Philogen Group

Consolidated financial statement as of 31 December 2019, 2018, 2017

(with audit opinion)

KPMG S.p.A.

20 November 2020

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Independent auditors' report

To the Board of Directors of
Philogen S.p.A.

Report of the audit of the consolidated financial statements

Opinion

We have audited the accompanying consolidated financial statements of Philogen S.p.A. (the "Company" and together with its subsidiary, the "Philogen Group"), which comprise the statement of financial position as at 31 December 2019, 2018 and 2017, the statement of profit or loss and the statement of comprehensive income, changes in equity and cash flows for the years then ended and notes thereto, which include a summary of the significant accounting policies (the "Consolidated Financial Statements").

In our opinion, the Consolidated Financial Statements give a true and fair view of the financial position of the Philogen Group as at 31 December 2019, 2018 and 2017 and of its financial performance and cash flows for the years then ended in accordance with the international Financial Reporting Standards endorsed by the European Union.

Basis of opinion

We conducted our audit in accordance with International Standards on Auditing (ISA Italia). Our responsibilities under those principles are further described in the "*Auditors' responsibility for the audit of the consolidated financial statements*" section of our report. We are independent of the Company in accordance with the ethics and independence rules and standards applicable in Italy to audits of financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other aspects

The data reported in the Philogen Group's Consolidated Financial Statements prepared in accordance with the International Financial Reporting Standards endorsed by the European Union derive from the consolidated financial statements as at 31 December 2019 and 2018 prepared in accordance with the Italian regulations governing their preparation. Notes 34 describe the effects of the transition to the International Financial Reporting Standards endorsed by the European Union and include information on the reconciliation schedules required by the international accounting standard IFRS 1.

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The Consolidated Financial Statements are prepared for inclusion in the Offering Circular prepared by the Company as part of the procedure for listing of the ordinary shares of Philogen S.p.A. on the stock exchange organised and managed by Borsa Italiana S.p.A..

Responsibilities of the Philogen S.p.A.'s directors and board of statutory auditors ("Collegio Sindacale") for the Consolidated Financial Statements

The Directors are responsible for the preparation of the Consolidated Financial Statements that provide a true and fair view in accordance with the international Financial Reporting Standards endorsed by the European Union and, within the terms established by the Italian law, for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Philogen Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

The *Collegio Sindacale* is responsible for overseeing, within the terms established by the Italian law, the Philogen Group's financial reporting process.

Auditors' responsibilities for the audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the Consolidated Financial Statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISA Italia will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these Consolidated Financial Statements.

As part of an audit in accordance with ISA Italia, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Philogen Group's internal control;
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors;

- conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Philogen Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the Consolidated Financial Statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Philogen Group to cease to continue as a going concern;
- evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the Consolidated Financial Statements represent the underlying transactions and events in a manner that achieves fair presentation;
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Philogen Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Philogen Group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance, identified at the appropriate level required by ISA Italia, regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Florence, 20 November 2020

KPMG S.p.A.

Matteo Balestracci
Director of Audit

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Philogen Group

Consolidated financial statements at 31 December 2019, 2018 and 2017

Consolidated financial statements and notes thereto

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CONSOLIDATED FINANCIAL STATEMENTS

Consolidated Statement of profit or loss

(€'000)	Note	2019	*Of which: related parties*	2018	*Of which: related parties*	2017	*Of which: related parties*
Revenue from contracts with customers	5	12,611		13,853		10,409	
Other income	5	3,905	*1,462*	1,896		3,709	
Total revenue and income		**16,516**	***1,462***	**15,749**		**14,118**	
Raw materials and consumables	6	(1,203)		(1,321)		(1,177)	
Service costs	6	(7,110)	*(1,773)*	(4,879)	*(952)*	(4,208)	*(931)*
Use of third party assets	6	(90)		(29)		(25)	
Personnel expenses	6	(6,822)		(5,806)		(5,463)	
Amortisation and depreciation	6	(1,102)	*(309)*	(1,050)		(1,020)	
Other operating costs	6	(654)		(316)		(218)	
Total operating costs		**(16,982)**	***(2,082)***	**(13,401)**	***(952)***	**(12,111)**	***(931)***
Operating profit (loss)		**(466)**	***(620)***	**2,348**	***(952)***	**2,006**	***(931)***
Financial income	7	3,320		1,084		2,638	
Financial expense	7	(431)	*(199)*	(1,854)		(1,140)	
Net financial income (expense)		**2,890**	***(199)***	**(770)**		**1,498**	
Pre-tax profit		**2,423**	***(819)***	**1,578**	***(952)***	**3,504**	***(931)***
Income taxes	8	(1,021)		2,126		(1,005)	
Profit for the year		**1,402**	***(819)***	**3,703**	***(952)***	**2,500**	***(931)***
Profit attributable to the owners of the parent		1,402		3,703		2,500	
Basic earnings per share (in Euros)	9	0.04		0.09		0.06	
Diluted earnings per share (in Euros)	9	0.04		0.09		0.06	

The notes from pages 9 to 78 are an integral part of the consolidated financial statements.

Consolidated Statement of comprehensive income

(€'000)	Note	2019	2018	2017
Profit for the year (A)		**1,402**	**3,703**	**2,500**
Other comprehensive income (expense) that will be subsequently reclassified to profit or loss				
Exchange differences from translation of financial statements in foreign currencies	21	150	153	(367)
Other comprehensive income (expense) that will be subsequently reclassified to profit or loss (B)		**150**	**153**	**(367)**
Other comprehensive income (expense) that will not be subsequently reclassified to profit or loss				
Actuarial gains (losses) on employee benefits	22	(53)	17	5
Tax effect	22	15	(5)	(1)
Other comprehensive income (expense) that will not be subsequently reclassified to profit or loss (C)		**(38)**	**12**	**4**
Other comprehensive income (expense) (B+C)		**112**	**165**	**(363)**
Comprehensive income net of tax (A+B+C)		**1,514**	**3,868**	**2,137**
Comprehensive income attributable to the owners of the parent		1,514	3,868	2,137

The notes from pages 9 to 78 are an integral part of the consolidated financial statements.

Consolidated Statement of financial position

(€'000)	Note	31/12/2019	Of which: related parties	31/12/2018	Of which: related parties	31/12/2017	Of which: related parties	01/01/2017	Of which: related parties
ASSETS									
Property, plant and equipment	10	2,248		12,451		12,530		13,222	
Intangible assets	11	935		855		894		975	
Right-of-use assets	12	10,985	*10,809*	49		31		43	
Investment property	13	-		2,664		2,618		2,909	
Other non-current financial assets		-		-		-		10	
Deferred tax assets	8	2,115		2,525		267		1,337	
Non-current assets		**16,283**	***10,809***	**18,543**		**16,339**		**18,496**	
Inventories	14	617		468		586		426	
Contract assets	15	-		-		545		618	
Trade receivables	16	1,199		9,395		3,585		1,001	
Tax assets	17	2,946		2,889		1,505		728	
Other current financial assets	18	70,962		30,693		28,115		44,482	
Other current assets	19	690		1,106		2,085		1,123	
Cash and cash equivalents	20	3,564		6,380		6,462		2,274	
Current assets		**79,978**		**50,932**		**42,883**		**50,652**	
Total assets		**96,261**	***10,809***	**69,474**		**59,222**		**69,148**	
EQUITY									
Share capital		5,158		4,250		4,250		4,250	
Share premium reserve		54,918		17,016		17,016		17,016	
Other reserves		7,325		15,285		13,641		9,925	
Profit for the year		1,402		3,703		2,500		5,113	
Equity attributable to the owners of the parent	**21**	**68,803**		**40,255**		**37,406**		**36,304**	
Total equity	**21**	**68,803**		**40,255**		**37,406**		**36,304**	
LIABILITIES									
Provisions for risks and charges		-		1		-		-	
Employee benefits	22	803		676		730		671	
Non-current lease liabilities	12	11,959	*11,832*	18		13		37	
Non-current financial liabilities	23	682		5,600		6,366		5,757	
Deferred tax liabilities	8	320		289		456		563	
Non-current liabilities		**13,764**	***11,832***	**6,584**		**7,564**		**7,027**	
Current financial liabilities	23	518		10,899		10,861		17,542	
Current lease liabilities	12	668	*642*	27		12		-	
Trade payables	24	3,281	*60*	2,051	*21*	2,152	*20*	2,805	*10*
Contract liabilities	15	7,790		8,408		284		4,054	
Tax liabilities	17	332		431		132		565	
Other current liabilities	25	1,105		820		811		851	
Current liabilities		**13,693**	***702***	**22,635**	***21***	**14,252**	***20***	**25,817**	***10***
Total liabilities		**27,458**	***12,534***	**29,219**	***21***	**21,816**	***20***	**32,844**	***10***
Total equity and liabilities		**96,261**	***12,534***	**69,474**	***21***	**59,222**	***20***	**69,148**	***10***

The notes from pages 9 to 76 are an integral part of the consolidated financial statements.

Consolidated Statement of changes in equity

				Other reserves									
(€'000)	Note	Share capital	Share premium reserve	Revaluation reserve	Legal reserve	FTA IFRS reserve	Goodwill	Actuarial reserve	Translation reserve	Retained earnings	Total other reserves	Profit for the year	Total equity
Opening balances at 1 January 2017		**4,250**	**17,016**	**1,676**	**850**	**(1,265)**	**50**	**-**	**1,149**	**7,464**	**9,925**	**5,113**	**36,304**
Allocation of prior year profit										5,113	5,113	(5,113)	-
Dividends	21									(1,020)	(1,020)		**(1,020)**
Increase in share capital	21										-		-
Profit for the year											-	2,500	**2,500**
Other comprehensive income (expense), net of tax	21, 22							4	(367)	(14)	(377)		**(377)**
Closing balances at 31 December 2017		**4,250**	**17,016**	**1,676**	**850**	**(1,265)**	**50**	**4**	**782**	**11,543**	**13,641**	**2,500**	**37,406**
Allocation of prior year profit										2,500	2,500	(2,500)	-
Dividends	21									(1,020)	(1,020)		**(1,020)**
Increase in share capital	21										-		-
Profit for the year											-	3,703	**3,703**
Other comprehensive income, net of tax	21, 22							12	153	1	166		**166**
Closing balances at 31 December 2018		**4,250**	**17,016**	**1,676**	**850**	**(1,265)**	**50**	**16**	**935**	**13,024**	**15,286**	**3,703**	**40,256**
Allocation of prior year profit										3,703	3,703	(3,703)	-
Dividends	21		(11,781)							(10,097)	(10,097)		**(21,878)**
Increase in share capital	21	908	61,099								-		**62,007**
Demerger of business unit	3, 21		(11,417)	(1,676)							(1,676)		**(13,093)**
Profit for the year											-	1,402	**1,402**
Other comprehensive income (expense), net of tax	21, 22							(38)	150	(3)	108		**109**
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**

The notes from pages 9 to 76 are an integral part of the consolidated financial statements.

Consolidated Statement of cash flows

(€'000)	Note	2019	Of which: related parties	2018	Of which: related parties	2017	Of which: related parties
Cash flows from operating activities							
Profit for the year		1,402	*(819)*	3,703	*(952)*	2,500	*(931)*
Adjustments for:							
Amortisation and depreciation	6	1,102	*309*	1,050		1,020	
Net financial income (expense)	7	(2,890)	*199*	770		(1,498)	
Gain on the sale of property, plant and equipment	5	(1,462)	*(1,462)*	-		-	
Accrual to provisions and employee benefits	6	93		105		112	
Income taxes	8	1,021		(2,126)		1,005	
Other non-monetary adjustments	6	380		109		179	
Variations in:							
Inventories	14	(145)		123		(172)	
Contract assets	15	-		547		66	
Trade receivables	16	8,214		(5,787)		(2,628)	
Contract liabilities	15	(635)		8,118		(3,770)	
Trade payables	24	1,213	*39*	(113)	*1*	(625)	*10*
Other current assets and liabilities (*)	17,19,25	88		(392)		(2,381)	
Use of provisions and employee benefits	22	(19)		(142)		(48)	
Interest paid	7	(302)		(313)		(478)	
Income taxes paid	8	(562)		(295)		(78)	
Cash flows generated by/used in operating activities (A)		**7,498**	***(1,734)***	**5,357**	***(951)***	**(6,797)**	***(921)***
Cash flows from investing activities							
Interest collected	7	2,747		1,018		3,014	
Proceeds from the sale of property, plant and equipment	10	3,247	*3,247*	22		-	
Proceeds from the sale of investment property	13	2,885	*2,885*	-		-	
Proceeds from the sale of financial assets	18	18,825		3,382		19,278	
Acquisition of property, plant and equipment	10	(1,232)		(595)		(373)	
Acquisition of intangible assets	11	(235)		(133)		(137)	
Acquisition of other financial assets	18	(58,745)		(7,255)		(4,019)	
Cash flows generated by/used in investing activities (B)		**(32,508)**	***6,132***	**(3,561)**		**17,763**	
Cash flows from financing activities							
Proceeds from the issuing of shares	21	62,007	*62,007*	-		-	
New loans and borrowings	23	-		-		1,890	
Repayments of loans and borrowings	23	(10,660)		(848)		(7,616)	
Payment of lease liabilities	12	(351)	*(351)*	(15)		(12)	
Dividends paid	21	(21,878)	*(21,878)*	(1,020)	*(1,020)*	(1,020)	*(1,020)*
Cash flows generated by/used in financing activities (C)		**29,118**	***39,778***	**(1,884)**	***(1,020)***	**(6,758)**	***(1,020)***
Total cash flows (A + B + C)		**4,108**		**(88)**		**4,207**	
Opening cash and cash equivalents	**20**	**6,380**		**6,462**		**2,274**	
Changes in cash and cash equivalents		4,108		(88)		4,207	
Decrease in liquid funds due to the demerger		(6,940)		-		-	
Translation effect on cash and cash equivalents		16		6		(19)	
Closing cash and cash equivalents	**20**	**3,564**		**6,380**		**6,462**	

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

The notes from pages 9 to 76 are an integral part of the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Basis of presentation

Foreword

Philogen S.p.A. (the "parent") decided to list its ordinary shares on the stock exchange organised and managed by Borsa Italiana S.p.A. in its board meeting of 5 October 2020.

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.

As part of the listing procedure and as allowed by article 94 of the Consolidated Finance Act and EU Regulation 2017/1129 of the European Parliament and of the Council and EU Regulation 2019/980 of the Commission, the group decided to prepare consolidated financial statements as at and for the years ended 31 December 2019, 2018 and 2017 (the "consolidated financial statements") under the IFRS, solely for the purposes of their inclusion in the Prospectus as part of its listing on the stock exchange.

These consolidated financial statements of Philogen S.p.A. and its Swiss subsidiary Philochem AG (the "group" or the "Philogen Group"), prepared for the purposes described earlier, are the first set drawn up under the IFRS and are published via this Prospectus. The IFRS transition date is 1 January 2017. The group's first consolidated financial statements to be published in accordance with the Italian Civil Code and drawn up under the IFRS will be those at 31 December 2020, which will be approved within the terms set by law.

