

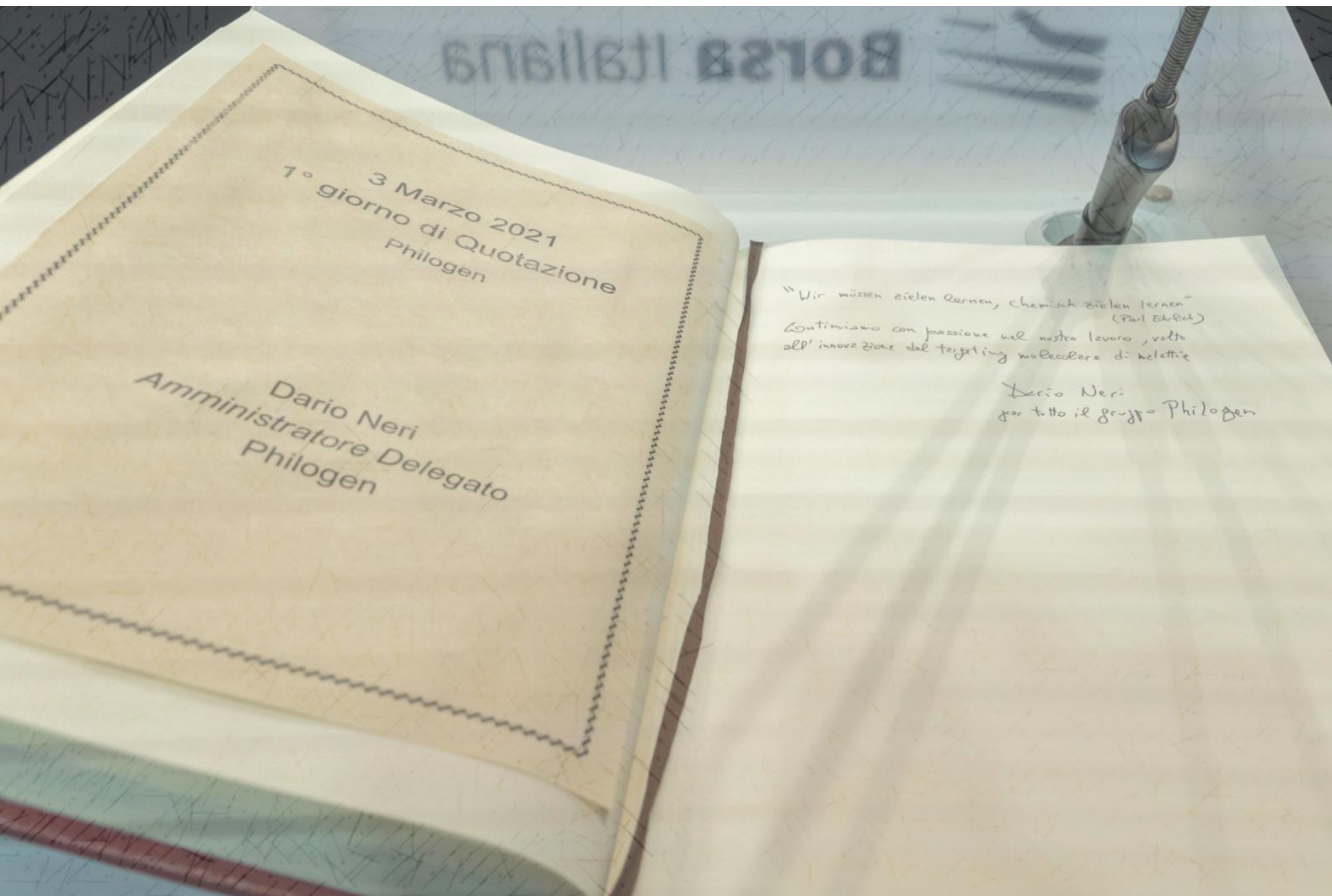
Philogen

innovating targeting



Half Year Report 2021

as of 30.06.2021



"Wir müssen zielen lernen, chemisch zielen lernen."

