

***Auditors' Report,
Financial Statements
and Management Report
for 2003***

Pharma Mar, S.A. (Sociedad Unipersonal)



| | |
|-----------------------------|-----------|
| Letter from the Chairman | 4 |
| Auditors' Report | 6 |
| Certificate | 8 |
| Company Directors | 9 |
| Financial Statements | |
| Balance Sheet | 10 |
| Income Statement | 11 |
| Financial Statements | 12 |
| Management Report | 43 |



Dear shareholders,

I am pleased to present PharmaMar's annual report for 2003.

Before discussing the company's performance during 2003, I would like to comment on PharmaMar's commitment to research and development in search of new ways of treating cancer, a set of diseases for which we are still quite far from a satisfactory solution for patients.

As 2003 began, our company, which focuses on biopharmaceuticals in oncology by discovering and developing innovative drugs of marine origin, was working towards a European registration for Yondelis™, the product that is most advanced in clinical trials, with a view to obtaining a positive opinion from the Committee for Proprietary Medicinal Products (CPMP) at the European Medicines Evaluation Agency (EMA). In 2001, Yondelis had obtained Orphan Drug Designation for the treatment of soft-tissue sarcoma (STS) from the EMA's Committee for Orphan Medicinal Products. Yondelis is the first new drug in 20 years that is active against STS, a rare form of cancer that is difficult to treat and has a high mortality rate. However, on 24 July 2003, the CPMP recommended against approval being granted to market Yondelis for STS.

With the support of European and American oncologists who are experts in sarcoma, PharmaMar believed that the data it had presented confirmed the security and efficacy of Yondelis against advanced STS and proved the compound's beneficial therapeutic effects on patients who have no other therapeutic option. Accordingly, we decided to appeal the opinion, based firmly on Yondelis's proven benefits for people with that disease. The appeal concluded on 21 November, when the CPMP announced its decision to reject the appeal. The vote inside the CPMP was very close: of the 30 members, 12 voted in favor and 14 against. In order to issue a positive recommendation, there must be at least 16 votes in favor.

I would like to reiterate my confidence in Yondelis. Although the drug's launch date has been set back, the prospects of registration for other types of tumors and PharmaMar's strategy in the medium and long term remain unchanged. In fact, PharmaMar has implemented a plan to rationalize investments and enable us to maintain progress with our compounds until Yondelis reaches the market. In order to optimize our resources, we have given priority to compounds at more advanced stages of clinical or pre-clinical development. I would also like to highlight the good progress made in 2003 under the Co-Development Plan with Johnson & Johnson for Yondelis, which encompasses numerous phase I and phase II clinical trials in both the US and Europe.

Letter from the Chairman

In addition to Yondelis, PharmaMar currently has three other products at various phases of clinical development. In July, Aplidin (currently Phase II) obtained orphan drug designation for acute lymphoblastic leukemia (ALL). This drug has demonstrated a good safety and activity profile in Phase II trials for several solid tumors and pre-clinical studies on various types of leukemia and lymphoma. Kahalalide F entered Phase II trials for hepatocellular carcinoma after showing very good levels of tolerance in Phase I trials to date. Our fourth compound, ES-285, entered Phase I in the first half of 2003 and is undergoing trials for advanced solid tumors to determine optimal administration patterns.

Within the next twelve months, PM10450 will enter clinical trials, thus fulfilling the Company's commitment to bring at least one new compound into clinical trials at least every two years. Our pipeline of novel molecules in pre-clinical trials guarantees a steady flow into clinical development.

This year, once again, I would like to acknowledge our management team and all the people at PharmaMar, whose commitment, motivation and professionalism are vital to the success of our project and our company.



A free translation of an auditors' report originally issued in Spanish. In the event of a discrepancy, the Spanish language version prevails.

PricewaterhouseCoopers

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AUDITORS' REPORT ON FINANCIAL STATEMENTS

To the Shareholders of Pharma Mar, S.A.

1. We have audited the financial statements of Pharma Mar, S.A., consisting of the balance sheet as at 31 December 2003, the statement of income and the notes to the financial statements for the year then ended, the preparation of which is the responsibility of the directors of the Company. Our responsibility is to express an opinion on those financial statements taken as a whole, based on work performed in accordance with auditing standards generally accepted in Spain, which require the examination, by selective tests, of the evidence supporting the financial statements and the evaluation of their presentation, the accounting principles applied and the estimates made.
2. In accordance with Spanish mercantile legislation, the directors of the Company have included the figures for 2002 relating to each item in the 2003 balance sheet, statement of income and statement of source and application of funds, for the purposes of comparison. Our opinion refers solely to the 2003 financial statements. On 26 March 2003, we issued our auditors' report on the 2002 financial statements, in which we expressed a favorable opinion.
3. As explained in Notes 3.b) and 5.a), in 2003 the corresponding European authorities recommended against granting initial authorization to market ET-743 Yondelis™, the product that is at a most advanced stage of development among those being developed by the Company, for one of its therapeutic uses. For this reason, the Company amortized the development expenses relating to that therapeutic use which it had previously capitalized, while maintaining capitalized the other expenses incurred in developing the drug for other therapeutic uses which are still in development. As described in Note 1, as at 31 December 2003, and as in previous years, the activity of Pharma Mar, S.A. consisted essentially of the development of bio-active principles, in the lines of research detailed in Note 5, and it did not yet have any product on the market. Accordingly, the recoverability of the aforementioned development expenses and the other expenses capitalized by the Company and incurred in the development of its other products will depend on the favorable performance of the projects currently under way.

Auditors' Report

4. In our opinion, the accompanying financial statements for the year 2003 give, in all material respects, a true and fair view of the net worth and financial position of Pharma Mar, S.A. as at 31 December 2003 and the results of its operations and the funds it obtained and applied in the year then ended and contain the necessary and sufficient information for an adequate interpretation and understanding and have been prepared in accordance with the accounting principles and standards generally accepted in Spain and applied on a basis consistent with those used in the preceding year.

5. The accompanying directors' report for the year 2003 contains such explanations on the state of Pharma Mar, S.A.'s affairs, the development of its business and other matters as the directors consider appropriate and does not form an integral part of the financial statements. We have verified that the financial information contained in the directors' report matches the 2003 financial statements. Our work as auditors is limited to checking the directors' report with the scope described in this paragraph and does not include the verification of information not derived from the Company's accounting records.

PricewaterhouseCoopers Auditores, S.L.

Original in Spanish signed by

Carlos Canela

Partner - Auditor

30 March 2004



Certificate by the Secretary to the effect that, after formulation by the Board of Directors on 22 March 2004 of the Financial Statements and Management Report of PHARMA MAR, S.A. (Sociedad Unipersonal) for the year ended 31 December 2003, all of the Directors signed this document and placed their signatures on the Balance Sheet, the Income Statement and the first page of the document, which I certify in Madrid on 22 March 2004.

