

Annual Report 2004

Pharma Mar, S.A. Sociedad Unipersonal
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***Auditors' Report,
Financial Statements and
Management Report for 2004***

Pharma Mar, S.A. (Sociedad Unipersonal)



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Dear shareholder,

It is my pleasure to present PharmaMar's 2004 annual report.

Before discussing the company's performance during 2004, I would like to reiterate PharmaMar's commitment to researching and developing marine-based compounds aimed in search of innovative drugs to treat cancer.

PharmaMar began 2004 by presenting its 3-year strategic plan. In 2004, the company met all the objectives relating to our compounds' progress, including the pre-clinical development of a new candidate, Zalypsis[®], which entered clinical trials early in 2005. Once again, we have demonstrated the value of our R&D activity and the sea's potential as a source of anti-tumour drugs.

In 2004, PharmaMar, which is part of the Zeltia group, was the prime force enabling the group to become Spain's fourth-largest healthcare company and the leader in terms of investment in R&D.

Collaborating with nearly 60 research centres and universities throughout the world, and over 100 hospitals in Europe, the US and Canada, PharmaMar is the world leader in the development of marine-based anti-cancer drugs. It already has five innovative molecules undergoing clinical development: Yondelis[™], in Phase III clinical trials; Aplidin[®] and Kahalalide F, in Phase II; and ES-285 and Zalypsis[®], in Phase I clinical trials. A total of 3,400 patients had been treated with those compounds by 2004 year-end.

The US Food and Drug Administration (FDA) granted orphan drug designation for the treatment of soft-tissue sarcoma (STS) to Yondelis[™], our most advanced product, in response to an application by licensee Johnson & Johnson Pharmaceutical Research & Development. Based on the efficacy and safety data obtained in the pivotal comparative study on STS that commenced in 2003, the study was extended to a total of 260 patients in both Europe and the US as part of our co-development plan. The results of this pivotal study will form the basis of the registration dossier we expect to present to the FDA and EMEA (European Medicines Evaluation Agency) at the end of 2005.

The ASCO (American Society of Clinical Oncology) meeting in May and the ESMO (European Society of Medical Oncology) meeting in November saw the presentation of data for Yondelis[™] on ovarian cancer which will lay the foundation for a pivotal Phase III trial in 2005 in order to obtain registration for this therapeutic use.

The initial results obtained in the pharmacogenomic study with Yondelis[™] form the basis for a more exhaustive study of molecular markers for patient response to drugs, which will pave the way for personalised cancer treatment in the future.

Aplidin[®], our second-most advanced product, continued in Phase II trials on a number of types of solid tumours. At the ESMO meeting in Vienna, in October, new data were presented on the preliminary results of a Phase II trial with Aplidin[®] as second-line treatment for advanced or metastatic melanoma. This trial showed that Aplidin[®] is active as the sole treatment against melanoma in previously-treated patients, and that its safety profile is acceptable. The researcher concluded that further development of Aplidin[®] for this therapeutic use is justified; this will start in 2005.

Letter from the Chairman

The onco-hematology programme with Aplidin® commenced in 2004: Phase II clinical trials began on acute lymphoblastic leukaemia (ALL), multiple myeloma (MM) and non-Hodgkin's lymphoma (NHL). This new research area comes on the heels of Pre-clinical and Phase I trials that show Aplidin® is active against malignant haematological neoplasia. Aplidin® has a favourable risk profile since it has no dose-limiting toxicity in bone marrow, a fact which distinguishes it from most cancer drugs. Additionally, Phase I paediatric trials on leukaemia and solid tumours were added to the Aplidin® clinical programme in 2004. A total of six new studies of Aplidin® commenced. The clinical programme involves hospitals in Europe, Canada and the US.

In the haematological area, Aplidin® received three orphan drug designations (ODD) in 2004. In the US, it received ODD from the FDA for the treatment of acute lymphoblastic leukaemia and multiple myeloma. In Europe, the European Commission granted Aplidin® ODD for multiple myeloma. Orphan drugs are those that help to diagnose, prevent or treat rare very serious or life-threatening diseases and the designation provides various incentives to companies.

In June 2004, the FDA granted Aplidin® Investigational New Drug (IND) status. IND designation made it possible to commence Phase II trials in the US.

Kahalalide F continued clinical development in 2004, and new Phase II trials on non-small cell lung carcinoma and melanoma were launched. Those studies commenced as a result of the solid results in Phase I trials, which demonstrated clinical benefits in a broad spectrum of tumours, including non-small cell lung carcinoma and melanoma, with a very favourable safety profile. Recruitment in the other pre-existing studies continued on schedule in 2004, including most notably the Phase II trial on patients with hepatic carcinoma.

In 2004, Phase II trials of Kahalalide F for severe psoriasis commenced. Approximately 90 million people worldwide suffer from psoriasis. Psoriasis is a chronic inflammatory disease of the skin. The disease is difficult to treat and impairs patients' quality of life. This development of a new application for Kahalalide F arose because signs of activity were detected in Phase I trials, coupled with its excellent safety profile. PharmaMar continues to focus research on the development of drugs against cancer, although it will explore the opportunity to expand the spectrum of therapeutic uses of our compounds.

ES-285 continued with four Phase I trials at a number of European hospitals, attaining an excellent level of patient recruitment.

PharmaMar employs over 240 top-rate professionals, of whom over 70% are graduates, and 32% of those are PhDs. This year, once again, I would like to acknowledge our magnificent team, whose commitment, motivation and experience are vital to the continuity and success of our project.