"We have to learn to aim, learn to aim chemically." (Paul Ehrlich)

*We continue with passion in our work,
aimed at innovation in the molecular targeting of diseases.*

Dario Neri

For the Philogen Group
(3 March 2021, 1st day of trading)

Index

Group data and information for Shareholders	5
Corporate bodies	6
Philogen: introduction to the Group	7
The story	7
Group Strategy	7
The Group's Pipeline	8
Intellectual Property	8
Interim report on operations at 30 June 2021	10
Foreword	11
1. Group information	11
2. Significant events during the first half of 2021	11
2.1 Summary of development and GMP activities carried out in the first half of 2021	11
2.2 Reverse merger with Palio Ordinarie S.p.A.	12
2.3 Admission to MTA listing	13
2.4 Remuneration policy	14
2.5 Impact of Covid-19	15
3. Group financial results	15
3.1 Profit and Loss Account	15
3.2 Balance Sheet	17
3.3 Alternative Performance Indicators	18
4. Research and development activities	20
5. Organisation, management and control model pursuant to Legislative Decree 231/2001	21
6. Information on corporate governance and ownership structure	21
7. Management and coordination activities	21
8. Main risks and uncertainties	21
8.1 Risks associated with external factors	21
8.2 Strategic risks	22
8.3 Financial risks	22
9. Personnel information	24
10. Secondary offices	24
11. Own shares	24
12. Significant events subsequent to the period ended 30 June 2021	25
12.1 Purchase of Philogen S.p.A. shares	25
12.2 Lock-up period	25
12.3 MBO and Stock Grant Plan 2024-2026	25
13. Foreseeable evolution of operations	26
Half-year condensed consolidated financial statements at 30 June 2021	27
Consolidated income statement	28

Consolidated statement of comprehensive income	29
Consolidated statement of financial position	30
Statement of changes in consolidated shareholders' equity.....	31
Consolidated cash flow statement	32
Notes to the condensed interim consolidated financial statements	33
Preparation criteria	33
1. Foreword.....	33
2. Entity drawing up the condensed interim consolidated financial statements.....	33
3. Drafting criteria	33
4. Sector information.....	35
Profit and Loss Account.....	35
5. Revenues and income	35
6. Operating costs.....	36
7. Financial income and expenses	38
8. Taxes	39
9. Earnings per share	40
Assets.....	40
10. Property, plant and equipment.....	40
11. Intangible assets.....	41
12. Right-of-use assets and lease liabilities.....	42
13. Inventories	43
14. Contract assets and liabilities	43
15. Trade receivables	44
16. Tax receivables and payables	44
17. Other current financial assets.....	45
18. Other current assets	46
19. Cash and cash equivalents.....	47
Equity and liabilities	47
20. Shareholders' equity	47
21. Employee benefits	48
22. Current and non-current financial liabilities.....	49
23. Trade payables	50
24. Other current liabilities	51
More information	51
25. Commitments.....	51
26. Disclosure of financial risks	52
27. Information on financial instruments	55
28. Related parties.....	56
Accounting principles.....	59
29. Evaluation criteria	59

30.	Main accounting principles	59
-----	----------------------------------	----

Group data and information for Shareholders

Philogen S.p.A

Registered office: Piazza La Lizza n.7, 53100 Siena

Secondary locations:

Local unit n.SI/2 Via Montarioso n.11, Loc. Monteriggioni, 53035 Siena

Local unit n.SI/5 Loc. Bellaria n.35, Sovicille, 53018 Siena

Business Register of Arezzo-Siena:

VAT number/C.F 00893990523

REA SI-98772

Share Capital: Euro 5,731,226.64 fully paid-up

Italian Stock Exchange symbol: PHIL

Ordinary ISIN: IT0005373789

ISIN multiple vote: IT0005373821

LEI code: 81560009EA1577917768

Shares: n. 40,611,111

Philochem AG

Headquarters: Libernstrasse 3, 8112 Otelfingen, Switzerland

Commercial Register: No. CH-020.3.030.226-7

VAT no.: MWST-Nr/VAT-REG:CHE-113181.443

Share capital: CHF 5,051,000

Investor Relations

E-mail: IR@philogen.com - Dr. Emanuele Puca, PhD

Corporate bodies

Board of Directors

The Board of Directors in its current composition will remain in office until the approval of the financial statements at 31 December 2021.

- Executive Chairman* Dr. Duccio Neri
- Chief Executive Officer* Prof. Dario Neri
- Managing Director* Dr. Giovanni Neri
- Director Dr. Sergio Gianfranco Dompé
- Director Dr. Nathalie Dompé
- Director Dr. Leopoldo Zambelletti
- Director ** Dr. Roberto Marsella
- Director ** Dr. Roberto Ferraresi
- Director Dr. Guido Guidi
- Director*** Avv. Marta Bavasso

(*) Executive Director.

(**) Independent Director pursuant to article 147-ter, paragraph 4 of the Consolidated Finance Act and article 2 of the Corporate Governance Code.

