

Financial Statements

2000



A free translation of the report on the annual accounts originally issued in Spanish and prepared in accordance with generally accepted accounting principles in Spain. In the event of a discrepancy, the Spanish language version prevails

REPORT OF THE AUDITORS

To the shareholders of
Pharma Mar, S.A.

1. We have audited the accounts of **Pharma Mar, S.A.** consisting of the balance sheet as at 31 December 2000, the profit and loss account and the notes to the accounts 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 the accounts taken as a whole, based on the work carried out in accordance with auditing standards generally accepted in Spain which require the examination, on a test basis, of evidence supporting the accounts and an evaluation of their overall presentation, the accounting principles applied and the estimates made.
2. In accordance with the Spanish Mercantile Legislation, the Directors have included the figures for 1999 relating to each item in the 2000 balance sheet, profit and loss account and statement of source and application, for purposes of comparison. Our opinion refers solely to the accounts for the year ended 31 December 2000. On 28 March 2000, we issued our audit report on the annual accounts for the year ended 31 December 1999, in which we expressed an unqualified opinion.
3. As mentioned in note 1 to the accounts, at 31 December 2000, the Company's activity mainly consisted of developing bioactive agents for the lines of research described in note 5 to the accompanying accounts. No products have yet been launched on to the market.
4. In our opinion, the accompanying accounts for the year ended 31 December 2000 give, in all material respects, a true and fair view of the state of affairs of **Pharma Mar, S.A.** at 31 December 2000 and the results of its operations and source and application of funds for the year then ended and contain 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 that of the previous year.
5. The accompanying Directors' Report for the year ended 31 December 2000 contains such explanations on the state of the Company's affairs, the development of its business and other matters as the Directors consider appropriate and does not form part of the accounts. We have ensured that the financial information contained in the Directors' Report agrees with the accounts for the year ended 31 December 2000. The scope of our work as auditors is limited to checking the Directors' Report to the extent set out 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 Bernard D. de Spéville

21 March 2001

Certificate by the Secretary to the effect that, after formulation by the Board of Directors on 20 March 2001 of the Financial statements and Management Report of PHARMAMAR, S.A. for the year ended 31 December 2000, 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 20 March 2001.

Secretary of the Board of Directors:
Íñigo Zurita Goñi

Balance sheets

for the years ended 31 December 2000 and 1999

ASSETS

| (Thousands of pesetas) | 2000 | 1999 |
|---|-------------------|-------------------|
| Fixed and other non-current assets | 12,327,743 | 8,582,594 |
| Start-up expenses | 46,068 | 64,161 |
| Intangible assets | 10,956,718 | 7,657,177 |
| Tangible fixed assets | 518,451 | 193,255 |
| Financial investments | 779,221 | 621,178 |
| Treasury stock | 27,285 | 46,823 |
| Deferred charges | 62,965 | 42,383 |
| Current assets | 429,575 | 2,914,932 |
| Accounts receivable | 329,316 | 2,264,903 |
| Short-term investments | 57,508 | 622,514 |
| Cash | 42,751 | 27,515 |
| | 12,820,283 | 11,539,909 |

LIABILITIES

| (Thousands of pesetas) | 2000 | 1999 |
|---------------------------------------|-------------------|-------------------|
| Shareholders' Equity | 9,346,520 | 9,672,550 |
| Subscribed capital stock | 5,807,410 | 5,807,410 |
| Share premium | 5,836,684 | 5,817,146 |
| Reserves | 37,781 | 57,319 |
| Prior years' losses | (2,009,325) | (1,691,814) |
| Loss for the year | (326,030) | (317,511) |
| Deferred income | 69,333 | 92,642 |
| Long-term debt | 1,057,897 | 899,604 |
| Due to credit entities | 825,899 | 593,445 |
| Other accounts payable | 204,405 | 249,824 |
| Uncalled capital | 27,593 | 56,335 |
| Current liabilities | 2,346,533 | 875,113 |
| Due to credit entities | 144,326 | 108,644 |
| Due to Group and Associated Companies | 1,214,242 | 38,388 |
| Trade accounts payable | 681,060 | 505,836 |
| Other non-trade debt | 306,905 | 222,245 |
| | 12,820,283 | 11,539,909 |

Income Statements

for the years ended 31 December 2000 and 1999

EXPENSES

| (Thousands of pesetas) | 2000 | 1999 |
|---|----------------|------------------|
| Purchases | 880,405 | 1,596,426 |
| Personnel expenses | 838,071 | 614,773 |
| Period depreciation and amortization | 91,527 | 80,764 |
| Variation in operating provisions | (500) | 5,430 |
| Other operating expenses | | |
| Outside services | 1,994,001 | 298,636 |
| Taxes other than corporate income tax | 80,660 | 59,771 |
| Financial income, net | - | 1,292 |

REVENUES

| (Thousands of pesetas) | 2000 | 1999 |
|--------------------------------------|------------------|------------------|
| Net sales | | |
| Services provided | 94,000 | 71,000 |
| Capitalized in-house work | 3,331,086 | 2,211,757 |
| Other operating revenues | | |
| Ancillary and other current revenues | - | 4,052 |
| Operating subsidies | 650 | - |
| Operating loss | 458,428 | 368,991 |
| Financial loss, net | 13,659 | - |
| Loss on ordinary activities | 472,087 | 367,699 |
| Extraordinary loss, net | 39,653 | 66,175 |
| Loss before taxes | 511,740 | 433,874 |
| Corporate income tax | (185,710) | (116,364) |
| Loss for the year | 326,030 | 317,511 |

Financial Statements

for the years ended 31 December 2000

1. Company business

PharmaMar S.A.'s main activity is research, development and marketing of bio-active principles, particularly those of marine origin, for application in human medicine, especially in the antineoplastic, antiviral and immunomodulation fields and the area of tropical diseases. At year-end, the Company had not yet commenced marketing the products of its business, all of which were at the development phase. Its main facilities and its corporate and tax domicile are located at calle de la Calera nº3, Tres Cantos (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 Chart of Accounts in order to give a true and fair view of the Company's net worth, financial position and results. 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 pesetas.

b) Grouping of items

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

c) Comparison of figures

Some of the 1999 figures have been reclassified in these financial statements in order to make them comparable with the 2000 figures and facilitate verification.