Sebastián Cuenca Miranda
Secretary of the Board of Directors

Company Directors

Chairman and President:

José María Fernández Sousa-Faro

Vice-Chairman and

Vice-President:

Pedro Fernández Puentes

Directors

Claudio Matons

José Félix Pérez Orive

Javier Rodríguez Segovia

Stan Kaye

Carlos Cuervo-Arango Martínez

Secretary (not a director)

Sebastián Cuenca Miranda

Balance sheets

as of 31 December 2003 and 2002 (Thousands of Euros)

| Assets | 2003 | 2002 |
|---|----------------|----------------|
| Fixed and other non-current assets | 208,281 | 166,491 |
| Start-up expenses | 263 | 455 |
| Intangible assets | 165,180 | 128,042 |
| Tangible fixed assets | 34,509 | 29,167 |
| Financial investments | 8,329 | 8,827 |
| Deferred charges | 22 | 151 |
| Current assets | 28,266 | 27,027 |
| Accounts receivable | 20,795 | 11,713 |
| Short-term investments | 5,322 | 15,094 |
| Cash | 2,069 | 21 |
| Accrual adjustments | 80 | 199 |
| Total | 236,569 | 193,669 |

Thousands of Euros

| Liabilities | 2003 | 2002 |
|---------------------------------------|----------------|----------------|
| Shareholders' equity | 98,718 | 120,003 |
| Subscribed capital stock | 69,805 | 69,805 |
| Share premium | 59,675 | 59,675 |
| Reserves | 906 | 906 |
| Prior years' losses | -10,383 | -6,461 |
| Loss for the year | -21,285 | -3,922 |
| Deferred revenues | 266 | 430 |
| Long-term debt | 25,111 | 21,202 |
| Due to credit institutions | 14,774 | 16,895 |
| Other debt | 10,257 | 4,307 |
| Uncalled capital | 80 | - |
| Current liabilities | 112,474 | 52,034 |
| Due to credit institutions | 26,736 | 19,123 |
| Due to Group and Associated Companies | 72,467 | 11,412 |
| Trade accounts payable | 10,682 | 19,567 |
| Other non-trade debt | 2,561 | 1,904 |
| Operating provisions | 28 | 28 |
| Total | 236,569 | 193,669 |

Thousands of Euros

Income Statements

for the years ended 31 December 2003 and 2002 (Thousands of Euros)

| Expenses | 2003 | 2002 |
|---------------------------------------|-------------|-------------|
| Purchases | 10,309 | 10,368 |
| Personnel expenses | 15,834 | 11,984 |
| Period depreciation and amortization | 12,829 | 2,469 |
| Variation in operating provisions | 184 | 169 |
| Other operating expenses | | |
| Outside services | 39,131 | 31,697 |
| Taxes other than corporate income tax | 366 | 114 |
| Income before taxes | 62 | 97 |

Thousands of Euros

| Revenues | 2003 | 2002 |
|--------------------------------------|---------------|--------------|
| Net sales | | |
| Sales | 674 | - |
| Services provided | 182 | 607 |
| Capitalized in-house work | 47,254 | 42,119 |
| Other operating revenues | | |
| Ancillary and other current revenues | 1,908 | 5,963 |
| Operating subsidies | 17 | 4 |
| Operating loss | 28,618 | 8,108 |
| Financial loss, net | 4,067 | 963 |
| Loss on ordinary activities | 32,685 | 9,071 |
| Loss before taxes | 32,623 | 8,974 |
| Corporate income tax | -11,338 | -5,052 |
| Loss for the year | 21,285 | 3,922 |

Thousands of Euros



1 Company business

The main activity of Pharma Mar, S.A. (Sociedad Unipersonal) (hereinafter, PharmaMar or the Company) 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. At year-end, with the exception of sales of one of its drugs in development for authorized compassionate use, the Company had not yet commenced marketing the products of its business, all of which were at the development phase.

On 15 January 2003, the Company changed its corporate domicile to the new facilities in Avenida de los Reyes, número 1 (Polígono Industrial La Mina – Norte), Colmenar Viejo (Madrid).

2 Basis of presentation

A True and fair view

The financial statements, which were prepared from the Company's accounting records, are presented in accordance with current mercantile legislation and with the Spanish National Accounting Plan in order to give a true and fair view of the Company's net worth, financial position and earnings. The figures contained in the documents comprising these financial statements (the Balance Sheet, the Income Statement and the Notes to the Financial Statements) are expressed in thousands of euros.

B Grouping of items

For ease of comprehension, the balance sheet and income statement are presented in grouped form, and the required breakdown is given in these notes to the financial statements.

C Consolidated financial statements

The accompanying individual financial statements are not consolidated with those of the subsidiaries in which the Company has a majority interest because the Company has availed itself of the exemption provided by article 8 of Royal Decree 1815/1991, dated 20 December. The differences in income and equity arising from consolidating the accounts are not material.

D Going concern

At 31 December 2003, the Company had negative working capital. Nevertheless, the parent company (Zeltia, S.A.) has undertaken to continue supporting the Company financially, so that it may dispose of its assets and honor its liabilities whenever these mature and are claimable in the normal course of its operations. Zeltia, S.A. has also undertaken to continue financing the Company's capitalized development projects until they are completed.

Financial Statements

as of 31 December 2003 and 2002

3 Accounting principles

A Start-up expenses

Incorporation, pre-opening and capital increase expenses are recorded at cost, net of amortization, which is taken on a straight-line basis over five years.

B Intangible assets

Intangible assets are carried at acquisition or production cost and are amortized on a straight-line basis.

Development project expenses are capitalized from the year in which they are incurred and while the following conditions persist:

- There is a specific itemized project for each development activity.
- Criteria are established for assignment, allocation and recognition of the costs of each project.
- There are sound reasons for expecting technical, financial and commercial success of each project.
- Finance is assured to complete each project.

Development projects are stated at acquisition cost, if outsourced, or at production cost, if carried out in-house. The production cost comprises personnel, material and services expenses pertaining directly to the projects plus the portion of indirect costs which is reasonably allocable to them.

If the circumstances under which a development project was capitalized change, the unamortized portion is transferred to income in that period.

As explained in note 5 a), in 2003, the relevant European authorities recommended that initial authorization to market ET-743-Yondelis™ for one of its indications be refused. However, the Company's directors do not believe that this decision constitutes a definitive rejection with regard to eventual marketing authorization for this indication; therefore, as they believe that said authorization will eventually be obtained, the Company will continue the required development activities.

Nevertheless, since the aforementioned decision highlighted the existence of doubt on the part of the authorizing body with regard to the indication, the Company's directors decided to amortize in the year all costs directly incurred in its development, as well as a proportion of the common costs incurred in developing ET-743-Yondelis™ for all indications. In order to calculate the proportion attributable to the indication to be amortized, the directors applied a ratio to all common costs for developing ET-743-™™ for all indications, which they obtained by dividing the initial sales estimates for the specific indication by the initial sales estimates of the drug for all its indications.

The Company's directors do not believe that the aforementioned decision will alter the possibilities of approval of ET-743-Yondelis™ for its other indications, for which there are sound reasons for expecting technical, financial and commercial success. For this reason, the Company continues to capitalize the development costs incurred for all indications other than the specific indication affected by the European authority's decision.



Capitalizable expenses on development projects are recorded under Research and Development Expenses until completion of the project. Finished projects which give rise to intellectual property are recorded as such; otherwise, as Development Expenses.

Capitalized development expenses are amortized according to a specific systematic plan for each project, commencing in the year in which the project is completed and extending over the period in which it generates revenues, but not more than five years.

Leased assets are recorded under the related intangible asset item when the lease conditions indicate that they are capitalizable, and they are amortized on the basis of the estimated useful life using the rates indicated for similar tangible fixed assets. The financial expenses on the transaction are taken to income over the term of the contract, based on the interest method.

Software applications are booked at their acquisition price and are amortized linearly over a five year period.

C Tangible fixed assets

Tangible fixed assets are carried at acquisition or production cost and are depreciated on a straight-line basis over their estimated useful lives using the following coefficients:

| | Years | % |
|---------------------------------------|--------------|----------|
| Buildings and structures | 30 | 3.33 |
| Technical installations and machinery | 10 | 10 |
| Transport equipment | 7 | 14 |
| Furniture and fittings | 10 | 10 |
| Data processing equipment | 7 | 14 |

The costs of improvements leading to a lengthening of the useful lives of the assets are capitalized. Maintenance costs are expensed as incurred. Retirements and disposals are recorded by relieving the cost of the asset and its related accumulated depreciation from the books.

D Financial investments

Financial investments are carried at the lower of cost or market value. The market price of each category of financial investment is determined as follows:

i) Holdings in Group and Associated companies:

At the underlying book value of the holdings, adjusted by the amount of the unrealized gains disclosed at the time of the acquisition and still existing at the balance sheet date. Provisions are recorded on the basis of each investee's equity.

ii) Other securities:

- Listed securities: at the lower of average market price in the last quarter or year-end market price.
- Unlisted securities: based on the underlying book value per the latest available financial statements.