We are proud to be where we are today and we believe that we are in an excellent position to meet our main objective of registering Yondelis™ for soft-tissue sarcoma and enabling it to be administered to patients in 2006.



A free translation of the report on the financial statements originally issued in Spanish. In the event of a discrepancy, the Spanish language version prevails.

INDEPENDENT AUDITORS' REPORT ON THE 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 2004, the profit and loss account 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, for the purposes of comparison, the Directors have included the figures for 2003 relating to each item in the 2004 balance sheet, profit and loss account and statement of source and application of funds. Our opinion refers solely to the 2004 financial statements. On 30 March 2004, we issued our auditors' report on the 2003 financial statements in which we expressed an unqualified opinion.
3. As described in note 1 to the financial statements, the Company engages, as in prior years, basically in the development of bio-active principles in the lines of research detailed in note 5. Consequently, at year-end, the Company's net worth lay essentially in the research and development expenses incurred in the various drug development programmes under way and, to a lesser extent, in the revenues from the assignment of the rights to same. The directors have capitalised the expenses corresponding to those programmes on the assumption that they will reach a favourable outcome, even though no product has yet been marketed, since they consider that they meet the conditions set out in note 3.b) to the financial statements, in line with those set out in this connection in the Spanish General Accounting Plan and its implementing regulations; they have also recognised, within that same accounting regulatory framework, the amounts obtained to date for partial assignment of the rights associated with those programmes, matching the revenues recognised with the expenses incurred, as indicated in note 3.k).

Auditors' Report

However, because of its exceptional importance, it should be noted that the adoption in 2005 by Zeltia, S.A., the parent company of the group to which the Company belongs, of the International Accounting Standards approved by the European Commission regulations, in accordance with the current legislation on corporate groups, and the interpretations of those standards generally accepted to date by the biotechnology sector of companies, has disclosed the need to apply a different treatment of the research and development expenses and of the revenues obtained from partial assignment of the related rights in order to prepare the consolidated financial statements of Zeltia, S.A. and its subsidiaries. Accordingly, although the Company's financial statements for 2005 will continue to be drafted in accordance with the current regulations, within the framework established by the Spanish National Accounting Plan and its implementing regulations, the directors of Zeltia, S.A. have stated that the accounting treatment to be applied in 2005 in its consolidated financial statements will involve cancellation of the amounts capitalised to date and the partial reversal of the aforementioned revenues obtained to date for the assignment of the related rights.

4. In our opinion, the accompanying 2004 financial statements 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 2004 and the results of its operations and the funds obtained and applied by it in the year then ended and contain the necessary sufficient information for an adequate understanding and have been prepared in accordance with accounting principles generally accepted in Spain applied on a basis consistent with those used in the preceding year.
5. The accompanying Directors' Report for the year 2004 contains such explanations on the state of Pharma Mar, S.A.'s affairs, business performance and other matters as the Directors consider appropriate and does not form an integral part of the financial statements. We verified that the financial information contained in the Directors' Report matches the 2004 financial statements. Our work as auditors is limited to checking the Directors' Report with the scope set out in this paragraph and it does not include the review 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 2005



Certificate by the Secretary to the effect that, after formulation by the Board of Directors on 16 March 2005 of the Financial Statements and Management Report of PHARMA MAR, S.A. (Sociedad Unipersonal) for the year ended 31 December 2004, 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 16 March 2005.

Mr. Sebastián Cuenca Miranda
Secretary of the Board of Directors

Company directors

Chairman and President:

Mr. José María Fernández Sousa-Faro

Vice-Chairman and

Vice-President:

Mr. Pedro Fernández Puentes

Directors:

Mr. Claudio Matons

Mr. José Félix Pérez Orive

Mr. Javier Rodríguez Segovia

Mr. Stan Kaye

Mr. Carlos Cuervo-Arango Martínez

Mr. John Smyth

Secretary (not a director)

Mr. Sebastián Cuenca Miranda



Balance Sheets

as of 31 December 2004 and 2003 (thousand euro)

Assets	2004	2003
Fixed and other non-current assets	229,407	208,281
Start-up expenses	123	263
Intangible assets	192,756	165,180
Tangible fixed assets	30,742	34,509
Financial investments	5,786	8,329
Deferred charges	12	22
Current assets	18,765	28,266
Accounts receivable	11,072	20,795
Short-term investments	5,185	5,322
Cash	2,320	2,069
Accrual adjustments	188	80
Total	248,184	236,569

Thousand euro

Liabilities	2004	2003
Shareholders' equity	92,819	98,718
Subscribed capital stock	69,805	69,805
Share premium	59,675	59,675
Reserves	906	906
Prior years' losses	-31,668	-10,383
Loss for the year	-5,899	-21,285
Deferred revenues	1,047	266
Long-term debt	22,312	25,111
Due to credit institutions	12,617	14,774
Other debt	9,615	10,257
Uncalled capital	80	80
Current liabilities	132,006	112,474
Due to credit institutions	30,028	26,736
Due to Group and Associated Companies	91,588	72,467
Trade accounts payable	7,626	10,682
Other non-trade debt	2,736	2,561
Operating provisions	28	28
Total	248,184	236,569

Thousand euro

Income Statements

for the years ended 31 December 2004 and 2003 (thousand euro)