3. Accounting principles

a) Start-up expenses

Incorporation, pre-opening and capital increase expenses are recorded at cost, net of amortization, which is calculated 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 subsist:

- 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 and economic-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 undergo variation, the unamortized portion is transferred to income in that period.

Capitalizable expenses on development projects are recorded under Research and Development Expenses until completion of the project. Finished projects which give rise to industrial 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.

Assets acquired under financial leases 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 using a financial criteria.

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 deducting 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 developments in 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 last 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 entered in the income statement at the exchange rate applicable on the realization date. All losses (whether realized or not) and realized gains are taken to income; unrealized gains are recorded as deferred income and are recognized when realized. From 1 January 1999, foreign currency is taken to mean any currency other than the Euro and the national currencies of the member states participating in Economic and Monetary Union, which have adopted the Euro as their current currency.

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) 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 reversed.

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 reversion 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.

h) Grants

Grants received are recorded at the amount obtained, if not refundable. They are classified as such if the conditions established for granting are met or if there are no doubts that they will be met in the future. Grants are allocated to income in proportion to the depreciation taken in the period on the assets they finance.

Operating grants are taken to income.

i) **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 using a financial criteria.

j) **Treasury stock**

Treasury stock is carried in the balance sheet at the lower of cost or market, and the reserve required by the current legislation is recorded.

k) **Recognition of 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 principle of prudence, 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.

4. Start-up expenses

The variations in the Start-up expenses items in 2000 and 1999 are as follows:

| Thousands of pesetas | Capital increase expenses | Total |
|-----------------------------|---------------------------|---------------|
| Opening balance 1999 | 26,435 | 26,435 |
| Additions | 55,236 | 55,236 |
| Amortization | (17,510) | (17,510) |
| Ending balance 1999 | 64,161 | 64,161 |
| Additions | – | – |
| Amortization | (18,093) | (18,093) |
| Ending balance 2000 | 46,068 | 46,068 |

a) **Incorporation and capital increase expenses**

Incorporation and capital increase expenses include mainly attorneys', notaries' and registrars' fees, taxes and other items incurred in capital increases.

| Thousands of pesetas | Net book value | |
|-----------------------|----------------|---------------|
| Capital increase date | 2000 | 1999 |
| 1996 | 1,833 | 3,832 |
| 1997 | 3,779 | 6,802 |
| 1998 | 4,553 | 6,577 |
| 1999 | 35,903 | 49,950 |
| | 46,068 | 64,161 |

5. Intangible assets

The variations in the intangible assets accounts in 2000 and 1999 are as follows:

| Thousands of pesetas | Research and development | Computer software | Lease rights | Total |
|-----------------------------|--------------------------|-------------------|----------------|-------------------|
| COST | | | | |
| Opening balance 1999 | 5,214,666 | 3,637 | 397,177 | 5,615,480 |
| Additions | 2,211,757 | 10,494 | 62,252 | 2,284,503 |
| Reductions/retirements | (38,410) | – | – | (38,410) |
| Transfers | – | – | – | – |
| Ending balance 1999 | 7,388,013 | 14,131 | 459,429 | 7,861,573 |
| Additions | 3,331,086 | 5,276 | – | 3,336,362 |
| Transfers | – | – | (12,042) | (12,042) |
| Ending balance 2000 | 10,719,099 | 19,407 | 447,387 | 11,185,893 |
| AMORTIZATION | | | | |
| Opening balance 1999 | – | 1,438 | 175,179 | 176,617 |
| Provisions | – | 1,431 | 26,348 | 27,779 |
| Ending balance 1999 | – | 2,869 | 201,527 | 204,396 |
| Provisions | – | 3,123 | 28,204 | 31,327 |
| Transfers | – | – | (6,548) | (6,548) |
| Ending balance 2000 | – | 5,992 | 223,183 | 229,175 |
| NET BOOK VALUE | | | | |
| Opening 1999 | 5,214,666 | 2,199 | 221,998 | 5,438,863 |
| Ending 1999 | 7,388,013 | 11,262 | 257,902 | 7,657,177 |
| Ending 2000 | 10,719,099 | 13,415 | 224,204 | 10,956,718 |

a) Research and development

Capitalized research and development expenses relate to the following projects:

| Thousands of pesetas | 2000 | | | | 1999 | | | | |
|---------------------------|-------------------|-------------------|---------------|----------|-------------------|------------------|---------------|----------|------------------|
| | Project | Cost | Accum. amort. | Prov. | Net | Cost | Accum. amort. | Prov. | Net |
| Performed in-house | | | | | | | | | |
| | Antineoplastic | 10,109,056 | – | – | 10,109,056 | 6,808,522 | – | – | 6,808,522 |
| | Antimalarial | 381,445 | – | – | 381,445 | 356,502 | – | – | 356,502 |
| | Immunosuppressors | 132,811 | – | – | 132,811 | 129,716 | – | – | 129,716 |
| | Antiviral | 95,787 | – | – | 95,787 | 93,273 | – | – | 93,273 |
| | Total | 10,719,099 | – | – | 10,719,099 | 7,388,013 | – | – | 7,388,013 |