E Foreign-currency balances and transactions

Foreign currency payables and receivables are recorded at the year-end exchange rate. Foreign currency transactions are recorded in the income statement at the exchange rate applicable on the transaction date. All losses (whether realized or not) and realized gains are taken to income; unrealized gains are recorded as deferred revenues and are recognized when realized.

F Short-term financial investments

Short-term financial investments are recorded at the lower of acquisition cost or market value. The market value is established using the same criteria as for financial investments.

G Termination indemnity

In accordance with current labor regulations, the Company is obliged to pay an indemnity to employees, under set conditions, on termination of employment. Termination indemnities which are material shall be registered as expenses in the year the termination decision is adopted and communicated. At year-end, Company Management had not adopted or communicated any pending termination decisions and, consequently, no provision was made under this item in the accompanying balance sheet as at 31 December 2003.

H Corporate income tax

Corporate income tax is recorded as a period expense and is calculated on the basis of income before taxes per the financial statements, adjusted for permanent differences with respect to tax criteria and taking account of applicable tax rebates and credits. Deferred or prepaid taxes arising from timing differences due to the application of tax criteria in the recognition of revenues and expenses are carried on the balance sheet until they are released.

Tax rebates and credits are recognized as a reduction in the tax expense in the year to which they apply. The tax effect of tax loss carryforwards is recorded when the losses are incurred provided that their future realization is reasonably assured.

The liability for deferred taxes is fully provisioned even where reversal is not immediately foreseeable. This provision is adjusted to reflect any changes in the corporate income tax rate. Prepaid taxes are only recognized as assets if their future realization is reasonably assured within a period of at most 10 years, or in more than 10 years if there are offsetting deferred taxes.



The Company files corporate income tax returns along with the controlling company, Zeltia, S.A., and other companies in its group. Accordingly, the corporate income tax settlement is made on a tax consolidated basis.

It is consolidated group policy to book the tax expense in its individual balance sheets in accordance with the ICAC (Spanish Accounting and Audit Institute) resolution dated 9 October 1997.

I Subsidies

The refundable subsidies received are recorded at the amount granted as long-term debt if they have to be repaid in over one year, or as current liabilities if they have to be repaid in under one year. When the conditional subsidies received become non-refundable, the amount is recorded in the subsidies item. Subsidies are classified as non-refundable if the conditions established for granting are met or if there are no reasonable doubts that they will be met in the future. Unconditional (i.e. non-refundable) subsidies received are credited directly to the “capital subsidies” item.

Capital subsidies are allocated to income in proportion to the depreciation taken in the period on the assets they finance.

Operating subsidies are taken to income for the year.

J Accounts payable

Long-term debt and current liabilities are recorded at their repayment value; any implicit interest included in the face or repayment value is booked under deferred charges and recognized under the interest method.

K Revenues and expenses

Revenues and expenses are recognized on an accrual basis, i.e. when the actual flow of the related goods and services occurs, regardless of when the resulting monetary or financial flow arises.

However, in accordance with the prudence principle, the Company only records realized income at year-end, whereas foreseeable contingencies and possible losses arising in the current year or in prior years are recorded as soon as they become known.

Taking account of the conditions of the agreement signed by the Company in 2001 and mentioned in note 16 c), in the absence of legislation in Spain to cover these complex transactions, the Company has applied the following accounting method to book the contra items envisaged in the aforementioned contract, based on an interpretation of current legislation, and this method is believed to fully conform to the true and fair view principle:

- The upfront payment for the development costs incurred by PharmaMar, S.A. until the date of the agreement in 2001 was treated as a revenue in the year in which it was made and the related development costs were charged to expenses in the same year.
- The subsequent payments established in the agreement, excluding royalties and production margins, are recognized based on the degree of progress of the development activities stated in the agreement, with the

maximum limit of the amounts actually collected until that date. Since development costs after the signature of the agreement are deemed to be paid proportionally by the two parties, the subsequent payments are deemed to be substantially free of material assignable costs.

- Research and development expenses paid exclusively by PharmaMar are capitalized in accordance with the conditions established in the Spanish National Accounting Plan until marketing commences, for an accumulated amount that may not, in any event, exceed the amount expected to be recouped in the future through marketing the product (note 3-b).
- Future royalties and production margins will be recognized on an accrual basis.

L Environment

The long-term assets used by the Company in its activities which are aimed mainly at minimizing the environmental impact and at protecting and improving the environment are capitalized in the corresponding tangible fixed assets item at their acquisition or production cost and are depreciated on the basis of their estimated useful life using the coefficients indicated for similar tangible fixed assets.

Environmental expenses arising from the aforementioned activities are treated as operating expenses in the year in which they accrue and as extraordinary expenses when they fall outside the Company's normal activity.

An environmental provision is recorded for expenses arising in the year or previous years, or, when at year-end, they are likely or certain but the amount and date have not been determined. A provision for environmental actions is also recorded for the Company's legal or contractual obligations or its commitments to prevent and undo environmental damage.

4 Start-up expenses

The variations in the start-up expenses items in 2003 and 2002 are as follows:

| | Capital increase expenses | Total |
|------------------------------|--------------------------------------|--------------|
| Starting balance 2002 | 661 | 661 |
| Amortization | -206 | -206 |
| Closing balance 2002 | 455 | 455 |
| Amortization | -192 | -192 |
| Closing balance 2003 | 263 | 263 |

Thousands of Euros



Capital increase expenses

Capital increase expenses include mainly attorneys', notaries' and registrars' fees, taxes other than income tax and other items incurred in capital increases.

| Capital increase date | Net book value | |
|-----------------------|----------------|------------|
| | 2003 | 2002 |
| 1998 | – | 3 |
| 1999 | 17 | 83 |
| 2001 | 246 | 369 |
| | 263 | 455 |

Thousands of Euros

5 Intangible assets

The variations in the intangible assets accounts in 2003 and 2002 are as follows:

| | Research and development | Computer software | Lease rights | Total |
|------------------------------|-------------------------------------|------------------------------|-------------------------|----------------|
| Cost | | | | |
| Starting balance 2002 | 95,448 | 229 | 2,478 | 98,155 |
| Additions | 42,119 | 512 | – | 42,631 |
| Transfers | – | – | -374 | -374 |
| Closing balance 2002 | 137,567 | 741 | 2,104 | 140,412 |
| Additions | 47,254 | 144 | 395 | 47,793 |
| Transfers | – | – | -2,104 | -2,104 |
| Closing balance 2003 | 184,821 | 885 | 395 | 186,101 |
| Amortization | | | | |
| Starting balance 2002 | 9,321 | 71 | 1,433 | 10,825 |
| Provisions | 1,453 | 80 | 125 | 1,658 |
| Transfers | – | – | -113 | -113 |
| Closing balance 2002 | 10,774 | 151 | 1,445 | 12,370 |
| Provisions | 9,798 | 160 | 134 | 10,092 |
| Transfers | – | – | -1,541 | -1,541 |
| Closing balance 2003 | 20,572 | 311 | 38 | 20,921 |
| Net Book Value | | | | |
| Starting balance 2002 | 86,127 | 158 | 1,045 | 87,330 |
| Closing balance 2002 | 126,793 | 590 | 659 | 128,042 |
| Closing balance 2003 | 164,249 | 574 | 357 | 165,180 |

Thousands of Euros

A Research and development

Capitalized research and development expenses relate to the following projects:

| Project | 2003 | | | 2002 | | |
|------------------------------|----------------|----------------|----------------|----------------|----------------|----------------|
| | Cost | Accum. amort. | Net | Cost | Accum. amort. | Net |
| Performance in-house: | | | | | | |
| Antitumor | 180,601 | -19,119 | 161,482 | 133,399 | -9,321 | 124,078 |
| Antimalarial | 2,767 | - | 2,767 | 2,715 | - | 2,715 |
| Immunosuppressors | 858 | -858 | - | 858 | -858 | - |
| Antiviral | 595 | -595 | - | 595 | -595 | - |
| Total | 184,821 | -20,572 | 164,249 | 137,567 | -10,774 | 126,793 |

Thousands of Euros

On 24 July 2003, the Committee for Proprietary Medicinal Products (CPMP) of the European Medicines Evaluation Agency (EMA) recommended that initial authorization to market ET-743-Yondelis™ for the treatment of advanced soft tissue sarcoma be refused. This decision was confirmed by the CPMP on 20 November 2003; it affects only advanced soft tissue sarcoma in the European Union.