Expenses	2004	2003
Purchases	3,739	10,309
Personnel expenses	11,506	15,834
Period depreciation and amortisation	6,441	12,829
Variation in operating provisions	86	184
Other operating expenses		
Outside services	23,798	39,131
Taxes other than corporate income tax	49	366
Operating income	-	-
Financial income, net	-	-
Income from ordinary activities	-	-
Extraordinary gain, net	2,156	62
Income before taxes	-	-
Corporate income tax	-	-
Income for the year	-	-

Thousand euro

Revenues	2004	2003
Net revenues		
Sales	4,931	674
Services provided	180	182
Capitalised in-house work	31,225	47,254
Other operating revenues		
Ancillary and other current revenues	1,747	1,908
Operating subsidies	28	17
Operating loss	7,508	28,618
Financial loss, net	3,714	4,067
Loss on ordinary activities	11,222	32,685
Loss before taxes	9,066	32,623
Corporate income tax	-3,167	-11,338
Loss for the year	5,899	21,285

Thousand euro



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 authorised 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 Balance Sheet, the Income Statement and the Notes to the Financial Statements are expressed in thousands of euro.

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 9 of Royal Decree 1815/1991, dated 20 December. The Company belongs to a group of companies whose controlling company is Zeltia, S.A. (see note 12.a), which is domiciled in Vigo. In any case, the differences in income and equity arising from consolidating the accounts are not material.

D Going concern

At 31 December 2004, 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 honour 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 capitalised development projects until they are completed.

Financial Statements

as of 31 December 2004 and 2003

3 Accounting principles

A Start-up expenses

Incorporation, pre-opening and capital increase expenses are recorded at cost, net of amortisation, 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 amortised on a straight-line basis.

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

- There is a specific itemised 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, capitalised by means of a credit to the "Capitalised in-house work" in the income statement.

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

Capitalisable 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.

Capitalised development expenses are amortised 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 capitalisable, and they are amortised 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 amortised on a straight-line basis 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 capitalised. 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 unrealised 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 realised or not) and realised gains are taken to income; unrealised gains are recorded as deferred revenues and are recognised when realised.

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 labour regulations, the Company is obliged to pay an indemnity to employees, under specific conditions, on termination of employment. Termination indemnities which are material must 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 2004.

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 recognised 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 realisation 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 recognised as assets if their future realisation 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 consolidated basis.

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



I Subsidies

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 recognised by the interest method.

K Revenues and expenses

Revenues and expenses are recognised 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 realised 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.

Considering the conditions of the agreement signed by the Company in 2001 with Ortho Biotech Products LP in connection with the development and marketing of Yondelis™ as referred to in note 17.c) and described in the annual reports for 2001 and 2002, in the absence of specific 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 received for the development costs incurred by PharmaMar, S.A. until the date of the agreement in 2001 was treated as 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 recognised 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 by PharmaMar alone are capitalised 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 recognised on an accrual basis.

L Environment

The long-term assets used by the Company in its activities which are aimed mainly at minimising the environmental impact and at protecting and improving the environment are capitalised 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 2004 and 2003 are as follows:

	Capital increase expenses	Total
Starting balance 2003	455	455
Amortisation	-192	-192
Ending balance 2003	263	263
Amortisation	-140	-140
Ending balance 2004	123	123

Thousand euro



A 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.

Net book value

Capital increase date	2004	2003
1999	–	17
2001	123	246
	123	263

Thousand euro

5 Intangible assets

The variations in the intangible assets accounts in 2004 and 2003 are as follows:

	Research and development	Computer software	Lease rights	Total
Cost				
Starting balance 2003	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
Additions	31,225	103	–	31,328
Transfers	–	–	–	–
Closing balance 2004	216,046	988	395	217,429
Amortisation				
Starting balance 2003	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
Provisions	3,542	171	39	3,752
Transfers	–	–	–	–
Closing balance 2004	24,114	482	77	24,673
Net book value				
Starting balance 2003	126,793	590	659	128,402
Closing balance 2003	164,249	574	357	165,180
Closing balance 2004	191,932	506	318	192,756

Thousand euro

A Research and development

Capitalised research and development expenses relate to the following projects:

Project	2004			2003		
	Cost	Accum. amort.	Net	Cost	Accum. amort.	Net
Performed in-house:						
Antitumor	211,821	-22,362	189,459	180,601	-19,119	161,482
Antimalarial	2,772	-299	2,473	2,767	-	2,767
Immunosuppressors	858	-858	-	858	-858	-
Antiviral	595	-595	-	595	-595	-
Total	216,046	-24,114	191,932	184,821	-20,572	164,249

Thousand euro

In 2004, the Company amortised 3,542 thousand euro of capitalised expenses, principally, relating to molecules whose development has been halted.

In 2003, the Company amortised 9.798 thousand euro as a result of the decision by the Committee for Proprietary Medicinal Products (CPMP) of the European Medicines Evaluation Agency (EMA) not to grant initial authorisation to market ET-743 Yondelis™ for the treatment of advanced soft tissue sarcoma. The reasons for the amortisation and the criteria used to quantify the amount were set out in the 2003 financial statements.

In 2002, the Company amortised 858 thousand euro for immunosuppressor projects and 595 thousand euro 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 amortised 9,321 thousand euro 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 17.c).

The Company has not yet begun to amortise 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) and the directors consider that the projects currently under development will be successful. To date, the Company has not completed development of any product.