(***) Lead Independent director.

Board of Statutory Auditors

- | | |
|---------------------|-----------------------------|
| • Chairman | Dr. Stefano Mecacci |
| • Standing Auditor | Mr. Pierluigi Matteoni |
| • Standing Auditor | Dott.ssa Alessandra Pinzuti |
| • Alternate auditor | Mr. Roberto Bonini |
| • Alternate auditor | Dr. Maria Angela Fantini |

Auditing Company

KPMG S.p.A.

Manager responsible for preparing the company's financial reports

Dr. Laura Baldi, Chief Financial Officer.

Supervisory Board

The monocratic Supervisory Board, appointed by resolution of the Board of Directors, on May 13, 2019, for the three-year period 2019-2021, is composed of Dr. Marco Tanini.

Audit, Risk and Sustainability Committee*

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

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

Remuneration and Appointments Committee

- Marta Bavasso (Chairman)
- Roberto Marsella
- Leopoldo Zambelletti

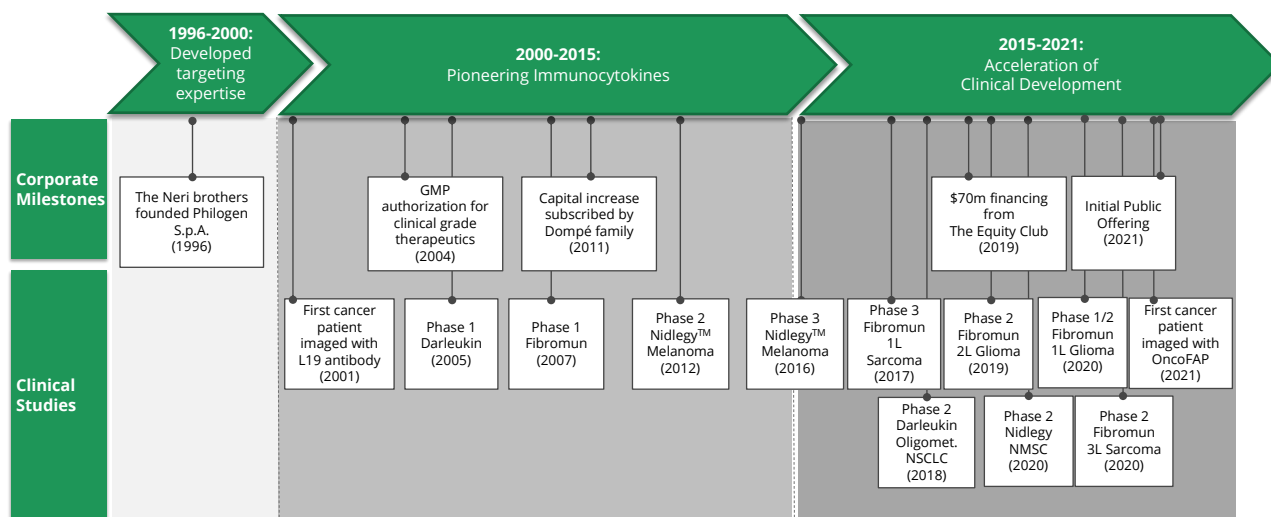
Philogen: introduction to the Group

The story

Philogen ("the Group" or "the Company"), listed on the Mercato Telematico Azionario ("MTA") managed by Borsa Italiana (Reuters: PHIL), is an Italian-Swiss company established in 1996 and active in the biotechnology sector, specialized in the research and development of drugs for the treatment of highly lethal diseases. In particular, the Group is a leader in the identification of ligands (human monoclonal antibodies and small organic molecules) with high affinity for tumor antigens (i.e. proteins expressed in tumors, but not in healthy tissues). These ligands are mainly used with the aim of delivering an active ingredient (e.g. cytokines, radionuclides, cytotoxics) selectively to the diseased area. The Group's focus is primarily related to the development of oncology drugs, although the company has also brought products for the treatment of chronic inflammatory diseases into the clinic.

In recent years, Philogen has consolidated and expanded its Pipeline, both by bringing new drugs into the clinic and by initiating experimental studies in new indications with products already in development. At the date of this Report, the Group has a diversified Pipeline thanks to the execution of numerous Phase II and III registration studies. In particular, Nidlegly™ and Fibromun are the subject of international Phase III clinical trials.

