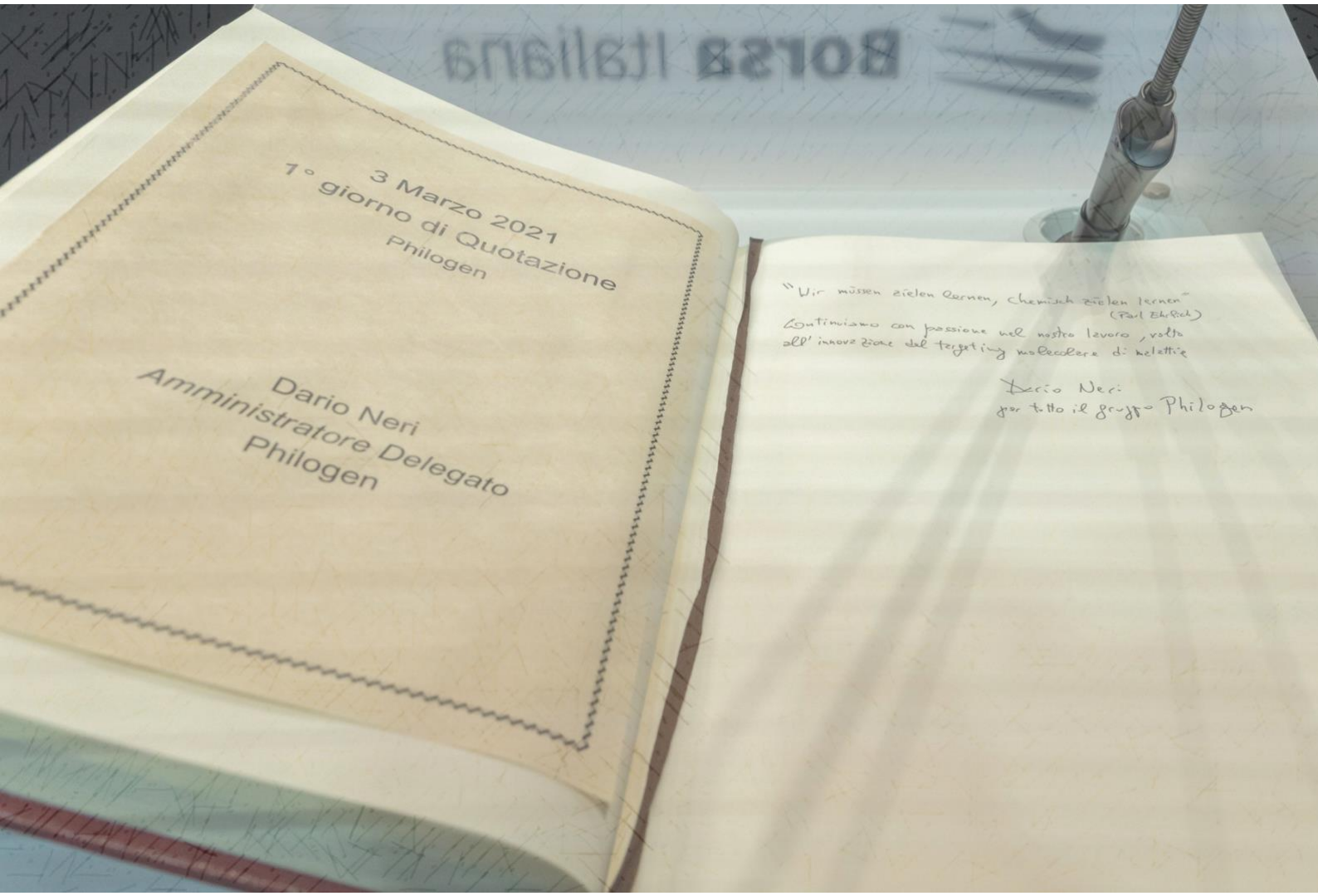
2020

ANNUAL REPORT

AS OF 31 DECEMBER 2020

Philogen

innovating targeting



„Wir müssen zielen lernen, chemisch zielen lernen.“ (Paul Ehrlich)

“We have to learn how to aim, how to aim chemically.”

We continue our work with passion,

in order to innovate the molecular targeting of illnesses

Dario Neri

For the entire Philogen group

(3 March 2021, 1st day of trading)

Annual financial report

Group Data

Philogen S.p.A.

Registered office:	Piazza La Lizza no. 7, 53100 Siena
Branches:	
Local unit no. SI/2	Via Montarioso no. 11, Loc. Monteriggioni, 53035 Siena
Local unit no. SI/5	Loc. Bellaria no. 35, Sovicille, 53018 Siena
Companies Register of Arezzo-Siena:	
VAT number/Tax Code	00893990523
Economic and Administrative Index	SI-98772
Share Capital:	€5,731,226.64 fully paid-in
Italian Stock Exchange Symbol:	PHIL
Ordinary share ISIN:	IT0005373789
Loyalty share ISIN:	IT0005373821
LEI Code:	81560009EA1577917768
Shares:	40,611,111

Philochem AG

Registered Office:	Libernstrasse 3, 8112 Otelfingen, Switzerland
Companies Register:	No. CH-020.3.030.226-7
VAT number:	MWST-Nr/VAT-REG:CHE-113181.443
Share capital:	CHF 5,051,000

Company officers

Board of Directors

On 16 December 2020, the Ordinary Shareholders' Meeting of Philogen S.p.A. resolved that there would be ten directors and appointed an additional member of the Board of Directors (which originally had 9 members), Attorney Marta Bavasso, on the basis of the new corporate governance code. The Board of Directors in its current composition will remain in office until the approval of the financial statements as at 31 December 2021.

Following the admission to listing of Philogen S.p.A. on the MTA market of the Italian Stock Exchange on 3 March 2021, Prof. Dario Neri assumed the role of CEO, Mr Duccio Neri of Executive Chairman and Mr Giovanni Neri of managing director.

On 5 October 2020, the Board of Directors appointed Prof. Dario Neri as co-Managing Director along with his brother, Mr Duccio Neri. In this role, the two co-CEOs remained in office with separate delegations until the completion of the listing process.

- Executive Chairman* Mr Duccio Neri
- Managing Director* Prof. Dario Neri
- Director* Mr Giovanni Neri
- Director Mr Sergio Gianfranco Dompè
- Director Ms Nathalie Dompè
- Director Mr Leopoldo Zambeletti
- Director** Mr Roberto Marsella
- Director** Mr Roberto Ferraresi
- Director Mr Guido Guidi
- Director*** Attorney Marta Bavasso

(*) Executive director.
(**) Independent director pursuant to art. 147-ter.4 of the Consolidated Finance Act and art. 2 of the Corporate Governance Code
(***) Lead Independent director.

Board of Statutory Auditors

On 16 December 2020, the Ordinary Shareholders' Meeting of Philogen S.p.A. appointed the new members of the Board of Statutory Auditors.

- Chairman Mr Stefano Mecacci
- Standing Statutory Auditor Mr Pierluigi Matteoni
- Standing Statutory Auditor Ms Alessandra Pinzuti
- Alternate Statutory Auditor Mr Roberto Bonini
- Alternate Statutory Auditor Ms Maria Angela Fantini

Independent Auditing Firm

KPMG S.p.A.

Financial Reporting Officer

Ms Laura Baldi, Chief Financial Officer.

Investor relator

Mr Emanuele Puca, PhD

Committees

On 16 December 2020, the Company's Board of Directors, in compliance with the corporate governance recommendations set forth in the Corporate Governance Code, resolved to establish a control, risk and sustainability committee, pursuant to articles 3 and 6 of the Corporate Governance Code (the "**Control, Risk and Sustainability Committee**"); and a nomination and remuneration committee, pursuant to articles 3, 4 and 5 of the Corporate Governance Code (the "**Nomination and Remuneration Committee**"), deeming it appropriate to combine within a single committee the functions described in articles 4 and 5 of the Corporate Governance Code.

Control, Risk and Sustainability Committee*

- Marta Bavasso (Chairwoman)
- Roberto Ferraresi
- Roberto Marsella

(*) This Committee also acts as the Committee for Transactions with Related Parties.

Remuneration and Nomination Committee

- Marta Bavasso (Chairwoman)
- Roberto Marsella
- Leopoldo Zambeletti

Supervisory Board

The single-member Supervisory Board, appointed by Board of Directors resolution of 13 May 2019, for the 2019-2021 three-year period, consists of Mr Marco Tanini.

The Supervisory Board in this form meets the requirements of autonomy, independence, professionalism and continuity of action required by law for this body.

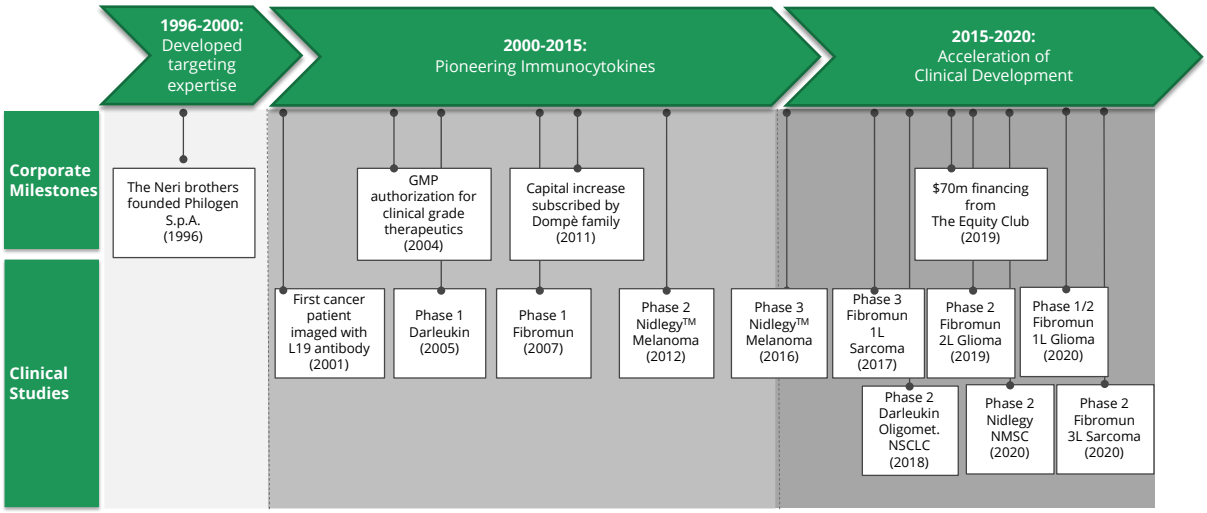
Philogen: introduction to the Group

History

Philogen ("the Group" or "the Company"), listed on the Mercato Telematico Azionario (MTA) market managed by Borsa Italiana (Italian Stock Exchange) (Reuters: PHIL), is an Italian-Swiss company established in 1996, active in the biotechnology sector and specialised in the research and development of drugs to treat diseases with a high case fatality rate. In particular, the Group is a leader in the identification of ligands (human monoclonal antibodies and small molecules) that recognize with high affinity tumour-associated antigens (i.e. proteins expressed in tumours but not in healthy tissues). These ligands are primarily used to selectively deliver an active principle (e.g. cytokines, radionuclides, cytotoxic agents) to the diseased area. The Group is primarily focused on developing anticancer drugs, although the company has also brought products to treat chronic diseases and inflammation into clinical development.

In recent years, Philogen has consolidated and expanded its pipeline, bringing new products into clinical development and initiating experimental studies in new indications with products already under development. As of the date of this report, the Group possesses a diversified pipeline owing to the execution of numerous Phase II and III registration studies. In particular, Nidlegy™ and Fibromun are undergoing international Phase III clinical trials.

The Group leases a research and development plant in Zurich (through the subsidiary company "Philochem"), where new drugs are produced. The most promising prototypes (i.e. in terms of biochemical, safety and efficacy characteristics based on preclinical tumour models) are subsequently transferred to Siena, where they are produced at the company's GMP (Good Manufacturing Practice) plants. Philogen has a GMP plant in Montarioso (Siena) approved by the Italian Medicines Agency (AIFA) for the production of investigational, antibody-based pharmaceuticals in mammalian cells. A larger GMP plant is under construction in Rosia (Siena) in order to strengthen the industrial structure of the Group and be ready for the transition from Biotech Company (i.e. company that develops investigational drugs that have not yet reached the marketing stage) to Product Company (or Branded Company, i.e. company that markets its own drugs). The figure below illustrates the three phases of Philogen's history from 1996 to 31 December 2020, with the respective industrial achievements.



Note: 1L first-line treatment (i.e. newly diagnosed patients); 3L third-line treatment (i.e. patients who have failed 2 lines of therapy); Oligomet. NSCLC: oligometastatic non-small cell lung cancer; NMSC: non-melanoma skin cancer

The Group's Strategy

Philogen is a biotech company with strong vertical integration, as it covers all phases of drug development, including research, GMP production and clinical development. In addition to the research site in Zurich and the GMP site located in Montarioso (Siena), the Group has begun construction on a third plant in Rosia (Siena) that will make it possible to carry out production activities to service the possible future marketing of products.

The Group's main activities typically consist of the following phases:

(a) identification of the molecules and antibodies to be used (research);

(b) preclinical and clinical activities (research);

(c) GMP production aimed at trial activities;

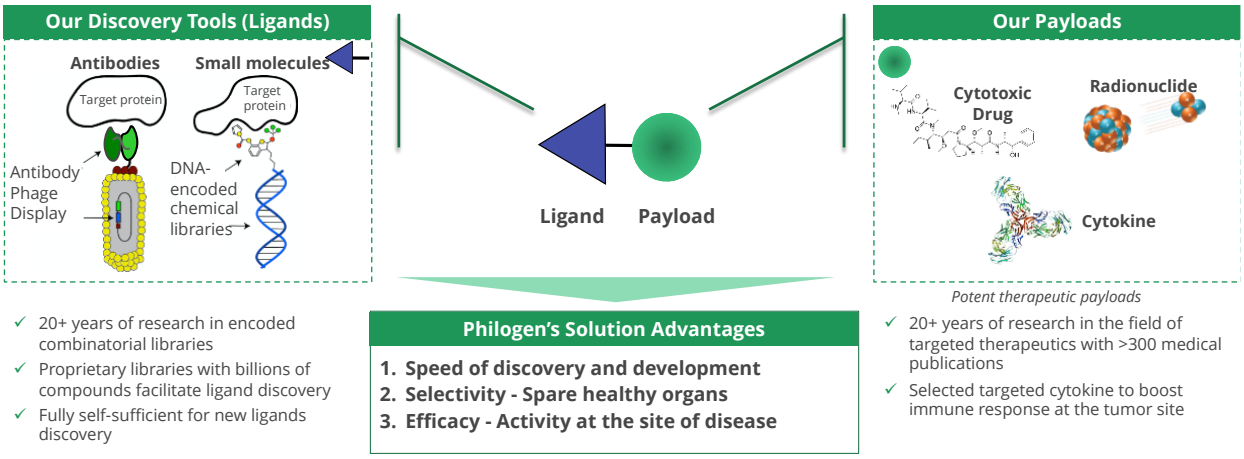
(d) Phase I, Phase II and Phase III clinical trials;

(e) collaboration and licensing activities.

Philogen is among the pioneers in the field of "targeted" therapies for the treatment of tumours (so-called tumour targeting) and has published over 400 scientific articles in the sector. In particular, the Group has contributed internationally to the development of a class of drugs based on antibody-cytokine fusion proteins, i.e. "immunocytokines", although it is also investing in the field of small organic molecules. Both antibodies and small chemical molecules are discovered in-house using antibody phage display technologies and DNA-encoded chemical libraries, respectively.

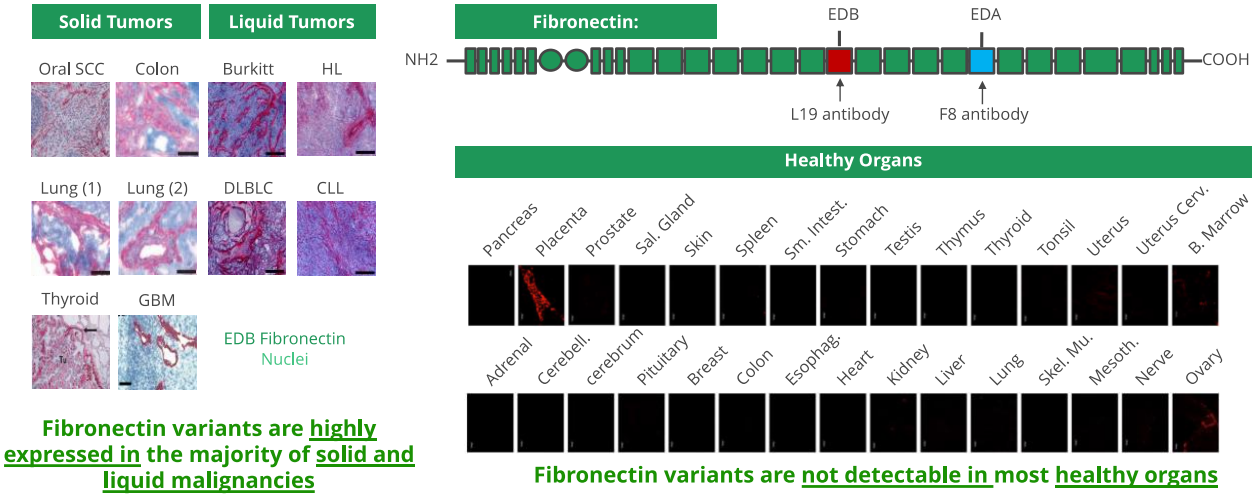
Antibodies are proteins that have the ability to recognise and bind to "antigens" (i.e. proteins expressed in tumours but not, or in limited fashion, in healthy tissues) with high affinity and selectivity. Cytokines are small protein molecules that modulate our immune system's activity. When fused to antibodies with tumour-homing properties, the resulting immunocytokines are usually more effective and safer, when compared to the native version of the cytokine. There are several antibody- or cytokine-based products on the market but, as of today, no immunocytokine has obtained marketing authorisation. Although there are several immunocytokines in clinical trial studies, the products belonging to this class of drugs that are in the most advanced stage of development belong to Philogen.

The Group's strategy differs from similar approaches through the use: (i) of delivered cytokines (instead of cytokines that are engineered, but not delivered to the diseased area), (ii) of antibody fragments (instead of the entire IgG antibody) and (iii) from the delivery of the active principle (i.e. cytokine) on the extracellular matrix (ECM) during the entire course of the disease (i.e. these antigens are less susceptible to the mechanisms of tumour mutagenesis). These characteristics allow (i) maximising activity in the diseased area, minimising toxicity on healthy tissues, (ii) producing drugs with reduced dimensions, in this way speeding up the accumulation of the active principle in the diseased area, (iii) exploiting abundant, accessible tumour antigens that are stably expressed in the ECM during the entire course of the disease, not subject to the mechanisms of mutagenesis to which antigens expressed directly on the surface of malignant cells are subjected. In Philogen's opinion, all three characteristics described in this paragraph are crucial for developing safe, effective drugs. In order to maximise the speed with which a drug can reach and spread within a solid tumour mass (and therefore reach every single cancer cell), the Group is investing in small organic molecules whose dimensions are over a hundred times smaller than therapeutic proteins. The figure below illustrates the Group's approach to developing targeted anticancer therapies.



Source: Neri & Lerner Annu Rev Biochem 2018 87:479

The majority of the Group's advanced clinical products described in the pipeline consist of antibody L19, specific for extra-domain B of fibronectin (also called EDB, a component of the ECM). EDB expression is extensively documented in several of the Group's scientific journals. In fact, EDB is absent in healthy tissues (except in the placenta, ovaries and endometrium in the proliferative phase) but is strongly produced in several solid and haematological malignant tumours (e.g. skin cancer, lung cancer, colon cancer, soft tissue tumours, brain tumours, leukaemia and lymphoma). Antibody L19's ability to selectively localise in tumours has been demonstrated not only in preclinical models but also in over one hundred and fifty cancer patients. The Group has also brought a second antibody into clinical development, called F8 (component of Dekavil), specific for extra-domain A of fibronectin (also called EDA), with similar characteristics to L19. EDB and EDA have the added advantage of being expressed not only in tumours but also in chronic inflammatory diseases, thus exponentially increasing the market potential of L19- and F8-based drugs. The figure below highlights the EDB and EDA domains of fibronectin, together with their expression in healthy tissues and tumours (EDB was used as an illustrative example in this case).



Source: Birchler et al. The American Laryngological 2003 113:1231-1237; Schliemann et al. Blood 2009 113:2275-2283; Castellani et al. Am J Pathol 2002 161:1695–1700; Rybak et al. Cancer Res 2007 67(22):10948–57; Johannsen et al. Eur J Cancer 2010 46(16):2926-35.

Philogen has fused antibodies L19 (specific for EDB) and/or F8 (specific for EDA) to several classes of active principles: cytokines (generating immunocytokines), radionuclides (generating radioimmunoconjugates), cytotoxic agents (generating antibody-drug conjugates, ADCs), cells (generating chimeric antigen receptor T cells, CAR-T) and to other antibodies with different specificities (i.e. that bind another antigen, generating bispecific antibodies). The experimental data obtained both in *vitro* and in vivo in preclinical models with these different classes of drugs have been published in various scientific journals. The most promising results, which led to the clinical development of the products in the pipeline, were achieved with immunocytokines.

The Group has worked for over 20 years in the field of therapeutic proteins and has fused the L19 and/or F8 antibodies to over fifty different cytokines. There are two classes of cytokines: (i) inflammatory (useful for fighting cancer) and (ii) anti-inflammatory (useful for fighting inflammatory diseases). Interleukin-2 (IL2), tumour necrosis factor (TNF), and interleukin-12 (IL12) are examples of inflammatory cytokines that the Group has brought into clinical development. Fibromun consists of L19-TNF, Darleukin of L19-IL2, and Dodekin of L19-IL12. Interleukin-10 is instead an example of anti-inflammatory cytokine present in Dekavil (F8-IL10).

The Group's pipeline

The Group's product portfolio consists of (i) products based on antibodies and small organic molecules in various stages of clinical development and (ii) various preclinical programmes essential for the continuous innovation of the company in the future.

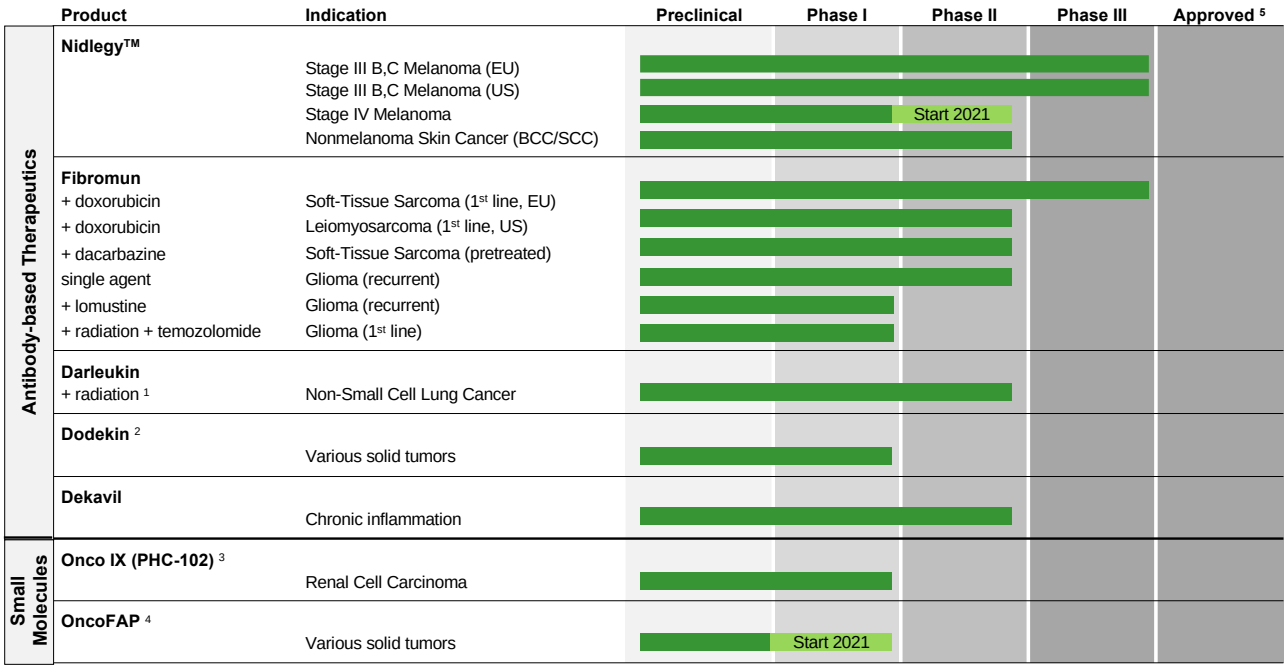
With the exception of Dodekin and Dekavil, all the other products are proprietary products of the Group.

Clinical trials are normally conducted in three phases (i.e. Phase I, II and III), which are typically sequential but can also overlap (e.g. Phase I and II are sometimes included in the same trial):

• Phase I: In Phase I clinical trials, the investigational drug is administered in order to determine the recommended dose levels as well as to obtain preliminary information about pharmacokinetics (absorption, distribution, metabolism, excretion) and undesirable side effects at different dosage levels. Unlike most therapeutic areas, Phase I trials in oncology are conducted on cancer patients instead of on healthy volunteers. For products with characteristics similar to those of the Group, the average duration of Phase I is between one and four years.

• Phase II: Phase II clinical trials usually involve studies with a limited number of patients to (i) preliminarily assess the efficacy of the product candidate for specific indications, (ii) determine dosage tolerance, optimal dosage and dosing schedule and (iii) continue to identify possible adverse side effects and safety risks. The majority of the Group's product candidates are at this stage of development. For products with characteristics similar to those of the Group, the average duration of Phase II is between two and five years.

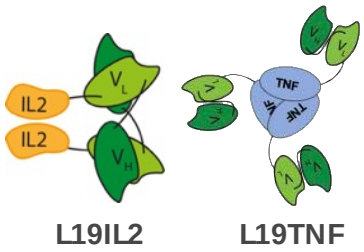
• Phase III: If a product candidate is considered potentially effective and has an acceptable safety profile in Phase II trials, the clinical trial programme will be extended to Phase III clinical trials in order to confirm previous results and further demonstrate clinical efficacy, optimal dosage and safety on a larger patient sample in different geographical areas. The drug candidate is usually compared to placebo (a formulation without an active component) or to the treatment that is considered the standard of care for the disease. These clinical trials are intended to establish the overall benefit-risk ratio of the product and to provide an adequate basis for product approval by the competent authority. To obtain marketing authorisation, the applicant must be able to document that the treatment induces improvement for the patient in terms of effects and/or adverse effects. For products with characteristics similar to those of the Group, the average duration of Phase III is between three and six years. For some particularly active products, especially in indications for which there is a strong medical need, Phase III may not be necessary, as it is possible to apply for marketing authorisation even on the basis of Phase II clinical trials.



1 EU project: ImmunoSABR (Multi-center study); 2 Partnered Program; 3 Partly sponsored by Eurostars (Project: !9669 - ATRI; Partner: Medical University of Vienna, Austria); 4 The product will initially be used for compassionate treatment in patients before moving to a sponsored study; 5 Together with the marketing of the product, the so-called Phase IV begins, which consists in the extension of Pharmacovigilance activities, aimed at confirming the safety of the marketed drug

Nidlegy™

Nidlegy™ is an immunotherapeutic drug, which combines two active principles: bifikafusp alfa (L19-IL2) e onfekafusp alfa (L19-TNF). Nidlegy™ is used for the intralesional administration of the two active principles mixed together and has obtained the "Combipack" designation from the EMA (European Medicines Agency). This designation allows marketing authorisation application to be submitted for the two active principles as part of a single product. Nidlegy™ was the first "Combipack" in Europe for a novel-novel combination in oncology. The two active principles of Nidlegy™ (bifikafusp alfa and onfekafusp alfa) have already been administered (alone or in combination) to over 290 and 200 patients, respectively.



Antibody fragment L19 is depicted in green. Interleukin-2 and tumour necrosis factor are depicted in yellow and blue, respectively.

Nidlegy™ is studied in stage IIIB melanoma (locoregional spread), stage IIIC melanoma (locoregional spread but with a poorer prognosis compared to stage IIIB) and stage IVM1a melanoma (cancer that has only spread to distant skin and/or soft tissue sites) and non-melanoma skin cancer ("BCC" basal cell carcinoma and "cSCC" cutaneous squamous cell carcinoma). All of these patients must have injectable lesions in order to receive Nidlegy™.

The two active principles were extremely synergistic in terms of efficacy, not only in preclinical models but also in a Phase II clinical trial (NCT02076633) with 22 patients with locally advanced melanoma (i.e. stage IIIC and IVM1a). Nidlegy™ showed a favourable profile in terms of both efficacy and safety. As regards efficacy, the Group observed an 85% disease control rate for the injected lesions (i.e. sum of the complete responses, partial responses and disease stabilisations), preventing the formation of distant metastases at 1 year after the start of therapy in 84% of patients. Based on the historical data of the German melanoma registry (Department of Dermatology of the University Hospital of Tübingen, Germany), in which the recurrence of the disease in 376 patients with stage IIIB/C melanoma was analysed (population with a better prognosis compared to stage IIIC and IVM1a), 35.4% of patients did not experience relapses. In addition, following locoregional administration, the product stimulated a systemic immune response demonstrated by the complete remission of 53.8% of the non-injected malignant lesions (which increases to 69.2% when considering complete and partial responses). The partial responses include responses in which the tumour lesions decrease in size between 30% and 100% (the latter corresponds to a complete response).

The results described convinced the Group to invest in Nidlegy™, launching two Phase III trials in melanoma and a Phase II trial in non-melanoma skin cancer.

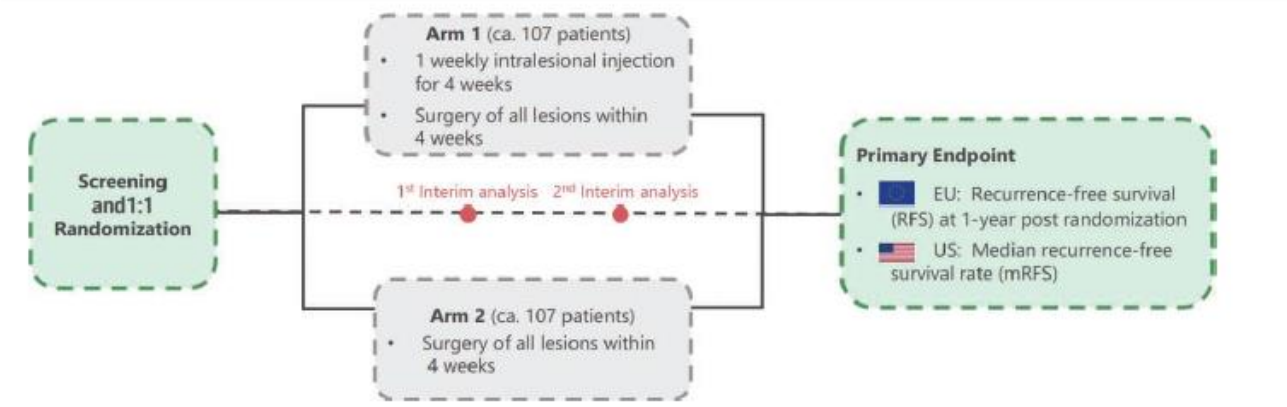
The table below indicates the trials in progress and the number of countries and sites involved:

Description of the current study	Phase	N. Centres	Countries(*)	N. Target patients	Development targets(*)
A pivotal, open-label, randomized, controlled multi-center study conducted in Europe on the efficacy of L19IL2/L19TNF neoadjuvant intratumoral treatment followed by surgery versus surgery alone in clinical stage III B/C melanoma patients	III	18	Italy, Germany, France, Poland	214	We intend to open further centres in the countries already involved and to complete the study by the first half of 2022.
A pivotal, open-label, randomized, controlled multi-center study conducted in the U.S. on the efficacy of L19IL2/L19TNF neoadjuvant intratumoral treatment followed by surgery versus surgery alone in clinical stage III B/C melanoma patients	III	4	United States	186	We intend to open other centres
A study conducted in Europe on the intratumoral administration of L19IL2/L19TNF in non-melanoma skin cancer patients with presence of injectable lesions.	II	1	Switzerland	40	We intend to open other centres

(*) As required by applicable regulations, the Group has obtained authorisation to conduct the trial from each of the competent authorities for each country. Likewise, any further trials must be authorised each time by the national authority.

Phase III trial: Nidlegy™ in stage IIIB/C melanoma conducted in Europe and in the U.S.

The Group is conducting two Phase III trials, one in Europe and one in the United States, in which Nidlegy™ is administered to patients with locally advanced stage IIIB/C melanoma in a neoadjuvant setting (i.e. prior to surgery). Patients in the treatment arm of the trial receive 4 injections of Nidlegy™ followed by surgery, while those in the control arm only receive surgery. An adjuvant therapy (i.e. post surgery) is potentially allowed in both arms. The figure below schematically depicts the designs of the studies. As of 31 December 2020, the European Phase III trial has recruited 149 patients and has successfully passed two *interim analyses* evaluated by an independent *Data and Safety Monitoring Board*, the first in March 2019 and the second in December 2020. The trial protocol envisages the enrolment of 214 patients and 95 events (i.e. an event represents a relapse of the disease). It is reasonable to assume that patient enrolment will end by mid 2022, after which date the Group intends to submit the marketing authorisation application to the competent authorities.



As of the date of this report and in the Group's opinion, there are no Phase III drugs or approved drugs for the neoadjuvant treatment of patients with locally advanced melanoma. This makes a comparative analysis of Nidlegy™'s activity and tolerability data difficult.

Phase II trials: Nidlegy™ stage IV melanoma in the U.S.

Philogen also plans to launch a Phase II trial in 2021 on stage IV melanoma for patients who have failed to respond or have progressed after treatment with anti-PD1. The trial, which has been agreed on with the FDA (United States Food and Drug Administration), will allow us to assess the activity of Nidlegy™ (in combination with anti-PD1 antibodies) in these patients, who do not have an effective therapeutic alternative.

Phase II studies: Nidlegy™ non-melanoma skin cancers in Europe

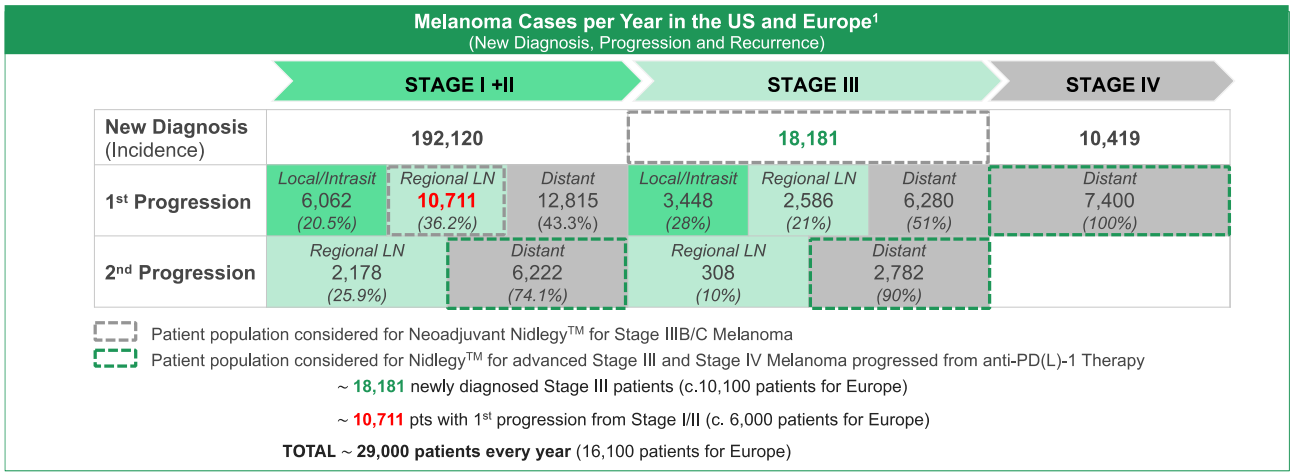
Finally, following the positive results obtained in the Phase II trial on melanoma, a Phase II clinical trial featuring the administration of Nidlegy™ to 40 patients with locally advanced basal cell carcinoma (BCC) or squamous cell carcinoma (SCC) of the skin, for which surgical resection or pharmacological treatment are not possible, recently began in September 2020 in Switzerland.

Potential market for Nidlegy™

Melanoma is spreading rapidly among Caucasian populations worldwide. For example, the incidence rate in Europe is 23.9 per 100,000 people (Source: European Cancer Information System, 2020), in the United States it is 22.7 per 100,000 people (Source: American Cancer Society, Cancer Facts & Figures 2017) and in Australia it is 54 per 100,000 people (Source: Cancer Australia, 2020). The disease can be divided into regional (stage I/II), locally advanced [stage IIIA, IIIB, IIIC, IIID, according to the AJCC (American Journal of Critical Care) 8th Ed.] and advanced (or metastatic, stage IV). With Nidlegy™ the goal is to prevent disease progression from stage III to stage IV, when the melanoma becomes more difficult to treat.

An epidemiologic hypothesis (i.e. the incidence of the disease in the population) for the Nidlegy™ market can be obtained by cross-referencing the data contained in various scientific publications. In fact, stage III B/C melanoma requires a study of the evolution of the patients diagnosed with less severe stages (i.e. stages I and II) in previous years who later progressed to stage III. This analysis allows the number of patients who are eligible for treatment with Nidlegy™ each year to be accurately determined. The elements for extrapolating such data are scattered throughout third-party scientific sources that investigate a particular aspect of the disease; these must be appropriately cross-referenced in order to reconstruct the segmentation of the disease of interest and the consequent availability of eligible candidates.

The table below compiles these extrapolations and denotes that the potential market for Nidlegy™ is approximately 29,000 patients each year, considering Europe (i.e. the 27 European Union member states, Switzerland and the United Kingdom) and the United States. It is important to mention that no pharmaceutical product achieves 100% market penetration and the percentage of patients potentially eligible for treatment is difficult to estimate a priori.



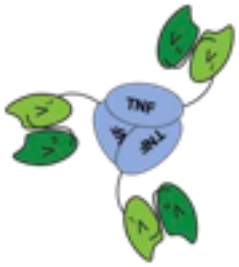
Management estimates based on various sources, including: 1 Garbe et al., J Clin Oncol, 2003, 21, 520; Bajajaj et al., J Natl Cancer Inst, 2020, 112, 921; von Schuckmann et al., JAMA Dermatol., 2019 155.688; Meier et al., Br J Clin Oncol, 2002, 147, 62; Francken et al., Annals of Surgical Oncology, 2008, 15, 1476; Romano et al., J Clin Oncol, 2010 28, :3042. LN = Lymph nodes

Basal cell carcinoma (BCC) is the most common form of skin cancer and the most frequent form of all cancers. In the United States alone, approximately 4.3 million cases are diagnosed each year (i.e. 1,299 cases per 100,000 people (Source: skincancer.org, 2020)), but these data are believed to be underestimated. In Europe, the reported incidence varies from approximately 76.21 to 163.8 cases per 100,000 people (Source: skincancer.org, 2020; Peris et al. (2019) Eur J Cancer, 118, 10) but these data are believed to be underestimated. BCCs arise from abnormal, uncontrolled growth of basal cells. Because BCCs grow slowly, most are curable and cause minimal damage when diagnosed and treated early. The incidence of locally advanced basal cell carcinoma (laBCC) is 0.8% of the total population affected by this cancer (Source: Goldenberg et al., J Am Acad Dermatol 2016, 75). Adding the European data (which include the 27 European Union member states, Switzerland and the United Kingdom) to the U.S. data, it is possible to estimate the number of patients with BCC at approximately 37,600 - 41,000 new cases per year, potentially eligible for treatment with Nidlegy™.

Cutaneous squamous cell carcinoma (cSCC) is the second most common form of skin cancer. Approximately 1 million new cases of cSCC (i.e. an incidence of 302 cases per 100,000 people) are diagnosed in the United States each year (Source: skincancer.org, 2020). Most patients with cSCC can be successfully treated with surgical excision and Mohs micrographic surgery. In Europe, the incidence ranges from approximately 15 to 33 per 100,000 people (Source: Lomas et al., BJD 2012,166,1069). However, a minority of patients with cSCC (approximately 5%) develop regional metastases (so-called lacSCC or locally advanced cutaneous squamous cell carcinoma) and subsequently require treatment of the regional lymph node basin (Source: skincancer.org, 2020): Veness et al. (2013), Medical Surgery 2, 77, World J Otorhinolaryngol Head Neck Surg 2016, 2, 136). Putting together the European data (which include the 27 European Union member states, Switzerland and the United Kingdom) and the U.S. data, the potential market for Nidlegy™ (for the laSCC indication) is approximately 39,000 - 44,000 new cases per year. Moreover, the latest data suggest that more than 15,000 people die each year in the United States from squamous cell carcinoma of the skin - more than twice as many as from melanoma (Source: skincancer.org, 2020).

Fibromun

Fibromun (onfekafusp alfa (L19TNF)) is a recombinant fusion protein, consisting of the L19 antibody (specific to the EDB domain of fibronectin) fused to human tumour necrosis factor (TNF). As mentioned in the previous sections, L19TNF is also one of the two active principles of Nidlegy™. The figure below is a schematic representation of the structure of Fibromun.



Antibody fragment L19 is depicted in green. Tumour necrosis factor is depicted in blue.

Fibromun is routinely administered to patients via intravenous infusion. It is based on L19's ability to deliver TNF (a potent proinflammatory cytokine) to the neo-vascularised tumour. Fibromun carries out its antitumour activity through a combination of mechanisms:

(i) causing a rapid "death" (haemorrhagic necrosis) of the cells of the tumour mass;
(ii) killing cancer cells (interacting with certain receptors expressed on their surface) and tumour endothelial cells directly;
(iii) causing inflammation at the tumour site which, in turn, triggers a strong immune system response (including enhancement of tumour-specific CD8+ T cells); and
(iv) increasing the ability of tumour blood vessels to absorb molecules (so-called vascular permeability), which facilitates the accumulation in the tumour and consequently the therapeutic effect of other drugs used in combination.

Fibromun is currently developed for the first- and third-line treatment (i.e. newly diagnosed patients and patients who have failed 2 lines of therapy) of metastatic soft tissue sarcomas and the first- and second-line treatment (i.e. newly diagnosed patients and patients who have failed 1 line of therapy) of glioblastoma multiforme. Theoretically, however, this product could also be developed to treat various other indications, as the L19 antibody recognises several types of cancer.

In preclinical tumour models of soft tissue sarcoma and glioblastoma, Fibromun showed excellent *tumour targeting* (i.e. selective localisation in the tumour), safety and efficacy properties. In addition, the product showed strong synergy with the standard therapies for the respective diseases. The Group has observed that through combination with Doxorubicin (standard first-line therapy for sarcoma) or with Dacarbazine (standard third-line therapy for sarcoma), Fibromun cured all animals with sarcomas. Similarly, Fibromun cured most animals with glioblastomas when administered with temozolomide and radiotherapy (standard first-line therapy for glioblastoma) or with lomustine (standard second-line therapy in Europe for glioblastoma). The Group considers these data to be significant since the tumour models used were not being treated with standard therapies (i.e. with radiotherapy and/or chemotherapy). Based on these encouraging results and on the basis of the first clinical results (illustrated in the next paragraph), the Group decided to focus initially on the clinical development of Fibromun in metastatic soft tissue sarcoma and in glioblastoma (the most deadly brain tumour).

The Group has already completed a Phase Ib exploratory trial with Fibromun in combination with Doxorubicin in pre-treated patients with soft tissue sarcoma (i.e. patients who have already been unsuccessfully treated with other therapies) affected by certain types of tumour, including soft tissue sarcoma. Fifteen patients with metastatic sarcoma were eligible for testing the efficacy of L19TNF. The disease control rate (which includes complete responses, partial responses and disease stabilisations) was 73%. Twenty percent (20%) of the patients experienced a decrease in the overall lesion diameter of at least 30% and one (1) patient had a long-lasting complete response. As regards the safety profile, Fibromun at 13 µg/kg (administered via intravenous infusion on days 1, 3, 5, every three weeks) was well tolerated when combined with Doxorubicin at 60 mg/m2 (administered on day 1, every three weeks). The most common adverse reactions were elevation of liver enzymes, nausea, fever (77.8%, equal to or lower than grade 2), neutropenia, infusion-related reactions, thrombocytopenia, aspartate aminotransferase elevation, headache and chills (55.6%, equal to or lower than grade 2), all observed in over 50% of the patients treated.

As regards glioblastoma, the Group is completing a Phase I/II exploratory trial with Fibromun monotherapy in patients with disease at first recurrence/relapse. The Phase I part includes a dose escalation from 10 µg/kg to 13 µg/kg in three patients for each dose. This part of the trial has been completed and the recommended dose has been established at 13 µg/kg, as only mild adverse events (Grade 1 and 2) were observed. The trial is being conducted in Switzerland and has completed

enrolment of the twenty patients envisaged by the protocol in just over one year. As of the date of this report, Philogen continues to monitor survival. It is important to note, however, that an interim analysis of the survival time of patients in this trial showed more than a doubling compared to the historical data. The analysis of that trial has not yet been completed.

The table below lists the 6 trials in progress as of the date of the report, the number of countries and sites involved in each trial.

Description of current study	Phase	N. Centers	Country(*)	N. Target Patients	Development Objectives(*)
A study, conducted in Europe, comparing the efficacy of the combination of doxorubicin and L19TNF versus doxorubicin alone as first-line therapy in patients with advanced or metastatic soft tissue sarcoma.	III	3	Germany	102	We intend to open additional centers and complete the trial by 2023.
A study, conducted in the U.S., comparing the efficacy of L19TNF treatment in combination with doxorubicin versus doxorubicin alone in first-line metastatic or unresectable leiomeyosarcoma patients.	IIb	8	United States	122	We intend to open other centers
A study, conducted in Europe, to investigate the efficacy and safety of L19TNF in combination with Dacarbazine versus Dacarbazine alone in previously treated patients with advanced stage or metastatic soft tissue sarcoma.	II	3	Germany	***Run-in***: 6-12 **Randomization Phase**: 86	We intend to open additional centers in both Germany and other European countries and complete the trial by 2023.
A study to evaluate the safety and the efficacy of the tumor-targeting human antibody-cytokine fusion protein L19TNF as a single agent in patients with isocitrate dehydrogenase (IDH) wildtype World Health Organization (WHO) grade III / IV glioma at first relapse. (*i.e. newly diagnosed Glioblastoma)*	II	3	Switzerland	20	Study has completed recruitment but patient survival continues to be monitored
A study to evaluate the safety and efficacy of the tumor-targeting human antibody-cytokine fusion protein L19TNF plus lomustine in patients with glioblastoma at first progression	I/II	1	Switzerland	Phase I: up to 18 Phase II: up to 118	We intend to open other centers both in Switzerland and in other European countries
A study to evaluate the safety and efficacy of the tumor-targeting human antibody-cytokine fusion protein L19TNF plus standard TMZ chemoradiotherapy in patients with newly diagnosed glioblastoma	I/II/IIb	1	Switzerland	Phase I: up to 30 Phase II: up to 32 Phase IIb: up to 164	We intend to open other centers both in Switzerland and in other European countries

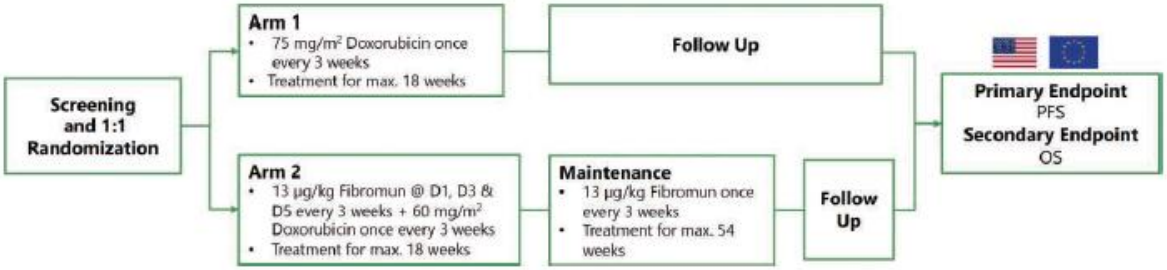
(*) As required by applicable regulations, the Group has obtained authorisation to conduct the trial from each of the competent authorities for each country. Likewise, any further trials must be authorised each time by the national authority.

Phase III trials in Europe and Phase IIb trials in the U.S. in soft tissue sarcoma: L19TNF and Doxorubicin

Philogen is conducting a European Phase III clinical trial and a U.S. Phase IIb clinical trial with Fibromun plus Doxorubicin in 102 and 122 patients, respectively, with newly diagnosed soft tissue sarcoma. The U.S. trial focuses on patients with leiomyosarcoma (an important subset of all soft tissue sarcomas). Both trials aim to demonstrate superiority over

conventional Doxorubicin monotherapy (Standard of Care). The primary clinical objective of the trial is *progression-free survival* for first-line patients with metastatic soft tissue sarcoma.

As indicated in the diagram below, patients are randomised into Arm 1 (control arm with Doxorubicin treatment) and Arm 2 (treatment arm with Fibromun and Doxorubicin combination therapy). Extensive treatment with Doxorubicin may increase the risk of cardiotoxicity. For this reason, Doxorubicin is only administered for up to 6 cycles (i.e. 18 weeks), while Fibromun can be administered for up to 54 weeks. The primary endpoint of the trial aims for a median progression-free survival rate that increases from 4.4 months for Arm 1 (based on historical data) to 8 months for Arm 2. The median progression-free survival rate (mPFS) refers to the time (usually months or years) after which 50% of trial patients receiving the investigational treatment experienced disease progression.



Phase II trials in soft tissue sarcoma: L19TNF and Dacarbazine

In addition to the development of first-line soft tissue sarcoma, the Group recently launched a Phase II trial in pretreated soft tissue sarcoma patients (i.e. third-line) who do not have a therapeutic alternative. The trial compares Fibromun plus Dacarbazine (Arm 2) with Dacarbazine alone (Arm 1) and will involve approximately 98 patients. To determine the therapeutic dose for Dacarbazine (DTIC) in combination with Fibromun, a small preliminary phase (called a Run-In phase) will be performed, requiring 6 - 12 patients. Once the therapeutic dose of DTIC is established, patients are randomised into Arm 1 and Arm 2. The treatment phase in Arm 2 with three Fibromun administrations per therapeutic cycle is followed by a maintenance phase with one Fibromun administration per cycle and a follow-up phase, in which the patient only receives DTIC. The primary endpoint of the trial aims for a median progression-free survival of 2.6 months for Arm 1 (historical value) compared to 5.2 months for Arm 2. As of the date of this report, the trial has enrolled three patients in the Run-In phase. Two patients received at least four cycles of treatment, which were well tolerated. The second patient had a 29.2% reduction in tumour size after two cycles of treatment, which further improved to 36.2% after four cycles. Tumour remission in the patient can be considered a partial response to treatment (i.e. a reduction in tumour size greater than 30%). The historical response rate of Dacarbazine in patients with metastatic soft tissue sarcoma who have already undergone intense treatments is 4%.

Phase I/II/IIb trials in newly diagnosed glioblastoma: L19TNF in combination with radio-chemotherapy

As regards glioblastoma, the Group recently launched two clinical trials of a potential registration nature. The first is a Phase I/II/IIb trial, which envisages up to 226 patients, with Fibromun administered in combination with radiotherapy and temozolomide chemotherapy in newly diagnosed glioblastoma. The trial began in the last quarter of 2020. The figure below schematically depicts the trial design.

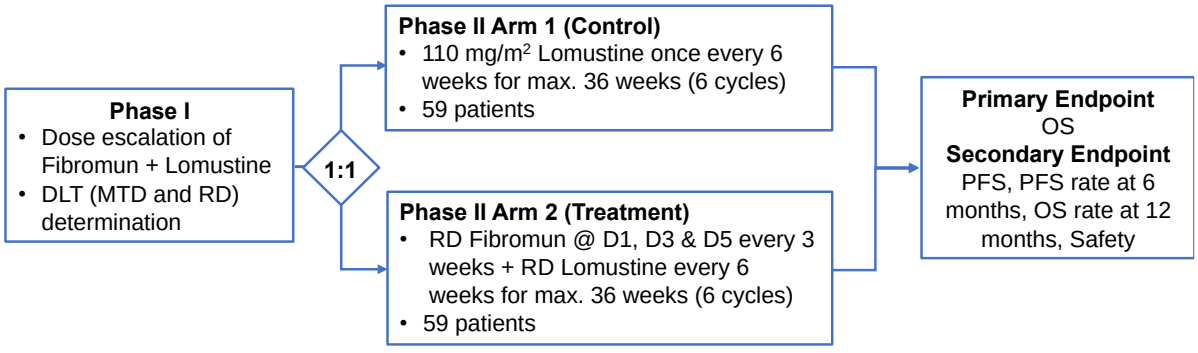


Diagram depicting the design of the Phase I/II trial of Fibromun in combination with lomustine in patients with glioblastoma at first recurrence/relapse. DLT = dose limiting toxicities; MTD = maximal tolerated dose; RD = recommended dose; OS = overall survival; PFS = progression-free survival; D1 = Day 1

The L19 antibody has been widely validated by nuclear medicine studies in approximately 50 patients with brain metastases (e.g. lung, colon, breast, thyroid and skin cancers). If appropriate, the company may consider starting clinical development activities for Fibromun in patients with secondary brain tumours (i.e. with brain metastases). The patient population affected by secondary brain tumours is at least four times larger compared to primary brain tumours.

