Philogen Group

Condensed consolidated interim financial statement as of 30 September 2020

(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 condensed consolidated interim financial statements

Opinion

We have audited the accompanying condensed consolidated interim 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 30 September 2020, the statement of profit or loss and the statement of comprehensive income, changes in equity and cash flows for the nine-month period then ended and notes thereto, which include a summary of the significant accounting policies (the "Condensed Consolidated Interim Financial Statements").

In our opinion, the Condensed Consolidated Interim Financial Statements have been prepared, in all material respects, in accordance with the International Financial Reporting Standard applicable to interim financial reporting (IAS 34), as 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 Condensed Consolidated Interim 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 Condensed Consolidated Interim 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..

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The comparative information presented as corresponding figures for the nine-month period ended 30 September 2019 included in the Condensed Consolidated Interim Financial Statements have not been subject to audit or review.

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

The Directors are responsible for the preparation of the Condensed Consolidated Interim Financial Statements that provide a true and fair view in accordance with the IAS 34, "Interim Financial Reporting", as 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 Condensed Consolidated Interim 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 Condensed Consolidated Interim Financial Statements

Our objectives are to obtain reasonable assurance about whether the Condensed Consolidated Interim 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 Condensed Consolidated Interim 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 Condensed Consolidated Interim 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 Condensed Consolidated Interim 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 Condensed Consolidated Interim Financial Statements, including the disclosures, and whether the Condensed Consolidated Interim 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 Condensed Consolidated Interim 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

Philogen
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Philogen Group

Condensed consolidated interim financial statements at 30 September 2020

Condensed consolidated interim financial statements and notes thereto

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CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

Consolidated Statement of profit or loss

(€'000)	Note	Period ended 30 September 2020	Of which: related parties	2019 unaudited	Of which: related parties
Revenue from contracts with customers	5	3,093		9,091	
Other income	5	312		1,770	*1,462*
Total revenue and income		**3,405**		**10,861**	***1,462***
Raw materials and consumables	6	(905)		(886)	
Service costs	6	(5,093)	*(895)*	(5,428)	*(1,338)*
Use of third party assets	6	(106)		(46)	
Personnel expenses	6	(5,673)	*(514)*	(4,941)	
Amortisation and depreciation	6	(1,132)	*(532)*	(701)	*(133)*
Other operating costs	6	(133)		(598)	
Total operating costs		**(13,042)**	***(1,941)***	**(12,600)**	***(1,471)***
Operating loss		**(9,637)**	***(1,941)***	**(1,739)**	***(9)***
Financial income	7	629		3,094	
Financial expense	7	(2,180)	*(268)*	(301)	*(109)*
Net financial income (expense)		**(1,551)**	***(268)***	**2,793**	***(109)***
Pre-tax profit (loss)		**(11,187)**	***(2,208)***	**1,054**	***(118)***
Income taxes	8	(582)		(599)	
Profit (loss) for the period		**(11,769)**	***(2,208)***	**454**	***(118)***
Profit (loss) attributable to the owners of the parent		(11,769)		454	
Basic earnings (loss) per share (in Euros)	9	(0.33)		0.01	
Diluted earnings (loss) per share (in Euros)	9	(0.33)		0.01	

The notes from pages 9 to 56 are an integral part of the condensed consolidated interim financial statements.

Consolidated Statement of comprehensive income

(€'000)	Note	Period ended 30 September 2020	2019 unaudited
Profit (loss) for the period (A)		**(11,769)**	**454**
Other comprehensive expense that will be subsequently reclassified to profit or loss			
Exchange differences from translation of financial statements in foreign currencies	19	(138)	(54)
Other comprehensive expense that will be subsequently reclassified to profit or loss (B)		**(138)**	**(54)**
Other comprehensive income (expense) that will not be subsequently reclassified to profit or loss			
Actuarial gains (losses) on employee benefits	20	79	(13)
Tax effect	20	(22)	4
Other comprehensive income (expense) that will not be subsequently reclassified to profit or loss (C)		**57**	**(9)**
Other comprehensive expense (B+C)		**(81)**	**(63)**
Comprehensive income (expense) net of tax (A+B+C)		**(11,851)**	**391**
Comprehensive income (expense) attributable to the owners of the parent		(11,851)	391

The notes from pages 9 to 56 are an integral part of the condensed consolidated interim financial statements.

Consolidated Statement of financial position

(€'000)	Note	30/09/2020	*Of which: related parties*	31/12/2019	*Of which: related parties*
ASSETS					
Property, plant and equipment	10	3,781		2,248	
Intangible assets	11	892		935	
Right-of-use assets	12	10,425	*10,293*	10,985	*10,809*
Deferred tax assets	8	1,446		2,115	
Non-current assets		**16,543**	***10,293***	**16,283**	***10,809***
Inventories	13	634		617	
Trade receivables	14	13		1,199	
Tax assets	15	2,635		2,946	
Other current financial assets	16	54,047		70,962	
Other current assets	17	768		690	
Total cash and cash equivalents	18	7,650		3,564	
Current assets		**65,747**	**-**	**79,978**	**-**
Total assets		**82,290**	***10,293***	**96,261**	***10,809***
EQUITY					
Share capital		5,158		5,158	
Share premium reserve		54,918		54,918	
Other reserves		9,304		7,325	
Profit (loss) for the period/year		(11,769)		1,402	
Equity attributable to the owners of the parent	**19**	**57,610**	**-**	**68,803**	**-**
Total equity	**19**	**57,610**	**-**	**68,803**	**-**
LIABILITIES					
Employee benefits	20	806		803	
Non-current lease liabilities	12	11,434	*11,353*	11,959	*11,832*
Non-current financial liabilities	21	472		682	
Deferred tax liabilities	8	229		320	
Non-current liabilities		**12,942**	***11,353***	**13,764**	***11,832***
Current financial liabilities	21	478		518	
Current lease liabilities	12	701	*660*	668	*642*
Trade payables	22	3,701	*47*	3,281	*60*
Contract liabilities	23	5,161		7,790	
Tax liabilities	15	309		332	
Other current liabilities	24	1,389		1,105	
Current liabilities		**11,738**	***707***	**13,693**	***702***
Total liabilities		**24,680**	***12,061***	**27,458**	***12,534***
Total equity and liabilities		**82,290**	***12,061***	**96,261**	***12,534***

The notes from pages 9 to 56 are an integral part of the condensed consolidated interim financial statements.

Consolidated Statement of changes in equity

(€'000)				Other reserves										
	Note	Share capital	Share premium reserve	Revaluation reserve	Legal reserve	FTA IFRS reserve	Goodwill	Actuarial reserve	Translation reserve	Share-based payment reserve	Retained earnings	Total other reserves	Profit (loss) for the period	Total equity
Opening balances at 1 January 2019		**4,250**	**17,016**	**1,676**	**850**	**(1,265)**	**50**	**16**	**935**	**-**	**13,024**	**15,287**	**3,703**	**40,256**
Allocation of prior year profit											3,703	**3,703**	(3,703)	**-**
Dividends	19										(3,188)	**(3,188)**		**(3,188)**
Demerger of business unit	19		(11,417)	(1,676)								**(1,676)**		**(13,093)**
Increase in share capital	19	908	61,099									**-**		**62,007**
Profit for the period												**-**	454	**454**
Other comprehensive income (expense), net of tax	19, 20							(57)	138		(2)	**80**		**80**
Closing balances at 30 September 2019 (unaudited)		**5,158**	**66,699**	**-**	**850**	**(1,265)**	**50**	**(41)**	**1,074**	**-**	**13,538**	**14,206**	**454**	**86,517**
Opening balances at 1 January 2020		**5,158**	**54,918**	**-**	**850**	**(1,265)**	**50**	**(23)**	**1,086**	**-**	**6,627**	**7,325**	**1,402**	**68,803**
Allocation of prior year profit					42						1,360	**1,402**	(1,402)	**-**
Dividends	19											**-**		**-**
Increase in share capital												**-**		**-**
Fair value of share-based payments	19, 26									514		**514**		**514**
Loss for the period												**-**	(11,769)	**(11,769)**
Other comprehensive income (expense), net of tax	19, 20							9	54		(1)	**62**		**62**
Closing balances at 30 September 2020		**5,158**	**54,918**	**-**	**892**	**(1,265)**	**50**	**(13)**	**1,140**	**514**	**7,986**	**9,303**	**(11,769)**	**57,610**

The notes from pages 9 to 56 are an integral part of the condensed consolidated interim financial statements.