B Assets acquired under financial leases

At 31 December 2004, the "Intangible Assets–Lease rights" caption contains the following assets under financial lease:

				Payments in year	Outstanding payments	
	Contract term	Cost (*)	Purchase option value	2004	2003 and previous years	31.12.2004
NMR equipment	5 years	426	8	83	69	274
		426	8	83	69	274

Thousand euro

(*) Includes principal (395 thousand euro) and interest (31 thousand euro)

6 Tangible fixed assets

The variations in the Tangible fixed assets accounts in 2004 and 2003 are as follows (in thousand euro):

	Land and buildings	Technical installations and machinery	Other installations, tools and furniture	Construction in progress	Other tangible fixed assets	Total
Cost						
Starting balance 2003	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
Additions	170	227	282	-	52	731
Retirements/reductions	-2,786	-6	-1,636	-	-32	-4,460
Transfers	-	-12	12	-	-	-
Closing balance 2004	16,771	6,963	12,924	-	1,797	38,455
Depreciation						
Starting balance 2003	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
Provisions	484	515	1,298	-	252	2,549
Retirements/reductions	-1,550	-2	-937	-	-22	-2,511
Transfers	-	1	-1	-	-	-
Closing balance 2004	955	3,192	2,750	-	816	7,713
Net book value						
Starting balance 2003	1,394	3,021	1,303	22,694	755	29,167
Closing balance 2003	17,366	4,076	11,876	-	1,191	34,509
Closing balance 2004	15,816	3,771	10,174	-	981	30,742

Thousand euro



The retirements in the year, amounting to 1,949 thousand euro net, relate basically to the following transactions:

- In January 2004, the Company sold a plot of land in Tres Cantos (C/ Calera 8) for 1,180 thousand euro (including VAT).
- On 30 March 2004, the Company sold the land, building and facilities of its former headquarters in Tres Cantos (C/ Calera 3) for 3,853 thousand euro (including VAT).

A Assets acquired from Group and Associated companies

The assets acquired from Group and Associated companies in the years ended 31 December 2004 and 2003 are as follows:

	2004			2003		
	Cost	Accumulated depreciation	Net book value	Cost	Accumulated depreciation	Net book value
Technical installations and machinery	–	–	–	69	6	63
Other tangible fixed assets	3	1	2	4	1	3
	3	1	2	73	7	66

Thousand euro

B Subsidies received

The acquisition of fixed assets was partly financed with 30 thousand euro 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 2004, the Company was using assets worth 2,113 thousand euro which had been fully amortised (2,301 thousand euro at 31 December 2003).

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 (in thousand euro):

Location	Net value	Type of transaction	Amount of loan	Maturity
Avenida de los Reyes, nº 1 Colmenar Viejo (Madrid)	15,815	Loan	12,600	September 2015
Thousand euro				

7 Financial investments

The variations in the Financial investment accounts in 2004 and 2003 are as follows:

	Starting balance 2003	Additions	Retire- ments	Transfers	Closing balance 2003	Additions	Retire- ments	Transfers	Closing balance 2004
Group companies									
Holdings	3,345	150	-277	-	3,218	52	-	-	3,270
Long-term securities portfolio	90	-	-	-	90	-	-45	-	45
Other loans	231	229	-91	-	369	-	-93	-	276
Other long-term financial investments	2,030	6	-	-	2,036	-	-	-1,994	42
L-t tax receivables (note 16)	4,559	-	-	-	4,559	-	-	-	4,559
Deposits and sureties	4	-	-1	-	3	-	-	-	3
Total	10,259	385	-369	-	10,275	52	-138	-1,994	8,195
Less: provisions	1,432	822	-308	-	1,946	556	-93	-	2,409
	8,827	-437	-61	-	8,329	-504	-45	-1,994	5,786

Thousand euro



A Holdings in Group companies

The detail of holdings in group companies as at 31 December 2004 and 2003 is as follows (in thousand euro):

Company	31 December 2004			31 December 2003		
	Cost	Provisions	Net value	Cost	Provisions	Net value
PharmaMar USA Inc.	3,000	-2,121	879	3,000	-1,690	1,310
Pharma Mar AG	120	-80	40	68	-59	9
Pharma Mar S.a.r.l.	100	-7	93	100	-	100
Pharma Mar GmbH	25	-7	18	25	-	25
Pharma Mar Ltd.	25	-4	21	25	-	25
Total	3,270	-2,219	1,051	3,218	-1,749	1,469

Thousand euro

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	
		2004	2003
		Direct %	Direct %
PharmaMar USA Inc. Cambridge (USA)	Research & production of pharmaceuticals	100%	100%
PharmaMar AG Basel (Switzerland)	Research, production and marketing of pharmaceuticals	98%	98%
Pharma Mar S.a.r.l. Paris (France)	Research, production and marketing of pharmaceuticals	100%	100%
Pharma Mar GmbH Munich (Germany)	Research, production and marketing of pharmaceuticals	100%	100%
Pharma Mar Ltd. London (United Kingdom)	Research, production and marketing of pharmaceuticals	100%	100%

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

Pharma Mar Sarl (France), with a capital stock of 100 thousand euro, had 80 thousand euro of capital not yet disbursed at 31 December 2004.