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

b) Assets acquired under financial leases

The Intangible Assets - Lease rights caption contains the assets acquired under financial leases according to the following detail:

| Thousands of pesetas | | | | Payments in year | | Outstanding payments |
|--|---------------|---------|-----------------------|------------------|-----------------|----------------------|
| | Contract term | Cost | Purchase option value | 2000 | 1999 & previous | 31.12.2000 |
| Land and buildings | 10 years | 350,000 | 57,150 | 39,803 | 324,362 | 240,932 |
| Technical installations and machinery | 3 years | 90,248 | 2,618 | 31,488 | 25,919 | 39,764 |
| Other installations, tools and furniture | 5 years | - | 213 | - | 12,467 | - |
| Other assets | 5 years | - | 54 | - | 3,122 | - |
| | 3 years | 7,139 | 208 | 2,474 | 18,702 | 1,032 |
| | | 447,387 | 60,244 | 73,765 | 384,572 | 281,734 |

6. Tangible fixed assets

The variations in the Tangible fixed assets accounts in 2000 and 1999 are as follows:

| Thousands of pesetas | | | | | |
|-----------------------------|--------------------|---------------------------------------|--|-----------------------------|----------------|
| | Land and buildings | Technical installations and machinery | Other installations, tools and furniture | Other tangible fixed assets | Total |
| COST | | | | | |
| Opening balance 1999 | - | 277,489 | 130,423 | 27,355 | 435,267 |
| Additions | - | 36,359 | 85,221 | 5,553 | 127,133 |
| Reductions/retirements | - | (1,578) | - | - | (1,578) |
| Ending balance 1999 | - | 312,270 | 215,644 | 32,908 | 560,822 |
| Additions | 211,086 | 58,406 | 83,901 | 15,767 | 369,160 |
| Reductions/retirements | - | (5,742) | (2,001) | (2,392) | (10,135) |
| Transfers | - | - | 9,650 | 2,392 | 12,042 |
| Ending balance 2000 | 211,086 | 364,934 | 307,194 | 48,675 | 931,889 |
| DEPRECIATION | | | | | |
| Opening balance 1999 | - | 239,243 | 79,075 | 15,195 | 333,513 |
| Provisions | - | 16,994 | 14,995 | 3,536 | 35,475 |
| Reductions/retirements | - | (1,421) | - | - | (1,421) |
| Ending balance 1999 | - | 254,766 | 94,070 | 18,731 | 367,568 |
| Provisions | 15 | 14,762 | 22,299 | 5,031 | 42,107 |
| Reductions/retirements | - | (88) | (1,063) | (1,634) | (2,785) |
| Transfers | - | - | 4,914 | 1,634 | 6,548 |
| Ending balance 2000 | 15 | 269,440 | 120,221 | 23,762 | 413,438 |
| NET BOOK VALUE | | | | | |
| Opening 1999 | - | 38,246 | 51,348 | 12,160 | 101,754 |
| Ending 1999 | - | 57,504 | 121,574 | 14,177 | 193,255 |
| Ending 2000 | 211,071 | 95,494 | 186,973 | 24,913 | 518,451 |

a) Assets acquired from Group and associated companies

The assets acquired from Group and associated companies in the years ended 31 December 2000 and 1999 are as follows:

| Thousands of pesetas | 2000 | | | 1999 | | |
|--|-------|--------------------------|----------------|-------|--------------------------|----------------|
| | Cost | Accumulated depreciation | Net book value | Cost | Accumulated depreciation | Net book value |
| Technical installations and machinery | 2,824 | 275 | 2,549 | 905 | 51 | 854 |
| Other installations, tools and furniture | 1,055 | 357 | 698 | 1,000 | 153 | 847 |
| | 3,879 | 632 | 3,247 | 1,905 | 204 | 1,701 |

b) Grants received

The acquisition of fixed assets was partly financed with a 2.8 million pesetas grant from CDTI. All the conditions attached to the grants received in connection with tangible fixed assets have been 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.

7. Financial investments

The variations in the Financial investment accounts in 2000 and 1999 are as follows:

| Thousands of pesetas | Opening balance 1999 | Additions | Retirements | Ending balance 1999 | Additions | Retirements | Ending balance 2000 |
|----------------------------------|----------------------|----------------|---------------|---------------------|----------------|----------------|---------------------|
| Group companies | | | | | | | |
| Holdings | 104,873 | - | - | 104,873 | - | - | 104,873 |
| Loans | 18,749 | - | 8,416 | 10,333 | - | 10,014 | 319 |
| Associated companies | | | | | | | |
| Holdings | 10,800 | 2,700 | - | 13,500 | 1,500 | - | 15,000 |
| Loans | 3,728 | - | 1,864 | 1,864 | - | 1,864 | - |
| Other loans | 419 | 1,411 | 990 | 840 | - | - | 840 |
| Financial investments | - | 59,000 | - | 59,000 | - | 34,729 | 24,271 |
| Long-term tax receivables | 351,398 | 130,709 | 3,437 | 478,670 | 200,745 | - | 679,415 |
| Deposits | 615 | 21 | - | 636 | 450 | 489 | 597 |
| Total | 490,582 | 193,841 | 14,707 | 669,716 | 202,695 | 47,096 | 825,315 |
| Less – provisions | 48,538 | - | - | 48,538 | - | (2,444) | 46,094 |
| | 442,044 | 193,841 | 14,707 | 621,178 | 202,695 | 44,652 | 779,221 |

The figure of 200,745 in addition to the Long-term tax receivables caption corresponds to the tax credit recognized in the year due to tax loss (explained in greater detail in note 15 below).

a) Holdings in Group companies

| Name and domicile | Line of business | Percentage of ownership | |
|--|---|-------------------------|---------------|
| | | 2000 | 1999 |
| | | Direct % | Direct % |
| OXACO c/BA Faucigny (Switzerland) | Research & production of pharmaceuticals | 99.8% | 99.8% |
| PharmaMar USA Cambridge (USA) | Research & production of pharmaceuticals | 100.0% | 100.0% |

None of the Group companies in which the Company has an ownership interest are listed. OXACO is in the process of liquidation.

