877**
a) Product sales		64,927	71,563
b) Licensing and co-development agreements		24,659	12,357
c) Royalties		3,916	4,362
d) Other revenues		509	595
2. Variation in finished goods and work-in-process inventories	13	**1,642**	**1,027**
3. Capitalized in-house work	6	**17,349**	**36,562**
4. Purchases		**(5,800)**	**(5,425)**
b) Raw materials and other consumables consumed	21.4	(2,373)	(2,928)
c) Outside work		(3,427)	(2,497)
5. Other operating revenues		**62**	**14**
a) Ancillary and other current revenues		62	-
b) Operating subsidies recognized in income for the year		-	14
6. Personnel expenses	21.5	**(31,571)**	**(30,757)**
a) Wages, salaries and similar		(26,204)	(25,013)
b) Employee welfare expenses		(5,367)	(5,744)
7. Other operating expenses	21.6	**(59,372)**	**(66,979)**
a) Outside services		(59,632)	(66,399)
b) Taxes other than income tax		(337)	(580)
c) Losses, impairment and changes in trade provisions		597	-
8. Depreciation and amortization	6 & 7	**(22,953)**	**(26,957)**
9. Recognition of subsidies for non-financial assets and other	18	**2,910**	**8,233**
11. Impairment losses and income from disposal of assets	21.7	**(34,330)**	**(138,876)**
A.1) OPERATING INCOME (1+2+3+4+5+6+7+8+9+11)		**(38,052)**	**(134,281)**
12. Financial revenues	23	**742**	**584**
a) From equity instruments		**20**	**20**
a1) Group and associated undertakings		9	20
a2) Third parties		11	-
b) Marketable securities and other financial instruments		**722**	**564**
b 1) Group and associated undertakings		712	521
b 2) Third parties		10	43
13. Financial expenses	23	**(3,663)**	**(3,941)**
a) On debts to group and associated undertakings		(157)	(140)
b) On debts to third parties		(3,506)	(3,801)
15. Exchange differences	23	**43**	**(212)**
16. Impairment losses and income from disposal of financial instruments	23	**(14,281)**	**(960)**
a) Impairments and losses		(14,281)	-
b) Income from disposals and other		-	(960)
A.2) FINANCIAL INCOME (12+13+15+16)		**(17,159)**	**(4,529)**
A.3) INCOME BEFORE TAXES (A.1 + A.2)		**(55,211)**	**(138,810)**
17. Income tax	22	**6,683**	**1,895**
A.4) INCOME FOR THE YEAR FROM CONTINUING OPERATIONS (A.3+17)		**(48,528)**	**(136,915)**
B) Discontinued operations			
18. Income for the year from discontinued operations, net of taxes	24	17,412	74
A.5) INCOME FOR THE YEAR (A.4+18)		**(31,116)**	**(136,841)**

(*) Figures restated because of the deconsolidation of Xylazel, to show discontinued operations

Pharma Mar, S.A.
Statement of changes in equity
for the year ended 31 December 2018

A) STATEMENT OF RECOGNIZED REVENUES AND EXPENSES FOR THE YEAR ENDED 31 DECEMBER 2018 (thousand euro)

STATEMENT OF CHANGES IN EQUITY	Note	31/12/18	31/12/17
A) INCOME, PER INCOME STATEMENT		**(31,116)**	**(136,841)**
Revenues and expenses recognized directly in equity			
I. Valuation of financial instruments		-	-
III. Subsidies, donations and legacies received	18	1,520	592
V. Tax effect	18	(380)	(148)
B) TOTAL REVENUES AND EXPENSES RECOGNIZED DIRECTLY IN NET EQUITY (I+II+III+IV+V)		**1,140**	**444**
Transfers to P&L			
VIII. Subsidies, donations and legacies received	18	(2,910)	(8,233)
IX. Tax effect	18	728	2,058
C) TOTAL TRANSFERS TO PROFIT OR LOSS (VI+VII+VIII+IX)		**(2,182)**	**(6,175)**
TOTAL RECOGNIZED REVENUES AND EXPENSES (A + B + C)		**(32,158)**	**(142,572)**

Pharma Mar, S.A.
Statement of changes in equity
for the year ended 31 December 2018

B) TOTAL STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2018
(Thousand euro)

	Share capital (Note 16)	Share premium account (Note 16)	Reserves (Note 17)	(Own shares and equity instruments) (Note 16.3)	Prior years' income	Income for the year (Note 3)	Subsidies, donations and legacies received (Note 18)	Value adjustments	Total
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 (Note 16.1)	22	2,089	(145)	-	-	-	-	-	**1,966**
Other changes in net equity	-	-	-	-	-	-	-	1	**1**
Share ownership plans (Notes 16.3 & 24)	-	-	(93)	584	-	-	-	-	**491**
Transactions with shares (purchased) (Note 16.3)	-	-	-	(6,186)	-	-	-	-	**(6,186)**
Transactions with shares (sold) (Note 16.3)	-	-	611	4,378	-	-	-	-	**4,989**
Distribution of income (Note 3)	-	-	-	-	(11,474)	11,474	-	-	**-**
Ending balance 2017	**11,132**	**71,278**	**302,499**	**(4,470)**	**(66,882)**	**(136,841)**	**3,415**	**13**	**180,144**
Total recognized revenues and expenses	-	-	-	-	-	(31,116)	(1,042)	-	**(32,158)**
Other changes in net equity	-	-	-	-	-	-	-	(1)	**(1)**
Share ownership plans (Notes 16.3 & 24)	-	-	72	725	-	-	-	-	**797**
Transactions with shares (purchased) (Note 16.3)	-	-	-	(3,446)	-	-	-	-	**(3,446)**
Transactions with shares (sold) (Note 16.3)	-	-	(2,163)	4,948	-	-	-	-	**2,785**
Distribution of income (Note 3)	-	-	-	-	(136,841)	136,841	-	-	**-**
Ending balance 2018	**11,132**	**71,278**	**300,408**	**(2,243)**	**(203,723)**	**(31,116)**	**2,373**	**12**	**148,121**

Pharma Mar, S.A.
Statement of Cash Flows for
the year ended 31 December 2018
(Thousand euro)

	Notes	31/12/18	31/12/17
A) OPERATING CASH FLOW			
1. Income for the year before taxes		**(37,799)**	**(138,736)**
2. Adjustments to income		**54,446**	**162,601**
a) Depreciation and amortization (+)	6, 7, 8	22,953	26,957
c) Change in provisions (+/-)		(597)	-
d) Subsidies recognized (-)	18	(2,910)	(8,233)
e) Income from derecognitions and disposals of property, plant and equipment (+/-)	6, 7, 23	34,330	138,876
f) Income from derecognitions and disposals of financial instruments (+/-)		(2,252)	960
g) Share-based payments		797	491
h) Financial revenues (-)	23	(1,495)	(603)
i) Financial expenses (+)	23	3,663	3,941
j) Exchange differences (+/-)	23	(43)	212
3. Changes in working capital		**(11,084)**	**13,623**
a) Inventories (+/-)	13	(1,749)	(1,048)
b) Debtors and other accounts receivable (+/-).	14	7,035	27,456
d) Creditors and other accounts payable (+/-).	19	(16,367)	(12,648)
f) Other non-current assets and liabilities (+/-)		(3)	(137)
4. Other operating cash flow		**5,777**	**(902)**
a) Interest paid (-)		(3,637)	(3,941)
b) Dividends received (+)		742	-
c) Interest received (+)		753	39
d) Corporate income tax receipts/payments (+)	22	7,919	3,000
5. Operating cash flow (+/-1+/-2+/-3+/-4)		**11,340**	**36,586**
B) INVESTING CASH FLOW			
6. Investment payments (-)		**(27,325)**	**(47,989)**
a) Group and associated undertakings.		(8,858)	(9,577)
b) Intangible assets	6	(17,435)	(36,655)
c) Property, plant and equipment	7	(1,032)	(1,757)
7. Divestment receipts (+)		**24,924**	**11,079**
a) Group and associated undertakings.	11	21,274	607
b) Investment property	8	118	-
c) Property, plant and equipment		-	1
e) Other financial assets		3,532	10,471
8. Investing cash flow (7-6)		**(2,401)**	**(36,910)**
C) FINANCING CASH FLOW			
9. Collections and payments in connection with equity instruments		**860**	**1,361**
a) Issuance of equity instruments (+)		-	1,966
c) Acquisition of own equity instruments (-)		(3,446)	(6,186)
d) Disposal of own equity instruments (+)		2,786	4,989
e) Subsidies, donations and legacies received (+)	18	1,520	592
10. Collections and payments in connection with instruments representing financial liabilities		**(5,640)**	**4,633**
a) Issuance		**13,301**	**24,865**
2. Bank debt and debt to official authorities (+)	19	8,903	20,551
3. Debt to group and associated undertakings (+)	19	4,398	4,314
b) Refund and amortization of:		**(18,941)**	**(20,232)**
1. Debt to group and associated undertakings (-)	19	(4,247)	(5,051)
2. Bank debt and debt to official authorities (-)	19	(14,694)	(15,181)
12. Financing cash flow (+/-9+/-10-11)		**(4,780)**	**5,994**
D) EFFECT OF EXCHANGE RATE VARIATIONS		**43**	**(212)**
E) NET INCREASE/DECREASE IN CASH AND CASH EQUIVALENTS (+/-5+/-8+/-12+/-D)		**4,202**	**5,459**
Beginning cash and cash equivalents		12,720	7,261
Ending cash and cash equivalents		16,922	12,720

Pharma Mar, S.A.

NOTES TO FINANCIAL STATEMENTS (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).

PharmaMar's main activity is research, development and marketing 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.

In December 2018, Australia's Therapeutic Goods Administration (TGA) informed Specialised Therapeutics Asia Pte. Ltd. (STA) that it had approved Aplidin® (Plitidepsin) for use in treating multiple myeloma in combination with dexamethasone. The approval covers treating patients who have relapsed after three lines of treatment. PharmaMar licensed Aplidin® to its partner STA for Australia, New Zealand and several Southeast Asian countries from December 2015.

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

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

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

In April 2018, Chugai Pharmaceutical, Co. Ltd. gave notice to PharmaMar of its decision to exercise its right to terminate without cause, with one year's notice, the licensing agreement for development and marketing it had signed in connection with Zepsyre® for the Japan territory in December 2016. The two companies reached an agreement for early termination in June 2018 (Note 21.1.3).

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 2018 financial statements, which were authorized on 28 February 2019, 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 2019, the Company authorized the Consolidated Financial Statements as of 31 December 2018 for the group of companies of which it is the controlling company, which disclose a consolidated net loss of €5,535 thousand, equity (including the loss for the year) of €17,473 thousand, assets amounting to €157,676 thousand and revenues amounting to €162,587 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 2018 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 2028 are included for PharmaMar, and through 2023 for Genómica and Sylentis.

- The information for preparing the tax plan is the budget presented to the Board of Directors, which includes projections through 2023, extended to 2028 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 ongoing development); b) the estimated selling price; and c) a penetration rate as a function of the number of patients that could potentially be treated with the product under development.

- The tax plan also uses the following significant assumptions:

    - No revenues are assumed from products under development that have not yet reached Phase III.

    - Average 9.51% growth in sales in the oncology segment. That growth is due mainly to the good prospects for Zepsyre®, a product currently under development.

    - Average 5.33% sustained growth in operating expenses in the oncology segment.

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

medicine, the prevalence of the various potential indications in the population, the time of approval, and the market share:

- Increasing the probability assigned to revenues from compounds in Phase III development by 1% would result in the recognition of an additional €245 thousand.
- A 5% reduction in the estimated price for the main compound under development (Zepsyre®) would result in the derecognition of €1,315 thousand.
- A 5% reduction in sales of Yondelis® would result in derecognition of assets in the amount of €122 thousand.
- A 1-year delay in sales of the main compound under development, Zepsyre®, would result in derecognition of assets in the amount of €1,808 thousand.
- A 10% reduction in market share for the main compound under development (Zepsyre®) would result in derecognition of assets in the amount of €519 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

New drug development is subject to uncertainty due to the long period of maturation for the drugs and the technical results obtained at different stages of trials involved in the development process. It may prove necessary to abandon development at any stage of the process, whether because the drug does not meet medical, technical and/or regulatory standards or because it fails to achieve the hurdle rate of return. 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 2018 are presented in comparison with those for the year 2017, except for the effects of the reclassification to "Discontinued operations" of the transactions carried out with Xylazel, S.A. in the profit and loss account, in accordance with standard 7, section 11, on the drafting of financial statements (Note 24).

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 2018 income which will be presented to the Shareholders' Meeting, and the distribution approved for 2017 by the shareholders on 28 June 2018, are as follows:

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

The proposed distribution of income for the year ended 31 December 2018 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 (€31,116 thousand) to prior years' losses.

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 fulfil 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 of being recognized 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:

a. it must be possible to separate it from the company and sell, assign, deliver for exploitation, lease or exchange it, or

b. 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 in the year it is incurred.

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

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

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

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

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

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

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

Fulfillment of those conditions is assessed each year.

Development expenses recognized under assets must be amortized in accordance with a systematic plan over their useful life, 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:

- Impairment is assessed during the year-end close or whenever progress with projects gives any indication of impairment or there are doubts about fulfillment of the conditions for capitalization. As of 31 December 2018, that assessment resulted in the derecognition and impairment of the developments 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 2008 of Spain's General Accounting Plan (PGC) for the preparation of the financial statements did not result in a material change since the PGC rules for development expenses are similar to those in the preceding standard that it replaced.