The Company's directors do not believe that this decision constitutes a definitive rejection of future marketing authorization for this indication; however, any authorization would be subject to presentation of further evidence by the Company. For this reason, since the directors believe that marketing authorization will be obtained in the future, the Company continues to develop ET-743-Yondelis™ for the treatment of advanced soft tissue sarcoma.

Nevertheless, as the decision highlights doubts on the part of the CPMP with regard to the viability of ET-743-Yondelis™ in the treatment of advanced soft tissue sarcoma, the Company's directors decided to amortize the sum of 9.798 million euros in the year. This sum corresponds to capitalized costs pending amortization relating to all development costs directly incurred in the development of this indication in the European Union, as well as a proportion of the common costs incurred in the development of ET-743-Yondelis™ for all indications, which is calculated using the criteria indicated in note 3b).

As explained in note 3b), the directors do not believe that the CPMP's decision will affect the other indications of ET-743-Yondelis™ currently in development and for which application for marketing authorization has yet to be made. The directors believe there are sound reasons for expecting technical, financial and commercial success for these indications; therefore, costs incurred in their development will continue to be capitalized.

In 2002, the Company amortized 826 thousand euros for immunosuppressor projects and 577 thousand euros for antiviral projects since those projects were halted in 2002. The Company has not yet made any decision about whether to continue with them in the future or sell the intangible assets related to them.

In 2001, the Company amortized 9,321 thousand euros as the portion of expenses incurred in prior years that is deemed to have been repaid as a result of the licensing agreement described in note 16 c).

The Company has not yet begun to amortize its other lines of development since none of the projects have concluded. All the lines of activity meet the requirements indicated in note 3.b). To date, the Company has not completed development of any product.

B Retirement of assets acquired under financial leases

At 31 December 2002, the Assets acquired under financial lease caption included the land and buildings at Tres Cantos, held by the Company under a lease-back agreement. In 2003, payments totaling 154 thousand euros were made and, in December 2003, the purchase option envisaged in the aforementioned agreement was exercised for 723 thousand euros (including VAT and cancellation fees), by which ownership of said assets passed to the Company, free of all liens and encumbrances. Accordingly, the Company booked 563 thousand euros under tangible fixed assets, representing the net book value of the aforementioned assets at the date of exercise of the purchase option.

At 31 December 2003, the Intangible Assets–Lease rights caption contains the remaining assets under financial lease:

| | | | | Payments in year | | Outstanding payments |
|---------------|----------------------|-------------|------------------------------|-------------------------|--------------------------|-----------------------------|
| | Contract term | Cost | Purchase option value | 2003 | 2002 and previous | 31.12.2003 |
| NMR equipment | 5 years | 426 | 8 | 69 | - | 357 |
| | | 426 | 8 | 69 | - | 357 |

Thousands of Euros

6 Tangible fixed assets

The variations in the Tangible fixed assets accounts in 2003 and 2002 are as follows:

| | Land and buildings | Technical installations and machinery | Other installations, tools and furniture | Construction in progress | Other tangible fixed assets | Total |
|------------------------------|---------------------------|--|---|---------------------------------|------------------------------------|---------------|
| Cost | | | | | | |
| Starting balance 2002 | 1,404 | 3,926 | 2,211 | 6,891 | 723 | 15,155 |
| Additions | - | 1,069 | 80 | 15,803 | 359 | 17,311 |
| Retirements/reductions | - | -1 | -4 | - | -4 | -9 |
| Transfers | - | 231 | 100 | - | - | 331 |
| Closing balance 2002 | 1,404 | 5,225 | 2,387 | 22,694 | 1,078 | 32,788 |
| Additions | 1,245 | 1,353 | 1,973 | 3,175 | 334 | 8,080 |
| Retirements/reductions | -715 | -62 | - | - | -11 | -788 |
| Transfers | 17,453 | 238 | 9,906 | -25,869 | 376 | 2,104 |
| Closing balance 2003 | 19,387 | 6,754 | 14,266 | - | 1,777 | 42,184 |
| Depreciation | | | | | | |
| Starting balance 2002 | 5 | 1,821 | 905 | - | 223 | 2,954 |
| Provisions | 5 | 313 | 185 | - | 102 | 605 |
| Retirements/reductions | - | - | -6 | - | -2 | -8 |
| Transfers | - | 70 | - | - | - | 70 |
| Closing balance 2002 | 10 | 2,204 | 1,084 | - | 323 | 3,621 |
| Provisions | 482 | 488 | 1,306 | - | 269 | 2,545 |
| Retirements/reductions | -12 | -14 | - | - | -6 | -32 |
| Transfers | 1,541 | - | - | - | - | 1,541 |
| Closing balance 2003 | 2,021 | 2,678 | 2,390 | - | 586 | 7,675 |
| Net Book Values | | | | | | |
| Starting 2002 | 1,399 | 2,105 | 1,306 | 6,891 | 500 | 12,201 |
| Closing 2002 | 1,394 | 3,021 | 1,303 | 22,694 | 755 | 29,167 |
| Closing 2003 | 17,366 | 4,076 | 11,876 | - | 1,191 | 34,509 |

Thousands of Euros

In September 2003, the Company sold one of the land lots in Tres Cantos (calle Calera 8) for 1.043 million euros (including VAT).

In October 2003, the Company received a deposit of 108 thousand euros as a guarantee on the sale of a second lot adjacent to the aforementioned lot. This sale was completed in January 2004 for 1.180 million euros (including VAT) at which time the Company retired the asset and booked the corresponding income.

On 1 January 2003, the Company received the final construction certification for its new building and installations in Colmenar Viejo, pending at 31 December 2002.

A Assets acquired from Group and Associated companies

The assets acquired from Group and Associated companies in the years ended 31 December 2003 and 2002 are as follows:

| | 2003 | | | 2002 | | |
|--|-------------|---------------------------------|-----------------------|-------------|---------------------------------|-----------------------|
| | Cost | Accumulated depreciation | Net book value | Cost | Accumulated depreciation | Net book value |
| Technical installations and machinery | 69 | 6 | 63 | 73 | 8 | 65 |
| Other installations, tools and furniture | - | - | - | 6 | 4 | 2 |
| Other fixed assets | 4 | 1 | 3 | 66 | - | 66 |
| | 73 | 7 | 66 | 145 | 12 | 133 |

Thousands of Euros

B Subsidies received

The acquisition of fixed assets was partly financed with 78,000 euros in subsidies from the Spanish Science and Technology Ministry. All the conditions attached to the subsidies received in connection with tangible fixed assets were met.

C Insurance

The Company has arranged insurance policies to cover the risks to which its tangible fixed assets are subject. The coverage of these policies is considered to be sufficient.

D Fully depreciated assets

At 31 December 2003, the Company was using assets worth 2.301 million euros which had been fully amortized (2.176 million euros at 31 December 2002).

E Mortgages and guarantees

The Company building in Colmenar Viejo is mortgaged to secure the repayment of certain loans obtained from financial institutions.