The Company has provisioned 100% of the investment in Oxaco. The capital, reserves, income for the year and other details of interest for 2000, per the company's financial statements, are as follows:

| Thousands of pesetas Company | Capital | Reserves | 2000 loss | Prior years' losses | Book value | Provision |
|---------------------------------|---------------|----------|--------------|------------------------|---------------|-----------------|
| OXACO | 46,187 | - | (794) | (51,810) | 46,094 | (46,094) |
| | 46,187 | - | (794) | (51,810) | 46,094 | (46,094) |

The Company has made no provision for the stake in PharmaMar USA. The capital, reserves, income for the year and other details of interest for 2000, per the company's financial statements, are as follows:

| Thousands of pesetas Company | Capital | Pending disbursement | 2000 income | Prior years' income | Book value | Provision |
|---------------------------------|---------------|-------------------------|----------------|------------------------|---------------|-----------|
| PHARMAMAR USA | 58,778 | 27,593 | 9,025 | - | 58,778 | - |
| | 58,778 | 27,593 | 9,025 | - | 58,778 | - |

A total of 19,757 shares of PharmaMar USA (equivalent to 27,592,599 pesetas) are pending disbursement (Note 13 a).

b) Holdings in associated companies:

In 2000, the Company subscribed a capital increase at Instituto BIOMAR, S.A. and maintained its 15% stake.

| Name | Line of business | Percentage of ownership | |
|-------------------------|--------------------------------|-------------------------|------------|
| | | 2000 | 1999 |
| | | Direct % | Direct % |
| Instituto BIOMAR | Pharmaceutical research | 15% | 15% |

The capital, reserves, income for the year and other details of interest for 2000, per the company's financial statements, are as follows:

| Thousands of pesetas | | | | | | |
|----------------------|---------|----------|-------------|---------------------|----------------------------------|-----------|
| Company | Capital | Reserves | 2000 income | Prior years' losses | Net book value at parent company | Provision |
| Instituto BIOMAR | 100,000 | 41 | 435 | (916) | 15,000 | - |
| | 100,000 | 41 | 435 | (916) | 15,000 | - |

c) Loans

The amounts of loans, by year of maturity, which were outstanding at 2000 year-end, are as follows:

| Thousands of pesetas | | | |
|-----------------------------|-----------------|-------|-------|
| Maturing in | Group companies | Other | Total |
| 2002 | 319 | 567 | 886 |
| 2003 | | 273 | 273 |
| | 319 | 840 | 1,159 |
| Less – short-term component | - | - | - |
| Total long term | 319 | 840 | 1,159 |

8. Deferred charges

These amounts relate to financial expenses arising on lease transactions. The variations in 2000 and 1999 are as follows:

| Thousands of pesetas | | | | | | |
|----------------------|-----------|-------------|---------------------|-----------|-------------|---------------------|
| Opening balance 1999 | Additions | Retirements | Ending balance 1999 | Additions | Retirements | Ending balance 2000 |
| 57,426 | 4,419 | 19,462 | 42,383 | 35,220 | 14,638 | 62,965 |
| 57,426 | 4,419 | 19,462 | 42,383 | 35,220 | 14,638 | 62,965 |

9. Accounts receivable

| Thousands of pesetas | | |
|----------------------|---------|-----------|
| | 2000 | 1999 |
| Customers | 10,496 | 10,496 |
| Group companies | 26,650 | 1,897,180 |
| Sundry receivables | 165,475 | 307,331 |
| Employee | 866 | 2,632 |
| Tax receivables | 125,829 | 52,694 |
| | 329,316 | 2,270,333 |
| Less – provisions | - | 5,430 |
| | 329,316 | 2,264,903 |

10. Short-term financial investments

The net variations in the Short-term financial investment accounts in 2000 and 1999 are as follows:

| Thousands of pesetas | Opening balance 1999 | Additions | Retire-ments | Transfers | Ending balance 1999 | Additions | Retire-ments | Ending balance 2000 |
|-----------------------------|----------------------|----------------|----------------|---------------|---------------------|------------|----------------|---------------------|
| Group companies | | | | | | | | |
| Loans | 3,758 | 1,701 | - | - | 5,459 | - | 5,459 | - |
| Associated companies | | | | | | | | |
| Loans | 1,864 | - | - | - | 1,864 | - | - | 1,864 |
| Securities portfolio | 444,007 | 615,129 | 385,007 | 59,000 | 615,129 | - | 560,265 | 54,864 |
| Deposits | - | 62 | - | - | 62 | 718 | - | 780 |
| Total | 449,629 | 616,892 | 385,007 | 59,000 | 622,514 | 718 | 565,724 | 57,508 |

The portfolio of short-term securities comprises mainly government bonds and Treasury bills at annual interest rates of 5%–5.33% (1999: 2%–2.5%).

