

## ANNEX I

### ANNUAL CORPORATE GOVERNANCE REPORT FOR LISTED PUBLIC LIMITED COMPANIES

#### ISSUER'S IDENTIFICATION

**FISCAL YEAR CLOSING DATE**

31/12/2015

**SPANISH TAX ID (C.I.F.)**

A-78267176

**COMPANY NAME**

PHARMA MAR, S.A.

**REGISTERED OFFICE**

AVENIDA DE LOS REYES 1, POLÍGONO INDUSTRIAL LA MINA, 28770  
COLMENAR VIEJO (MADRID)

## ANNUAL CORPORATE GOVERNANCE REPORT FOR LISTED PUBLIC LIMITED COMPANIES

### A CAPITAL STRUCTURE

A.1 Please complete the table below with details on the company's share capital:

Date of last change	Share capital (€)	Number of shares	Number of voting rights
30/10/2015	11,110,244.35	222,204,887	222,204,887

Please specify whether there are different classes of shares with different associated rights:

Yes  No

A.2 Please list the company's significant direct and indirect shareholders at year end, excluding any board members:

Name of shareholder	Number of direct voting rights	Number of indirect voting rights	% of total voting rights
SAFOLES, S.A.	8,615,205	0	3.88%
SANDRA ORTEGA MERA	0	11,110,333	5.00%

Name of indirect shareholder	Via: Name of direct shareholder	Number of voting rights
SANDRA ORTEGA MERA	ROSP CORUNNA PARTICIPACIONES EMPRESARIALES, S.L.	11,110,333

Please specify the most significant changes in the shareholding structure during the fiscal year:

A.3 Please complete the following tables with details on those board members with voting rights in the company:

Name of director	Number of direct voting rights	Number of indirect voting rights	% of total voting rights
JOSÉ MARÍA FERNÁNDEZ SOUSA-FARO	14,269,511	10,354,841	11.08%
PEDRO FERNÁNDEZ PUENTES	1,386,869	8,615,205	4.50%
ROSP CORUNNA PARTICIPACIONES EMPRESARIALES, S.L.	11,110,333	0	5.00%
MONTSERRAT ANDRADE DETRELL	10,354,841	0	4.66%
ANA PALACIO VALLELERSUNDI	18,900	0	0.01%
JAIME ZURITA SAÉNZ DE NAVARRETE	10,388	0	0.00%
EDUARDO SERRA Y ASOCIADOS, S.L.	9,538	0	0.00%
CARLOS SOLCHAGA CATALÁN	0	0	0.00%
JEFPO, S.L.	0	0	0.00%

Name of indirect shareholder	Via: Name of direct shareholder	Number of voting rights
JOSÉ MARÍA FERNÁNDEZ SOUSA-FARO	MONTSERRAT ANDRADE DETRELL	10,354,841
PEDRO FERNÁNDEZ PUENTES	SAFOLES, S.A.	8,615,205
<b>% of voting rights held by the board of directors</b>		20.60%

Please complete the following tables with details on the company's board members that hold rights over the company's shares:

A.4 If applicable, please specify any family, commercial, contractual or corporate relationships that exist among significant shareholders to the extent that they are known to the company, unless they are insignificant or arise in the ordinary course of business:

Name of Related Party
MONTSERRAT ANDRADE DETRELL
JOSÉ MARÍA FERNÁNDEZ SOUSA-FARO

**Type of Relation:** Family

**Brief Description:**

Montserrat Andrade Detrell is in a community property marriage with José María Fernández Sousa-Faro, who is also a significant shareholder of the Company.

Name of Related Party
JOSÉ MARÍA FERNÁNDEZ SOUSA-FARO
MONTSERRAT ANDRADE DETRELL

**Type of Relation:** Family

**Brief Description:**

José María Fernández Sousa-Faro is in a community property marriage with Montserrat Andrade Detrell, who is also a significant shareholder of the Company.

A.5 If applicable, please specify any commercial, contractual or corporate relationships that exist between significant shareholders and the company and/or its group, unless they are insignificant or arise in the ordinary course of business:

Name of Related Party
JOSÉ MARÍA FERNÁNDEZ SOUSA-FARO
PHARMA MAR, S.A.

**Type of Relation:** Contractual

**Brief Description:**

José María Fernández Sousa-Faro is the Executive Chairman of Pharma Mar, S.A. and has signed an agreement with the company for the provision of executive services. The Board of Directors of Zeltia, S.A. granted prior approval to his execution of said agreement in its meeting on 26 February 2015, at the proposal of its Appointments and Compensation

Committee, as required by Article 249 of the Spanish Capital Corporations Law (*Ley de Sociedades de Capital* - LSC), by the majority required therein. Said agreement (in which Pharma Mar, S.A. succeeded Zeltia, S.A. in its contractual position as a result of the takeover merger of Zeltia, S.A. by Pharma Mar, S.A.) details those items for which the top executive may be compensated for performing his executive duties (fixed annual compensation, variable annual compensation, outstanding bonuses, attendance allowances, severance pay for termination of the agreement based on causes attributable to the company).

Name of Related Party
SAFOLES, S.A.
PHARMA MAR, S.A.

**Type of Relation:** Contractual

**Brief Description:**

The controlling shareholder of SAFOLES, S.A., Pedro Fernández Puentes, is an executive director and Vice Chairman of the Board of Directors of Pharma Mar, S.A. and, as of 31 December 2015, he formed part of its employee workforce, having previously formed part of the employee workforce of Zeltia, S.A. up until its takeover by Pharma Mar, S.A.

A.6 Please specify whether the company has been notified of any shareholder agreements that may affect it, in accordance with Articles 530 and 531 of the Spanish Capital Corporations Law. If so, please provide a brief description of such agreements and list the shareholders they bind:

Yes  No

Please specify whether the company is aware of any existing initiatives agreed by and among its shareholders. If so, please provide a brief description:

Yes  No

If any of the aforementioned agreements or agreed initiatives have been modified or terminated during the year, please expressly indicate such circumstances below:

A.7 Please specify whether any natural or legal person exercises or may exercise control over the company in accordance with Article 4 of the Spanish Securities Market Law (*Ley del Mercado de Valores*). If so, please provide details:

Yes  No

Observations

A.8 Please complete the following tables on the company's own shares:

**At year end:**

Number of direct shares	Number of indirect shares(*)	% of total share capital
895,790	0	0.40%

**(\*) Via:**

Please detail any significant variations during the year in accordance with Royal Decree 1362/2007:

**Explain the significant variations**

A.9 Please describe the conditions and term of the current mandates in force made by the general shareholders meeting to the board of directors to issue, repurchase or transfer own shares.

See section H.1

A.9.bis Estimated floating capital:

<b>Estimated floating capital</b>	<b>%</b>
	79.00

A.10 Please identify any restrictions on the transfer of securities and/or any other restrictions on voting rights. In particular, please identify whether there are any types of restrictions which could prevent the acquisition of control in the company through acquiring shares in the market.

Yes

No

**Description of the restrictions**

Article 18 of the Bylaws establishes the right of shareholders with at least 100 shares, notwithstanding the right of shareholders with fewer shares to form groups with other shareholders in identical circumstances to accumulate the required number of shares, to attend the General Shareholders Meeting.

In accordance with Article 25.2 of the Bylaws, as regards calculating votes, each share present in person or by proxy at the General Shareholders Meeting shall have the right to one vote, excluding non-voting shares, in accordance with the provisions of law. It is worth noting in this regard that the Company has resolved on the issuance of non-voting shares.

See additional information in section H.1

A.11 Please indicate whether the general shareholders meeting has resolved to adopt measures to neutralize a takeover bid pursuant to the provisions of Law 6/2007.

Yes

No

If so, please explain the measures approved and the terms under which the restrictions would cease to apply:

A.12 Please specify whether the company has issued securities that were not traded on a regulated market within Europe.

Yes

No

If so, identify the different share classes and list the rights and obligations inherent in each class.

At a meeting on 19 May 2015, the Board of Directors of Zeltia, S.A. resolved to issue simple bonds through its incorporation to the Spanish Alternative Bond Market on 8 July 2015, the primary terms and conditions of which are as follows:

- a) The nominal amount of the issue was seventeen million euros (€17,000,000), represented by 170 simple bonds;
- b) The bonds will mature in 12 years from the payout date for the issue (7 July 2015);
- c) The issue was aimed at a single qualified Spanish investor, through private placement;
- d) The bonds were issued at par with a unit par value of one hundred thousand euros (€100,000) and are represented by book entries. The company Sociedad de Gestión de los Sistemas de Registro, Compensación y Liquidación de Valores, S.A., "IBERCLEAR", and its member entities are responsible for recording the book entries for these bonds in the company's records;
- e) The bonds accrue annual nominal fixed interest of 4.75%, payable for completed years counting from the payout date;

- f) The Company guarantees its obligations deriving from the bonds with its full equity and has not granted any specific guarantee;  
g) The terms and conditions of the bonds are governed by Spanish law;

The aforementioned bond issue was assumed by Pharma Mar, S.A. by virtue of the takeover merger of Zeltia, S.A. by Pharma Mar, S.A.

## B GENERAL MEETING

B.1 Please identify any differences from the minimums provided for in the Spanish Capital Corporations Law (LSC) as regards the quorum for holding the general shareholders meeting and, if any, please provide details.

Yes  No

	<b>% quorum different from that established in Art. 193 LSC for general matters</b>	<b>% quorum different from that established in Art. 194 LSC for special cases under Article 194 LSC</b>
Quorum required in 1st call	50.00%	50.00%
Quorum required in 2nd call	0.00%	25.00%

### Description of differences

The quorum necessary to hold the General Shareholders Meeting is established in Article 20 of the Bylaws and, in the same manner, in Article 8 of the General Shareholders Meeting Regulations.

Article 20.1 of the Bylaws, unlike Article 193.1 LSC, which sets a minimum quorum of twenty-five percent of the subscribed voting capital in first call, establishes a minimum quorum for the General Shareholders Meeting, whether annual or special, of attendance of shareholders representing at least fifty percent of the subscribed voting capital in first call. In second call, the General Shareholders Meeting will be validly convened no matter the share capital represented.

Therefore, the system provided for in the Company's Bylaws differs from the minimums provided for in the LSC, as the Bylaws require a quorum of fifty percent of subscribed voting capital in order to hold a General Shareholders Meeting in first call, regardless of the type of resolutions being addressed.

B.2 Please specify and, where appropriate, provide details on any differences from the system set out in the Spanish Capital Corporations Law (LSC) for adopting corporate resolutions.

Yes  No

Please describe the differences as compared to the system set out in the LSC.

	<b>Reinforced majority difference from that established in Article 201.2 LSC for cases provided in Art. 194.1 LSC</b>	<b>Other cases of reinforced majority</b>
<b>% established by the company for adopting resolutions</b>	75.00%	0.00%

### Describe the differences

The adoption by the Company's General Shareholders Meeting of the resolutions referred to in Article 194.1 LSC do not require a special majority beyond that established in Article 201.2 LSC, except as regards the amendment to Article 25 of the Bylaws, on the adoption of resolutions, the approval of which requires a qualified majority vote of 75% of the capital present, in person or by proxy, both in first and second call.

Article 25.3 of the Bylaws states that no shareholder may cast a number of votes exceeding 25% of total voting capital from time to time, even when the number of shares held thereby is greater than the aforesaid capital percentage. This restriction shall also apply to the maximum number of votes that two or more shareholding companies belonging to the same corporate group may cast, whether jointly or separately. This restriction shall also apply to the maximum number of votes that a natural person shareholder and the entity or entities, also shareholders, controlled thereby may cast, whether jointly or separately.

**B.3 Please list the rules applicable to the amendment of the company's bylaws: In particular, describe the majorities required to amend the bylaws and, as the case may be, the rules established to protect shareholders' rights in the amendment of the bylaws.**

In general, Article 50 of the Bylaws establishes the following:

"The amendment of the Bylaws shall be resolved upon by the General Shareholders Meeting and shall require compliance with the following requirements:

1. The directors or, as the case may be, the shareholders issuing the proposal shall draft the full contents of the proposed amendment and shall issue a written report justifying said amendment.
2. The proposed amendments shall be clearly stated in the meeting notice, which shall also specify the shareholders' right to inspect, at the registered offices, the full text of the proposed amendment and the report on said amendment, as well as to request that said documents be delivered or sent to them free of charge.
3. The resolution shall be adopted by the General Shareholders Meeting in compliance with the quorums established by law and these Bylaws for holding the Meeting and adopting resolutions.
4. In any case, the resolution shall be drawn up as a public deed and registered in the Mercantile Registry and published in the Official Mercantile Registry Bulletin."

There are no special requirements beyond those established in the legislation in force for the amendment of the corporate bylaws, except as regards the amendment of Article 25, on the adoption of resolutions. As indicated in section B.2, *supra*, the amendment of said Article 25 requires that the resolution be adopted by a qualified majority of 75% of the capital present, in person or by proxy, in both first and second call.

**B.4 Please provide details on attendance at the general shareholders meetings held during the year reported on in this report and during the preceding fiscal year:**

Attendance Information					
General Meeting Date	% physical attendance	% by proxy	% distance voting		Total
			Electronic Vote	Other	
28/04/2015	100.00%	0.00%	0.00%	0.00%	100.00%
30/06/2015	100.00%	0.00%	0.00%	0.00%	100.00%

**B.5 Please specify whether the bylaws establish any restrictions on the minimum number of shares required to attend the general shareholders meeting:**

Yes  No

Number of shares required to attend the general meeting	100
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**B.6 Section repealed.**

**B.7 Please provide the URL and access route for the information on corporate governance and the general shareholders meeting on the company's website, as required to be made available to shareholders through the Company's website**

Information on the Company's corporate governance can be accessed through Pharma Mar, S.A.'s website ([www.pharmamar.com](http://www.pharmamar.com)) by clicking on the "Shareholders and Investors" heading on the main page and under that heading, within the section titled "Corporate Governance."

Furthermore, information on the company's General Shareholders Meetings held by virtue of its status as a listed company can be accessed through Pharma Mar, S.A.'s website ([www.pharmamar.com](http://www.pharmamar.com)) by clicking on the "Shareholders and Investors" heading on the main page and under that heading, within the section titled "General Shareholders Meeting."

## **C COMPANY ADMINISTRATION STRUCTURE**

### **C.1 Board of Directors**

C.1.1 Maximum and minimum number of directors provided for in the corporate bylaws:

Maximum number of directors	15
Minimum number of directors	3

C.1.2 Please complete the following table with details on the board members:

Director Name	Representative	Director Category	Position on the Board	Date of First Appt.	Date of Most Recent Appt.	Appointment Procedure
JOSÉ MARÍA FERNÁNDEZ SOUSA-FARO		Executive	CHAIRMAN	30/04/1986	28/06/2013	GENERAL SHAREHOLDERS MEETING RESOLUTION
PEDRO FERNÁNDEZ PUENTES		Executive	VICE CHAIRMAN	30/04/1986	28/06/2013	GENERAL SHAREHOLDERS MEETING RESOLUTION
ROSP CORUNNA PARTICIPACIONES EMPRESARIALES, S.L.	JOSÉ FRANCISCO LEYTE VERDEJO	Shareholder-Appointed	DIRECTOR	16/07/2013	16/07/2013	GENERAL SHAREHOLDERS MEETING RESOLUTION
JEFFPO, S.L.	JOSÉ FÉLIX PÉREZ-ORIVE CARCELLER	Other External	DIRECTOR	30/06/2015	30/06/2015	GENERAL SHAREHOLDERS MEETING RESOLUTION
JAIME ZURITA SAÉNZ DE NAVARRETE		Independent	DIRECTOR	28/04/2015	28/04/2015	GENERAL SHAREHOLDERS MEETING RESOLUTION
ANA PALACIO VALLELERSUNDI		Independent	DIRECTOR	28/07/2009	16/09/2014	GENERAL SHAREHOLDERS MEETING RESOLUTION
MONTSERRAT ANDRADE DETRELL		Shareholder-Appointed	DIRECTOR	30/06/2015	30/06/2015	GENERAL SHAREHOLDERS MEETING RESOLUTION
EDUARDO SERRA Y ASOCIADOS, S.L.	EDUARDO SERRA REXACH	Independent	DIRECTOR	30/06/2015	30/06/2015	GENERAL SHAREHOLDERS MEETING RESOLUTION
CARLOS SOLCHAGA CATALÁN		Independent	DIRECTOR	30/06/2015	30/06/2015	GENERAL SHAREHOLDERS MEETING RESOLUTION

Total number of directors	9
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Please list any directors that were removed from the board of directors during the reporting period:

C.1.3 Please complete the following tables with information on the board members and their respective categories:

**EXECUTIVE DIRECTORS**

Director Name	Position in the company
JOSÉ MARÍA FERNÁNDEZ SOUSA-FARO	CHAIRMAN
PEDRO FERNÁNDEZ PUENTES	VICE CHAIRMAN

Total Number of Executive Directors	2
% of Total Board	22.22%



## SHAREHOLDER-APPOINTED EXTERNAL DIRECTORS

Director Name	Name of significant shareholder represented by the director or who proposed the director's appointment
ROSP CORUNNA PARTICIPACIONES EMPRESARIALES, S.L.	SANDRA ORTEGA MERA
MONTSERRAT ANDRADE DETRELL	MONTSERRAT ANDRADE DETRELL

Total Number of Shareholder-Appointed Directors	2
% of Total Board	22.22%

## INDEPENDENT EXTERNAL DIRECTORS

### **Director Name:**

ANA PALACIO VALLELERSUNDI

#### **Profile:**

Ana Palacio Vallelersundi holds a Bachelor's Degree both in Law and in Sociology and Political Sciences (Award for Academic Achievement). She holds an Honorary Doctorate Degree from Georgetown University and, in 2016, she was granted the Sandra Day O'Connor Justice Prize.

As a lawyer specializing in International and European Union Law, Arbitration and Mediation, she founded the law firm Palacio y Asociados. She was a member of the European Parliament from 1994 to 2002, where she presided over the Legal Affairs and Internal Market Committee, the Justice and Home Affairs Committee and the Conference of Committee Chairs. Her positions have included: Spanish Minister of External Affairs (2002–2004). Spanish Parliament Member in its 8th Term, during which time she chaired the Mixed Party Committee in the Spanish Parliament and in the Senate of the European Union (2004-2006). She went on to hold the position of Senior Vice Chairwoman and General Counsel of the World Bank Group and acted as the Secretary General of the International Centre for Settlement of Investment Disputes (ICSID).

In March 2012, she was appointed as the Elected Director of the State Council, a position which she continues to hold today. She is also an Independent Coordinating Director of Enagás and a member of the International Advisory Board of Investcorp. She is also a member of the Board of various research centers and international and foreign public institutions, including: MD Anderson Cancer Center; Atlantic Council of the United States; Institute for Strategic Dialogue; French Insurance Advisory and Strategic Committee (CORA); and the Global Agenda Council of the World Economic Forum. In Spain, she is also a member of the Scientific Board of the Elcano Institute and of the Board of Trustees of the Foundation for Social Analysis and Research.

She has worked as a visiting professor at the Edmund E. Walsh School of Foreign Service of Georgetown University since 2014.

### **Director Name:**

CARLOS SOLCHAGA CATALÁN

#### **Profile:**

Carlos Solchaga Catalán holds a Bachelor's Degree in Business and Economic Sciences from Complutense University (1966) and completed graduate studies at the Alfred P. Sloan School of Business of the Massachusetts Institute of Technology (MIT) (1971).

Mr. Solchaga started his professional career at the Bank of Spain, moving on to work with the National Institute of Industry and the Vizcaya Bank, where he was appointed as director of the research department and adviser to the chairman. He served as the Minister of Industry and Energy (1982–1985) and subsequently served as the Minister of Economy and Taxation (1985–1993). From 1991 to 1993, he served as the Chairman of the Internal Committee of the International Monetary Fund (IMF). He also worked in the House of Representatives (1980–1994) and served as the Chairman of the socialist

parliament group in 1993 and 1994.

Among his current positions with companies similar to Pharma Mar, S.A. are: Chairman of Solchaga Recio & Asociados; Honorary Chairman of the Euroamerica Foundation; Vice Chairman of the Royal Board of Trustees of the Reina Sofía Museum; Chairman of the Architectural and Societal Foundation; Chairman of the Advisory Board of the law firm Roca & Junyent; member of the Scientific Board of the Royal Elcano Institute; Director of Duro Felguera, S.A. and of Cie Automotive, S.A.

**Director Name:**

JAIME ZURITA SAÉNZ DE NAVARRETE

**Profile:**

Doctor in Law. Professor of Commercial Law. Practicing lawyer.

**Director Name:**

EDUARDO SERRA Y ASOCIADOS, S.L.

**Profile:**

Eduardo Serra holds a Bachelor's Degree in law from the Complutense University of Madrid. In 1974, he was registered as a Spanish State Attorney under qualification no. 1.