The detail of mortgaged assets and their relation to the loan transactions is as follows:

| Location | Net value | Type of transaction | Amount of loan | Maturity |
|--|------------------|----------------------------|-----------------------|-------------------|
| Avenida de los Reyes, nº 1 Colmenar Viejo (Madrid) | 13,805 | Loan | 12,600 | September 2015 |

Thousands of Euros

7. Financial investments

The variations in the Financial investment accounts in 2003 and 2002 are as follows:

| | Starting balance | | | | Closing balance | | | | Closing balance 2003 |
|---------------------------------------|-------------------------|------------------|--------------------|------------------|------------------------|------------------|--------------------|------------------|-----------------------------|
| | 2002 | Additions | Retirements | Transfers | 2002 | Additions | Retirements | Transfers | |
| Group companies | | | | | | | | | |
| Holdings | 3,345 | – | – | – | 3,345 | 150 | -277 | – | 3,218 |
| Associated companies | | | | | | | | | |
| Holdings | 90 | – | – | -90 | – | – | – | – | – |
| Long-term securities portfolio | – | – | – | 90 | 90 | – | – | – | 90 |
| Other loans | 129 | 106 | -4 | – | 231 | 229 | -91 | – | 369 |
| Other long-term financial investments | 71 | 2,030 | -71 | – | 2,030 | 6 | – | – | 2,036 |
| Long-term tax receivables (note 15) | – | 4,559 | – | – | 4,559 | – | – | – | 4,559 |
| Deposits and sureties | 5 | – | -1 | – | 4 | – | -1 | – | 3 |
| Total | 3,640 | 6,695 | -76 | – | 10,259 | 385 | -369 | – | 10,275 |
| Less-provisions | 317 | 1,115 | – | – | 1,432 | 822 | -308 | – | 1946 |
| | 3,323 | 5,580 | -76 | – | 8,827 | -437 | -61 | – | 8,329 |

Thousands of Euros

A Holdings in Group companies

The detail of holdings in group companies as at 31 December 2003 and 2002 is as follows:

| Company | 31 December 2003 | | | 31 December 2002 | | |
|--------------------|------------------|---------------|--------------|------------------|---------------|--------------|
| | Cost | Provisions | Net value | Cost | Provisions | Net value |
| OXACO | - | - | - | 277 | -277 | - |
| PharmaMar USA Inc. | 3,000 | -1,690 | 1,310 | 3,000 | -1,011 | 1,989 |
| Pharma Mar AG | 68 | -59 | 9 | 68 | -33 | 35 |
| Pharma Mar Sarl | 100 | - | 100 | - | - | - |
| Pharma Mar GmbH | 25 | - | 25 | - | - | - |
| Pharma Mar Ltd | 25 | - | 25 | - | - | - |
| Total | 3,218 | -1,749 | 1,469 | 3,345 | -1,321 | 2,024 |

Thousands of Euros

The registered address and activity of those companies and the percentage of ownership by the Company are as follows:

| Name and address | Line of business | Percentage of ownership | |
|---|---|-------------------------|----------|
| | | 2003 | 2002 |
| | | Direct % | Direct % |
| OXACO c/ BA Faucigny (Switzerland) | Research & production of pharmaceuticals | - | 99.8% |
| PharmaMar USA Inc. Cambridge (EEUU) | Research & production of pharmaceuticals | 100% | 100% |
| PharmaMar AG Basel (Switzerland) | Research, production and marketing of pharmaceuticals | 98% | 98% |
| Pharma Mar Sarl París (France) | Research, production and marketing of pharmaceuticals | 100% | - |
| Pharma Mar GmbH Munich (Germany) | Research, production and marketing of pharmaceuticals | 100% | - |
| Pharma Mar Ltd Londres (UK) | Research, production and marketing of pharmaceuticals | 100% | - |

None of the Group companies in which the Company has an ownership interest are listed.

OXACO, which was in the process of liquidation at December 2002, has been definitively liquidated; no assets or liabilities were added to the financial statements of Pharma Mar, S.A. Sociedad Unipersonal. The Company wrote off the investment in Oxaco (277 thousand euros), and it was relieved from the accounts.

Pharma Mar Sarl (France), with a capital stock of 100,000 euros, has 80,000 euros of capital not yet disbursed at 31 December 2003.

The amounts of capital, reserves, period income and other information of interest relating to 2003, as stated in the financial statements of PHARMAMAR USA Inc. and PHARMAMAR AG, after being converted into euros at the year-end exchange rate, are as follows:

| Company | Capital | Reserves | 2003 income | Book value |
|--------------------|----------------|-----------------|------------------------|-----------------------|
| PharmaMar USA Inc. | 160 | 1,492 | -342 | 1,310 |
| PharmaMar AG | 64 | -33 | -22 | 9 |
| | 224 | 1,459 | -364 | 1,319 |

Thousands of Euros

PharmaMar Sarl, PharmaMar GmbH, and PharmaMar Ltd, which were created in 2003, did not carry out any activities in the year.

B Long-term securities portfolio

| Name | Line of business | Percentage of ownership | |
|------------------|-------------------------|--------------------------------|-----------------|
| | | 2003 | 2002 |
| | | Direct % | Direct % |
| Instituto BIOMAR | Pharmaceutical research | 15% | 15% |

C Other loans

The Other loans balance includes loans to personnel maturing in 2006.

D Other long-term financial investments

The other long-term financial investments relate mainly to the Company's 335,850 shares in the guaranteed mutual fund, Atlántico Líder, FIM, which have an acquisition price of 2 million euros. The Company also holds a subordinated debt deposit at Banco Atlántico, with an acquisition price of 30 thousand euros.

This item also includes a floating rate guaranteed deposit at Banco Gallego, worth 6 thousand euros.

8. Deferred charges

These amounts relate to financial expenses arising on lease transactions. The variations in the year are as follows:

| Starting balance 2002 | Additions | Retirements | Closing balance 2002 | Additions | Retirements | Closing balance 2003 |
|----------------------------------|------------------|--------------------|---------------------------------|------------------|--------------------|---------------------------------|
| 251 | - | 100 | 151 | 22 | 151 | 22 |
| 251 | - | 100 | 151 | 22 | 151 | 22 |

Thousands of Euros

9 Accounts receivable

| | 2003 | 2002 |
|----------------------------|---------------|---------------|
| Customer receivables | 1,150 | 90 |
| Group companies | 12,525 | 2,338 |
| Sundry accounts receivable | 248 | 457 |
| Employee receivables | 15 | 36 |
| Tax receivables | 6,857 | 8,792 |
| | 20,795 | 11,713 |

Thousands of Euros

The Group companies item contains principally 12.522 million euros due from Zeltia, S.A. as a result of the balance in favor of PharmaMar arising from tax consolidation (see note 15).

The detail of the tax receivables at 31 December 2003 is as follows:

| | |
|--|--------------|
| VAT | 3,676 |
| Prepaid corporate income tax (note 15) | 3,056 |
| Others | 125 |
| | 6,857 |

Thousands of Euros

10 Short-term financial investments

The net variations in the Short-term financial investment accounts in 2003 and 2002 are as follows:

| | Starting balance | | | | Closing balance | | | | Closing balance |
|-----------------------|-------------------------|------------------|--------------------|------------------|------------------------|------------------|--------------------|------------------|------------------------|
| | 2002 | Additions | Retirements | Transfers | 2002 | Additions | Retirements | Transfers | 2003 |
| Associated companies | | | | | | | | | |
| Loans | 11 | - | - | -11 | - | - | - | - | - |
| Securities portfolio | 33,888 | - | -18,866 | - | 15,022 | 72,761 | -82,497 | - | 5,286 |
| Other loans | - | - | - | 11 | 11 | - | -11 | - | - |
| Deposits and sureties | 19 | 47 | -5 | - | 61 | 145 | -170 | - | 36 |
| Total | 33,918 | 47 | -18,871 | - | 15,094 | 72,906 | -82,678 | - | 5,322 |

Thousands of Euros

The short-term securities portfolio comprises mainly government bonds and Treasury bills at annual interest rates of 2.03%-2.05% (2002: 3.10%-3.65%).

