PHARMA MAR, S.A.

Financial statements and directors' report as of 31 December 2019

Pharma Mar, S.A.

Independent auditor´s report on the annual accounts
December 31, 2019

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

Independent auditor´s report on the 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, 2019, 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, 2019, 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.

R. M. Madrid, hoja 87.250-1, folio 75, tomo 9.267, libro 8.054, sección 3ª
Inscrita en el R.O.A.C. con el número S0242 - CIF: B-79 031290

Key audit matters	How the matters were addressed in the audit

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 indicated in note 6 to the accompanying financial statements, in 2019 the Company recognised as an increase in the value of its assets development expenses amounting to EUR 17,291 thousand along with depreciation charge in the income statement for the year amounting to EUR 20,184 thousand. The net book value of the capitalised development costs on the balance sheet at 31 December 2019 amounts to EUR 127,486 thousand, of which EUR 117,257 thousand relates to Lurbinectedin, and EUR 10,229 thousand relates to Yondelis.

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 of the notes to the financial statements.

For the purposes of subsequent measurement, as explained in note 4.1 of the notes to the accompanying annual accounts, the following are carried out:

- Evaluation of impairment provided that the development of the projects shows some indication of impairment or generates doubts as to compliance with the conditions that triggered its capitalisation.

- Annual evaluations of recoverability of the figure capitalised for development projects in progress, including, among other things, an evaluation of the recoverability of the compound based on the fair value of the contracts or the evaluation of the recoverability of the asset based on the Company's business plans, by molecule.

We assessed the application of the development costs recognition policy described in note 4.1 of the notes to the accompanying financial statements and the design and implementation of the relevant controls in the development costs area.

With respect to the recognition of development costs as an increase in the value of assets in 2019, we obtained a breakdown of development costs by project and reconciled it to amounts recognised in the financial statements. For a sample of invoices in the disclosure, we checked that the items are capitalizable and whether the Company appropriately allocates costs by nature, department and project.

Additionally, we met with the directors of the clinical development and R&D departments to obtain an understanding of the status of the R&D projects currently in progress and 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.

With respect to the assessment of potential impairment at year end, we carried out the following procedures, inter alia:

- For Yondelis, the sales margins and sales projections prepared by management were evaluated for the existence or not existence of indications of impairment.

- For Lurbinectedin, we obtained the agreement between the Company and Jazz Pharmaceuticals Ireland Limited which was signed in December 2019 and confirmed that in January 2020, the suspensive clauses were resolved. Together with other procedures, we verified that a total of EUR 181 million was collected in respect of an initial non-reimbursable payment.

Key audit matters	How the matters were addressed in the audit
As indicated in note 6.1 to the accompanying annual accounts, the Company has considered that for Yondelis there are no indications of impairment since it is a product in the marketing phase and generates operating profits. For Lurbinectedin, the Company has considered in its evaluation the agreement signed with Jazz Pharmaceuticals Ireland Limited in December 2019, subject to suspensive clauses that were resolved in January 2020, the fair value of which exceeds the capitalised amount. We have considered this area a key audit matter due to its relevance with respect to the Company's annual accounts and 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.	With respect to the information disclosed in the notes, we assessed that it includes the information required under section 7 of Spain's General Accounting Plan (Plan General de Contabilidad) concerning the content of the notes and disclosures. Based on the analysis performed, we obtained sufficient and suitable audit evidence to consider management's judgements and estimates with respect to capitalised development costs and their recoverability and the disclosures included in the notes to the accompanying 2019 accounts reasonable.

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 indicated in note 5.1.3 of the notes to the accompanying financial statements, which includes an analysis of the liquidity risk, in 2020 management expects R&D investments to continue at a similar level to 2019. The aforementioned note 5.1.3 indicates that at least annually, the Company's finance department presents a liquidity plan to the directors, with cash flow estimates and which includes different scenarios for the source and application of funds, based on the level of completion of projects in progress. The measures that the directors consider could be carried out in order to finance investments in ongoing research and development and meet short-term payment commitments are also disclosed.	First, we obtained an understanding and evaluated management's forecasting process and the reasonableness of past budgets compared to actual outcomes. With respect to future year budgets, which include sales of products already in marketing phase and forecast royalty revenues and milestones under current licensing agreements, we assessed the reasonableness of the estimates made in accordance with the available information. With respect to the licensing agreement between the Company and Jazz Pharmaceuticals Ireland Limited signed on 19 December 2019, we analysed the terms included in that agreement, including compliance with the suspensive clauses in January 2020 and the collection of EUR 181 million received by the Company in January 2020 in respect of a non-refundable initial payment.

Key audit matters	How the matters were addressed in the audit
In the evaluation carried out by the directors of the liquidity risk, the situation described in note 33 of the notes to the accompanying annual accounts has been taken into account, indicating that the Company signed a licensing agreement with Jazz Pharmaceuticals Ireland Limited in December 2019 for the marketing of Lurbinectedin in the USA. This agreement was subject to suspensive clauses that were resolved in January 2020. The above resulted in a non-refundable initial collection of EUR 181 million in January 2020. The agreement envisages additional compliance milestones that, if delivered on, could give rise to additional collections in the future. We focused on this area as we consider it a key audit matter to assess if the Company has sufficient funds to execute the budgeted research plan and make its short-term payment commitments, and the appropriate disclosure in the notes to the accompanying financial statements.	Regarding disclosures in the notes, we have concluded that they contain the requirements of section 9.3 of Spain's General Accounting Plan (Plan General de Contabilidad) regarding qualitative and quantitative disclosures about liquidity risk. Based on the procedures carried out, we consider that the assessment performed by management concerning the Company's financial capacity is consistent with the information disclosed in the annual financial statements.
Recognition and recoverability of deferred tax assets	
At 31 December 2019 the Company's balance sheet contains a deferred tax asset and a deferred tax liability amounting to EUR 23,943 thousand and EUR 511 thousand, respectively, as detailed in note 20 to the accompanying financial statements, recognised based on the tax budgeting exercise performed for the companies that form part of the Spanish tax Group, in accordance with the criterion described in notes 2.2 and 4.11 to the accompanying financial statements. The main source of information to prepare the projections is the budget provided to the Company's directors, which includes estimates to 2024. In addition, Company's management extends the projections to 2029 based on its best estimates. Note 2.2 to the accompanying financial statements indicates that future tax gains take into account the estimated probability of success of each research, based on the current phase of development of the different molecules.	We have obtained an understanding and assessed the estimation process carried out by management and the reasonableness of the budgets prepared in the past, compared with real figures. We focused our procedures on assessing the reasonableness of the budgets prepared and the analysis of the model and calculation methodology used by the Company to estimate future tax amounts. With respect to budgets, we analysed their reasonableness and, specifically, for relevant contracts with a significant impact on the projections, we analysed, among other things, the estimation of the product price projected by management based on comparable products that have been approved in the same territory and the incidence of the disease in the market, using external sources. Additionally, we verified that the probabilities of success assigned to each project, based on the current phase of development, are aligned with general practice in the sector.

Key audit matters	How the matters were addressed in the audit
The evaluation of both initial recognition and subsequent capacity to recover the deferred tax assets recognised is a complex exercise that requires a high degree of judgement and estimation by management, subject to the risk of significant material misstatement, and so we consider this to be a key audit matter.	With respect to the information disclosed in the notes, we assessed that it includes the information required under section 12 of Spain's General Accounting Plan (Plan General de Contabilidad) concerning the content of the notes and disclosures. Based on the procedures described, we consider that the Company's estimates concerning the recognition of deferred tax assets and their disclosure in the accompanying financial statements are reasonable.
Sale of Zelnova Zeltia, S.A.	
As set out in note 11.3 of the accompanying notes to the financial statements, in June 2019 the Company sold 100% of the share capital of its subsidiary Zelnova Zeltia, S.A., that carries out the manufacture and sale of chemical products for domestic and industrial use. As a result of this transaction, the Company recognised a profit of EUR 28,238 thousand. As set out in notes 4.19 and 24 of the accompanying financial statements, under standard 7, section 11 on the preparation of annual accounts in Spain, the sale of Zelnova Zeltia, S.A. qualifies as a discontinued operation. Therefore, the accompanying income statement shows the impact of the sale of the subsidiary Zelnova Zeltia, S.A as a discontinued operation. We have considered this a key audit matter since it is a significant transaction in the year and has had a relevant impact on the accompanying annual accounts.	We analysed the agreement for the sale of the subsidiary signed between the Company and the buyer in order to assess the commitments entered into between the parties and their recognition in the accounts. We verified collection of the price agreed in the contract. Similarly, we analysed the costs incurred inherent in the transaction to verify whether they are allocable to the transaction and should therefore be discounted from the profit obtained. Additionally, we assessed the calculations performed by the Company to obtain the result recognised on the income statement. With respect to the presentation of the impact of the sale of Zelnova Zeltia, S.A under discontinued operations, we assessed whether the requirements of standard 7, section 11 on the preparation of the annual accounts in Spain are met for the purposes of its correct classification under discontinued operations and the disclosures included in note 24 to the accompanying financial statements. We have no observations to make in relation to the recognition and disclosure of the transaction described in the accompanying annual accounts.

Other information: Management report

Other information comprises only the management report for the 2019 financial year, 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 for the information contained in the management report is defined in prevailing audit regulations, which distinguish two levels of responsibility:

a) A specific level which is applicable to certain information included in the Annual Corporate Governance Report, as defined in article 35.2 b) of Audit Law 22/2015, that consists of verifying solely that that information was provided in the management report and if not, reporting this matter.

b) A general level applicable to other information included in the management report that consists of assessing and reporting on the consistency of that information with the annual accounts, on the basis of the understanding of the company obtained in the performance of the audit of those accounts and without including information other than that obtained as evidence during the audit and assessing and reporting on whether the content and presentation of that part of the management report are in conformity with applicable legislation. If we conclude that there are material misstatements on the basis of our work, we are required to report them.

On the basis of the work performed, as described in the previous paragraph, we have verified that the specific information mentioned in paragraph a) above is provided in the management report and the other information contained in the management report is consistent with that of the annual accounts for 2019 and its content and presentation comply with applicable legislation.

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 Pharma Mar, S.A., 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 26, 2020.

Appointment period

The General Ordinary Shareholders' Meeting held on June 26, 2019 appointed us as auditors for a period of 1 year, for the year ended December 31, 2019.

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

Services provided

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

For the services other than the audit of the accounts, provided to the Company's subsidiaries, please see the audit report of February 26, 2020 on the consolidated annual accounts of Pharma Mar, S.A. and subsidiaries in which they are included.

PricewaterhouseCoopers Auditores, S.L. (S0242)

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

February 26, 2020

PHARMA MAR, S.A.
Balance sheet at 2019 year-end
(Thousand euro)

ASSETS	Note	31-12-2019	31-12-2018
A) Non-current assets		**228,735**	**229,345**
I. Intangible assets		**128,190**	**131,246**
1. Development	6	127,486	130,379
2. Computer software	6	704	867
II. Property, plant and equipment		**19,118**	**20,197**
1. Land and structures	7	12,488	12,925
2. Technical installations and other tangible fixed assets	7	6,434	6,105
3. Advances & construction in progress	7	196	1,167
III. Investment property		**845**	**845**
1. Land	8	845	845
IV. Non-current investment in group and associated undertakings		**56,165**	**56,101**
1. Equity instruments	11	53,967	35,465
2. Loans to Group undertakings	14 & 29	2,198	20,636
V. Non-current financial assets		**474**	**515**
1. Equity instruments	12	330	326
2. Loans to third parties		6	51
3. Other financial assets	14	138	138
VI. Deferred tax assets	20	**23,943**	**20,441**
B) Current assets		**41,541**	**41,597**
II. Inventories		**8,291**	**8,885**
1. Raw materials and other supplies	13	89	74
2. Products in process	13	7,782	8,331
3. Finished products	13	420	480
III. Trade and other accounts receivable		**16,641**	**12,702**
1. Customer receivables for sales and services	14	5,825	5,931
2. Receivable from group and associated undertakings	14 & 29	4,099	5,186
3. Sundry debtors	14	174	166
4. Personnel	14	158	106
5. Current tax assets	22	5,602	751
6. Other receivables from public authorities	22	783	562
IV. Current investment in group and associated undertakings		**695**	**1,524**
1. Other financial assets	14 & 29	695	1,524
V. Current financial assets		**927**	**1,057**
1. Other financial assets	14	927	1,057
VI. Accruals	14	**1,130**	**507**
VII. Cash and cash equivalents		**13,857**	**16,922**
1. Cash	15	13,857	16,922
Total assets (A+B)		**270,276**	**270,942**

PHARMA MAR, S.A.
Balance sheet at 2019 year-end
(Thousand euro)

TOTAL EQUITY AND LIABILITIES	Note	31-12-2019	31-12-2018
A) Equity		**166,723**	**148,121**
A-1) Capital and reserves		**164,721**	**145,736**
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		**300,990**	**300,408**
1. Legal and bylaw reserves	17	2,226	2,226
2. Other reserves	17	298,764	298,182
IV. (Own shares and equity instruments)	16	**(1,500)**	**(2,243)**
V. Prior years' income		**(234,838)**	**(203,723)**
1. (Prior years' loss)	17	(234,838)	(203,723)
VII. Income for the year		**17,659**	**(31,116)**
A-2) Value adjustments		**15**	**12**
II. Hedge transactions		**15**	**12**
A-3) Subsidies, donations and legacies received	6 & 18	**1,987**	**2,373**
B) Non-current liabilities		**48,289**	**59,981**
I. Long-term provisions		**150**	**150**
1. Other provisions		150	150
II. Non-current debt		**47,628**	**59,073**
1. Bonds and other marketable securities	19	16,549	16,501
2. Bank debt	19	15,291	24,279
3. Other financial liabilities	19	15,788	18,293
IV. Deferred tax liabilities	20	**511**	**758**
C) Current liabilities		**55,264**	**62,840**
III. Current debt		**28,427**	**26,599**
1. Bonds and other marketable securities	19	405	405
2. Bank debt and debt to official authorities	19	27,108	25,395
3. Other financial liabilities	19	914	799
IV. Current accounts payable to group and associated undertakings	19 & 29	**2,139**	**7,662**
V. Trade and other accounts payable		**23,441**	**28,579**
1. Due to suppliers	19	225	135
2. Due to group and associated undertakings	19 & 29	2,734	4,115
3. Sundry creditors	19	13,700	16,982
4. Personnel (compensation payable)	19	4,330	4,126
5. Other debt to public authorities	22	796	1,020
6. Customer advances	19	1,656	2,201
VI. Short-term accruals	19	**1,257**	**-**
Total net equity and liabilities (A+B+C)		**270,276**	**270,942**

PHARMA MAR, S.A.
Statement of income for the year ended
as of 31 December 2019
(Thousand euro)

STATEMENT OF INCOME	Note	31-12-2019	31-12-2018(*)
A) Continuing operations			
1. Net revenues	21.1 & 21.2	**70,349**	**94,011**
a) Product sales		62,806	64,927
b) Licensing and co-development agreements		3,950	24,659
c) Royalties		3,102	3,916
d) Other revenues		491	509
2. Variation in finished goods and work-in-process inventories	13	**(1,283)**	**1,642**
3. Capitalized in-house work	6	**17,291**	**17,349**
4. Purchases		**(4,801)**	**(5,800)**
b) Raw materials and other consumables consumed	21,4	(1,045)	(2,373)
c) Outside work		(3,756)	(3,427)
5. Other operating revenues		**62**	**62**
a) Ancillary and other current revenues		62	62
6. Personnel expenses	21,5	**(29,619)**	**(31,571)**
a) Wages, salaries and simila		(24,540)	(26,204)
b) Employee welfare expenses		(5,079)	(5,367)
7. Other operating expenses	21,6	**(46,349)**	**(59,372)**
a) Outside services		(45,847)	(59,632)
b) Taxes other than income tax		(502)	(337)
c) Losses, impairment and changes in trade provisions		-	597
8. Depreciation and amortization	6 & 7	**(22,045)**	**(22,953)**
9. Recognition of subsidies for non-financial assets and othe	18	**927**	**2,910**
10. Impairment losses and income from disposal of assets	21,7	**82**	**(34,330)**
A.1) OPERATING INCOME (1+2+3+4+5+6+7+8+9+10)		**(15,386)**	**(38,052)**
11. Financial revenues	23	**872**	**722**
b) Marketable securities and other financial instruments		**872**	**722**
b 1) Group and associated undertakings		861	712
b 2) Third parties		11	10
12. Financial expenses	23	**(3,172)**	**(3,506)**
b) On debts to third parties		(3,172)	(3,506)
13. Exchange differences	23	**(39)**	**43**
14. Impairment losses and income from disposal of financial instruments	23	**(4,560)**	**(14,281)**
a) Impairments and losses		(4,560)	(14,281)
A.2) FINANCIAL INCOME (11+12+13+14)		**(6,899)**	**(17,022)**
A.3) INCOME BEFORE TAXES (A.1 + A.2)		**(22,285)**	**(55,074)**
15. Income tax	22	**8,123**	**6,683**
A.4) INCOME FOR THE YEAR FROM CONTINUING OPERATIONS (A.3+15)		**(14,162)**	**(48,391)**
B) Discontinued operations			
16. Income for the year from discontinued operations, net of taxes	24	**31,821**	**17,275**
A.5) INCOME FOR THE YEAR (A.4+16)		**17,659**	**(31,116)**

(*) Figures restated as a result of the sale of the holding in Zelnova Zeltia, S.A., which was reclassified under discontinued operations.

PHARMA MAR, S.A.
Statement of changes in equity for
the year ended 31 December 2019

A) STATEMENT OF RECOGNIZED REVENUES AND EXPENSES FOR THE YEAR ENDED 31 DECEMBER 2019 (thousand euro)

STATEMENT OF CHANGES IN NET EQUITY	Note	31-12-2019	31-12-2018
A) INCOME, PER INCOME STATEMENT		**17,659**	**(31,116)**
Revenues and expenses recognized directly in equity			
III. Subsidies, donations and legacies received	18	412	1,520
V. Tax effect	18	(103)	(380)
B) TOTAL REVENUES AND EXPENSES RECOGNIZED DIRECTLY IN NET EQUITY (I+II+III+IV+V)		**309**	**1,140**
Transfers to P&L			
VIII. Subsidies, donations and legacies received	18	(927)	(2,910)
IX. Tax effect	18	232	728
C) TOTAL TRANSFERS TO PROFIT OR LOSS (VI+VII+VIII+IX)		**(695)**	**(2,182)**
TOTAL RECOGNIZED REVENUES AND EXPENSES (A + B + C)		**17,273**	**(32,158)**

PHARMA MAR, S.A.
Statement of changes in equity for the year ended 31 December 2019

B) TOTAL STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2019
(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 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 (Note 16.3 & 24)	-	-	72	725	-	-	-	-	797
Transactions with shares (purchases) (Note 16.3)	-	-	-	(3,446)	-	-	-	-	(3,446)
Transactions with shares (sales) (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**
Total recognized revenues and expenses	-	-	-	-	-	17,659	(386)	-	**17,273**
Other changes in net equity	-	-	-	-	-	-	-	3	**3**
Share ownership plans (Note 16.3 & 24)	-	-	(13)	307	-	-	-	-	**294**
Transactions with shares (purchases) (Note 16.3)	-	-	-	(7,467)	-	-	-	-	**(7,467)**
Transactions with shares (sales) (Note 16.3)	-	-	596	7,903	-	-	-	-	**8,499**
Distribution of income (Note 3)	-	-	-	-	(31,116)	31,116	-	-	-
Ending balance 2019	**11,132**	**71,278**	**300,990**	**(1,500)**	**(234,838)**	**17,659**	**1,987**	**15**	**166,723**

PHARMA MAR, S.A.
Statement of Cash Flows for
the year ended 31 December 2019
(Thousand euro)

	Notes	31-12-2019	31-12-2018
A) OPERATING CASH FLOW			
1. Income before taxes		**9,536**	**(37,799)**
2. Adjustments to income		**7**	**54,446**
a) Depreciation and amortization (+)	6, 7, 8	22,045	22,953
c) Change in provisions (+/-)		-	(597)
d) Subsidies recognized (-)	18	(927)	(2,910)
e) Income from derecognitions and disposals of property, plant and equipment (+/-)	6, 7, 23	(28,303)	34,330
f) Income from derecognitions and disposals of financial instruments (+/-)		4,560	(2,252)
g) Share-based payments		293	797
h) Financial revenues (-)	23	(872)	(1,495)
i) Financial expenses (+)	23	3,172	3,663
j) Exchange differences (+/-)	23	39	(43)
3. Changes in working capital		**(3,041)**	**(11,084)**
a) Inventories (+/-)	13	595	(1,749)
b) Debtors and other accounts receivable (+/-).	14	254	7,035
d) Creditors and other accounts payable (+/-).	19	(3,935)	(16,367)
f) Other non-current assets and liabilities (+/-)		45	(3)
4. Other operating cash flow		**2,852**	**5,777**
a) Interest paid (-)		(3,248)	(3,637)
b) Dividends received (+)		3,600	742
c) Interest received (+)		2,500	753
d) Corporate income tax receipts/payments (+)	22	-	7,919
5. Operating cash flow (+/-1+/-2+/-3+/-4)		**9,354**	**11,340**
B) INVESTING CASH FLOW			
6. Investment payments (-)		**(28,076)**	**(27,325)**
a) Group and associated undertakings.		(10,365)	(8,858)
b) Intangible assets	6	(17,480)	(17,435)
c) Property, plant and equipment	7	(360)	(1,032)
e) Other financial assets		130	-
7. Divestment receipts (+)		**32,636**	**24,924**
a) Group and associated undertakings.	11	32,624	21,274
b) Investment property	8	-	118
c) Property, plant and equipment		12	-
e) Other financial assets		-	3,532
8. Investing cash flow (7-6)		**4,560**	**(2,401)**
C) FINANCING CASH FLOW			
9. Receipts and payments in connection with equity instruments		**1,443**	**860**
a) Issuance of equity instruments (+)		-	-
c) Acquisition of own equity instruments (-)		(7,467)	(3,446)
d) Disposal of own equity instruments (+)		8,498	2,786
e) Subsidies, donations and legacies received (+)	18	412	1,520
10. Receipts and payments in connection with instruments representing financial liabilities		**(18,383)**	**(5,640)**
a) Issuance		5,619	13,301
2. Bank debt and debt to official authorities (+)	19	5,619	8,903
3. Debt to group and associated undertakings (+)	19	-	4,398
b) Refund and amortization of:		(24,001)	(18,941)
1. Debt to group and associated undertakings (-)	19	(8,678)	(4,247)
2. Bank debt and debt to official authorities (-)	19	(15,323)	(14,694)
11. Financing cash flow (+/-9+/-10)		**(16,940)**	**(4,780)**
D) EFFECT OF EXCHANGE RATE VARIATIONS		**(39)**	**43**
E) NET INCREASE/DECREASE IN CASH AND CASH EQUIVALENTS (+/-5+/-8+/-11+/-D)		**(3,065)**	**4,202**
Beginning cash and cash equivalents		16,922	12,720
Ending cash and cash equivalents		13,857	16,922

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 in the biopharmaceutical business (diagnostics and RNAi) and the subsidiaries whose object is to market oncology products (Yondelis®) in Europe.

Until June 2019, the Company had a number of subsidiaries in the consumer chemicals business, which it has fully divested in the last two years (Note 24).

Yondelis® (trabectedin)

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.

Aplidin® (plitidepsin)

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. Marketing of this compound is expected to commence late in 2020.

In December 2017, the Company received a negative opinion from the CHMP (Committee for Medical Products for Human Use) with regard to the application for approval to market Aplidin® (Plitidepsin) in Europe for treating multiple myeloma. The Company filed a case with the General Court of the European Union against the European Commission, requesting annulment of the final decision; a hearing has been scheduled for March 2020.

Lurbinectedin

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

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

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

The other compounds are in the research and development phase.

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 2019 financial statements, which were authorized on 26 February 2020, will be approved without changes by the Shareholders' Meeting.

In accordance with the provisions of Royal Decree 1.159/2010, of 17 September, on 26 February 2020, the Company authorized the Consolidated Financial Statements as of 31 December 2019 for the group of companies of which it is the controlling company, which disclose a consolidated net loss of €11,379 thousand, equity (including the loss for the year) of €7,456 thousand, assets amounting to €124,705 thousand and revenues amounting to €85,819 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 2019 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 recoverablity 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 2029 are included for PharmaMar, and through 2024 for Genómica and Sylentis.

- The information for preparing the tax budget is the budget presented to the Board of Directors, which includes projections through 2024, extended to 2029 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 budget also uses the following significant assumptions:

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

- Average 11.49% growth in sales in the Oncology segment. That growth is due mainly to the good prospects for Lurbinectedin, a product currently under development.

- Average 6.04% 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 €299 thousand.
- A 5% reduction in the estimated price for the main compound under development (Lurbinectedin) would result in the derecognition of €865 thousand.
- A 5% reduction in sales of Yondelis® would result in derecognition of assets in the amount of €2 thousand.
- A 1-year delay in sales of the main compound under development, Lurbinectedin, would result in derecognition of assets in the amount of €1,727 thousand.
- A 10% reduction in market share for the main compound under development (Lurbinectedin) would result in derecognition of assets in the amount of €1,333 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.

2.3 Comparative information

The amounts for 2018 are presented alongside those for 2019 for comparison purposes. The transactions performed with Zelnova Zeltia, S.A. (Xylazel, S.A. in 2018) were reclassified under

"Discontinued operations" in the profit and loss account, in accordance with standard 7, section 11, on the drafting of the 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 2019 income which will be presented to the Shareholders' Meeting, and the distribution approved for 2018 by the shareholders on 26 June 2019, are as follows:

(thousand euro)	2019	2018
BASIS OF DISTRIBUTION		
Income for the year	17,659	(31,116)
	17,659	**(31,116)**
DISTRIBUTION		
Dividend (*)	8,906	-
Offset of prior years' losses	8,753	(31,116)
	17,659	**(31,116)**

(*) The ordinary dividend declared by the Board of Directors is €0.04 gross for each qualifying share on the date payment is made, less any applicable withholding tax. Based on the number of shares currently outstanding (222,649,287 shares) and in the absence of treasury stock, that distribution would entail distributing a dividend for a maximum total amount of €8,905,971.48. The total amount distributed as dividends will be determined at the time of distribution based on the shares that the Company holds in treasury stock at that time.

The distribution of income for the year ended 31 December 2019 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 distributing a dividend of €8,906 thousand to the Company's shareholders and of offsetting "Prior years' losses" in the amount of €8,753 thousand.

4. ACCOUNTING AND VALUATION STANDARDS

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

4.1 Intangible assets

Intangible assets are recognized initially if:

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

ii) they fulfill the condition 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 in scientific and technology.

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 2019, that assessment did not result in the derecognition or impairment of any developments. As of 31 December 2018, that assessment resulted in the derecognition and impairment of the developments set out in Note 6.1.

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

Measurement of research and development projects

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

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

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

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

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

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

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

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 there are sound reasons for expecting technical success once a compound reaches Phase I clinical trials, in accordance with the criteria traditionally applied by the Company; in the Group's consolidated financial statements, research and development expenses are capitalized from the time the drug is registered, subject to fulfillment of the conditions in the 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 impairments.

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:

	Year
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.

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, 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 Inventories

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

The cost price is obtained as follows:

- Raw materials and other supplies: weighted average cost price.

- Finished and semi-finished products and products in process: weighted average cost of the raw and ancillary materials used, plus the applicable amount of direct labor and general manufacturing expenses valued at standard costs (based on normal production capacity). No adjustment to inventory is recognized if the difference between standard cost and actual cost is not material.

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

4.8 Equity

Share capital is represented by ordinary shares.

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

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

4.9 Financial liabilities

DEBTS AND ACCOUNTS PAYABLE

This category includes both trade and non-trade accounts payable. This debt is classified under 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 remeasured 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 remeasured 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 with a 20% discount on the tax payable, subject to certain conditions. The Company recognizes this tax incentive for investment at the time that the investment is deemed to have materialized, which normally coincides with the collection date.

Consolidated income tax

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

The companies comprising the tax group in 2019 are: 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 cancelation 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, Ireland 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.

This revenue is recognized at the point at which control of the asset is transferred to the client, which may be at a certain point in time (as in the sale of licenses for use), or over a period of time (as in the case of the transfer of services, or where what is being transferred is a right of access).

Revenues from licensing, co-development and similar agreements may arise during the compound's development phase:

- Upfront payments collected by Pharma Mar, which are generally non-refundable.
- Payments triggered when the compound to which the agreement refers (Yondelis®, Aplidin® or Lurbinectedin) attains development milestones, generally of a regulatory or commercial nature.

Or they may arise during the commercialization 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.

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

Deferred revenues are recognized in profit or loss over the term of the related commitments as a function of the degree of progress of the project, 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 Company 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 (Note 24).

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 €13,558 thousand in the year ended 31 December 2019 (€20,883 thousand in 2018) (Note 21.3). The main transactions in foreign currency in 2019 were revenues from the Johnson & Johnson Group (Note 21.1.3).

If, as of 31 December 2019, the euro had appreciated by 5% with respect to the US dollar while all other variables remained constant, income after taxes for the year would have been lower by €68 thousand euro (€159 thousand in 2018), 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 2019, the euro had depreciated by 5% with respect to the US dollar while all other variables remained constant, income after taxes for the year would have been higher by

€71 thousand (€167 thousand in 2018). The material impact of variations in the dollar as of 31 December 2019 is due mainly to the higher dollar revenues collected in 2018 in comparison with 2019, as 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 2019 and 2018 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 (€14,784 thousand in 2019, €17,979 thousand in 2018) less short-term borrowings (€28,427 thousand in

2019, €26,599 thousand in 2018), was negative in the amount of €13,642 thousand at the end of 2019 (negative in the amount of €8,620 thousand in 2018).

Long-term interest-bearing debt amounted to €47,628 thousand (€59,073 thousand in 2018), of which €15,778 thousand (€18,293 thousand in 2018) was in the form of research and development loans from official bodies which are repayable over 10 years, with a three-year grace period, at zero or below-market interest rates.

The Company generated negative operating cash flow amounting to €9,354 thousand in 2019 and €11,340 thousand in 2018, mainly due to the intensive capital expenditure on R&D in both years (€45,673 and €63,472 thousand, respectively).

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

- PharmaMar ended 2019 with cash and cash equivalents plus current financial assets amounting to €14,784 thousand.
- PharmaMar had unused credit lines in the amount €1,703 thousand as of 31 December 2019.
- Working capital is negative in the amount of €13,723 thousand.

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

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

As indicated in Note 33, in January 2020 the Company received the non-refundable upfront payment in the amount of USD 200 million (€181 million) corresponding to the exclusive Licensing Agreement signed with Jazz Pharmaceuticals on 19 December 2019 for the commercialization of Lurbinectedin in the United States. The entry into force of the agreement was conditional upon authorization by the US anti-trust authorities. That authorization was issued on 21 January 2020, at which time the Agreement took effect.

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

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

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

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. The amounts in the table are the contractual cash flows, which have not been discounted. Since these amounts are not discounted, they are not comparable to the amounts recognized as interest-bearing debt on the balance sheet.

31-12-19 (thousand euro)	2020	2021	2022	2023	2024	2025 and thereafter	Total Non-current	Total
Bonds and other marketable securities	**405**	**-**	**-**	**-**	**-**	**17,000**	**17,000**	**17,405**
Bank loans	23,329	8,293	5,033	1,224	740	-	15,290	38,619
Debt to official authorities	4,431	3,745	3,840	3,272	2,383	4,557	17,797	22,228
Bank debt and debt to official authorities	**27,760**	**12,038**	**8,873**	**4,496**	**3,123**	**4,557**	**33,087**	**60,847**
Other financial liabilities	**914**	**-**	**-**	**-**	**-**	**-**	**-**	**914**
Current accounts payable to group and associated undertakings	**2,139**	**-**	**-**	**-**	**-**	**-**	**-**	**2,139**
Suppliers	**225**	**-**	**-**	**-**	**-**	**-**	**-**	**225**
Debt to group and associated undertakings	**2,734**	**-**	**-**	**-**	**-**	**-**	**-**	**2,734**
Sundry creditors	**13,700**	**-**	**-**	**-**	**-**	**-**	**-**	**13,700**
Personnel (compensation payable)	**4,330**	**-**	**-**	**-**	**-**	**-**	**-**	**4,330**
Balances with public authorities	**796**	**-**	**-**	**-**	**-**	**-**	**-**	**796**
Customer advances	**1,656**	**-**	**-**	**-**	**-**	**-**	**-**	**1,656**
Total	**54,659**	**12,038**	**8,873**	**4,496**	**3,123**	**21,557**	**50,087**	**104,746**

31-12-18 (thousand euro)	2019	2020	2021	2022	2023	2024 and thereafter	Total Non-current	Total
Bonds and other marketable securities	**405**	**-**	**-**	**-**	**-**	**17,000**	**17,000**	**17,405**
Bank loans	24,157	9,156	8,123	5,034	1,225	741	24,280	48,437
Debt to official authorities	1,891	4,461	3,775	3,794	3,056	5,634	20,720	22,611
Bank debt and debt to official authorities	**26,048**	**13,617**	**11,898**	**8,828**	**4,281**	**6,375**	**45,000**	**71,048**
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	**63,493**	**13,617**	**11,898**	**8,828**	**4,281**	**23,375**	**62,000**	**125,493**

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 2019 and 2018 are as follows:

2019

(thousand euro)	Development	Computer software	Total
Cost			
Balance as of 31-12-2018	387,780	4,093	391,873
Recognitions	17,291	188	17,479
Balance as of 31-12-2019	**405,071**	**4,281**	**409,352**
Impairment			
Balance as of 31-12-2018	(27,028)	-	(27,028)
Balance as of 31-12-2019	**(27,028)**	**-**	**(27,028)**
Accumulated amortization			
Balance as of 31-12-2018	(230,373)	(3,226)	(233,599)
Provisions	(20,184)	(351)	(20,535)
Balance as of 31-12-2019	**(250,557)**	**(3,577)**	**(254,134)**
Net carrying amount 31-12-2019	**127,486**	**704**	**128,190**

2018

(thousand euro)	Development	Computer software	Total
Cost			
Balance as of 31-12-2017	479,377	4,010	483,387
Recognitions	17,349	86	17,435
Derecognitions (Note 21.7)	(108,946)	(3)	(108,949)
Balance as of 31-12-2018	**387,780**	**4,093**	**391,873**
Impairment			
Balance as of 31-12-2017	(97,942)	-	(97,942)
Provisions (Note 21.7)	(27,028)	-	(27,028)
Derecognitions (Note 21.7)	97,942	-	97,942
Balance as of 31-12-2018	**(27,028)**	**-**	**(27,028)**
Accumulated amortization			
Balance as of 31-12-2017	(211,473)	(2,882)	(214,355)
Provisions	(20,963)	(344)	(21,307)
Derecognitions	2,063	-	2,063
Balance as of 31-12-2018	**(230,373)**	**(3,226)**	**(233,599)**
Net carrying amount 31-12-2018	**130,379**	**867**	**131,245**

6.1 Development

The Company continued to develop the molecules in its pipeline during 2019. Recognitions in 2019 relate almost entirely to clinical trials with Lurbinectedin, including the pivotal trial and the phase III registration trial (ATLANTIS), which examines the activity and safety of Lurbinectedin in combination with other therapeutic agents for treating patients with small cell lung cancer. This study is currently in the follow-up phase to analyze the survival of the enrolled patients, since patient enrolment has concluded, as well as the BASKET phase II clinical trial with Lurbinectedin as monotherapy in selected indications. This item also includes the cost of the new drug application for Lurbinectedin as monotherapy in treating relapsed small cell lung cancer filed for accelerated approval with the FDA, which is based on the BASKET trial.

The Company continued to develop the other molecules in its pipeline, all of them at earlier stages of development.

In 2018, as a result of confirmation by the European Medicines Agency (EMA) of the negative opinion of the Committee for Medical Products for Human Use (CHMP) with regard to marketing approval for Aplidin® in Europe, the Company decided to halt development of that compound and wrote off the total investment made to date: €108,946 thousand of cost, €2,063 of accumulated amortization and €97,942 thousand of impairment booked in 2017.

Also, 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 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 Lurbinectedin.

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 entire net investment made to date: €108,946 thousand of cost, €2,063 of accumulated amortization and €97,942 thousand of impairment booked in 2017.

Lurbinectedin

In analyzing the impairment of Lurbinectedin in 2019, it should be considered that in December 2019, PharmaMar and Jazz Pharmaceuticals signed an exclusive licensing agreement for marketing anti-tumor compound Lurbinectedin in the US for treating relapsed small-cell lung cancer. The entry into force of the agreement was conditional upon authorization by the US anti-trust authorities. That authorization was issued on 21 January 2020, at which time the Agreement took effect. Under the contract terms, PharmaMar collected a non-refundable upfront payment of USD 200 million (€181 million), and it may receive additional payments of up to USD 250 million for achieving regulatory milestones, if the FDA grants accelerated and/or full approval for Lurbinectedin by specific deadlines. Additionally, PharmaMar may collect up to USD 550 million for achieving sales targets, as well as royalties on net sales of Lurbinectedin, which are not included in the former amount.

Additionally, in December 2019 the company filed a new drug application (NDA) for accelerated approval with the FDA for Lurbinectedin as monotherapy for treating patients with relapsed small-cell lung cancer, based on the results of the Basket Phase II trial (Small cell lung cancer accounts for about 15% of all lung cancers and is a particularly aggressive type of tumor for which no new drug has been approved in the last 20 years). The FDA is expected to make a decision in the coming years.

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 Lurbinectedin as an orphan drug for that same indication.

Based on the foregoing information, the directors do not consider there has been any impairment.

PM184 and PM14

In 2018, as a result of the Company's decision to prioritize clinical trials with 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 development expenses in producing the Group's separate and consolidated financial statements lies in the time at which development expenses are capitalized: in the separate financial statements, the Company considers that there are sound reasons for expecting technical success once a compound reaches Phase I clinical trials, in accordance with the criteria traditionally applied by the Company; in the Group's consolidated financial statements, research and development expenses are capitalized from the time the drug is registered, subject to fulfillment of the conditions in the EU-IFRS, in line with standard practice in the biopharmaceutical industry at international level.

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

(thousand euro)	Separate balance sheet	Consolidated balance sheet
Beginning balance Cost 01-01-2018	479,377	25,328
Recognitions	17,349	-
Derecognitions	(108,946)	(2,142)
Total Cost 31-12-2018	387,780	23,186
Beginning balance Impairment 01-01-2018	(97,942)	(2,142)
Provision	(27,028)	-
Reversal	97,942	2,142
Total Impairment 31-12-2018	(27,028)	-
Beginning balance Amortization 01-01-2018	(211,473)	(14,352)
Recognitions	(20,963)	(3,352)
Derecognitions	2,063	-
Total Amortization 31-12-2018	(230,373)	(17,704)
Net carrying amount 31-12-2018	**130,379**	**5,482**
Beginning balance Cost 01-01-2019	387,780	23,186
Recognitions	17,291	3,054
Derecognitions	-	(33)
Total Cost 31-12-2019	405,071	26,207
Beginning balance Impairment 01-01-2019	(27,028)	-
Total Impairment 31-12-2019	(27,028)	-
Beginning balance Amortization 01-01-2019	(230,373)	(17,704)
Recognitions	(20,184)	(3,352)
Total Amortization 31-12-2019	(250,557)	(21,056)
Net carrying amount 31-12-2019	**127,486**	**5,151**

The application in Pharma Mar, S.A.'s separate financial statements of the approach used in the Group's financial statements under EU-IFRS would reduce the amount of development expenses recognized in assets and the equity by €125 million as of 31 December 2018, and by €122 million as of 31 December 2019.

The following table completes the information per capitalized compound, reflecting the net carrying amount of each of them in the separate and consolidated financial statements as of 31 December 2019, as well as the changes during the year:

	Separate balance sheet		
	Yondelis®	Lurbinectedin	Total development
Ending balance 31-12-18	30,413	99,966	130,379
Recognitions	-	17,291	17,291
Depreciation and amortization	(20,184)	-	(20,184)
Ending balance 31-12-19	10,229	117,257	127,486

	Consolidated balance sheet		
	Yondelis®	Lurbinectedin	Total development
Ending balance 31-12-18	5,482	-	5,482
Recognitions	-	3,021	3,021
Depreciation and amortization	(3,352)	-	(3,352)
Ending balance 31-12-19	2,130	3,021	5,151

6.2 Capitalized financial expenses

At the end of 2019, €1,164 thousand of net financial expenses (€1,164 at 2018 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 2019 and 2018.

6.5 Fully amortized assets

The assets that were fully amortized as of 31 December 2019 and 2018 are as follows:

FULLY AMORTIZED INTANGIBLE ASSETS (thousand euro)	2019	2018
Computer software	2,583	2,269
Total	**2,583**	**2,269**

6.6 Income from disposals and other

The Company did not recognize any income from derecognitions or impairments in 2019.

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 2019 and 2018, 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 2019, the Company had €1,987 thousand (€2,373 thousand in 2018) under "Official capital subsidies" to finance research and development activities. That balance includes €1,845 thousand (€2,108 thousand in 2018) 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 2019 and 2018 are as follows:

2019

(thousand euro)	Land and structures	Installations	Construction in progress and advances	Total
Cost				
Balance as of 31-12-2018	21,988	32,738	1,167	55,893
Recognitions	-	224	136	360
Transfers	-	1,107	(1,107)	-
Derecognitions	-	(68)	-	(68)
Balance as of 31-12-2019	**21,988**	**34,001**	**196**	**56,185**
Impairment				
Balance as of 31-12-2018	(1,204)	-	-	(1,204)
Reversal of impairment (Note 21.7)	81	-	-	81
Balance as of 31-12-2019	**(1,123)**	**-**	**-**	**(1,123)**
Accumulated depreciation				
Balance as of 31-12-2018	(7,859)	(26,633)	-	(34,492)
Provisions	(518)	(990)	-	(1,508)
Derecognitions	-	56	-	56
Balance as of 31-12-2019	**(8,377)**	**(27,567)**	**-**	**(35,944)**
Net carrying amount 31-12-2019	**12,488**	**6,434**	**196**	**19,118**

2018

(thousand euro)	Land and structures	Installations	Construction in progress and advances	Total
Cost				
Balance as of 31-12-2017	21,988	32,294	579	54,861
Recognitions	-	373	659	1,032
Transfers	-	71	(71)	-
Balance as of 31-12-2018	**21,988**	**32,738**	**1,167**	**55,893**
Impairment				
Balance as of 31-12-2017	(1,204)	-	-	(1,204)
Balance as of 31-12-2018	**(1,204)**	**-**	**-**	**(1,204)**
Accumulated depreciation				
Balance as of 31-12-2017	(7,342)	(25,506)	-	(32,848)
Provisions	(517)	(1,127)	-	(1,644)
Balance as of 31-12-2018	**(7,859)**	**(26,633)**	**-**	**(34,492)**
Net carrying amount 31-12-2019	**12,925**	**6,105**	**1,167**	**20,197**

As of 31 December 2019, the net carrying amount of land and structures was €5,576 thousand and €6,912 thousand, respectively (€5,495 thousand and €7,429 thousand, respectively, in 2018).

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

7.1 Impairment losses

In 2019, the Company partially reversed a provision for impairment of a plot of land in Colmenar Viejo based on an external appraisal, in the amount of €81 thousand (there were no movements in 2018).

7.2 Assets acquired from Group and associated undertakings

No fixed assets were acquired from Group or associated companies in 2019 and 2018.

7.3 Fully depreciated assets

As of 31 December 2019, the Company was using assets with a carrying amount of €23,780 thousand which had been fully depreciated (€22,830 thousand as of 31 December 2018).

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 31-12-2019	Amount of loan	Outstanding amount 31-12-19	Maturity
Av. de los Reyes nº 1, Colmenar Viejo (Madrid)	9,231	9,000	4,360	June 2024

LOCATION (Thousand euro)	Net carrying amount 31-12-2018	Amount of loan	Outstanding amount 31-12-18	Maturity
Av. de los Reyes nº 1, Colmenar Viejo (Madrid)	9,749	9,000	5,263	June 2024

The outstanding amount of the mortgage loan under "Long-term bank debt" is €3,434 thousand (€4,360 thousand in 2018), and the amount under "Short-term bank debt" is €926 thousand (€903 thousand in 2018) (Note 19.2).

7.5 Assets acquired under finance leases

There were no finance leases outstanding as of the end of 2019 and 2018.

7.6 Subsidies received

No fixed assets financed by subsidies from public authorities were acquired in 2019 and 2018.

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 2019, the Company had land which was held for appreciation and rental as "Investment property" for a total net amount of €845 thousand (€845 thousand in 2018). It refers 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 in 2019 (€62 thousand in 2018).

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.

9. OPERATING LEASES

The Company has equipment leases (vehicles, computers and software) and operating leases (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)	2019	2018
Less than 1 year	1,824	1,706
1 to 5 years	1,574	2,233
Total	**3,398**	**3,939**

The expense recognized in profit or loss amounted to €1,869 thousand in 2019 (€2,073 thousand in 2018).