He has held various positions in the public sector: head of department of the Ministry of Industry and Energy (1977–1979); General and Board Secretary of the National Institute of Industry (1979–1982); Director of the Bank of Industrial Credit (1979–1982); Director of Butano (1979–1982); Vice Chairman of Astilleros Españoles (1979–1982); Chairman of Auxina (1979–1982); Deputy Secretary of Defense (1982–1984); State Secretary of Defense (1984–1987); Director of the National Institute of Industry (1984–1987); and Director of the National Institute of Hydrocarbons (1984–1987). He also served as the Minister of Defense from 1996 to 2000.

In the private sector, from 1987 to 1996, he was appointed as the Chairman of Telettra España; Vice Chairman and Chairman of Cubiertas Mzov; Chairman of Peugeot-Talbot Spain; and Chairman of Airtel. From 2000-2006, he served as the Chairman of UBS España.

During his professional career he also served as the Vice Chairman and Chairman of the National International Affairs and Foreign Policy Institute (INCIPE) (1989–1996) and was the Chairman of the Royal Board of Trustees of the Prado Museum (2000–2004) and the Founding Chairman of the Royal Elcano Institute (2001–2005).

He has served as a member on the Board of Directors of Zeltia, S.A. and currently serves as the chair of the consulting firm Eduardo Serra y Asociados, S.L. He is the Vice Chairman of the EVERIS Foundation and serves director, adviser and trustee in various national and international institutions.

<b>Total number of independent directors</b>	4
<b>Total percentage of Board</b>	44.44%

Please indicate whether any independent director receives any amount or benefit beyond its compensation as a director from the company or any group company or whether any independent director holds or held a business relation during the last fiscal year with the company or any group company, whether on its own behalf or as a significant shareholder, director or senior executive of the entity that holds or held said relation.

Ana Palacio Vallelersundi has been a Director of Pharma Mar, S.A. since 28 July 2009 and was appointed in view of her indisputable personal and professional qualifications. It is worth noting that up until April 2015 the Pharma Mar Group held a consulting service provider relationship with Salesas Tres Centro de Estudios, S.L. (which operates under the commercial name of Palacios & Asociados, Abogados), a company in which her sister is a partner and majority shareholder and with which there is a contract for the provision of services. However, there is no direct business relationship between Ana Palacio and the Pharma Mar Group, but rather the relationship was established between the latter and Salesas Tres Centro de Estudios, S.L., a company in which Ana Palacio is neither a significant shareholder, director nor senior executive.

In any case, it is worth noting that the contracting of the services of Salesas Tres Centro de Estudios, S.L. for fiscal year 2015 was approved by the Board of Directors of Pharma Mar at its meeting on 16 March 2015, and Ana Palacio Vallelersundi abstained from participating in and voting on the relevant resolution.

If applicable, please include a reasoned statement from the board on the reasons they believe such director is able to perform his/her duties as an independent director.

**Director's Name:**

ANA PALACIO VALLELERSUNDI

**Description of Relationship:**

Provision of consulting services to the Pharma Mar Group through Salesas Tres Centro de Estudios, S.L.

**Reasoned Statement:**

In compliance with the resolutions adopted by the Board of Directors of Pharma Mar, S.A. at its meeting on 22 September 2015 and with the provisions of the prospectus equivalent document required under Royal Decree 1310/2005, of 4 November, which was registered with the Spanish Securities Market Commission (CNMV) on 29 October 2015 in relation to the reverse takeover merger of Zeltia, S.A. by Pharma Mar, S.A. and the procedure for admitting the shares of the latter to trade, the Company's Appointments and Compensation Committee drafted a report on 22 December 2015, for subsequent approval by the Company's Board of Directors, verifying the category of each of the Company's Directors and which classified Ana Palacio, *inter alia*, as an independent director. For such purpose, it studied the Director's CV and information provided thereby to the Company as well as publicly available information. As regards the relation of the provision of consulting services to the Group by Salesas Tres Centro de Estudios, S.L. -in which Ana Palacio's sister is a partner and majority shareholder- and with which Ana Palacio maintained a service provision agreement, the Committee concluded, based on the information provided by the Director, that there was no direct business relationship between Ana Palacio and the Group, but rather that the relationship was established between the latter and Salesas Tres Centro de Estudios S.L., a company in which Ana Palacio was not a significant shareholder, director or senior executive during the time the services were being provided, and thus, the circumstances set forth in paragraph e) of section 4 of Article 529 duodecies of the Capital Corporations Law were not present. The Committee also concluded that in any case, the aforementioned business relation between the Group and Salesas Tres Centro de Estudios, S.L. was terminated in April 2015 and further concluded that the proportion of income received from the Group could not be considered material or significant in view of the overall annual income figures for Salesas Tres Centro de Estudios, S.L. As previously indicated, the Committee concluded that, based on the personal and professional qualifications of Ms. Palacio and the definition of independent director as provided in Art. 529.4 of the Capital Corporations Law, Ana Palacio was an independent director of the Company. This report verifying the classification of the Company's Directors was approved by the Board of Directors at its meeting on 22 December 2015.

Furthermore, the Board of Directors, in compliance with the provisions of Article 8.6 of Ministry of Economy and Competitiveness Order ECC/461/2013, of 20 March, and by prior report of the Appointments and Compensation Committee, concluded that as of the date of this Corporate Governance Report and based on the information provided by the Director and on publicly available information, said Director has met at all times the independence requirements established in paragraph 4 of Art. 529 duodecies of the Capital Corporations Law in order to be classified as an independent director.

**OTHER EXTERNAL DIRECTORS**

Please list other external directors and discuss the reasons they could not be considered shareholder-appointed or independent directors as well as any connections they may have with the company, its officers or its shareholders:

**Director's Name:**

JEFPO, S.L.

**Related company, officer or shareholder:**

PHARMA MAR, S.A.

**Rationale:**

José Félix Pérez-Orive Carceller served, in his individual capacity, as a director of Pharma Mar since he was first appointed on 9 June 1993 up until 30 June 2015, on which date JEFPO, S.L. was appointed as a director and it designated José Félix Pérez-Orive Carceller to serve as its natural representative to exercise the duties inherent in its position as a member of the Board of Directors.

It is worth noting that on 5 May 2014, Zeltia, S.A. and JEFPO, S.L. executed an agreement for the provision of consulting and mediation services in which Pharma Mar, S.A. succeeded Zeltia, S.A. in its contractual position as a result of the takeover merger of Zeltia, S.A. by Pharma Mar, S.A.

Furthermore, and in accordance with the information included in the official registers of the CNMV, JEFPO, S.L. does not hold any ownership interest in the Company, although José Félix Pérez-Orive Carceller holds 2684 shares (representing 0.001%), according to the information he reported to the CNMV.

Based on all of the above and on the provisions of Art. 529 duodecies 4 of the Capital Corporations Law (in particular, the requirement that directors who have served for 12 consecutive years cannot be deemed independent), the Appointments and Compensation Committee classified JEFPO, S.L. as an external director of the Company.

<b>Total number of other external directors</b>	1
<b>% of Total Board</b>	11.11%

Please specify any variations, if any, that have occurred in each director category during the year:

C.1.4 Complete the following table with information on the number of female directors over the last 4 fiscal years (including their category):

	Number of Female Directors				% of total directors of each category			
	Fiscal Year 2015	Fiscal Year 2014	Fiscal Year 2013	Fiscal Year 2012	Fiscal Year 2015	Fiscal Year 2014	Fiscal Year 2013	Fiscal Year 2012
<b>Executive</b>	0	N/A	N/A	N/A	0.00%	N/A	N/A	N/A
<b>Shareholder-Appointed</b>	1	N/A	N/A	N/A	11.11%	N/A	N/A	N/A
<b>Independent</b>	1	N/A	N/A	N/A	11.11%	N/A	N/A	N/A
<b>Other External</b>	0	N/A	N/A	N/A	0.00%	N/A	N/A	N/A
<b>Total:</b>	2	N/A	N/A	N/A	22.22%	N/A	N/A	N/A

C.1.5 Please explain any measures that were adopted with a view to attaining the required number of female directors to ensure a balance between male and female directors on the board of directors.

Explanation of measures
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Article 8.4 of the Board Regulations states that the Board of Directors shall aim to develop Director selection policies and procedures that favor diversity as regards gender, experience and knowledge, ensuring that there are no implicit flaws that could result in any type of discrimination and, in particular, that promote the selection of female Directors.

In this regard, Article 14.2.b) of the Board of Directors Regulations establishes the duty of the Appointments and Compensation Committee to set representation goals for the least-represented gender on the Board of Directors and to develop guidelines on how to reach such objective.

The current directors of the Company were appointed before the Company was a listed company. In light of the fact that the company just recently became a listed company, the company is currently in the process of developing a director selection policy that includes a representation objective for the least-represented gender on the Board of Directors.

As of the date this Report was drafted, the Board of Directors of Pharma Mar had two women among its nine members (22.22% women).

**C.1.6 Please explain any measures followed by the appointments committee to ensure that the selection procedures did not have any implicit flaws that would prevent the selection of female directors and to ensure that the company specifically seeks out and includes women with the desired professional profile among the potential candidates:**

**Explanation of measures**

The Company does not have any requirement for membership on the Board which could constitute an implicit flaw preventing the selection of female directors. In this regard, Article 8.4 of the Board of Directors Regulations states that the Board of Directors shall aim to develop a Director selection policy and procedures that favor diversity as regards gender, experience and knowledge, ensuring that there are no implicit flaws that could result in any type of discrimination and, in particular, that promote the selection of female Directors.

It is worth noting that the current directors of the Company were appointed before the Company was a listed company. In light of the fact that the company just recently became a listed company, the company is currently in the process of developing a director selection policy that includes a representation objective for the least-represented gender on the Board of Directors.

**If despite the measures taken, as the case may be, there are few or no female directors, please explain the reasons that justify such circumstances:**

**Explanation of the reasons**

As of the date this Report was drafted, the Board of Directors of Pharma Mar had two women among its nine members. There are no requirements to act as a Board member which could constitute an implicit flaw preventing women from forming part of such body. Including women on the Company's Board of Directors and looking for women to carry out the position of directors of the Company is a reality and there are no obstacles that would prevent women from becoming directors of the Company. When covering vacancies, the Company will focus on finding ideal candidates for the position being filled with a primary focus on ensuring that the candidate (whether male or female) meets the personal and professional conditions required to carry out such position.

The Pharma Mar Group shows a continuing concern for the participation of women in management positions at all levels, as evidenced by the fact that there are currently two women on the Board of Directors. Furthermore, in 2015, the Pharma Mar Group's workforce comprised 53% women and women accounted for 38% of executive positions.

**C.1.6 bis Please explain the conclusions made by the appointments committee as regards verification of compliance with the director selection policy. And, in particular, explain how said policy promotes the objective of having female directors account for at least 30% of the total number of board members by 2020.**

**Explanation of conclusions**

The current directors of the Company were appointed before the Company was a listed company. In light of the fact that the company just recently became a listed company, the company is currently in the process of developing a director selection policy that includes a representation objective for the least-represented gender on the Board of Directors.

Furthermore, it is worth noting that on 31 December 2015, the number of female directors represented 22.22% of the total number of Board members.

C.1.7 Please explain the form of representation of significant shareholders on the board of directors.

José María Fernández Sousa-Faro is the Chairman of the Board of Directors and the majority shareholder of the company with a direct participation of 6.42% in share capital and an indirect participation of 4.66%.

Montserrat Andrade Detrell is a director and holds a direct participation of 4.66% in share capital and an indirect participation of 6.42%.

Pedro Fernández Puentes is the Vice Chairman of the Board of Directors and holds a total participation of 4.50% in share capital (direct participation of 0.62% and indirect participation of 3.88% through SAFOLÉS, S.A., a company of which he is the controlling shareholder).

Sandra Ortega Mera is a significant shareholder of the company through the company ROSP CORUNNA PARTICIPACIONES EMPRESARIALES, S.L., who holds an indirect participation of 5.00% in share capital. The company ROSP CORUNNA PARTICIPACIONES EMPRESARIALES, S.L., Member of the Board of Directors of Pharma Mar, S.A., is a wholly-owned subsidiary of ROSP CORUNNA S.L., of which Sandra Ortega Mera holds 89.23% of the share capital, as recorded in the official registers of the CNMV.

C.1.8 If applicable, please explain the reasons for the appointment of any shareholder-appointed directors at the request of shareholders with less than 3% of share capital:

Please specify whether formal requests from shareholders for membership on the board were not honored when their ownership interest is equal to or exceeds that of other shareholders whose proposal for shareholder-appointed directors was honored. If so, please explain why the aforementioned requests were not met:

Yes

No

C.1.9 Please specify whether any director has ceased to hold his or her position before completion of his or her mandate, whether the director provided any explanation to the board, including through what means, and, if provided in writing and addressed to the entire board, please specify the reasons given thereby:

C.1.10 Please specify any powers delegated to the managing director(s):

**Director's Name:**

JOSÉ MARÍA FERNÁNDEZ SOUSA-FARO

**Brief Description:**

José María Fernández Sousa-Faro holds a power of attorney by virtue of a deed granted on 13 November 1992 before the Madrid Notary Public, Mr. Antonio de la Esperanza Martínez- Radío, under number 3694 of his official records, and may act for and on behalf of the company with the powers granted to him, including but not limited to the following: (i) use of the corporate signature and representation of the Company in its transactions with the Bank of Spain or with any other banking or credit institution; (ii) resolve upon the execution of all types of deeds or agreements deemed necessary or convenient for the performance of the corporate purpose and, in general, adopt resolutions on all types of transactions and business that may be performed by the Company in accordance with the Bylaws; and (iii) request and obtain for the Company, and acquire, dispose of and use patents, privileges, licenses and any other rights related to the corporate purpose.

José María Fernández Sousa-Faro also currently provides executive services to the company by virtue of an agreement executed on 26 February 2015.

C.1.11 Please identify any board members who assume positions as directors or officers in other companies in the group of which the listed company is the parent:

Director Name	Name of group company	Position	Executive duties?
JOSÉ MARÍA FERNÁNDEZ SOUSA-FARO	GENOMICA, S.A. SOCIEDAD UNIPERSONAL	CHAIRMAN OF THE BOARD OF DIRECTORS	YES
PEDRO FERNÁNDEZ PUENTES	ZELNOVA ZELTIA, S.A.	CHAIRMAN OF THE BOARD OF DIRECTORS	YES

C.1.12 Please specify the directors of the company, if any, that have notified the company of their membership on the board of directors of other companies (excluding of other group companies) listed on official securities markets in Spain:

Director Name	Name of group company	Position
CARLOS SOLCHAGA CATALÁN	DURO FELGUERA, S.A.	DIRECTOR
CARLOS SOLCHAGA CATALÁN	CIE AUTOMOTIVE, S.A.	DIRECTOR
PEDRO FERNÁNDEZ PUENTES	INGERCOVER SICAV S.A.	CHAIRMAN
ANA PALACIO VALLELERSUNDI	ENAGAS, S.A.	DIRECTOR

C.1.13 Please specify whether the company has established any rules on the number of boards on which its directors can hold seats, providing details if applicable:

Yes

No

Explanation of rules
Article 22.3 of the Board Regulations establishes that Directors may not be a member on more than four boards of directors of public limited companies ( <i>sociedades anónimas</i> ) and of eight boards of directors of limited liability companies ( <i>sociedades de responsabilidad limitada</i> ), not including the boards of those companies forming part of the Company's corporate group and of the holding companies ( <i>sociedades patrimoniales</i> ) of the aforesaid Directors.

C.1.14 Section repealed.

C.1.15 Please indicate the overall compensation of the board of directors:

Board of Directors Compensation (in thousands of euros)	3,975
Amount of accumulated pension rights of current directors (in thousands of euros)	593
Amount of accumulated pension rights of former directors (in thousands of euros)	0

C.1.16 Please identify senior managers that do not also serve as executive directors and indicate the total compensation earned thereby during the year:

Name	Position
LUIS MORA CAPITÁN	MANAGING DIRECTOR, ONCOLOGY BUSINESS UNIT
SEBASTIÁN CUENCA MIRANDA	GENERAL AND BOARD SECRETARY
MARÍA LUISA DE FRANCIA CABALLERO	CHIEF FINANCIAL OFFICER
BELÉN SOPESEN VERAMENDI	DIRECTOR OF MARKET RESEARCH
JUAN CARLOS VILLALÓN GÓMEZ	INTERNAL AUDITOR
JOSÉ LUIS MORENO MARTÍNEZ-LOSA	DIRECTOR, INVESTOR RELATIONS AND CAPITAL MARKETS

<b>Total senior management remuneration (in thousands of Euros)</b>	1,537
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C.1.17 Please identify any Board members who are also Board members, management personnel or employees of companies with significant ownership interests in the listed Company and/or other Group companies:

Director Name	Name of significant shareholder	Position
PEDRO FERNÁNDEZ PUENTES	SAFOLES, S.A.	SOLE DIRECTOR

Please detail any relevant relationships, other than those presented in B.1.17, between members of the board of directors and significant shareholders in the company and/or group companies:

**Name of the associated director:**

MONTSERRAT ANDRADE DETRELL

**Name of significant associated shareholder:**

JOSÉ MARÍA FERNÁNDEZ SOUSA-FARO

**Description of the relationship:**

Spouses, married under a common property regime

**Name of the associated director:**

JOSÉ MARÍA FERNÁNDEZ SOUSA-FARO

**Name of significant associated shareholder:**

MONTSERRAT ANDRADE DETRELL

**Description of the relationship:**

Spouses, married under a common property regime

C.1.18 Please specify whether the Board of Directors Regulations were amended during the year:

Yes

No



C.1.19 Please specify the procedures for the appointment, reappointment, assessment and removal of Directors: Provide details on the competent bodies, steps to follow and criteria applied in each procedure.

See section H.1

C.1.20 Please explain to what extent the annual evaluation of the Board of Directors led to significant changes in the internal organization and procedures applicable to its activities:

**Description of amendments**

Article 17 bis of the Board of Directors Regulations establishes that the Board of Directors shall annually assess: (a) the efficiency of its operations and the quality of its work; (b) diversity in its composition and skills; (c) performance of the duties of the Board Chairman and, if any, of the Managing Director, based on the report submitted by the Appointments and Compensation Committee; (d) performance and contribution of each of the Directors, paying particular attention to the directors leading the various Committees; (e) the functioning and composition of its Committees, based on the reports submitted by the Committees.

The annual assessment of the Board in fiscal year 2015 caused changes neither to its internal organization nor to the procedures applicable to its activities.

C.1.20.bis Please describe the assessment process and the areas assessed by the Board of Directors with the assistance, as the case may be, of an external adviser, as regards the diversity of its composition and skills, functioning and composition of its Committees, performance of the Chairman of the Board of Directors and the Company's top executive and the performance and contribution of each of the Directors.

In accordance with Article 17 bis of the Board of Directors Regulations, the Board shall annually assess: (a) the efficiency of its operations and the quality of its work; (b) diversity in its composition and skills; (c) performance of the duties of the Board Chairman and, if any, of the Managing Director, based on the report submitted by the Appointments and Compensation Committee; (d) performance and contribution of each of the Directors, paying particular attention to the directors leading the various Committees; (e) the functioning and composition of its Committees, based on the reports submitted by the Committees. The Chairman of the Board of Directors is in charge of organizing and coordinating the aforementioned assessment process with the Chairmen of the Committees.

Paragraph 2 of said provision provides that in the event that the Chairman of the Board of Directors is performing executive duties, assessment of his/her performance will be directed by the coordinating director.

During the assessment process carried out in fiscal year 2015, the Board of Directors assessed those aspects as required by regulations and the procedures to be followed in order to implement such assessment, including:

- Analysis of the composition, skills, activity, functioning and quality of the work performed by the Board of Directors (organization and functioning, calling meetings, attendance, debates and resolutions), as well as regards the performance and contribution of each Director, following the report of the Appointments and Compensation Committee.

- Analysis of the performance of the duties of the Chairman of the Board of Directors. (i) as Chairman of the Board, following the report of the Appointments and Compensation Committee; (ii) as regards his/her executive duties, following the report of the Coordinating Director.

- Analysis of the activity, functioning, composition and evaluation of the performance by the Chairmen and members of the Audit and Compliance Committee and Appointments and Compensation Committee, following the report issued by each of the respective Committees.

The aforementioned assessment process was completed without the assistance of an external adviser or consultant.

C.1.20.ter Provide detailed information, as applicable, on business relations between the consultant or any group company with the company or any other group company.

C.1.21 Please specify the situations in which the Board members are required to resign.

Article 19.2 of the Board of Directors Regulations provides in such regard as follows:

"Directors shall tender their resignation to the Board of Directors and formalize the pertinent resignation, if deemed appropriate by the Board, in the following cases:

- (a) When they turn 75.
- (b) If they are involved in any circumstance of incompatibility or prohibition provided by law, the Corporate Bylaws or these Regulations;
- (c) If their continued membership on the Board could put at risk or harm the Company's interests, credit or reputation.
- (d) When they no longer hold an executive position to which their appointment was linked or, in general, when the reasons for their appointment no longer exist (e.g. when the shareholder represented by a Director disposes of its shareholding in the Company that motivated the Director's appointment).
- (e) When the Director has missed four consecutive Board meetings without granting a proxy to another Board member.