11. Shareholders' equity

The variations in the Shareholders' equity accounts in 2000 and 1999 are as follows:

| Thousands of pesetas | Subscribed capital stock | Share premium | Reserves (note 11 c) | Prior years' loss | Profit and loss |
|-------------------------------------|--------------------------|------------------|----------------------|--------------------|------------------|
| Opening balance 1999 | 4,782,570 | 1,758,538 | 16,567 | (1,507,978) | (183,836) |
| Distribution of 1998 loss | - | - | - | (183,836) | 183,836 |
| Loss for the year 1999 | - | - | - | - | (317,511) |
| Transfer | - | (40,752) | 40,752 | - | - |
| Capital increase with share premium | 1,024,840 | 4,099,360 | - | - | - |
| Ending balance 1999 | 5,807,410 | 5,817,146 | 57,319 | (1,691,814) | (317,511) |
| Distribution of 1999 loss | - | - | - | (317,511) | 317,511 |
| Loss for the year 2000 | - | - | - | - | (326,030) |
| Transfer | - | 19,538 | (19,538) | - | - |
| Ending balance 2000 | 5,807,410 | 5,836,684 | 37,781 | (2,009,325) | (326,030) |

a) Capital stock

The capital stock is represented by 580,741 fully-paid common registered shares of 10,000 pesetas par value each.

The shares are freely transferable without restriction.

At 31 December 2000 and 1999, the following companies held 10% or more of the capital stock:

| Company | Percentage of ownership | |
|------------------------------------|-------------------------|---------------|
| | 2000 | 1999 |
| Zelfia, S.A. | 77.60% | 58.45% |
| Protección de Maderas, S.A. | 11.13% | - |
| Holdings under 10% | 11.27% | 41.55% |

b) Share premium

This reserve is unrestricted.

c) Reserves

The variations in the Reserve accounts in 2000 and 1999 are as follows:

| Thousands of pesetas | Legal reserve | Reserve for treasury stock | Total |
|-----------------------------------|---------------|----------------------------|---------------|
| Opening balance 1999 | 10,496 | 6,071 | 16,567 |
| For acquisition of treasury stock | – | 40,752 | 40,752 |
| Ending balance 1999 | 10,496 | 46,823 | 57,319 |
| For acquisition of treasury stock | – | (19,538) | (19,538) |
| Ending balance 2000 | 10,496 | 27,285 | 37,782 |

Legal reserve

The legal reserve has been recorded as required by Article 214 of Spain's Corporations Law, which establishes that 10% of the profit for the year 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 profit.

Reserve for treasury stock

The reserve for treasury stock is a restricted reserve and must be maintained for an amount equal to the net book value of the treasury stock until the latter is disposed of or amortized.

d) Loss for the year

The proposed distribution of the 2000 loss which will be presented to the Shareholders' Meeting, and the approved distribution for 1999, are as follows:

| Thousands of pesetas | 2000 | 1999 |
|------------------------------|------------------|------------------|
| Basis of distribution | | |
| Loss for the year | (326,030) | (317,511) |
| | (326,030) | (317,511) |
| Distribution | | |
| Prior years' losses | (326,030) | (317,511) |
| | (326,030) | (317,511) |

e) Treasury stock

The variations in treasury stock in 2000 and 1999 are as follows:

| Thousands of pesetas | Number | Par value | Value of treasury stock |
|-----------------------------|--------------|---------------|-------------------------|
| Opening balance 1999 | 732 | 7,320 | 6,071 |
| Acquisitions | 8,249 | 82,490 | 397,000 |
| Disposals | (6,193) | (61,930) | (356,248) |
| Ending balance 1999 | 2,788 | 27,880 | 46,823 |
| Acquisitions | 4,792 | 47,920 | 239,600 |
| Disposals | (5,995) | (59,950) | (259,138) |
| Ending balance 2000 | 1,585 | 15,850 | 27,285 |

12. Deferred income

The variations in the Deferred income accounts in 2000 and 1999 are as follows:

| Thousands of pesetas | Exchange gains | Capital grants | Other deferred income | Total |
|-----------------------------|----------------|----------------|-----------------------|---------------|
| Opening balance 1999 | – | 77,241 | 220 | 77,461 |
| Additions | 1,701 | 38,000 | 82 | 39,784 |
| Taken to income | – | (24,501) | (101) | 24,603 |
| Ending balance 1999 | 1,701 | 90,740 | 201 | 92,642 |
| Additions | – | 4,779 | – | 4,779 |
| Retirements | – | (3,843) | – | (3,843) |
| Taken to income | – | (24,245) | – | (24,245) |
| Ending balance 2000 | 1,701 | 67,431 | 201 | 69,333 |

a) Capital grants

The detail of the capital grants is as follows:

| Thousands of pesetas | 2000 | 1999 | Granted |
|-------------------------------|---------------|---------------|---------|
| Granted by | | | |
| Z.U.R. | – | 1,417 | 1991 |
| Ministry of Industry & Energy | 2,740 | 4,110 | 1992 |
| BIOMED | 40,796 | 54,395 | 1998 |
| Ministry of Education | 4,800 | 6,400 | 1999 |
| Ministry of Industry & Energy | 14,993 | 24,418 | 1999 |
| Ministry of Education | 1,600 | – | 2000 |
| CDTI | 2,502 | – | 2000 |
| | 67,431 | 90,740 | |

These grants 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.