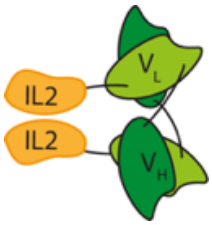
Potential market for Fibromun

Soft tissue sarcoma is a rare group of mesenchymal tumours that originate from connective tissue. This disease consists of more than 100 distinct subtypes (leiomyosarcoma is the most common subtype among them), which collectively account for approximately 1% of all adult cancers. Surgery is the first line of treatment for early stage and localised disease. However, especially because of late diagnosis, in many cases patients develop metastases that are responsible for a very negative prognosis. For these patients with unresectable advanced sarcoma, chemotherapy is the standard of care (i.e. doxorubicin is used for newly diagnosed disease; dacarbazine is used as the treatment of last resort). However, these drugs prolong average patient survival by only a few weeks, and for this reason, new therapeutic options are urgently needed. The latest data suggest that approximately 15,000 people with sarcomas die each year in the United States and Europe (Source: for U.S. data, Gage et al., Oncotarget 2019 10,2462 - the European data were compiled based on the U.S. data). The potential market for Fibromun for this indication refers to first-line (i.e. new diagnoses) and third-line (i.e. after failing 2 lines of therapy) metastatic STS. The incidence of STS ranges from 4 to 5 new cases per year per 100,000 people (Sources: ESMO Clinical Practice Guidelines).

Glioblastoma (grade IV glioma) is the most common (and aggressive) primary brain tumour. Glioblastomas are highly vascularised, supporting rapid growth of the tumour mass. This uncontrolled growth can cause a breakdown of the blood-brain barrier, making it possible to treat the disease using systemic therapies (i.e. drugs administered intravenously). The current stand of care for patients with newly diagnosed glioblastoma includes surgery, followed by radiotherapy and temozolomide chemotherapy. However, most patients experience recurrence or relapse within a few months of starting treatment. The standards of care for patients with recurrent glioma are lomustine or bevacizumab depending on geographical region (lomustine is administered in Europe, while bevacizumab is used in the United States). Glioblastoma is one of the tumours with one of the poorest prognoses. The average survival is only 14.6 months and therefore new therapeutic options are urgently needed. The latest data suggest that approximately 38,000 people with malignant gliomas die each year in the United States and Europe (Source: for U.S. data: AANS.org; the European data is extrapolated from the U.S. data). The potential market for Fibromun for this indication refers to first-line (i.e. new diagnoses) and second-line (i.e. after failing 1 line of therapy) malignant gliomas. The incidence of malignant gliomas is approximately 1 case per 33,000 people (Source: orpha.net).

Darleukin

Darleukin (bifikafusp alfa (L19IL2)) is a recombinant fusion protein, consisting of the L19 antibody (specific to the EDB domain of fibronectin) fused to human interleukin-2. As mentioned in the previous sections, L19IL2 is also one of the two active principles of Nidlegy™. The figure below is a schematic representation of the structure of Darleukin.



Antibody fragment L19 is depicted in green. Interleukin-2 is depicted in yellow.

The product candidate is developed in combination with stereotactic ablative radiotherapy for the treatment of patients with oligometastatic non-small cell lung cancer (NSCLC).

Over the last twenty years, Philogen's scientists, as well as those of other companies, have demonstrated that antibody-IL2 fusions are significantly superior to recombinant interleukin-2 in various mouse models of cancer. Darleukin has the advantage of enhancing many other antitumour therapeutic modalities, including checkpoint inhibitors and radiotherapy. Darleukin had already shown strong synergy with radiotherapy in preclinical studies and Phase I trials. In the preclinical phase, the Group observed that the combination of radiotherapy with L19IL2 resulted in 80% of complete responses. By contrast, radiotherapy or L19IL2 alone did not have significant beneficial effects (Source: Zegers et al. Clin Cancer Res 2015, 21:1151). In a Phase I clinical trial, L19IL2 was administered in combination with SABR to six patients with metastatic tumours. Three enrolled patients had stage IV non-small cell lung cancer. Two of these patients no longer showed signs of the disease three years after treatment which, in the opinion of the issuer, is an encouraging result, given that patients in this indication typically progress quickly (Source: De Ruysscher et al, 2012 7(10):1547; Collen et al, 2014, 25(10):1954). The promising and lasting responses to the combination of L19IL2 and SABR observed during the aforementioned preliminary studies made it possible to structure a Phase II trial.

The Group is launching a randomised, Phase II clinical trial called ImmunoSABR (NCT03705403) in nine centres in the Netherlands, Belgium and France. The trial aims to enrol 126 patients with stage IV polymetastatic (i.e. up to 10 metastases) non-small cell lung cancer to evaluate the synergistic effect of Darleukin in combination with stereotactic ablative radiotherapy (SABR). The trial is sponsored by the University of Maastricht and funded by the European Union (Horizon 2020 Framework Programme). The trial design envisages a 1:1 randomisation of patients into the control arm (Arm 1) and treatment arm (Arm 2). In Arm 1, patients will receive SABR (or conventional radiotherapy) and anti-PD-(L)1 therapy (in countries where anti-PD-(L)1 antibodies are the standard of care). In Arm 2, patients will receive a combination of SABR with Darleukin and anti-PD-(L)1 therapy (in countries where anti-PD-(L)1 antibodies are the standard of care). The primary objective of the trial is progression-free survival (PFS) at 1.5 years after randomisation. The trial began in 2020 and Philogen is monitoring its progress to evaluate the opportunity to invest directly in the programme in order to speed up execution.

The Group is launching a randomised, Phase II clinical trial called ImmunoSABR (NCT03705403) in nine centres in the Netherlands, Belgium and France. The trial aims to enrol 126 patients with stage IV polymetastatic (i.e. up to 10 metastases) non-small cell lung cancer to evaluate the synergistic effect of Darleukin in combination with stereotactic ablative radiotherapy (SABR).

Potential market for Darleukin

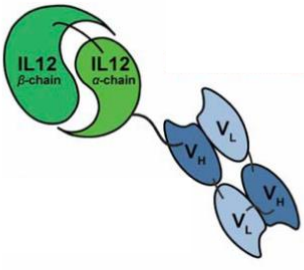
Lung cancer remains the leading cause of cancer-related death worldwide, accounting for 1.76 million deaths in 2018 (Source: World Health Organisation cancer fact sheet, 2018). In 2020, an estimated 228,820 new cases of lung cancer are expected to be diagnosed in the U.S. and 135,720 people will die of lung cancer (Source: Cancer Facts & Figures 2020). In Europe, the incidence of lung cancer varies considerably between countries. The age-standardised incidence rate of lung cancer in 2020 is expected to range from 101.7 per 100,000 people (Hungary) to 43.9 per 100,000 people (Sweden) (Source: European Cancer Information System). The vast majority (84%) of lung cancers belongs to the group of non-small cell lung cancers (NSCLC) (Source: Cancer Facts & Figures 2020). This includes adenocarcinoma, squamous cell carcinoma, large cell (undifferentiated) carcinoma, as well as some much less common subtypes such as adenosquamous carcinoma and sarcomatoid carcinoma. As symptoms usually appear only once the cancer is advanced, only a small percentage of cases is diagnosed at an early stage, while the majority of patients present with locally advanced or metastatic disease at the time of diagnosis (Source: Huang et al. Front. Pharmacol. 2020, 11:578091). This explains the low 5-year survival rate, which is only 24% for NSCLC (Source: Cancer Facts & Figures 2020).

The term "oligometastatic disease" is commonly used in a variety of different types of cancer to describe a subpopulation of patients who present with an intermediate disease state between locally advanced and metastatic. In the context of NSCLC, there is no clear consensus definition of oligometastatic, but the most commonly used criterion is patients with a maximum of five metastases (Source: Wujanto et al. Cancer. Fron. Oncol. 2019, 9:1219). Thus it is difficult to estimate the exact incidence of oligometastatic NSCLC at diagnosis. Two studies reported that 22% and 26% of stage IV NSCLC patients can be classified as oligometastatic (Source: Wujanto et al: Eberhardt et al J Thorac Oncol. 2015, 10:1515; Parikh et al. Int J Radiat Oncol Biol Phys. 2014, 89:880-7).

Dodekin

Dodekin is an immunomodulatory agent that contains interleukin-12 (IL12), one of the key regulators of T cell and natural killer (NK) cell activity. The product is being developed in collaboration with a large pharmaceutical company.

For many years the Group has conducted research programmes on IL12, generating several fusion proteins for the purpose of identifying a format suitable for industrial development. In 2019, the Group believed that it had identified a compliant format, based on preclinical data, for the clinical development of an IL12-based pharmaceutical product. The figure below is a schematic representation of the structure of Dodekin.



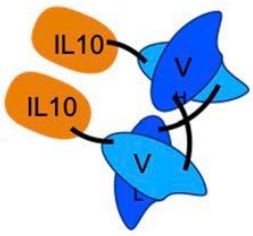
Antibody fragment L19 is depicted in blue. Interleukin-12 is depicted in green.

The molecule IL12 engineered by the Group was also combined with various therapeutic modalities in mouse models of cancer, showing synergy with cytotoxic agents and checkpoint inhibitors. In particular, in preclinical studies conducted on mouse models, Dodekin proved effective in curing tumours in 60% of treated mice. By contrast, Dodekin in combination with antibodies, so-called immune checkpoint inhibitors, proved effective in curing tumours in all treated mice.

As of the date of this report, Dodekin is being studied in a Phase I/II trial, started in 2020, in patients with various types of cancer who have failed to respond or have relapsed after treatment with antibodies, so-called checkpoint inhibitors. The trial structure envisages the administration of Dodekin in increasing doses to patient cohorts consisting of no more than 6 individuals. As soon as Phase I of the trial is completed, Phase II will begin, with the objective of evaluating the drug's efficacy on 40 patients with advanced cancer. To date it is not yet possible to predict when Phase I will end. The results of Phase I will allow us to determine the maximum tolerated dose (MTD), i.e. the maximum amount of drug that can be administered to cancer patients. The higher the MTD of Dodekin, the greater the time required to move on to Phase II, since more patients will have to be treated in Phase I.

Dekavil

Dekavil is a fusion protein between the F8 antibody (specific for extra-domain A (EDA) of fibronectin) and interleukin-10, an anti-inflammatory cytokine. The product is currently being developed in *partnership* and is being studied in Phase II clinical trials for the treatment of chronic inflammatory diseases. The image below is a schematic representation of the structure of Dekavil.



Antibody fragment F8 is depicted in blue. Interleukin-10 is depicted in orange.

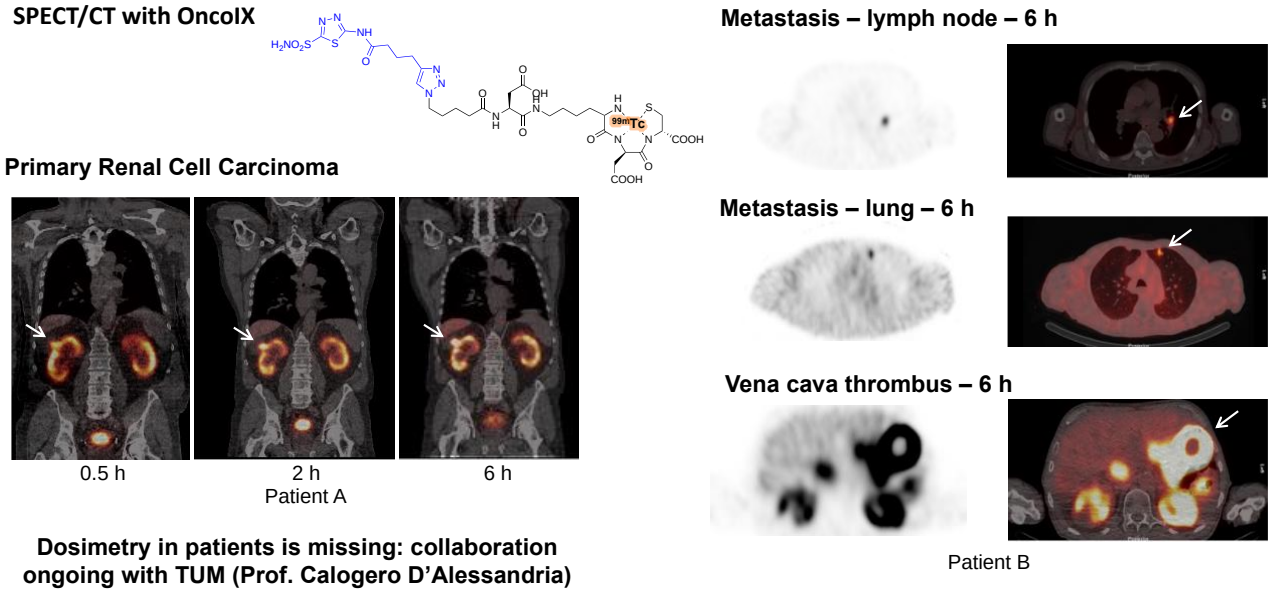
In preclinical models of chronic inflammatory disease, Dekavil proved capable of selectively localising at the sites of inflammation, as well as inhibiting disease progression. These preliminary results provided the motivation for conducting a Phase I clinical trial as a treatment of last resort in patients with rheumatoid arthritis (in combination with methotrexate), which resulted in a significant improvement in conditions in approximately half of the treated patients. The results of the Phase I trial in turn motivated the Group to continue clinical development of Dekavil by starting a Phase II trial.

Small molecules

Philogen is investing time and resources in the field of small organic molecules. These molecules offer a series of advantages including (i) the ability to reach the diseased area in a few minutes (versus several hours, if not days, for IgG antibodies), (ii) the ability to spread efficiently in solid tumours, reaching virtually every cancer cell, (iii) a significantly lower

production cost (*Cost of Goods*) compared to therapeutic proteins, (iv) the possibility of functionalising them with different active principles, and (v) the ability to mimic the physiological activity of immune system proteins.

Onco IX is the first small molecule drug (PHC-102) brought into clinical development by the Philogen Group. The product is a radiolabeled organic compound which avidly binds to carbonic anhydrase IX (CAIX). The clinical use of Onco IX may serve: (i) as *companion diagnostic* for CAIX-targeted therapeutic agents, allowing the selection of patients who may be more suited for treatment; and (ii) as a single-photon emission computed tomography (SPECT) agent for the detection of occult tumour lesions (e.g. renal cell carcinoma lesions which are not visible with computed tomography (CT) or with ^{18}F-fluorodeoxyglucose-positron emission tomography (FDG-PET) or for the non-invasive visualisation of hypoxic structures). The Group is currently expanding the nuclear medicine investigations with Onco IX in collaboration with European nuclear medicine centres. The aim of these studies is to provide patients with different types of malignancies (e.g. renal cell carcinomas) with a better non-invasive diagnostic imaging option, at the same time extending the number of patients for which the product can be applied. In early studies conducted on patients with renal cell carcinoma, the product was able to detect metastatic lesions undetected by previous diagnoses, leading to better patient management. The Group is still in an early phase of the Onco IX study and has not yet finalised a development strategy for the product. In the Group's opinion, the investigational drug could be developed as a general reagent for CAIX imaging or as a companion diagnostic for the selection of patients with CAIX-positive tumours. The figure below shows some of the clinical results obtained with PHC-102 in patients with metastatic renal cell carcinomas.



Dosimetry in patients is missing: collaboration ongoing with TUM (Prof. Calogero D'Alessandria)

Source: Kulterer et al., J Nucl Med, 2020, Online ahead of print

The Group recently discovered and patented the OncoFAP ligand, which is specific and has high affinity for *Fibroblast Activation Factor* ("FAP"), a target that has received positive initial feedback from industry experts. The FAP antigen is overexpressed in over 90% of epithelial tumours, including malignant breast, colorectal, ovarian, lung, skin, prostate and pancreatic tumours, as well as in some soft tissues and sarcomas.

OncoFAP-^{68}Ga will enter clinical development in a first-in-humans compassionate diagnostic imaging study on patients with metastatic breast cancer in January 2021 (compassionate use of the drug). Expansion is planned for the OncoFAP-^{68}Ga clinical programme, allowing other types of tumours to be studied.

New Products

The Group continuously invests in research and development of new products. Below is a description of the new areas of research (i.e. early-stage programmes) and the less advanced product candidates, still under development or investigation.

New immunocytokines

The Group's scientists have been active in the field of antibody-cytokine fusions for the last twenty years The isolated antibodies were fused with over 50 cytokine payloads, which have been produced and characterised (in vitro and in vivo). The chart below shows some examples of cytokine *payloads* that have been tested by the Group.

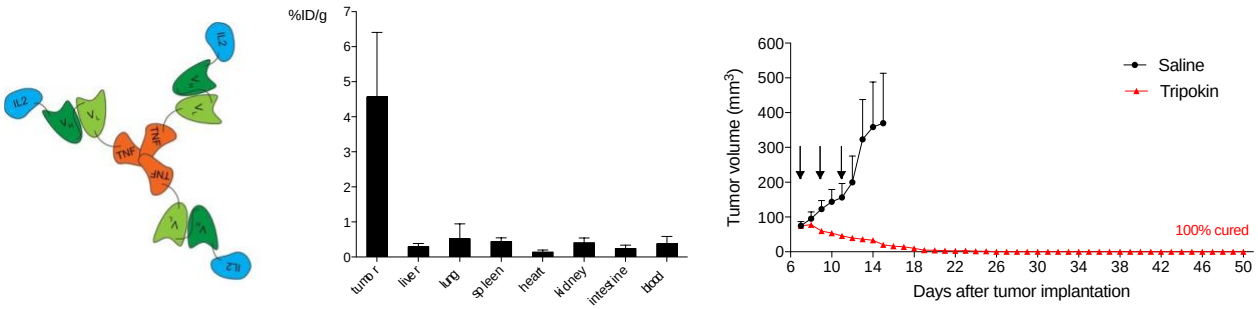
Payloads Studied by Philogen

CYTOKINES	**IL1b** (Hess, 2014)	**IL13** (Hess, 2015)	**TRAILtrunc** (Hemmerle, 2014)
	IL2 (Carnemolla, 2002)	**IL15** (Kaspar, 2007)	**CD40L** (Hemmerle, 2014)
	IL3 (Schmid, 2018)	**IL17** (Pasche, 2012)	**FasL** (Hemmerle, 2014)
	IL4 (Hemmerle, 2014)	**IL18** (unpublished)	**LiGHT** (Hemmerle, 2014)
	IL5 (unpublished)	**IL22** (Bootz, 2016)	**VEGI** (Hemmerle, 2014)
	IL6 (Hess, 2014)	**IFNa** (Frey, 2010)	**VEGItrunc** (Hemmerle, 2014)
	IL7 (Pasche, 2012)	**IFNb** (unpublished)	**LT-a** (Hemmerle, 2014)
	IL9 (Venetz, 2015)	**IFNg** (Ebbinghaus, 2005)	**LT-b** (Hemmerle, 2014)
	IL10 (Trachsel, 2007)	**TNF** (Borsi, 2003)	**LT-a1b2** (Hemmerle, 2014)
	IL12 (Halin, 2002)	**TRAIL** (Hemmerle, 2014)	**G-CSF** (Schmid, 2018)
	4-1BBL (Mock, 2020)		**GM-CSF** (Kaspar, 2007)
CHEMOKINES	**CCL5** (Hess, 2014)	**CCL20** (Hess, 2014)	**CXCL9** (Hess, 2014)
	CCL17 (Hess, 2014)	**CCL21** (Hess, 2014)	**CXCL10** (Hess, 2014)
	CCL19 (Hess, 2014)	**CXCL4** (Hess, 2014)	**CXCL11** (Hess, 2014)
			ITIP (Hess, 2014)
OTHER PAYLOADS	**B7.2** (Hemmerle, 2012)	**TNFR** (Schwager, 2009)	**VEGF-A^{164}** (Halin, 2002)
	tTF (Nilsson, 2001)	**VEGF-A^{120}** (Halin, 2002)	**VEGF-C** (Schwager, 2018)
			other undisclosed payloads

The Group has investigated a number of types of antibodies for the optimal *in vivo* delivery of cytokine payloads. In general, the choice of the best immunocytokine format must be investigated case by case, performing comparative studies of *in vivo* targeting in tumour-bearing animals and supplementing this information with a number of other biochemical and functional assays.

Over the years, the Group's scientists have analysed the antitumour activities of many cytokine payloads and selected those exhibiting the most promising therapeutic data. For this reason, the Group is developing novel fusion proteins based on these payloads, exploring ligands other than the L19 antibody and adopting the formats that yielded the best functional performance in preclinical settings. Some of these products exhibited significant antitumour activity and may merit development in dedicated clinical trials.

Another promising class of biopharmaceuticals is represented by antibody-cytokine fusions with two cytokine payloads fused to the same antibody, which serves as a specific targeting agent. These products have proven to be potently active against various types of tumours and have shown synergy with checkpoint inhibitors. For example, Tripokin, an IL2-L19-TNF-based compound, is able to generate rapid necrosis of tumour cells. The figure below shows the schematic structure of the molecule and its ability to localise in the tumour, protecting healthy organs. Moreover, Tripokin has shown strong activity as a therapeutic agent in monotherapy in preclinical models with cancer (curing 100% of treated animals). The excellent pharmacokinetic properties of the product have also been confirmed in a study conducted on monkeys.



Left: Antibody fragment L19 is depicted in green, tumour necrosis factor in red and interleukin-2 in blue. Centre: Biodistribution experiment, conducted in the F9 teratocarcinoma subcutaneous model at 24h post injection, which shows how Tripokin localises in the tumour, but only in limited quantities in healthy tissues. The accumulation of the drug in the various organs was measured via the percentage injected dose per gram of tissues (%ID/g) parameter. Right: Therapy experiment carried out in the mouse model WEHI-164 sarcoma. After three intravenous administrations of the drug (black arrows), 100% of the mice were cured in monotherapy. The *Saline* group was used as negative control in the experiment.

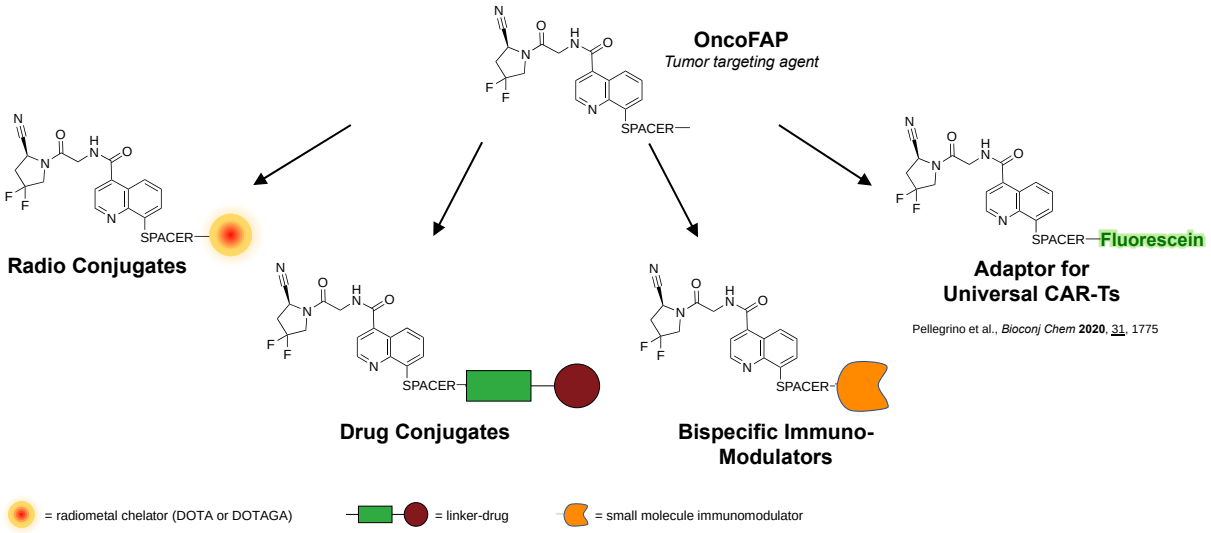
Other examples of this class of biopharmaceuticals are the different interleukin-12 (IL12)-based combinations, including F8IL12 (which has shown strong activity as a single therapeutic agent in mouse models for the treatment of lymphoma, in glioma models), as well as interleukin-15 (IL15)-based.

When considering non-oncological applications, the Group continues to be active in the exploration of novel fusion proteins which have shown exceptional performance in preclinical models of chronic inflammation and in other conditions, associated with tissue remodelling. For instance, F8-VEGF-C is a fusion protein of the F8 antibody, which has shown activity in various chronic inflammatory conditions (e.g. two models of psoriasis, one model of rheumatoid arthritis and one model of inflammatory bowel disease) and may stabilise atherosclerotic lesions.

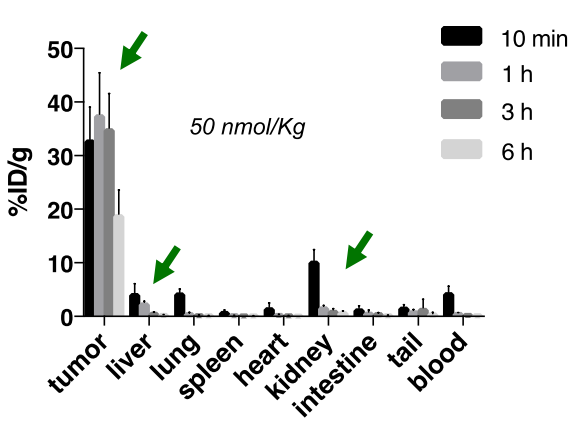
New therapeutic agents based on small organic molecules

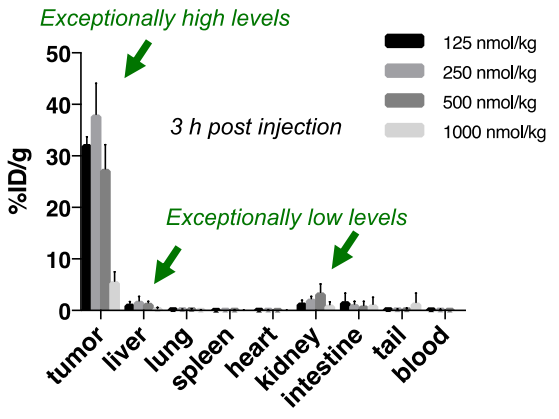
Antibodies are ideally suited for the delivery of certain types of therapeutic active principles (e.g. cytokines). For other applications (e.g. radionuclides, bispecific adaptors and cytotoxic drugs with cleavable linkers), small organic ligands may represent superior alternatives, both in terms of tissue penetration and of lower cost-of-goods. In fact, compounds based on small ligands are able to spread more rapidly in the tumour, thanks to their smaller dimensions (approximately 100-150 times smaller than IgG antibodies), allowing them to cross the walls of blood vessels quickly. Moreover, the ability of these drugs to localise in the tumour in just a few minutes paves the way for a "theranostic" approach. On these occasions the patient initially receives the diagnostic agent, and when the tumour accumulation is suitable, the same patient may subsequently receive the therapeutic agent based on the same ligand that showed selective localisation in the disease. This is more complicated to accomplish with antibodies (especially IgG antibodies) as large therapeutic proteins require as long as several days to obtain good images with nuclear medicine.

On the whole, the Group has the ability to generate novel chemical ligands *in house* thanks to technology based on *DNA-encoded chemical libraries*. These ligands can subsequently be used as delivery vehicles for different types of active principles in order to generate diagnostic and/or therapeutic prototypes. Functionalisation strategies are and will continue to be implemented for the CAIX and FAP ligands, just as for other types of small molecule targeting agents that will be discovered in the future. The different drugs that can be generated with small ligands (OncoFAP is used in this case as example) are schematised in the figure below.



OncoFAP shows one of the best performances in terms of affinity for FAP antigens. In preclinical cancer models, the product shows a very rapid and efficient accumulation in tumours (greater than 30% of the injected dose per gram of tumour, ten minutes after intravenous administration) and exceptionally low renal absorption (kidneys are already "clean" just a few minutes after the injection).





In conclusion, Philogen plans to continue investing in the future in research and development both in the field of therapeutic proteins and of small organic molecules in order to continue to expand and diversify our clinical pipeline in the years to come.

Intellectual property

We protect the results of our research and development activities by making use of a broad international portfolio of patents for inventions for industrial use and pending patent applications, and we have established a consolidated patent position in the field of vascular *targeting*.

The patents and patent applications serve to protect market exclusivity for product candidates, the technical processes necessary to produce them or the relevant medical treatment protocols.

The duration of each patent depends on the legal duration of the patents in the countries in which they were obtained. In most countries, including Italy, patent duration is 20 years from the earliest claimed filing date of a non-provisional patent application or of its foreign equivalent in the country in question.

We own or have under exclusive license more than one hundred national patents filed in several countries.

Our patents mainly include: (i) "vascular target" patents giving us the exclusive right to use certain ligands with affinity for *markers* of angiogenesis in selected disease indications; "technology" patents covering the critical enabling technologies used in the Group's activities; (iii) "product" patents, i.e. patents covering product candidates in preclinical and clinical development and their building blocks; and (iv) "combination" patents covering the combination of patented product candidates with non-patented therapeutic agents.

The twenty years of the life of a patent are often not enough to guarantee market exclusivity for long enough to make the development of innovative drugs profitable, as the development and clinical trial phases can last many years. For this reason, laws have been enacted in many countries such as the European Union and the United States to guarantee that competition from generic and biosimilar drugs cannot begin before a certain number of years.

In Europe, Directive 2004/27/EC states that if the new drug is considered to bring a significant clinical benefit compared to existing therapies, a generic drug cannot be placed on the market for ten years from the initial marketing authorisation.

This prohibition may be extended to eleven years if, during the first eight years of that ten-year period, the marketing authorisation holder obtains an authorisation for one or more new therapeutic indications considered to bring a significant clinical benefit compared to existing therapies.

Similarly, in the United States, the "*Biologics Price and Competition Act*" (BPCIA) prevents the marketing of biosimilar drugs for twelve years from the marketing authorisation of the reference biological drug.

The rules relating to the protection of intellectual property by means of patents and the specific rules relating to the protection of drugs or pharmaceutical compounds, such as market exclusivity, are two distinct regulatory areas. Therefore, the protection of market exclusivity (as well as the applicable terms) is independent of the rules relating to the protection of intellectual property and remains valid even in the event of the absence of patents relating to the innovative biological drugs that we are developing.

Moreover, we are very focused on the development of "orphan drugs", i.e. drugs intended for the treatment of rare diseases. Rare diseases are those diseases with a low incidence in the population and in which the largest pharmaceutical companies do not consider it useful to invest, given the high costs involved in the development of a new drug and the lower market potential compared to more widespread diseases.

When we commence clinical trials with a product for the treatment of a rare disease, we file applications for orphan drug designation for our product with the EMA and the FDA.

Once granted, the orphan drug designation guarantees market exclusivity for the product in Europe for ten years after marketing authorisation and seven years in the United States.

These market exclusivities are valid even in the event of the absence of patents relating to the orphan drug. In addition, the protection granted by the international system to the so-called orphan drug is additional and separate from traditional patent protections.

The main intellectual property rights in Europe and the United States are described below, with reference to proprietary products under clinical trial.

Nidlegy™

Patents

The principal intellectual property rights relating to Nidlegy™ include (i) European patent EP 2760886 relating to methods of use of Nidlegy™, due to expire in 2032, (ii) European patent application EP 17745672.0 relating to the formulation of

L19-TNF and Nidlegy which, if granted, would expire in 2037, (iii) U.S. patent no. 8,623,373 relating to the L19 antibody fused to IL2, due to expire in 2023, (iv) U.S. patent no. 10,195,253 relating to the methods of use of Nidlegy™, due to expire in 2032 and (v) U.S. patent application no. 16/317902 relating to the formulation of L19-TNF and Nidlegy™ which, if granted, would expire in 2037.

Other market exclusivities

Being a new medicinal product, if authorised in the European Union, in accordance with Directive 2004/27/EC, Nidlegy™ will benefit from a 10-year market exclusivity starting from the marketing authorisation.

In the United States, pursuant to the *Biologics Price Competition and Innovation Act* ("**BPCIA**"), a 12-year market exclusivity is granted for innovative biologics starting from the marketing authorisation, and this may also be available for Nidlegy™.

Orphan Drug designation

The FDA has granted orphan drug designation to Nidlegy™ for the treatment of melanoma stage IIB through IV corresponding to a 7-year market exclusivity starting from the marketing authorisation in the U.S.

Fibromun

Patents

The Group's principal patents and patent applications relating to Fibromun include (i) European patent application EP 17745672.0 relating to the formulation of L19-TNF which, if granted, would be due to expire in 2037, and (ii) U.S. patent application no. 16/317902 relating to the formulation of L19-TNF which, if granted, would be due to expire in 2037.

Other market exclusivities

Being a new medicinal product, if authorised in the European Union, in accordance with Directive 2004/27/EC, Fibromun will benefit from a 10-year market exclusivity starting from the marketing authorisation.

In the United States, pursuant to the *Biologics Price Competition and Innovation Act* ("**BPCIA**"), a 12-year market exclusivity is granted for innovative biologics starting from the marketing authorisation, and this may also be available for Fibromun.

Orphan Drug designation

The FDA and the EMA have granted orphan drug designation to Fibromun for the treatment of soft tissue sarcoma and for the treatment of glioma, corresponding to a 7-year market exclusivity in the U.S. and a 10-year market exclusivity in the European Union.

Darleukin

Patents

The principal patents and patent applications relating to Darleukin include (i) European patent EP 2007415 relating to anti-EDB antibodies conjugated to IL2 and gemcitabine for the treatment of cancer, due to expire in 2027, (ii) European patent EP 2734232 relating to CTLA-4 blockers and anti-EDB antibodies conjugated to IL2 administered in sequence, due to expire in 2032, (iii) U.S. patent no. 8,623,373 relating to the L19 antibody fused to IL2, due to expire in 2023, (vi) U.S. patent no. 7,851,599 relating to the L19 antibody fused to IL2 and gemcitabine, due to expire in 2029, (v) U.S. patent no. 8,796,426 relating to the L19 antibody fused to IL2 and rituximab, due to expire in 2030, (vi) U.S. patent no. 9,289,470 relating to the L19 antibody fused to IL2 and anti-CD20 antibodies, due to expire in 2028, and (vii) U.S. patent no. 9,549,981 relating to a method for tumour growth inhibition through sequential administration of a CTLA-4 blocker and an anti-EDB antibody fused to IL2, due to expire in 2033.

Onco IX (PHC-102)

Patents

The main intellectual property rights related to the molecule PHC-102 and the carbonic anhydrase *targeting* platform have been licensed from ETH Zurich and include (i) European patent EP 3102241 relating to a tracer that binds carbonic anhydrase IX, due to expire in 2035, (ii) European patent EP 3424537 relating to a bidentate molecule that binds carbonic anhydrase IX, due to expire in 2035, (iii) European patent application EP 20169482.5 (approved on the date of the registration document) relating to a monodentate molecule that binds carbonic anhydrase IX, due to expire in 2035, as well as (iv) U.S. patent no. 9,884,122 relating to a tracer that binds carbonic anhydrase IX, due to expire in 2035, (v) U.S. patent no. 10,016,511 relating to a bidentate molecule that binds carbonic anhydrase IX, due to expire in 2035 and (vi) U.S. patent application no. 16/004,921 relating to a monodentate molecule that binds carbonic anhydrase IX which, if granted, would be due to expire in 2035).

OncoFAP

Patents

In 2020, the Group filed some as yet unpublished patent applications relating to OncoFAP.

Patent portfolio

In order to provide a better understanding of the intellectual properties held by the company, the table below shows the patents or patent applications in the parent company's name or of which it holds exclusive license.

Philogen S.p.A.:

Country	Patents granted/Applications accepted	Patent applications
Algeria	-	1
Argentina	-	1
Australia	13	6
Brazil	5	2
Canada	14	5
Chile	-	1
China	8	3
Colombia	-	1
Costa Rica	-	1
Cuba	-	1
Ecuador	-	1
Egypt	-	1
United Arab Emirates	-	1
Eurasia	4	1
Europe	23	9
Guatemala	-	1
Hong Kong	7	5
India	3	2
Indonesia	1	2
Iran	-	1
Iraq	-	1
Israel	1	1
Japan	13	2
Jordan	-	1
Lebanon	-	1
Malaysia	1	1
Mexico	9	3
New Zealand	2	2
Gulf countries (GCC - Gulf Cooperation Council)	-	1
Pakistan	1	-
Panama	-	1
Peru	1	1
Philippines	1	1
Russia	5	2
Singapore	1	1
South Africa	4	1
South Korea	7	1
Taiwan	1	1
Thailand	-	1
United States	36	8
Uruguay	-	1
Venezuela	-	1
Vietnam	-	1
Patent Cooperation Treaty (PCT)	-	2

Philochem AG:

Country	Patents granted/Applications accepted	Patent applications
Australia	4	1
Canada	4	1
Eurasia	1	-
Europe	**5**	1
Hong Kong	1	1
Mexico	1	-
United States	9	1
Patent Cooperation Treaty (PCT)	-	1

GMP plants and Group laboratories

The Group has a *Good Manufacturing Practice* (GMP) certified production plant, specifically the plant in Montarioso (Siena, Italy), and manages the design and coordination of numerous multicentre and multinational clinical trials.

Our subsidiary, Philochem, is based in Otelfingen, Switzerland ("Philochem") and focuses mainly on research and development activities in the fields of target discovery (i.e. identification and validation of selective and accessible markers of disease which can be conveniently targeted in vivo by suitable binding molecules) and therapeutic antibodies, as well as on the development of enabling technologies such as antibody phage display libraries and DNA-encoded chemical libraries. The discovery, identification and validation of ligands using these technologies represents the starting point for creating targeted drugs for a specific pathology.

In particular, in our laboratory facilities in Zurich, we develop and test product candidates in preclinical studies. The most promising products undergo an optimisation phase, after which they are transferred near Siena, where they are produced in the Group's GMP plant. Once production and characterisation of an investigational drug have been completed, clinical trials can begin (subject to authorisation from the competent authorities) to test its safety and efficacy in collaboration with some of the leading international medical centres.

The Group has approximately 105 employees (approximately 28% of whom hold a Ph.D. degree and over 60% of whom are under 40 years old) and operates through 2 plants, located in Italy (dedicated to production activities) and Switzerland (mainly dedicated to research and development activities). A third production plant is under construction in Rosia, Siena.

Montarioso

The Group has a GMP production facility in Montarioso, which is approximately 2,008 m2 in size (including the GMP production facility, the quality control laboratories, warehouses, offices and archive) and has been authorised and operational for the last sixteen years. The Montarioso (Siena) plant, used in the development of product candidates, has been formally certified by the Italian Medicines Agency (AIFA) as a GMP facility since 2004 and as such is subject to specific regulatory and manufacturing requirements. In addition, this facility relies on mammalian expression systems (such as Chinese hamster ovary cells and mouse myeloma cells), which are generally recognised as the industry standard technology. The facility has been inspected on a regular basis by AIFA. The last inspection took place in 2019, following which, after implementation of some requests from AIFA, on 9 October 2019 authorisation for the experimental production of antibody-based pharmaceuticals in mammalian cells was confirmed. This authorisation allows the use of our products in any state of the European Union. Non-EU authorities (e.g., the FDA in the United States or Swissmedic in Switzerland) have also approved clinical trials (including Phase III clinical trials in their country) and may request inspections of the facility at a later date.

Besides manufacturing investigational compounds for clinical trials, this facility offers revenue-generating manufacturing services to selected licensees of our Group, on behalf of which we manage the product’s clinical development.

Rosia

A second, larger GMP facility, which will be approximately 2,881 m2 in size, is under construction at the current site in Rosia, near Siena, Italy. The quality control unit and the production building are already operational and deal, among other

things, with the management of clinical trials, while the inner restructuring is expected to be completed in the second half of 2021, assuming that the current planning timelines are met. The Rosia facility has been planned in order to comply with the highest regulatory standards, paying attention to the flow of personnel and of material, as well as to the quality of material, air and water. The facility will be one the biggest in Italy for the production of monoclonal antibodies in mammalian cells (upon completion the site will cover a total area of 4,160 m2, of which 1,279 m2 will be dedicated exclusively to GMP production activities) and will have the most advanced technical equipment, including a 200 litre fermentation unit.

Once the necessary qualification operations for premises and equipment at the Rosia (Siena) facility have been completed, Philogen intends to submit an application to AIFA for the authorisation for commercial production of biotechnological drugs in 2022.

Layout of the new GMP facility

Otelfingen

Philochem operates in a recently refurbished building in Otelfingen, Switzerland (near Zurich). This building is approximately 9,264 m2 in size, of which 2,191 m2 are dedicated to discovery activities, including the recently built approximately 300 m2 new laboratory, intended to enhance the R&D activities on chemical compounds. The Otelfingen laboratories are adequately equipped for the discovery of antibody-based therapeutics and small molecule therapeutics. The facility enables the construction and screening of combinatorial libraries (e.g. antibody phage display libraries and DNA-encoded chemical libraries), as well as the generation of product candidates, which can be tested in preclinical studies or sent to Siena for GMP production activities.

Philogen
innovating targeting

Directors' Report

Foreword

Dear Shareholders,

The Directors' Report of Philogen S.p.A. (hereinafter also the "Company" or the "Parent Company") and the Philogen Group is presented together with the separate and consolidated financial statements as at 31 December 2020.

This Directors' Report is intended to provide income, financial, cash flow and operating information about the Company and the Group, accompanied, when possible, by historical elements and/or alternative performance measures, and is drafted in compliance with the provisions of art. 2428 of the Italian Civil Code and Legislative Decree no. 58 of 24 February 1998 (the "Consolidated Finance Act").

Please refer to the notes to the financial statements for all information on the illustration of the separate and consolidated financial statements as at 31 December 2020.

1. Information about the Group

The Group's focus is the development of drugs, mainly based on antibody conjugates able to obtain a selective deposit in the sites where the pathology is found.

This is possible thanks to a scientific approach referred to as "vascular targeting", in which the company is one of the recognised scientific leaders.

In this area, the Group internally performs all phases of its production cycle, which includes the discovery of new drugs and the production and coordination of preclinical and clinical trials at its registered office in Siena and at the centre in Zurich (Switzerland) where its subsidiary Philochem AG is located.

Since 2019, the Group has focused its development activities primarily on the two most advanced products: Fibromun and Nidlegy™, concentrating its efforts on registered trials on the two drugs, while it has also redesigned a competitive pipeline in order to evaluate licensing agreements on other prototypes/products in the pipeline as opportunities arise.

A description of activities and the pipeline, as well as intellectual property, is provided in detail in the introduction to the Group.

Please note that pursuant to article 1.1.w)-quater.1 of the Consolidated Finance Act, the Parent Company is considered an "SME".

2. Significant events during the year

The main factors which influenced the Group's financial position and cash flows with reference to the year ended at 31 December 2020 are described below.

2.1 Summary of development and GMP activities carried out during the year

It should be noted that, aside from promoting the progress of the clinical trials already under way prior to 2020, the Group expanded its pipeline by beginning the following new studies:

- Nidlegy™ – phase II trial in non-melanoma skin cancer started in June 2020
- Fibromun – phase I/II clinical trial in combination with lomustine in grade IV glioma at first relapse started in December 2020
- Fibromun – phase I/II/IIb clinical trial in combination with radiotherapy and temozolomide in newly diagnosed grade IV glioblastoma started in September 2020
- Dodekin – phase I/II trial in patients with advanced solid carcinomas started in June 2020

Furthermore, in January 2021 OncoFAP-68Ga will enter a first-in-man study of compassionate diagnostic imaging on patients with metastatic breast cancer.

Research and development collaborations and licensing agreements continued in 2020 with important sector multinationals, including Pfizer, Celgene, Abbvie, Servier, Janssen, Boehringer Ingelheim and Novartis.

In June 2020, new chemical laboratories were completed in Otelfingen (Zurich, Switzerland) in order to strengthen the Group's research and development activities.

In July 2020, the Group began construction on a second GMP plant (located in Rosia) for the production of drugs based on monoclonal antibodies, which was designed to meet the highest regulatory standards.

Lastly, the Group carried out activities related to production for third parties with DKFZ and UZH. Furthermore, at the end of 2020 a new agreement for production for third parties was signed with DKFZ for a new antibody product. This latter activity will begin in the second half of 2021.

2.2 The effects of Covid-19

The year ended 31 December 2020 was influenced by the Covid-19 epidemic, which had an impact on companies, including the Group, curtailing their production levels.

Spurred by the recent recommendations of the ESMA and Consob (the Italian Commission for Listed Companies and the Stock Exchange), the group performed internal analyses to assess the actual and potential impacts of Covid-19 on its business, financial position and performance.

Since the start of the pandemic emergency, the Board of Directors of Philogen and of its subsidiary Philochem continuously analysed and monitored the implementation and application of the measures adopted in response to the Covid-19 pandemic, in full compliance with the provisions issued by the competent authorities over time. The most significant of these comprised restrictions and checks regarding the movement of people and goods and the organisation of staggered shifts in the production plants and offices.

The pandemic and the government measures taken to tackle the epidemic meant the Group has had to modify its business management, introducing social distancing plans for employees and eliminating physical attendance at meetings, events and conferences, in the best interest of group employees and strategic partners. These changes can have a negative impact on productivity, reducing product development resources, slowing down development operations, and delaying the clinical trials planned or in progress.

The launch of a clinical trial, including the enrolment of patients and the involvement of researchers and personnel for the study, were at times delayed due to the priorities assigned to hospital resources to combat the Covid-19 pandemic. The diversion of healthcare resources from the running of clinical trials to concentrate on issues linked to the pandemic influenced the expected timing for enrolments and the processing of data on clinical trials due to the restrictions imposed by the individual states for the monitoring of processes, substantially reducing control capacity.

However, despite the emergency situation, the group consistently continued its research and development activities throughout the period.

The analysis of operational risks performed by the Group did not bring to light any particular issues aside from those described above for the performance of clinical activities or for the supply of raw materials from the Group's strategic suppliers (supply chain).

The analysis of financial risks highlighted a negative impact of the pandemic on financial market trends and entailed the recognition in the financial statements of a net fair value loss of roughly €380,000 on current financial assets, which contributed to the formation of a net financial expense of €290,000 , compared to net financial income of €2,890,000 in the previous year.

Philogen continues to very carefully monitor the evolution of events, also taking action in 2021 to adopt additional mitigation measures as required.

2.3 Incentive plan with share-based payment

In order to implement an incentive plan for a member of the Board of Directors ("the Beneficiary") and Scientific Committee owing to their operating commitment to developing the two more advanced products, Fibromun and Nidlegy™, on 26 March 2020 the Board of Directors of the Parent Company approved the capital increase reserved for him as per article 2441.6 of the Italian Civil Code.

On 28 April 2020, the Philogen Shareholders' Meeting approved this capital increase for the dedicated incentive plan, to be carried out on a divisible basis with the issue of 426,600 shares, equal to 1.2% of the share capital at that date, to be offered for exclusive subscription to the Beneficiary.

To partially amend and supplement the foregoing, on 25 November Philogen and the Beneficiary entered into an agreement pursuant to which, as an alternative to the capital increase described above, in the case of Philogen's listing or a change of control (pursuant to art. 2359 of the Italian Civil Code) by 31 December 2021, Philogen would be able to confer to the Beneficiary (instead of the reserved capital increase), a bonus in correlation with the quality and quantity of activities carried out, equal to €1,500,000, to be paid €1,000,000 in cash and €500,000 in cash or, at the Company's discretion, in shares or a combination of the two, without prejudice to the fact that the number of shares would have been defined by dividing Euro 500,000 by the listing price of the Group's ordinary shares.

On 16 December 2020, the Parent Company's Extraordinary Shareholders' Meeting revoked the reserved capital increase, subject to the effective start of trading of the Shares on the MTA market by 31 December 2021.

On 11 March 2021, following the listing of Philogen S.p.A. on the MTA market of the Italian Stock Exchange, the Parent Company decided, in execution of the agreement signed with the Beneficiary, to proceed with the full payment of €1,500,000 in cash.

2.4 MTA market listing process

On 19 October 2020, the Board of Directors of the Parent Company approved to proceed with the listing of Philogen S.p.A. on the MTA market organised and managed by Borsa Italiana S.p.A. The transaction was concluded on 3 March 2021. The shares offered for listing amounted to 4,061,111 deriving from a capital increase with exclusion of the purchase option, corresponding to roughly 10% of the Company's share capital after the Capital Increase, and the price was set at €17 per share. In the placement phase, all shares were subscribed, including the greenshoe of 10% of the newly issued shares.

3. Group statement of profit or loss and financial position

3.1 Statement of profit or loss

The following table shows the Group's consolidated profit or loss statement data for the years ending on 31 December 2020 and 31 December 2019:

€000s and %	Year ended 31 December				Variations	
	2020	%	2019	%	2020 vs 2019	%
Contract revenue	4,778	100.0%	12,611	100.0%	(7,833)	(62.1)%
Other income	1,567	32.8%	3,905	31.0%	(2,338)	(59.9)%
Total Revenue	**6,345**	**132.8%**	**16,516**	**131.0%**	**(10,171)**	**(61.6)%**
Operating costs (*)	(16,977)	(355.3)%	(15,880)	(125.9)%	(1,097)	6.9%
EBITDA (**)	**(10,632)**	**(222.6)%**	**636**	**5.0%**	**(11,268)**	**(1,771.7)%**
Amortisation and depreciation	(1,496)	(31.3)%	(1,102)	(8.7)%	(394)	35.8%
EBIT	**(12,129)**	**(253.8)%**	**(466)**	**(3.7)%**	**(11,663)**	**2502.8%**
Financial income	2,179	45.6%	3,320	26.3%	(1,141)	(34.4)%
Financial expenses	(2,469)	(51.7)%	(431)	(3.4)%	(2,033)	471.7%
Pre-tax profit (loss)	**(12,419)**	**(259.9)%**	**2,423**	**19.2%**	**(14,842)**	**(612.5)%**

Taxes	**(866)**	(18.1)%	**(1,021)**	(8.1)%	**155**	(15.2)%
Profit (loss) for the period	**(13,285)**	**(278.0)%**	**1,402**	**11.1%**	**(14,687)**	**(1,047.6)%**

(*) Operating costs are equal to the sum of the following financial statement items: acquisitions of raw materials and consumables, service costs, use of third party assets, personnel expenses and other operating costs

(**) EBITDA corresponds to the operating profit (loss) gross of amortisation and depreciation. EBITDA is a measure defined and used by the Group to monitor and evaluate the Group's operating performance, but it is not defined within the IFRS; therefore, it should not be considered an alternative measure for the assessment of the Group's operating profit (loss) trends. The Company believes that EBITDA is an important parameter for the measurement of the Group's performance, as it makes it possible to analyse its margins by eliminating the effects deriving from non-recurring economic elements. As EBITDA is not a measurement calculated in accordance with the reference accounting standards for the preparation of the Group's consolidated financial statements, the approach applied to determine EBITDA may not be the same as that adopted by other groups, and therefore it may not be comparable.

Revenue from contracts with customers, primarily relating to licences and research and development services contracted by third parties, decreased by 62.1% in 2020. This change is mainly due to the Group's decision to consider opportunities for the licensing of its proprietary products, focusing on the clinical development of some more advanced products in the pipeline while also continuing with the development activities set forth in existing contracts.

Other income, relating to contributions deriving from tax benefits such as the research and development credit and research subsidies for projects co-funded by the European Community and the Tuscany Region, declined by 59.9%. This change can primarily be attributed to the fact that the majority of the projects funded in the course of 2019 have ended and, to date, there are fewer active projects than in the previous year. This item was also impacted by tax regulations which influence the extent of the contributions due and how they are calculated. In 2019, the item Other income also incorporated the capital gain realised from the sale of real estate following property restructuring transactions conducted in the course of 2019.

Operating costs increased by 6.9% from €15,880,000 in 2019 to €16,977,000 in 2020. The change in costs can mostly be attributed to an increase in service costs of roughly €1,489,000 relating to the cost of the bonus provided to a member of the Board of Directors, as described in section 2.3 above, and an increase in personnel expenses due to the increase in the number of employees in the course of 2020.

EBITDA declined from a positive value of €636,000 in 2019 to a negative value of €10,632,000 in 2020. The change is the result, as highlighted above, of the decline in revenue during the year.

Amortisation and depreciation were up by 35.8% due to the depreciation of right-of-use assets, correlated mainly with the property restructuring transactions carried out in 2019: indeed, such transactions entailed the demerger and sale of owner-occupied buildings and simultaneous lease of such assets, which were recognised as right-of-use assets. Therefore, as such transactions were carried out in 2019, depreciation/amortisation of right-of-use assets refers to the full year ended 31 December 2020, but only a few months in the comparative period.

EBIT, calculated as the difference between EBITDA and depreciation and amortisation, records a negative balance, resulting from a reduction in EBITDA in the year ended at 31 December 2020 and an increase in amortisation and depreciation, as described above.

Financial income and expenses changed from a positive value in 2019 of €2,890,000 to a negative balance in 2020 of €290,000. This change is due primarily to net fair value losses on financial assets at fair value at 31 December 2020, amounting to €380,000 (net fair value gains of €549,000 at 31 December 2019), which reflects the downturn in the financial markets as a result of the Covid-19 pandemic. The change also derives from lease interest expenses, which increased by approximately €157,000 in the year ended at 31 December 2020, related to the property restructuring transactions carried out in 2019.

Taxes declined by 15.2% due to the reduction in current taxes, correlated with lower revenue in the year ended at 31 December 2020. The item also includes the reversal of the deferred tax effects recognised on transition to IAS/IFRS.

The profit (loss) for the period, as a result of what is set forth above, declined from a profit of €1,402,000 in 2019 to a loss of €13,285,000 in 2020.

3.2 Statement of Financial Position

The following table shows the Group's statement of financial position for the years ending on 31 December 2020 and 31 December 2019, reclassified by "Sources and Uses":

€000s and %	At 31 December		Variations	
	2020	2019	2020 vs 2019	%
Uses				
Property, plant and equipment	5,163	2,248	2,915	129.7%
Intangible assets	961	935	26	2.8%
Right-of-use assets	10,288	10,985	(697)	(6.3)%
Deferred tax assets	1,176	2,115	(939)	(44.4)%
Employee benefits	(847)	(803)	(44)	5.5%
Deferred tax liabilities	(234)	(320)	86	(26.9)%
Net fixed assets (*)	**16,507**	**15,159**	**1,348**	**8.9%**
Inventories	774	617	157	25.4%
Contract assets	207	-	207	-
Trade receivables	515	1,199	(684)	(57.0)%
Tax assets	3,812	2,946	866	29.4%
Other current assets	635	690	(55)	(8.0)%
Trade payables	(3,920)	(3,281)	(639)	19.5%
Contract liabilities	(4,155)	(7,790)	3,635	(46.7)%
Tax liabilities	(362)	(332)	(30)	9.0%
Other current liabilities	(2,578)	(1,105)	(1,473)	133.3%
Net working capital (*)	**(5,072)**	**(7,055)**	**1,983**	**(28.1)%**
Net invested capital (*)	**11,435**	**8,104**	**3,331**	**41.1%**
Sources				
Equity	55,673	68,803	(13,130)	(19.1)%
Net financial indebtedness (*)	(44,238)	(60,699)	(16,461)	(27.1)%
Total sources	**11,435**	**8,104**	**3,331**	**41.1%**

(*) Net fixed assets, net working capital, net invested capital and net financial indebtedness are alternative performance measures, not identified as accounting measures in IFRS and, therefore, they should not be considered measures alternative to those provided by the Group's financial statements for the assessment of the Group's financial position.