11 Shareholders' equity

The variations in the Shareholders' equity accounts in 2003 and 2002 are as follows:

| | Capital stock | Share premium | Reserves (note 11-c) | Prior years' losses | Income for the year |
|------------------------------|----------------------|----------------------|-----------------------------|----------------------------|----------------------------|
| Starting balance 2002 | 69,805 | 59,508 | 231 | -14,035 | 8,416 |
| Distribution of 2001 income | - | - | 842 | 7,574 | -8,416 |
| Loss for the year 2002 | - | - | - | - | -3,922 |
| Sale of treasury stock | - | 167 | -167 | - | - |
| Closing balance 2002 | 69,805 | 59,675 | 906 | -6,461 | -3,922 |
| Distribution of 2002 income | - | - | - | -3,922 | 3,922 |
| Loss for the year 2003 | - | - | - | - | -21,285 |
| Closing balance 2003 | 69,805 | 59,675 | 906 | -10,383 | -21,285 |

Thousands of Euros

A Subscribed capital stock

The capital stock is represented by 1,161,482 fully-paid common registered shares of 60.10 euros par value each.

The shares are freely transferable without restriction.

In 2002, Zeltia, S.A. acquired all the shares of Pharma Mar, S.A. owned by third parties, increasing its direct stake in the Company to 78.48%. At 31 December 2003, as a result of that acquisition, Zeltia, S.A. and its fully-owned investees owned 100% of Pharma Mar, S.A.

After that acquisition, the Company directors signed an instrument to convert it into a single shareholder company and it was registered as such at the Mercantile Register.

At 31 December 2003 and 2002, the following companies held 10% or more of the capital stock:

| Company | Percentage of ownership | |
|-----------------------------|-------------------------|--------|
| | 2003 | 2002 |
| Zeltia, S.A. | 78.48% | 78.48% |
| Protección de Maderas, S.A. | 11.13% | 11.13% |

B Share premium

This reserve is unrestricted.

C Reserves

The variations in the Reserve accounts in 2003 and 2002 are as follows:

| | Legal reserve | Reserve for treasury stock | Difference for redenomination of capital in euros | Total |
|----------------------------|---------------|----------------------------|---|-------|
| Starting balance 2002 | 63 | 167 | 1 | 231 |
| For sale of treasury stock | – | -167 | – | -167 |
| For distribution of income | 842 | – | – | 842 |
| Closing balance 2002 | 905 | – | 1 | 906 |
| Closing balance 2003 | 905 | - | 1 | 906 |

Thousands of euros

Legal reserve

The legal reserve was booked as required by Article 214 of Spain's Corporations Law, which establishes that 10% of period income must be allocated to the reserve until it totals 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.

Difference for redenomination of capital stock in euros

This reserve is unavailable.

D Income for the year

The proposed distribution of the 2003 income which will be presented to the Shareholders' Meeting, and the distribution approved for 2002, are as follows:

| | 2003 | 2002 |
|------------------------------|----------------|---------------|
| Basis of distribution | | |
| Profit and loss | -21,285 | -3,922 |
| | -21,285 | -3,922 |
| Distribution | | |
| Prior years' losses | -21,285 | -3,922 |
| | -21,285 | -3,922 |

Thousands of euros

E Limits on the distribution of dividends

The distribution of unrestricted reserves listed elsewhere in this note and of Company income is subject to compliance with article 194 of the Spanish Corporations Law, which states that dividends may not be distributed if this reduces the balance of reserves to below the unamortized balances of start-up, research and development, and goodwill expenses.

12 Deferred revenues

The variations in the Deferred revenues accounts in 2003 and 2002 are as follows:

| | Capital subsidies | Total |
|------------------------------|------------------------------|--------------|
| Starting balance 2002 | 555 | 555 |
| Additions | 174 | 174 |
| Retirements | -65 | -65 |
| Taken to income | -234 | -234 |
| Closing balance 2002 | 430 | 430 |
| Additions | 78 | 78 |
| Retirements | -13 | -13 |
| Taken to income | -229 | -229 |
| Closing balance 2003 | 266 | 266 |

Thousands of euros

A Capital subsidies

The detail of the capital subsidies is as follows:

| Granted by | 2003 | 2002 | Granted in |
|-------------------------------|-------------|-------------|-------------------|
| BIOMED | – | 82 | 1998 |
| Education Ministry | – | 10 | 1999 |
| Education Ministry | 11 | 17 | 2000 |
| CDTI | 4 | 8 | 2000 |
| IMADE | 3 | 55 | 2000 |
| Science & Technology Ministry | 98 | 161 | 2001 |
| IMADE | 23 | 31 | 2001 |
| Science & Technology Ministry | 49 | 66 | 2002 |
| Science & Technology Ministry | 78 | – | 2003 |
| | 266 | 430 | |

Thousands of euros

These 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 principal amount granted in 2003 relates to several projects under the Spanish Science and Technology Ministry's PROFIT program for R&D.

13 Long-term debt

A Analysis by maturity

At 2003 year-end, the long-term non-trade debt matured as follows:

| Maturing in | Due to credit institutions | Other debts | Total |
|-----------------------------|-----------------------------------|--------------------|---------------|
| 2004 | 2,005 | 104 | 2,109 |
| 2005 | 2,154 | 325 | 2,479 |
| 2006 | 1,245 | 672 | 1,917 |
| 2007 | 1,193 | 1,445 | 2,638 |
| 2008 and later | 10,182 | 7,815 | 17,997 |
| Total | 16,779 | 10,361 | 27,140 |
| Less – short-term component | 2,005 | 104 | 2,109 |
| Total long term | 14,774 | 10,257 | 25,031 |

Thousands of euros

The Due to credit institutions item includes the following loans:

| | Amount | Guarantee |
|-------------------------|---------------|------------------|
| Banco Atlántico | 12,600 | Mortgage |
| La Caixa | 357 | Secured |
| Caja Madrid/ ICO / CDTI | 270 | Unsecured |
| CDTI | 3,552 | Unsecured |

Thousands of Euros

- i) The loan from Banco Atlántico amounts to 12.600 million euros, matures in 2015 and bears interest at an annual floating rate of Euribor plus 1.25%. The other 357 thousand euros payable to La Caixa relate to the pending payments of the lease contract described in note 5 b). The loan from Caja Madrid/ ICO/CDTI amounts to 270 thousand euros, matures in 2007 and bears interest at a floating rate of 6M Euribor plus 0.25%.
- ii) The 3.552 million euros payable to CDTI relate to a subordinated loan from the Spanish Industry and Energy Ministry's Centro para el Desarrollo Técnico e Industrial to finance the Project to Produce Pharmaceuticals from Marine and Other Sources. The interest rate on the loan is 3.20%. The loan is to be repaid in installments: 1.834 million euros in 2004 and 1.718 million euros in 2005.

B Other long-term debt

The other long-term loans relate mainly to long-term refundable prepayments granted by the Science and Technology Ministry and CDTI as aid for R&D projects. These loans bear zero interest and some have a three-year grace period.

C Uncalled capital

This caption includes payments due by the Company relating to the capital subscription at PharmaMar Sarl (see note 7a).

14 Current liabilities

A Analysis by currency

Of the total short-term trade accounts payable, the following are denominated or instrumented in foreign currencies:

| | Equivalent value in thousands of euros; denominated in | | | |
|---------------------------------|---|-------------------|--------------|--------------|
| | Pounds sterling | US dollars | Other | Total |
| Purchases and services received | 231 | 774 | 98 | 1,103 |

B Due to credit institutions - short term

The detail of the Due to credit institutions - short term caption is as follows:

| | 2003 | | 2002 | |
|---|---------------|---------------|---------------|---------------|
| | Drawn | Limit | Drawn | Limit |
| Credit lines | 24,560 | 33,107 | 18,343 | 25,167 |
| Short-term component of long-term loans | 2,025 | – | 321 | – |
| Other short-term loans | 75 | – | 394 | – |
| Interest-bearing debt | 76 | – | 65 | – |
| | 26,736 | 33,107 | 19,123 | 25,167 |

Thousands of euros



The credit lines bore average interest of 3.30% in 2003. The credit lines are unsecured.

C Due to Group and Associated companies

| | 2003 | 2002 |
|-------------------------------|---------------|---------------|
| Due to Group companies | | |
| Zeltia | 72,210 | 11,102 |
| Genómica | – | 109 |
| PharmaMar USA | 256 | 191 |
| Xylazel SA | – | 10 |
| Protección de Maderas SA | 1 | – |
| | 72,467 | 11,412 |

Thousands of euros

The debt to Zeltia, S.A. is a loan amounting to 72.210 million euros to Pharma Mar, S.A. maturing in 2004 which bears interest at 2.8% annual.