13. Long-term debt

a) Analysis by maturity

At 2000 year-end, the long-term non-trade debt matured as follows:

| Maturing | Due to credit entities | Other debts | Uncalled capital | Total |
|------------------------------------|------------------------|----------------|------------------|------------------|
| 2001 | 18,280 | 77,352 | – | 95,632 |
| 2002 | 203,440 | 55,469 | – | 258,909 |
| 2003 | 13,994 | 42,192 | – | 56,186 |
| 2004 | 14,651 | 38,743 | – | 53,395 |
| 2005 | 15,339 | 68,001 | – | 83,340 |
| Subsequent years | 578,475 | – | 27,593 | 606,067 |
| Total | 844,179 | 281,757 | 27,593 | 1,153,529 |
| Less – short-term component | 18,280 | 77,352 | – | 95,632 |
| Total long term | 825,899 | 204,405 | 27,593 | 1,057,897 |

i) The debit Due to credit entities is as follows:

| Thousands of pesetas | |
|------------------------|----------------|
| Banco Atlántico | 178,400 |
| Banco Mapfre | 72,334 |
| CDTI | 550,885 |
| Other credits | 36,560 |

The Banco Atlántico loan totalling 178.4 million pesetas, matures in 2002 and bears 5.84% interest. The Banco Mapfre loan amounting to 72,334,000 pesetas, matures in 2007 and bears 5.14% interest.

ii) The debt with CDTI item relates to a subordinated loan of 556,885,000 pesetas from the Ministry of Industry and Energy's Centro para el Desarrollo Técnico e Industrial (CDTI) to finance the Project to Produce Pharmaceuticals from Marine and Other Sources, subject to the following conditions:

- Annual repayment of 30% of the funds obtained from operations in the prior year.
- The interest rate during the repayment period is 3%, payable half-yearly, plus supplementary interest equal to the higher of the average return on equity or 7%, payable on repayment of the loan.

Of the 556,885,000 pesetas, 490,000,000 pesetas are the debt principal and the remaining 66,885,000 pesetas are capitalized interest.

iii) The other long-term loans from official agencies relate to aid for R&D projects from the Interministerial Commission for Science and Technology.

This loan bears 0% interest and is repayable over five years, with a one-year grace period.

b) Other long-term debt

| Thousands of pesetas | 2000 | 1999 |
|-----------------------|----------------|----------------|
| Other debt | | |
| Fixed-asset suppliers | 204,406 | 249,824 |
| | 204,406 | 249,824 |

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 pesetas; denominated in | | | |
|--|--|---------------|------------|----------------|
| | Pounds sterling | US dollars | Other | Total |
| Purchases and services received | 116,206 | 38,864 | 341 | 155,410 |
| | 116,206 | 38,864 | 341 | 155,410 |

The detail of the Credit lines and other caption is as follows:

| Thousands of pesetas | 2000 | | 1999 | |
|--|----------------|------------------|---------------|------------------|
| | Drawn | Limit | Drawn | Limit |
| Credit line | 126,046 | 2,015,000 | 18,030 | 1,275,000 |
| Short-term component of long-term loans | 18,280 | 18,280 | 18,280 | 18,280 |
| Other short-term loans | - | - | 72,334 | 72,334 |
| | 144,326 | 2,033,280 | 108,644 | 1,365,614 |

The credit lines bore average interest of 5.548% in 2000.

b) Due to Group and Associated companies

| Thousands of pesetas | 2000 | 1999 |
|------------------------------------|------------------|---------------|
| Due to Group companies | | |
| Zeltia | 1,214,172 | 220 |
| Pharma Gen | 70 | 77 |
| PharmaMar USA | - | 5,888 |
| Due to Associated companies | | |
| Instituto Biomar | - | 32,203 |
| | 1,214,242 | 38,388 |

c) Other non-trade debt

| Thousands of pesetas | 2000 | 1999 |
|--|----------------|----------------|
| Tax payables | 129,577 | 76,560 |
| Short-term financial lease payables | 77,352 | 72,643 |
| Compensation payable | 99,976 | 73,042 |
| | 306,905 | 222,245 |

15. Corporate income tax and tax situation

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:

| Thousands of pesetas | 2000 | | | 1999 |
|----------------------------------|--------------|---------------|------------------|------------------|
| | Increases | Decreases | Total | |
| Net loss for the year | - | - | (326,030) | (317,511) |
| Corporate income tax | - | - | (185,710) | (116,364) |
| Loss before taxes | - | - | (511,740) | (433,874) |
| Permanent differences | 1,795 | 29,009 | (27,214) | 91,711 |
| Timing differences | | | | |
| arising in the current year | - | 34,604 | (34,604) | (31,290) |
| Taxable base (tax result) | - | - | (573,558) | (373,454) |

The charge for corporate income tax is composed as follows:

| Thousands of pesetas | 2000 | 1999 |
|---|-----------------|-----------------|
| Tax losses available for carryforward | 200,745 | 130,709 |
| Pre-paid corporate income tax | (12,111) | (10,952) |
| Adjustment for pre-paid corporate income tax | (3,393) | (3,393) |
| Other adjustments | (469) | - |
| | 185,710 | 116,364 |

The following investment tax credits and job creation tax credits are available for use until the following years:

| Year earned | Thousands of pesetas | Expiring in |
|-------------|----------------------|-------------|
| 1995 | 123,901 | 2001 |
| 1996 | 125,814 | 2002 |
| 1997 | 74,565 | 2003 |
| 1998 | 161,467 | 2004 |
| 1999 | 414,109 | 2005 |
| 2000 | 745,040 | 2006 |
| | 1,644,896 | |

During 1997 the tax authorities audited the Company's tax situation for the years 1991, 1992, 1993, 1994 and 1995 and issued assessments for 271,254,850 pesetas which the Company contested. During 1998, the tax authorities reconsidered the content and amount of some of those assessments, and the tax assessments currently in dispute amount to 118,015,779 pesetas.

No provision has been recorded for the contested assessments since, based on the opinion of independent experts, Company management considers that its appeals will be successful and that no loss will ensue for the Company.