The amounts of capital, reserves, period income and other information of interest relating to 2004, as stated in the financial statements of the subsidiaries, after being converted into euro at the year-end exchange rate, are as follows:

Company	Capital	Reserves	2004 income	Book value
PharmaMar USA Inc.	149	1,783	-1,053	879
PharmaMar, S.a.r.l.	100	–	-7	93
PharmaMar, GmbH	25	–	-7	18
PharmaMar, Ltd.	25	–	-4	21
PharmaMar AG	117	-55	-22	40
	416	1,728	-1,093	1,051

Thousand euro

B Long-term securities portfolio

		Percentage of ownership	
		2004	2003
Name and address	Line of business	Direct %	Direct %
Instituto BIOMAR	Pharmaceutical research	7.5%	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 a subordinated debt deposit at Banco Atlántico, with an acquisition price of 30 thousand euro.

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

This item also includes 6 thousand euro in accrued outstanding interest.



8 Deferred charges

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

Starting balance 2003	Additions	Retire ments	Closing balance 2003	Additions	Retire ments	Closing balance 2004
151	22	151	22	-	10	12
151	22	151	22	-	10	12

Thousand euro

9 Accounts receivable

	2004	2003
Customer receivables	3,211	1,150
Group companies	3,140	12,525
Sundry accounts receivable	254	248
Employee receivables	20	15
Tax receivables	4,447	6,857
	11,072	20,795

Thousand euro

The Group companies item contains principally 3,140 thousand euro due from Zeltia, S.A. for period corporate income tax (see note 16).

The detail of the tax receivables at 31 December 2004 is as follows:

VAT	1,320
Prepaid corporate income tax (note 16)	3,086
Others	40
	4,447

Thousand euro

10 Short-term financial investments

The net variations in the Short-term financial investment accounts in 2004 and 2003 are as follows:

	Starting balance 2003	Additions	Retire- ments	Transfers	Closing balance 2003	Additions	Retire- ments	Transfers	Closing balance 2004
Securities portfolio	15,022	72,761	-82,497	–	5,286	22,601	-24,780	2,000	5,107
Other loans	11	–	-11	–	–	74	–	–	74
Deposits and sureties	61	145	-170	–	36	2	-34	–	4
Total	15,094	72,906	-82,678	–	5,322	22,677	-24,814	2,000	5,185

Miles de Euros

Since it had available funds, the Company transferred 2,000 thousand euro from “Other long-term financial investments” to “Short-term financial investments - Securities portfolio” relating to the acquisition value of the 335,850 units in the Atlántico Líder FIM guaranteed mutual fund.

The short-term securities portfolio consists mainly of that mutual fund and a remunerated account that earns between 1.99% and 2.12% annual interest (between 2.03% and 2.05% in 2003).

11 Accrual adjustments

The balance of this item relates to the purchases of shares of Zeltia, S.A. by employees under the employee share ownership plan (ESOP), subject to their continuance at the company and pledged until maturity in 2006; the cost is being accrued under personnel expenses over three years.

	Starting balance 2003	Additions	Retirements	To income	Transfers	Closing balance 2004
Other	80	–	–	-74	-6	–
ESOP	–	285	-3	-94	–	188
Total	80	285	-3	-168	-6	188



12 Shareholders' equity

The variations in the Shareholders' equity accounts in 2004 and 2003 are as follows:

	Capital stock	Share premium	Reserves	Prior years' losses	Loss for the year
Starting balance 2003	69,805	59,675	906	-6,461	-3,922
Distribution of 2002 loss	–	–	–	-3,922	3,922
2003 loss	–	–	–	–	-21,285
Closing balance 2003	69,805	59,675	906	-10,383	-21,285
Distribution of 2003 loss	–	–	–	-21,285	21,285
2004 loss	–	–	–	–	-5,899
Transfers	–	-274	274	–	–
Closing balance 2004	69,805	59,401	1,180	-31,668	-5,899

Thousand euro

A Subscribed capital stock

The capital stock is represented by 1,161,482 fully-paid common registered shares of 60.10 euro 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 2004, 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 (Sociedad Unipersonal) and it was registered as such at the Mercantile Register.

At 31 December 2004 and 2003, the following companies held 10% or more of the capital stock:

Company	Percentage of ownership	
	2004	2003
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 2004 and 2003 are as follows:

	Legal reserve	Reserve for shares of controlling company	Difference due to redenomination of capital in euro	Total
Starting balance 2003	905	–	1	906
Closing balance 2003	905	–	1	906
Transfers	–	274	–	274
Closing balance 2004	905	274	1	1,180

Thousand euro

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.

Reserve for shares of the controlling company

As required by the Spanish Corporations Law, the Company recorded a restricted reserve for an amount equivalent to the outstanding amount of loans and shares of the controlling company delivered to employees of the Company, both of which are subject to commitments by the Company's employees which are secured by a pledge on the shares acquired by the employees.

Difference due to redenomination of capital stock in euro

This reserve is restricted.



D Income for the year

The proposed distribution of the 2004 income which will be presented to the Shareholders' Meeting, and the distribution approved for 2003, are as follows:

	2004	2003
Basis of distribution		
Profit and loss	-5,899	-21,285
	-5,899	-21,285
Distribution		
Prior years' losses	-5,899	-21,285
	-5,899	-21,285

Thousand euro

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 unamortised balances of start-up, research and development, and goodwill expenses.