For the purpose of preparing the consolidated financial statements as part of the listing procedure mentioned above, the Philogen Group used the set of standards applicable at 31 December 2019 in accordance with the provisions of IFRS 1. The effects of IFRS first time adoption are detailed in note 35.

The consolidated financial statements of the Philogen Group at 31 December 2019 were drawn up on the basis of the information known at the preparation date.

Information on the assets, liabilities, financial position, revenue and costs of the Philogen Group as at and for the years ended 31 December 2019, 2018 and 2017 is provided in the following paragraphs.

1 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 consolidated financial statements comprise the financial statements of the parent and its Swiss subsidiary Philochem AG. 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.

2 Basis of preparation

These consolidated 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 consolidated financial statements at 31 December 2019 are the group's first set drawn up under the IFRS; therefore, the group applied IFRS 1 - First-time adoption of International Financial Reporting Standards.

These consolidated financial statements were approved and authorised for publication by the parent's board of directors on 19 November 2020.

Details on the standards adopted by the group are provided in note 33.

Information on how the transition to the IFRS impacted the group's financial position, performance and cash flows is provided in note 34.

Functional and presentation currency

These consolidated 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:

- Note 34 - revenue recognition: establishing whether revenue from licences should be recognised at a point in time or over time;
- Note 34 - securities recognition: assessing the business model and the relevant recognition;
- Notes 12 and 34 - lease term: main assumptions regarding renewal options beyond the non-cancellable period of the lease.

ii) Assumptions and uncertainties in estimates

For the years ended 31 December 2019, 2018 and 2017, 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 23 and 34 - measurement of defined benefit obligations: main actuarial assumptions;
- Notes 19 and 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 of deferred tax assets: availability of future taxable profits against which deductible temporary differences and tax losses carried forward can be used;
- Notes 11 and 12 - impairment test on non-current assets: 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

As mentioned in the foreword, the consolidated financial statements at 31 December 2019 are the Philogen Group's first set drawn up under the IFRS and, therefore, the group applied IFRS 1.

The date of transition is 1 January 2017, which is the beginning of the earliest period for which the group presents comparative information in its first IFRS consolidated financial statements.

In accordance with IFRS 1, the group applied the same accounting standards in its opening statement of financial position prepared under the IFRS at 1 January 2017 and for all the years included in these first consolidated financial statements drawn up under the IFRS. Such accounting standards comply with each IFRS applicable at the reporting date of 31 December 2019, 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 or during the years presented herein are not relevant for the purposes of these consolidated financial statements.

Finally, the group opted for early application of IFRS 15 - Revenue from contracts with customers, IFRS 9 - Financial instruments and IFRS 16 - Leases at 1 January 2017.

3 Transactions during the three years

During 2019, the Philogen Group carried out an extraordinary operation to increase the reserved share capital to be subscribed by the new shareholders for an amount of €62 million. This operation was subject to the distribution of ordinary and extraordinary dividends to the shareholders included in the shareholders' register at the date of the aforementioned capital increase as well as a property restructuring described below in further details.

Property restructuring

In 2019, the group carried out certain property restructuring transactions (described below) aimed at achieving financial, organisational and operational benefits that make the group structure more flexible.

Demerger and leaseback transactions

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.

Details of the demerger of Philogen S.p.A.'s property unit:

(€'000)	**Amount**
Land *	3,208
Buildings *	3,621
Assets under construction	1,019
Cars *	32
Cash	6,940
TOTAL ASSETS	**14,820**
Loans and borrowings	1,727
TOTAL LIABILITIES	**1,727**
NET ASSETS	**13,093**

*The assets are shown net of the relevant accumulated depreciation.

The demerged assets include liquidity of €6,940 thousand needed to fund the additional property restructuring transaction related to the Swiss subsidiary Philochem AG (described below).

The parties subsequently signed a lease under which Rendo S.r.l. leased the demerged land, buildings and assets under construction to Philogen S.p.A.. The nine-year lease term expires in 2028. It is tacitly renewed for a further six years unless Philogen S.p.A. notifies its termination of the lease at least twelve months prior to its expiry or unless Philogen S.p.A. withdraws therefrom. The annual lease payment is €650 thousand, plus VAT, paid quarterly in advance.

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.

Due to the lease of such demerged property, the parent recognised right-of-use assets of €7,738 thousand and lease liabilities of €7,762 thousand at 31 December 2019 in addition to depreciation and financial expense of €267 thousand and €163 thousand, respectively, for the year ended 31 December 2019.

Reference should be made to the "Right-of-use assets and lease liabilities" paragraph of note 12 for information on the relevant recognition.

Sale and leaseback transactions

On 26 September 2019, as part of the group restructuring project, the Swiss subsidiary Philochem AG separated its property unit from its operating unit by selling its building and laboratories to a newco incorporated under Swiss law, Rendo AG, which is wholly-owned by the Italian property company Rendo S.r.l..

Details of the property sale are as follows:

(€'000)	**Amount in Euros***	**Amount in CHF**
Carrying amount of assets sold **		
Land and buildings	4,016	4,363
Plant and machinery	1,858	2,018
TOTAL ASSETS SOLD	**5,875**	**6,382**
SALES PRICE	**8,983**	**9,759**
Bank loans and borrowings transferred	3,015	3,275
CONSIDERATION RECEIVED	**5,968**	**6,484**

*Transaction carried out in CHF and translated into Euro at the spot rate at the date of sale, 26 September 2019, equal to 1.0864.
**The assets are shown net of the relevant accumulated depreciation.

With regard to the assets used for group activities only, the parties subsequently signed a lease under which Rendo AG leased the demerged spaces to Philochem AG. The nine-year lease term expires in 2028. It is tacitly renewed for a further nine years unless Philochem AG notifies its termination of the lease at least twelve months prior to its expiry or unless Philochem AG withdraws therefrom. The annual lease payment is €338 thousand (CHF375 thousand), plus VAT and related charges, paid quarterly in advance. The carrying amount of the assets leased back at the transaction date was €3,112 thousand (CHF3,380 thousand) and the portion of the sales price related to such assets amounts to €4,758 thousand (CHF5,169 thousand).

The above qualifies as a sale and leaseback transaction under IFRS 16. Therefore, due to the lease of such assets, at 31 December 2019 the group recognised right-of-use assets of €3,071 thousand (CHF3,333 thousand) and lease liabilities of €4,713 thousand (CHF5,115 thousand) (the fair value of the assets). The group also recognised depreciation and financial expense of €42 thousand (CHF47 thousand) and €36 thousand (CHF40 thousand), respectively, during the year.

With regard to the residential apartments rented to third parties, such assets were not leased back to Philochem AG. The carrying amount of such investment property at the transaction date was €2,764 thousand (CHF3,002 thousand) and the relevant sales price was €4,225 thousand (CHF4,590 thousand). Therefore, other income includes a gain of €1,462 thousand (CHF1,588 thousand) recorded by the group in 2019.

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.

Under the IFRS, the sale of such assets (residential apartments not included in the leaseback transaction) is not a business combination under common control but rather a demerger of non-current assets and directly associated liabilities. The net assets sold do not meet the definition of a business as per IFRS 3 but instead are a group of assets with the directly associated liabilities.

The sales price of such assets was appraised by an independent third party, based on the discounted cash flows calculated using the rent per square metre applied to third parties in the same building, and, together with the lease payments, was discussed with the local tax authorities.

From a financial point of view, the above transactions were carried out over a roughly six-month period and led to the following cash flows:

— the first transaction led to the demerger of the parent's cash flows to the newco Rendo S.r.l. for a total of €6,940 thousand. The latter then transferred a portion of this amount to its subsidiary Rendo AG as funds to acquire the building as part of the second transaction (sale);
— the second transaction led to the cash inflow of €5,968 thousand following the Swiss subsidiary's sale of its owner-occupied building to the newco Rendo AG. A portion of this amount was returned to the parent via a loan of approximately €4,146 thousand at 31 December 2019 (the original amount was CHF4,500 thousand).

New shareholders and dividend distributions

As part of the restructuring project, the extraordinary share capital increase of €62 million for Philogen S.p.A. was finalised on 15 May 2019. Such increase is chiefly earmarked for developing pipeline products, ramping up clinical trials and expanding good manufacturing practice (GMP) activities. The investment is coordinated by Mediobanca via the vehicles Palio Ordinarie S.p.A. (17% of the share capital and 10,4% of the voting rights) and Palio Speciali S.r.l. (0,3% of the share capital and 0,2% of the voting rights). Reference should be made to the statement of changes in equity for details on changes to the group's equity.

The capital increase was subject to, in addition to the property restructuring described above, the distribution of an ordinary dividend (equal to €3,187 thousand) and extraordinary dividend (equal to €18,691 thousand) to the shareholders included in the shareholders' register at the date of the aforementioned capital increase.

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 companies.

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 group's rate of dependence on its top customers is provided in note 5.

The chief operating decision maker (CODM) is the managing director.

Statement of profit or loss

5 Revenue and income

(€'000)	2019	2018	2017
Revenue from contracts with customers	12,611	13,853	10,409
Other income	3,905	1,896	3,709
Total revenue and income	**16,516**	**15,749**	**14,118**

Revenue from contracts with customers

The group recognised total revenue of €12,611 thousand in 2019, mainly deriving from licence fees and research and development activities contracted by third parties.

Revenue for 2019 (down approximately €1,243 thousand on 2018) chiefly refers to two important upfront fees collected at the end of 2018 and recognised over time as the relevant performance obligations were met.

Revenue for 2018 (approximately €13,853 thousand, up roughly €3,444 thousand on 2017) mainly refers to a significant option on the granting of certain exclusive licences collected during the year and recognised at a point in time as it refers to the right to use the group's intellectual property.

Revenue for 2017 (roughly €10,409 thousand) refers to a series of upfront fees and milestones recognised over time as the relevant performance obligations were met.

Breakdown of revenue from contracts with customers

Breakdown by type of consideration

(€'000)	2019	2018	2017
Upfront and maintenance fees	10,946	680	7,783
Commercial licence option fees	-	11,132	-
R&D services	1,665	2,042	2,625
Total revenue from contracts with customers	**12,611**	**13,853**	**10,409**

Breakdown by recognition method

(€'000)	2019	2018	2017
Recognised at a point in time	628	11,762	3,628
Recognised over time	11,983	2,092	6,780
Total revenue from contracts with customers	**12,611**	**13,853**	**10,409**

Breakdown by geographical segment

(€'000)	2019	2018	2017
USA	11,502	11,823	8,940
European Union	952	1,982	868
Non-EU (Switzerland)	157	49	601
Total revenue from contracts with customers	**12,611**	**13,853**	**10,409**

Breakdown by type of product/service

(€'000)	2019	2018	2017
Development of partnered product 3	-	11,416	3,770
Development of partnered product 4	225	220	4,323
Development of partnered product 1	5,203	-	-
Development of partnered product 2	5,518	176	-
Encoded self-assembling chemical (ESAC) services	1,105	1,582	405

Protoemic services	10	46	-
Good manufacturing practice (GMP) services	157	49	631
Other research and development services	393	364	1,280
Total revenue from contracts with customers	**12,611**	**13,853**	**10,409**

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

(€'000)	**2019**	*%*	**2018**	*%*	**2017**	*%*
Customer 1	5,203	*41%*	-	-	-	-
Customer 2	5,518	*44%*	176	*1%*	-	-
Customer 3	225	*2%*	220	*2%*	4,323	*42%*
Customer 4	-	-	11,416	*82%*	3,770	*36%*
Other customers < 10%	1,665	*13%*	2,042	*15%*	2,315	*22%*
Total revenue from contracts with customers	**12,611**	***100%***	**13,853**	***100%***	**10,409**	***100%***

Other income

(€'000)	**2019**	**2018**	**2017**
Grants related to income	2,310	1,804	3,216
Gains from the sale of assets	1,462	12	309
Sundry income	133	80	184
Total other income	**3,905**	**1,896**	**3,709**

Other income includes grants for research and development activities and grants for research projects co-funded by the European Community, the Tuscany Region and other bodies which amounts to €2,310 thousand in 2019 (€1,804 thousand in 2018 and €3,216 thousand in 2017).

Gains from the sale of assets, amounting to €1,462 thousand in 2019, refer to the sale of investment property as part of the property sale described earlier.

6 Operating costs

A breakdown of operating costs in 2019, 2018 and 2017 is provided below:

(€'000)	**2019**	**2018**	**2017**
Raw materials and consumables	1,203	1,321	1,177
Service costs	7,110	4,879	4,208
Use of third party assets	90	29	25
Personnel expenses	6,822	5,806	5,463
Amortisation, depreciation and impairment losses	1,102	1,050	1,020
Other costs	654	316	218
Total operating costs	**16,982**	**13,401**	**12,111**

Raw materials and consumables

This caption amounts to €1,203 thousand in 2019 (€1,321 thousand in 2018 and €1,177 thousand in 2017) and mainly includes the cost of materials used in laboratories (reagents, culture media, etc.), 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:

— the cost of subcontracting research activities, such as for example, toxicological analyses or product quality controls. Most of these activities take place and are paid for in the years before the clinical trials start;
— clinical costs (€2,923 thousand in 2019, €1,188 thousand in 2018 and €896 thousand in 2017) which comprise costs incurred by the group to carry out clinical trials. They include the costs of services entrusted to external CROs (contract research organisations), obligatory activities for the clinical trials, Italian and foreign hospital costs, clinical monitoring, etc.;
— costs of technical consultancies (€384 thousand in 2019, €382 thousand in 2018 and €319 thousand in 2017), which relate to specific professional assistance for different business issues, and patent costs (€375 thousand in 2019, €369 thousand in 2018 and €315 thousand in 2017) related to renewals and the cost of maintaining the group's patents.

Use of third party assets

These costs amount to €90 thousand in 2019 (€29 thousand in 2018 and €25 thousand in 2017). Adoption of IFRS 16 as of 1 January 2017 (as detailed in note 12) led to the reclassification of rental costs and the recognition of depreciation and financial expense. The portion recognised under use of third party assets refers to short-term leases and leases of low-value assets.