Consolidated Statement of cash flows

(€'000)	Note	Period ended 30 September 2020	Of which: related parties	2019 unaudited	Of which: related parties
Cash flows from operating activities					
Profit (loss) for the period		(11,769)	*(2,208)*	454	*(118)*
Adjustments for:					
Amortisation and depreciation	6	1,132	*532*	701	*133*
Net financial income (expense)	7	1,551	*268*	(2,793)	*109*
Gain on the sale of property, plant and equipment	10	-		(1,462)	*(1,462)*
Accrual for employee benefits and share-based payments	6	583	*514*	86	
Income taxes	8	582		599	
Other non-monetary adjustments		5		58	
Variations in:					
Inventories	13	(17)		(136)	
Trade receivables	14	1,159		9,371	
Contract liabilities	23	(2,639)		1,485	
Trade payables	22	413	*13*	826	*(21)*
Other current assets and liabilities (*)	15,17,24	564		1,918	
Use of provisions and employee benefits	20	(61)		(19)	
Interest paid	7	(338)		(247)	
Income taxes paid	8	(6)		(353)	
Cash flows generated by/used in operating activities (A)		**(8,841)**	***(881)***	**10,489**	***(1,359)***
Cash flows from investing activities					
Interest collected	7	483		694	
Proceeds from the sale of property, plant and equipment	10	-		3,247	*3,247*
Proceeds from the sale of investment property		-		2,885	*2,885*
Proceeds from the sale of other financial assets	16	16,489		3,726	
Acquisition of property, plant and equipment	10	(1,908)		(429)	
Acquisition of intangible assets	11	(133)		(158)	
Acquisition of other financial assets	16	(1,247)		(48,957)	
Cash flows generated by/used in investing activities (B)		**13,684**	**-**	**(38,991)**	***6,132***
Cash flows from financing activities					
Proceeds from the issuing of shares	19	-		62,007	*62,007*
New loans and borrowings	21	-		-	
Repayments of loans and borrowings	21	(250)		(10,375)	
Payment of lease liabilities	12	(515)	*(515)*	(186)	*(186)*
Dividends paid	19	-		(3,188)	*(3,188)*
Cash flows generated by/used in financing activities (C)		**(765)**	***(515)***	**48,258**	***58,634***
Total cash flows (A + B + C)		**4,078**		**19,756**	
Opening cash and cash equivalents	**18**	**3,564**		**6,380**	
Change in cash and cash equivalents		4,708		19,756	
Exchange effect		8		192	
Decrease in liquid funds due to the demerger		-		(6,940)	
Closing cash and cash equivalents	**18**	**7,650**		**19,387**	

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

The notes from pages 9 to 56 are an integral part of the condensed consolidated interim financial statements.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM 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 condensed consolidated interim financial statements as at and for the nine months ended 30 September 2020 (the "condensed consolidated interim financial statements") under the IFRS, solely for the purposes of their inclusion in the Prospectus as part of its listing on the stock exchange.

1 Company that prepares the condensed consolidated interim financial statements

Philogen S.p.A. is based in Italy with registered offices at Piazza La Lizza 7, Siena. The condensed consolidated interim financial statements as at and for the nine months ended 30 September 2020 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 condensed consolidated interim financial statements have been prepared in accordance with IAS 34 - Interim financial reporting and should be read together with the group's most recent annual consolidated financial statements at 31 December 2019 (the "most recent annual consolidated financial statements"). Though they do not include all of the information required for full financial disclosure as per the IFRS, they include specific notes to explain the events and transactions required to understand the variations in the group's financial position, performance and cash flows compared to the most recent annual consolidated financial statements.

These condensed consolidated interim 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 32.

The comparative financial information for the nine-month period ended 30 September 2019 have not been subject to audit or review.

Functional and presentation currency

These condensed consolidated interim 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 condensed consolidated interim 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 condensed consolidated interim 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 condensed consolidated interim 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 32 - revenue recognition: establishing whether revenue from licences should be recognised at a point in time or over time;
- Note 32 - securities recognition: assessing the business model and the relevant recognition;
- Notes 12 and 32 - lease term: main assumptions regarding renewal options beyond the non-cancellable period of the lease.

ii) Uncertainties in estimates

For the nine months ended 30 September 2020, information on the assumptions and uncertainties in estimates that entail a significant risk of material variations to the carrying amounts of assets and liabilities in the financial statements of the subsequent year is provided in the following notes:

- Notes 5 and 32 - revenue recognition; assumption in determining the transaction price in relation to variable consideration;
- Notes 20 and 32 - measurement of defined benefit obligations: main actuarial assumptions;
- Note 32 - measurement of financial instruments: main assumptions underlying fair value measurement;
- Note 32 - 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 32 - 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 32 - recognition and measurement of provisions and contingent liabilities: main assumptions on the probability and extent of outflows;
- Note 32 - measurement of the loss allowance for trade receivables and contract assets: main assumptions used in determining expected credit losses.

3 Transactions during the period

The economic effects of Covid-19

The nine-month period ended 30 September 2020 was blighted by the Covid-19 epidemiological emergency which had an impact on companies, including the group, curtailing their production levels.

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

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 the clinical trials planned or in progress.

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

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.

As a result of the disastrous performance of the financial markets during the nine months ended 30 September 2020 linked to the impact of Covid-19, the group recognised a net fair value loss of roughly €1,622 thousand on current financial assets (net fair value gain of €2,037 thousand in the same period of 2019) which contributed to a net financial expense of €1,551 thousand (compared to net financial income of €2,793 thousand in the same period of 2019).

Share-based incentive plan

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

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

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 options vest 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 options vested for each year completed.

If the options are not exercised within three years of the date on which the subscription right arises for the final installment (i.e. 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 right will vest immediately for the entire amount and 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.

The incentive plan represents an equity-settled share-based arrangement in accordance with IFRS 2. Personnel expenses of €514 thousand were recognised for the first nine months of 2020 in relation to the plan with a balancing entry in the specific equity reserve.

Reference should be made to note 30 "Events after the reporting period" for further information on events after 30 September 2020.

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)	Period ended 30 September	
	2020	**2019 unaudited**
Revenue from contracts with customers	3,093	9,091
Other income	312	1,770
Total revenue and income	**3,405**	**10,861**

Revenue from contracts with customers

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

Revenue from contracts with customers for the first nine months of 2020 amounts to €3,093 thousand, down €5,998 thousand on the same period of 2019. This decrease is mainly due to the group's decision to consider opportunities for the licensing of its proprietary products following the entry of new shareholders in 2019, focusing on the clinical development of some more advanced products in the pipeline.

Revenue for the first nine months of 2020 chiefly refers to consideration recognised over time for the development of a product.

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

Breakdown by type of consideration

(€'000)	Period ended 30 September	
	2020	**2019 unaudited**
Upfront and maintenance fees from licensing contracts	2,072	8,257
R&D services	1,021	834
Total revenue from contracts with customers	**3,093**	**9,091**

Breakdown by recognition method

(€'000)	Period ended 30 September	
	2020	**2019 unaudited**

Recognised at a point in time	306	214
Recognised over time	2,787	8,877
Total revenue from contracts with customers	**3,093**	**9,091**

Breakdown by geographical segment

(€'000)	Period ended 30 September	
	2020	**2019 unaudited**
USA	2,635	8,370
European Union	306	664
Non-EU (Switzerland)	153	57
Total revenue from contracts with customers	**3,093**	**9,091**

Breakdown by type of product/service

(€'000)	Period ended 30 September	
	2020	**2019 unaudited**
Partnered product 1	2,072	4,129
Partnered product 2	-	4,128
Encoded self-assembling chemical (ESAC) services	868	183
Protoemic services	-	10
Good manufacturing practice (GMP) services	153	197
Other research and development services	-	444
Total revenue from contracts with customers	**3,093**	**9,091**

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

(€'000)	Period ended 30 September			
	2020	***%***	**2019 unaudited**	***%***
Customer 1	2,072	*67%*	4,129	*45%*
Customer 2	-	-	4,128	*45%*
Customer 3	563	*18%*	116	*1%*
Other customers < 10%	458	*15%*	718	*8%*
Total revenue from contracts with customers	**3,093**	***100%***	**9,091**	***100%***

Other income

(€'000)	Period ended 30 September	
	2020	**2019 unaudited**
Grants related to income	297	247
Gains from the sale of assets	-	1,462
Sundry income	15	61
Total other income	**312**	**1,770**

Other income comprises:

- grants related to income and research grants, mainly related to research projects co-funded by the European Community and the Tuscany Region;
- gains from the sale of assets – related to the first nine months of 2019 – deriving from the sale of investment property of the Swiss subsidiary Philochem AG as part of the property restructuring transactions carried out in 2019.

6 Operating costs

A breakdown of operating costs for the first nine months of 2020 and 2019 is provided below:

(€'000)	Period ended 30 September	
	2020	**2019 unaudited**
Raw materials and consumables	905	886
Service costs	5,093	5,428
Use of third party assets	106	46
Personnel expenses	5,673	4,941
Amortisation and depreciation	1,132	701
Other operating costs	133	598
Total operating costs	**13,042**	**12,600**

Raw materials and consumables

This caption amounts to €905 thousand for the first nine months of 2020, which is consistent with the same period of 2019 (€886 thousand). It refers to the purchase of materials used to develop pharmaceutical compounds.