13 Deferred revenues

The variations in the Deferred revenues accounts in 2004 and 2003 are as follows:

	Capital subsidies
Closing balance 2002	430
Additions	78
Retirements	-13
Taken to income	-229
Closing balance 2003	266
Additions	1,119
Retirements	-15
Taken to income	-323
Closing balance 2004	1,047

Thousand euro

A Capital subsidies

The detail of the capital subsidies is as follows:

Granted by	2004	2003	Granted in
Ministry of Education	6	11	2000
Ministry of Education	–	–	2000
CDTI	–	4	2000
IMADE	16	3	2001
Ministry of Science and Technology	60	98	2001
IMADE	19	23	2002
Ministry of Science and Technology	31	49	2002
Ministry of Science and Technology	519	78	2003
IMADE	138	–	2004
Ministry of Education and Science	258	–	2004
	1,047	266	

Thousand euro

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 2004 relates to several projects under the Spanish Education and Science Ministry's PROFIT program for R&D.



14 Long-term debt

A Analysis by maturity

At 2004 year-end, the long-term non-trade debt matured as follows:

Maturing in	Due to credit institutions	Other debts	Total
2005	2,157	272	2,429
2006	1,257	620	1,877
2007	1,203	1,392	2,595
2008	1,180	1,389	2,569
2009 and thereafter	8,977	6,214	15,191
Total	14,774	9,887	24,661
Less – short-term component	2,157	272	2,429
Total long term	12,617	9,615	22,232

Thousand euro

The “Due to credit institutions” item includes the following loans:

	Thousand euro	Collateral
Banco Atlántico	12,600	Mortgage
La Caixa	274	Secured
Caja Madrid/ ICO / CDTI	182	Unsecured
CDTI	1,718	Unsecured
Total largo plazo	14,774	

Thousand euro

- i) The loan from Banco Atlántico amounts to 12,600 thousand euro, matures in 2015 and bears interest at an annual floating rate of Euribor plus 1%. The balance of 274 thousand euro payable to La Caixa relates to the outstanding payments of the lease contract described in note 5 b). The loan from Caja Madrid/ ICO/CDTI amounts to 182 thousand euro, matures in 2007 and bears interest at a floating rate of 6M Euribor plus 0.25%.
- ii) The 1,718 thousand euro payable to CDTI relate to a subordinated loan, for an initial amount of 3,552 thousand euro, 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 instalments: 1,834 thousand euro in 2004 and 1,718 thousand euro in 2005.

B Other long-term debt

The other long-term loans relate mainly to long-term refundable advances 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.

Additionally, at 31 December 2004, the Company had obtained approval for another reimbursable advance of 2,000 thousand euro, to be repaid in 10 years starting in 2008, but it had not yet been collected and, therefore, was not recorded at year-end.

C Uncalled capital

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



15 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 thousand euro; denominated in			
	Pounds sterling	US dollars	Other	Total
Purchases and services received	308	839	407	1,554

B Due to credit institutions - short term

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

	2004		2003	
	Drawn	Limit	Drawn	Limit
Credit lines	27,279	28,653	24,560	25,167
Short-term component of long-term debt	2,429	–	2,025	–
Other short-term loans	83	–	75	–
Interest payable	237	–	76	–
	30,028	28,653	26,736	25,167

Thousand euro

The credit lines bore average interest of 3.06% in 2004; they are all unsecured.

C Due to Group and Associated companies

	2004	2003
Due to Group companies		
Zeltia	90,966	72,210
Pharma Gen	–	–
PharmaMar USA	622	256
Xylazel SA	–	–
Protección de Maderas SA	–	1
	91,588	72,467

Thousand euro

The debt to Zeltia, S.A. is a loan amounting to 90,966 thousand euro to Pharma Mar, S.A. maturing in 2005 which bears annual interest at 2.8%.

D Other non-trade debt

	2004	2003
Tax payables	811	613
Compensation payable	1,925	1,920
Other payables	–	28
	2,736	2,561

Thousand euro



16 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:

	2004			2003
	Decreases	Increases	Total	
Net income for the year	–	–	-5,899	-21,285
Corporate income tax	–	–	-3,167	-11,338
Income before taxes	–	–	-9,066	-32,623
Permanent differences	–	48	48	–
Timing differences:				
arising in the current year	–	180	180	85
arising in prior years	-96	–	-96	-2,126
Taxable base (tax result)	-96	228	-8,934	-34,664

Thousand euro

The 2004 corporate income tax expense is as follows:

Tax losses from 2004 used by the tax Group	-3,127
Prepaid tax arising in the year	-29
Other adjustments	-11
	-3,167

Thousand euro

The Company has recognised an account receivable from the consolidated group amounting to 3,140 thousand euro, which relates to the 2004 tax loss plus 13 thousand euro relating to withholdings and prepayments borne during the year. At 31 December 2004, the Company recorded that balance as an accounts receivable from Zeltia, S.A. in the "Due from Group companies" caption

At 31 December 2004, 3,086 thousand euro were registered as prepaid tax (see note 9), mainly relating to amortisation of R&D expenses by the Company in previous years, whose deduction for tax purposes has been deferred.

At 31 December 2004, the tax credits earned by the Company, mainly for R&D, were as follows (in thousand euro):

Year	Tax credit at at 31/12/2004	Used in 2004	Unused at 31/12/2004	Years
1999	2,149	–	2,149	2014
2000	4,478	–	4,478	2015
2001	4,890	–	4,890	2016
2002	12,096	–	12,096	2017
2003	13,023	–	13,023	2018
2004	7,480	–	7,480	2019
Total	44,116	–	44,116	

Thousand euro

The Company has 2001, 2002, 2003 and 2004 open for review for all applicable taxes except for corporate income tax, for which 2000 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 unused corporate income tax losses, which can only be offset against income of the Company itself; those losses are detailed below:



Year	Thousand euro	Expires in
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	

Thousand euro

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

17 Revenues and expenses

A Transactions with Group companies

	2004	2003
Net purchases		
Purchases		3
Services		
Received	3,923	5,751
Provided	180	–
Interest		
Charged	2,255	1,109

Thousand euro

B Foreign-currency transactions

The detail of foreign currency transactions is as follows:

	2004	2003
Services received	11,266	11,579

Thousand euro

C Sales and other revenues

The "Sales" item basically refers to sales of ET-743 to Janssen Pharmaceutical (a subsidiary of Johnson & Johnson) for use in developing Yondelis™ in the United States, and to sales of Yondelis™ for compassionate use.