The Group leases a research and development facility in Zurich (through the subsidiary "Philochem"), where new drugs are generated. The most promising prototypes (i.e., in terms of biochemical characteristics, safety and efficacy on the basis of preclinical tumor models) are subsequently transferred to Siena where they are produced at the Company's GMP (Good Manufacturing Practice) facilities. Philogen has a GMP plant in Montarioso (Siena) approved by the Italian Medicines Agency (AIFA) for the production of experimental, antibody-based drugs in mammalian cells. Structural work on the second GMP production facility at the Rosia (Siena) site was completed on schedule in line with the industrial plan. This will make it possible to strengthen the Group's industrial structure and be ready for the transition from Biotech Company (i.e., a company that develops experimental drugs but has not yet reached the marketing stage) to Product Company (or Branded Company, i.e., a company that sells its drugs on the market). The figure below illustrates the three phases of Philogen's history from 1996 to 30 June 2021, with the respective industrial achievements.



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

Group Strategy

Philogen is a Biotech company with a strong vertical integration, as it covers all phases of drug development, including research, GMP manufacturing and clinical development. In addition to the research site in Zurich and the GMP site in Montarioso (SI), the Group has started the construction of a third plant in Rosia (SI) which will allow the carrying out of, among other things, the manufacturing activity in the service of possible future product commercialization.

The Group's Pipeline

The Group's product portfolio consists of (i) antibody-based products and small organic molecules that are in various stages of clinical development, and (ii) various preclinical programs that are critical to the Company's continued innovation in the future.

Except for Dodekin, Dekavil, and ABBV-022, all other products are proprietary to the Group.

	Product	Indication	Preclinical	Phase I	Phase II	Phase III
Antibody-based Therapeutics	Nidlegly™	Stage III B,C Melanoma (EU) Stage III B,C Melanoma (US) Stage IV Melanoma Nonmelanoma Skin Cancer (BCC/SCC)			Start 2021	
	Fibromun + doxorubicin	Soft-Tissue Sarcoma (1 st line, EU)				
	+ doxorubicin	Leiomyosarcoma (1 st line, US)				
	+ dacarbazine	Soft-Tissue Sarcoma (pretreated)				
	single agent	Glioma (recurrent)				
	+ lomustine	Glioma (recurrent)				
	+ radiation + temozolomide	Glioma (1 st line)				
	Darleukin + radiation ¹	Non-Small Cell Lung Cancer				
	Dodekin ²	Various solid tumors				
	Dekavil ²	Chronic inflammation				
Small Molecules	ABBV-022 ²	Chronic inflammation				
	Tripokin	Various solid tumors		Start 2022		
	Onco IX (PHC-102) ³	Renal Cell Carcinoma				
	OncoFAP ⁴	Various solid tumors				

1 EU project: ImmunoSABR (Multi-center study); 2 Partnered Program; 3 Partly sponsored by Eurostars (Project: I9669 - ATRI; Partner: Medical University of Vienna, Austria); 4 The product is currently being used for compassionate treatment in patients before moving to a sponsored study

Intellectual Property

We protect the results of our research and development activities through an extensive international portfolio of patents for inventions for industrial use and pending patent applications, and have established an established patent position in the field of vascular *targeting*.

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

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

We own or have exclusively licensed more than one hundred national patents filed in various countries.

Our patents primarily include: (i) "vascular target" patents, relating to certain ligands with affinity for *markers of* angiogenesis in certain indications; (ii) "technology" patents relating to key enabling technologies used in the Group's activities; (iii) "product" patents, i.e., patents relating to product candidates for preclinical and clinical development and their constituent elements; and (iv) "combination" patents relating to the combination of patented product candidates with off-patent therapeutic agents.

Patent Portfolio

In order to provide a better understanding of the intellectual property held by the company, an outline of the patents or patent applications that are in the name of the parent company or for which it holds an exclusive license, is provided below.

Philogen S.p.A.:

Country	Patents granted/ Applications accepted	Patent applications
Algeria	-	1
Argentina	-	1
Australia	11	6
Brazil	3	2
Canada	12	4
Chile	-	1
China	4	2
Colombia	-	1
Costa Rica	-	1
Cuba	-	1
Ecuador	-	1
Egypt	-	1
United Arab Emirates	-	1
Eurasia	4	1
Europe	19	9
Guatemala	-	1
Hong Kong	8	4
India	3	1
Indonesia	1	1
Iran	-	1
Iraq	-	1
Israel	1	1
Japan	13	1
Jordan	-	1
Lebanon	-	1
Malaysia	1	1
Mexico	8	2
New Zealand	2	2
Gulf countries (GCC)	-	1
Pakistan	1	-
Panama	-	1
Peru	1	1
Philippines	-	1
Russia	4	2
Singapore	1	1
South Africa	3	1
South Korea	8	1
Taiwan	1	1
Thailand	-	1
United States of America	36	7
Uruguay	-	1
Venezuela	-	1
Vietnam	-	1
Patent Cooperation Treaty (PCT)	-	4