The analysis of the main elements of the balance sheet assets shows that the Group has good liquidity, both readily available and short term, thanks to the portfolio of financial investments in current assets. The analysis of the Group's Net financial indebtedness makes it possible to better appreciate the Group's situation.

The Group's Net financial indebtedness, summarised in the following table, decreased by €16,461,000 at 31 December 2020 compared to 31 December 2019. This decrease is primarily the result of:

- a decline in Trading securities equal to €20,978,000 due primarily to the sale of securities in the Philogen portfolio. This sale of securities helped to finance ordinary Group operations and expand the Rosia production site.

- an increase in cash and cash equivalents of €8,394,000, deriving from the disposal mentioned above of securities held in the portfolio.

- an increase in current and non-current financial debt of the Group of roughly €3,877,000 due to the two medium/long-term loans taken out from UBI Banca S.p.A, for a total of €5,000,000. Both loans are 90% backed by Medio Credito Centrale, making use of the facilitations provided by Law Decree no. 23 of 8 April 2020, converted with amendments by Law no. 40 of 5 June 2020, as amended ("Liquidity" Decree). The loans were taken out in order to finance part of the investments relating to the project for investment in the new GMP biotechnology plant in Rosia.

A breakdown of Net financial indebtedness at 31 December 2020 (and comparative) is provided below as required by Consob resolution no. DEM/6064293 of 28 July 2006:

(€000s) **Net financial indebtedness**	**31 December 2020**	**31 December 2019**
(A) Cash	2	2
(B) Cash equivalent	11,956	3,562
(C) Trading securities	49,984	70,962
(D) Liquidity (A)+(B)+(C)	**61,942**	**74,526**
(E) Current financial receivables	**-**	**-**
(F) Current Bank debt	15	18
(G) Current portion of non-current debt	1,079	500
(H) Other current financial debt	711	668
(I) Current Financial Debt (F)+(G)+(H)	**1,805**	**1,186**
(J) Net Current Financial Indebtedness (I)-(E)-(D)	**(60,137)**	**(73,340)**
(K) Non-current Bank loans	4,629	682
(L) Bonds issued	-	-
(M) Other non-current loans	11,270	11,959
(N) Non-current Financial Indebtedness (K)+(L)+(M)	**15,899**	**12,641**
(O) Net Financial Indebtedness (J)+(N)	**(44,238)**	**(60,699)**

Below is a reconciliation of the items in the net financial indebtedness table with the statement of financial position captions:

- "Cash" (A) and "Cash equivalents" (B) are classified in "Cash and cash equivalents";
- "Trading securities" (C) are classified in "Other current financial assets";
- "Current Bank debt" (F) and "Current portion of non-current debt" (G) are classified in "Current financial liabilities";
- "Other current financial debt" (H) is classified in "Current lease liabilities";
- "Non-current Bank loans" (K) are classified in "Non-current financial liabilities";
- "Other non-current loans" (M) are classified in "Non-current lease liabilities".

3.3 Alternative Performance Measures

In order to evaluate Group performance, the management monitors, inter alia, financial position Alternative Performance Measures ("APMs").

For a proper interpretation of these APMs, please note the following:

- the APMs are based on historical data and are not indicative of the Group's future performance;
- the calculation of the APMs is not governed by the international accounting standards (IFRS);
- the APMs should not be considered in lieu of the indicators established under the reference accounting standards (IFRS);
- such APMs should be read in conjunction with the Group's financial information deriving from the Consolidated Financial Statements relating to the years 2020 and 2019;
- as the definitions of the APMs used by the Group are not set forth in the reference accounting standards, they may not be consistent with those adopted by other groups and therefore may not be comparable with them.

Below are the profit and loss Alternative Performance Measures identified by the Company:

€000s and %	**31 December**	
	2020	**2019**
Revenue from contracts with customers	4,778	12,611
EBITDA	(10,632)	636
EBITDA Margin	(222.5)%	5.0%
EBIT	(12,129)	(466)

EBITDA corresponds to the operating profit (loss) gross of amortisation and depreciation. EBITDA is a measure defined and used by the Group to monitor and evaluate the Group's operating performance, but it is not defined within the IFRS; therefore, it should not be considered an alternative measure for the assessment of the Group's operating profit (loss)

trends. As EBITDA is not a measure calculated in accordance with the reference accounting standards for the preparation of the Group's consolidated financial statements, the approach applied to determine EBITDA may not be the same as that adopted by other groups, and therefore it may not be comparable.

The following table shows the reconciliation of EBIT, EBITDA and adjusted EBITDA used by the Group's management with the profit for the year.

(€000s)	31 December	
	2020	**2019**
Profit (loss) for the year	**(13,285)**	**1,402**
Income taxes	866	1,021
Financial income and expense	290	(2,890)
EBIT	**(12,129)**	**(466)**
Amortisation and depreciation	1,496	1,102
EBITDA	**(10,632)**	**636**

The EBITDA Margin is calculated as in the table below:

€000s and %	31 December	
	2020	**2019**
Revenue from contracts with customers (A)	4,778	12,611
EBITDA (B)	(10,632)	636
EBITDA Margin (B/A)	**(222.5)%**	5.0%

Below are the financial position Alternative Performance Measures identified by the Company:

€000s and %	31 December	
	2020	**2019**
Net fixed assets	16,507	15,159
Net working capital	(5,072)	(7,055)
Net invested capital	11,435	8,104
Net financial indebtedness	(44,238)	(60,699)
Financial independence ratio	*65.1%*	*71.5%*
Equity to asset ratio	*316.5%*	*422.5%*
Current ratio	*529.8%*	*584.1%*
Debt to equity ratio	*31.8%*	*20.1%*

It should be noted that net fixed assets, net working capital, net invested capital and net financial indebtedness are alternative performance measures, not identified as accounting measures in IFRS and, therefore, they should not be considered measures alternative to those provided by the Group's financial statements for the assessment of the Group's financial position.

The table below shows the details of the Financial independence ratio.

€000s and %	31 December	
	2020	**2019**
Equity (A)	55,673	68,803
Total assets (B)	85,473	96,261
Financial independence ratio (A/B)	**65.1%**	**71.5%**

The table below shows the details of the Equity to asset ratio.

€000s and %	31 December	
	2020	**2019**
Equity (A)	55,673	68,803

Non-current assets (B)	17,588	16,283
Equity to asset ratio (A/B)	**316.5%**	**422.5%**

The table below shows the details of the Current ratio.

€000s and %	31 December	
	2020	2019
Current assets (A)	67,885	79,978
Current liabilities (B)	12,820	13,693
Current ratio (A/B)	**529.5%**	**584.1%**

The table below shows the details of the Debt to equity ratio.

€000s and %	31 December	
	2020	2019
Financial indebtedness(*) (A)	17,704	13,826
Equity (B)	55,673	68,803
Debt to equity ratio (A/B)	**31.8%**	**20.1%**

(*) Financial indebtedness was calculated as the algebraic sum of the following financial statement items: "Current financial liabilities", "Non-current financial liabilities", "Current lease liabilities", "Non-current lease liabilities".

The indicators shown in the tables above highlight a solid and liquid financial position for the Group.

3.4 Performance of the Parent Company

Below are the Parent Company's Profit and Loss data:

€000s and %	31 December				Variations	
	2020	%	2019	%	2020 vs 2019	%
Contract revenue	4,099	100.00%	11,680	100.00%	(7,581)	(64.91)%
Other income	1,211	29.50%	2,301	31.00%	(1,090)	(47.37)%
Total Revenue	**5,310**	**129.50%**	**13,981**	**131.00%**	**(8,671)**	**(62.02)%**
Operating costs (*)	(14,909)	(363.70)%	(13,750)	(125.90)%	(1,159)	8.43%
EBITDA (**)	**(9,599)**	**(234.20)%**	**232**	**5.00%**	**(9,831)**	**(4,237.50)%**
Amortisation and depreciation	(1,074)	(26.20)%	(720)	(8.70)%	(354)	49.17%
EBIT	**(10,673)**	**(260.40)%**	**(488)**	**(3.70)%**	**(10,185)**	**2,087.09%**
Financial income	2,137	52.10%	3,324	26.30%	(1,187)	(35.71)%
Financial expense	(2,333)	(56.90)%	(359)	(3.40)%	(1,975)	549.86%
Profit (loss) from investments	(1,686)	(41.13)%	(218)	(1.87)%	(1,468)	(673.39)%
Pre-tax profit (loss)	**(12,555)**	**(265.20)%**	**2,477**	**19.20%**	**(15,032)**	**(606.86)%**
Taxes	(730)	(17.80)%	(857)	(8.10)%	127	(14.82)%
Profit (loss) for the period	**(13,285)**	**(324.10)%**	**1,402**	**12.00%**	**(14,687)**	**(1,047.57)%**

(*) Operating costs are equal to the sum of the following financial statement items: acquisitions of raw materials and consumables, service costs, use of third party assets, personnel expenses and other operating costs

(**) EBITDA corresponds to the operating profit (loss) gross of amortisation and depreciation. EBITDA is a measure defined and used by the Group to monitor and evaluate the Group's operating performance, but it is not defined within the IFRS; therefore, it should not be considered an alternative measure for the assessment of the Group's operating profit (loss) trends. The Company believes that EBITDA is an important parameter for the measurement of the Group's performance, as it makes it possible to analyse its margins by eliminating the effects deriving from non-recurring economic elements. As EBITDA is not a measure calculated in accordance with the reference accounting standards for the preparation of the Group's consolidated financial statements, the approach applied to determine EBITDA may not be the same as that adopted by other groups, and therefore it may not be comparable.

Below are the Parent Company's Statement of Financial Position data:

€000s and %	At 31 December		Variations	
	2020	2019	2020 vs 2019	%
Uses				
Property, plant and equipment	3,866	1,037	2,829	272.8%
Intangible assets	791	748	43	5.7%
Right-of-use assets	7,376	7,914	(538)	(6.8)%
Equity investments	2,369	4,019	(1,650)	(41.1)%

Deferred tax assets	1,172	2,020	(848)	(42.0)%
Employee benefits	(847)	(803)	(44)	5.5%
Deferred tax liabilities	(177)	(300)	123	(4,109)%
Net fixed assets (*)	**14,550**	**14,635**	**(85)**	**(0.6)%**
Inventories	712	532	180	33.8%
Trade receivables	754	640	114	17.8%
Tax assets	3,780	2,854	926	32.4%
Other current assets	668	767	(99)	(12.9)%
Trade payables	(5,117)	(3,109)	(2,008)	64.6%
Contract liabilities	(4,155)	(7,208)	3,053	(42.4)%
Tax liabilities	(362)	(328)	(34)	10.4%
Other current liabilities	(2,166)	(665)	(1,501)	225.7%
Net working capital (*)	**(5,886)**	**(6,517)**	**631**	**(9.7)%**
Net invested capital (*)	**8,664**	**8,118**	**546**	**6.7%**
Sources				
Equity	55,673	68,803	(13,130)	(19.1)%
Net financial indebtedness (*)	(47,009)	(60,685)	13,677	(22.5)%
Total sources	**8,664**	**8,118**	**546**	**6.7%**

(*) Net fixed assets, net working capital, net invested capital and net financial indebtedness are alternative performance measures, not identified as accounting measures in IFRS and, therefore, they should not be considered measures alternative to those provided by the Company's financial statements for the assessment of the Company's financial position.

A breakdown of the Parent Company's Net financial indebtedness at 31 December 2020 and 31 December 2019 is provided below as required by Consob resolution no. DEM/6064293 of 28 July 2006:

(€000s) **Net financial indebtedness**	**31 December 2020**	**31 December 2019**
(A) Cash	2	2
(B) Cash equivalent	11,649	2,980
(C) Trading securities	49,984	70,962
(D) Liquidity (A)+(B)+(C)	**61,635**	**73,944**
(E) Current financial receivable	**-**	**-**
(F) Current Bank debt	4	18
(G) Current portion of non-current debt	2,544	4,646
(H) Other current financial debt	501	465
(I) Current Financial Debt (F)+(G)+(H)	**3,049**	**5,129**
(J) Net Current Financial Indebtedness (I)-(E)-(D)	**(58,586)**	**(68,815)**
(K) Non-current Bank loans	4,629	682
(L) Bonds issued	-	-
(M) Other non-current loans	6,948	7,449
(N) Non-current Financial Indebtedness (K)+(L)+(M)	**11,577**	**8,131**
(O) Net Financial Indebtedness (J)+(N)	**(47,009)**	**(60,684)**

Below are the profit and loss Alternative Performance Measures relating to the Parent Company:

€000s and %	**31 December**	
	2020	**2019**
Revenue from contracts with customers	4,099	11,680
EBITDA	(9,599)	232
EBITDA Margin	(234.2)%	2.0%
EBIT	(10,673)	(488)

The following table shows the reconciliation of EBIT, EBITDA and adjusted EBITDA used by the Group's management with the profit for the year.

€000s and %	**31 December**	
	2020	**2019**
Profit (loss) for the year	**(13,285)**	**1,402**
Income taxes	730	857
Financial income and expense and Profit (loss) from investments	1,882	(2,747)

EBIT	**(10,673)**	**(488)**
Amortisation and depreciation	1,074	720
EBITDA	**(9,599)**	**232**

The EBITDA Margin is calculated as in the table below:

€000s and %	31 December	
	2020	**2019**
Revenue from contracts with customers (A)	4,099	11,680
EBITDA (B)	(9,599)	232
EBITDA Margin (B/A)	(234.2)%	2.0%

Below are the financial position Alternative Performance Measures relating to the Parent Company:

€000s and %	31 December	
	2020	**2019**
Net fixed assets	14,550	14,635
Net working capital	(5,886)	(6,517)
Net invested capital	8,664	8,118
Net financial indebtedness	(47,007)	(60,685)
Financial independence ratio	*65.1%*	*71.5%*
Equity to asset ratio	*316.5%*	*422.5%*
Current ratio	*529.8%*	*584.1%*
Debt to equity ratio	*31.8%*	*20.1%*

It should be noted that net fixed assets, net working capital, net invested capital and net financial indebtedness are alternative performance measures, not identified as accounting measures in IFRS and, therefore, they should not be considered measures alternative to those provided by the Parent Company's financial statements for the assessment of the Company's financial position.

The table below shows the details of the Financial independence ratio.

€000s and %	31 December	
	2020	**2019**
Equity (A)	55,673	68,803
Total assets (B)	83,122	94,474
Financial independence ratio (A/B)	**67.0%**	**72.8%**

The table below shows the details of the Equity to asset ratio.

€000s and %	31 December	
	2020	**2019**
Equity (A)	55,673	68,803
Non-current assets (B)	15,575	15,738
Equity to asset ratio (A/B)	**357.5%**	**437.2%**

The table below shows the details of the Current ratio.

€000s and %	31 December	
	2020	**2019**
Current assets (A)	67,548	78,736
Current liabilities (B)	14,848	16,438
Current ratio (A/B)	**454.9%**	**479.0%**

The table below shows the details of the Debt to equity ratio.

€000s and %	31 December	
	2020	2019
Financial indebtedness(*) (A)	14,626	13,860
Equity (B)	55,673	68,803
Debt to equity ratio (A/B)	**26.3%**	**19.3%**

(*) Financial indebtedness was calculated as the algebraic sum of the following financial statement items: "Current financial liabilities", "Non-current financial liabilities", "Current lease liabilities", "Non-current lease liabilities".

For further comments, given the relevance of the Parent Company's data with respect to those of the Group, please refer to sections 3.1, 3.2 and 3.3 above.

3.5 Reconciliation statement between equity and profit (loss) of the Parent Company and the Group

Below is the reconciliation between the equity and profit (loss) of the Parent Company and those in the consolidated financial statements at 31 December 2020 and 31 December 2019:

(€000s)	Equity at 31/12/2019	Profit (loss) 2020	Other movements	Equity at 31/12/2020
Equity of the Parent Company	**68,803**	**(13,285)**	**153**	**55,673**
Profit (loss) and Equity of the subsidiaries	4,019	(1,686)	37	2,368
Elimination of the carrying amount of investments	(4,019)	1,686	(37)	(2,368)
Equity of the Group	**68,803**	**(13,285)**	**153**	**55,673**

4. Procedure and transactions with Related Parties

On 16 December 2020, the Board of Directors of the Parent Company approved the draft "Procedure for Transactions with Related Parties" pursuant to article 2391-bis of the Italian Civil Code and the Related Party Regulations. The draft of the procedure was subject to the final approval of the Board of Directors of Philogen S.p.A., after obtaining the opinion of the competent body in relation to transactions with related parties, identified as the Control, Risk and Sustainability Committee.

The Procedure for Transactions with Related Parties, approved by the Board of Directors, is compliant with the provisions of Consob regulation no. 17221 of 12 March 2010, as amended by Consob Resolution no. 21624 of 10 December 2020.

The Procedure governs, inter alia, the methods for screening and approving transactions with related parties defined as more significant on the basis of the criteria laid out in the Related Party Regulations and related party transactions defined as less significant, i.e., those other than more significant transactions and transactions for low amounts. The latter comprise any transactions which, individually, have a value not greater than €50,000 if the related party is a natural person (including the professional associations of which the natural person is part or the companies referring to him or her), or a value not greater than €100,000 when the related party is not a natural person.

According to the provisions of the Related Party Regulations, the Procedure also defines as more significant transactions with related parties those carried out by Italian or foreign subsidiaries, in which at least one of the relevance indexes specified in annex 3 to the Related Party Regulations exceeds the thresholds set forth therein and assigns to a specific company oversight unit (consisting of the Chief Financial Officer and the head of the legal corporate office) the duty of verifying the terms of application of the procedure to a specific transaction, including whether a transaction is deemed more significant or less significant, without prejudice to the fact that if the assessment of the transaction is up for debate, the assessment is referred to the committee responsible for oversight over Transactions with Related Parties. The Procedure establishes that the Company, as a recently listed company, relies on the exemption provided by article 10.1 of the Related Party Regulations and, therefore, more significant transactions with related parties are approved according to the procedure established for the approval of less significant transactions with related parties. The above-mentioned simplified method applies as of the date on which trading begins until the date of approval of the financial statements relating to the year ending on 31 December 2022.

At 31 December 2020, transactions with related parties mostly refer to the lease of buildings from Rendo S.r.l. and Rendo AG, both controlled by shareholders of the Parent. The relevant right-of-use assets and lease liabilities amount to

€10,287,000 and €11,981,000, respectively, at 31 December 2020. Such items are measured using the methods set out in IFRS 16.

Rents related to the lease contracts between Philogen S.p.A. and Rendo S.r.l. were determined applying an annual market return, included in a range defined by an external independent advisor, to the carrying amount of the underlying assets.

Rent related to the contract between Philochem AG and Rendo AG was determined considering the same rent per square meter used by the external independent advisor in its valuation and considering the same rent per square meter applied to similar buildings, with the exception for the laboratory, which were determined considering similar equipment.

Furthermore, transactions were agreed with Neri-Tanini Consulting S.r.l. during the year ended on 31 December 2020, to which roughly €26,000 was paid for administrative consultancy and company domiciliation services and for services provided by Mr. Tanini as the member of the Supervisory Board pursuant to Legislative Decree no. 231/01. Mr Duccio Neri, Shareholder, Chairman and Managing Director of Philogen, was a partner of Neri-Tanini Consulting S.r.l. in the course of 2020; however, he sold the shares of such company during November 2020. All transactions were carried out on an arm's length basis.

Transactions with related parties shown in the financial statements and described in detail in the specific notes to the consolidated and separate financial statements, to which reference is made, cannot be qualified as either atypical or unusual, as they were carried out in the normal course of business of the Group and are governed by market conditions.

5. Organisation, management and control model pursuant to Legislative Decree 231/2001

In order to clearly and transparently define the set of values underpinning the achievement of its institutional objectives, Philogen S.p.A. has adopted an Organisation, management and control model pursuant to Legislative Decree 231/2001, which has been amended over time in keeping with the evolution of applicable regulations (the "**Model**").

Philogen S.p.A. decided to adopt the Model to affirm its conviction that, aside from meeting the requirements set forth in Legislative Decree 231/2001, it constitutes a valuable tool to raise awareness with respect to all Company employees and everyone acting in the name and on behalf of the Company or which engage in dealings with it (*i.e.*, customers, suppliers, partners, collaborators on various bases), to ensure that they adopt proper and upright conduct in the performance of their activities, so as to prevent the risk of the commission of the offences set forth in Legislative Decree 231/2001.

When it adopted the Model, the Company established a supervisory board, currently consisting of a single member, whose autonomy, independence and professionalism have been confirmed, a body which was vested with inspection and control powers and the functions set forth in the Model.

Since the adoption of the Model, the Company has carried out training activities on the content of the Model, considered fundamental for the proper implementation of the Model by all employees and collaborators, as well as for its effectiveness.

The Model is constantly updated, also with the support of external consultants, both to adopt regulatory amendments and to take into account changes in the organisational structure which have an impact on the Model. The Model and the Code of Ethics are available to the public on the Company's website (www.philogen.com).

6. Report on corporate governance

Philogen S.p.A. adheres to the Corporate Governance Code of Italian listed companies (the "Code"), adapting it according to its characteristics.

In order to meet the transparency obligations set forth by sector regulations, the "Report on corporate governance and ownership structures" was drafted, as set forth in art. 123-bis of the Consolidated Finance Act, containing a general description of the governance system adopted by Philogen S.p.A., aside from the information on ownership structures, the organisational model adopted pursuant to Legislative Decree no. 231 of 2001 and the degree of adhesion to the Corporate Governance Code, including the practical governance principles applied and the characteristics of the risk management and internal control system in relation to the financial reporting process.

This document is available on the Company's website at http://www.philogen.com/.

7. Management and coordination activities

Pursuant to article 2497-bis.5 of the Italian Civil Code, it is noted that the company is not managed and coordinated by other companies.

At the date of this Report, 41.031% of the share capital of Philogen S.p.A. (equal to roughly 53.346% of the voting rights) is held by Nerbio S.r.l., a company owned by Dario Neri, Duccio Neri and Giovanni Neri, which therefore exercises control over Philogen S.p.A. pursuant to art. 2359 of the Italian Civil Code and art. 93 of the Consolidated Finance Act.

The lack of management and coordination can be inferred from the following circumstances:

(i) the main decisions relating to Company management are taken within the bodies of Philogen;

(ii) the Philogen Board of Directors is responsible, inter alia, for the review and approval of the strategic, business and financial plans and budgets, reviewing and approving financial and credit access policies, reviewing and approving the organisational structure of Philogen and evaluating the adequacy of the organisational, administrative and accounting structure of the Company;

(iii) Philogen operates with full autonomy with respect to the handling (at times indirect, through the subsidiary Philochem) of relationships with customers and suppliers, without any interference by parties outside the Group;

(iv) Nerbio S.r.l. performs no centralised treasury functions in favour of the Issuer.

Philogen S.p.A. directly controls Philochem AG with an equity interest of 99.99%.

The following table provides information taken from the statutory financial statements of Philochem, the only subsidiary company of Philogen:

Company	Registered office	Investment held directly or indirectly (*)	Share capital at 31 December 2020	Equity at 31 December 2020	Profit (loss) for the year 2020
Philochem AG	Switzerland	99.99%(**)	CHF 5,051,000	CHF 3,993,631	CHF (2,567,945)

(*) the portion of the capital held by Philogen in Philochem corresponds to the percentage of voting rights.
(**) Duccio Neri and Dario Neri each hold 1 share of Philochem

Please note that, in relation to Philochem, measures have been adopted to respect the provisions of article 15 of the Market Regulation.

8. Main risks and uncertainties

A more detailed analysis is provided below of the information specifically required by the provisions of art. 2428 of the Italian Civil Code.

Risk mapping and management activities are constantly carried out by the group in order to ascertain the probability and impact of all aspects that could in any way hinder the achievement of group objectives. Business risks are distinguished between operational risks, if linked to company processes and activities, and financial risks, if instead linked to the financial area.

8.1 Risks related to external factors

Risks related to products under clinical development

The Company's future revenue depends to a significant extent on the continuous and successful development of its candidate products and, in particular, the products in Phase III trials at 31 December 2020, such as Nidlegy™ and Fibromun, for which the Company expects to complete patient enrolment for Phase III by mid-2022 and the end of 2023,

respectively. However, there is no guarantee that these clinical trials will conclude within these terms or that the advanced clinical trials, current and future, will have a positive outcome and, therefore, that the candidate products will be suitable to receive approval for use in the market.

Risks related to changes in and non-compliance with sector regulations

When it performs clinical trials of compounds, the Company is required to comply with the ruling national and international legislation including, specifically, good manufacturing practices and good clinical practices. Any changes in the current legislative framework could lengthen the time required to produce compounds and/or for their clinical trials and lead to an increase in the related costs, adversely affecting the Company's financial position, performance and cash flows.

8.2 Strategic risks

Risks related to research activities, clinical and pre-clinical trials and production

The Company's strategy is intended to market pharmaceutical products still in the trial phase, of which only two are in a more advanced phase. There are significant uncertainties linked to the success of the trial phase and obtaining authorisations from the competent authorities to market the pharmaceutical products. Furthermore, the products may not meet market expectations in terms of effectiveness and safety and, therefore, it is possible that their sale may generate no revenue. If the Company is unable to sell the products and license its candidate products, or other competing products are preferred by the market over those of the Company, there would be seriously negative effects on the Company's profit and loss, cash flows and financial position.

Risks related to protecting intellectual property rights and dependence on industrial secrets

The Company's commercial success relies in part on its ability to protect its intellectual or industrial property rights, including potential ones (including the processes and use of the same products) in the EU, the US, Japan and other countries. At the date of these consolidated financial statements, Company's patent portfolio comprises around 43 groups of products and/or processes and/or usage patents, filed or being filed in numerous countries.

If the Company's efforts to protect its exclusive and intellectual property rights are insufficient, competitors could exploit the Company's technologies to create competing products, erode its competitive advantage and take over all or part of its market share. The occurrence of such risks could have significant negative effects on the Company's profit and loss, cash flows and financial position.

Risks linked to dependence on top management, key personnel and specialised personnel

By virtue of the specialised nature of the activities it carries out, the Company depends to a significant extent on qualified management and other key scientific personnel, for which it faces stiff competition and which it will need to expand to be able to grow, such as in particular the Chairperson of the Scientific Committee and CEO, who has extensive scientific experience in research at some of the main European research centres, including the UK Medical Research Council and ETH Zurich.

Any loss of key personnel or the inability to attract and retain additional qualified personnel could have negative effects on the development and marketing of candidate products. The occurrence of such risks could have severe negative effects on the Company's profit and loss, cash flows and financial position.

8.3 Financial risks

Financial risks are those that arise from the ownership or trading of financial instruments. The detailed financial risk tables are provided in no. 26 of the Consolidated Financial Statements and no. 29 of the Separate Financial Statements.

The main risks identified, monitored and, as specified below, actively managed by the Company are as follows:

Credit risk

Credit risk is the risk that a customer or a counterparty of a financial instrument does not meet a contractual commitment leading to financial loss. It mostly derives from trade receivables and the Company's debt instruments.

The carrying amount of financial assets and contract assets is the Company's maximum exposure to credit risk.

The Company's exposure to credit risk mainly depends on the specific characteristics of each customer.

However, management also considers the typical variables of the Company's customer portfolio, including the insolvency risk of the customer's sector and country. The counterparts in contracts are leading pharmaceutical and multinational companies with a low risk profile.

Liquidity risk

Liquidity risk is the risk that the Company has difficulties in meeting its obligations related to financial liabilities settled by cash or another financial asset. The Company's approach to managing liquidity requires that, as much as possible, there are always enough funds to meet its obligations when due, both in normal conditions and under financial difficulty, without incurring excessive expense or risking damage to its reputation.

The Company aims to maintain the level of its cash and cash equivalents and other highly marketable debt investments at an amount in excess of expected cash outflows on financial liabilities (other than trade payables). The Company also monitors the level of expected cash inflows on trade and other receivables together with expected cash outflows on trade and other payables.

Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments change due to fluctuations in market prices caused by variations in exchange rates, interest rates or prices of equity instruments. The goal of market risk management is to maintain the Company's exposure to such risk within an acceptable range while simultaneously optimising the return on investments.

Currency risk

The group is exposed to currency risk for sales, purchases, receivables and loans expressed in a currency other than the group's functional currency.

The group's production activities are performed solely in Italy and Switzerland and, therefore, it is exposed to fluctuations in the Euro/Swiss franc exchange rate. Its functional currency is the Euro and, thus, it is exposed to currency risk deriving from the translation of the financial statements of the Swiss subsidiary Philochem AG, with effects on the consolidated profit or loss for the year and equity (translation risk).

The Group generates revenue from contracts with customers in foreign currencies, mainly the US dollar. Revenue denominated in US dollars for the years 2020 and 2019 amounted to 85.2% and 92.1%, respectively, of total revenue from contracts with customers. Accordingly, disadvantageous US dollar exchange rates could have a negative impact on the group's activities and financial position.

Risks linked to securities portfolio fair value trends

The Group is subject to the risk of changes in the fair value of the financial instruments held in the portfolio, the value of which at 31 December 2020 was €49,984,000 (corresponding to 58% of the assets at the same date). The occurrence of this risk could have significant negative effects on the Group's profit and loss, cash flows and financial position.

Management of country risk

The group does not operate in countries considered unstable in terms of their economic, political or social situation.

9. Information about the environment and occupational safety

The places where the Company operates and its production activities are subject to strict environmental and occupational safety regulations.

The Company adopts safety procedures for the management of working activities, waste handling and disposal pursuant to Legislative Decree 81/2008 and Legislative Decree 206/2001 on the handling of genetically modified microorganisms (GMMO). Personnel are specifically trained on the subject and work according to procedures intended to minimise the risks of contamination, not only of a biological nature. Special waste is disposed of in compliance with regulations in force (Legislative Decree 152/06), according to dedicated procedures, with the support of a specialised authorised company.

Based on the obligations of art. 37 of Legislative Decree 81/2008 and the methods defined by the State-Regions agreement of 21 December 2011, periodic training and continuous education courses are provided on safety for all employees, broken down into general and specific training courses.

In performing its activities, the Company makes use of chemical and biological agents for which specific risk assessments are conducted pursuant to Legislative Decree 81/2008. Personnel also use personal protective equipment and devices (PPE) as required by regulations.

The Company believes that it performs its activities in compliance with environmental regulations and the authorisations required by applicable laws, and constantly undertakes to work responsibly for the environment, including by identifying methods intended to improve the impact of its activities on the surrounding environment, with a progressive reduction in the consumption of natural resources, consistent with its economic, financial and investment management systems.

No definitive sanctions or penalties have ever been imposed on the company for environmental crimes or damages. Lastly, it should be noted that the Rosia plant is certified in accordance with the EN ISO 9001:2015 standard until 3 January 2023 and the Montarioso plant is regularly inspected by AIFA (the Italian pharmaceutical industry control body), including in 2019.

10. Protection of information and personal data

The Group operates in the pharmaceutical and biotechnology industry which, as it is highly regulated, requires and calls for the application of and respect for a number of laws and regulations at European, Swiss and Italian level on personal data protection. These laws and regulations, such as the GDPR, govern the collection, protection and processing of personal data, including the processing of special categories of data like health data. In particular, in Italy the Personal Data Protection Authority has issued specific guidelines on the processing of personal data in clinical trials on pharmaceuticals. The Group is also subject to sector guidelines and policies on privacy and internal procedures, alongside obligations for the protection of data with respect to third parties.

During its research activities, the Group receives, processes and stores sensitive data, including anonymised patient data. The Group has implemented policies and procedures to ensure respect for applicable laws on privacy and sector guidelines which establish mechanisms to guarantee that the data of patients enrolled in clinical trials are protected and kept safe, and transferred in anonymised form.

During clinical trials, various medical/clinical information and biological specimens are collected. In general, these data are subject to EU laws (*i.e.* the above-mentioned Regulation (EU) no. 536/2014 on clinical trials and the General Data Protection Regulation (EU) no. 2016/679 (GDPR)) and any additional provisions of the countries in which trials are performed. Specifically, in Italy the Personal Data Protection Authority issued the "*Guidelines on the processing of personal data in clinical trials on pharmaceuticals*" in 2008 (Resolution no. 52), a regulation which the Company follows in the management, storage and archiving of data deriving from its clinical trial activities.

11. Sustainability

By means of Legislative Decree 254/2016, Italy transposed Directive 2014/95/EU as regards disclosure of non-financial and diversity information by particular companies and certain large groups. This regulation constitutes the transition from a historically voluntary sustainability reporting system to a system which imposes the obligation of drafting and publishing

a separate or consolidated statement containing information on environmental, social and personnel matters, respect for human rights and the fight against active or passive corruption.

Philogen is not required to prepare a Consolidated non-financial statement as it does not meet the requirements laid out in Legislative Decree no. 254 of 30 December 2016, i.e., it has not had an average of more than five hundred employees and, at the reporting date, it has not surpassed at least one of the two following size limits: a) total statement of financial position assets: €20 million and b) total net revenue from sales and services: €40 million. Nonetheless, in this section the Group provides a description of the organisation and management model as well as the strategy and main objectives established with respect to these matters.

Increasing sensitivity to sustainability topics has resulted in the involvement of company functions with different knowledge and skills to facilitate dialogue on the matters in question and generate awareness surrounding the usefulness of information and the effectiveness of controls to improve its usability and security and raise awareness in order to ensure clarity, effectiveness and efficiency.

The group's industrial output is currently limited since Philogen is a biotech company with products in the clinical trial phase which are therefore not yet in the market. However, it has always worked in compliance with environmental regulations and good manufacturing practices, also as regards waste management.

The Rosia site is certified in accordance with the EN ISO 9001:2015 standard until 3 January 2023 and the Montarioso site is regularly inspected by AIFA, as part of the periodic controls performed by the regulator on drug manufacturers. Philogen's production process does not include hazardous inputs or raw materials, and the new GMP plant, which is currently being completed, will in part use energy generated by photovoltaic panels, using renewable sources and limiting the use of non-renewables.

In the social and diversity sphere, since its founding Philogen has concentrated on a meritocratic personnel policy which does not discriminate against either gender or background. Roughly 50% of its employees are women. The Group currently has employees from 15 different countries. Our top management is balanced in terms of gender, a state of affairs which has characterised the Group since the period prior to its listing (CFO since 2007; HR Manager since 2008; Regulatory Manager since 2015; Company Legal Counsel since 2016). Philogen has had female representation on its board of directors since 2016, following the appointment of Ms Nathalie Dompé, and post-IPO with the addition of Attorney Marta Bavasso. The top roles within the Research function have been and are currently covered by women. Ms Cornelia Halin is a member of the advisory scientific committee and the antibodies research area has been led by a female scientist for many years. Lastly, in compliance with Italian law, Philogen employs 4 people belonging to the "protected categories".

On governance, Philogen complies with all regulations in force for Italian listed companies, including the gender quotas applicable to the Board of Directors and the Board of Statutory Auditors.

12. Information about personnel

As at 31 December 2020, the Philogen Group has 105 employees, of whom 71 hired by Philogen S.p.A., working at the Siena plants (Rosia and Montarioso) and 34 by Philochem AG, at the Zurich site.

The following tables provide the main data relating to personnel management for the current year and for the relative group companies.

Information on group employees as at 31 December 2020 (actual):

Number of employees by gender	Philochem AG			Philogen S.p.a.			Group		
	Men	Women	**Total**	Men	Women	**Total**	Men	Women	**Total**
	23	11	**34**	29	42	**71**	52	53	**105**

Employees by category	Philochem AG			Philogen S.p.A.			Group		
	Men	Women	**Total**	Men	Women	**Total**	Men	Women	**Total**
Executive	-	-	**-**	1	1	**2**	1	1	**2**

Middle Manager	3	2	**5**	6	5	**11**	9	7	**16**
Office staff	20	9	**29**	16	28	**44**	36	37	**73**
Blue-collar staff	-	-	**-**	6	4	**10**	6	4	**10**
Apprentice	-	-	**-**	-	4	**4**	-	4	**4**

Employees by age bracket	**Philochem AG**			**Philogen S.p.A.**			**Group**		
	Men	Women	**Total**	Men	Women	**Total**	Men	Women	**Total**
<= 29 years	8	3	**11**	2	8	**10**	10	11	**21**
>= 50 years	1	-	**1**	4	8	**12**	5	8	**13**
30 - 50 years	14	8	**22**	23	26	**49**	37	34	**71**

Employees by contract type	**Philochem AG**			**Philogen S.p.A.**			**Group**		
	Men	Women	**Total**	Men	Women	**Total**	Men	Women	**Total**
Employees with full-time permanent contract	22	10	**32**	24	36	**60**	46	46	**92**
Employees with part-time permanent contract	-	1	**1**	2	4	**6**	2	5	**7**
Employees with full-time limited term contract	1	-	**1**	2	2	**4**	3	2	**5**
Employees with part-time limited term contract	-	-	**-**	1	-	**1**	1	-	**1**

Number of employees hired during the year	**Philochem AG**			**Philogen S.p.A.**			**Group**		
	Men	Women	**Total**	Men	Women	**Total**	Men	Women	**Total**
Total	**5**	**-**	**5**	**5**	**8**	**13**	**10**	**8**	**18**
By age bracket:									
<= 29 years	3	-	**3**	-	5	**5**	3	5	**8**
>= 50 years	-	-	**-**	-	-	**-**	-	-	**-**
30 - 50 years	2	-	**2**	5	3	**8**	7	3	**10**

Employees by educational qualification	**Philochem AG**			**Philogen S.p.A.**			**Group**		
	Men	Women	Total	Men	Women	Total	Men	Women	Total
Total PhDs, of which:	**13**	**4**	**17**	**5**	**8**	**13**	**18**	**12**	**30**
Biochemistry	*1*	*-*	*1*	*-*	*1*	*1*	*1*	*1*	*2*
Biology	*3*	*1*	*4*	*-*	*5*	*5*	*3*	*6*	*9*
Biotechnologies				*1*	*1*	*2*	*1*	*1*	*2*
Chemistry	*9*	*3*	*12*	*2*	*-*	*2*	*11*	*3*	*14*
Engineering	*-*	*-*	*-*	*1*	*1*	*2*	*1*	*1*	*2*
Other subjects	*-*	*-*	*-*	*1*	*-*	*1*	*1*	*0*	*1*
Total University Degrees, of which:	**10**	**5**	**15**	**11**	**26**	**37**	**21**	**31**	**52**
Biochemistry	*-*	*1*	*1*	*-*	*2*	*2*	*0*	*3*	*3*
Biology	*2*		*2*	*3*	*1*	*4*	*5*	*1*	*6*
Biotechnologies	*1*	*3*	*4*	*1*	*8*	*9*	*2*	*11*	*13*
Chemistry	*7*	*1*	*8*	*5*	*5*	*10*	*12*	*6*	*18*
Engineering	*-*	*-*	*-*	*1*	*-*	*1*	*1*	*0*	*1*
Economics disciplines	*-*	*-*	*-*	*-*	*3*	*3*	*-*	*3*	*3*

Other degrees	-	-	-	*1*	*7*	*8*	*1*	*7*	*8*
Technical high school diplomas	**-**	**-**	**-**	**7**	**3**	**10**	**7**	**3**	**10**
General high school diplomas	**-**	**2**	**2**	**4**	**2**	**6**	**4**	**4**	**8**
No qualification	**-**	**-**	**-**	**2**	**3**	**5**	**2**	**3**	**5**

Employees by nationality	**Philochem AG**			**Philogen S.p.A.**			**Group**		
	Men	Women	**Total**	Men	Women	**Total**	Men	Women	**Total**
Italian	11	5	**16**	26	38	**64**	37	43	**80**
German	2	3	**5**	-	1	**1**	2	4	**6**
French	4	-	**4**	-	1	**1**	4	1	**5**
Switzerland	3	-	**3**	-	-	**-**	3	-	**3**
Spanish	1	1	**2**	1	-	**1**	2	1	**3**
American	-	-	**-**	1	1	**2**	1	1	**2**
Austrian	1	-	**1**	-	-	**-**	1	-	**1**
Filipino	-	-	**-**	1	-	**1**	1	-	**1**
English	-	1	**1**	-	-	**-**	-	1	**1**
Liechtensteiner	-	1	**1**	-	-	**-**	-	1	**1**
Luxembourger	1	-	**1**	-	-	**-**	1	-	**1**
Romanian	-	-	**-**	-	1	**1**	-	1	**1**

The Group is committed to pursuing a personnel policy aimed at selecting professionals in the research and development of new technologies, products and processes, favouring training and the exchange of know-how at international level.

The Group's personnel is highly qualified and specialised, which contributes to enhancing the company's competitiveness.

The Company, which has always been attentive to topics of gender equality and inclusion, consists 50% of female employees, and also has personnel from 15 different countries; furthermore, many key roles are covered by women.

The Philogen Group cannot identify specific risks relating to "diversity and inclusion", but in the fair and careful management of this aspect, through the integration and leveraging of diversity, it does see an opportunity to create a working environment that fosters creativity and dialogue.

In light of what has been described in this section, the Company, at the date of this Report, has not identified the need to adopt specific diversity policies in relation to the composition of its employees, gender, and training and professional backgrounds.

Lastly, in compliance with current Italian law, Philogen employs 4 people belonging to the "protected categories".

13. Research and development services

The Group's activities encompass every phase of the drug development process, including basic research, discovery, pre-clinical and clinical development (with the exception of toxicology studies and those which use radioactive agents) and production activities.

The Group operates through:

- Philogen, which manages the Siena GMP laboratories and directs the implementation and coordination of numerous clinical testing centres at international level;

- Philochem, the 99.9% subsidiary company of Philogen, which at the Zurich laboratories performs research and development activities in the selective discovery and therapeutic antibodies sectors, as well as in the development of technologies such as antibody libraries and DNA-encoded chemical libraries.

Research and development therefore represents the Group's main activity.

The following table shows the research and development costs recognised in the statement of profit or loss during the years ended at 31 December 2020 and 2019 and the relative percentage of total revenue from contracts with customers and total Group operating costs.

€000s and %	31 December	
	2020	2019
Research and development costs	11,569	11,277
Percentage of total revenue from contracts	*242.1%*	*89.4%*
Percentage of total operating costs	*62.6%*	*66.4%*

For more details on the Group's research and development activities, please refer to the Introduction.

14. Branches

The company does not have any branches.

15. Treasury shares

As at 31 December 2020, the Group has no treasury shares.

16. Significant events after year-end

16.1 Reverse merger with Palio Ordinarie

In line with the investment agreement entered into on 7 May 2019, governing the rights and obligations of the Group shareholders, in the period between the signing date and the first day of trading, the deed for the merger between the Company and Palio Ordinarie S.p.A. was entered into on 8 January 2021 and became effective on 12 January 2021. This merger made it possible to dissolve the vehicle Palio Ordinarie S.p.A., contributing towards the generation of a free float equal to 17% for the listing process.

16.2 Admission to listing on the MTA market

On 3 March 2021, the Group was admitted to listing on the MTA market organised and managed by Borsa Italiana S.p.A. ("MTA"). The shares offered for listing amounted to 4,061,111 deriving from a capital increase with exclusion of the purchase option, corresponding to roughly 10% of the Company's share capital after the Capital Increase, and the price was set at Euro 17 per share. In the placement phase, all shares were subscribed, including the greenshoe of 10% of the newly issued shares.

Details of the shareholding structure as at 31 December 2020 and the date on which trading began are provided below:

Shareholder	At the date of 31 December 2020		
	shares	% of the share capital	% of the voting rights
Nerbio S.r.l.	16,465,769	46.317%	57.621%
Of which B Shares	*8,565,018*	*24.093%*	*44.122%*
Of which Performance Shares	*39,500*	*0.111%*	*0.000%*
Dompè Holdings S.r.l.(*)	12,204,986	34.332%	30.567%
Of which B Shares	*2,803,232*	*7.885%*	*14.441%*
Of which Performance Shares	*10,500*	*0.030%*	*0.000%*
Palio Ordinarie(**)	5,972,000	16.799%	10.255%
Matthias Claus Winter	757,245	2.130%	1.300%
Palio Speciali S.r.l.	100,000	0.281%	0.172%
MRS S.r.l.	50,000	0.141%	0.086%
Market	-	-	-
Total	**35,550,000**	**100%**	**100%**

(*) Includes 78,000 ordinary shares held through Palio Ordinarie S.p.A. prior to the merger between Palio Ordinarie S.p.A. and Philogen
(**) Excludes 78,000 ordinary shares consolidated in the Dompè Holdings S.r.l. equity investment after the merger between Palio Ordinarie S.p.A. and Philogen

Shareholder		At the trading start date		
	Type of Shares	Shares	% of the share capital	% of the voting rights
Nerbio S.r.l.	*B Shares*	8,565,018	21.090%	40.562%
	Ordinary Shares	8,098,251	19.941%	12.784%
	Total	16,663,269	41.031%	53.346%
Dompè Holdings S.r.l. (*)	*B Shares*	2,803,232	6.903%	13.275%
	Ordinary Shares	9,454,254	23.280%	14.925%
	Total	12,257,486	30.183%	28.200%
Former Palio Ordinarie Shareholders (**)	*Ordinary Shares*	5,972,000	14.705%	9.427%
	Total	**5,972,000**	**14.705%**	**9.427%**
Matthias Claus Winter	*Ordinary Shares*	757,245	1.865%	1.195%
	Total	**757,245**	**1.865%**	**1.195%**
Palio Speciali S.r.l.	*Ordinary Shares*	600,000	1.477%	0.947%
	Total	**600,000**	**1.477%**	**0.947%**
MRS S.r.l.	*Ordinary Shares*	300,000	0.739%	0.474%
	Total	**300,000**	**0.739%**	**0.474%**
Market	*Ordinary Shares*	4,061,111	10.000%	6.411%
Total Philogen		**40,611,111**	**100%**	**100%**

(*) Includes 78,000 ordinary shares held through Palio Ordinarie S.p.A. prior to the merger between Palio Ordinarie S.p.A. and Philogen
(**) Excludes 78,000 ordinary shares consolidated in the Dompè Holdings S.r.l. equity investment after the merger between Palio Ordinarie S.p.A. and Philogen

Following the Company's Listing, the Group adopted the new Corporate Governance model for listed companies, and the new articles of association approved by the Board of Directors on 14 December 2020 entered into force.

On 11 March 2021, Philogen paid the bonus of €1,500,000, the details of which are provided in paragraph 2.3, in full to a member of the Board of Directors.

The Group also decided to implement the resolution of the Shareholders' Meeting dated 16 December 2020 with reference to the implementation of a three-year incentive plan, in the form of a stock grant to be dedicated to employees. For more information, please refer to the Remuneration Policy section.

16.3 Covid-19

Following the pandemic, which is still ongoing, and the government measures taken to tackle the epidemiological emergency, the Company has continued to work with social distancing plans for employees and eliminated physical attendance at meetings, events and conferences, in the best interest of employees and commercial partners. The new commercial, organisational and safety practices, in part negatively influenced productivity, taking resources away from product development, slowing down commercial transactions and in certain cases delaying the clinical trials planned or in progress and/or their monitoring. Despite this emergency situation, the Company consistently continues its research and development activities.

16.4 The remuneration policy

Following its admission to listing, the Group worked to adopt a remuneration policy in line with the provisions of art. 123-ter of the Consolidated Finance Act.

The relative information will be provided in the remuneration report, which will be presented to the Shareholders' Meeting called upon to approve the financial statements as at 31 December 2020.

This document is available on the Company's website at http://www.philogen.com/.

Monetary incentive plans

As of 1 January 2021, the Director and Top Managers Dario Neri, Duccio Neri and Giovanni Neri are beneficiaries of a "management by objectives" (MBO) incentive plan pursuant to which they will be entitled to receive an incentive on an annual basis, the amount of which is commensurate with the achievement of the company's financial and other objectives.

The maximum incidence of the MBO on the annual remuneration of each of the executive directors and managers Dario Neri and Duccio Neri is 30%, while for the executive director and manager Giovanni Neri, it is equal to 20%.

Medium/long-term incentive plan

On 16 December 2020, the Parent Company's Board of Directors approved the guidelines of an incentive plan which, subsequent to the start of trading of the Company's shares on the MTA, will be reflected in a regulation and submitted for the approval of the shareholders' meeting called upon to approve the Company's remuneration policy.

This incentive plan shall take the form of a Stock Grant Plan, intended to create convergence between the interests of the Beneficiaries and the creation of value for the Company's shareholders and investors from a medium/long-term perspective, both by favouring the retention of key figures and incentivising them to remain within the Group, and recognising the various stakeholders' commitment and contribution towards reaching the Group's objectives.

The 2024-2026 Stock Grant Plan reserved for the Group's key resources, identified from amongst directors, managers and other high-level figures, is designed so as to pursue the following objectives:

- support the capacity to retain key resources, aligning the Group's remuneration policy with best market practices which typically envisage long-term incentive tools;

- stimulate people's motivation to work with energy and passion in order to achieve the Group's growth and development objectives;

- economically remunerate people who have provided a contribution and extraordinary commitment to the performance of their role within the company, which led the Company to its listing on the MTA market organised and managed by Borsa Italiana S.p.A.

- make the Group's remuneration policy consistent with the instructions laid out in the Corporate Governance Code of listed companies

In particular, the Stock Grant Plan is grouped into 3 cycles (2021-2024, 2022-2025, 2023-2026), each with a three-year duration, and is subject to the achievement of specific performance objectives at company level and individual level by the beneficiaries. The plan may be supported by (i) treasury shares purchased in light of any future authorisation of the shareholders' meeting, (ii) shares deriving from a future share capital increase, overall up to a maximum of 3% of the ordinary shares.

17. Business outlook

In the course of 2020, several downturns were seen in patient enrolment speed, which could be correlated with the general variable speed of patient enrolment as well as the COVID-19 emergency. In order to make up for this slight slowdown, the Group intends to open new clinical centres, so as to intensify, and speed up, enrolment activities. Despite the pandemic, the Group began 4 new clinical trials (see section 6.2) and also completed patient enrolment for the Fibromun monotherapy in glioblastoma at first relapse study.

The Group also reports the following scientific events in the initial months of the year 2021:

- Nidlegy™ – interim analysis of phase II trial in patients with non-melanoma skin cancer;
- OncoFAP-^{68}Ga – first-in-human diagnostic study in patients with metastatic breast cancer (compassionate drug use);
- Opening of new centres for ongoing studies, as well as the continuation of patient enrolment.

As is well known, the Group is committed to the development of contractual activities as well as the strengthening of internal research and development activities. It also engages in contact with a number of other potential industrial partners to develop its business and seek out new scientific collaboration agreements as opportunities arise.

While waiting to see how the pandemic would evolve, the Group enacted prevention systems specified by the ministerial authorities on the matter, while in any event maintaining constant working activity, also considering the sector in which it operates. Business development and scientific conference activities were carried out on web platforms, and it is reasonable to assume that the digitalisation of these events will continue for the majority of 2021 as well.

However, despite the emergency situation, the Group in any event consistently continued its research and development activities. The continuation of the current situation in 2021 and the ensuing regulatory and other measures which were taken and may continue to be necessary to combat the emergency could negatively impact the activities referred to above, slowing them down in part.

Proposed allocation of profit for the financial year as at 31.12.2020

The Financial statements, also illustrated in this Report and the Notes, show a loss for the year 2020 of €13,285,000, which is proposed to be compensated in full, through the use, in an equal amount, of the reserve for retained earnings.