The Company has 1997, 1998, 1999 and 2000 open for review for all applicable taxes except for corporate income tax, for which 1996 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 tax losses available for offset for corporate income tax purposes. The amounts available for offset, assuming no change in the tax rate, are as follows:

| Year | Thousands of pesetas | Expiring in |
|------|----------------------|-------------|
| 1993 | 51,530 | 2003 |
| 1994 | 75,624 | 2004 |
| 1995 | 57,020 | 2005 |
| 1996 | 59,246 | 2006 |
| 1997 | 134,394 | 2007 |
| 1998 | 97,301 | 2008 |
| 1999 | 130,709 | 2009 |
| 2000 | 200,745 | 2010 |
| | 806,569 | |

The Company records under Long-term tax receivables (note 7) the amount of pre-paid taxes arising mainly from offsetable tax losses generated in 1995, 1996, 1997, 1998, 1999 and 2000.

16. Revenues and expenses

a) Transactions with Group and associated companies

| Thousands of pesetas | 2000 | | 1999 | |
|----------------------|-----------------|----------------------|-----------------|----------------------|
| | Group companies | Associated companies | Group companies | Associated companies |
| Net purchases | | | | |
| Purchases | 1,242 | – | 985 | – |
| Services | | | | |
| Received | 353,054 | 72,270 | 145,446 | 87,189 |
| Provided | – | – | 498 | – |
| Interest | | | | |
| Paid | 25,105 | – | 36,096 | – |
| Charged | 17,000 | – | – | – |

b) Foreign-currency transactions

The detail of foreign currency transactions is as follows:

| Thousands of pesetas | 2000 | 1999 |
|--------------------------|------------------|------------------|
| Services received | 1,920,919 | 1,198,391 |

c) Personnel expenses

| Thousands of pesetas | 2000 | 1999 |
|------------------------------------|----------------|----------------|
| Wages, salaries and similar | 640,890 | 468,029 |
| Employee welfare expenses | | |
| Indemnities | 1,031 | 29,337 |
| Employer social security | 137,895 | 93,493 |
| Other welfare expenses | 58,255 | 23,914 |
| | 838,071 | 614,773 |

17. Financial result

The detail of the financial result is as follows:

| Thousands of pesetas | 2000 | 1999 |
|---|-----------------|---------------|
| Gains | | |
| Revenues from other marketable securities and long-term loans | | |
| Non-group companies | 12,616 | 23,471 |
| Other interest and similar revenues | | |
| Group companies | 25,105 | 36,096 |
| Other interest | 2,439 | 732 |
| Exchange gains | 9,468 | 2,836 |
| | 49,629 | 63,135 |
| Less – losses | | |
| On debts to Group companies | 17,000 | – |
| On debts to third parties and similar expenses | 61,699 | 47,138 |
| Variation in provision for financial investments | (31,293) | – |
| Exchange losses | 15,881 | 14,706 |
| | 63,287 | 61,843 |
| Net financial gain/loss | (13,659) | 1,292 |

18. Extraordinary items

The detail of extraordinary items is as follows:

| Thousands of pesetas | 2000 | 1999 |
|--|-----------------|-----------------|
| Gains | | |
| Gain on transactions with shares | 4,027 | 34,195 |
| Capital grants transferred to result for the year | 24,245 | 24,501 |
| Extraordinary revenues | 2,341 | 286 |
| Prior years' revenues and income | 5,492 | 7,342 |
| | 36,105 | 66,324 |
| Less – losses | | |
| Variation in provisions for intangible assets, tangible fixed assets and control portfolio | (2,444) | 80,793 |
| Loss on fixed assets | 1,664 | 157 |
| Loss on financial investments | 75,356 | – |
| Extraordinary expenses | 1,048 | 128 |
| Prior years' expenses and losses | 134 | 51,421 |
| | 75,758 | 132,500 |
| Net extraordinary loss | (39,653) | (66,175) |

19. Other information

a) Average number of employees by category

| Category | Number | |
|--------------------------------|------------|-----------|
| | 2000 | 1999 |
| Executives and managers | 10 | 11 |
| Technical personnel | 66 | 44 |
| Clerical staff | 23 | 9 |
| Assistants | 9 | 13 |
| | 108 | 77 |

b) Directors' remuneration:

Directors' remuneration totaled 27 million pesetas in 2000 for all concepts and correspond to 1999 and 2000.

20. Introduction of the Euro

The Company analyzed the implications of the introduction of the Euro for its general structure. In this connection, it developed a plan of action in order to meet the key milestones in the introduction of the Euro. The estimated costs of the action to be taken and the investments and expenses to be incurred as a result of the introduction of the Euro are not material.

21. Statements of changes in financial position

The statements of changes in financial position for 2000 and 1999 are as follows:

FUNDS APPLIED

| Thousands of pesetas | 2000 | 1999 |
|--|------------------|------------------|
| Funds applied in operations | 3,759,242 | 2,470,009 |
| Start-up and debt-arrangement expenses | – | 55,236 |
| Acquisition of fixed assets | 391,421 | 277,355 |
| Intangible assets | 5,276 | 72,746 |
| Tangible fixed assets | 369,160 | 127,132 |
| Financial investments | 16,985 | 77,477 |
| Deferred charges | 35,220 | – |
| Acquisition of treasury stock | – | 121,545 |
| Cancellation or transfer to short term of long-term debt | 18,280 | 90,921 |
| Other payables | 77,352 | – |
| Uncalled share disbursements | 28,742 | – |
| Total funds applied | 4,310,257 | 3,015,066 |
| Funds obtained in excess of funds applied (Increase in working capital) | – | 2,227,776 |