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

2019 (thousand euro)	Loans and accounts receivable / payable	Available for sale	Total
Non-current financial assets			
Financial assets – Group undertakings (Note 14.2)	2,198	-	**2,198**
Non-current financial investments (Note 12)	6	330	**336**
Other financial assets (Note 14.1)	138	-	**138**
Current financial assets			
Customer and other accounts receivable (Note 14.3)	5,825	-	**5,825**
Customer and other accounts receivable - Group and associated undertakings (Notes 14 & 29)	4,099	-	**4,099**
Financial assets – Group undertakings (Note 14 & 29)	695	-	**695**
Current financial assets (Note 14.5)	927	-	**927**
Other financial assets (Note 14)	1,462	-	**1,462**
	15,350	**330**	**15,680**
Non-current financial liabilities			
Bonds and other marketable securities (Note 19.1)	16,549	-	**16,549**
Bank loans (Note 19.2)	15,291	-	**15,291**
Other financial liabilities (Note 19.3)	15,788	-	**15,788**
Current financial liabilities			
Bonds and other marketable securities (Note 19.1)	405	-	**405**
Bank loans (Notes 19.2 and 19.3)	27,108	-	**27,108**
Other financial liabilities	914	-	**914**
Current accounts payable to group and associated undertakings (Notes 19 & 29)	2,139	-	**2,139**
Due to Group undertakings (Notes 19 & 29)	2,734	-	**2,734**
Suppliers	225	-	**225**
Sundry creditors	13,700	-	**13,700**
Personnel (compensation payable)	4,330	-	**4,330**
Customer advances	1,656	-	**1,656**
	100,839	**-**	**100,839**

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 and other accounts receivable - Group and associated undertakings (Notes 14 & 29)	5,186	-	**5,186**
Financial assets – Group undertakings (Notes 14 and 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**
Due 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**

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) 2019	2020	2021	2022	2023	2024	Subsequent years	Total non-Current	Total
ASSETS AVAILABLE FOR SALE	**-**	**-**	**-**	**-**	**-**	**336**	**336**	**336**
Equity instruments (Note 12)	-	-	-	-	-	330	330	330
Loans to third parties	-	-	-	-	-	6	6	6
LOANS AND ACCOUNTS RECEIVABLE	**-**	**-**	**-**	**-**	**-**	**2,198**	**2,198**	**2,198**
Financial assets – Group undertakings (Notes 14.2 & 29)	-	-	-	-	-	2,198	2,198	2,198
OTHER FINANCIAL ASSETS:	**13,009**	**138**	**-**	**-**	**-**	**-**	**138**	**13,146**
Other financial assets (Note 14.1)	-	138	-	-	-	-	138	138
Loans and accounts receivable (Note 14.5)	927	-	-	-	-	-	-	927
Financial assets – Group undertakings (Notes 14.2 & 29)	695	-	-	-	-	-	-	695
Sundry debtors	174	-	-	-	-	-	-	174
Personnel	158	-	-	-	-	-	-	158
Accruals	1,130	-	-	-	-	-	-	1,130
Customer receivables for sales and services (Note 14.3)	5,825	-	-	-	-	-	-	5,825
Customer receivables - Group and associated undertakings (Notes 14.4 & 29)	4,099	-	-	-	-	-	-	4,099
TOTAL ASSETS	**13,009**	**138**	**-**	**-**	**-**	**2,534**	**2,672**	**15,680**
FINANCIAL LIABILITIES								
Bonds and other marketable securities (Note 19.1)	**405**	**-**	**-**	**-**	**-**	**16,549**	**16,549**	**16,954**
Bank loans and credit lines (Note 19.2)	23,329	8,293	5,033	1,225	740	-	15,291	38,620
Debt to official authorities (Note 19.3)	3,779	3,085	3,388	2,942	2,156	4,217	15,788	19,567
Bank debt and debt to official authorities	**27,108**	**11,378**	**8,421**	**4,167**	**2,896**	**4,217**	**31,079**	**58,187**
Current accounts payable to group and associated undertakings (Notes 19 & 29)	**2,139**	**-**	**-**	**-**	**-**	**-**	**-**	**2,139**
Supplier accounts payable - Group and associated undertakings (Notes 19 & 29)	**2,734**	**-**	**-**	**-**	**-**	**-**	**-**	**2,734**
Suppliers	**225**	**-**	**-**	**-**	**-**	**-**	**-**	**225**
Sundry creditors	**13,700**	**-**	**-**	**-**	**-**	**-**	**-**	**13,700**
Personnel (compensation payable)	**4,330**	**-**	**-**	**-**	**-**	**-**	**-**	**4,330**
Customer advances	**1,656**	**-**	**-**	**-**	**-**	**-**	**-**	**1,656**
Other financial liabilities	**914**	**-**	**-**	**-**	**-**	**-**	**-**	**914**
TOTAL LIABILITIES	**53,211**	**11,378**	**8,421**	**4,167**	**2,896**	**20,766**	**47,628**	**100,839**

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 - Group and associated undertakings (Notes 14.4 & 29)	5,186	-	-	-	-	-	-	5,186
TOTAL ASSETS	**14,477**	**138**	**-**	**-**	**-**	**21,013**	**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 accounts payable - 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 LIABILITIES	**61,820**	**12,850**	**11,358**	**8,418**	**3,995**	**22,452**	**59,073**	**120,893**

The "Non-current financial assets - Group undertakings" account as of 31 December 2019 and 2018 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)	2019	2018
Customers without an external credit rating		
New customers	662	923
Customers from previous years	5,163	5,008
TOTAL CUSTOMER RECEIVABLES FOR SALES AND SERVICES	**5,825**	**5,931**
Moody's rating		
A1	-	5
A2	1,894	2,767
A3	6,624	202
Aa3	1	1
Ba1	1	-
Ba2	2	-
Ba2u	-	1
Ba3	5	4
Baa1	-	9,957
Baa2	6,191	4,206
Baa2u	20	796
Unrated	46	40
TOTAL CASH AND CASH EQUIVALENTS PLUS CURRENT FINANCIAL ASSETS	**14,784**	**17,979**

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 2019 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 (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, commercialization and production of pharmaceutical products
PharmaMar, AG - Basel (Switzerland)	Aeschenvorstadt, 71 - Basle - Switzerland	Research, commercialization and production of pharmaceutical products
Pharma Mar, Sarl - Paris (France)	6 Rue de l'Est, 92100 Boulogne Billancourt, Paris, France	Research, commercialization and production of pharmaceutical products
Pharma Mar, GmbH - Berlin (Germany)	Uhlandstraße 14 - 10623 Berlin - Germany	Research, commercialization and production of pharmaceutical products
Pharma Mar, Srl - Milan (Italy)	Via Lombardia 2/A C/O Innov. Campus 20068 Peschiera Borromeo Milano - Italy	Research, commercialization and production of pharmaceutical products
Pharma Mar, Ltd - Reading (United Kingdom)	5 New Street Square London, United Kingdom EC4A 3TW	Research, commercialization and production of pharmaceutical products
Pharma Mar, Sprl - Brussels (Belgium)	Avenue du Port 86C, Boite 204, 1000 Brussels, Belgium	Research, commercialization and production of pharmaceutical products
Pharma Mar Ges.m.b.H- Vienna (Austria)	Mooslackengasse 17- 1190 Vienna, Austria	Research, commercialization 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.

11.2 PharmaMar stakes in Group undertakings

The breakdown of holdings in group companies as of 31 December 2019 and 2018 is as follows:

Name and domicile	Statutory audit	Percentage of ownership		Percentage of ownership	
		Direct % 2019	Indirect % 2019	Direct % 2018	Indirect % 2018
Genómica, S.A.U. - Madrid (Spain)	Yes - KPMG	100.00%	-	100.00%	-
Genómica, A.B. - Sweden (*)	Yes - KPMG	-	100.00%	-	100.00%
Genómica Brasil Consultoria e Intermediaçao Ltda (Brazil) (*****)	No	-	-	-	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 - PwC	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) (****)	No	-	-	100.00%	-
Copyr S.p.A.- Italy (**) (****)	No	-	-	-	100.00%

(*) Genómica A.B. and Genómica Trading Co. 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 2019
(*****) Liquidated in October 2019

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 2019 and 2018 are as follows:

Company	Cost	Provision	Balance as of 31-12-2018	Recognitions	Derecognitions	Provision	Balance as of 31-12-2019
Holdings in group companies							
Genómica, S.A.U.	10,462	(8,400)	2,062	7,052	-	(7,052)	2,062
Sylentis, S.A.U.	26,068	-	26,068	23,000	-	-	49,068
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	-	-	(43)	107
Pharma Mar Ges.m.b.H	100	-	100	-	-	-	100
Noscira, S.A. en liquidación	44,254	(44,254)	-	-	-	-	-
Zelnova Zeltia, S.A.	4,385	-	4,385	-	(4,385)	-	-
	93,247	**(57,782)**	**35,465**	**30,052**	**(4,385)**	**(7,165)**	**53,967**

				Recognitions	Derecognitions		
COMPANY	Cost	Provision	Balance as of 31-12-2017	due to capital increase	Capital reduction	Provision	Balance as of 31-12-2018
Holdings in group companies							
Genómica, S.A.U.	10,462	-	10,462	-	-	(8,400)	2,062
Sylentis, S.A.U.	26,068	-	26,068	-	-	-	26,068
Pharma Mar, USA INC	5,010	(5,010)	0	-	-	-	0
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. en liquidación	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)**	**(8,400)**	**35,465**

On 26 May 2019, the Company's Board of Directors approved the signature of an agreement for the sale of 100% of Zelnova Zeltia S.A. to the companies Allentia Invest, S.L. and Safoles, S.A. (together, the "Buyer"), which are owned directly and indirectly by, among others, Mr. Pedro Fernández Puentes, a director of Pharma Mar, and parties related to him. The Board of Directors resolved to submit the authorization to the Shareholders' Meeting. By doing so, it complied with the provisions of article 230 of the Capital Companies Act with regard to shareholders waiving the prohibition on the company transacting with its directors, and also with article 160.f) of the Capital Companies Act, regarding shareholder approval for the sale of assets considered to be essential to the Company. Completion of the transaction and, consequently, the Company's commitment to sell and transfer the shares of Zelnova Zeltia, S.A. to the Buyer was conditional upon that authorization by the Shareholders' Meeting. Once the shareholders had authorized the transaction, the sale was completed on 28 June 2019.

The total consideration received from the Buyer was €33,417 thousand, paid in cash upon completion. The accounting implications of this transaction are described in note 24.

In 2019, Genómica, S.A.U. performed a capital reduction and increase in order to restore its net worth. The capital increase was performed by offsetting loans granted by the Company to its subsidiary Genómica, S.A.U. The amount of capitalized loans was €7,052 thousand (€410 thousand in share capital and €6,642 thousand in share premium account). The loan had been fully impaired (€7,052 thousand); consequently, when the capital increase was performed, the provision for impairment of the loan was reclassified as impairment of the holding in the Group undertaking. The capital increase was registered in October.

In November, Sylentis, S.A.U. performed a capital increase by offsetting the loan from the Company to Sylentis, S.A.U. for a total amount of €23,000 thousand, of which €920 thousand euros went to share capital and €22,080 thousand to the share premium account.

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 inherent expenses (€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.

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 2019, 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:

	2019						
COMPANY	Capital	Reserves	Other items	Operating profit	2019 income	Total capital and reserves	Carrying amount at parent company
Genómica, S.A.U.	410	(21)	3,041	(5,874)	(3,146)	284	2,062
Genómica, A.B. (**)	6	(12)	22	87	85	100	-
Genómica (Wuhan) Trading Co.Ltd. (**)	160	(1)	(48)	(46)	(46)	66	-
Sylentis, S.A.U.	2,443	135	23,832	(2,837)	(3,742)	22,667	49,068
Pharma Mar, USA INC	5,010	(4,986)	-	34	9	34	-
Pharma mar, Sarl	1,641	(525)	-	103	100	1,215	1,604
Pharma Mar, GmbH	25	350	-	443	309	683	471
PharmaMar, AG	107	(17)	-	3	2	92	55
Pharma Mar, Srl	500	1,237	-	499	270	2,009	500
Pharma Mar, Ltd	70	(26)	-	(26)	(26)	18	-
Pharma Mar, Sprl	150	(28)	-	(11)	(15)	107	107
Pharma Mar Ges.m.b.H	35	134	-	21	14	183	100
Noscira, S.A. en liquidación	27,615	(1,467)	(40,762)	(39)	(68)	(14,682)	-
Total	**38,172**	**(5,227)**	**(13,915)**	**(7,643)**	**(6,254)**	**12,775**	**53,967**

(**) Genómica, A.B. 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.

Based on the Company's decision to prioritize the Oncology business and limit the resources allocated to other business areas, and considering that it granted loans to Genómica, S.A. in 2019 for the amount of €4,447 thousand, it performed an analysis of the recoverable value of that company and recognized an impairment for that amount (€8,400 thousand in 2018).

In the case of other investees in the biopharmaceutical business whose research projects are at an early stage (e.g. Sylentis, S.A.U.), 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, S.A.U. gives an amount well in excess of the recognized cost of the investment and the loans granted to that company.

12. AVAILABLE-FOR-SALE FINANCIAL ASSETS

Holdings in companies

Holding in the capital of	Line of business	Percentage of ownership 2019 Direct %	Percentage of ownership 2018 Direct %
Instituto BIOMAR	Pharmaceutical research	3.49%	3.49%
Pangaea Biotech SA	Consulting services	0.13%	0.17%
Johnson & Johnson	Manufacture of pharmaceuticals, consumer products, and medical devices and diagnostics	0.00001%	0.00001%

The value of those holdings is as follows:

Thousand euro	2019	2018
Instituto BIOMAR	252	252
Pangaea Biotech SA	50	50
Johnson&Johnson	28	24
	330	**326**

No impairment losses were recognized in 2019 and 2018 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 2019 and 2018 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 €28 thousand as of 31 December 2019 (€24 thousand in 2018).

13. Inventories

The Group classifies inventories as follows:

(thousand euro)	2019	2018
Raw materials and other supplies	89	74
Semi-finished products and products in process	7,782	8,331
Finished products	420	480
	8,291	**8,885**

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 2019 and 2018. 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)	2019	2018
LONG-TERM LOANS AND ACCOUNTS RECEIVABLE	**2,342**	**20,825**
Long-term deposits and guarantees provided (Note 14.1)	138	138
Loans to third parties	6	51
Financial assets – Group undertakings (Notes 14.2 & 29)	2,198	20,636
SHORT-TERM LOANS AND ACCOUNTS RECEIVABLE	**13,008**	**14,477**
Customer receivables (Note 14.3)	5,825	5,931
Customer receivables - Group and associated undertakings (Notes 14.4 & 29)	4,099	5,186
Current investment in group and associated undertakings (Notes 14.2 & 29)	695	1,524
Sundry debtors	174	166
Personnel	158	106
Accruals	1,130	507
Short-term deposits (Note 14.5)	919	1,049
Long-term deposits and guarantees provided	8	8
Total	**15,350**	**35,302**

14.1 Deposits and sureties

Long-term deposits and guarantees as of 31 December 2019 and 2018 include mainly deposits for leases.

14.2 Loans to Group undertakings

The "Non-current financial assets - Group undertakings" account as of 31 December 2019 contained the following loans to Group undertakings:

(thousand euro)	2019	2018
Sylentis, S.A.U.	2,198	20,636
Genómica, S.A.U.	3,275	5,880
Noscira, S.A.	7,612	7,612
Impairment	(10,887)	(13,492)
	2,198	**20,636**

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)	2019	2018
Current financial assets		
Corporate income tax receivable (Note 22)	-	55
VAT receivable (Note 22)	28	54
Current accounts with Group undertakings	667	1,415
	695	**1,524**

The balances with Group undertakings under current financial assets and liabilities in 2019 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	2019	2018
Current balances	**5,426**	**4,493**
Balances past-due but not provisioned	**399**	**1,438**
Up to 3 months	326	1,168
3-6 months	107	124
Over 6 months	(34)	146
TOTAL CUSTOMER RECEIVABLES	**5,825**	**5,931**

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 2019, accounts receivable from public authorities totaled €1,436 thousand (€2,054 thousand in 2018).

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

Thousand euro	Credit rating	2019
Andalusia	BBB+	116
Madrid	Baa1	120
Balearic Islands	BBB+	208
Valencia	Ba1u	41
Castilla y León	Baa1	20
Castilla la Mancha	Ba1	24
Aragon	BBB+	12
Catalonia	Ba3	13
Cantabria	BBB	15
Galicia	Baa1	18
Canary Islands	BBB+	3
Extremadura	Baa2	4
Basque Country	AA-	36
Murcia	Ba1	18
Navarra	AA-	5
Asturias	Baa1	2
Total		**655**

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**

In 2019, the Company collected €6,836 thousand of debt owed by various public administrations by arranging non-recourse factoring contracts with financial institutions that specialize in transactions of this type (€3,361 thousand in 2018).

Debt from official authorities that was more than three months past-due amounted to €73 thousand as of 31 December 2019 (€270 thousand in 2018), and no impairments had been recognized on those amounts.

Debt owed by public authorities as of 2019 and 2018 year-end in other territories where the Company operates was as follows:

Thousand euro	Credit rating	2019
France	Aaa	304
Austria	Aa1	186
Belgium	Aa3	272
Luxembourg	Aaa	19
Total		**781**

Thousand euro	Credit rating	2018
United Kingdom	Aa2	77
Austria	Aaa	210
Belgium	Aaa	261
Luxembourg	Aaa	22
Ireland	A3	2
Total		**572**

14.4 Receivable from group and associated undertakings

The balances and transactions with group undertakings in 2019 and 2018 are detailed in Note 29.

14.5 Short-term deposits

The "Current financial assets" item as of 31 December 2019 includes a number of fixed-term deposits amounting to €919 thousand.

As of 31 December 2018, that item contained a number of fixed-term deposits amounting to €1,049 thousand plus accrued interest at a fixed annual interest rate of 0.01%.

15. CASH AND CASH EQUIVALENTS

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

(thousand euro)	2019	2018
Cash on hand and at banks	13,857	16,922
Total	**13,857**	**16,922**

16. Share capital

16.1 Share capital

As of 31 December 2019, the Company's capital stock was represented by 222,649,287 fully subscribed and paid ordinary shares (222,649,287 ordinary shares in 2018) with a par value of €0.05 each, which are listed on the four Spanish stock exchanges.

According to information in the official registers of the National Securities Market Commission as of 31 December 2019, 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 premium account 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 2019, the share premium account amounted to €71,278 thousand euro (€71,278 in 2018).

16.3 Own shares

In 2019, the Company acquired 3,987,363 own shares for a total of €7,467 thousand. The Company sold 4,711,309 own shares for a total of €8,210 thousand, resulting in a gain of €596 thousand, which was recognized in the Company's reserves. As of 31 December 2019, the Company held 691,988 own shares representing 0.31% of capital stock.

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.

The changes in holdings in own equity instruments in 2019 and 2018 are as follows:

	No. of shares	Amount (euro)
Balance as of 31-12-2018	1,415,934	(2,243,260)
Own shares purchased	3,987,363	(7,467,370)
Sold	(4,547,678)	7,903,427
Share ownership plan	(163,631)	306,808
Balance as of 31-12-2019	**691,988**	**(1,500,395)**

	No. of shares	Amount (euro)
Balance as of 31-12-2017	1,373,745	(4,470,033)
Own shares purchased	2,433,649	(3,445,706)
Sold	(2,164,134)	4,947,991
Share ownership plan	(227,326)	724,488
Balance as of 31-12-2018	**1,415,934**	**(2,243,260)**

17. RESERVES AND PRIOR YEARS' INCOME

The detail of the Company's reserves as of 31 December 2019 and 2018 is as follows:

(thousand euro)	2019	2018
LEGAL AND BYLAW RESERVES		
Legal reserve	2,226	2,226
VOLUNTARY RESERVES		
Voluntary reserves	83,860	83,264
Merger reserve	215,160	215,160
OTHER RESERVES		
Other reserves	31	31
Difference due to redenomination of share capital in euro	2	2
Own shares and equity instruments	(289)	(275)
TOTAL	**300,990**	**300,408**

The balance of the "Prior years' loss" item is €234,838 thousand in 2019 (€203,723 thousand in 2018).

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 2019 and 2018, the Company had fully allocated the legal reserve (€2,226 thousand).

17.2 Voluntary reserves

In 2019, the balance of voluntary reserves was increased by €596 thousand as a result of transactions with own shares, with the result that the balance as of 31 December 2019 was €299,020 thousand.

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.

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 2019 and 2018 for Differences in conversion to PGC 2007 because of the treatment of exchange gains that have accrued but not been realized.
- Difference due to redenomination of share capital in euro (this reserve is restricted), in the amount of €2 thousand.

- An increase of €14 thousand with respect to 2017 (€275 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 €289 thousand as of 31 December 2019.

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 distributable 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 2019, the "Subsidies, donations and other legacies received" item of the Company's equity includes €1,845 thousand (€2,108 thousand in 2018) of refundable subsidies from official authorities at zero or below-market interest rates (notes 5.2 and 6.8) and €142 thousand (€265 thousand in 2018) 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)	2019	2018
Beginning balance	**2,373**	**3,415**
Increase	309	1,140
Recognised in profit or loss	(695)	(2,182)
Ending balance	**1,987**	**2,373**

In 2018, 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 2019 and 2018 is as follows:

(thousand euro)	2019	2018
Bonds and other marketable securities (Note 19.1)	16,549	16,501
Bank loans (Note 19.2)	15,291	24,279
Debt to official authorities (Note 19.3)	15,788	18,293
NON-CURRENT DEBTS AND ACCOUNTS PAYABLE	**47,628**	**59,073**
Bonds and other marketable securities (Note 19.1)	405	405
Bank loans (Note 19.2)	23,329	24,157
Debt to official authorities (Note 19.3)	3,779	1,238
Other financial liabilities	914	799
Suppliers	225	135
Debt to group undertakings (Note 29)	2,734	4,115
Accounts payable to related parties (Notes 19.4 and 29)	2,139	7,662
Sundry creditors	13,700	16,982
Personnel	4,330	4,126
Customer advances	1,656	2,201
Deferred revenues	1,257	-
CURRENT DEBTS AND ACCOUNTS PAYABLE	**54,468**	**61,820**
TOTAL DEBTS AND ACCOUNTS PAYABLE	**102,096**	**120,893**

In 2019, the balance of the current “Deferred revenues" item (€1,257 thousand) related to the upfront payment under the Lurbinectedin licensing agreement signed with Luye Pharma Group Ltd. in June 2019 (amounting to €4,452 thousand) which was not recognized as revenue in 2019 by application of the standard on revenue recognition. (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 €17 million 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 €17 million;
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 €453 thousand as of 31 December 2019 (€556 thousand in 2018).

19.2 Bank debt

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

	2019		2018	
(thousand euro)	Non-current	Current	Non-current	Current
Bank loans	15,291	10,497	24,279	10,080
Credit lines	-	10,547	-	11,941
Interest payable	-	44	-	72
Other interest-bearing debt	-	2,241	-	2,064
TOTAL DEBTS AND ACCOUNTS PAYABLE	**15,291**	**23,329**	**24,279**	**24,157**

Non-current bank debt includes a mortgage loan of €3,433 thousand (€4,360 thousand in 2018) described in Note 7.4, maturing in 2024 and bearing interest at Euribor 12 months plus a spread of 2.75 points. The current part of the loan amounted to €926 thousand as of 31 December 2019 (€903 thousand as of 31 December 2018) and is recognized under “Current debt to banks and official authorities".

In 2019, the Company obtained short-term financing from a financial institution for a total amount of €1,250 thousand referenced to the twelve-month Euribor plus a spread of 2.5%, and €1,000 thousand maturing in 2021 at an interest rate referenced to three-month Euribor plus a 1.75% spread. It also obtained funding amounting to €475 thousand maturing in the year at an interest rate of 1.55%.

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%.

The limit of the credit lines is €12,250 thousand (€14,750 thousand in 2018), of which the Company had drawn (including credit cards) €10,547 thousand as of 31 December 2019 (€11,941 thousand in 2018). The credit lines bore average interest of 1.9861% in 2019 (1.80% in 2018).

The maturity calendar of the bank debt in 2019 and 2018 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 €15,778 thousand as of 31 December 2019 (€18,293 thousand in 2018).

A total of €3,779 thousand were recognized as current under this heading in 2019 (€1,238 thousand in 2018).

These transactions do not accrue interest, except for €8,762 thousand that bear interest at between 0.06% and 1% (in 2018: €6,867 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 2019, five subsidized loans were received for a nominal amount of €1,559 thousand, with an initial fair value of €1,228 thousand, repayable in 10 years with a three-year grace period.

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.

The maturities of the amounts due to official authorities which are recognized at fair value as of

31 December 2019 and 2018 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)	2019	2018
Current financial liabilities		
Corporate income tax payable (Note 22)	2,074	2,077
VAT payable (Note 22)	65	116
Current accounts with Group undertakings	-	21
Loans to Zelnova Zeltia, S.A.	-	5,448
	2,139	**7,662**

The balances with Group undertakings under current financial assets and liabilities in 2019 consist mainly of those arising between the Company and its subsidiaries as a result of tax consolidation—both corporate income tax and value added tax (Note 22).

In 2018, this item contained a loan from Zelnova Zeltia to the Company along with accrued interest, amounting to €5,448 thousand. As described in Note 11.3, Zelnova Zeltia was sold in June 2019 and the loan was canceled.

19.5 Information on deferral of payments to suppliers.

Information on payments for commercial transactions performed in 2019 and 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:

	2019	2018
Average time taken to pay suppliers (days)	60	56
Proportion of transactions paid (days)	61	57
Proportion of transactions outstanding (days)	50	51
Total payments made (thousand euro)	22,881	25,292
Total payments outstanding (thousand euro)	3,611	3,251

20. DEFERRED TAXES

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

(thousand euro)	2019	2018
DEFERRED TAX ASSETS	**23,943**	**20,441**
Timing differences (Note 22)	3,095	3,304
Tax credits (Note 22)	9,665	6,283
Tax withholdings receivable	11,183	10,854
DEFERRED TAX LIABILITIES	**511**	**758**
Timing differences	511	758
DEFERRED TAXES (NET)	**23,432**	**19,683**

The "Tax withholdings receivable" account as of 31 December 2019 and 2018 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., among others.

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 2017	**570**	**125**	**695**
Charge (credit) to profit and loss	174	237	411
Charge to equity	(348)	-	(348)
Balance as of 31 December 2018	**396**	**362**	**758**
Charge (credit) to profit and loss	64	(182)	(118)
Charge to equity	(129)	-	(129)
Balance as of 31 December 2019	**331**	**180**	**511**

DEFERRED TAX ASSETS (thousand euro)	Tax credits	Timing differences	Withholdings	Total
Balance as of 31 December 2017	**6,577**	**3,519**	**10,424**	**20,520**
Charge (credit) to profit and loss	(294)	(215)	-	(509)
Other movements	-	-	430	430
Balance as of 31 December 2018	**6,283**	**3,304**	**10,854**	**20,441**
Charge (credit) to profit and loss	3,383	(209)		3,174
Other movements			328	328
Balance as of 31 December 2019	**9,665**	**3,095**	**11,183**	**23,943**

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

(thousand euro)	2019	2018
Subsidies, donations and legacies received	(129)	(348)
Total	**(129)**	**(348)**

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)	2019	2018
Product sales	62,806	64,927
Royalty revenues	3,102	3,916
Licensing agreement revenues	3,950	24,659
Provision of corporate services	491	509
TOTAL	**70,349**	**94,011**

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 (€62,246 thousand in 2019 and €64,619 thousand in 2018), and of Yondelis® intermediates (€560 thousand in 2019 and €308 thousand in 2018).

21.1.2 Royalty revenues

This item as of 31 December 2019 and 2018 refers to the amount of royalties on sales by Janssen Products Lp. ("Janssen"), which amounted to €2,487 thousand (€3,369 thousand in 2018) and €615 thousand of royalties from Taiho Pharmaceutical, Ltd.u (€547 thousand in 2018). In 2019 and 2018, Janssen commercialized Yondelis® under license for the entire world except the European Union and Japan.

In August 2019, PharmaMar and Janssen signed a framework transfer agreement under which Janssen transferred to PharmaMar all rights to the compound in the other territories licensed to Janssen, i.e. all the countries in the world except the United States, Europe and Japan (the latter licensed to Taiho Pharmaceuticals Co. Ltd). This transfer agreement will be phased in gradually, depending on the regulatory requirements in each country. Janssen will continue to sell the product until the commercialization authorizations have been transferred. PharmaMar plans to market Yondelis® in the transferred territories via local partners, and it has arranged contracts with STA and Megapharm, as described in Note 21.1.3.

Taiho Pharmaceutical holds the commercialization license for Japan.

21.1.3 Licensing revenues

The Company has licensing and co-development agreements with a number of pharmaceutical companies. The breakdown of, and changes in, revenues in 2019 and 2018 are as follows:

(thousand euro)	2019	2018
Chugai Pharma (Lurbinectedin)	-	18,112
Luye Pharma (Lurbinectedin)	3,200	-
Other agreements (Lurbinectedin)	300	210
Impilo (Yondelis®)	-	2,000
Other agreements (Yondelis®)	450	-
Other agreements (Aplidin®)	-	263
Seattle Genetics Inc (Other molecules)	-	4,074
Total	**3,950**	**24,659**

Yondelis®

Janssen Products LP

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

The commitments assumed by the 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 2019 and 2018.

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

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

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

As a result, in October 2019, the Company signed an agreement with Specialised Therapeutics Asia, Pte. Ltd. (STA) for the commercialization of Yondelis® (trabectedin) in Australia, New Zealand and Southeast Asia. Under the terms of the agreement, PharmaMar collected an upfront payment of €300 thousand and may collect additional revenues, including milestone payments.

PharmaMar will retain exclusive rights to produce the product and will sell the product to STA for commercial and clinical use. STA will apply to the TGA (Therapeutic Goods Administration) for formal approval to market Yondelis® (trabectedin) in Australia and for reimbursement under the Pharmaceutical Benefits Scheme (PBS).

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

Taiho Pharmaceutical Co

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

The commitments assumed by the 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 sale of Yondelis® in Japan were recognized in the amount of €615 thousand in 2019 (€547 thousand in 2018).

Aplidin®

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

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

The following agreements are still in force:

Specialised Therapeutics Asia Pte, Ltd

In 2015, Specialised Therapeutics Australia Pty, Ltd. and PharmaMar signed an agreement covering commercialization of Aplidin® in Australia and New Zealand and collected an upfront payment of €200 thousand.

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: PharmaMar 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 dexemethasone.

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

TTY Biopharm

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

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

Boryung Pharmaceutical Co.

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®. It also collected a €450 thousand regulatory milestone payments. PharmaMar will retain exclusive production rights and will supply the finished product to Boryung for commercial use.

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

Eip Eczacibasi Ilac Pazarlama A.S.

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 2019.

Pint Pharma International, S.A.

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

Lurbinectedin

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

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

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

As indicated in Note 1, in April 2018, Chugai notified PharmaMar of its decision to exercise its right to terminate the agreement without cause, by giving one year's advance notice. The two companies reached an agreement for early termination in June 2018. 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.

Specialised Therapeutics Asia Pte, Ltd

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

Boryung Pharmaceutical Co.

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

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

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

Luye Pharma

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

Jazz Pharmaceuticals

As described in Note 33, on 19 December 2019, PharmaMar and Jazz Pharmaceuticals signed an exclusive licensing agreement for marketing anti-tumor compound Lurbinectedin in the US for treating relapsed small-cell lung cancer. The entry into force of the agreement was conditional upon authorization by the US anti-trust authorities under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended. That authorization was obtained on 21 January 2020; consequently, the agreement came into force in 2020 and no revenues were recognized under this agreement in 2019.

Other molecules

Seattle Genetics Inc

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

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

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)	2019	2018
Spain	14,516	14,050
European Union	46,968	51,888
Americas	2,556	7,481
Japan	615	18,659
Other OECD countries	1,279	1,594
Other countries	4,415	339
Total	**70,349**	**94,011**

21.3 Foreign currency transactions

The detail of foreign currency transactions is as follows:

(thousand euro)	2019	2018
Assignment of intellectual property	6,302	8,285
Revenues	1,132	5,506
Purchases and services received	6,124	7,092
TOTAL	**13,558**	**20,883**

21.4 Merchandise, raw materials and other consumables consumed

(thousand euro)	2019	2018
Purchased in Spain	1,459	2,097
Purchased in other EU countries	181	375
Imports	82	86
Change in inventories	(677)	(185)
Total	**1,045**	**2,373**

21.5 Personnel expenses

(thousand euro)	2019	2018
Wages, salaries and similar	23,918	23,933
Indemnities	622	2,271
Employee welfare expenses		
Employer social security	4,085	4,297
Other welfare expenses	994	1,070
Total	**29,619**	**31,571**

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

NUMBER IN CATEGORY (MEN)	2019	2018
Executives and managers	14	13
Technical personnel	90	87
Clerical personnel	6	22
Commercial personnel	5	5
Assistants and others	14	16
Total	**129**	**143**

NUMBER IN CATEGORY (WOMEN)	2019	2018
Executives and managers	8	6
Technical personnel	110	119
Clerical personnel	37	39
Commercial personnel	5	4
Assistants and others	18	27
Total	**178**	**195**

Total	**307**	**338**

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

NUMBER IN CATEGORY (MEN)	2019	2018
Executives and managers	13	14
Technical personnel	89	78
Clerical personnel	6	21
Commercial personnel	5	5
Assistants and others	14	15
Total	**127**	**133**

NUMBER IN CATEGORY (WOMEN)	2019	2018
Executives and managers	8	6
Technical personnel	117	110
Clerical personnel	37	37
Commercial personnel	5	4
Assistants and others	18	26
Total	**185**	**183**

Total	**312**	**316**

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 2019 and 2018 is as follows:

(thousand euro)	2019	2018
Research & Development expenses	17,312	29,838
Leases and fees	1,899	2,122
Repairs and upkeep	1,696	1,608
Independent professional services	8,438	7,617
Transport	715	839
Insurance premiums	482	490
Advertising and public relations	8,369	10,287
Utilities	835	853
Other services	6,101	5,978
Other taxes	502	337
Losses, impairment and changes in trade provisions	-	(597)
TOTAL	**46,349**	**59,372**

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

During 2019, the impairment amounting to €81 thousand booked on a plot of land owned by the Company in Colmenar was partially reversed due to PharmaMar having an external appraisal that indicates that the asset's value is higher than its net carrying amount.

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 in 2018 related to the derecognition of 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), recognizing a result of €8,941.

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).

22. INCOME TAX AND TAX SITUATION

The balances with public authorities as of 31 December 2019 and 2018 are as follows:

	2019		2018	
(thousand euro)	Payable	Receivable	Payable	Receivable
Personal income tax	-	427	-	453
Social security	-	369	-	395
Other balances with public authorities	783	-	562	172
Total	**783**	**796**	**562**	**1,020**

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

In 2019, 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., 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 2019 to the income tax base is as follows:

2019 (thousand euro)	Income Statements	
BALANCE OF REVENUES AND EXPENSES IN THE YEAR	17,659	**-**
	Increase	**Decrease**
Corporate income tax	-	(8,123)
Permanent differences	20,633	(40,703)
Timing differences:		
Arising in the year	436	(101)
Arising in prior years	1,561	(2,107)
TAX BASE		**(10,744)**
Tax losses carried forward		-
TAXABLE INCOME		**(10,744)**

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

(thousand euro)	2019	2018
Current tax	**-**	53
Deferred tax	3,292	(1,289)
Other	(2)	**-**
Monetization	4,834	7,919
TOTAL TAX (REVENUE)/EXPENSE	**8,123**	**6,683**

In 2019, the company recognized €4,834 thousand in revenue as a result of monetizing research and development tax credits (€7,919 thousand in 2018).

As a result of tax consolidation in 2018, the Company recognized €53 thousand euro in current tax revenues due to offsetting tax losses for the period 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 2019 included mainly impairment of the loan from Genómica in the amount of €4,447 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 beginning in 2016. The entire provision may be deducted from the tax base in the year in which that company is disposed of or definitively liquidated.

The reduction in permanent differences in 2019 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 €1,911 thousand (€11,787 thousand in 2018).
- The proceeds from the sale of Zelnova Zeltia, S.A. (€28,232 thousand) and dividends received (€3,600 thousand).

In 2019, 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 2018), and reversal of the deferral of the gain on the land sale transaction with group company Zelnova Zeltia, S.A. (€1,561 thousand).

Deferred taxes include €3,383 thousand relating to capitalisation of prior years' tax losses as a function of the Company's tax budgeting exercise (Note 20).

As of 31 December 2019, 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	Tax credit as of 31-12-2018	Used in 2019	Earned in 2019	Unused as of 31-12-2019
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
2019	-	-	10,774	10,774
TOTAL	**254,323**	**-**	**10,774**	**265,097**

As of 31 December 2019, the unused tax credits earned by the Company, mainly for R&D, were as follows (in thousand euro):

Year earned	(thousand euro) Amount of credit as of 31-12-2019	Used in prior years	Used in 2019	Earned in 2019	Unused as of 31-12-2019	Expiring in
2002	12,096	-	-	-	12,096	2020
2003	13,023	-	-	-	13,023	2021
2004	9,400	-	-	-	9,400	2022
2005	10,565	-	-	-	10,565	2023
2006	10,251	-	-	-	10,251	2024
2007	9,477	-	-	-	9,477	2025
2008	10,059	-	-	-	10,059	2026
2009	8,625	-	-	-	8,625	2027
2010	8,211	-	-	-	8,211	2028
2011	7,980	-	-	-	7,980	2029
2012	6,915	-	-	-	6,915	2030
2013	9,076	-	-	-	9,076	2031
2014	11,403	(3,866)	-	-	7,537	2032
2015	12,963	(3,649)	-	-	9,314	2033
2016	19,213	(6,250)	-	-	12,963	2034
2017	16,559	-	(6,042)	-	10,517	2035
2018	14,197	-	-	-	14,197	2036
2019	-	-	-	10,800	10,800	2037
TOTAL	**190,013**	**(13,765)**	**(6,042)**	**10,800**	**170,206**	

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
Genómica	515
SYLENTIS	1,559
TOTAL PAYABLE	**2,074**

(thousand euro)	VAT
Genómica	28
TOTAL RECEIVABLE	**28**
SYLENTIS	65
TOTAL PAYABLE	**65**

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:

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

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

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

As of 31 December 2019, 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 (five 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 13 appeals before the Regional Economic-Administrative Tribunal (TEAR) and 1 appeal 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 assessments is zero in all cases, since the companies in the Spanish tax group have tax losses and international double taxation tax credits which were applied in the tax authorities' proposal, in accordance with the regulations in force in each year. Consequently, in the worst case scenario, in which all of the tax group's appeals were to fail, the tax payable would be zero and no late payment interest would accrue.

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

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

23. FINANCIAL INCOME

The detail of financial income is as follows:

(thousand euro)	2019	2018
FINANCIAL REVENUES	**872**	**722**
Marketable securities and other equity instruments	**872**	**722**
Group and associated undertakings (Note 29.2)	861	712
Third parties	11	10
FINANCIAL EXPENSES	**(3,172)**	**(3,506)**
On debts to third parties	(3,172)	(3,506)
EXCHANGE DIFFERENCES	**(39)**	**43**
IMPAIRMENT AND INCOME FROM DISPOSAL OF FINANCIAL INSTRUMENTS	**(4,560)**	**(14,281)**
Impairment of group undertakings	(4,560)	(14,281)
FINANCIAL INCOME	**(6,899)**	**(17,022)**

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

Additionally, in 2019 the "Impairment of group undertakings" item reflects mainly impairment of the loan to a group undertaking, Genómica, S.A., in the amount of €4,447 thousand, due to doubts about its recoverability.

Impairment was recognised in connection with PharmaMar's UK subsidiary (€70 thousand) and the Belgian subsidiary (€43 thousand).

In 2018, that item reflected mainly the impairment of the loan granted to a group undertaking, Genómica, S.A. since, 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 (€8,400 thousand impairment of the holding and €5,881 thousand impairment of the loan).

24. DISCONTINUED OPERATIONS

The "Prior year's income from discounted operations, net of taxes" item amounted to €31,821 thousand as of 31 December 2019 (€17,275 thousand as of 31 December 2018).

The balance in 2019 related to the following items.

- In June, PharmaMar sold 100% of subsidiary Zelnova Zeltia, S.A. to Allentia Invest, S.L. and Safoles, S.A. for a total of €33,417 thousand. The value of PharmaMar's holding in Zelnova Zeltia, S.A. before the sale was €4,385 thousand. This transaction provided the Company with a profit of €28,239 thousand after deducting inherent expenses (€793 thousand).
- Interest expenses on the loan that Zelnova Zeltia, S.A. had granted to the Company that was canceled on 28 March 2019, in the amount of €28 thousand (€157 thousand in 2018).
- Revenues rom services to Zelnova Zeltia, S.A. through 28 June 2019, in the amount of €2 thousand.
- Revenues from holdings in equity instruments amounting to €3,608 thousand, mainly dividends received (€20 thousand in 2018).

The amount of this item as of 31 December 2018 related to the following:

- 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 inherent expenses (€502 thousand).
- Revenues from services provided by the Company to Xylazel, S.A. in the amount of €126 thousand.
- Revenues from holdings in equity instruments amounting to €753 thousand, mainly dividends received.

25. SHARE-BASED PAYMENTS

At 2019 year-end, PharmaMar and the Group companies had three Employee Share Ownership Plans in force for Group employees and executives (not including directors of Pharma Mar, S.A.) who receive annual variable remuneration, have an indefinite contract, have passed any trial period and attained at least 50% of the objectives set for the year by their department head or their hierarchical superior.

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

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

Beneficiaries hold the voting and dividend rights to the shares delivered to them from the date of effective delivery, although those shares are subject to lock-up for three years from that date (lock-up period); nevertheless, some of the shares will be released from lock-up 18 months after delivery: specifically, the number of shares resulting from dividing the total number of shares that were delivered by the assigned coefficient plus one. The delivery of those shares, which must remain locked up for the above-mentioned lock-up period, is subject to a condition subsequent which is understood to be met in the event of voluntary severance or fair dismissal of the beneficiary. In the event of cessation of employment due to a cause other than those two, the lock-up is lifted.

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

On 27 May 2014, the Shareholders' Meeting of Zeltia, S.A. (a company that was merged into PharmaMar, which succeeded Zeltia, S.A. in the rights and obligations inherent to that Plan) approved a new Share Ownership Plan that was executed in May 2015. The Company allocated 600,000 own shares to execute this plan.

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

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

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

This Plan concluded in March 2019 since the four-year lock-up period had expired, and the shares that were under lock-up were released. A total of 76,863 shares under this plan were released from lock-up.

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

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

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

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

In relation to this Plan, a total of 47,325 shares have been canceled: 12,955 shares purchased by employees and 34,370 shares contributed by the Company.

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

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

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

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

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

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

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

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

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

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

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

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

The Shareholders' Meeting of Pharma Mar, S.A. on 26 June 2019 approved a new Share Ownership Plan with a double objective, as in previous years: to reward employees and executives whose performance in 2019 was satisfactory, and to incentivize beneficiaries to stay in the Group. The

maximum number of shares that can be allocated for the execution of this plan was set by the Shareholders' Meeting at 500,000, which will be taken from treasury stock held by the Company at the time the plan is implemented. The Shareholders' Meeting determined the Plan's beneficiaries as Group employees and executives (excluding directors of Pharma Mar, S.A.) who have a permanent contract, have completed any trial period by 31 December 2019 and collect variable remuneration in 2020 relating to attainment of objectives in 2019, provided that they attained over 50% of the targets established by their department head or hierarchical superior.

The Shareholders' Meeting empowered the Board of Directors to determine the other terms and conditions of the Plan. At the date of authorizing these financial statements, the Plan was pending execution, and the Board of Directors of PharmaMar had yet to establish the conditions of same under the powers granted specifically for this purpose by the Shareholders' Meeting.

The following table shows the number of shares under each plan as of 31 December 2019:

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

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

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 that are in dispute (Note 22). 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 2019 and 2018 are detailed in Note 9.

27.3 Share-based incentive plans

- Under the fifteenth plan (June 2016) for delivery of shares free of charge, as of 31 December 2019, 107,431 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 2019, 121,108 shares delivered and subject to lock-up will be released in April 2021.

- Under the seventeenth plan (June 2018) for delivery of shares free of charge, as of 31 December 2019, 158,239 shares will be released in two tranches: 45,415 in December 2020 and 112,824 in June 2022.

27.4 Other commitments

The company has provided comfort letters to credit institutions. Those comfort letters were mainly for Genómica, for a total of €1,700 thousand.

The Company has also obtained several credit and guarantee lines from financial institutions in the amount of €1,633 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 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 €1,983 thousand.

28. DIRECTOR AND SENIOR MANAGEMENT REMUNERATION

28.1 Director remuneration.

The following table shows the remuneration paid in 2019 and 2018 to directors of PharmaMar:

(thousand euro)	2019	2018
Fixed remuneration for executive directors	1,154	1,141
Variable remuneration for executive directors	267	228
Fixed remuneration for belonging to the Board of Directors	678	606
Board and Board committee attendance fees	497	423
Fixed remuneration for belonging to Board committees	543	537
Remuneration for belonging to Boards of other Group companies	53	101
Remuneration for Lead Independent Director	17	17
Other remuneration	356	344
Total	**3,565**	**3,397**

The "Other remuneration" item in 2019 and 2018 refers to certain benefits paid to the Company's Chairman and Vice-Chairman, such as casualty and health insurance under the group policy for

Company employees. The Chairman also has an executive office at the Company's operational headquarters, communication equipment, means of payment, support staff, security systems and personnel, and a vehicle commensurate with his functions. Additionally, each year the Company pays €12 thousand in premiums for life and saving insurance (life insurance-savings plan) for each of the two executive directors.

With respect to the executive director's variable remuneration, €267 thousand have accrued to date as a result of evaluation of objectives approved by the Board of Directors at its meeting of 26 February 2020, based on a proposal by the Appointments and Remuneration Committee.

As of 31 December, the advances and loans granted by the Group to the members of the Board of Directors in 2019 amounted overall to €45 thousand, on which interest is not earned in accordance with the transitory provisions of the Personal Income Tax Act.

28.2 Senior management remuneration and loans

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

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

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

On 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 sale 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 (€13 thousand in 2018).

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 2019 and 2018 is as follows:

(thousand euro) 2019	Non-current assets	Current assets	Current liabilities
Loans and other financial assets/liabilities	**2,198**	**695**	**2,139**
Genómica, S.A.U.	-	29	515
Sylentis, S.A.U.	2,198	11	1,624
Noscira, S.A. en liquidación	-	655	-
Trade accounts receivable/payable	**-**	**4,099**	**2,734**
Pharma Mar, USA	-	-	469
Pharma Mar, Srl	-	1,629	-
Pharma Mar, GmbH	-	1,203	424
Pharma mar, Sarl	-	650	1,385
Pharma Mar, Sprl	-	44	177
Pharma Mar, Ges.m.b.H.	-	12	177
Pharma Mar, AG	-	561	102
TOTAL	**2,198**	**4,794**	**4,873**

(thousand euro) 2018	NON-CURRENT ASSETS	CURRENT ASSETS	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, S.A. en liquidación	-	631	-
Zelnova Zeltia, S.A.	-	55	5,470
Trade accounts receivable/payable	**-**	**5,186**	**4,115**
Pharma Mar, USA	-	-	493
PharmaMar, AG	-	760	95
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
Genómica, S.A.U.	-	-	70
Sylentis, S.A.U.	-	31	-
Total	**20,636**	**6,710**	**11,777**

Under non-current assets, loans and other financial assets refer to loans granted by the Company to its subsidiaries. Two loans, granted to Genómica and Noscira (en liquidación) for a combined total of €10,887 thousand, were written off (€13,492 thousand in 2018).