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

The main difference in the treatment of development expenses in producing the Group's separate and consolidated financial statements lies in the time at which development expenses are capitalized: in the separate financial statements, the Company considers that the conditions for capitalization have been fulfilled once a compound reaches Phase I clinical trials, in accordance with the criteria traditionally applied by the Company; in the Group's consolidated

financial statements, research and development expenses are capitalized from the time the drug is registered, subject to fulfillment of the conditions in the 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 considered to be fulfilled in 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 <u>Property, plant and equipment</u>

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 held for rental over the long term that is 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 - 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 Financial assets available for sale 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 a designated hedge.

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 <u>Inventories</u>

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, 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 2018 are: Zelnova Zeltia, S.A. Genómica, S.A.U. and Sylentis, S.A.U., 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 lock-up 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 26).

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, two 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 distributors in the Nordic countries, Eastern Europe, Greece, Cyprus and the United Kingdom (since September 2018), with which the Company has agreements for promotion and commercial distribution. In this model, the sale occurs once the product is shipped from the Company's warehouse in Spain to the 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.

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

− payments collected by Pharma Mar, which are generally non-refundable.

− triggered when the compound to which the agreement refers (Yondelis®, Aplidin® or Zepsyre®) attains development milestones, generally of a regulatory or commercial nature.

Marketing phase

− Royalty payments.

− Revenues from the supply of products (raw materials).

As a general rule, upfront payments are not recognized as revenue in the year that the agreement is signed. They are recognized as revenue in the year that they are collected provided that:

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

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

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

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

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

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

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).

4.19 Discontinued operations

A discontinued operation is a component of the undertaking that has been disposed of or otherwise classified as held-for-sale, and represents a line of business or a geographical area of operations that is material, is part of an individual plan, or is a subsidiary acquired exclusively for the purpose of resale. Income from discontinued operations is presented separately in a specific line-item, net of taxes, in the income statement.

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 €20,883 thousand in the year ended 31 December 2018 (€18,557 thousand in 2017) (Note 21.3). The main transactions in foreign currency in 2018 were revenues from the Johnson & Johnson Group and Seattle Genetics (Note 21.1.3) and sales in the United Kingdom.

If, as of 31 December 2018, the euro had appreciated by 5% with respect to the US dollar while all other variables remained constant, income after taxes for the year would have been lower by €159 thousand euro (€19 thousand in 2017), 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 2018, the euro had depreciated by 5% with respect to the US dollar while all other variables remained constant, income after taxes for the year would have been higher by €167 thousand (€21 thousand in 2017). The material impact of variations in the dollar as of 31 December 2018 is due mainly to the increase in the amounts in dollars collected in 2018 with respect to 2017, detailed in Note 21.1.

If, as of 31 December 2018, 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 €93 thousand (€140 thousand in 2017), mainly as a result of translation into euro of customer and other accounts receivable and of exchange gains on debt denominated in pounds sterling.

If, as of 31 December 2018, 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 €98 thousand (€155 thousand in 2017). The material impact of variations in the pound sterling as of 31 December 2018 is due mainly to the amounts in sterling 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 2018 and 2017 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 net cash position, defined as cash and cash equivalents and current financial assets (€17,979 thousand in 2018, €17,310 thousand in 2017) less short-term borrowings (€26,599 thousand in 2018, €23,828 thousand in 2017), was negative in the amount of €8,620 thousand at the end of 2018 (negative in the amount of €6,518 thousand in 2017).

Long-term interest-bearing debt amounted to €59,073 thousand (€67,637 thousand in 2017), of which €18,293 thousand (€18,056 thousand in 2017) was in the form of research and development loans from official bodies which are repayable over 10 years, with a three-year grace period, at zero or below-market interest rates.

As indicated in Note 1, sales in the oncology segment commenced in the fourth quarter of 2007 for Yondelis®, and they gained in strength with the marketing approval for a second therapeutic use in the second half of 2009; Yondelis® was approved for commercialization for the treatment of soft tissue sarcoma in both Japan and the US in the fourth quarter of 2015. Additionally, in December 2018, Australia's Therapeutic Goods Administration (TGA) informed Specialised Therapeutics Asia Pte. Ltd. (STA) that it had approved Aplidin® (Plitidepsin) for use in treating multiple myeloma. PharmaMar has licensed Aplidin® to its partner STA for Australia, New Zealand and several Southeast Asian countries, and it will begin to receive payments on sales by STA when it can begin to sell Aplidin® in its territories.

The other compounds are in the development phase. PharmaMar currently generates revenues from sales and from licensing contracts, and through credit transactions, capital raising and, to a lesser extent, funds from other segments of the Group, as well as the ability to obtain new sources of finance on the market.

PharmaMar regularly monitors liquidity projections on the basis of expected cash flows, particularly in this segment, and Management considers that it has sufficient cash, tradable securities and credit lines available to meet its liquidity needs and payment commitments within the time horizon that is considered to be necessary.

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

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

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

- PharmaMar ended 2018 with cash and cash equivalents plus current financial assets amounting to €17,979 thousand.
- PharmaMar had unused credit lines in the amount €2,786 thousand as of 31 December 2018.

PharmaMar's directors analyzed the liquidity situation for the twelve months following the date of authorization of these financial statements and they believe that, although there may be a treasury shortfall at the end of this period, PharmaMar has sufficient liquidity to cover its research and development projects and fulfill its future commitments, for the following reasons:

- PharmaMar has identified a number of activities (relating to non-oncological businesses) that, if necessary, could be postponed without impairing the core of the business, which gives it enough flexibility to adapt spending to the company's available resources.

- As it has done in the past, PharmaMar's objective in the biopharmaceutical segment is to sign new licensing agreements for its compounds under development. PharmaMar expects to strengthen its liquidity position in 2019 through new agreements that are currently under negotiation.

- Maturities of net interest-bearing debt amount to €11,318 thousand in 2019, of which around €2,000 thousand will be covered with new loans related to already attained milestones under loans granted in previous years by official bodies for R&D projects. The Company expects to arrange new loans for an amount similar to that attained in 2018.

- In February 2019, PharmaMar arranged new credit lines for a total of €2,500 thousand.

- The Company has additional debt-bearing capacity based on certain tangible assets that would enable it to arrange new mortgage loans.

- There are also collection rights that could serve as collateral for new funding with which to meet the aforementioned maturities.

- As indicated in note 33 on post-closing events, PharmaMar granted a mandate to Alantra Corporate Finance S.A.U. for the sale of its stake in ZelnovaZeltia. The goal is to maximize the price of that sale and maintain the strategy of growth in the oncology business (in line with the divestment of its subsidiary Xylazel in 2018).

- PharmaMar also has the option of raising funds with which to fund future investments via the capital market.

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

The table below shows an analysis of the 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.

As of 31/12/18 (thousand euro)	2019	2020	2021	2022	2023	2024 & thereafter	Total Non-current	Total
Bonds and other marketable securities	**405**	-	-	-	-	**16,501**	**16,501**	**16,906**
Bank loans	24,157	9,156	8,123	5,034	1,225	741	24,279	48,436
Debt to official authorities	1,238	3,694	3,235	3,384	2,770	5,210	18,293	19,531
Bank debt and debt to official authorities	**25,395**	**12,850**	**11,358**	**8,418**	**3,995**	**5,951**	**42,572**	**67,967**
Other financial liabilities	**799**	-	-	-	-	-	-	**799**
Current accounts payable to group and associated undertakings	**7,662**	-	-	-	-	-	-	**7,662**
Suppliers	**135**	-	-	-	-	-	-	**135**
Debt to group and associated undertakings	**4,115**	-	-	-	-	-	-	**4,115**
Sundry creditors	**16,982**	-	-	-	-	-	-	**16,982**
Personnel (compensation payable)	**4,126**	-	-	-	-	-	-	**4,126**
Balances with public authorities	**1,020**	-	-	-	-	-	-	**1,020**
Customer advances	**2,201**	-	-	-	-	-	-	**2,201**
Total	**62,840**	**12,850**	**11,358**	**8,418**	**3,995**	**22,452**	**59,073**	**121,913**

As of 31/12/17 (thousand euro)	2018	2019	2020	2021	2022	2023 & 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	3,430	3,681	2,902	2,890	5,153	18,056	22,009
Bank debt and debt to official authorities	**22,644**	**12,380**	**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**
Suppliers	**292**	-	-	-	-	-	-	**292**
Debt to group and associated undertakings	**2,541**	-	-	-	-	-	-	**2,541**
Sundry creditors	**21,410**	-	-	-	-	-	-	**21,410**
Personnel (compensation payable)	**4,483**	-	-	-	-	-	-	**4,483**
Balances with public authorities	**897**	-	-	-	-	-	-	**897**
Customer advances	**660**	-	-	-	-	-	-	**660**
Total	**63,006**	**12,380**	**12,836**	**11,025**	**7,927**	**23,469**	**67,637**	**130,643**

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 2018 and 2017 are as follows:

2018

(thousand euro)	Development	Computer software	Total
Cost			
Balance as of 31/12/17	479,377	4,010	483,387
Recognitions	17,349	86	17,435
Derecognition (Note 21.7)	(108,946)	(3)	(108,949)
Balance as of 31/12/18	**387,780**	**4,093**	**391,873**
Provision for impairment			
Balance as of 31/12/2017 (Note 21.7)	(97,942)	-	(97,942)
Provision (Note 21.7)	(27,028)	-	(27,028)
Derecognition (Note 21.7)	97,942	-	97,942
Balance as of 31/12/18	**(27,028)**	**-**	**(27,028)**
Accumulated amortization			
Balance as of 31/12/17	(211,473)	(2,882)	(214,355)
Provisions	(20,963)	(344)	(21,307)
Derecognitions	2,063	-	2,063
Balance as of 31/12/18	**(230,373)**	**(3,226)**	**(233,599)**
Net carrying amount as of 31/12/2018	**130,379**	**867**	**131,246**

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
Derecognition (Note 21.7)	(40,905)	(673)	(41,578)
Balance as of 31/12/17	**479,377**	**4,010**	**483,387**
Provision for impairment			
Balance as of 31/12/16	-	-	-
Provision (Note 21.7)	(97,942)	-	(97,942)
Balance as of 31/12/17	**(97,942)**	**-**	**(97,942)**
Accumulated amortization			
Balance as of 31/12/16	(186,255)	(3,249)	(189,504)
Provisions	(25,218)	(301)	(25,519)
Derecognitions	-	668	668
Balance as of 31/12/17	**(211,473)**	**(2,882)**	**(214,355)**
Net carrying amount as of 31/12/2017	**169,962**	**1,128**	**171,090**

6.1 Development

In 2018, the Company continued with the development of the molecules in its pipeline, having prioritized Zepsyre®, with the result that development expenditure in the year related to work on this compound.

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. In March 2018, the EMA confirmed the negative opinion issued by the CHMP in December 2017 in which it recommended not granting marketing authorization for Aplidin® for treating multiple myeloma. In October 2018, PharmaMar filed a case with the General Court of the European Union against the European Commission, requesting the annulment of the Commission's final Execution Decision by which marketing authorization of Aplidin® was denied. In January 2019, the European Commission rejected PharmaMar's claim.

In 2017, the Company estimated the direct and indirect costs incurred in the development of Aplidin® for the indication of multiple myeloma and recognized an impairment amounting to €97,942 thousand pending the EMA's decision. Nevertheless, PharmaMar continued with the registration trial with Aplidin® (Plitidepsin) as monotherapy in patients with angioimmunoblastic T-cell lymphoma, and with other combination trials. Finally, in 2018, as a result of confirmation by the EMA of the negative opinion of the CHMP, the Company decided to halt development of Aplidin® and wrote off the total net investment made to date, for an amount of €8,941 thousand (€108,946 thousand of cost, €2,063 of accumulated amortization and €97,942 thousand of impairment booked in 2017).

In 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, PharmaMar had recognized assets in connection with the CORAIL trial in the amount of €40,905 thousand, including the direct costs and the indirect costs attributable to that trial. The aforementioned amount was derecognized under capitalized development expenses as of 31 December 2017.

In 2018, as a result of the Company's decision to prioritize the most advanced clinical trials, which are therefore the ones closest to the market (if commercialization is finally approved), namely those being carried out with Zepsyre® (Lurbinectedin), it was decided to impair the intangible assets recognized in connection with PM184 and PM14 (€27,028 thousand), since the decision of the Company meant that the available financial resources would be allocated primarily to the development of Zepsyre®.

The amount amortized in 2018 is as follows: (i) €4,675 thousand and €2,092 thousand (€4,675 thousand and €6,575 thousand in 2017) 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 €10,844 thousand in 2018 (€10,614 thousand in 2017); and (iii) €3,352 thousand was also recognized in connection with other Yondelis®

Recoverability analysis

"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®

There is no indication of impairment of Yondelis, as it is a product on the market that is providing positive operating results.

Aplidin®

In 2018, as a result of confirmation by the EMA of the negative opinion of the CHMP, the Company decided to halt development of Aplidin® and wrote off the total net investment made to date, for an amount of €8,941 thousand (€108,946 thousand of cost, €2,063 of accumulated amortization and €97,942 thousand of impairment booked in 2017).

Zepsyre®

The Company continues with trials in connection with Zepsyre® (Lurbinectedin), the main research lines being as follows: (i) ATLANTIS Phase III trial in small cell lung cancer. This type of 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.