Philochem AG:

Country	Patents granted/ Applications accepted	Patent applications
Australia	4	1
Canada	4	1
Europe	6	3
Hong Kong	1	1
Mexico	1	-
United States of America	8	2
Patent Cooperation Treaty (PCT)	-	1



Interim report on operations at 30 June 2021

Foreword

Dear Shareholders,

the Interim Management Report of Philogen ("Philogen" or the "Group") is presented to accompany the condensed consolidated financial statements for the six months ended 30 June 2021.

This Interim Report on Operations is intended to provide information on the Group's income statement, balance sheet, financial position and operations, accompanied, where possible, by historical data and/or alternative performance indicators, and has been prepared in accordance with the provisions of Article 2428 of the Italian Civil Code and Legislative Decree no. 58 of 24 February 1998 ("Consolidated Finance Act" or "TUF").

The half-yearly financial report at 30 June 2021 has been prepared in accordance with international accounting standard IAS 34 - Interim Financial Reporting.

Instead, reference should be made to the notes to the financial statements for all information relating to the condensed consolidated financial statements for the six months ended 30 June 2021.

1. Group information

The Group focuses its activities on the development of drugs based mainly on antibody conjugates, capable of achieving selective accumulation at the sites where the disease is present.

This is made possible through a scientific approach known as "vascular targeting", of which the company is one of the recognized scientific leaders.

In this context, the Group carries out internally all the phases of its production cycle, which includes the discovery of new drugs, and the production and coordination of preclinical and clinical studies at its headquarters in Siena and at the site near Zurich (Switzerland), where the subsidiary Philochem AG is based.

Since 2019, the Group has focused its development activities mainly on the two most advanced products, that is, Fibromun and Nidlegly™, undertaking a path of registration trials for the two drugs, but at the same time it has redesigned a competitive pipeline in order to opportunistically evaluate perspective licensing agreements for the other prototypes/products in its pipeline.

It should be noted that the Parent Company, pursuant to article 1, paragraph 1, letter w)-quater.1 of the TUF, is considered an "SME".

2. Significant events during the first half of 2021

The principal factors which have affected the Group's financial position in respect of the period ended 30 June 2021, are set out below.

2.1 Summary of development and GMP activities carried out in the first half of 2021

The Group reports the following key industrial milestones achieved during the first half of 2021:

Proprietary products

- Nidlegly™ is a proprietary Philogen pharmaceutical product consisting of two active ingredients: L19-IL2 and L19-TNF. The L19 antibody is specific for the B domain of Fibronectin, a protein expressed in tumors (and other diseases), but absent in most healthy tissues. Interleukin 2 (IL2) and Tumor Necrosis Factor (TNF) are inflammatory cytokines with anti-tumor activities:
 - Expected completion of Nidlegly™ clinical trials is in line with the business plan;
 - Enrolled 168 patients as of June 30, 2021 in the European Phase III study for the treatment of locoregional melanoma;