Service costs

These include, inter alia:

(€'000)	Period ended 30 September	
	2020	**2019 unaudited**
Costs for clinics and CROs	1,380	2,037
Research and development outsourcing services	1,681	662
Remuneration of company officers (net of contributions)	883	962
Corporate and consultancy costs	280	934
Utilities and overheads	232	222
Social security contributions on remuneration of company officers	96	82
Other services	541	529
Total service costs	**5,093**	**5,428**

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

The €657 thousand drop in costs for clinics and CROS is due to the decrease in the costs of services entrusted to external CROs (contract research organisations), mainly in the US.

The €1,019 thousand increase in research and development outsourcing services, on the other hand, is attributable to the rise in costs for toxicological studies due to greater pre-clinical activities required by the FDA for a product under development in the US.

The €654 thousand decrease in corporate and consultancy costs is due to the property reorganisation transactions carried out in the nine months ended 30 September 2019.

Use of third party assets

This caption amounts to €106 thousand for the first nine months of 2020 (€46 thousand for the same period of 2019). The €60 thousand increase is mainly attributable to higher rental costs, exclusively related to short-term or low-value leases (not included in the scope of IFRS 16) and variable consideration (additional costs quantified when incurred) not included in the calculation of lease liabilities and right-of-use assets as per IFRS 16.

Personnel expenses

A breakdown of personnel expenses for the first nine months of 2020 and 2019 is provided below:

(€'000)	Period ended 30 September	
	2020	2019 unaudited
Wages and salaries	4,249	3,993
Social security contributions	763	808
Post-employment benefits	147	140
Share-based payment costs	514	-
Total personnel expenses	**5,673**	**4,941**

The €732 thousand increase in personnel expenses comprises:

- €514 thousand due to the fair value measurement of the incentive plan for the first nine months of 2020 (see note 26 for further details);
- €217 thousand due to the rise in the average number of employees, as shown in the following table:

	Period ended 30 September 2020	Period ended 30 September 2019 (unaudited)	Variation
Average number of employees	107	102	+5

Amortisation and depreciation

A breakdown of this caption for the first nine months of 2020 and 2019 is provided below:

(€'000)	Period ended 30 September	
	2020	2019 unaudited
Amortisation of intangible assets	177	102
Depreciation of property, plant and equipment	380	440
Depreciation/amortisation of right-of-use assets	575	160
Total amortisation and depreciation	**1,132**	**701**

Amortisation and depreciation increased €431 thousand from €701 thousand in the first nine months of 2019 to €1,132 thousand in the same period of 2020.

Amortisation of intangible assets chiefly refers to patents registered by the group. The €75 thousand increase on the same period of the previous year is mainly due to:

- new capitalisations carried out in the second half of 2019 and the first nine months of 2020;
- acceleration of the amortisation of certain types of patents (amounted to €60 thousands for the period ended 30 September 2020 and €9 thousands for the period ended 30 September 2019), whose income-generating potential ended earlier than anticipated in the first nine months of 2020 as the group does not expect to receive further economic benefits from their use.

Depreciation of property, plant and equipment mainly refers to production plant and laboratory equipment. The €59 thousand decrease compared to the first nine months of 2019 is due to the sale of the group's property business unit in 2019.

Depreciation/amortisation of right-of-use assets increased by €415 thousand compared to the first nine months of 2019, mostly related to the extraordinary property restructuring transactions carried out in 2019. Indeed, such transactions included the demerger and sale of owner-occupied buildings and simultaneous lease of such assets, which were recognised as right-of-use assets (see note 12 for further details). Therefore, as such transactions were carried out in 2019, depreciation/amortisation of right-of-use assets refers to the full nine months ended 30 September 2020, but only a few months in the same period of 2019.

Other operating costs

A breakdown of this caption for the first nine months of 2020 and 2019 is provided below:

(€'000)	Period ended 30 September	
	2020	2019 unaudited
Membership fees	25	20
Company vehicles	9	15
Non-deductible taxes and duties	7	462
Entertainment costs	6	26
Sundry operating costs	86	75
Total other operating costs	**133**	**598**

The €465 thousand decrease in other operating costs is mostly due to recognition of non-deductible taxes of roughly €460 thousand for the first nine months of 2019 related to foreign withholding tax.

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

7 Financial income and expense

Financial income and expense are as follows:

(€'000)	Period ended 30 September	
	2020	2019 unaudited
Financial income		
Gains on financial assets	218	487
Profits on the sale of financial assets	264	207
Fair value gains on financial assets at FVTPL	142	2,142
Exchange gains	5	258
Financial income	**629**	**3,094**
Financial expense		
Loan interest expense	(14)	(58)
Losses on the sale of financial assets	(58)	(3)
Lease interest expense	(270)	(110)
Interest cost on employee benefits	(4)	(8)
Fair value losses on financial assets at FVTPL	(1,764)	(105)
Exchange losses	(70)	(17)
Financial expense	**(2,180)**	**(301)**
Net financial income (expense)	**(1,551)**	**2,793**

The group recorded net financial expense of €1,551 thousand in the first nine months of 2020, a worsening of roughly €4,344 thousand on the same period of 2019 when it recorded net financial income of €2,793 thousand.

The main impact on this caption relates to the net fair value losses on financial assets at fair value through profit or loss, amounting to €1,622 thousand in the first nine months of 2020 (net fair value gains of €2,037 thousand in the same period of 2019), which reflect the downturn in the financial markets as a result of the Covid-19 pandemic.

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

Lease interest expense increased by approximately €160 thousand compared to the first nine months of 2019, mostly related to the property restructuring transactions carried out in 2019. Indeed, such transactions included the demerger and sale of owner-occupied buildings and simultaneous lease of such assets, which were recognised as right-of-use assets (see note 12 for further details). Therefore, as such transactions were carried out in 2019, lease interest expense refers to the full nine months ended 30 September 2020, but only a few months in the same period of 2019.

8 Income taxes

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

A breakdown of income taxes for the first nine months of 2020 and 2019 is provided below:

(€'000)	Period ended 30 September	
	2020	2019 unaudited
Current taxes	6	352
Deferred taxes	576	247
Total income taxes	**582**	**599**

The €346 thousand decrease in current taxes is due to the lower taxable income estimated for the first nine months of 2020.

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

Reconciliation of effective tax rate

The reconciliation of the income tax expense shown in the condensed consolidated interim financial statements and the theoretical expense determined using the IRES (corporate income tax) rate applicable to the group for the first nine months of 2020 and 2019 is as follows:

(€'000)	Period ended 30 September	
	2020	2019 unaudited
Pre-tax profit (loss)	(11,187)	1,054
Theoretical tax rate	24.0%	24.0%
Theoretical IRES expense (income) (A)	**(2,685)**	**253**
Adjusted by:		
Tax effect on patent box relief	-	(240)
Taxes relative to prior years	-	348
Tax effect on unrecognised tax losses	2,944	196
Tax effect on other increases (decreases)	323	42
Total adjustments (B)	**3,267**	**346**
Total effective tax expense (A+B)	**582**	**599**
Effective tax rate	***-5.2%***	***56.9%***

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

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

Furthermore, the group recognised tax losses in the first nine months of 2020 and 2019, partly due to the above benefits. However, it decided not to recognise deferred tax assets on such losses due to the uncertainties inherent to research and development activities and, thus, the group's ability to achieve future taxable profits.

Movements in deferred tax balances

A breakdown of deferred tax assets and liabilities at 30 September 2020, along with the changes therein, is provided below (balances exclusively derived from the IFRS transition entries):

(€'000)	Carrying amount at 1 January 2020	Utilisation	Accrual	Exchange effect	Carrying amount at 30 September 2020
Deferred tax assets					
Contract liabilities with customers	2,107	(672)		2	1,437
Intangible assets	1	-	-	-	1
Property, plant and equipment	-	-	-	-	-
Right-of-use assets	-	-	5	(1)	4
IAS 19 reserve (recognised in OCI)	8	(3)	-	-	5
Total deferred tax assets	**2,115**	**(675)**	**5**	**1**	**1,446**
Deferred tax liabilities					
Other financial assets	142	(85)	-	-	57
Intangible assets	178	(8)	-	2	172
Total deferred tax liabilities	**320**	**(93)**	**-**	**2**	**229**

The 2019 tax returns of the parent and the Swiss subsidiary Philochem AG have not yet been filed; however, the estimated unused tax losses for 2019 amount to roughly €6 million and €1.3 million, respectively.