The detail of current assets with Group undertakings in 2019 is as follows:

(thousand euro) 2019	Current accounts	Due for purchases	Total
Genómica, S.A.U.	29	-	29
Sylentis, S.A.U.	11	-	11
PharmaMar, AG	-	561	561
Pharma Mar, Srl	-	1,629	1,629
Pharma Mar, GmbH	-	1,203	1,203
Pharma Mar, Sarl	-	650	650
Pharma Mar, Sprl	-	44	44
Pharma Mar, Ges.m.b.H.	-	12	12
Noscira, S.A. en liquidación	655	-	655
Total	**695**	**4,099**	**4,794**

The amount of the "Due for purchases" item (€4,099 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 2019 is:

(thousand euro) 2019	Taxes	Services delivered	Total
Genómica, S.A.U.	515	-	515
Sylentis, S.A.U.	1,624	-	1,624
Pharma Mar USA	-	469	469
PharmaMar, AG	-	102	102
PharmaMar, GmbH	-	424	424
Pharma Mar, Sarl	-	1,385	1,385
Pharma Mar, Sprl	-	177	177
Pharma Mar, Ges.m.b.H.	-	177	177
Total	**2,139**	**2,734**	**4,873**

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, €2,074 thousand relate to corporate income tax and €37 thousand to VAT pending recovery in connection with 2019.

The "Services delivered" item contains an amount of €2,734 thousand relating mainly to services that subsidiaries invoice to the Company as "Reimbursable expenses".

29.1 Transactions with Group undertakings

The amounts of the Company's transactions with group undertakings as of 31 December 2019 and 2018 are as follows:

TRANSACTIONS WITH GROUP UNDERTAKINGS Expenses (thousand euro)	2019	2018
Services received		
Genómica, S.A.U.	93	167
Pharma Mar, GmbH	634	1,697
Pharma Mar, USA	1,211	948
PharmaMar, AG	160	134
Pharma mar, Sarl	1,825	1,677
Pharma Mar, Ltd	(5)	951
Pharma Mar, Sprl	642	650
Pharma Mar, Ges.m.b.H.	936	1,090
Financing		
Zelnova Zeltia, S.A. (**) (Note 24)	28	157
Total expenses	**5,524**	**7,471**

TRANSACTIONS WITH GROUP UNDERTAKINGS REVENUES (thousand euro)	2019	2018
Sales		
PharmaMar, AG	1,132	1,312
Pharma Mar, Srl	15,494	14,818
Pharma Mar, GmbH	12,517	11,307
Pharma Mar, Sarl	2,454	3,187
Services provided		
Genómica, S.A.U.	19	20
Sylentis, S.A.U.	10	30
Pharma Mar, Srl	203	24
Pharma Mar, GmbH	434	269
PharmaMar, AG	3	-
Pharma Mar, Ltd	-	35
Pharma Mar, Sprl	33	15
Pharma mar, Sarl	180	93
Pharma Mar, GesmbH	38	23
Zelnova Zeltia, S.A. (**) (Note 24)	3	20
Xylazel, S.A.(*) (Note 24)	-	126
Financing		
Genómica, S.A.U.	192	88
Sylentis, S.A.U.	640	599
Noscira, S.A. en liquidación	30	25
Zelnova Zeltia, S.A. (**) (Note 24)	8	-
Xylazel, S.A.(*) (Note 24)	-	11
Other		
Zelnova Zeltia, S.A. (**) (Note 24)	-	2,160
Genómica, S.A.U.	35	-
TOTAL REVENUES	**33,425**	**34,162**

(*) Transactions performed by the Company up to 20 September 2018 (Note 24).
(**) Transactions performed by the Company up to 28 June 2019 (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 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 2019 amounted to €5,553 thousand (€6,755 thousand in 2018). €366 thousand relate to guarantees that had to be presented for Yondelis® distribution tenders.

31. ENVIRONMENT

There were no material investments in environmental matters in 2019 and 2018.

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 €46 thousand in 2019 (€44 thousand in 2018) 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 €290 thousand in 2019 (€307 thousand in 2018) for the statutory audit (of Pharma Mar, S.A. and dependent companies), €238 thousand in 2019 for audit services other than the statutory audit (€300 thousand in 2019), and €436 thousand in 2019 for other verification services (€200 thousand in 2018).

33. SUBSEQUENT EVENTS

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

In accordance with the Company's revenue recognition policy described in note 2.2, that upfront payment will be recognized initially as deferred revenues and will subsequently be recognized in the profit and loss account on the basis of fulfillment of the commitments established based on the degree of progress with the project. On the basis of the degree of fulfilment of the obligations projected for 2020, management estimates that the amount of revenue to be recognized could exceed €100 million.

On 5 February 2020, the Company collected €4,834 thousand from the Spanish tax authorities for monetization of certain research and development tax credits under 2018 corporate income tax.

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

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

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 biopharmaceutical business (diagnostics and RNAi).

Until June 2019, the Company had a number of subsidiaries in the consumer chemicals business, which it has fully divested in the last two years.

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 to Yondelis® being authorized for sale in numerous markets and Aplidin® being authorized in Australia.
- One oncological compound currently being evaluated for marketing approval by the FDA and other antitumor candidates in earlier phases of development for various indications.
- Generation of revenues in the Oncology business from sales of Yondelis®.
- Out-licensing agreements in advantageous conditions for other compounds in development.

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

The key components of PharmaMar's strategy are:

- Achieve regulatory approval for Lurbinectedin for treating relapsed small cell lung cancer in both the United States and Europe.
- Leverage and expand our existing commercial infrastructure to efficiently market Lurbinectedin in Europe and obtain the support of partners to sell it in other geographies

outside the United States, since an out-licensing agreement for that territory was signed in 2019.
- Maximize the commercial value of Lurbinectedin in markets outside the US and Europe through partnerships with third parties that may 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 in the Oncology segment, amounting to €62.8 million (€64.9 million in 2018), were almost entirely from Yondelis®, and include sales in 2019 of Yondelis® and Aplidin® raw materials to our partners and compassionate-use sales of Lurbinectedin for a total of €1.1 million.

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

Revenues from licensing and other co-development agreements amounted to €4 million in 2019 (€24.7 million in 2018). The breakdown of these revenues in 2019 is as follows:

- An out-licensing agreement with Luye Pharma Group for the development and marketing of Lurbinectedin for treating small cell lung cancer in the territories of China, Hong Kong and Macao. Under this agreement, PharmaMar collected an upfront payment of €4.5 million, of which €3.2 million were recognized as revenues in 2019.

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

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

2.2. International revenues

Out of total 2019 revenues, 79%, i.e. €56 million, came from sales and transactions in other countries (85%, €80 million in 2018).

2.3. Gross margin

The gross margin was 92% of total revenues in 2019 (91% in 2018) (*).

(*) 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 2019 relating to clinical trials with Lurbinectedin.

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

The next table shows the changes in amounts capitalized for compounds in 2019:

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

(Thousand euro)

The bulk of R&D spending in 2019 was on 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 declined by 6.2% year-on-year as a result of the staff reorganization performed in 2018. Expenditure on outside services was cut by 23.1%, mainly as a result of savings on commercial costs.

Fixed asset impairments relate to partial reversal on a plot of land owned by the Company in Colmenar Viejo, based on an external appraisal.

	2019	**2018**	**Change**
Personnel expenses	29,619	31,571	-6.2%
Outside services	45,847	59,632	-23.1%
Purchases	4,801	5,800	-17.2%
Taxes other than income tax	502	337	49.0%
Depreciation and amortization	22,045	22,953	-4.0%
Fixed asset impairment	(81)	27,028	
Fixed asset derecognition	-	8,941	
	102,733	**156,262**	**-34,3%**

2.6. Income for the year

The Company reported a profit of €17.6 million in 2019 as a result of lower operating expenses in the year and of recognizing €4.8 million in revenues as a result of monetizing certain R&D tax credits under 2018 income tax. That amount was collected on 5 February 2019.

2.7. Other events that impacted the 2019 financial statements

In 2019, PharmaMar promoted the most advanced compound in its pipeline, Lurbinectedin, and reached agreements with partners in new geographical areas to maximally exploit its compounds under development.

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

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

In August 2019, PharmaMar and Janssen signed a framework transfer agreement under which Janssen transferred to PharmaMar all rights to Yondelis® in the other territories licensed to Janssen, i.e. all the countries in the world except the United States, Europe and Japan (the latter licensed to Taiho Pharmaceuticals Co. Ltd). This transfer agreement will be phased in gradually, depending on the regulatory requirements in each country. Janssen will continue to sell the product until the commercialization authorizations have been transferred. PharmaMar plans to market Yondelis® in the transferred territories via local partners.

In December 2019, PharmaMar filed a new drug application (NDA) with the FDA for accelerated approval of Lurbinectedin as monotherapy for treating patients with relapsed small-cell lung cancer, and a decision is expected in the coming months.

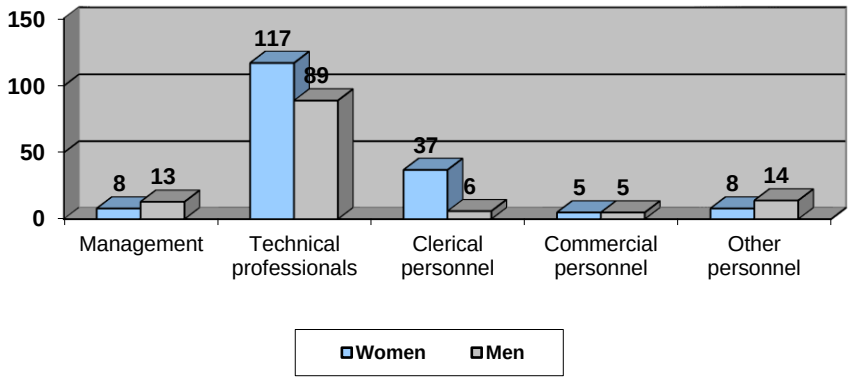
On 19 December 2019, PharmaMar and Jazz Pharmaceuticals signed an exclusive licensing agreement for marketing anti-tumor compound Lurbinectedin in the US for treating relapsed small-cell lung cancer. The entry into force of the agreement was conditional upon authorization by the US anti-trust authorities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

2.8. Personnel

PharmaMar had 312 employees at year-end (316 in 2018).

Women account for 59.3% of the workforce (57.9% in 2018).

The graph below illustrates segmentation by gender and category:



2.9. Environmental issues

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

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

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 2019 and pending payment at the end of the year in relation to the maximum legal payment periods envisaged in Act 15/2010 is as follows:

	2019 Days	2018 Days
Average time taken to pay suppliers (days)	60	56
Proportion of transactions paid (days)	61	57
Proportion of transactions outstanding (days)	50	51
Total payments made (thousand euro)	22,881	25,292
Total payments outstanding (thousand euro)	3,611	3,251

The average supplier payment lag in the year between 1 January and 31 December 2019 was 60 days (56 days in 2018).

3. Liquidity and Capital

The balance of "cash + cash equivalents" and "current financial assets" amounted to €14.8 million euro as of 31 December 2019 (€18 million euro in 2018).

Short-term financial debt amounted to €28.4 million (€26.6 million in 2018) and long-term financial debt amounted to €47.6 million (€59.1 million in 2018).

New loans were arranged in 2019 for an amount of €2.7 million, while €11 million of long-term loans were repaid on maturity.

As of 31 December 2019, the Company had €1.7 million available in credit lines. It arranged new credit lines for €4 million in the early months of 2020.

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

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

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

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

The Company 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.

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

4. Main Risks and Uncertainties

4.1. Situation risks

Competition.

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

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

Industrial property. Patents.

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

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

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

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

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

Regulation

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

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

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

Capital availability

Because the markets are not always open and PharmaMar makes significant R&D investments each year, the group seeks a range of funding sources, in both the credit and capital markets, to

finance its growth, implement its strategy and generate income in the future.

PharmaMar has spread out its risk considerably among various credit institutions, which provides it with greater flexibility and limits the impact in the event that any of its loans are not rolled over.

It has also issued long-term debt in order to diversify its funding sources.

Shareholders

As in the case of any listed company, there is the risk that a shareholder may consider that a decision by the Company's Board of Directors or executives is detrimental 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 detrimental 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 is certified to the ISO 14001 standard, a management tool for the systematic oversight of the degree of interaction between the companies' activities and processes and the environment, the goal being to enhance environmental performance and minimize the impact. The environmental management system is audited annually by independent firms.

Product development

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, the Company 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.

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

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

There are control systems in place in order to be aware of who is in possession of such information at any given time, mainly in order to comply with Regulation (EU) No 596/2014 of the European Parliament and of the Council of 16 April 2014 on market abuse and with Spain's Securities Market Act, in the area of inside information.

The Market Abuse Regulation provides a tool for regulators to investigate possible market abuses due to the use of inside information, namely "insider lists", a list of all the persons who have access to inside information that the Company must draw up and keep updated. The Rules of Conduct Steering Committee, made up of four members appointed by the Board of Directors, is tasked with ensuring proper application of the Internal Rules of Conduct in matters related to the securities market.

Information systems

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.

Interest rate risk on cash flows and fair values

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

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

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

Exchange rate risk

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

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

4.4. B. Credit risk

Credit risk arises from financial assets arranged with banks, mainly deposits.

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

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

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

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

4.4. C. Liquidity risk

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

Prudent liquidity risk management entails having sufficient cash and marketable securities, financing via sufficient credit facilities, and the capacity to settle market positions. The goal of the Company's finance department is to maintain flexibility in funding by having credit lines and sufficient funds in financial assets to cover obligations.

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 Company 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 Company tries to identify risks and then minimize them.

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

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

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

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

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

6. Outlook for 2020

The year 2020 may be a landmark one for PharmaMar as Lurbinectedin is expected to be approved in the US for commercialization as monotherapy for the treatment of small cell lung

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

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

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

7. R&D and Innovation

Research and development is vital to PharmaMar's strategy.

The main progress and results in R&D in 2019 are as follows:

a) Yondelis®:

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

Soft Tissue Sarcoma

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

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

Ovarian cancer

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

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

Other indications

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

b) Lurbinectedin

Small-cell lung cancer

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

In November 2018, enrolment concluded for the Phase II trial with Lurbinectedin as monotherapy in selected indications such as small cell lung cancer, neuroendocrine tumors, carcinoma of the head and neck, germ cell cancer, endometrial cancer, bile duct cancer, cancer of unknown primary, Ewing sarcoma and breast cancer with BRCA 1/2 mutation. A total of 335 patients were treated, 105 of them in the small-cell lung cancer cohort. That cohort attained the trial's primary endpoint: overall response rate. For that reason, in December, PharmaMar filed a new drug application (NDA) with the FDA for accelerated approval of Lurbinectedin as monotherapy for treating patients with relapsed small-cell lung cancer. Under the FDA's accelerated approval process, an application for approval for drugs for serious conditions that fill an unmet medical need can be presented on the basis of the results of Phase II trials.

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

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

Recruitment in that pivotal trial, which compares the activity and safety of the combination of Lurbinectedin, a drug of marine origin, plus doxorubicin, against topotecan or CAV (cyclophosphamide, adriamycin and vincristine) for treating patients with small cell lung cancer who have relapsed after a first round of platinum treatment, concluded in August 2018. A total of 613 patients were enrolled at hospitals in Europe, the United States, Latin America and the Middle East. The trial is currently monitoring survival, which is its primary endpoint. The next update of ATLANTIS data will be given when they are available, which is expected to occur in the first half of 2020.

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

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

Combination trials

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

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

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

Phase I trial in Japan

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

d) PM184

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

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. This trial is still actively recruiting.

8. Acquisition and disposal of own shares

As of 31 December 2019, the Company's capital amounted to €11,132 thousand and was represented by 222,649,287 bearer shares with a par value of €0.05 per share. All these shares were fully subscribed and paid and have the same political and economic rights.

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

In 2019, the Company acquired 3,987 thousand own shares for a total of €7,467 thousand. The Company sold 4,711 thousand own shares for a total of €8,210 thousand, resulting in a gain of €596 thousand, which was recognized in the Company's reserves.

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

9. Share information

General situation

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

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

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

PharmaMar Stock Market indicators

Share information 2019

Total number of shares	**222,649,287**
Par value (euro)	0.05
Average daily trading (no. of shares)	**1,260,500**
Average daily trading (euro)	2,560,122
Trading days	**255**
Year trading low (13 September) (euro)	279,398
Year trading high (19 July) (euro)	**29,605,267**
Total trading in the year (million euro)	652.8
Euro:	
Lowest share price (26 October)	1.20
Highest share price (15 January)	**3.60**
Share price as of 31 December	3.57
Average share price in the year	**1.83**
Market capitalization as of 31 December (million euro)	**794.80**

***Source**: Bloomberg*

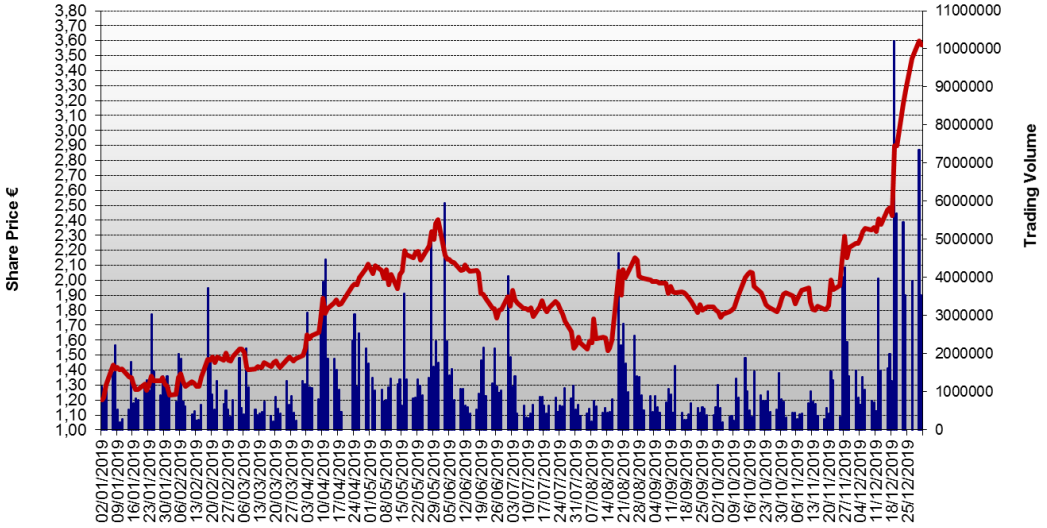
PharmaMar's share performance

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

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

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

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



***Source**: Bloomberg*

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

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

FINANCIAL STATEMENTS AND DIRECTORS' REPORT OF PHARMA MAR, S.A. FOR THE YEAR ENDED 31 DECEMBER 2019

These Financial Statements and Directors' Report of PHARMA MAR, S.A. for the period from 1 January 2019 to 31 December 2019 were drafted and authorized in compliance with the provisions of articles 34 and 35 of the Commercial Code and 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 99-page document on 26 February 2020.

The Board of Directors:

José Mª Fernández Sousa-Faro Chairman	Pedro Fernández Puentes Vice-Chairman
Carlos Pazos Campos Director	Eduardo Serra Rexach Director (Representing de EDUARDO SERRA Y ASOCIADOS, S. L. on the Board)
José Leyte Verdejo Vocal (Representing de ROSP CORUNNA Participaciones Empresariales, S.L. on the Board)	Carlos Solchaga Catalán Director
Montserrat Andrade Detrell Director	Valentín de Torres-Solanot del Pino Director
José Félix Pérez-Orive Carceller Director	Ana Palacio Vallelersundi Director
Mª Blanca Hernández Rodríguez Director	

Certificate by the Secretary of the Board of Directors to the effect that, after authorization by the Board of Directors, on 26 February 2020, of the Financial Statements and Directors' Report of PHARMA MAR, S.A. for the year ended 31 December 2019, 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 Directors' Report and the last page of the document. Which I certify in Madrid on 26 February 2020.

Secretary of the Board of Directors

Juan Gómez Pulido

PHARMA MAR GROUP
(Pharma Mar, S.A. and subsidiaries)

Consolidated Financial Statements and Consolidated Directors' Report
as of 31 December 2019

Pharma Mar, S.A. and subsidiaries

Independent auditor´s report on the consolidated annual accounts
December 31, 2019

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

Independent auditor´s report on the consolidated annual accounts

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

Report on the consolidated annual accounts

Opinion

We have audited the consolidated annual accounts of Pharma Mar, S.A. (the Parent company) and its subsidiaries (the Group), which comprise the balance sheet as at December 31, 2019, and the income statement, statement of other comprehensive income, statement of changes in equity, cash flow statement and related notes, all consolidated, for the year then ended.

In our opinion, the accompanying consolidated annual accounts present fairly, in all material respects, the equity and financial position of the Group as at December 31, 2019, as well as its financial performance and cash flows, all consolidated, for the year then ended, in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS-EU) and other provisions of the financial reporting framework applicable in Spain.

Basis for opinion

We conducted our audit in accordance with legislation governing the audit practice in Spain. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated annual accounts* section of our report.

We are independent of the Group in accordance with the ethical requirements, including those relating to independence, that are relevant to our audit of the consolidated annual accounts in Spain, in accordance with legislation governing the audit practice. In this regard, we have not rendered services other than those relating to the audit of the accounts, and situations or circumstances have not arisen that, in accordance with the provisions of the aforementioned legislation, have affected our necessary independence such that it has been compromised.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated annual accounts of the current period. These matters were addressed in the context of our audit of the consolidated annual accounts as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

R. M. Madrid, hoja 87.250-1, folio 75, tomo 9.267, libro 8.054, sección 3ª
Inscrita en el R.O.A.C. con el número S0242 - CIF: B-79 031290

Key audit matters	How the matters were addressed in the audit

Financial capacity

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

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

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

We focused on this area as we consider it a key audit matter to assess if the Group has sufficient funds to execute the budgeted research plan and make its short-term payment commitments, and the appropriate disclosure in the notes to the accompanying consolidated financial statements.

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

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

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

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

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

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

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

Other information: Consolidated management report

Other information comprises only the consolidated management report for the 2019 financial year, the formulation of which is the responsibility of the Parent company´s directors and does not form an integral part of the consolidated annual accounts.

Our audit opinion on the consolidated annual accounts does not cover the consolidated management report. Our responsibility for the information contained in the consolidated management report is defined in legislation governing the audit practice in Spain, which distinguishes two different levels of responsibility:

a) A specific level applicable to the consolidated statement of non-financial information, as well as certain information included in the Corporate Governance Report, as defined in article 35.2 b) of the Auditing Act 22/2015, which solely requires that we verify whether the aforementioned information has been included in the management report or, where applicable, that the management report includes a reference to a separate statement of non-financial information as stipulated under prevailing regulations, and if not, we are obliged to disclose that fact.

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

On the basis of the work performed, as described above, we have verified that the non-financial information mentioned in paragraph a) above has been provided in a separate report, the "Consolidated Statement of Non-Financial Information" referred to in the consolidated management report, that the information in the Corporate Governance Report, mentioned in that paragraph, has been included in the consolidated management report and that the rest of the information contained in the consolidated management report is consistent with that contained in the consolidated annual accounts for 2019 and its content and presentation are in accordance with applicable regulations.

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

The Parent company´s directors are responsible for the preparation of the accompanying consolidated annual accounts, such that they fairly present the consolidated equity, financial position and financial performance of the Group, in accordance with International Financial Reporting Standards as adopted by the European Union and other provisions of the financial reporting framework applicable to the Group in Spain, and for such internal control as the directors determine is necessary to enable the preparation of consolidated annual accounts that are free from material misstatement, whether due to fraud or error.

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

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

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

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

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

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

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

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

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

- Conclude on the appropriateness of the Parent company´s directors´ use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group´s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor´s report to the related disclosures in the consolidated annual accounts or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor´s report. However, future events or conditions may cause the Group to cease to continue as a going concern.

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

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated annual accounts. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Parent company´s audit committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Parent company´s audit committee with a statement that we have complied with relevant ethical requirements, including those relating to independence, and we communicate with the audit committee those matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Parent company´s audit committee, we determine those matters that were of most significance in the audit of the consolidated annual accounts of the current period and are therefore the key audit matters.

We describe these matters in our auditor´s report unless law or regulation precludes public disclosure about the matter.

Report on other legal and regulatory requirements

Report to the Parent company´s audit committee

The opinion expressed in this report is consistent with the content of our additional report to the Parent company's audit committee dated February 26, 2020.

Appointment period

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

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

Services provided

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

PricewaterhouseCoopers Auditores, S.L. (S0242)

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

February 26, 2020

CONSOLIDATED BALANCE SHEET (thousand euro)	Note	31-12-19	31-12-2018
ASSETS			
Non-current assets			
Property, plant and equipment	6	22,452	26,637
Investment property	7	845	6,071
Intangible assets	8	6,074	16,658
Right-of-use assets	2	3,345	0
Goodwill	9	0	2,548
Financial assets	10	1,029	884
Deferred tax assets	24	40,984	29,768
		74,729	**82,566**
Current assets			
Inventories	15	8,902	20,616
Trade receivables	13	11,530	23,549
Financial assets at amortized cost	10	3,257	4,131
Other assets	14	8,649	4,069
Cash and cash equivalents	16	17,638	22,745
		49,976	**75,110**
TOTAL ASSETS		**124,705**	**157,676**

CONSOLIDATED BALANCE SHEET (thousand euro)	Note	31-12-19	31-12-2018
Equity			
Share capital	17	11,132	11,132
Share premium account	17	71,278	71,278
Own shares	17	(1,499)	(2,243)
Revaluation reserves and other reserves		15	12
Retained earnings and other reserves		(69,552)	(58,806)
Total capital and reserves attributable to equity-holders of the parent company		**11,374**	**21,373**
Non-controlling interests	19	**(3,918)**	**(3,900)**
TOTAL EQUITY		**7,456**	**17,473**
LIABILITIES			
Non-current liabilities			
Financial debt	23	53,063	64,922
Lease liabilities	3	1,719	0
Deferred revenues	21	1,851	2,120
Other liabilities		177	779
		56,810	**67,821**
Current liabilities			
Supplier and other accounts payable	20	19,332	34,511
Financial debt	23	29,655	28,483
Lease liabilities	3	1,678	0
Provisions for other liabilities and expenses	26	5,734	6,266
Deferred revenues	21	1,465	168
Other liabilities	22	2,575	2,954
		60,439	**72,382**
Total liabilities		**117,249**	**140,203**
TOTAL EQUITY AND LIABILITIES		**124,705**	**157,676**

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

CONSOLIDATED INCOME STATEMENTS			
(thousand euro)	**Note**	**31-12-19**	***Restated 31-12-2018**
Revenues from contracts with customers:			
Product sales	4 & 27	78,529	79,772
Licensing and development agreements	4 & 27	3,950	24,659
Royalties	4 & 27	3,102	3,916
Services provided		238	424
		85,819	**108,771**
Cost of sales	5	(5,228)	(4,925)
Gross income		**80,591**	**103,846**
Marketing expenses	30	(23,936)	(26,363)
Administrative expenses	29	(13,881)	(12,492)
R&D expenses	28	(50,642)	(73,788)
Net impairment of financial assets	3 & 13	(11)	77
Other operating expenses	29	(10,573)	(8,875)
Other gains/(losses), net	31	966	1,644
Operating profit		**(17,486)**	**(15,951)**
Financial expenses		(4,371)	(4,454)
Financial revenues		203	419
Net financial income	34	**(4,168)**	**(4,035)**
Income before taxes		**(21,654)**	**(19,986)**
Income tax		12,474	2,883
Income from continuing operations		**(9,180)**	**(17,103)**
Discontinued operations			
Income from discontinued operations	25	**(2,217)**	**11,550**
Attributable to equity-holders of the parent company		(2,217)	11,550
Income for the year		**(11,397)**	**(5,553)**
Attributable to:			
Equity-holders of the parent company		(11,379)	(5,535)
Non-controlling interests		(18)	(18)

Euro per share	**Note**	**31-12-19**	***Restated 31-12-2018**
Basic profit/(loss) per share			
- Attributable to equity holders of the parent company		(0.05)	(0.03)
- From continuing operations	35	(0.04)	(0.08)
- From discontinued operations		(0.01)	0.05

(*) Figures restated as a result of deconsolidation of Zelnova Zeltia, S.A., which was reclassified under discontinued operations

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME	31-12-19	31-12-2018
CONSOLIDATED PROFIT OR LOSS FOR THE YEAR	**(11,397)**	**(5,553)**
ITEMS THAT MAY BE RECLASSIFIED TO PROFIT OR LOSS		
Value change in financial assets at fair value through other comprehensive income	3	(1)
Foreign exchange difference	28	(9)
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAXES	**31**	**(10)**
COMPREHENSIVE INCOME FOR THE YEAR	**(11,366)**	**(5,563)**
ATTRIBUTABLE TO:		
Equity-holders of the parent company	(11,348)	(5,545)
Non-controlling interests	(18)	(18)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**(11,366)**	**(5,563)**

CONSOLIDATED STATEMENTS OF CHANGES OF EQUITY

(thousand euro)	Share capital	Share premium account	Own shares	Revaluation and other reserves	Reserves and other retained earnings	Non-controlling interests	Total equity
Balance as of 31 December 2017	**11,132**	**71,278**	**(4,470)**	**13**	**(51,087)**	**(3,882)**	**22,984**
Change in accounting policy per IAS 9	0	0	0	0	(84)	0	(84)
Balance as of 1 January 2018	**11,132**	**71,278**	**(4,470)**	**13**	**(51,171)**	**(3,882)**	**22,900**
Fair value gain / (loss), gross:							
- Financial assets at fair value through other comprehensive income (note 12)	0	0	0	(1)	0	0	(1)
- Other revenues and expenses recognized directly in equity	0	0	0		(9)	0	(9)
Other comprehensive income	**0**	**0**	**0**	**(1)**	**(9)**	**0**	**(10)**
2018 income					(5,535)	(18)	(5,553)
Comprehensive income for the year	**0**	**0**	**0**	**(1)**	**(5,544)**	**(18)**	**(5,563)**
Shares purchased (Note 17)	0	0	(3,446)	0	0	0	(3,446)
Shares sold (Note 17)	0	0	4,949	0	(2,162)	0	2,787
Value of employee services — Employee share ownership plan (Note 37)	0	0	724	0	71	0	795
Balance as of 31 December 2018	**11,132**	**71,278**	**(2,243)**	**12**	**(58,806)**	**(3,900)**	**17,473**
Balance as of 1 January 2019	**11,132**	**71,278**	**(2,243)**	**12**	**(58,806)**	**(3,900)**	**17,473**
Fair value gain / (loss), gross:							
- Financial assets at fair value through other comprehensive income (note 12)	0	0	0	3	0	0	3
- Other revenues and expenses recognized directly in equity	0	0	0	0	28	0	28
Other comprehensive income	**0**	**0**	**0**	**3**	**28**	**0**	**31**
2019 income	0	0	0	0	(11,379)	(18)	(11,397)
Comprehensive income for the year	**0**	**0**	**0**	**3**	**(11,351)**	**(18)**	**(11,366)**
Shares purchased (Note 17)	0	0	(7,467)	0	0	0	(7,467)
Shares sold (Note 17)	0	0	7,904	0	596	0	8,500
Value of employee services — Employee share ownership plan (Note 37)	0	0	307	0	23	0	330
Other movements	0	0	0	0	(14)	0	(14)
Balance as of 31 December 2019	**11,132**	**71,278**	**(1,499)**	**15**	**(69,552)**	**(3,918)**	**7,456**

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

CONSOLIDATED CASH FLOW STATEMENTS (thousand euro)	Note	31-12-19	31-12-2018
Income before taxes:			
Income before taxes:		**(23,322)**	**(7,689)**
Adjustments for:		**13,188**	**431**
Depreciation and amortization	6.7	6,055	6,375
Impairment of accounts receivable		28	(578)
Fixed asset impairment	6.7	(81)	0
Financial revenues	34	(35)	(764)
Financial expenses	34	3,888	4,136
Income from sale of fixed assets		4	0
Share-based payments		265	795
Deferred revenues - subsidies		(285)	7
(Gain)/Loss on sale of subsidiary	25	3,269	(9,591)
Change in provisions		0	60
Other adjustments to income		80	(9)
Changes in working capital		**(13,582)**	**(13,373)**
Inventories	15	(2,418)	(2,029)
Customer and other receivables	13	(16,521)	3,300
Other assets and liabilities		(2,147)	(21)
Supplier and other accounts payable	20	5,499	551
Deferred and accrued items	21	2,005	(15,174)
Other operating cash flows:		**(2,421)**	**3,805**
Interest paid	34	(2,456)	(4,136)
Interest received	34	35	22
Income tax received/(paid)	24	0	7,919
TOTAL NET OPERATING CASH FLOW		**(26,137)**	**(16,826)**
Investment payments:		**(3,981)**	**(1,908)**
Group and associated undertakings and business units		0	(16)
Property, plant and equipment, intangible assets and investment property	6.7	(3,911)	(1,888)
Other financial assets		(70)	(4)
Divestment receipts:		**36,049**	**24,648**
Group and associated undertakings and business units	25	33,386	21,273
Property, plant and equipment, intangible assets and investment property	6.7	26	43
Other assets		2,637	3,332
TOTAL NET INVESTING CASH FLOW		**32,068**	**22,740**
Receipts and (payments) in connection with equity instruments:		**1,083**	**(660)**
Issuance of equity instruments	17	(14)	0
Acquisition	17	(7,467)	(3,446)
Disposal	17	8,564	2,786
Receipts and (payments) in connection with financial liabilities:		**(12,121)**	**(6,597)**
Loans received	23	4,792	10,231
Loans repaid	23	(16,913)	(16,828)
TOTAL NET FINANCING CASH FLOW		**(11,038)**	**(7,257)**
TOTAL NET CASH FLOW FOR THE YEAR		**(5,107)**	**(1,343)**
Beginning balance of cash and cash equivalents	16	22,745	24,088
ENDING BALANCE OF CASH AND CASH EQUIVALENTS		**17,638**	**22,745**

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

Notes to the consolidated financial statements of Pharma Mar, S.A. and subsidiaries as of 31 December 2019 (Thousand euro)

1. GENERAL INFORMATION

Pharma Mar, S.A. is the company that resulted from the merger of Zeltia, S.A. (absorbed company) into Pharma Mar, S.A. (acquiring company). Pharma Mar, S.A., the Group's parent company (hereinafter, "PharmaMar" or "the Company"), was incorporated as a limited company in Spain for an indefinite period on 30 April 1986. Its registered offices are located in Colmenar Viejo (Madrid) at Avenida de los Reyes, 1 (Pol. Industrial La Mina – norte).

PharmaMar's main activity is research, development, production and commercialization of bio-active principles of marine origin for application in oncology, as well as management, support and development of its subsidiaries in the diagnostics and interference RNA area, and subsidiaries whose object is to commercialize oncology products in Europe.

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

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

Yondelis®

On 20 September 2007, PharmaMar received authorization from the European Commission to sell Yondelis® to treat soft tissue sarcoma. This approval marked the commencement of the sale of PharmaMar's pharmaceutical compounds, as it had no drugs in the market until then.

Two years later, on 2 November 2009, the European Commission granted authorization for PharmaMar to commercialize Yondelis® in combination with pegylated liposomal doxorubicin to treat relapsed platinum-sensitive ovarian cancer in the 27 EU countries plus Norway, Iceland and Liechtenstein. The first sales for this therapeutic use were made at the end of 2009.

On 28 September 2015, Taiho, a company with which PharmaMar had previously signed an agreement to develop and commercialize Yondelis® in Japan, received authorization from Japan's Ministry of Health, Labor and Welfare to commercialize Yondelis® in Japan for the treatment of soft tissue sarcoma. On 23 October 2015, Janssen, Pharma Mar's partner for the development and commercialization of Yondelis® in the US, obtained authorization from the FDA to commercialize Yondelis® in the US for the treatment of certain soft tissue sarcoma types.

Aplidin®

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

In December 2017, the Company received a negative opinion from the CHMP (Committee for Medical Products for Human Use) with regard to the application for approval to market Aplidin® (Plitidepsin) in Europe for treating multiple myeloma. The Company filed a case with the General Court of the European Union against the European Commission requesting annulment of the final decision; a hearing has been scheduled for March 2020.

Lurbinectedin

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

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

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

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

Consolidation scope

For the purposes of drafting these financial statements, a group is considered to exist when a controlling company has one or more subsidiaries over which it has control, directly or indirectly.

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

On 20 September 2018, PharmaMar sold subsidiary Xylazel, S.A. (hereinafter "Xylazel"), which manufactured, supplied and distributed products for wood and metal treatment, protection and decoration, special paints and other similar and related products, as well as other products for the construction industry. The buyer, Akzo Nobel Coatings, S.L. (a Spanish subsidiary of the Akzo Nobel Group), acquired 100% of the shares of Xylazel for a cash price of €21,776 thousand, calculated net of cash and debt.

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

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

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

		Stake		
Name	**Registered offices**	**Direct**	**Indirect**	**Total**
Genómica, S.A.U.	Via de los Poblados, 1, Edif. B, Parq. Emp. Alvento, Madrid, Spain	100.00%	-	100.00%
Genómica, A.B. (*)	Ideon Science Park, Scheelevägen 17, Lund, Sweden	-	100.00%	100.00%
Genómica (Wuhan) Trading Co.Ltd. (*)	No.401-421 (Wuhan Free Trade Area) 4/F, Office Building A, No.777, Guanggu 3 Road, Wahan East Lake High-tech, Development Zone	-	100.00%	100.00%
Sylentis, S.A.U.	Pza. del Descubridor Diego de Ordás 3, Madrid	100.00%	-	100.00%
Pharma Mar USA INC	205 East 42nd Street, Suite 15003, New York, NY 10017, USA	100.00%	-	100.00%
Pharma Mar AG	Aeschenvorstadt, 71 - Basle - Switzerland	100.00%	-	100.00%
PharmaMar Sarl	6 Rue de l'Est, 92100 Boulogne Billancourt, Paris, France	100.00%	-	100.00%
Pharma Mar GmbH	Uhlandstraße 14 - 10623 Berlin - Germany	100.00%	-	100.00%
Pharma Mar Srl	Via Lombardia 2/A C/O Innov. Campus 20068 Peschiera Borromeo Milano - Italy	100.00%	-	100.00%
Pharma Mar, Ltd (**)	5 New Street Square London, United Kingdom EC4A 3TW	100.00%	-	100.00%
Pharma Mar, Sprl	Avenue du Port 86C, Boite 204, 1000 Brussels, Belgium	100.00%	-	100.00%
Pharma Mar Ges.m.b.H	Mooslackengasse 17- 1190 Vienna, Austria	100.00%	-	100.00%
Noscira, S.A. en liquidación (**)	Pza. del Descubridor Diego de Ordás 3, Madrid	73.00%	-	73.00%

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

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

Name and domicile	Statutory audit
Genómica, S.A.U.	Yes - KPMG
Genómica, A.B.	Yes - KPMG
Genómica (Wuhan) Trading Co.Ltd.	Yes - Grant Thornton
Sylentis, S.A.U.	Yes - KPMG
Pharma Mar USA INC	Yes - Walter & Shuffain, PC
Pharma Mar AG	Yes - PwC
PharmaMar Sarl	Yes - PwC
Pharma Mar GmbH	No
Pharma Mar Srl	Yes - PwC
Pharma Mar, Ltd	No
Pharma Mar, Sprl	Yes - PwC
Pharma Mar Ges.m.b.H	No
Noscira, S.A. en liquidación	No

A. Description of subsidiaries

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

- Genómica, S.A.U. (Genómica): Development and marketing of diagnostic applications and related services.

- Zelnova Zeltia, S.A. (Zelnova Zeltia): Manufacture and marketing of domestic and industrial insecticides and air fresheners. Zelnova Zeltia was sold and deconsolidated in June 2019.

- Xylazel, S.A. (Xylazel): Manufacture and sale of wood and metal protective and decorative products, paints and similar. Xylazel was sold and deconsolidated in September 2018.

- Noscira, S.A. en liquidación (Noscira): Currently en liquidacion. On 18 December 2012, the Shareholders' Meeting of Noscira resolved to dissolve the company and commence the period of liquidation of same, since the company had an equity imbalance and was in one of the situations of dissolution established by article 363.1.e) of the Capital Companies Act as its net equity had declined to less than one-half of its capital stock.

- Pharma Mar USA: Business development in the US.

- Pharma Mar AG: Marketing pharmaceutical products in the Swiss market.

- Pharma Mar SARL: Marketing pharmaceutical products in the French market.

- Pharma Mar GmbH: Marketing pharmaceutical products in the German market.

- Pharma Mar S.r.L.: Marketing pharmaceutical products in the Italian market.

- Pharma Mar S.p.r.l. Belgium: Marketing pharmaceutical products in the Belgian market.

- Pharma Mar Ltd. (UK): Marketing pharmaceutical products in the UK market. The liquidation of this company commenced in 2018.

- Pharma Mar Ges.m.b.H AT (Austria): It is primarily engaged in marketing pharmaceutical products in the Austrian market.

- Copyr, S.p.A. (Copyr): Manufacture and sale of automatic aerosol dispensers under its Copyrmatic brand. Copyr also produces products for ecological farming. Copyr S.p.A., which was wholly owned by Zelnova Zeltia, was sold and deconsolidated in June 2019.

- Genómica, A.B.: Marketing diagnostic applications and related services in the Scandinavian market.

- Genómica Brasil, Ltda.: Provision of business intermediation, consulting and representation services in Brazil and other countries, as well as research, collection, examination, storage, and delivery of business information. The company was liquidated in October 2019.

- Genómica (Wuhan) Trading Co., Ltd. (China): Wholesale trade, import and export of Class III and Class I medical devices, R&D and sales of Class III IVD reagents; commission agency (excluding auctions) and supplier of related support services.

- Sylentis, S.A.U. (Sylentis): Research, development, production and sale of products with therapeutic activity based on reducing or silencing gene expression, and pharmaceutical derivatives of same in a range of formulations and applied in various ways to all types of diseases; it does not yet have any products on the market.

2. Accounting policies

Below are described the main accounting principles adopted in drafting these consolidated financial statements. Those principles were applied on a consistent basis for all the years covered by these consolidated financial statements, except where indicated otherwise.

A. Basis of presentation

These consolidated financial statements for 2019 and those for 2018 presented for comparison were prepared in accordance with the International Financial Reporting Standards and IFRIC interpretations adopted for use in the European Union in accordance with Regulation (EC) No 1606/2002 of the European Parliament and of the Council of 19 July 2002, by virtue of which all companies governed by the law of a Member State of the European Union and whose shares are listed on a regulated market of a Member State must prepare their consolidated accounts, for annual periods beginning on or after 1 January 2005, in accordance with the IFRS adopted by the European Union.

The consolidated financial statements were drawn up using the historical cost method, though modified in the case of financial assets at fair value through other comprehensive income and financial assets and liabilities (including derivatives) at fair value through profit or loss.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. Note 4 details the areas that require greater judgment or are more complex and the areas where significant assumptions and estimates are made for the consolidated financial statements.

The accounting policies applied in preparing the consolidated financial statements as of 31 December 2019 are consistent with those used to prepare the consolidated financial statements for the year ended 31 December 2018, except for the entry into force of IFRS 16. The material estimates made in the 2019 financial statements are also consistent with those made in the 2018 financial statements. The 2018 column presented for comparison purposes in the income statement was restated to reflect the effect of classifying Zelnova Zeltia as a discontinued operation as a result of its deconsolidation in June 2019.

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

Standards, amendments and interpretations that are obligatory for all annual periods beginning on or after 1 January 2019

A number of new or amended standards came into force in the reporting period and the group had to modify its accounting policies as a result of the adoption of the following standards.

- IFRS 16 - "Leases"

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

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

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

Right-of-use assets in connection with leases (thousand euro)	**31-12-2019**	**01-01-2019**
Offices, Premises, Warehouses	1,719	3,155
Vehicles	1,432	1,428
Laboratory equipment	184	453
Computer hardware	10	12
Total right-of-use assets (*)	**3,345**	**5,048**

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

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

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

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

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

i) Impact on segment disclosures

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

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

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

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

From 1 January 2019, leases are recognized as a right-of-use asset and a lease liability on the date the leased asset is available for use by the Group. Each lease payment is split into a liability and a financial charge. The interest part is expensed over the lease term so as to produce a constant periodic interest rate on the outstanding balance of the liability in each period. The right-of-use asset is amortized on a straight-line basis over the asset's useful life or the lease term, whichever is shorter.

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

- fixed payments (including in-substance fixed payments) less any outstanding lease incentive.

- variable lease payments depending on an index or a rate.

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

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

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

ii) Extension and termination options

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

- IFRIC 23 - Uncertainty over Income Tax Treatments

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

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

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

  - IFRS 3 "Business Combinations": A previously held share in a joint operation is re-measured when control of the business is attained.

  - IFRS 11 "Joint Arrangements": A previously held share in a joint operation is not re-measured once joint control of the business is attained.

  - IAS 12 "Income Tax": All the tax consequences of dividend payments are accounted for in the same way.

  - IAS 23 "Interest costs": Any specific loan originally made to develop a qualifying asset is considered part of generic loans when the asset is ready for use or sale.

  - IFRS 3 (Amendment) "Definition of a business".

  - IAS 1 (Amendment) and IAS 8 (Amendment) "Definition of material".

Standards, amendments and interpretations of existing standards that cannot be adopted early or have not been adopted by the European Union

At the date of authorizing these consolidated financial statements, the IASB and the IFRS Interpretations Committee had published the standards, amendments and interpretations described below, which are pending adoption by the European Union. The Group is currently evaluating whether the following standards may be applicable:

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

B. Consolidation principles

All undertakings over which the Group has control are classified as subsidiaries. The Group is considered to control an undertaking when it is exposed to variable returns from its involvement in the investee or is entitled to obtain or use them, and it can use its power over it to influence such returns. Subsidiaries are consolidated on the date on which their control is transferred to the Group and are deconsolidated on the date on which control ceases.

The Group uses the acquisition method to account for business combinations. Consideration for the acquisition of a subsidiary is measured as the fair value of the transferred assets, the liabilities incurred with the previous owners of the acquiree, and the equity instruments issued by the Group. The consideration will also include the fair value of any asset or liability which arises from any contingent consideration agreement.

The identifiable assets and liabilities acquired and the contingent liabilities assumed in a business combination are carried initially at their acquisition-date fair value.

For each business combination, the Group may elect to measure non-controlling interests in the acquiree at fair value or at the proportionate share of the recognized amounts of the acquiree's identifiable net assets.

Acquisition-related costs are recognized in profit or loss in the years that they are incurred.

If the business combination takes place in stages, the pre-existing carrying amount of the acquirer's previously-held equity interest in the acquiree is remeasured at acquisition-date fair value. Any gain or loss arising from such remeasurement is recognized in profit or loss.

Contingent consideration is classified either as equity or as a financial liability. Amounts classified as financial liabilities are subsequently remeasured at fair value with changes through profit or loss.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previously-held equity interest in the acquiree with respect to the fair value of the identifiable net assets acquired is recognized as goodwill. If the total of the consideration transferred, the recognized non-controlling interest and previously-held equity interest is lower than the fair value of the net assets of a subsidiary acquired in very advantageous conditions, the difference is recognized directly in profit or loss.

If the subsidiary is fully consolidated, intercompany transactions, balances, and revenues and expenses on transactions between Group undertakings are eliminated.

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

The subsidiaries within the consolidation scope are detailed in Note 1.