D Other non-trade debt

| | 2003 | 2002 |
|----------------------|--------------|--------------|
| Tax payables | 613 | 379 |
| Compensation payable | 1,920 | 1,522 |
| Other payables | 28 | 3 |
| | 2,561 | 1,904 |

Thousands of euros

15 Corporate income tax and tax situation

Since 2001, the Company has filed tax returns as part of the consolidated taxation group headed by Zeltia, S.A. As a result, the Due from Group Companies caption includes the balances resulting from the settlement of corporate income tax under this special tax regime.

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 the income per books to the taxable base of corporate income tax is as follows:

| | 2003 | | | 2002 |
|----------------------------------|------------------|------------------|---------------|---------------|
| | Decreases | Increases | Total | |
| Net income for the year | - | - | -21,285 | -3,922 |
| Corporate income tax | - | - | -11,338 | -5,052 |
| Income before taxes | - | - | -32,623 | -8,974 |
| Permanent differences | - | - | - | 56 |
| Timing differences: | | | | |
| arising in the current year | - | 85 | 85 | 1,453 |
| arising in prior years | -2,126 | - | -2,126 | 939 |
| Taxable base (tax result) | -2,126 | 85 | 34,664 | -6,526 |

Thousands of euros

The charge for corporate income tax is composed as follows:

| | |
|--|----------------|
| Tax losses from 2003 used by the tax Group | -12,133 |
| Release of prepaid tax | 744 |
| Prepaid tax arising in the year | -30 |
| Other adjustments | 81 |
| | -11,338 |

Thousands of euros

The Company has recognized an account receivable from the consolidated group amounting to 12.522 million euros, which relates to the tax corresponding to the 2003 tax loss and to tax withholdings and prepayments borne during the year, which will be fully used by the group. At 31 December 2003, the Company recorded that balance payable by Zeltia, S.A. in the Due from Group companies caption.

The prepaid tax of 744 thousand euros released in the year relates to part of the amortization of R&D expenses in 2001. At 31 December 2003, 3.056 million euros were registered as prepaid tax (see note 9), mainly relating to amortization of R&D expenses by the Company in 2001 and 2002.



At 31 December 2003, tax credits earned by the Company, mainly for R&D, were as follows (in thousands of euros):

| Year | Tax credit | Used | Unused | Year |
|--------------|-------------------|--------------|---------------|-------------|
| 1999 | 2,499 | 350 | 2,149 | 2014 |
| 2000 | 4,478 | - | 4,478 | 2015 |
| 2001 | 7,824 | 2,934 | 4,890 | 2016 |
| 2002 | 12,096 | - | 12,096 | 2017 |
| 2003 | 12,662 | - | 12,662 | 2018 |
| Total | 39,559 | 3,284 | 36,275 | |

Thousands of euros

The Company has 2000, 2001, 2002 and 2003 open for review for all applicable taxes except for corporate income tax, for which 1999 is also open for review.

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, Company management considers that such liabilities, if any, would not materially affect the financial statements.

The Company has the following unused corporate income tax losses:

| Year | Thousands of euros | Expiration |
|-------------|---------------------------|-------------------|
| 1993 | 190 | 2008 |
| 1994 | 348 | 2009 |
| 1995 | 280 | 2010 |
| 1996 | 356 | 2011 |
| 1997 | 808 | 2012 |
| 1998 | 585 | 2013 |
| 1999 | 786 | 2014 |
| 2000 | 1,206 | 2015 |
| | 4,559 | |

Thousands of euros

All the unused tax losses have been capitalized by the Company under Financial investments–Long-term tax receivables (see note 7).

16 Revenues and expenses

A Transactions with Group companies

| | 2003 | 2002 |
|----------------------|-------|-------|
| Net purchases | | |
| Purchases | 3 | 46 |
| Services | | |
| Received | 5,751 | 6,728 |
| Interest | | |
| Charged | 1,109 | 289 |

Thousands of euros

B Foreign-currency transactions

The detail of foreign currency transactions is as follows:

| | 2003 | 2002 |
|-------------------|--------|--------|
| Services received | 11,579 | 14,657 |
| Services provided | - | 5,963 |

Thousands of euros

C Other revenues

At 31 December 2003, the Other operating revenues item mainly includes revenues from the sale of vials to Janssen Pharmaceutica.

In 2002, the Other operating revenues item included, amongst others, 5.3 million euros received from Johnson & Johnson subsidiary Ortho Biotech Products L.P. (OBP) under the ET-743 licensing agreement signed on 8 August 2001. That amount related to the payments made by OBP in 2002, which formed part of the payments established by the agreement subsequent to the agreement date. The Company did not receive any payments relating to this agreement in 2003. In 2002, the Company recognized 5.3 million euros as revenues following the interest method as described in note 3k). In 2001, the Company booked revenues (in accordance with the method as described in note 3k) under that agreement amounting to 21.709 million euros corresponding to the initial payment, and amortized previously capitalized expenses of 9.321 million euros in that year (see note 5 a). The characteristics of the aforementioned agreement with OBP were included in the Company's financial statements for 2002 and 2001.



D Personnel expenses

| | 2003 | 2002 |
|-----------------------------|---------------|---------------|
| Wages, salaries and similar | 11,322 | 9,354 |
| Indemnities | 1,312 | 16 |
| Employee welfare expenses: | | |
| Employer social security | 2,326 | 2,003 |
| Other welfare expenses | 874 | 611 |
| | 15,834 | 11,984 |

Thousands of euros

17 Financial result

The detail of the financial result is as follows:

| | 2003 | 2002 |
|--|---------------|-------------|
| Gains: | | |
| Revenues from other marketable securities and fixed asset loans: | | |
| Non-group companies | 234 | 797 |
| Other interest and similar revenues: | | |
| Other interest | 79 | 82 |
| Exchange gains | 223 | 230 |
| | 536 | 1,109 |
| Less – losses: | | |
| On debts to Group companies | 1,109 | 289 |
| On debts to third parties and similar expenses | 3,350 | 1,080 |
| Exchange losses | 144 | 703 |
| | 4,603 | 2,072 |
| Net financial result | -4,067 | -963 |

Thousands of euros

18 Extraordinary items

The detail of extraordinary items is as follows:

| | 2003 | 2002 |
|--|-------------|-------------|
| Gains: | | |
| Gain on transactions with own shares and debentures | – | 999 |
| Gain on tangible fixed assets | 287 | – |
| Capital subsidies transferred to period income | 229 | 234 |
| Extraordinary revenues | 212 | 73 |
| Prior years' revenues and income | 296 | 1 |
| | 1,024 | 1,307 |
| Less – losses: | | |
| Variation in provisions for intangible assets, tangible fixed assets and control portfolio | 514 | 1,115 |
| Loss on tangible fixed assets | 141 | 1 |
| Loss on financial investments | 277 | – |
| Extraordinary expenses | 30 | 94 |
| | 962 | 1,210 |
| Net extraordinary gain | 62 | 97 |

Thousands of euros

19 Other information

A Average number of employees by category

| Category | Number | |
|-------------------------|---------------|-------------|
| | 2003 | 2002 |
| Executives and managers | 12 | 13 |
| Technical personnel | 165 | 190 |
| Clerical staff | 88 | 34 |
| Assistants and others | 12 | 13 |
| | 277 | 250 |



B Directors' remuneration

Directors' remuneration totaled 146 thousand euros in 2003.

C Auditors' fees

In 2003, the Company paid 41 thousand euros (excluding VAT) in auditors' fees to PricewaterhouseCoopers Auditores, S.L.; no other amount was paid to any company in the same group of companies as the auditor or to any company related to the auditor through co-ownership, management or control.