Philogen
innovating targeting

Consolidated financial statements

Consolidated statement of profit or loss

(€ 000s)	Notes	31 December 2020	*Of which: related parties*	2019	*Of which: related parties*
Revenue from contracts with customers	5	4,778		12,611	
Other income	5	1,567		3,905	*1,462*
Total revenue and income		**6,345**		**16,516**	***1,462***
Raw materials and consumables	6	(1,223)		(1,203)	
Service costs	6	(8,599)	*(2,757)*	(7,110)	*(1,773)*
Use of third party assets	6	(59)		(90)	
Personnel expenses	6	(6,922)		(6,822)	
Amortisation and depreciation	6	(1,496)	*(709)*	(1,102)	*(309)*
Other operating costs	6	(173)		(654)	
Total operating costs		**(18,474)**	**(3,467)**	**(16,982)**	***(2,082)***
Operating profit (loss)		**(12,129)**	**(3,467)**	**(466)**	***(620)***
Financial income	7	2,179		3,320	
Financial expense	7	(2,469)	(353)	(431)	*(199)*
Net financial income (expense)		**(290)**	***(353)***	**2,890**	***(199)***
Pre-tax profit (loss)		**(12,419)**	***(3,820)***	**2,423**	***(819)***
Income taxes	8	(866)		(1,021)	
Profit (loss) for the year		**(13,285)**	***(3,820)***	**1,402**	***(819)***
Profit (loss) for the year attributable to the owners of the parent company		(13,285)		1,402	
Basic earnings (loss) per share (in Euros)	9	(0.37)		0.04	
Diluted earnings (loss) per share (in Euros)	9	(0.37)		0.04	

Consolidated statement of comprehensive income

(€ 000s)	Notes	31 December	
		2020	2019
Profit (loss) for the year (A)		**(13,285)**	**1,402**
Other comprehensive expense that will be subsequently reclassified to profit or loss			
Exchange differences from translation of financial statements in foreign currencies	20	37	151
Other comprehensive income (expense) that *will be subsequently reclassified to profit or loss (B)*		**37**	**151**
Other comprehensive income (expense) that will not be subsequently reclassified to profit or loss			
Actuarial gains (losses) on employee benefits	21	(10)	(56)
Tax effect	21	3	16
Other comprehensive income (expense) that will not be subsequently reclassified to profit or loss (C)		**(8)**	**(40)**
Other comprehensive income (expense) (B+C)		**29**	**111**
Comprehensive income (expense) net of tax (A+B+C)		**(13,256)**	**1,513**
Comprehensive income (expense) attributable to the owners of the parent company		(13,256)	1,513

Consolidated statement of financial position

(€ 000s)	Notes	31 December 2020	*Of which: related parties*	31 December 2019	*Of which: related parties*
ASSETS					
Property, plant and equipment	10	5,163		2,248	
Intangible assets	11	961		935	
Right-of-use assets	12	10,288	*10,117*	10,985	*10,809*
Real estate investment		-		-	
Deferred tax assets	8	1,176		2,115	
Non-current assets		**17,588**	***10,117***	**16,283**	***10,809***
Inventories	13	774		617	
Contract assets	14	207		-	
Trade receivables	15	515		1,199	
Tax assets	16	3,812		2,946	
Other current financial assets	17	49,984		70,962	
Other current assets	18	635		690	
Cash and cash equivalents	19	11,958		3,564	
Current assets		**67,885**	**-**	**79,978**	**-**
Total assets		**85,473**	***10,177***	**96,261**	***10,809***
EQUITY					
Share capital		5,158		5,158	
Share premium reserve		54,918		54,918	
Other reserves		8,882		7,325	
Profit (loss) for the year		(13,285)		1,402	
Equity attributable to the owners of the parent company	**20**	**55,673**	**-**	**68,803**	**-**
Total equity	**20**	**55,673**	**-**	**68,803**	**-**
LIABILITIES					
Employee benefits	21	847		803	
Non-current lease liabilities	12	11,270	*11,186*	11,959	*11,832*
Non-current financial liabilities	22	4,629		682	
Deferred tax liabilities	8	234		320	
Non-current liabilities		**16,980**	***11,186***	**13,764**	***11,832***
Current financial liabilities	22	1,094		518	
Current lease liabilities	12	711	*665*	668	*642*
Trade payables	23	3,920	*58*	3,281	*60*
Contract liabilities	14	4,155		7,790	
Tax liabilities	16	362		332	
Other current liabilities	24	2,578		1,105	
Current liabilities		**12,820**	***723***	**13,693**	***702***
Total liabilities		**29,800**	***11,909***	**27,458**	***12,534***
Total equity and liabilities		**85,473**	***11,909***	**96,261**	***12,534***

Consolidated statement of changes in equity

(€ 000s)

			Other reserves										
	Share capital	Share premium reserve	Revaluation reserve	Legal reserve	FTA IFRS reserve	Goodwill	Actuarial reserve	Translation reserve	Share-based payment reserve	Retained earnings	Total other reserves	Profit (loss) for the year	Total equity
Opening balances at 1 January 2019	**4,250**	**17,016**	**1,676**	**850**	**(1,265)**	**50**	**18**	**935**	**-**	**13,024**	**15,286**	**3,703**	**40,256**
Allocation of prior year profit										3,703	**3,703**	(3,703)	**-**
Dividends		(11,781)								(10,097)	**(10,097)**		**(21,878)**
Increase in share capital	908	61,099									**-**		**62,007**
Demerger of business unit		(11,417)	(1,676)								**(1,676)**		**(13,093)**
Profit (loss) for the year											**-**	1,402	**1,402**
Other comprehensive income (expense), net of tax							(40)	151			**111**		**111**
Closing balances at 31 December 2019	**5,158**	**54,918**	**-**	**850**	**(1,265)**	**50**	**(23)**	**1,086**	**-**	**6,627**	**7,325**	**1,402**	**68,803**
Opening balances at 1 January 2020	**5,158**	**54,918**	**-**	**850**	**(1,265)**	**50**	**(23)**	**1,086**	**-**	**6,627**	**7,325**	**1,402**	**68,803**
Allocation of prior year profit				42						1,360	**1,402**	(1,402)	**-**
Dividends											**-**		**-**
Increase in share capital											**-**		**-**
Incentive plan									627		**627**		**627**
Cancellation of Incentive plan									(627)	127	**(500)**		**(500)**
Profit (loss) for the year											**-**	(13,285)	**(13,285)**
Other comprehensive income (expense), net of tax							(8)	37		(1)	**29**		**29**
Closing balances at 31 December 2020	**5,158**	**54,918**	**-**	**892**	**(1,265)**	**50**	**(30)**	**1,123**	**-**	**8,115**	**8,883**	**(13,285)**	**55,673**

Consolidated statement of cash flows

(€ 000s)	Notes	31 December 2020	*Of which: related parties*	2019	*Of which: related parties*
Cash flows from operating activities					
Profit (loss) for the year		(13,285)	*(3,820)*	1,402	*(819)*
Adjusted by:					
Amortisation and depreciation	6	1,496	*709*	1,102	*309*
Net financial income (expense)	7	290	*353*	(2,890)	*199*
Gain on the sale of property, plant and equipment	10	-		(1,462)	*(1,462)*
Accrual for employee benefits and share-based payments	6	94		85	
Income taxes	8	866		1,021	
Other non-monetary adjustments		345		389	
Variations in:					
Inventories	13	(157)		(145)	
Contract assets	14	(209)		-	
Trade receivables	15	685		8,214	
Contract liabilities	14	(3,643)		(635)	
Trade payables	23	634	*(2)*	1,213	*39*
Other current assets and liabilities (*)	16,18,24	690		88	
Use of provisions and employee benefits	21	(66)		(21)	
Interest paid	7	(898)		(302)	
Income taxes paid	8	(7)		(562)	
Cash flows generated by/used in operating activities (A)		**(13,165)**	***(2,759)***	**7,498**	***(1,734)***
Cash flows from investing activities					
Interest collected	7	1,084		2,747	
Proceeds from the sale of property, plant and equipment	10	-		3,247	*3,247*
Proceeds from the sale of investment property		-		2,885	*2,885*
Proceeds from the sale of other financial assets	17	28,338		18,825	
Acquisition of property, plant and equipment	10	(3,455)		(1,232)	
Acquisition of intangible assets	11	(195)		(235)	
Acquisition of other financial assets	17	(8,005)		(58,745)	
Cash flows generated by/used in investing activities (B)		**17,767**		**(32,508)**	***6,132***
Cash flows from financing activities					
Proceeds from the issuing of shares	20	-		62,007	*62,007*
New loans and borrowings	22	5,011		-	
Repayments of loans and borrowings	22	(487)		(10,660)	
Payment of lease liabilities	12	(736)	*(736)*	(351)	*(351)*
Dividends paid	20	-		(21,878)	*(21,878)*
Cash flows generated by/used in financing activities (C)		**3,786**	***(736)***	**29,118**	***39,778***
Total cash flows (A + B + C)		**8,389**	***(3,495)***	**4,108**	***38,044***
Opening cash and cash equivalents	**19**	**3,564**		**6,380**	
Change in cash and cash equivalents		8,389		4,108	
Decrease in liquid funds due to the demerger		-		(6,940)	
Exchange effect		5		16	
Closing cash and cash equivalents	**19**	**11,958**		**3,564**	

(*) Includes: other current assets, other current liabilities, tax liabilities and assets.

Notes to the consolidated financial statements

Basis of presentation

1. Foreword

Philogen S.p.A. (hereinafter, the "Company") was admitted to listing on the MTA market organised and managed by Borsa Italiana S.p.A. on 3 March 2021. More specifically, 4,061,111 shares were issued, corresponding to roughly 10% of the share capital of the Company at the start of trading at a price of €17 each.

EC Regulation 1606/2002 of the European Parliament and of the Council of 19 July 2002 (the "EC Regulation") introduced the requirement for all companies with shares traded on a regulated market to prepare consolidated financial statements under the IFRS starting from 2005. This Regulation was incorporated into Italian law with Legislative decree no. 38 of 28 February 2005 under which companies not covered by the EC Regulation could nonetheless choose to prepare their separate and consolidated financial statements under the IFRS starting from the year ended 31 December 2005.

2. Company that prepares the consolidated financial statements

Philogen S.p.A. is based in Italy with registered offices at Piazza La Lizza 7, Siena. The group is chiefly active in the integrated biotechnologies sector and, specifically, in the development of advanced biopharmaceutical products to treat illnesses characterised by or associated with angiogenesis, mainly based on antibody conjugates able to obtain a selective deposit in the sites where the pathology is found.

Pursuant to article 2497-bis.5 of the Italian Civil Code, it is noted that the parent is not managed and coordinated by another company.

3. Basis of preparation

These financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standard Board (IASB) and endorsed by the European Union. The IFRS include all the interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC), previously known as the Standing Interpretations Committee (SIC).

Please refer to the three-year financial statements as at 31 December 2019, 2018 and 2017, prepared for inclusion in the Prospectus drafted as part of the procedure for the admission to listing of the ordinary shares on the MTA market for further details on first time adoption.

These financial statements were approved and authorised for publication by the Company's Board of Directors on 27 April 2021.

Details on the standards adopted by the Group are provided in note 31.

Functional and presentation currency

These financial statements are expressed in Euros, the parent's functional currency. All amounts are rounded to the nearest thousand, unless specified otherwise. Furthermore, any differences in tables are due to the rounding of amounts expressed in thousands of Euros.

Use of estimates and judgements

In preparing these consolidated financial statements, management formulated estimates and judgements which affect the application of accounting standards and the carrying amounts of assets, liabilities, costs and revenue. However, as these are estimates, the actual figures may differ from those set out in these consolidated financial statements.

Such estimates and the underlying assumptions are revised regularly. Any variations deriving from such revisions are recognised prospectively.

Below is a summary of the financial statements captions that require a higher degree of subjectivity by directors in formulating estimates and which could have a significant impact on the consolidated financial statements, should the underlying assumptions used vary.

i) Judgements

Management decisions which have the most significant effects on carrying amounts are detailed in the following notes:

- Notes 5 and 31 - revenue recognition: establishing whether revenue from licences should be recognised at a point in time or over time;
- Notes 17 and 31 - securities recognition: assessing the business model and the relevant recognition;
- Notes 12 and 31 - lease term: main assumptions regarding renewal options beyond the non-cancellable period of the lease.

ii) Uncertainties in estimates

For the year ended 31 December 2020, information on the assumptions and uncertainties in estimates that entail a significant risk of material variations to the carrying amounts of assets and liabilities in the financial statements of the subsequent period is provided in the following notes:

- Notes 5 and 31 - revenue recognition; assumption in determining the transaction price in relation to variable consideration;
- Notes 21 and 31 - measurement of defined benefit obligations: main actuarial assumptions;
- Note 31 - measurement of financial instruments: main assumptions underlying fair value measurement;
- Note 31 - definition of the discount rate: main assumptions regarding the calculation of the incremental borrowing rate (IBR) in the absence of an implicit interest rate.
- Notes 8 and 31 - recognition of deferred tax assets: availability of future taxable profits against which deductible temporary differences and tax losses carried forward can be used;
- Notes 10 and 11 - impairment test on non-current assets: main assumptions used in determining recoverable amounts;
- Note 31 - recognition and measurement of provisions and contingent liabilities: main assumptions on the probability and extent of outflows;
- Note 31 - measurement of the loss allowance for trade receivables and contract assets: main assumptions used in determining expected credit losses.

4. Segment reporting

For the purposes of IFRS 8, management identified a sole operating segment, “Biotechnologies”, which comprises all of the activities performed by the Group.

The group is chiefly active in the integrated biotechnologies sector and, specifically, in the development of advanced biopharmaceutical products to treat illnesses characterised by or associated with angiogenesis, mainly based on antibody conjugates able to obtain a selective deposit in the sites where the pathology is found.

A breakdown of revenue from contracts with customers by type of product/service and geographical segment and information on the Company’s rate of dependence on its top customers is provided in note 5.

The Executive Chairman has been identified as the Chief Operating Decision Maker (“CODM").

Statement of profit or loss

5. Revenue and income

(€000s)	31 December	
	2020	2019
Revenue from contracts with customers	4,778	12,611
Other income	1,567	3,905
Total revenue and income	**6,345**	**16,516**

Revenue from contracts with customers

Revenue from contracts with customers mainly derives from licence fees and research and development activities contracted by third parties.

Revenue from contracts with customers as at 31 December 2020 amounts to €4,778,000, down €7,833,000 compared to the previous year. The change is mainly due to the Group's decision, following the entry of new shareholders in 2019, to consider opportunities for the licensing of its proprietary products, focusing on the clinical development of some more advanced products in the pipeline while also continuing with the development activities set forth in existing contracts.

Revenue recognised at 31 December 2020 refers for roughly 84% to consideration recognised over time in relation to the development of Product 1 and for the remaining 16% to revenue for R&D services recognised at a point in time.

Further details on revenue from contracts with customers are provided below:

Breakdown by type of consideration

(€000s)	31 December	
	2020	2019
Upfront and maintenance fees from licensing contracts	3,052	10,946
R&D services	1,727	1,664
Total revenue from contracts with customers	**4,778**	**12,611**

Breakdown by recognition method

(€000s)	31 December	
	2020	2019
Recognised at a point in time	801	628
Recognised over time	3,977	11,983
Total revenue from contracts with customers	**4,778**	**12,611**

Breakdown by geographical segment

(€000s)	31 December	
	2020	2019
USA	3,590	11,502
European Union	801	952
Non-EU (Switzerland)	387	157
Total revenue from contracts with customers	**4,778**	**12,611**

Breakdown by type of product/service

(€000s)	31 December	
	2020	2019
Development of Product 1	3,052	5,203
Development of Product 2	-	5,518
Development of Product 3	-	225
Encoded self-assembling chemical (ESAC) services	538	1,105
Protoemic services	-	10

Good Manufacturing Practices (GMP) services	1,188	157
Other research and development services	-	.393
Total revenue from contracts with customers	**4,778**	**12,611**

A breakdown of customers that generate over 10% of the group's total revenue from contracts with customers, as per IFRS 8.34, is provided below:

(€000s)	31 December			
	2020	***%***	**2019**	***%***
Customer 1	3,052	*64%*	5,203	*41%*
Customer 2	-	-	5,518	*44%*
Customer 3	801	*17%*	255	*2%*
Customer 4	540	*11%*	-	-
Other customers < 10%	385	*8%*	1,665	*13%*
Total revenue from contracts with customers	**4,778**	***100%***	**12,611**	***100%***

Other income

(€000s)	31 December	
	2020	**2019**
Grants related to income	1,540	2,310
Gains from the sale of assets	-	1,462
Sundry income	27	133
Total other income	**1,567**	**3,905**

Other income mainly comprises:

- grants related to income and research grants, mainly related to research projects co-funded by the European Community and the Tuscany Region;

- grants deriving from tax benefits, such as the credit for research and development activities and the Industry 4.0 credit for investments made during the year.

Other income as at 31 December 2020 amounts to €1,567,000, down €2,330,000 compared to the year closed as at 31 December 2019. This change can primarily be attributed to the fact that the majority of the projects funded concluded during the year and, to date, there are fewer active projects than in the previous year. This item was also impacted by tax policies which impact the benefits due and how they are calculated.

Please also note that in the year ended at 31 December 2019, the item Other income included the capital gain from the sale of assets, related to the sale of investment property of the Swiss subsidiary Philochem AG as part of the property restructuring transactions carried out in 2019.

6. Operating costs

A breakdown of operating costs at 31 December 2020 and 2019 is provided below:

(€000s)	31 December	
	2020	**2019**
Raw materials and consumables	1,223	1,203
Service costs	8,599	7,110
Use of third-party assets	59	90
Personnel expenses	6,922	6,822
Amortisation and depreciation	1,496	1,102
Other operating costs	173	654
Total operating costs	**18,474**	**16,982**

Raw materials and consumables

This caption amounts to €1,233,000 at 31 December 2020 (€1,203,000 at 31 December 2019) and mainly includes the cost of materials used in laboratories, changes in which depend on drug production activities for clinical trials in progress and/or for the production of antibodies for third parties.

Service costs

These include, inter alia:

(€000s)	31 December	
	2020	2019
Costs for clinics and CROs	1,461	2,923
Research and development outsourcing services	2,028	805
Remuneration of company officers (net of contributions)	2,868	1,257
Corporate and consultancy costs	541	873
Utilities and overheads	323	282
Social security contributions on remuneration of company officers	111	90
Other services	825	880
Total service costs	**8,599**	**7,110**

Service costs mostly comprise costs related to operating activities, or costs incurred to carry out clinical trials and for research and development outsourcing services.

The €1,462,000 drop in costs for clinics and CROS is due to the decrease in the costs of services entrusted to external CROs (contract research organisations), mainly in the US.

The €1,223,000 increase in research and development outsourcing services, on the other hand, is attributable to the rise in costs for toxicological studies due to greater pre-clinical activities required by the FDA for a product under development in the US.

The change in costs for the remuneration of company officers of €1,611 is due to the bonus provided to a member of the Board of Directors.

The €332,000 decrease in corporate and consultancy costs is due to the property reorganisation transactions carried out in the year ended 31 December 2019.

Use of third-party assets

Costs for the use of third party assets amount to €59,000 at 31 December 2020 (€90,000 at 31 December 2019). This item includes rental costs, exclusively related to short-term or low-value leases (not included in the scope of IFRS 16) and variable consideration (additional costs quantified when incurred) not included in the calculation of lease liabilities and right-of-use assets as per IFRS 16.

Personnel expenses

A breakdown of personnel expenses for the year ended 31 December 2020 and 2019 is provided below:

(€000s)	31 December	
	2020	2019
Wages and salaries	5,660	5,514
Social security contributions	1,073	1,130
Post-employment benefits	94	85
Other personnel expenses	95	92
Total personnel expenses	**6,922**	**6,822**

The increase in personnel expenses of €100,000 is due to the rise in the average number of employees, as shown in the following table:

	31 December 2020	31 December 2019	Variation
Average number of employees	106	102	+4

Amortisation and depreciation

A breakdown of this caption at 31 December 2020 and 2019 is provided below:

(€000s)	31 December	
	2020	2019
Amortisation of intangible assets	168	160
Depreciation of property, plant and equipment	546	594
Depreciation/amortisation of right-of-use assets	781	348
Total amortisation and depreciation	**1,496**	**1,102**

Amortisation and depreciation increased €394,000 from €1,102,000 at 31 December 2019 to €1,496,000 at 31 December 2020.

Amortisation of intangible assets chiefly refers to patents registered by the group. The balance of €168,000 at 31 December 2020 is basically unchanged compared to the previous year.

It should be noted that in the year 2019 the item “amortisation” was characterised by the acceleration of the amortisation of certain types of patents (amounting to roughly €60,000), whose income-generating potential ended earlier than anticipated as the Group did not expect to receive further economic benefits from their use.

Depreciation of property, plant and equipment mainly refers to production plant and laboratory equipment. The €48,000 decrease at 31 December 2020 compared to the comparative period is due to the sale of the Group’s property business unit in 2019.

Depreciation/amortisation of right-of-use assets increased by €433,000 in the year ended at 31 December 2020 compared to the prior year. The change is mostly related to the extraordinary property restructuring transactions carried out in 2019. Indeed, such transactions included the demerger and sale of owner-occupied buildings and simultaneous lease of such assets, which were recognised as right-of-use assets. Therefore, as such transactions were carried out in 2019, depreciation/amortisation of right-of-use assets refers to the full year ended 31 December 2020, but only a few months in the comparative period.

Other operating costs

A breakdown of this caption at 31 December 2020 and 2019 is provided below:

(€000s)	31 December	
	2020	2019
Membership fees	34	28
Company vehicles	12	19
Non-deductible taxes and duties	4	472
Entertainment costs	21	36
Sundry operating costs	103	99
Total other operating costs	**173**	**654**

The overall decline of €481,000 in other operating costs is primarily due to the recognition in the year ended at 31 December 2019 of non-deductible taxes relating to a foreign withholding tax, withheld in the course of 2018 on the payment of a license right granted in the US and offset in 2019 for up to the total amount of IRES for the year, in order to eliminate double taxation (article 165 of the Consolidated Income Tax Act). As only 50% of licensing revenue contributed to Italian taxable income, as a result of the patent box, 50% of the foreign tax credit (roughly €460,000) became a “non-deductible cost” in 2019.

Sundry operating costs mainly refer to prior year expense and sundry management costs.

7. Net financial income (expense)

Financial income and expense are as follows:

(€000s)	31 December

	2020	2019
Financial income		
Gains on financial assets	440	545
Profits on the sale of financial assets (*)	644	1,991
Fair value gains	463	668
Exchange gains (*)	631	117
Financial income	**2,179**	**3,320**
Financial expense		
Loan interest expense	(33)	(101)
Losses on the sale of financial assets	(507)	-
Lease interest expense	(358)	(201)
Interest cost on employee benefits	(6)	(10)
Fair value losses	(843)	(119)
Exchange losses	(722)	-
Financial expense	**(2,469)**	**(431)**
Net financial income (expense)	**(290)**	**2,890**

(*) Exchange gains and profits on the sale of financial assets in the year 2019 are recognised net of exchange losses and losses on the sale of financial assets, respectively.

The group recorded net financial expense of €290,000 at 31 December 2020, a deterioration of €3,180,000 compared to the year that closed at 31 December 2019 when it recorded net financial income of €2,890,000.

The main impact on this caption relates to the net fair value losses on financial assets at fair value through profit or loss at 31 December 2020, amounting to €380,000, due to the downturn in the financial markets as a result of the Covid-19 pandemic.

Gains on financial assets and profits/losses on the sale of financial assets mainly refer to income on securities in portfolio (bond coupons, dividends on shares and income from investment funds) and profits/losses on the sale of financial assets. The variation of the year refers to the change in the portfolio mix and the Group's disinvestment policies.

Lease interest expense increased by approximately €157,000 in the year ended at 31 December 2020. This change is mostly related to the property restructuring transactions carried out in 2019. Therefore, as such transactions were carried out in 2019, lease interest expense refers to the year ended 31 December 2020, but only a few months in the same period of 2019.

8. Income taxes

The group accrues taxes on the basis of applicable tax regulations. Current taxes refer to the taxes for the period as set out in the estimate made in preparing the financial statements. Under ruling regulations, tax returns are filed in the second half of the subsequent year, with possible updates made to the calculation that could lead to differences implemented in the subsequent year. Taxes relative to prior years comprise direct taxes for prior years, including interest and fines, and also refer to the positive (or negative) difference following the settlement of a dispute or assessment with respect to the amount accrued in previous years.

A breakdown of income taxes for the years 2020 and 2019 is provided below:

(€000s)	31 December	
	2020	2019
Current tax	(7)	(10)
Taxes relative to prior year	-	(552)
Deferred tax	(859)	(459)
Total income taxes	**(866)**	**(1,021)**

Deferred taxes refer exclusively to the reversal of the tax effects of transition to the IFRS. Reference should be made to the table provided below for movements of the period.

Reconciliation of effective tax rate

The reconciliation of the income tax expense shown in the consolidated financial statements and the theoretical expense determined using the IRES rate applicable to the Group for the years ended at 31 December 2020 and 2019 is as follows:

(€000s)	31 December	
	2020	2019
Pre-tax profit (loss)	(12,419)	2,423
Theoretical tax rate	-24.0%	-24.0%
Theoretical IRES expense (A)	**2,981**	**(582)**
Adjusted by:		
Exchange		
Tax effect on patent box relief	-	240
Tax effect on R&D credit relief	245	467
Tax effect on Industry 4.0 relief	11	-
Taxes relative to prior years	-	(553)
Tax effect on unrecognised tax losses	(3,662)	(466)
Tax effect on other increases (decreases)	(322)	(86)
Reversal of temporary differences for IRAP purposes	(119)	(42)
Total adjustments (B)	**(3,847)**	**(440)**
Total effective tax income (expense) (A+B)	**(866)**	**(1,021)**
Effective tax rate	***7.0%***	***(42.1)%***

Starting from 2015, the parent benefits from the optional tax regime known as “patent box”, which, under certain conditions, allows tax relief on income from the direct or indirect use of industrial patents, copyrighted software, designs and prototypes, in addition to processes and industrial, commercial or scientific know-how, introduced in Italy by Law no. 190 of 22 December 2014.

Also starting from 2015, the parent benefits from tax credit recognised as per Law Decree no. 145/2013 (as subsequently amended) for investments in research and development activities.

Lastly, starting from 2020, the parent benefits from the Industry 4.0 credit introduced by Law no. 160 of 27 December 2019, to replace the super and hyper-amortisation regime, which consists of a tax credit for investments incurred by the Company in the reference year in a variable percentage depending on the nature of the investment.

Such tax benefits reduce the taxable base permanently.

Furthermore, the Group recognised tax losses for the years ended at 31 December 2020 and 2019, partly due to the above benefits. However, it decided not to recognise deferred tax assets on such losses due to the uncertainties inherent to research and development activities and, thus, the group’s ability to achieve future taxable profits.

Movements in deferred tax balances

A breakdown of deferred tax assets and liabilities from 1 January to 31 December 2019 and from 1 January to 31 December 2020, along with the changes therein, is provided below (balances exclusively derived from the IFRS transition entries):

(€000s)	Carrying amount at 1 January 2019	Utilisation	Accrual	Exchange effect	Carrying amount at 31 December 2019
Deferred tax assets					
Contract liabilities with customers	2,316	(215)	-	5	2,106
Intangible assets	2	(1)	-	-	1
Property, plant and equipment	207	(207)	-	-	-
IAS 19 reserve (recognised in OCI)	-	-	8	-	8
Total deferred tax assets	**2,525**	**(423)**	**8**	**5**	**2,115**
Deferred tax liabilities					
Other financial assets	119	-	22	1	142
Intangible assets	163	-	14	1	178
IAS 19 reserve (recognised in OCI)	7	(7)	-	-	
Total deferred tax liabilities	**289**	**(7)**	**36**	**2**	**320**

(€000s)	Carrying amount at 1 January 2020	Utilisation	Accrual	Exchange effect	Carrying amount at 31 December 2020
Deferred tax assets					
Contract liabilities with customers	2,107	(948)	-	1	1,159
Intangible assets	1	-	-	-	1
Right-of-use assets	-	-	5	-	5
IAS 19 reserve (recognised in OCI)	8	-	3	-	11
Total deferred tax assets	**2,115**	**(948)**	**8**	**1**	**1,176**
Deferred tax liabilities					
Other financial assets	142	(131)	-	(1)	10
Intangible assets	178	-	11	2	191
Contract assets with customers	-	-	34	-	34
Total deferred tax liabilities	**320**	**(131)**	**42**	**1**	**234**

Uncertainties over income tax treatments

At 31 December 2020, there are no tax claims with the tax authority, which might generate uncertainties over income tax treatment.

9. Earnings per share

Basic earnings per share are calculated using the profit for the year attributable to the ordinary shareholders and the weighted average number of ordinary shares outstanding during the year ended at 31 December 2020 and 2019.

Diluted earnings per share are calculated using the profit for the period attributable to the ordinary shareholders and the weighted average number of ordinary shares outstanding during the period to take into consideration the effects of all potential dilutive ordinary shares.

The following table shows the profit and information about the shares used to calculate the basic and diluted earnings per share:

Basic and diluted earnings per share	31 December	
	2020	2019
Profit (Loss) for the year - (in thousands of Euros) (A)	(13,285)	1,402
Weighted average number of ordinary shares outstanding (B)	35,550,000	38,368,082
Weighted average number of potential dilutive ordinary shares outstanding (C)	1,000,000	594,521
Weighted average number of options to shares outstanding (D)	-	-
Weighted average number of shares outstanding adjusted for dilutive effects (E=B+C+D)	36,550,000	39,962,603
Basic earnings (loss) per share - in Euros (A/B*1000)	(0.37)	0.04
Diluted earnings (loss) per share - in Euros (A/E*1000) (*)	(0.37)	0.04

(*) The diluted loss per share for the year ended at 31 December 2020 was calculated without considering the instruments in item (C) due to the loss for the period.

(C) The number of potential dilutive ordinary shares outstanding at 31 December 2020 and 2019 amounts to 1,000,000, because each performance share, class 1 share and class 2 share can be converted into ordinary shares at a rate of 6 ordinary shares for each special or performance share upon the occurrence of certain events described in note n. 20 (“Class 1 and 2 special shares and performance shares”). The weighted average number of potential ordinary shares for the year ended 31 December 2019, amounted to 594,521, has been calculated considering the days between the date of the share capital increase (28 May 2019) and 31 December 2019, hence 217 days out of 365. Such shares were converted into ordinary shares when the listing took place.
(D) No options on outstanding shares were considered as the stock option plan was cancelled, as mentioned in the directors’ report and in the section relating to subsequent events.

Assets

10. Property, plant and equipment

A breakdown of changes in this caption during the period and the comparative period is provided below:

(€000s)	Land and buildings	Plant and machinery	Industrial and commercial equipment	Leasehold improvements	Other assets	Assets under construction and payments on account	Total
Historical cost	10,871	4,539	5,044	-	683	1,036	22,172
Accumulated depreciation	(2,770)	(2,338)	(4,053)	-	(562)	-	(9,723)
Carrying amount at 1 January 2019	**8,102**	**2,201**	**991**	**-**	**121**	**1,036**	**12,450**
Increases	-	129	345	61	115	583	1,232
(Decreases)	(1,352)	(1,858)	-	-	-	-	(3,211)
(Decreases due to the demerger)	(6,829)	-	-	-	(32)	(1,019)	(7,880)
Depreciation	(64)	(111)	(360)	(5)	(53)	-	(594)
Exchange effects (historical cost)	144	(1,111)	47	-	(101)	16	(1,006)
Exchange effect (acc. depreciation)	-	1,179	(27)	-	102	-	1,255
Historical cost	-	1,699	5,436	61	665	616	8,476
Accumulated depreciation	-	(1,270)	(4,440)	(5)	(513)	-	(6,228)
Carrying amount at 31 January 2019	**-**	**429**	**995**	**56**	**152**	**616**	**2,248**
Increases		73	826	18	19	2,519	3,455
(Decreases)		-	-	-	-	-	-
Reclassifications		823	-	-	25	(848)	-
Depreciation		(142)	(344)	(7)	(54)	-	(546)
Exchange effects (historical cost)		-	9	-	6	3	14
Exchange effect (acc. depreciation)		-	(6)	-	(8)	-	(6)
Historical cost		2,595	6,271	79	716	2,290	11,951
Accumulated depreciation		(1,412)	(4,790)	(12)	(575)	-	(6,788)
Carrying amount at 31 January 2020		**1,183**	**1,481**	**67**	**141**	**2,290**	**5,163**

Plant and machinery mainly refer to the fitting out of the laboratories used for operating activities.

Industrial and commercial equipment mainly refer to the fitting out of the Montarioso production facilities. The increase of €826 thousand instead relates primarily to the new industrial equipment linked to the new facility under construction at the Rosia site.

Other assets refer mainly to company cars and furniture and fittings. Company cars are given to employees for both business and private use and also to some members of the board of directors.

Assets under construction and payments on account mostly refer to amounts paid to build a new GMP plant, along with the reactivation and revamping of current research and development laboratories and the quality control of the Rosia property. The above-mentioned Rosia expansion project envisages the construction of a new “GMP” biotechnology plant inclusive of all advanced and automated technology plants and equipment, for a total value of roughly €10-12 million, which will be funded in part with Group liquidity and in part with loans already obtained by 31 December 2020 (please see Note 22 for further details). Specifically, in the course of 2020 the company made investments totalling €2,519 thousand primarily relating to the construction of the new GMP plant.

The Group invested a total of €3,454 thousand in property, plant and equipment in the year 2020; specifically:

In addition, €848 thousand was reclassified from assets under construction and payments on account to plant and machinery during 2020 as such assets had been completed and rolled out in the Group’s production process. This value refers to the set-up of laboratories of the Swiss subsidiary.

11. Intangible assets

A breakdown of changes in this caption during the period and the comparative period is provided below:

(€000s)	Industrial patents and intellectual property rights	Concessions, licences, trademarks and similar rights	Total
Historical cost	2,042	111	2,152
Accumulated amortisation	(1,189)	(108)	(1,297)
Carrying amount at 1 January 2019	**853**	**3**	**855**
Increases	231	4	235
(Decreases)	-	-	-
Amortisation	(156)	(3)	(159)
Translation effects	5	-	5
Historical cost	2,276	115	2,391
Accumulated amortisation	(1,345)	(111)	(1,456)
Carrying amount at 31 December 2019	**931**	**4**	**935**
Increases	190	5	195
(Decreases)	-	-	-
Amortisation	(166)	(2)	(168)
Translation effects	-	(1)	(1)
Historical cost	2,483	134	2,617
Accumulated amortisation	(1,528)	(128)	(1,656)
Carrying amount at 31 December 2020	**955**	**6**	**961**

At 31 December 2020, the group has roughly 50 international patents and over 100 domestic patents. The €195 thousand increase during the year 2020 refers to costs incurred by the Group to file patent requests for new tumour applications and to file them in specific countries around the world to acquire the exclusive right to use the inventions in such countries.

Concessions, licences and trademarks mostly refer to software licences.

The group does not have any assets with an indefinite life, goodwill or intangible assets that are not yet in use.

12. Right-of-use assets and lease liabilities

A breakdown of the assets and liabilities related to the group's leases (mainly as a lessee) is provided in the following tables:

(€000s)	Buildings	Cars	IT services	Total
Historical cost	-	35	43	78
Accumulated depreciation/amortisation	-	(4)	(25)	(28)
Carrying amount at 1 January 2019	**-**	**31**	**18**	**49**
Increases	11,221	65	-	11,286
(Decreases)	-	-	-	-
Amortisation and depreciation	(310)	(26)	(12)	(348)
Exchange effect	(1)	-	-	(1)
Historical cost	11,221	100	43	11,363
Accumulated depreciation/amortisation	(310)	(30)	(37)	(378)
Carrying amount at 31 December 2019	**10,910**	**70**	**6**	**10,985**
Increases	-	-	68	68
(Decreases)	-	-	-	-
Amortisation and depreciation	(708)	(50)	(23)	(781)
Exchange effect	15	-	-	15
Historical cost	11,192	100	111	11,403
Accumulated depreciation/amortisation	(992)	(63)	(60)	(1,114)
Carrying amount at 31 December 2020	**10,200**	**37**	**51**	**10,288**

The right-of-use assets recognised at 31 December 2020 mostly refer to the lease of three buildings used by the Group to manage its operating activities. Specifically, the group rolled out an operational and structural restructuring project in 2019 aimed at separating its property unit from its operating unit. It simultaneously signed leases which led to the recognition of right-of-use assets and lease liabilities in accordance with IFRS 16.

A breakdown of changes in this caption during the period and the comparative period is provided below:

(€000s)	
Lease liabilities at 1 January 2019	**45**

Increases	12,929
Decreases	-
Repayment of principal	(351)
Translation effects	4
Lease liabilities at 31 December 2019	**12,627**
Increases	68
Decreases	-
Repayment of principal	(736)
Translation effects	23
Lease liabilities at 31 December 2020	**11,981**
Of which: current	711
Of which: non-current	11,270

A breakdown of cash outflows related to the group's leases in the years 2020 and 2019 is provided in the following table:

(€000s)	31 December	
	2020	2019
Principal (buildings)	646	275
Interest expense on leases (buildings)	353	218
Principal (cars)	41	45
Interest expense on leases (cars)	4	2
Principal (IT services)	49	13
Interest expense on leases (IT services)	1	-
Total cash outflows for leases	**1,094**	**553**

In calculating the right-of-use assets and lease liabilities, the group applied:

i. a discount rate of 2.73% for leases of buildings, cars and IT services to the parent;
ii. a discount rate of 3.10% for the lease of the building to the Swiss subsidiary Philochem AG.

The Group did not detect any indicators of impairment for right-of-use assets at 31 December 2020.

Impairment testing

At 31 December 2020 there were no elements at the reporting date such to suggest that the reasons for the recognition of property, plant and equipment, intangible assets and right-of-use assets no longer applied. No other indicators of impairment were identified that would have led group management to believe that property, plant and equipment, intangible assets or right-of-use assets were impaired. Therefore, no impairment tests were carried out.

13. Inventories

This caption is broken down as follows:

(€000s)	31 December 2020	31 December 2019
Raw materials and consumables	774	617
Total inventories	**774**	**617**

Raw materials and consumables comprise inventories measured at the lower of purchase cost and the market value.

At 31 December 2020 inventories, amounting to €774 thousand, rose primarily due to the increased procurement of consumables required for the Group's operations.

14. Contract assets and liabilities

Contract assets refer to the performance obligations satisfied over time measured on a cost-to-cost basis as they are subject to a contract already finalised with the customer.

Contract assets are recognised net of the relevant liabilities if, on the basis of the analysis carried out on each contract, the gross amount of the activities performed at the reporting date is higher than the advances received from the customer. Conversely, if the advances received from the customer are higher than the relevant activities, the surplus is recognised under liabilities.

The net balance of contract assets and liabilities is broken down as follows:

Contracts with a positive net balance

(€000s)	31 December 2020	31 December 2019
Advances from customers	(1,609)	-
Revenue recognised on advances received	1,816	-
Net contract assets	**207**	**-**

Contracts with a negative net balance

(€000s)	31 December 2020	31 December 2019
Advances from customers	11,774	11,774
Revenue recognised on advances received	(7,619)	(3,984)
Net contract liabilities	**4,155**	**7,790**

Advances from customers chiefly refer to upfront fees collected for the performance obligations that the group shall meet in the future which are recognised over time in line with the progression of the relevant contract costs.

Contract liabilities are classified as current liabilities because they are usually expected to have a duration of less 12 months.

15. Total trade receivables

This caption is broken down as follows:

(€000s)	31 December 2020	31 December 2019
Trade receivables	515	1,199
Total trade receivables	**515**	**1,199**

Trade receivables amount to €515 thousand at 31 December 2020, down €684 thousand on 31 December 2019. Such decrease is due to the fact that at 31 December 2020 the Group had collected almost all of its trade receivables, while at 31 December 2019 some items were still pending and were collected in early 2020.

Overdue exposures are monitored by the administration department by periodically analysing the main exposures. The expected credit loss as per IFRS 9 is not significant due to the type of customers the group has and the contractual terms related to collection times.

Breakdown of current receivables by geographical segment

A breakdown of current receivables by geographical segment is provided below.

(€000s)	Geographical segment	
	31 December 2020	31 December 2019
Italy	-	34
European Union	509	32
Non-EU (USA)	6	963
Non-EU (other)	-	169
Total trade receivables	**515**	**1,199**

16. Tax assets and liabilities

Tax assets are broken down as follows:

(€000s)	31 December 2020	31 December 2019
Tax credits for sundry investments	2,138	1,946
VAT assets	1,338	707
Other tax assets	336	293
Total tax assets	**3,812**	**2,946**

The item sundry tax assets consists primarily of the research and development credit which refers to the tax benefit obtained in relation to costs incurred for research and development activities. In particular, the item includes:

- 2020 research and development tax credit of €1,022 thousand;

- Industry 4.0 credit of €46 thousand;

- sanitisation credit of €19 thousand;

The remainder of €1,051 refers to the excess 2019 research and development credit not yet used. The Company expects to use this credit through offsetting during 2021.

Other tax assets mainly include withholding taxes.

Tax liabilities are broken down as follows:

(€000s)	31 December 2020	31 December 2019
Current income taxes	-	158
Amounts due to the tax authorities for withholdings	169	170
Other tax liabilities	193	4
Total tax liabilities	**362**	**332**

Current income taxes show a nil balance at 31 December 2020, down by €158 thousand compared to 31 December 2019 as, at 31 December 2020, the Group has estimated zero current income taxes for the period.

Other tax liabilities mostly include amounts due to the tax authorities as a result of an assessment carried out in December 2019 and subsequently settled via an agreement. The parent opted to settle the tax liability in quarterly instalments, to be offset against other taxes.

17. Other current financial assets

Changes in other current financial assets are detailed as follows:

(€000s)	Other current financial assets
Carrying amount at 1 January 2019	**30,693**
Increases	58,745
(Decreases)	(18,929)
Net fair value losses	549
Variation in accrued income on coupons	(96)
Carrying amount at 31 December 2019	**70,962**
Increases	8,005
(Decreases)	(28,471)
Net fair value losses	(380)
Variation in accrued income on coupons	(132)
Carrying amount at 31 December 2020	**49,984**

The Group invests excess liquidity in financial instruments, mainly with Mediobanca along with a small portion deposited with Banca Monte dei Paschi di Siena.

Other current financial assets include:

i. securities held in portfolio, comprising insurance policies, equity instruments and fund units, held in order to collect contractual cash flows and for trading and whose contractual terms do not provide solely for payments of principal and interest on the principal amount outstanding (thus they do not pass the SPPI test).
ii. Therefore, these were required to be measured at fair value through profit or loss (FVTPL); bonds in portfolio, included in the "other" business model, which are measured at fair value through profit or loss.

In the course of 2020, the Group sold nearly all bonds in its portfolio at 31.12.2019.

The following table shows the breakdown of the current financial assets:

(€ 000s)	31 December 2020	31 December 2019
Financial instruments held to collect and sell		
Shares	3,159	960
Provisions	4,917	4,738
Insurance investment products	41,552	51,470
Total	**49,618**	**57,168**
Other financial instruments		
Bonds and certificates	356	13,662
Accrued income on coupons	-	132
Total	**356**	**13,794**
Total other current financial assets	**49,984**	**70,962**

Regarding the Insurance investment products, which amounted to €41,552 thousands at 31 December 2020 (€51,470 thousands at 31 December 2019), the Group has two investment contracts with two different insurance companies. Philogen S.p.A. is the policyholder and the only beneficiary.

The first one is an insurance investment product, signed during 2019, for a total value of approximately €30 million at 30 September 2020 (€40 million at 31 December 2019). This investment has been divided into two separate sub-funds (the weight of each sub-fund is approximately 50% of the invested capital) consisting of:

- a segregated fund, which consists of a life insurance investment product with redemption value depending on the return on segregated fund. Management invests resources mainly in the following asset classes: government bonds and other securities; equity instruments and fund units;

- a dedicated internal fund, which can invest in shares, corporate bonds, government bonds, investment funds and cash and cash equivalents. As at 31 December 2020, the dedicated internal fund is divided as follows: 5% in government bonds, 9% in corporate bonds; 8% in shares, 73% in investment funds, 4% in cash and cash equivalents and 1% structured bonds.

The second contract, signed off in 2013 for approximately €10 million, is a life insurance investment product with redemption value depending on the return on segregated fund. Management invests resources mainly in the following asset classes: government bonds and other securities; equity instruments and fund units. At least 70% of the assets is made up of bonds and the exposure in shares and OICR quotas does not exceed 10% of the assets under management. This contract includes a guarantee for the capital invested.

Both financial instruments above described are promptly payable.

Please note that in the early months of 2021, the internal fund policy was transformed into a segregated fund policy in order to reduce investment risk.

The fair value of current financial assets amounts to roughly €49,984 thousand at 31 December 2020, down on 31 December 2019 due to:

- redemption of a portion of the liquidity invested in insurance investment products amounting to approximately €13,898 thousand;
- sale/maturity of a portion of the securities portfolio for roughly €14,440 thousand;
- investment in new financial instruments for a total of €8,005 thousand.

Some securities in portfolio had a market value lower than their carrying amount at 31 December 2020. Therefore, net fair value losses of roughly €380 thousand were recognised.

18. Total other current assets

This caption is broken down as follows:

(€000s)	31 December 2020	31 December 2019
Other	529	581
Other current assets	106	109
Other current assets	**635**	**690**

Other mainly refers to advances to third-party suppliers and sundry assets.

Other current assets mostly include prepayments related to costs incurred in advance and recognised on an accrual basis..

19. Cash and cash equivalents

A breakdown of this caption is provided below:

(€000s)	31 December 2020	31 December 2019
Bank and postal accounts	11,956	3,562
Cash-in-hand and cash equivalents	2	2
Cash and cash equivalents	**11,958**	**3,564**

The parent has Euro and foreign currency (US dollar and Swiss franc) current accounts.

Reference should be made to the statement of cash flows for further details on changes in cash flows during the year ended at 31 December 2020.

Net financial indebtedness

A breakdown of the Net financial indebtedness at 31 December 2020 and 31 December 2019 is provided below as required by Consob resolution no. DEM/6064293 of 28 July 2006:

(€000s)	31 December 2020	31 December 2019
(A) Cash	2	2
(B) Cash equivalent	11,955	3,562
(C) Trading securities	49,984	70,962
(D) Liquidity (A)+(B)+(C)	**61,942**	**74,526**
(E) Current financial receivable	**-**	**-**
(F) Current Bank debt	15	18
(G) Current portion of non-current debt	1,079	500
(H) Other current financial debt	711	668
(I) Current Financial Debt (F)+(G)+(H)	**1,805**	**1,186**
(J) Net Current Financial Indebtedness (I)-(E)-(D)	**(60,137)**	**(73,340)**
(K) Non-current Bank loans	4,629	682
(L) Bonds issued	-	-
(M) Other non-current loans	11,270	11,959
(N) Non-current Financial Indebtedness (K)+(L)+(M)	**15,899**	**12,641**
(O) Net Financial Indebtedness (J)+(N)	**(44,238)**	**(60,699)**

Below is a reconciliation of the items in the net financial indebtedness table with the statement of financial position captions:

- "Cash" (A) and "Cash equivalents" (B) are classified in "Cash and cash equivalents";
- "Trading securities" (C) are classified in "Other current financial assets";

- "Current Bank debt" (F) and "Current portion of non-current debt" (G) are classified in "Current financial liabilities";
- "Other current financial debt" (H) is classified in "Current lease liabilities";
- "Non-current Bank loans" (K) are classified in "Non-current financial liabilities";
- "Other non-current loans" (M) are classified in "Non-current lease liabilities".

There are no time deposits at any of the reporting dates shown above.

Equity and liabilities

20. Equity

The statement of changes in equity for the years ended 31 December 2020 is included among the financial schedules.

As already specified in the introduction, the Company was admitted to listing on the MTA market organised and managed by Borsa Italiana S.p.A. on 3 March 2021. More specifically, 4,061,111 shares were issued, corresponding to roughly 10% of the share capital at the start of trading at a price of €17 each.

A. Share capital

The shares issued by the parent represent the entire share capital of €5,158,104.64 comprised of 35,500,000 shares belonging to different classes.

The total number of shares at 31 December 2020 and 31 December 2019 is as follows:

Share class	Total number of shares outstanding at	
	31 December 2020	31 December 2019
Ordinary shares	6,807,245	6,807,245
Class 1 special shares	100,000	100,000
Class 2 special shares	50,000	50,000
Performance shares	50,000	50,000
Loyalty shares	11,368,250	11,368,250
Class A ordinary shares	7,861,251	7,861,251
Class B ordinary shares	9,313,254	9,313,254
Total	**35,550,000**	**35,550,000**

The parent has not issued bonus shares.

The main characteristics of the above classes of shares are set out below.

Ordinary shares

The ordinary shares are registered and indivisible, can be freely traded and give holders the same rights. Specifically, each ordinary share attributes voting rights in ordinary and extraordinary shareholders' meetings in addition to dividend and voting rights as per the law and the by-laws.

Class 1 and 2 special shares and performance shares

The performance and special shares attribute the same rights as ordinary shares and also have the following characteristics:

(a) performance shares do not grant voting rights in ordinary and extraordinary shareholders' meetings and can only be held by a party who hold shares of other classes that include the right to receive dividends;
(b) all performance and special shares outstanding are automatically converted into ordinary shares at a rate of six ordinary shares for each special or performance share (as applicable) where:

(i) before a listing:

(A) there is a change of control following a transfer that sets a price of €14.00 or higher per share;

(B) the full tag along right is exercised for a nominal value of €14.00 or higher per share and under the terms and conditions set out in article 19 of the parent's by-laws;

(C) the full drag along right is exercised under the terms and conditions set out in article 20 of the by-laws;

(D) the (1) proportional tag along right or (2) proportional drag along right is exercised, for a nominal value of €15.00 or higher per share under the terms and conditions of article 19 and article 20, respectively, of the by-laws;

(ii) in the event of a listing on a leading domestic or international market, the initial market price of the ordinary shares at the listing date is higher than €15.00;

(iii) in the event of a listing, where within 48 months starting from the listing date and, in any case, within 60 months starting from 15 May 2019, the official price of the ordinary shares traded on the relevant market, for at least 15 out of 30 consecutive trading days, is €14.00 or higher per share, notwithstanding the fact that, in the event of adjustments to the value of the parent's ordinary shares communicated to the manager of the stock market, the nominal value of €15.00 as per point (ii) (if the market is organised and managed by the Italian Stock Exchange) and the nominal value of €14.00 as per point (iii) will be adjusted at "coefficient K" notified by the manager of the stock market;

(c) all performance and special shares outstanding are converted into ordinary shares at a rate of 1 (one) ordinary share for each performance or special share (as applicable), if, before a listing, the proportional tag along right is exercised, for a nominal value of less than €15.00 under the terms and conditions of article 19 of the by-laws;
(d) within 60 months from 15 May 2019: (i) the performance shares not already converted automatically pursuant to letter (b) points (i) to (iii) and letter (c) are cancelled without any amendment to the share capital. In this case, due to the cancellation of the performance shares, the board of directors shall: (a) note the cancellation in the shareholders' register; (b) file the by-laws with the amendment to the total number of shares, with the elimination of the lapsed clauses due to the lack of performance shares outstanding with the company registrar pursuant to article 2436.6 of the Italian Civil Code; and (c) prepare all the necessary reports and statements; and (ii) the residual special shares not already converted automatically pursuant to letter (b) points (i) to (iii) and letter (c) are automatically converted at a rate of one ordinary share for each special share (as applicable).

As noted in the introduction, the Parent was admitted to trading on the MTA market in March 2021 and the shares listed above were converted into ordinary shares.

Loyalty shares

Loyalty shares attribute the same rights and obligations as ordinary shares and have the following characteristics:

(a) they grant three votes at shareholders' meetings;

(b) they are automatically converted into ordinary shares in the event of listing on a leading domestic or international market at a rate of one ordinary share for each loyalty share, notwithstanding the fact that loyalty shares are not converted into ordinary shares in the event of listing on the AIM.

Class A and B shares

Class A and B shares attribute the same rights as ordinary shares as well as the additional rights set out in the by-laws. The difference between the two classes is the number of directors that they can appoint, i.e., five and two, respectively.

Finally, a class of shares are converted into ordinary shares pursuant to the parent's by-laws automatically, that is, in the event of rights being exercised as per article 19 of the by-laws, upon the request of the shareholders and the conversion occurs without the need for any expression of will by the holders of the shares and without any amendment to the share capital, notwithstanding the fact that such conversion could lead to a reduction in the implied accounting par value of the shares and, in the event of the conversion of less than 100% of the shares, a different percentage being held in the class of shares by the holders of such shares.

As noted in the introduction, the Company was admitted to trading on the MTA market in March 2021 and the shares listed above were converted into ordinary shares.

B. Type and purpose of reserves

The breakdown of equity is shown below with an indication of the nature and purpose of the reserves:

(€000s)	Type	Possibility of use	31 December 2020	31 December 2019
Share capital			5,158	5,158
Share premium reserve	Share capital	A, B, C	54,918	54,918
Legal reserve	Income-related	A, B	892	850
FTA IFRS reserve	Income-related	A, B	(1,265)	(1,265)
Goodwill	Share capital	A, B	50	50
Actuarial reserve	Income-related	A, B	(30)	(23)
Translation reserve	Income-related	A, B	1,123	1,086
Retained earnings	Income-related	A, B, C	(8,115)	7,325
Profit (loss) for the year			(13,285)	1,402
Equity			**55,673**	**68,803**

Key:
A) For share capital increase
B) To cover losses
C) For dividend distribution

C. Dividends

The group did not distribute dividends in 2020, as shown in the table below, in order to boost the group's financial soundness.

(€000s)	31 December 2020	31 December 2019
Dividends	-	21,878

With regard to the dividends distributed in 2019, at their meeting of 7 May 2019, the shareholders resolved to distribute ordinary and extraordinary dividends as follows:

i. considering the positive performance in 2018 and the new agreements signed in 2019, the shareholders resolved to distribute an ordinary dividend of €0.075 per share for a total of €3,187,500 to be taken from the profit for 2018. The dividend was distributed to the shareholders listed in the shareholders' register at the date of approval of the 2018 financial statements and was paid out in May;
ii. considering the strategies rolled out by the parent and their current progress status, which are, inter alia, aimed at implementing new ways of strengthening the parent's equity through the entry of new shareholders, the shareholders resolved to distribute an extraordinary dividend to the Philogen shareholders listed in the shareholders' register at the date of approval of the 2018 financial statements to be determined on the basis of the reserves and distributable profits from the latest approval financial statements (i.e., at 31 December 2018). Accordingly, an extraordinary dividend of roughly €18.6 million was distributed on 15 October 2019.

D. Demerger of business unit

In March 2019, the parent's board of directors approved the partial proportional demerger of the property unit of Philogen S.p.A. to the newco Rendo S.r.l., which has the same quotaholders/shareholders as Philogen S.p.A.. This extraordinary transaction was approved by the parent's shareholders at their meeting of 18 April 2019, while the demerger deed was agreed on 9 May 2019 and registered with the chamber of commerce on 14 May 2019. Rendo S.r.l. was incorporated on 14 May 2019 with legal, accounting and tax effects of the demerger beginning on such date pursuant to article 2506-quater of the Italian Civil Code. Such operation determined an equity decrease of €13,093, of which €11,417 related to the share premium reserve and €1,676 related to the revaluation reserve.

E. Incentive plan with share-based payment

In order to implement an incentive plan for a member of the board of directors and scientific committee due to their commitment to developing certain products, the board of directors approved the report as per article 2441.6 of the Italian Civil Code on the capital increase reserved for the director on 26 March 2020.

At their meeting of 28 April 2020, the shareholders of Philogen approved the capital increase against payment in more than one transaction, excluding a pre-emption right, via the issue of 426,600 shares which make up 1.2% of the share capital.

The incentive plan represents an equity-settled share-based arrangement in accordance with IFRS 2, entailing the recognition of service costs (directors' remuneration) with a balancing entry in the specific equity reserve.

On 25 November the Company and the Beneficiary entered into an agreement pursuant to which, as an alternative to the Reserved Capital Increase, in the case of the Company's listing or a change of control, as defined pursuant to art. 2359 of the Italian Civil Code (Acceleration Events) by 31 December 2021, the Company would be able to recognise to the Beneficiary, in place of the Reserved Capital Increase, a bonus correlated with the quality and quantity of activities carried out in favour of the Company, equal to €1,500 thousand (the Bonus). This resulted in the cancellation of the incentive plan and the ensuing reclassification of the equity reserve in part to payables and in part to retained earnings.