- Signed a contract with a Contract Research Organization to open up to 38 clinical centers to add to the U.S. Phase III study of Nidlegly™ in melanoma;
- Promising clinical data ten months after treatment initiation obtained with Nidlegly™ in patients with non-melanoma skin cancer.
- Fibromun is a pharmaceutical product, proprietary to Philogen, consisting of the L19 antibody fused to TNF:
 - Expected completion of Fibromun clinical trials is in line with the business plan;
 - Opening of new clinical centers, with the aim of accelerating enrollment, for studies in soft tissue sarcoma;
 - Objective response observed in the Run-in portion of the European Phase II study in soft tissue sarcoma with at least two recurrences (i.e., ≥ third line of treatment). The objective of the Run-in phase is to confirm the tolerability of the drug and to monitor early signs of efficacy in a limited number of patients. The historical objective response rate for this population is 4.3% (Garcia-del-Muro et al., J Clin Oncol 2011, 29,2528). In this setting, Fibromun is administered in combination with Dacarbazine.
 - Completed a Parallel Scientific Advice (PSA) with the European Medicines Agency and the US Food and Drug Administration in June 2021. The development plan for the treatment of glioblastoma and the proposed strategy for marketing authorisation have been discussed and agreed with the relevant authorities. Philogen will follow the recommendations that were provided during the PSA;
 - Promising interim survival benefits observed in the European Phase I/II trial, in which Fibromun is being studied as monotherapy for the treatment of WHO grade III-IV wildtype IDH glioma at first relapse. Data on Progression Free Survival at six months after initiation of treatment are nearing completion, while data on Overall Survival will be consolidated by the end of 2021;
 - Objective response observed in the first patient treated in the European Phase I/II study, in which Fibromun is combined with lomustine for the treatment of glioblastoma at first relapse. The historical overall response rate for this patient population is 4.3% (Wick et al., J Clin Oncol 2010, 28,1168).
- OncoFAP is a small organic molecule, proprietary to Philogen, with high affinity for Fibroblast Activation Protein (FAP). The product has the ability to selectively localize in a variety of metastatic solid tumors:
 - Excellent targeting capabilities of OncoFAP in patients with various tumor types. Clinicians at the Department of Nuclear Medicine of the University Hospital Münster have used OncoFAP radiomacate (OncoFAP-68Ga) to detect neoplastic lesions of both primary and metastatic origin. Of note is the low absorption in healthy organs (including kidneys) after only 1h after intravenous administration of the drug. Imaging confirmed the excellent properties of OncoFAP observed in preclinical models;
 - Several international Phase II clinical trials are planned with the aim of studying OncoFAP-68Ga (diagnostic agent) and OncoFAP-68Ga (diagnostic and therapeutic agent) in a larger number of patients with different types of cancer. These studies will provide an indication as to which tumor(s) will be used in the clinical trials.

Licensed products

- Continue partnerships on Dodekin (Confidential Partner) and Dekavil (Pfizer);
- ABBV-022 is a product generated by Philogen and licensed to AbbVie. The drug consists of the cytokine interleukin 22 fused to a monoclonal antibody;
 - Initiation of a phase I clinical trial for the treatment of ulcerative colitis.

GMP

- The structural work on the second GMP production plant at the Philogen site in Rosia (Siena) was completed on schedule in line with the business plan. The new plant was designed to comply with the highest regulatory standards for the production of therapeutic protein-based drugs and will be used for the production of commercial pharmaceuticals and pharmaceuticals for clinical trials. It should be noted that the Company already has a production site in Montarioso which is authorized by AIFA solely for the production of experimental drugs for clinical trials;
- The Group carried out activities related to contract manufacturing with DKFZ and UZH. In addition, a new contract manufacturing agreement was signed at the end of 2020 with DKFZ for a new antibody product. The latter activity started in the first half of 2021.

2.2 Reverse merger with Palio Ordinarie S.p.A.

Palio Ordinarie S.p.A. (hereinafter also "Palio Ordinarie") was a special purpose vehicle, incorporated on April 4, 2019, for the purpose of assuming, holding and disposing of interests in the share capital of Philogen S.p.A., so as to support, with its capital and managerial capabilities, the Company's related research and scientific consulting activities. The

shareholders of Palio Ordinarie consisted of 139 shareholders identified as (i) individuals, (ii) partnerships and (iii) corporations.

In accordance with the investment agreement signed by Philogen S.p.A. and Palio Ordinary S.p.A. and aimed at regulating the rights and obligations between the parties during the period between the date of subscription and the date of listing on the market, the deed of merger by incorporation of Palio Ordinarie into Philogen S.p.A. was signed on 8 January 2021, in accordance with the merger plan filed with the CCIAA of Siena (as regards Philogen) and the CCIAA of Milan (as regards Palio Ordinarie) in December 2020. The merger became effective on January 12, 2021, while the accounting and tax effects of the merger run from January 01, 2021.

The incorporation of the vehicle Palio Ordinarie into Philogen S.p.A. helped to generate free float to service the Company's listing process.

For greater clarity, a breakdown of Palio Ordinarie's merged assets and liabilities as of January 1, 2021 is provided below:

<i>Figures in thousands of Euro</i>	<i>Merger assets and liabilities</i>
ACTIVITIES	
Fixed assets	61.964
Intangible fixed assets	21
Financial fixed assets	61.943
Current assets	560
Cash and cash equivalents	560
Total assets	62.524
PASSIVITY	
Shareholders' equity	62.363
Share capital	62.920
Retained earnings (losses)	(67)
Operating loss	(490)
Debts	159
Current payables	159
Accruals and deferrals	2
Total liabilities	62.524

2.3 Admission to MTA listing

The global subscription offer for the Company's ordinary shares reserved for institutional investors, aimed at listing on the Mercato Telematico Azionario (MTA), which is organized and managed by Borsa Italiana S.p.A., was successfully concluded on March 3, 2021.