Uncertainties over income tax treatments

At 30 September 2020, there are no tax claims with the tax authority, which might generate uncertainties over income tax treatment.

9 Earnings per share

Basic earnings per share are calculated using the profit for the period attributable to the ordinary shareholders and the weighted average number of ordinary shares outstanding during the first nine months of 2020 and 2019.

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

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

Basic and diluted earnings per share	**Period ended 30 September**	
	2020	**2019 unaudited**
Profit (loss) for the period – (in thousands of Euros) (A)	(11,769)	454
Weighted average number of ordinary shares outstanding (B)	35,550,000	39,317,766
Weighted average number of potential dilutive ordinary shares outstanding (C)	1,000,000	457,875
Weighted average number of options to shares outstanding (D)	-	-
Weighted average number of shares outstanding adjusted for dilutive effects (E=B+C+D)	36,550,000	39,775,641
Basic earnings (loss) per share - in Euros (A/B*1000)	(0.33)	0.01
Diluted earnings (loss) per share - in Euros (A/E*1000) (*)	(0.33)	0.01

(C) The number of potential dilutive ordinary shares outstanding at 30 September 2020 and 2019 amounts to 1,000,000, because each performance share, class 1 share and class 2 share can be converted into ordinary shares at a rate of 6 ordinary shares for each special or performance share upon the occurrence of certain events described in note n. 19 ("Class 1 and 2 special shares and performance shares"). The weighted average number of potential ordinary shares for the period ended 30 September 2019, amounted to 457,875, has been calculated considering the days between the date of the share capital increase (28 May 2019) and 30 September 2019, hence 125 days out of 273.

(D) Potential ordinary shares resolved by the shareholders on 28 April 2020 for the incentive plan. The average market value of the Group's shares for the purpose of calculating the dilutive effect of share options was estimated applying the treasury share method (prescribed by IAS 33, para 45-46).

(*) The diluted loss per share for the first nine months of 2020 was calculated without considering the instruments in items (C) and (D) due to the loss for the period.

Assets

10 Property, plant and equipment

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

(€'000)	Plant and machinery	Industrial and commercial equipment	Leasehold improvements	Other assets	Assets under construction and payments on account	Total
Historical cost	1,699	5,436	61	665	616	8,476
Accumulated depreciation	(1,270)	(4,440)	(5)	(513)	-	(6,228)
Carrying amount at 1 January 2020	**429**	**995**	**56**	**152**	**616**	**2,248**
Increases	314	425	12	17	1.141	1,909
Reclassifications	573	-	-	-	(573)	-
(Decreases)	-	-	-	-	-	-
Depreciation	(99)	(235)	(5)	(41)	-	(380)
Exchange effect	(9)	3	-	-	9	3
Historical cost	2,576	5,863	73	683	1,193	10,389
Accumulated depreciation	(1,369)	(4,675)	(10)	(554)	-	(6,608)
Carrying amount at 30 September 2020	**1,207**	**1,188**	**63**	**129**	**1,193**	**3,781**

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

Industrial and commercial equipment mainly refer to the fitting out of the Montarioso production facilities.

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

Assets under construction and payments on account mostly refer to amounts paid to build a new GMP plant, along with the reactivation and revamping of current research and development laboratories and the quality control of the Rosia property.

The group invested a total of €1,909 thousand in property, plant and equipment in the first nine months of 2020; specifically:

- €314 thousand in plant and machinery, related to the fitting out of the laboratories at the Swiss operating office;
- €425 thousand in industrial equipment, mainly for the facility under construction at the Rosia property in Italy;
- €1,141 thousand in assets under construction and payments on account, mostly to build the new GMP plant.

In addition, €553 thousand was reclassified from assets under construction and payments on account to plant and machinery during the first nine months of 2020 as such assets had been completed and rolled out in the group's production process.

11 Intangible assets

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

(€'000)	Industrial patents and intellectual property rights	Concessions, licences, trademarks and similar rights	Total
Historical cost	2,275	115	2,390
Accumulated amortisation	(1,344)	(111)	(1,455)
Carrying amount at 1 January 2020	**931**	**4**	**935**
Increases	130	3	133
(Decreases)	-	-	-
Amortisation	(175)	(2)	(176)
Exchange effect	1	-	1
Historical cost	2,406	118	2,524
Accumulated amortisation	(1,519)	(113)	(1,632)
Carrying amount at 30 September 2020	**887**	**5**	**892**

At 30 September 2020, the group has roughly 47 groups of international patents and over 100 domestic patents. The €130 thousand increase during the period refers to costs incurred by the group to file patent requests for new tumour applications and to file them in specific countries around the world to acquire the exclusive right to use the inventions in such countries.

Concessions, licences and trademarks mostly refer to software licences.

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

12 Right-of-use assets and lease liabilities

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

(€'000)	Buildings	Cars	IT services	Total
Historical cost	11,221	100	43	11,363
Accumulated depreciation/amortisation	(310)	(30)	(37)	(378)
Carrying amount at 1 January 2020	**10,910**	**70**	**6**	**10,985**
Increases	-	-	-	-
(Decreases)	-	-	-	-
Depreciation/amortisation	(545)	(25)	(6)	(576)
Exchange effect	15	-	-	15
Historical cost	11,236	100	43	11,379
Accumulated depreciation/amortisation	(855)	(55)	(43)	(954)
Carrying amount at 30 September 2020	**10,381**	**45**	**-**	**10,425**

The right-of-use assets recognised at 30 September 2020 mostly refer to the lease of three buildings used by the group to manage its operating activities. Specifically, the group rolled out an operational and structural restructuring project in 2019 aimed at separating its property unit from its operating unit. It simultaneously signed leases which led to the recognition of right-of-use assets and lease liabilities in accordance with IFRS 16.

A breakdown of changes in lease liabilities during the period is provided below:

(€'000)	
Lease liabilities at 1 January 2020	**12,627**
Increases	-
Decreases	-
Repayment of principal	(515)
Exchange effect	24
Lease liabilities at 30 September 2020	**12,135**
Of which: current	701
Of which: non-current	11,434

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

(€'000)	Period ended 30 September	
	2020	2019 unaudited
Principal (buildings)	494	135
Interest expense on leases (buildings)	269	109
Principal (cars)	19	38
Interest expense on leases (cars)	1	1
Principal (IT services)	-	13
Interest expense on leases (IT services)	-	0
Total cash outflows for leases	**783**	**296**

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 30 September 2020.

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 property, plant and equipment, intangible assets or right-of-use assets were impaired. Therefore, no impairment tests were carried out.

13 Inventories

This caption is broken down as follows:

(€'000)	30 September 2020	31 December 2019
Raw materials and consumables	634	617
Total inventories	**634**	**617**

Raw materials and consumables comprise inventories measured at the lower of purchase cost and the market value. Inventories of €634 thousand at 30 September 2020 are essentially in line with 31 December 2019.

14 Trade receivables

This caption is broken down as follows:

(€'000)	30 September 2020	31 December 2019
Trade receivables	13	1,199
Total trade receivables	**13**	**1,199**

Trade receivables amount to €13 thousand at 30 September 2020, down €1,186 thousand on 31 December 2019 in line with the fall in revenue from contracts. Such decrease is due to the fact that at 30 September 2020 the group had collected almost all of its trade receivables, while at 31 December 2019 some items were still pending and were collected in early 2020.

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

Breakdown of current receivables by geographical segment

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

(€'000)	Geographical segment				
	Italy	European Union	Non-EU (USA)	Non-EU (other)	Total
Total trade receivables at 31 December 2019	34	32	963	169	1,199
Total trade receivables at 30 September 2020	-	13	-	-	13

15 Tax assets and liabilities

Tax assets are broken down as follows:

(€'000)	30 September 2020	31 December 2019
R&D tax assets	1,540	1,946
VAT assets	835	707
Other tax assets	260	293
Total tax assets	**2,635**	**2,946**

R&D tax assets refer to tax relief on research and development expenditure. The decrease is mainly due to such asset being used to offset other tax liabilities.

Other tax assets mainly include withholding taxes.

Tax liabilities are broken down as follows:

(€'000)	30 September 2020	31 December 2019
Current income taxes	-	158
Amounts due to the tax authorities for withholdings	115	170
Other tax liabilities	194	4
Total tax liabilities	**309**	**332**

Tax liabilities amount to €309 thousand at 30 September 2020 and €332 thousand at 31 December 2019.

Current income taxes show a nil balance at 30 September 2020, down from €158 thousand at 31 December 2019 as the parent has estimated zero current income taxes for the period.