In August 2018, Lurbinectedin was designated as an orphan drug for the treatment of small cell lung cancer by the FDA's Office of Orphan Product Development. In January 2019, the EMA also designated Zepsyre® as an orphan drug for that same indication.

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 sales under joint promotion in the United States from the third year after launch, as well as royalties and license revenues from the agreements currently in place with 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.

Cash flows were projected over 10 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 72% and 18%, respectively, at the analysis date; the cost of debt, estimated at approximately 3.08%; the cost of equity was 11.39% calculated using the Spanish 5-year bond yield as risk-free interest rate: 0.412%; the company's beta volatility coefficient at the analysis date: 0.89; 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 12.29% after deducting the risk-free return; and a tax rate of 25%. The resulting weighted average cost of capital is 8.86%.

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 49.89%. Alternatively, expenses would have to increase by 109.65%. Applying the same analysis to free cash flow, the two figures would match if that variable declined by 94.04%. The same result would be achieved by increasing the discount rate by 679.20%.

PM184 and PM14

In 2018, as a result of the Company's decision to prioritize clinical trials with Zepsyre® (Lurbinectedin), it was decided to impair an amount of €27,028 in connection with PM184 and PM14.

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

The application in Pharma Mar, S.A.'s separate financial statements of the approach used in the Group's financial statements under EU-IFRS would reduce the amount of development expenses recognized in assets and the equity by €161 million as of 31 December 2017, and by €125 million as of 31 December 2018.

The following table completes the information per capitalized compound, reflecting the net carrying amount of each of them in the separate and consolidated financial statements as of 31 December 2018, as well as the changes during the year:

	Separate balance sheet					
	YONDELIS®	Aplidin®	Zepsyre®	PM184	PM14	Total development
Ending balance 31/12/17	51,377	8,941	82,616	26,672	356	169,962
Recognitions	-	-	17,349	-	-	17,349
Derecognitions	-	(8,941)	-	-	-	(8,941)
Impairment	-	-	-	(26,672)	(356)	(27,028)
Depreciation and amortization	(20,963)	-	-	-	-	(20,963)
Ending balance 31/12/18	30,414	-	99,965	-	-	130,379

	Consolidated balance sheet					
	YONDELIS®	Aplidin®	Zepsyre®	PM184	PM14	Total development
Ending balance 31/12/17	8,834	-	-	-	-	8,834
Recognitions	-		-	-	-	-
Derecognitions	-	-	-	-	-	-
Impairment	-		-	-	-	-
Depreciation and amortization	(3,352)	-	-	-	-	(3,352)
Ending balance 31/12/18	5,482	-	-	-	-	5,482

6.2 Capitalized financial expenses

At the end of 2018, €1,164 thousand of net financial expenses (€2,379 at 2017 year-end) 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 2018 and 2017.

6.5 Fully amortized assets

The assets that were fully amortized as of 31 December 2018 and 2017 are as follows:

FULLY AMORTIZED INTANGIBLE ASSETS (thousand euro)	2018	2017
Computer software	2,269	2,169
Total	**2,269**	**2,169**

6.6 Income from disposals and other

Income from disposals and impairments as of 31 December 2018 related mainly to Aplidin® and other molecules PM184 and PM14, as detailed in Note 6.1

6.7 Assets designated as collateral and subject to ownership restrictions

As of 31 December 2018 and 2017, 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 2018, the Company had €2,373 thousand (€3,415 thousand in 2017) under "Official capital subsidies" to finance research and development activities. That balance includes €2,108 thousand (€2,094 thousand in 2017) 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 2018 and 2017 are as follows:

2018

(thousand euro)	Land and structures	Installations	Construction in progress and advances	Total
Cost				
Balance as of 31/12/17	20,784	31,911	579	53,274
Recognitions	-	373	659	1,032
Transfers	-	71	(71)	-
Balance as of 31/12/18	**20,784**	**32,355**	**1,167**	**54,306**
Accumulated depreciation				
Balance as of 31/12/17	(7,342)	(25,123)	-	(32,465)
Provisions	(517)	(1,127)	-	(1,644)
Balance as of 31/12/18	**(7,859)**	**(26,250)**	**-**	**(34,109)**
Net carrying amount as of 31/12/2018	**12,925**	**6,105**	**1,167**	**20,197**

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
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 31/12/2017	**13,442**	**6,788**	**579**	**20,809**

As of 31 December 2018, the net carrying amount of land and structures was €5,495 thousand and €7,429 thousand, respectively (€5,495 thousand and €7,947 thousand, respectively, in 2017).

The main items recognized in 2018 and 2017 relate to warehouse expansion and the packing and serialization room.

7.1 Impairment losses

The Company did not recognize any impairment losses in 2018 and 2017.

7.2 Assets acquired from Group and Associated undertakings

No fixed assets were acquired from group or associated companies in 2018 and 2017.

7.3 Fully depreciated assets

As of 31 December 2018, the Company was using assets with a carrying amount of €22,830 thousand which had been fully depreciated (€21,674 thousand as of 31 December 2017).

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 carrying amount as of 31/12/2018	Amount of loan	Amount outstanding 31/12/2018	Maturity
Av. de los Reyes nº 1Colmenar Viejo (Madrid)	9,749	9,000	5,263	June 2024

LOCATION (thousand euro)	Net carrying amount as of 31/12/2017	Amount of loan	Amount outstanding 31/12/2017	Maturity
Av. de los Reyes nº 1Colmenar Viejo (Madrid)	10,267	9,000	6,142	June 2024

The outstanding amount of the mortgage loan under "Long-term bank debt" is €4,360 thousand (€5,263 thousand in 2017), and the amount under "Short-term bank debt" is €903 thousand (€879 thousand in 2017) (Note 19.2).

7.5 Assets acquired under finance leases

There were no finance leases outstanding as of the end of 2018 and 2017.

7.6 Subsidies received

No fixed assets financed by subsidies from public authorities were acquired in 2018 and 2017.

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 2018, the Company had land which was held for appreciation and rental as "Investment property" for a total net amount of €845 thousand (€1,492 thousand in 2017).

In 2018, the Company sold two plots of land that were held for appreciation. The first one, which had a carrying amount of €48 thousand, was sold to a third party for €125 thousand. The other plot, with a carrying amount of €599 thousand, was sold to related company Zelnova Zeltia, S.A. for €2,160 thousand. PharmaMar had an independent appraisal of the land by an independent expert dated January 2018 showing that the transaction was performed at market prices.

The balance at 2018 year-end related to a plot of land located at Avda. de la Industria no. 52, in Polígono Industrial de Tres Cantos (Madrid), which is under a 25-year lease that may not be terminated in the first 10 years.

Revenues under this heading amounted to €62 thousand as of 2018 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)	2018	2017
Less than 1 year	1,706	1,811
1 to 5 years	2,233	2,827
Total	**3,939**	**4,638**

The expense recognized in profit or loss amounted to €2,073 thousand in 2018 (€2,023 thousand in 2017).

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 assets and liabilities with public authorities (Note 22), is as follows:

10.1.1 Current and non-current financial assets and liabilities

2018 (thousand euro)	Loans and accounts receivable / payable	Available for sale	Total
Non-current financial assets			
Financial assets – Group undertakings (Note 14.2)	20,636	-	**20,636**
Non-current financial investments (Note 12)	51	326	**377**
Other financial assets (Note 14.1)	138	-	**138**
Current financial assets			
Customer and other accounts receivable (Note 14.3)	5,931	-	**5,931**
Customer receivables and receivable from group undertakings (Notes 14 & 29)	5,186	-	**5,186**
Financial assets – Group undertakings (Notes 14 & 29)	1,524	-	**1,524**
Current financial assets (Note 14.5)	1,057	-	**1,057**
Other financial assets (Note 14)	779	-	**779**
	35,302	**326**	**35,628**
Non-current financial liabilities			
Bonds and other marketable securities (Note 19.1)	16,501	-	**16,501**
Bank loans (Note 19.2)	24,279	-	**24,279**
Other financial liabilities (Note 19.3)	18,293	-	**18,293**
Current financial liabilities			
Bonds and other marketable securities (Note 19.1)	405	-	**405**
Bank loans (Notes 19.2 and 19.3)	25,395	-	**25,395**
Other financial liabilities	799	-	**799**
Current accounts payable to group and associated undertakings (Notes 19 & 29)	7,662	-	**7,662**
Debt to Group undertakings (Notes 19 & 29)	4,115	-	**4,115**
Suppliers	135	-	**135**
Sundry creditors	16,982	-	**16,982**
Personnel (compensation payable)	4,126	-	**4,126**
Customer advances	2,201	-	**2,201**
	120,893	**-**	**120,893**

2017 (thousand euro)	Loans and accounts receivable / payable	Available for sale	Total
Non-current financial assets			
Financial assets – Group undertakings (Note 14.2)	17,776	-	**17,776**
Non-current financial investments (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 receivables and receivable from group undertakings (Notes 14 & 29)	7,003	-	**7,003**
Financial assets – Group undertakings (Notes 14 & 29)	1,422	-	**1,422**
Current financial assets (Note 14.5)	4,590	-	**4,590**
Other financial assets (Note 14)	2,638	-	**2,638**
	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 (Notes 19 & 29)	8,895	-	**8,895**
Debt to Group undertakings (Notes 19 & 29)	2,541	-	**2,541**
Suppliers	292	-	**292**
Sundry creditors	21,410	-	**21,410**
Personnel (compensation payable)	4,483	-	**4,483**
Customer advances	660	-	**660**
	129,746	**-**	**129,746**

10.2 Analysis by maturity

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

FINANCIAL ASSETS / LIABILITIES BY MATURITY (Thousand euro) 2018	2019	2020	2021	2022	2023	Subsequent years	Total non-current	Total
ASSETS AVAILABLE FOR SALE	-	-	-	-	-	377	377	377
Equity instruments (Note 12)	-	-	-	-	-	326	326	326
Loans to third parties	-	-	-	-	-	51	51	51
LOANS AND ACCOUNTS RECEIVABLE	-	-	-	-	-	20,636	20,636	20,636
Financial assets – Group undertakings (Notes 14.2 & 29)	-	-	-	-	-	20,636	20,636	20,636
OTHER FINANCIAL ASSETS:	14,477	138	-	-	-	-	138	14,615
Other financial assets (Note 14.1)	-	138	-	-	-	-	138	138
Loans and accounts receivable (Note 14.5)	1,057	-	-	-	-	-	-	1,057
Financial assets – Group undertakings (Notes 14.2 & 29)	1,524	-	-	-	-	-	-	1,524
Sundry debtors	166	-	-	-	-	-	-	166
Personnel	106	-	-	-	-	-	-	106
Accruals	507	-	-	-	-	-	-	507
Customer receivables for sales and services (Note 14.3)	5,931	-	-	-	-	-	-	5,931
Customer receivables from group and associated undertakings (Notes 14.4 & 29)	5,186	-	-	-	-	-	-	5,186
Total	14,477	138	-	-	-	21,014	21,151	35,628
FINANCIAL LIABILITIES								
Bonds and other marketable securities (Note 19.1)	405	-	-	-	-	16,501	16,501	16,906
Bank loans and credit lines (Note 19.2)	24,157	9,156	8,123	5,034	1,225	741	24,279	48,436
Debt to official authorities (Note 19.3)	1,238	3,694	3,235	3,384	2,770	5,210	18,293	19,531
Bank debt and debt to official authorities	25,395	12,850	11,358	8,418	3,995	5,951	42,572	67,967
Current accounts payable to group and associated undertakings (Notes 19 & 29)	7,662	-	-	-	-	-	-	7,662
Supplier payables - group and associated undertakings (Notes 19 & 29)	4,115	-	-	-	-	-	-	4,115
Suppliers	135	-	-	-	-	-	-	135
Sundry creditors	16,982	-	-	-	-	-	-	16,982
Personnel (compensation payable)	4,126	-	-	-	-	-	-	4,126
Customer advances	2,201	-	-	-	-	-	-	2,201
Other financial liabilities	799	-	-	-	-	-	-	799
Total	61,820	12,850	11,358	8,418	3,995	22,452	59,073	120,893

FINANCIAL ASSETS / LIABILITIES BY MATURITY (Thousand euro) 2017	2018	2019	2020	2021	2022	Subsequent years	Total non-current	Total
ASSETS AVAILABLE FOR SALE	-	-	-	-	-	378	378	378
Equity instruments (Note 12)	-	-	-	-	-	327	327	327
Loans to third parties	-	-	-	-	-	51	51	51
LOANS AND ACCOUNTS RECEIVABLE	-	-	-	-	-	17,776	17,776	17,776
Financial assets – Group undertakings (Notes 14.2 & 29)	-	-	-	-	-	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 14.2 & 29)	1,422	-	-	-	-	-	-	1,422
Sundry debtors	542	-	-	-	-	-	-	542
Personnel	110	-	-	-	-	-	-	110
Accruals	1,986	-	-	-	-	-	-	1,986
Customer receivables for sales and services (Note 14.3)	7,475	-	-	-	-	-	-	7,475
Customer receivables from group and associated undertakings (Notes 14.4 & 29)	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 and credit lines (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	3,430	3,681	2,902	2,890	5,153	18,057	22,010
Bank debt and debt to official authorities	22,644	12,380	12,836	11,025	7,927	7,119	51,287	73,931
Current accounts payable to group and associated undertakings (Notes 19 & 29)	8,895	-	-	-	-	-	-	8,895
Supplier payables - group and associated undertakings (Notes 19 & 29)	2,541	-	-	-	-	-	-	2,541
Suppliers	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	12,380	12,836	11,025	7,927	23,469	67,637	129,747