The financial year of all the subsidiaries is the calendar year.

Transactions with non-controlling interests

The Group recognizes transactions with minority interests as transactions with holders of Group equity. In acquisitions of minority interests, the difference between the price paid and the related proportion of the carrying amount of the subsidiary's net assets is recognized in equity. Gains or losses resulting from the sale of minority interests are also recognized in equity.

C. Segment reporting

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

D. Foreign currency transactions

i. Functional and presentation currency

Items in the financial statements of each of the group's undertakings are measured using the currency of the primary economic environment in which the undertaking operates (the 'functional currency'). The consolidated financial statements are presented in euro, which is PharmaMar's functional and presentation currency.

Pharma Mar USA, the US subsidiary, has the euro as its functional currency, mainly because of its financing sources and its activity.

Regarding Pharma Mar AG, the Swiss subsidiary, Pharma Mar Ltd, the UK subsidiary, and Genómica, AB, the Swedish subsidiary, their functional currencies in 2019 and 2018 were the Swiss franc, the pound sterling and the Swedish krona, respectively, as their sales are in local currency. Also, the two subsidiaries of Genómica in Brazil and China operated with reais and yuan, respectively, as their functional currency during 2019. The impact of translation to euro is not material given the small volume which their transactions represent with respect to the Group.

ii. Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates at the transaction dates. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year-end exchange rates are recognized in profit or loss. They are deferred in equity if they relate to qualifying cash flow hedges and qualifying net investment hedges or are attributable to part of the net investment in a foreign operation.

Foreign exchange gains and losses are presented in the statement of profit or loss within "Finance costs - net".

Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Translation differences on assets and liabilities carried at fair value are reported as part of the fair value gain or loss. For example, translation differences on non-monetary assets and liabilities, such as equities held at fair value through profit or loss, are recognized in profit or loss as part of the fair value gain or loss, and translation differences on non-monetary assets such as equity securities classified as financial assets at fair value through other comprehensive income are recognized in other comprehensive income.

iii. Group undertakings

The results and financial position of foreign operations (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- Assets and liabilities on each balance sheet are translated at the closing exchange rate on the balance sheet date;
- revenues and expenses in each statement of profit or loss and statement of other comprehensive income are translated at average exchange rates (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case revenues and expenses are translated at the transaction dates), and
- all resulting exchange differences are recognized in other comprehensive income.

On consolidation, exchange differences arising from the translation of any net investment in foreign undertakings, and of borrowings and other financial instruments designated as hedges of such investments, are recognized in other comprehensive income. When a foreign operation is sold or any borrowings forming part of the net investment are repaid, the associated exchange differences are reclassified to profit or loss, as part of the gain or loss on the sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the closing exchange rate.

E. Property, plant and equipment

The property comprises mainly the buildings and installations of the parent company in Colmenar Viejo, Madrid (Pharma Mar). As of 2018 year-end, property, plant and equipment also included the items in Porriño (Pontavedra) relating to Zelnova Zeltia, which was sold in June 2019. Items of property, plant and equipment are recognized at cost less any accumulated depreciation and impairment, except in the case of land, which is presented net of impairment.

Historical cost includes expenses directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All repairs and maintenance are expensed as incurred.

Land is not depreciated. Other assets are depreciated by the straight-line method to assign the difference between the cost and residual value over their estimated useful lives:

Years of useful life	
Structures	17-50
Machinery and installations	5-10
Tools and equipment	3-10
Furniture and fixtures	3-10
Vehicles	4-7
Computer hardware	4-7
Other assets	7-15

The residual value and the useful life of an asset are reviewed, and adjusted if necessary, at each balance sheet date.

When the carrying amount of an asset exceeds its estimated recoverable amount, its value is written down immediately to the recoverable amount. Gains and losses on the sale of property, plant and equipment, which are calculated by comparing the proceeds with the carrying amount, are recognized in profit and loss.

F. Investment property

The Group classifies as "investment property" the property held to earn rent or for capital appreciation, or both, which is not occupied by the Group. The Group uses the cost model.

G. Intangible assets

i. Research & Development expenses

Research and development expenses are expensed as incurred. Development project costs (design and testing of new and improved products) are recognized as intangible assets when it is probable that the project will be successful, based on its technical and commercial viability; specifically, they are capitalized when the following requirements are met:

(i) It is technically possible to complete production of the intangible asset so that it may be available for use or sale;
(ii) Management intends to complete the intangible asset in question for use or sale;
(iii) There is the capacity to use or sell the intangible asset;
(iv) The form in which the intangible asset will generate likely economic benefits in the future is demonstrable;
(v) Sufficient technical, financial and other resources are available to complete development and to use the intangible asset; and
(vi) the cost attributable to the intangible asset during development can be measured reliably.

Considering the nature of the development expenses incurred by the Group, i.e. connected to pharmaceutical development, and in line with standard practice in the industry, the requirements for capitalization are considered to be fulfilled in the registration phase.

Development costs with a finite useful life that are recognized as an asset are amortized on a straight-line basis from the end of the project, understood as the moment in which appropriate approvals have been received from the regulatory bodies and the Company has the capacity to

sell in the market for which the authorization has been received. That useful life is estimated as the period in which profits are expected to be generated, which normally coincides with the period of validity of the patent. Other development expenses are expensed as incurred.

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

Recognition of research and development expenses in the separate financial statements

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

Pharma Mar, S.A. has maintained the same approach for recognition of development expenses in its separate financial statements since 1996, the first year in which a compound produced by the company entered Phase I clinical trials. The adoption from 2008 of Spain's General Accounting Plan (PGC) for the preparation of the financial statements did not result in a material change since the PGC rules for development expenses are similar to those in the preceding standard that it replaced.

In 2006, with the first-time application of International Financial Reporting Standards (IFRS) to draw up the group's consolidated financial statements for 2005, the Group's controlling company at the time, Zeltia, S.A., adopted an approach for capitalization of development expenses that differed from that being applied in its subsidiaries' separate financial statements. This decision was adopted mainly to ensure that the consolidated financial statements used criteria that were more in line with comparable companies in other countries.

The main difference in the treatment of development expenses in producing the Group's separate and consolidated financial statements lies in the time at which development expenses are capitalized: in the separate financial statements, the Company considers that there are solid grounds for assuming technical success once the compound reaches Phase I clinical trials, in accordance with the criteria traditionally applied by the Company; in the Group's consolidated financial statements, they are recognized from the time the drug is registered, subject to fulfillment of the conditions in the IFRS, in line with standard practice in the biopharmaceutical industry at international level.

The notes to the separate financial statements indicate the following:

4.1.1 Research & Development expenses

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

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

Research expenditure is expensed in the year it is incurred.

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

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

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

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

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

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

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

Fulfillment of those conditions is assessed each year.

Development expenses recognised under assets must be amortized in accordance with a systematic plan over their useful life, beginning in the year in which the project concluded. The useful life normally coincides with the term of the patent.

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

For the purposes of subsequent remeasurement:

- *Impairment is assessed during the year-end close or whenever progress with projects gives any indication of impairment or there are doubts about fulfillment of the conditions for capitalization. As of 31 December 2019, that assessment did not result in the derecognition or impairment of any developments. As of 31 December 2018, that assessment resulted in the derecognition and impairment of the developments set out in Note 6.1.*

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

<u>Measurement of research and development projects</u>

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

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

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

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

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

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

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

ii. Trademarks and licenses

These assets are carried at historical cost. Trademarks acquired from third parties are assumed to have an indefinite useful life; therefore, they are not amortized and, instead, they are tested for impairment at the end of each year.

iii. Computer programs

Acquired computer software licenses are capitalized based on the costs incurred to acquire and prepare them for using the specific program. Those costs are amortized over their estimated useful lives (generally 5 years).

Computer program maintenance costs are recognized in profit or loss as incurred. Development expenses directly attributable to the design and testing of computer programs that are identifiable, unique and susceptible to being controlled by the Group are recognized as intangible assets when the following conditions are met:

- It is technically possible to complete production of the intangible asset so that it may be available for use or sale;
- Management intends to complete the intangible asset in question for use or sale;
- There is the capacity to use or sell the intangible asset;
- The form in which the intangible asset will generate likely economic benefits in the future is demonstrable;
- Sufficient technical, financial and other resources are available to complete development and to use or sell the intangible asset; and
- the cost attributable to the intangible asset during development can be measured reliably.

H. Goodwill

Goodwill is recognized initially as described in Note 2.B. Goodwill is tested for impairment each year and carried at cost less accumulated impairment. Impairment of goodwill is not reversible. Gains and losses on the sale of an undertaking include the carrying amount of the goodwill related to the sold undertaking.

For the purposes of impairment tests, goodwill acquired in a business combination is allocated to the cash-generating units or groups of cash-generating units that are expected to benefit from the synergies in the combination. Each unit or group of units to which goodwill is assigned represents the lowest level within the undertaking at which goodwill is monitored for internal management purposes.

Goodwill is measured for impairment on an annual basis, or more frequently if events or changes in circumstances indicate a potential impairment loss. The carrying amount of the cash-generating units containing goodwill is compared with their recoverable value, which is the value in use or the fair value less selling costs, whichever is higher. Impairment losses on goodwill are recognized immediately in profit or loss and are not reversed subsequently.

I. Impairment losses on non-financial assets

Intangible assets that have an indefinite useful life and intangible assets under development are not amortized and are tested annually for impairment. Assets that are amortized are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds the recoverable amount. The recoverable amount is determined as the fair value less selling costs, or the value in use, whichever is higher. To perform the impairment tests, the assets are grouped at the lowest level of separately identifiable cash flows (cash-generating units). Pre-existing impairment losses on non-financial assets (other than goodwill) are reviewed at each reporting date to consider the possibility of reversing the impairment.

J. Investments and other financial assets

i. Classification

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

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

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

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

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

ii. Recognition and derecognition

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

iii. Measurement

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

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

Debt instruments

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

- Amortized cost: Assets held for the collection of contractual cash flows, when those cash flows represent only payments of principal and interest, are measured at amortized cost. Interest revenues from these financial assets are recognized under financial revenues according to the effective interest rate method. Any gain or loss that arises on derecognition is recognized directly in profit or loss along with gains and losses from exchange differences. Impairment is recognized separately in the income statement.

- Fair value through other comprehensive income: Assets held for the collection of contractual cash flows and financial assets held for sale, when the cash flows of the assets represent only payments of principal and interest, are measured at fair value with changes through other comprehensive income. Changes in the carrying amount are recognized in other comprehensive income, except for the recognition of impairment gains or losses, ordinary interest revenues, and gains or losses from exchange differences, which are recognized in profit or loss. When the financial asset is derecognized, the accumulated gain or loss recognized previously in other comprehensive income is reclassified from equity to profit or loss. Interest revenues from these financial assets are recognized under financial revenues according to the effective interest rate method. Exchange gains and losses are presented in other gains and losses and the impairment expense is presented as a separate item in the income statement.

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

Equity instruments

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

iv. Impairment

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

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

K. Derivatives and hedging

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

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

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

L. Leases

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

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

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

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

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

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

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

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

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

- EUR: EURIBOR
- USD: LIBOR
- SEK: STIBOR

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

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

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

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

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

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

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

M. Inventories

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

Cost is determined as follows:

- Trade inventories, raw materials and other supplies: weighted average cost.

- Finished and semi-finished products and products in process: weighted average cost of the raw and ancillary materials used, plus the applicable amount of direct labor and general manufacturing expenses (based on normal production capacity).

Inventories acquired and/or produced for the purposes of commercializing drugs are capitalized when the requirements indicated in Note 2.G.i are met. Inventories are impaired up to that point, and the impairment charge is reversed once those requirements are met.

N. Trade receivables

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

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

Transfers of receivables result in derecognition when the Group has transferred substantially all the risks and rewards of ownership, including those related to late payment. Otherwise, the proceeds from the transfer are treated as borrowings.

O. Cash and cash equivalents

Cash and cash equivalents include cash on hand, demand deposits at banks, and other short-term, highly-liquid investments with an initial maturity of three months or less. Bank overdrafts are classified as financial debt under current liabilities in the balance sheet.

P. Share capital and distribution of dividends

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

When any Group undertaking acquires shares of the parent company, the consideration paid, including any directly attributable incremental costs (net of income taxes), is accounted for under “Own shares”, deducting equity attributable to the parent company's equity holders until cancelation, re-issuance or disposal.

Where such shares are subsequently sold or re-issued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is accounted for within Own shares (acquisition cost) and Retained earnings (difference between the consideration and acquisition cost), increasing equity attributable to the parent company's equity holders.

Dividends on ordinary shares are recognized under liabilities in the year that they are approved by the Company's shareholders.

Q. Government grants

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

Government grants related to the acquisition of fixed assets are included under “Non-current deferred revenues” and are recognized in profit or loss on a straight-line basis over the expected life of those assets under “Other gains”.

Subsidies related to the Group's research and development projects are recognized in profit or loss in proportion to the amortization of these intangible assets or when the asset is disposed of, impaired or derecognized. Subsidies tied to specific expenses are recognized in profit or loss in the year in which the related expenses are incurred.

Monetary subsidies are recognized at the fair value of the amount granted and non-monetary subsidies at the fair value of the received asset, at the time of recognition in both cases.

R. Trade and other accounts payable

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

S. Financial debt

Interest-bearing debt is recognized initially at fair value, net of the transaction costs incurred. Subsequently, debt is measured at amortized cost based on the effective interest rate method. The difference between the funds obtained (net of the necessary costs to obtain them) and the reimbursement value is recognized in profit or loss over the debt term based on the effective interest rate method.

Financial debt is classified under current liabilities unless the Group has an unconditional right to defer the liability settlement for at least twelve months from the balance sheet date.

When a loan is renegotiated, a decision is made whether or not to derecognize it as a financial liability depending on whether the initial loan varies and whether the present value of the cash flows, including net fees, using the effective interest rate of the original contract, differs by more than 10% with respect to the present value of the cash flows payable prior to renegotiation.

T. Current and deferred taxes

The income tax expense includes both current and deferred taxes. The tax is recognized in profit or loss except to the extent that it refers to items recognized directly in equity. In that case, the tax is also recognized directly in equity.

The current tax expense is calculated on the basis of tax law enacted or substantively enacted on the balance sheet date. Management regularly evaluates positions adopted in connection with tax returns regarding situations where the tax regulations are open to interpretation, and recognizes any necessary provisions on the basis of the amounts expected to be paid to the tax authorities.

Deferred taxes are measured on the basis of the temporary differences arising between the tax base of the assets and liabilities and their carrying amounts in these consolidated financial statements. However, deferred taxes arising from the initial recognition of an asset or liability in a transaction other than a business combination that does not affect the accounting result or the taxable gain or loss at the transaction date are not recognized.

The deferred tax is determined by applying the tax rates and laws enacted or substantively enacted on the balance sheet date and which will be applicable when the corresponding deferred tax asset is realized or the deferred tax liability is settled.

Deferred tax assets are recognized when it is probable that there will be future taxable income to offset the temporary differences.

Deferred tax assets are recognized for tax-deductible temporary differences arising from investments in subsidiaries, associates and joint agreements only to the extent that the temporary difference is likely to be reversed in the future and sufficient taxable profit is expected to be obtained against which to offset the temporary difference.

Deferred tax assets and liabilities are offset if and only if there is a legally acknowledged right to offset current tax assets against current tax liabilities and the deferred tax assets and liabilities arise from the tax on income levied by the same tax authority on the same undertaking or taxable subject, or on different undertakings or taxable subjects that settle current tax assets and liabilities for their net amount.

As a result of the application of Spanish Act 27/2014, of 17 December, on Corporate Income Tax, certain deductions for research and development may be monetized with a 20% discount on the tax payable, subject to certain conditions. The Company recognizes this tax incentive for investment as a tax revenue at the time that it is considered to be assured, which normally coincides with the date on which there is certainty that it will be collected.

U. Employee benefits

i) Share-based payments

The Group has share-based equity-settled employee incentive plans which vest after employees have worked at the Group for a specific period.

The fair value of the services to be provided by those employees is determined with respect to the fair value of the shares granted. That amount is recognized in profit or loss as a personnel expense over the vesting period, while simultaneously recognizing a reserve for the incentive plans, for the same amount, under equity. The Group regularly reviews its assumptions and adjusts any deviation arising from employee rotation.

ii) Termination indemnities

Termination indemnities are paid to employees as a result of the Group's decision to terminate the employment contract before the normal retirement age or when the employee agrees to resign voluntarily in exchange for those benefits. The Group recognizes these benefits on the following date, whichever is earlier: (a) when the Group can no longer withdraw the offer of such indemnities, or (b) when the undertaking recognizes the costs of a restructuring in the scope of IAS 37 which entails the payment of termination indemnities. When an offer to encourage voluntary termination by employees is made, termination indemnities are measured on the basis of the number of employees expected to accept the offer. Benefits that are not to be paid in the twelve months following the balance sheet date are discounted to their present value.

V. Provisions

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

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

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

(iii) the amount can be estimated reliably. Restructuring provisions include lease cancelation penalties and employee termination indemnities. No provisions are recognized for future operating losses.

Where there are a number of similar obligations, the probability of the need for a cash outflow to settle them is determined considering the obligations as a whole. A provision is recognized even if the probability of an outflow in connection with any item in the same class of obligations is low.

Provisions are calculated at the present value of the disbursement expected to be needed to settle the obligation, using a pre-tax rate that reflects current market measurements of the time value of money and the specific risks attached to the obligation. An increase in the provision due to the passage of time is recognized as an interest expense.

W. Revenue from contracts with customers

Revenue is measured at the fair value of the consideration received or to be received, net of value-added tax, returns and discounts, after eliminating sales between Group undertakings.

The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

i. Sales of products

In this case, revenues are recognized at the time in which control of the asset is transferred to the customer, generally when the goods are delivered to the final customer; this transfer of control does not differ from the transfer of the material risks and benefits inherent in the ownership of the goods.

Receivables from official authorities as a result of sales of products are generally recognized for the amount receivable, which does not differ significantly from fair value. Balances with official

authorities are monitored for late payment analysis purposes and late payment interest is claimed when the standard terms are not met (Note 13).

ii. Sale of medical supplies for clinical diagnosis

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

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

iii. Licensing, co-development and other similar agreements

In the normal course of its business, the Group has developed intellectual property on certain compounds and has signed licensing and co-development agreements with certain pharmaceutical companies. Under these agreements, third parties are granted licenses to use the products developed by the Group and/or are given access to products under development (generally through development agreements). The agreements under which these transfers, assignments or accesses are granted are generally complex and include multiple components in two distinct phases: development and marketing. The associated revenue must be matched with the Group's performance obligations.

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

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

This revenue is recognized at the point at which control of the asset is transferred to the client, which may be at a certain point in time (as in the sale of licenses for use), or over a period of time (as in the case of the transfer of services, or where what is being transferred is a right of access).

Compound development phase:

- Upfront payments collected by Pharma Mar, which are generally non-refundable.
- Milestone payments, triggered when the compound to which the agreement refers attains development milestones, generally of a regulatory or commercial nature.

Marketing phase:

- Royalty payments,

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

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

- they are not refundable,

- the Group does not assume material future obligations (except those for which separate consideration is provided for under arm's-length conditions), and

- control of the asset is transferred.

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

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

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

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

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

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

iv. Variable consideration

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

In addition to the aforementioned variable consideration, amounts are also received for achieving milestones, which are recognized using the "most likely" method.

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

v. Financial component of customer advances

The Group receives long-term advances from its customers under license contracts.

Based on the nature of the services offered and the terms of collection, the Group has determined that, in the case of license contracts that require customers to pay advances that in some cases may be long-term, the terms of collection were structured mainly for reasons other than the obtainment of finance for the Group since the financial structure of the Group is stable. These advance receipts are common practice in the biopharmaceutical industry.

vi. Services

Revenue from the provision of services is recognized in the accounting period in which the service is delivered, by reference to the degree of completion of the specific transaction, and measured on the basis of the current service expressed as a percentage of the total services to be provided.

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

X. Discontinued operations

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

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

3. FINANCIAL RISK MANAGEMENT

3.1 Financial risks

The Group's activities are subject to a number of financial risks: market risk (including exchange rate risk, interest rate risk, fair value risk and price risk), credit risk, and liquidity risk. The Group's overall risk management program focuses on the uncertainty of the financial markets and tries to minimize the potential adverse effects on the Group's returns. The Group occasionally uses financial derivatives to hedge certain risk exposures.

Pharma Mar's Finance Department is responsible for risk management in accordance with the Board of Directors' guidelines. That Department identifies, evaluates and hedges financial risks in close cooperation with the Group's operating units. The Board establishes guidelines for overall risk management and for specific areas such as exchange rate risk, interest rate risk, liquidity risk, the use of derivatives and non-derivatives, and investment of surplus liquidity.

A. Market risk

i. Exchange rate risk

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

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

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

The Group has several investments in companies in other countries whose net assets are exposed to exchange rate risk; however, the amounts are non-material in the context of the Group's operations.

If, as of 31 December 2019, the euro had appreciated by 5% with respect to the US dollar while all other variables remained constant, income after taxes for the year would have been lower by €68 thousand (€158 thousand in 2018), mainly as a result of translation into euro of trade and other receivables and debt denominated in US dollars. If, as of 31 December 2019, the euro had depreciated by 5% with respect to the US dollar while all other variables remained constant, income after taxes for the year would have been higher by €71 thousand (€166 thousand in 2018).

ii. Interest rate risk on cash flows and fair values

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

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

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

The Group analyses its exposure to interest rate risk dynamically. It simulates a number of scenarios considering refinancing, roll-overs, alternative financing and hedging. Based on those scenarios, the Group calculates the effect on income of a given variation in interest rates.

In a given simulation, it assumes the same change in interest rates in all currencies. The scenarios are applied only to the largest interest-bearing assets and liabilities.

If, as of 31 December 2019, the interest rates on the interest-bearing debt and remunerated assets at variable interest rates had been 100 basis points higher, while all other variables remained constant, profit after income tax would have been €187 thousand lower (€163 thousand in 2018).

iii. Price risk

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

The investments in equity instruments classified as financial assets at fair value through other comprehensive income are shares of foreign biopharmaceutical companies. Nevertheless, the Group's volume of investment in this type of asset is not material in the context of the Group's operations (Note 12).

The Group's policy with regard to those financial assets is to place cash in low-risk financial assets in order to ensure the availability of funds as they are needed for research and development operations in the Oncology segment.

B. Credit risk

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

i. Risk management

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

Where customers are independently rated, that rating is used. Otherwise, the Group assesses the risk on the basis of the customer's financial position, past experience and other factors. Where there is no doubt about a customer's solvency, no credit limits are set.

The policies of the funds in which the Group holds investments are as follows:

- Fixed-income funds that invest in sovereign or private-sector debt (bonds, bills, commercial paper), generally secured, which pay periodic coupons.

- Money market funds comprising fixed-income securities, where security is given priority in exchange for a slightly lower yield than other investments.

The credit quality of the financial assets and of customers with which the Group had balances as of 31 December 2019 and 2018 is set out in Note 11. The composition of the Group's financial assets is set out in Notes 12 and 13.

Regarding credit risk concentration, as of 31 December 2019, the Group had government bonds and bank products and balances at five credit institutions amounting to €20,606 thousand (€22,889 thousand at three institutions in 2018).

ii. Impairment losses on financial assets

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

- Trade accounts receivable for the sale of products.

- Financial assets at amortized cost.

Trade receivables

The Group applies the simplified approach allowed by IFRS 9 for measuring expected credit losses, under which an impairment is recognized for the losses expected over the lifetime of the trade accounts receivable.

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

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

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

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

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

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

Current financial assets at amortized cost

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

Previous accounting policy in connection with impairment of trade accounts receivable

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

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

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

C. Liquidity risk

Prudent liquidity risk management entails having sufficient cash and marketable securities, financing via sufficient credit facilities, and the capacity to settle market positions. The goal of the Group's treasury department is to maintain flexibility in funding by having credit lines and sufficient funds in financial assets to cover obligations, particularly those of the Oncology segment.

The net cash position, defined as cash and cash equivalents and current financial assets (€20,895 thousand in 2019, €26,876 thousand in 2018) less short-term borrowings (€29,655 thousand in 2019, €28,483 thousand in 2018), was negative in the amount of €8,760 thousand at the end of 2019 (negative in the amount of €1,607 thousand in 2018).

Long-term interest-bearing debt amounted to €53,063 thousand (€64,922 thousand in 2018), of which €21,233 thousand (€24,142 thousand in 2018) was in the form of research and development loans from official bodies which are repayable over 10 years, with a three-year grace period, at zero or below-market interest rates.

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

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

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

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

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

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

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

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

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

The table below shows an analysis of the Group's financial liabilities grouped by maturity based on the period remaining between the balance sheet date and the contractual maturity date, including the corresponding interest. The amounts in the table are the contractual cash flows, which have not been discounted. Since those amounts have not been discounted, and they include future interest, they are not comparable with the amount of borrowings, derivatives and supplier and other accounts payable recognized in the balance sheet.

Financial liabilities, by maturity (thousand euro)	31-12-2019				
	2020	2021-2022	2023-2025	2026 and thereafter	Total
Bank debt and other interest-bearing debt	11,844	15,358	4,441	18,619	**50,262**
Debt to official authorities	5,616	10,337	10,135	4,377	**30,465**
Finance lease liabilities	1,759	1,274	429	127	**3,589**
Suppliers	16,471	0	0	0	**16,471**
Other accounts payable	2,862	0	0	0	**2,862**
Total liabilities	**38,552**	**26,969**	**15,005**	**23,123**	**103,649**

Financial liabilities, by maturity (thousand euro)	31-12-2018				
	2019	2020-2021	2022-2024	2025 and thereafter	Total
Bank debt and other interest-bearing debt	26,325	19,719	9,586	19,429	**75,059**
Debt to official authorities	2,980	10,590	12,085	5,352	**31,007**
Suppliers	31,231	0	0	0	**31,231**
Other accounts payable	2,195	10	0	0	**2,205**
Total liabilities	**62,731**	**30,319**	**21,671**	**24,781**	**139,502**

3,2. Capital management

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

In order to maintain or adjust the capital structure, the Group could issue new shares or sell assets to reduce the debt.

The Group monitors its capital on the basis of the leverage ratio. This is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including current and non-current borrowings, as shown in the consolidated balance sheet) less cash and cash equivalents and financial assets. Capital is calculated as equity, per the consolidated financial statements, plus net debt.

Total capital and leverage (thousand euro)	Balance as of 31-12-2019	Balance as of 31-12-2018
Long-term interest-bearing debt	(53,063)	(64,922)
Short-term interest-bearing debt	(29,655)	(28,483)
Cash and cash equivalents	17,638	22,745
Non-current and current financial assets	4,286	5,015
Equity	(7,456)	(17,473)
Total capital	**(68,250)**	**(83,118)**
Leverage	**89.08%**	**78.98%**

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

3,3. Fair value estimates

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

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

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

Fair value estimates 2019 (thousand euro)	Level 1	Level 3	Total
Loans and receivables			
- Term financial assets (Note 10)	0	302	**302**
Financial assets at fair value through other comprehensive income			
- Equity securities, net (Note 12)	28	0	**28**
Total assets	**28**	**302**	**330**

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

Fair value estimates 2018 (thousand euro)	Level 1	Level 3	Total
Loans and receivables			
- Term financial assets (Note 10)	0	320	**320**
Financial assets at fair value through other comprehensive income			
- Equity securities, net (Note 12)	24	0	**24**
Total assets	**24**	**320**	**344**

The fair value of financial instruments that are traded in an active market is determined by the market price on the balance sheet date. A financial instrument is considered to be quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency, and those prices represent actual and market transactions occurring regularly on an arm's-length basis. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in Level 1.

The fair value of financial instruments that are not traded in an active market (e.g. over-the-counter derivatives) is determined by using measurement techniques. Measurement techniques make the maximum use of observable market data and are based as little as possible on specific estimates by the undertakings. If all material data items required to measure an instrument's fair value are observable, the instrument is classified as Level 2.

If one or more of the significant items of data is not based on observable market data, the instrument is classified as Level 3.

An instrument is classified on the basis of the lowest level of input that is significant to the measurement of fair value in its entirety.

The fair value of unquoted fixed-income debt securities is the price at which the internal rate of return matches the market yields in the government bond market at any given time.

4. ACCOUNTING ESTIMATES AND JUDGMENTS

Assumptions and estimates are reviewed periodically and are based on past experience and other factors, including future expectations or future events that are considered to be reasonable in certain circumstances. The outcome of those events may differ from the initial projections.

Recognition of revenue under licensing and/or co-development agreements (Note 2.W)

The Oncology segment of the Group enters into licensing and/or co-development agreements with third parties. Those agreements generally include multiple components and the associated revenue must be matched with the development costs incurred and the Group's performance obligations.

The Group takes a number of factors into account when analyzing licensing, development and marketing contracts, which are described in note 2.W.

Deferred tax assets (Note 2.T)

The Spanish undertakings in the Group have significant unused tax losses and tax credits as well as other deductible timing differences (Note 24).

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

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

- Projections through 2029 are included for PharmaMar, and through 2024 for Genómica and Sylentis.

- The information for preparing the tax plan is the budget presented to the Board of Directors, which includes projections through 2024, extended to 2029 in the case of PharmaMar, using the Group's best estimates of future earnings based on past experience, and the assumptions made in the first 5 years of estimation.

- The main variables used in projections for the Oncology segment are as follows: a) the probability assigned to ongoing developments (revenues expected for each product under development is assigned a probability of occurrence based on the degree of progress with current research); b) the estimated selling price; and c) a penetration rate as a function of the number of patients that could potentially be treated with the product under development.

- The tax plan also uses the following significant assumptions:
    - No revenues are assumed from products under development that have not yet reached Phase III.
    - Average 11.5% growth in sales in the Oncology segment. That growth is due mainly to the good prospects for Lurbinectedin, a product currently under development.
    - Average 6.0% sustained growth in operating expenses in the Oncology segment.

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

- A 1% increase in the probability assigned to revenues from Phase III research would result in the recognition of an additional €1,228 thousand.

- A 5% reduction in the estimated price for the main research compound (Lurbinectedin) would result in the derecognition of €3,332 thousand.

- A 1-year delay in sales of the main compound under development, Lurbinectedin, would result in derecognition of €6,876 thousand.

- A 10% loss of market share for the main compound under development, Lurbinectedin, would result in derecognition of €5,300 thousand.

Note 24 details the assets recognized by the Group as of 31 December 2019 and 2018 and the assets not recognized by application of this approach.

Capitalized development expenses (Note 2.G.i)

New drug development is subject to uncertainty due to the long period of maturation for the drugs and the technical results obtained at different stages of trials involved in the development process. It may prove necessary to abandon development at any stage of the process, whether because the drug does not meet medical or regulatory standards or because it proves unprofitable. For these reasons, the Group follows standard practice in the biopharmaceutical industry and considers that uncertainty to have been dissipated only when the product being developed has attained at least the registration phase.

Goodwill and intangible assets (trademarks) having indefinite useful lives (Note 2.H)

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

5. SEGMENT REPORTING

The Board of Directors is the highest decision-making body in operating matters. Management has determined the operating segments based on the information submitted to the Board of Directors for the purpose of assigning resources and assessing performance.

In identifying its operating segments, management takes into account the Group's products, the services it provides, and types of customers, as well as quantitative criteria.

The Board of Directors evaluates the performance of the operating segments by monitoring revenue, gross margin, cost of sales, R&D expenses, marketing and distribution expenses and adjusted EBITDA. These magnitudes are also used as indicators for determining which operating segments have similar economic characteristics:

- Revenue from each operating segment is the revenue metric used for reporting to the Board of Directors.

- Adjusted EBITDA from each operating segment (calculated as detailed in the segment disclosures below) is the profit metric used for reporting to the Board of Directors. This is an indicator of the company's direct activity because it eliminates the tax effect. In the case of the PharmaMar group, the tax item often has a positive sign and varies considerably between years, which distorts the comparability of net profit. Moreover, the financial burden that this indicator eliminates is not the Group's most significant expense and it is quite stable between years. EBITDA is the indicator that best reflects the Company's activity.

- Corporate costs are not allocated to individual operating segments and are presented as "unallocated". They basically consist of expenses associated with the central corporate services that should not distort the operating business segments, including personnel expenses, rent, expenses related to being listed on the stock market, etc.

- Total assets and liabilities are broken down in the same way in which the operating segments provide this information to the Board of Directors on a regular basis.

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

The qualitative elements used in aggregating segments include the following:

- Similar economic characteristics in terms of ratios such as sales margin, R&D expenses as a percentage of revenues, marketing and distribution expenses as a percentage of revenues, and the prospects for business growth.

- The products, services and production processes of the companies in the Consumer chemicals segment are similar.

- Similar types of customers and distribution channels.

Taking into account both the economic and qualitative aspects of the operating segments, the Board concludes that the chemical operating segments can be aggregated due to their similarities, although the chemicals business is presented under discontinued operations, as indicated below. The three biopharmaceutical operating segments are not aggregated due to qualitative differences.

Therefore, the four identified reporting business segments as of 31 December 2019 and 2018 are as follows:

1. Oncology. This segment encompasses the Group undertakings whose object is to research, develop and market anti-tumor drugs (Pharma Mar, S.A., Pharma Mar USA, Pharma Mar AG, Pharma Mar SARL, Pharma Mar GmbH, Pharma Mar Ltd, Pharma Mar, S.r.L., Pharma Mar, Sprl and Pharma Mar Ges.m.b.H AT).

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

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

4. Consumer chemicals. This segment comprises the Group undertakings that produce and market insecticides and air fresheners for household use, and household products. The subsidiaries that operated in this segment are Zelnova Zeltia, S.A. and Copyr, S.p.A. As indicated in note 1, Zelnova Zeltia, owner of 100% of the shares of Copyr, was sold on 28 June 2019 once authorization had been obtained from the shareholders. Therefore, in the segment information shown below, the results of Zelnova Zeltia and Copyr are shown under "Income from discontinued operations" in the consolidated income statement for the years ended 31 December 2019 and 2018.

Also, as indicated in Note 1, Xylazel, S.A., which was part of the Consumer chemicals segment, was sold on 20 September 2018 and, consequently, this company's operations are presented under discontinued operations in the consolidated profit and loss account as of 31 December 2018 under the heading "Income from discontinued operations".

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

Segment income 2019 (thousand euro)	Biopharmaceuticals			Consumer chemicals		
	Oncology	Diagnostics	RNAi	Discontinued operations	Unallocated	Group
Revenues	80,074	5,745	0	0	0	**85,819**
Cost of sales	(2,766)	(2,462)	0	0	0	**(5,228)**
Other operating revenues / Other net gains	894	50	11	0	0	**955**
R&D expenses	(45,673)	(2,060)	(2,909)	0	0	**(50,642)**
Other expenses	(33,919)	(3,754)	(377)	0	(10,340)	**(48,390)**
Net operating income	**(1,390)**	**(2,481)**	**(3,275)**	**0**	**(10,340)**	**(17,486)**
Net financial income	**(3,424)**	**(406)**	**(338)**	**0**	**0**	**(4,168)**
Income before taxes	**(4,814)**	**(2,887)**	**(3,613)**	**0**	**(10,340)**	**(21,654)**
Corporate income tax (expense)/revenue	12,390	(8)	92	0	0	**12,474**
Income from continuing operations	**7,576**	**(2,895)**	**(3,521)**	**0**	**(10,340)**	**(9,180)**
Income from discontinued operations	**0**	**0**	**0**	**(2,217)**	**0**	**(2,217)**
Equity-holders of the parent company	7,576	(2,895)	(3,521)			
Income from continuing operations (1)	7,576	(2,895)	(3,521)			
Corporate income tax (expense)/revenue (2)	(12,390)	8	(92)			
Financial income (3)	3,424	406	338			
Depreciation and amortization (4)	6,790	1,027	218			
Fixed asset impairment losses (5)	(81)	0	0			
Impairment and changes in trade provisions (6)	15	4	0			
Adjusted EBITDA (1)+(2)+(3)+(4)+(5)+(6)	**5,334**	**(1,450)**	**(3,057)**			

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

Segment assets and liabilities 2019 (thousand euro)	Biopharmaceuticals				
	Oncology	Diagnostics	RNAi	Unallocated	Group
Non-current assets	70,674	3,256	799	0	**74,729**
Current assets	43,673	2,405	2,386	1,512	**49,976**
Non-current liabilities	51,211	804	4,795	0	**56,810**
Current liabilities	56,100	2,687	1,444	208	**60,439**
Investment in fixed assets	3,582	328	9	0	**3,919**

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

	Biopharmaceuticals			Consumer chemicals		
Segment income 2018 (thousand euro)	**Oncology**	**Diagnostics**	**RNAi**	**Discontinued operations**	**Unallocated**	**Group**
Revenues	102,754	5,891	0	0	126	**108,771**
Cost of sales	(2,114)	(2,811)	0	0	0	**(4,925)**
Other operating revenues / Other net gains	1,703	(16)	34	0	0	**1,721**
R&D expenses	(63,742)	(4,941)	(5,105)	0	0	**(73,788)**
Other expenses	(35,612)	(4,596)	(230)	0	(7,292)	**(47,730)**
Net operating income	**2,989**	**(6,473)**	**(5,301)**	**0**	**(7,166)**	**(15,951)**
Net financial income	**(3,523)**	**(191)**	**(321)**	**0**	**0**	**(4,035)**
Income before taxes	**(534)**	**(6,664)**	**(5,622)**	**0**	**(7,166)**	**(19,986)**
Corporate income tax (expense)/revenue	2,789	(7)	101	0	0	**2,883**
Income from continuing operations	**2,255**	**(6,671)**	**(5,521)**	**0**	**(7,166)**	**(17,103)**
Income from discontinued operations	**0**	**0**	**0**	**11,550**	**0**	**11,550**
Equity-holders of the parent company	2,255	(6,671)	(5,521)			
Income from continuing operations (1)	2,255	(6,671)	(5,521)			
Corporate income tax (expense)/revenue (2)	(2,789)	7	(101)			
Financial income (3)	3,523	191	321			
Depreciation and amortization (4)	5,570	691	114			
Fixed asset impairment losses (5)	0	0	0			
Impairment and changes in trade provisions (6)	(4)	114	0			
Indemnities (7)	2,486	0	0			
Adjusted EBITDA (1)+(2)+(3)+(4)+(5)+(6)+(7)	**11,041**	**(5,668)**	**(5,187)**			

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

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

Segment assets and liabilities 2018 (thousand euro)	Biopharmaceuticals			Consumer chemicals		
	Oncology	Diagnostics	RNAi	Discontinued operations	Unallocated	Group
Non-current assets	60,668	3,475	553	17,870	0	**82,566**
Current assets	41,215	3,185	3,201	25,953	1,556	**75,110**
Non-current liabilities	61,348	978	4,892	603	0	**67,821**
Current liabilities	55,803	4,573	1,981	9,817	208	**72,382**
Investment in fixed assets	**1,246**	**386**	**127**	**664**	**0**	**2,423**

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

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

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

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

Non-current assets (thousand euro)	31-12-2019	31-12-2018
Spain	29,177	48,310
Rest of the European Union	194	1,056
	29,371	**49,366**

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

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

The following tables show the breakdown of the Group's revenues from contracts with customers based on the type of goods or services provided to customers, the geographical area and the time of transfer of goods and services, classified by reporting segment, in 2019.

Revenues by segment in 2019 (thousand euro)	Oncology	Diagnostics	Total
Product sales	91,592	5,507	97,099
Returns, discounts	(18,570)	0	(18,570)
Licensing and co-development agreements	3,950	0	3,950
Royalties	3,102	0	3,102
Other revenues	0	238	238
Total revenues from contracts with customers	**80,074**	**5,745**	**85,819**
Geographies			
Spain	14,486	3,666	18,152
Italy	20,643	51	20,694
Germany	16,485	0	16,485
Rest of the European Union	19,726	947	20,673
Japan	615	0	615
United States	2,389	0	2,389
Other	5,730	1,081	6,811
Total revenues from contracts with customers	**80,074**	**5,745**	**85,819**
Point of recognition of revenues			
At a point in time	76,874	5,745	82,619
Over a period of time	3,200	0	3,200
Total revenues from contracts with customers	**80,074**	**5,745**	**85,819**

Revenues by geography in 2019 (thousand euro)	Spain	Italy	Germany	Rest of the European Union	Japan	United States	Other	Total
Product sales	18,474	22,127	18,141	35,305	0	69	2,983	97,099
Returns, discounts	(560)	(1,433)	(1,656)	(14,632)	0	(167)	(122)	(18,570)
Licensing and co-development agreements	0	0	0	0	0	0	3,950	3,950
Royalties	0	0	0	0	615	2,487	0	3,102
Other revenues	238	0	0	0	0	0	0	238
Total revenues from contracts with customers	**18,152**	**20,694**	**16,485**	**20,673**	**615**	**2,389**	**6,811**	**85,819**

Revenues by segment in 2018 (thousand euro)	Oncology	Diagnostics	Unallocated	Total
Product sales	92,572	5,593	0	98,165
Returns, discounts	(18,393)	0	0	(18,393)
Licensing and co-development agreements	24,659	0	0	24,659
Royalties	3,916	0	0	3,916
Other revenues	0	298	126	424
Total revenues from contracts with customers	**102,754**	**5,891**	**126**	**108,771**
Geographies				
Spain	14,000	3,597	126	17,723
Italy	19,201	108	0	19,309
Germany	14,833	7	0	14,840
Rest of the European Union	26,928	828	0	27,756
Japan	18,659	0	0	18,659
United States	7,481	0	0	7,481
Other	1,652	1,351	0	3,003
Total revenues from contracts with customers	**102,754**	**5,891**	**126**	**108,771**

Point of recognition of revenues				
At a point in time	87,432	5,891	126	93,449
Over a period of time	15,322	0	0	15,322
Total revenues from contracts with customers	**102,754**	**5,891**	**126**	**108,771**

Revenues by geography in 2018 (thousand euro)	**Spain**	**Italy**	**Germany**	**Rest of the European Union**	**Japan**	**United States**	**Other**	**Total**
Product sales	17,828	20,641	16,394	40,675	0	38	2,589	98,165
Returns, discounts	(529)	(1,332)	(1,554)	(14,919)	0	0	(59)	(18,393)
Licensing and co-development agreements	0	0	0	2,000	18,112	4,074	473	24,659
Royalties	0	0	0		547	3,369	0	3,916
Other revenues	424	0	0	0	0	0	0	424
Total revenues from contracts with customers	**17,723**	**19,309**	**14,840**	**27,756**	**18,659**	**7,481**	**3,003**	**108,771**

6. PROPERTY, PLANT AND EQUIPMENT

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

Property, plant and equipment (thousand euro)	**Balance as of 31-12-2018**	**Recognitions**	**Derecognitions**	**Reclassifications and transfers**	**Exchange rate effect**	**Balance as of 31-12-2019**
Land and structures	24,540	35	(2,585)	0	0	21,990
Technical installations and machinery	31,834	375	(10,918)	453	(8)	21,736
Other installations, tools and furniture	21,242	45	(1,403)	651	0	20,535
Advances & construction in progress	1,166	416	(280)	(1,107)	0	195
Other property, plant & equipment	2,931	153	(374)	3	0	2,713
Provisions	(1,288)	0	81	0	0	(1,207)
Cost	**80,425**	**1,024**	**(15,479)**	**0**	**(8)**	**65,962**
Structures	(9,636)	(725)	1,983	0	0	(8,378)
Technical installations and machinery	(24,500)	(1,022)	8,854	0	7	(16,661)
Other installations, tools and furniture	(17,264)	(600)	1,607	0	0	(16,257)
Other property, plant & equipment	(2,388)	(218)	392	0	0	(2,214)
Accumulated depreciation	**(53,788)**	**(2,565)**	**12,836**	**0**	**7**	**(43,510)**
PROPERTY, PLANT AND EQUIPMENT	**26,637**	**(1,541)**	**(2,643)**	**0**	**(1)**	**22,452**

Property, plant and equipment (thousand euro)	Balance as of 31-12-2017	Recognitions	Derecognitions	Reclassifications and transfers	Exchange rate effect	Balance as of 31-12-2018
Land and structures	27,364	183	(3,007)	0	0	24,540
Technical installations and machinery	32,106	1,170	(1,438)	0	(4)	31,834
Other installations, tools and furniture	21,273	109	(211)	71	0	21,242
Advances & construction in progress	578	659	0	(71)	0	1,166
Other property, plant & equipment	7,587	714	(5,371)	1	0	2,931
Provisions	(1,288)	0	0	0	0	(1,288)
Cost	**87,620**	**2,835**	**(10,027)**	**1**	**(4)**	**80,425**
Structures	(10,148)	(623)	1,135	0	0	(9,636)
Technical installations and machinery	(24,147)	(1,601)	1,246	0	2	(24,500)
Other installations, tools and furniture	(16,757)	(694)	187	0	0	(17,264)
Other property, plant & equipment	(5,361)	(442)	3,415	0	0	(2,388)
Accumulated depreciation	**(56,413)**	**(3,360)**	**5,983**	**0**	**2**	**(53,788)**
PROPERTY, PLANT AND EQUIPMENT	**31,207**	**(525)**	**(4,044)**	**1**	**(2)**	**26,637**

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

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

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

Depreciation of property, plant and equipment (thousand euro)	31-12-2019	31-12-2018
Cost of goods sold	152	161
Marketing expenses	458	469
Administrative expenses	1,018	976
Research & development expenses	712	1,062
Depreciation and amortization	**2,340**	**2,668**

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

One building is collateral for one of the bank loans. It is a building owned by PharmaMar (Oncology segment) in Colmenar Viejo, Madrid province, with a net carrying amount of €9,231 thousand as of 31 December 2019 (€9,749 thousand in 2018). The original financial liability was canceled in 2014 and a new financial liability was recognized subsequently. The initial amount of the transaction, signed in 2014, was €9,000 thousand, maturing in 2024. As of 31 December 2019, the unamortized balance of the loan amounted to €4,360 thousand (€5,263 thousand in 2018).

7. INVESTMENT PROPERTY

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

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

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

Receipts for non-cancelable operating leases on investment property (thousand euro)	**31-12-2019**	**31-12-2018**
Up to 1 year	60	60
1-5 years	300	299
5-10 years	60	120
	420	**479**

At the beginning of 2018, the Group sold a plot of land measuring 5,475 square meters, located in the province of Pontevedra, for an amount of €125 thousand; the land was valued at €47.6 thousand.