Please refer to section no. 3 "Significant events during the year" in the Directors' report for further information.

Capital management

The group's capital management policies are to maintain a high level of capital in order to retain stakeholder trust while also enabling future development of activities. Moreover, management constantly monitors the return on capital and the level of dividends to be distributed to holders of ordinary shares.

The board of directors works to maintain balance between achieving greater returns via higher borrowings and enjoying the advantages and security offered by a solid financial position.

21. Employee benefits

This caption includes all the pension obligations, other post-employment benefits or benefits due upon specific requirements being met. It comprises accrual for post-employment benefits related to the parent's employees. These liabilities amount to €806 thousand at 31 December 2020 (€803 thousand at 31 December 2019). Variations during the year ended 31 December 2020 and the year ended 31 December 2019 are as follows:

(€000s)	31 December 2020	31 December 2019
Opening balance	803	676
Utilisations	(66)	(21)
Post-employment benefits	94	85
Financial expense	6	10
Actuarial gains (losses)	(10)	53
Total employee benefits	**847**	**803**

The provisions are an estimate of the obligation, determined using actuarial methods, regarding the amount to be paid to employees upon termination of their employment. At 31 December 2020 and 31 December 2019, the provisions refer to post-employment benefits ("TFR") accrued for employees.

Post-employment benefits are recognised as defined benefit plans in accordance with IAS 19 - Employee benefits and are determined using an actuarial calculation, prepared by an expert, in line with the provisions of the IFRS.

As per IAS 19, post-employment benefits are measured using the methodology set out in recent provisions introduced by the Italian Order of Actuaries together with the Italian Accounting Standard Setter (OIC), the Italian Association of Auditors (Assirevi) and the Association of Italian Banks (ABI) for companies with more than 50 employees.

The main assumptions used for the actuarial estimation are as follows:

Economic assumptions	31 December 2020	31 December 2019
Annual inflation rate	0.80%	1.20%
Annual discount rate	0.34%	0.77%
Annual TFR growth rate	2.10%	2.40%

Annual rate of turnover and TFR advances paid	31 December 2020	31 December 2019
Rate of advances paid	2.00%	2.00%
Turnover rate	10.00%	10.00%

Demographic assumptions	31 December 2020	31 December 2019
Death	RG48 mortality tables published by the State General Accounting Office	RG48 mortality tables published by the State General Accounting Office
Disability	INPS (Italian Social Security Institution) tables by age and gender	INPS (Italian Social Security Institution) tables by age and gender
Retirement	100% upon meeting the AGO (compulsory general insurance) requirements adjusted to Legislative decree no. 4/2019	100% upon meeting the AGO (compulsory general insurance) requirements adjusted to Legislative decree no. 4/2019

22. Current and non-current financial liabilities

A breakdown of changes in these captions during the period and the comparative period is provided below:

(€000s)	Amount
Financial liabilities at 1 January 2019	**16,499**
New loans and borrowings	-
Repayment of principal	(660)
Sale of financial liabilities	(3,015)
Demerger	(1,727)
Change in current financial liabilities	(10,000)
Translation effects	103
Financial liabilities at 31 December 2019	**1,200**
New loans and borrowings	5,011
Repayment of principal	(487)
Translation effects	-
Financial liabilities at 31 December 2020	**5,723**
Of which: current	1,094
Of which: non-current	4,629

(€000s)	31 December 2020	31 December 2019
Current financial liabilities	1,094	518
Non-current financial liabilities	4,629	682
Total financial liabilities	**5,723**	**1,200**

Financial liabilities are represented by:

- subsidised loan at a rate of 1.70% as per the Sabatini Law amounting to €709 thousand at 31 December 2020 and €1,181 thousand at 31 December 2019. The decrease compared to 31 December 2019 is due to the repayment of principal during 2020;

- medium/long-term loan taken out from UBI Banca S.p.A. on 5 January 2021, for a total of €5,000 thousand, broken down as follows:

  (i) loan for €2,350 thousand maturing on 7 January 2027 with a variable rate equal to the 3M Euribor, plus a spread of 1.15%

(ii) loan for €2,650 thousand maturing on 7 April 2024 with a variable rate equal to the 3M Euribor, plus a spread of 1.15%

The amount of the two loans was disbursed in the form of pre-financing on 26 November 2020.

Both loans from UBI S.p.A. are 90% backed by Medio Credito Centrale, making use of the facilitations provided by Law Decree no. 23 of 8 April 2020, converted with amendments by Law no. 40 of 5 June 2020, as amended ("Liquidity" Decree).

Please also note that these loans were taken out to partially finance the Rosia expansion project, which envisages the construction of a new "GMP" biotechnology plant inclusive of all advanced and automated technology plants and equipment, for a total value of roughly €10-12 million, funded in part with Company liquidity and in part through the two loans described above.

The residual amount refers to amounts due to banks for company credit cards.

23. Statement of profit or loss

Trade payables amount €3,920 thousand at 31 December 2020 (€3,281 thousand at 31 December 2019) and mostly refer to amounts due to hospitals where clinical trials are performed, as well as amounts due to other suppliers and consumables.

Breakdown of payables by geographical segment

(€000s)	Geographical segment	
	31 December 2020	31 December 2019
Italy	1,873	1,064
European Union	1,323	1,318
Non-EU (USA)	413	681
Non-EU (other)	310	219
Total trade payables	**3,920**	**3,281**

24. Total other current liabilities

This caption is broken down as follows:

(€000s)	31 December 2020	31 December 2019
Social security institutions	360	399
Accrued expenses and deferred income	25	37
Other	2,193	669
Other current liabilities	**2,578**	**1,105**

Amounts due to social security institutions refer to INPS and INAIL for withholdings due amounting to €360 thousand at 31 December 2020.

Other, amounting to €2,218 thousand at 31 December 2020 and €706 thousand at 31 December 2019, mainly refers to:

- Payables to employees for remuneration to be settled, amounting to €2,177 thousand, up by roughly €1,500 thousand compared to 31 December 2019 as a result of the bonus recognised to a director on the basis of an agreement entered into on 25 November 2020;

- Advances on research grants, amounting to roughly €14 thousand (nil balance at 31 December 2019), collected during the year ended at 31 December 2020;

- Sundry amounts due of €25 thousand (balance of €37 thousand at 31 December 2019).

Other information

25. Commitments

There are no commitments that have not been presented in the statement of financial position at 31 December 2020 or 31 December 2019. Refer to note 10 for additional details regarding the construction of a new “GMP” biotechnologies plant at the Rosia site.

26. Information pursuant to art. 1.125 of Law no. 124/2017

In relation to the provisions set forth in art. 1.125 of Law 124/2017, with respect to the obligation to report in the notes any sums of money received during the year by way of subsidies, contributions, paid engagements and in any event economic benefits of any nature whatsoever from the public administrations and the parties pursuant to paragraph 125 of the same article, the Company certifies that:

Nature of contribution	Amount of contribution
Research & Development Credit Year 2019	**1,980**
Offset in 2020	929
Residual amount to be offset in 2021	1,051
Research and Development Credit 2020	**1,022**
Amount to be offset 2021	341
Amount to be offset 2022	341
Amount to be offset 2023	341
Industry 4.0 credit year 2020	**46**
Amount to be offset 2021	9
Amount to be offset 2022	9
Amount to be offset 2023	9
Amount to be offset 2024	9
Amount to be offset 2025	9
Sanitisation credit	**28**
Offset in 2020	9
Residual amount to be offset in 2021	19
Total credits	**3,076**
Offset in 2020	938
Residual credits	2,138

Nature of contribution	Amount allocated 2020
IMMUNOSABR Project allocation	15
Investment Protocols Project allocation	7
Chamber of Commerce “Safe 2020” 2020 voucher allocation	1
Chamber of Commerce “Cyber Security” digital voucher allocation	4
Ecompair Project allocation	314
Magicbullet Project allocation	48
Total allocation for ongoing projects	**389**

Project	Description	Collection date	Contribution collected 2020
Tuscany Region			
Giovani Si apprenticeship reimbursement		09/04/2020	2
Chamber of Commerce Safe 2020 Call for Tenders		22/12/2020	5

Call for Tender 3 "Research and development projects in implementation of the Investment Protocols". Project Title: "New GMP infrastructure for clinical trial research". Acronym "NEW GMP". Project Number CU D-53D1700044009	The Project facilitates investments in industrial research and experimental development. Programme ROP Growth and Employment 2014/2020 - Action 1.1.5 sub-action a1). The grant is equal to 50% of the eligible costs in industrial research.	23/12/2020	7
Ministry of Economic Development			
Nuova Sabatini		23/11/2020	5
Fondimpresa			
Training plan quota reimbursement		29/04/2020	4
Training plan quota reimbursement		04/08/2020	1
Fondirigenti			
Training plan expense reimbursement		12/10/2020	1
Horizon 2020			
H2020 861316 Magicbullet reloaded		15/01/2020	203
INNOSUISSE			
Eurostars BIG		07/07/2020	111
Total contributions collected 2020			**339**

27. Information on financial risks

The main risks identified, monitored and, as specified below, actively managed by the Company are as follows:

Credit risk

Credit risk is the risk that a customer or a counterparty of a financial instrument does not meet a contractual commitment leading to financial loss. It mostly derives from trade receivables and the Company's debt instruments.

The carrying amount of financial assets and contract assets is the Company's maximum exposure to credit risk.

The Company's exposure to credit risk mainly depends on the specific characteristics of each customer.

However, management also considers the typical variables of the Company's customer portfolio, including the insolvency risk of the customer's sector and country. The counterparts in contracts are leading pharmaceutical and multinational companies with a low risk profile.

A breakdown of the debt instruments in portfolio by rating class is as follows:

(€000s) ***Credit rating bracket***	**31 December 2020**	**31 December 2019**
AAA / AA-	-	2,746
A+/ A-	-	1,005
BBB+/ BBB-	-	5,234
BB+/ B-	-	1,109
Lower than B-	-	274
Unrated	1	3,295
Total debt instruments	**1**	**13,662**
Total other securities	49,983	57,300
Total assets measured at fair value	**49,984**	**70,962**

(*) Rating source: Standard&Poor's

Unrated debt instruments refer to bonds issued by leading banks and listed companies.

Trends in the breakdown of the group's portfolio by rating class over the year 2020 show a decrease in exposure in lower rating brackets.

Liquidity risk

Liquidity risk is the risk that the Company has difficulties in meeting its obligations related to financial liabilities settled by cash or another financial asset. The Company's approach to managing liquidity requires that, as much as possible, there are always enough funds to meet its obligations when due, both in normal conditions and under financial difficulty, without incurring excessive expense or risking damage to its reputation.

The Company aims to maintain the level of its cash and cash equivalents and other highly marketable debt investments at an amount in excess of expected cash outflows on financial liabilities (other than trade payables). The Company also monitors the level of expected cash inflows on trade and other receivables together with expected cash outflows on trade and other payables.

A breakdown of trade receivables and payables and financial liabilities at 31 December 2020 by due date is as follows:

(€000s)	31 December 2020				
	Within 90 days	From 90 days to 1 year	From 1 to 5 years	After 5 years	Total
Lease liabilities	177	534	2,940	8,330	11,981
Financial liabilities	15	1,079	3,556	1,073	5,723
Trade payables	3,920	-	-	-	3,920
Total	**4,112**	**1,613**	**6,496**	**9,403**	**21,624**

(€000s)	31 December 2020				
	Within 90 days	From 90 days to 1 year	From 1 to 5 years	After 5 years	Total
Trade receivables	515	-	-	-	**515**
Total	**515**	**-**	**-**	**-**	**515**

Furthermore, the Company has a financial portfolio totalling €49,984 thousand at 31 December 2020 that is highly liquid and can be used to meet any liquidity needs.

A breakdown of the debt instruments in portfolio by maturity is as follows:

(€000s) ***Maturity bracket***	31 December 2020	31 December 2019
1 year	-	2,055
2 years	-	2,390
3-5 years	-	5,777
6-10 years	-	1,981
11-20 years	-	374
21-30 years	-	103
Over 30 years	-	-
Perpetual	1	982
Total debt instruments	**1**	**13,662**
Total other securities	49,983	57,300
Total assets measured at fair value	**49,984**	**70,962**

Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments change due to fluctuations in market prices caused by variations in exchange rates, interest rates or prices of equity instruments. The goal of market risk management is to maintain the Company's exposure to such risk within an acceptable range while simultaneously optimising the return on investments.

The following tables show a breakdown of debt instruments by type of rate and maturity:

(€000s) *Maturity bracket*	Fixed rate	Floating rate	Amount at 31 December 2020
1 year	-	-	-
2 years	-	-	-
3-5 years	-	-	-
6-10 years	-	-	-
11-20 years	-	-	-
21-30 years	-	-	-
Over 30 years	-	-	-
Perpetual	1	-	1
Total debt instruments			**1**
Total other securities			**49,983**
Total assets measured at fair value			**49,984**

(€000s) *Maturity bracket*	Fixed rate	Floating rate	Mixed rate	Amount at 31 December 2019
1 year	2,049	6	-	2,055
2 years	2,390	-	-	2,390
3-5 years	4,620	1,157	-	5,777
6-10 years	215	-	1,766	1,981
11-20 years	-	-	374	374
21-30 years	-	-	103	103
Perpetual	-	-	982	982
Total debt instruments	**9,724**	**1,163**	**3,225**	**13,662**
Total other securities				57,300
Total assets measured at fair value				**70,962**

Currency risk

The group is exposed to currency risk for sales, purchases, receivables and loans expressed in a currency other than the group's functional currency.

The group's production activities are performed solely in Italy and Switzerland and, therefore, it is exposed to fluctuations in the Euro/Swiss franc exchange rate. Its functional currency is the Euro and, thus, it is exposed to currency risk deriving from the translation of the financial statements of the Swiss subsidiary Philochem AG, with effects on the consolidated profit or loss for the year and equity (translation risk).

The Group generates revenue from contracts with customers in foreign currencies, mainly the US dollar. Revenue denominated in US dollars for the years 2020 and 2019 amounted to 85.2% and 92.1%, respectively, of total revenue from contracts with customers. Accordingly, disadvantageous US dollar exchange rates could have a negative impact on the group's activities and financial position. A breakdown of this caption for the years ending on 31 December 2020 and 2019 is provided below:

(€000s)	31 December			
	2020	%	2019	%
US dollar (USD)	3,590	75%	11,502	91%
Euro (EUR)	801	17%	952	8%
Swiss franc (CHF)	387	8%	157	1%
Total revenue from contracts with customers	**4,778**	100%	**12,611**	100%

A sensitivity analysis in absolute value is provided below on revenue from contracts with customers deriving from a change in the exchange rate of the currencies listed above equal to 1% for the years ended at 31 December 2020 and 2019:

(€000s) in absolute value	31 December	
	2020	2019
US dollar (USD)	36	115
Euro (EUR)	8	10
Swiss franc (CHF)	4	1
Total effect on revenue from contracts with customers	**48**	**126**

The Group also incurs operating costs in foreign currencies, mainly the US dollar and the Swiss franc. A breakdown of this caption for the years ending on 31 December 2020 and 2019 is provided below:

(€000s)	31 December			
	2020	%	2019	%
US dollar (USD)	685	4%	1,843	11%
Euro (EUR)	14,106	76%	9,732	57%
Pounds (GPB)	63	-	65	-
Arab Emirates Dirham (AED)	3	-	-	-
Swiss franc (CHF)	3,617	20%	5,342	31%
Total operating costs	**18,474**	**100%**	**16,982**	**100%**

A sensitivity analysis in absolute value is provided below on operating costs deriving from a change in the exchange rate of the currencies listed above equal to 1% for the years ended at 31 December 2020 and 2019:

(€000s) in absolute value	31 December	
	2020	2019
US dollar (USD)	7	18
Euro (EUR)	141	97
Pounds (GPB)	1	1
Arab Emirates Dirham (AED)	-	-
Swiss franc (CHF)	36	53
Total effect on operating costs	**185**	**170**

The group does not have any currency hedges.

Summarised quantitative data on the group's exposure to currency risk are as follows:

(€000s)	31 December 2020	31 December 2019
EUR	48,063	63,345
GBP	-	-
RUB	-	393
USD	1,921	7,113
TRY	-	111
Total current financial assets	**49,984**	**70,962**

Management of risks of financial investments

As part of its careful financial planning, the parent has invested its excess liquidity (compared to its ordinary cash requirements) in current financial assets. It based its investment decisions on monitoring and advice from the relevant office of the banks where its securities are deposited. The group is regularly provided with information about the issuers' solvency, the country risk and market changes in order that it may take any necessary remedial action.

Based on the method set out in note 17 "Other current financial assets", to which reference should be made for further details, the group has adopted an "other" business model for bonds in portfolio, thus measured at FVTPL. The remaining securities held in portfolio are associated with an HTCS model. They are measured at FVTPL as they did not pass the SPPI test.

Management of country risk

The group does not operate in countries considered unstable in terms of their economic, political or social situation.

28. Financial instruments

Categories of financial assets and liabilities

A breakdown of financial assets and liabilities at 31 December 2020 and 31 December 2019 by category, in accordance with IFRS 9, is provided below:

(€000s)	31 December 2020	31 December 2019

Financial assets:		
Financial assets at amortised cost		
Trade receivables	515	1,199
Current financial assets	-	-
Cash and cash equivalents	11,958	3,564
Other current assets	635	690
Financial assets at fair value		
Current financial assets	49,984	70,962
Non-current financial assets	-	-
Total financial assets	**63,092**	**76,415**
Financial liabilities at amortised cost		
Non-current financial liabilities	4,629	682
Non-current lease liabilities	11,270	11,959
Current financial liabilities	1,094	518
Current lease liabilities	711	668
Trade payables	3,920	3,281
Other current liabilities	2,578	1,105
Total financial liabilities	**24,202**	**18,213**

Considering the nature of current financial assets and liabilities, the carrying amount of most items is considered a reasonable estimate of their fair value.

Non-current financial assets and liabilities are settled or measured at market rates. Therefore, their fair value is considered to be more or less in line with the current carrying amounts.

Disclosure on fair value

With regard to the assets and liabilities measured at fair value, IFRS 13 requires that they be classified using a fair value hierarchy that reflects the materiality of the inputs used to determine their fair value.

The following tables summarise financial assets measured at fair value broken down by hierarchy level:

(€000s)	31 December 2020			
	Level 1	**Level 2**	**Level 3**	**Total**
Current financial assets at fair value through Profit or Loss	8,432	41,552	-	**49,984**
Total assets measured at fair value	**8,432**	**41,552**	**-**	**49,984**

(€000s)	31 December 2019			
	Level 1	**Level 2**	**Level 3**	**Total**
Current financial assets at fair value through Profit or Loss	19,492	51,470	-	**70,962**
Total assets measured at fair value	**19,492**	**51,470**	**-**	**70,962**

Current financial assets presented as level 1 in the table above include bonds, shares and investment funds, all public traded. Refer to note 17 for additional details.

Assets measured at level 2 of the fair value hierarchy are related to financial assets measured at fair value through Profit or Loss (pursuant to IFRS 9) and include insurance investment products, which are financial instruments held to invest excess cash of the Group (refer to the note n. 17 for additional disclosure related to the nature of such assets).

These types of investment are financial portfolio managed by the insurance companies and they were measured using the net asset value communicated by the insurance companies, which represents the settlement value of the policies at the reporting date.

During the three years, there were no transfers among the different levels of the fair value hierarchy.

29. Related parties

A summary of transactions with other related parties is provided below:

31 December 2020

(€000s)	Related party						
	Rendo S.r.l.	Rendo AG	Neri-Tanini Consulting S.r.l.	Directors and the scientific committee	Board of Statutory Auditors	Total	% of financial statements caption
Statement of financial position							
Right-of-use assets	7,205	2,912	-	-	-	**10,117**	98%
Current lease liabilities	455	210	-	-	-	**655**	93%
Non-current lease liabilities	6,864	4,322	-	-	-	**11,186**	99%
Trade payables	-	-	6	-	52	**58**	1%
Statement of profit or loss							
Amortisation and depreciation	534	175	-	-	-	**709**	47%
Service costs	-	-	20	2,685	52	**2,757**	32%
Financial expense	207	146	-	-	-	**353**	14%

31 December 2019

(€000s)	Related party						
	Rendo S.r.l.	Rendo AG	Studio Neri-Tanini	Directors and the scientific committee	Board of Statutory Auditors	Total	% of financial statements caption
Statement of financial position							
Right-of-use assets	7,738	3,071	-	-	-	**10,809**	98%
Current lease liabilities	440	203	-	-	-	**642**	96%
Non-current lease liabilities	7,322	4,510	-	-	-	**11,832**	99%
Trade payables	-	34	26	-	-	**60**	2%

Fees paid to directors, statutory auditors and the scientific committee

The amounts paid to the group companies' directors, statutory auditors and members of the scientific committee are limited to their fees and remuneration as detailed in the following tables:

i) Board of Directors

(€000s)	31 December 2020	31 December 2019
Duccio Neri - Executive Chairman and Co-CEO	280	357
Dario Neri - Co-CEO	149	122
Giovanni Neri - Managing Director	200	187
Sergio Gianfranco Luigi Maria Dompé - Director	30	30
Roberto Marsella - Director	32	21
Nathalie Francesca Maria Dompé - Director	30	30
Leopoldo Zambeletti Pedrotti	30	30
Roberto Ferraresi (*)	32	21
Guido Guidi (*)	32	36
Other directors	104	179
Total fees	**919**	**1,013**
Leopoldo Zambeletti Pedrotti – strategic consultancies		376
Total	**919**	**1,389**

(*) Appointed by the Shareholders' Meeting on 7 May 2019

Please note that the Board of Directors approved an incentive bonus of Euro 1,500 thousand for one of the members of the above-mentioned corporate body, by virtue of his commitment to the development of several products. For further information, please refer to section no. 3 "Significant events during the year" in the Directors' report.

ii) Board of Statutory Auditors

(€000s)	31 December 2020	31 December 2019
Stefano Mecacci - Chairman	23	23
Pierluigi Matteoni - Standing statutory auditor	15	15
Marco Tanini - Standing statutory auditor	15	15
Board of statutory auditors' fees	**53**	**53**

iii) Scientific committee

(€000s)	31 December 2020	31 December 2019
Dario Neri - Chairman	168	253
Paolo Neri	-	11
Guido Guidi	60	-
Mr Berdel	22	-
Cornelia Halin	17	-
Scientific committee's fees	**267**	**264**

30. Events after the reporting date

30.1 Reverse merger with Palio Ordinarie

In line with the investment agreement entered into on 7 May 2019, governing the rights and obligations of the Group shareholders, in the period between the signing date and the first day of trading, the deed for the merger between the Company and Palio Ordinarie S.p.A. was entered into on 8 January 2021 and became effective on 12 January 2021. This merger made it possible to dissolve the vehicle Palio Ordinarie S.p.A., contributing towards the generation of a free float equal to 17% for the listing process.

30.2 Admission to listing on the MTA market

On 3 March 2021, the Group was admitted to listing on the MTA market organised and managed by Borsa Italiana S.p.A. ("MTA"). The shares offered for listing amounted to 4,061,111 deriving from a capital increase with exclusion of the purchase option, corresponding to roughly 10% of the Company's share capital after the Capital Increase, and the price was set at Euro 17 per share. In the placement phase, all shares were subscribed, including the greenshoe of 10% of the newly issued shares.

Details of the shareholding structure as at 31 December 2020 and the date on which trading began are provided below:

Shareholder	At the date of 31 December 2020		
	shares	% of the share capital	% of the voting rights
Nerbio S.r.l.	16,465,769	46.317%	57.621%
Of which B Shares	*8,565,018*	*24.093%*	*44.122%*
Of which Performance Shares	*39,500*	*0.111%*	*0.000%*
Dompè Holdings S.r.l. (*)	12,204,986	34.332%	30.567%
Of which B Shares	*2,803,232*	*7.885%*	*14.441%*
Of which Performance Shares	*10,500*	*0.030%*	*0.000%*
Palio Ordinarie(**)	5,972,000	16.799%	10.255%
Matthias Claus Winter	757,245	2.130%	1.300%
Palio Speciali S.r.l.	100,000	0.281%	0.172%
MRS S.r.l.	50,000	0.141%	0.086%
Market	-	-	-
Total	**35,550,000**	**100%**	**100%**

(*) Includes 78,000 ordinary shares held through Palio Ordinarie S.p.A. prior to the merger between Palio Ordinarie S.p.A. and Philogen
(**) Excludes 78,000 ordinary shares consolidated in the Dompè Holdings S.r.l. equity investment after the merger between Palio Ordinarie S.p.A. and Philogen

Shareholder	At the trading start date			
	Type of Shares	Shares	% of the share capital	% of the voting rights
Nerbio S.r.l.	*B Shares*	8,565,018	21.090%	40.562%
	Ordinary Shares	8,098,251	19.941%	12.784%
	Total	16,663,269	41.031%	53.346%
Dompè Holdings S.r.l. (*)	*B Shares*	2,803,232	6.903%	13.275%
	Ordinary Shares	9,454,254	23.280%	14.925%

	Total	12,257,486	30.183%	28.200%
Former Palio Ordinarie Shareholders (**)	*Ordinary Shares*	5,972,000	14.705%	9.427%
	Total	**5,972,000**	**14.705%**	**9.427%**
Matthias Claus Winter	*Ordinary Shares*	757,245	1.865%	1.195%
	Total	**757,245**	**1.865%**	**1.195%**
Palio Speciali S.r.l.	*Ordinary Shares*	600,000	1.477%	0.947%
	Total	**600,000**	**1.477%**	**0.947%**
MRS S.r.l.	*Ordinary Shares*	300,000	0.739%	0.474%
	Total	**300,000**	**0.739%**	**0.474%**
Market	*Ordinary Shares*	4,061,111	10.000%	6.411%
Total Philogen		**40,611,111**	**100%**	**100%**

(*) Includes 78,000 ordinary shares held through Palio Ordinarie S.p.A. prior to the merger between Palio Ordinarie S.p.A. and Philogen
(**) Excludes 78,000 ordinary shares consolidated in the Dompè Holdings S.r.l. equity investment after the merger between Palio Ordinarie S.p.A. and Philogen

Following the Company's Listing, the Group adopted the new Corporate Governance model for listed companies, and the new articles of association approved by the Board of Directors on 14 December 2020 entered into force.

On 11 March 2021, Philogen paid the bonus of €1,500,000, the details of which are provided in paragraph 2.3, in full to a member of the Board of Directors.

The Group also decided to implement the resolution of the Shareholders' Meeting dated 16 December 2020 with reference to the implementation of a three-year incentive plan, in the form of a stock grant to be dedicated to employees. For more information, please refer to the Remuneration Policy section below.

30.3 Covid-19

Following the pandemic, which is still ongoing, and the government measures taken to tackle the epidemiological emergency, the Company has continued to work with social distancing plans for employees and eliminated physical attendance at meetings, events and conferences, in the best interest of employees and commercial partners. The new commercial, organisational and safety practices, in part negatively influenced productivity, taking resources away from product development, slowing down commercial transactions and in certain cases delaying the clinical trials planned or in progress and/or their monitoring. Despite this emergency situation, the Company consistently continues its research and development activities.

30.4 The remuneration policy

Following its admission to listing, the Group worked to adopt a remuneration policy in line with the provisions of art. 123-ter of the Consolidated Finance Act.

The relative information will be provided in the remuneration report, which will be presented to the Shareholders' Meeting called upon to approve the financial statements as at 31 December 2020.

Monetary incentive plans

As of 1 January 2021, the Director and Top Managers Dario Neri, Duccio Neri and Giovanni Neri are beneficiaries of a "management by objectives" (MBO) incentive plan pursuant to which they will be entitled to receive an incentive on an annual basis, the amount of which is commensurate with the achievement of the company's financial and other objectives.

The maximum incidence of the MBO on the annual remuneration of each of the executive directors and managers Dario Neri and Duccio Neri is 30%, while for the executive director and manager Giovanni Neri, it is equal to 20%.

Medium/long-term incentive plan

On 16 December 2020, the Parent Company's Board of Directors approved the guidelines of an incentive plan which, subsequent to the start of trading of the Company's shares on the MTA, will be reflected in a regulation and submitted for the approval of the shareholders' meeting called upon to approve the Company's remuneration policy.

This incentive plan is categorised as a Stock Grant Plan, intended to create convergence between the interests of the Beneficiaries and the creation of value for the Company's shareholders and investors from a medium/long-term perspective, both by favouring the retention of key figures and incentivising their remaining within the Group, and recognising to the various stakeholders the commitment and contribution towards reaching the Group's objectives.

The 2024-2026 Stock Grant Plan reserved to the Group's key resources, identified from amongst directors, managers and other high-level figures, is designed so as to pursue the following objectives:

- support the capacity to retain key resources, aligning the Group's remuneration policy with best market practices which typically envisage long-term incentive tools;

- stimulate people's motivation to work with energy and passion in order to achieve the Group's growth and development objectives;

- economically remunerate people who have provided a contribution and extraordinary commitment to the performance of their role within the company, which led the Company to its listing on the MTA market organised and managed by Borsa Italiana S.p.A.;

- make the Group's remuneration policy consistent with the instructions laid out in the Corporate Governance Code of listed companies.

In particular, the Stock Grant Plan includes 3 cycles (2021-2024, 2022-2025, 2023-2026), each with a three-year duration, and is subject to the achievement of specific performance objectives at company level and individual level by the beneficiaries.

The plan may be supported by (i) treasury shares purchased in light of any future authorisation of the shareholders' meeting, (ii) shares deriving from a future share capital increase, overall up to a maximum of 3% of the ordinary shares.

Accounting policies

31. Basis of presentation

These financial statements have been prepared on a historical cost basis, except for financial instruments which are recognised at fair value at each reporting date.

These financial statements have also been prepared on a going concern basis. The assessment of this assumption performed by the Directors takes into consideration current development strategies, the equity and financial consistency of the Group and the possibility to revise the timing and structure of its development strategy as well as the capacity to obtain the financial resources required to continue its activities, also through licensing some of its proprietary products to third parties through outlicensing contracts.

32. Main accounting policies

Basis of preparation

These consolidated financial statements include the mandatory financial schedules in accordance with IAS 1. All of the schedules contain the minimum content set out in the IFRS and applicable provisions of the national legislator and Consob. The schedules used are deemed suitable to provide a fair view of the group's financial position, performance and cash flows. Specifically, the statement of profit or loss and statement of comprehensive income reclassified by nature provide reliable information that provides a fair representation of the group's financial performance. The consolidated financial statements comprise the following:

Consolidated Statement of financial position

The statement of financial position is presented by separating current and non-current assets and liabilities. Disclosure is provided in the notes to each asset and liability item of amounts that are expected to be received or settled within or after 12 months after the reporting date.

An asset or liability is classified as current when it meets one of the following criteria:

- it is expected to be realised/settled, or is expected to be sold or used, within the group's normal operating cycle;
- it is held primarily for the purpose of trading;
- it is expected to be realised/settled within 12 months after the reporting date.

If any of the three conditions are not met, the assets/liabilities are classified as non-current.

Consolidated Statement of profit or loss

Costs are classified by nature. Additional line items for operating profit or loss and pre-tax profit or loss are included.

Consolidated Statement of comprehensive income

This statement shows the items making up the profit or loss for the year and the expense and income recognised directly in equity for non-owner transactions.

Statement of changes in equity

This statement shows changes in equity items related to:

- the distribution of the profit for the period of the parent and the subsidiaries to third-party shareholders;
- amounts related to transactions with owners (repurchase and sale of treasury shares);
- each item of profit or loss net of any tax effects which, in accordance with the IFRS, are either recognised directly in equity (gain or loss from selling treasury shares, actuarial losses and gains on measuring defined benefit plans) or with a balancing entry recognised in an equity reserve (share-based payments for stock option plans);
- changes in the hedging reserve net of any tax effects.

Consolidated Statement of cash flows

The statement of cash flows is presented using the indirect method, whereby the profit or loss for the period is adjusted for non-monetary transactions, any deferral or accrual of previous or future collections or payments relating to the group's operations and gains or losses related to cash flows from investing or financing activities.

Income and expense related to interest, dividends received and income taxes are included in cash flows according to the nature of the underlying transaction.

Cash and cash equivalents included in the statement of cash flows include the statement of financial position balance at the reporting date. Cash flows in foreign currencies are translated at the average exchange rate for the year.

Basis of consolidation

The consolidated financial statements of the Philogen Group include the individual financial statements of Philogen S.p.A. and the subsidiary Philochem AG incorporated under Swiss law and controlled by the parent as per article 26 of Legislative decree no. 127/91. Brief information on the group companies and the consolidation methods used is provided below:

Company name	Registered office	Investment %	Currency	Consolidation method
Philogen S.p.A.	Siena – Italy	Parent	EUR	Consolidation
Philochem AG	Zurich – Switzerland	99.99%	CHF	Consolidation

Subsidiaries are entities controlled by the group. The group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases.

Such financial statements are appropriately reclassified and adjusted to bring them into line with the parent's accounting policies and basis of preparation in the event of material differences. The reporting date of all of the group companies is 31 December.

The carrying amount of investments in consolidated companies is eliminated against the corresponding portion of equity of the investee, attributing to individual assets and liabilities their fair value at the acquisition date. Any residual difference, if positive, is recognised under non-current assets with the remaining amount recognised in goodwill; if negative, it is taken to profit or loss.

Changes in the group's interest in a subsidiary that do not result in a loss of control are recognised as transactions with owners in their capacity as owners.

In preparing the consolidated financial statements, the balances of intragroup transactions, and unrealised intragroup revenue and costs, are eliminated. Unrealised losses are also eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

Foreign currencies

Foreign currency transactions

Transactions in foreign currencies are translated into the respective functional currencies of group companies at the exchange rates at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the exchange rate at the reporting date. Non-monetary assets and liabilities that are measured at fair value in a foreign currency are translated into the functional currency at the exchange rate when the fair value was determined. Non-monetary items that are measured based on historical cost in a foreign currency are translated at the exchange rate at the date of the transaction. Foreign currency differences are generally recognised in profit or loss.

Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated into Euros at the exchange rates at the reporting date. The revenue and costs of foreign operations are translated into Euros at the exchange rates at the dates of the transactions. Foreign currency differences are recognised in other comprehensive income and accumulated in the translation reserve, except to the extent that the translation difference is allocated to non-controlling interests. When a foreign operation is disposed of in its entirety or partially such that control, significant influence or joint control is lost, the cumulative amount in the translation reserve related to that foreign operation is reclassified to profit or loss as part of the gain or loss on disposal.

The exchange rates used at 31 December 2020 and 31 December 2019 to translate the statement of financial position, statement of profit or loss and statement of comprehensive income captions are summarised in the following table. They refer to the Swiss subsidiary Philochem AG:

Exchange rates (CHF/EUR)	2020	2019
Spot exchange rate at 31 December (for translating assets and liabilities)	1.0802	1.0854
Average exchange rate for the year (for translating costs and revenue)	1.0703	1.1124

Changes to standards, interpretations and amendments

New standards, interpretations and amendments issued by the IASB and adopted from 1 January 2020 are set out below.

Covid-19-related rent concessions (Amendment to IFRS 16)

Regulation (EU) 2020/1434 of 9 October 2020, published in the Official Journal of the European Union of 12 October 2020, endorsed the IASB document "Covid-19-related rent concessions (amendment to IFRS 16 - Leases)".

Such amendment introduces a practical expedient to simplify a lessee's accounting of Covid-19-related rent concessions (i.e., reductions, forgiveness and/or deferrals of lease payments granted by the lessor to the lessee). If the rent concession derives from a right acquired by the lessee by virtue of a specific contractual clause or a specific local regulation, the practical expedient allows the lessee to account for a "negative variable lease payment" as a gain in profit or loss as a direct reduction in the lease liability.

The practical expedient applies only to rent concessions occurring as a direct consequence of the Covid-19 pandemic and only if all of the following conditions are met:

- the change in lease payments results in revised consideration for the lease that is the same as, or less than, the consideration for the lease immediately preceding the change;
- any reduction in lease payments affects only payments originally due in 2020; if the lessor grants a deferral of lease payment, the lessee can recognise a gain for a negative variable lease payment in 2020 solely for the portion that reduces lease payments in 2020 net of increases for subsequent years;
- there is no substantive change to other terms and conditions of the lease.

If the above conditions are not met, the group accounts for the rent concessions using the general provisions of IFRS 16 for lease modifications, which do not take into consideration the practical expedient and require a legal analysis of the clauses and applicable local regulations for each individual lease in order to remeasure the lease liabilities using a revised discount rate. The reduction of the lease liability directly adjusts the right-of-use asset.

This new standard did not have any impact on the consolidated financial statements as the Group did not benefit from any rent concessions at 31 December 2020.

Amendments to references to the conceptual framework in IFRS Standards

The IASB published the Conceptual framework in March 2018 which provides a comprehensive set of concepts for financial reporting, defining standards and providing assistance in developing consistent accounting policies and in understanding and interpreting standards. It includes some new concepts, provides updated definitions and recognition criteria for assets and liabilities and clarifies certain important concepts. Such amendments did not have any impact on the consolidated financial statements at 31 December 2020.

Amendments to IFRS 3 – Definition of a business

The IASB issued amendments to the definition of a business in IFRS 3 - Business combinations to help companies determine whether an acquired set of assets and liabilities is a business or not. They clarify the minimum requirements to meet the definition of a business, remove the assessment of whether market participants are capable of replacing any missing elements, introduce guidance to help determine whether a substantive process has been acquired, and narrow the definition of a business. New illustrative examples are provided along with the amendments. Such amendments did not have any impact on the consolidated financial statements at 31 December 2020.

Amendments to IAS 1 and IAS 8

In October 2018, the IASB issued amendments to IAS 1 - Presentation of financial statements and IAS 8 - Accounting policies, changes in accounting estimates and errors to clarify the definition of “material” and to align the definition used in the standards. The new definition states that “Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity”. The amendments clarify that materiality depends on the nature or magnitude of information, or both. An entity assesses whether information, either individually or in combination with other information, is material in the context of its financial statements taken as a whole. Such amendments did not have any impact on the consolidated financial statements at 31 December 2020.

Interest rate benchmark reform – Amendments to IFRS 9, IAS 39 and IFRS 7

In September 2019, the IASB issued amendments to IFRS 9, IAS 39 and IFRS 7 - Financial instruments: disclosures, which concluded phase 1 of its work on the effects of the reform of interbank offered rates (IBOR) on financial reporting. The amendments provide temporary changes that allow hedge accounting during the period of uncertainty, replacing the pre-existing interest rate benchmark with a risk-free interest rate. The amendments assume that the interest rate benchmark on which hedged cash flows and/or the hedging instrument are based is not altered as a result of IBOR reform. The amendments shall be applied retrospectively The amendments are effective for annual periods beginning on or after 1 January 2020. The group will monitor developments in the amendments being reformed. Such amendments did not have any impact on the consolidated financial statements at 31 December 2020 as the Group does not have any interest rate hedges.

Revenue from contracts with customers

Revenue is measured considering the consideration specified in the contract with the customer. The group recognises revenue when it transfers control of the goods or services.

IFRS 15 - Revenue from contracts with customers defines how to recognise and measure revenue from contracts with customers. Generally, under IFRS 15, revenue is recognised at an amount that reflects the consideration to which the entity expects to be entitled in exchange for transferring goods or services to the customer. Specifically, an entity recognises revenue by applying the following five steps:

(i) identify the contract with a customer;

(ii) identify the performance obligations (i.e., the promises to transfer goods or services to a customer) in the contract;

(iii) determine the transaction price;

(iv) allocate the transaction price to the performance obligations in the contract on the basis of the relative stand-alone selling prices of each distinct good or service;

(v) recognise revenue when (or as) the entity satisfies a performance obligation.

The group's revenue chiefly derives from licences and research and development services contracted by customers.

With regard to licences to use the group's intellectual property, first of all the group determines whether the promise to grant the licence is distinct from other performance obligations. The obligation is distinct if:

- the customer can benefit from the good or service on its own or together with other resources that are readily available to the customer;
- the promise to transfer the good or service to the customer is separately identifiable from other promises in the contract.

If the promise to grant the licence is not distinct from the other promised goods or services in the contract, the group accounts for the promise to grant a licence and those other promised goods or services together as a single performance obligation.

If, on the other hand, the promise to grant the licence is distinct from the other promised goods or services in the contract, the group determines whether the customer obtains a right to access or a right to use the group's intellectual property. The customer obtains a right to access the group's intellectual property if all of the following criteria are met:

- the contract requires, or the customer reasonably expects, that the group will undertake activities that significantly affect the intellectual property to which the customer has rights;

- those activities do not result in the transfer of a good or a service to the customer as those activities occur;

- the rights granted by the licence directly expose the customer to any positive or negative effects of the group's activities with regard to its intellectual property.

If the promise to grant the licence provides a right to access the group's intellectual property, the revenue is recognised over time. Vice versa, if the licence provides the right to use the group's intellectual property, the relevant revenue is recognised at a point in time.

A summary of the main types of consideration, including significant payment terms, for the group's licences is provided below:

Type of consideration	**Recognition**
Upfront fees	Fees received before the contract is signed. If referred to granting a licence, they are recognised:

	— *at a point in time, if they provide the right to use the group's intellectual property;* — *over time, if they provide the right to access the group's intellectual property.* If there are no specific goods/services transferred to the customer upon collection of the upfront fee, this fee is an advance payment and is recognised as revenue over time when the performance obligations are satisfied. Invoices are generated when the contract is signed (at point in time). Such invoices are usually payable within 30 days. No discounts are provided.
Commercial option fees	If the licence is distinct from other performance obligations, it is recognised as the right to use the group's intellectual property and the relevant revenue is recognised at a point in time when the right is granted. If the licence is not distinct from other performance obligations, this fee is an advance payment and is recognised as revenue over time when the performance obligations are satisfied. Invoices are generated when the Group receives the notification by the customer related to the exercise of the commercial option (at point in time). Such invoices are usually payable within 30 days. No discounts are provided.
Milestones	These are a variable consideration subject to achieving specific significant objectives in the product development (e.g., beginning Phase 3 clinical trials). Upon signing the contract, management assesses whether achieving the milestones is highly probable and estimates the amount to be included in the transaction price as the most likely amount. If it is probable that there will not be a significant reversal in the amount of revenue recognised, the milestone amount is included in the transaction price. Consideration susceptible to factors outside the group's influence and that typically depend on obligations to be satisfied by the counterparty (e.g., approval of the product by regulatory authorities or reaching research phases carried out by the customer) is not considered highly probable until it is certain that the milestone will be reached (e.g., communication from the customer or regulatory authorities). At the end of each year, management reassesses the probability that all milestones will be reached and, if necessary, updates the estimated transaction price. Invoices are generated when the Group receives the notification by the customer related to achievement of the objective/event (at point in time). Such invoices are usually payable within 30 days. No discounts are provided.
Sales-based royalties	The group recognises revenue for a sales-based royalty only when (or as) the later of the following events occurs: — the subsequent sale or usage occurs; and — the performance obligation to which some or all of the sales-based royalty has been allocated has been satisfied (or partially satisfied). On average, the contractual term for collecting the above types of consideration is short term.

With regard to the other performance obligations included in contracts (typically regarding research and development activities or the sale of GMP products), the group recognises the transaction price allocated to such activities over time as the performance obligation is satisfied if one of the following criteria is met:

— the customer simultaneously receives and consumes the benefits provided by the group's performance as the group performs;
— the group's performance creates or enhances an asset that the customer controls as the asset is created or enhanced;
— the group's performance does not create an asset with an alternative use to the group and the group has an enforceable right to payment for performance completed to date.

If even one of the above criteria is not met, the performance obligation is considered satisfied when the good or service is transferred and the relevant revenue is recognised at a point in time.

Government grants

Unconditional government grants are recognised in profit or loss as other income when the grant becomes receivable. Other government grants are recognised initially at fair value as deferred income if there is reasonable assurance that they will be received and that the group will comply with the conditions associated with the grant. They are then recognised in profit or loss as other income on a systematic basis over the useful life of the asset.

Grants that compensate the group for expenses incurred are recognised in profit or loss on a systematic basis in the periods in which the expenses are recognised.

Cost recognition

Costs are recognised when they relate to goods or services purchased or consumed during the period or using the straight-line method on an accrual basis.

Financial income and expense

Financial income and expense are recognised on an accrual basis considering interest accrued on the carrying amount of the related financial assets and liabilities calculated using the effective interest method.

Financial expense is recognised under profit or loss on an accrual basis.

Financial income is recognised on an accrual basis using the effective rate of return.

The group's financial income and expense include:

- interest income;
- interest expense;
- dividend income;
- net gains or losses on financial assets at FVTPL;
- exchange gains or losses on financial assets and liabilities;
- reclassifications of net gains or losses previously recognised in other comprehensive income deriving from cash flow interest rate and currency hedges for loans and borrowings.

Interest income and expense are recognised under profit or loss on an accrual basis using the effective interest method. Dividend income is recognised when the group's right to receive payment of the dividend is established.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset:

- to the gross carrying amount of a financial asset; or
- to the amortised cost of a financial liability.

When calculating interest income and expense, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not deteriorated) or to the amortised cost of the liability. However, if the financial asset deteriorates after initial recognition, interest income is calculated by applying the effective interest rate to the amortised cost of the financial asset. If the asset is no longer deteriorated, interest income is calculated once more using the gross carrying amount.

Income taxes

Income tax expense comprises current and deferred tax. It is recognised in profit or loss except to the extent that it relates to a business combination or items recognised directly in equity or in other comprehensive income.

The group recognises interest and fines related to income taxes, along with the accounting treatments to be applied to uncertain tax positions, in accordance with IAS 37 - Provisions, contingent liabilities and contingent assets, as they do not meet the definition of income tax.

i) *Current tax*

Current tax comprises the expected tax payable or receivable on the taxable income or loss for the year and any adjustment to the tax payable or receivable in respect of previous years. The amount of current tax payable or receivable is the best estimate of the tax amount expected to be paid or received that reflects uncertainty related to income taxes, if any. It is measured using tax rates enacted or substantively enacted at the reporting date. Current tax also includes any tax arising from dividends.

Current tax assets and liabilities are offset only if certain criteria are met.

ii) Deferred tax

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for:

- temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;
- temporary differences related to investments in subsidiaries, associates and joint arrangements to the extent that the group is able to control the timing of the reversal of the temporary differences and it is probable that they will not reverse in the foreseeable future; and
- taxable temporary differences arising on the initial recognition of goodwill.

Deferred tax assets are recognised for deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be used. Future taxable profits are determined based on the reversal of temporary differences. If the taxable temporary differences are not sufficient to fully recognise a deferred tax asset, the group considers future taxable profits, adjusted for the reversal of existing temporary differences, as per the business plans of the individual group companies. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised; such reductions are reversed when the probability of future taxable profits improves.

Unrecognised deferred tax assets are reassessed at each reporting date and recognised to the extent that it has become probable that future taxable profits will be available against which they can be used.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date, and reflect any uncertainties regarding income taxes.

The measurement of deferred tax reflects the tax consequences that would follow from the manner in which the group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities. For this purpose, the carrying amount of investment property measured at fair value is presumed to be recovered through sale, and this presumption still applies.

Deferred tax assets and liabilities are offset only if certain criteria are met.

Operating profit (loss)

Operating profit is the result generated by the continuing principal revenue-producing activities of the group as well as other income and expenses related to operating activities. Operating profit excludes net financial expense and income taxes.

Earnings per share

Basic earnings per share are calculated using the profit for the year attributable to the ordinary shareholders and the weighted average number of ordinary shares outstanding during the year.

Diluted earnings per share are calculated using the profit for the period attributable to the ordinary shareholders and the weighted average number of ordinary shares outstanding during the period to take into consideration the effects of all potential dilutive ordinary shares. The calculation of the dilutive effect of potentially ordinary shares was based on the Treasury Shares Method prescribed by IAS 33 para 45-46.

Property, plant and equipment

i) *Recognition and measurement*

Items of property, plant and equipment are measured at cost, which includes capitalised borrowing costs, less accumulated depreciation and any accumulated impairment losses.

If significant parts of an item of property, plant and equipment have different useful lives, then they are accounted for as separate items (major components) of property, plant and equipment.

Any gain or loss on disposal of an item of property, plant and equipment is recognised within “Other income” and “Other operating costs”, respectively.

ii) *Subsequent expenditure*

Subsequent expenditure is capitalised only if it is probable that the future economic benefits associated with the expenditure will flow to the group.

iii) *Amortisation and depreciation*

Depreciation is calculated to write off the cost of items of property, plant and equipment less their estimated residual values using the straight-line method over their estimated useful lives, and is generally recognised within “Amortization and depreciation”. Land is not depreciated.

The estimated useful lives for current and comparative periods are as follows:

Category	*Rate*
Buildings	3%
Plant and machinery	20%
Automatic machinery	20%
Industrial and commercial equipment	15%
Cars	25%
Furniture and fittings	12%
Leasehold improvements	8%

Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

Intangible assets

i) *Recognition and measurement*

expenditure on research activities is recognised in profit or loss as incurred. Development expenditure is capitalised only if the expenditure can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable and the group intends to and has sufficient resources to complete development and to use or sell the asset. Otherwise, it is recognised in profit or loss as incurred. Development expenditure is measured at cost less accumulated amortisation and any accumulated impairment losses.

If not all the capitalisation requirements are met, the group’s research and development expenditure is fully expensed in the year in which it is incurred.

Other intangible assets*: other intangible assets, patents and licences that have finite useful lives are measured at cost less accumulated amortisation and any accumulated impairment losses.*

ii) *Subsequent expenditure*

Subsequent expenditure is capitalised on initial recognition only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognised in profit or loss as incurred.

iii) *Amortisation and depreciation*

Amortisation is recognised in profit or loss using the straight-line method over their estimated useful lives from when the asset is available for use.

The estimated useful lives for current and comparative periods are as follows:

Category	Average rate
Industrial patents and intellectual property rights	5%
Concessions, licences, trademarks and similar rights	10%

Amortisation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

Right-of-use assets

At inception of a contract, the group determines whether the contract is, or contains, a lease. A contract is, or contains, a lease if it conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The group uses the definition of a lease as per IFRS 16 in assessing whether a contract conveys the right to the control the use of an identified asset.

At inception of a contract or modification of a contract that contains a lease component, the group allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price.

At the commencement date of a lease, the group recognises a right-of-use asset and a lease liability. The right-of-use asset is initially measured at cost, comprising the amount of the initial measurement of the lease liability, adjusted by any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset or restoring the underlying asset or the site on which it is located, less any lease incentives received.

The group depreciates or amortises the right-of-use asset on a straight-line basis from the commencement date to the end of the lease term, unless the lease transfers ownership of the underlying asset to the group by the end of the lease term or if the cost of the right-of-use asset reflects that the group will exercise a purchase option. In such case the group depreciates the right-of-use asset along the useful life of the underlying asset, determined as for plant and machinery. Moreover, the right-of-use asset is regularly reduced by any impairment losses and adjusted to reflect any variations deriving from the subsequent measurement of the lease liability.

The group measures the lease liability at the present value of the lease payments that are not paid at the commencement date, discounting them using the interest rate implicit in the lease. If that rate cannot be readily determined, the group uses the incremental borrowing rate. Generally, the group uses the incremental borrowing rate as the discount rate.

The group's incremental borrowing rate is calculated on the basis of the interest rates obtained from various source of financing, making adjustments that reflect the lease terms and type of leased asset.

The lease payments included in the measurement of the lease liability comprise:

- fixed payments (including in-substance fixed payments);
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under residual value guarantees; and
- the exercise price of a purchase option if the group is reasonably certain to exercise that option, optional lease payments if the group is reasonably certain to exercise the option to extend the lease, and payments of penalties for terminating the lease, unless the group is reasonably certain that it will not terminate the lease.

The lease liability is measured at amortised cost using the effective interest method and remeasured if there is a change in future lease payments resulting from a change in an index or a rate, a change in the amounts expected to be payable under a residual value guarantee, a change in the assessment of whether to exercise a purchase, extension or termination option, or to reflect revised in-substance fixed lease payments.

A lessee shall recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. If the carrying amount of the right-of-use asset is reduced to zero, a lessee shall recognise any remaining amount of the remeasurement in profit or loss.

The group applied IFRS 16 using the modified retrospective approach at 1 January 2017.

Short-term leases and leases of low-value assets

The group decided not to recognise right-of-use assets and lease liabilities for short-term leases or leases of low-value assets, including IT equipment. It recognised the relevant lease payments as a cost on a straight-line basis over the term of the lease.

Leaseback

If an entity transfers an asset to another entity and leases that asset back, it shall determine, based on the provisions of IFRS 15, if the transfer should be accounted for as a sale. In this case, the seller-lessee shall measure the right-of-use asset arising from the leaseback at the proportion of the previous carrying amount of the asset that relates to the right of use retained by the seller-lessee. Accordingly, the seller-lessee shall recognise only the amount of any gain or loss that relates to the rights transferred to the buyer-lessor. If the fair value of the consideration for the sale of an asset does not equal the fair value of the asset, or if the payments for the lease are not at market rates, an entity shall make the following adjustments to measure the sale proceeds at fair value: (i) any below-market terms shall be accounted for as a prepayment of lease payments; and (ii) any above-market terms shall be accounted for as additional financing provided by the buyer-lessor to the seller-lessee.

Real estate investment

Property held to earn rentals and not owner occupied is classified as investment property in accordance with IAS 40 and is measured at cost. These assets comprise land and buildings (or part of buildings) held by the owner or lessee to lease under a finance or operating lease. Investment property is classified separately from other property owned. It is stated net of accumulated depreciation and any impairment losses. The useful life of the group's investment property is 33 years.

The carrying amount of investment property is tested for impairment when events or circumstances indicate that it cannot be recovered. Impairment losses are recognised in profit or loss under amortisation, depreciation and impairment losses. They are reversed when the reasons therefor no longer apply.

Investment property is derecognised on disposal (i.e., when the buyer obtains control) or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposal. The amount of consideration to be included in the gain or loss arising from the derecognition of an investment property is determined in accordance with the requirements for determining the transaction price in IFRS 15.