The "Non-current financial assets - Group undertakings" account as of 31 December 2018 and 2017 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)	2018	2017
Customers without an external credit rating		
New customers	923	134
Customers from previous years	5,008	7,341
TOTAL CUSTOMER RECEIVABLES FOR SALES AND SERVICES	**5,931**	**7,475**
Moody's rating		
A1	5	-
A2	2,767	-
A3	202	918
Aa3	1	-
B1	-	1
Ba2u	1	-
Ba3	4	7
Baa1	9,957	3,610
Baa2	4,206	8,005
Baa2u	796	-
Baa3	-	3,333
NR	40	1,436
TOTAL CASH AND CASH EQUIVALENTS AND CURRENT FINANCIAL ASSETS	**17,979**	**17,310**

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 direct and indirect investees as of 31 December 2018 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.
Genómica (Wuhan) Trading Co., Ltd. (China)	No.401-421 (Wuhan Free Trade Area) 4/F, Office Building A, No.777, Guanggu 3 Road, Wahan East Lake High-tech, Development Zone	Wholesale trade, import and export of Class III and Class I medical devices, R&D and sales of Class III IVD reagents; commission agency (excluding auctions) and supplier of related support services.
Sylentis, S.A.U. - 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 and production of pharmaceutical products.
PharmaMar, AG - Basel (Switzerland)	Aeschenvorstadt, 71 - Basle - Switzerland	Research and production of pharmaceutical products.
Pharma Mar, Sarl - Paris (France)	6 Rue de l'Est, 92100 Boulogne Billancourt, Paris, France	Research and production of pharmaceutical products.
Pharma Mar, GmbH - Berlin (Germany)	Uhlandstraße 14 - 10623 Berlin - Germany	Research and production of pharmaceutical products.
Pharma Mar, Srl - Milan (Italy)	Via Lombardia 2/A C/O Innov. Campus 20068 Peschiera Borromeo Milano - Italy	Research and production of pharmaceutical products.
Pharma Mar, Ltd - Reading (United Kingdom)	Soane Point 6-8 Market Place, Reading RG1 2EG. United Kingdom	Research and production of pharmaceutical products.
Pharma Mar, Sprl - Brussels (Belgium)	Avenue du Port 86C, Boite 204, 1000 Brussels, Belgium	Research and production of pharmaceutical products.
Pharma Mar Ges.m.b.H- Vienna (Austria)	Mooslackengasse 17- 1190 Vienna, Austria	Research and production of pharmaceutical products.
Noscira, S.A. En liquidación- Madrid (Spain)	Pza. del Descubridor Diego de Ordás 3, Madrid	In October 2012, the ARGO trial in Alzheimer's disease failed to attain its endpoints. Noscira derecognized the related capitalized R&D expenses and, consequently, 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.
Copyr S.p.A.- Milan (Italy)	Via Giorgio Stephenson, 73 - 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 2018 and 2017 is as follows:

Name and domicile	Statutory audit	Percentage of ownership Direct % 2018	Indirect % 2018	Percentage of ownership Direct % 2017	Indirect % 2017
Genómica, S.A.U. - Madrid (España)	Yes - KPMG	100.00%	-	100.00%	-
		-		-	
Genómica, A.B. - Sweden (*)	Yes - KPMG		100.00%		100.00%
Genómica Brasil Consultoria e Intermediaçao Ltda (Brasil) (*)	Yes - KPMG	-	100.00%	-	100.00%
		-		-	
Genómica (Wuhan) Trading Co.Ltd. (China) (*)	Yes - Grant Thornton		100.00%		-
Sylentis , S.A.U. - Madrid (Spain)	Yes - KPMG	100.00%	-	100.00%	-
			-		-
Pharma Mar USA INC - NY (USA)	Yes - Walter & Shuffain, PC	100.00%		100.00%	
PharmaMar AG - Basel (Switzerland)	Yes - PwC	100.00%	-	100.00%	-
Pharma Mar Sarl - Paris (France)	Yes - PwC	100.00%	-	100.00%	-
Pharma Mar GmbH - Berlin (Germany)	No	100.00%	-	100.00%	-
Pharma Mar Srl - Milan (Italy)	Yes - Prorevi Auditing, S.r.L.	100.00%	-	100.00%	-
Pharma Mar, Ltd - Reading (United Kingdom) (***)	No	100.00%	-	100.00%	-
Pharma Mar, Sprl - Brussels (Belgium)	Yes - 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)	Yes - PwC	100.00%	-	100.00%	-
Xylazel, S.A. - Porriño - Pontevedra (Spain) (****)	Yes - PwC	-	-	99.93%	-
Copyr S.p.A.- Italy (**)	Yes - Trevor Auditing, S.r.L.	-	100.00%	-	100.00%

(*) Genómica, A.B., Genómica, Ltda. and Genómica Ltd are wholly-owned subsidiaries of Genómica, S.A.U.
(**) Copyr, S.p.A. is wholly owned by Zelnova Zeltia, S.A.
(***) In liquidation
(****) Sold in September 2018

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 2018 and 2017 were as follows:

COMPANY	Cost	Provision	Balance as of 31/12/17	Recognitions due to capital increase	Derecognitions due to capital reduction	Balance as of 31/12/18
HOLDINGS IN GROUP COMPANIES						
Genómica, S.A.U.	10,462	-	10,462	-	-	2,062
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	1,641	(37)	1,604	-	-	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.	44,254	(44,254)	-	-	-	-
Zelnova Zeltia, S.A.	4,385	-	4,385	-	-	4,385
Xylazel, S.A.	4,725	-	4,725	16	(4,741)	-
	97,972	**(49,382)**	**48,590**	**16**	**(4,741)**	**35,465**

COMPANY	Cost	Provision	Balance as of 31/12/16	Recognitions due to capital increase	Derecognitions due to capital reduction	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.	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**

In September 2018, the Company sold 100% of the capital of subsidiary Xylazel, S.A. to Akzo Nobel Coatings for €21,776 thousand in cash. Previously, it had purchased two shares of the subsidiary held by third parties, so that the value of PharmaMar's stake in Xylazel, S.A. before the sale amounted to €4,741 thousand. This transaction provided the Company with a profit of €16,533 thousand after deducting expenses inherent to it (€502 thousand). Xylazel, S.A. is a company dedicated to the development, production and commercialization of products wood and metal treatment, special paints for decoration, and similar products.

In 2018, the Company commenced the liquidation of its UK subsidiary, Pharma Mar Ltd.

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

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 thousand, 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 thousand by issuing 2,500 new shares of €1,000 par value each (Note 23), and a subsequent capital reduction amounting to €959 thousand, 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.

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 2018, 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:

	2018						
COMPANY	Capital	Reserves	Other items	Operating profit	2018 income	Total capital and reserves	Carrying amount at parent company
Genómica, S.A.U.	3,230	(137)	(88)	(2,414)	(2,674)	331	2,062
Genómica, A.B. (**)	6	(13)	78	(44)	(56)	15	-
Genómica Brasil Consultoria e Intermediaçao Ltda (**)	129	(19)	-	(581)	(597)	(487)	-
Genómica (Wuhan) Trading Co.Ltd. (**)	20	-	-	(48)	(48)	(28)	-
Sylentis, S.A.U.	1,523	123	6,718	(2,515)	(3,142)	5,222	26,068
Pharma Mar, USA INC	5,010	(4,997)	-	22	6	19	-
Pharma mar, Sarl	1,641	(619)	-	91	92	1,114	1,604
Pharma Mar, GmbH	25	260	-	242	89	374	471
PharmaMar, AG	107	(22)	-	3	2	87	55
Pharma Mar, Srl	500	1,564	-	400	(327)	1,737	500
Pharma Mar, Ltd	70	8	-	(34)	(35)	43	70
Pharma Mar, Sprl	150	(15)	-	(1)	(13)	122	150
Pharma Mar Ges.m.b.H	35	124	-	33	10	169	100
Noscira, S.A. en liquidación	27,615	(1,467)	(40,695)	(42)	(67)	(14,614)	-
Zelnova Zeltia, S.A.	3,034	22,586	809	219	(52)	26,377	4,385
Copyr, S.p.A. (*)	871	5,468	-	1,183	740	7,079	-
Total	**43,966**	**22,844**	**(33,178)**	**(3,486)**	**(6,072)**	**27,560**	**35,465**

(*) Copyr, S.p.A. is wholly owned by Zelnova Zeltia, S.A.
(**) Genómica, A.B., Genómica Brasil Consultoria e Intermediaçao Ltda and Genómica (Wuhan) Trading Co. Ltd. are wholly-owned subsidiaries of 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.

Additionally, based on the Company's decision to prioritize the oncology business and limit the resources allocated to other business areas, the recoverable value of Genómica, S.A.U. was analyzed and an impairment of €8,400 thousand was recognized.

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 well in excess of 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

		Percentage of ownership	Percentage of ownership
		2018	2017
Holding in the capital of	Line of business	Direct %	Direct %
Instituto BIOMAR	Pharmaceutical research	3.49%	3.49%
Pangaea Biotech SA	Consulting services	0.17%	0.21%
Johnson & Johnson	Manufacture of pharmaceuticals, consumer goods, devices and medical diagnostics	0.00001%	0.00001%

The value of those holdings is as follows:

Thousand euro	2018	2017
Instituto BIOMAR	252	252
Pangaea Biotech SA	50	50
Johnson&Johnson	24	25
	326	327

No impairment losses were recognized in 2018 and 2017 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 2018 and 2017 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 €24 thousand as of 31 December 2018 (€25 thousand in 2017).

13. INVENTORIES

The Group classifies inventories as follows:

(thousand euro)	2018	2017
Raw materials and other supplies used	74	72
Semi-finished products and products in process	8,331	6,673
Finished products	480	392
	8,885	7,137

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 Yondelis®.

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

No material impairment losses were recognized for inventories in 2018 and 2017. 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)	2018	2017
LONG-TERM LOANS AND ACCOUNTS RECEIVABLE	**20,825**	**17,950**
Long-term deposits and guarantees provided (Note 14.1)	138	123
Loans to third parties	51	51
Financial assets – Group undertakings (Notes 14.2 & 29)	20,636	17,776
SHORT-TERM LOANS AND ACCOUNTS RECEIVABLE	**14,477**	**23,128**
Customer receivables (Note 14.3)	5,931	7,475
Customer receivables from group and associated undertakings (Notes 14.4 & 29)	5,186	7,003
Current investment in group and associated undertakings (Notes 14.2 & 29)	1,524	1,422
Sundry debtors	166	542
Personnel	106	110
Accruals	507	1,986
Short-term deposits (Note 14.5)	1,049	4,580
Long-term deposits and guarantees provided	8	10
Total	**35,302**	**41,078**

14.1 Deposits and sureties

Long-term deposits and guarantees as of 31 December 2018 and 2017 include mainly deposits for leases.

14.2 Loans to group undertakings

The "Non-current financial assets - Group undertakings" account as of 31 December 2018 contained the following loans to Group undertakings:

(thousand euro)	2018	2017
Sylentis, SAU	20,636	16,792
Genómica, SA	5,881	984
Noscira, SA	7,612	7,612
Provision for impairment	(13,493)	(7,612)
	20,636	**17,776**

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 loans to Noscira, S.A. (which is in liquidation) and Genómica, S.A. have been written off due to doubts about their 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)	2018	2017
Current financial assets		
Corporate income tax receivable (Note 22)	55	425
VAT receivable (Note 22)	54	57
Current accounts with Group undertakings	1,415	940
	1,524	**1,422**

The balances with Group undertakings under current financial assets and liabilities in 2018 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	2018	2017
Current balances	**4,493**	**5,031**
Balances past-due but not provisioned	**1,438**	**2,504**
Up to 3 months	1,168	1,305
3-6 months	124	210
Over 6 months	146	989
TOTAL CUSTOMER RECEIVABLES	**5,931**	**7,535**
Provisions	-	(60)
TOTAL NET CUSTOMER RECEIVABLES	**5,931**	**7,475**

Past-due receivables have not been impaired and the Company expects to recover the total amount due.

Due from official authorities

As of 31 December 2018, accounts receivable from public authorities totaled €2,054 thousand (€2,847 thousand in 2017).

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

Thousand euro	Credit rating	2018
Andalusia	Baa2	315
Madrid	Baa1	241
Balearic Islands	BBB+	124
Valencia	Ba1	63
Castilla y León	Baa1	73
Castilla la Mancha	Ba1	68
Aragon	BBB	49
Catalonia	Ba3	174
Cantabria	BBB	16
Galicia	Baa1	174
Canary Islands	BBB+	102
Extremadura	Baa2	21
Basque Country	A3	10
Murcia	Ba1	22
Navarra	A+	2
Rioja	BBB	16
Asturias	Baa1	12
Total		**1,482**

Thousand euro	Credit rating	2017
Andalusia	Baa3	211
Madrid	Baa2	117
Balearic Islands	BBB	128
Valencia	Ba2	226
Castilla y León	Baa2	84
Castilla la Mancha	Ba2	68
Aragon	BBB-	50
Catalonia	Ba3	201
Cantabria	BBB	23
Galicia	Baa2	224
Canary Islands	BBB	285
Basque Country	Baa1	31
Murcia	Ba2	10
Navarra	A	14
Asturias	-	24
Other	-	6
Total		**1,702**

In 2018, the Company collected 3,361 thousand euro of debt owed by various public administrations by arranging non-recourse factoring contracts with financial institutions that specialize in transactions of this type (€2,553 thousand in 2017).