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

16 Other current financial assets

Changes in other current financial assets are detailed as follows:

(€'000)	Other current financial assets
Carrying amount at 1 January 2020	**70,962**
Increases	1,247
(Decreases)	(16,489)
Net fair value losses	(1,622)
Variation in accrued income on coupons	(52)
Carrying amount at 30 September 2020	**54,047**

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)	**30 September 2020**	**31 December 2019**
Financial instruments held to collect and sell		
Shares	1,807	960
Investment funds	4,620	4,738
Insurance investment products	40,663	51,470
Total	**47,091**	**57,168**
Other financial instruments		
Bonds	6,876	13,662
Accrued income on coupons	80	132
Total	**6,956**	**13,794**
Total other current financial assets	**54,047**	**70,962**

Regarding the Insurance investment products, amounted to €40,663 thousands at 30 September 2020 (€51,470 thousands at 31 December 2019), the Group has two investment contracts with two different insurance companies. Philogen S.p.A. is the contractor and the only one beneficiary.

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

- A segregated fund, which consists of a life insurance investment product with redemption value depending on the return on segregated fund. Management invests resources mainly in the following asset classes: government bonds and other securities; equity instruments and fund units;
- A dedicated internal fund, which can invest in shares, corporate bonds, government bonds, investment funds and cash and cash equivalents. As at 30 September 2020, the dedicated internal fund is divided as follows: 7% in government bonds, 10% in corporate bonds; 8% in shares, 71% in investment funds and 4% 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 amounts to roughly €54,047 thousand at 30 September 2020, down on 31 December 2019 due to:

- redemption of a portion of the liquidity invested in insurance investment products amounting to approximately €10 million;
- sale of a portion of the securities portfolio for roughly €5 million;
- repayment of part of the bonds totalling €1.5 million;
- investment in new financial instruments for €1.2 million.

Some securities in portfolio had a market value lower than their carrying amount at 30 September 2020. Therefore, net fair value losses of roughly €1,622 thousand were recognised.

17 Other current assets

This caption is broken down as follows:

(€'000)	30 September 2020	31 December 2019
Other	613	581
Other current assets	155	109
Total other current assets	**768**	**690**

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

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

18 Cash and cash equivalents

A breakdown of this caption is provided below:

(€'000)	30 September 2020	31 December 2019
Bank and postal accounts	7,648	3,562
Cash-in-hand and cash equivalents	2	2
Total cash and cash equivalents	**7,650**	**3,564**

Cash and cash equivalents amount to €7,650 thousand at 30 September 2020 (€3,564 thousand at 31 December 2019) and mainly comprise bank and postal accounts.

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

Reference should be made to the statement of cash flows for further details on changes in cash flows during the period.

Net financial indebtedness

A breakdown of the net financial position at 30 September 2020 and 31 December 2019 is provided below as required by Consob resolution no. DEM/6064293 of 28 July 2006:

(€'000)	30 September 2020	31 December 2019
(A) Cash	2	2
(B) Cash equivalent	7,647	3,561
(C) Trading securities	54,047	70,962
(D) Liquidity (A)+(B)+(C)	**61,696**	**74,525**
(E) Current financial receivable	**-**	**-**
(F) Current Bank debt	5	18
(G) Current portion of non-current debt	473	500
(H) Other current financial debt	701	668
(I) Current Financial Debt (F)+(G)+(H)	**1,179**	**1,186**
(J) Net Current Financial Indebtedness (I)-(E)-(D)	**(60,517)**	**(73,340)**
(K) Non-current Bank loans	472	682
(L) Bonds issued	-	-
(M) Other non-current loans	11,434	11,959
(N) Non-current Financial Indebtedness (K)+(L)+(M)	**11,906**	**12,641**
(O) Net Financial Indebtedness (J)+(N)	**(48,611)**	**(60,699)**

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

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

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

Equity and liabilities

19 Equity

The statement of changes in equity for the nine months ended 30 September 2020 is included among the financial schedules.

A. Share capital

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

The total number of shares at 30 September 2020 and 31 December 2019 is as follows:

	Total number of shares outstanding at	
Share class	**30 September 2020**	**31 December 2019**
Ordinary shares	6,807,245	6,807,245
Class 1 special shares	100,000	100,000
Class 2 special shares	50,000	50,000
Performance shares	50,000	50,000
Loyalty shares	11,368,250	11,368,250
Class A ordinary shares	7,861,251	7,861,251
Class B ordinary shares	9,313,254	9,313,254
Total	**35,550,000**	**35,550,000**

The parent has not issued bonus shares.

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

Ordinary shares

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

Class 1 and 2 special shares and performance shares

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

(a) performance shares do not grant voting rights in ordinary and extraordinary shareholders' meetings and can only be held by a party who holds 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 ordinary shares

Class A and B ordinary 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	30 September 2020	31 December 2019
Share capital	Equity-related		5,158	5,158
Share premium reserve	Equity-related	A, B, C	54,918	54,918
Legal reserve	Income-related	A, B	892	850
FTA IFRS reserve	Income-related	A, B	(1,265)	(1,265)
Goodwill	Equity-related	A, B	50	50
Actuarial reserve	Income-related	A, B	(13)	(23)
Translation reserve	Income-related	A, B	1,140	1,086
Share-based payment reserve	Income-related	A, B	514	-
Retained earnings (losses carried forward) (*)	Income-related	A, B, C	(3,784)	8,029
Equity			**57,610**	**68,803**

(*) Includes the profit (loss) for the period/year.

Key:

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

C. *Dividends*

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

(€'000)	30 September 2020	31 December 2019
Dividends	-	21,878

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

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

D. *Demerger of business unit*

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

E. *Incentive plan with share-based payment*

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

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

The incentive plan represents an equity-settled share-based arrangement in accordance with IFRS 2. Personnel expenses of €514 thousand were recognised for the first nine months of 2020 in relation to the plan with a balancing entry in the specific equity reserve.

Reference should be made to note 3 "Transactions during the period" and note 26 "Share-based payments" 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.

20 Employee benefits

This caption includes all the pension obligations, other post-employment benefits or benefits due upon specific requirements being met. It comprises accrual for post-employment benefits related to the parent's employees. These liabilities amount to €806 thousand at 30 September 2020 (€803 thousand at 31 December 2019). Variations during the nine months ended 30 September 2020 and the year ended 31 December 2019 are as follows:

(€'000)	30 September 2020	31 December 2019
Opening balance	804	676
Utilisations	(61)	(21)
Post-employment benefits	72	85
Financial expense	4	10
Actuarial gains (losses)	(13)	53
Total employee benefits	**806**	**803**

The provisions are an estimate of the obligation, determined using actuarial methods, regarding the amount to be paid to employees upon termination of their employment. At 30 September 2020 and 31 December 2019, the provisions refer to post-employment benefits ("TFR") accrued for employees.

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

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

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

Economic assumptions	30 September 2020	31 December 2019
Annual inflation rate	1.20%	1.20%
Annual discount rate	0.59%	0.77%
Annual TFR growth rate	2.40%	2.40%

Annual rate of turnover and TFR advances paid	30 September 2020	31 December 2019
Rate of advances paid	2.00%	2.00%
Turnover rate	10.00%	10.00%

Demographic assumptions	30 September 2020	31 December 2019
Death	RG48 mortality tables published by the State General Accounting Office	RG48 mortality tables published by the State General Accounting Office
Disability	INPS (Italian Social Security Institution) tables by age and gender	INPS 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

21 Current and non-current financial liabilities

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

(€'000)	Financial liabilities
Financial liabilities at 1 January 2020	**1,200**
New loans and borrowings	-
Repayment of principal	(250)
Exchange effect	-
Financial liabilities at 30 September 2020	**950**
Of which: current	478
Of which: non-current	472

Financial liabilities mainly comprise the parent's subsidised loan at a rate of 1.70% as per the Sabatini Law amounting to €945 thousand at 30 September 2020 and €1,181 thousand at 31 December 2019. The decrease is due to the repayment of principal during the first nine months of 2020.

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

22 Trade payables

Trade payables amount €3,701 thousand at 30 September 2020 (€3,281 thousand at 31 December 2019) and mostly refer to amounts due to hospitals where clinical trials are performed, as well as amounts due to other suppliers and consumables.

Breakdown of payables by geographical segment

(€'000)	Geographical segment				
	Italy	European Union	Non-EU (USA)	Non-EU (other)	Total trade payables
Total trade payables at 31 December 2019	1,064	1,318	681	219	**3,281**
Total trade payables at 30 September 2020	1,242	1,980	281	197	**3,701**

23 Contract liabilities

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

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

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

(€'000)	30 September 2020	31 December 2019
Advances from customers	10,707	11,774
Revenue recognised on advances received	(5,546)	(3,984)
Net contract liabilities	**5,161**	**7,790**

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

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

24 Other current liabilities

This caption is broken down as follows:

(€'000)	30 September 2020	31 December 2019
Social security institutions	173	399
Accrued expenses and deferred income	12	37
Other	1,204	669
Total other current liabilities	**1,389**	**1,105**

Amounts due to social security institutions refer to INPS and INAIL for withholdings due amounting to €399 thousand at 31 December 2019 and €173 thousand at 30 September 2020.