Inventories

Inventories are measured at the lower of cost and net realisable value. Purchase cost is the actual cost paid upon purchase including related charges. The purchase cost of materials includes their price, transport costs, customs and other duties and other directly attributable costs. Returns, commercial discounts, rebates and bonuses are deducted from costs. Production cost includes all direct costs and the reasonably attributable portion of indirect costs incurred from production up to when the asset is available for use, based on normal production capacity. The estimated realisable value based on market trends is the estimate of ordinary sales prices of goods and finished products, net of estimated completion costs and direct sales costs. Obsolescence and turnover are also taken into account in calculating the estimated realisable value based on market trends. The cost of inventories is determined using the weighted average cost model. In the case of goods produced by the group, cost includes an appropriate share of production overheads based on normal operating capacity.

Financial instruments

i) *Recognition and measurement*

Trade receivables and debt securities issued are initially recognised when they are originated. All other financial assets and financial liabilities are initially recognised when the group becomes a party to the contractual provisions of the instrument.

A financial asset or financial liability (unless it is a trade receivable without a significant financing component) is initially measured at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

ii) Classification and subsequent measurement

Financial assets:

On initial recognition, a financial asset is classified as measured at: amortised cost; fair value through other comprehensive income (FVOCI) – debt instrument; FVOCI – equity instrument; or fair value through profit or loss (FVTPL).

Financial assets are not reclassified subsequent to their initial recognition, except if the group changes its business model for managing financial assets. In this case, all the relevant financial assets are reclassified on the first day of the first reporting period following the change in business model.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A financial asset is measured at FVOCI if it meets both of the following conditions and is not designated as at FVTPL:

- the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition of an equity instrument that is not held for trading, the group may irrevocably elect to present subsequent changes in the investment's fair value in OCI. This election is made on an investment-by-investment basis.

All financial assets not classified as measured at amortised cost or FVOCI as described above are measured at FVTPL. This includes all derivative financial assets. On initial recognition, the group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Financial assets: business model assessment

IFRS 9 identifies three different business models which reflect how financial assets are managed; specifically:

i. Held to Collect: financial assets held with the objective to collect contractual cash flows, holding the instrument until maturity;
ii. Held to Collect and Sell: financial assets held with the objective to collect contractual cash flows and collect proceeds on selling the financial assets;
iii. Other: financial instruments that cannot be classified in the previous categories, mainly financial assets held to collect cash flows via sale (assets held for trading).

Therefore, the business model applied reflects how the group manages its financial assets, i.e., via which it intends to collect cash flows.

The group makes an assessment of the objective of the business model in which a financial asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice. These include whether management's strategy focuses on earning contractual interest income, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of any related liabilities or expected cash outflows or realising cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the group's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how managers of the business are compensated (e.g., whether compensation is based on the fair value of the assets managed or the contractual cash flows collected); and
- the frequency, volume and timing of sales of financial assets in prior periods, the reasons for such sales and expectations about future sales activity.

Transfers of financial assets to third parties in transactions that do not qualify for derecognition are not considered sales for this purpose, consistent with the group's continuing recognition of the assets.

Financial assets that are held for trading or are managed and whose performance is evaluated on a fair value basis are measured at FVTPL.

Financial assets: assessment whether contractual cash flows are solely payments of principal and interest

For the purposes of this assessment, "principal" is defined as the fair value of the financial asset on initial recognition. "Interest" is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as a profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the group considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making this assessment, the group considers:

- contingent events that would change the amount or timing of cash flows;
- terms that may adjust the contractual coupon rate, including variable rate features;
- prepayment and extension features; and

terms that limit the group's claim to cash flows from specified assets (e.g., non-recourse features).

A prepayment feature is consistent with the "solely payments of principal and interest" criterion if the prepayment amount substantially represents unpaid amounts of principal and interest on the principal amount outstanding, which may include reasonable additional compensation for early termination of the contract. Additionally, for a financial asset acquired at a significant discount or premium to its contractual nominal amount, a feature that permits or requires prepayment at an amount that substantially represents the contractual par amount plus accrued (but unpaid) contractual interest (which may also include reasonable additional compensation for early termination) is treated as consistent with this criterion if the fair value of the prepayment feature is insignificant at initial recognition.

Financial assets: subsequent measurement and gains and losses

Financial assets at FVTPL	These assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognised in profit or loss.
Financial assets at amortised cost	These assets are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss.

Debt instruments at FVOCI	These assets are subsequently measured at fair value if they pass the SPPI test. Interest income under the effective interest method, foreign exchange gains and losses and impairment are recognised in profit or loss. Other net gains and losses are recognised in OCI. On derecognition, gains and losses accumulated in OCI are reclassified to profit or loss.
Equity instruments at FVOCI	These assets are subsequently measured at fair value. Dividends are recognised as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses are recognised in OCI and are never reclassified to profit or loss.

Financial liabilities: classification, subsequent measurement and gains and losses

Financial liabilities are classified as measured at amortised cost or FVTPL. A financial liability is classified as at FVTPL if it is classified as held-for-trading, it is a derivative or it is designated as such on initial recognition. Financial liabilities at FVTPL are measured at fair value and gains and losses, including any interest expense, are recognised in profit or loss. Other financial liabilities are subsequently measured at amortised cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognised in profit or loss. Any gain or loss on derecognition is also recognised in profit or loss.

iii) Derecognition

Financial assets

The group derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the group neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

The group enters into transactions whereby it transfers assets recognised on its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets. In such cases, the transferred assets are not derecognised.

Financial liabilities

The group derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire. The group also derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different. In this case, a new financial liability based on the modified terms is recognised at fair value.

The difference between the carrying amount of the financial liability extinguished and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognised in profit or loss.

iv) Offsetting

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the group currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

Impairment losses

i) Financial instruments and contract assets

The group shall recognise a loss allowance for expected credit losses on:

- financial assets at amortised cost;
- debt instruments at FVOCI; and
- contract assets.

Moreover, the group recognises a loss allowance for lifetime expected credit losses on lease receivables under trade receivables and other assets.

The group measures the loss allowance at an amount equal to lifetime expected credit losses, with the exception of that set out below, for the next 12 months:

- debt instruments with a low credit risk at the reporting date; and
- other debt instruments or bank current accounts if the credit risk (i.e., the risk of a default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition.

Loss allowances for trade receivables (including lease receivables) and contract assets are always measured at an amount equal to lifetime expected credit losses.

To establish whether there has been a significant increase in the credit risk of a financial asset since initial recognition for the purpose of estimating the expected credit losses, the group considers all reasonable and supportable information that is available without undue cost or effort. This includes quantitative and qualitative information, past due information as well as forward-looking information.

Lifetime expected credit losses are the expected credit losses that result from all possible default events over the expected life of a financial instrument.

The 12-month expected credit losses are the expected credit losses that result from default events on a financial instrument that are possible within the 12 months after the reporting date (or a shorter period if the expected life of a financial instrument is less than 12 months).

The maximum period to consider when measuring expected credit losses is the maximum contractual period over which the group is exposed to credit risk.

Measurement of expected credit losses

Expected credit losses are a probability-weighted estimate of credit losses. They are the present value of all cash shortfalls (i.e., the difference between the cash flows that are due to an entity in accordance with the contract and the cash flows that the entity expects to receive).

Expected credit losses are discounted using the effective interest method.

Non-financial assets

At each reporting date, the group reviews the carrying amounts of its non-financial assets (other than investment property, inventories, contract assets and deferred tax assets) to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

Share capital
In accordance with IAS 32, the ordinary shares and other shares issued by the parent are classified as equity instruments.

Incremental costs directly attributable to the issue of ordinary shares are recognised as a deduction from equity. Income tax relating to transaction costs of an equity transaction is accounted for in accordance with IAS 12.

Provisions

Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised under financial expense.

Employee benefits

Starting from 1 January 2007, the 2007 Finance Act and relevant implementing decrees introduced significant amendments to regulations on post-employment benefits (TFR). Employees now choose whether to allocate their TFR to supplementary pension funds or the INPS treasury fund. As a result, obligations to INPS and supplementary pension fund contributions qualify as defined contribution plans under IAS 19, while the portions allocated to TFR remain defined benefit plans.

The group's net obligation in respect of defined benefit plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in the current and prior periods, discounting that amount and deducting the fair value of any plan assets.

The calculation of defined benefit obligations is performed by an independent actuary using the projected unit credit method. When the calculation results in a potential asset for the group, the recognised asset is limited to the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. To calculate the present value of economic benefits, consideration is given to any applicable minimum funding requirements.

Remeasurements of the net defined benefit liability, which comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest), are recognised immediately in OCI. The group determines the net interest expense (income) on the net defined benefit liability (asset) for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the then-net defined benefit liability (asset), taking into account any changes in the net defined benefit liability (asset) during the period as a result of contributions and benefit payments. Net interest expense and other expenses related to defined benefit plans are recognised in profit or loss.

When the benefits of a plan are changed or when a plan is curtailed, the resulting change in benefit that relates to past service or the gain or loss on curtailment is recognised immediately in profit or loss when the settlement or curtailment occurs.

Share-based payments

The assignment-date fair value of equity-settled share-based payment arrangements granted to employees is generally recognised as an expense, with a corresponding increase in equity, over the vesting period of the awards. The amount recognised as an expense is adjusted to reflect the number of awards for which the related service and non-market performance conditions are expected to be met, such that the amount ultimately recognised is based on the number of awards that meet the related service and non-market performance conditions at the vesting date. For share-based payment awards with non-vesting conditions, the assignment-date fair value of the share-based payment is measured to reflect such conditions and there is no true-up for differences between expected and actual outcomes.

The fair value of the amount payable to employees in respect of stock appreciation rights, which are settled in cash, is recognised as an expense with a corresponding increase in liabilities, over the period during which the employees become unconditionally entitled to payment. The liability is remeasured at each reporting date and at settlement date based on the fair value of the stock appreciation rights. Any changes in the liability are recognised in profit or loss.

Fair value measurement

A number of the group's accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities. When measuring the fair value of an asset or a liability, the group uses observable market data as far as possible. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

- Level 1: *quoted prices (unadjusted) in active markets for identical assets or liabilities.*
- Level 2: *inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices).*
- Level 3: *inputs for the asset or liability that are not based on observable market data (unobservable inputs).*

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the group has access at that date. The fair value of a liability reflects its non-fulfilment risk.

When one is available, the group measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If there is no quoted price in an active market, then the group uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

If an asset or a liability measured at fair value has a bid price and an ask price, then the group measures assets and long positions at a bid price and liabilities and short positions at an ask price.

The best evidence of the fair value of a financial instrument on initial recognition is normally the transaction price (i.e., the fair value of the consideration given or received). If the group determines that the fair value on initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique for which any unobservable inputs are judged to be insignificant in relation to the measurement, then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value on initial recognition and the transaction price. Subsequently, that difference is recognised in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is wholly supported by observable market data or the transaction is closed out.

Operating segment

Under IFRS 8 - Operating segments, an operating segment is a component of an entity:

- that engages in business activities from which it may earn revenues and incur expenses;

- whose operating results are regularly reviewed by the entity's chief operating decision maker;

- for which discrete financial information is available.

The Executive Chairman has been identified as the Chief Operating Decision Maker ("CODM").

The CODM receives information mainly from the Chief Medical Officer and from the Chief Financial Officer regarding the status of research programs, licence agreements, products, in order to monitor the business and make allocation decisions.

Management has identified just one business segment. Given that the group's activities are fairly similar and the percentage of progress of its ongoing projects, they cannot be split into more than one segment subject to risks and returns that are different from those of other business segments. Moreover, the services provided, the nature of the production processes and type of customers do not allow the division of the group's activities into more than one business segment. Accordingly, the parent deems that presentation by business and geographical segment would not provide a better view and understanding of the group's business or its risks and returns.

Accounting standards, amendments and interpretations not yet applicable

At the date of this Report, furthermore, the competent bodies of the European Union have not yet concluded the endorsement process necessary for the adoption of the following accounting standards and amendments:

- In May 2017, the IASB issued the new standard IFRS 17 "Insurance contracts". The new standard will replace IFRS 4 and will be applicable as of 1 January 2023.
- In January 2020, the IASB published several amendments to IAS 1 which clarify that the definition of "current" or "non-current" of a liability is based on the right existing at the reporting date. The amendments will be applicable as of 1 January 2022.
- In May 2020, the IASB published some restricted amendments to IFRS 3, IAS 16, IAS 17 and some annual revisions to IFRS 1, IFRS 9, IAS 41 and IFRS 16. The amendments will be applicable as of 1 January 2022.
- In August 2020, the IASB published some amendments to IFRS 7, IFRS 4 and IFRS 16. The amendments will be applicable as of 1 January 2021.

The Group will adopt these new standards, amendments and interpretations on the basis of the established application date and will evaluate their potential impacts when they are endorsed by the European Union.

Disclosure pursuant to art. 149-duodecies of the Issuers' Regulation

(€000s) **Type of services**	**Service provider**	**Recipient**	**notes**	**Total Fees 2020**
Audit	Auditor of the Parent Company	Parent		94
Other Services	i) Auditor of the Parent Company	Parent	1	680
	ii) Network of the auditor of the Parent Company		2	30
Subtotal				**804**
Audit	Network of the auditor of the Parent Company	Subsidiaries		12
Subtotal				**12**
Total				**816**

1) The item refers to services carried out as part of the listing process and the certification relating to the R&D Credit.

2) The item refers to services carried out as part of the listing process.

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Separate financial statements

Statement of profit or loss

(in Euros)	Notes	2020	*Of which: related parties*	2019	*Of which: related parties*
Revenue from contracts with customers	5	4,098,828	*245,372*	11,680,177	*351,949*
Other income	5	1,211,194		2,301,305	
Total revenue and income		**5,310,022**	***245,372***	**13,981,482**	***351,949***
Raw materials and consumables	6	(762,614)		(664,151)	
Service costs	6	(10,185,656)	*(4,874,425)*	(8,713,630)	*(4,012,331)*
Use of third party assets	6	(57,501)		(82,098)	
Personnel expenses	6	(3,769,062)		(3,678,581)	
Amortisation and depreciation	6	(1,074,194)	*(533,669)*	(719,857)	*(267,000)*
Other operating costs	6	(134,263)		(611,147)	
Total operating costs		**(15,983,290)**	***(5,408,094)***	**(14,469,464)**	***(4,279,331)***
Operating profit (loss)		**(10,673,268)**	***(5,162,772)***	**(487,982)**	***(3,927,382)***
Financial income	7	2,137,049		3,323,879	
Financial expense	7	(2,333,364)	*(207,386)*	(358,815)	*(163,000)*
Net financial income (expense)		**(196,315)**	***(207,386)***	**2,965,064**	***(163,000)***
Profit (loss) from investments	8	(1,686,080)	(1,686,080)	(218,266)	(218,266)
Pre-tax profit (loss)		**(12,555,663)**	***(7,056,238)***	**2,258,816**	***(4,308,648)***
Income taxes	9	(729,564)		(856,789)	
Profit for the year		**(13,285,227)**	***(7,056,238)***	**1,402,027**	***(4,308,648)***
Basic earnings (loss) per share (in Euros)	10	(0.37)		0.04	
Diluted earnings (loss) per share (in Euros)	10	(0.37)		0.04	

Statement of comprehensive income

(in Euros)	Notes	2020	2019
Profit (loss) for the period (A)		**(13,285,227)**	**1,402,027**
Other comprehensive expense that will be subsequently reclassified to profit or loss			
Share of other comprehensive income components of the investee companies valued at equity	14	36,587	150,953
Other comprehensive income (expense) that will be subsequently reclassified to profit or loss (B)		**36,587**	**150,953**
Other comprehensive income (expense) that will not be subsequently reclassified to profit or loss			
Actuarial gains (losses) on employee benefits	22	(10,421)	(55,876)
Tax effect	22	2,907	15,589
Other comprehensive income (expense) that will not be subsequently reclassified to profit or loss (C)		**(7,514)**	**(40,287)**
Other comprehensive income (expense) (B+C)		**29,073**	**110,666**
Comprehensive income (expense) net of tax (A+B+C)		**(13,256,154)**	**1,512,693**
Comprehensive income (expense) attributable to the owners of the parent company		(13,256,154)	1,512,693

Statement of financial position

(in Euros)	Notes	31 December 2020	*Of which: related parties*	31 December 2019	*Of which: related parties*	1 January 2019	*Of which: related parties*
ASSETS							
Property, plant and equipment	11	3,866,408		1,036,705		8,723,167	
Intangible assets	12	790,504		748,259		628,435	
Right-of-use assets	13	7,376,146	*7,204,530*	7,914,115	*7,738,199*	49,261	
Equity investments	14	2,369,323		4,018,816		4,086,128	
Deferred tax assets	9	1,172,260		2,019,964		2,274,238	
Non-current assets		**15,574,641**	***7,204,530***	**15,737,859**	***7,738,199***	**15,761,230**	
Inventories	15	712,036		531,575		396,548	
Trade receivables	16	753,899	*239,586*	639,608	*351,949*	8,899,499	
Tax assets	17	3,780,107		2,854,369		2,806,127	
Other current financial assets	18	49,983,756		70,962,186		30,693,249	
Other current assets	19	667,881		766,887		1,214,668	
Cash and cash equivalents	20	11,649,980		2,981,857		6,224,562	
Current assets		**67,547,659**	***239,586***	**78,736,482**	***351,949***	**50,234,653**	
Total assets		**83,122,300**	***7,444,116***	**94,474,341**	***8,090,148***	**65,995,883**	
EQUITY							
Share capital		5,158,105		5,158,105		4,250,000	
Share premium reserve		54,917,761		54,917,761		17,016,000	
Other reserves		8,882,266		7,324,924		8,890,627	
Profit for the year		(13,285,227)		1,402,027		10,097,029	
Total equity	**21**	**55,672,904**	**-**	**68,802,817**	**-**	**40,253,657**	
LIABILITIES							
Employee benefits	22	846,646		803,364		676,167	
Non-current lease liabilities	13	6,948,116	*6,864,149*	7,448,676	*7,321,972*	18,585	
Non-current financial liabilities	23	4,629,357		681,855		2,760,042	
Deferred tax liabilities	9	176,925		299,591		263,794	
Non-current liabilities		**12,601,044**	***6,864,149***	**9,233,486**	***7,321,972***	**3,718,589**	
Current financial liabilities	23	2,547,564	*1,464,306*	4,663,755	*4,145,937*	10,757,811	
Current lease liabilities	13	501,229	*454,882*	465,025	*439,614*	26,301	
Trade payables	24	5,116,651	*1,321,613*	3,108,947	*45,239*	2,004,966	*38,982*
Contract liabilities	25	4,155,369		7,207,554		8,146,554	
Tax liabilities	17	361,906		328,082		430,521	
Other current liabilities	26	2,165,633		664,675		657,485	
Current liabilities		**14,848,352**	***3,240,741***	**16,438,037**	***4,630,789***	**22,023,637**	***38,982***
Total liabilities		**27,449,396**	***10,104,890***	**25,671,524**	***11,952,761***	**25,742,226**	***38,982***
Total equity and liabilities		**83,122,300**	***10,104,890***	**94,474,341**	**11,952,761**	**65,995,883**	***38,982***

Statement of changes in equity

(in Euros)			Other reserves										
	Share capital	Share premium reserve	Revaluation reserve	Legal reserve	FTA IFRS reserve	Translation reserve	Goodwill	Actuarial reserve	Share-based payment reserve	Retained earnings	Total other reserves	Profit (loss) for the period	Total equity
Opening balances at 1 January 2019	**4,250,000**	**17,016,000**	**1,676,367**	**850,000**	**(7,421,458)**	**935,172**	**50,236**	**17,958**	**-**	**12,782,353**	**8,890,627**	**10,097,029**	**40,253,657**
Allocation of prior year/period profit										10,097,029	**10,097,029**	**(10,097,029)**	**-**
Dividends		(11,780,869)								(10,097,029)	**(10,097,029)**		**(21,877,898)**
Increase in share capital	908,105	61,099,148									**-**		**62,007,253**
Demerger of business unit		(11,416,518)	(1,676,367)						-		**(1,676,367)**		**(13,092,885)**
Profit for the period											**-**	**1,402,027**	**1,402,027**
Other comprehensive income (expense), net of tax						150,953		(40,286)			**110,667**		**110,667**
Closing balances at 31 December 2019	**5,158,105**	**54,917,761**	**-**	**850,000**	**(7,421,458)**	**1,086,125**	**50,236**	**(22,328)**	**-**	**12,782,350**	**7,324,924**	**1,402,027**	**68,802,817**
Opening balances at 1 January 2020	**5,158,105**	**54,917,761**	**-**	**850,000**	**(7,421,458)**	**1,086,125**	**50,236**	**(22,328)**	**-**	**12,782,350**	**7,324,924**	**1,402,027**	**68,802,817**
Allocation of prior year/period profit				41,915						1,360,112	**1,402,027**	(1,402,027)	**-**
Profit (loss) from investments											**-**		**-**
Dividends											**-**		**-**
Incentive plan									627,059		**627,059**		**627,059**
Cancellation of Incentive plan			-						(627,059)	127,000	**(500,059)**		**(500,059)**
Profit for the period											**-**	(13,285,227)	**(13,285,227)**
Other comprehensive income (expense), net of tax						36,587		(7,513)			**29,074**		**29,074**
Closing balances at 31 December 2020	**5,158,105**	**54,917,761**	**-**	**891,916**	**(7,421,458)**	**1,122,712**	**50,236**	**(29,842)**	**-**	**14,268,704**	**8,882,266**	**(13,285,227)**	**55,672,904**

Statement of cash flows

(in Euros)	Notes	2020	*Of which: related parties*	2019	*Of which: related parties*
Cash flows from operating activities					
Profit for the year		(13,285,227)	(7,056,660)	1,402,027	*(4,308,648)*
Adjusted by:					
Depreciation of property, plant and equipment and amortisation of intangible assets	6	1,074,194	*533,669*	719,857	*267,000*
Net financial income (expense)	7	196,315	*207,386*	(2,965,064)	*163,000*
Accrual to provisions and employee benefits	6	93,609		84,500	
Income taxes	9	729,564		856,790	
Profit (loss) from investments		1,686,080	*1,686,552*	218,266	*218,266*
Other non-monetary adjustments		278,448		335,702	
Variations in:					
Inventories	15	(180,461)		(135,027)	
Contract assets		-		-	
Trade receivables	16	(114,291)	106,557	8,259,891	351,949
Contract liabilities	25	(3,052,185)		(939,000)	
Trade payables	24	2,007,704	*(1,276,375)*	1,103,981	*6,254*
Other current assets and liabilities (*)	17,19,26	708,050		304,290	
Use of provisions and employee benefits	22	(66,399)		(20,500)	
Interest paid	7	(774,618)		(229,815)	
Income taxes paid	9	(386)		(551,979)	
Cash flows generated by/used in operating activities (A)		**(10,699,603)**	***(5,798,871)***	**8,443,919**	***(3,302,179)***
Cash flows from investing activities					
Interest collected	7	1,084,399		2,518,412	
Proceeds from the sale of financial assets	18	28,338,756		18,825,000	
Acquisition of property, plant and equipment	11	(3,157,753)		(518,217)	
Acquisition of intangible assets	12	(191,463)		(208,157)	
Acquisition of other financial assets	18	(8,004,856)		(58,745,134)	
Cash flows generated by/used in investing activities (B)		**18,069,083**	**-**	**(38,128,096)**	**-**
Cash flows from financing activities					
Proceeds from the issuing of shares	21	-		62,007,253	*62,007,253*
New loans and borrowings	23	5,000,000		4,145,936	*4,145,936*
Repayments of loans and borrowings	23	(3,169,000)	*(2,681,631)*	(10,591,179)	
Payment of lease liabilities	13	(532,357)	*(531,794)*	(302,639)	*(302,639)*
Dividends paid	21	-		(21,877,898)	*(21,877,898)*
Cash flows generated by/used in financing activities (C)		**1,298,643**	***(3,213,426)***	**33,381,473**	***43,972,653***
Total cash flows (A + B + C)		**8,668,123**	***(9,012,297)***	**3,697,295**	***40,670,474***
Opening cash and cash equivalents	**20**	**2,981,857**		**6,224,562**	
Change in cash and cash equivalents for the year		8,668,123		3,697,295	
Decrease in liquid funds due to the demerger		-		(6,940,000)	
Closing cash and cash equivalents	**20**	**11,649,980**		**2,981,857**	

(*) Includes: other current assets, other current liabilities, tax liabilities and assets.

Notes to the separate financial statements at 31 December 2020

Basis of presentation

1. Foreword

On 3 March 2021, Philogen S.p.A. (hereinafter, the "Company") was listed on the MTA market organised and managed by Borsa Italiana S.p.A. More specifically, 4,061,111 shares were issued, corresponding to roughly 10% of the Company's share capital on the trading start date at a price of €17 each.

EC Regulation 1606/2002 of the European Parliament and of the Council of 19 July 2002 (the "EC Regulation") introduced the requirement for all companies with shares traded on a regulated market to prepare separate financial statements under the IFRS starting from 2005. This Regulation was incorporated into Italian law with Legislative decree no. 38 of 28 February 2005 under which companies not covered by the EC Regulation could nonetheless choose to prepare their separate financial statements under the IFRS starting from the year ended 31 December 2005.

2. Company that prepares the financial statements

Philogen S.p.A. is based in Italy with registered offices at Piazza La Lizza 7, Siena. The company is chiefly active in the integrated biotechnologies sector and, specifically, in the development of advanced biopharmaceutical products to treat illnesses characterised by or associated with angiogenesis, mainly based on antibody conjugates able to obtain a selective deposit in the sites where the pathology is found. Philogen holds a controlling interest in Philochem AG of 99.99% of the share capital of the subsidiary, with registered office in Zurich, Switzerland, which performs the activities of pharmaceutical research and discovery of therapeutic antibodies and DNA-encoded self-assembling chemical libraries.

Pursuant to article 2497-bis.5 of the Italian Civil Code, it is noted that the Company is not managed and coordinated by another company.

3. Basis of preparation

These financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standard Board (IASB) and endorsed by the European Union. The IFRS include all the interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC), previously known as the Standing Interpretations Committee (SIC).

The financial statements at 31 December 2020 are the Company's first set drawn up under the IFRS; therefore, it applied IFRS 1 - First-time adoption of International Financial Reporting Standards.

These financial statements were approved and authorised for publication by the Company's Board of Directors on 27 April 2021.

Details on the standards adopted are provided in note 34.

Information on how the transition to the IFRS impacted the Company's financial position, performance and cash flows is provided in note 35.

Functional and presentation currency

These financial statements are expressed in Euros, the Company's functional currency. All amounts are rounded to the nearest thousand, unless specified otherwise. Furthermore, any differences in tables are due to the rounding of amounts expressed in thousands of Euros.

Use of estimates and judgements

In preparing these financial statements, management formulated estimates and judgements which affect the application of accounting standards and the carrying amounts of assets, liabilities, costs and revenue. However, as these are estimates, the actual figures may differ from those set out in these consolidated financial statements.

Such estimates and the underlying assumptions are revised regularly. Any variations deriving from such revisions are recognised prospectively.

Below is a summary of the financial statements captions that require a higher degree of subjectivity by directors in formulating estimates and which could have a significant impact on the consolidated financial statements, should the underlying assumptions used vary.

— *Judgements*

Management decisions which have the most significant effects on carrying amounts are detailed in the following notes:

- Notes 5 and 34 - revenue recognition: establishing whether revenue from licences should be recognised at a point in time or over time;
- Notes 18 and 34 - securities recognition: assessing the business model and the relevant recognition;
- Notes 13 and 34 - lease term: main assumptions regarding renewal options beyond the non-cancellable period of the lease.

— *Uncertainties in estimates*

For the year ended 31 December 2020, information on the assumptions and uncertainties in estimates that entail a significant risk of material variations to the carrying amounts of assets and liabilities in the financial statements of the subsequent year is provided in the following notes:

- Notes 5 and 34 - revenue recognition; assumption in determining the transaction price in relation to variable consideration;
- Notes 22 and 34 - measurement of defined benefit obligations: main actuarial assumptions;
- Note 34 - measurement of financial instruments: main assumptions underlying fair value measurement;
- Note 34 - definition of the discount rate: main assumptions regarding the calculation of the incremental borrowing rate (IBR) in the absence of an implicit interest rate;
- Notes 8 and 34 – recognition and measurement of equity investments;
- Notes 9 and 34 - recognition of deferred tax assets: availability of future taxable profits against which deductible temporary differences and tax losses carried forward can be used;
- Notes 13 and 14 - impairment test on non-current assets and equity investments: main assumptions used in determining recoverable amounts;
- Note 34 - recognition and measurement of provisions and contingent liabilities: main assumptions on the probability and extent of outflows;
- Note 34 - measurement of the loss allowance for trade receivables and contract assets: main assumptions used in determining expected credit losses.

Change in accounting standards

The Financial Statements at 31 December 2020 represent the first IFRS financial statements of Philogen S.p.A. and therefore IFRS 1 applies.

The date of transition is 1 January 2019, which is the beginning of the earliest period for which the company presents comparative information in its first financial statements.

In accordance with IFRS 1, the Company applied the same accounting standards in its opening statement of financial position prepared under the IFRS at 1 January 2019. Such accounting standards comply with each IFRS applicable at the reporting date of 31 December 2020, the first year reported under the IFRS, except for any exemptions/options allowed by IFRS 1, commented on in the specific sections of the notes, where applicable.

Therefore, changes to accounting standards with respect to the previous year are not relevant for the purposes of these financial statements.

Details on the standards adopted by the Company are provided in note 34.

4. Segment reporting

For the purposes of IFRS 8, management identified a sole operating segment, “Biotechnologies”, which comprises all of the activities performed by the Company and its subsidiary.

The Company is chiefly active in the integrated biotechnologies sector and, specifically, in the development of advanced biopharmaceutical products to treat illnesses characterised by or associated with angiogenesis, mainly based on antibody conjugates able to obtain a selective deposit in the sites where the pathology is found.

A breakdown of revenue from contracts with customers by type of product/service and geographical segment and information on the Company’s rate of dependence on its top customers is provided in note 5.

The Executive Chairman has been identified as the Chief Operating Decision Maker (“CODM").

Statement of profit or loss

5. Revenue and income

(€000s)	31 December	
	2020	2019
Revenue from contracts with customers	4,099	11,680
Other income	1,211	2,301
Total revenue and income	**5,310**	**13,981**

Revenue from contracts with customers

Revenue from contracts with customers mainly derives from licence fees and research and development activities contracted by third parties. €245 thousand also refers to intercompany revenue relating to low value added activities (administrative, HR, IT support) which the Company performs to support the subsidiary Philochem.

Revenue from contracts with customers as at 31 December 2020 amounts to €4,099 thousand, down €7,581 thousand compared to the previous year. The change can mainly be attributed to:

- the Company’s decision, following the entry of new shareholders in 2019, to consider opportunities for the licensing of its proprietary products, focusing on the clinical development of some more advanced products in the pipeline while also continuing with the development activities set forth in existing contracts. This resulted in low revenue from contracts in 2020, on one hand due to the signing of a lower number of licence and collaboration agreements (which generally call for the payment to the Company of a more or less variable amount as an upfront fee) and on the other hand due to the development costs incurred on products in the pipeline that are not licensed, in order to accelerate their development, rather than on licensed products, also due to what is described in the point below with reference to the decrease in activities set forth in the contract to be performed by the Company;
- the presence in the statement of profit or loss at 31 December 2019 of: (i) revenue from a specific collaboration and licence contract, still active, which envisaged development activities to be performed by the Company, which were completed and paid for in 2019; the subsequent milestones established in that contract depend on the activities carried out by the counterparty and at 31 December 2020 they had not yet been reached; and (ii) revenue from a specific collaboration and licence contract, still active, which envisages development activities to be performed by the Company, for which the progress of the projects and the relative revenue was higher in 2019 than in 2020.

Revenue recognised at 31 December 2020 refers for roughly 74% to consideration recognised over time in relation to the development of Product 1 and for the remaining 26% to revenue for R&D services recognised at a point in time.

Further details on revenue from contracts with customers are provided below:

Breakdown by type of consideration

(€000s)	31 December

	2020	2019
Upfront and maintenance fees from licensing contracts	3,052	10,946
R&D services	1,047	733
Total revenue from contracts with customers	**4,099**	**11,680**

Breakdown by recognition method

(€000s)	31 December	
	2020	2019
Recognised at a point in time	1,047	958
Recognised over time	3,052	10,721
Total revenue from contracts with customers	**4,099**	**11,680**

Breakdown by geographical segment

(€000s)	31 December	
	2020	2019
USA	3,052	10,946
European Union	801	382
Non-EU (Switzerland)	245	351
Total revenue from contracts with customers	**4,099**	**11,680**

Breakdown by type of product/service

(€000s)	31 December	
	2020	2019
Product 1	3,052	5,203
Product 2	-	5,518
Product 3	-	225
Other research and development services	1,047	733
Total revenue from contracts with customers	**4,099**	**11,680**

A breakdown of customers that generate over 10% of the Company's total revenue from contracts with customers, as per IFRS 8.34, is provided below:

(€000s)	31 December			
	2020	%	2019	%
Customer 1	-	-	5,518	*47%*
Customer 2	3,052	*74%*	5,203	*45%*
Customer 3	-	-	225	*2%*
Customer 4	801	*20%*	-	-
Other customers < 10%	245	*6%*	733	*6%*
Total revenue from contracts with customers	**4,099**	***100%***	**11,680**	***100%***

Other income

(€000s)	31 December	
	2020	2019
Grants related to income	1,181	2,227
Sundry income	30	74
Total other income	**1,211**	**2,301**

Other income comprises primarily:

- research grants, mainly related to research projects co-funded by the European Community and the Tuscany Region;

- grants deriving from tax benefits, such as the credit for research and development activities and the Industry 4.0 credit for investments made during the year.

The decline in other income of €1,090 thousand primarily to be attributed to the fact that the majority of the projects funded in the course of 2019 have concluded and, to date, there are fewer active projects than in the previous year. This item was also impacted by continuously evolving tax regulations which impact the extent of the subsidies due and how they are calculated. In particular, the 2020 Budget Law:

- modified the methodology for calculating the research and development credit;
- established the Covid-19 sanitisation credit;
- established a specific "Industry 4.0 Credit" tax credit to replace super and hyper amortisation.

6. Operating costs

A breakdown of operating costs at 31 December 2020 and 2019 is provided below:

(€000s)	31 December	
	2020	2019
Raw materials and consumables	763	664
Service costs	10,186	8,714
Use of third-party assets	58	82
Personnel expenses	3,769	3,679
Amortisation and depreciation	1,074	720
Other operating costs	134	611
Total operating costs	**15,983**	**14,469**

Raw materials and consumables

This caption amounts to €763 thousand at 31 December 2020 (€664 thousand at 31 December 2019) and mainly includes the cost of materials used in laboratories, changes in which depend on drug production activities for clinical trials in progress and/or for the production of antibodies for third parties.

Service costs

These include, inter alia:

(€000s)	31 December	
	2020	2019
Costs for clinics and CROs	2,015	2,923
Research and development outsourcing services	1,693	703
Intercompany services	2,221	2,239
Remuneration of company officers (net of contributions)	2,764	1,154
Corporate and consultancy costs	572	785
Utilities and overheads	263	223
Social security contributions on remuneration of company officers	102	82
Other services	556	605
Total service costs	**10,186**	**8,714**

Service costs mostly comprise costs related to operating activities, or costs incurred to carry out clinical trials and for research and development outsourcing services.

The €908 thousand drop in costs for clinics and CROS is due to the decrease in the costs of services entrusted to external CROs (contract research organisations), mainly in the US.

The €990 thousand increase in research and development outsourcing services, on the other hand, is attributable to the rise in costs for toxicological studies due to greater pre-clinical activities required by the FDA for a product under development in the US.

The change in costs for the remuneration of company officers of €1,610 is due primarily to the allocation for the bonus provided to a member of the Board of Directors (see note 28) paid in March 2021.

Service costs also include intercompany services for €2,221 thousand, basically aligned with last year. The activities carried out by the subsidiary may be summarised in two macro-areas: (i) research and development activities contracted by third parties; (ii) activities relating to project management for clinical trials under way in the Philogen pipeline.

The €213 thousand decrease in corporate and consultancy expenses is due to the property reorganisation transactions carried out in 2019. In 2020, this item included extraordinary consultancy for €442 thousand and administrative and tax consultancy for €54 thousand.

Use of third-party assets

Costs for the use of third party assets amount to €58 thousand at 31 December 2020, with a balance basically unchanged compared to the previous year (€82 thousand at 31 December 2019). This item includes rental costs, exclusively related to short-term or low-value leases (not included in the scope of IFRS 16) and variable consideration (additional costs quantified when incurred) not included in the calculation of lease liabilities and right-of-use assets as per IFRS 16.

Personnel expenses

A breakdown of personnel expenses for the years ended 31 December 2020 and 2019 is provided below:

(€000s)	31 December	
	2020	2019
Wages and salaries	2,753	2,692
Social security contributions	828	811
Post-employment benefits	94	93
Other personnel expenses	94	84
Total personnel expenses	**3,769**	**3,679**

The increase in personnel expenses of €90 thousand is due to the rise in the average number of employees, as shown in the following table:

	31 December 2020	31 December 2019	Variation
Average number of employees	69	68	+1

Amortisation and depreciation

A breakdown of this caption at 31 December 2020 and 2019 is provided below:

(€000s)	31 December	
	2020	2019
Amortisation of intangible assets	140	88
Depreciation of property, plant and equipment	329	325
Depreciation/amortisation of right-of-use assets	604	307
Total amortisation and depreciation	**1,074**	**720**

Amortisation and depreciation increased €354 thousand from €720 thousand at 31 December 2019 to €1,074 thousand at 31 December 2020.

Amortisation of intangible assets chiefly refers to patents. The €52 thousand increase at 31 December 2020 on the previous year is mainly due to:

- new capitalisations carried out in 2020;
- acceleration of the amortisation of certain types of patents (equal to €65 thousand for the year ended 31 December 2020 and €13 thousand for the year ended 31 December 2019), whose income-generating potential ended earlier than anticipated during the year as the Company does not expect to receive further economic benefits from their use.

Depreciation of property, plant and equipment mainly refers to production plant and laboratory equipment.

Depreciation/amortisation of right-of-use assets increased by €300 thousand in 2020 compared to the prior year. This change is mostly related to the extraordinary property restructuring transactions carried out in 2019. These transactions resulted in the demerger of the Company's owner-occupied buildings and simultaneous lease of such assets, which were recognised as right-of-use assets (see note 12 for further details). Therefore, as such transactions were carried out in 2019, depreciation/amortisation of right-of-use assets refers to the full year ended 31 December 2020, but only a few months in the comparative year.

Other operating costs

A breakdown of this caption for 31 December 2020 and 2019 is provided below:

(€000s)	31 December	
	2020	2019
Membership fees	33	28
Company vehicles	11	19
Non-deductible taxes and duties	4	468
Entertainment costs	21	36
Sundry operating costs	66	61
Total other operating costs	**134**	**611**

The overall decline of €477 thousand in other operating costs is primarily due to the recognition in the year ended at 31 December 2019 of non-deductible taxes relating to a foreign withholding tax, withheld in the course of 2018 on the payment of a license right granted in the US and offset in 2019 for up to the total amount of IRES to be paid, by virtue of article 165 of the Consolidated Income Tax Act, in order to eliminate double taxation. As only 50% of licensing revenue contributed to Italian taxable income, as a result of the patent box, 50% of the foreign tax credit (roughly €460,000) became a "non-deductible cost" in 2019.

Sundry operating costs mainly refer to prior year expense and sundry management costs.

7. Net financial income (expense)

Financial income and expense are as follows:

(€000s)	31 December	
	2020	2019
Financial income		
Gains on financial assets	440	528
Profits on the sale of financial assets	644	1,991
Fair value gains	463	668
Exchange gains	589	137
Financial income	**2,137**	**3,324**
Financial expense		
Loan interest expense	(56)	(69)
Lease interest expense	(212)	(161)
Interest cost on employee benefits	(6)	(10)
Losses on the sale of financial assets	(506)	-
Fair value losses	(843)	(119)
Exchange losses	(710)	-
Financial expense	**(2,333)**	**(359)**
Net financial income (expense)	**(196)**	**2,965**

The company recorded net financial expense of €196 thousand at 31 December 2020, a deterioration of €3,161 thousand compared to the year that closed at 31 December 2019 when it recorded net financial income of €2,965 thousand.

The main impact on this caption relates to the net fair value losses on financial assets at fair value through profit or loss at 31 December 2020, amounting to €380 thousand, due to the downturn in the financial markets as a result of the Covid-19 pandemic.

Gains on financial assets and profits/losses on the sale of financial assets mainly refer to income on securities in portfolio (bond coupons, dividends on shares and income from investment funds) and profits/losses on the sale of financial assets. The variation of the year refers to the change in the portfolio mix and the Company's disinvestment policies.

Lease interest expense increased by approximately €51 thousand in the year that ended at 31 December 2020 and this change is mostly related to the property restructuring transactions carried out in 2019. Indeed, such transactions entailed the demerger of the real estate unit of the Company with the simultaneous lease of such assets, with the recognition of the relative lease liabilities (see note 12 for further details). Therefore, as such transactions were carried out in 2019, lease interest expense refers to the year ended 31 December 2020, but only a few months in the same period of 2019.

8. Profit (loss) from investments

This item consists of:

(€000s)	31 December	
	2020	2019
Negative differences from equity method valuations of subsidiaries	(1,686)	(218)
Dividends from investments	-	-
Total Profit (loss) from investments	**(1,686)**	**(218)**

9. Income taxes

The Company accrues taxes on the basis of applicable tax regulations. Current taxes refer to the taxes for the year as set out in the estimate made in preparing the consolidated financial statements. Under ruling regulations, tax returns are filed in the second half of the subsequent year, with possible updates made to the calculation that could lead to differences implemented in the subsequent year. Taxes relative to prior years comprise direct taxes for prior years, including interest and fines, and also refer to the positive (or negative) difference following the settlement of a dispute or assessment with respect to the amount accrued in previous years.

A breakdown of income taxes at 31 December 2020 and 2019 is provided below:

(€000s)	31 December	
	2020	2019
Current tax	-	(552)
Deferred tax	(730)	(305)
Total income taxes	**(730)**	**(857)**

Deferred taxes refer exclusively to the reversal of the tax effects of transition to the IFRS. Reference should be made to the table provided below for movements of the period.

Reconciliation of effective tax rate

The reconciliation of the income tax expense shown in the financial statements and the theoretical expense determined using the IRES rate applicable to the Company for the years ended at 31 December 2020 and 2019 is as follows:

(€000s)	31 December	
	2020	2019
Pre-tax profit (loss)	(12,556)	2,259
Theoretical tax rate	(24.0)%	(24.0)%
Theoretical IRES expense (A)	**3,014**	**(542)**
Adjusted by:		
Tax effect on patent box relief	-	240
Tax effect on untaxed revenue for R&D tax asset	245	467
Tax effect on untaxed revenue for Industry 4.0 tax asset	11	-
Taxes relative to prior years	-	(552)
Tax effect on unrecognised tax losses for the year	(3,662)	(257)
Tax effect on other increases (decreases)	(218)	(176)
Reversal of temporary differences for IRAP purposes	(119)	(37)
Total adjustments (B)	**(3,743)**	**(346)**
Total effective tax income (expense) (A+B)	**(730)**	**(857)**
Effective tax rate	***5.8%***	***(37.9)%***

Starting from 2015, the Company benefits from the optional tax regime known as “patent box”, which, under certain conditions, allows tax relief on income from the direct or indirect use of industrial patents, copyrighted software, designs and prototypes, in addition to processes and industrial, commercial or scientific know-how, introduced in Italy by Law no. 190 of 22 December 2014.

Also starting from 2015, the Company benefits from tax asset recognised as per Law Decree no. 145/2013 (as subsequently amended) for investments in research and development activities.

Lastly, starting from 2020, the Company benefits from the Industry 4.0 credit introduced by Law no. 160 of 27 December 2019, to replace the super and hyper-amortisation regime, which consists of a tax credit for investments incurred by the Company in the reference year in a variable percentage depending on the nature of the investment.

Such tax benefits reduce the taxable base permanently.

Furthermore, the Company recognised tax losses for the years ended at 31 December 2020 and 2019, partly due to the above benefits. However, it decided not to recognise deferred tax assets on such losses due to the uncertainties inherent to research and development activities and, thus, the Company's ability to achieve future taxable profits.

Movements in deferred tax balances

A breakdown of deferred tax assets and liabilities from 1 January to 31 December 2019 and at 31 December 2020, along with the changes therein, is provided below (balances exclusively derived from the IFRS transition entries):

(€000s)	Carrying amount at 1 January 2019	Utilisation	Accrual	Carrying amount at 31 December 2019
Deferred tax assets				
Contract liabilities with customers	2,273	(262)		2,011
Intangible assets	1	-	-	1
Property, plant and equipment	-	-	-	-
right-of-use assets	-	-	-	-
IAS 19 reserve (recognised in OCI)	-	-	8	8
Total deferred tax assets	**2,274**	**(262)**	**8**	**2,020**
Deferred tax liabilities				
Other financial assets	119	-	22	142
Intangible assets	139	-	20	159
Actuarial reserve	6	(6)		-
Total deferred tax liabilities	**264**	**(6)**	**42**	**300**

(€000s)	Carrying amount at 1 January 2020	Utilisation	Accrual	Carrying amount at 31 December 2020
Deferred tax assets				
Contract liabilities with customers	2,011	(850)		1,159
Intangible assets	1	-	-	1
Property, plant and equipment	-	-	-	-
Right-of-use assets	-	-	-	-
IAS 19 reserve (recognised in OCI)	8	-	4	12
Total deferred tax assets	**2,020**	**(850)**	**4**	**1,172**
Deferred tax liabilities				
Other financial assets	141	(131)	-	10
Intangible assets	159	-	8	167
Total deferred tax liabilities	**300**	**(131)**	**8**	**177**

Uncertainties over income tax treatments

At 31 December 2020, there are no tax claims with the tax authority, which might generate uncertainties over income tax treatment.

10. Earnings per share

Basic earnings per share are calculated using the profit for the year attributable to the ordinary shareholders and the weighted average number of ordinary shares outstanding during the years 2020 and 2019.

Diluted earnings per share are calculated using the profit for the year attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding during the year to account for the effect of all the potential ordinary shares with a dilutive effect.

The following table shows the profit and information about the shares used to calculate the basic and diluted earnings per share:

Basic and diluted earnings per share	31 December	
	2020	2019
Profit (Loss) for the year - (in thousands of Euros) (A)	(13,285)	1,402
Weighted average number of ordinary shares outstanding (B)	35,550,000	38,368,082
Weighted average number of potential dilutive ordinary shares outstanding (C)	1,000,000	594,521
Weighted average number of options to shares outstanding (D)	-	-
Weighted average number of shares outstanding adjusted for dilutive effects (E=B+C+D)	36,550,000	38,962,603
Basic earnings (loss) per share - in Euros (A/B*1000)	(0.37)	0.04
Diluted earnings (loss) per share - in Euros (A/E*1000) (*)	(0.37)	0.04

(*) The diluted loss per share for the year ended at 31 December 2020 was calculated without considering the instruments in item (C) due to the loss for the period.

(C) The number of potential dilutive ordinary shares outstanding at 31 December 2020 and 2019 amounts to 1,000,000, because each performance share, class 1 share and class 2 share can be converted into ordinary shares at a rate of 6 ordinary shares for each special or performance share upon the occurrence of certain events described in note n. 20 ("Class 1 and 2 special shares and performance shares"). The weighted average number of potential ordinary shares for the year ended 31 December 2019, amounted to 594,521, has been calculated considering the days between the date of the share capital increase (28 May 2019) and 31 December 2019, hence 217 days out of 365. Such shares were converted into ordinary shares when the listing took place.

(D) No options on outstanding shares were considered as the stock option plan was cancelled, as mentioned in the directors' report and in the section relating to subsequent events.

Assets

11. Property, plant and equipment

A breakdown of changes in this caption during the period and the comparative period is provided below:

(€000s)	Land and buildings	Plant and machinery	Industrial and commercial equipment	Leasehold improvements	Other assets	Assets under construction and payments on account	Total
Historical cost	9,011	1,524	2,813	-	530	1,019	14,897
Accumulated depreciation/amortisation	(2,118)	(1,154)	(2,475)	-	(427)	-	(6,174)
Carrying amount at 1 January 2019	**6,893**	**370**	**339**	**-**	**103**	**1,019**	**8,723**
Increases	-	52	649	61	5	28	792
(Decreases)	-	(77)	(19)	-	(1)	-	(97)
(Decreases due to the demerger)	(6,829)	-	-	-	(32)	(1,019)	(7,880)
Amortisation and depreciation	(64)	(92)	(127)	(5)	(42)	-	(330)
Historical cost	-	1,499	3,440	61	502	28	5,530
Accumulated depreciation/amortisation	-	(1,128)	(2,923)	(5)	(438)	-	(4,494)
Carrying amount at 31 December 2019	**-**	**371**	**517**	**56**	**64**	**28**	**1,037**
Increases		55	806	18	1	2,262	3,142
(Decreases)	-	-	-	-	(10)	-	(10)
Amortisation and depreciation	-	(103)	(186)	(7)	(33)	-	(329)
Historical cost	-	1,554	4,246	79	493	2,290	8,662
Accumulated depreciation/amortisation	-	(1,231)	(3,109)	(12)	(444)	-	(4,796)
Carrying amount at 31 December 2020	**-**	**323**	**1,137**	**67**	**49**	**2,290**	**3,866**

Plant and machinery mainly refer to instrumentation for the laboratories used for operating activities.

Industrial and commercial equipment mainly refer to the fitting out of the Montarioso production facilities. The increase of €806 thousand instead relates to the new industrial equipment linked to the new facility under construction at the Rosia site.

Other assets refer mainly to company cars and furniture and fittings. Company cars are given to employees for both business and private use and also to some members of the board of directors.

Assets under construction and payments on account mostly refer to amounts paid to build a new GMP plant, along with the reactivation and revamping of current research and development laboratories and the quality control of the Rosia property. The above-mentioned Rosia expansion project envisages the construction of a new "GMP" biotechnology plant inclusive of all advanced and automated technology plants and equipment, for a total value of roughly €10-12 million, which will be funded in part with Company liquidity and in part with loans already obtained by 31 December 2020 (please see Note 23 for further details). Specifically, in the course of 2020 the company made investments totalling €2,262 thousand primarily relating to the construction of the new GMP plant.

Total investments incurred by the Company in the course of 2020 in property, plant and equipment amounted to roughly €3,142 thousand.

12. Intangible assets

A breakdown of changes in this caption during the period is provided below:

(€000s)	Industrial patents and intellectual property rights	Concessions, licences, trademarks and similar rights	Total
Historical cost	1,623	111	1,734
Accumulated depreciation/amortisation	(1,000)	(108)	(1,108)
Carrying amount at 01 January 2019	**624**	**3**	**628**
Increases	202	4	206
(Decreases)	-	-	-
Amortisation and depreciation	(81)	(3)	(84)
Historical cost	1,825	115	1,940
Accumulated depreciation/amortisation	(1,081)	(111)	(1,192)
Carrying amount at 31 December 2019	**744**	**4**	**748**
Increases	179	4	183
(Decreases)	-	-	-
Amortisation and depreciation	(138)	(3)	(140)
Historical cost	2,004	119	2,123
Accumulated depreciation/amortisation	(1,219)	(114)	(1,333)
Carrying amount at 31 December 2020	**782**	**5**	**790**

At 31 December 2020, the Company has roughly 43 international patents and over 100 domestic patents. The €179 thousand increase in patent and intellectual property usage rights recognised during the year 2020 refers to costs incurred by the Company to file patent requests for new tumour applications and to file them in specific countries around the world to acquire the exclusive right to use the inventions in such countries.

Concessions, licences and trademarks mostly refer to software licences.

The group does not have any assets with an indefinite life, goodwill or intangible assets that are not yet in use.

13. Right-of-use assets and lease liabilities

A breakdown of the assets and liabilities related to the Company's leases (mainly as a lessee) is provided in the following tables:

(€000s)	Buildings	Cars	IT services	Total
Historical cost	-	35	43	78
Accumulated depreciation/amortisation	-	(4)	(25)	(28)
Carrying amount at 1 January 2019	**-**	**31**	**18**	**49**
Increases	8,106	65	-	8,171

(Decreases)	-	-	-	-
Amortisation and depreciation	(268)	(26)	(12)	(307)
Historical cost	8,106	100	43	8,249
Accumulated depreciation/amortisation	(268)	(30)	(37)	(335)
Carrying amount at 31 December 2019	**7,838**	**70**	**6**	**7,914**
Increases	-	-	68	68
(Decreases)	-	-	-	-
Amortisation and depreciation	(549)	(33)	(23)	(605)
Historical cost	8,106	100	111	8,317
Accumulated depreciation/amortisation	(818)	(63)	(60)	(940)
Carrying amount at 31 December 2020	**7,288**	**37**	**51**	**7,376**

The right-of-use assets recognised at 31 December 2020 mostly refer to the lease of two buildings used by the Company to manage its operating activities. Specifically, the Company rolled out an operational and structural restructuring project in 2019 aimed at separating its property unit from its operating unit. It simultaneously signed leases which led to the recognition of right-of-use assets and lease liabilities in accordance with IFRS 16.

A breakdown of changes in this caption during the period and the comparative period is provided below:

(€000s)	
Lease liabilities at 1 January 2019	**45**
Increases	8,171
Decreases	-
Repayment of principal	(303)
Lease liabilities at 31 December 2019	**7,914**
Increases	68
Decreases	-
Repayment of principal	(532)
Lease liabilities at 31 December 2020	**7,449**
Of which: current	501
Of which: non-current	6,948

A breakdown of cash outflows related to the group's leases in the years 2020 and 2019 is provided in the following table:

(€000s)	31 December	
	2020	2019
Principal (buildings)	443	243
Interest expense on leases (buildings)	207	163
Principal (cars)	41	46
Interest expense on leases (cars)	4	2
Principal (IT services)	49	13
Interest expense on leases (IT services)	1	-
Total cash outflows for leases	**745**	**467**

In calculating the right-of-use assets and lease liabilities, the Company applied a discount rate of 2.73% for leases relating to property assets, vehicles and IT services subject to leases;

The Company did not detect any indicators of impairment for right-of-use assets at 31 December 2020.