Past-due debt as of 31 December 2018 totaled €205 thousand (€993 thousand in 2017), and no impairments had been recognized on those amounts.

Debt owed by public authorities at 2018 and 2017 year-end in other territories where the Company operates was as follows:

Thousand euro	Credit rating	2018
United Kingdom	Aa2	77
Austria	Aaa	210
Belgium	Aaa	261
Luxembourg	Aaa	22
Ireland	A2	2
Total		**572**

Thousand euro	Credit rating	2017
Italy	Baa2	193
United Kingdom	Aa1	128
Portugal	Ba1	359
Austria	Aaa	201
Belgium	AA-	214
Luxembourg	Aaa	18
Ireland	A3	32
Total		**1,145**

14.4 Receivable from group and associated undertakings

The balances and transactions with group undertakings in 2018 and 2017 are detailed in Note 29.

14.5 Short-term deposits

The "Short-term deposits" item as of 31 December 2018 includes a number of fixed-term deposits amounting to €1,049 thousand plus accrued interest at a fixed annual interest rate of 0.01%.

As of 31 December 2017, that item included 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.

15. CASH AND CASH EQUIVALENTS

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

(thousand euro)	2018	2017
Cash on hand and at banks	16,922	12,720
Total	**16,922**	**12,720**

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 (222,649,287 ordinary shares in 2017) 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 2018, holders of significant stakes in Pharma Mar, 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 2018, the issue premium amounted to €71,278 thousand euro (€71,278 in 2017).

16.3 Own shares

In 2018, the Company acquired 2,433,649 own shares for a total of €3,446 thousand. The Company sold 2,391,460 own shares for a total of €5,672 thousand, resulting in a loss of €2,163 thousand, which was recognized against the Company's reserves. As of 31 December 2018, the Company held 1,415,934 own shares representing 0.64% of capital stock.

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.

The changes in holdings in own equity instruments in 2018 and 2017 are as follows:

	No. of shares	Amount (Euro)
Balance as of 31/12/17	1,373,745	(4,470,033)
Own shares purchased	2,433,649	(3,445,706)
Sales	(2,164,134)	4,947,991
ESOP	(227,326)	724,488
Balance as of 31/12/18	**1,415,934**	**(2,243,260)**

	No. of shares	Amount (Euro)
Balance as of 31/12/16	1,210,081	(3,246,192)
Own shares purchased	1,905,697	(6,186,253)
Sales	(1,530,369)	4,378,008
ESOP	(211,664)	584,404
Balance as of 31/12/17	**1,373,745**	**(4,470,033)**

17. RESERVES AND PRIOR YEARS' INCOME

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

(thousand euro)	2018	2017
LEGAL AND BYLAW RESERVES		
Legal reserve	2,226	2,226
Voluntary reserves		
Voluntary reserves	83,264	85,427
Merger reserve	215,160	215,160
Other reserves		
Other reserves	31	31
Difference due to redenomination of share capital in eur	2	2
Own shares and equity instruments	(275)	(347)
Total	**300,408**	**302,499**

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.

As of 31 December 2018 and 2017, the Company had fully allocated the legal reserve (€2,226 thousand).

17.2 Voluntary reserves

In 2018, the balance of voluntary reserves was reduced by €2,163 thousand as a result of transactions with own shares, with the result that the balance as of 31 December 2018 was €298,424 thousand.

In 2017, voluntary reserves experienced a net variation of €462 thousand as a result of the gain from transactions with own shares (€611 thousand) less capital increase costs (€149 thousand) (Note 16.1), resulting in a balance as of 31 December 2018 of €300,587 thousand.

The merger reserve, which arose in 2015 as a result of the reverse merger between PharmaMar and Zeltia (formerly the group parent company), amounts to €215,160 thousand. This reserve is unrestricted.

17.3 Other reserves

The "Other reserves" item includes:

- A reserve amounting to €31 thousand as of 31 December 2018 and 2017 for Differences in conversion to GAP 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), in the amount of €2 thousand.
- A reduction of €72 thousand with respect to 2017 (€347 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, which amounted to €275 thousand as of 31 December 2018.

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 2018, the "Subsidies, donations and other legacies received" item of the Company's equity includes €2,108 thousand (€2,094 thousand in 2017) of refundable subsidies from official authorities at zero or below-market interest rates (notes 5.2 and 6.8) and €265 thousand (€1,321 thousand in 2017) of non-repayable capital subsidies.

Those subsidies were granted for the implementation of a number of development programs 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)	2018	2017
BEGINNING BALANCE	**3,415**	**9,146**
Increase	1,140	444
Recognised in profit or loss	(2,182)	(6,175)
ENDING BALANCE	**2,373**	**3,415**

In 2018 and 2017, the Company derecognized certain compounds due to technical developments and, consequently, recognized the associated subsidies in profit or loss (Note 6.1).

19. DEBTS AND ACCOUNTS PAYABLE

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

(thousand euro)	2018	2017
Bonds and other marketable securities (Note 19.1)	16,501	16,350
Bank loans (Note 19.2)	24,279	33,231
Debt to official authorities (Note 19.3)	18,293	18,056
Prepaid revenues	-	5,105
NON-CURRENT DEBTORS AND ACCOUNTS PAYABLE	**59,073**	**72,742**
Bonds and other marketable securities (Note 19.1)	405	510
Bank loans (Note 19.2)	24,157	18,691
Debt to official authorities (Note 19.3)	1,238	3,953
Other financial liabilities	799	674
Suppliers	135	292
Supplier payables - group and associated undertakings (Note 29)	4,115	2,541
Accounts payable to related parties (Notes 19.4 & 29)	7,662	8,895
Sundry creditors	16,982	21,410
Personnel	4,126	4,483
Customer advances	2,201	660
Prepaid revenues	-	10,217
CURRENT DEBTORS AND ACCOUNTS PAYABLE	**61,820**	**72,326**
TOTAL DEBTS AND ACCOUNTS PAYABLE	**120,893**	**145,068**

The variation in the "Prepaid revenues" caption, both current (€5,105 thousand) and non-current (€10,217 thousand), is mainly due to the recognition of both balances as revenue in 2018 as a result of the early termination by Chugai Pharmaceutical Co. of the licensing agreement for Zepsyre® in Japan, which it had signed with PharmaMar in December 2016 (Note 21.1.3).

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) Maturity, 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 nominal value of €100 thousand;
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 €556 thousand as of 31 December 2018 (€510 thousand in 2017).

19.2 Bank debt

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

	2018		2017	
(thousand euro)	Non-current	Current	Non-current	Current
Bank loans	24,279	10,080	33,231	8,278
Credit lines	-	11,941	-	8,520
Interest payable	-	72	-	94
Other interest-bearing debt	-	2,064	-	1,799
TOTAL DEBTS AND ACCOUNTS PAYABLE	**24,279**	**24,157**	**33,231**	**18,691**

Non-current bank debt includes a mortgage loan of €4,360 thousand (€5,263 thousand in 2017) 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 €903 thousand as of 31 December 2018 (€879 thousand as of 31 December 2017) and is recognized under “Short-term debt — Bank debt and debt to official authorities".

In 2018, the Company obtained short-term financing from a financial institution for a total amount of €1,500 thousand at twelve months with an interest rate referenced to three-month Euribor plus a 3% spread, with a floor or minimum rate of 3%.

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%.

The limit of the credit lines is €14,750 thousand (€26,500 thousand in 2017), of which the Company had drawn (including credit cards) €11,941 thousand as of 31 December 2018 (€8,567 thousand in 2017). The credit lines bore average interest of 1.80% in 2018 (1.88% in 2017).

The maturity calendar of the bank debt in 2018 and 2017 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 €18,293 thousand as of 31 December 2018 (€18,056 thousand in 2017).

A total of €1,238 thousand were recognized as current under this heading in 2018 (€3,953 thousand in 2017).

These transactions do not accrue interest, except for €6,867 thousand that bear interest at between 0.06% and 1% (in 2017: €4,420 thousand bearing interest 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 2018, eight subsidized loans were received for a nominal amount of €4,406 thousand, with an initial fair value of €3,566 thousand, repayable in 10-11 years with a three-year grace period.

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 10-11 years with a three-year grace period.

The maturities of the amounts due to official authorities which are recognized at fair value as of 31 December 2018 and 2017 are detailed in Note 10.2.

19.4 Due to Group undertakings

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

(thousand euro)	2018	2017
Current financial liabilities		
Corporate income tax payable (Note 22)	2,077	2,340
VAT payable (Note 22)	116	215
Current accounts with Group undertakings	21	90
Loans - Zelnova Zeltia, S.A.	5,448	6,250
	7,662	**8,895**

The balances of current financial assets and liabilities with Group undertakings in 2018 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, including accrued interest, of €5,448 thousand (€6,250 thousand in 2017).

19.5 Information on deferral of payments to suppliers.

Information on payments for commercial transactions performed in 2018 and 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:

	2018 Days	2017 Days
Average period taken to pay suppliers:	56	53
Transactions paid	57	54
Transactions outstanding	51	43
Total payments made	25,292	28,922
Total payments outstanding	3,251	3,666

20. DEFERRED TAXES

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

(thousand euro)	2018	2017
DEFERRED TAX ASSETS	**20,441**	**20,520**
Timing differences (Note 22)	3,304	3,519
Tax credits (Note 22)	6,283	6,577
Tax withholdings receivable	10,854	10,424
Deferred tax liabilities	**758**	**695**
Timing differences	758	695
DEFERRED TAXES (NET)	**19,683**	**19,825**

The "Tax withholdings receivable" account as of 31 December 2018 and 2017 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 expenses	Total
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**
Charge (credit) to profit or loss	174	237	411
Charge to equity	(348)	-	(348)
Balance as of 31 December 2018	**396**	**362**	**758**

DEFERRED TAX ASSETS (thousand euro)	Tax credits	Timing differences	Withholdings	Total
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	-	-	3,696	3,696
Balance as of 31 December 2017	**6,577**	**3,519**	**10,424**	**20,520**
Charge (credit) to profit or loss	(294)	(215)	-	(509)
Other movements	-	-	430	430
Balance as of 31 December 2018	**6,283**	**3,304**	**10,854**	**20,441**

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

(thousand euro)	2018	2017
Subsidies, donations and legacies received	(348)	(1,910)
Total	**(348)**	**(1,910)**

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)	2018	2017
Product sales	64,927	71,563
Royalty revenues	3,916	4,362
Licensing revenues	24,659	12,357
Corporate services	509	595
Total	**94,011**	**88,877**

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 (€64,619 thousand in 2018 and €69,044 thousand in 2017), and of Yondelis® and intermediates (€308 thousand in 2018 and €2,519 thousand in 2017).

21.1.2 Royalty revenues

This item as of 31 December 2018 and 2017 refers to the amount of royalties on sales by Janssen Products Lp., which amounted to €3,369 thousand (€3,913 thousand in 2017) and €547 thousand of royalties from Taiho Pharmaceutical, Ltd. (€449 thousand in 2017). 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 2018 and 2017 are as follows:

(thousand euro)	2018	2017
Chugai Pharma (Zepsyre®)	18,112	10,888
Seattle Genetics Inc. (other molecules)	4,074	-
Other contracts (Zepsyre®)	210	969
Other contracts (Aplidin®)	263	500
Impilo (Yondelis®)	2,000	-
Total	**24,659**	**12,357**

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, 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 2018 and 2017.

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

Taiho Pharmaceutical Co (Yondelis®)

In 2009, Pharma Mar 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 €547 thousand in 2018 (€449 thousand in 2017).

Chugai Pharma Marketing Co. (Aplidin®)

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

Under the terms of the agreement, PharmaMar collected an upfront payment of €5 million. In September, 2016 Pharma Mar received, and recognized as revenue, €4,000 thousand due to the attainment of a regulatory milestone: the submission to the European Medicines Agency (EMA) of the Marketing Authorization Application (MAA) for Aplidin®.

This contract was terminated once the EMA/European Commission rejected the MAA for Aplidin® (Note 6.1).

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 these agreements in 2018 and 2017.

Specialised Therapeutics Asia Pte, Ltd (Aplidin®)

In February 2016, PharmaMar expanded the licensing agreement 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; Pharma Mar received, and recognized as revenue, an up-front payment in the amount of €229 thousand.

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

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 collected an upfront payment of €450 thousand and will receive royalties and additional remuneration upon achieving regulatory milestones with Aplidin®. The

upfront payment amounted to €450 thousand. PharmaMar will retain exclusive production rights and will supply the finished product to Boryung for commercial use.

The Company did not collect any amount under this agreement in 2018 and 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. Pharma Mar received, and recognized as revenue, an up-front payment in the amount of €500 thousand.

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

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

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

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

Chugai Pharmaceutical Co. (Zepsyre®)

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

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

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

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

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

Specialised Therapeutics Asia Pte, Ltd (Zepsyre®)

In May 2017, PharmaMar signed a licensing agreement with Singapore-based Specialised Therapeutics Asia Pte, Ltd (STA) for commercialization of marine-derived anti-tumor compound Zepsyre® (Lurbinectedin). PharmaMar collected €179 thousand as the upfront payment and recognized €147 thousand as revenue on the basis of the degree of progress with the Phase III trials. In 2018, the Company recognized the outstanding revenue in the amount of €32 thousand.