8. INTANGIBLE ASSETS

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

Intangible assets (thousand euro)	**Balance as of 31-12-2018**	**Recognitions**	**Derecognitions**	**Reclassifications and transfers**	**Balance as of 31-12-2019**
Development expenses	23,186	3,054	(33)	0	26,207
Concessions, patents & trade marks	10,765	0	(9,786)	0	979
Computer software	6,055	212	(1,709)	0	4,558
Advances on intangible assets	68	0	0	0	68
Cost	**40,074**	**3,266**	**(11,528)**	**0**	**31,812**
Development expenses	(17,704)	(3,352)	0	0	(21,056)
Concessions, patents & trade marks	(833)	(114)	114	0	(833)
Computer software	(4,879)	(378)	1,406	2	(3,849)
Accumulated amortization	**(23,416)**	**(3,844)**	**1,520**	**2**	**(25,738)**
INTANGIBLE ASSETS	**16,658**	**(578)**	**(10,008)**	**2**	**6,074**

Intangible assets (thousand euro)	Balance as of 31-12-2017	Recognitions	Derecognitions	Reclassifications and transfers	Balance as of 31-12-2018
Development expenses	25,328	0	(2,142)	0	23,186
Concessions, patents & trade marks	10,765	0	0	0	10,765
Computer software	5,940	215	(186)	86	6,055
Advances on intangible assets	38	30	0	0	68
Provisions	(2,142)	0	2,142	0	0
Cost	**39,929**	**245**	**(186)**	**86**	**40,074**
Development expenses	(14,352)	(3,352)	0	0	(17,704)
Concessions, patents & trade marks	(833)	0	0	0	(833)
Computer software	(4,532)	(384)	126	(89)	(4,879)
Accumulated amortization	**(19,717)**	**(3,736)**	**126**	**(89)**	**(23,416)**
INTANGIBLE ASSETS	**20,212**	**(3,491)**	**(60)**	**(3)**	**16,658**

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

Development expenses

The Group capitalizes the amount of clinical trials performed with drugs developed in-house that fulfill the conditions described in Notes 2.G.i and 4.

As of 31 December 2019, the Group had capitalized the cost of preparing the dossier and documentation required to file a new drug application (NDA) with the FDA for Lurbinectedin as monotherapy for treating patients with relapsed small-cell lung cancer as well as a number of clinical trials with Yondelis® in soft tissue sarcoma and ovarian cancer. Those trials were performed mainly for two purposes:

- To support and provide the necessary input for the process of approval by the FDA and other regulators.

- To obtain a reimbursement price in other locations in response to requirements by the regulatory agencies of certain countries.

In 2018, derecognitions amounting to €2,142 million in development expenses referred to amounts capitalized in connection with Aplidin®. That amount was written off in 2017 when the CHMP issued a negative opinion as to granting authorization to market Aplidin® for treating multiple myeloma. PharmaMar booked impairment for that amount until the outcome of the review of that negative opinion requested by PharmaMar was issued. When the CHMP confirmed its previous negative opinion in March 2018, the Company derecognized the asset and the associated impairment.

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

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

In order to facilitate the comparison of the balances in the separate financial statements of Pharma Mar, S.A. and in the Group's consolidated financial statements, the table below breaks

down the movement of intangible fixed assets (development) in the separate and consolidated balance sheets.

Changes in R&D (thousand euro)	Separate balance sheet	Consolidated balance sheet
Beginning balance Cost 01-01-2018	**479,377**	**25,328**
Recognitions	17,349	0
Derecognitions	(108,946)	(2,142)
Total Cost 31-12-2018	**387,780**	**23,186**
Beginning balance Impairment 01-01-2018	**(97,942)**	**(2,142)**
Provision	(27,028)	0
Transfer	97,942	2,142
Total Impairment 31-12-2018	**(27,028)**	**0**
Beginning balance Amortization 01-01-2018	**(211,473)**	**(14,352)**
Recognitions	(20,963)	(3,352)
Derecognitions	2,063	0
Total Amortization 31-12-2018	**(230,373)**	**(17,704)**
Net carrying amount 31-12-2018	**130,379**	**5,482**
Beginning balance Cost 01-01-2019	**387,780**	**23,186**
Recognitions	17,291	3,054
Derecognitions	0	(33)
Total Cost 31-12-2019	**405,071**	**26,207**
Beginning balance Impairment 01-01-2019	**(27,028)**	**0**
Total Impairment 31-12-2019	**(27,028)**	**0**
Beginning balance Amortization 01-01-2019	**(230,373)**	**(17,704)**
Recognitions	(20,184)	(3,352)
Total Amortization 31-12-2019	**(250,557)**	**(21,056)**
Net carrying amount 31-12-2019	**127,486**	**5,151**

The application in Pharma Mar, S.A.'s separate financial statements of the approach used in the Group's financial statements would reduce the amount of development expenses recognized in assets and the equity by €122 million as of 31 December 2019, and by €125 million as of 31 December 2018.

The following table completes the information per capitalized compound, reflecting the net carrying amount of each of them in the separate and consolidated financial statements as of 31 December 2019 and 2018, as well as the changes during the year:

	Separate balance sheet		
Changes in R&D, by compound (thousand euro)	Yondelis®	Lurbinectedin	Total development
Ending balance 31-12-18	**30,413**	**99,966**	**130,379**
Recognitions	0	17,291	17,291
Depreciation and amortization	(20,184)	0	(20,184)
Ending balance 31-12-19	**10,229**	**117,257**	**127,486**

	Consolidated balance sheet		
Changes in R&D, by compound (thousand euro)	Yondelis®	Lurbinectedin	Total development
Ending balance 31-12-18	**5,482**	**0**	**5,482**
Recognitions	0	3,021	3,021
Depreciation and amortization	(3,352)	0	(3,352)
Ending balance 31-12-19	**2,130**	**3,021**	**5,151**

Computer software

Computer software is mainly licenses for office, communication and management software acquired from third parties.

Since the Group chose to prepare the income statement by function, the amortization charge for intangible assets is distributed as follows:

Amortization of intangible assets (thousand euro)	31-12-2019	31-12-2018
Administrative expenses	13	96
Research & development expenses	3,702	3,611
Depreciation and amortization	**3,715**	**3,707**

Concessions, patents and trademarks

At 2018 year-end, this item included mainly trademarks (Thomil and Casajardin) amounting to €9,786 thousand belonging to one of the Consumer chemicals companies that were acquired from third parties. They were measured at the price paid on acquisition (in 1994 and 2003, fundamentally) and, since they were considered to have an indefinite life, they were not amortized. They were assessed for impairment each year with the goodwill referred to in the next note. As described in note 1, Zelnova Zeltia, a company in the Consumer chemicals segment that owned the brands referred to in this note, was sold in June 2019; consequently, the brands ceased to form part of the Group's assets at that time.

9. GOODWILL

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

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

10. FINANCIAL INSTRUMENTS BY CATEGORY

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

Financial instruments by category 31-12-2019 (thousand euro)	**Loans and receivables**	**Assets at fair value through profit or loss**	**Financial assets at fair value through other comprehensive income**	**Total**
Assets on balance sheet	**33,124**	**302**	**28**	**33,454**
Non-current financial assets				
Equity instruments	0	302	0	302
Financial assets at fair value through other comprehensive income (Note 12)	0	0	28	28
Accounts receivable	699	0	0	699
Current financial assets				
Trade receivables (Note 13)	11,164	0	0	11,164
Accounts receivable (Note 13)	366	0	0	366
Current financial assets at amortized cost	3,257	0	0	3,257
Cash and cash equivalents (Note 16)	17,638	0	0	17,638
Liabilities on balance sheet	**105,447**	**0**	**0**	**105,447**
Non-current borrowings (Note 23)	53,063	0	0	53,063
Non-current lease liabilities (Note 3)	1,719	0	0	1,719
Current borrowings (Note 23)	29,655	0	0	29,655
Current lease assets (Note 3)	1,678	0	0	1,678
Supplier and other accounts payable (Note 20)	19,332	0	0	19,332

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

Financial instruments by category 31-12-2018 (thousand euro)	**Loans and receivables**	**Assets at fair value through profit or loss**	**Financial assets at fair value through other comprehensive income**	**Total**
Assets on balance sheet	**50,965**	**320**	**24**	**51,309**
Non-current financial assets				
Equity instruments	0	320	0	320
Financial assets at fair value through other comprehensive income (Note 12)	0	0	24	24
Accounts receivable	540	0	0	540
Current financial assets				
Trade receivables (Note 13)	23,025	0	0	23,025
Accounts receivable (Note 13)	385	0	0	385
Supplier advances (Note 13)	139	0	0	139
Current financial assets at amortized cost	4,131	0	0	4,131
Cash and cash equivalents (Note 16)	22,745	0	0	22,745
Liabilities on balance sheet	**127,916**	**0**	**0**	**127,916**
Non-current borrowings (Note 23)	64,922	0	0	64,922
Current borrowings (Note 23)	28,483	0	0	28,483
Supplier and other accounts payable (Note 20)	34,511	0	0	34,511

11. CREDIT QUALITY OF FINANCIAL ASSETS

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

Credit quality of financial assets (thousand euro)	31-12-2019	31-12-2018
Accounts receivable:		
Customers without an external credit rating		
Group 1	695	1,008
Group 2	10,835	22,541
Total accounts receivable	**11,530**	**23,549**

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

Cash at bank and bank deposits (thousand euro)	31-12-2019	31-12-2018
Moody's rating		
A1	0	7
A2	2,565	3,520
A3	7,606	911
Aa3	102	1
B1	0	12
Ba2	2	1
Ba3	7	6
Baa1	0	11,816
Baa2	10,611	10,056
Unrated	1,031	1,430
	21,924	**27,760**

None of the unmatured financial assets was renegotiated during the year. See credit quality of accounts receivable from public authorities, in Note 13.

12. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

All of these financial assets consist of shares listed on the US market, all of them in the biopharmaceutical sector. Their fair value matches their listed market price: €28 thousand (€24 thousand in 2018).

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

13. TRADE RECEIVABLES

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

Trade receivables (thousand euro)	Balance as of 31-12-2019	Balance as of 31-12-2018
Customer receivables for sales and services	11,471	24,053
Impairment	(307)	(1,028)
Net	**11,164**	**23,025**
Other receivables	366	385
Supplier advances	0	139
Total	**11,530**	**23,549**

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

As of 31 December 2019, accounts receivable amounting to €135 thousand were past due (€950 thousand in 2018) but had not suffered impairment. The analysis of those accounts receivable by age is as follows (thousand euro):

Accounts receivable past due and not provisioned (thousand euro)	Balance as of 31-12-2019	Balance as of 31-12-2018
3-6 months	129	647
Over 6 months	6	303
Total	**135**	**950**

The past-due accounts that had not been impaired as of 31 December 2019 and 2018 are mainly due from public hospitals belonging to the Spanish national health system and from distributors of vials for the two therapeutic uses which have been approved for Yondelis®. The average collection period from the Spanish national health system does not exceed one year. The Group does not impair past-due receivables with public authorities and expects to recover the total amount due plus any default interest that it claims. The average collection period for public authorities outside Spain is not more than one year.

In 2019, the Group arranged non-recourse factoring agreements with institutions specialized in this type of transaction for €10,903 thousand of debt owed by various public authorities in Spain and Italy (€6,894 thousand in 2018).
Although the Group has carried out factoring transactions in the past, they are isolated and sporadic.

The breakdown of the factored debt by country and the interest cost as of 31 December 2019 and 2018 is as follows:

2019	Factored	Interest expense	Total received
Spain	6,836	72	6,764
Italy	4,067	102	3,965
	10,903	**174**	**10,729**

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

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

Change in provisions (thousand euro)	Balance as of 31-12-2019	Balance as of 31-12-2018
Beginning balance	**(1,028)**	**(1,534)**
Adjustment for adoption of IFRS 9	0	(17)
Provision	(9)	(174)
Reversal	30	0
Irreversible losses	0	174
Other	700	523
Ending balance	**(307)**	**(1,028)**

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

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

Age of provision (thousand euro)	Balance as of 31-12-2019	Balance as of 31-12-2018
Under 3 months	0	114
Over 6 months	307	914
Total	**307**	**1,028**

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

Net carrying amount of customer and other accounts receivable (thousand euro)	Balance as of 31-12-2019	Balance as of 31-12-2018
Euro	10,494	22,159
Pound sterling	0	104
USD	500	816
Other currencies	536	470
Total	**11,530**	**23,549**

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

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

Customer receivables from public authorities (thousand euro)	Balance as of 31-12-2019	Balance as of 31-12-2018
Spain	1,497	2,212
Austria	186	210
Belgium	272	261
France	539	178
Germany	874	439
United Kingdom	0	77
Ireland	0	2
Italy	2,822	1,433
Luxembourg	19	22
Total customer receivables from public authorities	**6,209**	**4,834**

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

Credit rating (thousand euro)	Credit rating	Balance as of 31-12-2019	Balance as of 31-12-2018
Germany	Aaa	874	439
Andalusia	Baa2	115	314
Aragon	BBB	63	71
Asturias	Baa1	23	24
Austria	Aaa	186	210
Balearic Islands	BBB+	208	124
Belgium	Aaa	272	261
Canary Islands	BBB+	12	109
Cantabria	BBB	224	183
Castilla la Mancha	Ba1	66	103
Castilla y León	Baa1	122	174
Catalonia	Ba3	84	248
Extremadura	Baa2	14	36
France	Aaa	539	178
Galicia	Baa1	23	195
United Kingdom	Aa2	0	77
Ireland	A2	0	2
Italy	Baa3	2,822	1,433
Luxembourg	Aaa	19	22
Madrid	Baa1	275	369
Murcia	Ba1	18	31
Navarra	A+	14	2
Basque Country	A3	41	14
Rioja	BBB	0	16
Valencia	Ba1	195	199
Total		**6,209**	**4,834**

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

Claims of principal and default interest from public authorities

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

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

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

During 2019 and 2018, no default interest was claimed due to the improvement in the periods of payment by the public sector.

14. OTHER CURRENT ASSETS

The breakdown of "Other current assets" as of 31 December 2019 and 2018 is as follows:

Other current assets (thousand euro)	Balance as of 31-12-2019	Balance as of 31-12-2018
Prepaid expenses	1,335	923
Balances with public authorities	7,314	3,146
Total	**8,649**	**4,069**

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

Balances with public authorities (thousand euro)	Balance as of 31-12-2019	Balance as of 31-12-2018
VAT	1,712	2,287
Other	5,602	859
Total	**7,314**	**3,146**

15. INVENTORIES

Inventories (thousand euro)	Balance as of 31-12-2019	Balance as of 31-12-2018
Trade inventories	179	521
Raw materials and other supplies	241	4,162
Semi-finished products and products in process	7,918	8,871
Finished products	564	7,062
Total	**8,902**	**20,616**

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

The volume of products in process and semi-finished products is due broadly to the need to have sufficient inventories to market the drug Yondelis®.

The cost of inventories recognized as an expense and included under cost of goods sold amounted to €3,873 thousand in 2018 (€6,984 thousand in 2018) (Note 32).

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

No inventories have been committed as collateral for obligations or debt.

16. CASH AND CASH EQUIVALENTS

This caption contains the following amounts, which include mainly deposits and other types of investments, such as bank commercial paper, in all cases with a maturity of not more than 3 months from the acquisition date.

Cash and cash equivalents (thousand euro)	Balance as of 31-12-2019	Balance as of 31-12-2018
Cash on hand and at banks	17,638	20,614
Cash equivalents	0	2,131
Total	**17,638**	**22,745**

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

There were no bank overdrafts at the closing date.

17. CAPITAL AND SHARE PREMIUM

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

Thousand euro/Thousand shares	Number of outstanding shares	Share capital	Share premium account	Own shares
Balance as of 1 January 2018	**221,275**	**11,132**	**71,278**	**(4,470)**
Own shares sold	2,164	0	0	4,949
Own shares purchased	(2,433)	0	0	(3,446)
Share ownership plans	227	0	0	724
Balance as of 1 January 2019	**221,233**	**11,132**	**71,278**	**(2,243)**
Own shares sold	4,547	0	0	7,904
Own shares purchased	(3,987)	0	0	(7,467)
Share ownership plans	164	0	0	307
Balance as of 31 December 2019	**221,957**	**11,132**	**71,278**	**(1,499)**

The number of shares in the foregoing table has been adjusted to take account of own shares acquired by the Group, including shares delivered to employees under share-ownership plans which, under the conditions of those plans, are subject to lock-up and may not be disposed of by the employees to whom they have been granted.

Own shares

The number of shares outstanding as of 31 December 2019 was 221,957 thousand (221,333 thousand in 2018). The reduction in the capital and share premium as a result of the shares treated as not outstanding is reflected in the Own shares account. As of 31 December 2019, the parent company held 692 thousand own shares (1,416 thousand in 2018).

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

According to information in the official registers of the National Securities Market Commission as of 31 December 2019, the holders of significant stakes in Pharma Mar, either directly or indirectly, amounting to over 10% are as follows:

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

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

18. AVAILABILITY AND RESTRICTIONS ON RESERVES AND RETAINED EARNINGS

Under article 274 of the Spanish Capital Companies Act, companies must transfer 10% of income for each year to the legal reserve until it amounts to at least 20% of capital stock. The legal reserve (€2,226 thousand) can be used to increase capital provided that the remaining balance of the reserve is not less than 10% of the resulting amount of capital. Except for that purpose, until the legal reserve exceeds 20% of capital stock, it can only be used to offset losses, provided that sufficient other reserves are not available for this purpose.

The share premium may be used for the same purposes as the Company's voluntary reserves, including conversion into capital stock, there being no restrictions as to its use or distribution other than the general ones detailed below.

Dividends that the controlling company distributes are subject to the limitations and restrictions envisaged in the Capital Companies Act. In accordance with current legislation, the maximum amount to be distributed and the applicable limitations and restrictions are based on the amounts presented by the controlling company in its separate financial statements issued under Spanish GAAP.

Moreover, profits may not be distributed unless the amount of available reserves is at least equal to the amount of research and development expenses under assets on the controlling company's balance sheet; the amount is shown in note 8.

The proposed distribution of 2019 income and other reserves to be submitted to the Shareholders' Meeting for approval, and the distribution approved for 2018, are as follows:

Basis of distribution (thousand euro)	**2019**	**2018**
Basis of distribution		
Income for the year	17,659	(31,116)
	17,659	**(31,116)**
Distribution		
Dividend	8,906	0
Prior years' losses	8,753	(31,116)
	17,659	**(31,116)**

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

19. NON-CONTROLLING INTERESTS

There were no changes in 2019 and 2018 in the share capital of "Noscira, S.A. en liquidación", the only undertaking in the group in which there are minority shareholders.

The changes in non-controlling interests in 2019 and 2018 are as follows:

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

Noscira reported a net loss of €68 thousand in 2019 (a net loss of €67 thousand in 2018), of which €18 thousand corresponded to non-controlling interests (€18 thousand in 2018), in line with their 26.7% stake in the company.

20. SUPPLIER AND OTHER ACCOUNTS PAYABLE

The composition of this caption is as follows:

Supplier and other accounts payable (thousand euro)	Balance as of 31-12-2019	Balance as of 31-12-2018
Payable for purchases and services received	16,471	31,231
Debts to related parties	946	836
Advances received for orders	1,655	2,200
Other accounts payable	260	244
Total	**19,332**	**34,511**

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

All payables mature within 12 months from the closing date of each year. Debt to related parties refers mainly to accrued outstanding bylaw-mandated allocations to members of Pharma Mar's Board and fees for membership of Pharma Mar's board committees that have accrued and are outstanding (€824 thousand as of 31 December 2019, €714 thousand as of 31 December 2018), and accrued outstanding allocations to directors of Genómica who are also directors of Pharma Mar (€28 thousand as of 31 December 2019, and €28 thousand in 2018), and €94 thousand for directors of Noscira in 2019 (€94 thousand in 2018).

Information on payments for commercial transactions performed in 2019 and pending payment at the end of the year in relation to the maximum legal payment periods envisaged in Act 15/2010 is as follows:

Payment information	31-12-2019	31-12-2018
Average period taken to pay suppliers (days)	64	51
Proportion of transactions paid (days)	67	59
Proportion of transactions outstanding (days)	71	41
Total payments made (thousand euro)	31,246	41,209
Total payments outstanding (thousand euro)	4,511	5,463

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

The foregoing disclosure refers only to companies domiciled in Spain.

21. CURRENT AND NON-CURRENT DEFERRED REVENUES

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

Non-current deferred revenues

This item relates to grants to fund property, plant and equipment for R&D projects in the Oncology segment. The directors consider that all the conditions for their recognition have been fulfilled. The subsidies detailed below consist mostly of subsidized interest rates.

Non-current deferred revenues (thousand euro)	Balance as of 31-12-2019	Balance as of 31-12-2018
Subsidies	1,851	2,120
Total	**1,851**	**2,120**

Current deferred revenues

Current deferred revenues (thousand euro)	Balance as of 31-12-2019	Balance as of 31-12-2018
Deferred revenues	1,465	168
Total	**1,465**	**168**

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

22. OTHER NON-CURRENT AND CURRENT LIABILITIES

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

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

23. FINANCIAL DEBT

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

Breakdown of non-current debt:

Breakdown of non-current interest-bearing debt (thousand euro)	Balance as of 31-12-2019	Balance as of 31-12-2018
Bank debt	15,291	24,279
Bonds and other marketable securities	16,549	16,501
Interest-bearing debt to official authorities	21,223	24,142
Total	**53,063**	**64,922**

Breakdown of current debt:

Breakdown of current interest-bearing debt (thousand euro)	Balance as of 31-12-2019	Balance as of 31-12-2018
Bank debt	24,367	25,830
Bonds and other marketable securities	405	405
Interest-bearing debt to official authorities	4,883	2,248
Total	**29,655**	**28,483**

A) Bank debt

Non-current and current debt consists of bank loans, credit lines and discounted bills, as detailed in the table below as of 31 December 2019 and 2018:

	No. of products	Maturities	Balance as of 31-12-2019	No. of products	Maturities	Balance as of 31-12-2018
Non-current debt						
Pharma Mar	11	2021-2024	15,291	10	2021-2024	24,279
Total non-current debt	**11**		**15,291**	**10**		**24,279**
Current debt						
Bank loans						
Pharma Mar	12	2019-2024	10,497	11	2021-2024	10,080
Genómica	0	2019	0	1	2019	164
	12		**10,497**	**12**	2019	**10,244**
Credit lines						
Pharma Mar	8	2020	10,886	10	2019	12,317
Genómica	2	2019	697	3	2019	593
	10		**11,583**	**14**	2020	**12,911**
Bills and certificates						
Pharma Mar	1	2020	2,241	1	2019	2,064
	1		**2,241**	**1**		**2,064**
Interest and other accounts payable						
Pharma Mar	0		46	0		72
Genómica	0		0	0		539
	0		**46**	**0**		**611**
Total current debt	**23**		**24,367**	**27**		**25,830**

Non-current debt

Pharma Mar has a mortgage loan amounting to €4,360 thousand (€5,263 thousand in 2018) that matures in 2024; that loan was arranged in 2014 through cancelation of the original financial liability and recognition of a new financial liability.

The repayment schedule for non-current bank debt is as follows:

Repayment schedule for non-current financial debt (thousand euro)	Balance as of 31-12-2019	Balance as of 31-12-2018
2020	0	9,156
2021	8,293	8,124
2022	5,033	5,034
2023	1,224	1,225
2024 and thereafter	741	740
Total	**15,291**	**24,279**

Current debt

Current bank debt is broken down as follows:

Breakdown of current bank debt (thousand euro)	Balance as of 31-12-2019	Balance as of 31-12-2018
Bank loans	10,497	10,244
Credit lines	11,583	12,911
Discounted bills and certificates	2,241	2,064
Interest and other accounts payable	46	611
Total	**24,367**	**25,830**

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

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

The effective interest rates as of 31 December are:

Effective interest rates	Balance as of 31-12-2019	Balance as of 31-12-2018
Bank overdrafts	29.00%	29.00%
Bank loans	2.34%	2.12%
Credit lines	2.11%	2.18%
Discounted notes	1.20%	1.54%

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

All the bank loans are arranged in euro.

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

Changes in liabilities due to financing activities (thousand euro)	31-12-2018	Cash flows	Reclassification to short term	Other	31-12-2019
Long-term bank loans	24,279	927	(9,915)	0	15,291
Short-term bank loans	10,245	(9,662)	9,915	(1)	10,497
Long-term bonds and other marketable securities	16,501	0	0	48	16,549
Short-term bonds and other marketable securities	405	(809)	0	809	405
Credit lines	12,912	(1,329)	0	0	11,583
Discounted bills and certificates	2,064	177	0	0	2,241
Interest and other accounts payable	611	(538)	0	(27)	46
Long-term interest-bearing debt to official authorities	24,142	2,035	(4,881)	(73)	21,223
Short-term interest-bearing debt to official authorities	2,248	(2,922)	4,881	676	4,883
Total liabilities related to financing activities	**93,407**	**(12,121)**	**0**	**1,432**	**82,718**

Changes in liabilities due to financing activities (thousand euro)	31-12-2017	Cash flows	Reclassification to short term	Other	31-12-2018
Long-term bank loans	33,394	0	(9,115)	0	24,279
Short-term bank loans	8,676	(7,544)	9,115	(3)	10,244
Long-term bonds and other marketable securities	16,350	0	113	38	16,501
Short-term bonds and other marketable securities	510	(810)	(113)	818	405
Credit lines	9,974	2,937	0	0	12,911
Discounted bills and certificates	2,203	0	0	(139)	2,064
Interest and other accounts payable	149	0	0	462	611
Long-term interest-bearing debt to official authorities	23,863	5,417	(4,378)	(760)	24,142
Short-term interest-bearing debt to official authorities	4,730	(6,597)	4,378	(263)	2,248
Total liabilities related to financing activities	**99,849**	**(6,597)**	**0**	**153**	**93,405**

Bonds and other marketable securities

In 2015, the controlling company issued non-convertible bonds for an amount of €17,000 thousand in order to strengthen its financial position and extend its debt maturity profile.

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

- Nominal amount: €17,000 thousand;
- Maturity: 12 years from disbursement.
- The issue was targeted at a single qualified Spanish investor via a private placement.
- The bonds, which are uncertificated, were issued at par, each with a nominal value of €100 thousand.
- The bonds bear a fixed coupon of 4.75% per annum payable in arrears every year from the date of disbursement;
- The Company is liable for the obligations arising from the bonds with all its assets and no specific guarantee is granted;
- The terms and conditions of the bonds are governed by Spanish law;
- The controlling company applied to list the bonds on the Alternative Fixed-Income Market (MARF) on July 7, 2015.

B) Interest-bearing debt to public authorities

This item refers mainly to funding from official authorities consisting of loans and advances that are interest-free (or at substantially below market rates) and are repayable in seven years, after a three-year grace period, which finance research and development projects.

As of 31 December 2019, the Group had debt balances with official authorities for a total of €26,106 thousand, calculated on the basis of cash flows discounted at Euribor plus a spread based on the Group's risk (€26,390 thousand in 2018), of which €21,223 thousand were non-current (€24,142 thousand in 2018) and €4,883 thousand were current (€2,248 thousand in 2018).

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

Repayment schedule (thousand euro)	Balance as of 31-12-2019	Balance as of 31-12-2018
2020	0	4,799
2021	4,358	4,446
2022	4,435	4,390
2023	3,953	3,704
2024 and thereafter	8,477	6,803
Total	**21,223**	**24,142**

C) Fair value

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

	Fair value		Carrying amount	
Fair value and carrying amount of financial debt (thousand euro)	Balance as of 31-12-2019	Balance as of 31-12-2018	Balance as of 31-12-2019	Balance as of 31-12-2018
Non-current				
Bank loans	15,291	24,279	15,291	24,279
Due to official authorities	24,883	28,025	21,223	24,142
Bonds	17,000	17,000	16,549	16,501
Total	**57,174**	**69,304**	**53,063**	**64,922**
Current				
Bank loans	10,497	10,244	10,497	10,244
Credit lines	11,583	12,911	11,583	12,911
Unmatured discounted bills and certifications	2,241	2,064	2,241	2,064
Interest payable	44	72	44	72
Due to official authorities	5,552	2,893	4,883	2,248
Bonds	405	405	405	405
Other debt	2	539	2	539
Total	**30,324**	**29,128**	**29,655**	**28,483**

24. DEFERRED TAXES AND INCOME TAX

i. Deferred taxes

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

Deferred tax assets, net (thousand euro)	**Balance as of 31-12-2019**	**Balance as of 31-12-2018**
Deferred tax assets	41,561	33,333
Deferred tax liabilities	(577)	(3,565)
Total	**40,984**	**29,768**

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

Deferred tax assets (thousand euro)	**Research & development expenses / Tax loss carryforwards**	**Tax withholding**	**Intangible assets and property, plant and equipment**	**Other**	**Total**
As of 1 January 2018	**20,456**	**10,424**	**3,534**	**3,270**	**37,684**
Tax withholding	0	429	0	0	429
Recognized in profit or loss	(3,476)	0	(497)	(807)	(4,780)
As of 31 December 2018	**16,980**	**10,853**	**3,037**	**2,463**	**33,333**
Tax withholding	0	328	0	0	328
Recognized in profit or loss	8,348	0	(490)	42	7,900
As of 31 December 2019	**25,328**	**11,181**	**2,547**	**2,505**	**41,561**

The "Tax credits for R&D" item includes differences in accounting treatment for research and development expenses between local and international standards, and unused tax losses that have been capitalized on the balance sheet.

The "Tax withholding" column as of 31 December 2019 and 2018 includes taxes withheld from royalties and payments received under licensing agreements.

Deferred tax liabilities (thousand euro)	Revaluation of investment property	Revaluation of brands with indefinite useful lives	Capital subsidies and others	Total
As of 1 January 2018	**(1,025)**	**(2,229)**	**(949)**	**(4,203)**
Recognized in profit or loss	0	0	638	638
As of 31 December 2018	**(1,025)**	**(2,229)**	**(311)**	**(3,565)**
Recognized in profit or loss	0	0	(266)	(266)
Derecognition of Zelnova Zeltia (Note 25)	1,025	2,229	0	3,254
As of 31 December 2019	**0**	**0**	**(577)**	**(577)**

The deferred tax assets were recognized on the basis of the future taxable income that the Group expects to generate based on current business plans.

The Group analyzed the amounts of unused tax losses and the differences due to different accounting treatment to be used in the tax returns for the years 2020 to 2029. As a result of this analysis, the Group did not take account of €220 million in unused tax losses (€229 million in 2018) or differences in accounting treatment amounting to €21 million (€69 million in 2018).

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

Those unused tax losses and the differences due to different accounting treatment and deductions were not recognized in relation to deferred tax assets at the end of 2019 and 2018 as a result of the analysis performed by the Group as described in Note 4 "Accounting estimates and judgments".

The following table shows the validity periods of unused tax credits that have specific expiry dates but were not recognized as deferred tax assets as of 31 December 2019:

Tax credits generated by:	Total amount	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034 and thereafter
Unused R&D tax credits	189,399	13,364	9,775	10,889	10,760	9,977	11,332	9,697	9,376	9,280	8,078	10,603	9,077	11,345	14,573	41,273
Other unused tax credits	6,196	5,273	371	168	384	0	0	0	0	0	0	0	0	0	0	0
Total	**195,595**	**18,637**	**10,146**	**11,057**	**11,144**	**9,977**	**11,332**	**9,697**	**9,376**	**9,280**	**8,078**	**10,603**	**9,077**	**11,345**	**14,573**	**41,273**

ii. Income tax

In 2019, the corporate income tax return was filed on a group basis by the tax group headed by PharmaMar and comprising the following Group undertakings: Genómica, S.A.U. and Sylentis, S.A.U. The other companies, namely Pharma Mar USA, Pharma Mar AG, Pharma Mar SARL, Pharma Mar GmbH, Pharma Mar Ltd, Pharma Mar Srl, Pharma Mar Sprl, Pharma Mar Ges.m.b.H.AT, Genómica AB, Genómica (Wuhan) Trading Co.Ltd. and "Noscira, S.A. en liquidación", file individual tax returns.

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

	31-12-2019	31-12-2018
Income before taxes (thousand euro)	**(21,653)**	**(19,986)**
Tax rate (25%)	**5,413**	**4,997**
Tax effect of:		
- Exempt revenues and other minor items	433	2,947
- Timing differences with an impact on earnings	(2,213)	(2,213)
- Other adjustments	4,007	(10,767)
- Monetization of tax credits	4,834	7,919
Tax revenue (expense)	**12,474**	**2,883**

In the preceding table, the tax-exempt revenue is basically untaxed revenue relating to 50% of license fees and royalties collected in other countries. This item also reflects the different tax rates applicable to foreign subsidiaries.

One-fifth of the impairment recognized in previous years was reversed for tax purposes in 2019 and 2018 due to the investment in subsidiary Noscira (en liquidacion), resulting in an increase in the tax expense in the amount of €2.2 million each year.

As of 31 December 2018, the Other adjustments item includes the effect of not recognizing all the prepaid taxes that would arise from the tax losses generated in the year, whereas as of 31 December 2019 this item reflected the capitalization of tax losses on the basis of the Group's tax budget.

Additionally, during 2019, the company recognized €4,834 thousand in revenue under the tax expense heading as a result of monetizing research and development tax credits.

The reconciliation of the income tax expense/(revenue) in the income statement is as follows:

Tax (expense)/revenue (thousand euro)	31-12-2019	31-12-2018
Current tax	4,840	7,025
Deferred tax	7,634	(4,142)
Total	**12,474**	**2,883**

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

The amount of current tax, €4,840 thousand, mainly contains the effect of monetization revenues indicated above.

On 6 January 2015, the Spanish tax authorities notified the company of plans to commence a partial tax audit of consolidated corporate income tax for the years 2010 to 2012, which would be confined to examining revenue from certain intangible assets reported by Pharma Mar.

On 20 January 2015, the controlling company applied to the Spanish tax authorities for the partial tax audit to be converted into a general tax audit covering the taxes and periods in question.

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

	Corporate income tax	VAT	Personal income tax - Spanish residents	Personal income tax - Non-residents	Income from capital
Zeltia, S.A.	2010-2013	2011-2013	2Q 2011 - 4Q 2013	2Q 2011 - 4Q 2013	2Q 2011 - 4Q 2013
Genómica, S.A.U.	2010-2013	2011-2013	2Q 2011 - 4Q 2013	2Q 2011 - 4Q 2013	2Q 2011 - 4Q 2013
Pharma Mar, S.A.U.	2010-2013	2011-2013	2Q 2011 - 4Q 2013	2Q 2011 - 4Q 2013	-
Zelnova 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 group's appeals were to fail, the tax payable would be zero and no late payment interest would accrue.

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

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

25. DISCONTINUED OPERATIONS

As described in Note 1, the sale of subsidiary, Zelnova Zeltia (and its subsidiary, Copyr), both of which manufacture and market insecticide products for domestic use, air fresheners and other home care products, was completed on 28 June 2019. Consequently, the consolidated income statement as of 31 December 2019 and 2018 presents Zelnova Zeltia under discontinued operations.

Additionally, on 20 September 2018, the Group sold subsidiary Xylazel, S.A., which manufactures, supplies and distributes products for wood and metal treatment, protection and decoration, special paints and other similar and related products, as well as other products for the construction industry. Consequently, the consolidated income statement as of 31 December 2018 presents Xylazel under discontinued operations.

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

Summary of discontinued operations

Income from discontinued operations (thousand euro)	2019	2018
Xylazel	0	10,652
Zelnova Zeltia	(2,217)	898
Income from discontinued operations	**(2,217)**	**11,550**

Income from discontinued operations (thousand euro)	28-06-2019	31-12-2018
Revenues	33,977	70,643
Expenses	(32,377)	(67,937)
Income before taxes	**1,600**	**2,706**
Corporate income tax	(548)	(747)
Income after taxes from discontinued operations	**1,052**	**1,959**
Income after tax from sale of subsidiary	(3,269)	9,591
Income from discontinued operations	**(2,217)**	**11,550**

Net cash revenue generated by discontinued operations (thousand euro)	28-06-2019	31-12-2018
Net operating cash flow	(6,037)	3,456
Net investing cash inflow/(outflow)	34,844	18,472
Net (outflow) of cash from financing activities	5,081	(57)
Net cash revenue generated by subsidiary	**33,888**	**21,871**

Discontinued operations: Zelnova Zeltia

Income from discontinued operations - Zelnova Zeltia, S.A. (thousand euro)	28-06-2019	31-12-2018
Revenues	33,977	54,266
Expenses	(32,377)	(52,984)
Income before taxes	**1,600**	**1,282**
Corporate income tax	(548)	(384)
Income from discontinued operations	**1,052**	**898**

Net cash revenue generated by Zelnova Zeltia, S.A. (thousand euro)	28-06-2019	31-12-2018
Net operating cash flow	(6,037)	2,032
Net investing cash inflow/(outflow)	34,844	(2,800)
Net (outflow) of cash from financing activities	5,081	(57)
Net cash revenue generated by subsidiary	**33,888**	**(825)**

Details of the sale of Zelnova Zeltia, S.A. (thousand euro)	28-06-2019
Cash consideration received	33,417
Selling costs	(811)
Carrying amount of net assets sold	(35,875)
Gain on sale of subsidiary	**(3,269)**

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

Breakdown of carrying amount of net assets sold - Zelnova Zeltia, S.A. (thousand euro)	28-06-2019
Property, plant & equipment and intangible assets	12,704
Investment property	5,226
Right-of-use assets in connection with leases	1,765
Goodwill	2,548
Other non-current assets	19
Inventories	14,133
Customer receivables and other current assets	28,814
Total assets classified as available-for-sale	**65,209**
Non-current liabilities	3,597
Non-current lease debt (IFRS 16)	1,463
Current interest-bearing debt	5,081
Current lease debt (IFRS 16)	318
Trade creditors	18,875
Total liabilities classified as available-for-sale	**29,334**
Net assets	**35,875**

Discontinued operations: Xylazel

Income from discontinued operations - Xylazel, S.A. (thousand euro)	20-09-2018
Revenues	16,377
Expenses	(14,953)
Income before taxes	**1,424**
Corporate income tax	(363)
Income after taxes from discontinued operations	**1,061**
Gain after tax on sale of subsidiary	9,591
Income from discontinued operations	**10,652**

Net cash revenue generated by Xylazel, S.A. (thousand euro)	20-09-2018
Net operating cash flow	1,424
Net investing cash inflow/(outflow)	21,272
Net (outflow) of cash from financing activities	0
Net cash revenue generated by subsidiary	**22,696**

Details of the sale of Xylazel, S.A. (thousand euro)	20-09-2018
Cash consideration received	21,776
Selling costs	(504)
Carrying amount of net assets sold	(11,681)
Gain on sale of subsidiary	**9,591**

Breakdown of carrying amount of net assets sold - Xylazel, S.A. (thousand euro)	20-09-2018
Property, plant and equipment, intangible assets and other non-current assets	4,187
Inventories	5,366
Customer receivables and other current assets	8,592
Total assets	**18,145**
Non-current liabilities	10
Trade creditors	2,795
Employee welfare liabilities	791
Other current liabilities	2,868
Total liabilities	**6,464**
Net assets	**11,681**

26. PROVISIONS FOR OTHER LIABILITIES AND EXPENSES

As of 31 December 2019 and 2018, this caption includes outstanding remuneration to Group employees in relation to bonuses that had accrued and were outstanding, and estimated bonuses accrued and outstanding at year-end, based on the compensation systems agreed by the Group with employees.

The variation in the balance of this caption is as follows:

Provision for other liabilities and expenses (thousand euro)	Balance as of 31-12-2019	Balance as of 31-12-2018
Beginning balance	**6,266**	**6,232**
Provision for expenses	9,332	6,909
Payments	(9,403)	(6,677)
Transfers and other	(461)	(198)
Total	**5,734**	**6,266**

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

27. NET REVENUES

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

Breakdown of revenues (thousand euro)	31-12-2019	31-12-2018
Product sales	97,099	98,165
Returns, rebates and volume discounts	(18,570)	(18,393)
	78,529	**79,772**
Licensing and co-development agreements	3,950	24,659
Royalties	3,102	3,916
Services provided	238	424
Total	**85,819**	**108,771**

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

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

Breakdown of royalties and licensing (thousand euro)	31-12-2019	31-12-2018
Johnson & Johnson Group (Janssen Products LP) (Yondelis®)	2,487	3,369
Taiho Pharmaceuticals Co. (Yondelis®)	615	547
Total royalties	**3,102**	**3,916**
Chugai Pharmaceutical Co (Lurbinectedin)	0	18,112
Seattle Genetics Inc.	0	4,074
Impilo	0	2,000
Luye Pharma (Lurbinectedin)	3,200	0
MegaPharm (Yondelis®)	150	0
STA (Yondelis®), Boryung (Lurbinectedin, Yondelis®) and Pint (Yondelis®)	600	473
Total licenses	**3,950**	**24,659**
Total	**7,052**	**28,575**

1. Yondelis®

Janssen Products LP

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

initially as deferred revenue and subsequently as revenue over the term of the contract, which includes two distinct phases: development and marketing.

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

- Co-development of Yondelis® from the date of signature of the agreement up to marketing, and financing of a percentage of total development costs incurred by the two parties;

- Assignment to OBP of the future marketing rights for the United States and the rest of the world except Europe (retained by the Group). For this assignment, the Group will collect royalties based on OBP's sales.

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

The Group will retain the patents associated with Yondelis® and is responsible for complying with the administrative requirements relating to maintaining the patents and any other requirements that may apply for their effective use.

The amounts attributed to the development phase are recognized as revenue during the development phase based on the degree of progress with development and the project's total estimated costs. As of 31 December 2019, the Group did not have any amounts pending recognition since all the necessary obligations had been fulfilled and the related expenses had already been incurred by PharmaMar. Consequently, PharmaMar did not recognize any amount under this heading in 2019 and 2018.

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

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

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

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

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

PharmaMar will retain exclusive rights to produce the product and will sell the product to Megapharm for commercial and clinical use.

Taiho Pharmaceutical Co

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

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

- Assignment to Taiho of future rights to market Yondelis® in Japan. For this assignment, the Group will collect royalties based on Taiho's sales once authorization is obtained to market the drug in Japan.

- The Group retains the exclusive right to manufacture the active ingredient, which will be supplied to Taiho.

- Taiho assumes the responsibility, at its own expense, for researching, developing and obtaining regulatory approval for Yondelis® in Japan.

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

As a result, royalties for sale of Yondelis® in Japan were recognized in the amount of €615 thousand in 2019 (€547 thousand in 2018).

2. Aplidin@

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

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

The following agreements are still in force:

Specialised Therapeutics Asia Pte, Ltd

In February 2016, PharmaMar signed a licensing agreement with Singapore-based Specialised Therapeutics Asia Pte, Ltd (STA) to market marine-based anti-tumor compound Aplidin® (plitidepsin) for the treatment of hematological tumors in 12 Asian countries. Pharma Mar received, and recognized as revenue, an up-front payment in the amount of €229 thousand in 2016.

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

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

TTY Biopharm

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

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

Boryung Pharmaceutical

In October 2016, a licensing agreement was signed with Boryung Pharma to commercialize the marine-derived anticancer drug Aplidin® (plitidepsin) in South Korea. Under the terms of the agreement, PharmaMar will receive an upfront payment along with royalties and additional remuneration upon achieving regulatory milestones with Aplidin®. PharmaMar will retain exclusive production rights and will supply the finished product to Boryung for commercial use. Upon signature of the agreement, Pharma Mar received, and recognized as revenue, an up-front payment amounting to €450 thousand and a regulatory milestone amounting to €450 thousand. The Company did not collect any amount under this agreement in 2019 and 2018.

Eip Eczacibasi Ilac Pazarlama A.S.

In May 2017, PharmaMar signed an agreement with Turkish company Eip Eczacibasi Ilac Pazarlama A.S. to market marine-based anti-tumor compound Aplidin® (plitidepsin) in Turkey for the treatment of hematological tumors. 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 2019 and 2018.

Pint Pharma International, S.A.

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

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

3. Lurbinectedin

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

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

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

As indicated in Note 1, in April 2018, Chugai notified PharmaMar of its decision to exercise its right to terminate the agreement without cause, by giving one year's advance notice. The two companies reached an early termination agreement in June. The accounting consequence of that early termination was the recognition as revenue of the balance recognized as deferred revenues in relation to this agreement (€15,112 thousand).

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

Specialised Therapeutics Asia Pte, Ltd

In May 2017, PharmaMar signed a licensing agreement with Singapore-based Specialised Therapeutics Asia Pte, Ltd (STA) for commercialization of marine-derived anti-tumor compound

Lurbinectedin. PharmaMar collected €179 thousand as the upfront payment and recognized €147 thousand as revenue on the basis of the degree of progress with the Phase III trials. In 2018, the Company recognized the remaining revenue in the amount of €32 thousand.

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

Boryung Pharmaceutical

In November 2017, a licensing agreement was signed with Boryung Pharma to market the marine-based anti-tumor compound Lurbinectedin in South Korea. PharmaMar collected €1,000 thousand as the upfront payment and recognized €822 thousand as revenue on the basis of the degree of progress with the Phase III trials. Revenue in the amount of €178 thousand was recognized in 2018.

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

Luye Pharma Group

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

Jazz Pharmaceuticals

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

4. Other molecules

Seattle Genetics Inc.