The Board of Directors may only propose the removal of an Independent Director to the General Shareholders Meeting before the period provided for by the Bylaws has lapsed and the Director has not tendered his/her resignation after having met any of the said circumstances referred to in this article or when any other just cause as determined by the Board exists, following a report of the Appointments and Compensation Committee. In particular, just cause shall be deemed to exist when the Director accepts additional obligations that prevent said Director from dedicating the required time to the performance of its duties, that result in the breach of any duties inherent in its position or that otherwise threaten his or her independence in any manner. The Board of Directors may also propose the removal of Independent Directors as a result of public offers of acquisition, merger or other similar corporate transactions that entail a change to the Company's capital structure, provided such structural changes to the Board of Directors are a result of application of the proportionality criteria set forth in corporate governance recommendations for listed companies in Spain."

C.1.22 Section repealed.

C.1.23 Are qualified majorities other than those established by law required for any specific decision?:

Yes

No

If so, please describe the differences:

Description of differences
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In order for amendments to the Regulations to be valid, the relevant resolution must be adopted by a two-thirds majority of the Directors in attendance, in accordance with the provisions of Article 3.4 of the Board of Directors Regulations.

C.1.24 Please state whether there are any specific requirements, other than those relating to directors, to be appointed as the chairmen of the board of directors.

Yes

No

C.1.25 Please specify whether the chair has a casting vote:

Yes

No

Matters for which there is a casting vote
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Article 36 of the Bylaws and Articles 10.5 and 17.2 of the Board of Directors Regulations provide that in the event of a tie, the Chairman shall have the casting vote.

C.1.26 Please specify whether the bylaws or the board regulations establish any limit as to the age of the directors:

Yes  No

Age limit for chair:

Age limit for managing director:

Age limit for director: 75

C.1.27 Please specify whether the bylaws or the board regulations establish any limit beyond that provided by law to the mandate of independent directors:

Yes  No

C.1.28 Please specify whether the bylaws or the board of directors regulations establish specific rules for granting proxies on the board of directors, including as regards the manner for granting proxies and, in particular, the maximum number of proxies that any single director may hold, as well as whether they establish any restrictions on the category of director to which they can be granted, beyond those legally mandated restrictions. If so, please briefly describe the rules.

The third paragraph of Article 36 of the Bylaws establishes in this regard that proxies shall be granted to other Directors in writing or by e-mail and shall be made specifically for each Board meeting. No Director may hold more than three proxies. The same requirement is also set forth in Article 17.1 of the Board Regulations.

As regards any restrictions on the category of director to which proxies may be granted, the aforesaid Bylaw provision (and Article 17.1 of the Board Regulations) adopt the provisions of Article 529 quáter 2 of the Capital Corporations Law, stating that Non-Executive Director may only delegate proxies to other Non-Executive Directors.

C.1.29 Please specify the number of meetings held by the board of directors during the year. In addition, please identify the number of times the board met, if any, without the attendance of the chairman. Proxies granted with specific instructions shall be considered in attendance for calculation purposes.

<b>Number of Board meetings</b>	1
<b>Number of Board meetings without attendance of the Chairman</b>	0

If the chairman is an executive director, please indicate the number of meetings held without the personal attendance or attendance by proxy of any executive directors and that were presided over by the coordinating director.

<b>Number of meetings</b>	0
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Please specify the number of meetings held by the different board committees during the year:

<b>Committee</b>	<b>No. of Meetings</b>
AUDIT COMMITTEE	1
APPOINTMENTS AND COMPENSATION COMMITTEE	1
EXECUTIVE COMMITTEE	1

C.1.30 Please specify the number of meetings held by the board of directors during the year in which some of its members were not present. Proxies granted with specific instructions shall be considered in attendance for calculation purposes.

<b>Number of meetings with full attendance</b>	1
<b>Attendance as a percentage of total votes during the year</b>	100.00%

C.1.31 Please specify whether the annual individual and consolidated financial statements presented to the board for approval were previously certified:

Yes  No

Please specify, if applicable, the person/s who certified the individual and consolidated financial statements of the company for their preparation by the board:

C.1.32 Please explain any mechanisms established by the board of directors to prevent the individual and consolidated financial statements prepared by the board from being submitted to the general meeting with a qualified audit opinion.

It is worth noting, first, that the audit reports on the individual and consolidated financial statements for fiscal year 2015 did not include any reservations.

The mechanisms established by the Board of Directors are derived from the powers assigned to the Audit Committee that, in accordance with Article 13.2 of the Board Regulations shall, *inter alia*, include the duty to oversee the effective internal control of the Company, internal audit and risk management systems, including as regards tax risks, as well as to discuss any significant weaknesses identified in the internal control system during the audit with the statutory auditor, monitoring the process for drafting and presenting the required financial information, and ensuring that the Board of Directors presents the financial statements to the General Shareholders Meeting without giving rise to any restriction or reservation whatsoever in the audit report.

Furthermore, Article 32.4 of the Board Regulations, referring to the Board's relations with the auditors, establishes that the Board of Directors shall draft a final and conclusive copy of the financial statements such that no reservations are made by the auditor. Notwithstanding as the Board considers it should uphold its position, the Board shall publicly explain the scope and content of the discrepancy.

C.1.33 Is the secretary of the board a director?

Yes  No

If the secretary is not a director, please complete the following table:

Name of Secretary	Representative
SEBASTIÁN CUENCA MIRANDA	

C.1.34 Section repealed.

C.1.35 Please specify any mechanisms established by the company to ensure the independence of the external auditors, financial analysts, investment banks and rating agencies.

Article 32.1 of the Board Regulations establishes that the relations of the Board with the external auditors shall be channeled through the Audit Committee. In this regard, Article 13.2 of the Board Regulations provides that the Audit Committee shall have the following duties, *inter alia*:

"(...)

(d) refer proposals for the selection, appointment, reappointment and removal of the external auditor, as well as on the hiring conditions thereof, to the Board of Directors, and regularly gather information from the external auditor on the auditing plan and implementation thereof, in addition to maintaining its independence in carrying out its duties.

(e) establish the relevant relationships with the external auditor in order to receive information on all matters which may place their independence at risk, to be examined by the Committee, as well as on any other matters related to the auditing of the accounts, including all communications as provided for by accounting and auditing legislation and standards. In any event, the external auditors shall issue an annual statement on their independence in relation to the company or any of its directly or indirectly related entities, including information on additional services of any nature that were provided together with the applicable fees received from such entities by either the external auditor or other persons or entities related thereto, as set forth in applicable legislation on the auditing of accounts.

(...)"

In addition, Article 32.2 of the Board Regulations states that the Board of Directors shall abstain from contracting those audit firms that are involved in any circumstances that could affect their independence in performing their duties, respecting in all cases the legally established prohibitions and incompatibilities. This article also provides that the Board of Directors shall publicly report any overall professional fees paid by the Company to the audit firm for non-audit services, which it has already been reporting in the Notes to the Annual Financial Statements.

On the other hand, the Investor Relations and Capital Markets Department is tasked with maintaining communications with institutional shareholders and financial analysts that cover the actions of Pharma Mar, making sure not to provide them with any insider information as regards the rest of the shareholders.

C.1.36 Please specify whether the Company changed its external auditor during the year. If so, please identify the incoming and outgoing auditor:

Yes

No

If there were any disagreements with the outgoing auditor, please provide an explanation:

C.1.37 Please specify whether the audit firm provides any non-audit services to the company and/or its group and, if so, the fees paid and the corresponding percentage of total fees invoiced to the company and/or group:

Yes

No

	Company	Group	Total
<b>Amount for non-audit services (in thousands of €)</b>	89	17	106
<b>Amount for non-audit services / Total amount billed by the audit firm (%)</b>	30.48%	5.90%	36.38%

C.1.38 Please specify whether the audit report on the annual financial statements for the preceding year contains a qualified opinion or reservations. If so, please explain the reasons given by the chair of the audit committee to explain the content and scope of the aforementioned qualified opinion or reservations.

Yes

No

C.1.39 Please provide details on the number of consecutive years for which the current audit firm has been auditing the annual financial statements of the company and/or its group. Furthermore, please specify the number of years audited by the current audit firm as a percentage of the total number of years that the financial statements have been audited:

	Company	Group
<b>Number of consecutive years</b>	20	20
<b>Number of years audited by the current audit firm / Number of years that the Company has been audited (%)</b>	74.07%	74.07%

C.1.40 Please specify whether there is a procedure whereby directors can contract external advisory services and, if applicable, provide details:

Yes

No

**Explanation of procedure**

Article 20.2 of the Board Regulations provides that any Director, in the exercise of the specific duties entrusted thereto either individually or by virtue of its membership on any of the Board Committees, may request that the Chairman hire, at the Company's expense, legal, accounting, technical, financial, commercial or any other advisers deemed necessary to assist in the performance of its duties, whenever related to specific problems of particular relevance and complexity that warrant said advising. The Chairman, according to the circumstances of the particular case, may deny or authorize the proposal by notice to the Board Secretary, who shall, if authorized, coordinate the hiring of the expert.

The Chairman may also bring the proposal to the Board of Directors, who may refuse to approve financing for the advisory services on the grounds that they are not necessary for the performance of the duties entrusted, that their amount is disproportionate to the importance of the issue, or if it considers that such technical assistance could be adequately provided by Company personnel.

C.1.41 Please specify whether there is a procedure for providing information to directors to allow them to prepare for meetings of management bodies with sufficient notice. If so, explain the procedure:

Yes

No

**Explanation of procedure**

The directors' right to information is expressly regulated by Article 20.1 of the Board Regulations, which establishes that the Directors, as required to perform their duties, shall have ample powers to make inquiries on any matter related to the Company and, for such purpose, shall have access to any and all documents, registries, records or any other necessary elements. Information requests shall be made to the Chairman and will be processed by the Secretary of the Board of Directors, who shall directly provide the Directors with such information or otherwise notify the relevant intermediaries in the Company and, in general, shall establish all necessary measures to ensure full compliance with the Director's right to information.

Article 16.2 of the Regulations states that the annual meetings shall be called by letter or e-mail issued by the Secretary at the demand of the Chairman or the Acting Chairman. The meeting notice shall be made at least five days in advance, except as provided in Article 3.3 of the Regulations, and shall include the agenda for the meeting, which shall clearly list the agenda items on which the Board must make a decision or pass a resolution.

Thus, and in accordance with regulatory provisions, to ensure that meetings are properly prepared and with a view to ensuring that the Directors have all necessary information, the Chairman shall establish an agenda for all Board meetings. This agenda, together with all documents related thereto, is sent by the Board Secretary, usually by e-mail, at least five days before the date set for the meeting.

The prior and express consent of a majority of the Directors in attendance shall be required, and duly recorded in the minutes, if the Chairman wishes to submit to the Board, for urgency reasons, the approval of decisions or resolutions not listed on the agenda.

The annual Board meetings shall discuss the general performance and financial results of the Company and, as the case may be, of its subsidiaries, as well as those matters referred to in Article 5 of the Regulations, if applicable and, in any case, shall discuss those items included on the agenda.

The Board of Directors shall receive information in these regular meetings on the most relevant aspects of the business management since the last meeting of said body was held as well as on all actions in such regard proposed by Senior Management.

Article 16.3 establishes that special meetings of the Board may be convened by phone and that the deadline and other requirements referred to in the preceding section shall not apply when, in the opinion of the Chairman or Acting Chairman, the circumstances so justify.

On the other hand, Article 17.3 of the Regulations states that, except where the Board of Directors has been convened on an urgent basis, the Directors shall have sufficient prior access to the information required to form an opinion on each of the agenda items, and the Chairman shall be responsible, with the assistance of the Secretary and, as the case may be, the Legal Counsel, for preparing said information. The Chairman may invite as many officers to the meeting as he or she deems appropriate with a view to supplementing the information provided to the Directors on the agenda items.

C.1.42 Please specify whether the company has established any rules that require directors to report on and, if applicable, resign in any circumstances that may harm the company's credit and reputation. If so, provide details:

Yes

No

**Explanation of rules**

Article 28.2 of the Board Regulations states that Directors shall inform the Company of any positions that they hold or activities that they carry out in other companies or entities and, in general, of any other fact or circumstances that could be relevant to its conduct as a director of the Company and of any transactions that could cause harm to the Company or of any other activities that could constitute competition for the Company or any of its Group companies.

Furthermore, Article 19.2 of the Board Regulations provides that the Directors shall tender their resignation to the Board of Directors and formalize said resignation, if deemed appropriate, when they are involved in any circumstance of incompatibility or prohibition provided by law, the Bylaws or the Regulations. Article 19.3 establishes that the Appointments and Compensation Committee shall make proposals to the Board of Directors, for their submission to the General Shareholders Meeting, on the removal of Directors whose behavior could negatively affect the functioning of the Board or the Company's credit and reputation.

C.1.43 Please specify whether any member of the board of directors has notified the company that he or she has been tried, or notified that judiciary proceedings have been filed, for any offenses established in Article 213 of the Spanish Capital Corporations Law.

Yes

No

Please explain whether the board of directors has analyzed the case. If so, please provide a reasoned explanation of the decision made on whether the director should continue in his or her position, explaining all actions taken or expected to be taken by the board of directors as of the date of this report.

C.1.44 Please give details on any significant agreements entered into by the company that would enter into force, be amended or concluded in the event of a change in control of the company as a consequence of a public tender offer, and the effects thereof.

C.1.45 Please identify and detail, on an aggregate basis, the agreements between the company and its administration and management positions or employees who benefit from indemnities, or guarantee or golden parachute clauses, upon their resignation or wrongful dismissal, or if the contractual relationship comes to an end due to a public tender offer or any other type of transaction.

**Number of beneficiaries: 1**

**Type of beneficiary:**

EXECUTIVE CHAIRMAN

**Description of Agreement:**

As regards the Executive Chairman, the contract for the provision of executive services between the company and the Chairman shall remain in force for as long as the Executive Chairman continues to hold such position on the Board of Directors and to serve as the top executive of the company, bearing in mind that the contract may be terminated by mutual agreement of the parties, by unilateral voluntary resignation of the Executive Chairman, for causes attributable to the company and due to death, legal incapacity, total permanent or other significant incapacity of the Executive Chairman, or temporary incapacity or inability to perform his duties for a period longer than twelve months.

The Executive Chairman shall have the right to receive a severance payment equivalent to 1.5 times the gross annual Regulated Compensation (defined as the arithmetic mean of the total amount of annual fixed compensation, annual variable compensation and attendance allowances accrued during each of the two full fiscal years immediately preceding the contract termination date) if its contract as the top executive is terminated for any cause attributable to the company (whether by unilateral voluntary termination by the company –e.g. removal or non-reappointment of the director or revocation of authorities or powers without subsequently and immediately appointing, delegating or granting analogous authorities or powers in the company or, in the case of an intragroup merger, in the absorbing company–, or by significant amendment to the duties or conditions for providing services, including the succession of the company or a significant change in ownership thereof that has the effect of changing the composition of its governing bodies or the content and focus of its primary activity, unless the contract is assigned by the company to any other Group company).

Please specify whether the governing bodies of the company or its group must be notified of and/or approve these agreements:

	Board of Directors	General Meeting
Body authorizing the clauses	Yes	No

	Yes	No
Are the clauses reported to the general shareholders meeting?	X	

## C.2 Board Committees

C.2.1 Please provide details on all board committees, their members and the proportion of executive, shareholder-appointed, independent and other external directors on the committees:

### AUDIT COMMITTEE

Name	Position	Category
CARLOS SOLCHAGA CATALÁN	CHAIRMAN	Independent
ANA PALACIO VALLELERSUNDI	MEMBER	Independent
ROSP CORUNNA PARTICIPACIONES EMPRESARIALES, S.L.	MEMBER	Shareholder-Appointed
JEFPO, S.L.	MEMBER	Other External

% shareholder-appointed directors	25.00%
% independent directors	50.00%
% other external directors	25.00%

Please explain the duties attributed to this committee, describe the procedures and rules followed regarding its organization and functioning and summarize the most significant actions taken during the fiscal year.

In accordance with Art. 13 of the Board Regulations, this Committee has the following duties, *inter alia*:

- To notify the General Shareholders Meeting about matters arising which fall within the competencies of the Committee.



- To supervise the effectiveness of the Company's internal controls, internal auditing and risk management systems, including tax risks, as well as discuss with the statutory auditor any significant weaknesses in the internal control system detected during the audit.
- To supervise the preparation and presentation of all required financial information.
- To refer proposals to the Board of Directors for the selection, appointment, reappointment and substitution of the external auditor, as well as on contracting conditions, and regularly gather information from the external auditor on the auditing plan and implementation thereof, in addition to maintaining its independence in carrying out its duties.
- To establish the relevant relationships with the external auditor in order to receive information on all matters which may place their independence at risk, to be examined by the Committee, as well as on any other matters related to the auditing of the accounts, including all communications as provided for by accounting and auditing legislation and standards. In any event, the external auditors shall issue an annual statement on their independence in relation to the company or any of its directly or indirectly related entities, including information on additional services of any nature that were provided together with the applicable fees received from such entities by either the external auditor or other persons or entities related thereto, as set forth in applicable legislation on the auditing of accounts.
- To issue an annual report, prior to issuance of the audit report, expressing an opinion on the independence of the statutory auditor. This report shall, in any event, include an assessment of the value of the additional non-auditing services referred to in the preceding paragraph, accounted for both individually and collectively, in relation to independence requirements or auditing regulations.
- To report to the Board in advance regarding those matters provided for in the law, Bylaws and Regulations and, in particular, on (i) all financial information the Company is required to periodically make public, and (ii) the creation or acquisition of shares in special purpose vehicles or other entities resident in countries considered to be tax havens.
- To ensure that the Board works to present the financial statements to the General Meeting without any restriction or reservation in the audit report.

Furthermore, the Committee shall exercise duties related to the reporting and internal control systems and to the external auditor, including

As regards the rules on organization and functioning, Article 13.1 states that it shall be comprised of a minimum of three and maximum of five Directors appointed by the Board and that its members shall exclusively include Non-Executive Directors, including at least two Independent Directors, one of which shall be appointed in consideration of his or her knowledge and experience in the area of accounting, auditing or both. The position of Secretary shall be held by one of the Directors on the Committee, the Board Secretary, the Vice Secretary, or the Legal Counsel of that body, as determined by the Board. Its meetings may be attended by, whenever deemed convenient by its Chairman, in addition to the external auditor and the Company's internal auditor, any employee of the Company whose activity may be related to the duties performed by the Committee.

The Chairman of the Committee shall be appointed by the Board from among the Independent Directors on the Committee and shall be replaced every four years but may be reappointed one year after removal thereof has lapsed, regardless of his or continued membership or reappointment as a member of the aforesaid Committee. In the absence or inability of the Chairman to perform his or her duties, the Independent Director on the Committee, as temporarily designated for such purpose by the Board of Directors or, otherwise, the oldest Committee member, shall replace the Chairman.

The Committee shall meet as often as the Chairman calls a meeting, when so resolved by at least two of its members or at the request of the Board. The meetings shall be held at the registered offices or any other location designated by the Chairman and indicated in the meeting notice. The necessary quorum shall be met when the majority of its members attend, in person or by proxy, adopting resolutions by the favorable vote of the majority of its members in attendance at the meeting. In the event of a tie, the Chairman or Acting Chairman shall have the casting vote.

In 2015, when the company became a listed company, the Audit Committee held one meeting, in which it addressed, *inter alia*, the following: the external auditor presented the Audit Plan for fiscal year 2015, proposals presented by the external auditor in relation to the audit of the accounts for fiscal year 2015 were analyzed, the main events occurring during fiscal year 2015 were assessed, and the performance and future prospects for the company and its Group were assessed.

Please identify the director on the audit committee whose appointment was made based on his or her knowledge and experience in the areas of accounting, auditing or both and state the number of years the Chairman of this committee has been in his or her position.

<b>Number of experienced directors</b>	CARLOS SOLCHAGA CATALÁN
<b>No. of years Chairman has held office</b>	0

### **APPOINTMENTS AND COMPENSATION COMMITTEE**

Name	Position	Category
EDUARDO SERRA Y ASOCIADOS, S.L.	CHAIRMAN	Independent
ANA PALACIO VALLELERSUNDI	MEMBER	Independent
MONTSERRAT ANDRADE DÉTRELL	MEMBER	Shareholder-Appointed
JAIME ZURITA SAÉNZ DE NAVARRETE	SECRETARY	Independent

<b>% shareholder-appointed directors</b>	25.00%
<b>% independent directors</b>	75.00%
<b>% other external directors</b>	0.00%

Please explain the duties attributed to this committee, describe the procedures and rules followed regarding its organization and functioning and summarize the most significant actions taken during the fiscal year.