The increase in the use of third party assets in 2019 is mainly attributable to higher rental costs, exclusively related to 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 in 2019, 2018 and 2017 is provided below:

(€'000)			
	2019	**2018**	**2017**
Wages and salaries	5,514	4,690	4,476
Social security contributions and pensions	1,130	934	819
Post-employment benefits	85	99	104
Other personnel expenses	92	83	64
Total personnel expenses	**6,822**	**5,806**	**5,463**

Personnel expenses amount to €6,822 thousand in 2019 (€5,806 thousand in 2018 and €5,463 thousand in 2017). The increase over the three years is mainly due to contractual raises, company bonuses and the rise in the average number of employees, as shown in the following table:

	2019	**2018**	**2017**
Average number of employees	102	99	89

Amortisation and depreciation

A breakdown of this caption for 2019, 2018 and 2017 is provided below:

(€'000)			
	2019	**2018**	**2017**
Amortisation of intangible assets	160	186	202
Depreciation of property, plant and equipment	594	791	753
Depreciation of investment property	-	55	53
Depreciation/amortisation of right-of-use assets	348	18	12
Total amortisation and depreciation	**1,102**	**1,050**	**1,020**

Amortisation and depreciation increased €30 thousand from €1,020 thousand in 2017 to €1,050 thousand in 2018 and then rose €52 thousand to €1,102 thousand in 2019.

Amortisation of intangible assets chiefly refers to patents.

Depreciation of property, plant and equipment mainly refers to land and buildings, plant and machinery and industrial and commercial equipment. The decrease from 2018 to 2019 is mostly due to the sale or demerger of assets as part of the extraordinary property restructuring transaction mentioned earlier and the resulting reduction of annual depreciation.

Depreciation/amortisation of right-of-use assets rose by €330 thousand in 2019 due to the lease of demerged and sold property, as mentioned earlier.

Other operating costs

A breakdown of this caption for 2019, 2018 and 2017 is provided below:

(€'000)	2019	2018	2017
Non-deductible taxes and duties	472	52	52
Entertainment costs	36	22	15
Membership fees	28	29	34
Vehicles	19	19	18
Sundry operating costs	99	194	99
Total other operating costs	**654**	**316**	**218**

The increase in other operating costs from €316 thousand in 2018 to €654 thousand in 2019 is chiefly due to recognition of non-deductible taxes related to an asset for foreign withholding tax.

7 Financial income and expense

Financial income and expense are as follows:

(€'000)	2019	2018	2017
Financial income			
Gains on financial assets	545	635	1,055
Profits on the sale of financial assets	1,991	12	1,020
Fair value gains	668	295	563
Exchange gains	117	142	-
Total financial income	**3,321**	**1,084**	**2,638**
Financial expense			
Loan interest expense	(101)	(312)	(478)
Lease interest expense	(201)	(1)	(1)
Interest cost on employee benefits	(10)	(9)	(7)
Fair value losses	(119)	(1,532)	(597)
Exchange losses	-	-	(57)
Total financial expense	**(431)**	**(1,854)**	**(1,140)**
Net financial income (expense)	**2,890**	**(770)**	**1,498**

The group recorded net financial income of €2,890 thousand in 2019, net financial expense of €770 thousand in 2018 and net financial income of €1,498 thousand in 2017.

Gains on financial assets mainly refer to income on securities in portfolio (interest income on bond coupons, dividends on shares and income from investment funds) and gains (losses) on the sale of financial assets. Variations over the three years refer to the change in the portfolio mix and the group's disinvestment policies.

Fair value gains (losses) refer to the year-end adjustment of securities measured at fair value through profit or loss.

Lease interest expense increased by roughly €223 thousand in 2019 due to the rise in financial expense as a result of the property restructuring transactions described in note 3.

8 Income taxes

The group 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 for 2019, 2018 and 2017 is provided below:

(€'000)	2019	2018	2017
Current taxes	-	271	-
Other taxes for the year	10	8	7
Taxes relative to prior years	552	16	71
Deferred taxes	459	(2,421)	927
Total income taxes	**1,021**	**(2,126)**	**1,005**

Taxes relative to prior years amount to roughly €552 thousand in 2019, €16 thousand in 2018 and €71 thousand in 2017. In 2019 they comprise:

- €348 thousand related to the IRES (corporate income tax) as per the 2018 tax return filed in the second half of 2019 following the parent's decision to use the foreign tax asset deriving from withholding tax paid in 2018 in the US on the sale of certain licences rather than use carry forward losses on which deferred tax assets were not recognised as had been envisaged in preparing the financial statements at 31 December 2018;
- €205 thousand related to the net accrual (comprising a gross accrual of €256 thousand partly offset by a tax asset of €51 thousand) of 2016 IRES and IRAP (regional production tax), following the assessment settlement with the tax authorities in relation to the patent box regime.

Uncertainties over income tax treatments

Following an assessment by the tax authorities on the 2016 tax year, a preliminary assessment report was issued on 7 December 2018 claiming a higher IRES and IRAP taxable base by roughly €700 thousand due to a different interpretation of the patent box regime to that applied by the parent. Based on this assessment, certain regulatory interpretations were clarified with regard to calculating the patent box relief, leading to a higher taxable base and thus higher taxes for 2016, but also a higher tax benefit for 2017.

Finally, under the assessment settlement, due to the interpretation issues and the prudent approach adopted by the parent, the fines were waived as per article 6.2 of Legislative decree no. 472/1997.

Based on applicable legislation, Philogen's revenue is classified as the granting of rights to indirectly use licences; therefore, requests for a hearing with the tax authorities are not allowed. The procedure was completed on 2 December 2019 with the signing of the assessment settlement which defined the correct interpretation of the patent box regime. As there are issues in interpreting the regulation, no fines were applied and the amount agreed with the tax authorities will be paid in instalments using the F24 tax form and offset against any other tax assets.

At 31 December 2019, 2018 and 2017 there are no other tax claims with the tax authority, which might generate uncertainties over income tax treatment.

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 three years is as follows:

(€'000)	2019	2018	2017
Pre-tax profit	2,423	1,578	3,504
Theoretical tax rate	24.0%	24.0%	24.0%
Theoretical IRES expense (A)	**582**	**379**	**841**
Adjusted by:			
Tax effect on patent box relief	(240)	(1,714)	(391)
Tax effect on untaxed revenue for R&D tax asset	(467)	(287)	(405)
IRAP	-	173	-
Taxes relative to prior years (tax assessment)	205	-	-
Taxes relative to prior years (other)	348	16	71
Tax effect on utilization of unrecognised tax losses	-	(393)	-
Tax effect on unrecognised tax losses	466	-	727
Tax effect on other increases (decreases)	128	(299)	162
Total adjustments (B)	**440**	**(2,505)**	**164**
Total effective tax income (expense) (A+B)	**1,021**	**(2,126)**	**1,005**
Effective tax rate	***42.1%***	***-134.7%***	***28.7%***

Starting from 2015, the parent benefits from the optional tax regime known as "patent box", which, under certain conditions, allows partial tax relief on income from intangible assets, such as industrial patents, formulae and know-how in the scientific field protected by law, introduced in Italy by Law no. 190 of 22 December 2014.

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

Such tax benefits reduce the group's taxable base permanently.

Furthermore, the group recognised tax losses in 2019 and 2017, 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

In addition to the deferred tax assets recognised in the individual financial statements of the parent and the Swiss subsidiary Philochem AG included in the consolidation scope, the consolidated financial statements include the deferred tax effects on consolidation entries, when applicable, including adjustments to align the carrying amounts in the individual financial statements (prepared under reporting standards promulgated by the Italian Accounting Standard Setter (the "OIC")) to the IFRS endorsed by the European Union.

A breakdown of deferred tax assets and liabilities at 31 December 2019, 2018 and 2017, along with the changes therein, is provided below (balances exclusively derived from the IFRS transition entries):

(€'000)	Carrying amount at 1 January 2017	Utilisation	Accrual	Exchange effect	Carrying amount at 31 December 2017
Deferred tax assets					
Contract liabilities with customers	1,131	(1,029)	-	(23)	79

Intangible assets	4	-	-	-	4
Property, plant and equipment	180	-	19	(15)	184
Other differences	22	(22)	-	-	-
Total deferred tax assets	**1,337**	**(1,051)**	**19**	**(37)**	**267**
Deferred tax liabilities					
Other financial assets	381	(119)	-	-	262
Intangible assets	182	(9)	-	(2)	171
Contract assets with customers	-	-	21	-	21
IAS 19 reserve (recognised in OCI)	-	-	1	-	1
Total deferred tax liabilities	**563**	**(128)**	**22**	**(2)**	**455**

(€'000)	**Carrying amount at 1 January 2018**	**Utilisation**	**Accrual**	**Exchange effect**	**Carrying amount at 31 December 2018**
Deferred tax assets					
Contract liabilities with customers	79	-	2,245	(8)	2,316
Intangible assets	4	(2)	-	-	2
Property, plant and equipment	184	-	15	8	207
Total deferred tax assets	**267**	**(2)**	**2,260**	**-**	**2,525**
Deferred tax liabilities					
Other financial assets	262	(143)	-	-	119
Intangible assets	171	(10)	2	-	163
Contract assets with customers	21	(21)	-	-	-
IAS 19 reserve (recognised in OCI)	2	-	5	-	7
Total deferred tax liabilities	**456**	**(174)**	**7**	**-**	**289**

(€'000)	**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**

In addition:

— the parent has unused tax losses on which the relevant deferred tax assets were not recognised amounting to €2,594 thousand in 2018 and €2,717 thousand in 2017. The 2019 tax return has not yet been filed; however, the estimated unused tax losses for 2019 amount to roughly €6 million;

— the subsidiary Philochem AG has unused tax losses on which the relevant deferred tax assets were not recognised amounting to €1,410 thousand in 2018 and €1,551 thousand in 2017. The 2019 tax return is still being finalised with the local tax authorities; however, the estimated unused tax losses for 2019 amount to roughly €1.3 million.

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.

Diluted 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 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	2019	2018	2017
Profit for the year - (in thousands of Euros) (A)	1,402	3,703	2,500
Weighted average number of ordinary shares outstanding (B)	38,368,082	42,500,000	42,500,000
Weighted average number of potential dilutive ordinary shares outstanding (C) (*)	594,521	-	-
Weighted average number of shares outstanding adjusted for dilutive effects (D=B+C)	38,962,603	42,500,000	42,500,000
Basic earnings per share - in Euros (A/B*1000)	0.04	0.09	0.06
Diluted earnings per share - in Euros (A/D*1000)	0.04	0.09	0.06

(*)The number of potential dilutive ordinary shares outstanding at 31 December 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. 21 ("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.

Assets

10 Property, plant and equipment

This caption is as follows at 31 December 2019, 2018 and 2017:

(€'000)	Land and buildings	Plant and machinery	Industrial and commercial equipment	Leasehold improvements	Other assets	Assets under construction and payments on account	Total
Historical cost	10,952	4,217	4,725	-	775	1,090	21,758
Accumulated depreciation	(2,350)	(2,014)	(3,518)	-	(654)	-	(8,538)
Carrying amount at 1 January 2017	**8,602**	**2,202**	**1,206**	**-**	**121**	**1,090**	**13,222**
Increases	8	36	135	-	1	196	376
(Decreases)	-	-	-	-	-	-	-
Reclassifications	-	258	-	-	-	(258)	-
Depreciation	(236)	(169)	(309)	-	(38)	-	(752)
Exchange effect (historical cost)	(184)	(258)	(137)	-	(91)	-	(671)
Exchange effect (acc. depreciation)	96	87	81	-	88	-	353
Historical cost	10,777	4,253	4,723	-	685	1,029	21,466
Accumulated depreciation	(2,490)	(2,096)	(3,747)	-	(603)	-	(8,936)
Carrying amount at 31 December 2017	**8,287**	**2,157**	**976**	**-**	**81**	**1,029**	**12,530**
Increases	3	168	319	-	105	-	595
(Decreases)	-	(22)	-	-	-	-	(22)
Depreciation	(234)	(200)	(312)	-	(45)	-	(791)
Exchange effect (historical cost)	91	140	2	-	(107)	7	134
Exchange effect (acc. depreciation)	(46)	(43)	5	-	87	-	4
Historical cost	10,871	4,539	5,044	-	683	1,036	22,173
Accumulated depreciation	(2,770)	(2,338)	(4,053)	-	(562)	-	(9,722)
Carrying amount at 31 December 2018	**8,102**	**2,201**	**991**	**-**	**121**	**1,036**	**12,451**
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 effect (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)	-	(6,229)
Carrying amount at 31 December 2019	**-**	**429**	**995**	**56**	**152**	**616**	**2,248**

Property, plant and equipment amounts to €2,248 thousand at 31 December 2019 (€12,451 thousand at 31 December 2018 and €12,530 thousand at 31 December 2017).

Land and buildings mainly refer to:

- the property formerly used as the facilities of Bayer HealthCare Manufacturing S.p.A. located in Bellaria, Rosia with a net surface area of roughly 2,700 square metres;
- the site zoned for construction totalling 24,000 square metres alongside the Bellaria property;
- the building owned by the subsidiary Philochem;
- the parent's production facility located in Montarioso, Siena, used as a GMP research and development lab and production unit authorised by the Ministry for Health and offices with a surface area of roughly 1,600 square metres, in addition to the adjacent warehouse of over 270 square metres.

As mentioned earlier, the group rolled out an operational and structural restructuring project aimed at separating its property unit from its operating unit. With regard to the parent, this was achieved via the partial proportional demerger of its property unit and relevant liabilities to the newco Rendo S.r.l.. For the Swiss subsidiary, on the other hand, the separation was carried out by selling its property unit to a newco incorporated under Swiss law, Rendo AG, which is wholly-owned by the Italian property company Rendo S.r.l. (refer to note 3 for further details). Accordingly, land and buildings have a nil balance at 31 December 2019.

Plant and machinery mainly refer to the fitting out of the laboratories used for operating activities. The roughly €1,858 thousand decrease refers to the extraordinary transactions detailed above.

Industrial and commercial equipment mainly refer to the fitting out of the Montarioso production facilities. The increases throughout the three years refer to investments made to upgrade equipment used in GMP laboratories and boost its efficiency and to fit new virus research and removal lab tools.

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 for the design and feasibility studies for the expansion of the Rosia property and the costs for the construction of the external structure of roughly 1,000 square metres. Such assets were demerged in 2019. The residual balance at 31 December 2019 comprises the payment on account made to the engineering firm in charge of the plant engineering of the new GMP.

11 Intangible assets

This caption is as follows at 31 December 2019, 2018 and 2017:

(€'000)	**Industrial patents and intellectual property rights**	**Concessions, licences, trademarks and similar rights**	**Total**
Historical cost	1,780	105	1,884
Accumulated amortisation	(811)	(98)	(909)
Carrying amount at 1 January 2017	**969**	**6**	**975**
Increases	131	6	137
(Decreases)	-	-	-
Amortisation	(195)	(7)	(201)
Exchange effect	(16)	-	(16)
Historical cost	1,894	111	2,005
Accumulated amortisation	(1,006)	(105)	(1,111)

Carrying amount at 31 December 2017	**888**	**6**	**894**
Increases	133	-	133
(Decreases)	-	-	-
Amortisation	(183)	(3)	(187)
Exchange effect	15	-	15
Historical cost	2,042	111	2,152
Accumulated amortisation	(1,189)	(108)	(1,297)
Carrying amount at 31 December 2018	**853**	**2**	**855**
Increases	231	4	235
(Decreases)	-	-	-
Amortisation	(156)	(3)	(160)
Exchange effect	5	-	5
Historical cost	2,276	115	2,392
Accumulated amortisation	(1,345)	(111)	(1,457)
Carrying amount at 31 December 2019	**931**	**4**	**935**

At 31 December 2019, the group has roughly 45 international patents and over 100 domestic patents. The €231 thousand increase on the balance at 31 December 2018 (€133 thousand) and at 31 December 2017 (€131 thousand) refers to costs incurred by the group to acquire and file patent requests for new tumour applications.