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

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

28. RESEARCH & DEVELOPMENT EXPENSES

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

	December 2019			
	Oncology	**Diagnostics**	**RNAi**	**Total**
Total expenses	(48,694)	(2,060)	(2,909)	**(53,663)**
Capitalized expenses	3,021	0	0	**3,021**
Research & development expenses	**(45,673)**	**(2,060)**	**(2,909)**	**(50,642)**

	December 2018			
	Oncology	**Diagnostics**	**RNAi**	**Total**
Total expenses	(63,742)	(4,941)	(5,105)	**(73,788)**
Research & development expenses	**(63,742)**	**(4,941)**	**(5,105)**	**(73,788)**

29. GENERAL, ADMINISTRATION AND OTHER OPERATING EXPENSES

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

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

30. MARKETING EXPENSES

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

31. OTHER NET INCOME

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

Breakdown of other net income (thousand euro)	**31-12-2019**	**31-12-2018**
Capital subsidies	768	1,507
Other income	198	137
Total	**966**	**1,644**

32. BREAKDOWN OF EXPENSES BY TYPE

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

Breakdown of expenses by type (thousand euro)	31-12-2019	31-12-2018
Changes in finished product and product-in-process inventories	(2,144)	(534)
Raw materials and other supplies	6,017	7,518
Employee benefit expenses	42,207	45,060
Depreciation and amortization	8,035	6,375
Impairment/(Reversal)	(81)	0
Transport	913	1,230
Marketing expenses	4,636	5,685
Expenses of third-party R&D	19,491	35,684
Other expenses	25,197	25,348
Total	**104,271**	**126,366**

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

33. EMPLOYEE WELFARE EXPENSES

The breakdown of employee welfare expenses is as follows:

Employee welfare expenses (thousand euro)	31-12-2019	31-12-2018
Salaries and wages	33,202	34,018
Indemnities	1,213	2,508
Social security	6,244	6,773
Pension cost	35	36
Share ownership plans	203	230
Other welfare expenses	1,310	1,495
Total	**42,207**	**45,060**

The average number of employees by category is as follows:

Average number of employees by category	31-12-2019	31-12-2018
Management	42	43
Technical professionals	260	265
Clerical personnel	70	101
Commercial personnel	65	90
Other employees	50	100
Total	**487**	**599**

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

(Men)	31-12-2019	31-12-2018
Management	26	28
Technical professionals	107	110
Clerical personnel	11	31
Commercial personnel	32	46
Other employees	28	46
Total	**204**	**261**

(Women)	31-12-2019	31-12-2018
Management	16	15
Technical professionals	153	155
Clerical personnel	59	70
Commercial personnel	33	44
Other employees	22	54
Total	**283**	**338**

The average number of employees by gender is as follows:

Average number of employees	31-12-2019	31-12-2018
Men	204	261
Women	283	338
Total	**487**	**599**

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

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

34. NET FINANCIAL INCOME

Net financial result (thousand euro)	31-12-2019	31-12-2018
On debts to third parties and similar expenses	(3,888)	(4,136)
Losses on financial assets	(258)	0
Exchange loss	(225)	(318)
Financial expenses	**(4,371)**	**(4,454)**
Other interest and similar revenues from other companies	35	22
Exchange gains	168	397
Financial revenues	**203**	**419**
Total net financial income	**(4,168)**	**(4,035)**

35. EARNINGS PER SHARE

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

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

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

Earnings per share (basic)	**31-12-2019**	**31-12-2018**
Income attributable to equity-holders of the parent company *(thousand euro)*	(11,379)	(5,535)
Weighted average number of outstanding ordinary shares (*thousand shares)*	221,244	220,960
Basic earnings per share (euro)	**(0.05)**	**(0.03)**

Earnings per share from continuing operations (basic)	**31-12-2019**	**31-12-2018**
Income from continuing operations (thousand euro)	(9,180)	(17,103)
Weighted average number of outstanding ordinary shares (*thousand shares)*	221,244	220,960
Basic earnings per share (euro)	**(0.04)**	**(0.08)**

Earnings per share from discontinued operations (basic)	**31-12-2019**	**31-12-2018**
Income from discontinued operations (thousand euro)	(2,217)	11,550
Weighted average number of outstanding ordinary shares (*thousand shares)*	221,244	220,960
Basic earnings per share (euro)	**(0.01)**	**0.05**

36. RELATED-PARTY TRANSACTIONS

The following are considered to be related parties of the controlling company for the purposes of this note: the Company's significant shareholders, directors and executives, the close relatives of all of them, and the companies over which any of those persons have a significant influence.

Significant shareholders are those who own over 3% of capital. Employees who report to the Chairman, who is the Company's chief executive, are classified as executives even if they have an ordinary employment contract (not a senior management contract in accordance with Spanish Royal Decree 1382/85).

Board of Directors

The following table shows the remuneration paid in 2019 and 2018 to directors of PharmaMar:

Remuneration (thousand euro)	2019	2018
Fixed remuneration for executive directors	1,154	1,141
Variable remuneration for executive directors	267	228
Fixed remuneration for belonging to the Board of Directors	678	606
Board and Board committee attendance fees	497	423
Fixed remuneration for belonging to Board committees	543	537
Remuneration for belonging to Boards of other Group companies	53	101
Remuneration for Lead Independent Director	17	17
Other remuneration	356	344
Total	**3,565**	**3,397**

The "Other remuneration" item in 2019 and 2018 refers to certain benefits paid to the Company's Chairman and Vice-Chairman, such as casualty and health insurance under the group policy for Company employees. The Chairman also has an executive office at the Company's operational headquarters, communication equipment, means of payment, support staff, security systems and personnel, and a vehicle commensurate with his functions. Additionally, each year the Company pays €12 thousand in premiums for life and saving insurance (life insurance-savings plan) for each of the two executive directors.

With respect to the executive director's variable remuneration, €267 thousand have accrued to date as a result of evaluation of objectives approved by the Board of Directors at its meeting of 26 February 2020, based on a proposal by the Appointments and Remuneration Committee.

As of 31 December, the advances and loans granted by the Group to the members of the Board of Directors in 2019 amounted overall to €45 thousand, on which interest is not earned in accordance with the transitory provisions of the Personal Income Tax Act.

The company has arranged a civil liability policy for the members of the Company's Board of Directors. The premium paid in 2019 amounted to €182 thousand.

Companies related to the directors and executives and their close relatives

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

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

On 5 May 2014, Zeltia signed a consulting and mediation services agreement with one of its directors, and PharmaMar succeeded to its position in that contract as a result of the PharmaMar-Zeltia merger. Under the terms of the agreement, the director undertook to provide certain consultancy and mediation services in connection with the possible sale of some of the assets of PharmaMar and, in the event that such a sale took place, would be entitled to a success fee

equivalent to 2% of the total purchase price. In accordance with the terms of this agreement, the director received a fee amounting to €436.5 thousand in 2018 in connection with the sale of Xylazel.

Transactions with executives of the controlling company

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

37. SHARE-BASED PAYMENTS

At 2019 year-end, PharmaMar and the Group companies had three Employee Share Ownership plans in force for Group employees and executives (not including directors of Pharma Mar, S.A.) who receive annual variable remuneration, have an indefinite contract, have passed any trial period and attained at least 50% of the objectives set for the year by their department head or their hierarchical superior.

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

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

Beneficiaries hold the voting and dividend rights to the shares delivered to them from the date of effective delivery, although those shares are subject to lock-up for three years from that date (lock-up period); nevertheless, some of the shares will be released from lock-up 18 months after delivery: specifically, the number of shares resulting from dividing the total number of shares that were delivered by the assigned coefficient plus one. The delivery of those shares, which must remain locked up for the above-mentioned lock-up period, is subject to a condition subsequent which is understood to be met in the event of voluntary severance or fair dismissal of the beneficiary. In the event of cessation of employment due to a cause other than those two, the lock-up is lifted.

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

On 27 May 2014, the Shareholders' Meeting of Zeltia, S.A. (a company that was merged into PharmaMar, which succeeded Zeltia, S.A. in the rights and obligations inherent to that Plan) approved a new Share Ownership Plan that was executed in May 2015. The Company allocated 600,000 own shares to execute this plan.

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

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

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

This Plan concluded in March 2019 since the four-year lock-up period had expired, and the shares that were under lock-up were released. A total of 76,863 shares under this plan were released from lock-up.

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

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

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

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

In relation to this Plan, a total of 47,325 shares have been canceled: 12,955 shares purchased by employees and 34,370 shares contributed by the Company.

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

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

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

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

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

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

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

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

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

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

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

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

The Shareholders' Meeting of Pharma Mar, S.A. on 26 June 2019 approved a new Share Ownership Plan with a double objective, as in previous years: to reward employees and executives whose performance in 2019 was satisfactory, and to incentivize beneficiaries to stay in the Group. The maximum number of shares that can be allocated for the execution of this plan was set by the Shareholders' Meeting at 500,000, which will be taken from treasury stock held by the Company at the time the plan is implemented. The Shareholders' Meeting determined the Plan's beneficiaries as Group employees and executives (excluding directors of Pharma Mar, S.A.) who have a permanent contract, have completed any trial period by 31 December 2019 and collect variable remuneration in 2020 relating to attainment of objectives in 2019, provided that they attained over 50% of the targets established by their department head or hierarchical superior.

The Shareholders' Meeting empowered the Board of Directors to determine the other terms and conditions of the Plan. At the date of authorizing these financial statements, the Plan was pending execution, and the Board of Directors of PharmaMar had yet to establish the conditions of same under the powers granted specifically for this purpose by the Shareholders' Meeting.

The following table shows the number of shares under each plan as of 31 December 2019:

		Employee			Company					
	Shares allotted under the Plan	Shares purchased by employees - 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 earned	Fair value per share	Accrual period
Plan / Grant date	(1)+(2)+(3)+(4)+(5)+(6)	(1)	(2)	(3)	(4)	(5)	(6)	(3)+(6)		
Plan 14 June 2014 (Granted May 2015)	167,311	5,058	46,774	-	38,616	76,863	-	-	3.92	May 19
Plan 15 June 2016 (Granted March 2017)	211,664	12,955	56,908	-	34,370	-	107,431	107,431	2.77	Mar. 20
Plan 16 June 2017 (Granted April 2018)	227,326	12,844	63,037	-	30,337	-	121,108	121,108	1.67	Mar. 21
Plan 17 June 2018 (Granted June 2019)	163,631	1,443		45,415	3,949		112,824	158,239	2.08	June 22
	769,932	**32,300**	**166,719**	**45,415**	**107,272**	**76,863**	**341,363**	**386,778**		

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

38. DUTY OF LOYALTY

Director conflicts of interest

Based on the disclosures presented by each of the Company's directors, they and, to the best of their knowledge and belief, their related parties did not incur in the situations of conflict of interest envisaged in article 229.1 of the Consolidated Text of the Capital Companies Act, except in the case of related-party transactions authorized by the Company's Board of Directors or its Committees, which are disclosed in Note 27.4 to the Separate Financial Statements, Note 35 to the Consolidated Financial Statements, and section D.3 of the Annual Corporate Governance Report for the year ended 31 December 2019, which forms part of these Financial Statements.

39. CONTINGENCIES

Contingent liabilities

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

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

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

Contingent assets

The Group did not have contingent assets as of 31 December 2019 and 2018.

40. COMMITMENTS

Operating lease commitments

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

Operating lease commitments (thousand euro)	**Balance as of 31-12-2019**	**Balance as of 31-12-2018**
Under 1 year	2,696	2,677
1 to 5 years	3,440	3,884
Total	**6,136**	**6,561**

41. AUDITORS' FEES

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

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

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

42. ENVIRONMENT

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

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

43. SUBSEQUENT EVENTS

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

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

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

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

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

CONSOLIDATED DIRECTORS' REPORT 2019

1. COMPANY SITUATION

1.1. Organizational structure

Pharma Mar, S.A. (the Company) is the holding company of a group of companies (PharmaMar Group or the Group) whose financial disclosures are presented in three segments: Oncology, Diagnostics and RNA interference.

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

PharmaMar became the parent company of the Group in 2015 through a reverse merger of Zeltia (absorbed company) into PharmaMar (acquiring company). As a result of that merger, the entire net worth of Zeltia, with its rights and obligations, was transferred en bloc to the acquiring company, PharmaMar.

The Board of Directors of the Group parent company, PharmaMar, defines the general strategy. It has the following sub-committees: Executive Committee, Audit Committee, and Appointments and Remuneration Committee.

1.2. Operations: Business model, strategy

The main business within the Biopharmaceutical area is the development and marketing of antitumor drugs of marine origin, which is the Group's main activity. Oncology is the Group's fastest-growing and most strategic area.

The oncology business model focuses on discovering new marine-based antitumor molecules and developing them in preclinical and clinical trials with a view to producing new drugs with therapeutic advantages for oncology patients.

One of the distinguishing factors of the oncology business model is the capacity to discover new molecules for the pipeline, thereby generating opportunities to develop new drugs for the company. The group has several antitumor molecules in its pipeline at various stages of development, the goal being to bring new compounds to market. PharmaMar's business model includes having its own sales network covering Europe. This network not only enables it to sell its products directly in the EU, but also provides scope to leverage future opportunities to sell third-party products.

PharmaMar sees its strengths as being:

- A unique, integrated technology platform based on marine organisms which has led to Yondelis® being authorized for sale in numerous markets and Aplidin® being authorized in Australia.
- One oncological compound currently being evaluated for marketing approval by the FDA and other antitumor candidates in earlier phases of development for various indications.
- An established sales infrastructure in Europe that is focused on oncology.

- Generation of revenues in the Oncology business from sales of Yondelis®

- Out-licensing agreements in advantageous conditions for other compounds in development that have been signed and are in force (see 1.3).

- In addition to Oncology, the Group has other smaller businesses; the first is the development and sale of diagnostic kits and DNA analysis, conducted through subsidiary Genómica. Sylentis is conducting clinical trials in ophthalmology with the new gene silencing technology, RNAi.

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

Most of the Group's R&D and innovation spending is focused on Oncology, the Group's main strategic business. Oncology is the fastest-growing area and the company maintains a firm commitment to R&D to bring new drugs to market.

The key components of the Group's strategy are:

- Achieve regulatory approval for Lurbinectedin for treating relapsed small cell lung cancer in both the United States and Europe.

- Leverage and expand our existing commercial infrastructure to efficiently market Lurbinectedin in Europe and obtain the support of partners to sell it in other geographies outside the United States, since an out-licensing agreement for that territory was signed in 2019.

- Maximize the commercial value of Lurbinectedin in markets outside the US and Europe through partnerships third parties that might increase its value.

- Leverage our unique technology platform, based on the sea, to continue feeding our pipeline of compounds.

- Continue supporting Yondelis® in the European oncology community and work with our partners and researchers.

1.3 Notable events in 2019.

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

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

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

In August 2019, PharmaMar and Janssen signed a framework transfer agreement under which Janssen transferred to PharmaMar all rights to Yondelis® in the other territories licensed to Janssen, i.e. all the countries in the world except the United States, Europe and Japan (the latter licensed to Taiho Pharmaceuticals Co. Ltd). This transfer agreement will be phased in gradually, depending on the regulatory requirements in each country. Janssen will continue to sell the product until the commercialization authorizations have been transferred. PharmaMar plans to market Yondelis® in the transferred territories via local partners.

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

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

2. BUSINESS PERFORMANCE AND RESULTS

REVENUES	31-12-2019	31-12-2018	
Revenues	**78,529**	**79,772**	**-3.1%**
Oncology segment	73,022	74,179	-1.6%
Diagnostics segment	5,507	5,593	-1.5%
Royalties			
Oncology segment	**3,102**	**3,916**	**-20.8%**
Licensing and co-development agreements			
Oncology segment	**3,950**	**24,659**	**-84.0%**
Other revenues	**238**	**424**	**-43.9%**
Oncology segment	0	126	
Diagnostics segment	238	298	
TOTAL REVENUES	**85,819**	**108,771**	**-21.1%**

(Thousand euro)

2.1. Total revenues

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

	2019	2018	Change
Commercial sales of Yondelis®	71,880	73,835	-2.7%
Sale of raw materials, etc.	1,142	344	232.0%
Total Oncology sales	**73,022**	**74,179**	**-1.6%**

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

Royalty revenues correspond to the Oncology segment. Royalties received from Janssen Products and Taiho Pharmaceutical Co for sales of Yondelis® in the United States, Japan and the rest of the world except the European Union amounted to €3.1 million in 2019 (€3.9 million in 2018).

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

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

- An out-licensing agreement with Luye Pharma Group for the development and marketing of Lurbinectedin for treating small cell lung cancer in the territories of China, Hong Kong and Macao. Under this agreement, PharmaMar collected an upfront payment of €4.5 million, of which €3.2 million were recognized as revenues in 2019.

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

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

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

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

2.2. Margins: Gross margin and EBITDA

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

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

	31-12-2019	31-12-2018
Income from continuing operations	(9,180)	(17,103)
Taxes	(12,474)	(2,883)
Interest (Net)	4,168	4,035
Depreciation and amortization	8,035	6,374
Fixed asset impairment and change in other provisions	(81)	0
Impairment and changes in trade provisions	19	110
Indemnities	0	2,486
EBITDA	**(9,513)**	**(6,981)**
EBITDA	**(9,513)**	**(6,981)**

(Thousand euro)

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

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

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

The EBITDA contribution by the business segments is as follows:

EBITDA BY SEGMENT	2019	2018
Oncology	5,334	11,039
Diagnostics	(1,450)	(5,668)
RNAi	(3,057)	(5,187)
Unallocated	(10,340)	(7,165)
	(9,513)	**(6,981)**

(Thousand euro)

2.3. R&D expenditure

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

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

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

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

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

R&D	31-12-2019	31-12-2018	Difference	Change
Oncology segment	48,727	63,742	(15,015)	-24%
Diagnostics segment	2,060	4,941	(2,881)	-58%
RNAi segment	2,909	5,105	(2,196)	-43%
TOTAL GROUP R&D SPENDING	**53,696**	**73,788**	**(20,092)**	**-27%**
Capitalized expenses in the Oncology segment	(3,054)	0	(3,054)	
TOTAL GROUP R&D SPENDING, NET	**50,642**	**73,788**	**(23,146)**	**-31%**

(Thousand euro)

2.4. Marketing expenses

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

2.5. Income from continuing operations

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

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

2.6. Income from discontinued operations

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

On 28 June 2019, PharmaMar sold subsidiary Xylazel, S.A., which manufactures, supplies and distributes products for wood and metal treatment, protection and decoration, special paints and similar products. The buyer, Akzo Nobel Coatings, S.L. (a Spanish subsidiary of the Akzo Nobel Group), acquired 100% of the shares of Xylazel for a cash price of €21.8 million. As a result, these consolidated figures present that subsidiary, which was sold in September 2018, under discontinued operations in 2018.

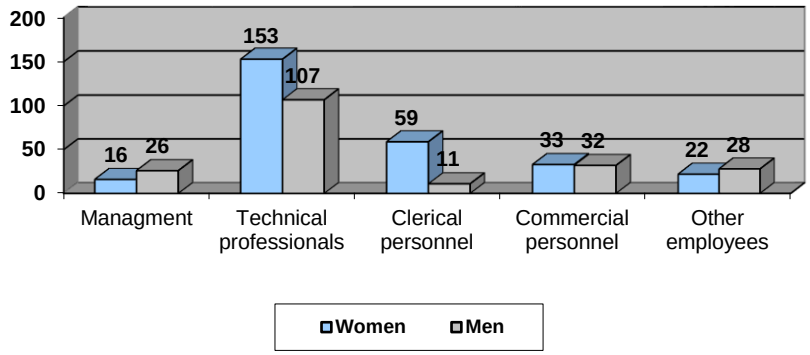
Income from discontinued operations in 2019 and 2018 includes both the income booked by the divested subsidiaries up to the date of their sale and any capital gain or loss on the transactions. Income from discontinued operations amounted to €-2.2 million in 2019, compared with €11.6 million in 2018.

2.7. Personnel

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

Women accounted for 58.2% of the workforce in 2019.

The graph below illustrates segmentation by gender and category:



2.8. Environmental issues

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

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

2.9. Average period taken to pay suppliers

Information on payments for commercial transactions performed in 2019 and pending payment at the end of the year in relation to the maximum legal payment periods envisaged in Act 15/2010 is as follows:

	31-12-2019 Days
Average period taken to pay suppliers	64
Proportion of transactions paid	67
Proportion of transactions outstanding	71

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

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

3.- Liquidity and Capital

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

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

	31-12-2019	31-12-2018
Non-current debt	**53,063**	**64,922**
Bank loans	15,291	24,279
Bonds	16,549	16,501
Loans from official authorities	21,223	24,142
Current debt	**29,655**	**28,483**
Credit lines	11,583	12,911
Discounted bills	2,241	2,064
Loans	10,497	10,244
Loans from official authorities	4,883	2,248
Interest, etc.	451	1,016
Total interest-bearing debt	**82,718**	**93,405**
Cash and cash equivalents plus current and non-current financial assets	**21,924**	**27,760**
TOTAL NET DEBT	**-60,794**	**-65,645**

(Thousand euro)

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

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

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

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

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

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

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

4.- Primary Risks and Uncertainties

4.1. Situation risks

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

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

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

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

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

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

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

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

In most countries, pharmaceutical prices are controlled and regulated by the government, which has the power to authorize, disallow or even rule out reimbursement for the products. In recent years, prices have been reduced and reference prices have been approved, while the marketing and prescription of generics and biosimilar products have been facilitated.

To offset the risk of a constant flow of new legal and regulatory requirements, the Group makes its decisions and designs its business processes on the basis of developing innovative products in therapeutic areas where treatment options are very limited. The Group also constantly obtains exhaustive analysis of these issues by our own experts and by prestigious external experts where necessary.

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

The Group has spread out its risk considerably among various credit institutions, which provides it with greater flexibility and limits the impact in the event that any of its loans are not rolled over.

The Group has also issued long-term debt in order to diversify its funding sources.

Shareholders
As in the case of any listed company, there is the risk that a shareholder may consider that a decision by the Board of Directors or the Group's executives is harmful to their interests as a shareholder and file a complaint.

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

4.2. Operating risks

Commodity prices

Deviations from expected price levels and a strategy of buying and accumulating inventories of commodities expose the organization to excessive production costs and to losses on inventories.

The Group conducts an in-depth analysis of prices at the beginning of the year and tries to obtain a closed price for the year from its suppliers. The products' cost prices are set on this basis. These are monitored monthly in case any modifications are necessary.

Health and safety

Failure to provide a safe workplace for its employees would expose the Group to sizable expenses, loss of reputation and other costs.

Workplace health and safety is monitored exhaustively in pursuit of continuous improvement.

Exposure of laboratory personnel to new natural or synthetic compounds whose possible adverse effects are unknown creates a theoretical health and safety risk in addition to the standard risk of handling chemicals.

The Group has implemented a workplace health and safety system which is audited regularly to ensure compliance.

The Company has also arranged casualty and third-party liability insurance.

Pharma Mar, S.A., whose workforce accounts for 71.3% of all Group employees, is certified to the OHSAS 18001 Occupational Health and Safety Management System standard.

Environmental

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

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

Waste management is outsourced to recycling and waste management companies that are authorized by the pertinent environmental administration. Regular compliance checks are conducted and, where necessary, atmospheric emissions are monitored, water purification systems are installed and the Group has designated points for depositing separated waste.

Pharma Mar, S.A. is certified to the ISO 14001 standard, a management tool for the systematic oversight of the degree of interaction between the companies' activities and processes and the environment, the goal being to enhance environmental performance and minimize the impact. The environmental management system is audited annually by independent firms.

Product development

The Group allocates a considerable volume of resources to researching and developing new pharmaceutical products. As a result of the length of this process, the technological challenges involved, the regulatory requirements and the intense competition, it is not possible to be sure that all compounds currently under development and those to be developed in the future will reach the market and attain commercial success.

To maximize the effective and efficient use of our resources, the Group has implemented a horizontal working structure across the various departments, project-specific teams and reporting systems to monitor R&D projects internally.

4.3. Information risks

Malfunction of the Group's internal information flows poses the risk of misalignment with strategy and of erroneous or mistimed decisions.

Market disclosures

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

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

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

There are control systems in place in order to be aware of who is in possession of such information at any given time, mainly in order to comply with Regulation (EU) No 596/2014 of the European Parliament and of the Council of 16 April 2014 on market abuse and with Spain's Securities Market Act, in the area of inside information.

The Market Abuse Regulation provides a tool for regulators to investigate possible market abuses due to the use of inside information, namely "insider lists", a list of all the persons who have access to inside information that the Company must draw up and keep updated. The Rules of Conduct Steering Committee, made up of four members appointed by the Board of Directors, is tasked with ensuring proper application of the Internal Rules of Conduct in matters related to the securities market.

Information systems

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

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

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

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

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

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

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

4.4. Financial risks

4.4. A). Market risk

Price risk

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

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

Interest rate risk on cash flows and fair values

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

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

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

Exchange rate risk

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

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

4.4. B). Credit risk

Credit risk arises from financial assets arranged with banks, mainly deposits.

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

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

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

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

4.4. C). Liquidity risk

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

Prudent liquidity risk management entails having sufficient cash and marketable securities, financing via sufficient credit facilities, and the capacity to settle market positions. The goal of the Group's financial department is to maintain flexibility in funding by having credit lines and sufficient funds in financial assets to cover obligations (Note 3).

4.5 Tax risk

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

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

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

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

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

5.- Subsequent events.

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

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

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

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

6.- 2020 outlook

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

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

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

7.- R&D and Innovation

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

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

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

7.1.- ONCOLOGY: PHARMA MAR, S.A.

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

a) Yondelis®:

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

Soft Tissue Sarcoma

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

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

Ovarian cancer

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

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

Other indications

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

b) Lurbinectedin

Small-cell lung cancer

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

In November 2018, enrolment concluded for the Phase II trial with Lurbinectedin as monotherapy in selected indications such as small cell lung cancer, neuroendocrine tumors, carcinoma of the head and neck, germ cell cancer, endometrial cancer, bile duct cancer, cancer of unknown primary, Ewing sarcoma and breast cancer with BRCA 1/2 mutation. A total of 335 patients were treated, 105 of them in the small-cell lung cancer cohort. That cohort attained the trial's primary endpoint: overall response rate. For that reason, in December, PharmaMar filed a new drug application (NDA) for accelerated approval with the FDA for Lurbinectedin as monotherapy for treating patients with relapsed small-cell lung cancer. Under the FDA's accelerated approval process, an application for approval for drugs for serious conditions that fill an unmet medical need can be presented on the basis of the results of Phase II trials.

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

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

Recruitment in that pivotal trial, which compares the activity and safety of the combination of Lurbinectedin, a drug of marine origin, plus doxorubicin, against topotecan or CAV (cyclophosphamide, adriamycin and vincristine) for treating patients with small cell lung cancer who have relapsed after a first round of platinum treatment, concluded in August 2018. A total of 613 patients were enrolled at hospitals in Europe, the United States, Latin America and the Middle East. The trial is currently monitoring survival, which is its primary endpoint. The next update of ATLANTIS data will be given when they are available, which is expected to occur in the first half of 2020.

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

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

Combination trials

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

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

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

Phase I trial in Japan

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

c) PM184

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

d) PM14

Recruitment continues for the clinical development program with this new molecule. The main endpoint of this trial is to identify the optimal dose for administration of PM14 in patients with advanced solid tumors, and to define the compound's safety profile and assess its pharmacokinetics and pharmacogenetics in treated patients. This trial is still actively recruiting.

7.2.- DIAGNOSTICS: GENÓMICA

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

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

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

Other notable events in 2019:

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

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

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

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

7.3.- RNA Interference, OPHTHALMOLOGY: SYLENTIS

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

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

8.- Acquisition and disposal of own shares

As of 31 December 2019, the Company's capital amounted to €11,132 thousand and was represented by 222,649,287 bearer shares with a par value of €0.05 per share. All these shares were fully subscribed and paid and have the same political and economic rights.

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

In 2019, the Company acquired 3,987 thousand own shares for a total of €7,467 thousand. The Company sold 4,711 thousand own shares for a total of €8,210 thousand, resulting in a gain of €596 thousand, which was recognized in the Company's reserves.

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

9.- Share information

General situation

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

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

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

PharmaMar Stock Market indicators

Share information 2019

Total number of shares	**222,649,287**
Par value (euro)	0.05
Average daily trading (no. of shares)	**1,260,500**
Average daily trading (euro)	2,560,122
Trading days	**255**
Year trading low (13 September) (euro)	279,398
Year trading high (19 July) (euro)	**29,605,267**
Total trading in the year (million euro)	652.8
Euro:	
Lowest share price (26 October)	1.20
Highest share price (15 January)	**3.60**
Share price as of 31 December	3.57
Average share price in the year	**1.83**
Market capitalization as of 31 December (million euro)	**794.80**

***Source**: Bloomberg*

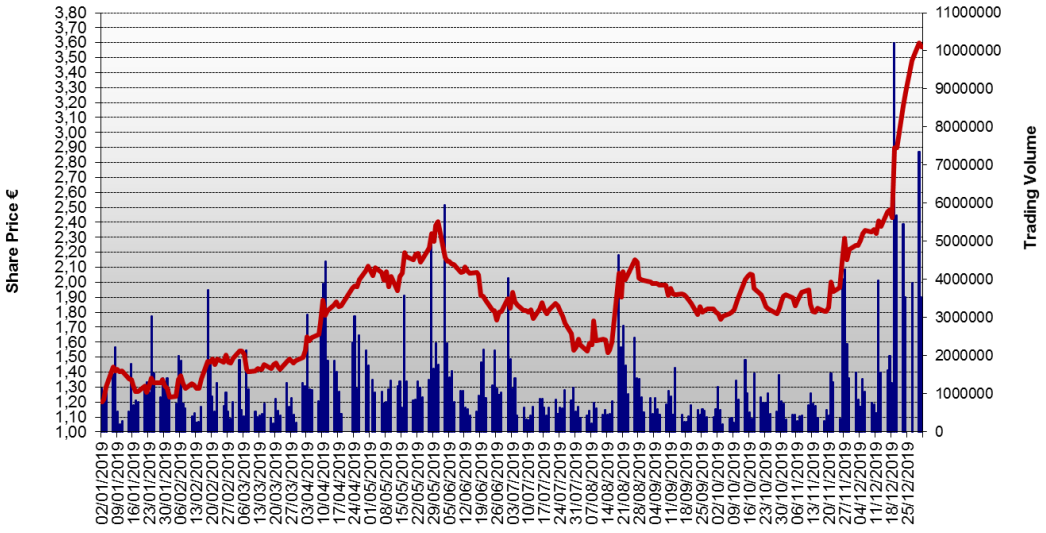
PharmaMar's share performance

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

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

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

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



***Source**: Bloomberg*

Trading in PharmaMar shares amounted to €794.8 million euro in 2019. Daily trading averaged 1,260,500 shares, peaking in December.

10.- Consolidated Non-Financial Information Statement

The consolidated non-financial disclosures are presented separately.

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

FINANCIAL STATEMENTS AND DIRECTORS' REPORT
OF THE PHARMA MAR, S.A. GROUP
FOR THE YEAR ENDED
31 DECEMBER 2019

These Financial Statements and Directors' Report (which includes the separate report on the status of consolidated non-financial information referred to in section 7 of article 49 of the Commercial Code) of the PHARMA MAR, S.A. Group for the period from 1 January 2019 to 31 December 2019 were drafted and authorized in compliance with the provisions of articles 34 and 35 of the Commercial Code and 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 109-page document on 26 February 2020:

The Board of Directors:

José Mª Fernández Sousa-Faro Chairman	Pedro Fernández Puentes Vice-Chairman
Carlos Pazos Campos Director	Eduardo Serra Rexach Director (Representing EDUARDO SERRA Y ASOCIADOS, S. L. on the Board)
José Leyte Verdejo Director (Representing ROSP CORUNNA Participaciones Empresariales, S.L. on the Board)	Carlos Solchaga Catalán Director
José Félix Pérez-Orive Carceller Director	Ana Palacio Vallelersundi Director
Montserrat Andrade Detrell Director	Valentín de Torres-Solanot del Pino Director
Mª Blanca Hernández Rodríguez Director	

Certificate by the Secretary of the Board of Directors to state that, following the formulation by the members of the Board of Directors at the meeting of 26 February 2020 of the consolidated financial statements and the consolidated directors' report (which includes the separate report on the status of consolidated non-financial information referred to in section 7 of article 49 of the Commercial Code) of the PHARMA MAR Group (the consolidated group of which Pharma Mar, S.A. is the parent company), for the year ended 31 December 2019, the Directors listed above have signed this document by affixing their signatures to the Balance Sheet, the Income Statement, the Statement of Changes in Equity, the Cash Flow Statement, the first page of the Notes to the Financial Statements, the first page of the Directors' Report (which includes the separate report on the status of consolidated non-financial information referred to in section 7 of article 49 of the Commercial Code), and the last page of the document. As to which I hereby attest in Madrid on 26 February 2020.

Secretary of the Board of Directors

Juan Gómez Pulido

PHARMA MAR GROUP

(Pharma Mar, S.A. and subsidiaries)

SEPARATE DISCLOSURES RELATING TO THE CONSOLIDATED NON-FINANCIAL INFORMATION STATEMENT (ART. 49.7 OF THE COMMERCIAL CODE) FOR THE YEAR ENDED 31 DECEMBER 2019 WHICH FORMS PART OF THE DIRECTORS' REPORT OF THE PHARMA MAR GROUP FOR THAT YEAR

Pharma Mar, S.A. and subsidiaries

Independent Verification Report

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

Independent Verification Report

To the shareholders of Pharma Mar, S.A.

Pursuant to Article 49 of the Code of Commerce, we have verified, under a limited assurance scope, the accompanying Consolidated State of non-financial information (hereinafter, "NFIS") for the year ended 31 December 2019 of Pharma Mar, S.A. (the Parent company) and subsidiaries (hereinafter, "the Group") which forms part of Group´s Consolidated Management Report (hereinafter, "Management Report") for the year 2019.

The content of the NFIS includes additional information to that required by current commercial legislation on non-financial reporting which has not been covered by our verification work. In this respect, our work has been restricted solely to verifying the information identified in the "Requirements of Act 11/2018 in connection with non-financial disclosures and diversity" table included in the accompanying NFIS.

Responsibility of the Directors of the Parent Company

The preparation of the NFIS included in Group's Management Report and the content thereof are responsibility of the board of directors of Pharma Mar, S.A. The NFIS has been drawn up in accordance with the provisions of current commercial legislation and with the Sustainability Reporting Standards of the Global Reporting Initiative ("GRI Standards") selected, in line with the details provided for each matter in the "Requirements of Act 11/2018 in connection with non-financial disclosures and diversity" table included in the accompanying NFIS.

This responsibility also includes the design, implementation and maintenance of the internal control that is considered necessary to ensure that the NFIS is free from material misstatement, due to fraud or error.

The directors of Pharma Mar, S.A. are also responsible for defining, implementing, adapting and maintaining the management systems from which the information required to prepare the NFIS is obtained.

Our independence and quality control

We have complied with the independence requirements and other ethical requirements of the Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants ("IESBA") which is based on the fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

Our firm applies the International Standard on Quality Control 1 (ISQC 1) and therefore has in place a global quality control system, which includes documented policies and procedures related to compliance with ethical requirements, professional standards and applicable legal and regulatory provisions.

The engagement team has been formed by professionals specialised in non-financial information reviews and specifically in information on economic, social and environmental performance.

Our responsibility

Our responsibility is to express our conclusions in an independent limited assurance verification report based on the work carried out. Our work has been aligned with the requirements set by the current International Standard on Assurance Engagements (ISAE) 3000 Revised, Assurance Engagements Other than Audits or Reviews of Historical Financial Information (ISAE 3000 Revised) issued by the International Auditing and Assurance Standards Board (IAASB) of the International Federation of Accountants (IFAC) and with the Guidelines for verification engagements on non-financial statements issued by the Spanish Institute of Auditors ("Instituto de Censores Jurados de Cuentas de España").

In a limited assurance engagement, the procedures performed vary in terms of their nature and timing of execution, and are more restricted than those carried out in a reasonable assurance engagement. Accordingly, the assurance obtained is substantially lower.

Our work has consisted in posing questions to Management and several Pharma Mar, S.A. units that were involved in the preparation of the NFIS, in the review of the processes for compiling and validating the information presented in the NFIS, and in the application of certain analytical procedures and review sampling tests, as described below:

- Meetings with Pharma Mar, S.A. personnel to ascertain the business model, policies and management approaches applied, the main risks related to these matters and to obtain the information required for the external review.
- Analysis of the scope, relevance and integrity of the contents included in the NFIS for 2019, based on the materiality analysis carried by the Group and described in the section 1.c), considering the content required under current commercial legislation.
- Analysis of the procedures used to compile and validate the information presented in the NFIS for 2019.
- Review of information concerning risks, policies and management approaches applied in relation to material issues presented in the NFIS for 2019.
- Verification, through sample testing, of the information relating to the content of the NFIS for 2019 and its adequate compilation using data supplied by sources of information.
- Obtainment of a management representation letter from the directors and the Management of the Parent company.

Conclusions

Based on the procedures performed and the evidence we have obtained, no matters have come to our attention which may lead us to believe that NFIS for the year ended 31 December 2019 of Pharma Mar, S.A. and its subsidiaries has not been prepared, in all of their significant matters, in accordance with the provisions of current commercial legislation and the Sustainability Reporting Standards of the Global Reporting Initiative ("GRI Standards") in accordance with the details provided for each matter in "Requirements of Act 11/2018 in connection with non-financial disclosures and diversity" table included in the accompanying NFIS.

Use and distribution

This report has been drawn up in response to the requirement laid down in current Spanish commercial legislation and therefore might not be suitable for other purposes or jurisdictions.

PricewaterhouseCoopers Auditores, S.L.

Original in Spanish signed by Ramón Abella

26 February 2020

Contents

1. General

A. Global

This Consolidated Non-Financial Information Statement (NFIS) was prepared in accordance with the requirements of Act 11/2018, dated 28 December, amending the Commercial Code, the consolidated text of the Capital Companies Act approved by Royal Legislative Decree 1/2010, of 2 July, and Audit Act 22/2015, of 20 July, as regards non-financial information and diversity.

This report was compiled on the basis of the Global Reporting Initiative (GRI) Sustainability Reporting Standards, insofar as they do not clash with Act 11/2018. The Corporate Social Responsibility Report that was formerly published annually was superseded last year by the Non-Financial Information Statement.

In this context, through the NFIS, the PharmaMar Group aims to provide information on environmental, social and staff-related questions, as well as matters concerning human rights and combating corruption and bribery, that are significant for the Group in the course of its normal business activities.

The scope of this NFIS corresponds to the consolidation scope of the PharmaMar Group's financial statements at 31 December 2019.

We have taken into account the results of the materiality analysis conducted by the Group when preparing this report and selecting its contents (see section C: Policies).

For each matter envisaged by the law, we indicate their level of materiality for the Group, the associated policies and the related risks, and the key benchmark of non-financial results used for their monitoring and assessment.

B. Business model

The PharmaMar Group focuses mainly on the discovery, development and commercialization of innovative marine-derived medicines to treat cancer, although it is also involved in diagnostics and RNA interference (RNAi), where it is a standard-bearer in Spain's Biopharmaceutical sector.

Until 28 June 2019, the Group was also present in the Consumer Chemicals sector through Zelnova Zeltia, S.A. and its subsidiary Copyr SpA, manufacturers and distributors of household products. However, those companies were sold on that date, in line with the announced strategy (Regulatory Disclosure on 23 May 2019) of focusing on Biopharmaceuticals.

PharmaMar has developed a unique, marine-based technological platform, enabling it discover new compounds with innovative action mechanisms. PharmaMar is an integrated biopharmaceuticals company that undertakes most phases of drug discovery and development, right through to marketing. When Yondelis® was approved in 2007, PharmaMar became the biggest non-US company to develop a marine-derived cancer drug right through to its commercialization.

The products and compounds under development and in commercialization have novel mechanisms of action that have the potential to continue significantly improving treatment outcomes in cancer patients.

The first of the products developed by PharmaMar, Yondelis® (trabectedin), is sold in more than 80 countries, including the United States, the European Union and Japan, as monotherapy for the treatment of patients with certain advanced soft-tissue sarcomas; it is also commercialized in combination with pegylated liposomal doxorubicin (PLD) to treat patients with relapsed ovarian cancer in 70 countries including the European Union. The second product, Aplidin® (plitidepsin),

was approved by the Australian regulatory authorities for commercialization in combination with dexamethasone for treating relapsed or refractory multiple myeloma.

At present, PharmaMar is conducting a phase III clinical trial of the main product in development, Lurbinectedin, in combination with doxorubicin, for the treatment of patients with relapsed small-cell lung cancer. As of the date of this report, survival rates are being monitored and figures and findings should be available in 2020. Moreover, PharmaMar is conducting—in both the United States and Europe—a phase II clinical trial designed to study the various indications or populations of patients with a single protocol, to research Lurbinectedin as monotherapy to treat patients with up to nine different types of solid tumors, including relapsed small-cell lung cancer.

Based on the data from this trial, and as agreed with the US regulatory authorities, in December 2019 PharmaMar filed a new drug application (NDA) for Lurbinectedin as second-line treatment of small-call lung cancer. This application is for accelerated approval.

PharmaMar has other compounds under development, including PM184 and PM14, which are currently in clinical trials for the treatment of patients with solid tumors.

In its R&D process, PharmaMar does not overlook the development of orphan drugs, evidenced by the fact that three of the company's products have been designated as orphan drugs in Europe and the United States for treating soft tissue sarcoma, ovarian cancer, multiple myeloma and small-cell lung cancer. Three of these products were also designated as orphan drugs in Switzerland for the treatment of soft tissue sarcoma, ovarian cancer, multiple myeloma and small-cell lung cancer. One of PharmaMar's products has also been designated as an orphan drug for soft tissue sarcoma in South Korea and Japan.

While oncology is the strategic core of the Group's business, it also operates in other biopharmaceutical areas through two subsidiaries with a smaller weighting in the Group: Genómica and Sylentis.

Genómica focuses on molecular diagnostics and genetic identification and analysis. Via its CLART® Clinical Arrays Technology platform, it has developed diagnostic tests for human papilloma virus (HPV) associated with cervical cancer, and for diagnosing respiratory viruses, herpes simplex and enterovirus, as well as to detect human genetic regions associated with determining treatment response factors, specifically in oncology. In 2019, it signed a production and commercialization agreement with Chinese company HuaSin Science to lead the global challenge of early diagnosis of cervical cancer in China through the analysis of HPV.

Sylentis is involved in the research and development of new drugs based on interference RNA, which is a selective method of gene silencing. Sylentis is currently focused on ophthalmology, and tivanisiran, its main candidate product, completed a phase III clinical trial for the treatment of dry eye syndrome/disease in 2019. Sylentis is also currently developing compounds to treat degenerative diseases of the retina. Phase I trials with SYL1801, a compound for treating age-related macular degeneration, are scheduled to commence in 2020. Moreover, Sylentis has significantly improved its drug discovery processes by means of siRFINDER. This is an artificial intelligence-based platform, completed in 2018, whose architecture can be fed with in-vitro experimental, pre-clinical and clinical data to fine-tune and improve the design of drugs by re-training the algorithms. This strategy enables more powerful and specific drugs to be obtained, reducing development costs and time frames, and paving the way for entry into more advanced development phases with higher probabilities of success.

Until their divestment on 28 June 2019, the Group's Consumer Chemicals subsidiaries Zelnova Zeltia and Copyr manufactured and marketed household products such as insecticides and air fresheners, home cleaning products, disinfectants and rodenticides, mainly for the Spanish market, both on a retail basis and for professional market segments. Zelnova Zeltia's subsidiary Copyr SpA focused on developing and selling household and professional cleaning products, disinfection and insect control, and ecological agriculture products.

Strengths of the PharmaMar Group

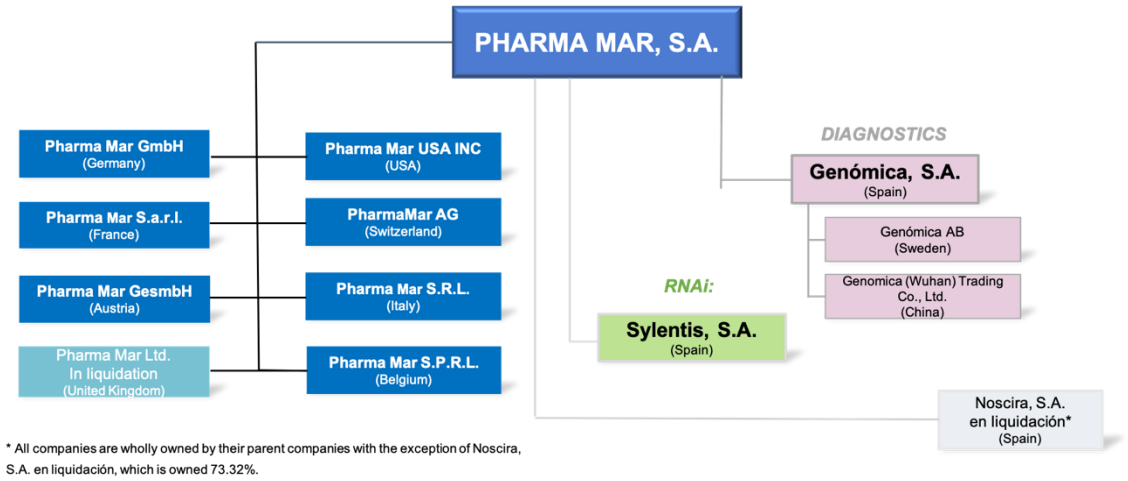
The PharmaMar Group has identified the following as its main strengths:

- A unique, fully-integrated technological platform based on marine organisms that has led to the commercial approval of Yondelis in multiple markets.
- One oncological compound at a very advanced stage of clinical trials and other antitumor candidates in earlier phases of development for various indications.
- A well-established commercial structure in Europe that is focused on oncology.
- Generation of revenues in the Oncology business through sales of Yondelis® and licensing agreements for other compounds in development.

PharmaMar is unerringly committed to the research and development of new compounds. Evidence of this is its sizable investment in these areas: In 2019, PharmaMar was the highest-ranking Spanish company in terms of R&D investment according to the Industrial R&D Investment Scoreboard, drawn up by the European Commission's Joint Research Center (JRC), since it spends 42% of revenues on R&D. Furthermore, PharmaMar ranks first in Spain in terms of R&D expenditure per employee[1]. In 2019 it ranked 341st in terms of private investment in R&D in the European Union, and 3rd among Spanish pharmaceutical companies in terms of outright R&D investment. PharmaMar ranks 1,393rd in the world in terms of R&D investment in 2019[2].

Organization and structure

As of 31 December 2019, the structure of the PharmaMar Group is as follows:



Strategy of the PharmaMar Group

The key components of the PharmaMar Group's strategy are:

- Obtain regulatory approval of Lurbinectedin for the treatment of relapsed small-cell lung cancer, in both the United States and Europe.
- Benefit from and expand its existing commercial infrastructure to efficiently market Lurbinectedin in Europe and secure partners for its sale in other countries outside the United States, since a licensing agreement was signed for that country in 2019.
- Maximize the commercial value of Lurbinectedin in markets outside the US and Europe through partnerships with third parties that might increase its value.
- Use its unique, marine-based technological platform to continue feeding its pipeline of compounds.

[1] Source: The 2019 EU Industrial R&D Investment Scoreboard.
[2] Fuente: The 2019 EU Industrial R&D Investment Scoreboard.

- Continue to support Yondelis®® in the European oncological community and work with its partners and researchers.

Among the main factors, trends and challenges facing the Biopharmaceuticals industry is the increasing trend towards more personalized products. In accordance with this trend, obtaining a better understanding of the human genome and its biology will afford more opportunities to create individual treatments in the future.

Other challenges are to develop digitalization, automation and artificial intelligence (AI) to enhance data analysis. The Group considers that companies that can effectively develop new programs to pool and analyze data based on digitalization technologies will clearly be at an advantage.

These challenges, which are common to most industries, are even greater in the pharmaceutical industry, due mainly to the regulatory requirements to which it is subject.

Moreover, the pharmaceutical industry is facing numerous challenges, including increasing pressure to lower healthcare costs and drug prices, ongoing concern for falsified products that enter the supply chain and a re-assessment of costly research programs aimed at developing new drugs.