In accordance with Art. 14 of the Board Regulations, this Committee has the following duties:

- To assess the skills, knowledge and experience needed on the Board of Directors. For such purpose, the Committee shall define the functions and skills necessary in the candidates to cover each vacancy and evaluate the time and dedication required in order that they may properly perform their mandate.
- To establish a representation goal for the least-represented gender on the Board of Directors and develop guidelines on how to reach such objective.
- To raise all proposals for the appointment of Independent Directors to the Board of Directors for their appointment by co-optation or by submission to the decision of the General Shareholders Meeting, as well as all proposals for the reappointment or removal of said Directors by the General Shareholders Meeting.
- To report on all proposals for the appointment of the remaining Directors by co-optation or by submission to the decision of the General Shareholders Meeting, as well as on all proposals for their reappointment or removal by the General Shareholders Meeting.
- To report on proposals for the appointment or removal of senior executives as well as to report on or propose the basic terms of their contracts.
- To assess and coordinate the succession of the Chairman of the Board of Directors and of the Company's top executive and, as the case may be, develop proposals for the Board of Directors such that said succession may be completed as smoothly and orderly as possible.
- To propose a policy to the Board of Directors for the compensation of Directors and general managers or other individuals carrying out senior management duties under the direct supervision of the board, the executive committees or the Managing Directors, as well as for individual compensation and other contractual terms of the Executive Directors, ensuring that such terms are complied with.
- To ensure compliance with and periodically review the compensation policy for the Directors and senior executives, including share compensation systems and their application, as well as to ensure that individual compensation is proportionate to the amounts paid to the other Directors and senior executives of the Company.
- To ensure that any potential conflicts of interest do not threaten the independence of any external advising provided to the Committee.
- To verify information regarding compensation of Directors and senior executives as provided in various corporate documents, including the annual Directors' compensation report.
- To report to the Board of Directors in advance regarding proposed resolutions for related-party transactions.

As regards the rules on organization and functioning, Article 14.1 states that it shall be comprised of a minimum of three and a maximum of four Non-Executive Directors appointed by the Board, at least two of which shall be Independent Directors. This Article further states that the Board shall be responsible for appointing the Chairman from among the Independent Directors on the Committee and that Committee meetings may, as the case may be, be attended by the party responsible for implementing the Company's compensation policy or by any other Company employee, as deemed appropriate by the Committee. The position of Secretary of the Committee shall be held by one of the Committee members, the Board Secretary, the Vice Secretary or the Legal Counsel of that body, as determined by the Board of Directors, who shall draft minutes for all resolutions adopted.

The Committee shall analyze all suggestions submitted thereto by the Chairman, Committee members, officers or shareholders of the Company and shall meet whenever the Board or its Chairman requests that a report be issued or a proposal be adopted and, in any case, whenever convenient for the proper performance of its duties and, in any case, shall monitor the information on the compensation of the Board of Directors.

In 2015, since the company became a listed company, the Appointments and Compensation Committee held a single meeting in which it confirmed the categories of the nine members of the Board of Directors of Pharma Mar, in conformity with the resolutions of the Board of Directors dated 22 September 2015 and with the provisions of the Prospectus Equivalent Document, registered with the official CNMV registers, in relation to the reverse takeover merger of Zeltia, S.A. by Pharma Mar, S.A. Sociedad Unipersonal. For such purpose, the Committee drafted a report confirming the classification of each of the nine members of the Board of Directors of Pharma Mar into the categories applicable to the directors of listed companies (executive, shareholder-appointed, independent and other external), in light of the provisions of Article 529 duodecies of the Capital Corporations Law. The Report was presented to the Board of Directors of Pharma Mar for its approval. Subsequently, and in compliance with the duty attributed to the Committee by Art. 14.2.e) of the Board Regulations ("To report on proposals for the appointment or removal of senior executives as well as to report on or propose the basic terms of their contracts"), the Committee reported various amendments to the compensation package for the four senior executives of Pharma Mar, S.A. to the Board of Directors and discussed and prepared a schedule for actions and priorities in 2016.

## **EXECUTIVE COMMITTEE**

Name	Position	Category
JOSÉ MARÍA FERNÁNDEZ SOUSA-FARO	CHAIRMAN	Executive
PEDRO FERNÁNDEZ PUENTES	MEMBER	Executive
JEFPO, S.L.	MEMBER	Other External

% executive directors	66.67%
% shareholder-appointed directors	0.00%
% independent directors	0.00%
% other external directors	33.33%

Please explain the duties attributed to this committee, describe the procedures and rules followed regarding its organization and functioning and summarize the most significant actions taken during the fiscal year.

In accordance with Art. 15 of the Board Regulations, it shall focus its activities primarily on:

- Ongoing monitoring and oversight of the daily operation and management of the Company, regularly monitoring financial management and implementation of the Company's strategic proposals and plans.
- Discussing those matters related to the following topics prior to submitting them to the Board: (i) accounts, management report and proposed application of earnings for each fiscal year; (ii) budgets and action plans and guidelines for managing the Company; (iii) oversight of the foundations of the corporate organization in order to ensure its maximum efficiency; and (iv) tangible or financial investments and divestments that are particularly relevant for the Company.
- In general, providing assistance to the Board in all decisions related to those issues listed in sections a) and b) of Article 5.3 of these Regulations, which refer to the establishment by the Board of general strategies and management guidelines for the Company.

As regards the rules on organization and functioning, Article 15.1 states that the Executive Committee shall be comprised of three Directors appointed by the Board of Directors. The Chairman of the Board of Directors shall act as the Committee Chairman. The position of Committee Secretary shall be performed by one of the Directors on the Committee, the Board Secretary, the Vice Secretary or the Legal Counsel of said body, as determined by the Board of Directors.

It shall perform the duties delegated by the Board of Directors in relation to the day-to-day management, administration and representation of the Company in conformity with the principles governing conduct as established in the Bylaws and in these Regulations in relation to the Board of Directors. Notwithstanding the Executive Committee's decision-making autonomy in relation to the delegated powers, and its resolutions being valid and effective without any requirement of ratification by Board, in those cases in which, in the opinion of the Chairman, the circumstances so require, the resolutions passed by the Executive Committee shall be submitted to the ratification of the Board, following the same regime as applicable to those matters for which the Board has delegated their analysis to the Committee but reserving the final decision thereon to the Board, in the latter case which the Executive Committee shall be limited to submitting the relevant proposal to the Board.

Information will be provided in the Board meetings on the main decisions adopted, as the case may be, in the meeting(s) of the Executive Committee that were held after the most-recent Board meeting, and all minutes for such meetings shall be made available to the directors for their evaluation.

It shall meet regularly based on needs and, at least, ten times per year. Any member of the management team or other Company employee as required for such purpose may attend its meetings and provide their assistance.

In 2015, since the company became a listed company, the Executive Committee held a single meeting, in preparation for the subsequently held Board meeting, and in which different aspects related to the Group's strategy and to the development of many of its compounds were addressed.

Please indicate whether the composition of the delegated committee or executive committee reflects the participation of the different categories of directors on the board of directors:

Yes

No

**If not, explain the composition of the delegated committee or executive committee**

The Company's Executive Committee is comprised of two executive directors (representing 66.66% of the Committee) and one other external director (representing 33.33% of the Committee). This composition does not reflect the participation on the Board of the different categories of directors, as this would not be possible given that the Board is comprised of directors belonging to four different categories and the Committee is comprised, in conformity with the Board Regulations, of only three members; this means that each member of the Committee necessarily represents 33.33% of the body and thus, it is mathematically impossible to duplicate the percentage of executive directors on the Board (22.22%).

C.2.2 Please complete the following table with information on the number of female directors on the board committees over the last four fiscal years:

	Number of Female Directors							
	2015		2014		2013		2012	
	Number	%	Number	%	Number	%	Number	%
AUDIT COMMITTEE	1	25.00%						
APPOINTMENTS AND COMPENSATION COMMITTEE	2	50.00%						
EXECUTIVE COMMITTEE	0	0.00%						

C.2.3 Section repealed.

C.2.4 Section repealed.

C.2.5 Please indicate, where applicable, if there are any regulations governing the board committees, where these regulations may be consulted and any amendments thereto made during the year. Please also state whether any annual reports on the activities of each committee have been voluntarily prepared.

There are no specific regulations applicable to the Board committees, but rather are regulated under Articles 12–15 of the Board Regulations, which are available on Pharma Mar's website ([www.pharmamar.com](http://www.pharmamar.com)). Pharma Mar's Board Regulations were approved by the Board of Directors at its meeting on 22 September 2015 and were reported to the Spanish Securities Market Commission on 22 October 2015. They entered into effect following registration of the takeover merger of Zeltia, S.A. (absorbed company) by Pharma Mar, S.A. Sociedad Unipersonal (absorbing company) with the Mercantile Registry.

C.2.6 Section repealed.

## **D RELATED-PARTY AND INTRAGROUP TRANSACTIONS**

D.1 Please explain, as the case may be, the procedures for approving related-party and intragroup transactions.

### **Procedures for reporting on the approval of related-party transactions**

The Appointments and Compensation Committee is responsible for reporting on, prior to the meeting of the Board of Directors, proposed resolutions for related-party transactions (Art. 14.2.k of the Board Regulations).

The Board of Directors is in charge of approving, following a report from the Appointments and Compensation Committees, transactions carried out by the Company or its group companies with significant shareholders, whether individually or collectively with others, including shareholders represented on the Board of Directors of the Company or of other group companies, or with parties related thereto, in the terms and subject to the exceptions set forth in applicable law (Art. 5.3.b.(ix) of the Board Regulations).

D.2 Please describe any transactions for significant amounts or relating to significant issues between the company or group companies and the company's significant shareholders:

D.3 Please describe any transactions for significant amounts or relating to significant issues between the company or group companies and the company's directors or executives:

Name of director or executive	Name of related party	Relation	Nature of transaction	Amount (in thousands of €)
ANA PALACIO VALLELERSUNDI	PHARMA MAR, S.A.	Contractual	Provision of services	33
PEDRO FERNÁNDEZ PUENTES	PHARMA MAR, S.A.	Contractual	Financing agreements: loans	48
ROSP CORUNNA PARTICIPACIONES EMPRESARIALES, S.L.	PHARMA MAR, S.A.	Commercial	Provision of services	11

D.4 Please describe significant transactions carried out by the company with other companies belonging to the same group, to the extent they are not removed for the purposes of preparing the company's consolidated financial statements and do not (in terms of their purpose and conditions) form part of the company's ordinary business activities.

In any case, any intragroup transaction carried out with organizations established in countries or territories deemed to be tax havens shall be reported:

D.5 Please state the amount of the transactions carried out with other related parties. 62 (in thousands of €)

D.6 Please describe the mechanisms established to detect, assess and resolve potential conflicts of interests between the company and/or its group and its directors, executives or significant shareholders.

In the case of Directors, Article 24 of the Board Regulations governs conflicts of interest, establishing that:

1. The Company's Directors, in compliance with their duty of loyalty, shall be required to report to the Board, through the Chairman or Secretary, any conflict of interest with the Company and its group companies, prior to it arising or as soon as they become aware of its existence, and shall be required to immediately resign if based on the nature and continuance of the conflict their presence on the Board goes against the Company's interests.

The Directors shall also adopt those measures necessary to prevent their interests, whether for themselves or on behalf of third parties, from coming into conflict with corporate interests or with their duties to the Company, in accordance with the provisions of law. In particular, the duty to avoid conflicts of interest requires that the Directors abstain from engaging in the conduct described in Article 229 of the Capital Corporations Law, except as waived in accordance with the provisions of Article 230.

A conflict of interest shall be deemed to exist when the interests of the Company and the interests of the Directors directly or indirectly clash. The Director shall be deemed to have an interest when he or she is directly affected or if any related party thereto is so affected, as provided in Article 231 of the Capital Corporations Law.

2. The Directors shall also abstain from debating and voting on those matters in which they have an interest, whether directly or indirectly through a related party, that conflicts with the interests of the Company. This obligation to abstain shall not apply to those resolutions that affect the Directors in their condition as such, including resolutions for their appointment, reappointment or removal. Voting by the Directors or, as the case may be, by the Committee in question on these types of resolutions may be made anonymously if so requested by any of its members.

3. The Directors shall disclose any interest held thereby in the capital of a company engaging in activity identical, analogous or complementary to that constituting the corporate purpose, as well as any offices held or duties performed in such company, as well as any activity carried out, for their own benefit or for the benefit of a third party, that is identical, analogous or complementary to that constituting the Company's corporate purpose. This information shall be included in the justifying report.

Articles 25 and 27 of the Board Regulations may apply to certain conflicts of interest. These articles regulate, respectively, the use of corporate assets and taking advantage of business opportunities, although they only incidentally address conflict of interest.

Article 25 of said Regulations provides that Directors may not use the assets of the Company or its subsidiaries for private purposes or for persons related thereto and may not use their position in the Company or its subsidiaries to obtain a financial advantage unless sufficient consideration is paid. Waiver of this requirement shall require a prior report from the Appointments and Compensation Committee. If the benefit is attained in their condition as a partner, the principle of equal treatment of shareholders must be followed.

Article 27 states that Directors may not take advantage, whether directly or on behalf of a related party thereto, of any potential business investments or transactions, or of any other nature, of which they became aware in the performance of their position, using the information means of the Company or of its investee companies or in such circumstances that could give rise to an assumption that the action was actually led by the Company. This prohibition shall not govern when the Board has previously offered the business opportunity to the Company or when authorized by the Board by prior report of the Appointments and Compensation Committee, whenever the Company has not dismissed said investment or transaction through the influence of the Director.

It is also important to note that Article 29 of the Board Regulations, governing transactions with significant shareholders and directors, states that:

1. Whenever a significant shareholder or Director of the Company wishes to carry out a transaction with the Company, it shall provide prior and immediate notice to the Board of Directors, through the Chairman, unless the transaction relates to ordinary transactions that are made under standard conditions for all clients and are immaterial, understood as those for which information is not required to express a true and fair view of the Company's equity, financial position and profits.

2. The Company may authorize performance by any Director or any related party thereto of a certain transaction with the Company. The authorization shall necessarily be granted by the General Shareholders Meeting when it relates to a transaction whose value exceeds ten percent of the corporate assets. In all other cases, the authorization may also be granted by the Board of Directors, following a report from the Appointments and Compensation Committee, provided that independence of the members granting the authorization is guaranteed as regards the excepted Director or executive. In addition, it shall also be required to show that the transaction authorized will be harmless to the company's equity or, as the case may be, that it is being carried out under arm's length conditions and through a transparent process.

#### D.7 Is there more than one Group company listed in Spain?

Yes

No

Please identify any subsidiaries that are listed on a Spanish Stock Exchange:

##### Listed Subsidiary

Please identify whether the respective areas of activity and potential business relationships among them, as well as those of the listed subsidiary with other group companies, have been made publicly available.

**Please define any potential business relations between the parent company and the listed subsidiary, as well as between the latter and any other group company.**

Please identify the mechanisms developed to resolve potential conflicts of interest between the listed subsidiary and the other group companies:

**Mechanisms for resolving potential conflicts of interest**

## **E RISK MANAGEMENT AND CONTROL SYSTEMS**

#### E.1 Please explain the scope of the company's Risk Management and Control System, including as regards tax risks.

As a result of the wide variety of activity sectors in which the Pharma Mar Group operates and the intense activity and resources applied to R&D projects, the most appropriate risk management system for this type of structure and activity is a decentralized system for the different business units, developed primarily on a project-by-project basis. The inherent risks in each project are identified and assessed by the different business units, who develop actions to respond to and mitigate said risks, as necessary.

Nevertheless, with a view to monitoring certain common risks across the different Group companies, a Group Policy has been established that applies to all Group companies and which addresses, *inter alia*, restrictions on and monitoring of powers of attorney and the contracting of certain financial transactions or purchases and investments. The Audit Committee, with the assistance of the Group's Internal Audit Department, is responsible for monitoring compliance with these specific policies.

#### E.2 Please identify the bodies of the company that are responsible for developing and implementing the Risk Management System, including as regards tax risks.

In general, the management bodies of each of the Group companies are aware of the risks faced by their organizations and understand the control environment. Executives in the different areas are in charge of implementing the specific controls for such risks.

The Board of Directors of the parent company of the Group, through its Audit and Compliance Committee, has the duty to monitor the effectiveness of the Company's internal controls, internal auditing and risk management systems, including as regards tax risks, as well as for discussing with the statutory auditors any significant weaknesses in the internal control system identified during the audit (Art. 13.2.b of the Board Regulations).

In order to carry out this duty, the executives of the different business units shall report to the Committee at least once per year on the different risks faced by their respective business units (operating, market, financial, etc.), on processes for monitoring such risks and on mitigating actions.

Development projects for new products are managed by the project management teams or "Project Teams," who are also responsible for identifying the risks that may arise in relation to each project and sub-project. These "Project Teams" are interdisciplinary and assess potential risks from the perspective of various disciplines (patents, production, clinical, regulatory, etc.) and establish tolerance levels which, as regards projects in the clinical development stages, are regulated by the competent authorities, leaving little discretionary margin. The management system through "Project Teams" was adopted by the Management Committee of the Oncology Business Unit.

As regards research projects, certain institutional criteria have been established: patentability, viability of production, market criteria or therapeutic window and novel mechanisms of action; if the research project does not comply with any of these institutional criteria, there are a series of internal mechanisms that result in stoppage of the project by the Research Management. The decision of whether to promote a project from the research stage to the development stage is discussed among the Chairman, the Managing Director of the Oncology Business Unit and R&D Management.

On the other hand, all of the boards of directors of the different business units have various directors that also serve as directors of the Group's parent company; these directors disseminate the principles of conduct established in the board of directors of the Group's parent company to these boards of directors and raise relevant questions to the board of the parent company that may arise within the boards of directors of which they form part for the different business units.

### E.3 Please identify the primary risks, including tax risks, which may affect attainment of the business objectives.

See section H.1

### E.4 Please identify whether the company has established a risk tolerance level, including as regards tax risks.

The sectors in which the activity of the different business units of the Pharma Mar Group is carried out (biopharmaceutical and consumer chemicals) are highly regulated sectors. In these sectors, the safety and reliability of operations are monitored by official bodies such as the Spanish Agency of Medications and Sanitary Products, the European Medicines Agency (EMA), and the U.S. Food and Drug Administration (FDA). Consequently, risk appetite has very low tolerance thresholds, in particular as regards operating risks and risks related to physical safety of employees, compliance and separation of duties. The Group's risk tolerance is in line with and complies with the standards and regulations applicable thereto. Management decisions made by the Company's senior management take into account this tolerance level as established at the corporate level.

### E.5 Please identify the risks, including tax risks, that arose during the fiscal year.

During 2015, a product whose directions for use are the same as one of the directions for use approved for the antitumor product commercialized by Pharma Mar in Europe, (Yondelis®, for ovarian cancer), was approved in the European Union. It is too soon to assess the potential impact on sales of Yondelis®.

Likewise, in 2015, some European Union countries made health care budget cuts, which will have an effect on all medications. Yondelis® in particular has been temporarily affected in some European Union member states, and the impact of these budget cuts is estimated at a €3 million decrease in turnover.

On the other hand, Pharma Mar resolved not to continue clinical trials for its Irvalec and Zalypsis compounds, having decided to prioritize its financial resources for the development of other molecules with greater antitumor effects.

As regards the consumer chemicals sector, the risk of default and nonpayment seen in recent years continues to decrease. The only negative effects have been on exports, and these have been limited to specific issues related to country-risks, mainly consisting of delays in the delivery of orders rather than loss of sales. On the other hand, the negative effects of the decline in the euro against the US dollar in 2015 directly affected imports of pyrethrum extract, which can be quantified as a loss of €500,000.

### E.6 Please explain the plans for responding to and monitoring the main risks faced by the company, including tax risks.

## **F INTERNAL CONTROL AND RISK MANAGEMENT SYSTEMS IN RELATION TO THE FINANCIAL REPORTING PROCESS ("SCIIF")**

Describe the mechanisms included in your company's internal control and risk management systems in relation to the financial reporting process (SCIIF - *Sistema de Control Interno de la Información Financiera*).

### **F.1 Company's control environment**

Please provide information on the primary characteristics of at least:

#### **F.1.1. What bodies and/or duties are responsible for: (i) the existence and maintenance of a proper and effective SCIIF; (ii) its implementation; and (iii) monitoring of the SCIIF.**

The Company's Board of Directors has the duty to establish the internal control and risk management systems, including as regards tax risks, and to identify the primary risks faced by the Company, in particular those risks arising from derivative transactions, as well as to implement and monitor adequate internal control and reporting systems, in accordance with Article 5.3.b).(viii) of the Board Regulations.

This responsibility is exercised through the Audit Committee, which is the body responsible for monitoring the effectiveness of the Company's internal controls, internal auditing and risk management systems, including as regards tax risks, as well as for discussing with the statutory auditor any significant weaknesses in the internal control system identified during the audit, in accordance with Art. 13.2.b) of the Board Regulations.

The Company's Financial Managers are responsible for the design, implementation and operation of the SCIIF, as well as for identifying and assessing risk on an annual basis and for determining the controls to be implemented, in accordance with the risk management procedures in relation to financial reporting.

The Audit Committee and the Financial Managers assist the Internal Audit Department, which is in charge of drafting and implementing an annual plan to assess the efficiency of the SCIIF. Likewise, it shall regularly report to the Audit Committee on weaknesses identified and the implementation of corrective measures, as frequently as required. These duties are also established by virtue of the risk management procedures in relation to financial reporting.