In connection with this licensing agreement, STA subscribed for 444,400 shares of PharmaMar for a total amount of €2,211 thousand (Note 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.

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

Seattle Genetics Inc. (other molecules and ADCs)

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

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

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)	2018	2017
Spain	14,050	13,533
European Union	51,888	54,329
America	7,481	3,913
Japan	18,659	12,668
Other OECD countries	1,594	2,965
Other countries	339	1,469
Total	**94,011**	**88,877**

21.3 Foreign currency transactions

The detail of foreign currency transactions is as follows:

(thousand euro)	2018	2017
Assignment of intellectual property	8,285	4,509
Sales	5,506	6,360
Purchases and services received	7,092	7,688
Total	**20,883**	**18,557**

21.4 Merchandise, raw materials and other consumables consumed

(thousand euro)	2018	2017
Purchased in Spain	2,097	2,402
Purchased in other EU countries	375	678
Imports	86	92
Change in inventories	(185)	(244)
Total	**2,373**	**2,928**

21.5 Personnel expenses

(thousand euro)	2018	2017
Wages, salaries and simila	23,933	24,394
Indemnities	2,271	619
Employee welfare expenses		
Employer social sec	4,297	4,470
Other welfare expei	1,070	1,274
Total	**31,571**	**30,757**

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

NUMBER IN CATEGORY (MEN)	2018	2017
Executives and managers	13	13
Technical personnel	87	92
Clerical personnel	22	25
Commercial personnel	5	6
Assistants and others	16	18
Total	**143**	**154**
NUMBER IN CATEGORY (WOMEN)	**2018**	**2017**
Executives and managers	6	6
Technical personnel	119	136
Clerical personnel	39	39
Commercial personnel	4	6
Assistants and others	27	29
Total	**195**	**216**
Total	**338**	**370**

The breakdown of the Company's workforce by category and gender at year-end was as follows:

NUMBER IN CATEGORY (MEN)	2018	2017
Executives and managers	14	13
Technical personnel	78	96
Clerical personnel	21	24
Commercial personnel	5	5
Assistants and others	15	17
Total	**133**	**155**
NUMBER IN CATEGORY (WOMEN)	**2018**	**2017**
Executives and managers	6	6
Technical personnel	110	139
Clerical personnel	37	39
Commercial personnel	4	6
Assistants and others	26	28
Total	**183**	**218**
Total	**316**	**373**

There were an average of 4 employees in the year with disability of 33% or greater: 2 administrative staff and 2 technicians.

21.6 Outside services

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

(thousand euro)	2018	2017
Research & Development expenses	29,838	36,255
Leases and fees	2,122	2,074
Repairs and upkeep	1,608	1,520
Independent professional services	7,617	6,775
Transport	839	894
Insurance premiums	490	617
Advertising and public relations	10,287	10,268
Utilities	853	872
Other services	5,978	7,124
Other taxes	337	580
Losses, impairment and changes in trade provisions	(597)	-
Total	**59,372**	**66,979**

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

As indicated in Note 6.1, impairment of intangible assets amounted to €27,028 thousand as of 31 December 2018, of which €26,672 thousand related to PM184 and €356 thousand to PM14. The derecognitions related to the Aplidin® trial in patients with angioimmunoblastic T cell lymphoma, as well as other minor combination trials, for a net amount of €8,941 thousand.

When, in March 2018, the EMA confirmed the negative opinion issued by the CHMP in December 2017 in which it recommended not granting marketing authorization for Aplidin® for treating multiple myeloma, PharmaMar derecognized the carrying amount (€108,946 thousand), the accumulated amortization (€2,063 thousand) and the impairment recognized in 2017 (€97,942 thousand) to income from disposal of fixed assets.

In addition, real estate investments were derecognized in 2018 as a result of the sale of two plots of land owned by the Company, generating a profit of €1,631 thousand (Note 8).

As indicated in Note 6.1, the impairment of intangible assets as of 31 December 2018 amounted to €97,942 thousand related to Aplidin® (ADMYRE trial) and derecognition of fixed assets amounted to €40,905 thousand related to Zepsyre® (CORAIL trial).

Additionally, obsolete property, plant and equipment was derecognized and disposed of, resulting in a loss of €29 thousand in 2017.

22. INCOME TAX AND TAX SITUATION

The balances with public authorities as of 31 December 2018 and 2017 are as follows:

	2018		2017	
(thousand euro)	Payable	Receivable	Payable	Receivable
Personal income tax	-	453	4	443
Social security	-	395	-	454
Other balances with public authorities	562	172	2,408	-
Total	**562**	**1,020**	**2,412**	**897**

The "Other balances with public authorities" item relates principally to value added tax refunds outstanding to the Group.

In 2018, the Company filed corporate income tax returns on a consolidated basis. The following companies are included in the group's consolidated tax return: Genómica, S.A.U., Zelnova Zeltia, S.A., Pharma Mar, S.A. and Sylentis, S.A.U.

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 2018 to the income tax base is as follows:

2018 (Thousand euro)	2018 Income Statements	
BALANCE OF REVENUES AND EXPENSES IN THE YEAR	-	**(31,116)**
	Increase	**Decrease**
Corporate income tax	-	(6,683)
Permanent differences	50,312	(127,004)
Timing differences:		
Arising in the year	225	(1,893)
Arising in prior years	-	(1,944)
TAX BASE	**-**	**(118,103)**
Tax losses carried forward	-	-
TAXABLE INCOME	**-**	**(118,103)**

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

(thousand euro)	2018	2017
Current tax	(53)	(371)
Deferred tax	1,289	1,476
Monetization	(7,919)	(3,000)
TOTAL TAX (REVENUES)/EXPENSES	**(6,683)**	**(1,895)**

In 2018, the company recognized €7,919 thousand in revenue under the tax expense heading as a result of monetizing research and development tax credits (€3,000 thousand in 2017).

As a result of tax consolidation, the Company recognized €53 thousand euro in current tax revenues due to 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 2018 included mainly impairments of intangible assets in the amount of €27,028 thousand (Note 21.7), impairment of the investment in and receivables from Genómica in the amount of €14,281 thousand (Note 23), 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 following 2016. The entire provision may be deducted from the tax base in the year in which that company is disposed of or definitively liquidated.

The reduction in permanent differences in 2018 relates 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 €11,787 thousand (€8,360 thousand in 2017).
- Reversal of impairment of intangible assets recognized as an increase in 2017, in the amount of €97,942 thousand.
- The proceeds from the sale of Xylazel, S.A. (€16,533 thousand) and €742 thousand of dividends received.

In 2018, 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 2017), and deferral of the gain on the land sale transaction with group company Zelnova Zeltia, S.A. (€1,561 thousand).

As of 31 December 2018, 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:

	(thousand euro)			
Year earned	Amount of tax credit as of 31/12/2017	Used in 2018	Generated 2018	Unused as of 31/12/2018
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
2018	-	-	117,560	117,560
Total	**136,763**	**-**	**117,560**	**254,323**

As of 31 December 2018, the unused tax credits earned by the Company, mainly for R&D, were as follows (in thousand euro):

	(thousand euro)				
Year earned	Amount of tax credit as of 31/12/2018	Used in 2018	Generated 2018	Unused as of 31/12/2018	Expiring in
2001	4,890	-	-	4,890	2,019
2002	12,096	-	-	12,096	2,020
2003	13,023	-	-	13,023	2,021
2004	9,400	-	-	9,400	2,022
2005	10,565	-	-	10,565	2,023
2006	10,251	-	-	10,251	2,024
2007	9,477	-	-	9,477	2,025
2008	10,059	-	-	10,059	2,026
2009	8,625	-	-	8,625	2,027
2010	8,211	-	-	8,211	2,028
2011	7,980	-	-	7,980	2,029
2012	6,915	-	-	6,915	2,030
2013	9,076	-	-	9,076	2,031
2014	11,403	(3,866)	-	7,537	2,032
2015	12,963	(3,649)	-	9,314	2,033
2016	19,213	(6,250)	-	12,963	2,034
2017	16,559	-	-	16,559	2,035
2018	-	-	14,061	14,061	2,036
Total	**180,706**	**(13,765)**	**14,061**	**181,002**	

The amounts in the "Used" column relate entirely to the amount used to secure monetization of the research and development tax credits.

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
ZELNOVA ZELTIA	55
TOTAL RECEIVABLE	**55**
Genómica	516
Sylentis	1,560
TOTAL PAYABLE	**2,076**

(thousand euro)	VAT
Genómica	53
TOTAL RECEIVABLE	**53**
Sylentis	116
TOTAL PAYABLE	**116**

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
2,003	8,700	6,353	1,317	2,522	18,892
2,004	-	521	-	2,288	2,809
2,005	-	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 2018, 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. 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
PharmaMar, 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 16 appeals before the Regional Economic-Administrative Tribunal (TEAR) and 2 appeals before the Central Economic-Administrative Tribunal (TEAC).

The net amount of corporate income tax payable by the companies in the Spanish tax group in each of the years referred to in the disputed tax assessment is zero in all cases, since the companies in the Spanish tax group have tax losses and international double taxation tax credits which were applied in the tax authorities' proposal, in accordance with the regulations in force in each year. Consequently, in the worst case scenario, in which all of the tax 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)	2018	2017
Financial revenues	**742**	**584**
Equity instruments	**20**	**20**
Group and associated undertakings (Note 28.2)	9	20
Marketable securities and other financial instruments	11	-
Marketable securities and other equity instruments	**722**	**564**
Group and associated undertakings (Note 28.2)	712	521
From third parties	10	43
Financial expenses	**(3,663)**	**(3,941)**
On debts to group and associated undertakings (Note 28.2)	(157)	(140)
On debts to third parties	(3,506)	(3,801)
CAPITALISED FINANCIAL EXPENSES		
Exchange differences	**43**	**(212)**
IMPAIRMENT AND INCOME FROM DISPOSAL OF FINANCIAL INSTRUMENTS	**(14,281)**	**(960)**
Impairment group undertakings	(14,281)	-
Income from disposals and other	-	(960)
FINANCIAL INCOME	**(17,159)**	**(4,529)**

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

The "Impairment of group undertakings" item reflects impairment of equity holdings in, and a loan to, a group undertaking: Genómica, S.A. Based on the Company's decision to prioritize the oncology business and limit the resources allocated to other business areas, the recoverable value of Genómica, S.A. was analyzed and an impairment was recognized in the amount of €14,281 thousand.

In 2017, there was a negative result due to a capital increase and reduction transaction at one of the subsidiaries (Note 11.3).

24. DISCONTINUED OPERATIONS

The "Prior year's income from discounted operations, net of taxes" item amounted to €17,412 thousand as of 31 December 2018 (€74 thousand as of 31 December 2017), relating to the following items:

- A gain from the sale of subsidiary Xylazel, S.A. In September 2018, the Company sold 100% of the capital of subsidiary Xylazel, S.A. to Akzo Nobel Coatings for €21,776 thousand in cash. Previously, it had purchased two shares of the subsidiary held by third parties, so that the value of PharmaMar's stake in Xylazel, S.A. before the sale amounted to €4,741 thousand. This transaction provided the Company with a profit of €16,533 thousand after deducting expenses inherent to it (€502 thousand).
- Revenues from services provided by the Company to Xylazel in the amount of €126 thousand (€55 thousand in 2017).
- Revenues from holdings in equity instruments amounting to €753 thousand, mainly dividends received (€19 thousand in 2017).

25. SHARE-BASED PAYMENTS

At the end of 2018, PharmaMar and the Group companies had three share ownership plans for executives and employees. Those plans are for Group employees and executives (not including directors of Pharma Mar, S.A.) who receive annual variable remuneration, have an indefinite contract, have passed any trial period and have attained at least 50% of the objectives set for the year by their department head or their hierarchical superior. The Plan approved by the Shareholders' Meeting of Zeltia (merged company) on 12 June 2013, which was executed by the Board of Directors in 2014, expired in March 2018.

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

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

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

The beneficiaries have the political and economic rights deriving from ownership of all the shares from the moment the shares are actually delivered, although they are subject to a lock-up arrangement. In the Share Ownership Plans that were in force at 2018 year-end, the lock-up period is 3 years from the date of delivery of the shares (4 years in the case of the Plan executed by the Board of Directors on 19 May 2015) from the date of effective delivery of the shares to the beneficiaries; nevertheless, some of the shares are released 18 months after delivery: specifically, the number of shares resulting from dividing the total number of shares that were delivered by the coefficient established in the list, plus one. The delivery of those shares, which must remain locked up for the above-mentioned lock-up period, is subject to a condition subsequent which is understood to be met in the event of voluntary severance or fair dismissal of the beneficiary. In the event of cessation of employment due to a cause other than those two, the lock-up is lifted.

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

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

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

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

In relation to this plan, a total of 27,028 shares were canceled: 3,550 shares purchased by employees and 23,478 shares contributed by the Company.

This Plan concluded in March 2017 since the four-year lock-up period had expired, and the shares that were under lock-up were released. A total of 94,600 shares under this plan were released from lock-up.

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

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

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

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

In relation to this plan, a total of 43,674 shares have been canceled: 5,058 shares purchased by employees and 38,616 shares contributed by the Company.

As of 31 December 2018, there were 76,863 shares contributed by the Company that had not vested.

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

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

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

In 2018, 56,908 shares were released from lock-up under this plan.