C. Policies

The PharmaMar Group has a series of policies concerning matters included in the procedures applied for the identification, assessment, prevention and mitigation of significant impacts, and these are factored into the materiality analysis. These policies are applied to various spheres, such as product quality and safety, patient welfare, respect for the law and codes applicable to the Group, employee safety and training, product patentability and the environment and sustainable development. The main policies are listed below, and detailed in the relevant sections:

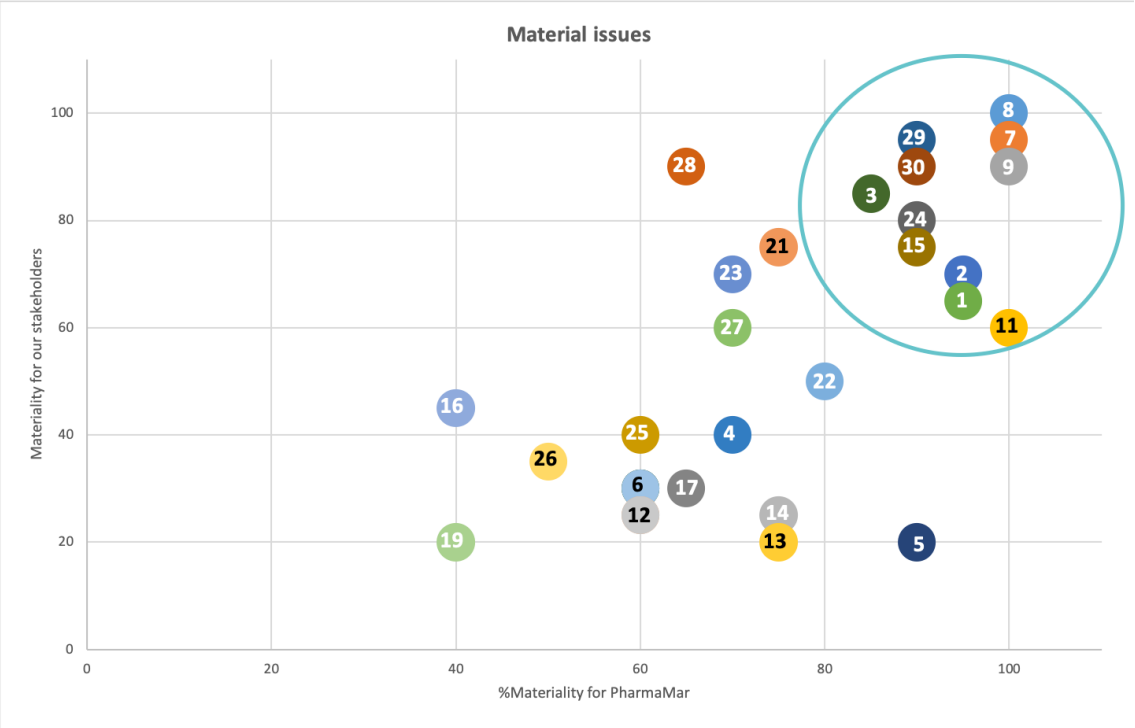
- Code of Conduct
- Environmental Emergency Plan
- Waste Abatement Plan
- Policy concerning Suppliers
- Privacy and Data Protection Policy
- Comprehensive Policy on Quality, Safety and the Environment
- Quality Manual
- Risk Prevention Policy
- Recruitment Policy
- Annual Training Program
- Staff Training Plan
- Equality Plan
- Performance Assessment Policy
- Regulations on Working Hours
- Control and Logging of Hours Worked
- Internship Policy
- Policy on Telework
- Director Remuneration Policy
- Protocol for Action in the Event of Harassment
- Regulation of the Whistleblower Channel
- General Policy on Information and Data Integrity
- Use of Electronic Signatures

To identify the material aspects and perform the materiality analysis, the Group has set up an internal team comprising the managers and directors of policies concerning staff, the environment, quality, procurements and project and financial management. The working group performed this analysis on the basis of information on the environment, competition in the sector and the current policies governing the Group regarding corporate governance. The matrix resulting from the materiality analysis in 2019 shows the key aspects and their impacts on the

main stakeholders (patients, customers, suppliers, authorities and shareholders). These aspects are further discussed in this document, making it possible to identify the most suitable approach to their management by the PharmaMar Group.

Materiality analysis

The key aspects for the PharmaMar Group are those focusing on its relationship with customers, the safety and quality of its products being the most important, along with the welfare of patients and customers, respect for the laws, regulations and codes governing the sector and the health and safety of the members of the PharmaMar team. As a company focused on developing new drugs, two crucial aspects are the research and development of these products, as well as the necessary safeguards of findings, mainly through patents.



Material issues		Pages
8	Product safety and quality	40-42
7	Patient/customer safety and welfare	40-42
9	Respect for the laws, regulations and industrial codes applicable to the PharmaMar Group.	32, 33
11	Employee health and safety	28, 29
2	Safeguarding and patentability of findings	4-6
1	Commitment to research into new products	2-5, 33, 34
29	Accounting and reporting obligations	7, 43
30	Tax obligations	43
24	The PharmaMar Group's image and reputation.	4, 35-37
15	Environment and sustainable development.	8, 12-21
5	Technology and knowledge management.	4
3	Licenses and marketing agreements.	7

Annex I contains the complete table of material aspects

The PharmaMar Group bases its sustainability strategy on the material or key aspects it must manage, now or in the future, in order to generate a positive impact for the Group and its stakeholders. On that basis, the following key indicators were established:

		2018	2019
Economic	Revenues (thousand euro)	162,587	85,819
	R&D investment as a percentage of revenues	45.5%	59.0%
	Operating expenses as a percentage of revenues	42.3%	56.3%
	No. of new patents filed	3	5
	No. of strategic agreements in place	18	17
Corporate Governance	% independent directors	50%	45.5%
	% women on the Board	20%	27%
	Communication to society: media impacts	13,605	14,001
Ability to attract and retain employees	Turnover rate	14.9%	10.8%
	Training hours	27,018	13,859
	No. of nationalities (cultural diversity)	25	20
	Percentage of women in management	34.9%	37.2%
Environment	Amount of water used per day*	41.16 m^3/day	40.06 m^3/day
	Annual Chemical Oxygen Demand (COD) in industrial discharges **	410.8 kg	317.1 kg
	CO2 emissions	2,328 Tn	2,791 Tn
Social action	No. of actions by the "People of PharmaMar" platform	4	2
	No. of orphan drug designations	13	14
	No. of collaborations with non-profit entities	42	15
	Interns trained as a percentage of total personnel	6.2%	2.9%

* In re-assessing the key environmental indicators in 2019, business days (310.41 days in 2019) were used as the basis to calculate the amount of water used per day in order to more accurately monitor consumption going forward.
** For COD in industrial discharges, the 2018 parameter was recalculated.

D. Short-, medium- and long-term risks

The PharmaMar Group performs an analysis of the risks associated with its activity. Management of these risks enables the Group to establish an internal monitoring framework and helps secure its future. Accordingly, it is possible to prevent, assess and monitor the risk factors identified.

The Board of Directors and the Audit Committee assess the information compiled in relation to financial, operations and strategic monitoring, as well as compliance, although there is no formal mechanism for risk management.

The risks are identified taking into account the analysis of the context, internal operating risks, risks relating to the information available in the Group, both internal and outward-looking, and the financial risks already discussed in the Group's consolidated financial statements. With regard to the risk timeline, the short term is considered to be approximately one year, the medium term from two to five years, and the long term more than five years.

The following risks were identified:

Type	Description	Materiality	Probability	Timescale	Risk mitigation measures
Situation risks	The Group operates in a highly competitive industrial environment. If it did not compete satisfactorily, there would be adverse consequences for the business.	Commitment to research into new products (1), Professional development and attraction of talent (13), and Professional training (12).	High	Medium term	The Group invests in research and development in order to compete in this environment. Moreover, in key positions for the efficient and timely development of new products, it is vital to recruit highly qualified, experienced professionals, of whom there are few and who are in considerable demand by competitors. Lastly, there is a broad and updated training program so that, in the case of unavoidable turnover, the Group has backup professionals.
	Industrial property is a key asset for the Pharma Mar group. Effective protection of industrial property is vital for ensuring a reasonable return on investment in R&D.	Safeguarding and patentability of findings (2)	Low	Long term	The PharmaMar Group has a rigorous patents policy and 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 patent breaches by other companies with a view to taking legal action if necessary.
	The chemical and pharmaceutical industry is highly regulated. In most countries, pharmaceutical prices are controlled and regulated by the government, which has the power to authorize, disallow or even rule out reimbursement for the products.	Safety and welfare of patients and customers (7), Safety and quality of products (8), Respect for the laws, regulations and industrial codes applicable in the PharmaMar Group (9), and Relations with Authorities and Public Administrations (22).	High	Medium term	To offset the risk of a constant flow of new legal and regulatory requirements, the Group makes its decisions and designs its business processes on the basis of an exhaustive analysis of these issues by the Group's own internal experts and by prestigious external experts where necessary.
	Price pressure on drugs. The pharmaceutical market is highly competitive and PharmaMar's results may be affected by the launch of new or innovative products by competitors or by budget restrictions at the public administrations that establish reimbursement prices. Moreover, once the patent has expired, the products may be affected by the launch of generic compounds.	Protection and patentability of the findings (2), Commitment to research into new products (1), and Relations with Authorities and Public Administrations (22).	High	Medium term	The Group maintains its commitment to investing in research and development so that new products enter the Group's portfolio and replace existing ones.
	As in the case of any listed company, there is the risk that a shareholder may consider that a decision by the Board of Directors or the Group's executives is harmful to their interests as a shareholder and file a complaint.	Transparency in relations with investors and shareholders. (21)	Average	Short term	The Group has arranged liability insurance for its directors and executives to cover against the risk of claims of this type.
Operating risks	Failure to provide a safe workplace for its employees would expose the Group to sizable human and economic costs.	Employee health and safety (11)	Low	Short term	The Group has implemented a workplace health and safety system which is audited regularly to ensure compliance. OHSAS 18001 certification. The Group has arranged accident and third-party liability insurance.
	Environmental risks can generate potentially significant liabilities for companies. The greatest risk lies in third-party claims for harm to persons, property or the environment as a result of pollution.	Environment and sustainable development (15), Waste management (18), Energy management and climate change (16) and Water management (19).	Low	Long term	The Group is certified to the ISO 14001 standard, a management tool for the systematic oversight of the degree of interaction between the companies' activities and processes and the environment, the goal being to enhance environmental performance and minimize the impact. The environmental management system is audited annually by independent firms.

	The Group allocates a considerable volume of resources to researching and developing new 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.	Commitment to research into new products (1),	High	Long term	To maximize the effective and efficient use of resources, the Group has implemented a horizontal working structure across the various departments, project-specific teams and reporting systems to monitor R&D projects internally.
INFORMATION RISK	Malfunction of the Group's internal information flows poses the risk of misalignment with strategy and of erroneous or mistimed decisions.	All	Average	Short term	There is a functional structure that allows these information channels to be established between departments.
	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.	Confidentiality (27)	High	Short term	As technology progresses, the PharmaMar group adapts its physical and legal security policies in connection with the information and communication systems.
	Lack of important information at a crucial time may adversely affect the continuity of the organization's critical processes and operations and potentially hamper proper decision-making.	Comprehensive and accurate financial information (29), Technology and knowledge management. (5)	High	Long term	The Group has several data processing centers that, as far as possible, use the same technologies in order to reduce technological diversity as much as possible and share services in relation to 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.
	Market disclosures. PharmaMar is obliged to disclose inside information that directly concerns it to the National Securities Market Commission (CNMV) as soon as possible, in compliance with Regulation (EU) No 596/2014 of the European Parliament and of the Council of 16 April 2014 on market abuse (market abuse regulation), along with other mandatory financial or corporate disclosures relating to the company or its shares pursuant to any legal or regulatory provision applicable to it in Spain or which it is considered necessary to disseminate to investors because of its special interest. Breach of transparency and market integrity rules is classified as a serious or very serious violation of current law, incurring punishment, with the possibility of reputational damage to the Company and/or loss of credibility among investors.	Transparent relations with investors and shareholders (21), Corporate image and reputation (24), and Comprehensive and accurate financial information (29).	Low	Short term	The Market Abuse Regulation concerning market abuse includes a tool enabling the regulator to investigate potential market abuses relating to inside information (the "insider list"), which the Company must compile and maintain up-to-date, including all persons with access to inside information. The Internal Rules of Conduct Steering Committee, made up of four members appointed by the Board of Directors, is tasked with ensuring that the Rules of Conduct are properly applied.
Financial risk	The financial risks are described in the consolidated financial statements (Note 3.1).				

Of the risks identified in the previous NFIS, “Drug price pressure” risk materialized in 2019. This was due mainly to two aspects:

- Regulatory risk. The pharmaceutical industry is highly regulated. In most countries, pharmaceutical prices are controlled and regulated by the government, which has the power to authorize, disallow or even rule out reimbursement for the products. With regard to price regulation risk, note that Yondelis® has seen prices drop in some European countries, with an impact of some €400 thousand. The impact of the change of distributor in Nordic and Eastern European countries, the UK and Ireland came to €1.3 million.
- And risk derived from competition. The pharmaceutical market is highly competitive and PharmaMar's results may be affected by the launch of novel or innovative products by competitors. In addition, three rival drugs to Yondelis® have been approved since the end of 2017; they are PARP inhibitors, which, when administered after platinum-based therapy in platinum-sensitive ovarian cancer, delay the administration of Yondelis® to later lines of treatment. The increase in commercial activity and clinical trials using these three molecules, along with other existing competitors, has resulted in treatment with Yondelis® being postponed.

As part of the re-assessment of short-, medium- and long-term risks conducted for 2019 in which Zelnova Zeltia left the Group (see section B. Business Model), Commodity price risk was eliminated, since this does not constitute a risk for the rest of the Group's companies as of 2019 year-end.

2. Environmental matters

The PharmaMar Group strives to protect the environment, not just in its activities but also in the development of products that comply with environmental regulations.

The commitment to environmental management in processes enables certain key principles and guidelines to be established to help guarantee environmental protection and ensure that business is conducted in a sustainable manner, in compliance with the strategies and goals of the PharmaMar Group.

On 28 June 2019, Zelnova Zeltia was divested from the Group, so the environmental data relating to Zelnova Zeltia refer to that date (see section B. Business Model).

PharmaMar and Zelnova Zeltia, as the main companies within the PharmaMar Group, perform activities that pertain to different sectors and are unlike each other, implying different environmental impacts and management approaches. Consequently, the information is presented broken down by sector. The rest of companies are considered to be non-material from the standpoint of environmental impact.

The Group's environmental risk analysis enables it to ensure that the environmental aspects relating to PharmaMar's facilities will not result in serious pollution episodes, in accordance with the implementing legislation in connection with Environment Ministry (APM) Order 1040/2017, of 23 October, establishing the date from which a mandatory financial guarantee must be arranged pursuant to Environmental Liability Act 26/2007. In 2019 and 2018, there were no contingencies at the Group in relation to environmental protection and improvement. Neither was it necessary to arrange a guarantee associated with environmental risks, since the quantitative analysis of PharmaMar's environmental risks, performed by ADVISIAN, was well below the threshold for mandatory arrangement of such guarantee under the Order (€2,000,000 for companies with an environmental management system certified to ISO 14,001:2015). Accordingly, it was not necessary to recognize any provision in respect of environmental actions.

1.- Biopharmaceutical sector

A. PharmaMar's environmental management approach

PharmaMar's environmental conduct has been certified to the ISO 14001 standard for more than 10 years, enabling continuous improvement and reducing consumption in pursuit of efficiency, while also time ensuring compliance with the stringent legal requirements applied to the facility. PharmaMar is a pioneer in the biotechnology sector, where there are very few companies with this certification.

PharmaMar's goals, in its commitment to the environment and its sustainability plan, are aligned with the UN Sustainable Development Goals, in particular with SDG14 Life Below Water. These goals are based on continuously improving supervision of environmental aspects of the company's activities and products throughout the life cycle.

PharmaMar is also a member of the Spanish Green Growth Group (Grupo Español para el Crecimiento Verde), an association created to foster public-private cooperation and help address the current environmental challenges. The goals of the Spanish Green Growth Group are as follows:

- Convey to society and government the potential for a green economic growth model for Spain.
- Work on common positions with a view to international negotiations on climate change, and combat climate change via public-private partnerships.

- Influence the development of a low carbon economy that is compatible with the goal of economic growth and job creation.

All material direct and indirect environmental aspects are assessed annually using the organization's internal procedure. This information is reported to senior management so that it can gage the company's environmental conduct and take any necessary strategic measures to guide the company towards the goals established in its policy.

B. Pollution

PharmaMar meets all the legal requirements established in the Environmental Permit issued by the Madrid Regional Government. The anti-pollution measures implemented at the company keep pollution levels at the facility under 50% of the limit established in the Integrated Environmental Permit, so that any cases of pollution are not classified as serious. These measures include:

- Minimization of atmospheric emissions by means of HEPA particle filters in process areas and scrubbers for gases from the laboratory fume cupboards.
- Control of hazardous waste produced at PharmaMar installations and minimization of the impact using waste separation programs.
- Control of process water using a purifying plant that homogenizes the water and adjusts chemical parameters to ensure that discharged industrial water is within the allowed limits.
- Product storage areas are built of concrete, and drain towards the water purification system to avoid risks of chemical spills and leaks.

The impact of PharmaMar at the Colmenar Viejo facilities in terms of CO2 emissions may be considered insignificant, since the direct scope 1 emissions are those generated by the hot water boilers needed for the facility's climate control and compliance with the parameters of comfort required under Royal Decree 486/1997, of 14 April. Scope 2 emissions, which are higher than those of scope 1, are due to the electricity consumption necessary to keep the production facilities and refrigerators operating 24 hours a day, 365 days a year. This is vital for conserving marine samples, raw and intermediate materials, and the final product for sale.

Noise levels are compliant with the criteria established in the Colmenar Municipal Regulation (BOCM 216). Furthermore, considering that the company is located in an industrial estate with the nearest homes more than 500 meters away, this is not seen as a material impact.

Light pollution is not considered to be significant as there is no nocturnal activity and the only light left on at night is that necessary for surveillance of the premises.

The company's environmental risk analysis enables it to ensure that the environmental aspects relating to PharmaMar's facilities will not derive in serious pollution episodes, which are understood to mean those exceeding €2,000,000 in accordance with the implementing legislation of Environmental Liability Act 26/2007, dated 23 October.

C. Circular economy and waste abatement and management

PharmaMar's activity is subject to the pharmaceutical industry regulations concerning the control of raw materials involved in manufacturing medicines, which prevents them from being re-used during the production process.

With regard to the environmental impact of the drugs that are sold, this may be considered to be insignificant in view of the therapeutic dosages of these drugs.

As for waste generated, PharmaMar selects local waste managers that guarantee the highest possible levels of waste recovery to ensure a lower environmental impact from the transportation of waste.

PharmaMar has implemented measures to control and reduce the environmental impact that have increased energy efficiency in the last few years, with the Colmenar building achieving class “B” status in accordance with the technical analysis conducted by an independent expert in 2013. The variation in energy consumption has remained below 4%.

The initiative commencing in 2018 consists of calculating the company's carbon footprint, which ranges from sea expeditions to collect marine samples through to commercial distribution of drugs.

Moreover, with regard to the environmental impact of the suppliers with whom it works, PharmaMar adheres to the International Standards for Phytosanitary Measures (ISPMs), which describe the guidelines for reducing risks linked to wood packaging (pallets) (see section 6.B. "Subcontractors and Suppliers"). These standards recommend heat treatment as an alternative to methyl bromide fumigation, as methyl bromide is an ozone-depleting gas. In order to help protect the ozone layer, the Procurements Department requires that its packaging suppliers have certificates and identifying marks to the effect that the wooden pallets it receives were heat treated. This has been a requirement for years now and suppliers are reminded of it with every order.

Since 2018, agreements have been reached with suppliers serving the largest order volumes and good delivery periods to delay non-urgent orders by two or three days so as to concentrate the number of orders and reduce the number of deliveries, which not only improves pricing but also reduces the environmental impact of shipping, as well as reducing handling by staff within the supply chain.

To benefit the local community, the PharmaMar Group is in favor of hiring local suppliers to contribute to the joint development of neighboring communities and reduce the environmental impact.

Waste management at PharmaMar is aimed at minimizing the amount and hazard status of waste generated, and to prioritize waste recycling and re-use. To ensure optimum compliance in waste management, PharmaMar has implemented an integrated waste management system to ensure the collection and proper treatment of waste generated by the Company, thereby minimizing the environmental impact.

The facility is duly authorized for hazardous waste, which means the waste must be logged, inventoried, stored and processed by waste managers authorized by the relevant authority in accordance with applicable legislation.

Biological waste is managed by Cespa Gestión Residuos, S.A., a member of the Ferrovial group, while chemical waste is managed by various managers, each best suited to the specific waste, including Destilerias Requim, S.A., GVC Gestión y Valorización Integral del Centro, S.L. This information is included in the Annual Hazardous Waste Declaration, which must be submitted each year along with the environmental records.

Non-hazardous waste is re-used where possible or collected by a local authorized manager in order to minimize the impact of transporting this waste to recycling or re-use facilities. Also, and in compliance with the requirements of the integrated environmental authorization, PharmaMar compiles an Annual Declaration of wrapping and packaging that is included in the annual environmental records submitted to the Madrid Regional Government.

D. Actions to reduce food waste

This is not considered to be a material issue for PharmaMar.

E. Sustainable resource use

PharmaMar is aware of the need to minimize the use of natural resources in its operations. Since the ISO 14001 standard was implemented, it has been developing a program to reduce water and electricity consumption that has made the plant highly efficient from both these standpoints. The reduction in water consumption has been based mainly on identifying and reusing non-polluted water from the factory's various processes, such as from purified water production. On a smaller scale, a more efficient system of bacteriostatic agents has been introduced in the toilets so as to reduce water consumption. This system is patented by a Spanish company, so it has the dual advantage of supporting R&D by domestic suppliers.

Electricity consumption has been minimized, in both lighting (where conventional lights are being replaced by energy-saving LED bulbs) and climate control in the facility and the cold stores for product storage. Colmenar Viejo's continental climate places a high demand on the plant's heating and cooling systems. Accordingly, the challenge with regard to electricity consumption is to implement processes to procure renewable energy or implement emissions offsetting programs.

With regard to the consumption of reagents and solvents, two factors limit the implementation of efficiency measures in this connection. Firstly, pharmaceutical regulations call for stringent controls and prior authorization of any changes in either the raw materials used or the amounts involved, which in practice means that once a process has been approved by the authorities it is extremely difficult to improve it. Secondly, the company's research and development process, which accounts for more than 80% of its activity, is based on a process of optimization and trial and error that does not allow us to introduce an efficiency program in connection with the materials used.

Other measures have been adopted to significantly reduce resources, such as:

- Replacement of plastic cups with re-usable beakers at the company's water fountains, in accordance with the measures adopted by the EU in 2018 as part of its policy to reduce plastic, which comes into force in 2021.
- Implementation of a new system for dispensing paper towels in toilets, which has cut consumption by 46% since 2017.

F. Climate change

In its commitment to researching marine organisms, PharmaMar is acutely aware of the consequences of climate change on the marine ecosystem. In this connection, a number of alternatives to reduce emissions are being studied.

The bulk of the company's greenhouse gas emissions are generated by the combustion gases from hot water and steam boilers needed for the facility to operate.

The other element that may generate unwanted greenhouse gas emissions is derived from the necessary existence of cooling systems at the plant that fulfill various needs. To minimize the risks, this equipment is subject to a strict maintenance program that prevents unwanted emissions such as small leaks.

G. Protection of biodiversity

Although research and development includes a process of extracting marine organisms, this is done in a minimally invasive manner while always guaranteeing compliance with international

conventions such as the Rio Declaration on Environment and Development and the Convention on International Trade in Endangered Species of Wild Fauna and Flora (CITES).

The PharmaMar Group sees respect for and promotion of biodiversity as one of the key tenets of its business. As an expression of this commitment, the PharmaMar Group has signed the Pact for Biodiversity, which aims to promote economic development that is compatible with biodiversity conservation.

PharmaMar collects marine samples by means of selective collection techniques that minimize the impact on the sea bed. The samples are collected by specialized divers who, thanks to their considerable experience and training, are able to identify the species that may be of interest with a view to discovering new chemical entities that may be transformed into therapeutic molecules to treat cancer.

Samples of marine invertebrates are harvested by hand by scuba divers; no mechanical systems, such as drag nets or dredging, are used, thereby eliminating the impact on the natural environment. We also use an underwater robot with an umbilical that is operated from the surface and provides a real-time view of the seabed, allowing for the selection of sample zones and minimizing human interaction with the ecosystem. No more than 100 grams of each marine organism are extracted.

The samples are collected under permits provided by the various countries (Madagascar and Indonesia in 2019) in the areas they indicate, either directly by PharmaMar or in partnership with local universities. All of this information is compiled in the expedition log, showing the exact location of the marine ecosystem involved; this log can also be used by local authorities as an environmental indicator.

In accordance with the Convention on Biodiversity, the company defends the sustainable use of the sea's valuable resources and the equitable distribution of its findings. In this way, PharmaMar not only contributes to the development of new anti-cancer treatments from just a few grams of sample, but also furthers knowledge and conservation of local marine ecosystems.

The research PharmaMar conducts based on these samples continues to respect the environment, since the aim is to achieve chemically synthesize molecules of interest. This provides a supply of the compound without having to resort to the natural organisms that produce it.

PharmaMar has discovered hitherto unreported marine organisms on its expeditions. For example, the company discovered a new species of deep-sea sponge, *Streptomyces pharmamarensis*, which was isolated from marine sediment and characterized by PharmaMar researchers

PharmaMar conforms to Article 1 of the Convention on Biodiversity, which refers to the sustainable use of natural resources to balance ecosystems, society and the global economy. There are two existing international documents whose principles are reflected in the criteria applied in sample collection: the Red List of endangered species, and CITES (Convention on International Trade in Endangered Species of Wild Fauna and Flora).

2.- Consumer Chemicals

A. Zelnova Zeltia's environmental approach

Zelnova Zeltia has a Waste Abatement Plan in which it defines and assesses in detail the dynamic set of measures aimed at reducing waste production and safeguarding the environment. This plan also examines pollution levels and the results of measures aimed at reducing them.

The company establishes procedures and devotes a range of resources to preventing environmental risks inherent to its activity:

- Ensuring compliance with boiler gas emission levels.
- Adapting the facilities to the requirements for storing chemical products and measures to contain leaks.
- Periodically reviewing storage and containment equipment.
- Properly separating hazardous waste, without mixing, especially avoiding those whose degree of hazardousness increases or that are hard to manage.
- Packaging and labeling of recipients holding hazardous waste as per regulatory instructions.
- Keeping a record of hazardous waste produced or imported and the destination thereof.
- Supplying the necessary information to the companies authorized to manage waste with a view to its proper treatment and elimination.
- Presenting an annual report to the competent public administration, specifying, at least, the amount of hazardous waste produced or imported, its nature and its final destination.
- Reducing the amount of water / solvent used to clean tanks and packaging machinery.
- Optimizing the use of the water treatment plant to minimize the amount of wash water sent to the authorized manager, ensuring compliance with permitted pollution levels in discharge water.
- Generating as little solid waste as possible, ensuring its selective collection at the recycling point.
- Training staff to avoid environmental risks.
- Brigade of firefighters trained to act in the event of environmental accidents.
- Substantially complying with the environmental protection laws.

The environmental policy is based on precaution with respect to the conservation and improvement of the natural environment through implementation of the following monitoring activities:

- Regular external measurements of atmospheric emissions and liquid discharges, whose results are sent to the Galicia Regional Government Department of the Environment and the Louro river authority, respectively. Periodic measurements of CO and NO emissions are sent to the Galicia Regional Government.
- Issuance of annual reports on transportation and hazardous wastes produced during the year and disposed of through authorized waste managers.
- It is a priority to avoid chemical leaks and to contain any that occur. For this purpose there is bunding around each fixed tank of solvent, separation of the chemicals on the basis of their danger and containments in each specific risk area.
- Separate channeling of wastewater, sewage and storm water to allow for better control over discharge quality.
- Process cleaning water is subjected to a specific treatment process to separate sludge from clean water (wastewater).
- Changes in raw materials to avoid their classification as carcinogenic.

B. Pollution

The most common types of pollution in Zelnova Zeltia's industrial activity are:

- Atmospheric pollution: Due to the emission of combustion gases by the boiler and diesel-powered forklifts.
- Noise pollution: Noise from machinery, gas scrubbers, vehicles, etc.
- Water pollution: Due to the production of wash water for treatment by an authorized manager, sewage, leakage into the subsoil and emissions from the treatment plant.
- Soil pollution: Solid waste generated by industrial activity (garbage, cardboard, plastics, scrap metal, etc.)

These sources of pollution are measured as follows:

- Measurement of gases emitted by the steam boiler.
- Measurement of the noise level outside the buildings with production facilities.
- Tons of first wash water generated.
- Analysis of water discharged following treatment.

Of these, the most significant is atmospheric pollution. With regard to the measures to prevent, reduce or remedy carbon emissions, CO and NO emissions are measured externally on a regular basis and the results are sent to the Department of the Environment of the Galicia Regional Government.

The steam boiler is a source of gases, but the preventive maintenance of the boiler and the use of chemical additives to the water result in maximum performance with minimum consumption. Gas emissions are within the accepted limits, so this pollution is never considered to be serious.

Emission parameter	Reading	Emission limit
Gas opacity index (Bacharach scale)	1	2
CO concentration (ppm)	56	1,445
Concentration of CO (mg/m^3N)	70	-
Concentration of SO_2 (ppm)	< 5	-
Concentration of SO_2 (mg/m^3N)	< 14	850
NO concentration (ppm)	80	-
Concentration of NO (mg/m^3N)	165	-

In accordance with the results obtained, Applus Norcontrol has certified the boiler's emissions as compliant with the limits established pursuant to Royal Decree (RD) 833/1975 (section 2.2, Annex IV). The regulations applicable to atmospheric pollution controls are the aforementioned Royal Decree 833/1975, of 6 February, implementing Act 38/1972, of 22 December, concerning atmospheric environmental protection, and RD 100/2011, of 28 January, updating the catalog of potentially polluting activities and establishing the basic provisions for their application.

With regard to atmospheric pollution, the insulation of Zelnova Zeltia's industrial plant and its levels of noise transmission outside due to its activity were checked and found to be compliant with the requirements of the applicable regulation, specifically Royal Decree 1367/2007, of 19 October, implementing Noise Act 37/2003, of 17 November, concerning noise zoning, quality and noise emissions targets, and under Galicia Decree 106/2015, of 9 July, concerning noise pollution, implementing European and Spanish noise pollution regulations with regard to the necessary measures to project, oversee and correct.

Accordingly, noise levels comply with the applicable regulations. Moreover, the company is located in an industrial estate far from homes, so this is not seen as a material impact.

Likewise, light pollution is not considered to be significant as there is no nocturnal activity. The only light left on at night is that necessary for surveillance of the premises.

C. Circular economy and waste abatement and management

As one of the measures for waste abatement, re-use or recovery or disposal by any means, and improvement of energy efficiency, Zelnova Zeltia optimizes the packaging of its products, implementing a specific packaging prevention plan and seeking to use new, more recyclable or biodegradable materials.

Moreover, in order to reduce electricity consumption, a series of measures were adopted including improving natural lighting, hourly supervision of energy consumption with a view to its reduction, and scheduling the production lines in synchronization with the times when boilers, compressors

and mixers are turned on and off. Optimal use of machinery operating hours to attain high levels of energy savings.

Energy audits are conducted of the processes and facilities, seeking to use the best available techniques, with a periodic review of energy consumption and insulation in heated areas.

D. Actions to reduce food waste

This does not apply to Zelnova Zeltia, and so is not a material issue.

E. Sustainable resource use

Zelnova Zeltia manages water responsibly. It periodically checks energy consumption and applies the best available techniques, implementing measures to reduce consumption or promote the re-use of some water flows in the facility.

Water consumption in 2019, through 28 June, when Zelnova Zeltia ceased to belong to the PharmaMar group, amounted to 3,863 m^3 (6,218 m^3 in 2018 — although the figures are not comparable since the 2018 numbers refer to the full year).

In order to reduce wash water in the manufacturing tanks, the company invested in an atomizer that considerably reduces the flow required for cleaning purposes.

With regard to raw materials, the design processes for new products have been improved, boosting the company's competitiveness and taking into account the environmental factor. Moreover, more sustainable products have been manufactured, with an increased focus on eco-design.

During 2019, a total of 19,907 liters of diesel and heating oil were used for the forklift trucks and for the steam boiler. Electricity consumption in the period totaled 488.12 MWh (44,824 liters of diesel and heating oil and 890.28 MWh in 2018 — although the figures are not comparable since the 2018 numbers refer to the full year).

F. Climate change

As discussed in the section concerning pollution, the main greenhouse gas-emitting items are the boiler used to generate steam and the diesel-powered forklift trucks; these items' atmospheric emissions levels are within the accepted limits.

In order to adapt to the consequences of climate change, Zelnova Zeltia manages water responsibly. It periodically checks energy consumption and applies the best available techniques, implementing measures to reduce consumption or promote the re-use of some water flows in the facility.

To reduce greenhouse gas emissions, it optimizes the boiler's operating hours and seeks to maximize its performance.

G. Protection of biodiversity

All the measures envisaged in the previous sections in connection with prevention, reduction of energy consumption and emissions, adaptation of facilities, etc. are aimed at preserving or restoring biodiversity.

Zelnova Zeltia's industrial activity does not have an impact on protected areas.

Below we present the PharmaMar Group's consolidated data concerning resource consumption:

- **PharmaMar Group resource consumption in 2019, and comparative figures**

	2017		2018		2019	
Electricity (MWh)	6,034		5,723		5,347	
Diesel (fuel) (l)	36,929		45,923		21,007	
Natural gas (fuel) (MWh)	3,620		3,913		3,443	
Water (m^3)	19,033		15,024		12,435	
Commodities (kg/l)	5,456,190		5,436,076		1,438,867	
Breakdown of commodities (kg/l)*						
	PharmaMar	ZelnovaZeltia	PharmaMar	ZelnovaZeltia	PharmaMar	ZelnovaZeltia
Laboratory solvents and reagents	47,697	39,195	33,310	32,582	16,955	12,147
Other ancillary commodities and reagents	-	5,369,298	-	5,370,184	6,628	1,403,137

* Given the significant differences between the type of raw materials consumed by the Biopharmaceuticals and Consumer Chemicals industries, the data are presented separately.

Among the continuous improvement processes, the organization made progress to identify and classify the types of raw materials used in the process. As a result, in 2019 "Solvents" and "Other ancillary raw materials" were separated into two categories, whereas in 2018 and 2017 they were combined in a single category: "Solvents". This separation will allow for a more accurate analysis to identify opportunities for improvement in connection with the potential re-use of these ancillary materials in the Company's processes.

- **PharmaMar Group emissions in 2019**

	2017	2018	2019
Electricity (Tn CO_2)*	Not available	1,406	2,032
Diesel fuel (Tn CO_2)	Not available	132	60
Natural gas fuel (Tn CO_2)	Not available	791	699

* Emissions are calculated using a market-based approach, i.e., using the factor provided by the electricity supplier. Consequently, although electricity consumption has decreased, a conversion factor of 0.39 was applied in 2019, compared with a factor of 0.246 in 2018.

The environmental aspects in the companies Genómica and Sylentis and the foreign subsidiaries of PharmaMar are not material and, therefore, are not material issues for the Group.

3. Social and personnel matters

A. Employment

The PharmaMar Group has the most valuable of all resources: its people.

We are proud to have a workforce of excellent, superbly qualified professionals who do their very best to ensure progress in each and every one of the Group's projects and products. Additionally, the Group employs a large proportion of women, especially in highly-skilled jobs, including executive level.

For the PharmaMar Group it is fundamental to promote a working environment based on respect and on personal and professional development. Moreover, there is an Ethics Code establishing the guidelines governing the conduct of all of employees in their daily work and, specifically, with regard to the Group's relations with all its stakeholders.

The PharmaMar Group's ability and capacity to attract and retain talented professionals will give it an edge over its competitors; consequently, it has devised a series of policies that enable it to adapt to emerging challenges and demands in the labor market so as to ensure implementation of flexibility mechanisms to facilitate a work-life balance. These include:

- General human resources rules
- The Equality Plan
- The Recruitment Policies (directly or through employment agencies)
- The Protocol for Action in the Event of Harassment
- The Training Policy
- The Performance Assessment Policy
- Teleworking policies and other actions aimed at boosting flexibility
- The policy of hiring interns

The tables below show the breakdown of the consolidated workforce.

To perform all the necessary calculations the entire consolidation scope of the PharmaMar Group's financial statements was taken into account, including all PharmaMar Group companies. The situation of staff at Zelnova Zeltia and its subsidiary Copyr at the time of the divestment of the two companies was also taken into account. Consequently, the figures for 2019 are not comparable with those of 2018.

Staff means the Group's average workforce in the year in question, and remuneration includes the gross annual salary, variable remuneration, medical insurance, the company cafeteria, vehicle and fuel, accounted for on a cash basis. Figures are expressed in euros.

With regard to professional categories, the groups set out in the Collective Bargaining Agreement for Chemical Industries in Spain were used, with the level of responsibility increasing from group 1 to group 8, and group 0 being the highest.

- **Total number of employees and breakdown by gender, age, country and professional category.**

In 2019, the PharmaMar Group employed 487 people on average, of whom 58% were women. Of the total workforce, 4.3% are aged under 30, while 31% are aged over 50 (in 2018, it employed 599 people, 56% of them women; 6% were aged under 30 and 25% were aged over 50).

The breakdowns shown are based on the Group's average workforce, which is the most significant figure.

Average employees, by nationality	Women	Men	Total
Argentina	-	1	1
Austria	4	1	5
Belgium	4	-	4
Brazil	1	0	1
Canada	1	-	1
China	1	-	1
Colombia	0	-	0
France	9		16
Germany	12	9	21
Ireland	1	-	1
Italy	18	15	33
Mauritania	1	-	1
The Netherlands	-	1	1
Portugal	1	-	1
Romania	1	-	1
Russia	-	1	1
Spain	227	165	392
Sweden	-	1	1
United Kingdom	0	2	2
United States	2	1	3
Total	**283**	**204**	**487**

Average workforce, by professional category	2019		
	Women	Men	Total
Category 1	5	1	6
Category 2	4	-	4
Category 3	23	15	38
Category 4	44	36	80
Category 5	71	29	100
Category 6	72	48	120
Category 7	31	33	64
Category 8	25	25	50
Category 0	8	17	25
Total	**283**	**204**	**487**

Average workforce, by age	2019		
	Women	Men	Total
<30	13	8	21
31-40	69	48	117
41-50	130	73	203
51-60	63	63	126
>61	8	12	20
Total	**283**	**204**	**487**

- **Average remuneration and average workforce by age range**

The average remuneration of the Group's total workforce was €78,453 (€62,619 in 2018); average wages increase with age.

AGE	Total	
	Average salary	Av. no. employees
<30	32.990	21
31-40	45.896	117
41-50	75.549	203
51-60	113.265	126
>61	154.774	20
Total	**78.453**	**487**

- **Total number and distribution of employment contract types:**

On average, indefinite contracts[3] account for 99.2% of the total, and temporary contracts account for only 0.8% (94% indefinite contracts and 6% temporary contracts in 2018).

[3] The indefinite contracts in the table are full-time averages.

Below is the classification of temporary contracts by gender, age and professional category:

	Indefinite	Temporary	Total
Men	203	1	204
Women	280	3	283
Total	**483**	**4**	**487**

	Indefinite	Temporary	Total
<30	18	2	20
31-40	116	1	117
41-50	203	1	204
51-60	126	0	126
>61	20	-	20
Total	**483**	**4**	**487**

	Indefinite	Temporary	Total
Category 1	5	1	6
Category 2	4	0	4
Category 3	37	1	38
Category 4	79	1	80
Category 5	99	1	100
Category 6	120	-	120
Category 7	64	-	64
Category 8	50	-	50
Category 0	25	0	25
Total	**483**	**4**	**487**

- **Number of terminations by gender, age and professional category**

In 2019 there were 41 new hires (11 men and 30 women) and an average of 26 terminations in the Group (in 2018 there were 41 new hires: 15 men and 26 women; and an average of 56 terminations in the Group).

The table below shows their classification by gender, age and professional category:

No. of terminations in 2019											
AGE		Category 1	Category 2	Category 3	Category 4	Category 5	Category 6	Category 7	Category 8	Category 0	TOTAL
<30	Women	-	-	-	1	1	-	-	-	-	2
	Men	-	-	-	-	-	-	-	-	-	0
31-40	Women	-	-	1	1	3	1	-	-	-	6
	Men	-	-	-	-	2	-	-	-	-	2
41-50	Women	-	-	-	-	3	1	1	-	-	5
	Men	-	-	-	-	-	1	-	-	-	1
51-60	Women	-	-	-	-	1	2	-	-	1	3
	Men	-	-	-	-	-	-	1	2	1	3
>61	Women	-	-	-	-	1	-	-	1	-	2
	Men	-	-	-	-	-	-	-	-	-	0
TOTAL		0	0	1	2	11	5	2	3	2	24

- **Average remuneration and changes, by gender, age and professional category. Calculation of the wage gap.**

The tables below show the average remuneration in 2019 by gender, age and professional category, the comparison with 2018, and the wage gap shown as the percentage difference between men and women's wages for 2019 alone. The wage increase between years is due to the lower weighting of the Industrial Chemicals sector compared with Biopharmaceuticals, since only six months of wage data for Zelnova Zeltia are included. Average wages in the Industrial Chemicals sector were lower than in Biopharmaceuticals.

Average remuneration, by gender	2018	2019	Gap
Men	73.464	90.251	-
Women	54.614	70.027	-22%

Average remuneration, by age	2018		2019		
	Men	Women	Men	Women	Gap
<30	29.765	28.991	38.436	30.149	-22%
31-40	39.936	39.942	43.054	47.996	11%
41-50	73.357	59.285	84.896	70.440	-17%
51-60	101.805	76.306	129.119	96.970	-25%
>61	152.567	73.340	170.535	135.377	-21%

Average remuneration, by professional category	2018			2019		
	Men	Women	Gap	Men	Women	Gap
Category 1	17.176	18.205	6%	17.637	20.844	18%
Category 2	-	22.841	-	-	22.664	-
Category 3	20.426	23.720	16%	19.505	27.373	40%
Category 4	30.408	33.007	9%	33.257	37.209	12%
Category 5	37.177	40.498	9%	45.197	52.673	17%
Category 6	62.740	58.103	-7%	78.004	71.031	-9%
Category 7	93.997	78.976	-16%	98.302	86.710	-12%
Category 8	122.897	126.440	3%	178.690	161.706	-10%
Category 0	251.103	207.390	-17%	290.128	274.125	-6%

Executive directors, whose fixed and variable remuneration in cash for their executive duties are included in this section, also receive remuneration in kind, such as accident insurance, healthcare insurance, communication equipment, prestige offices, support staff, security systems and staff and a high-end vehicle, which amounted to a total of €332 thousand in 2019 (€319 thousand in 2018).

- **Average remuneration for directors and executives**

The average remuneration for directors and executives is calculated on an accrual basis as specified in the Annual Report on Director Remuneration.

Average director remuneration

The remuneration detailed below is that received by directors for their status as such, and excludes the fixed and variable remuneration paid to executive directors for performing executive duties, which is disclosed in the tables above.

Remuneration for directors for their status as such includes fixed amounts they receive as members of the Board of Directors and its delegated committees (Executive Committee, Audit

Committee and Appointments and Remuneration Committee), per diems for attending Board meetings, remuneration they receive as members of the Boards of Directors of other companies in the Group, the remuneration to the Lead Director and contributions to savings schemes.

The calculation of the average took account of the fact that two of the eleven members of the Board of Directors as of 31 December 2019, had been appointed on 26 June 2019. Of the aforementioned eleven members, three are women (an average of 2.5 women in 2019). As of 31 December 2018, two of the ten members of the Board of Directors were women.

Directors	2018	2019
Men	191.000	180.000
Women	136.000	140.000
Total average	**180.000**	**170.000**

PharmaMar's remuneration policy seeks to align the interests of the shareholders with prudent risk management and moderation and balance, bearing in mind that the quality and commitment of the members of the Board of Directors is essential for implementing the Group's strategy. Remuneration must encourage dedication without compromising independence.

To achieve this, the general principles guiding the policy for remunerating directors for their status as such are as follows:

- External competitiveness: Remuneration that constitutes an incentive to attract and retain directors, while not compromising their independence.
- Internal fairness: Compensation for the level of responsibility and effective dedication.
- Absence of variable components in remuneration, thereby avoiding bias in decision-making processes.
- Moderation: by analyzing market benchmarks.
- Transparency

In addition, the main principles of the policy governing remuneration for directors for the performance of executive duties are as follows:

- Alignment of remuneration policy for the Executive Chairman with Group strategy.
- The various components of remuneration are defined so that the fixed portion represents a significant part of the total and the variable part compensates performance in achieving the Group's strategic goals.
- Alignment with remuneration in companies that are comparable in terms of size and industry.

The main items of remuneration outlined above are compliant with the general provisions for companies in Article 217.4 of Spain's Capital Companies Act (LSC) concerning the reasonableness of remuneration for members of the Board of Directors, its suitability to the scale and significance of the Group and its economic situation. They are also aimed at enhancing the Group's long-term profitability and sustainability, and seek to avoid excessive risk-taking and rewarding poor performance.

Director remuneration

The average executive pay figure refers only to senior executives, i.e. those who report directly to the Board of Directors or to a director (in line with the approach adopted in article 249 bis of the Capital Companies Act) and who may only be appointed or removed by the Board of Directors of PharmaMar, in accordance with Spanish law.

The average was calculated taking account of the fact that there are seven senior managers, three of whom are women.

Senior managers	2018	2019

Men	342.023	363.661
Women	270.213	280.329
Total average	**320.349**	**332.330**

- **Employees with disabilities, by gender and professional category:**

Pharma Mar, S.A. is in possession of a ruling dated 14/06/2016, Case no. 61/2016, by the Public Employment Service under the Madrid Regional Government Department for Economic Affairs, Employment and Taxation declaring it to be in exceptional circumstances with respect to the obligation to hire employees with disabilities and the adoption of alternative measures, with Madrid Special Center for Employment number 286.

Group employees with disabilities, by gender and professional category in 2019 and 2018.

2019	Category 1	Category 2	Category 3	Category 4	Category 5	Category 6	Category 7	Category 8	Category 0	Total
Men	1	-	-	3	1	2	-	1	-	8
Women	-	-	-	1	1	-	-	-	-	2
2018	**Category 1**	**Category 2**	**Category 3**	**Category 4**	**Category 5**	**Category 6**	**Category 7**	**Category 8**	**Category 0**	**Total**
Men	1	-	-	3	1	2	-	-	-	7
Women	-	-	-	1	1	-	-	-	-	2

B. Work organization

The PharmaMar Group is governed by the General Labor Agreement for the Chemical Industry (currently number 19, in force in 2018, 2019 and 2020), which stipulates a total of 1,752 working hours per year per employee. This translates into a 40-hour week which employees may distribute so as to have Friday afternoons off. PharmaMar employees may start their working day any time between 8:00 and 9:30.