The "Other operating revenues" item at 31 December 2004 mainly refers to revenues for the transfer of methodology, conclusions and other information connected with clinical trials.

In previous years, the "Other operating revenues" item included revenues from Johnson & Johnson subsidiary Ortho Biotech Products LP (OBP) as a result of the 8 August 2001 licence agreement for Yondelis™. These revenues included the upfront payment and the subsequent payments envisaged in that contract, amounting to a total of 28,000 thousand euro, approximately. Those revenues were recognised in previous years by the method described in note 3.k). The features of the agreement with OBP were disclosed in the 2002 and 2001 financial statements.

D Personnel expenses

	2004	2003
Wages, salaries and similar	8,822	11,322
Indemnities	244	1,312
Employee welfare expenses:		
Employer social security	1,770	2,326
Other welfare expenses	670	874
	11,506	15,834

Thousand euro



18 Financial result

The detail of the financial result is as follows:

	2004	2003
Gains:		
Revenues from other marketable securities and fixed asset loans:		
Non-group companies	108	234
Other interest and similar revenues:		
Other interest	244	79
Exchange gains	97	223
	449	536
Less – losses:		
On debts to Group companies	2,255	1,109
On debts to third parties and similar expenses	1,795	3,350
Exchange losses	113	144
	4,163	4,603
Net financial loss	-3,714	-4,067

Thousand euro

19 Extraordinary items

The detail of extraordinary items is as follows:

	2004	2003
Gains:		
Gain on tangible fixed assets (see note 6)	2,305	287
Capital subsidies transferred to period income	323	229
Extraordinary revenues	24	212
Prior years' revenues and income	131	296
	2,783	1,024
Less – losses:		
Variation in provisions for intangible assets, tangible fixed assets and control portfolio	463	514
Loss on tangible fixed assets	32	141
Loss on financial investments	77	277
Extraordinary expenses	55	30
	627	962
Net extraordinary gain	2,156	62

Thousand euro

20 Other information

A Average number of employees by category

Category	Number	
	2004	2003
Executives and managers	10	12
Technical personnel	98	165
Clerical staff	80	88
Assistants and others	11	12
	199	277



B Directors' remuneration

Directors' remuneration totalled 146 thousand euro in 2004. Also, there were loans to directors for a total of 90 thousand euro at 31 December 2004.

C Auditors' fees

In 2004, the Company paid 43 thousand euro (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.

21 Subsequent events

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.

22 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 euro. There were no material investments in environmental matters in 2004.

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 homogenise 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 protection and improvement expenses amounted to 71 thousand euro in 2004 and relate to waste destruction by third parties.

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

23 Directors' duty of loyalty

The disclosure required by article 127.ter.4 of the Spanish Corporations Law, as amended by Law 26/2003, dated 19 July, is as follows:

Director	Company	Business	Stake	Function
Mr. Stan Kaye (oncologist)	Kudos	Biotechnology (oncology)	0	Member - Scientific Advisory Committee
	Boehringer-Ingelheim	Pharmaceuticals	0	Member - Scientific Advisory Committee
	Xenova	Biotechnology (oncology)	0	Member - Scientific Advisory Committee
	Astex	Biotechnology (oncology)	0	Member - Scientific Advisory Committee
Mr. John Smyth (oncologist)	Helsinn Healthcare	Pharmaceuticals	0	Member - Scientific Advisory Committee
	Arakis Ltd	Pharmaceuticals	0	Member - Scientific Advisory Committee
	Eisai Ltd	Healthcare	0	Member - Scientific Advisory Committee
	Oncore-Therapeutics	Pharmaceuticals (oncology)	0	Member - Scientific Advisory Committee

The other members of the Board of Directors of PHARMA MAR, S.A. declare that they do not have equity holdings and neither hold nor have held in 2004 and up to the date of approval of these financial statements, positions or functions in other companies with activities that are the same, similar or complementary to those of PHARMA MAR, S.A. and its subsidiaries, apart from the companies in the Zeltia group. Additionally, in connection with the aforementioned article, they state that, in the aforementioned period, they have not performed, for their own account or that of third parties, activities that are the same, similar or complementary to those of PHARMA MAR, S.A. and its subsidiaries.