D Directors' holdings, duties and functions, and activities

In relation to the disclosure referred to in section 4 of article 127 ter of the Spanish Corporations Law, introduced following approval of Law 26/2003, dated 19 July, the Company's directors stated that they do not hold stakes, and do not and have not during 2003 and to date performed any duties or activities for other companies in the same line of business or an analogous or complementary line of business as the Company, other than for Zeltia group companies. Additionally, with respect to the aforementioned article, the directors stated that, during the aforementioned period, they had not performed any activities, either on their own behalf or on behalf of others, which were similar, analogous or complementary to the activities of PharmaMar.

20 Subsequent events

As explained in note 6, the sale of another land lot held by the Company in Tres Cantos (Madrid) was completed in January 2004. Between year-end and the date of preparation of these financial statements, no other significant events occurred that affect the content of same and no events occurred that require disclosure because of their significance.

21 Environment

In 2003, Pharma Mar, S.A. completed the investment in new installations. As part of the new installations, investments in the environment amounted to 731 thousand euros. The most significant installations were:

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

Environmental expenses amounted to 69 thousand euros in 2003 and relate to waste destruction by third parties.

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

22 Statements of changes in financial position

The statements of changes in financial position for 2003 and 2002 are as follows:

| Funds applied | 2003 | 2002 |
|--|---------------|---------------|
| Funds applied in operations | 55,165 | 43,589 |
| Acquisition of fixed assets | 9,004 | 24,518 |
| Intangible assets | 539 | 512 |
| Tangible fixed assets | 8,080 | 17,311 |
| Financial investments | 385 | 6,695 |
| Cancellation or transfer to short term of long-term debt | 2,121 | 355 |
| Due to credit institutions | 2,121 | 341 |
| Other payables | - | 14 |
| Total funds applied | 66,290 | 68,462 |
| Funds obtained in excess of funds applied (Increase in working capital) | - | - |

Thousands of Euros

| Funds obtained | 2003 | 2002 |
|--|---------------|---------------|
| Capital subsidies | 65 | 109 |
| Due to credit institutions | - | 12,600 |
| Other payables | 6,030 | 3,749 |
| Fixed asset disposals | 994 | 76 |
| Tangible fixed assets | 902 | - |
| Financial investments | 92 | 76 |
| Treasury stock | - | 1,166 |
| Total funds obtained | 7,089 | 17,700 |
| Funds applied in excess of funds obtained (Decrease in working capital) | 59,201 | 50,762 |

Thousands of euros



A Variation in working capital

| | 2003 | | 2002 | |
|-------------------------------------|---------------|---------------|---------------|---------------|
| | Increase | Decrease | Increase | Decrease |
| Accounts receivable | 9,082 | – | 278 | – |
| Current liabilities | – | 60,440 | – | 29,959 |
| Short-term financial investments | – | 9,772 | – | 18,824 |
| Cash | 2,048 | – | – | 2,210 |
| Accrual adjustments | – | 119 | – | 47 |
| Total | 11,130 | 70,331 | 278 | 51,040 |
| Variation in working capital | 59,201 | – | 50,762 | – |

Thousands of euros

B Adjustments required to obtain the funds obtained from/(applied in) operations

| | 2003 | 2002 |
|--|----------------|----------------|
| Income for the year | -21,285 | -3,922 |
| Increase: | | |
| Period depreciation and amortization | 12,829 | 2,469 |
| Deferred charges | 129 | 100 |
| Variation in provision for financial investments | 514 | 1,115 |
| Loss on tangible fixed assets | 141 | 1 |
| Loss on financial investments | 277 | - |
| Total increase | 13,890 | 3,685 |
| Decrease: | | |
| Capital subsidies | -229 | -234 |
| Capitalized in-house work on fixed assets | -47,254 | -42,119 |
| Gain on tangible fixed assets | -287 | - |
| Gain on divestment of capital holdings | - | -999 |
| Total decrease | -47,770 | -43,352 |
| Total funds obtained from/(applied in) operations | -55,165 | -43,589 |

Thousands of euros

2003 Management Report

PharmaMar experienced two very different developments in 2003: on the one hand, a further boost was given to the development of compounds and a new compound entered clinical trials; and on the other hand, the Committee for Proprietary Medicinal Products (CPMP) of the European Medicines Evaluation Agency issued a negative opinion, recommending that authorization to market Yondelis in Europe for the treatment of stage 3 soft tissue sarcoma be refused.

There was clear progress in 2003 in the development of compounds, confirming the program's effectiveness. Yondelis, which is at the most advanced stage of clinical development, was granted Orphan Drug Designation by the European Commission in the treatment of ovarian cancer, following a favorable opinion by the Committee for Orphan Medicinal Products of the European Medicines Evaluation Agency (COMP/EMEA).

The Yondelis co-development plan in conjunction with our licensing partner Ortho Biotech Products L.P. (a Johnson & Johnson subsidiary) continued for all planned indications (soft tissue sarcoma, ovarian, breast, and endometrial cancers). As part of the plan, various phase I trials have been carried out on Yondelis in combination with other compounds currently on the market. The results obtained are very promising and confirm the synergistic effects of Yondelis with other compounds.

Aplidin, the second most advanced drug in the clinical development phase, also obtained Orphan Drug Designation in the treatment of acute lymphoblastic leukemia. This type of leukemia is responsible for 23% of all childhood cancers and accounts for almost all cases of childhood leukemia.

Kahalalide F, the third compound in the development phase, began phase II clinical trials in the second quarter of 2003, demonstrating particular effectiveness in hepatic carcinoma.

A fourth compound, ES-285, entered phase I clinical trials, having shown activity in pre-clinical trials on human prostate, breast, and kidney tumors, and melanomas.

At 2003 year-end, another compound, PM10450, was selected as a candidate for pre-clinical trials. This confirms the potential of PharmaMar's compounds, its development capacity and the significant product pipeline under constant evaluation.

In July 2003, the Committee for Proprietary Medicinal Products (CPMP) of the European Medicines Evaluation Agency issued a negative opinion, recommending that authorization to market Yondelis in Europe for the treatment of soft tissue sarcoma be refused. PharmaMar decided to appeal against the CPMP's negative opinion. In November, the CPMP rejected this appeal, reiterating the negative opinion issued in July, although the internal CPMP vote was a technical draw and this led to the issue of a divergent opinion by dissenting members that was favorable to Yondelis.

In view of the negative opinion regarding authorization to market Yondelis, the Company altered its business plan at 2003 year-end to concentrate on compounds in the more advanced stages of development, reducing funds in other areas. This involved downsizing, with the total number of employees falling from 261 at 31 December 2002 to 201 at 31 December 2003.

Furthermore, the Company also amortized 9.8 million euros in the year relating to the investment in Yondelis for the treatment of soft tissue sarcoma.

Three new PharmaMar subsidiaries were created in 2003 in France, Germany and the UK, in preparation for the marketing of Yondelis. There was intense commercial activity in the period, establishing major communication links with opinion leaders in the European oncology field and the Company attended the main national and international oncology meetings. In December 2003, the contract with the sales network services provider expired.

PharmaMar's new installations at Colmenar Viejo were inaugurated in March 2003. The 15,000m² facilities house the research, development and production departments and were designed in accordance with Good Manufacturing Practices (GMP) and environmental regulations.

An agreement was reached to sell the Company's former installations in Tres Cantos and the sale is expected to be finalized in March 2004.

With regard to industrial product development, the final phase in the scaling and synthetic mass production of Yondelis was successfully completed in 2003, constituting extraordinary progress in terms of production costs and supply source. Efficient production of Yondelis and other compounds for use in clinical trials was maintained.

In 2003, PharmaMar filed 22 patent applications relating to new inventions. The total number of patents awarded at 31/12/2003 was 600.

PharmaMar invested 47.25 million euros in research and development in 2003, 11% more than in 2002.

The Company acquired 6,839 shares in parent company Zeltia, S.A., which were sold in the year. The acquisitions were as a result of applying remuneration plans involving Grupo Zeltia, S.A.'s shares for the years 2001, 2002 and 2003 following the materialization of some of the assumptions envisaged in the plans.