Impairment testing

At 31 December 2020 there were no elements at the reporting date such to suggest that the reasons for the recognition of property, plant and equipment, intangible assets and right-of-use assets no longer applied. No other indicators of impairment were identified that would have led group management to believe that property, plant and equipment, intangible assets or right-of-use assets were impaired. Therefore, no impairment tests were carried out.

14. Equity investments

The main information taken from the statutory financial statements of Philochem, the only subsidiary company of Philogen is provided below:

Company	Registered office	Investment held directly or indirectly (*)	Share capital at 31 December 2020	Equity at 31 December 2020	Profit (loss) for the year 2020
Philochem AG	Switzerland	99.99% (**)	CHF 5,051,000	CHF 3,993,631	CHF (2,567,945)

(*) the portion of the capital held by Philogen in Philochem corresponds to the percentage of voting rights.
(**) Duccio Neri and Dario Neri each hold 1 share of Philochem.

The item Equity investments is broken down as follows:

(€000s)	31 December 2020	31 December 2019
Equity investments	2,369	4,019
Total equity investments	**2,369**	**4,019**

The changes for the year are shown below:

(€000s)

	1 January 2019	Profit (loss) 2019	Translation reserve	Decreases	Dividends	31 December 2019
Equity investments	4,086	(218)	151	-	-	4,019
Total equity investments	**4,086**	**(218)**	**151**	**-**	**-**	**4,019**

(€000s)

	1 January 2020	Profit (loss) 2020	Translation reserve	Decreases	Dividends	31 December 2020
Equity investments	4,019	(1,686)	37	-	-	2,369
Total equity investments	**4,019**	**(1,686)**	**37**	**-**	**-**	**2,369**

15. Inventories

This caption is broken down as follows:

(€000s)	31 December 2020	31 December 2019
Raw materials and consumables	712	532
Total inventories	**712**	**532**

Raw materials and consumables comprise inventories measured at the lower of purchase cost and the market value. At 31 December 2020 inventories, amounting to €712 thousand, rose by €180 thousand compared to 2019 primarily due to the increased procurement of consumables required for drug development and production.

16. Trade receivables

This caption is broken down as follows:

(€000s)	31 December 2020	31 December 2019
Trade receivables	515	492
Intercompany receivables	240	148
Total trade receivables	**754**	**640**

Trade receivables amount to €754 thousand at 31 December 2020, in line with the previous year, with a slight increase of around €114 thousand. The change derives from the issue of an invoice relating to research and development activities in December 2020, which was collected in the initial months of 2021.

Overdue exposures are monitored by the administration department by periodically analysing the main exposures. The expected credit loss as per IFRS 9 is not significant due to the type of customers the Company has and the contractual terms related to collection times.

Breakdown of current receivables by geographical segment

A breakdown of current receivables by geographical segment is provided below.

(€000s)	Geographical segment	
	31 December 2020	31 December 2019
Italy	-	34
European Union	508	29
Non-EU (USA)	6	225
Non-EU (other)	240	352
Total trade receivables	**754**	**640**

17. Tax assets and liabilities

Tax assets are broken down as follows:

(€000s)	31 December 2020	31 December 2019
Sundry tax credits	2,138	1,946
VAT assets	1,306	707
Other tax assets	336	202
Total tax assets	**3,780**	**2,854**

The item sundry tax assets consists primarily of the research and development credit which refers to the tax benefit obtained in relation to costs incurred for research and development activities. In particular, the item includes:

- 2020 research and development tax credit of €1,022 thousand;
- Industry 4.0 credit of €46 thousand;
- sanitisation credit of €19 thousand.

The remainder of €1,051 refers to the excess 2019 research and development credit, which the Company expects to use this credit through offsetting during 2021.

Other tax assets mainly include withholding taxes.

Tax liabilities are broken down as follows:

(€000s)	31 December 2020	31 December 2019
Current income taxes	-	158
Amounts due to the tax authorities for withholdings	169	170
Other tax liabilities	193	-
Total tax liabilities	**362**	**328**

Current income taxes show a nil balance at 31 December 2020, down by €158 thousand compared to 31 December 2019 as, at 31 December 2020, there were no income taxes due.

Other tax liabilities mostly include amounts due to the tax authorities as a result of an assessment carried out in December 2019 and subsequently settled via an agreement. The Company opted to settle the tax liability in quarterly instalments, to be offset against other taxes.

18. Other current financial assets

Changes in other current financial assets are detailed as follows:

(€000s)	Other current financial assets
Carrying amount at 1 January 2019	**30,693**

Increases	58,745
(Decreases)	(18,929)
Fair value losses on financial assets	549
Variation in accrued income on coupons	(96)
Balance at 31 December 2019	**70,962**
Increases	8,005
(Decreases)	(28,472)
Net fair value losses	(380)
Variation in accrued income on coupons	(132)
Carrying amount at 31 December 2020	**49,984**

The Company invested excess liquidity in financial assets, mainly with Mediobanca along with a small portion deposited with Banca Monte dei Paschi di Siena.

Other current financial assets include:

- securities held in portfolio, comprising insurance policies, equity instruments and fund units, held in order to collect contractual cash flows and for trading and whose contractual terms do not provide solely for payments of principal and interest on the principal amount outstanding (thus they do not pass the SPPI test). Therefore, these were required to be measured at fair value through profit or loss (FVTPL);

- bonds in portfolio, included in the "other" business model, which are measured at fair value through profit or loss.

In the course of 2020, the Company sold nearly all bonds in its portfolio at 31.12.2019.

The following table shows the breakdown of the current financial assets:

(€ 000s)	31 December 2020	31 December 2019
Financial instruments held to collect and sell		
Shares	3,159	960
Provisions	4,917	4,738
Insurance investment products	41,552	51,470
Total	**49,618**	**57,168**
Other financial instruments		
Bonds and certificates	365	13,662
Accrued income on coupons	-	132
Total	**356**	**13,794**
Total other current financial assets	**49,984**	**70,962**

Regarding the Insurance investment products, which amounted to €41,552 thousands at 31 December 2020 (€51,470 thousands at 31 December 2019), the Company has two investment contracts with two different insurance companies. Philogen S.p.A. is the policyholder and the only beneficiary.

The first one is an insurance investment product, signed during 2019, for a total value of approximately €30 million at 30 September 2020 (€40 million at 31 December 2019). This investment has been divided into two separate sub-funds (the weight of each sub-fund is approximately 50% of the invested capital) consisting of:

- A segregated fund, which consists of a life insurance investment product with redemption value depending on the return on segregated fund. Management invests resources mainly in the following asset classes: government bonds and other securities; equity instruments and fund units. This contract includes a guarantee for the capital invested;
- A dedicated internal fund, which can invest in shares, corporate bonds, government bonds, investment funds and cash and cash equivalents. As at 31 December 2020, the dedicated internal fund is divided as follows: 5% in government bonds, 9% in corporate bonds; 8% in shares, 73% in investment funds, 4% in cash and cash equivalents and 1% structured bonds.

The second contract, signed off in 2013 for approximately €10 million, is a life insurance investment product with redemption value depending on the return on segregated fund. Management invests resources mainly in the following asset classes: government bonds and other securities; equity instruments and fund units. At least 70% of the assets is

made up of bonds and the exposure in shares and OICR quotas does not exceed 10% of the assets under management. This contract includes a guarantee for the capital invested.

Both financial instruments above described are promptly payable.

Please note that in the early months of 2021, the internal fund policy was transformed into a segregated fund policy in order to reduce investment risk.

The fair value of non-current financial assets amounts to roughly €49,984 thousand at 31 December 2020, down on 31 December 2019 due to:

- redemption of a portion of the liquidity invested in insurance investment products amounting to approximately €13,898 thousand;
- sale/maturity of a portion of the securities portfolio for roughly €14,440 thousand;
- investment in new financial instruments for a total of €8,005 thousand.

Some securities in portfolio had a market value lower than their carrying amount at 31 December 2020. Therefore, net fair value losses of roughly €380 thousand were recognised.

19. Other current assets

This caption is broken down as follows:

(€000s)	31 December 2020	31 December 2019
Other	561	684
Other current assets	106	82
Other current assets	**668**	**767**

Other mainly refers to advances to third-party suppliers and sundry assets.

Other current assets mostly include prepayments related to costs incurred in advance and recognised on an accrual basis.

20. Cash and cash equivalents

A breakdown of this caption is provided below:

(€000s)	31 December 2020	31 December 2019
Bank and postal accounts	11,649	2,980
Cash-in-hand and cash equivalents	1	2
Cash and cash equivalents	**11,650**	**2,982**

The Company has Euro and foreign currency (US dollar) current accounts.

Reference should be made to the statement of cash flows for further details on changes in cash flows during the year ended at 31 December 2020.

Net financial indebtedness

A breakdown of the Net financial indebtedness at 31 December 2020 and 31 December 2019 is provided below as required by Consob resolution no. DEM/6064293 of 28 July 2006:

(€000s)	31 December 2020	31 December 2019
(A) Cash	1	2
(B) Cash equivalent	11,649	2,980
(C) Trading securities	49,984	70,962
(D) Liquidity (A)+(B)+(C)	**61,634**	**73,944**
(E) Current financial receivable	**-**	**-**
(F) Current Bank debt	4	18
(G) Current portion of non-current debt	2,544	4,646

(H) Other current financial debt	501	465
(I) Current Financial Debt (F)+(G)+(H)	**3,049**	**5,129**
(J) Net Current Financial Indebtedness (I)-(E)-(D)	**(58,585)**	**(68,815)**
(K) Non-current Bank loans	4,629	682
(L) Bonds issued	-	-
(M) Other non-current loans	6,948	7,449
(N) Non-current Financial Indebtedness (K)+(L)+(M)	**11,577**	**8,131**
(O) Net Financial Indebtedness (J)+(N)	**(47,007)**	**(60,685)**

Below is a reconciliation of the items in the net financial indebtedness table with the statement of financial position captions:

- "Cash" (A) and "Cash equivalents" (B) are classified in "Cash and cash equivalents";
- "Trading securities" (C) are classified in "Other current financial assets";
- "Current Bank debt" (F) and "Current portion of non-current debt" (G) are classified in "Current financial liabilities";
- "Other current financial debt" (H) is classified in "Current lease liabilities";
- "Non-current Bank loans" (K) are classified in "Non-current financial liabilities";
- "Other non-current loans" (M) are classified in "Non-current lease liabilities".

There are no time deposits.

Equity and liabilities

21. Equity

The statement of changes in equity for the years ended 31 December 2020 is included among the financial schedules.

As already specified in the introduction, the Company was admitted to listing on the MTA market organised and managed by Borsa Italiana S.p.A. on 3 March 2021. More specifically, 4,061,111 shares were issued, corresponding to roughly 10% of the share capital at the start of trading at a price of €17 each.

A. Share capital

The shares issued by the Company represent the entire share capital of €5,158,104.64 comprised of 35,500,000 shares belonging to different classes.

The total number of shares at 31 December 2020 and 31 December 2019 is as follows:

Share class	Total number of shares outstanding at	
	31 December 2020	31 December 2019
Ordinary shares	6,807,245	6,807,245
Class 1 special shares	100,000	100,000
Class 2 special shares	50,000	50,000
Performance shares	50,000	50,000
Loyalty shares	11,368,250	11,368,250
Class A ordinary shares	7,861,251	7,861,251
Class B ordinary shares	9,313,254	9,313,254
Total	**35,550,000**	**35,550,000**

As can be seen in the analysis of changes in equity, on 15 May 2019, the Company carried out a paid share capital increase of roughly €62 million, broken down between share capital for €908 thousand and the share premium reserve for €61 million, intended primarily for the development of the pipeline, the strengthening of clinical trials and the expansion of Good Manufacturing Practices ("GMP") activities.

The Company has not issued bonus shares.

The main characteristics of the above classes of shares are set out below.

Ordinary shares

The ordinary shares are registered and indivisible, can be freely traded and give holders the same rights. Specifically, each ordinary share attributes voting rights in ordinary and extraordinary shareholders' meetings in addition to dividend and voting rights as per the law and the by-laws.

Class 1 and 2 special shares and performance shares

The performance and special shares attribute the same rights as ordinary shares and also have the following characteristics:

iv) performance shares do not grant voting rights in ordinary and extraordinary shareholders' meetings and can only be held by a party who hold shares of other classes that include the right to receive dividends;

v) all performance and special shares outstanding are automatically converted into ordinary shares at a rate of six ordinary shares for each special or performance share (as applicable) where:

(i) before a listing:

(A) there is a change of control following a transfer that sets a price of €14.00 or higher per share;

(B) the full tag along right is exercised for a nominal value of €14.00 or higher per share and under the terms and conditions set out in article 19 of the parent's by-laws;

(C) the full drag along right is exercised under the terms and conditions set out in article 20 of the by-laws;

(D) the (1) proportional tag along right or (2) proportional drag along right is exercised, for a nominal value of €15.00 or higher per share under the terms and conditions of article 19 and article 20, respectively, of the by-laws;

(ii) in the event of a listing on a leading domestic or international market, the initial market price of the ordinary shares at the listing date is higher than €15.00;

(iii) in the event of a listing, where within 48 months starting from the listing date and, in any case, within 60 months starting from 15 May 2019, the official price of the ordinary shares traded on the relevant market, for at least 15 out of 30 consecutive trading days, is €14.00 or higher per share, notwithstanding the fact that, in the event of adjustments to the value of the parent's ordinary shares communicated to the manager of the stock market, the nominal value of €15.00 as per point (ii) (if the market is organised and managed by the Italian Stock Exchange) and the nominal value of €14.00 as per point (iii) will be adjusted at "coefficient K" notified by the manager of the stock market;

vi) all performance and special shares outstanding are converted into ordinary shares at a rate of 1 (one) ordinary share for each performance or special share (as applicable), if, before a listing, the proportional tag along right is exercised, for a nominal value of less than €15.00 under the terms and conditions of article 19 of the by-laws;

vii) within 60 months from 15 May 2019: (i) the performance shares not already converted automatically pursuant to letter (b) points (i) to (iii) and letter (c) are cancelled without any amendment to the share capital. In this case, due to the cancellation of the performance shares, the board of directors shall: (a) note the cancellation in the shareholders' register; (b) file the by-laws with the amendment to the total number of shares, with the elimination of the lapsed clauses due to the lack of performance shares outstanding with the company registrar pursuant to article 2436.6 of the Italian Civil Code; and (c) prepare all the necessary reports and statements; and (ii) the residual special shares not already converted automatically pursuant to letter (b) points (i) to (iii) and letter (c) are automatically converted at a rate of one ordinary share for each special share (as applicable).

As noted in the introduction, the Company was admitted to trading on the MTA market in March 2021 and the shares listed above were converted into ordinary shares.

Loyalty shares

Loyalty shares attribute the same rights and obligations as ordinary shares and have the following characteristics:

(a) they grant three votes at shareholders' meetings;

(b) they are automatically converted into ordinary shares in the event of listing on a leading domestic or international market at a rate of one ordinary share for each loyalty share, notwithstanding the fact that loyalty shares are not converted into ordinary shares in the event of listing on the AIM.

Class A and B shares

Class A and B shares attribute the same rights as ordinary shares as well as the additional rights set out in the by-laws. The difference between the two classes is the number of directors that they can appoint, i.e., five and two, respectively.

Finally, a class of shares are converted into ordinary shares pursuant to the parent's by-laws automatically, that is, in the event of rights being exercised as per article 19 of the by-laws, upon the request of the shareholders and the conversion occurs without the need for any expression of will by the holders of the shares and without any amendment to the share capital, notwithstanding the fact that such conversion could lead to a reduction in the implied accounting par value of the shares and, in the event of the conversion of less than 100% of the shares, a different percentage being held in the class of shares by the holders of such shares.

As noted in the introduction, the Company was admitted to trading on the MTA market in March 2021 and the shares listed above were converted into ordinary shares.

B. Type and purpose of reserves

The breakdown of equity is shown below with an indication of the nature and purpose of the reserves:

(€000s)	Type	Possibility of use	31 December 2020	31 December 2019
Share capital			5,158	5,158
Share premium reserve	Share capital	A, B, C	54,918	54,918
Legal reserve	Income-related	A, B	892	850
FTA IFRS reserve	Income-related	A, B	(7,421)	(7,421)
Translation reserve	Income-related	A, B	1,123	1,086
Goodwill	Share capital	A, B	50	50
Actuarial reserve	Income-related	A, B	(30)	(22)
Retained earnings	Income-related	A, B, C	14,269	12,782
Profit (loss) for the year			(13,285)	1,402
Equity			**55,673**	**68,803**

Key:

A) For share capital increase
B) To cover losses
C) For dividend distribution

C. Dividends

The Company did not distribute dividends in 2020, as shown in the table below, in order to boost the Company's financial soundness.

(€ 000s)	31 December 2020	31 December 2019
Dividends	-	21,878

With regard to the dividends distributed in 2019, at their meeting of 7 May 2019, the shareholders resolved to distribute ordinary and extraordinary dividends as follows:

- considering the positive performance in 2018 and the new agreements signed in 2019, the shareholders resolved to distribute an ordinary dividend of €0.075 per share for a total of €3,187,500 to be taken from the profit for 2018. The dividend was distributed to the shareholders listed in the shareholders' register at the date of approval of the 2018 financial statements and was paid out in May;

- considering the strategies rolled out by the parent and their current progress status, which are, inter alia, aimed at implementing new ways of strengthening the parent's equity through the entry of new shareholders, the shareholders

resolved to distribute an extraordinary dividend to the Philogen shareholders listed in the shareholders' register at the date of approval of the 2018 financial statements to be determined on the basis of the reserves and distributable profits from the latest approval financial statements (i.e., at 31 December 2018). Accordingly, an extraordinary dividend of roughly €18.6 million was distributed on 15 October 2019.

D. Demerger of business unit

In March 2019, the Company's board of directors approved the partial proportional demerger of the property unit of Philogen S.p.A. to the newco Rendo S.r.l., which has the same quotaholders/shareholders as Philogen S.p.A.. This extraordinary transaction was approved by the parent's shareholders at their meeting of 18 April 2019, while the demerger deed was agreed on 9 May 2019 and registered with the chamber of commerce on 14 May 2019. Rendo S.r.l. was incorporated on 14 May 2019 with legal, accounting and tax effects of the demerger beginning on such date pursuant to article 2506-quater of the Italian Civil Code. Such operation determined an equity decrease of €13,093, of which €11,417 related to the share premium reserve and €1,676 related to the revaluation reserve.

E. Incentive plan with share-based payment

In order to implement an incentive plan for a member of the board of directors and scientific committee due to their commitment to developing certain products, the board of directors approved the report as per article 2441.6 of the Italian Civil Code on the capital increase reserved for the director on 26 March 2020.

At their meeting of 28 April 2020, the shareholders of Philogen approved the capital increase against payment in more than one transaction, excluding a pre-emption right, via the issue of 426,600 shares which make up 1.2% of the share capital.

The incentive plan represents an equity-settled share-based arrangement in accordance with IFRS 2, entailing the recognition of service costs (directors' remuneration) with a balancing entry in the specific equity reserve.

On 25 November the Company and the Beneficiary entered into an agreement pursuant to which, as an alternative to the Reserved Capital Increase, in the case of the Company's listing or a change of control, as defined pursuant to art. 2359 of the Italian Civil Code (Acceleration Events) by 31 December 2021, the Company would be able to confer to the Beneficiary, instead of the Reserved Capital Increase, a bonus in correlation with the quality and quantity of activities carried out in favour of the Company, equal to €1,500,000 (the Bonus). This resulted in the cancellation of the incentive plan and the ensuing reclassification of the equity reserve in part to payables and in part to retained earnings.

Reference should be made to note 3 "Transactions during the period" for further details.

Capital management

The Company's capital management policies are to maintain a high level of capital in order to retain stakeholder trust while also enabling future development of activities. Moreover, management constantly monitors the return on capital and the level of dividends to be distributed to holders of ordinary shares.

The board of directors works to maintain balance between achieving greater returns via higher borrowings and enjoying the advantages and security offered by a solid financial position.

22. Employee benefits

This caption includes all the pension obligations, other post-employment benefits or benefits due upon specific requirements being met. It comprises accrual for post-employment benefits related to employees. These liabilities amount to €847 thousand at 31 December 2020 (€803 thousand at 31 December 2019). Variations during the years 2020 and 2019 are as follows:

(€ 000s)	31 December 2020	31 December 2019
Opening balance	803	676
Utilisations	(66)	(21)
Post-employment benefits	94	85
Financial expense	6	10
Actuarial gains (losses)	10	53
Total employee benefits	**847**	**803**

The provisions are an estimate of the obligation, determined using actuarial methods, regarding the amount to be paid to employees upon termination of their employment. At 31 December 2020 and 31 December 2019, the provisions refer to post-employment benefits ("TFR") accrued for employees.

Post-employment benefits are recognised as defined benefit plans in accordance with IAS 19 - Employee benefits and are determined using an actuarial calculation, prepared by an expert, in line with the provisions of the IFRS.

As per IAS 19, post-employment benefits are measured using the methodology set out in recent provisions introduced by the Italian Order of Actuaries together with the Italian Accounting Standard Setter (OIC), the Italian Association of Auditors (Assirevi) and the Association of Italian Banks (ABI) for companies with more than 50 employees.

The main assumptions used for the actuarial estimation are as follows:

Economic assumptions	31 December 2020	31 December 2019
Annual inflation rate	0.80%	1.20%
Annual discount rate	0.34%	0.77%
Annual TFR growth rate	2.10%	2.40%

Annual rate of turnover and TFR advances paid	31 December 2020	31 December 2019
Rate of advances paid	2.00%	2.00%
Turnover rate	10.00%	10.00%

Demographic assumptions	31 December 2020	31 December 2019
Death	RG48 mortality tables published by the State General Accounting Office	RG48 mortality tables published by the State General Accounting Office
Disability	INPS (Italian Social Security Institution) tables by age and gender	INPS (Italian Social Security Institution) tables by age and gender
Retirement	100% upon meeting the AGO (compulsory general insurance) requirements adjusted to Legislative decree no. 4/2019	100% upon meeting the AGO (compulsory general insurance) requirements adjusted to Legislative decree no. 4/2019

23. Current and non-current financial liabilities

A breakdown of changes in these captions during the period and the comparative period is provided below:

(€ 000s)	Financial liabilities
Financial liabilities at 1 January 2019	**13,518**
New loans and borrowings	4,146
(Repayment of principal)	(591)
(Decrease in loans due to demerger)	(1,727)
(Change in current financial liabilities)	(10,000)
Financial liabilities at 31 December 2019	**5,346**
New loans and borrowings	5,000
Repayment of principal	(3,169)
Financial liabilities at 31 December 2020	**7,177**
Of which: current	2,548
Of which: non-current	4,629

(€ 000s)	31 December 2020	31 December 2019
Current financial liabilities	2,548	4,664
Non-current financial liabilities	4,629	682
Total financial liabilities	**7,177**	**5,346**

Financial liabilities are represented by:

- subsidised loan at the rate of 1.70% deriving from the Sabatini Law, equal to €709,000 at 31 December 2020 and €1,181,000 at 31 December 2019. The decrease compared to 31 December 2019 is due to the repayment of principal during 2020;
- medium/long-term loan taken out from UBI Banca S.p.A. on 5 January 2021, for a total of €5,000,000, broken down as follows:

  (i) loan for €2,350,000 maturing on 7 January 2027 with a variable rate equal to the 3M Euribor, plus a spread of 1.15%
  (ii) loan for €2,650,000 maturing on 7 April 2024 with a variable rate equal to the 3M Euribor, plus a spread of 1.15%

The amount of the two loans was disbursed in the form of pre-financing on 26 November 2020.

Both loans from UBI S.p.A. are 90% backed by Medio Credito Centrale, making use of the facilitations provided by Law Decree no. 23 of 8 April 2020, converted with amendments by Law no. 40 of 5 June 2020, as amended ("Liquidity" Decree).

Please also note that these loans were taken out to partially finance the Rosia expansion project, which envisages the construction of a new "GMP" biotechnology plant inclusive of all advanced and automated technology plants and equipment, for a total value of roughly €10-12 million, funded in part with Company liquidity and in part through the two loans described above.

The residual balance consists of:

- intercompany loan granted by the subsidiary in 2019 to the Company for around €4 million, liquidity driving from the sale of the Swiss real estate complex located in Otelfingen, in order to allow for centralised liquidity management and guarantee higher profitability. The interest rate applied is 1.20% and the loan is repayable on request.
- amounts due to banks for company credit cards.

24. Trade payables

Trade payables amount €5,117,000 at 31 December 2020 (€3,109,000 at 31 December 2019) and mostly refer to amounts due to hospitals where clinical trials are performed, as well as amounts due to the subsidiary Philochem AG and for the remainder amounts due to other suppliers and for consumables.

(€ 000s)	31 December 2020	31 December 2019
Amounts due to third parties	3,854	3,064
Intercompany payables	1,263	45
Total trade payables	**5,117**	**3,109**

Breakdown of payables by geographical segment

(€ 000s)	Geographical segment	
	31 December 2020	31 December 2019
Italy	1,873	1,045
European Union	1,314	1,093
Non-EU (USA)	413	638
Non-EU (other)	1,517	333
Total trade payables	**5,117**	**3,109**

25. Contract liabilities

Contract assets and liabilities refer to the performance obligations satisfied over time measured on a cost-to-cost basis as they are subject to a contract already signed with the customer.

Contract assets are recognised net of the relevant liabilities if, on the basis of the analysis carried out on each contract, the gross amount of the activities performed at the reporting date is higher than the advances received from the customer. Conversely, if the advances received from the customer are higher than the relevant activities, the surplus is recognised under liabilities.

The net balance of contract liabilities is broken down as follows:

(€ 000s)	31 December 2020	31 December 2019
Advances from customers	9,782	9,782
Revenue recognised on advances received	(5,627)	(2,575)
Net contract liabilities	**4,155**	**7,208**

Advances from customers chiefly refer to upfront fees collected for the performance obligations that the Company shall meet in the future which are recognised over time in line with the progression of the relevant contract costs.

Contract liabilities are classified as current liabilities because they are usually expected to have a duration of less 12 months.

26. Other current liabilities

This caption is broken down as follows:

(€ 000s)	31 December 2020	31 December 2019
Social security institutions	205	209
Accrued expenses and deferred income	25	38
Other	1,936	418
Other current liabilities	**2,166**	**665**

Amounts due to social security institutions refer to INPS and INAIL for withholdings due amounting to €205,000 at 31 December 2020 and €209,000 at 31 December 2019.

Other, amounting to €1,961,000 at 31 December 2020 and €456,000 at 31 December 2019, mainly refers to:

- Payables to employees for remuneration to be paid, equal to €1,922,000 and up by around €1,500,000 compared to 31 December 2019 as a result of the bonus paid to a director based on the agreement entered into on 25 November 2020;
- Advances on research grants, amounting to roughly €14 thousand (nil balance at 31 December 2019), collected during the year ended at 31 December 2020;
- Sundry amounts due of €25,000 (balance of €38,000 at 31 December 2019).

Other information

27. Commitments

There are no commitments that have not been presented in the statement of financial position at 31 December 2020 or 31 December 2019. Refer to note 11 for additional details regarding the construction of a new “GMP” biotechnologies plant at the Rosia site.

28. Information pursuant to art. 1.125 of Law no. 124/2017

In relation to the provisions set forth in art. 1.125 of Law 124/2017, with respect to the obligation to report in the notes any sums of money received during the year by way of subsidies, contributions, paid engagements and in any event economic benefits of any nature whatsoever from the public administrations and the parties pursuant to paragraph 125 of the same article, the Company certifies that:

Nature of contribution	Amount of contribution
Research & Development Credit Year 2019	**1,980**

Offset in 2020	929
Residual amount to be offset in 2021	1,051
Research and Development Credit 2020	**1,022**
Amount to be offset 2021	341
Amount to be offset 2022	341
Amount to be offset 2023	341
Industry 4.0 credit year 2020	**46**
Amount to be offset 2021	9
Amount to be offset 2022	9
Amount to be offset 2023	9
Amount to be offset 2024	9
Amount to be offset 2025	9
Sanitisation credit	**28**
Offset in 2020	9
Residual amount to be offset in 2021	19
Total credits	**3,076**
Offset in 2020	938
Residual credits	2,138

Nature of contribution	Amount allocated 2020
IMMUNOSABR Project allocation	15
Investment Protocols Project allocation	7
Chamber of Commerce “Safe 2020” 2020 voucher allocation	1
Chamber of Commerce “Cyber Security” digital voucher allocation	4
Total allocation for ongoing projects	**27**

Project	Description	Collection date	Contribution collected 2020
Tuscany Region			
Giovani Si apprenticeship reimbursement		09/04/2020	2
Chamber of Commerce Safe 2020 Call for Tenders		22/12/2020	5
Call for Tenders 3 “Research and development projects in implementation of the Investment Protocols”. Project Title: “New GMP infrastructure for clinical trial research”. Acronym “NEW GMP”. Project Number CU D-53D1700044009	The Project facilitates investments in industrial research and experimental development. Programme ROP Growth and Employment 2014/2020 - Action 1.1.5 sub-action a1). The grant is equal to 50% of the eligible costs in industrial research.	23/12/2020	7
Ministry of Economic Development			
Nuova Sabatini		23/11/2020	5
Fondimpresa			
Training plan quota reimbursement		29/04/2020	4
Training plan quota reimbursement		04/08/2020	1
Fondirigenti			
Training plan expense reimbursement		12/10/2020	1
Total contributions collected 2020			**25**

29. Information on financial risks

The main risks identified, monitored and, as specified below, actively managed by the Company are as follows:

- *Credit risk*

Credit risk is the risk that a customer or a counterparty of a financial instrument does not meet a contractual commitment leading to financial loss. It mostly derives from trade receivables and the Company's debt instruments.

The carrying amount of financial assets and contract assets is the Company's maximum exposure to credit risk.

The Company's exposure to credit risk mainly depends on the specific characteristics of each customer.

However, management also considers the typical variables of the Company's customer portfolio, including the insolvency risk of the customer's sector and country. The counterparts in contracts are leading pharmaceutical and multinational companies with a low risk profile.

A breakdown of the debt instruments in portfolio by rating class is as follows:

(€ 000s) ***Credit rating bracket***	**31 December 2020**	**31 December 2019**
AAA / AA-	-	2,746
A+/ A-	-	1,005
BBB+/ BBB-	-	5,234
BB+/ B-	-	1,109
Lower than B-	-	274
Unrated	1	3,295
Total debt instruments	**1**	**13,662**
Total other securities	49,983	57,300
Total assets measured at fair value	**49,984**	**70,962**

(*) Rating source: Standard&Poor's

Unrated debt instruments refer to bonds issued by leading banks and listed companies.

Trends in the breakdown of the group's portfolio by rating class over the year 2020 show a decrease in exposure in lower rating brackets.

- *Liquidity risk*

Liquidity risk is the risk that the Company has difficulties in meeting its obligations related to financial liabilities settled by cash or another financial asset. The Company's approach to managing liquidity requires that, as much as possible, there are always enough funds to meet its obligations when due, both in normal conditions and under financial difficulty, without incurring excessive expense or risking damage to its reputation.

The Company aims to maintain the level of its cash and cash equivalents and other highly marketable debt investments at an amount in excess of expected cash outflows on financial liabilities (other than trade payables). The Company also monitors the level of expected cash inflows on trade and other receivables together with expected cash outflows on trade and other payables.

A breakdown of trade receivables and payables and financial liabilities at 31 December 2020 by due date is as follows:

(€ 000s)	**31 December 2020**				
	Within 90 days	**From 90 days to 1 year**	**From 1 to 5 years**	**After 5 years**	**Total**
Lease liabilities	125	376	2,032	4,916	**7,449**
Financial liabilities	4	2,544	3,556	1,073	**7,177**
Trade payables	5,117	-	-	-	**5,117**
Total	**5,246**	**2,920**	**5,588**	**5,989**	**19,743**

(€ 000s)	**31 December 2020**				
	Within 90 days	**From 90 days to 1 year**	**From 1 to 5 years**	**After 5 years**	**Total**
Trade receivables	754	-	-	-	**754**

Total	**754**	**-**	**-**	**-**	**754**

Furthermore, the Company has a financial portfolio totalling €49,984 thousand at 31 December 2020 that is highly liquid and can be used to meet any liquidity needs.

A breakdown of the debt instruments in portfolio by maturity is as follows:

(€ 000s) ***Maturity bracket***	**31 December 2020**	**31 December 2019**
1 year	-	2,055
2 years	-	2,390
3-5 years	-	5,777
6-10 years	-	1,981
11-20 years	-	374
21-30 years	-	103
Over 30 years	-	-
Perpetual	1	982
Total debt instruments	**1**	**13,662**
Total other securities	49,983	57,300
Total assets measured at fair value	**49,984**	**70,962**

- *Market risk*

Market risk is the risk that the fair value or future cash flows of financial instruments change due to fluctuations in market prices caused by variations in exchange rates, interest rates or prices of equity instruments. The goal of market risk management is to maintain the Company's exposure to such risk within an acceptable range while simultaneously optimising the return on investments.

The following tables show a breakdown of debt instruments by type of rate and maturity:

(€ 000s) ***Maturity bracket***	**Fixed rate**	**Floating rate**	**Amount at 31 December 2020**
1 year	-	-	-
2 years	-	-	-
3-5 years	-	-	-
6-10 years	-	-	-
11-20 years	-	-	-
21-30 years	-	-	-
Over 30 years	-	-	-
Perpetual	1	-	1
Total debt instruments			**1**
Total other securities			**49,983**
Total assets measured at fair value			**49,984**

(€ 000s) ***Maturity bracket***	**Fixed rate**	**Floating rate**	**Mixed rate**	**Amount at 31 December 2019**
1 year	2,049	6	-	2,055
2 years	2,390	-	-	2,390
3-5 years	4,620	1,157	-	5,777
6-10 years	215	-	1,766	1,981
11-20 years	-	-	374	374
21-30 years	-	-	103	103
Perpetual	-	-	982	982
Total debt instruments	**9,724**	**1,163**	**3,225**	**13,662**
Total other securities				57,300
Total assets measured at fair value				**70,962**

- *Currency risk*

The Company is exposed to currency risk for sales, purchases, receivables and loans expressed in a currency other than the functional currency.

The Company's production activities are performed solely in Italy and Switzerland and, therefore, it is exposed to fluctuations in the Euro/Swiss franc exchange rate.

The Company generates revenue from contracts with customers in foreign currencies, mainly the US dollar. Revenue denominated in the US dollar for the periods ending on 31 December 2020 and 2019 amounted to 72% and 94%, respectively, of total revenue from contracts with customers. Accordingly, disadvantageous US dollar exchange rates could have a negative impact on the group's activities and financial position. A breakdown of this caption for the years ending on 31 December 2020 and 2019 is provided below:

(€ 000s)	31 December			
	2020	%	2019	%
US dollar (USD)	3,052	74%	10,946	94%
Euro (EUR)	801	20%	382	3%
Swiss franc (CHF)	246	6%	352	3%
Total revenue from contracts with customers	**4,099**	**100%**	**11,680**	**100%**

A sensitivity analysis in absolute value is provided below on revenue from contracts with customers deriving from a change in the exchange rate of the currencies listed above equal to 1% for the years ended at 31 December 2020 and 2019:

(€ 000s) in absolute value	31 December	
	2020	2019
US dollar (USD)	30	110
Euro (EUR)	8	4
Swiss franc (CHF)	2	3
Total effect on revenue from contracts with customers	**40**	**117**

The Company also incurs operating costs in foreign currencies, mainly the US dollar and the Swiss franc. A breakdown of this caption for the years ending on 31 December 2020 and 2019 is provided below:

(€ 000s)	31 December			
	2020	%	2019	%
US dollar (USD)	621	4%	1,577	11%
Euro (EUR)	13,891	87%	11,955	83%
Pounds (GPB)	22	-	36	-
Arab Emirates Dirham (AED)	3	-	-	-
Swiss franc (CHF)	1,446	9%	901	6%
Total operating costs	**15,983**	**100%**	**14,469**	**100%**

A sensitivity analysis in absolute value is provided below on operating costs deriving from a change in the exchange rate of the currencies listed above equal to 1% for the years ended at 31 December 2020 and 2019:

(€ 000s) in absolute value	31 December	
	2020	2019
US dollar (USD)	6	16
Euro (EUR)	139	120
Pounds (GPB)	-	-
Arab Emirates Dirham (AED)	-	-
Swiss franc (CHF)	14	9
Total effect on operating costs	**159**	**145**

The Company does not have any currency hedges.

Summarised quantitative data on the Company's exposure to currency risk are as follows:

(€ 000s)	31 December 2020	31 December 2019
EUR	.48.063	63,345
GBP	-	-
RUB	-	393
USD	1,921	7,113
TRY	-	111
Total current financial assets	**49,984**	**70,962**

- *Management of risks of financial investments*

As part of its careful financial planning, Philogen has invested its excess liquidity (compared to its ordinary cash requirements) in current financial assets. It based its investment decisions on monitoring and advice from the relevant office of the banks where its securities are deposited. The group is regularly provided with information about the issuers' solvency, the country risk and market changes in order that it may take any necessary remedial action.

Based on the method set out in note 18 "Other current financial assets", to which reference should be made for further details, the Company has adopted an "other" business model for bonds in portfolio, thus measured at FVTPL. The remaining securities held in portfolio are associated with an HTCS model. They are measured at FVTPL as they did not pass the SPPI test.

- *Management of country risk*

The Company does not operate in countries considered unstable in terms of their economic, political or social situation.

30. Financial instruments

Categories of financial assets and liabilities

A breakdown of financial assets and liabilities at 31 December 2020 by category, in accordance with IFRS 9, is provided below:

(€ 000s)	31 December 2020	31 December 2019
Financial assets:		
Financial assets at amortised cost		
Trade receivables	754	640
Current financial assets	-	-
Cash and cash equivalents	11,650	2,982
Other current assets	668	767
Financial assets at fair value		
Current financial assets	49,984	70,962
Non-current financial assets	-	-
Total financial assets	**63,056**	**75,351**
Financial liabilities at amortised cost		
Non-current financial liabilities	4,629	682
Non-current lease liabilities	6,948	7,449
Current financial liabilities	2,548	4,664
Current lease liabilities	501	465
Trade payables	5,117	3,109
Other current liabilities	2,166	665
Total financial liabilities	**21,909**	**17,034**

Considering the nature of current financial assets and liabilities, the carrying amount of most items is considered a reasonable estimate of their fair value.

Non-current financial assets and liabilities are settled or measured at market rates. Therefore, their fair value is considered to be more or less in line with the current carrying amounts.

Disclosure on fair value

With regard to the assets and liabilities measured at fair value, IFRS 13 requires that they be classified using a fair value hierarchy that reflects the materiality of the inputs used to determine their fair value.

The following tables summarise financial assets measured at fair value broken down by hierarchy level:

(€ 000s)	31 December 2020			
	Level 1	Level 2	Level 3	Total
Current financial assets at fair value through Profit or Loss	8,432	41,552	-	**49,984**

Total assets measured at fair value	**8,432**	**41,552**	**-**	**49,984**

(€ 000s)	**31 December 2019**			
	Level 1	**Level 2**	**Level 3**	**Total**
Current financial assets at fair value through Profit or Loss	19,492	51,470	-	**70,962**
Total assets measured at fair value	**19,492**	**51,470**	**-**	**70,962**

Current financial assets presented as level 1 in the table above include bonds, shares and investment funds, all public traded. Refer to note 18 for additional details.

Assets measured at level 2 of the fair value hierarchy are related to financial assets measured at fair value through Profit or Loss (pursuant to IFRS 9) and include insurance investment products, which are financial instruments held to invest excess cash of the Company (refer to the note n. 18 for additional disclosure related to the nature of such assets).

These types of investment are financial portfolio managed by the insurance companies and they were measured using the net asset value communicated by the insurance companies, which represents the settlement value of the policies at the reporting date.

During the three years, there were no transfers among the different levels of the fair value hierarchy.

31. Related parties

A summary of transactions with other related parties is provided below:

31 December 2020

(€ 000s)	**Related party**						
	Rendo S.r.l.	**Philochem AG**	**Neri-Tanini Consulting S.r.l.**	**Directors and the scientific committee**	**Board of Statutory Auditors**	**Total**	**% of financial statements caption**
Statement of financial position							
Right-of-use assets	7,205	-	-	-	-	**7,205**	98%
Trade receivables	-	245	-	-	-	**245**	32%
Current lease liabilities	455	-	-	-	-	**455**	91%
Non-current lease liabilities	6,864	-	-	-	-	**6,864**	99%
Current financial liabilities	-	1,464	-	-	-	**1,464**	57%
Trade payables	-	1,263	6	-	53	**1,322**	26%
Statement of profit or loss							
Amortisation and depreciation	534	-	-	-	-	**534**	50%
Service costs	-	2,221	20	2,581	53	**4,875**	41%
Financial expense	207	-	-	-	-	**207**	9%

31 December 2019

(€ 000s)	**Related party**						
	Rendo S.r.l.	**Philochem AG**	**Studio Neri-Tanini**	**Directors and the scientific committee**	**Board of Statutory Auditors**	**Total**	**% of financial statements caption**
Statement of financial position							
Right-of-use assets	7,738	-	-	-	-	**7,738**	98%
Trade receivables	-	352	-	-	-	**352**	55%
Current lease liabilities	440	-	-	-	-	**440**	95%
Non-current lease liabilities	7,322	-	-	-	-	**7,322**	98%
Current financial liabilities	-	4,146	-	-	-	**4,146**	89%
Trade payables	-	19	26	-	-	**45**	1%
Statement of profit or loss							
Amortisation and depreciation	267	-	-	-	-	**267**	37%
Service costs	-	2,239	66	1,654	53	**4,012**	46%
Financial expense	163	-	-	-	-	**163**	79%

In the year ending on 31 December 2020, intercompany contracts were entered into for a total value of €2,221 thousand for research and development activities and services performed by the subsidiary Philochem AG in favour of the Company. All transactions were carried out on an arm's length basis. Likewise, the company Philogen also performed administrative and subcontracting services for the subsidiary Philochem, amounting to a total of €245,000.

Fees paid to directors, statutory auditors and the scientific committee

The amounts paid to the Company's directors, statutory auditors and members of the scientific committee are limited to their fees and remuneration as detailed in the following tables:

— Board of Directors

(€ 000s)	31 December 2020	31 December 2019
Duccio Neri - Executive Chairman and Co-CEO	280	357
Dario Neri - Co-CEO	149	122
Giovanni Neri - Managing Director	200	187
Sergio Gianfranco Luigi Maria Dompé - Director	30	30
Roberto Marsella - Director	32	21
Nathalie Francesca Maria Dompé - Director	30	30
Leopoldo Zambeletti Pedrotti	30	30
Roberto Ferraresi	32	21
Guido Guidi	32	36
Total fees	**815**	**834**
Leopoldo Zambeletti Pedrotti – strategic consultancies	-	376
Total	**815**	**1,210**

Please note that the Board of Directors approved an incentive bonus of Euro 1,500 thousand for one of the members of the above-mentioned corporate body, by virtue of his commitment to the development of several products. For further information, please refer to section no. 3 "Significant events during the year" in the Directors' report.

— Board of Statutory Auditors

(€ 000s)	31 December 2020	31 December 2019
Stefano Mecacci - Chairman	23	23
Pierluigi Matteoni - Standing statutory auditor	15	15
Marco Tanini - Standing statutory auditor	15	15
Board of statutory auditors' fees	**53**	**53**

— Scientific committee

(€ 000s)	31 December 2020	31 December 2019
Dario Neri - Chairman	168	253
Paolo Neri	-	11
Guido Guidi	60	-
Mr Berdel	22	-
Cornelia Halin	17	-
Scientific committee's fees	**266**	**264**

32. Events after the reporting date

32.1 Reverse merger with Palio Ordinarie

In line with the investment agreement entered into on 7 May 2019, governing the rights and obligations of the Group shareholders, in the period between the signing date and the first day of trading, the deed for the merger between the Company and Palio Ordinarie S.p.A. was entered into on 8 January 2021 and became effective on 12 January 2021. This merger made it possible to dissolve the vehicle Palio Ordinarie S.p.A., contributing towards the generation of a free float equal to 17% for the listing process.

32.2 Admission to listing on the MTA market

On 3 March 2021, the Group was admitted to listing on the MTA market organised and managed by Borsa Italiana S.p.A. ("MTA"). The shares offered for listing amounted to 4,061,111 deriving from a capital increase with exclusion of the

purchase option, corresponding to roughly 10% of the Company's share capital after the Capital Increase, and the price was set at €17 per share. In the placement phase, all shares were subscribed, including the greenshoe of 10% of the newly issued shares.

Details of the shareholding structure as at 31 December 2020 and the date on which trading began are provided below:

Shareholder	At the date of 31 December 2020		
	shares	% of the share capital	% of the voting rights
Nerbio S.r.l.	16,465,769	46.317%	57.621%
Of which B Shares	*8,565,018*	*24.093%*	*44.122%*
Of which Performance Shares	*39,500*	*0.111%*	*0.000%*
Dompè Holdings S.r.l. (*)	12,204,986	34.332%	30.567%
Of which B Shares	*2,803,232*	*7.885%*	*14.441%*
Of which Performance Shares	*10,500*	*0.030%*	*0.000%*
Palio Ordinarie(**)	5,972,000	16.799%	10.255%
Matthias Claus Winter	757,245	2.130%	1.300%
Palio Speciali S.r.l.	100,000	0.281%	0.172%
MRS S.r.l.	50,000	0.141%	0.086%
Market	-	-	-
Total	**35,550,000**	**100%**	**100%**

(*) Includes 78,000 ordinary shares held through Palio Ordinarie S.p.A. prior to the merger between Palio Ordinarie S.p.A. and Philogen
(**) Excludes 78,000 ordinary shares consolidated in the Dompè Holdings S.r.l. equity investment after the merger between Palio Ordinarie S.p.A. and Philogen

Shareholder		At the trading start date		
	Type of Shares	Shares	% of the share capital	% of the voting rights
Nerbio S.r.l.	*B Shares*	8,565,018	21.090%	40.562%
	Ordinary Shares	8,098,251	19.941%	12.784%
	Total	16,663,269	41.031%	53.346%
Dompè Holdings S.r.l. (*)	*B Shares*	2,803,232	6.903%	13.275%
	Ordinary Shares	9,454,254	23.280%	14.925%
	Total	12,257,486	30.183%	28.200%
Former Palio Ordinarie Shareholders (**)	*Ordinary Shares*	5,972,000	14.705%	9.427%
	Total	**5,972,000**	**14.705%**	**9.427%**
Matthias Claus Winter	*Ordinary Shares*	757,245	1.865%	1.195%
	Total	**757,245**	**1.865%**	**1.195%**
Palio Speciali S.r.l.	*Ordinary Shares*	600,000	1.477%	0.947%
	Total	**600,000**	**1.477%**	**0.947%**
MRS S.r.l.	*Ordinary Shares*	300,000	0.739%	0.474%
	Total	**300,000**	**0.739%**	**0.474%**
Market	*Ordinary Shares*	4,061,111	10.000%	6.411%
Total Philogen		**40,611,111**	**100%**	**100%**

(*) Includes 78,000 ordinary shares held through Palio Ordinarie S.p.A. prior to the merger between Palio Ordinarie S.p.A. and Philogen
(**) Excludes 78,000 ordinary shares consolidated in the Dompè Holdings S.r.l. equity investment after the merger between Palio Ordinarie S.p.A. and Philogen

Following the Company's Listing, the Group adopted the new Corporate Governance model for listed companies, and the new articles of association approved by the Board of Directors on 14 December 2020 entered into force.

On 11 March 2021, Philogen paid the bonus of €1,500,000, the details of which are provided in paragraph 2.3, in full to a member of the Board of Directors.

The Group also decided to implement the resolution of the Shareholders' Meeting dated 16 December 2020 with reference to the implementation of a three-year incentive plan, in the form of a stock grant to be dedicated to employees. For more information, please refer to the Remuneration Policy section.

32.3 Covid-19

Lastly, following the pandemic, which is still under way, and the government measures taken to tackle the epidemiological emergency, the Company has continued to work with social distancing plans for employees and eliminated physical attendance at meetings, events and conferences, in the best interest of employees and commercial partners. The new commercial, organisational and safety practices, in part negatively influenced productivity, taking resources away from product development, slowing down commercial transactions and in certain cases delaying the clinical trials planned or in progress and/or their monitoring. Despite this emergency situation, the Company consistently continues its research and development activities.

32.4 The remuneration policy

Following its admission to listing, the Company worked to adopt a remuneration policy in line with the provisions of art. 123-ter of the Consolidated Finance Act.

The relative information will be provided in the remuneration report, which will be presented to the Shareholders' Meeting called upon to approve the financial statements as at 31 December 2020.

Monetary incentive plans

As of 1 January 2021, the Director and Top Managers Dario Neri, Duccio Neri and Giovanni Neri are beneficiaries of a “management by objectives” (MBO) incentive plan pursuant to which they will be entitled to receive an incentive on an annual basis, the amount of which is commensurate with the achievement of the company’s financial and other objectives.

The maximum incidence of the MBO on the annual remuneration of each of the executive directors and managers Dario Neri and Duccio Neri is 30%, while for the executive director and manager Giovanni Neri, it is equal to 20%.

Medium/long-term incentive plan

On 16 December 2020, the Parent Company’s Board of Directors approved the guidelines of an incentive plan which, subsequent to the start of trading of the Company’s shares on the MTA, will be reflected in a regulation and submitted for the approval of the shareholders' meeting called upon to approve the Company’s remuneration policy.

This incentive plan shall take the form of a Stock Grant Plan, intended to create convergence between the interests of the Beneficiaries and the creation of value for the Company’s shareholders and investors from a medium/long-term perspective, both by favouring the retention of key figures and incentivising them to remain within the Group, and recognising the various stakeholders’ commitment and contribution towards reaching the Group’s objectives.

The 2024-2026 Stock Grant Plan reserved for the Group’s key resources, identified from amongst directors, managers and other high-level figures, is designed so as to pursue the following objectives:

- support the capacity to retain key resources, aligning the Group’s remuneration policy with best market practices which typically envisage long-term incentive tools;

- stimulate people’s motivation to work with energy and passion in order to achieve the Group’s growth and development objectives;

- economically remunerate people who have provided a contribution and extraordinary commitment to the performance of their role within the company, which led the Company to its listing on the MTA market organised and managed by Borsa Italiana S.p.A.

- make the Group’s remuneration policy consistent with the instructions laid out in the Corporate Governance Code of listed companies

In particular, the Stock Grant Plan is grouped into 3 cycles (2021-2024, 2022-2025, 2023-2026), each with a three-year duration, and is subject to the achievement of specific performance objectives at company level and individual level by the beneficiaries.

The plan may be supported by (i) treasury shares purchased in light of any future authorisation of the shareholders’ meeting, (ii) shares deriving from a future share capital increase, overall up to a maximum of 3% of the ordinary shares.

Accounting policies

33. Basis of presentation

These financial statements have been prepared on a historical cost basis, except for financial instruments which are recognised at fair value at each reporting date.

These financial statements have also been prepared on a going concern basis. The assessment of this assumption performed by the Directors takes into consideration current development strategies, the equity and financial consistency of the Company and the possibility to revise the timing and structure of its development strategy as well as the capacity to obtain the financial resources required to continue its activities, also through licensing some of its proprietary products to third parties through outlicensing contracts.

34. Main accounting policies

Basis of preparation

These financial statements include the mandatory financial schedules in accordance with IAS 1. All of the schedules contain the minimum content set out in the IFRS and applicable provisions of the national legislator and Consob. The schedules used are deemed suitable to provide a fair view of the Company's financial position, performance and cash flows. Specifically, the statement of profit or loss and statement of comprehensive income reclassified by nature provide reliable information that provides a fair representation of the Company's financial performance. The financial statements comprise the following:

Statement of financial position

The statement of financial position is presented by separating current and non-current assets and liabilities. Disclosure is provided in the notes to each asset and liability item of amounts that are expected to be received or settled within or after 12 months after the reporting date.

An asset or liability is classified as current when it meets one of the following criteria:

ii) it is expected to be realised/settled, or is expected to be sold or used, within the Company's normal operating cycle;
iii) it is held primarily for the purpose of trading;
iv) it is expected to be realised/settled within 12 months after the reporting date.

If any of the three conditions are not met, the assets/liabilities are classified as non-current.

Statement of profit or loss

Costs are classified by nature. Additional line items for operating profit or loss and pre-tax profit or loss are included.

Statement of comprehensive income

This statement shows the items making up the profit or loss for the year and the expense and income recognised directly in equity for non-owner transactions.

Statement of changes in equity

This statement shows changes in equity items related to:

- the distribution of the profit for the year of the Company and the subsidiaries to third-party shareholders;
- amounts related to transactions with owners (repurchase and sale of treasury shares);

F. each item of profit or loss net of any tax effects which, in accordance with the IFRS, are either recognised directly in equity (gain or loss from selling treasury shares, actuarial losses and gains on measuring defined benefit plans) or with a balancing entry recognised in an equity reserve (share-based payments for stock option plans);

G. changes in the hedging reserve net of any tax effects.

Statement of cash flows

The statement of cash flows is presented using the indirect method, whereby the profit or loss for the period is adjusted for non-monetary transactions, any deferral or accrual of previous or future collections or payments relating to the group's operations and gains or losses related to cash flows from investing or financing activities.

Income and expense related to interest, dividends received and income taxes are included in cash flows according to the nature of the underlying transaction.

Cash and cash equivalents included in the statement of cash flows include the statement of financial position balance at the reporting date. Cash flows in foreign currencies are translated at the average exchange rate for the year.

Foreign currencies

Foreign currency transactions

Transactions in foreign currencies are translated into the functional currency of the Company at the exchange rate at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the exchange rate at the reporting date. Non-monetary assets and liabilities that are measured at fair value in a foreign currency are translated into the functional currency at the exchange rate when the fair value was determined. Non-monetary items that are measured based on historical cost in a foreign currency are translated at the exchange rate at the date of the transaction. Foreign currency differences are generally recognised in profit or loss.

Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated into Euros at the exchange rates at the reporting date. The revenue and costs of foreign operations are translated into Euros at the exchange rates at the dates of the transactions. Foreign currency differences are recognised in other comprehensive income and accumulated in the translation reserve, except to the extent that the translation difference is allocated to non-controlling interests. When a foreign operation is disposed of in its entirety or partially such that control, significant influence or joint control is lost, the cumulative amount in the translation reserve related to that foreign operation is reclassified to profit or loss as part of the gain or loss on disposal.