#### **F.1.2. If any, please identify the following elements, in particular as regards the process for drawing up financial information:**

- Departments and/or mechanisms responsible for: (i) designing and revising the organizational structure; (ii) clearly defining the lines of responsibility and authority, ensuring proper distribution of tasks and duties; and (iii) ensuring that there are sufficient procedures in place for its proper dissemination within the company.

As regards the organizational structure, the Board of Directors is entrusted with the duty to define the structure of the group of companies for which the Company is the parent company (Art. 5.3.a).(vi) of the Board Regulations). The Board shall adopt all measures necessary to ensure that company management is under the effective supervision of the Board (Article 6.3.b of the Board Regulations). Article 22 of the Regulations establishes that, in addition, the Directors shall have the duty to assist the Board with its duty to foster and monitor the day-to-day management of the Company and, to the extent legally permitted, of the investee companies.

In this regard, the General Managers of the investee companies shall, at least once a year and whenever so required due to special circumstances, report to the Board of Directors on their day-to-day operations, and the Board shall aim to ensure that no individual or small group of individuals holds decision making power not subject to counterweights and controls (Art. 6.3.c) of the Board Regulations); in this regard, there is an internal policy establishing restrictions on powers of attorney.

The Executive Committee has the duty to monitor the bases of the corporate organization with a view to ensuring the maximum efficiency thereof (Art. 15.2.b).(iii) of the Board Regulations), whereas the General Manager are in charge of distributing tasks and duties among members of their respective organizations. As regards the process for drawing up financial information, applicable procedures are established by corporate Financial Managers and distributed to the different affected areas through their managers.



- Code of conduct, authorizing body, degree of publication and reporting, principles and values included (identifying whether there is any specific mention to the registration of transactions and drafting of financial information), body tasked with assessing non-compliance and proposing corrective actions and sanctions.

The Company's Board of Directors unanimously resolved on the approval of the Pharma Mar Group's Code of Conduct at its meeting held on 22 December 2015, which entered into effect on 1 February 2016. The Code of Conduct has been sent to all employees of the Pharma Mar Group and is aimed at, in accordance with Article 1 thereof, formalizing the principles and values that should guide the conduct of everyone forming part of the companies of the Pharma Mar Group, both internally and with clients, partners, suppliers and in general, with all public and private individuals and entities with which they liaise in the performance of their professional activity.

Article 3.15 of the Code states that the management bodies of the Pharma Mar Group and its companies undertake to ensure regular monitoring of the effectiveness of the internal control system in relation to financial reporting to the markets. Any doubts that may arise in the interpretation of the Code of Conduct shall be discussed with the hierarchical superior or, as the case may be, with the Group's Conduct Committee, which shall be in charge of analyzing non-compliance and proposing corrective actions.

- Complaints channel that enables the reporting of financial and accounting irregularities to the audit committee, as well as for reporting potential breaches of the code of conduct and other irregular activities within the organization. Please indicate whether this channel is confidential.

Everyone covered by the Code of Conduct –i.e. members of the board of directors, Senior Management and, in general, without exception and regardless of his or her position, responsibility or workplace, all employees and executives of companies that form part of the Pharma Mar Group–, may report any potential breaches thereof through the Complaints Channel established for such purpose.

In accordance with the Regulations governing the Complaints Channel, the Conduct Committee, the composition of which was resolved on by the Board of Directors on 26 January 2016, ensures that all complaints received through the Complaints Channel are addressed and managed properly and fully and are analyzed on an unbiased and confidential basis. Furthermore, the Conduct Committee guarantees the confidentiality of the identity of the reporting party or parties, as well as of the party or parties being reported, notifying only those people as strictly necessary for the investigation and resolution process.

- Training programs and regular ongoing training programs for staff involved in preparing and reviewing financial information, as well as on assessment of the SCIIIF, which shall cover, at least, accounting, auditing, internal control and risk management rules.

Staff involved in the preparation and review of financial information regularly attend external continuing education programs on applicable regulations. In 2015, the total number of hours spent on training in this area was 83 hours.

## F.2 Evaluation of financial reporting risk

Report on at least the following:

### F.2.1. What are the main characteristics of the process for identifying risks, including the risk of error or fraud, in relation to:

- Whether the process exists and is documented.

The Company has a process for identifying financial risks that results in the development of a risk map for the Group's financial information. Both the process for identifying financial risks as well as the resulting map are duly documented.

- Whether the process covers all financial reporting objectives (existence and occurrence; completeness; valuation; presentation; allocation and comparability; and rights and obligations) and whether it is updated, and with what frequency.

The process analyzes the five objectives for reliable financial reporting: (i) existence and occurrence; (ii) completeness, (iii) valuation, (iv) allocation, classification and comparability, and (v) rights and obligations. Those risks that could result in material misstatements in the financial information are identified and assessed through this process. For such purpose, both quantitative criteria based on materiality and qualitative criteria based on risk factors are used. Based on the results obtained, the key processes associated with those accounts showing significant and/or specific risks are identified. The results of this process form the basis for the procedures for documenting and assessing the SCIIF. The risks associated with fulfilling the financial reporting objectives are annually identified and assessed as the basis for establishing the controls to be implemented.

- Whether the company has a process for identifying the perimeter of consolidation, taking into account, *inter alia*, the potential existence of complex corporate structures, instrumental entities or special purpose vehicles.

The Company's internal regulations establish mechanisms to monitor any potential changes in the perimeter of consolidation. In this regard, the Audit Committee is responsible for supervising the drafting process and integrity of financial reporting related to the Company and, as the case may be, to the Group, ensuring compliance with regulatory requirements, proper identification of the perimeter of consolidation and proper application of accounting criteria (Article 13.3a) of the Board Regulations).

On the other hand, the Board of Directors is responsible for approving transactions for the incorporation and winding up of companies or shareholdings in existing companies that are material for the company, due to their amount or nature (Article 5.3.b)(ii) of the Board Regulations).

- Whether the process considers the effects of other types of risks (operating, technological, financial, legal, reputation, environmental, etc.) to the extent they affect the financial statements.

The risk management procedures for financial reporting form part of the Pharma Mar Group's comprehensive risk management system, exclusively covering those risks that threaten the financial reporting objectives (existence and occurrence; completeness; valuation; allocation, classification and comparability; and rights and obligations). The procedures are applicable to all financial reporting risks that affect or may affect the Pharma Mar Group in any of its entities or areas or that arise in its environment or activities. Therefore, the process considers the effects of other types of risks covered by the comprehensive risk system of the Pharma Mar Group (operating, technological, financial, legal, reputation, environmental, etc.), to the extent they affect the financial statements.

- Which governing body of the company oversees the process.

The governing body that oversees the risk identification process is the Audit Committee, in accordance with the provisions of the Risk Management System for Financial Reporting. The Internal Audit Department, Financial Managers and external auditors, as the case may be, assist the Audit Committee in such regard.

### F.3 Control Activities

Please provide information on the primary characteristics of at least, if any:

- F.3.1. Processes for reviewing and authorizing financial reporting and the establishment of the SCIIF, to be published in securities markets, identifying the responsible parties, as well any processes for the descriptive documentation of operation flows and controls (including as regards fraud risk) for the different types of transactions that could materially affect the financial statements, including the procedures for closing the accounts and specifically reviewing the relevant opinions, estimates, valuations and projections.

The company has an internal financial reporting control model based on the COSO framework, which provides reasonable certainty of compliance with the objectives of said model: effectiveness and efficiency of transactions, safeguarding of assets, reliability of financial reports and compliance with applicable laws and regulations.

Prior to identifying the financial risks and developing the pertinent risk map, critical activities were identified (totaling 61), enabling identification of the key processes to be documented (totaling 40). These 40 processes are duly described and documented, including flowcharts and a description of the activity. The significant risks identified at each stage of the process are assigned an applicable key control, which is also described in the processes. A total of 283 controls have been identified.

The financial managers are responsible for identifying and documenting the aforementioned processes and the corresponding risks that could affect financial information, as well as for assessing their potential impact. The financial managers are also responsible for implementing actions aimed at mitigating the identified risks.

There is a procedure for closing the accounts. The specific review of material opinions, estimates, valuations and projections follow their own process. The respective business units make estimates, valuations or projections in the areas for which they are authorized; the reasonableness of these calculations is evaluated by the corporate Financial Managers, with the support of, as the case may be, the advice provided by the different General Managers.

#### F.3.2. Internal control policies and procedures for reporting systems (including but not limited to for access security, control of changes, operation thereof, operational continuity and separation of duties) that support the relevant processes of the company as regards the development and publication of financial information.

As regards reporting systems that support the relevant financial reporting processes, the responsibilities are delegated to the different business units. The most significant business unit has a security policy that includes IT controls, controls on the access of programs and data, controls on the development and management of change, and controls on the operation and implementation of reporting systems.

#### F.3.3. Internal control policies and procedures aimed at monitoring the management of activities sub-contracted to third parties, as well as of the assessment, calculation or valuation activities outsourced to independent experts, which could have a material effect on the financial statements.

The company has not sub-contracted any activities which could be relevant to the issuing of the financial statements. When the services of an independent expert are used to, for example, make valuations, the professional technical capacity thereof is ensured, and the Group has qualified staff that can verify the reasonableness of the conclusions made in the reports issued.

### F.4 Reporting and communication

Please provide information on the primary characteristics of at least, if any:

#### F.4.1. A specific department responsible for defining and updating the accounting policies (accounting policies area or department); resolving doubts or conflicts arising from the interpretation thereof; maintaining close communications with the parties responsible for the operations of the organization; maintaining an up-to-date accounting policies manual, which shall be communicated to the different units through which the company operates.

The corporate Financial Managers are primarily responsible for the application of the accounting policies. As regards International Financial Reporting Standards, the Consolidation Unit reports to the heads of the accounting areas of the Group regarding any updates that could affect such areas, working with them to analyze one-off operations and transactions and resolve any doubts that may arise in any other Group company regarding application of these standards. The internal auditor updates the different heads in charge of drafting the financial statements as regards regulatory amendments and also determines the effects of applying new regulations. In particularly complex transactions, the corporate Financial Managers request the opinion of external auditors regarding the analysis completed by the Group.

The Group's Accounting Policies are set forth in a document titled "Accounting Manual of the Pharma Mar Group," drafted based on the General Spanish Accounting Plan Law, as nearly all of the Group companies are located in Spain. This document is regularly updated and has been distributed to the financial managers of the different Group companies.

#### F.4.2. Mechanisms for capturing and preparing financial information, with standardized formats, which apply to and are used by all units of the company or its group and that support the main financial statements and notes thereto, as well as the information on the SCIIF.

The Company has internally developed IT tools for use in consolidating and drafting the annual financial statements. These applications have a unified format and are distributed to the Group companies, who then incorporate their individual financial statements into the application and return them completed to the Consolidation Unit where the consolidation process is completed. In the event of companies that have their own subsidiaries, such companies shall be responsible for adding their subsidiaries before sending the financial information to the Consolidation Unit. The SCIIF is supported by a single, homogeneous system that includes a reporting tool that we use to obtain the necessary information to reach conclusions regarding the functionality of the SCIIF.

## F.5 Monitoring functioning of the system

Please provide information on the primary characteristics of at least:

F.5.1. Monitoring activities carried out by the audit committee in relation to the SCIIF as well as whether the company has an internal audit department charged with the duty of supporting the committee in its monitoring activities of the internal control system, including the SCIIF. Please also include information on the scope of the assessment of the SCIIF completed during the fiscal year, as well as on the procedures followed by the party responsible for the assessment to report his or her results, whether the company has an action plan detailing the potential corrective measures, and whether its impact on financial information has been considered.

The Company has an internal audit department that is tasked with, *inter alia*, supporting the Audit Committee in the performance its duties, which includes the duty to monitor the functioning of Pharma Mar's control environment. These duties are performed in compliance with the Audit Department Charter approved by the Board of Directors of Zeltia, S.A. on 28 November 2011. The aforesaid Charter was assumed by Pharma Mar, S.A. as a result of the takeover merger of Zeltia, S.A. (absorbed company) by Pharma Mar, S.A. (absorbing company), effective as of 30 October 2015.

In relation to the SCIIF, the internal audit department is responsible for overseeing the reliability and integrity of the financial information, monitoring and assessing the efficiency of the control and management of financial risks, publishing proposals for improvement and monitoring their implementation, unifying compliance with accounting policies, standards and procedures with effects on each of the processes analyzed and coordinating with financial managers to ensure documentation related to the SCIIF is up to date. The internal auditor issues an annual report evaluating compliance with the SCIIF and with proposals for improvement to the SCIIF. This report is sent to the Audit Committee for review. The internal auditor designs and implements a plan for assessing the efficiency of the controls. Identified weaknesses in the controls are notified to the Audit Committee.

F.5.2. Whether the company has a discussion procedure through which the statutory auditor (in accordance with the provisions of the Spanish Auditing Technical Standards - NTA), the internal audit department and other experts can communicate with senior management, the audit committee or directors of the company regarding significant weaknesses in internal controls identified during the processes for reviewing the annual financial statements or during other processes entrusted thereto. Please also provide information on whether an action plan exists to correct or mitigate the identified weaknesses.

Since the Company became a listed company on 2 November 2015, the external auditor has held a single meeting with the Audit Committee on 10 December 2015. At this meeting, the external auditor presented the Audit Plan for fiscal year 2015 as well as a draft proposal and related budget in relation to an IPO of the Company in the United States. Notwithstanding the above, and prior to the takeover merger of Zeltia, S.A. by Pharma Mar, S.A., the Audit Committee of Zeltia, S.A. met on 23 February 2015 with the external auditor, who presented the audit work completed in relation to the individual and consolidated Financial Statements for the fiscal year ended 31 December 2014.

The corporate Financial Managers attend the meetings whenever so required.

The internal auditor, by delegation of the Audit Committee, monitors the proper operation of the SCIIF and assesses its design and effectiveness. The assessment plan for the SCIIF for the upcoming year shall be presented to the Audit Committee on an annual basis, which shall address risks identified by the financial managers of the Group companies.

This Committee shall be responsible for approving this plan. The Audit Committee shall be regularly notified of any potential weaknesses identified during the work carried out by the audit department. In this regard, the internal auditor attended the meeting of the Audit Committee on 28 July 2015, in which it presented on the implementation of the Audit Plan during the first half of 2015. This Plan was approved by the Committee itself at the end of 2014 (at the time, the Audit Committee of Zeltia, S.A.). The internal auditor also attended the aforesaid meeting of the Audit Committee on 10 December 2015. Details on the processes analyzed were provided in said meetings and, in the case of weaknesses identified in the controls by the internal auditor, the recommendations to be implemented by the Group companies in order to mitigate such weaknesses were reported to the Audit Committee. Supplementary information was also sent to the members of said Committee via e-mail. The Internal Audit Plan for 2016 was presented to the Committee and was approved at the same meeting held on 10 December 2015.

The monitoring process is continually carried out, which provides reasonable security that the financial information provided at the interim closing dates is reliable. Furthermore, the Audit Committee may seek the opinion of external auditors or, in specific cases, seek support from independent experts as regards their monitoring tasks, on the items of the SCIIF that it deems appropriate.

## F.6 Other relevant information

N/A

## F.7 External audit report

Please report on:

F.7.1. Whether the information on the SCIIF released to the markets was submitted to a review by the external auditor, in which case the company should attach the relevant report as an annex hereto. If not, please provide the reasons.

In fiscal year 2015, SCIIF information reported to the markets was not submitted to a review by the external auditor.

## **G** COMPLIANCE WITH CORPORATE GOVERNANCE RECOMMENDATIONS

Please specify the company's level of compliance with recommendations from the Unified Corporate Governance Code.

If any recommendation was not followed, or was only partially followed, please include a detailed explanation of the reasons so that shareholders, investors and the market in general have enough information to evaluate the company's conduct. General explanations will not be accepted.

1. That the Bylaws of listed companies should not limit the maximum number of votes that may be cast by any single shareholder and should not contain other restrictions that hinder the takeover of control of the company through the acquisition of shares on the market.

Complies

Explain

Article 25.3 of the Bylaws provides that "no shareholder may cast a number of votes exceeding 25% of total voting capital from time to time, even when the number of shares held thereby is greater than the aforesaid capital percentage." This limit does not affect the votes applicable to the shares represented by a shareholder by proxy in the terms provided in Article 19 of these Bylaws, notwithstanding the individual application to each shareholder so represented of the same 25% limit for the votes related to the shares held thereby.

The limit established in this section shall also apply to the number of votes that, at the most, two or more corporate shareholders belonging to the same group of companies may cast, whether jointly or separately. This limit shall likewise apply to the number of votes that, at the most, a natural person shareholder and the company or companies, also shareholder(s), which are controlled by the natural person, may cast, whether jointly or separately.

For the purposes of the previous paragraph, a group of companies shall be defined as provided in Article 42 of the Commercial Code, and a natural person shall be deemed to control one or several entities when, in the relations between the aforementioned person and the reference company or companies, one of the control circumstances referred to in said article occurs.

Likewise, and for the purposes of this Article, the relationship of any natural person or corporate shareholder with interposed parties, trustees or equivalent entities that are in turn shareholders of the company, as well as with funds, investment institutions or similar entities that are also shareholders of the company, shall be considered control for the purposes of Article 42 of the Commercial Code, when the voting rights of the shares held by these persons or entities are directly or indirectly exercised by the shareholder in question.

The limit established in this section shall likewise apply to the number of votes that may be cast jointly by shareholder groups acting collectively.

In the days leading up to the General Meeting, in first call, the Chairman of the Board of Directors may require that any shareholder inform the Company through its Chairman, within 48 hours, of the shares held directly thereby and of the shares owned by third parties directly or indirectly controlled by the shareholder in question, as well as of any information on any pacts or agreements, express or implied, relating to the right to vote that could give rise to collective action with other shareholders. The Chairman may comment as he or she deems appropriate at the General Meeting, at the time the Meeting is assembled, in order to ensure compliance with these Bylaws in relation to the exercise of voting rights by shareholders.

Those shares that belong to one holder, to a group of entities or to a natural or legal person, and the companies controlled by said natural or legal person, as well as all individuals or entities acting collectively with the aforementioned, shall be fully accounted for among the shares attending the Shareholders Meeting to obtain the necessary quorum in terms of capital required to hold the meeting, but at the time of voting, the limit on the number of votes, established at 25% by virtue of this article, shall apply.

The limit established in this section 3 shall cover any material subject to a decision of the General Shareholders Meeting, including the appointment of directors by the proportional system, but excluding amendment of this article, which shall in any case require the approval of a qualified majority of 75% of the capital present in person or by proxy, both in first and second call. The limit established in this section 3 shall be null and void when, following a public tender offer, the offeror has reached a percentage equal to or greater than 70% of the voting capital, unless said offeror was not subject to equivalent neutralization measures, or if such measures were not adopted. The removal of the aforesaid limits shall be effective as of the date on which the settlement results of the offer are published in the Quotation Bulletin of the Madrid Stock Exchange."

This limit –contained in the Bylaws of Pharma Mar that were part of the Common Merger Project of Zeltia, S.A. and Pharma Mar, S.A., approved by 99.98% of the shareholders of Zeltia, S.A. in attendance at its last General Shareholders Meeting on 30 June 2015– is a measure aimed at protecting the rights of the many minority shareholders that have a limited ability to act and is a response before any potential shareholder with a participation that, although not a majority holding and without surpassing takeover bid thresholds, wishes to exercise its influence and whose interests may not be completely in line with the corporate interests.

2. That when the parent company and a subsidiary are listed on the stock exchange both should publicly and specifically define:

- a) The respective areas of activity and potential business relationships between them, as well as those of the listed subsidiary with other group companies.
- b) The mechanisms in place to resolve any conflicts of interest that may arise.

Complies  Partially complies  Explain  Not applicable

3. That during the annual general shareholders meeting, as a supplement to the publication in writing of the annual corporate governance report, the chairman of the board of directors should verbally report to the shareholders, in sufficient detail, regarding the most relevant aspects of the company's corporate governance and, in particular:

- a) On the changes occurring since the previous annual general shareholders meeting.
- b) On the specific reasons for which the company is not in compliance with any of the recommendations of the Corporate Governance Code and, if any, the alternative rules applied in this regard.

Complies  Partially complies  Explain

4. That the company should define and promote a communication and relationships policy with shareholders, institutional investors and voting advisors that is fully in compliance with regulations against market abuse and that provides similar treatment to shareholders in identical circumstances.

And that the company should make said policy public on its website, including information on the manner in which it is implemented and identifying the partners or responsible parties for its implementation.

Complies  Partially complies  Explain

The Company's communications and relationships with shareholders, investors and voting advisors are in full compliance with regulations against market abuse and provides similar treatment to shareholders in identical circumstances. At the end of fiscal year 2015 and in light of the fact that little time has passed since the Company became a listed company (i.e. 2 November 2015), the Company has not finished establishing all of the details related to its policy for communicating and liaising with shareholders, investors and voting advisors, and it is expected that this will be completed during fiscal year 2016, at which time said policy will be published on the Company's website.