Other, amounting to €669 thousand at 31 December 2019 and €1,204 thousand at 30 September 2020, mainly refers to:

- amounts due to employees for remuneration to be paid amounting to €744 thousand, up approximately €174 thousand on 31 December 2019 due to the increase in personnel expenses (linked the rise in the average number of employees);
- advances on research grants, amounting to roughly €321 thousand (nil balance at 31 December 2019), collected during the first nine months of 2020;
- sundry amounts due of €139 thousand (€69 thousand at 31 December 2019).

Other information

25 Commitments

There are no commitments that have not been presented in the statement of financial position at 30 September 2020 or 31 December 2019.

26 Share-based payments

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

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

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 options vest 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 options vested for each year completed.

If the options 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 right will vest immediately for the entire amount and 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.

The incentive plan represents an equity-settled share-based arrangement in accordance with IFRS 2. Personnel expenses of €514 thousand were recognised for the first nine months of 2020 in relation to the plan with a balancing entry in the specific equity reserve.

The terms and conditions of the plan are set out below. All options are settled via physical delivery of shares.

Assignment of options to the director (*)	Number of options (*)	Vesting conditions	Contractual term of the options (*)
At the date of approval of the financial statements at 31 December 2019	142,200	Work service	5 years
At the date of approval of the financial statements at 31 December 2020	142,200	Work service	4-5 years
At the date of approval of the financial statements at 31 December 2021	142,200	Work service	3 years
Total	**426,600**		

(*) See details provided above on the acceleration right.

The following data were used in measuring the fair value at the assignment date of the share-based payment:

(in Euros)	Share-based incentive plan
Fair value at the assignment date	627,059
Share price at the assignment date	n/a
Exercise price	12.658
Expected volatility (expressed as weighted average volatility)	60%
IPO acceleration probability	100%
Right term (expressed as weighted average term)	3 years
Expected dividends	-

The expected volatility was estimated by assessing the historical volatility of the share prices of comparable listed companies, especially over a period similar to the estimated term.

27 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 practice and good clinical practice. 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 condensed consolidated interim 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) ***Credit rating bracket***	**30 September 2020**	**31 December 2019**
AAA / AA-	940	2,746
A+/ A-	-	1,005

BBB+/ BBB-	3,619	5,234
BB+/ B-	201	1,109
Lower than B-	33	274
Unrated	2,163	3,295
Total debt instruments	**6,956**	**13,662**
Total other securities	47,091	57,300
Total assets measured at fair value	**54,047**	**70,962**

(*) Rating source: Standard&Poor's

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

Trends in the breakdown of the group's portfolio by rating class over the nine months ended 30 September 2020 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 30 September 2020 by due date is as follows:

(€'000)	30 September 2020				
	Within 90 days	**From 90 days to 1 year**	**From 1 to 5 years**	**After 5 years**	**Total**
Lease liabilities	174	527	2,408	9,026	**12,135**
Financial liabilities	242	236	473	-	**950**
Trade payables	3,701	-	-	-	**3,701**
Total	**4,117**	**763**	**2,880**	**9,026**	**16,786**

(€'000)	30 September 2020				
	Within 90 days	**From 90 days to 1 year**	**From 1 to 5 years**	**After 5 years**	**Total**
Trade receivables	13	-	-	-	**13**
Total	**13**	-	-	-	**13**

Furthermore, the group has a financial portfolio totalling €50,047 thousand at 30 September 2020 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) ***Maturity bracket***	**30 September 2020**	**31 December 2019**
1 year	122	2,055
2 years	1,519	2,390
3-5 years	2,168	5,777
6-10 years	1,526	1,981
11-20 years	463	374
21-30 years	-	103
Over 30 years	-	-
Perpetual	1,158	982
Total debt instruments	**6,956**	**13,662**

Total other securities	47,091	57,300
Total assets measured at fair value	**54,047**	**70,962**

(*) 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**	**Amount at 30 September 2020**
1 year	116	6	122
2 years	1,519	-	1,519
3-5 years	2,037	131	2,168
6-10 years	1,242	284	1,526
11-20 years	362	101	463
21-30 years	-	-	-
Over 30 years	-	-	-
Perpetual	407	751	1,158
Total debt instruments	**5,682**	**1,274**	**6,956**
Total other securities			**47,091**
Total assets measured at fair value			**54,047**

(€'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	**9,274**	**1,163**	**3,225**	**13,662**
Total other securities				57,300
Total assets measured at fair value				**70,962**

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 period 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 for the first nine months of 2020 and 2019 amounted to 85.2% and 92.1%, 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)	30 September 2020	31 December 2019
EUR	51,821	63,345
GBP	-	-
RUB	-	393
USD	2,143	7,113
TRY	82	111
Total	**54,047**	**70,962**

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 current financial assets. It based its investment decisions on monitoring and advice from the relevant office of the banks where its securities are deposited. The group is regularly provided with information about the issuers' solvency, the country risk and market changes in order that it may take any necessary remedial action.

Based on the method set out in note 16 "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.

28 Financial instruments

Categories of financial assets and liabilities

A breakdown of financial assets and liabilities at 30 September 2020 by category, in accordance with IFRS 9, is provided below:

(€'000)	30 September 2020	31 December 2019
Financial assets:		
Financial assets at amortised cost		
Trade receivables	13	1,199
Current financial assets	-	-
Cash and cash equivalents	7,650	3,564
Other current assets	768	690
Financial assets at fair value		
Current financial assets	54,047	70,962
Non-current financial assets	-	-
Total financial assets	**62,477**	**76,415**
Financial liabilities:		
Financial liabilities at amortised cost		
Non-current financial liabilities	472	682
Non-current lease liabilities	11,434	11,959
Current financial liabilities	478	518
Current lease liabilities	701	668
Trade payables	3,701	3,281
Other current liabilities	1,389	1,105
Total financial liabilities	**18,175**	**18,213**

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

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

Disclosure on fair value

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

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

(€'000)	30 September 2020			
	Level 1	**Level 2**	**Level 3**	**Total**
Current financial assets at fair value through Profit or Loss	13,384	40,663	-	**54,047**
Total assets measured at fair value	**13,384**	**40,663**	**-**	**54,047**

(€'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**

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. 16 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 period, there were no transfers among the different levels of the fair value hierarchy.

29 Related parties

Related party transactions, as defined by IAS 24, at 30 September 2020 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. Transactions with other related parties mostly refers to the lease of buildings from Rendo S.r.l. and Rendo AG, both controlled by shareholders of the parent. The relevant right-of-use assets and lease liabilities amount to €10,293 thousand and €12,013 thousand, respectively, at 30 September 2020. Such items are measured using the methods set out in IFRS 16.

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

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

The group received administrative, tax and financial consultancy services from the Neri-Tanini Consulting S.r.l. during the period. It paid €12 thousand in the first nine months of 2020 for administrative consultancy and company domiciliation services and roughly €8 thousand for services provided by Mr. Tanini as 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 Consulting S.r.l. at 30 September 2020; however, he sold the shares of such company during November 2020. All transactions were carried out on an arm's length basis.

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

Period ended 30 September 2020

(€'000)	Related party						
	Rendo S.r.l.	Rendo AG	Neri-Tanini Consulting S.r.l.	Directors and the scientific committee	Board of statutory auditors	Total	% of financial statements caption
Statement of financial position							
Right-of-use assets	7,338	2,955	-	-	-	**10,293**	99%
Current lease liabilities	452	208	-	-	-	**660**	94%
Non-current lease liabilities	6,979	4,374	-	-	-	**11,353**	99%
Trade payables	-	-	10	25	12	**47**	1%
Statement of profit or loss							
Amortisation and depreciation	400	132	-	-	-	**532**	47%
Service costs	-	-	20	836	39	**895**	17%
Personnel expenses	-	-	-	514	-	**514**	9%
Financial expense	157	111	-	-	-	**268**	12%

Year ended 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**	2%

Period ended 30 September 2019 (unaudited)

(€'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 profit or loss							
Other income (gains)	-	1,462	-	-	-	**1,462**	83%
Amortisation and depreciation	133	-	-	-	-	**133**	19%
Service costs	-	-	8	1,291	39	**1,338**	25%
Financial expense	109	-	-	-	-	**109**	36%

Fees paid to directors, statutory auditors and the scientific committee

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

i) Board of directors

(€'000)	30 September 2020	30 September 2019 unaudited
Duccio Neri - Chairman	210	287
Dario Neri - Director	24	114
Giovanni Neri - Director	150	137
Sergio Gianfranco Luigi Maria Dompé - Director	23	23
Roberto Marsella - Director	24	13
Nathalie Francesca Maria Dompé - Director	23	23
Leopoldo Zambeletti Pedrotti	23	23
Roberto Ferraresi	24	13
Guido Guidi	24	13

Other directors	77	75
Total fees	**602**	**721**
Leopoldo Zambeletti Pedrotti – strategic consultancies	-	376
Share-based payments	514	-
Total	**1,116**	**1,097**

ii) Board of statutory auditors

(€'000)	**30 September 2020**	**30 September 2019 unaudited**
Stefano Mecacci - Chairman	17	17
Pierluigi Matteoni - Standing statutory auditor	11	11
Marco Tanini - Standing statutory auditor	11	11
Board of statutory auditors' fees	**39**	**39**

iii) Scientific committee

(€'000)	**30 September 2020**	**30 September 2019 unaudited**
Dario Neri - Chairman	168	183
Guido Guidi	45	11
Mr. Berdel	12	-
Cornelia Halin	9	-
Scientific committee's fees	**234**	**194**

Management and coordination activities

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

30 Events after the reporting period

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

31 Basis of presentation

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

32 Main accounting policies

Basis of preparation

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

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

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 period 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 non-controlling interests;
- 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 incentive 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 balances at the reporting date. Cash flows in foreign currencies are translated at the average exchange rate for the period.