FUNDS OBTAINED

| Thousands of pesetas | 2000 | 1999 |
|--|----------------|------------------|
| Shareholders' contributions | – | 5,124,200 |
| Capital increases | – | 5,124,200 |
| Deferred income | – | 39,682 |
| Capital grants | 936 | – |
| Due to Credit entities | 250,734 | 49,210 |
| Other payables | 31,933 | – |
| Deferred charges | – | 15,044 |
| Fixed asset disposals | 50,339 | 14,707 |
| Tangible fixed assets | 5,687 | – |
| Financial investments | 44,652 | 14,707 |
| Treasury stock | 19,538 | – |
| Total funds obtained | 353,480 | 5,242,843 |
| Funds applied in excess of funds obtained (Decrease in working capital) | 3,956,777 | – |

a) Variation in working capital

| Thousands of pesetas | 2000 | | 1999 | |
|---|----------|-------------|-----------|-----------|
| | Increase | Decrease | Increase | Decrease |
| Accounts receivable | - | (1,935,587) | 2,155,722 | - |
| Current liabilities | - | (1,471,420) | - | (127,285) |
| Short-term financial investments | - | (565,006) | 172,886 | - |
| Cash | 15,236 | - | 26,453 | - |
| Total | 15,236 | (3,972,013) | 2,355,061 | (127,285) |
| Variation in working capital | | (3,956,777) | 2,227,776 | - |

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

| Thousands of pesetas | 2000 | 1999 |
|--|-------------|-------------|
| Loss for the year | (326,030) | (317,511) |
| Increase | | |
| Depreciation and amortization | 91,527 | 80,764 |
| Financial expenses arising on lease transactions | 14,638 | - |
| Variation in provision for financial investments | - | 80,793 |
| Loss on intangible assets | - | 38,410 |
| Loss on fixed asset disposals | 1,664 | 157 |
| Total increase | 107,829 | 200,124 |
| Decrease | | |
| Capital grants | (24,245) | (24,501) |
| Corporate income tax expense | (185,710) | (116,364) |
| Capitalized in-house work on fixed assets | (3,331,086) | (2,211,757) |
| Total decrease | 3,541,041 | 2,352,622 |
| Total funds obtained from/(applied in) operations | 3,759,242 | 2,470,009 |

Management Report –Year 2000

The year 2000 was highly positive for PharmaMar's development as a biopharmaceuticals company since, in addition to attaining the development targets set for its most advanced products (ET-743 and Aplidine), it also commenced clinical trials of another compound, Kahalalide F. These three compounds, at different stages of development, confirm not only the company's considerable research capacity in investigating new marine-based molecules with anti-tumoral properties but also its ability to encompass all stages of drug development.

ET-743 continued Phase II clinical trials, demonstrating considerable efficacy and a good safety profile in treating certain drug-resistant tumors. In 2000, more than four hundred and fifty new patients received ET-743 in clinical trials (bringing the total to more than eight hundred and forty since Phase I commenced). The trials are taking place in several different centers in Europe, the USA and Canada.

Another product, Aplidine, which commenced Phase I trials in 1999, confirmed the expectations raised at the start of trials last year as to its good safety profile and proved its biological activity in the different clinical studies that were performed. At 2000 year-end, more than 147 patients had been treated with Aplidine in seven hospitals in Europe and Canada, and it had been approved for Phase II.

Kahalalide F, the third compound in clinical trials, commenced Phase I in December 2000. This compound, which is also of marine origin, showed considerable efficacy in pre-clinical trials in the treatment of prostate and breast cancer, and it entered Phase I trials for prostate cancer.

In 2000, other strikingly innovative compounds resulting from PharmaMar's research entered the pre-clinical phase and all evidenced efficacy in the treatment of cancerous tumors, thus confirming and ensuring the continuity of PharmaMar's anticancer project.

A number of milestones in industrial development of the various compounds were passed in 2000, guaranteeing future commercial supplies. The chemical route to obtaining ET-743 was consolidated, a consistent semi-synthetic production system was achieved, and natural production was greatly expanded by the launch of new cultivation methods and their application in new aquaculture areas and facilities. The production of both Aplidine and Kahalalide F was consolidated, obtaining optimum chemical production routes.

In line with its expansion strategy, PharmaMar increased its workforce by 40% (from 78 employees in 1999 to 108 at 31 December 2000). This sizeable increase was aimed at strengthening all existing business areas and creating two new ones – Regulatory Affairs and Marketing – which began taking on the necessary staff for the forthcoming market launch of PharmaMar's products.

Investment in fixed assets was highly significant in 2000, almost doubling the previous year's figure to reach 370 million pesetas. The company incorporated the most advanced technology and upgraded and expanded its facilities to adapt them to the new research

requirements, and it also added more building land in order to ensure future expansion.

Furthermore, the Shareholders' Meeting on 21 December 2000 approved the 5,807 million pesetas capital increase via the issue of 580,741 new ordinary registered shares, each with a par value of 10,000 pesetas, and an issue premium of 7,000 pesetas per share, for a total of 4,065 million pesetas. This capital increase was under way at year-end and was fully subscribed in the first few months of 2001.

Another resolution approved by the same Shareholders' Meeting was the inclusion of PharmaMar's employees in the Zeltia Incentive Plan for employees and executives who receive variable annual remuneration. Under the plan, PharmaMar employees were given the opportunity to purchase shares in Zeltia, S.A. up to a ceiling of twice their net variable annual remuneration.

In 2000, the Company acquired 4,792 own shares and disposed of 5,995 shares, bringing the balance to 1,585 shares as of 31 December.

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