5. That the board of directors should not make proposals to the general shareholders meeting for the delegation of powers to issue shares or convertible securities without preemptive rights, for an amount greater than 20% of the capital at the time of the delegation.

And that when the board of directors approves any issue of shares or convertible securities without preemptive rights, the company should immediately publish on its website those reports addressing the lack of preemptive rights as required by applicable mercantile legislation.

Complies  Partially complies  Explain

6. That the listed companies that draft the reports referred to herein below, whether on a mandatory or voluntary basis, should publish them on their website sufficiently in advance of the annual general shareholders meeting, although dissemination is not mandatory:

- a) Report on the independence of the auditor.
- b) Reports on the functioning of the audit committee and appointments and compensation committee.
- c) Report on the audit committee in relation to related-party transactions.
- d) Report on the corporate social responsibility policy.

Complies  Partially complies  Explain

Although the Company expects to publish on its website the auditor's independence report, it does not expect to publish the reports on the functioning of the audit committee and appointments and compensation committee because, given that only one meeting of each committee was held in fiscal year 2015 (since the company became a listed company on 2 November 2015), publication was deemed immaterial in light of the scarce volume of activity carried out during the months of November and December 2015; in relation to the reports on the functioning of the aforesaid committees in 2016, the Company does expect to publish them on its website at the end of fiscal year 2016. Furthermore, the Company also does not expect to publish the reports on related-party transactions due to the sensitive and confidential nature of the information contained in these reports, in particular taking into account the fact that a large majority of said reports contain the economic terms offered by third parties in the proposals drafted together with the proposal of the related party. On the other hand, the Company expects to publish, before the meeting of the 2016 Annual General Shareholders Meeting, a corporate social responsibility report.

7. That the company should hold a live broadcast of the general shareholders meetings on its website.

Complies  Explain

8. That the audit committee should ensure that the board of directors submits the financial statements to the general shareholders meeting without any qualifications or reservations in the audit report and, in the exceptional circumstance that it fails to do so, the chair of the audit committee and the auditors should clearly explain the content and scope of the qualifications or reservations to the shareholders.

Complies  Partially complies  Explain

9. That the company should publish on its website, on a permanent basis, the requirements and procedures to be followed in order to accredit ownership of shares, the right to attend the general shareholders meeting and exercise or delegation of the right to vote.

And that said requirements and procedures shall encourage attendance and the exercise of the shareholders' rights, and which shall be applied on a non-discriminatory basis.

Complies  Partially complies  Explain

10. That when any authorized shareholder has exercised, prior to the meeting of the general shareholders meeting, the right to add additional agenda items or present new proposed resolutions, the company should:

- a) Immediately publicize the additional agenda items and proposed resolutions.
- b) Make the form of attendance, proxy and voting card public, incorporating the changes required in order to ensure that voting on the new agenda items and alternative proposed resolutions is carried out under the same terms as the proposals made by the board of directors.
- c) Submit all items or alternative proposals to a vote and apply the same voting rules as established for the board of directors including, in particular, as regards the presumptions and inferences on the direction of the vote.
- d) Prior to the general shareholders meeting, notify the breakdown of the vote on said additional items or proposed resolutions.

Complies  Partially complies  Explain  Not applicable

Article 24.2 of the Corporate Bylaws provides that "Unless the Presiding Panel, at the proposal of the Chairman, has established a different system for the voting in question, votes in favor of the proposed resolutions shall be understood as the votes of all shareholders attending, in person or by proxy, that have not expressly abstained, voted in blank or voted against the resolution, and approval shall be accredited by recording the votes against, in blank or abstentions. Nevertheless, as regards resolutions not proposed by the Board of Directors (defined as proposed resolutions deriving from the exercise of the right provided for in Article 519 of the Capital Corporations Law), votes of all shareholders attending, in person or by proxy, except for those shareholders that expressly abstain, vote for or cast a blank vote, shall be considered votes against the proposal submitted to a vote." Article 14.4 of the General Meeting Regulations contains a provision in this same regard.

These types of provisions are included for practical and operational reasons. For example, the use of mechanisms for granting a proxy or for distance voting and the preparation of the required documentation for such purpose (voting cards, proxy cards, etc.) is facilitated if a consensus on the direction of the vote exists, and following this recommendation would hinder and limit the use of these mechanisms, as it is presumed that a considerable portion of the shareholders employing these methods for voting or granting proxies would need to revise and, perhaps, amend the documentation that they had prepared or sent to cast their votes using these methods if they were considered to have voted in favor of any proposed resolution submitted by any shareholder (this same reasoning would apply shareholders that leave the Shareholders Meeting after it has already been assembled).

11. That, in the case the company intends to pay premiums for attendance at the general shareholders meeting, it should establish, in advance, a general policy for said premiums, and said policy shall be stable.

Complies  Partially complies  Explain  Not applicable

12. That the board of directors should perform its duties with unity of purpose and independent judgment, providing equal treatment to all shareholders in the same situation, and should be guided by the best interests of the company, which shall be understood as developing a profitable business that can be sustained in the long term, promoting the viability of the company and maximizing its financial value.

And that in pursuing the corporate interests, the board, in addition to abiding by laws and regulations, should follow good faith and ethical principles and observe commonly accepted customs and good practices, aiming to reconcile the corporate interests with, as applicable, the legitimate interests of its employees, suppliers, clients and other interest groups that may be affected, as well as with the impact of the company's activities on the environment and the community as a whole.



Complies

Partially complies

Explain

13. That the board of directors should have the required scope to ensure its effective operation and participation at its meetings, for which purpose the board should have between five and fifteen members.

Complies

Explain

14. That the board of directors should approve a director selection policy that:

a) Is specific and attestable.

b) Ensures that the proposals for appointment or reappointment are based on a prior analysis of the needs of the board of directors.

c) Favors diversity of knowledge, experience and gender.

That the result of the prior analysis of the needs of the board of directors should be included in the justifying report of the appointments committee, which is published when the general shareholders meeting is convened in order to ratify, appoint or reappoint each director.

And that the director selection policy should promote the objective of having female directors account for at least 30% of the total number of board members by 2020.

The appointments committee shall verify compliance with the director selection policy on an annual basis and shall report on said policy in the annual corporate governance report.

Complies

Partially complies

Explain

The current directors of the Company were appointed before the Company was a listed company. In light of the fact that the Company just recently became a listed company, the Company is currently in the process of developing a director selection policy that will include a representation objective for the least-represented gender on the Board of Directors.

As of the date this Report was drafted, the Board of Directors of Pharma Mar had two women among its nine members (22.22% women).

15. That the shareholder-appointed and independent directors should constitute a broad majority of the board and that the number of executive directors is the minimum necessary, taking into account the complexity of the corporate group and the percentage interest held by the executive directors in the share capital of the company.

Complies

Partially complies

Explain

16. That the percentage of shareholder-appointed directors in relation to the total number of non-executive directors should not exceed the proportion between the share capital of the company represented by said directors and the remaining share capital.

These criteria may be modified:

a) In companies with high capitalization and in which shareholdings legally considered to be significant are limited.

b) In companies where several shareholders are represented on the board of directors and are not related to one another.

Complies

Explain

The Company does not comply with this recommendation, as two of its primary shareholders are considered executive directors and cannot be considered shareholder-appointed directors; all of the shareholders currently holding a significant interest in the company form part of its Board of Directors.

17. That the number of independent directors should represent at least one half of the total number of directors.

That, nevertheless, when the company does not have high capitalization or when, even if having high capitalization, it has one or more shareholders acting jointly that control 30% of the share capital, the number of independent directors should represent at least a third of total directors.

Complies

Explain

18. That companies should publish and update the following information on their directors on their website:

- a) Professional profile and biography.
- b) Other boards of directors of which they are a member, whether of a listed company or not, as well as any other compensated activities carried out, regardless of the nature thereof.
- c) Indication of the director's category, identifying, in the case of shareholder-appointed directors, the shareholder that they represent or are linked to.
- d) The date of their first appointment as a director of the company, as well as of all subsequent reappointments.
- e) The shares of the company and option rights thereon that they own.

Complies

Partially complies

Explain

The Company has made public on its website all information referred to in the recommendation except "other compensated activities of any nature" carried out by the directors; this is the case due both to the practical difficulty of gathering the information referred to in this recommendation, taking into account that it includes any type of activity regardless of the materiality thereof (conferences, publication of articles, teaching activities, etc.), as well to the confidential and personal nature of this information.

19. That the annual corporate governance report, following verification by the appointments committee, should explain the reasons for the appointment of shareholder-appointed directors at the request of the shareholders whose interest in share capital is less than 3%. It should also explain, where applicable, why formal requests from shareholders for membership on the board were not honored, when their interest is equal to or exceeds that of other shareholders whose proposal for shareholder-appointed directors was honored.

Complies  Partially complies  Explain  Not applicable

20. That the shareholder-appointed directors should tender their resignation when the shareholder represented thereby fully transfers its shareholding. And that they should also resign, by the relevant number, when said shareholder reduces its shareholding to a level that requires a reduction in the number of shareholder-appointed directors.

Complies  Partially complies  Explain  Not applicable

21. That the board of directors may not propose the dismissal of any independent director before the completion of the mandate period for which the member was appointed in accordance with the bylaws, unless just cause is identified by the board following a report from the appointments committee. In particular, just cause shall be deemed to exist when the director is appointed to new positions or undertakes new obligations that prevent said director from dedicating the time required to perform the duties inherent in its position as a director, that result in the breach of the duties inherent in its position or that results in any circumstances that would cause the director to lose his/her condition as independent, in accordance with applicable legislation.

The dismissal of independent directors may also be proposed as a result of a public tender offer, merger or other similar operation implying a change in the share structure of the company, provided that such changes in the structure of the board of directors are required by virtue of the proportionate representation criteria discussed in recommendation 16.

Complies  Explain

22. That companies should set rules requiring that directors report on and, where appropriate, resign from their positions in those circumstances that could harm the company's credit and reputation and, in particular, requiring that they report to the board of directors any criminal actions with which they are charged, as well as the subsequent legal proceedings.

And that if a director is tried or called to court for any of the crimes set out in corporations law, the board must investigate the case as soon as possible and, based on the particular situation, decide whether the director should continue in his or her position. And that the board of directors must provide a reasoned written account of these events in its annual corporate governance report.

Complies  Partially complies  Explain

23. That all directors must clearly express their opposition when they consider that any proposal submitted to the board of directors could go against the company's interests. And that this should also apply to both independent and other directors that are not affected by the potential conflict of interest if the decision could be detrimental to any shareholders not represented on the board of directors.

And that when the board of directors adopts significant or repeated resolutions regarding which the director has voiced serious reservations, the director should draw the appropriate conclusions and, in

case of resignation, explain the reasons for this decision in the letter referred to in the next recommendation.

This recommendation also applies to the secretary of the board of directors, despite not being considered a director.

Complies  Partially complies  Explain  Not applicable

24. That whenever, due to resignation or any other reason, directors leave their position before the completion of their mandate, they shall be required to explain the reasons for this decision in a letter addressed to all the members of the board of directors. And that, regardless of whether said resignation has been reported as a relevant event, the reason for leaving their position must be included in the annual corporate governance report.

Complies  Partially complies  Explain  Not applicable

25. That the appointments committee should ensure that the non-executive directors have enough time to properly perform their duties.

And that the board regulations should establish the maximum number of boards of directors of which the directors may form part.

Complies  Partially complies  Explain

26. That the board of directors should meet with the frequency necessary to perform its duties efficiently and, at least, eight times each year, following the schedule and agenda established at the beginning of each year. Directors should be able to individually propose additional agenda items beyond those initially included on the agenda.

Complies  Partially complies  Explain

27. That directors' failure to attend should be limited to extraordinary cases and should be quantified in the annual corporate governance report. And that, in case of such absence, representation should be granted with instructions.

Complies  Partially complies  Explain

28. That when the directors or the secretary voice any concern regarding any proposal or, in the case of directors, regarding performance of the company, and their concern is not resolved by the board of directors, such circumstance shall be stated for the record at the request of the individual who raised it.

Complies  Partially complies  Explain  Not applicable

29. That the company should establish the channels necessary to ensure that the directors may obtain the advising required to perform their duties including, if required by the circumstances, external advising at the company's expense.

Complies  Partially complies  Explain

30. That, regardless of the knowledge required of the directors to perform their duties, the companies should offer knowledge update programs to the directors when the circumstances so require.

Complies  Explain  Not applicable

31. That the agenda for meetings should clearly state the agenda items that will be resolved upon at the board of directors meeting so that the directors may study or gather the information required for its adoption in advance.

The prior and express consent of the majority of the directors in attendance shall be required, and duly recorded in the minutes, if the chairman wishes, on an exceptional and emergency basis, to propose decisions or resolutions to the board of directors that were not listed on the agenda.

Complies  Partially complies  Explain

32. That the directors should be regularly informed of any changes in shareholdings and of the opinion of significant shareholders, investors and credit rating agencies as regards the company and its group.

Complies  Partially complies  Explain

33. That the chairman, as the responsible party for the effective operation of the board of directors, in addition to exercising all duties conferred thereto by law and the bylaws, shall prepare and submit to the board of directors a schedule of dates and issues to be addressed; organize and coordinate the regular assessment of the board, as well as, as the case may be, of the top executive of the company; be responsible for the management of the board and for the effectiveness of its operation; ensure that enough time is spent discussing strategic questions; and resolve on and revise knowledge update programs for each director, when so required by the circumstances.

Complies  Partially complies  Explain

34. That when there is a coordinating director, the bylaws or board of directors regulations should, in addition to the duties attributed thereto by law, attribute the following duties to the coordinating director: to chair the board of directors in the absence of the chairman and vice chairmen, if any; to voice the concerns of the non-executive directors; to maintain contact with investors and shareholders to learn about their points of view in order to form an opinion on their concerns, in particular, in relation to the company's corporate governance; and to coordinate the succession plan for the chairman.

Complies  Partially complies  Explain  Not applicable

Article 10 bis of the Board of Directors Regulations establishes that "if the Chairman is an Executive Director, the Board of Directors, with all Executive Directors abstaining, shall necessarily appoint a Coordinating Director from among the Independent Directors, who shall be specifically empowered to convene a meeting of the Board of Directors, add new items to the agenda for Board meetings that have already been called, preside over the Board of Directors in the absence of the Chairman and of the Vice Chairmen, coordinate and gather Non-Executive Directors, coordinate the succession plan for the Chairman and, as the case may be, carry out periodic assessments of the Chairman of the Board of Directors."

For such purpose, the Company is considered to partially comply with this recommendation, as the only duty of those listed in the recommendation that the Coordinating Director does not perform is that of "maintaining contact with investors and shareholders." This duty is performed by the Investor Relations and Capital Markets Department, which keeps the Board of Directors duly informed in such regard.

35. That the secretary of the board of directors should ensure, in particular, that the conduct and decisions of the board of directors take into account the good governance recommendations included in this Corporate Governance Code and applicable to the company.

Complies  Explain

36. That the board of directors, in a plenary session, should annually assess and adopt, as the case may be, an action plan to correct the deficiencies identified in relation to:

a) The quality and efficiency of the functioning of the board of directors.

- b) The functioning and composition of its committees.
- c) The diversity in the composition and competencies of the board of directors.
- d) The performance of the chairman of the board of directors and of the company's top executive.
- e) The performance and contributions of each director, paying particular attention to the heads of the different board committees.

In order to assess the different committees, such assessments shall be based on the reports submitted thereby to the board of directors and, as regards assessment of the board itself, on the report submitted by the appointments committee.

Every three years, the board of directors shall be assisted in carrying out an assessment by an external consultant, the independence of which shall be verified by the appointments committee.

The business relations held by the consultant or any of its group companies with the company or any other group company shall be described in the annual corporate governance report.

The process and areas assessed shall be described in the annual corporate governance report.

Complies

Partially complies

Explain

37. That if there is an executive committee, the structure of the participation by the different categories of directors shall be similar to that of the board of directors itself, and its secretary shall be the board secretary.

Complies  Partially complies  Explain  Not applicable

Although the Executive Committee has an external director in addition to the two executive directors, given that it is a body comprised solely of three members –as provided in Article 15 of the Board Regulations– each member represents 33.33% of the body.

38. That the board of directors must always be aware of the subjects discussed and decisions adopted by the executive committee and that all members of the board of directors should receive a copy of the minutes of the executive committee meetings.

Complies  Partially complies  Explain  Not applicable

39. That the members of the audit committee, and in particular its chairman, should be appointed considering their knowledge and experience in the area of accounting, auditing or risk management, and that the majority of its members should be independent directors.

Complies  Partially complies  Explain

The Company's Audit Committee is comprised of four directors, two of which are independent directors, one of which is an other external director and the other which is a shareholder-appointed director. Although the number of independent directors does not represent a numerical majority of the members of the Committee, independent directors are the most-represented category.

For the purposes of having the majority of the Committee members be independent directors, the Company will adopt in fiscal year 2016 those resolutions required in order to comply with this recommendation and with Article 529 quaterdecies of the Capital Corporations Law, as restated by Law 22/2015, of 20 July, on account auditing, in section 20 of its fourth final provision, which will enter into effect on 17 June 2016.

40. That under the supervision of the audit committee, the company shall have a unit dedicated to performing internal audit duties and which ensures the proper functioning of the internal reporting and control systems and functionally reports to the non-executive chairman of the board or of the audit committee.

Complies  Partially complies  Explain

41. That the person in charge of the unit performing the internal audit duties shall present an annual work plan to the audit committee, report directly on any issues that may arise in its implementation and submit an activity report at the end of each fiscal year.

Complies  Partially complies  Explain  Not applicable

42. That, in addition to those duties provided by law, the audit committee should have the following duties:

1. As regards reporting and internal control systems:

a) To supervise the preparation process and the integrity of the financial information relating to the Company and, as the case may be, to the group, reviewing compliance with regulatory requirements, the proper scope of the consolidated Group and the correct application of accounting principles.

b) To ensure the independence of the internal auditing unit; propose the selection, appointment, reappointment and removal of the party responsible for the internal auditing services; propose the budget for such service; approve the direction and plans for its services

to ensure that the activity focuses primarily on relevant risks for the company; receive regular reports on its activities; and verify that senior management takes the conclusions and recommendations of such reports into account.

- c) To establish and monitor a mechanism that allows employees to communicate, confidentially and, if possible and deemed appropriate, anonymously, any potential significant irregularities, in particular financial and accounting irregularities, observed from within the company.

2. As regards the external auditor:

- a) If the external auditor resigns, to examine the circumstances leading to this resignation.
- b) To ensure that compensation of the external auditor does not compromise quality or independence.
- c) To oversee that the company reports the change of auditor as a material event to the Spanish Securities Market Commission (*Comisión Nacional del Mercado de Valores - CNMV*), which shall be accompanied by a statement on any potential disagreements with the outgoing auditor and, if any, the content thereof.
- d) To ensure that the external auditor holds an annual meeting with a plenary session of the board of directors in order to inform them of the work performed and the financial position of and risks faced by the company.
- e) To ensure that the company and the external auditor respect rules in force on the provision of non-auditing services, limits on the concentration of the auditor's business and, in general, any other rules on the independence of the auditors.

Complies

Partially complies

Explain

43. That the audit committee may request the presence of any employee or executive of the company, even without the presence of any other executives.

Complies

Partially complies

Explain

44. That the audit committee should be aware of any transactions proposed by the company that would implement structural and corporate changes in order to analyze such transactions and report to the board of directors regarding the financial terms and accounting effects thereof and, in particular, as the case may be, regarding the proposed exchange ratio.

Complies

Partially complies

Explain

Not applicable

45. That the risk control and management policy should identify at least the following:

- a) The different types of risk, including financial and non-financial risks (including but not limited to operating, technological, legal, social, environmental, political and reputation), faced by the company, including under financial and economic risks any contingent liabilities and other off-balance sheet risks.
- b) An established risk level deemed acceptable by the company.
- c) The measures intended to mitigate the impact of the risks identified, in the event that they materialize.
- d) The internal control and reporting systems that will be used to control and manage the aforementioned risks, including contingent liabilities and off-balance sheet risks.

Complies

Partially complies

Explain



Although the Company has begun the process of complying with this recommendation, not all aspects of the risk control and management policy as defined in this recommendation have been established, given that the Company has just recently become a listed company as of 2 November 2015. Notwithstanding the above, the Company has already implemented an exhaustive control system for financial reporting and has also developed a risk map in relation to criminal risks. Furthermore, each of the business units comprising the Group identifies risks, on an annual basis, that its business could face in the upcoming fiscal year; they classify these risks based on how serious the risks are and propose, as the case may be, mitigating actions, all of which is presented to the Audit Committee on an annual basis. The Company has also established a complaints channel through which employees, executives, and directors of the Group may file complaints regarding any type of irregularity identified. This channel will be managed by the Conduct Committee, which was established by resolution of the Board of Directors on 26 January 2016. The Company also has a Monitoring Committee, which ensures application of the Internal Regulations on Conduct in Securities Markets. Finally, as previously stated above, the Company has an Internal Audit Department that functionally reports to the Audit Committee.