Basis of consolidation

The condensed consolidated interim 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 method 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 condensed consolidated interim 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 among financial expense.

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

Exchange rates (CHF/EUR)	2020	2019
Spot exchange rate at 30 September/31 December (for translating assets and liabilities)	1.0804	1.0847
Average exchange rate for the first nine months (for translating costs and revenue)	1.0678	1.1182

Changes to standards, interpretations and amendments

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

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

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

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

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

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

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

This new standard did not have any impact on the condensed consolidated interim financial statements as the group did not benefit from any rent concessions at 30 September 2020.

Amendments to references to the conceptual framework in IFRS Standards

The IASB published the Conceptual framework in March 2018 which provides a comprehensive set of concepts for financial reporting, defining standards and providing assistance in developing consistent accounting policies and in understanding and interpreting standards. It includes some new concepts, provides updated definitions and recognition criteria for assets

and liabilities and clarifies certain important concepts. Such amendments did not have any impact on the condensed consolidated interim financial statements at 30 September 2020.

Amendments to IFRS 3 – Definition of a business

The IASB issued amendments to the definition of a business in IFRS 3 - Business combinations to help companies determine whether an acquired set of assets and liabilities is a business or not. They clarify the minimum requirements to meet the definition of a business, remove the assessment of whether market participants are capable of replacing any missing elements, introduce guidance to help determine whether a substantive process has been acquired, and narrow the definition of a business. New illustrative examples are provided along with the amendments. Such amendments did not have any impact on the condensed consolidated interim financial statements at 30 September 2020.

Amendments to IAS 1 and IAS 8

In October 2018, the IASB issued amendments to IAS 1 - Presentation of financial statements and IAS 8 - Accounting policies, changes in accounting estimates and errors to clarify the definition of "material" and to align the definition used in the standards. The new definition states that "Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity". The amendments clarify that materiality depends on the nature or magnitude of information, or both. An entity assesses whether information, either individually or in combination with other information, is material in the context of its financial statements taken as a whole. Such amendments did not have any impact on the condensed consolidated interim financial statements at 30 September 2020.

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

In September 2019, the IASB issued amendments to IFRS 9, IAS 39 and IFRS 7 - Financial instruments: disclosures, which concluded phase 1 of its work on the effects of the reform of interbank offered rates (IBOR) on financial reporting. The amendments provide temporary changes that allow hedge accounting during the period of uncertainty, replacing the pre-existing interest rate benchmark with a risk-free interest rate. The amendments assume that the interest rate benchmark on which hedged cash flows and/or the hedging instrument are based is not altered as a result of IBOR reform. The amendments shall be applied retrospectively and are effective for annual periods beginning on or after 1 January 2020. The group will monitor developments in the amendments being reformed. Such amendments did not have any impact on the condensed consolidated interim financial statements at 30 September 2020 as the group does not have any interest rate hedges.

Revenue from contracts with customers

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

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

(i) identify the contract with a customer;
(ii) identify the performance obligations (i.e., the promises to transfer goods or services to a customer) in the contract;
(iii) determine the transaction price;
(iv) allocate the transaction price to the performance obligations in the contract on the basis of the relative stand-alone selling prices of each distinct good or service;
(v) recognise revenue when (or as) the entity satisfies a performance obligation.

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

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

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

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

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

— the contract requires, or the customer reasonably expects, that the group will undertake activities that significantly affect the intellectual property to which the customer has rights;
— those activities do not result in the transfer of a good or a service to the customer as those activities occur;
— the rights granted by the licence directly expose the customer to any positive or negative effects of the group's activities with regard to its intellectual property.

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

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

Type of consideration	**Recognition**
Upfront fees	Fees received before the contract is signed. If referred to granting a licence, they are recognised: — at a point in time, if they provide the right to use the group's intellectual property; — over time, if they provide the right to access the group's intellectual property. If there are no specific goods/services transferred to the customer upon collection of the upfront fee, this fee is an advance payment and is recognised as revenue over time when the performance obligations are satisfied. Invoices are generated when the contract is signed (at point in time). Such invoices are usually payable within 30 days. No discounts are provided.
Commercial option fees	If the licence is distinct from other performance obligations, it is recognised as the right to use the group's intellectual property and the relevant revenue is recognised at a point in time when the right is granted. If the licence is not distinct from other performance obligations, this fee is an advance payment and is recognised as revenue over time when the performance obligations are satisfied. Invoices are generated when the Group receives the notification by the customer related to the exercise of the commercial option (at point in time). Such invoices are usually payable within 30 days. No discounts are provided.
Milestones	These are a variable consideration subject to achieving specific significant objectives in the product development (e.g., beginning Phase 3 clinical trials). Upon signing the contract, management assesses whether achieving the milestones is highly probable and estimates the amount to be included in the transaction price as the most likely amount. If it is probable that there will not be a significant reversal in the amount of revenue recognised, the milestone amount is included in the transaction price. Consideration susceptible to factors outside the group's influence and that typically depend on obligations to be satisfied by the counterparty (e.g., approval of the product by regulatory authorities or reaching research phases carried out by the customer) is

	not considered highly probable until it is certain that the milestone will be reached (e.g., communication from the customer or regulatory authorities). At the end of each period, 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 flows from 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; 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 period 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 period attributable to the ordinary shareholders and the weighted average number of ordinary shares outstanding during the period.

Diluted earnings per share are calculated using the profit for the period attributable to the ordinary shareholders and the weighted average number of ordinary shares outstanding during the period to take into consideration the effects of all potential dilutive ordinary shares. The calculation of the dilutive effect of potentially ordinary shares was based on the Treasury Shares Method prescribed by IAS 33 para 45-46.

Property, plant and equipment

i) *Recognition and measurement*

Items of property, plant and equipment are measured at cost, which includes capitalised borrowing costs, less accumulated depreciation and any accumulated impairment losses.

If significant parts of an item of property, plant and equipment have different useful lives, then they are accounted for as separate items (major components) of property, plant and equipment.

Any gain or loss on disposal of an item of property, plant and equipment is recognised within "Other income" and "Other operating costs", respectively.

ii) *Subsequent expenditure*

Subsequent expenditure is capitalised only if it is probable that the future economic benefits associated with the expenditure will flow to the group.

iii) *Depreciation*

Depreciation is calculated to write off the cost of items of property, plant and equipment less their estimated residual values using the straight-line method over their estimated useful lives, and is generally recognised within "Amortization and depreciation". Land is not depreciated.

The estimated useful lives for current and comparative periods are as follows:

Category	*Rate*
Buildings	3%
Plant and machinery	20%
Automatic machinery	20%
Industrial and commercial equipment	15%
Cars	25%
Furniture and fittings	12%
Leasehold improvements	8%

Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

Intangible assets

i) *Recognition and measurement*

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 on initial recognition only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognised in profit or loss as incurred.

iii) *Amortisation*

Amortisation is recognised in profit or loss using the straight-line method over their estimated useful lives from when the asset is available for use.

The estimated useful lives for current and comparative periods are as follows:

Category	Average rate
Industrial patents and intellectual property rights	5%
Concessions, licences, trademarks and similar rights	10%

Amortisation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

Right-of-use assets

At inception of a contract, the group determines whether the contract is, or contains, a lease. A contract is, or contains, a lease if it conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The group uses the definition of a lease as per IFRS 16 in assessing whether a contract conveys the right to the control the use of an identified asset.

At inception of a contract or modification of a contract that contains a lease component, the group allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price.