Concessions, licences and trademarks mostly refer to software licences.

No impairment losses were recognised over the three years as there were no indicators of impairment of the intangible assets and, accordingly, the group did not determine the recoverable amount of such assets.

Amortisation amounts to €160 thousand in 2019, €187 thousand in 2018 and €201 thousand in 2017.

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:

(€'000)	31 December		
	2019	**2018**	**2017**
Right-of-use assets			
Opening carrying amount of right-of-use assets (buildings)	11,221	-	-
Depreciation of the right-of-use assets (buildings)	310	-	-
Closing carrying amount (buildings)	**10,911**	**-**	**-**
Opening carrying amount of right-of-use assets (cars)	95	34	
Depreciation of the right-of-use assets (cars)	26	4	
Closing carrying amount (cars)	**69**	**31**	**-**
Opening carrying amount of right-of-use assets (IT services)	17	30	43
Amortisation of the right-of-use assets (IT services)	12	12	12
Closing carrying amount (IT services)	**5**	**17**	**31**
Total right-of-use assets	**10,985**	**49**	**31**

Changes in lease liabilities are as follows:

(€'000)	31 December		
	2019	**2018**	**2017**
Opening balance of lease liabilities	**45**	**25**	**37**
Increases	12,929	34	-
Decreases	-	-	-
Repayment of principal	(351)	(15)	(12)
Exchange effect	4	-	-
Closing balance of lease liabilities	**12,627**	**45**	**25**

Of which: current	668	27	12
Of which: non-current	11,959	18	13

A breakdown of the income, expense and cash flows related to the group's leases is provided in the following table:

(€'000)	2019	2018	2017
Principal (buildings)	275	-	-
Interest expense on leases (buildings)	218	-	-
Principal (cars)	45	3	-
Interest expense on leases (cars)	2	0	-
Principal (IT services)	13	12	12
Interest expense on leases (IT services)	0	1	1
Total cash outflows for leases	**553**	**16**	**13**

The right-of-use assets recognised at 31 December 2019 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, as described in detail earlier.

The right-of-use assets recognised at 31 December 2018 mostly refer to the lease of company cars. Company cars are given to employees for both business and private use and also to some members of the board of directors.

The right-of-use assets recognised at 31 December 2017 mainly refer to the lease of software.

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

— a discount rate of 2.73% for leases of buildings, cars and IT services to the parent;
— 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 2019, 2018 or 2017.

Impairment testing

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 the other items of property, plant and equipment or other intangible assets were impaired. Therefore, no impairment tests were carried out.

13 Investment property

This caption is broken down as follows:

(€'000)	Investment property
Historical cost	3,424
Accumulated depreciation	(514)
Carrying amount at 1 January 2017	**2,909**
Increases (decreases)	-
Depreciation	(55)
Exchange effect	(237)
Historical cost	3,187
Accumulated depreciation	(569)
Carrying amount at 31 December 2017	**2,618**
Increases (decreases)	-
Depreciation	(53)
Exchange effect	99
Historical cost	3,286

Accumulated depreciation	(622)
Carrying amount at 31 December 2018	**2,664**
Increases	-
(Decreases)	(2,664)
Depreciation	-
Exchange effect	-
Historical cost	-
Accumulated depreciation	-
Carrying amount at 31 December 2019	**-**

This caption refers to the building previously owned by the Swiss company Philochem AG located in Otelfingen and sold in 2019.

14 Inventories

This caption is broken down as follows:

(€'000)	31 December		
	2019	**2018**	**2017**
Raw materials and consumables	617	468	586
Total inventories	**617**	**468**	**586**

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

Inventories of €617 thousand at 31 December 2019 increased slightly on 31 December 2018 (€468 thousand) and 31 December 2017 (€586 thousand) mainly due to greater procurement of materials used in manufacturing drugs.

15 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:

(€'000)	31 December		
	2019	**2018**	**2017**
Contract assets	-	-	989
Advances from customers	-	-	(444)
Net contract assets	**-**	**-**	**545**

(€'000)	31 December		
	2019	**2018**	**2017**
Advances from customers	11,774	9,238	8,813
Revenue recognised on advances received	(3,984)	(831)	(8,529)
Net contract liabilities	**7,790**	**8,408**	**284**

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.

16 Trade receivables

This caption is broken down as follows:

(€'000)	31 December		
	2019	**2018**	**2017**
Trade receivables	1,199	9,395	3,585
Total trade receivables	**1,199**	**9,395**	**3,585**

Trade receivables of €9,395 thousand at 31 December 2018 increased by €5,810 thousand compared to 31 December 2017 (€3,585 thousand) due to two important contractual milestones being reached. The caption amounts to €1,199 thousand at 31 December 2019, down €8,196 thousand on the previous year end due to the collection of contractual milestones on licences.

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. Indeed, at the date of approval of the consolidated financial statements, the group's trade receivables at the reporting date have been fully collected.

Breakdown of current receivables by geographical segment

A breakdown of current receivables by geographical segment is provided below. The group's receivables are chiefly with US customers.

(€'000)	Geographical segment				
	Italy	**European Union**	**Non-EU (USA)**	**Non-EU (other)**	**Total receivables**
Total trade receivables at 31 December 2017	23	-	3,410	152	**3,585**
Total trade receivables at 31 December 2018	1	406	6,182	2,806	**9,395**
Total trade receivables at 31 December 2019	34	32	963	169	**1,199**

17 Tax assets and liabilities

Tax assets are broken down as follows:

(€'000)	31 December		
	2019	**2018**	**2017**
R&D tax assets	1,946	1,180	790
VAT assets	707	500	495
Other assets	293	1,209	220
Total tax assets	**2,946**	**2,889**	**1,505**

Current tax assets increased from €1,505 thousand at 31 December 2017 to €2,889 thousand at 31 December 2018 to €2,946 thousand at 31 December 2019. R&D tax assets of €1,946 thousand at 31 December 2019, €180 thousand at 31 December 2018 and €0.8 million at 31 December 2017 refer to tax relief on research and development expenditure. Other tax assets include withholding taxes of €139 thousand at 31 December 2019 and €902 thousand at 31 December 2018.

Tax liabilities are broken down as follows:

(€'000)	31 December		
	2019	**2018**	**2017**
Current income taxes	158	271	-
Amounts due to the tax authorities for withholdings	170	160	132
Other tax liabilities	4	-	-
Total tax liabilities	**332**	**431**	**132**

Tax liabilities amount to €332 thousand at 31 December 2019, €431 thousand at 31 December 2018 and €132 thousand at 31 December 2017. They comprise amounts due to the tax authorities for income tax and withholdings on employees' salaries.

18 Other current financial assets

Changes in other current financial assets are detailed as follows:

(€'000)	**Other current financial assets**
Opening balance at 1 January 2017	**44,482**
Increases	4,019
(Decreases)	(19,990)
Fair value losses on financial assets	(34)
Variation in accrued income on coupons	(363)
Closing balance at 31 December 2017	**28,115**
Increases	7,255
(Decreases)	(3,411)
Fair value losses on financial assets	(1,237)
Variation in accrued income on coupons	(28)
Closing balance at 31 December 2018	**30,693**
Increases	58,745
(Decreases)	(18,929)
Fair value gains on financial assets	549
Variation in accrued income on coupons	(96)
Closing balance at 31 December 2019	**70,962**

The group 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.

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

(€'000)	**31 December**		
	2019	**2018**	**2017**
Financial instruments held to collect and sell			
Shares	960	774	849
Investment funds	4,738	5.261	4.194
Insurance investment products	51,470	10,821	10,614
Total	**57,168**	**16,856**	**15,657**
Other financial instruments			
Bonds	13,662	13,609	12,252
Accrued income on coupons	132	228	206
Total	**13,794**	**13,837**	**12,458**
Total other current financial assets	**70,962**	**30,693**	**28,115**

Regarding the insurance investment products, amounted to €51,470 thousands at 31 December 2019 (€10,821 at 31 December 2018 and €10,614 at 31 December 2017), the Group has two investment contracts with two different insurance companies. Philogen S.p.A. is the contractor and the only one beneficiary.

The first one is an insurance investment product, signed during 2019, for a total value of approximately €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 2019 the dedicated internal fund is divided as follows: 7% in government bonds, 6% in corporate bonds; 12% in shares, 39% in investment funds and 36% in cash and cash equivalents.

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.

The fair value of current financial assets at 31 December 2019 is €70,962 thousand, up on 31 December 2018 due to the investment in financial instruments above described during the year sales and the year-end fair value adjustments required under IFRS 9. Fair value gains of €549 thousand were recognised on securities held in portfolio in 2019.

Some securities in portfolio had a market value lower than their carrying amount at 31 December 2018. Therefore, fair value losses of roughly €1,237 thousand were recognised on such securities.

Fair value losses of €34 thousand were recognised in 2017.

19 Other current assets

This caption is broken down as follows:

(€'000)	31 December		
	2019	**2018**	**2017**
Other current assets	109	163	120
Other	581	943	1,965
Total other current assets	**690**	**1,106**	**2,085**

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

Other refers mainly to amounts due from the European Community for projects in progress or completed but not yet received (roughly €130 thousand at 31 December 2019, €750 thousand at 31 December 2018 and €845 thousand at 31 December 2017) and, for the remaining part, advances to third-party suppliers.

20 Cash and cash equivalents

The carrying amount of cash and cash equivalents is similar to their fair value. A breakdown of the caption at the three year-ends are as follows:

(€'000)	31 December		
	2019	**2018**	**2017**
Bank and postal accounts	3,561	6,377	6,460
Cash-in-hand and cash equivalents	2	3	2
Total cash and cash equivalents	**3,564**	**6,380**	**6,462**

Cash and cash equivalents amount to €3,564 thousand at 31 December 2019 (€6,380 thousand at 31 December 2018 and €6,462 thousand at 31 December 2017) and comprise bank and postal accounts of €3,561 thousand (€6,377 thousand at 31 December 2018 and €6,460 thousand at 31 December 2017) and cash of €2 thousand (€3 thousand at 31 December 2018 and €2 thousand at 31 December 2017).

The group has Euro, US dollar and Swiss franc current accounts.

Net financial indebtedness

A breakdown of the net financial position at 31 December 2019, 2018 and 2017 is provided below as required by Consob (the Italian Commission for Listed Companies and the Stock Exchange) resolution no. DEM/6064293 of 28 July 2006:

(€'000)	31 December 2019	31 December 2018	31 December 2017
(A) Cash	2	3	2
(B) Cash equivalent	3,561	6,377	6,461
(C) Trading securities	70,962	30,693	28,115
(D) Liquidity (A)+(B)+(C)	**74,525**	**37,073**	**34,578**
(E) Current financial receivable	-	-	-
(F) Current Bank debt	18	10,022	10,011
(G) Current portion of non-current debt	500	877	849
(H) Other current financial debt	668	26	13
(I) Current Financial Debt (F)+(G)+(H)	**1,186**	**10,925**	**10,874**
(J) Net Current Financial Indebtedness (I)-(E)-(D)	**(73,340)**	**(26,148)**	**(23,704)**
(K) Non-current Bank loans	682	5,600	6,366
(L) Bonds issued	-	-	-
(M) Other non-current loans	11,959	19	13
(N) Non-current Financial Indebtedness (K)+(L)+(M)	**12,641**	**5,619**	**6,379**
(O) Net Financial Indebtedness (J)+(N)	**(60,699)**	**(20,530)**	**(17,325)**

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 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 year ends.

Equity and liabilities

21 Equity

The statement of changes in equity for the years ended 31 December 2019, 2018 and 2017 is included among the financial schedules.

A. Share capital

As seen in the statement of changes in equity, the group made a capital increase of roughly €62 million in 2019, with €908 thousand allocated to share capital and €61 million to the share premium reserve.

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.

Changes in shares over the three years were as follows:

	Total number of shares outstanding at		
Share class	**31 December 2018, 2017 and 2016**	**28 May 2019**	**31 December 2019**
Ordinary shares	42,500,000	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
Category A shares	-	7,861,251	7,861,251
Category B shares	-	9,313,254	9,313,254
Total	**42,500,000**	**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).

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.

B. Type and purpose of reserves

Other reserves are broken down as follows:

(€'000)	Type	Possibility of use	31 December		
			2019	2018	2017
Share capital	Equity-related	A, B	5,158	4,250	4,250
Share premium reserve	Equity-related	A, B, C	54,918	17,016	17,016
Revaluation reserve	Equity-related	A, B	-	1,676	1,676
Legal reserve	Income-related	A, B	850	850	850
FTA IFRS reserve	Income-related	A, B	(1,265)	(1,265)	(1,265)
Goodwill	Equity-related	A, B	50	50	50
Actuarial reserve	Income-related	A, B	(23)	16	4
Translation reserve	Income-related	A, B	1,086	935	782
Retained earnings (*)	Income-related	A, B, C	8,029	16,727	14,043
Total equity			**68,803**	**40,256**	**37,406**

(*) Includes the profit for the year.

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

C. Dividends

The group declared and distributed the following dividends during the three years:

(€'000)	31 December		
	2019	2018	2017
Dividends	21,878	1,020	1,020

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.

In addition, as shown in the statement of changes in equity, the group's equity decreased by €13,093 thousand at 31 December 2019 due to the demerger of the parent's property business unit (see note 3 "Transactions during the three years" for further details).

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.