Institutional demand came from leading Italian and foreign investors, with a wide geographical diversification, including the United Kingdom (14%), the United States of America (11%), Italy (49%) and Continental Europe (26%).

On the basis of the requests received in the context of the institutional placement, 4,467,222 shares were allotted, and in particular (i) 4,061,111 Shares deriving from a capital increase with exclusion of option rights corresponding to approximately 10% of the Company's share capital post capital increase; and (ii) 406,111 shares underlying the overallotment option granted on loan by the shareholders Nerbio S.r.l. and Dompé Holdings S.r.l. to the *joint global coordinators* (Goldman Sachs International, Mediobanca and Stifel Europe Bank AG), corresponding to an additional 1% of the share capital of Philogen, post capital increase. During the placement phase the newly issued shares were, therefore, fully subscribed including the *greenshoe* (subsequently not exercised) equal to 10% of the newly issued shares.

The offer price of the shares was set at Euro 17 per share.

On the basis of the offer price, the capitalisation of the Company, at the date of the start of trading, was approximately Euro 690 million, including all the ordinary shares (29,242,861) and class B multiple-vote shares (11,368,250).

Market capitalisation, on the other hand, at the start of trading, was approximately Euro 497 thousand, taking into account only listed ordinary shares.

Following the admission to listing and the coming into force of the new Company By-Laws, the share categories are divided into (i) ordinary shares and (ii) class B multiple voting shares. Only the ordinary shares are listed on the Borsa Italiana stock exchange, while the class B multiple voting shares are not listed and therefore do not contribute to the Stock Exchange capitalization of the Company.

The free float of about 29% required by the MTA market (standard segment) was achieved through the issue of new ordinary shares for about 10% and for the remaining part by the reverse merger with the vehicle Palio Ordinarie S.p.A. and through the ordinary shares of minority shareholders (Matthias Winter, Palio Speciali S.r.l. and MRS S.r.l.).

Details of the shareholding structure at the start of trading are given below:

Shareholder	At the start of trading			
	Type of Actions	Actions	% of share capital	% of voting rights
Nerbio S.r.l.	B shares	8.565.018	21,09%	40,56%
	Ordinary Shares	8.098.251	19,94%	12,78%
	Subtotal	16.663.269	41,03%	53,35%
Dompè Holdings S.r.l.	B shares	2.803.232	6,90%	13,28%
	Ordinary Shares	9.454.254	23,28%	14,92%
	Subtotal	12.257.486	30,18%	28,20%
Market	B shares	-	0,000%	0,000%
	Ordinary Shares	11.690.356	28,79%	18,45%
	Subtotal	11.690.356	28,79%	18,45%
Total		40.611.111	100,00%	100,00%

2.4 Remuneration policy

Following its admission to listing, the Group adopted a remuneration policy in line with the *best practices* applicable to listed companies.

On May 31, 2021, pursuant to Article 123-ter of the TUF, the Shareholders' Meeting, having acknowledged the Report on remuneration policy and compensation paid in fiscal year 2020, approved by the Board of Directors on April 27, 2021, approved the remuneration policy set forth in Section I of the aforementioned Report, and voted favorably on Section II of the Report on remuneration policy and compensation paid.

The Report on Remuneration Policy and Compensation Paid can be found and accessed on the Company's website at <http://www.philogen.com/>.

Monetary incentive plan

Starting from 1 April 2021, the Executive Directors (Dario Neri, Duccio Neri and Giovanni Neri) are beneficiaries of an incentive plan, known as management by objectives ("MBO"), under which they will be entitled to receive an incentive on an annual basis, the amount of which is commensurate with the achievement of corporate performance objectives.

The maximum incidence of the MBO on the annual remuneration will be equal to 30% of the annual remuneration received respectively by Duccio Neri, for the office of Executive Chairman, and likewise by Prof. Dario Neri for the office of Chief Executive Officer (CEO), while up to a maximum of 20% of the annual remuneration received by Giovanni Neri for the office of Managing Director.