At the commencement date of a lease, the group recognises a right-of-use asset and a lease liability. The right-of-use asset is initially measured at cost, comprising the amount of the initial measurement of the lease liability, adjusted by any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset or restoring the underlying asset or the site on which it is located, less any lease incentives received.

The group depreciates or amortises the right-of-use asset on a straight-line basis from the commencement date to the end of the lease term, unless the lease transfers ownership of the underlying asset to the group by the end of the lease term or if the cost of the right-of-use asset reflects that the group will exercise a purchase option. In such case the group depreciates or amortises the right-of-use asset along the useful life of the underlying asset, determined as for plant and machinery. Moreover, the right-of-use asset is regularly reduced by any impairment losses and adjusted to reflect any variations deriving from the subsequent measurement of the lease liability.

The group measures the lease liability at the present value of the lease payments that are not paid at the commencement date, discounting them using the interest rate implicit in the lease. If that rate cannot be readily determined, the group uses the incremental borrowing rate. Generally, the group uses the incremental borrowing rate as the discount rate.

The group's incremental borrowing rate is calculated on the basis of the interest rates obtained from various source of financing, making adjustments that reflect the lease terms and type of leased asset.

The lease payments included in the measurement of the lease liability comprise:

- fixed payments (including in-substance fixed payments);
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under residual value guarantees; and
- the exercise price of a purchase option if the group is reasonably certain to exercise that option, optional lease payments if the group is reasonably certain to exercise the option to extend the lease, and payments of penalties for terminating the lease, unless the group is reasonably certain that it will not terminate the lease.

The lease liability is measured at amortised cost using the effective interest method and remeasured if there is a change in future lease payments resulting from a change in an index or a rate, a change in the amounts expected to be payable under a residual value guarantee, a change in the assessment of whether to exercise a purchase, extension or termination option, or to reflect revised in-substance fixed lease payments.

A lessee shall recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. If the carrying amount of the right-of-use asset is reduced to zero, a lessee shall recognise any remaining amount of the remeasurement in profit or loss.

The group applied IFRS 16 using the modified retrospective approach at 1 January 2017.

Short-term leases and leases of low-value assets

The group decided not to recognise right-of-use assets and lease liabilities for short-term leases or leases of low-value assets, including IT equipment. It recognised the relevant lease payments as a cost on a straight-line basis over the term of the lease.

Leaseback

If an entity transfers an asset to another entity and leases that asset back, it shall determine, based on the provisions of IFRS 15, if the transfer should be accounted for as a sale. In this case, the seller-lessee shall measure the right-of-use asset arising from the leaseback at the proportion of the previous carrying amount of the asset that relates to the right of use retained by the seller-lessee. Accordingly, the seller-lessee shall recognise only the amount of any gain or loss that relates to the rights transferred to the buyer-lessor. If the fair value of the consideration for the sale of an asset does not equal the fair value of the asset, or if the payments for the lease are not at market rates, an entity shall make the following adjustments to measure the sale proceeds at fair value: (i) any below-market terms shall be accounted for as a prepayment

of lease payments; and (ii) any above-market terms shall be accounted for as additional financing provided by the buyer-lessor to the seller-lessee.

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 par 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 net gains and losses, including any interest expense, are recognised in profit or loss. Other financial liabilities are subsequently measured at amortised cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognised in profit or loss. Any gain or loss on derecognition is also recognised in profit or loss.

iii) *Derecognition*

Financial assets

The group derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the group neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

The group enters into transactions whereby it transfers assets recognised on its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets. In such cases, the transferred assets are not derecognised.

Financial liabilities

The group derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire. The group also derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different. In this case, a new financial liability based on the modified terms is recognised at fair value.

The difference between the carrying amount of the financial liability extinguished and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognised in profit or loss.

iv) Offsetting

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the group currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

Impairment losses

i) Financial instruments and contract assets

The group shall recognise a loss allowance for expected credit losses on:

- financial assets at amortised cost;
- debt instruments at FVOCI; and
- contract assets.

Moreover, the group recognises a loss allowance for lifetime expected credit losses on lease receivables under trade receivables and other assets.

The group measures the loss allowance at an amount equal to lifetime expected credit losses, with the exception of that set out below, for the next 12 months:

- debt instruments with a low credit risk at the reporting date; and
- other debt instruments or bank current accounts if the credit risk (i.e., the risk of a default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition.

Loss allowances for trade receivables (including lease receivables) and contract assets are always measured at an amount equal to lifetime expected credit losses.

To establish whether there has been a significant increase in the credit risk of a financial asset since initial recognition for the purpose of estimating the expected credit losses, the group considers all reasonable and supportable information that is available without undue cost or effort. This includes quantitative and qualitative information, past due information as well as forward-looking information.

Lifetime expected credit losses are the expected credit losses that result from all possible default events over the expected life of a financial instrument.

The 12-month expected credit losses are the expected credit losses that result from default events on a financial instrument that are possible within the 12 months after the reporting date (or a shorter period if the expected life of a financial instrument is less than 12 months).

The maximum period to consider when measuring expected credit losses is the maximum contractual period over which the group is exposed to credit risk.

Measurement of expected credit losses

Expected credit losses are a probability-weighted estimate of credit losses. They are the present value of all cash shortfalls (i.e., the difference between the cash flows that are due to an entity in accordance with the contract and the cash flows that the entity expects to receive).

Expected credit losses are discounted using the effective interest method.

Non-financial assets

At each reporting date, the group reviews the carrying amounts of its non-financial assets (other than investment property, inventories, contract assets and deferred tax assets) to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

Share capital
In accordance with IAS 32, the ordinary shares and other shares issued by the parent are classified as equity instruments.

Incremental costs directly attributable to the issue of ordinary shares are recognised as a deduction from equity. Income tax relating to transaction costs of an equity transaction is accounted for in accordance with IAS 12.

Provisions

Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised under financial expense.

Employee benefits

Starting from 1 January 2007, the 2007 Finance Act and relevant implementing decrees introduced significant amendments to regulations on post-employment benefits (TFR). Employees now choose whether to allocate their TFR to supplementary pension funds or the INPS treasury fund. As a result, obligations to INPS and supplementary pension fund contributions qualify as defined contribution plans under IAS 19, while the portions allocated to TFR remain defined benefit plans.

The group's net obligation in respect of defined benefit plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in the current and prior periods, discounting that amount and deducting the fair value of any plan assets.

The calculation of defined benefit obligations is performed annually by a qualified actuary using the projected unit credit method. When the calculation results in a potential asset for the group, the recognised asset is limited to the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. To calculate the present value of economic benefits, consideration is given to any applicable minimum funding requirements.

Remeasurements of the net defined benefit liability, which comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest), are recognised immediately in OCI. The group determines the net interest expense (income) on the net defined benefit liability (asset) for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the then-net defined benefit liability (asset), taking into account any changes in the net defined benefit liability (asset) during the period

as a result of contributions and benefit payments. Net interest expense and other expenses related to defined benefit plans are recognised in profit or loss.

When the benefits of a plan are changed or when a plan is curtailed, the resulting change in benefit that relates to past service or the gain or loss on curtailment is recognised immediately in profit or loss when the settlement or curtailment occurs.

Share-based payments

The assignment-date fair value of equity-settled share-based payment arrangements granted to employees is generally recognised as an expense, with a corresponding increase in equity, over the vesting period of the awards. The amount recognised as an expense is adjusted to reflect the number of awards for which the related service and non-market performance conditions are expected to be met, such that the amount ultimately recognised is based on the number of awards that meet the related service and non-market performance conditions at the vesting date. For share-based payment awards with non-vesting conditions, the assignment-date fair value of the share-based payment is measured to reflect such conditions and there is no true-up for differences between expected and actual outcomes.

The fair value of the amount payable to employees in respect of stock appreciation rights, which are settled in cash, is recognised as an expense with a corresponding increase in liabilities, over the period during which the employees become unconditionally entitled to payment. The liability is remeasured at each reporting date and at settlement date based on the fair value of the stock appreciation rights. Any changes in the liability are recognised in profit or loss.

Fair value measurement

A number of the group's accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities. When measuring the fair value of an asset or a liability, the group uses observable market data as far as possible. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

- *Level 1:* quoted prices (unadjusted) in active markets for identical assets or liabilities.
- *Level 2:* inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices).
- *Level 3:* inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the group has access at that date. The fair value of a liability reflects its non-performance 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 2021 for which early application is permitted starting from 1 January 2020 but not mandatory. However, the group has not adopted them early in preparing these condensed consolidated interim financial statements.

Effective date	New standards or amendments
1 January 2021	IFRS 17 - Insurance contracts
1 January 2022	Classification of liabilities as current or non-current (Amendments to IAS 1)
Early adoption permitted/effective date postponed indefinitely	Sale or contribution of assets between an investor and its associate or joint venture (Amendments to IFRS 10 and IAS 28)

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