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 the parent's employees. These liabilities amount to €803 thousand at 31 December 2019 (€676 thousand at 31 December 2018 and €730 thousand at 31 December 2017). Variations during the three years are as follows:

(€'000)	31 December		
	2019	**2018**	**2017**
Opening balance	676	730	671
Utilisations	(21)	(142)	(47)
Post-employment benefits	85	97	101
Financial expense	10	9	8
Actuarial gains (losses)	53	(17)	(5)
Total employee benefits	**803**	**676**	**730**

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 2019, 2018 and 2017 and 31 January 2017, 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			
	2019	**2018**	**2017**
Annual inflation rate	1.20%	1.50%	1.50%
Annual discount rate	0.77%	1.57%	1.30%

Annual TFR growth rate	2.40%	2.63%	2.63%

Annual rate of turnover and TFR advances paid			
	2019	**2018**	**2017**
Rate of advances paid	0.02	0.02	0.02
Turnover rate	10.00%	10.00%	10.00%

Demographic assumptions			
	2019	**2018**	**2017**
Death	RG48 mortality tables published by the State General Accounting Office	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 tables by age and gender	INPS 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 requirements adjusted to Legislative decree no. 4/2019	100% upon meeting the AGO requirements adjusted to Legislative decree no. 4/2019

23 Current and non-current financial liabilities

These captions are broken down as follows:

(€'000)	**31 December**		
	2019	**2018**	**2017**
Bank loans	518	899	861
Current bank loans and borrowings	-	10,000	10,000
Current financial liabilities	**518**	**10,899**	**10,861**
Bank loans	682	5,600	6,366
Non-current financial liabilities	**682**	**5,600**	**6,366**
Total current and non-current financial liabilities	**1,200**	**16,499**	**17,227**

Financial liabilities amount to €1.2 million at 31 December 2019 and mainly comprise a subsidised loan at a rate of 1.70% as per the Sabatini Law amounting to €1,181 thousand. The balance decreased by roughly €15 million on 31 December 2018 due to the repayment of the parent's €10 million short-term credit line from Mediobanca and the transfer of mortgage loans as part of the demerger and sale of the group's property business unit to Rendo S.r.l. and Rendo AG. Changes in financial liabilities over the three years are detailed below:

(€'000)	
Balance at 1 January 2017	**23,299**
New medium/long-term loans and borrowings	1,890
(Repayment of principal)	(877)
Change in current financial liabilities	(6,739)
Exchange effect	(346)
Balance at 31 December 2017	**17,227**
New medium/long-term loans and borrowings	-
(Repayment of principal)	(855)
Change in current financial liabilities	6
Exchange effect	120
Balance at 31 December 2018	**16,499**
New medium/long-term loans and borrowings	-
(Repayment of principal)	(660)
Sale of financial liabilities	(3,015)
Demerger	(1,727)
Change in current financial liabilities	(10,000)
Exchange effect	103

Balance at 31 December 2019	**1,200**

The main transfers of financial liabilities under the demerger were as follows:

— transfer of the Banca Monte dei Paschi di Siena €3 million loan granted in 2009 at a floating rate indexed to the 6-month Euribor plus a spread of 1.10 payable in half-year instalments and expiring in 2025. The loan is guaranteed by a mortgage on the Rosia property;
— transfer of the Cassa di Risparmio di San Miniato €600 thousand mortgage loan granted in 2010 to purchase a site zoned for construction alongside the Rosia property to be used for future expansion, at a floating rate indexed to the 6-month Euribor plus a spread of 1.10 payable in half-year instalments;
— transfer of the Neue Aargauer €3,537 thousand mortgage loan granted at a rate of 1.44% to the subsidiary Philochem AG to purchase a building.

Payables secured by collateral on group assets

Following the repayment of the €10 million short-term credit line from Mediobanca guaranteed by the securities portfolio up to a maximum of €11 million and the transfer of the mortgage loans totalling €4.7 million via the property transaction, the group has no payables secured by collateral at 31 December 2019.

24 Trade payables

Trade payables amount €3,281 thousand at 31 December 2019 (€2,051 thousand at 31 December 2018 and €2,152 thousand at 31 December 2017) and mostly refer to amounts due to hospitals where clinical trials are performed, as well as amounts due to other suppliers.

Breakdown of payables by geographical segment

(€'000)	Geographical segment				
	Italy	**European Union**	**Non-EU (USA)**	**Non-EU (other)**	**Total trade payables**
Trade payables at 31 December 2017	1,188	712	191	61	**2,152**
Trade payables at 31 December 2018	696	964	256	135	**2,051**
Trade payables at 31 December 2019	1,064	1,318	681	219	**3,281**

25 Other current liabilities

This caption is broken down as follows:

(€'000)	31 December		
	2019	**2018**	**2017**
Social security institutions	399	291	288
Accrued expenses and deferred income	37	37	30
Other	669	492	493
Total other current liabilities	**1,105**	**820**	**811**

Other current liabilities amount to €1,105 thousand at 31 December 2019 (€820 thousand at 31 December 2018 and €811 thousand at 31 December 2017) and mainly refer to:

— amounts due to social security institutions refer to INPS and INAIL for withholdings due amounting to €399 thousand at 31 December 2019 (€291 thousand at 31 December 2018 and €288 thousand at 31 December 2017);
— accrued expenses and deferred income chiefly refer to interest on loans and borrowings amounting to €37 thousand at 31 December 2019 (€37 thousand at 31 December 2018 and €30 thousand at 31 December 2017);
— other amounting to €669 thousand at 31 December 2019 (€492 thousand at 31 December 2018 and €493 thousand at 31 December 2017) relates to employees.

Other information

26 Commitments

Commitments not presented in the statement of financial position are detailed below:

(€'000)

Bank	Description	Amount at 31 December 2017
Credit Agricole Italia	First demand voluntary mortgage	1,200
Credit Agricole Italia	First demand voluntary mortgage	1,200
Credit Agricole Italia	Voluntary mortgage	2,000
MPS	Mortgage	6,000
Total		**10,400**

(€'000)

Bank	Description	Amount at 31 December 2018
Mediobanca	Pledge on administered account	11,000
MPS	Mortgage	6,000
Credit Agricole Italia	First demand voluntary mortgage	1,200
MPS	Assumption of mortgage	1,415
Total		**19,615**

There are no commitments that were not presented in the statement of financial position at 31 December 2019.

27 Contingent liabilities

There were no legal proceedings underway at 31 December 2019, 2018 or 2017 affecting the ordinary performance of operations; therefore, management does not believe there are any contingent liabilities that require disclosure.

28 Main risks and uncertainties

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.

Risks related to external factors

Risks related to products under clinical development

The group's future revenue heavily depends on the ability of Philogen and the subsidiary Philochem to develop their own pharmaceutical compounds that make up the group's pipeline and to grant them under licence at favourable terms.

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

When it performs clinical trials of compounds, the group 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 for the group, adversely affecting its financial position, performance and cash flows.

Strategic risks

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

The development of drugs requires hefty financial resources and is highly uncertain as well as being subject to numerous risks. Potential products that appear promising at the initial development stages may not enter onto the market for scientific, technical, legal and regulatory reasons or due to the development of solutions for the same indications by third parties, based on different therapeutical approaches or more efficient action mechanisms.

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

The group'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, the group's patent portfolio comprises 47 groups of products and/or processes and/or usage patents, filed or being filed in numerous countries.

Risks related to dependence on key figures

In order to carry out its business, the Philogen Group relies heavily on certain key figures of its management and research teams including, specifically, the chairman of the Scientific Committee and co-founder, Dario Neri, who has acquired many years of scientific research experience in some of the leading European research centres, such as the English Medical Research Council and ETH Zurich.

Financial risks

Financial risks are those that arise from the ownership or trading of financial instruments.

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

i. 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 group's debt instruments.

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

The group's exposure to credit risk mainly depends on the specific characteristics of each customer. However, management also considers the typical variables of the group'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:

(€'000)	**31 December**		
Credit rating bracket	**2019**	**2018**	**2017**
AAA / AA-	2,746	276	395
A+/ A-	1,005	1,248	504
BBB+/ BBB-	5,234	3,661	2,034
BB+/ B-	1,109	2,236	1,935
Lower than B-	274	1,364	2,397
Unrated	3,295	4,823	4,986
Total debt instruments	**13,662**	**13,609**	**12,252**

Total other securities	57,300	17,084	15,863
Total assets measured at fair value	**70,962**	**30,693**	**28,115**

(*) 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 three-year period show a decrease in exposure in lower rating brackets.

ii. Liquidity risk

Liquidity risk is the risk that the group has difficulties in meeting its obligations related to financial liabilities settled by cash or another financial asset. The group'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 Group 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 Group 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 2019, 2018 and 2017 by due date is as follows:

(€'000)	**31 December 2019**				
	Within 90 days	**From 90 days to 1 year**	**From 1 to 5 years**	**After 5 years**	**Total**
Lease liabilities	170	516	2,865	9,075	**12,626**
Financial liabilities	18	473	709	-	**1,200**
Trade payables	3,281	-	-	-	**3,281**
Total	**3,470**	**989**	**3,574**	**9,075**	**17,107**

(€'000)	**31 December 2018**				
	Within 90 days	**From 90 days to 1 year**	**From 1 to 5 years**	**After 5 years**	**Total**
Lease liabilities	4	22	19	-	**45**
Financial liabilities	10,149	742	2,744	2,864	**16,499**
Trade payables	2,051	-	-	-	**2,051**
Total	**12,204**	**764**	**2,762**	**2,864**	**18,594**

(€'000)	**31 December 2017**				
	Within 90 days	**From 90 days to 1 year**	**From 1 to 5 years**	**After 5 years**	**Total**
Lease liabilities	-	13	13	-	**25**
Financial liabilities	10,139	719	3,202	3,168	**17,227**
Trade payables	2,152	-	-	-	**2,152**
Total	**12,291**	**731**	**3,215**	**3,168**	**19,405**

(€'000)

	Within 90 days	From 90 days to 1 year	From 1 to 5 years	After 5 years	Total
Trade receivables at 31 December 2019	1,199	-	-	-	**1,199**
Trade receivables at 31 December 2018	9,395	-	-	-	**9,395**
Trade receivables at 31 December 2017	3,585	-	-	-	**3,585**
Total	**14,179**	**-**	**-**	**-**	**14,179**

Furthermore, the group has a financial portfolio totalling €70,962 thousand at 31 December 2019 that is highly liquid and can be used to meet the group's liquidity needs.

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

(€'000)	31 December		
Maturity bracket	**2019**	**2018**	**2017**
1 year	2,055	858	1,055
2 years	2,390	1,539	852
3-5 years	5,777	5,256	4,446
6-10 years	1,981	3,778	3,291
11-20 years	374	-	833
21-30 years	103	883	748
Over 30 years	-	117	130
Perpetual	982	1,178	897
Total debt instruments	**13,662**	**13,609**	**12,252**
Total other securities (*)	57,300	17,084	15,863
Total assets measured at fair value	**70,962**	**30,693**	**28,115**

(*) Such item refers to a portfolio of shares, fund units and insurance policies that are highly liquid.

iii. 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 group'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:

(€'000) ***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	1157	-	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				**13,662**
Total other securities				57,300
Total assets measured at fair value				**70,962**

(€'000) ***Maturity bracket***	Fixed rate	Floating rate	Mixed rate	Amount at 31 December 2018
1 year	850	8	-	858
2 years	1,539	-	-	1,539
3-5 years	4,061	1195	-	5,256
6-10 years	1,960	459	1,358	3,778
21-30 years	212	-	671	883
Over 30 years	-	-	117	117
Perpetual	318	-	860	1,178

Total debt instruments	**13,609**
Total other securities	17,084
Total assets measured at fair value	**30,693**

(€'000) ***Maturity bracket***	**Fixed rate**	**Floating rate**	**Mixed rate**	**Amount at 31 December 2017**
1 year	1,050	6	-	1,055
2 years	852	-	-	852
3-5 years	4,446	-	-	4,446
6-10 years	1,761	425	1,106	3,291
11-20 years	425	-	408	833
21-30 years	-	-	748	748
Over 30 years	-	-	130	130
Perpetual	351	-	546	897
Total debt instruments				**12,252**
Total other securities				15,863
Total assets measured at fair value				**28,115**

iv. *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 the US dollar in 2019, 2018 and 2017 amounted to 91.2%, 85.3% and 85.9%, respectively, of total revenue from contracts with customers. Accordingly, a downturn in US dollar exchange rates could have a negative impact on the group's activities and financial position.

The group does not have any currency hedges.

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

(€'000)	**31 December**		
Currency	**2019**	**2018**	**2017**
EUR	63,345	26,849	25,447
GBP	0	117	130
RUB	393	204	395
USD	7,113	3,451	2,143
TRY	111	72	0
Total portfolio	**70,962**	**30,693**	**28,115**

v. *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 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 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.

vi. *Management of country risk*

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

29 Financial instruments

Categories of financial assets and liabilities

A breakdown of financial assets and liabilities at 31 December 2019, 2018 and 2017 by category, in accordance with IFRS 9, is provided below:

(€'000)	31 December		
	2019	**2018**	**2017**
Financial assets:			
Financial assets at amortised cost			
Trade receivables	1,199	9,395	3,585
Current financial assets	-	-	-
Cash and cash equivalents	3,564	6,380	6,462
Other current assets	690	1,106	2,085
Financial assets at fair value			
Current financial assets	70,962	30,693	28,115
Non-current financial assets	-	-	-
Total financial assets	**76,415**	**47,574**	**40,247**
Financial liabilities at amortised cost			
Non-current financial liabilities	682	5,600	6,366
Non-current lease liabilities	11,959	18	13
Current financial liabilities	518	10,899	10,861
Current lease liabilities	668	27	12
Trade payables	3,281	2,051	2,152
Other current liabilities	1,105	820	811
Total financial liabilities	**18,213**	**19,414**	**20,215**

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:

(€'000)	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**

(€'000)	31 December 2018			
	Level 1	Level 2	Level 3	Total
Current financial assets at fair value through Profit or Loss	19,872	10,821	-	**30,693**
Total assets measured at fair value	**19,872**	**10,821**	-	**30,693**

(€'000)	31 December 2017			
	Level 1	Level 2	Level 3	Total
Current financial assets at fair value through Profit or Loss	17,501	10,614	-	**28,115**
Total assets measured at fair value	**17,501**	**10,614**	-	**28,115**

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 Group (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.

30 Related parties

Related party transactions, as defined by IAS 24, are limited to commercial, administrative and financial services provided to subsidiaries and other related parties. They form part of the group's normal business operations, the parties' core business and take place at normal market conditions.The group received administrative, tax and financial consultancy services from the accountancy firm Neri-Tanini during the three-year period. It paid roughly €41 thousand in 2017 and €35 thousand in 2018. In 2019, it paid approximately €56 thousand for administrative consultancy and company domiciliation services and roughly €10 thousand for the member of the Supervisory Board pursuant to Legislative decree no. 231/01. Duccio Neri, shareholder, chairman and managing director of Philogen, is a partner of Neri-Tanini. All transactions were carried out on an arm's length basis.

In 2019, the group carried out certain property restructuring transactions aimed at achieving financial, organisational and operational benefits that make the group structure more flexible.

A summary of transactions with other related parties in 2019, 2018 and 2017 is provided below:

31 December 2019

(€'000)	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**	9%
Statement of profit or loss							
Other income (gains)	-	1,462	-	-	-	**1,462**	37%
Amortisation and depreciation	267	42	-	-	-	**309**	28%
Service costs	-	-	66	1,654	53	**1,773**	25%
Financial expense	163	36	-	-	-	**199**	46%

31 December 2018

(€'000)	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							
Trade payables	-	-	21	-	-	**21**	1%
Statement of profit or loss							
Service costs	-	-	35	883	34	**952**	20%

31 December 2017

(€'000)	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							
Trade payables	-	-	20	-	-	**20**	1%
Statement of profit or loss							
Service costs	-	-	41	856	34	**931**	22%

During 2019, the Philogen Group carried out an extraordinary operation to increase the reserved share capital to be subscribed by the new shareholders for an amount of €62 million. This operation was subject to the distribution of ordinary and extraordinary dividends to the shareholders included in the shareholders' register at the date of the aforementioned capital increase as well as a property restructuring described below in further details.