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

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

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

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

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

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

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

The Shareholders' Meeting of PharmaMar on 28 June 2018 approved a new Share Ownership Plan with a double objective, as in previous years: to reward employees and executives whose performance in 2018 was satisfactory, and to incentivize beneficiaries to stay in the Group. The maximum number of shares that can be allocated for the execution of this plan was set by the General Meeting at 500,000, which will be taken from treasury stock held by the Company at the time the plan is implemented. The Shareholders' Meeting determined the plan's beneficiaries as Group employees and executives (excluding directors of Pharma Mar, S.A.) who have a permanent contract, have completed any trial period by 31 December 2018 and collect variable remuneration in 2019 relating to attainment of objectives in 2018, provided that they attained over 50% of the targets established by their department head or hierarchical superior.

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

The following table shows the number of shares under each plan as of 31 December 2018:

Plan / Grant date	Shares awarded under plan	Shares purchased by employees - cancelled	Shares purchased by employees - accrued	Shares purchased by employees - not yet accrued	Shares contributed by employer - cancelled	Shares contributed by employer - accrued	Shares contributed by employer - not yet accrued	Total number of shares not yet accrued	Fair value per share	Accrual period
	(1)+(2)+(3)+(4)+(5)+(6)	(1)	(2)	(3)	(4)	(5)	(6)	(3)+(6)		
Plan 13 June 2013 (Granted March 2014)	236,070	3,550	114,442	-	23,478	94,600	-	-	2.73	March 18
Plan 14 June 2014 (Granted May 2015)	167,311	5,058	46,774	-	38,616	-	76,863	76,863	3.92	May 18
Plan 15 June 2016 (Granted March 2017)	211,664	12,955	56,908	-	28,314	-	113,487	113,487	2.77	March 20
Plan 16 June 2017 (Granted April 2018)	227,326	9,218	-	66,663	21,350	-	130,095	196,758	1.67	March 21
	842,371	**30,781**	**218,124**	**66,663**	**111,758**	**94,600**	**320,445**	**387,108**		

The "Shares contributed by annulled companies" item includes the derecognition of 26,500 shares as a result of the sale of Xylazel.

A total of €211 thousand were recognized as reserves for the amortization of the plans in 2018 (€208 thousand in 2017). Additionally, the amount recognized in the period was €189 thousand (€308 thousand in 2017), and €49 thousand were derecognized (€7 thousand in 2017).

26. 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 four years open for review for the main taxes applicable to it (three 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.

27. COMMITMENTS

27.1 Purchase and sale commitments

The Company does not have any purchase or sale commitments.

27.2 Operating lease commitments

The minimum future payments for non-cancelable operating leases as of 31 December 2018 and 2017 are detailed in Note 9.

27.3 Share-based incentive plans

- Under the fourteenth plan (June 2014) for delivery of shares free of charge, as of 31 December 2018, 76,863 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 2018, 117,487 shares delivered and subject to lock-up will be released in March 2020.

- Under the sixteenth plan (June 2017) for delivery of shares free of charge, as of 31 December 2018, 196,758 shares delivered and subject to lock-up will be released in April 2021.

27.4 Other commitments

The company has provided comfort letters to credit institutions. Those comfort letters were mainly for Genómica, for a total of €2,000 thousand.

The Company has also obtained several credit and guarantee lines from financial institutions in the amount of €1,989 thousand under which the company is listed as a borrower alongside Genómica and PharmaMar USA. PharmaMar is jointly and severally liable for the full amounts drawn against those credit and guarantee lines, including amounts drawn by Genómica and PharmaMar USA.

PharmaMar is also listed a borrower on a loan to Genómica (€164 thousand as of 31 December 2018), 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 €1,273 thousand.

28. DIRECTOR AND SENIOR MANAGEMENT REMUNERATION

28.1 Director remuneration.

The following table shows the remuneration paid in 2018 and 2017 to directors of PharmaMar:

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

The "Other remuneration" item in 2018 and 2017 refers to certain benefits paid to the Company's Chairman and Vice-Chairman, such as casualty and health insurance (both under the group policy for Company employees), an executive office at the Company's operational

headquarters, communication equipment, means of payment, support staff, security systems and personnel, and a vehicle commensurate with their functions. Additionally, each year the Company pays €12 thousand in premiums for life and saving insurance (life insurance-savings plan) for each of the two executive directors.

With respect to the executive director's variable remuneration, €158 thousand have accrued to date as a result of evaluation of objectives approved by the Board of Directors at its meeting of 29 January 2019, based on a proposal by the Appointments and Remuneration Committee. That evaluation of objectives has not concluded since the Appointments and Remuneration Committee needs to collect additional data. If all objectives for which additional information is pending were met, the variable remuneration could be increased by at most €105 thousand. That compensation, if it accrued, would be charged against the fulfillment of the targets for 2018 variable remuneration and would be classified as 2018 variable remuneration.

As of 31 December, the advances and loans granted by the Group to the members of the Board of Directors in 2018 amounted overall to 45 thousand euro, on which interest is not earned in accordance with the transitory provisions of the Personal Income Tax Act.

28.2 Senior management remuneration and loans

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

28.3 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 2018 and 2017 were not material, formed part of the normal business of the Company or its subsidiaries, and were performed on an arm's-length basis.

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

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

28.4 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 28.3 Companies related to the directors and executives and their close relatives).

29. OTHER TRANSACTIONS WITH RELATED PARTIES

29.1 Balances with group companies

The detail of accounts payable to and receivable from group undertakings as of 31 December 2018 and 2017 is as follows:

(thousand euro) 2018	Non-current assets	Current assets	Non-current liabilities	Current liabilities
Loans and other financial assets/liabilities	**20,636**	**1,524**	**-**	**7,662**
Genómica, S.A.U.	-	465	-	516
Sylentis, S.A.U.	20,636	373	-	1,676
Noscira-en liquidación	-	631	-	-
Zelnova Zeltia, S.A.	-	55	-	5,470
Trade accounts receivable/payable	**-**	**5,186**	**-**	**4,115**
Pharma Mar, USA	-	-	-	493
Pharma Mar, Srl	-	1,630	-	-
Pharma Mar, GmbH	-	2,473	-	1,872
Pharma mar, Sarl	-	208	-	1,118
Pharma Mar, Sprl	-	11	-	165
Pharma Mar, Ltd	-	55	-	105
Pharma Mar, Ges.m.b.H.	-	18	-	197
Pharma Mar, AG	-	760		95
Genómica, S.A.U.	-	-	-	70
Sylentis, S.A.U.	-	31	-	-
Total	**20,636**	**6,710**	**-**	**11,777**

(thousand euro) 2017	Non-current assets	Current assets	Non-current liabilities	Current liabilities
Loans and other financial assets/liabilities	**17,776**	**1,422**	-	**8,895**
Genómica, S.A.U.	984	339	-	631
Sylentis, S.A.U.	16,792	47	-	1,924
Noscira-en liquidación	-	611	-	0
Zelnova Zeltia, S.A.	-	36	-	6,271
Xylazel, S.A.	-	389	-	69
Trade accounts receivable/payable	**-**	**7,003**	-	**2,541**
Pharma Mar, USA	-	-	-	222
PharmaMar, AG	-	1,012	-	54
Pharma Mar, 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
Genómica, S.A.U.	-	108	-	205
Zelnova Zeltia, S.A.	-	-	-	43
Total	**17,776**	**8,425**	**-**	**11,436**

Under non-current assets, loans and other financial assets, they refer to loans granted by the Company to its subsidiaries. Two loans, granted to Genómica and Noscira (en liquidación) for a total of €13,492 thousand, were written off.

The detail of current assets with Group undertakings in 2018 is as follows:

(thousand euro) 2018	Current accounts		Due for purchases	Total
Genómica, S.A.U.	465		-	465
Sylentis, S.A.U.	373		31	404
PharmaMar, AG	-		760	760
Pharma Mar, Srl	-		1,630	1,630
Pharma Mar, GmbH	-		2,473	2,473
Pharma mar, Sarl	-		208	208
Pharma Mar, Sprl	-		11	11
Pharma Mar, Ltd	-		55	55
Pharma Mar, Ges.m.b.H.	-		18	18
Noscira-en liquidación	631		-	631
Zelnova Zeltia, S.A.	55		-	55
Total	**1,524**		**5,186**	**6,710**

The amount of the "Due for purchases" item (€5,186 thousand) mainly relates to the outstanding amounts for the sale of product to subsidiaries that operate under the distribution model. The total balance payable to Group undertakings in 2018 is:

(thousand euro) 2018	Loans	Taxes	Services	Total
Genómica, S.A.U.	-	516	70	586
Sylentis, S.A.U.	-	1,676	-	1,676
Pharma Mar USA	-	-	493	493
PharmaMar, AG	-	-	95	95
Pharma Mar, Srl	-	-	-	-
PharmaMar, GmbH	-	-	1,872	1,872
Pharma mar, Sarl	-	-	1,118	1,118
Pharma Mar, sprl	-	-	165	165
Pharma Mar, Ltd	-	-	105	105
Pharma Mar, Ges.m.b.H.	-	-	197	197
Zelnova Zeltia, S.A.	5,448	22	-	5,470
Total	**5,448**	**2,214**	**4,115**	**11,777**

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, €2,076 thousand relate to corporate income tax and €116 thousand to VAT pending recovery in 2018. The "Loans" item includes the short-term part of a loan granted by ZelnovaZeltia amounting to €5,448 thousand at 2018 year-end (€6,250 thousand in 2017).

The "Services delivered" item contains an amount of €4,115 thousand relating mainly to services that subsidiaries invoice to the Company as "Reimbursable expenses".

29.2 Transactions with Group undertakings

The amounts of the Company's transactions with group undertakings as of 31 December 2018 and 2017 are as follows:

TRANSACTIONS WITH GROUP UNDERTAKINGS EXPENSES (thousand euro)	2018	2017
Services received		
Genómica, S.A.U.	167	512
Pharma Mar, GmbH	1,697	544
Pharma Mar, USA	948	1,111
PharmaMar, AG	134	198
Pharma mar, Sarl	1,677	1,344
Pharma Mar, Ltd	951	978
Pharma Mar, Sprl	650	660
Pharma Mar, Ges.m.b.H.	1,090	1,252
Xylazel, S.A.(*) (Note 24)	-	3
Zelnova Zeltia, S.A.	-	2
Finance		
Zelnova Zeltia, S.A.	157	140
Total expenses	**7,471**	**6,744**

TRANSACTIONS WITH GROUP UNDERTAKINGS Revenues (thousand euro)	2018	2017
Sales		
PharmaMar, AG	1,312	1,790
Pharma Mar, Srl	14,818	12,457
Pharma Mar, GmbH	11,307	12,638
Pharma Mar, Sarl	3,187	3,799
Services provided		
Genómica, S.A.U.	20	65
Sylentis, S.A.U.	30	47
Pharma Mar, Srl	24	300
Pharma Mar, GmbH	269	454
Pharma Mar, Ltd	35	16
Pharma Mar, Sprl	15	15
Pharma mar, Sarl	93	173
Pharma Mar, GesmbH	23	25
Zelnova Zeltia, S.A.	20	20
Xylazel, S.A.(*) (Note 24)	126	55
Finance		
Genómica, S.A.U.	88	31
Sylentis, S.A.U.	599	458
Noscira-en liquidación	25	33
Xylazel, S.A.(*) (Note 24)	11	19
Other		
Zelnova Zeltia, S.A.	2,160	-
Total revenues	**34,162**	**32,395**

(*) Transactions performed by the Company up to 20 September 2018 (Note 24).

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

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

30. 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 2018 amounted to €6,755 thousand (€7,935 thousand in 2017).

31. ENVIRONMENT

There were no material investments in environmental matters in 2018 and 2017.

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 €44 thousand in 2018 (€69 thousand in 2017) 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.

32. AUDITORS' FEES

The fees accrued by PricewaterhouseCoopers Auditores, S.L. and other firms in its network amounted to €307 thousand in 2018 (€236 thousand in 2017) for the statutory audit (of Pharma Mar, S.A. and dependent companies), €300 thousand in 2018 for audit services other than the statutory audit (€210 thousand in 2018), and €200 thousand for other verification services in 2018 (€123 thousand in 2017).

33. SUBSEQUENT EVENTS

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

In 2019, the Company rolled over credit lines amounting to €5,500 thousand and arranged a loan for €475 thousand.

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

On 28 February 2019, the Shareholders' Meeting of Zelnova Zeltia, S.A. approved the distribution of a dividend charged to reserves for an amount of €3.6 million, which will be paid by offsetting accounts receivable.

Directors' Report

1. Company situation

1.1. Organizational structure

The main activity of Pharma Mar, S.A. (the "Company" or "PharmaMar") is research, development and commercialization of bio-active principles, particularly those of marine origin, for application in human medicine, especially in the antitumor field, 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 factors of the oncology business model is the capacity to discover new molecules for the pipeline, thereby generating opportunities to develop new drugs for the company. The Company has several antitumor molecules in its pipeline at various stages of development, the goal being to bring new compounds to market. PharmaMar's business model includes having its own sales network covering Europe. This network not only enables it to sell its products directly in the EU, but also provides scope to leverage future opportunities to sell third-party products.

PharmaMar invests heavily in R&D and innovation in oncology and it has a firm commitment to R&D to bring new drugs to market.

PharmaMar sees its strengths as being:

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

The key components of PharmaMar's strategy are:

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

2. Business performance and results

2.1. Total revenues

Revenues from sales of Yondelis® amounted to €64.9 million, 9% less than in 2017 (€71.6 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 €3.9 million in 2018 (€4.4 million in 2017).