46. That under the direct supervision of the audit committee or, as the case may be, of a specialized committee of the board of directors, there is an internal audit and risk management function carried out by one of the company's internal units or departments, which is expressly assigned the following duties:

- a) To ensure proper operation of the risk control and management systems and, in particular, to ensure the identification, management and proper quantification of the substantial risks faced by the company.
- b) To actively participate in developing the risk strategy and making important decisions related to the management thereof.
- c) To ensure that risk control and management systems properly mitigate risks under the framework of the policy established by the board of directors.

Complies  Partially complies  Explain

As of the date of drafting of this report, the Company is in the process of establishing an internal control and risk management department that will, *inter alia*, carry out the duties set forth in this recommendation. The Company did not comply with this recommendation in 2015, as it was waiting on the request for admission to trade of its shares in the United States as well as on a detailed analysis of the requirements in this regard for said market. In accordance with the above, the Company's internal auditing department is tasked with ensuring the proper functioning of the reporting and internal control systems.

47. That the members of the appointments and compensation committee –or of the appointments committee and the compensation committee, if separate– shall be appointed ensuring that they have the proper knowledge, skills and experience to perform the duties required therefrom and that the majority of its members shall be independent directors.

Complies  Partially complies  Explain

48. That companies with high capitalization shall have an appointments committee and a separate compensation committee.

Complies  Explain  Not applicable

49. That the appointments committee shall consult the chairman of the board of directors and the top executive of the company, in particular in matters related to the executive directors.

And that any director may ask the appointments committee to consider potential candidates he or she considers appropriate, in his/her opinion, to fill a vacancy on the board of directors.

Complies  Partially complies  Explain

50. That the compensation committee should carry out its duties independently and that, in addition to the duties granted thereto by law, should have the following duties:

- a) To propose to the board of directors the basic contracting conditions signed with senior executives.
- b) To verify compliance with the compensation policy established by the company.
- c) To regularly review the compensation policy for the directors and senior executives, including share compensation systems and their application, as well as to ensure that individual compensation is proportionate to the amounts paid to the other directors and senior executives of the company.
- d) To ensure that any potential conflicts of interest do not threaten the independence of any external advising provided to the committee.
- e) To verify information regarding compensation of directors and senior executives provided in various corporate documents, including the annual report on director compensation.

Complies

Partially complies

Explain

51. That the compensation committee should consult the chairman and the top executive of the company, in particular in matters related to the executive directors and senior executives.

Complies

Partially complies

Explain

52. That the rules on the composition and functioning of the monitoring and control committees should be provided in the board of directors regulations, which should comply with all rules applicable to those legally required committees in accordance with the preceding recommendations, including:

- a) That they should be exclusively comprised of non-executive directors, with a majority of independent directors.
- b) That they must be chaired by independent directors.
- c) That the board of directors should appoint the members of these committees taking into account the knowledge, skills and experience of the directors and the terms of reference of each committee; that their members report to the board of directors, at the first plenary session thereof following each of the committee meetings, on its activities and work performed.
- d) That the committees may request external advising as deemed necessary to perform their duties.
- e) That minutes should be drafted for the meetings, which shall be made available to all directors.

Complies

Partially complies

Explain

Not applicable

53. That monitoring of compliance with corporate governance rules, internal codes of conduct and the corporate social responsibility policy should be attributed to one or more committees of the board of directors, which could include the audit committee, appointments committee, corporate social responsibility committee, if any, or any specialized committee of the board of directors that, in the performance of its self-organization duties, it decides to establish for such purpose, to which the following specific minimum duties shall be attributed:

- a) To monitor compliance with the internal codes of conduct and the corporate governance rules of the company.
- b) To monitor the communications strategy and relationships with shareholders and investors, including small and medium shareholders.

- c) To regularly assess whether the company's corporate governance system is appropriate with a view to ensuring that its objective of promoting corporate interests is met and taking into account, as applicable, the legitimate interests of the remaining interest groups.
- d) To review the company's corporate social responsibility policy, ensuring it is aimed at creating value.
- e) To monitor the corporate social responsibility strategy and practices and assess compliance therewith.
- f) To monitor and assess the engagement processes for different interest groups.
- g) To assess all aspects related to the company's non-financial risks, including operating, technological, legal, social, environmental, political and reputation risks.
- h) To coordinate the process for reporting non-financial and diversity information in accordance with the applicable regulations and international benchmark standards.

Complies

Partially complies

Explain

Pending a potential request for admission to trading of shares in the United States market and a detailed analysis of the requirements in this regard in such market, the Company considers that it would be inefficient at this time to distribute these duties among the different committees if the rules of other markets would require it to establish a specific committee, or to attribute certain duties, if the rules of other markets contain more demanding requirements in this regard. Until such time, the monitoring of compliance with corporate governance rules, internal codes of conduct and the corporate social responsibility policy will continue to be performed ultimately by the board of directors.

54. That the corporate social responsibility policy should incorporate the principles and commitments voluntarily assumed by the company in its relations with various interest groups and identifying at least:

- a) The objectives of the corporate social responsibility policy and the implementation of support instruments.
- b) The corporate strategy as regards sustainability, the environment and social issues.
- c) The specific practices in matters related to: shareholders, employees, clients, suppliers, social issues, environment, diversity, tax liability, respect of human rights and prevention of illegal conduct.
- d) The methods or systems for monitoring the results of application of the specific practices indicated in the preceding paragraph, associated risks and management thereof.
- e) The mechanisms for monitoring non-financial risks, ethics and business conduct.
- f) The channels for communication, participation and dialog with interest groups.
- g) The practices of responsible communication that prevent manipulation of information and protect integrity and honor.

Complies

Partially complies

Explain

Although the Company will annually publish a corporate social responsibility report (with information on corporate governance, corporate organization, management structure, good governance policy and ethics management, patients, clients, suppliers, employees, shareholders, environment and environmental parameters, social action, primary contributions, communities, regulatory authorities, etc.) that could be considered its corporate social responsibility policy, this report does not address all content required by this recommendation, but rather addresses those issues deemed appropriate for a company the size of Pharma Mar, in view of the human and financial resources it currently has available.

55. That the company should report, in a separate document or in the management report, on all aspects related to corporate social responsibility, applying for such purpose the internationally accepted methodologies.

Complies

Partially complies

Explain

As stated in the previous section, the Company will annually publish a corporate social responsibility report; however, although this report is modeled after the corporate social responsibility reports issued by international pharmaceutical companies, the primary manner in which the report does not comply with internationally accepted principles is to the extent that these methodologies require the report to be audited. Said audit is not completed as the Company considers the cost incurred to be disproportionate in view of the resources it has available.

56. That director compensation should be set as required to attract and retain directors with the desired profile and to compensate them for the dedication, qualifications and responsibility required in the position, without being so high as to compromise the independence of the non-executive directors.

Complies

Explain

57. That compensation of executive directors should be limited to variable compensation linked to performance of the company and the individual, as well as compensation in the form of delivery of shares, options or share rights or instruments referencing share value and long-term savings systems such as pension plans, retirement funds or other social welfare systems.

Delivery of shares as compensation of non-executive directors may be used, provided the directors are required to hold said shares until they no longer serve as directors. The foregoing shall not apply to shares that the director needs to dispose of, as the case may be, in order to pay the relevant acquisition costs.

Complies

Partially complies

Explain

58. That variable compensation policies should incorporate the necessary technical precautions and restrictions to ensure that this compensation rewards the professional performance of its beneficiaries and does not solely derive from the general performance of the markets or of the activity sector of the company, or from any other similar circumstances.

And, in particular, that the variable compensation items should:

- a) Be linked to performance criteria that are predetermined and measurable and that said criteria should take into account the risk assumed in obtaining a result.
- b) Promote the sustainability of the company and include appropriate non-financial criteria for creating long-term value, such as compliance with the company's internal rules and procedures, as well as with its risk control and management policies.
- c) Be established based on a balance between meeting short, medium and long-term objectives, enabling compensation for continued performance during a sufficient period of time to measure their contributions to creating sustainable value, such that the measurement elements for this performance are not solely based on one-off, occasional or extraordinary events.

Complies

Partially complies

Explain

Not applicable

59. That payment of a significant part of the variable compensation components should be deferred for a minimum period of time sufficient to verify that the previously established performance conditions have been met.

Complies

Partially complies

Explain

Not applicable

60. That, in calculating any compensation linked to profits, the company should consider any potential reservations included in the external auditor's report that reduce said profits.

Complies  Partially complies  Explain  Not applicable

61. That a material percentage of the variable compensation of the executive directors should be linked to the delivery of shares or financial instruments linked to their value.

Complies  Partially complies  Explain  Not applicable

Executive director compensation does not in any way involve the delivery of shares or financial instruments linked to share value, as the interests of the executive directors are already considered sufficiently in line with the Company's interests, given that the executive directors are the primary shareholders of Pharma Mar.

62. That once the shares or options or share rights have been contributed to the compensation system, the directors may not transfer ownership of a certain number of shares equivalent to two times fixed annual compensation, nor may exercise the options or rights until a period of at least three years from allocation thereof has elapsed.

The foregoing shall not apply to shares that the director needs to dispose of, as the case may be, in order to pay the relevant acquisition costs.

Complies  Partially complies  Explain  Not applicable

63. That contractual agreements should include a clause authorizing the company to request reimbursement of the variable compensation if the payment amount was not in line with actual performance or if it is subsequently determined that payments were based on data that was clearly erroneous.

Complies  Partially complies  Explain  Not applicable

In relation to the agreements currently in force, it is considered unnecessary to amend such agreements solely to include a reimbursement clause for variable components, bearing in mind that said claim is considered to be permitted at all times even if not expressly stated in a clause for such purpose in the agreement, as is generally the case for any improper payment or payment without cause. In the future, in the event that agreements are executed with new executive directors, the convenience of including this type of clause referred to in the recommendation will be analyzed when negotiating such agreements.

64. That payments for terminating contracts should not exceed an established amount equivalent to two years of total annual compensation and that they should not be paid out until the company has verified compliance by the director with the previously established performance criteria.

Complies  Partially complies  Explain  Not applicable

## **H** OTHER INFORMATION OF INTEREST

1. If there is any other relevant aspect as regards corporate governance of the company or any of its groups companies that has not been included in the rest of the sections of this report, but which should be included in order to gather more complete and reasoned information on the corporate governance structure and practices of the company or its group, please briefly describe such information below.

2. Any other information, clarification or specifications related to the previous sections of this report may be included in this section, to the extent it is relevant and not redundant.

In particular, please indicate whether the company is subject to any corporate governance legislation other than that prevailing in Spain and, if so, include that information required to be provided under such legislation and that differs from that requested in this report.

3. The company may also indicate whether it has voluntarily adhered to any other international, industry or other ethical codes or codes of good practice. If so, please identify the code in question and the date of accession.

This annual corporate governance report has been approved by the company's Board of Directors at its meeting held on 29/02/2016.

Please indicate whether any directors have voted against or abstained from the approval of this report.

Yes

No

This Corporate Governance Report covers the company Pharma Mar, S.A. (“**Pharma Mar**” or the “**Company**”) in its condition as a listed company, a condition which it attained on the date its shares were admitted to trade on the official Madrid, Barcelona, Bilbao and Valencia Stock Exchanges (2 November 2015). With a view to providing a proper response, some of the sections and additional explanations provided in this Report refer expressly to the Company, when it was not yet a listed company was wholly-owned by its sole shareholder Zeltia, S.A. (hereinafter, “**Zeltia**”), prior to its merger by takeover by the Company. In addition, and in order to facilitate comprehension of this Report, certain sections refer to Zeltia, a listed company that was absorbed by the Company on 30 October 2015, which was up until such time its parent company.

As a supplement to **section A.9**:

a) Resolution Eleven of the Universal General Shareholders Meeting of Pharma Mar held on 30 June 2015 establishes the following:

*Authorization of the Board of Directors, in accordance with the provisions of Article 297.1.b) of the Capital Corporations Law, to increase share capital, within a maximum period of five years, if deemed convenient, by an amount equal to half of the current share capital, on a one-time basis or several times, in the manner and amount deemed appropriate, granting the power to exclude preemptive rights.*

#### *11.1. Authorized capital. Amount and Term.*

*It is resolved to delegate to the Company's Board of Directors, in accordance with the provisions of Article 297.1.b) of the Capital Corporations Law, the power to, without requiring prior consulting with the General Meeting, resolve on a share capital increase up to the amount of half the Company's capital, and may exercise this power for a period of five years from the date of this resolution, on a one-time basis or on several occasions, at the time, for the amounts and under the conditions as freely resolved thereby in each case.*

#### *11.2. Scope of the delegation*

*In this regard, the Board of Directors may set the terms and conditions of the capital increases as well as the characteristics of the shares, including determining the investors and markets to whom the capital increases will be directed and the placement procedure to be followed; freely offer new unsubscribed shares during the preemptive subscription period; provide, in the case of incomplete subscription, that the capital increase be deemed null and void or that the capital only be increased for the amount in which subscriptions were made; and amend the Bylaws provision relating to share capital.*

#### *11.3. Rights of the new shares, issue rate and counter value of the increase*

*The new shares issued with a view to the capital increase resolved under the framework of this delegation shall be ordinary shares with equal rights to those shares already existing (except as regards dividends that have already been announced and are pending payment at the time of their issue), which shall be issued at their par value or, as the case may be, with the issue premium established. The counter value of the new shares to be issued shall necessarily consist of monetary contributions.*

#### *11.4. Ex pre-emptive rights.*

*Effective as from the time when the Company's shares are admitted to trade and in accordance with the provisions of Article 506 of the Capital Corporations Law, the Board of Directors is*

*expressly granted the power to exclude, in whole or in part, preemptive rights over some or all of the shares it agrees to issue by virtue of this authorization, although this power shall be limited to capital increases for an amount up to 20% of the Company's share capital.*

*In accordance with applicable law, the Board of Directors may make use of the power granted thereto by virtue of this section 4 when the interests of the Company so require, provided the par value of shares to be issued, plus the share premium, as the case may be, match the fair value of the shares of the Company as set forth in the report that, at the request of the Board of Directors, shall be drafted by the statutory auditor.*

#### *11.5. Application for admission*

*Furthermore, the Company's Board of Directors is empowered to request admission to trading on organized secondary markets, in Spain or abroad, of those shares that may be issued, in compliance with all applicable rules on the admission, listing and delisting of shares.*

*It is expressly stated that, in the event of a subsequent request to delist the Company's shares, the delisting shall be adopted following the same formalities as those followed to request listing and, in such case, the interests of the shareholders or bondholders that oppose or do not vote on the resolution in the terms provided in the legislation in force shall be guaranteed. Furthermore, it is expressly stated that the Company is bound by those rules in force or which may be laid out in the future on Securities Markets and, in particular, on admission, listing and delisting.*

#### *11.6. Power to substitute or sub-delegate*

*The Board of Directors is authorized to in turn sub-delegate or substitute, to the benefit of any of its members, the powers delegated by virtue of this resolution.*

b) Resolution Thirteen of the Universal General Shareholders Meeting of Pharma Mar held on 30 June 2015 establishes the following:

*Authorization of the Board of Directors for the buyback of treasury stock directly or through group companies and for the disposal of said shares.*

*Pursuant to the provisions of Article 146 and related provisions and of Article 509 of the Capital Corporations Law, it is resolved to authorize the Company's Board of Directors (as well as its subsidiaries) to acquire, during a period of five years from the date of this General Meeting, at any time and as many times as deemed appropriate and by any means permitted by law, the Company's shares in accordance with the following provisions and requirements in addition to those provided by the legal provisions in force:*



*A. Means of acquisition*

*Acquisitions shall be made through sale and purchase transactions, swap transactions or other means permitted by law.*

*B. Maximum limit:*

- i. Before admitting the Company's shares to trade: Company shares with a par value, in aggregate with shares already held by the Company and its subsidiaries, that does not exceed 20% of the Company's subscribed capital from time to time.*
- ii. After admitting the Company's shares to trade: Company shares with a par value, in aggregate with shares already held by the Company and its subsidiaries, that does not exceed 10% of the Company's subscribed capital from time to time.*

*C. Acquisition price:*

- i. Prior to admitting the Company's shares to trade:*
  - a. Maximum acquisition price: 10% of the price of the most recent transactions in the Company's shares or, if none, the most recent subscription value for the Company's shares.*
  - b. Minimum acquisition price: par value of the Company's shares.*
- ii. After admitting the Company's shares to trade:*
  - a. Maximum acquisition price: 10% of the trading price of the Company's shares in the Spanish Stock Exchange Interconnection System at the time of acquisition.*
  - b. Minimum acquisition price: par value of the Company's shares.*

*The Company's Board of Directors (and the boards of its subsidiaries) are authorized, for the period and in accordance with the terms established in the preceding paragraphs to the extent applicable and at arm's length, to acquire the Company's shares using loans.*

*It is hereby expressly authorized that treasury stock acquired may be used in whole or in part towards (i) its disposal; (ii) delivery to employees, executives, directors (for the purposes provided in Article 146 of the Capital Corporations Law); and (iii) reinvestment plans for dividends or similar instruments.*

As a supplement to **section A.10**, it is worth noting that Article 25.3 of the Bylaws establishes the following as restrictions on the exercise of the voting right:

- No shareholder may cast a number of votes exceeding 25% of total voting capital from time to time, even when the number of shares held thereby is greater than the aforesaid capital percentage. This limit does not affect the votes applicable to the shares held by a shareholder (in the terms provided in Article 19 of these Bylaws), notwithstanding the individual application to each

shareholder that delegates the same percentage of 25% of the votes related to the shares held thereby.

- This restriction shall also apply to: (i) the maximum number of votes that may be cast – jointly or separately– by two or more corporate shareholders belonging to the same corporate groups; and (ii) the maximum number of votes that may be cast by a natural person shareholder and the company or companies, also shareholder(s), which are controlled by said natural person, whether cast jointly or separately.
- Those shares that belong to one holder, to a group of entities or to a natural or legal person, and the companies controlled by said natural or legal person, as well as all individuals or entities acting collectively with the aforementioned, shall be fully accounted for among the shares attending the Shareholders Meeting to obtain the necessary quorum in terms of capital required to hold the meeting, but at the time of voting, the aforementioned limit on the number of votes (25%) shall apply.
- Article 25.3 of the Bylaws states that the limit established in this section shall cover any material subject to a decision of the General Shareholders Meeting, including the appointment of directors by the proportional system, but excluding amendment of its Article 25, which shall in any case require the approval of a qualified majority of 75% of the capital present in person or by proxy, in first and second call.
- The limit shall be null and void when, following a public tender offer, the offeror has reached a percentage equal to or greater than 70% of the voting capital, unless said offeror was not subject to equivalent neutralization measures, or if such measures were not adopted, as provided in Article 527 LSC. The elimination of the aforesaid limits shall be effective as of the date on which the results of the payment of the offer are published in the Quotation Bulletin of the Madrid Stock Exchange.

In relation to **section B.4**, it is worth noting that the attendance figures for the general meetings included in this section refer to Pharma Mar's Universal General Shareholders Meetings, held on 28 April 2015 and 30 June 2015, which were the only general shareholders meetings held in fiscal year 2015 and which were held at a time when the Company was still not a listed company. Details on attendance at the General Shareholders Meetings of Zeltia held during the year being reported on and the preceding year are provided herein below:

General Meeting Date	% physical attendance	% by proxy	% distance voting		Total
			Electronic Vote	Other	
30 June 2015	22.96	15.14	0.00	0.02	38.12%
27 May 2014	25.92	15.08	0.00	0.08	41.08%

In relation to **section C.1.2.B**, it is worth noting that Pharma Mar's Universal General Shareholders Meeting held on 30 June 2015 resolved on the substantial restructuring of its governing body, appointing new directors and removing four of its current directors (José Félix Pérez-Orive Carceller, Martine J. Piccart, Fernando Cabanillas Escalona and Bruce Chabner). However, and due to the fact that Pharma Mar was not a listed company as of that date, none of the director categories provided for in Article 529 duodecies LSC can be assigned to any of the aforementioned removed directors.

In relation to **section C.1.11**, it should be added that José María Fernández Sousa-Faro is also the Chairman of the Board of Directors of Sylentis, S.A. Unipersonal, a wholly-owned subsidiary of Pharma Mar, and holds a general power of attorney; Pedro Fernández Puentes is a Director on the Board of Directors of Sylentis, S.A. Unipersonal and does not perform any executive duties nor holds a general power of attorney. José María Fernández Sousa-Faro is also a natural person representative of Pharma Mar on the Board of Directors of Zelnova Zeltia, S.A. and does not perform any executive duties nor holds a general power of attorney. Furthermore, it is worth specifying that José Félix Pérez-Orive Carceller, natural representative of JEFPO, S.L. on the Board of Pharma Mar, is also an individual director of Xylazel, S.A., Zelnova Zeltia, S.A. and Genomica, S.A., and does not perform executive duties nor holds a general power of attorney in any of the aforementioned companies.

In relation to **section C.1.12**, it is worth noting that the natural representative of ROSP CORUNNA PARTICIPACIONES EMPRESARIALES, S.L., José Leyte Verdejo, is the Secretary of BREIXO INVERSIONES, IICICIL, S.A. and of SOANDRES DE ACTIVOS SICAV, S.A.