Demerger and leaseback transactions

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 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. The limited liability company 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.

Details of the demerger of Philogen S.p.A.'s property unit:

(€'000)	Amount
Land *	3,208
Buildings *	3,621
Assets under construction	1,019
Cars *	32
Cash	6,940
TOTAL ASSETS	**14,820**
Loans and borrowings	1,727
TOTAL LIABILITIES	**1,727**
NET ASSETS	**13,093**

*The assets are shown net of the relevant accumulated depreciation.

The demerged assets include liquidity of €6,940 thousand needed to fund the additional property restructuring transaction related to the Swiss subsidiary Philochem AG (described below).

The parties subsequently signed a lease under which Rendo S.r.l. leased the demerged land, buildings and assets under construction to Philogen S.p.A.. The nine-year lease term expires in 2028. It is tacitly renewed for a further six years unless

Philogen S.p.A. notifies its termination of the lease at least twelve months prior to its expiry or unless Philogen S.p.A. withdraws therefrom. The annual lease payment is €650 thousand, plus VAT, paid quarterly in advance.

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.

Due to the lease of such demerged property, the parent recognised right-of-use assets of €7,738 thousand and lease liabilities of 7,762 thousand at 31 December 2019 in addition to depreciation and financial expense of €267 thousand and €163 thousand, respectively, for the year ended 31 December 2019.

Reference should be made to the "Right-of-use assets and lease liabilities" paragraph of note 12 for information on the relevant recognition.

Sale and leaseback transactions

On 26 September 2019, as part of the group restructuring project, the Swiss subsidiary Philochem AG separated its property unit from its operating unit by selling its building and laboratories to a newco incorporated under Swiss law, Rendo AG, which is wholly-owned by the Italian property company Rendo S.r.l..

Details of the property sale are as follows:

(€'000)	**Amount in Euros***	**Amount in CHF**
Carrying amount of assets sold **		
Land and buildings	4,016	4,363
Plant and machinery	1,858	2,018
TOTAL ASSETS SOLD	**5,875**	**6,382**
SALES PRICE	**8,983**	**9,759**
Bank loans and borrowings transferred	3,015	3,275
CONSIDERATION RECEIVED	**5,968**	**6,484**

*Transaction carried out in CHF and translated into Euro at the spot rate at the date of sale, 26 September 2019, equal to 1.0864.
**The assets are shown net of the relevant accumulated depreciation.

With regard to the assets used for group activities only, the parties subsequently signed a lease under which Rendo AG leased the demerged spaces to Philochem AG. The nine-year lease term expires in 2028. It is tacitly renewed for a further nine years unless Philochem AG notifies its termination of the lease at least twelve months prior to its expiry or unless Philochem AG withdraws therefrom. The annual lease payment is €338 thousand (CHF375 thousand), plus VAT and related charges, paid quarterly in advance. The carrying amount of the assets leased back at the transaction date was €3,112 thousand (CHF3,380 thousand) and the portion of the sales price related to such assets amounts to €4,758 thousand (CHF5,169 thousand).

The above qualifies as a sale and leaseback transaction under IFRS 16. Therefore, due to the lease of such assets, at 31 December 2019 the group recognised right-of-use assets of €3,071 thousand (CHF3,333 thousand) and lease liabilities of €4,713 thousand (CHF5,115 thousand) (fair value of the assets). The group also recognised depreciation and financial expense of €42 thousand (CHF47 thousand) and €36 thousand (CHF40 thousand), respectively, during the year.

With regard to the residential apartments rented to third parties, such assets were not leased back to Philochem AG. The carrying amount of such investment property at the transaction date was €2,763 thousand (CHF3,002 thousand) and the relevant sales price was €4,225 thousand (CHF4,590 thousand). Therefore, other income includes a gain of €1,462 thousand (CHF1,588 thousand) recorded by the group in 2019.

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.

Under the IFRS, the sale of such assets (residential apartments not included in the leaseback transaction) is not a business combination under common control but rather a demerger of non-current assets and directly associated liabilities. The net

assets sold do not meet the definition of a business as per IFRS 3 but instead are a group of assets with the directly associated liabilities.

The sales price of such assets was appraised by an independent third party, based on the discounted cash flows calculated using the rent per square metre applied to third parties in the same building, and, together with the lease payments, was discussed with the local tax authorities.

From a financial point of view, the above transactions were carried out over a roughly six-month period and led to the following cash flows:

— the first transaction led to the demerger of the parent's cash flows to the newco Rendo S.r.l. for a total of €6,940 thousand. The latter then transferred a portion of this amount to its subsidiary Rendo AG as funds to acquire the building as part of the second transaction (sale);
— the second transaction led to the cash inflow of €5,968 thousand following the Swiss subsidiary's sale of its owner-occupied building to the newco Rendo AG. A portion of this amount was returned to the parent via a loan of approximately €4,146 thousand at 31 December 2019 (the original amount was CHF4,500 thousand).

New shareholders and dividend distributions

As part of the restructuring project, the extraordinary share capital increase of €62 million for Philogen S.p.A. was finalised on 15 May 2019. Such increase is chiefly earmarked for developing pipeline products, ramping up clinical trials and expanding good manufacturing practice (GMP) activities. The investment is coordinated by Mediobanca via the vehicles Palio Ordinarie S.p.A. (17% of the share capital and 10,4% of the voting rights) and Palio Speciali S.r.l. (0,3% of the share capital and 0,2% of the voting rights). Reference should be made to the statement of changes in equity for details on changes to the group's equlty.

The capital increase was subject to, in addition to the property restructuring described above, the distribution of an ordinary dividend (equal to €3,187 thousand) and extraordinary dividend (equal to €18,691 thousand) to the shareholders included in the shareholders' register at the date of the aforementioned capital increase.

Fees paid to directors, statutory auditors and the scientific committee

The amounts related 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

(€'000)	2019	2018	2017
Duccio Neri - Chairman	357	240	240
Dario Neri - Director	122	30	30
Giovanni Neri - Director	187	160	160
Sergio Gianfranco Luigi Maria Dompé - Director	30	30	30
Roberto Marsella - Director	21	30	30
Nathalie Francesca Maria Dompé - Director	30	30	30
Leopoldo Zambeletti Pedrotti (*)	30	30	-
Roberto Ferraresi (**)	21		
Guido Guidi (**)	36	-	-
Other directors	179	101	104
Total	**1,013**	**651**	**624**
Leopoldo Zambeletti Pedrotti – strategic consulting fees	376	-	-
Total	**1,389**	**651**	**624**

(*) Appointed at the shareholders' meeting of 24 April 2018
(**) Appointed at the shareholders' meeting of 7 May 2019

ii) Board of statutory auditors

(€'000)	

	2019	2018	2017
Stefano Mecacci - Chairman	23	14	14
Pierluigi Matteoni - Standing statutory auditor	15	10	10
Marco Tanini - Standing statutory auditor	15	10	10
Board of statutory auditors' fees	**53**	**34**	**34**

iii) Scientific committee

(€'000)

	2019	2018	2017
Dario Neri - Chairman	253	200	200
Paolo Neri	11	32	32
Scientific committee's fees	**264**	**232**	**232**

Management and coordination activities

The group is not subject to management and coordination activities pursuant to article 2497 and following articles of the Italian Civil Code.

31 Events after the reporting date

Covid-19

After the reporting date, the International Health Regulations Emergency Committee of the World Health Organisation declared Covid-19 a global emergency on 31 January 2020. The virus continued to spread, affecting the world's population and particularly Italy in recent weeks. This placed huge pressure on the country's health system and led to a series of measures issued by the authorities aimed at curbing the risk of further spread of the virus throughout the Italian population.

The Covid-19 epidemiological emergency has had an impact on companies, including the Philogen Group, curtailing their production levels. The pandemic and the government measures taken to tackle the epidemiological emergency meant the group has had to modify its commercial procedures, including developing social distancing plans for employees and eliminating physical attendance at meetings, events and conferences, in the best interest of group employees and commercial partners. These changes can have a negative impact on productivity, taking resources away from product development, slowing down commercial transactions, and delaying and halting the clinical trials planned or in progress.

There could be delays in recruiting personnel at clinical facilities, doctors, researchers and health workers and in enlisting patients due to the priority of allocating hospital workers to dealing with the Covid-19 pandemic and this could significantly hinder the group's research activities. As a result, the time schedule for interpreting the data from our clinical trials and regulatory aspects could have a negative effect which would impact and delay the group's ability to obtain regulatory approval of its products, hike operating costs and significantly damage the group's financial position.

The group's presence and operations on different global markets exposes it to risks linked to international geopolitical and macroeconomic conditions as well as the geopolitical and macroeconomic conditions of the individual countries where it operates, in addition to any amendments and changes in their legislative and tax regimes.

The group's financial results depend on the overall economic conditions in the European Union and Switzerland. An extended recession in one of these regions or at international level (or public perception that economic conditions are deteriorating) could have serious consequences for the group's business.

Starting from January 2020, following the global spread of the Covid-19 pandemic, the authorities in most countries, including the Italian government, have introduced restrictions to curb the further spread of the virus. The most significant of these comprised restrictions on and checks of the movement of people and goods and the closure of production plants

and offices. These measures have, and will have, a significant negative impact on financial markets and economic activities at a domestic and global level.

It is impossible to predict when the pandemic will end and, therefore, it is impossible to predict what additional negative effects the continuation of the pandemic, or the spread of a similar virus, will have on financial markets and on economic activities at a domestic and global level.

There is no guarantee that the financial markets and confidence in economic conditions will not deteriorate further. A worsening in the global economic and financial situation due to Covid-19, a similar virus or one or more other factors, could have a considerable negative impact on the group's business, operating results and financial position.

Incentive plan with share-based payment

In order to implement a 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 to 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 rights offering, via the issue of 426,600 shares which make up 1.2% of the share capital. The shares can be subscribed as follows.

Under the incentive plan approved by the board of directors, the beneficiary can subscribe the shares at the pre-defined price of €12.51 per share.

The plan, which allows the beneficiary to subscribe shares, provides for the gradual vesting of the subscription right over time to reflect the beneficiary's progressive contribution.

The subscription right granted to the beneficiary has a three-year schedule starting from the financial statements at 31 December 2019, in line with the term of office of the current board of directors. The right vests annually (at the date of approval of the financial statements) at an equivalent of one third of the overall subscription right, i.e., 142,200 shares per year (0.4% of the share capital).

Should the beneficiary's relationship with the parent be terminated before the end of the three years, they shall retain the subscription rights vested for each year completed.

If the rights are not exercised within three years of the date on which the subscription right arises for the final instalment (the date of approval of the financial statements at 31 December 2021), they are automatically cancelled.

In the case of the right to accelerate subscription (following a change of control, the listing of the company or exercise of the drag along right for one of the shareholders), the subscription rights will vest immediately for the entire amount and they shall be exercised within 30 days of the parent's notification to the beneficiary of the event triggering the acceleration right.

Finally, a cashless mechanism will be available upon approval of the board of directors, whereby the beneficiary exercising their right would be able to offset the amount due against a lower number of shares.

Events after the reporting date related to the listing procedure

On 5th October 2020, the Board of Directors of the Parent Company approved to proceed with the listing of Philogen S.p.A. on the stock exchange ("Mercato Telematico Azionario" or "MTA") organized and managed by Borsa Italiana SpA. The operation will be expected to conclude by the first half of 2021, based on market conditions.

The Board of Directors also approved the following:

- the appointment of a co-managing director until the date of approval of the financial statements as at 31 December 2021;
- the appointment of the new Chief Medical Officer;
- the approval of the new model pursuant to ex-Legislative Decree 231/2001.

In the context of the listing process, the company is evaluating, with the support of external advisors, the restructuring of the corporate structure and incentive plan.

Accounting policies

32 Basis of presentation

These consolidated 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 consolidated financial statements have been prepared on a going concern basis.

33 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:

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 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.

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 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.

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 2019, 2018 and 2017 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)	2019	2018	2017
Spot exchange rate at 31 December (for translating assets and liabilities)	1.0854	1.1269	1.1702
Average exchange rate for the year (for translating costs and revenue)	1.1129	1.1550	1.1117

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 right;
— 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

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 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.

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) *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 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*

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 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 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

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 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 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.

Investment property

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.

ii) *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.

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 CEO 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.

Standards issued but not yet adopted

Below are listed the new standards effective for annual periods beginning on or after 1 January 2020 for which early application is permitted but not mandatory. However, the group has not early adopted them in preparing these consolidated financial statements.

— Amendments to references to conceptual framework in IFRS Standards.

— Definition of a business (Amendments to IFRS 3).

— Definition of material (Amendments to IAS 1 and IAS 8).

— IFRS 17 - Insurance contracts.

The group does not expect that such amendments to standards or interpretations will have a significant impact on its consolidated financial statements.

34 First-time adoption of the International Financial Reporting Standards (IFRS)

These consolidated financial statements of the group, prepared for the purposes described in the foreword, are the first set to be drawn up under the IFRS and published via the Prospectus. The transition date is 1 January 2017. The group's first consolidated financial statements to be published in accordance with the Italian Civil Code and drawn up under the IFRS will be those at 31 December 2020, which will be approved within the terms set by law.

Starting from 2018, the parent prepared the group's consolidated financial statements on a voluntary basis. For 2017, it availed of the exemption under article 27 of Legislative decree no. 127/1991 and did not prepare consolidated financial statements under Italian GAAP as it had never exceeded the size limits set by the above article. As a result and considering IFRS 1.24/28, the group is not required to present reconciliation schedules between the IFRS balances at the transition date (1 January 2017) and at 31 December 2017 and the balances reported under Italian GAAP as it had prepared consolidated financial statements on a voluntary basis starting from 2018. However and in order to provide a clearer presentation of the effects of transition to the IFRS compared to the parent's separate financial statements drawn up under Italian GAAP, the group has prepared the following schedules attached hereto:

- a reconciliation of equity reported in the parent's separate financial statements under the OIC with equity reported in the consolidated financial statements recognised in accordance with the IFRS at the transition date (1 January 2017);
- a reconciliation of the profit (loss) for the year as per the consolidated financial statements of the Philogen Group, determined in accordance with Italian GAAP, and the profit (loss) for the year determined under the IFRS for the years ended 31 December 2019, 2018 and 2017;
- a reconciliation of the Philogen Group's equity, reported in accordance with Italian GAAP, and equity reported in accordance with the IFRS at 31 December 2019, 2018 and 2017;
- 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 2017) 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 group's opening balances of the statement of financial position at 1 January 2017 required the group to elect what options allowed by the IFRS 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 group opted for early application of IFRS 9 at 1 January 2017;
  - *revenue from contracts with customers*: the group opted for early application of IFRS 15 at 1 January 2017;
  - *leases:* the group opted for early application of IFRS 16 at 1 January 2017 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 group elected to recognise all actuarial gains and losses at 1 January 2017;
- *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 group adopted the cost method;
- *employee benefits:* post-employment benefits were determined using actuarial calculations at the transition date. The group decided not to adopt the corridor approach.