At Zelnova Zeltia, there are various arrangements for working hours, ranging from those with least flexibility, in the factories, where production lines require stricter timetables, to the most flexible arrangements, where it is possible to adapt the work schedule to each employee's personal needs. In both cases, employees are required to clock in and out so as to verify fulfilment of their working hours. Furthermore, unbroken shifts are in place at this company, generally from 7:00 hours to 15:00 hours.

The unbroken shift, along with flexibility regarding the start time, are measures to promote work-life balance in order to boost employees' productivity by optimizing the time dedicated to work and family.

Work-life balance measures at PharmaMar also include a teleworking policy adapted to the needs of each job and each area of interest, depending on the duties to be performed by each employee. Teleworkers are provided with appropriate infrastructure and resources to enable them to connect with their teams from home. The efficiency of this approach is monitored based on specific metrics and goals.

For their convenience and to save time and money, PharmaMar employees also have access to its cafeteria, where a daily meal is available free of charge. The company also offers a takeaway menu for employees to consume outside working hours or off the premises if they so wish. At premises where there is no cafeteria, there is a restaurant voucher system.

Disconnection from work is facilitated through measures to foster a work-life balance, as described above.

C. Health and safety

Occupational health and safety is fundamental at the PharmaMar Group, as evidenced in the materiality analysis.

PharmaMar is certified to the OHSAS 18001 Occupational Health and Safety Management System standard by Lloyd's Register Quality Assurance. It has been renewing this certification for more than ten years now, passing annual audits for this purpose. This certification is evidence of the company's unerring commitment to good practices in this domain and the consideration of these practices as a priority for both its employees and those of its suppliers.

In 2019, PharmaMar addressed the challenge of adapting to the ISO 45001 standard, involving a new approach based on the organization's internal and external context and aligned with ISO 14001:2015.

There are workplace safety plans in place and employees are provided with safety training and awareness programs. Furthermore, there is a self-protection and emergency plan, as well as evacuation plans and drills. All offices have signs indicating emergency exits and are equipped with fire extinguishers. Responsibility for safety is outsourced to an external provider, which periodically verifies that all equipment and offices conform to safety standards.

With regard to employee healthcare, the Group adopts a broad interpretation of health monitoring that goes beyond the requirements of labor legislation. Accordingly, check-ups include broader blood and urine analyses to enable employees to monitor their general state of health. Importance is also given to ergonomics (suitable chairs and encouraging proper posture), there are programs to stop smoking, dietary information, blood pressure monitoring and promotion of physical activity, among other actions.

PharmaMar includes and integrates employee healthcare as part of its management system, as evidenced by its certification to the OHSAS 18001 standard, in complete alignment with Sustainable Development Goal 3. SDG 3 aims to ensure healthy lives and promote well-being for all, at all ages.

PharmaMar has also implemented a training and assessment program involving all employees, to a greater or lesser extent, to enable them to identify the most critical aspects of their work from the occupational health and safety standpoint so that they can effectively integrate them in their daily activity.

In 2019, PharmaMar consolidated initiatives relating to the creation of a real safety culture in accordance with Occupational Safety Act 31/1995, of 8 November, through initiatives such as:

- Free flu vaccination for employees.
- 4th Workplace Health and Safety Week, with workshops on ergonomics and first aid.

The Company calculates absenteeism figures as including temporary disability (sick leave due to common illnesses and work accidents, excluding paid leave for maternity, paternity, vacations, etc.). Absentee hours at the PharmaMar Group totaled 23,394 in 2019 (28,875 hours in 2018).

Moreover, there were a total of 2 work-related accidents, 1 involving lost time (and 1 without lost time). The incident rate, frequency and severity of accidents are presented below and compared with the sector:

	PharmaMar 2018	Sector 2018	PharmaMar 2019	Sector 2019
Incident rate	2.87	13.62	3.19	15.40
Frequency rate	1.64	7.77	1.82	8.79
Absolute frequency	4.92	19.04	3.64	17.58
Severity rate	0.17	0.21	0.05	0.22

PharmaMar's accident frequency and severity has been consistently below the industry average in the last few years.

No occupational illnesses or illnesses having a direct relationship with the activities performed by the Group have been reported.

Zelnova Zeltia has a Safety Committee which meets regularly; it comprises representatives of the employees (including a representative for employee safety), the company, external safety consultants (a specialist external representative) and the company medical officer. There are workplace safety plans in place and employees are provided with safety training and awareness programs. Furthermore, there is a self-protection and emergency plan, as well as evacuation plans and drills. All offices have signs indicating emergency exits and are equipped with fire extinguishers. Responsibility for safety is outsourced to an external provider, which periodically verifies that all equipment and offices conform to safety standards.

Zelnova Zeltia has a doctor and registered nursing professional on site for medical consultations on any weekday. There is also a social worker to help with official processes (benefits, maternity leave, retirement, etc.)

D. Labor relations

The Parent Company is governed by the General Labor Agreement for the Chemical Industry (currently number 19, in force in 2018, 2019 and 2020), which applies to 100% of employees in Spain.

At 2019 year-end, 100% of employees at the European subsidiaries were covered by a collective agreement, except in Germany, where there is no such agreement in the industry. The applicable collective bargaining agreements are:

- "Contratto Collettivo Nazionale dei Chimici", in Italy,
- "Convention Collective de l'Industrie Pharmaceutique (brochure No. 3104)", in France
- "Commission Paritaire 200", in Belgium.
- "Kollektivvertrag Handelsangestellte", in Austria

Zelnova Zeltia has a 5-member Works Committee through which to channel the information and negotiation of the issues affecting the employees. Meetings and private interviews are held and employees are encouraged to talk to their superiors concerning any problems. Relationships between departments are nurtured so as to facilitate cooperation and minimize potential conflicts.

PharmaMar does not have a Works Committee. However, it does have an Equality Committee to ensure compliance with goals in this connection. This Committee comprises 4 employee representatives and 2 representatives of the company. At least two meetings are held per year to present the data and indices reflecting the situation and, if considered necessary, remedial actions and/or goals are agreed.

The Group uses the intranet to provide its employees with information concerning:

- Legal texts
- Policies and procedures
- Internal organization
- Departmental organization
- Publication of news and events relating to the Company

E. Training

There is a training procedure focusing exclusively on general training of the Group's staff. Given the heterogeneous nature of the professional categories in the organization, these are subject to various highly skilled training regulations, demands and requirements which are managed by the various departments.

Managers indicate whether there are any employees in their departments who require specific training or an improvement in their technical, commercial or linguistic skills. Employees also take part in courses and seminars to boost their skills.

The Human Resources Department performs three functions in this connection:

- It manages, promotes and imparts the general training aimed at developing skills and languages. It also provides technical training applicable to broad interdepartmental groups.
- It approves, supervises, controls, records and keeps track of the information on all the training actions and attendance at conferences by all Group staff. These functions are executed through:
    - The Training Procedure, which is available to all employees on the Intranet
    - The Annual Training Plan of each Department
    - Requests for training
    - Record of attendance
    - Training database
- It manages training subsidies from Fundación Tripartita.

The table below presents the total number of training hours by professional category.

Professional category	Training hours 2018	Training hours 2019
Group 1	11	74
Group 2	30	157
Group 3	572	349
Group 4	1,544	1,387
Group 5	1,725	2,151
Group 6	3,072	4,454
Group 7	1,672	1,382
Group 8	1,251	2,877
Group 0	314	1,028
Overall training for all professional categories	16,827	*
Total no. of hours	**27,018**	**13,859**

* For 2019, overall training for all professional categories is disclosed in the relevant categories. Note also that overall training hours that were not classified by professional category in 2018, specifically hours of language training, were estimated on the basis of an average number of employees per class.

F. Universal access for persons with disabilities.

Since inception, the PharmaMar Group has sought to facilitate access by persons with reduced mobility, whether employees, contractors or visitors. Accessibility begins as soon as they arrive at the facilities. where there are reserved parking spaces for persons with disabilities. All accesses have ramps.

There are lifts inside the facilities. There are fully equipped accessible toilets for wheelchair users.

The Group's corporate philosophy includes hiring persons with disabilities.

G. Equality

The PharmaMar Code of Good Practices rules out discrimination on the basis of gender or for any other reason. All vacancies are open to both genders and the wages are established in accordance with candidates' experience and effective capabilities.

Moreover, PharmaMar Spain has a Protocol for Action in the Event of Harassment. Additionally, in accordance with Organic Act 3/2007, of 22 March, it has an Equal Opportunities Plan for both genders which sets out the company's commitment in the following areas:

- Access to employment
- Promotion
- Staff training
- Remuneration
- Work-life balance
- Occupational health

There is an Equality Committee, comprising representatives of the employees and the Company, which meets periodically to verify compliance with the Group's commitments through the presentation of data for the period in question. These meetings also deal with proposals and suggestions in order to make further progress and consolidate the conditions of equal treatment and opportunities, non-discrimination and work-life balance.

With regard to compliance with Organic Act 3/2007, of 22 March, Zelnova Zeltia adheres to the provisions of its collective agreement, under which developing and implementing equality plans is voluntary for companies with under 250 employees.

In this regard, the Group implements initiatives that foster equality. For example, there are 20 different nationalities working at the various PharmaMar Group premises (25 in 2018), with a very positive impact in terms of the variety of languages, origins and cultures.

4. Human rights

The PharmaMar Group's companies and subsidiaries are located in the European Union and the United States and comply with employment and human rights legislation in force. Moreover, as a Spanish company, PharmaMar is subject to European regulations, which in turn are based on compliance with the fundamental conventions of the International Labour Organization. Those conventions refer, among other aspects, to respect for human rights, freedom of association and collective bargaining.

The PharmaMar Group also has a Code of Conduct, which entered into force on 1 February 2016. The Code of Conduct is applicable to the members of the Board of Directors, senior management and, generally, to all employees and executives of the companies that form part of the PharmaMar Group, without exception.

The purpose of the Code of Conduct is to formalize the principles and values that should guide the conduct of all people forming part of companies in the PharmaMar Group, among themselves and in their relationships with customers, partners, suppliers and, generally, all those people and institutions, whether public or private, with which they interact in the course of their work, always upholding human rights. The Code of Conduct also includes procedures and measures for the event of non-compliance, including a Conduct Committee and whistleblower channel.

The Code of Conduct specifically rules out discrimination in the workplace. In accordance with the Code of Conduct, management of human resources and relations between employees must always be based on scrupulous respect for people's dignity, rejecting any form of physical, psychological or moral abuse, or the abuse of authority, and any other conduct that might breach a person's individual rights. The PharmaMar Group does not tolerate any type of discrimination based on gender, race, sexual orientation, religious beliefs, political opinions, nationality, social background, disability or any other circumstance that might be a cause of discrimination.

Not only is the Code of Conduct mandatory, but any related risks and breaches must be reported. To this end, the PharmaMar Group has established procedures whereby all employees may make good faith reports of breaches of the Code in a confidential manner without fear of reprisals. In this connection, there is a whistleblower channel, available via:

- corporate Intranet
- E-mail: "comisiondeconducta@pharmamar.com"
- Postal mail: Plaza Descubridor Diego de Ordás, 3. 28003 Madrid.

According to the specific regulations governing the whistleblower channel, there is a Conduct Committee that ensures that all complaints received via this channel are registered and handled adequately and completely, and are examined independently and confidentially. The Conduct Committee ensures that the identities of the whistleblower and the alleged wrongdoer(s) remain confidential, and that they are shared only with the persons who are strictly necessary in the process of investigation and resolution.

To date, there have been no complaints in relation to human rights breaches, discrimination at work, forced or mandatory labor, child labor or any other related matter.

5. Combating corruption and bribery

- **Measures adopted to prevent corruption and bribery.**

The PharmaMar Group's Code of Conduct expressly contains measures to prevent bribery and corruption and indicates that in no cases may unethical practices be used to influence persons outside the company in order to obtain an illicit benefit. Not only are such practices prohibited, but the persons subject to the Group's Code of Ethics must remain alert so as to avoid such conduct in PharmaMar's relations with other persons and organizations.

The Code of Conduct is applicable to the members of the Board of Directors, senior management and, generally, to all employees and executives of the companies that form part of the PharmaMar Group, without exception and regardless of their position, responsibility or workplace.

Persons bound by the Code may not make, offer or receive any payment in cash or in kind or any other benefit which might be considered to be unethical or be deemed reasonably to alter the commercial, administrative or professional relationships between the parties. Bound persons must not make payments consisting of the delivery of money or other valuable consideration, whatever the amount, in exchange for securing or expediting the performance of any process or action before any judicial body, public administration or government agency anywhere in the world. For control and compliance with the provisions of the Code of Conduct, the PharmaMar Group has a Conduct Committee and a whistleblower channel, as described in the section on human rights.

Moreover, PharmaMar adheres to the Code of Good Practice in the Pharmaceutical Industry, which in turn was adopted—with subsequent reviews—from the Code on the Promotion of Prescription-Only Medicines approved by the European Federation of Pharmaceutical Industries and Associations (EFPIA).

PharmaMar also shares the fundamental ethical values of the Code of Ethics of the Spanish Association of Biotechnology Companies (ASEBIO), of which it is a member.

Money laundering is not considered to be a material issue at the Group due to the characteristics of the sector in which it operates and the markets in which it is present.

- **Contributions to foundations and non-profit entities.**

The PharmaMar Group collaborates actively with various foundations and non-profit entities. This collaboration is aimed mainly at activities to foster research, donations to medical and patient associations, and sponsorships of scientific congresses. Contributions of this type amounted to €137,928 (€272,605 in 2018). These contributions were made in accordance with the provisions of the Farmaindustria Ethics Code, to which the PharmaMar Group subscribes.

Notable contributions included:

- Support for **patient associations**, including Sarcoma Patients Euronet (SPAEN), Fundación Mari Paz Jiménez Casado, Conquer Cancer (ASCO Foundation), Alleanza Contro il Tumore Ovarico (ACTO) and Fondazione Nerina e Mario Mattioli.
- Cooperation with **medical associations**: Groups of oncologists engaged in independent research into sarcoma, ovarian cancer and other types of cancer, assisting them in pursuing their goals.
- Sponsorship of, and participation and presentations at, numerous **scientific conferences and meetings**.
- Active cooperation with bodies to **foster biotechnology**, such as ASEBIO (Asociación Española de Bioempresas), and to **develop the pharmaceutical industry**, such as EBE (European Biopharmaceutical Enterprises).

6. Society

A. Commitment to sustainable development

The PharmaMar Group companies in Spain are established in the municipalities of Colmenar Viejo and Tres Cantos (Madrid) and Porriño (Galicia). The companies contribute to the development of their local communities by creating and maintaining stable employment, paying taxes and providing a range of services as detailed below.

In 2019, there were 38 employees in Galicia and 368 in Madrid, including not just PharmaMar but also Genómica and Sylentis. In the rest of countries, the overall headcount is 81 (in 2018 the figures were 88 people in Galicia, 411 people in Madrid and 100 in other countries — though the figures for 2018 are not comparable to those of 2019, since in Zelnova Zeltia's case they represent a full year on 2018 and half a year in 2019).

Average employees, by company	Spain				International			Total
	PharmaMar	Zelnova Zeltia	Genómica	Sylentis	Subsidiaries of Pharma Mar, S.A.	Subsidiary of Zelnova Zeltia	Subsidiaries of Genómica	
Men	129	25	15	3	24	6	2	204
Women	177	13	27	17	40	7	2	283
TOTAL	**306**	**38**	**42**	**20**	**64**	**13**	**4**	**487**

The impact of the PharmaMar Group's activity, and its relations with the communities in which it operates are reflected in various domains and actions:

- Development initiatives in **the local community**:

  - **Guided visits** to PharmaMar and Sylentis facilities for authorities and students, with explanatory talks pitched to the appropriate level. In 2019, PharmaMar opened its doors to students taking the following courses:
    - Student laboratory technicians (Grado Superior Técnico de Laboratorio) from Colegio de Formación Profesional Valdemilanos
    - Materials engineering, Universidad Politécnica de Madrid
    - Master in Environmental and Industrial Biotechnology, Universidad Complutense de Madrid
    - Master in Biotechnology, Universidad Autónoma de Madrid
    - Master in Microbiology, Universidad Autónoma de Madrid
    - Master program at CESIF
    - Students from Colegio Fingoi in Lugo.

  - Cooperation with **ASEYACOVI**, the Association of Entrepreneurs, Traders and Self-employed workers of Colmenar Viejo, and the **Family Business Association of Madrid**, an independent group which defends Madrid interests and organizes activities for its members.

  - **"People of PharmaMar Platform"**. This is an online platform through which PharmaMar employees may voluntarily take part in leisure, cultural, free time and sports activities proposed by the Company or by the employees themselves. Among the activities conducted through this platform in 2019, we note:
    - Hiking: Cerro del Pendón, in Bustarviejo
    - Padel tournament.

- Involvement in **Hipatia "Mujeres en la Ciencia"** (Hypatia Women in Science) awards offered by El Economista in recognition of the achievements of women researchers.

- PharmaMar' participated in the exhibition **"Química para un mundo mellor"** (Chemistry for a better world), organized by the Galicia Royal Academy of Science and held in Santiago de Compostela, showing twenty historical advances in applied chemistry, including some of Galicia's contributions.

- Actions to **disseminate knowledge**:

  - **Scientific publications** in a range of prestigious international journals and specialist press, in the fields of oncology, pharmacology, therapeutics and diagnostics. According to the ASEBIO report, PharmaMar ranks second among Spanish companies in terms of the number of publications in high-impact scientific journals.

  - Publication of volume 15 of the book "**El mundo submarino de PharmaMar**" (PharmaMar's Undersea World), which contains photographs of marine organisms taken on expeditions by our marine biologists, from which the company extracts the compounds for R&D and innovation.

  - Organization of a **meeting** between the Spanish Association of Sarcoma Patients (Asociación Española de Afectados por Sarcoma – AEAS), Fundación Mari Paz Jiménez Casado, Dr. Ricardo Cubedo and PharmaMar, to mark National Sarcoma Day, in which they shared the latest advances in the diagnosis, treatment and care of soft-tissue sarcoma patients. The meeting was part of the campaign "Abre los ojos al sarcoma" (Open your eyes to sarcoma), which PharmaMar launched last year with the aim of raising awareness about this disease, which is relatively unknown.

- **Educational actions**:

  - **internship program**. In 2019, there were 14 interns at PharmaMar Group (37 in 2018).

  - Participation in **post-graduate seminars and courses** organized by universities and in Master's programs and conferences in the fields of biomedicine and biotechnology. These courses facilitate the exchange of technical knowledge in order to promote science and research.

    A good example of this is the *Blue Biotech Master* program at Universidad Católica de Valencia San Vicente Mártir. This program arose out of obtaining a European project under the "*Blue Careers in Europe*" funding round. PharmaMar assists in curriculum development and incorporating material on industrial applications into the curriculum.

  - **Grants** to university students.

- Initiatives to **support society**:

  - Outsourcing of advertising materials and graphic design to **sheltered workshops for persons with disabilities**, such as Trébore, a Paideia Galiza Foundation initiative. It also works with Integral AV, a travel agency which employs persons with disabilities.

  - Blood donation **drives in cooperation with** the Spanish Red Cross: PharmaMar organized two blood donation sessions in cooperation with Madrid's Transfusion Center, in which 43 employees donated.

- **Communication initiatives**

- In 2019, PharmaMar published a total of 46 press releases and achieved 14,001 media impacts, of which 9,859 were in media in Spain and 4,152 in media in other countries. The potential audience was of 3.73 million readers: 1.463 million in Spain and 2.267 million readers of international media.

  PharmaMar has an active presence in the following social media platforms:
  - **LinkedIn**: In 2019 the number of followers reached 28,777 and there were a total of 14,709 interactions (recommendations, comments or shares) in this platform.
  - **Twitter**: 2,696 followers. Tweets made a total of 641,700 impressions and logged 7,198 interactions (likes, retweets and replies).
  - **Facebook**: 7,873 followers. Organic reach exceeded 235,000 people, generating more than 39,000 interactions (likes, comments and shares).
  - **YouTube:** PharmaMar's video channel attained 32,493 views.

- Actions in connection with **the environment**:
  As detailed in the section on the environment, the PharmaMar Group employs all the necessary resources to minimize the environmental impact of its activities on the territories and communities where it operates.

B. Outsourcing and suppliers.

PharmaMar Group companies interact with a large number of suppliers who provide a broad range of products and services for the production process. As a business partner, the PharmaMar Group maintains a procurements policy based on mutual advantage, but never losing sight of its social and environmental responsibilities.

The Procurements departments of the PharmaMar Group companies focus on managing procurements of goods and services in order to contribute to achieving the companies' goals and on the basis of security of supply, quality, cost, innovation, regulation and socially responsible and sustainable procurement.

- **Policy concerning Suppliers**

Selection of suppliers is driven by the Procurements Department in cooperation with the department requesting the product or service. The Procurements Department always advocates sharing risks and benefits with suppliers, fulfillment of commitments and taking the lead in terms of corporate social responsibility.

Employees involved in procurements must comply with and promote compliance with basic ethical standards in relations with the market and with their suppliers. The Code of Conduct contains a specific section on relations with contractors, suppliers and the market.

<u>Supplier selection process</u>

Suppliers of goods and services must be approved in accordance with the Procurement Department's supplier selection procedures. The exhaustiveness of the selection processes depends on the importance of the good or service for the company and the expense relative to total annual expenditure. The Procurements Department:

- Will require suppliers to be socially responsible and, whenever the risks make this advisable, will request that they provide suitable documentary evidence.
- Will ensure that procurements are respectful of society and the environment.
- In conditions of equality, and without increasing the risk or reducing the competitive advantage of the company, will give preference to local suppliers over non-local ones, and domestic suppliers over foreign ones, thereby promoting the economic development of the community, region, country and continent, respectively.

Approval of suppliers

As a general rule, all suppliers of products and services must be approved, although the approval requirements will vary in accordance with the product or service they offer.

The Procurements Department has implemented and systematized supplier selection and assessment processes, which must be applied to ensure impartiality, ethical behavior and transparency.

The entire approval process will be implemented in coordination with the affected areas so as to guarantee that the chosen supplier meets the minimum legal and quality requirements pertaining to the service, and ensuring corporate social responsibility, gender equality, sustainability and job security in each case.

With this in mind, the Procurements Department will request documentary evidence and additional documentation with a view to ensuring the supplier's suitability, based on sustainable and responsible procurement criteria.

The following suppliers were audited in 2019:

- Elis Manomatic S.A.

  Located in Colmenar Viejo, this company provides PharmaMar with linen hire services.

  In 2019, the Procurements Department launched a survey to assess the need for laundry to be bagged after cleaning. The basis was an audit report compiled by Quality Assurance to assess GMP clothing, as well as an assessment by the Safety & Environment department of non-GMP clothing. The two departments determined that it was not necessary for the laundry to be bagged.

  Based on these findings, the Procurements Department supervised the complete elimination of plastic bags in laundry, effective October 2019, eliminating 20,000 plastic items every year.

  With this initiative, PharmaMar's aim is to contribute to environmental sustainability through its relationships with suppliers, in compliance with Directive 2019/904 of the European Parliament and of the Council of 5 June 2019 on the reduction of the impact of certain plastic products on the environment.

- Nekicesa Packaging, S.L.

  On 7 November 2019, an audit was conducted of Nekicesa, an approved and certified PharmaMar supplier of cases used in the secondary conditioning process of all presentations of the commercial product Yondelis®.

  Nekicesa is certified to the ISO 9001:2015 (Quality Management System), ISO 14001:2015 (Environmental Management System) standards and to the FSC-STD-40-003, FSC-STD-40-004 and FSC-STD-50-001 standards in connection with Chain of Custody, Code of Conduct and Management Policy focusing on innovation and environmental and social sustainability.

- Gráficas Zurita S.L.

  On 21 November 2019, an audit was conducted of Gráficas Zurita, S.L, an approved and certified PharmaMar supplier of package inserts used in the secondary conditioning process of all presentations of the commercial product Yondelis®.

  Gráficas Zurita S.L. is certified to ISO 9001:2015 (Quality Management System) and ISO 14001:2015 (Environmental Management System) and holds FSC-STD-40-004 and FSC-STD-50-001 Chain of Custody certification. This certification guarantees consumers

that forestry products come from well-managed sources in accordance with the principles and criteria of the Forest Stewardship Council (FSC). Company policy focuses on quality, environment and CSR.

- **Procurement policy**

Procurement processes are aimed at optimizing the expenditure in each procurement category and ensuring that it contributes the greatest possible value from the supply markets. Procurement processes will involve at least the following aspects when it comes to making decisions:

- Security of supply: The extent to which a supplier is able to supply a good or service, in terms of capacity or in financial terms
- Quality: The extent to which the good or service meets the required specifications
- Service: The extent to which the good or service ensures compliance with the delivery deadlines, manufacturing commitments or technical support criteria
- Cost: The extent to which the price of the goods or services matches their actual value in the market
- Innovation: The extent to which the good or service contributes an advantage or added value
- Regulatory: The extent to which the supplier, the good or the service meets the applicable regulatory standards
- Corporate social responsibility: The extent to which the supplier meets the Company's CSR standards and to which the good or service is respectful of society or the environment over its life cycle.

In connection with local suppliers, the PharmaMar Group promotes environmental sustainability, as indicated in the section concerning the environment.

- **Geographical distribution of suppliers**

As of 31 December 2019, 91% of PharmaMar orders were to Spanish suppliers.

All suppliers belong to OECD and United Nations member countries; accordingly they comply with labor legislation and respect human rights.

Distribution of PharmaMar Group suppliers by territory as of 31 December 2019	
Spain	709
Rest of Europe	135
Rest of the world	
United States	49
Canada	2
China	3
Brazil	2
Singapore	1
United Arab Emirates	1

C. Consumers

The PharmaMar Group defines the patients who receive its oncology treatments as "consumers" and the buyers of Zelnova Zeltia products as "customers".

1. Biopharmaceuticals

For PharmaMar patients, safety falls within the framework of the pharmaceutical industry, one of the most stringently regulated in the world. The health authorities supervise key aspects in relation

to drugs, such as their quality and efficacy, as well as their safety and other factors. As a result, to maintain its permit to operate as a pharmaceutical laboratory, PharmaMar must comply with a complex set of regulations, including the following:

- **Good Laboratory Practice** (GLP): this applies to non-clinical trials of medicines and is aimed primarily at ensuring their quality and reliability with a view to assessing their safety.

- **Good Clinical Practice** (GCP): this applies to clinical trials involving human subjects and its core purpose is to safeguard participants' rights, safety and well-being, as well as the quality and integrity of the data obtained. In this way, PharmaMar guarantees that its clinical trials are conducted on a sound scientific and ethical footing.

  In its clinical trials, PharmaMar uses monitoring and audits to ensure strict compliance with both the trial protocol previously approved by the health authorities and GCP and other applicable regulations.

- **Good Pharmacovigilance Practice** (GVP): these rules ensure the authenticity and quality of the data compiled through pharmacovigilance and make it possible to assess the risks associated with a drug at any given time.

  PharmaMar has updated its pharmacovigilance system files and periodically issues up-to-date reports on product safety. Furthermore, all PharmaMar employees receive training in pharmacovigilance in order to report any adverse effects of any of the company's products of which they become aware. In this way, PharmaMar ensures that the drugs it markets present a favorable risk-benefit ratio.

- **Good Manufacturing Practice** (GMP). These standards ensure that the active pharmaceutical ingredients and the medicines they are used to produce comply with the pre-established quality specifications. They cover all aspects of production with the goal of reducing the risks associated with the manufacture of pharmaceutical products.

- **Good Distribution Practices** (GDP): these ensure that the quality of drugs is maintained throughout the supply chain, from PharmaMar's warehouses to the hospital pharmacy where the drugs are eventually administered to patients.

  These standards also encompass measures to minimize the risk of fake medicines entering the supply chain. To protect patients from such risks, the European Union has issued Directive 2011/62/EU concerning falsified medicinal products. This directive, which is binding from February 2019, requires that each unit of a medicinal product bear a unique identifier and an anti-tampering device.

  PharmaMar implemented a project to adapt its facilities and processes to the new directive in 2018. This entailed expanding the manufacturing area and installing a secondary line in the production line with an IT system to manage the serialization and communications with the European Medicines Verification Organisation (EMVO). All the equipment and systems that were implemented, and the new secondary conditioning process, were validated in 2018.

To ensure compliance with these new standards, PharmaMar devised a new Quality Policy and introduced a Quality Assurance System which is described in the main document pertaining to this system, namely the Quality Manual. This Quality Assurance system identifies those responsible at all levels of the organization, provides for proper management of human and financial resources, establishes appropriate action indicators and fosters the implementation of continuous improvement processes. It also provides PharmaMar's management with periodic information on the level of implementation by means of internal audits, which are conducted under the auspices of the Quality Unit. Both PharmaMar's partners and the health authorities periodically inspect the activities so as to confirm they are properly compliant with the regulations and the legal and/or voluntary agreements in place.

PharmaMar has been inspected by the Spanish Drug and Healthcare Products Agency (2008, 2011, 2014 and 2017), the European Medicines Agency (EMA), the US Food and Drug Administration (2009 and 2015) and Japan's Pharmaceuticals and Medical Devices Agency (2015).

- **Complaints in connection with drug quality**

PharmaMar sees any complaint received regarding the quality of its drugs as an opportunity for continuous improvement. In this regard, the Quality Unit fields and resolves complaints, regardless of how they are received, whether they are submitted by healthcare professionals, institutions, patients or others.

Operating procedures are in place to establish, among other relevant matters, the manner and timeline for resolving the complaint, as well as the obligation to implement improvements in the event such an opportunity is detected. Moreover, the quality complaints database is periodically cross-checked against that of safety, maintained by the Department of Pharmacovigilance, so as to determine whether potential adverse effects caused by the drug might be associated with deficiencies in their quality, and vice-versa.

In 2019 and 2018, no complaints posing a material risk for patient safety were received, and no products were withdrawn from the market.

- **Data protection**

PharmaMar attaches the utmost importance to the privacy of its patients' data and it approaches this issue in various ways:

Firstly, in compliance with the Data Protection Act, there is a Privacy and Data Protection Policy which may be consulted online. This policy sets out why and for what purposes the personal data of patients and staff (researchers, monitors, etc.) taking part in clinical trials are processed.

The privacy requirements are also set out in clauses in all contracts signed for the purposes of conducting clinical trials with centers and researchers, and with subcontractors, as well as for pharmacovigilance activities. In particular, informed consent must be obtained from patients before they take part in clinical trials, which must be approved by the ethics committees.

Compliance with these requirements in relation to patient privacy and data protection — in both pharmacovigilance and clinical trials — is among the matters verified by the Clinical Quality Assurance Department in its audits of the pharmacovigilance quality system, and in the scheduled audits of centers taking part in clinical trials. Whenever these audits disclose an opportunity for improvement or a breach in this connection, remedial actions are established that must be approved before being implemented by the Clinical Quality Assurance Department.

No complaints were received in this connection in 2019. However, in April 2019 there was a security breach at the web services supplier, which resulted in the names of candidates who had submitted their resumes to PharmaMar becoming visible temporarily. The appropriate remedial measures were implemented immediately and the Spanish Data Protection Agency (AEPD) was notified in a proper and timely fashion; there were no subsequent complaints.

2. Consumer Chemicals

In the case of Zelnova Zeltia's customers, the commitment to consumers' health and safety is based on proper control and monitoring systems to prevent the sale of products that do not meet the established requirements. Checks are performed from receipt of raw materials through the manufacturing phase down to the final product.

Zelnova Zeltia and Copyr are certified to ISO 9001:2015, and audited to the latest version of the standard. Zelnova Zeltia also obtained the highest possible certification — Higher Level — under

the IFS HPC standard (International Featured Standard Household and Personal Care). Both standards establish measures that, directly or indirectly, improve consumer safety.

IFS HPC is used to audit companies which manufacture personal care and household products for large retailers, which then sell them to consumers under their own brand names (private label).

It is an internationally-recognized standard which ensures that IFS-certified companies deliver products that adhere to defined specifications with a view to continuously improving product safety and quality.

Very few companies in Spain or Europe have obtained this certificate; Zelnova Zeltia's certification evidences its commitment to developing high-quality innovative products and provides a clear competitive advantage over other manufacturers. The IFS certification is used by such large retail chains as Carrefour, Auchan, Aldi, Casino, Lidl, Leclerc, Metro, Migros, Wal-Mart and Coop.

In 2019 and 2018, no complaints posing a material risk for patient safety were received, and no products were withdrawn from the market.

D. Tax information

The PharmaMar Group prioritizes compliance with its obligations to pay the taxes which are due in each territory in accordance with the applicable regulations.

The PharmaMar Group paid a total of €365,376 in 2019 (€1,389,175 in 2018) in corporate income tax in the countries where it operates. Below is a breakdown of the tax paid, considering all income tax payments made in each country in 2018 on a cash basis, as well as payments on account of income taxes in 2019.

Earnings (before taxes) are detailed by country as indicated in the Notes to the Consolidated Financial Statements (Note 24. “Deferred taxes and income tax”).

	Profit (before taxes)	Corporate income tax prepaid on 2019 profit	Tax paid on 2018 profit	Income tax paid in 2019
Germany	442,580	-	68,540	68,540
Austria	20,919	18,361	-	18,361
Belgium	-13,348	2,939	-	2,939
China	-45,554	-	-	0
Spain	-22,744,393	-	-	0
France	99,694	-	-	0
United Kingdom	-26,302	-	-	0
Italy	514,080	272,068	-	272,068
Sweden	84,861	-	-	0
Switzerland	2,614	-	1,369	1,369
United States	11,486	1,292	806	2,099
Total	**-21,653,363**	**294,660**	**70,715**	**365,376**

Information on government grants is provided in the Consolidated Financial Statements (Note 21 “Current and non-current deferred revenues” and Note 31 “Other net income”). Grants received in 2019 amounted to €360,358.52.

The table below shows the content required by Act 11/2018, of 28 December, amending the Commercial Code, the consolidated text of the Capital Companies Act approved by Royal Decree

Act 1/2010, of 2 July, and Audit Act 22/2015, of 20 July, as regards non-financial information and diversity.

Requirements of Act 11/2018 in Connection with Non-Financial Disclosures and Diversity

SCOPE	CONTENT	MATERIAL ISSUE	CONSOLIDATION SCOPE	RELATED GRI STANDARDS	PAGES
UNIVERSAL					
Business model					
	Brief overview of the group's business model including: 1.) its business environment, 2.) its organization and structure, 3.) the markets in which it operates, 4.) its goals and strategies, 5.) the main factors and trends that might affect its future performance.	Yes	General	102-1 102-2 102-3 102-4 102-6 102-7	2-5
Policies					
	A description of the policies applied by the group to these matters, including: 1.) the due diligence procedures applied for identifying, assessing, preventing and mitigating material risks and impacts 2.) verification and control procedures, including the measures that have been adopted.	Yes	General	103 Management approaches in each sphere within the broad economic, environmental and social areas	5-6
Short-, medium- and long-term risks					
	The main risks relating to these matters linked to the group's activities including, when relevant and proportionate, its commercial relations, products or services that might have negative effects on these spheres	Yes	General	102-15	8-11
KPIs					
	Key indicators of non-financial performance relating to the specific business activity that meet the criteria of comparability, materiality, relevance and reliability.	Yes	General	General or specific GRI standards of the economic,	7-8

			environmental and social areas, reported in the following blocs		
ENVIRONMENTAL MATTERS					
Overall environmental					
1.) Detailed information on the current and foreseeable effects of the company's activities on the environment and, where applicable, on health and safety, assessment procedures or environmental certification; 2.) Resources devoted to the prevention of environmental risks; 3.) Application of the precautionary principle, the amount of provisions and guarantees for environmental risks.	Yes	General	103 Management approach in each sphere of the environmental area	12, 13, 17, 18	
Pollution					
1.) Measures to prevent, reduce or remedy carbon emissions that severely affect the environment; 2.) considering any kind of atmospheric pollution that is specific to an activity, including noise and light pollution.	Yes	General	103 Management approach to emissions / biodiversity	13, 18, 19	
	No		---		The impacts caused by the Group's activities are not material
Circular economy and waste abatement and management					
Circular Economy	Yes	General	103 Management approach to effluent and waste	14, 15, 19	
Waste: Measures to prevent, recycle, re-use, other waste recovery and abatement approaches.					
Actions to reduce food waste.	No		---		The impacts caused by the Group's activities are not material
Sustainable resource use					

	Water consumption and water supply in accordance with local limits.	Yes	General	303-1,	15, 19, 20
	Consumption of raw materials and measures adopted to use them more efficiently.			103, Management approach to materials 301-1, 301-2	
	Direct and indirect energy consumption, measures adopted to enhance energy efficiency and the use of renewable energies.			103 Management approach to energy 302-1 302-1	
	Climate change				
	The main greenhouse gas emissions generated as a result of the company's activities, including the use of the goods and services it produces.	Yes	General	103, Management approach to emissions 305-1, 305-2,	16, 20
	Measures adopted to adapt to the consequences of climate change.			103 Management approach to emissions	
	Voluntary medium- and long-term goals to reduce greenhouse gas emissions and the steps taken for that purpose.			103 Management approach to emissions	
	Protection of biodiversity				
	Measures adopted to preserve or restore biodiversity.	Yes	General	103	16.17.20
	Impact of activities/operations in protected areas.			304-2	
SOCIAL AND PERSONNEL MATTERS					
	Employment				

Total number of employees and distribution by gender, age, country and professional category.	Yes	General	103 Management approach to employment, 102-8 405-1	22, 23
Total number and distribution of employment contract types.			102-8	23, 24
Annual average of indefinite contracts, temporary contracts and part-time contracts by gender, age and professional category.			102-8, 405-1	23, 24
Number of terminations by gender, age and professional category.			401-1,	24
Average remuneration and comparative figures broken down by gender, age and professional category or equal value; wage gap, remuneration for equal jobs or average remuneration at the company.			103 Management approach to diversity and equal opportunities, 405-2	24, 25
Average remuneration for directors and executives, including variable remuneration, per diem expenses, indemnities, payments into long-term savings schemes and any other benefit, broken down by gender.			103 Management approach to diversity and equal opportunities	25, 26
Implementation of policies to foster disconnection from work.			103 Management approach to employment	27
Employees with disabilities.			405-1	27
Work organization				
Organization of working hours.	Yes	General	103 Management approach to employment	27
Number of hours of absenteeism.			403-2	28
Measures aimed at facilitating work-life balance and encouraging both parents to share the responsibility in this area.			103 Management	27

			approach to employment	
Health and safety.				
Occupational health and safety conditions.	Yes	General	103 Management approach to occupational health and safety	28, 29
Workplace accidents, in particular their frequency and severity, Occupational diseases, broken down by gender.			403-2, 403-3	29
Relations with employees				
Organization of social dialogue, including procedures to inform and consult with staff and negotiate with them;	Yes	General	103 Management approach to labor relations	29, 30
Percentage of employees covered by collective bargaining agreements, by country;			102-41	29
Outcome of collective bargaining agreements, especially in the field of occupational health and safety.			403-1	29
Training				
Training policies implemented;	Yes	General	103 Management approach to training and education	30
Total number of training hours by professional category.			404-1	30
Universal access for persons with disabilities		General	103 Management approach to diversity, equal opportunities and non-discrimination	31
Equality				

	Measures adopted to foster equal treatment and equal opportunities between men and women;	Yes	General	103 Management approach to diversity and equal opportunities	31
	Equality Plans (Chapter III of Organic Act 3/2007, of 22 March, concerning effective equality between men and women), measures adopted to promote employment, protocols to combat sexual and gender-based harassment, integration and universal accessibility of persons with disabilities;				31
	The policy against all kinds of discrimination and the policy on managing diversity, if any.				31
HUMAN RIGHTS					
	Due diligence in connection with human rights. Avoidance of the risk of human rights violations, and measures to mitigate, manage and remedy any abuses that occur.	Yes	General	103 Management approach to the evaluation of human rights and non-discrimination, 102-16, 102-17	32
	Reports of human rights violations.			406-1	32
	Promotion of and compliance with the provisions of the fundamental conventions of the International Labour Organisation in connection with freedom of association and the right to collective bargaining.			407-1	32
	The elimination of discrimination in respect of employment and occupation.			103 Management approach to non-discrimination 406-1	32
	The elimination of forced or mandatory labor.			409-1	32
	The effective abolition of child labor.			408-1	32
CORRUPTION AND BRIBERY					
	Measures adopted to prevent corruption and bribery.	Yes	General	103 Management approach to non-	33

				discrimination, 102-16	
	Anti-money laundering measures.	No		---	33 The impacts caused by the Group's activities are not material
	Contributions to foundations and non-profit entities.	Yes		413-1	33, 34
SOCIETY					
	The company's commitments to sustainable development				
	The impact of the company's activity on local development and employment.	Yes	General	103 Management approach to local communities and indirect economic impacts, 203-1, 413-1	35-37
	The impact of the company's activity on local communities and the territory.			203-1, 413-1	35-37
	Relations with agents in the local communities and the forms of engagement with them.			102-43	35-37
	Association or sponsorship actions.	Yes		102-12, 102-13	35-37
	Outsourcing and suppliers				
	* Inclusion of social, gender equality and environmental factors in the procurement policy; * Consideration of suppliers' and subcontractors' social and environmental responsibility.	Yes	General	102-9, 103 Management approach to procurement practices 204-1	37-40
	Audit and supervisory systems and their outcome.			103 Management approach to procurement practices	38-39
	Consumers				

Consumer health and safety metrics.	Yes	General	103 Management approach to customers' health and safety, marketing and labeling and customer privacy	40-42
Grievance mechanisms, complaints and outcomes.			103, 417-2	40-42
Tax information				
Profit breakdown by country Income tax paid	Yes	General	103 Management approach to economic performance	43
Public subsidies received			201-4	43

Annex 1

Full list of material issues for the PharmaMar Group

	Material issues
8	Product safety and quality
7	Patient/customer safety and welfare
9	Respect for the laws, regulations and industrial codes applicable to the PharmaMar Group.
11	Employee health and safety
2	Safeguarding and patentability of findings
1	Commitment to research into new products
29	Accounting and reporting obligations
30	Tax obligations
24	The PharmaMar Group's image and reputation.
15	Environment and sustainable development.
5	Technology and knowledge management.
3	Licenses and marketing agreements.
22	Relations with public authorities and governments.
21	Transparency in relations with investors and shareholders.
14	Responsible use of resources.
13	Professional development and attracting talent.
23	Corruption and bribery.
27	Confidentiality.
4	Managing the product portfolio.
28	Personal data protection.
17	Emissions deriving from the production processes
25	Conflicts of interest, and loyalty to the PharmaMar Group.
6	Strategic alliances (universities, research centers, etc.)
10	Respect for people.
18	Waste management
12	Employee training
20	Relations with contractors, suppliers and the market.
26	Formal framework for risk control and compliance (whistleblower channel and response)
16	Energy management and climate change
19	Water management

SEPARATE DISCLOSURES CONCERNING THE CONSOLIDATED NON-FINANCIAL INFORMATION STATEMENT (ART. 49.7 OF SPAIN'S COMMERCIAL CODE) FOR THE YEAR ENDED 31 DECEMBER 2019, FORMING PART OF THE DIRECTORS' REPORT OF THE PHARMA MAR GROUP FOR THAT YEAR

In compliance with the provisions of articles 34, 44 and 49 of the Commercial Code and articles 253 and 254 of the Capital Companies Act, this separate report concerning the consolidated non-financial information statement for the period from 1 January to 31 December 2019, as referred to in article 49.7 of the Commercial Code, is drafted and authorized as part of the Directors' Report of the PharmaMar Group for the period from 1 January to 31 December 2019.

In accordance with the provisions of the Commercial Code and the Capital Companies Act, the Board of Directors signed this 52-page document on 26 February 2020.

The Board of Directors:

José Mª Fernández Sousa-Faro Chairman	Pedro Fernández Puentes Vice-Chairman
Carlos Pazos Campos 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	Ana Palacio Vallelersundi Director
Montserrat Andrade Detrell Director	Valentín de Torres-Solanot del Pino Director
Mª Blanca Hernández Rodríguez Director	

Certificate by the Secretary to the Board of Directors to certify that, following the authorization by the members of the Board of Directors in its meeting of 26 February 2020 of the separate report concerning the consolidated non-financial information statement for the period from 1 January to 31 December 2019, as referred to in article 49.7 of the Commercial Code, as part of the Directors' Report of the PharmaMar Group for the period from 1 January to 31 December 2019, the directors listed above signed this document on the first and last page hereof. Which I certify in Madrid on 26 February 2020.

Secretary of the Board of Directors

Juan Gómez Pulido

STATEMENT OF RESPONSIBILITY FOR THE CONTENT OF THE ANNUAL FINANCIAL REPORT

The members of the Board of Directors hereby declare that, to the best of their knowledge and belief, the separate and consolidated financial statements for the year ended 31 December 2019, authorized by the Board of Directors at a meeting on 26 February 2020. and drawn up in accordance with the applicable accounting standards, provide a true and fair view of the net worth, financial position and results of PHARMA MAR, S.A. and its consolidated dependent companies taken as a whole, and that the separate and consolidated directors' reports contain an accurate analysis of the business performance and results and the position of PHARMA MAR, S.A. and its consolidated dependent companies, taken as a whole, with a description of the main risks and uncertainties that they face.

Madrid, 26 February 2020

The Board of Directors:

Name	ID number	Position	Signature
José María Fernández Sousa-Faro		Chairman	
Pedro Francisco Fernández Puentes		Vice-Chairman	
Eduardo Serra y Asociados, S.L. (Represented by Eduardo Serra Rexach)		Director	
ROSP CORUNNA Participaciones Empresariales, S.L. (Represented by José Leyte Verdejo)		Director	
Carlos Solchaga Catalán		Director	
Ana Palacio Vallelersundi		Director	
Montserrat Andrade Detrell		Director	
Valentin de Torres- Solanot del Pino		Director	
José Félix Pérez-Orive		Director	
Mª Blanca Hernández Rodríguez		Director	
Carlos Pazos Campos		Director	

Certificate raised by the Secretary of the Board of Directors to state that, following the formulation by the members of the Board of Directors at the meeting held on 26 February 2020 of the Consolidated Annual Accounts and the Consolidated Management Report of PHARMA MAR, S.A., corresponding to the financial year ending on 31 December 2019, the Directors listed above have proceeded to sign this document of Declaration of Responsibility of the Directors by affixing their signature, as to which I hereby attest, in Madrid on 26 February 2020.

Secretary of the Board of Directors

Juan Gómez Pulido