In relation to **section C.1.15**, it is worth noting that the amount of compensation of the board of directors does not include the compensation earned by Martine J. Piccart, Fernando Cabanillas Escalona and Bruce Chabner as directors of Pharma Mar, who ceased to act as board members by resolution of the Universal General Shareholders Meeting held on 30 June 2015; to the contrary, the following compensation is included: (i) compensation earned by José Félix Pérez-Orive Carceller (natural representative of JEFPO, S.L.) as Director of Pharma Mar since 1 January 2015 up until his removal on 30 June 2015 by resolution of the Universal General Shareholders Meeting; and (ii) compensation earned by JEFPO, S.L. as a Director of Pharma Mar since its appointment on 30 June 2015 by resolution of the Universal General Shareholders Meeting up until the close of the fiscal year on 31 December 2015. Furthermore, the amount includes the compensation earned by the directors of Pharma Mar, both within the Company itself as well as in its Group companies, including those amounts earned in Zeltia up until its extinction as a result of the takeover merger by Pharma Mar.

In relation to **section C.1.16**, it should be specified that Sebastián Cuenca Miranda is also a director of Xylazel, S.A. Compensation earned in 2015 for his membership on said governing body (€19,000) has been included as part of the figure provided in this section for total compensation earned.

In relation to **section C.1.19**, it is worth noting that:

Article 18 of the Board Regulations refers to the appointment of directors and provides the following:

1. *The Directors shall be appointed by the General Meeting or, in the event of an unexpected vacancy, by co-optation by the Board of Directors itself up until the next General Meeting is held and, if a vacancy arises after the General Meeting has already been called but before it is held, until the following General Meeting. Directors appointed by co-optation shall not be required to be shareholders.*

*The appointment of substitutes shall not be required.*

2. *The Appointments and Compensation Committee shall be responsible for the proposals for the appointment or reappointment of Directors as regards Independent Directors, and in all other cases, responsibility shall lie with the Board itself.*

*The proposal shall, in any case, be accompanied by a justifying report of the Board of Directors assessing the skills, experience and merits of the proposed candidate. This report shall be attached to the minutes for the General Meeting or for the Board itself.*

*The proposal for appointment or reappointment of any non-independent Director shall be preceded by a report from the Appointments and Compensation Committee.*

*These provisions shall also apply to natural persons designated as representatives of a corporate Director. The proposal for a natural representative shall be subject to the report of the Appointments and Compensation Committee.*

3. *The Directors shall serve in their positions for a maximum term of four years and may be reappointed for periods of like duration. The term of the mandate of the Directors shall be calculated as of the date of the General Meeting in which their appointment or ratification, in the event of prior appointment by co-optation by the Board of Directors, was made.*

4. *The Board of Directors may make proposals to the Shareholders Meeting for the appointment as an Honorary Director of those Directors who, based on their merits and dedication to the Company, deserve to be granted such title following their removal as members of the Board of Directors. The appointments made may be deemed void by the Board itself based on the circumstances of each case. In such case, the General Meeting shall be provided notice of such circumstances.*

*Honorary Directors may attend and participate in Board meetings, but with no right to vote, provided the Board of Directors itself deems it appropriate and they are called to the meeting by the Chairman in the terms required.*

*Honorary Directors shall have the right to receive compensation for their condition as such and, as the case may be, for advising the Board, to the extent determined by the Board of Directors itself by virtue of the relevant resolution and, as the case may be, execution of the relevant contractual advising relationship.*

In addition, it should be noted that the Appointments and Compensation Committee is the body in charge of, on the one hand, bringing proposals for the appointment of independent directors to the Board of Directors for appointment by co-optation or decision of the General Shareholders Meeting, as well as for proposals for the reappointment or removal of said directors by the General Shareholders Meeting and, on the other hand, submitting proposals for the appointment of the remaining directors for appointment by co-optation or decision of the General Shareholders Meeting, as well as for proposals for their reappointment or removal by the General Shareholders Meeting, in accordance with the provisions of Article 14.2.(c) and (d) of the Board Regulations.

As regards the assessment of the directors, the Chairman shall be in charge of organizing and coordinating the regular assessment of the Board, as well as of the top executive of the Company, if the Chairman does not hold this position (Article 10.4.(d) of the Board Regulations). As regards the assessment referred to in Article 17 bis of the Board Regulations:

*1. On an annual basis, the Board of Directors shall evaluate:*

*(a) the efficiency of their functioning and quality of their performance;*

*(b) diversity in its composition and skills;*

*(c) the performance of duties by the Board Chairman and, if any, by the Managing Director, in view of the report submitted thereto by the Appointments and Compensation Committee;*

*(d) the performance and contributions of each Director, paying particular attention to the heads of the different Committees;*

*(e) the functioning and composition of its Committees in view of the reports submitted thereby to the Board.*

*For such purpose, the Chairman of the Board of Directors shall organize and coordinate with the Chairmen of the Committees regarding the aforementioned assessment process.*

*2. In the event that the Chairman of the Board of Directors is performing executive duties, assessment of his or her performance shall be directed by the Coordinating Director.*

*3. An action plan to correct identified deficiencies shall be developed during the assessment process.*

*4. The results of the assessment shall be included in the meeting minutes or as an attachment thereto.*

Furthermore, it is worth noting that Article 10bis of the Board Regulations provides that, in accordance with Article 529 septies 2 of the Capital Corporations Law, the Coordinating Director shall be in charge of directing the regular assessment of the Chairman of the Board of Directors.

Article 19 of the Board Regulations refers to the removal of directors and provides the following:

*1. The Directors shall be removed when the period for which they were appointed has elapsed and was not renewed as well as when determined by the General Meeting.*

2. Directors shall tender their resignation to the Board of Directors and formalize the pertinent resignation, if deemed appropriate by the Board, in the following cases:

(a) When they turn 75.

(b) If they are involved in any circumstance of incompatibility or prohibition provided by law, the Corporate Bylaws or these Regulations.

(c) If their continued membership on the Board could put at risk or harm the Company's interests, credit or reputation.

(d) When they no longer hold an executive position to which their appointment was linked or, in general, when the reasons for their appointment no longer exist (e.g. when the shareholder represented by a Director disposes of its shareholding in the Company that motivated the Director's appointment).

(e) When the Director has missed four consecutive Board meetings without granting a proxy to another Board member.

The Board of Directors may only propose the removal of an Independent Director to the General Shareholders Meeting before the period provided for in the Bylaws has lapsed and when the Director has not tendered his or her resignation after having met any of the said circumstances referred to in this article or when any other just cause as determined by the Board exists, following a report of the Appointments and Compensation Committee. In particular, just cause shall be deemed to exist when the Director accepts additional obligations that prevent said Director from dedicating the required time to the performance of its duties, breaches any duties inherent in its position or otherwise is in any circumstances that prevent its independence. The Board of Directors may also propose the removal of Independent Directors as a result of public offers of acquisition, merger or other similar corporate transactions that entail a change to the Company's capital structure, provided such structural changes to the Board of Directors are a result of application of the proportionality criteria set forth in corporate governance recommendations for listed companies in Spain.

3. The Appointments and Compensation Committee may make a proposal to the Board of Directors for submission to the General Shareholders Meeting on the removal of Directors when their behavior could negatively affect the functioning of the Board or the credit and reputation of the Company.

4. When a Director tenders his or her resignation for any reason, said Director shall provide, and the Board of Directors shall require, an explanation of the reasons for said resignation in a letter to be issued to all members of the Board of Directors.

5. Furthermore, at least every four years, the Board of Directors shall be assisted in carrying out an assessment by an external consultant, the independence of which shall be verified by the Appointments and Compensation Committee.

In relation to **section C.1.29**, it is worth noting that although the Company held five Board meetings during fiscal year 2015, only one of these meetings was held in its condition as a listed company, which condition was attained on 2 November 2015, on which date its shares were admitted to trade on the Madrid, Barcelona, Bilbao and Valencia Stock Exchanges. In this same regard, the three Board committees (Executive Committee, Appointments and Compensation Committee and Audit Committee) that were established by resolution of the Board of Directors on 22 September 2015, effective as of the date the Company became a

listed company, only held one meeting during fiscal year 2015 following the submission of Pharma Mar's shares to trade on the Spanish Stock Exchanges.

As a supplement to **section C.1.45**, it is worth noting that the General Meeting is informed through the Annual Compensation Report –which was submitted to an advisory vote– and the Annual Corporate Governance Report –which forms part of the Annual Financial Statements– of the primary conditions of the agreements (including severance pay for termination of the agreement) with the managing directors or directors who are granted executive duties by virtue of any other means. As regards the executives that report directly to the board or to any of its members, information is provided on its overall compensation as well as on the existence, as the case may be, of agreements for severance pay, guarantee clauses or "golden parachutes."

In relation to **section D.3**, it is worth noting that:

- As regards the list of services provided related to the director Ana Palacio Vallelersundi, up until April 2015 there was a consulting service provider relationship between Pharma Mar Group and Salesas Tres Centro de Estudios, S.L. (which operates under the commercial name of Palacios & Asociados, Abogados), the latter company in which her sister is a partner and majority shareholder, and with which there is a contract for the provision of services. The total amount for the aforementioned services totaled €33,000.

- In relation to the loan referring to the director Pedro Fernández Puentes, CZ Veterinaria –a company in which Pedro Fernández Puentes is a majority shareholder (45.25%) and Chairman– granted a loan to Zeltia in 2009 (in which Pharma Mar is subrogated in its contractual position as a result of the takeover merger of Zeltia by Pharma Mar) for a total of €8 million, for a term of two years. The loan was subject to renewal in fiscal year 2011 for an additional term of two years, and in June 2013 part of the loan was paid back (€4 million), agreeing to extend the second payment period for the loan to 28 February 2015, on which date the aforesaid loan was fully paid off. Interest accrued on said loan from 1 January to 28 February 2015 totaled €48,000. It is worth noting that Zeltia did not grant, at the time, any guarantee whatsoever in relation to said loan.

- As regards the service provision referring to the director Rosp Corunna Participaciones Empresariales, S.L., the company Talleres Trébore, S.L., the sole shareholder of which is María Sandra Ortega Mera, who is the controlling shareholder of Rosp Corunna Participaciones Empresariales, S.L., provided graphic design, layout, printing, stationary and merchandising services to the Pharma Mar Group totaling €11,000 in fiscal year 2015.

In relation to **section D.5**, it is worth noting that José Luis Fernández Puentes, after he ceased performing his duties a member of the Board of Directors of Zeltia, was appointed as an Honorary Director of said company by resolution of the General Meeting held on 12 June 2013. On this same date, the Board of Directors of Zeltia resolved to set the compensation of José Luis Fernández Puentes as an Honorary Director in the amount of €61,963.58 (gross) per twelve month period starting from the date of his appointment as an Honorary Director for a period of four years. This obligation has been assumed by Pharma Mar by virtue of universal succession as a result of the takeover merger of Zeltia by Pharma Mar. The amount earned by José Luis Fernández Puentes in fiscal year 2015 totaled €61,963.58 (gross). As from the date of Mr. Fernández Puentes' death, on 10 January 2016, said compensation obligation was expressly extinguished, such that at the close of fiscal year 2016 only the prorated amount of his compensation equivalent to 10 days shall have accrued.

In relation to **section E.3**, it is worth noting that: A.

### Environmental Risks

#### Competency

The chemical pharmaceuticals market is extremely competitive. Multinational companies, small and medium sized domestic companies and generic drug manufacturers participate in this market.

The profits of the Pharma Mar Group may be affected by the launch of new or innovative products, technical and technological advances or launches of generic brands by competitors.

#### Industrial Property. Patents.

Industrial property is a key asset for the Pharma Mar Group. Effective protection of these assets is critical to ensure reasonable returns on investments in R&D. Industrial property may be protected through patents, trademarks, trade names and domain registrations, etc.

In most countries –including in the United States and EU member states–, patent rights are granted for a period of 20 years. The effective time of protection ultimately depends on the length of the development period for the medication before its launch. In order to compensate in some way for this long development period and the need to obtain authorization prior to commercializing medications, some markets, including the United States and the European Union, allow the extension of patents, under certain circumstances, for up to five years.



An invention that is not sufficiently protected or extremely long development periods that limit the useful life of the patent are inherent risks in the pharmaceutical industry.

#### Regulation

The chemical pharmaceuticals sector is a highly regulated sector. The requirements related to research, clinical trials, registration and manufacturing of the medication, technical validation of production standards and even the commercialization of the medications are all regulated. These requirements have increased in recent years and this trend is expected to continue.

The prices of pharmaceutical products are controlled and regulated by the government in most countries. In recent years, price reductions have been applied and benchmark prices have been approved.

#### Availability of capital

Markets are not always open and the strong investment made by the Pharma Mar Group in R&D each year requires that the company turn to different financing sources, credit markets or capital markets to finance its growth, implement its strategy and generate future financial results.

#### Shareholders

As with any listed company, there is a risk that any given shareholder could consider that a decision made by the Board of Directors or executives of the Group has harmed its interests as a shareholder and file a claim to such effect.

### B. Operational Risks

#### Prices of key materials

Deviations from expected prices, as well as the company's strategy for purchasing and stocking key materials, expose the company to excessive production costs or losses for keeping materials in stock.

#### Health and Safety

Not providing a safe workplace for the workers would expose the Group to significant costs, loss of reputation and other expenses.

Health and safety controls are comprehensive, continually seeking to make improvements.

Direct exposure of the employees working in the laboratories to new natural or synthetic compounds –the potential adverse effects of which are unknown– generates theoretical health and safety risks in addition to the regular risks inherent in managing chemical products.

#### Environmental

Environmental risks could expose the companies to potentially significant liabilities. Elevated risk exposure derives from potential third party claims for damage or loss to persons and/or property caused by different types of pollution.

The Company's productive processes in general have a very low risk as regards environmental impact (noise, smoke, spills, etc.) and generate hardly any residue.

#### Product development

The Group applies a significant amount of its resources to research and development of new pharmaceutical products. As a result of the length of the development processes, technological challenges, regulatory requirements and intense competition, it cannot be guaranteed that all of the compounds currently in development as well as those that may be developed in the future will reach the market and have commercial success.

#### C. Reporting Risks

If the internal flow of information within the Group does not function properly, there could be risk of misalignment with the strategies and risk of making incorrect or untimely decisions.

#### Market Communications

On the other hand, the Group is required to present certain financial information and, in general, relevant events in an accurate, complete and timely manner. If not completed in this manner, the company would face the risk of sanctions and loss of credibility.

Pharma Mar management and its Board of Directors hold insider information on the performance of the Group.

#### Reporting Systems

Failure to maintain adequate access to reporting systems (data or programs) could result in unauthorized knowledge, unauthorized access to or mistaken delivery of the information and improper use of confidential information.

On the other hand, if important information is not available at the time necessary, this could adversely affect the continuity of the organization's critical processes and operations.

Due to constant technological advances, the Pharma Mar Group continually adjusts its physical and legal security policies, which are linked to the reporting and communication systems.

#### D. Financial Risks

##### a) Market Risk

##### *Price Risk*

The volume of the Group's investments in this type of investment is of limited relevance in the context of the Group's operations.

#### *Interest rate risk for cash flows and fair value*

The Group's interest rate risk stems from its financial investments in convertible interest bearing financial assets. Investments in interest bearing financial assets include government bonds and interest bearing deposits at a variable interest rate, linked to the Euribor.

Funds not linked to variable interest rates expose the Group to interest rate risk over the cash flows. Funds not linked to fixed interest rates expose the Group to interest rate risk over the fair market value.

#### b) Credit Risk

Credit risk arises from financial investments with banks, other than public debt.

#### c) Liquidity Risk

The risk of not obtaining the funds needed to meet all payment obligations at the time they fall due.

In relation to **section E.6**, it is worth noting that: A.

#### Environmental Risks

Industrial Property. Patents.

The Pharma Mar Group has a rigorous patents policy that aims to protect new inventions obtained through R&D activities. In addition to the protection that can be obtained for new active ingredients discovered, the Group also works to actively protect new formulations, manufacturing processes, medical uses and new methods for administering the medication.

The Group has a system for managing the life cycle of the patents, including patent departments that regularly review the status of the patents in coordination with the regulatory affairs department. Furthermore, the Group looks out for potential violations of our patents by other companies in order to initiate legal proceedings, as necessary.

#### Regulation

In order to offset the risks arising from ongoing and new legal requirements and regulations, the Group makes its decisions and designs its business processes based on an exhaustive analysis of these matters, provided by our own experts and by reputable external specialists, as deemed necessary.

#### Availability of capital

The Group has significantly fractioned the risk across different credit institutions, which provides the Company with greater flexibility and limits the impact in the event that any of its credits are not renewed.

#### Shareholders

The Group has contracted a liability policy for its directors and executives, which covers the risk of any given shareholder considering that a decision made by the Board of Directors or executives of the Group has harmed its interests as a shareholder and thus filing a claim.

### B. Operational Risks

#### Prices of key materials

The Group carries out a detailed analysis of the prices at the beginning of the year, working with our suppliers in order to establish a closed price for the whole year. Based on this, the cost price of the products is calculated. These prices are monitored on a monthly basis in case any amendment is required, although raw materials derived from petroleum are already experience strong variations that are not always predictable (butane, solvents, plastics. etc.).

#### Health and Safety

The Group has implemented the Occupational Risk Prevention System, on the basis of which regular audits of compliance therewith are performed.

The Company holds accident and civil liability insurance policies.

The parent company of the Group, whose workforce represents 51% of total Group employees, has obtained the OHSAS 18001 Certification for occupational health and safety management.

#### Environmental

Residues are managed through public companies in charge of recycling and residue management. Regular verifications of legal compliance are completed and, where necessary, atmospheric emissions control systems are in place. The company also has water purification systems and clean points.

Two of the Group companies hold the ISO 14001 Certification, which establishes how to implement an effective environmental management system in order to balance the maintenance of profitability while minimizing environmental impact.

#### Product development

In order to provide maximum assurance of the effective and efficient use of our resources, the Group has implemented a transversal work structure among the different departments, project teams and reporting systems in order to internally monitor research and development projects.

### C. Reporting Risks

#### Market Communications

Control systems are in place that allow us to determine who has access to this information at any given time and which are primarily directed at compliance with the Securities Market Law in relation insider information.

#### Reporting Systems

The Pharma Mar Group has various Data Processing Centers. To the extent possible, the same technologies are used in said centers in order to simplify technological diversity as much as possible and to share services that are likely to be used by more than one Business Unit, primarily as regards security, storage and maintenance.

Access to this information is personalized and is controlled by current technology, also using redundant and tolerant systems as regards errors in those systems deemed critical to the performance of the business, as well as procedures to restore said systems in the shortest time possible. The integrity of the information is in any case guaranteed using backup systems and files.

The Pharma Mar Group uses third party technological infrastructures. It holds service level agreements with these parties that ensure the minimum impact of any potential breakdowns thereof and which include, in general, copies or duplicates of the infrastructures.

### D. Financial Risks

The Group is exposed to a wide array of risks. The finance department is responsible for managing risks in accordance with the policies approved by the Board of Directors. This department identifies, assesses and hedges financial risks. The Board provides steps for the management of overall risk, as well as for specific areas such as interest rate risk, liquidity risk, use of derivatives and non-derivatives and investment of excess liquidity.

#### a) Market Risk

##### *Price Risk*

As regards financial assets, the Group's policy involves placing treasury stock in low risk and high liquidity financial assets in order to ensure the availability of funds. For this purpose, these financial assets are comprised practically entirely of public debt and deposits in credit institutions with high credit quality and as such fluctuations in their value are immaterial.

##### *Interest rate risk for cash flows and fair value*

Based on the different scenarios, on some occasions the Group manages the interest rate risk of cash flows through interest rate swaps, from variable to fixed interest rates. The economic effect of these interest rate swaps is to convert outside funds with variable interest rates to fixed interest rates. Under these interest rate swaps, the Group undertakes to exchange the difference, on a regular basis, between the fixed and variable interest rates, as calculated based on the notional principals contracted.

#### b) Credit Risk

The banks and financial institutions with which the Group collaborates are considered independent. When the Group acquires additional financial investments other than public debt, it shall follow the below stated policies in making such investments:

- Acquisition of fixed income funds invested in public or private debt equity (bonds, letters of credit, promissory notes of the company), insurance, in general, which provide for periodic interest payments.
- Acquisition of monetary funds that include short-term fixed income (max. 18 months), in which security is prioritized in exchange for generally lower returns as compared to other investments.

#### c) Liquidity Risk

Prudent management of liquidity risk requires that enough cash and tradable securities be held, that enough financing be available through committed credit facilities and that the company have the ability to liquidate market positions. The Group has the objective of maintaining flexibility in financing through availability of credit lines, as well as sufficient funds in financial assets in order to meet their obligations.

In relation to **section G.3**, it is worth noting that although the Company has not held a General Meeting since it became a listed company, it expects to comply with this recommendation at its next General Meeting.

In relation to **section G.7**, it is worth noting that although the Company has not held a General Meeting since it became a listed company, it expects to comply with this recommendation at its next General Meeting.

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