Changes to standards, interpretations and amendments

New standards, interpretations and amendments issued by the IASB and adopted from 1 January 2020 are set out below.

Covid-19-related rent concessions (Amendment to IFRS 16)

Regulation (EU) 2020/1434 of 9 October 2020, published in the Official Journal of the European Union of 12 October 2020, endorsed the IASB document "Covid-19-related rent concessions (amendment to IFRS 16 - Leases)".

Such amendment introduces a practical expedient to simplify a lessee's accounting of Covid-19-related rent concessions (i.e., reductions, forgiveness and/or deferrals of lease payments granted by the lessor to the lessee). If the rent concession derives from a right acquired by the lessee by virtue of a specific contractual clause or a specific local regulation, the practical expedient allows the lessee to account for a "negative variable lease payment" as a gain in profit or loss as a direct reduction in the lease liability.

The practical expedient applies only to rent concessions occurring as a direct consequence of the Covid-19 pandemic and only if all of the following conditions are met:

H. the change in lease payments results in revised consideration for the lease that is the same as, or less than, the consideration for the lease immediately preceding the change;

I. any reduction in lease payments affects only payments originally due in 2020; if the lessor grants a deferral of lease payment, the lessee can recognise a gain for a negative variable lease payment in 2020 solely for the portion that reduces lease payments in 2020 net of increases for subsequent years;
J. there is no substantive change to other terms and conditions of the lease.

If the above conditions are not met, the Company accounts for the rent concessions using the general provisions of IFRS 16 for lease modifications, which do not take into consideration the practical expedient and require a legal analysis of the clauses and applicable local regulations for each individual lease in order to remeasure the lease liabilities using a revised discount rate. The reduction of the lease liability directly adjusts the right-of-use asset.

This new standard did not have any impact on the consolidated financial statements as the Company did not benefit from any rent concessions at 31 December 2020.

Amendments to references to the conceptual framework in IFRS Standards

The IASB published the Conceptual framework in March 2018 which provides a comprehensive set of concepts for financial reporting, defining standards and providing assistance in developing consistent accounting policies and in understanding and interpreting standards. It includes some new concepts, provides updated definitions and recognition criteria for assets and liabilities and clarifies certain important concepts. Such amendments did not have any impact on the financial statements at 31 December 2020.

Amendments to IFRS 3 – Definition of a business

The IASB issued amendments to the definition of a business in IFRS 3 - Business combinations to help companies determine whether an acquired set of assets and liabilities is a business or not. They clarify the minimum requirements to meet the definition of a business, remove the assessment of whether market participants are capable of replacing any missing elements, introduce guidance to help determine whether a substantive process has been acquired, and narrow the definition of a business. New illustrative examples are provided along with the amendments. Such amendments did not have any impact on the financial statements at 31 December 2020.

Amendments to IAS 1 and IAS 8

In October 2018, the IASB issued amendments to IAS 1 - Presentation of financial statements and IAS 8 - Accounting policies, changes in accounting estimates and errors to clarify the definition of “material” and to align the definition used in the standards. The new definition states that “Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity”. The amendments clarify that materiality depends on the nature or magnitude of information, or both. An entity assesses whether information, either individually or in combination with other information, is material in the context of its financial statements taken as a whole. Such amendments did not have any impact on the financial statements at 31 December 2020.

Interest rate benchmark reform – Amendments to IFRS 9, IAS 39 and IFRS 7

In September 2019, the IASB issued amendments to IFRS 9, IAS 39 and IFRS 7 - Financial instruments: disclosures, which concluded phase 1 of its work on the effects of the reform of interbank offered rates (IBOR) on financial reporting. The amendments provide temporary changes that allow hedge accounting during the period of uncertainty, replacing the pre-existing interest rate benchmark with a risk-free interest rate. The amendments assume that the interest rate benchmark on which hedged cash flows and/or the hedging instrument are based is not altered as a result of IBOR reform. The amendments shall be applied retrospectively The amendments are effective for annual periods beginning on or after 1 January 2020. The Company will monitor developments in the amendments being reformed. Such amendments did not have any impact on the financial statements at 31 December 2020 as the Company does not have any interest rate hedges.

Revenue from contracts with customers

Revenue is measured considering the consideration specified in the contract with the customer. The Company recognises revenue when it transfers control of the goods or services.

IFRS 15 - Revenue from contracts with customers defines how to recognise and measure revenue from contracts with customers. Generally, under IFRS 15, revenue is recognised at an amount that reflects the consideration to which the

entity expects to be entitled in exchange for transferring goods or services to the customer. Specifically, an entity recognises revenue by applying the following five steps:

- identify the contract with a customer;
- identify the performance obligations (i.e., the promises to transfer goods or services to a customer) in the contract;
- determine the transaction price;
- allocate the transaction price to the performance obligations in the contract on the basis of the relative stand-alone selling prices of each distinct good or service;
- recognise revenue when (or as) the entity satisfies a performance obligation.

The Company's revenue chiefly derives from licences and research and development services contracted by customers.

With regard to licences to use intellectual property, first of all the group determines whether the promise to grant the licence is distinct from other performance obligations. The obligation is distinct if:

i) the customer can benefit from the good or service on its own or together with other resources that are readily available to the customer;
ii) the promise to transfer the good or service to the customer is separately identifiable from other promises in the contract.

If the promise to grant the licence is not distinct from the other promised goods or services in the contract, the Company accounts for the promise to grant a licence and those other promised goods or services together as a single performance obligation.

If, on the other hand, the promise to grant the licence is distinct from the other promised goods or services in the contract, the Company determines whether the customer obtains a right to access or a right to use the group's intellectual property. The customer obtains a right to access the group's intellectual property if all of the following criteria are met:

i. The contract requires, or the customer reasonably expects, that the Company will undertake activities that significantly affect the intellectual property to which the customer has rights;
ii. those activities do not result in the transfer of a good or a service to the customer as those activities occur;
iii. The rights granted by the licence directly expose the customer to any positive or negative effects of the Company's activities with regard to its intellectual property.

If the promise to grant the licence provides a right to access the group's intellectual property, the revenue is recognised over time. Vice versa, if the licence provides the right to use the group's intellectual property, the relevant revenue is recognised at a point in time.

A summary of the main types of consideration, including significant payment terms, for the Company's licences is provided below:

Type of consideration	**Recognition**
Upfront fees	Fees received before the contract is signed. If referred to granting a licence, they are recognised: 1. *at a point in time, if they provide the right to use the group's intellectual property;* 2. *over time, if they provide the right to access the group's intellectual property.* If there are no specific goods/services transferred to the customer upon collection of the upfront fee, this fee is an advance payment and is recognised as revenue over time when the performance obligations are satisfied. Invoices are generated when the contract is signed (at point in time). Such invoices are usually payable within 30 days. No discounts are provided.
Commercial option fees	If the licence is distinct from other performance obligations, it is recognised as the right to use the group's intellectual property and the relevant revenue is recognised at a point in time when the right is granted.

	If the licence is not distinct from other performance obligations, this fee is an advance payment and is recognised as revenue over time when the performance obligations are satisfied. Invoices are generated when the Company receives the notification by the customer related to the exercise of the commercial option (at point in time). Such invoices are usually payable within 30 days. No discounts are provided.
Milestones	These are a variable consideration subject to achieving specific significant objectives in the product development (e.g., beginning Phase 3 clinical trials). Upon signing the contract, management assesses whether achieving the milestones is highly probable and estimates the amount to be included in the transaction price as the most likely amount. If it is probable that there will not be a significant reversal in the amount of revenue recognised, the milestone amount is included in the transaction price. Consideration susceptible to factors outside the Company's influence and that typically depend on obligations to be satisfied by the counterparty (e.g., approval of the product by regulatory authorities or reaching research phases carried out by the customer) is not considered highly probable until it is certain that the milestone will be reached (e.g., communication from the customer or regulatory authorities). At the end of each year, management reassesses the probability that all milestones will be reached and, if necessary, updates the estimated transaction price. Invoices are generated when the Company receives the notification by the customer related to achievement of the objective/event (at point in time). Such invoices are usually payable within 30 days. No discounts are provided.
Sales-based royalties	The Company recognises revenue for a sales-based royalty only when (or as) the later of the following events occurs: iv. the subsequent sale or usage occurs; and v. the performance obligation to which some or all of the sales-based royalty has been allocated has been satisfied (or partially satisfied). On average, the contractual term for collecting the above types of consideration is short term.

With regard to the other performance obligations included in contracts (typically regarding research and development activities or the sale of GMP products), the Company recognises the transaction price allocated to such activities over time as the performance obligation is satisfied if one of the following criteria is met:

i. the customer simultaneously receives and consumes the benefits provided by the Company's performance as the group performs;
ii. the Company's performance creates or enhances an asset that the customer controls as the asset is created or enhanced;
iii. the Company's performance does not create an asset with an alternative use to the Company and the Company has an enforceable right to payment for performance completed to date.

If even one of the above criteria is not met, the performance obligation is considered satisfied when the good or service is transferred and the relevant revenue is recognised at a point in time.

Government grants

Unconditional government grants are recognised in profit or loss as other income when the grant becomes receivable. Other government grants are recognised initially at fair value as deferred income if there is reasonable assurance that they will be received and that the Company will comply with the conditions associated with the grant. They are then recognised in profit or loss as other income on a systematic basis over the useful life of the asset.

Grants that compensate the group for expenses incurred are recognised in profit or loss on a systematic basis in the periods in which the expenses are recognised.

Cost recognition

Costs are recognised when they relate to goods or services purchased or consumed during the year or using the straight-line method on an accrual basis.

Financial income and expense

Financial income and expense are recognised on an accrual basis considering interest accrued on the carrying amount of the related financial assets and liabilities calculated using the effective interest method.

Financial expense is recognised under profit or loss on an accrual basis.

Financial income is recognised on an accrual basis using the effective rate of return.

The Company's financial income and expense include:

- interest income;
- interest expense;
- dividend income;
- net gains or losses on financial assets at FVTPL;
- exchange gains or losses on financial assets and liabilities;
- reclassifications of net gains or losses previously recognised in other comprehensive income deriving from cash flow interest rate and currency hedges for loans and borrowings.

Interest income and expense are recognised under profit or loss on an accrual basis using the effective interest method. Dividend income is recognised when the Company's right to receive payment of the dividend is established.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset:

- to the gross carrying amount of a financial asset; or
- to the amortised cost of a financial liability.

When calculating interest income and expense, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not deteriorated) or to the amortised cost of the liability. However, if the financial asset deteriorates after initial recognition, interest income is calculated by applying the effective interest rate to the amortised cost of the financial asset. If the asset is no longer deteriorated, interest income is calculated once more using the gross carrying amount.

Income taxes

Income tax expense comprises current and deferred tax. It is recognised in profit or loss except to the extent that it relates to a business combination or items recognised directly in equity or in other comprehensive income.

The Company recognises interest and fines related to income taxes, along with the accounting treatments to be applied to uncertain tax positions, in accordance with IAS 37 - Provisions, contingent liabilities and contingent assets, as they do not meet the definition of income tax.

(vi) *Current tax*

Current tax comprises the expected tax payable or receivable on the taxable income or loss for the year and any adjustment to the tax payable or receivable in respect of previous years. The amount of current tax payable or receivable is the best estimate of the tax amount expected to be paid or received that reflects uncertainty related to income taxes, if any. It is measured using tax rates enacted or substantively enacted at the reporting date. Current tax also includes any tax arising from dividends.

Current tax assets and liabilities are offset only if certain criteria are met.

(vii) *Deferred tax*

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for:

- temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;
- temporary differences related to investments in subsidiaries, associates and joint arrangements to the extent that the Company is able to control the timing of the reversal of the temporary differences and it is probable that they will not reverse in the foreseeable future; and
- taxable temporary differences arising on the initial recognition of goodwill.

Deferred tax assets are recognised for deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be used. Future taxable profits are determined based on the reversal of temporary differences. If the taxable temporary differences are not sufficient to fully recognise a deferred tax asset, the Company considers future taxable profits, adjusted for the reversal of existing temporary differences, as per its business plan. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised; such reductions are reversed when the probability of future taxable profits improves.

Unrecognised deferred tax assets are reassessed at each reporting date and recognised to the extent that it has become probable that future taxable profits will be available against which they can be used.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date, and reflect any uncertainties regarding income taxes.

The measurement of deferred tax reflects the tax consequences that would follow from the manner in which the Company expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities. For this purpose, the carrying amount of investment property measured at fair value is presumed to be recovered through sale, and this presumption still applies.

Deferred tax assets and liabilities are offset only if certain criteria are met.

Operating profit (loss)

Operating profit is the result generated by the continuing principal revenue-producing activities of the Company as well as other income and expenses related to operating activities. Operating profit excludes net financial expense and income taxes.

Earnings per share

Basic earnings per share are calculated using the profit for the year attributable to the ordinary shareholders and the weighted average number of ordinary shares outstanding during the year.

Diluted earnings per share are calculated using the profit for the year attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding during the year, accounting for the effect of all the potential ordinary shares with a dilutive effect. The calculation of the dilutive effect of potentially ordinary shares was based on the Treasury Shares Method prescribed by IAS 33 para 21.

Property, plant and equipment

iii) *Recognition and measurement*

Items of property, plant and equipment are measured at cost, which includes capitalised borrowing costs, less accumulated depreciation and any accumulated impairment losses.

If significant parts of an item of property, plant and equipment have different useful lives, then they are accounted for as separate items (major components) of property, plant and equipment.

Any gain or loss on disposal of an item of property, plant and equipment is recognised within “Other income” and “Other operating costs”, respectively.

iv) Subsequent expenditure

Subsequent expenditure is capitalised only if it is probable that the future economic benefits associated with the expenditure will flow to the Company.

v) Depreciation

Depreciation is calculated to write off the cost of items of property, plant and equipment less their estimated residual values using the straight-line method over their estimated useful lives, and is generally recognised within “Amortization and depreciation”. Land is not depreciated.

The estimated useful lives for current and comparative periods are as follows:

Category	Rate
Buildings	3%
Plant and machinery	20%
Automatic machinery	20%
Industrial and commercial equipment	15%
Cars	25%
Furniture and fittings	12%
Leasehold improvements	8%

Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

Intangible assets

iv) Recognition and measurement

Research and development: expenditure on research activities is recognised in profit or loss as incurred. Development expenditure is capitalised only if the expenditure can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable and the Company intends to and has sufficient resources to complete development and to use or sell the asset. Otherwise, it is recognised in profit or loss as incurred. Development expenditure is measured at cost less accumulated amortisation and any accumulated impairment losses.

If not all the capitalisation requirements are met, the Company’s research and development expenditure is fully expensed in the year in which it is incurred.

Other intangible assets*: other intangible assets, patents and licences that have finite useful lives are measured at cost less accumulated amortisation and any accumulated impairment losses.*

v) Subsequent expenditure

Subsequent expenditure is capitalised on initial recognition only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognised in profit or loss as incurred.

vi) Amortisation

Amortisation is recognised in profit or loss using the straight-line method over their estimated useful lives from when the asset is available for use.

The estimated useful lives for current and comparative periods are as follows:

Category	Average rate
Industrial patents and intellectual property rights	5%
Concessions, licences, trademarks and similar rights	10%

Amortisation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

Right-of-use assets

At inception of a contract, the Company determines whether the contract is, or contains, a lease. A contract is, or contains, a lease if it conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The Company uses the definition of a lease as per IFRS 16 in assessing whether a contract conveys the right to the control the use of an identified asset.

At inception of a contract or modification of a contract that contains a lease component, the Company allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price.

At the commencement date of a lease, the Company recognises a right-of-use asset and a lease liability. The right-of-use asset is initially measured at cost, comprising the amount of the initial measurement of the lease liability, adjusted by any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset or restoring the underlying asset or the site on which it is located, less any lease incentives received.

The Company depreciates or amortises the right-of-use asset on a straight-line basis from the commencement date to the end of the lease term, unless the lease transfers ownership of the underlying asset to the group by the end of the lease term or if the cost of the right-of-use asset reflects that the Company will exercise a purchase option. In such case the group depreciates the right-of-use asset along the useful life of the underlying asset, determined as for plant and machinery. Moreover, the right-of-use asset is regularly reduced by any impairment losses and adjusted to reflect any variations deriving from the subsequent measurement of the lease liability.

The Company measures the lease liability at the present value of the lease payments that are not paid at the commencement date, discounting them using the interest rate implicit in the lease. If that rate cannot be readily determined, the Company uses the incremental borrowing rate. Generally, the Company uses the incremental borrowing rate as the discount rate.

The Company's incremental borrowing rate is calculated on the basis of the interest rates obtained from various source of financing, making adjustments that reflect the lease terms and type of leased asset.

The lease payments included in the measurement of the lease liability comprise:

- fixed payments (including in-substance fixed payments);
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under residual value guarantees; and
- the exercise price of a purchase option if the Company is reasonably certain to exercise that option, optional lease payments if the group is reasonably certain to exercise the option to extend the lease, and payments of penalties for terminating the lease, unless the Company is reasonably certain that it will not terminate the lease.

The lease liability is measured at amortised cost using the effective interest method and remeasured if there is a change in future lease payments resulting from a change in an index or a rate, a change in the amounts expected to be payable under a residual value guarantee, a change in the assessment of whether to exercise a purchase, extension or termination option, or to reflect revised in-substance fixed lease payments.

A lessee shall recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. If the carrying amount of the right-of-use asset is reduced to zero, a lessee shall recognise any remaining amount of the remeasurement in profit or loss.

The Company applied IFRS 16 using the modified retrospective approach at 1 January 2019.

Short-term leases and leases of low-value assets

The Company decided not to recognise right-of-use assets and lease liabilities for short-term leases or leases of low-value assets, including IT equipment. It recognised the relevant lease payments as a cost on a straight-line basis over the term of the lease.

Equity investments in subsidiaries, joint ventures and associates

Equity investments in subsidiaries, associates and joint ventures are included in the financial statements with the equity method, as permitted by IAS 27 and according to the provisions of IAS 28 (Investments in associates and joint ventures).

Subsidiaries, associates and joint ventures are included in the financial statements from the date on which control, significant influence or joint control begins until the date on which it ends.

The financial statements of subsidiaries, associates and joint ventures are appropriately amended and reclassified, when necessary, to align them with international accounting standards and uniform classification criteria within the Group.

In application of the equity method, the equity investment in a subsidiary, associate or joint venture is initially recognised at cost and the carrying amount is increased or decreased to show the investor's share of the profits or losses of the investee realised after the acquisition date. The share of profit (loss) for the year of the investee attributable to the investor is recognised in the separate statement of profit or loss. Dividends received from an investee reduce the carrying amount of the investment. Adjustments to the carrying amount of the investment are also due to changes in the items in the statement of comprehensive income of the investee (e.g. changes deriving from translation differences of items in foreign currency). The share of these changes attributable to the investor is recognised in other comprehensive income. If the share of the losses of an entity in a subsidiary, associate or a joint venture is equal to or higher than its interests in the subsidiary, associate or joint venture, the entity stops recognising its share of further losses. After reducing the equity investment to zero, the additional losses are recognised in a provision as liabilities, only to the extent to which the entity has entered into implicit legal obligations or made payments on behalf of the subsidiary, associate or joint venture. If the subsidiary or associate or joint venture later realises profits, the entity resumes recognising its share of the profits only after it has offset its share of unrecognised losses. Gains and losses from "upstream" and "downstream" transactions between an entity and a subsidiary, associate or joint venture are recognised in the financial statements of the entity only limited to the share of third-party interests in the subsidiary, associate or joint venture. The share attributable to the investor in the profits and losses of the subsidiary, associate or joint venture resulting from these transactions is eliminated in the income statement line "profit (loss) from investments" against the value of the asset, in "upstream" transactions, and the value of the equity investment, in "downstream" transactions. If there is objective evidence of impairment, the equity investment is tested for impairment, as described in the section on "impairment", which should be referred to for more details.

Lastly, please note that separate financial statements are prepared in the currency of the primary economic environment in which the subsidiary, associate or joint venture operates (functional currency). For the application of the equity method, the financial statements of each foreign entity are expressed in euro, which is the functional currency of Philogen S.p.A. and the currency in which the separate financial statements are presented.

All assets and liabilities of foreign companies in a currency other than the euro are converted using the exchange rates in force at the reporting date (current exchange method). Income and costs are converted at the average exchange rate for the year. Exchange differences from translation resulting from the application of this method, as well as exchange differences from translation resulting from the comparison between the opening equity converted at current exchange rates and converted at historical exchange rates are reversed from other comprehensive income and are accumulated in a dedicated equity reserve until the equity investment is sold.

The exchange rates used for the translation into euro of the financial statements of subsidiaries, associates and joint ventures are shown in the dedicated table:

Currency	Spot Exchange Rate at 31 December 2020	Average Exchange Rate at 31 December 2020	Spot Exchange Rate at 31 December 2019	Average Exchange Rate at 31 December 2019
Swiss franc	1.0802	1.0703	1.0854	1.1124

Inventories

Inventories are measured at the lower of cost and net realisable value. Purchase cost is the actual cost paid upon purchase including related charges. The purchase cost of materials includes their price, transport costs, customs and other duties and other directly attributable costs. Returns, commercial discounts, rebates and bonuses are deducted from costs. Production cost includes all direct costs and the reasonably attributable portion of indirect costs incurred from production up to when the asset is available for use, based on normal production capacity. The estimated realisable value based on

market trends is the estimate of ordinary sales prices of goods and finished products, net of estimated completion costs and direct sales costs. Obsolescence and turnover are also taken into account in calculating the estimated realisable value based on market trends. The cost of inventories is determined using the weighted average cost model. In the case of goods produced by the Company, cost includes an appropriate share of production overheads based on normal operating capacity.

Financial instruments

iv) Recognition and measurement

Trade receivables and debt securities issued are initially recognised when they are originated. All other financial assets and financial liabilities are initially recognised when the Company becomes a party to the contractual provisions of the instrument.

A financial asset or financial liability (unless it is a trade receivable without a significant financing component) is initially measured at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

v) Classification and subsequent measurement

Financial assets:

On initial recognition, a financial asset is classified as measured at: amortised cost; fair value through other comprehensive income (FVOCI) – debt instrument; FVOCI – equity instrument; or fair value through profit or loss (FVTPL).

Financial assets are not reclassified subsequent to their initial recognition, except if the Company changes its business model for managing financial assets. In this case, all the relevant financial assets are reclassified on the first day of the first reporting period following the change in business model.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A financial asset is measured at FVOCI if it meets both of the following conditions and is not designated as at FVTPL:

- the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition of an equity instrument that is not held for trading, the Company may irrevocably elect to present subsequent changes in the investment's fair value in OCI. This election is made on an investment-by-investment basis.

All financial assets not classified as measured at amortised cost or FVOCI as described above are measured at FVTPL. This includes all derivative financial assets. On initial recognition, the Company may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Financial assets: business model assessment

IFRS 9 identifies three different business models which reflect how financial assets are managed; specifically:

- Held to Collect: financial assets held with the objective to collect contractual cash flows, holding the instrument until maturity;
- Held to Collect and Sell: financial assets held with the objective to collect contractual cash flows and collect proceeds on selling the financial assets;

- Other: financial instruments that cannot be classified in the previous categories, mainly financial assets held to collect cash flows via sale (assets held for trading).

Therefore, the business model applied reflects how the Company manages its financial assets, i.e., via which it intends to collect cash flows.

The Company makes an assessment of the objective of the business model in which a financial asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice. These include whether management's strategy focuses on earning contractual interest income, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of any related liabilities or expected cash outflows or realising cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Company's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how managers of the business are compensated (e.g., whether compensation is based on the fair value of the assets managed or the contractual cash flows collected); and
- the frequency, volume and timing of sales of financial assets in prior periods, the reasons for such sales and expectations about future sales activity.

Transfers of financial assets to third parties in transactions that do not qualify for derecognition are not considered sales for this purpose, consistent with the Company's continuing recognition of the assets.

Financial assets that are held for trading or are managed and whose performance is evaluated on a fair value basis are measured at FVTPL.

Financial assets: assessment whether contractual cash flows are solely payments of principal and interest

For the purposes of this assessment, "principal" is defined as the fair value of the financial asset on initial recognition. "Interest" is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as a profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Company considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making this assessment, the Company considers:

- contingent events that would change the amount or timing of cash flows;
- terms that may adjust the contractual coupon rate, including variable rate features;
- prepayment and extension features; and terms that limit the Company's claim to cash flows from specified assets (e.g., non-recourse features).

A prepayment feature is consistent with the "solely payments of principal and interest" criterion if the prepayment amount substantially represents unpaid amounts of principal and interest on the principal amount outstanding, which may include reasonable additional compensation for early termination of the contract. Additionally, for a financial asset acquired at a significant discount or premium to its contractual nominal amount, a feature that permits or requires prepayment at an amount that substantially represents the contractual par amount plus accrued (but unpaid) contractual interest (which may also include reasonable additional compensation for early termination) is treated as consistent with this criterion if the fair value of the prepayment feature is insignificant at initial recognition.

Financial assets: subsequent measurement and gains and losses

Financial assets at FVTPL	These assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognised in profit or loss.

Financial assets at amortised cost	These assets are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss.
Debt instruments at FVOCI	These assets are subsequently measured at fair value if they pass the SPPI test. Interest income under the effective interest method, foreign exchange gains and losses and impairment are recognised in profit or loss. Other net gains and losses are recognised in OCI. On derecognition, gains and losses accumulated in OCI are reclassified to profit or loss.
Equity instruments at FVOCI	These assets are subsequently measured at fair value. Dividends are recognised as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses are recognised in OCI and are never reclassified to profit or loss.

Financial liabilities: classification, subsequent measurement and gains and losses

Financial liabilities are classified as measured at amortised cost or FVTPL. A financial liability is classified as at FVTPL if it is classified as held-for-trading, it is a derivative or it is designated as such on initial recognition. Financial liabilities at FVTPL are measured at fair value and gains and losses, including any interest expense, are recognised in profit or loss. Other financial liabilities are subsequently measured at amortised cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognised in profit or loss. Any gain or loss on derecognition is also recognised in profit or loss.

vi) Derecognition

Financial assets

The Company derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Company neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

The Company enters into transactions whereby it transfers assets recognised on its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets. In such cases, the transferred assets are not derecognised.

Financial liabilities

The Company derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire. The Company also derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different. In this case, a new financial liability based on the modified terms is recognised at fair value.

The difference between the carrying amount of the financial liability extinguished and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognised in profit or loss.

vii) Offsetting

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Company currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

Impairment losses

v) Financial instruments and contract assets

The Company shall recognise a loss allowance for expected credit losses on:

- financial assets at amortised cost;

- debt instruments at FVOCI; and
- contract assets.

Moreover, the Company recognises a loss allowance for lifetime expected credit losses on lease receivables under trade receivables and other assets.

The Company measures the loss allowance at an amount equal to lifetime expected credit losses, with the exception of that set out below, for the next 12 months:

- debt instruments with a low credit risk at the reporting date; and
- other debt instruments or bank current accounts if the credit risk (i.e., the risk of a default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition.

Loss allowances for trade receivables (including lease receivables) and contract assets are always measured at an amount equal to lifetime expected credit losses.

To establish whether there has been a significant increase in the credit risk of a financial asset since initial recognition for the purpose of estimating the expected credit losses, the Company considers all reasonable and supportable information that is available without undue cost or effort. This includes quantitative and qualitative information, past due information as well as forward-looking information.

Lifetime expected credit losses are the expected credit losses that result from all possible default events over the expected life of a financial instrument.

The 12-month expected credit losses are the expected credit losses that result from default events on a financial instrument that are possible within the 12 months after the reporting date (or a shorter period if the expected life of a financial instrument is less than 12 months).

The maximum period to consider when measuring expected credit losses is the maximum contractual period over which the Company is exposed to credit risk.

Measurement of expected credit losses

Expected credit losses are a probability-weighted estimate of credit losses. They are the present value of all cash shortfalls (i.e., the difference between the cash flows that are due to an entity in accordance with the contract and the cash flows that the entity expects to receive).

Expected credit losses are discounted using the effective interest method.

Non-financial assets

At each reporting date, the Company reviews the carrying amounts of its non-financial assets (other than investment property, inventories, contract assets and deferred tax assets) to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

Share capital

In accordance with IAS 32, the ordinary shares and other shares issued by the Company are classified as equity instruments.

Incremental costs directly attributable to the issue of ordinary shares are recognised as a deduction from equity. Income tax relating to transaction costs of an equity transaction is accounted for in accordance with IAS 12.

Provisions

Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised under financial expense.

Employee benefits

Starting from 1 January 2007, the 2007 Finance Act and relevant implementing decrees introduced significant amendments to regulations on post-employment benefits (TFR). Employees now choose whether to allocate their TFR to supplementary pension funds or the INPS treasury fund. As a result, obligations to INPS and supplementary pension fund contributions qualify as defined contribution plans under IAS 19, while the portions allocated to TFR remain defined benefit plans.

The Company's net obligation in respect of defined benefit plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in the current and prior periods, discounting that amount and deducting the fair value of any plan assets.

The calculation of defined benefit obligations is performed by an independent actuary using the projected unit credit method. When the calculation results in a potential asset for the Company, the recognised asset is limited to the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. To calculate the present value of economic benefits, consideration is given to any applicable minimum funding requirements.

Remeasurements of the net defined benefit liability, which comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest), are recognised immediately in OCI. The group determines the net interest expense (income) on the net defined benefit liability (asset) for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the then-net defined benefit liability (asset), taking into account any changes in the net defined benefit liability (asset) during the period as a result of contributions and benefit payments. Net interest expense and other expenses related to defined benefit plans are recognised in profit or loss.

When the benefits of a plan are changed or when a plan is curtailed, the resulting change in benefit that relates to past service or the gain or loss on curtailment is recognised immediately in profit or loss when the settlement or curtailment occurs.

Share-based payments

The assignment-date fair value of equity-settled share-based payment arrangements granted to employees is generally recognised as an expense, with a corresponding increase in equity, over the vesting period of the awards. The amount recognised as an expense is adjusted to reflect the number of awards for which the related service and non-market performance conditions are expected to be met, such that the amount ultimately recognised is based on the number of awards that meet the related service and non-market performance conditions at the vesting date. For share-based payment awards with non-vesting conditions, the assignment-date fair value of the share-based payment is measured to reflect such conditions and there is no true-up for differences between expected and actual outcomes.

The fair value of the amount payable to employees in respect of stock appreciation rights, which are settled in cash, is recognised as an expense with a corresponding increase in liabilities, over the period during which the employees become unconditionally entitled to payment. The liability is remeasured at each reporting date and at settlement date based on the fair value of the stock appreciation rights. Any changes in the liability are recognised in profit or loss.

Fair value measurement

A number of the Company's accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities. When measuring the fair value of an asset or a liability, the Company uses observable market data as far as possible. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

- Level 1: *quoted prices (unadjusted) in active markets for identical assets or liabilities.*
- Level 2: *inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices).*
- Level 3: *inputs for the asset or liability that are not based on observable market data (unobservable inputs).*

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Company has access at that date. The fair value of a liability reflects its non-fulfilment risk.

When one is available, the Company measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If there is no quoted price in an active market, then the Company uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

If an asset or a liability measured at fair value has a bid price and an ask price, then the Company measures assets and long positions at a bid price and liabilities and short positions at an ask price.

The best evidence of the fair value of a financial instrument on initial recognition is normally the transaction price (i.e., the fair value of the consideration given or received). If the Company determines that the fair value on initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique for which any unobservable inputs are judged to be insignificant in relation to the measurement, then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value on initial recognition and the transaction price. Subsequently, that difference is recognised in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is wholly supported by observable market data or the transaction is closed out.

Operating segment

Under IFRS 8 - Operating segments, an operating segment is a component of an entity:

- that engages in business activities from which it may earn revenues and incur expenses;
- whose operating results are regularly reviewed by the entity's chief operating decision maker;
- for which discrete financial information is available.

The Executive Chairman has been identified as the Chief Operating Decision Maker ("CODM").

The CODM receives information mainly from the Chief Medical Officer and from the Chief Financial Officer regarding the status of research programs, licence agreements, products, in order to monitor the business and make allocation decisions.

Management has identified just one business segment. Given that the group's activities are fairly similar and the percentage of progress of its ongoing projects, they cannot be split into more than one segment subject to risks and returns that are different from those of other business segments. Moreover, the services provided, the nature of the production processes and type of customers do not allow the division of the group's activities into more than one business segment. Accordingly, the parent deems that presentation by business and geographical segment would not provide a better view and understanding of the group's business or its risks and returns.

Accounting standards, amendments and interpretations not yet applicable

At the date of this Report, furthermore, the competent bodies of the European Union have not yet concluded the endorsement process necessary for the adoption of the following accounting standards and amendments:

- In May 2017, the IASB issued the new standard IFRS 17 "Insurance contracts". The new standard will replace IFRS 4 and will be applicable as of 1 January 2023.
- In January 2020, the IASB published several amendments to IAS 1 which clarify that the definition of "current" or "non-current" of a liability is based on the right existing at the reporting date. The amendments will be applicable as of 1 January 2022.
- In May 2020, the IASB published some restricted amendments to IFRS 3, IAS 16, IAS 17 and some annual revisions to IFRS 1, IFRS 9, IAS 41 and IFRS 16. The amendments will be applicable as of 1 January 2022.
- In August 2020, the IASB published some amendments to IFRS 7, IFRS 4 and IFRS 16. The amendments will be applicable as of 1 January 2021.

The Company will adopt these new standards, amendments and interpretations on the basis of the established application date and will evaluate their potential impacts when they are endorsed by the European Union.

35. First-time adoption of the International Financial Reporting Standards (IFRS)

The financial statements at 31 December 2020 are the Company's first IAS/IFRS financial statements. The IFRS transition date is 1 January 2019.

In order to provide a clearer presentation of the effects of transition compared to the Company's separate financial statements drawn up under Italian GAAP, the Company has prepared the following schedules attached hereto:

- a reconciliation of equity reported in Philogen's separate financial statements under the OIC with equity reported in accordance with the IFRS at the transition date (1 January 2019);

- a reconciliation of the profit (loss) for year of the Company, determined in accordance with Italian GAAP, and the profit (loss) for the year determined under the IFRS for the year ended 31 December 2019;

- a reconciliation of Philogen's equity, reported in accordance with Italian GAAP, and equity reported in accordance with the IFRS at 31 December 2019;

- the related notes;

- the exemptions/options adopted during first-time adoption.

Application rules, accounting options adopted and standards

As required by IFRS 1, an opening statement of financial position was prepared at the transition date (1 January 2019) showing:

- All and only the assets and liabilities that could be recognised under the new standards;

- the reclassification of certain captions to comply with the IFRS;

- assets and liabilities recognised at the carrying amounts that would have been determined had the new standards always been applied except for any exemptions/options allowed by IFRS 1, as set out below.

The effect of the restatement of the opening balances of assets and liabilities under the IFRS was recognised in equity in a special reserve (FTA IFRS reserve), considering the related tax effect.

Restatement of the Company's opening balances of the statement of financial position at 1 January 2019 required the Company to elect what options allowed by IFRS 1 it intended to apply:

— *Exemptions allowed by IFRS 1 upon first-time adoption:*
  - measurement of property, plant and equipment at fair value or at deemed cost (IFRS 1)*: the group adopted the deemed cost method;*
  - *Financial instruments*: the Company opted for early application of IFRS 9 at 1 January 2019;
  - *Revenue from contracts with customers*: the Company opted for early application of IFRS 15 at 1 January 2019;
  - *Leases:* the Company opted for early application of IFRS 16 at 1 January 2019 as it also elected for early application of IFRS 15;
  - *employee benefits (IAS 19):* post-employment benefits were determined using actuarial calculations at the transition date. The Company elected to recognise all actuarial gains and losses at 1 January 2019.

— *Accounting treatments selected as part of the options allowed by the IFRS:*
  - *measurement of property, plant and equipment, intangible assets and investment property: after initial recognition at cost, IAS 16 and IAS 38 require that these assets are measured at cost or fair value.* The Company adopted the cost method;
  - *employee benefits:* post-employment benefits were determined using actuarial calculations at the transition date. The Company decided not to adopt the corridor approach;
  - *Equity investments:* the Company decided to measure this item with the equity method.

Main impacts of application of the IFRS to the opening statement of financial position at 1 January 2019

The differences arising from application of the IFRS compared to Italian GAAP and the Company's choices about the options allowed (described above) led to the restatement of the accounting data prepared under Italian GAAP for the financial statements and this affected equity. The adjustments required by the IFRS are described in detail in the following paragraphs.

A reconciliation of the Company's equity as per the OIC with equity recognised in accordance with the IFRS at 1 January 2019 is provided below:

(€ 000s)	Notes	1 January 2019
Equity of Philogen S.p.A. - OIC		**46,722**
IFRS adjustments:		
IFRS 15 - Revenue from contracts with customers	1	(5,874)
IFRS 16 - Leases	2	(2)
IFRS 9 - Financial instruments	3	376
IAS 19 - Employee benefits	4	(59)
IAS 38 - Intangible assets	5	356
IAS 28 - Investments in associates and joint ventures	6	(1,265)
Total IFRS adjustments net of the relevant tax effects		***(6,468)***
Equity of Philogen S.p.A. - IFRS		**40,254**

A reconciliation of the Company's equity and profit for the year as per the OIC with those recognised in accordance with the IFRS is provided below:

(€ 000s)	Notes	31 December 2019
Equity of Philogen S.p.A. - OIC		**74,597**
IFRS adjustments:		
IFRS 15 - Revenue from contracts with customers	1	(5,197)
IFRS 16 - Leases	2	(26)
IFRS 9 - Financial instruments	3	447
IAS 19 - Employee benefits	4	(94)
IAS 38 - Intangible assets	5	408
IAS 28 - Investments in associates and joint ventures	6	(1,332)
Total IFRS adjustments		***(5,794)***
Equity - IFRS		**68,803**

(€ 000s)	Notes	31 December 2019
Profit for the year - OIC		**838**
IFRS adjustments:		
IFRS 15 - Revenue from contracts with customers	1	677
IFRS 16 - Leases	2	(23)
IFRS 9 - Financial instruments	3	71
IAS 19 - Employee benefits	4	5
IAS 38 - Intangible assets	5	53
IAS 28 - Investments in associates and joint ventures	6	(218)
Total IFRS adjustments		***564***
Profit for the year - IFRS		**1,402**

Notes to the main IFRS adjustments made to the captions of the opening statement of financial position at 1 January 2019

1. IFRS 15 - Revenue from contracts with customers

Under the OIC, revenue was recognised when certain.

Under IFRS 15, management recognises revenue by applying the following five steps:

- identify the contract with a customer;
- identify the performance obligations;
- determine the transaction price;
- allocate the transaction price to the performance obligations;

- recognise revenue.

The main impacts of the application of the new standard (adopted retrospectively from 1 January 2019) are shown below:

(€ 000s)	31 December 2019
Statement of profit or loss	
Revenue	939
Adjustments, gross of the tax effect	**939**
Tax effect	(262)
Adjustments, net of the tax effect	**677**
Statement of financial position	
Contract assets	-
Contract liabilities	(7,208)
Equity adjustments, gross of the tax effect	**(7,208)**
Tax effect	2,011
Equity adjustments, net of the tax effect	**(5,197)**

2. IFRS 16 - Leases

Under the OIC, the Company recognised operating leases as costs on an accrual basis.

Under IFRS 16, at the commencement date, the Company (as a lessee) measures the lease liability at the present value of the lease payments that are not paid at that date and, as a balancing entry, a right-of-use asset. The present value of the lease payments is calculated by applying a discount using the interest rate implicit in the lease or, if that rate cannot be readily determined, the lessee's incremental borrowing rate.

The main impacts of the application of the new standard (adopted retrospectively from 1 January 2019) are shown below:

(€ 000s)	31 December 2019
Statement of profit or loss	
Use of third party assets (derecognition)	448
Amortisation and depreciation	(307)
Financial expense	(165)
Adjustments, gross of the tax effect	**(23)**
Tax effect	-
Adjustments, net of the tax effect	**(23)**
Statement of financial position	
Right-of-use assets	7,914
Other current assets	(26)
Lease liabilities	(7,914)
Equity adjustments, gross of the tax effect	**(26)**
Tax effect	-
Equity adjustments, net of the tax effect	**(26)**

3. IFRS 9 - Financial instruments

Under the OIC, debt instruments were measured at amortised cost. At each reporting date, the amortised cost of debt instruments referred to the present value of expected future cash flows, less any impairment losses, discounted at the effective interest rate.

Under IFRS 9, financial instruments are measured according to their nature and the Company's business model. Specifically:

- equity instruments are measured at fair value through profit or loss;
- Though the Company has adopted a held to collect and sell business model, debt instruments are measured at fair value:

- through other comprehensive income, if the contractual cash flows are solely payments of principal and interest;
- through profit or loss, if the contractual cash flows are not solely payments of principal and interest.

The main impacts of the application of the new standard (adopted retrospectively from 1 January 2019) are shown below:

(€ 000s)	**31 December 2019**
Statement of profit or loss	
Financial income and expense	93
Adjustments, gross of the tax effect	**93**
Tax effect	(22)
Adjustments, net of the tax effect	**71**
Statement of financial position	
Other current financial assets	588
Equity adjustments, gross of the tax effect	**588**
Tax effect	(141)
Equity adjustments, net of the tax effect	**447**

4. IAS 19 - Employee benefits

Under the OIC, post-employment benefits (TFR) were recognised as the overall accrued benefit considering any type of continuous remuneration and was net of any payments on account and partial advances paid by virtue of national or individual labour contracts or company agreements which are not required to be repaid, and net of portions transferred to complementary pension funds or the INPS treasury fund.

Under IAS 19, TFR is considered a defined benefit plan as the Company assumes the obligation to pay employees, upon termination of their employment, an amount calculated on years of service, remuneration over time and inflation. Unlike under the OIC, the liability is calculated using an actuarial method which considers aspects such as: when the employee will leave the company, their remuneration throughout their time of service and the fact that the payment will be deferred over time.

The main impacts of the application of the new standard are shown below:

(€ 000s)	**31 December 2019**
Statement of profit or loss	
Personnel expenses	15
Financial expense	(10)
Adjustments, gross of the tax effect	**5**
Tax effect	-
Adjustments, net of the tax effect	**5**
Statement of financial position	
Employee benefits	(103)
Other current liabilities	-
Equity adjustments, gross of the tax effect	**(103)**
Tax effect on actuarial valuation (recognised under equity)	8
Equity adjustments, net of the tax effect	**(94)**

5. IAS 38 - Intangible assets

Under the OIC, the acquisition cost of intangible assets also included all the related transaction costs.

Under IAS 38, capitalisation of certain categories of costs, specifically related to patents and intellectual property rights, is no longer allowed. Therefore, costs related to patent procedures that did not meet the requirements of IAS 38 were derecognised.

In addition, as per IAS 38, the group adjusted the useful life of intangible assets related to patents and intellectual property rights to 20 years. This led to a recalculation of the relevant accumulated amortisation.

The main impacts of the application of the new standard are shown below:

(€ 000s)	31 December 2019
Statement of profit or loss	
Service costs	(2)
Amortisation and depreciation	76
Adjustments, gross of the tax effect	**73**
Tax effect	(20)
Adjustments, net of the tax effect	**53**
Statement of financial position	
Intangible assets	566
Equity adjustments, gross of the tax effect	**566**
Tax effect	(158)
Equity adjustments, net of the tax effect	**408**

6. IAS 27 - Equity investments

On the basis of Italian GAAP, equity investments in subsidiaries are initially recognised at purchase cost and subsequently they may be valued either at cost or with the equity method. The company has always valued the equity investment of its subsidiary at cost.

In the opening IFRS statement of financial position, an entity may use the equity method for the valuation of equity investments in subsidiaries. The equity investment has therefore been adjusted according to the new method in accordance with IAS 27 and as governed by IAS 28.

The main impacts of the application of the new standard are shown below:

(€ 000s)	31 December 2019
Statement of profit or loss	
Profit (loss) from investments	(218)
Adjustments, gross of the tax effect	**(218)**
Tax effect	-
Adjustments, net of the tax effect	**(218)**
Statement of financial position	
Equity investments	(1,332)
Equity adjustments, gross of the tax effect	**(1,332)**
Tax effect	
Equity adjustments, net of the tax effect	**(1,332)**

RECONCILIATION SCHEDULE AT 1 JANUARY 2019

Statement of financial position *(€ 000s)*	01/01/2019 Philogen OIC	Reclassifications	IAS 27	IFRS 15	IFRS 16	IAS 38	IFRS 9	IAS 40	IAS 19	01/01/2019 Philogen IFRS
Assets										
Property, plant and equipment	8,723	-	-	-	-	-	-	-	-	8,723
Intangible assets	135	-	-	-	-	493	-	-	-	628
Right-of-use assets	-	-	-	-	49	-	-	-	-	49
Real estate investment	-	-	-	-	-	-	-	-	-	-
Equity investments	5,361	(10)	(1,265)	-	-	-	-	-	-	4,086
Other non-current financial assets	-	-	-	-	-	-	-	-	-	-
Deferred tax assets	-	-	-	2,273	-	1	-	-	-	2,274
Non-current assets	**14,219**	**(10)**	**(1,265)**	**2,273**	**49**	**494**	**-**	**-**	**-**	**15,761**
Inventories	397	-	-	-	-	-	-	-	-	397
Contract assets	-	-	-	-	-	-	-	-	-	-
Other current financial assets	29,961	238	-	-	-	-	495	-	-	30,693
Trade receivables	8,899	-	-	-	-	-	-	-	-	8,899
Tax assets	2,806	-	-	-	-	-	-	-	-	2,806
Other current assets	1,449	(228)	-	-	(7)	-	-	-	-	1,215
Cash and cash equivalents	6,225	-	-	-	-	-	-	-	-	6,225
Current assets	**49,737**	**10**	**-**	**-**	**(7)**	**-**	**495**	**-**	**-**	**50,235**
Total assets	**63,956**	**-**	**(1,265)**	**2,273**	**42**	**494**	**495**	**-**	**-**	**65,996**
Liabilities and equity			-							-
Equity	**46,722**	**-**	**1,265**	**(5,874)**	**(2)**	**356**	**376**	**-**	**(59)**	**40,254**
Provisions	-	-		-	-	-	-	-	-	-
Employee benefits	624	-	-	-	-	-	-	-	53	676
Non-current lease liabilities	-	-	-	-	19	-	-	-	-	19
Non-current financial liabilities	2,760	-	-	-	-	-	-	-	-	2,760
Non-current trade payables	-	-	-	-	-	-	-	-	-	-
Deferred tax liabilities	-	-	-	-	-	139	119	-	6	264
Non-current liabilities	**3,384**	**-**	**-**	**-**	**19**	**139**	**119**	**-**	**59**	**3,719**
Current financial liabilities	10,758	-	-	-	-	-	-	-	-	10,758
Current lease liabilities	-	-	-	-	26	-	-	-	-	26
Trade payables	2,005	-	-	-	-	-	-	-	-	2,005
Contract liabilities	-	-	-	8,147	-	-	-	-	-	8,147
Tax liabilities	431	-	-	-	-	-	-	-	-	431
Other current liabilities	657	-	-	-	-	-	-	-	-	657
Current liabilities	**13,851**	**-**	**-**	**8,147**	**26**	**-**	**-**	**-**	**-**	**22,024**
Total liabilities	**17,234**	**-**	**-**	**8,147**	**45**	**139**	**119**	**-**	**59**	**25,742**
Total equity and liabilities	**63,956**	**-**	**1,265**	**2,273**	**42**	**494**	**495**	**-**	**-**	**65,996**

RECONCILIATION SCHEDULE AT 31 DECEMBER 2019

Statement of financial position *(€ 000s)*	31/12/2019 Philogen OIC	Reclassifications	IAS 27	IFRS 15	IFRS 16	IAS 38	IFRS 9	IAS 40	IAS 19	31/12/2019 Philogen IFRS
Assets										
Property, plant and equipment	981	56	-	-	-	-	-	-	-	1,037
Intangible assets	238	(56)	-	-	-	566	-	-	-	748
Right-of-use assets	-	-	-	-	7,914	-	-	-	-	7,914
Real estate investment	-	-	-	-	-	-	-	-	-	-
Equity investments	5,361	(10)	(1,332)	-	-	-	-	-	-	4,019
Other non-current financial assets	-	-	-	-	-	-	-	-	-	-
Deferred tax assets	-	-	-	2,011	-	1	-	-	8	2,020
Non-current assets	**6,579**	**(10)**	**(1,332)**	**2,011**	**7,914**	**567**	**-**	**-**	**8**	**15,738**
Inventories	532	-	-	-	-	-	-	-	-	532
Contract assets	-	-	-	-	-	-	-	-	-	-
Other current financial assets	70,233	141	-	-	-	-	588	-	-	70,962
Trade receivables	640	-	-	-	-	-	-	-	-	640
Tax assets	2,854	-	-	-	-	-	-	-	-	2,854
Other current assets	925	(132)	-	-	(26)	-	-	-	-	767
Cash and cash equivalents	2,982	-	-	-	-	-	-	-	-	2,982
Current assets	**78,165**	**10**	**-**	**-**	**(26)**	**-**	**588**	**-**	**-**	**78,736**
Total assets	**84,745**	**-**	**(1,332)**	**2,011**	**7,888**	**567**	**588**	**-**	**8**	**94,474**
Liabilities and equity		-	-	-	-	-	-	-	-	-
Equity	**74,597**	**-**	**(1,332)**	**(5,197)**	**(26)**	**408**	**447**	**-**	**(94)**	**68,803**
Provisions	-	-	-	-	-	-	-	-	-	-
Employee benefits	701	-	-	-	-	-	-	-	103	803
Non-current lease liabilities	-	-	-	-	7,449	-	-	-	-	7,449
Non-current financial liabilities	682	-	-	-	-	-	-	-	-	682
Non-current trade payables	-	-	-	-	-	-	-	-	-	-
Deferred tax liabilities	-	-	-	-	-	159	141	-	(0)	300
Non-current liabilities	**1,382**	**-**	**-**	**-**	**7,449**	**159**	**141**	**-**	**103**	**9,233**
Current financial liabilities	4,664	-	-	-	-	-	-	-	-	4,664
Current lease liabilities	-	-	-	-	465	-	-	-	-	465
Trade payables	3,109	-	-	-	-	-	-	-	-	3,109
Contract liabilities	-	-	-	7,208	-	-	-	-	-	7,208
Tax liabilities	328	-	-	-	-	-	-	-	-	328
Other current liabilities	665	-	-	-	-	-	-	-	-	665
Current liabilities	**8,765**	**-**	**-**	**7,208**	**465**	**-**	**-**	**-**	**-**	**16,438**
Total liabilities	**10,148**	**-**	**-**	**7,208**	**7,914**	**159**	**141**	**-**	**103**	**25,671**
Total equity and liabilities	**84,745**	**-**	**(1,332)**	**2,011**	**7,888**	**567**	**588**	**-**	**8**	**94,474**

Statement of profit or loss *(€ 000s)*	31/12/2019 Philogen OIC	Reclassifications	IAS 27	IFRS 15	IFRS 16	IAS 38	IFRS 9	IAS 40	IAS 19	31/12/2019 Philogen IFRS
Revenue from contracts with customers	10,741	-	-	939	-	-	-	-	-	11,680
Other revenue	2,301	-	-	-	-	-	-	-	-	2,301
Total operating revenue	**13,043**	**-**	**-**	**939**	**-**	**-**	**-**	**-**	**-**	**13,982**
Raw materials and consumables	(664)	-	-	-	-	-	-	-	-	(664)
Service costs	(8,711)	-	-	-	-	(2)	-	-	-	(8,714)
Use of third party assets	(530)	-	-	-	448	-	-	-	-	(82)
Personnel expenses	(3,694)	-	-	-	-	-	-	-	15	(3,679)
Amortisation, depreciation and impairment losses	(489)	-	-	-	(307)	76	-	-	-	(720)
Other operating costs	(611)	-	-	-	-	-	-	-	-	(611)
Total operating costs	**(14,699)**	**-**	**-**	**-**	**141**	**73**	**-**	**-**	**15**	**(14,469)**
Operating profit (loss)	**(1,657)**	**-**	**-**	**939**	**141**	**73**	**-**	**-**	**15**	**(488)**
Financial income	3,231	-	-	-	-	-	93	-	-	3,324
Financial expense	(184)	-	-	-	(165)	-	-	-	(10)	(359)
Net financial income (expense)	**(196)**	**-**	**-**	**-**	**(165)**	**-**	**(93)**	**-**	**(10)**	**2,965**
Profit (loss) from investments			218							218
Pre-tax profit (loss)	**1,390**	**-**	**218**	**939**	**(23)**	**73**	**93**	**-**	**5**	**2,259**
Income taxes	(552)	-	-	(262)	-	(20)	(22)	-	-	(857)
Profit from continuing operations	**838**	**-**	**218**	**677**	**(23)**	**53**	**71**	**-**	**5**	**1,402**
Profit (loss) from discontinued operations	-	-	-	-	-	-	-	-	-	-
Profit for the year	**838**	**-**	**218**	**677**	**(23)**	**53**	**71**	**-**	**5**	**1,402**

Statement of cash flows *(€ 000s)*	31/12/2019 Philogen OIC	IAS 27	IFRS 15	IFRS 16	IAS 38	IFRS 9	IAS 40	IAS 19	31/12/2019 Philogen IFRS
Cash flows generated by/used in operating activities (A)	10,674	-		294	-	(2,524)	-		8,444
Cash flows generated by/used in investing activities (B)	(40,651)	-	-	-	-	2,524	-	-	(38,128)
Cash flows generated by/used in financing activities (C)	33,675			(294)					33,381
Total cash flows (A + B + C)	**3,698**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**3,697**

Disclosure pursuant to art. 149-duodecies of the Issuers' Regulation

(€ 000s) **Type of services**	**Service provider**	**Recipient**	**notes**	**Total Fees 2020**
Audit	Auditor of the Parent Company	Parent		94
Other Services	i) Auditor of the Parent Company	Parent	1	680
	ii) Network of the auditor of the Parent Company		2	30
Subtotal				**804**

1) The item refers to services carried out as part of the listing process and the certification relating to the R&D Credit.

2) The item refers to services carried out as part of the listing process.