Main impacts of application of the IFRS to the opening statement of financial position at 1 January 2017

The differences arising from application of the IFRS compared to Italian GAAP and the group'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 parent's equity as per the OIC with equity recognised in accordance with the IFRS at 1 January 2017 is provided below:

(€'000)	Note	1 January 2017
Equity of Philogen S.p.A. - OIC		**38,007**
IFRS adjustments:		
IFRS 15 - Revenue from contracts with customers	1	(2,923)
IFRS 16 - Leases	2	-
IFRS 9 - Financial instruments	3	1,208
IAS 19 - Employee benefits	4	(64)
IAS 38 - Intangible assets	5	402
Total IFRS adjustments net of the relevant tax effects		***(1,378)***
Equity of Philogen S.p.A. - IFRS		**36,629**
Carrying amount and adjustment of consolidated equity investments		(5,351)
Equity and profit (loss) for the year (determined using the same policies) of the consolidated companies, net of the share of non-controlling interests		5,025
Equity attributable to the owners of the parent - IFRS		**36,304**
Equity attributable to non-controlling interests - IFRS		**-**
Equity - IFRS		**36,304**

A reconciliation of the group's equity and profit for the year as per the OIC with those recognised in accordance with the IFRS is provided below:

(€'000)		31 December		
	Note	2019	2018	2017
Equity - OIC (*)		**75,291**	**45,551**	**36,252**
IFRS adjustments:				
IFRS 15 - Revenue from contracts with customers	1	(5,684)	(6,092)	(99)
IFRS 16 - Leases	2	(1,667)	(3)	(0)
IFRS 9 - Financial instruments	3	447	376	830
IAS 19 - Employee benefits	4	(94)	(59)	(64)
IAS 38 - Intangible assets	5	511	480	487
Other adjustments		1	2	
Total IFRS adjustments net of the relevant tax effects		***(6,489)***	***(5,294)***	***1,154***
Equity - IFRS		**68,803**	**40,256**	**37,406**

(*) 2017 figures are taken from the unaudited consolidated financial statements at 31 December 2017 prepared using the OIC.

(€'000)				
	Note	2019	2018	2017

Profit for the year - OIC (*)		**2,503**	**10,165**	**60**
IFRS adjustments:				
IFRS 15 - Revenue from contracts with customers	1	423	(5,989)	2,830
IFRS 16 - Leases	2	(1,625)	(2)	(0)
IFRS 9 - Financial instruments	3	71	(454)	(378)
IAS 19 - Employee benefits	4	5	(7)	4
IAS 38 - Intangible assets	5	25	(10)	(16)
Total IFRS adjustments net of the relevant tax effects		***(1,101)***	***(6,462)***	***2,440***
Profit for the year - IFRS		**1,402**	**3,703**	**2,500**

(*) 2017 figures are taken from the comparative data, reclassified for the purposes of inclusion in this document, included in the consolidated financial statements at 31 December 2018 prepared using the OIC. 2017 figures have not been audited.

Notes to the main IFRS adjustments made to the captions of the opening statement of financial position at 1 January 2017

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 2017) are shown below:

(€'000)	**31 December**		
	2019	**2018**	**2017**
Statement of profit or loss			
Revenue	634	(8,246)	3,904
Adjustments, gross of the tax effect	**634**	**(8,246)**	**3,904**
Tax effect	(212)	2,257	(1,074)
Adjustments, net of the tax effect	**423**	**(5,989)**	**2,830**
Statement of financial position			
Contract assets	-	-	126
Contract liabilities	(7,790)	(8,408)	(284)
Equity adjustments, gross of the tax effect	**(7,790)**	**(8,408)**	**(157)**
Tax effect	2,106	2,316	58
Equity adjustments, net of the tax effect	**(5,684)**	**(6,092)**	**(99)**

2. IFRS 16 - Leases

Under the OIC, the group recognised operating leases as costs on an accrual basis.

Under IFRS 16, at the commencement date, the group (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 2017) are shown below:

(€'000)	31 December		
	2019	**2018**	**2017**
Statement of profit or loss			
Other revenue (derecognition of gain on sale and leaseback transactions)	(1,608)	-	-
Use of third party assets (derecognition)	532	15	13
Amortisation and depreciation	(349)	(16)	(12)
Financial expense	(201)	(1)	(1)
Adjustments, gross of the tax effect	**(1,625)**	**(2)**	**(0)**
Tax effect	-	-	-
Adjustments, net of the tax effect	**(1,625)**	**(2)**	**(0)**
Statement of financial position			
Right-of-use assets	10,985	49	31
Other current assets	(26)	(7)	(5)
Lease liabilities	(12,626)	(45)	(25)
Equity adjustments, gross of the tax effect	**(1,667)**	**(3)**	**(0)**
Tax effect	-	-	-
Equity adjustments, net of the tax effect	**(1,667)**	**(3)**	**(0)**

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 group's business model. Specifically:

- equity instruments are measured at fair value through profit or loss;
- though the group 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 2017) are shown below:

(€'000)	31 December		
	2019	**2018**	**2017**
Statement of profit or loss			
Net financial income (expense)	93	(598)	(497)
Adjustments, gross of the tax effect	**93**	**(598)**	**(497)**
Tax effect	(22)	143	119
Adjustments, net of the tax effect	**71**	**(454)**	**(378)**
Statement of financial position			
Other current financial assets	588	495	1,092
Equity adjustments, gross of the tax effect	**588**	**495**	**1,092**
Tax effect	(141)	(119)	(262)
Equity adjustments, net of the tax effect	**447**	**376**	**830**

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 group 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:

(€'000)	31 December		
	2019	**2018**	**2017**
Statement of profit or loss			
Personnel expenses	15	2	(5)
Financial expense	(10)	(9)	8
Adjustments, gross of the tax effect	**5**	**(7)**	**4**
Tax effect	-	-	-
Adjustments, net of the tax effect	**5**	**(7)**	**4**
Statement of financial position			
Employee benefits	(103)	(53)	(63)
Equity adjustments, gross of the tax effect	**(103)**	**(53)**	**(63)**
Tax effect on actuarial valuation (recognised under equity)	8	(6)	(1)
Equity adjustments, net of the tax effect	**(94)**	**(59)**	**(64)**

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:

(€'000)	31 December		
	2019	**2018**	**2017**
Statement of profit or loss			
Service costs	(2)	(3)	(9)
Amortisation and depreciation	43	(12)	(16)
Adjustments, gross of the tax effect	**41**	**(15)**	**(25)**
Tax effect	(15)	6	9
Adjustments, net of the tax effect	**25**	**(10)**	**(16)**
Statement of financial position			
Intangible assets	690	644	654
Equity adjustments, gross of the tax effect	**690**	**644**	**654**
Tax effect	(179)	(164)	(167)
Equity adjustments, net of the tax effect	**511**	**480**	**487**

6. *IAS 40 - Investment property*

IAS 40 requires that property held to earn rentals and not owner occupied be classified as investment property. Accordingly, the group reclassified the land and buildings (or part of buildings) held to lease to third parties under investment property.

The adjustments made were as follows:

(€'000)	31 December		
	2019	**2018**	**2017**
Statement of financial position			
Property, plant and equipment	-	(2,664)	(2,618)
Investment property	-	2,664	2,618
Equity adjustments, gross of the tax effect	**-**	**-**	**-**

RECONCILIATION SCHEDULE AT 1 JANUARY 2017

Statement of financial position (€'000)	01/01/2017 as per OIC (*)	Reclassifications	IFRS 15	IFRS 16	IAS 38	IFRS 9	IAS 40	IAS 19	01/01/2017 as per IFRS
Assets									
Property, plant and equipment	15,435	696	-	-	-	-	(2,909)	-	13,222
Intangible assets	283	-	-	-	692	-	-	-	975
Right-of-use assets	-	-	-	43	-	-	-	-	43
Investment property	-	-	-	-	-	-	2,909	-	2,909
Equity investments	10	(10)	-	-	-	-	-	-	-
Other non-current financial assets	10	-	-	-	-	-	-	-	10
Deferred tax assets	202	-	1,131	-	4	-	-	-	1,337
Non-current assets	**15,940**	**686**	**1,131**	**43**	**696**	**-**	**-**	**-**	**18,496**
Inventories	1,044	(618)	-	-	-	-	-	-	426
Contract assets	-	618	-	-	-	-	-	-	618
Other current financial assets	42,316	578	-	-	-	1,589	-	-	44,482
Trade receivables	1,001	-	-	-	-	-	-	-	1,001
Tax assets	728	-	-	-	-	-	-	-	728
Other current assets	1,696	(568)	-	(5)	-	-	-	-	1,123
Cash and cash equivalents	2,274	-	-	-	-	-	-	-	2,274
Current assets	**49,058**	**10**	**-**	**(5)**	**-**	**1,589**	**-**	**-**	**50,652**
Total assets	**64,999**	**696**	**1,131**	**38**	**696**	**1,589**	**-**	**-**	**69,148**
Liabilities and equity									-
Equity	**36,873**	**696**	**(2,923)**	**-**	**514**	**1,208**	**-**	**(64)**	**36,304**
Provisions	0	-	-	-	-	-	-	-	0
Employee benefits	606	-	-	-	-	-	-	64	671
Non-current lease liabilities	-	-	-	38	-	-	-	-	38
Non-current financial liabilities	5,757	-	-	-	-	-	-	-	5,757
Non-current trade payables	-	-	-	-	-	-	-	-	-
Deferred tax liabilities	-	-	-	-	181	381	-	-	563
Non-current liabilities	**6,363**	**-**	**-**	**38**	**181**	**381**	**-**	**64**	**7,028**
Current financial liabilities	17,542	-	-	-	-	-	-	-	17,542
Current lease liabilities	-	-	-	-	-	-	-	-	-
Trade payables	2,805	-	-	-	-	-	-	-	2,805
Contract liabilities	-	-	4,054	-	-	-	-	-	4,054
Tax liabilities	565	-	-	-	-	-	-	-	565
Other current liabilities	851	-	-	-	-	-	-	-	851
Current liabilities	**21,763**	**-**	**4,054**	**-**	**-**	**-**	**-**	**-**	**25,817**
Total liabilities	**28,126**	**-**	**4,054**	**38**	**181**	**381**	**-**	**64**	**32,844**
Total equity and liabilities	**64,999**	**696**	**1,131**	**38**	**696**	**1,589**	**-**	**-**	**69,148**

(*) 2017 figures are taken from the unaudited consolidated financial statements at 31 December 2017 prepared using the OIC.

RECONCILIATION SCHEDULE AT 31 DECEMBER 2017

Statement of financial position (€'000)	31/12/2017 as per OIC (*)	Reclassifications	IFRS 15	IFRS 16	IAS 38	IFRS 9	IAS 40	IAS 19	31/12/2017 as per IFRS
Assets									
Property, plant and equipment	15,148	-	-	-	-	-	(2,618)	-	12,530
Intangible assets	239	-	-	-	654	-	-	-	894
Right-of-use assets	-	-	-	31	-	-	-	-	31
Investment property	-	-	-	-	-	-	2,618	-	2,618
Equity investments	10	(10)	-	-	-	-	-	-	-
Other non-current financial assets	-	-	-	-	-	-	-	-	-
Deferred tax assets	184	-	79	-	4	-	-	-	267
Non-current assets	**15,581**	**(10)**	**79**	**31**	**658**	**-**	**-**	**-**	**16,339**
Inventories	1,005	(418)	-	-	-	-	-	-	586
Contract assets	-	418	126	-	-	-	-	-	545
Other current financial assets	26,807	216	-	-	-	1,092	-	-	28,115
Trade receivables	3,585	-	-	-	-	-	-	-	3,585
Tax assets	1,505	-	-	-	-	-	-	-	1,505
Other current assets	2,296	(206)	-	(5)	-	-	-	-	2,085
Cash and cash equivalents	6,462	-	-	-	-	-	-	-	6,462
Current assets	**41,660**	**10**	**126**	**(5)**	**-**	**1,092**	**-**	**-**	**42,883**
Total assets	**57,241**	**-**	**206**	**25**	**658**	**1,092**	**-**	**-**	**59,222**
Liabilities and equity									
Equity	**36,253**	**-**	**(99)**	**(0)**	**487**	**830**	**-**	**(64)**	**37,406**
Provisions	0	-	-	-	-	-	-	-	0
Employee benefits	667	-	-	-	-	-	-	63	730
Non-current lease liabilities	-	-	-	13	-	-	-	-	13
Non-current financial liabilities	6,366	-	-	-	-	-	-	-	6,366
Non-current trade payables	-	-	-	-	-	-	-	-	-
Deferred tax liabilities	-	-	21	-	171	262	-	1	456
Non-current liabilities	**7,033**	**-**	**21**	**13**	**171**	**262**	**-**	**64**	**7,564**
Current financial liabilities	10,861	-	-	-	-	-	-	-	10,861
Current lease liabilities	-	-	-	13	-	-	-	-	13
Trade payables	2,152	-	-	-	-	-	-	-	2,152
Contract liabilities	-	-	284	-	-	-	-	-	284
Tax liabilities	132	-	-	-	-	-	-	-	132
Other current liabilities	811	-	-	-	-	-	-	-	811
Current liabilities	**13,956**	**-**	**284**	**13**	**-**	**-**	**-**	**-**	**14,252**
Total liabilities	**20,989**	**-**	**304**	**25**	**171**	**262**	**-**	**64**	**21,816**
Total equity and liabilities	**57,241**	**-**	**206**	**25**	**658**	**1,092**	**-**	**-**	**59,222**

(*) 2017 figures are taken from the unaudited consolidated financial statements at 31 December 2017 prepared using the CIC.

