



Appointments and Compensation Committee Report to Pharma Mar S.A.'s Board of Directors, in compliance with Article 529 novodecies of the Spanish Capital Corporations Law, on the proposed resolution for approval of the 2016-2018 Directors' Compensation Policy

1.- Introduction

This Report has been drafted by the Appointments and Compensation Committee of the Board of Directors of Pharma Mar, S.A. (hereinafter, "**Pharma Mar**" or the "**Company**"), in accordance with Article 529 novodecies of the Spanish Capital Corporations Law (*Ley de Sociedades de Capital*), establishing the requirement that the Directors' Compensation Policy be approved by the General Shareholders' Meeting at least every three years and that the Board of Directors' proposal of the Compensation Policy shall be justified and accompanied by a specific report from the Appointments and Compensation Committee.

In accordance with the above, the purpose of this Report is to explain the criteria adopted by the Committee in proposing the Directors' Compensation Policy to the Board of Directors, which shall also be submitted, as a separate agenda item, for the binding approval of the Company's next General Shareholders Meeting. Furthermore and in accordance with Article 541 of the Spanish Capital Corporations Law, upon the proposal of the Board of Directors, the Annual Report on Directors' Compensation, which shall include an overall summary of the implementation of the Compensation Policy in fiscal year 2015, shall be submitted to the General Shareholders Meeting, as a separate agenda item and on an advisory basis.

2.- Duties of the Appointments and Compensation Committee relating to Directors' compensation

The Appointments and Compensation Committee has been entrusted with the duties of appointing and removing Directors and senior management, as well as for establishing compensation thereof. In accordance with the Company's Bylaws and Board of Directors Regulations, the duties of the Appointments and Compensation Committee as regards compensation are, *inter alia*, as follows:

- 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 implementation, 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 verify information regarding compensation of Directors and senior executives as provided in various corporate documents, including the annual Directors' compensation report.

3.- Description and justification of the Directors' Compensation Policy proposed to the General Shareholders Meeting

Pharma Mar's Director compensation policy seeks to bring the policy in line with the interests of its shareholders, prudent risk management, and moderation and balance, taking into account at all times that the quality and commitment of its Board members is essential in order to successfully implement the Company's strategy. In accordance with Article 217.4 of the Spanish Capital Corporations Law, which states that Directors' compensation shall in all cases be reasonably proportional to the Company's relevance, economic situation from time to time and market standards for comparable companies, Directors' compensation shall be regularly revised or updated.

Furthermore, in developing and proposing amendments to the compensation system in force from time to time, the Board of Directors, following a report or proposal from the Appointments and Compensation Committee, shall ensure that compensation is based on the principles of (i) external competitiveness, through motivating compensation that attracts and retains people exhibiting the most relevant profile to perform the duties inherent in the office of Director; (ii) internal fairness, through compensation that rewards Directors for their level of responsibility and effective dedication; (iii) lack of variable compensation components for Directors in their condition as such, thus encouraging unbiased decision making; (iv) moderation, by analyzing market benchmarks; and (v) transparency.

The Directors' Compensation Policy covers the following aspects:

- (a) It is aligned with the compensation system provided for in the Bylaws.
- (b) As regards Executive Directors, Pharma Mar's Compensation Policy establishes compensation based on objective criteria related to the individual performance of the Executive Directors.

- (c) In accordance with the contract for the provision of executive services signed by the Company and the Executive Chairman, the variable compensation components for the Executive Chairman are linked to quantitative and qualitative indicators, each of which is assigned a specific weighting. Said annual variable compensation includes two tranches: (i) a regulated tranche comprised of quantitative targets that refer to sales figures, income, etc.; and (ii) a discretionary tranche to be awarded by the Board of Directors in view of criteria referring to strategic momentum, focus of R&D investments, attendance at international conferences, presentations and roadshows, creating shareholder value and/or other criteria that may be considered indicative of their individual performance and of the Company's performance.

- (d) On an annual basis, the Board of Directors, at the proposal of the Appointments and Compensation Committee, establishes, in relation to the variable compensation of the Executive Chairman, the indicators to be applied in the fiscal year and the weighting of each indicator in the overall calculation of variable compensation. At the end of the fiscal year, the Appointments and Compensation Committee assesses achievement of the previously established targets. This assessment is submitted to the approval of the Board.

- (e) Non-Executive Directors receive only that compensation which is required to compensate for their dedication, without compromising their independence.

Finally, it should be noted that this Directors' Compensation Policy is proposed for a term of three years (i.e. fiscal years 2016, 2017 and 2018). Any amendment or substitution of the policy during said term shall require the prior approval of the General Shareholders Meeting in accordance with current laws in force.

Based on all of the above, the Appointments and Compensation Committee has concluded that the Compensation Policy is in line with applicable regulations and recommendations and follows all corporate governance and transparency criteria, ultimately ensuring that the Company has an adequate compensation policy in line with the interests of the shareholders and providing for prudent risk management.

Consequently, the Appointments and Compensation Committee hereby issues this justifying Report to be submitted, together with the proposed Board of Directors' Compensation Policy, to the next General Shareholders Meeting for approval.