Revenues from licensing and other co-development agreements amounted to €24.7 million in 2018 (€12.4 million in 2017). The breakdown of these revenues in 2018 is as follows:€15.1 million in recognition of the deferred revenue from the up-front payment under the licensing contract for Zepsyre® (Lurbinectedin) signed with Chugai Pharmaceutical Co, Ltd. in 2016, which was terminated early in 2018; €3 million corresponding to the termination of that contract; a €4.1 million upfront payment under the licensing agreement with Seattle Genetics Inc. under which the latter receives exclusive worldwide rights over certain molecules and conjugated antibodies (ADCs) owned by Pharma Mar, S.A. for the development, production and commercialization of conjugated antibodies; €2 million under the contract with Impilo Pharma for the distribution of Yondelis® in Scandinavia; and €0.5 million under other contracts related to Aplidin® and Zepsyre®.

2.2. International revenues

Out of total 2018 revenues, 85%, i.e. €80 million, came from sales and transactions in other countries (85%, €75.5 million in 2017).

2.3. Gross margin

The gross margin was 97% of total revenues in 2018 (96% in 2017) (*).

(*) Calculated with respect to sales only, not including royalties or licensing revenues.

2.4. R&D expenditure

PharmaMar capitalized €17.3 million in development expenses in 2018 relating to clinical trials with Zepsyre®.

The €21 million amortization relates entirely to compound Yondelis®.

The next table shows the changes in amounts capitalized for compounds in 2018:

	Separate balance sheet					
	Yondelis®	**Aplidin®**	**Zepsyre®**	**PM184**	**PM14**	**Total development**
Ending balance 31/12/17	51,377	8,941	82,616	26,672	356	169,962
Recognitions	-	-	17,349	-	-	17,349
Derecognitions	-	(8,941)	-	-	-	(8,941)
Impairment	-	-	-	(26,672)	(356)	(27,028)
Depreciation and amortiz	(20,963)	-	-	-	-	(20,963)
Ending balance 31/12/17	30,414	-	99,965	-	-	130,379

(Thousand euro)

The bulk of R&D spending in 2018 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 2.6% year-on-year as a result of the workforce reorganization during the year, while outside services were reduced by 10.2%, mainly due to savings on commercial costs.

	2018	2017	Change
Personnel expenses	31,571	30,757	2.6%
Outside services	59,632	66,399	-10.2%
Purchases	5,800	5,425	6.9%
Taxes other than income tax	337	580	-41.9%
Depreciation and amortization	22,953	26,957	-14.9%
Impairment of fixed assets	27,028	97,942	
Derecognition of fixed assets	8,941	40,934	
	156,262	**268,994**	

2.6. Income for the year

The Company reported an after-tax loss of €31.1 million in 2018, as a result mainly of R&D derecognitions and impairments, coupled with investments in subsidiaries.

2.7. Other events that impacted the 2018 financial statements

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

Under the terms of the agreement, PharmaMar received an upfront payment of €4.1 million in 2018, which it recognized as revenues, and may receive other payments in the future if Seattle Genetics carries out clinical development of the ADCs.

In May 2018, PharmaMar signed a licensing agreement with Swiss-based Pint Pharma International, S.A. under which Pint received certain exclusive rights and licenses to commercialize Aplidin® for treating multiple myeloma. The contract establishes a number of payments for attaining regulatory milestones, in addition to royalties. The approval of Aplidin® by the Australian authorities in December 2018 resulted in recognition of revenue in the amount of €0.3 million. PharmaMar retains exclusive production rights and will supply the finished product to Pint for commercialization.

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

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

As a result of the Company's decision to prioritize the most advanced clinical trials, which are therefore the ones closest to the market (if commercialization is finally approved), namely those being carried out with Zepsyre® (Lurbinectedin), it was decided to impair the intangible assets recognized in connection with PM184 and PM14 (€27,028 thousand), since the decision of the Company meant that the available financial resources would be allocated primarily to the development of Zepsyre®.

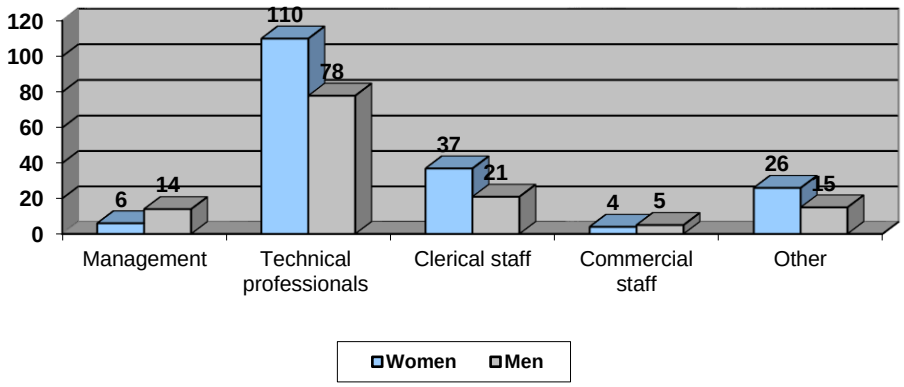
Additionally, based on the Company's decision to prioritize the oncology business and limit the resources allocated to other business areas, the recoverable value of Genómica was analyzed and an impairment was recognized.

2.8. Personnel

PharmaMar had 316 employees at year-end (373 in 2017).

Women account for 57.9% of the workforce (58.5% in 2017).

The graph below illustrates segmentation by gender and category:



2.9. Environmental issues

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

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

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 2018 and pending payment at the end of the year in relation to the maximum legal payment periods envisaged in Act 15/2010 is as follows:

	2018 Days	2017 Days
Average period taken to pay suppliers:	56	53
Proportion of transactions paid	57	54
Proportion of transactions outstanding	51	43
Total payments made	25,292	28,922
Total payments outstanding	3,251	3,666

The average supplier payment lag in the year between 1 January and 31 December 2018 was 56 days (53 days in 2017).

3. Liquidity and Capital

The balance of "cash + cash equivalents" and "current financial assets" amounted to €18 million euro as of 31 December 2018 (€17.3 million euro in 2017).

Short-term financial debt amounted to €26.6 million (€23.8 million in 2017) and long-term financial debt amounted to €59.1 million (€67.6 million in 2017).

New loans were arranged in 2018 for an amount of €6.1 million, while €9 million of long-term loans were repaid on maturity.

As of 31 December 2018, the Company had €2.8 million available in credit lines. It arranged new credit lines for €2.5 million in the early months of 2019.

The directors expect R&D spending in 2019 to be lower than in previous years, based on the decision to concentrate that spending mainly on Zepsyre® (Lurbinectedin).

The Group has also identified a number of activities (outside oncology) that, if necessary, could be postponed without impairing the core of the business, which gives it enough flexibility to adapt spending to the company's available resources and avoid cash stress, and it could also dispose of certain non-strategic assets as a source of additional funding.

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

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

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

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.

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 Pharma Mar 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 to know who is in possession of certain information at a given time, aimed mainly at complying with the securities market legislation governing 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.A. 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. B. Credit risk

Credit risk arises from financial assets arranged with banks.

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

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

• Acquisition of fixed-income funds that invest in public- or private-sector debt (government bonds, treasury bills and commercial paper), generally secure, which pay periodic coupons.

• Acquisition of money market funds comprising short-term fixed-income securities (18 months maximum) where priority is given to security in exchange for a slightly lower yield than other investments.

4.4. C. Liquidity risk

The risk of not obtaining funds to honor debt obligations when they come due.

Prudent liquidity risk management entails having sufficient cash and marketable securities, financing via sufficient credit facilities, and the capacity to settle market positions. The goal of the 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.

4.5 Tax risks

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

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

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

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

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

5. Subsequent events.

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

In 2019, the Company rolled over credit lines amounting to €5,500 thousand and arranged a loan for €475 thousand.

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On 28 February 2019, the Shareholders' Meeting of Zelnova Zeltia, S.A. approved the distribution of a dividend charged to reserves for an amount of €3.6 million, which will be paid by offsetting accounts receivable.

6. 2019 outlook

2019 will be a very important year for PharmaMar because of the results expected in our oncology trial with Zepsyre® (Lurbinectedin). The outcome of the ATLANTIS Phase III trial, using Zepsyre® (Lurbinectedin) in combination with doxorubicin for treating small cell lung cancer, is expected in late 2019. This trial has recruited more than 600 patients in more than 100 centers around the world and, if the outcome is positive, it could offer the opportunity for

second-line approval of a new drug in an indication in which nothing new has been approved since 1996. Additionally, enrollment concluded in 2018 for a Phase II trial with Zepsyre® (Lurbinectedin) for the treatment of small cell lung cancer. That trial, using Zepsyre® as monotherapy, recruited slightly over 100 patients. The results of this trial are expected to be available in the second quarter of 2019.

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

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

7. R&D and Innovation

Research and development is vital to PharmaMar's strategy.

The main progress and results in R&D in 2018 are as follows:

a) YONDELIS®:

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

Soft-tissue sarcoma

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

Ovarian cancer

Ten post-approval trials are currently under way in this indication, of which six are recruiting and four are in the activation phase. Interim data from one of them, the NIMES-ROC international prospective observational trial on the efficacy and safety of the Yondelis® + PLD combination in real life in patients previously treated, or not, with antiangiogenics, were presented at the European Society for Medical Oncology (ESMO) congress.

Other indications

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

b) APLIDIN®

Multiple Myeloma

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

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

c) ZEPSYRE®

Small-cell lung cancer

Recruitment concluded in August 2018 for the ATLANTIS pivotal Phase III trial that compares the activity and safety of the combination of Zepsyre® (Lurbinectidin), a drug of marine origin, plus doxorubicin, against topotecan or CAV (cyclophosphamide, adriamycin and vincristine) for treating patients with small cell lung cancer who have relapsed after a first round of platinum treatment. The trial is currently monitoring survival, which is its primary endpoint. A total of 613 patients were enrolled.

The trial was conducted in Europe, the United States, Latin America and the Middle East. The trial's Independent Data Monitoring Committee (IDMC) met in October 2018 and recommended continuing with the trial unchanged after an analysis of the safety data obtained from the 500 patients treated to date.

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

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

Combination trials

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

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

Phase I trial in Japan

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

Basket trial in advanced solid tumors

In November 2018, enrollment concluded for the Phase II trial with Zepsyre® as monotherapy in selected indications such as small cell lung cancer, neuroendocrine tumors, carcinoma of the head and neck, germ cell cancer, endometrial cancer, bile duct cancer, cancer of unknown primary, Ewing sarcoma and breast cancer with BRCA 1/2 mutation. The patients are currently under observation. A total of 345 patients were recruited — 110 in the small cell lung cancer cohort. The trial is being conducted in Spain, France, Belgium, the United States, Germany, Italy, Switzerland and the United Kingdom.

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

d) PM184

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

clinical benefit has been observed, such as non-small cell lung cancer, breast cancer, and head and neck tumors.

Colorectal cancer

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

e) PM14

Recruitment continues for the clinical development program with this new molecule. The main endpoint of this trial is to identify the optimal dose for administration of PM14 in patients with advanced solid tumors, and to define the compound's safety profile and assess its pharmacokinetics and pharmacogenetics in treated patients. The trial, being conducted at Vall d'Hebron hospital (Barcelona), Doce de Octubre hospital (Madrid) and Institut Gustave Roussy (Paris), is expected to enroll approximately 50 patients with a confirmed diagnosis of advanced solid tumor for which there is no standard treatment available.

8. Share information

General situation

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

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

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

PharmaMar stock market indicators

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

***Source**: Bloomberg*

PharmaMar share performance

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

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

***Source**: Bloomberg*

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

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

FINANCIAL STATEMENTS AND DIRECTORS' REPORT
OF PHARMA MAR, S.A.
FOR THE YEAR ENDED
31 DECEMBER 2018

The Financial Statements and Directors' Report of PHARMA MAR, S.A. for the period from 1 January 2018 to 31 December 2018 were drafted and authorized in compliance with the provisions of articles 34 and 35 of the Commercial Code and of articles 253 and 254 of the Capital Companies Act.

In accordance with the provisions of article 37 of the Commercial Code and article 253 of the Capital Companies Act, the Board of Directors signed this 98-page document on 28 February 2019.

The Board of Directors:

José Mª Fernández Sousa-Faro Chairman	Pedro Fernández Puentes Vice-Chairman
Jaime Zurita Sáenz de Navarrete Director	Eduardo Serra Rexach Director (representing EDUARDO SERRA Y ASOCIADOS, S. L.)
José Leyte Verdejo Director (representing ROSP CORUNNA Participaciones Empresariales, S.L.)	Carlos Solchaga Catalán Director
José Félix Pérez-Orive Carceller Director (representing JEFPO, S.L.)	Ana Palacio Vallelersundi Director
Montserrat Andrade Detrell Director	Valentín de Torres-Solanot del Pino Director

Certificate by the Secretary of the Board of Directors to the effect that, after authorization by the Board of Directors, on 28 February 2019, of the Financial Statements and Directors' Report of PHARMA MAR, S.A. for the year ended 31 December 2018, the Directors listed above signed this document by placing their signatures on the Balance Sheet, the Income Statement, the Statement of Changes in Equity, the Cash Flow Statement, the first page of the notes to financial statements, the first page of the notes to financial statements, the first page of the Directors' Report and the last page of the document. Which I certify in Madrid on 28 February 2019.

Secretary of the Board of Directors

Sebastián Cuenca Miranda