24 Statements of changes in financial position

The statements of changes in financial position for 2004 and 2003 are as follows:

Funds Applied	2004	2003
Funds applied in operations	32,729	55,165
Acquisition of fixed assets	886	9,004
Intangible assets	103	539
Tangible fixed assets	731	8,080
Financial investments	52	385
Cancellation or transfer to short term of long-term debt	2,799	2,121
Due to credit institutions	2,157	2,121
Other payables	642	–
Total funds applied	36,414	66,290
Funds obtained in excess of funds applied (Increase in working capital)	–	–

Thousand euro

Funds Obtained	2004	2003
Capital subsidies	1,104	65
Due to credit institutions	–	–
Other payables	–	6,030
Fixed asset disposals	4,283	994
Tangible fixed assets	4,222	902
Financial investments	61	92
Transfer to short-term of long-term financial investments	1,994	–
Total funds obtained	7,381	7,089
Funds applied in excess of funds obtained (Decrease in working capital)	29,033	59,201

Thousand euro

A Variation in working capital

	2004		2003	
	Increase	Decrease	Increase	Decrease
Accounts receivable	–	9,723	9,082	–
Current liabilities	–	19,532	–	60,440
Short-term financial investments	–	137	–	9,772
Cash	251	–	2,048	–
Accrual adjustments	108	–	–	119
Total	359	29,392	11,130	70,331
Variation in working capital	29,033	–	59,201	–

Thousand euro

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

	2004	2003
Income for the year	-5,899	-21,285
Increase:		
Period depreciation and amortisation	6,441	12,829
Deferred charges	10	129
Variation in provision for financial investments	463	514
Loss on tangible fixed assets	32	141
Loss on financial investments	77	277
Total increase	7,023	13,890
Decrease:		
Capital subsidies	-323	-229
Capitalised in-house work on fixed assets	-31,225	-47,254
Gain on tangible fixed assets	-2,305	-287
Total decrease	-33,853	-47,770
Total funds obtained from/(applied in) operations	-32,729	-55,165

Thousand euro



In 2004, PHARMAMAR successfully attained its targets by covering its funding needs for the year, progressing with its products, and bringing another product into the clinical development phase.

On 28 January 2004, the company unveiled its strategic development plan for 2004-2006, which set out the targets for this period.

In the area of product development, the US Food and Drug Administration (FDA) granted orphan drug designation for the treatment of soft-tissue sarcoma to Yondelis™, our most advanced product. This designation had been applied for by our partner Johnson & Johnson Pharmaceutical Research & Development. Another milestone was the presentation of data from the randomised study on soft-tissue sarcoma (STS), which commenced in 2003 and is being conducted in the US by our partner Johnson & Johnson (J&J) as part of our co-development plan. Because of the effectiveness observed, the trials were expanded to include a total of 260 patients with a view to progressing towards our goal of registering Yondelis™ in 2006.

The ASCO (American Society of Clinical Oncology) meeting in May and the ESMO (European Society of Medical Oncology) meeting in October saw the presentation of data for Yondelis™ on ovarian cancer which will lay the foundation for a trial of Yondelis™ combined with Doxil/Caelyx versus Doxil/Caelyx as monotherapy.

Aplidin®, our second-most advanced product, continued in exploratory Phase II trials on a number of types of solid tumours. Additionally, phase I paediatric trials of leukaemia and solid tumours were added to the Aplidin® clinical programme in 2004. A total of six new studies of Aplidin® commenced. The onco-haematology programme with Aplidin® also commenced, including clinical trials on a number of haematological neoplasias.

At the ESMO meeting in Vienna, in October, new data were presented on the preliminary results of a Phase II trial with Aplidin® as second-line treatment for advanced or metastatic melanoma. This trial showed that Aplidin® is active as a sole treatment against melanoma in previously-treated patients, and that its safety profile is acceptable. The researcher concluded that further development of Aplidin® for this therapeutic use is justified; this will start in 2005.

In 2004, Aplidin® received three orphan drug designations (ODD). In the US, it received ODD from the FDA for the treatment of acute lymphoblastic leukaemia and multiple myeloma. In Europe, the European Commission granted Aplidin® ODD for multiple myeloma.

In June 2004, the FDA granted Aplidin® Investigational New Drug (IND) status, enabling Phase II trials to commence in the US.

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Kahalalide F, another product in clinical trials, continued its development in 2004, and new Phase II trials on malignant melanoma and lung cancer were launched. Recruitment in the other pre-existing studies continued on schedule in 2004, including most notably the Phase II trial on patients with hepatic carcinoma.

In 2004, clinical development of Kahalalide F for severe psoriasis commenced. This development of a new application for the drug arose because signs of activity detected in Phase I trials, coupled with its excellent safety profile, suggest that this is a promising avenue for expanding the compound's range of application.

ES-285, our fourth compound in clinical trials, continued with four Phase I trials at a number of European centres, attaining an excellent level of patient recruitment.

As a result of PHARMAMAR's research, our fifth compound, Zalypsis[®], entered Phase I clinical trials in 2005, thus achieving our objective of bringing one compound into clinical development every two years.

The company's strategic plan for 2004, 2005 and 2006 was presented in January 2004; finances are a fundamental aspect of the plan.

PHARMAMAR reduced non-capitalisable operating expenses from 18.6 million euro in 2003 to 7.9 million euro in 2004 (excluding depreciation and amortisation expense). Non-capitalisable expenses are those not directly related to R&D, such as cost of goods sold, and marketing and general expenses.

The company invested 31.2 million euro in research and development in 2004, 16 million euro less than in 2003. This reduction is in line with the strategic plan, which focuses investment on the products that are most advanced.

On 30 March 2004, the Company sold its former facilities in Tres Cantos for 3.32 million euro, obtaining a gain of 1.98 million euro.

During the year, the Company acquired 1,846 shares of its parent company, Zeltia, S.A., and sold 1,846 shares. These acquisitions were a result of the Zeltia Group employee stock ownership plans for 2001, 2002, 2003 and 2004 since certain of the circumstances envisaged in the plans actually arose.