Statement of profit or loss (€'000)	2017 as per OIC (*)	Reclassifications	IFRS 15	IFRS 16	IAS 38	IFRS 1	IFRS 9	IAS 40	IAS 19	2017 as per IFRS
Revenue from contracts with customers	6,505	-	3,904	-	-	-	-	-	-	10,409
Other revenue	4,405	(696)	-	-	-	-	-	-	-	3,709
Total operating revenue	**10,910**	**(696)**	**3,904**	**-**	**-**	**-**	**-**	**-**	**-**	**14,118**
Raw materials and consumables	(1,177)	-	-	-	-	-	-	-	-	(1,177)
Service costs	(4,199)	-	-	-	(9)	-	-	-	-	(4,208)
Use of third party assets	(38)	-	-	13	-	-	-	-	-	(25)
Personnel expenses	(5,468)	-	-	-	-	-	-	-	5	(5,463)
Amortisation, depreciation and impairment losses	(993)	-	-	(12)	(16)	-	-	-	-	(1,020)
Other operating costs	(218)	-	-	-	-	-	-	-	-	(218)
Total operating costs	**(12,092)**	**-**	**-**	**1**	**(25)**	**-**	**-**	**-**	**5**	**(12,111)**
Operating profit (loss)	**(1,183)**	**(696)**	**3,904**	**1**	**(25)**	**-**	**-**	**-**	**5**	**2,006**
Financial income	3,135	-	-	-	-	-	(497)	-	-	2,638
Financial expense	(1,131)	-	-	(1)	-	-	-	-	(8)	(1,140)
Pre-tax profit	**821**	**(696)**	**3,904**	**(0)**	**(25)**	**-**	**(497)**	**-**	**(4)**	**3,504**
Income taxes	(59)	-	(1,074)	-	9	-	119	-	-	(1,005)
Profit from continuing operations	**763**	**(696)**	**2,830**	**(0)**	**(16)**	**-**	**(378)**	**-**	**(4)**	**2,500**
Profit (loss) from discontinued operations	-	-	-	-	-	-	-	-	-	-
Profit for the year	**763**	**(696)**	**2,830**	**(0)**	**(16)**	**-**	**(378)**	**-**	**(4)**	**2,500**
Profit (loss) attributable to non-controlling interests	-	-	-	-	-	-	-	-	-	-
Profit attributable to the owners of the parent	**763**	**(696)**	**2,830**	**(0)**	**(16)**	**-**	**(378)**	**-**	**(4)**	**2,500**

(*) 2017 figures are taken from the unaudited consolidated financial statements at 31 December 2017 prepared using the OIC.

Statement of cash flows (€'000)	2017 as per OIC (*)	Translation effects	IFRS 15	IFRS 16	IAS 38	IFRS 1	IFRS 9	IAS 40	IAS 19	2017 as per IFRS
Cash flows generated by/used in operating activities (A)	(2,733)	(358)	-	13	(9)	-	(3,014)	(696)	-	(6,797)
Cash flows generated by/used in investing activities (B)	14,377	(333)	-	-	9	-	3,014	696	-	17,763
Cash flows generated by/used in financing activities (C)	(7,456)	710	-	(13)	-	-	-	-	-	(6,758)
Total cash flows (A + B + C)	**4,188**	**19**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**4,207**

(*) 2017 figures are taken from the unaudited consolidated financial statements at 31 December 2017 prepared using the OIC.

RECONCILIATION SCHEDULE AT 31 DECEMBER 2018

Statement of financial position (€'000)	31/12/2018 as per OIC	Reclassifications	IFRS 15	IFRS 16	IAS 38	IFRS 9	IAS 40	IAS 19	31/12/2018 as per IFRS
Assets									
Property, plant and equipment	15,115	-	-	-	-	-	(2,664)	-	12,451
Intangible assets	210	-	-	-	644	-	-	-	855
Right-of-use assets	-	-	-	49	-	-	-	-	49
Investment property	-	-	-	-	-	-	2,664	-	2,664
Equity investments	10	(10)	-	-	-	-	-	-	-
Other non-current financial assets	-	-	-	-	-	-	-	-	-
Deferred tax assets	207	-	2,316	-	2	-	-	-	2,525
Non-current assets	**15,541**	**(10)**	**2,316**	**49**	**646**	**-**	**-**	**-**	**18,543**
Inventories	468	-	-	-	-	-	-	-	468
Contract assets	-	-	-	-	-	-	-	-	-
Other current financial assets	29,961	238	-	-	-	495	-	-	30,693
Trade receivables	9,395	-	-	-	-	-	-	-	9,395
Tax assets	2,889	-	-	-	-	-	-	-	2,889
Other current assets	1,340	(228)	-	(7)	-	-	-	-	1,106
Cash and cash equivalents	6,380	-	-	-	-	-	-	-	6,380
Current assets	**50,434**	**10**	**-**	**(7)**	**-**	**495**	**-**	**-**	**50,932**
Total assets	**65,975**	**-**	**2,316**	**42**	**646**	**495**	**-**	**-**	**59,474**
Liabilities and equity		-	-	-	-	-	-	-	-
Equity	**45,550**	**-**	**(6,092)**	**(2)**	**482**	**376**	**-**	**(59)**	**40,256**
Provisions	1	-	-	-	-	-	-	-	1
Employee benefits	624	-	-	-	-	-	-	53	676
Non-current lease liabilities	-	-	-	19	-	-	-	-	19
Non-current financial liabilities	5,600	-	-	-	-	-	-	-	5,600
Non-current trade payables	-	-	-	-	-	-	-	-	-
Deferred tax liabilities	-	-	-	-	164	119	-	6	289
Non-current liabilities	**6,225**	**-**	**-**	**19**	**164**	**119**	**-**	**59**	**6,585**
Current financial liabilities	10,899	-	-	-	-	-	-	-	10,899
Current lease liabilities	-	-	-	26	-	-	-	-	26
Trade payables	2,051	-	-	-	-	-	-	-	2,051
Contract liabilities	-	-	8,408	-	-	-	-	-	8,408
Tax liabilities	431	-	-	-	-	-	-	-	431
Other current liabilities	820	-	-	-	-	-	-	-	820
Current liabilities	**14,201**	**-**	**8,408**	**26**	**-**	**-**	**-**	**-**	**22,635**
Total liabilities	**20,425**	**-**	**8,408**	**45**	**164**	**119**	**-**	**59**	**29,219**
Total equity and liabilities	**65,975**	**-**	**2,316**	**42**	**646**	**495**	**-**	**-**	**59,474**

Statement of profit or loss (€'000)	2018 as per OIC	Reclassifications	IFRS 15	IFRS 16	IAS 38	IFRS 1	IFRS 9	IAS 40	IAS 19	2018 as per IFRS
Revenue from contracts with customers	22,099	-	(8,246)	-	-	-	-	-	-	13,853
Other revenue	1,896	-	-	-	-	-	-	-	-	1,896
Total operating revenue	**23,995**	**-**	**(8,246)**	**-**	**-**	**-**	**-**	**-**	**-**	**15,749**
Raw materials and consumables	(1,321)	-	-	-	-	-	-	-	-	(1,321)
Service costs	(4,876)	-	-	-	(3)	-	-	-	-	(4,879)
Use of third party assets	(44)	-	-	15	-	-	-	-	-	(29)
Personnel expenses	(5,808)	-	-	-	-	-	-	-	2	(5,806)
Amortisation, depreciation and impairment losses	(1,021)	-	-	(16)	(12)	-	-	-	-	(1,050)
Other operating costs	(316)	-	-	-	-	-	-	-	-	(316)
Total operating costs	**(13,387)**	**-**	**-**	**(2)**	**(15)**	**-**	**-**	**-**	**2**	**(13,402)**
Operating profit	**10,608**	**-**	**(8,246)**	**(2)**	**(15)**	**-**	**-**	**-**	**2**	**2,348**
Financial income	1,084	-	-	-	-	-	-	-	-	1,084
Financial expense	(1,247)	-	-	(1)	-	-	(598)	-	(9)	(1,854)
Pre-tax profit	**10,446**	**-**	**(8,246)**	**(2)**	**(15)**	**-**	**(598)**	**-**	**(7)**	**1,578**
Income taxes	(280)	-	2,257	-	6	-	143	-	-	2,126
Profit from continuing operations	**10,165**	**-**	**(5,989)**	**(2)**	**(10)**	**-**	**(454)**	**-**	**(7)**	**3,703**
Profit (loss) from discontinued operations	-	-	-	-	-	-	-	-	-	-
Profit for the year	**10,165**	**-**	**(5,989)**	**(2)**	**(10)**	**-**	**(454)**	**-**	**(7)**	**3,703**
Profit (loss) attributable to non-controlling interests	-	-	-	-	-	-	-	-	-	-
Profit attributable to the owners of the parent	**10,165**	**-**	**(5,989)**	**(2)**	**(10)**	**-**	**(454)**	**-**	**(7)**	**3,703**

Statement of cash flows (€'000)	2018 as per OIC (*)	Translation effects	IFRS 15	IFRS 16	IAS 38	IFRS 1	IFRS 9	IAS 40	IAS 19	2018 as per IFRS
Cash flows generated by/used in operating activities (A)	6,553	9	-	15	(3)	-	(1,218)	-	-	5,357
Cash flows generated by/used in investing activities (B)	(5,039)	257	-	-	3	-	1,218	-	-	(3,561)
Cash flows generated by/used in financing activities (C)	(1,596)	(272)	-	(15)	-	-	-	-	-	(1,884)
Total cash flows (A + B + C)	**(82)**	**(6)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(88)**

RECONCILIATION SCHEDULE AT 31 DECEMBER 2019

Statement of financial position (€'000)	31/12/2019 as per OIC	Reclassifications	IFRS 15	IFRS 16	IAS 38	IFRS 1	IFRS 9	IAS 40	IAS 19	31/12/2019 as per IFRS
Assets										
Property, plant and equipment	2,192	56	-	-	-	-	-	-	-	2,248
Intangible assets	301	(56)	-	-	690	-	-	-	-	935
Right-of-use assets	-	-	-	10,985	-	-	-	-	-	10,985
Investment property	-	-	-	-	-	-	-	-	-	-
Equity investments	10	(10)	-	-	-	-	-	-	-	-
Other non-current financial assets	-	-	-	-	-	-	-	-	-	-
Deferred tax assets	-	-	2,107	(1)	1	-	-	-	8	2,115
Non-current assets	**2,502**	**(10)**	**2,107**	**10,984**	**691**	**-**	**-**	**-**	**8**	**16,283**
Inventories	617	-	-	-	-	-	-	-	-	617
Contract assets	-	-	-	-	-	-	-	-	-	-
Other current financial assets	70,233	142	-	-	-	-	588	-	-	70,962
Trade receivables	1,199	-	-	-	-	-	-	-	-	1,199
Tax assets	2,946	-	-	-	-	-	-	-	-	2,946
Other current assets	849	(132)	-	(26)	-	-	-	-	-	691
Cash and cash equivalents	3,564	-	-	-	-	-	-	-	-	3,564
Current assets	**79,408**	**10**	**-**	**(26)**	**-**	**-**	**588**	**-**	**-**	**79,978**
Total assets	**81,909**	**-**	**2,107**	**10,958**	**691**	**-**	**588**	**-**	**8**	**96,261**
Liabilities and equity		-	-	-	-	-	-	-	-	-
Equity	**75,290**	**-**	**(5,683)**	**(1,668)**	**512**	**-**	**447**	**-**	**(94)**	**68,803**
Provisions	-	-	-	-	-	-	-	-	-	-
Employee benefits	701	-	-	-	-	-	-	-	103	803
Non-current lease liabilities	-	-	-	11,959	-	-	-	-	-	11,959
Non-current financial liabilities	682	-	-	-	-	-	-	-	-	682
Non-current trade payables	-	-	-	-	-	-	-	-	-	-
Deferred tax liabilities	-	-	-	-	179	-	141	-	-	320
Non-current liabilities	**1,382**	**-**	**-**	**11,959**	**179**	**-**	**141**	**-**	**103**	**13,764**
Current financial liabilities	518	-	-	-	-	-	-	-	-	518
Current lease liabilities	-	-	-	668	-	-	-	-	-	668
Trade payables	3,281	-	-	-	-	-	-	-	-	3,281
Contract liabilities	-	-	7,790	-	-	-	-	-	-	7,790
Tax liabilities	332	-	-	-	-	-	-	-	-	332
Other current liabilities	1,105	-	-	-	-	-	-	-	-	1,105
Current liabilities	**5,236**	**-**	**7,790**	**668**	**-**	**-**	**-**	**-**	**-**	**13,693**
Total liabilities	**6,618**	**-**	**7,790**	**12,626**	**179**	**-**	**141**	**-**	**103**	**27,458**
Total equity and liabilities	**81,909**	**-**	**2,107**	**10,958**	**691**	**-**	**588**	**-**	**8**	**96,261**

Statement of profit or loss (€'000)	2019 as per OIC	Reclassifications	IFRS 15	IFRS 16	IAS 38	IFRS 1	IFRS 9	IAS 40	IAS 19	2019 as per IFRS
Revenue from contracts with customers	11,976	-	635	-	-	-	-	-	-	12,611
Other revenue	5,513	-	-	(1,608)	-	-	-	-	-	3,905
Total operating revenue	**17,488**	**-**	**635**	**(1,608)**	**-**	**-**	**-**	**-**	**-**	**16,516**
Raw materials and consumables	(1,203)	-	-	-	-	-	-	-	-	(1,203)
Service costs	(7,108)	-	-	-	(2)	-	-	-	-	(7,110)
Use of third party assets	(622)	-	-	532	-	-	-	-	-	(90)
Personnel expenses	(6,837)	-	-	-	-	-	-	-	15	(6,822)
Amortisation, depreciation and impairment losses	(797)	-	-	(349)	43	-	-	-	-	(1,102)
Other operating costs	(654)	-	-	-	-	-	-	-	-	(654)
Total operating costs	**(17,221)**	**-**	**-**	**183**	**41**	**-**	**-**	**-**	**15**	**(16,982)**
Operating profit (loss)	**267**	**-**	**635**	**(1,424)**	**41**	**-**	**-**	**-**	**15**	**(466)**
Financial income	3,227	-	-	-	-	-	93	-	-	3,164
Financial expense	(220)	-	-	(201)	-	-	-	-	(10)	(275)
Pre-tax profit	**3,275**	**-**	**635**	**(1,625)**	**41**	**-**	**93**	**-**	**5**	**2,423**
Income taxes	(771)	-	(212)	(1)	(15)	-	(22)	-	-	(1,021)
Profit from continuing operations	**2,504**	**-**	**423**	**(1,626)**	**25**	**-**	**71**	**-**	**5**	**1,402**
Profit (loss) from discontinued operations	-	-	-	-	-	-	-	-	-	-
Profit for the year	**2,504**	**-**	**423**	**(1,626)**	**25**	**-**	**71**	**-**	**5**	**1,402**
Profit (loss) attributable to non-controlling interests	0	-	-	-	-	-	-	-	-	0
Profit attributable to the owners of the parent	**2,504**	**-**	**423**	**(1,626)**	**25**	**-**	**71**	**-**	**5**	**1,402**

Statement of cash flows (€'000)	2019 as per OIC (*)	Translation effects	IFRS 15	IFRS 16	IAS 38	IFRS 1	IFRS 9	IAS 40	IAS 19	2019 as per IFRS
Cash flows generated by/used in operating activities (A)	10,028	(39)	-	351	(2)	-	(2,840)	-	-	7,498
Cash flows generated by/used in investing activities (B)	(35,700)	349	-	-	2	-	2,840	-	-	(32,508)
Cash flows generated by/used in financing activities (C)	29,796	(326)	-	(351)	-	-	-	-	-	29,118
Total cash flows (A + B + C)	**4,124**	**(16)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**4,108**