Medium/long-term incentive plan

On May 31, 2021, the Company's Ordinary Shareholders' Meeting approved an incentive plan pursuant to Article 114-bis of the Consolidated Law on Financial Intermediation called the "2024-2026 Stock Grant Plan" reserved for Group employees, and granted the Board of Directors all powers necessary or appropriate to implement it. The Shareholders' Meeting also resolved to increase the share capital free of charge, on a divisible basis, pursuant to Article 2349 of the Italian Civil Code, within the deadline set by the Shareholders' Meeting. The Shareholders' Meeting also resolved to increase share capital free of charge in one or more tranches, pursuant to Article 2349 of the Italian Civil Code and Article

5, paragraph h, of the Company's by-laws, by a maximum amount of €123,974 thousand, to be charged in full to share capital, by the final date of December 31, 2026, to service the above-mentioned plan, and to set up a specific reserve for the same amount, taken from the retained earnings reserve, called "Reserve for restricted earnings capital increase to service the 2024-2026 Stock Grant Plan", which will remain restricted to service the free share capital increase until the final subscription date.

The features of the 2024-2026 Stock Grant Plan are, set forth in the related disclosure document available and searchable on the Company's website at (<http://www.philogen.com>).

2.5 Impact of Covid-19

The period ended 30 June 2021 continues to be characterised by the Covid-19 epidemic emergency, which has impacted companies, including the Group, by limiting their level of activity.

In compliance with the recommendations of ESMA and Consob, the Group has launched internal analyses aimed at assessing the actual and potential impact of Covid-19 on its business, financial position and economic performance.

Since the start of the pandemic emergency, the Board of Directors of Philogen S.p.A. and the subsidiary Philochem AG have analysed and monitored the implementation and application of the measures adopted in response to the Covid-19 pandemic, in full compliance with the provisions issued from time to time by the competent authorities. Among these, the most significant involved restrictions and controls on the movement of products and people and the organisation of alternating shifts within production facilities and offices, so the Group modified its business management, introducing social distancing plans for employees and reducing physical participation in meetings, events and conferences, in the best interest of employees and strategic partners. These changes have partly affected productivity negatively, reducing resources from product development, slowing down development operations and delaying planned and ongoing clinical trials.

In addition, the initiation of clinical trials, including patient enrollment and engagement of investigators and staff for studies, was delayed in some cases due to the priorities assigned by hospital resources to counter the Covid-19 pandemic. The diversion of health care resources from conducting clinical trials to focus on pandemic-related issues has affected the anticipated timing of clinical trial enrollment, data processing, and trial monitoring, substantially reducing the ability to monitor trials.

In addition, delays in the delivery of raw materials for production, encountered in the first six months of 2021, have led the Group to make advance procurement also with reference to activities in 2022 in order to ensure a continuation of its research and development activities in the near future.

Philogen continues to monitor events very closely in order to take further mitigation measures promptly if necessary. As a result, in April 2021 Philogen adopted a new Anti-Counterfeiting Protocol that incorporates legislative changes introduced at the national level as well as specifically regulating certain business activities, such as the management of travel of particular interest given the resumption of clinical monitoring activities in person and no longer only remotely.

3. Group financial results

3.1 Profit and Loss Account

The following table sets out the Group's consolidated income statement figures for the periods ended 30 June 2021 and 30 June 2020:

Figures in thousands of Euro and as a percentage	At 30 June				Variations	
	2021	%	2020 (*)	%	2021 vs 2020	%
Revenues from contracts with customers	1.548	100,0%	2.308	100,0%	(760)	(32,9)%
Other income	404	26,1%	211	9,1%	193	91,9%
Total Revenues	1.952	126,1%	2.518	109,1%	(567)	(22,5)%
Operating costs (**)	(10.059)	(649,9)%	(8.164)	(353,7)%	(1.895)	23,2%
EBITDA (***)	(8.107)	(523,8)%	(5.646)	(244,6)%	(2.461)	43,6%
Depreciation	(753)	(48,7)%	(706)	(30,6)%	(47)	6,7%
EBIT	(8.860)	(572,4)%	(6.352)	(275,2)%	(2.509)	39,5%

Financial income	1.394	90,0%	1.300	56,3%	93	7,2%
Financial charges	(807)	(52,1)%	(2.928)	(126,9)%	2.121	(72,4)%
Profit before tax	(8.274)	(534,5)%	(7.980)	(345,8)%	(294)	3,7%
Taxes	(379)	(24,5)%	(444)	(19,3)%	65	(14,6)%
Profit (loss) for the period	(8.653)	(559,1)%	(8.424)	(365,0)%	(229)	2,7%

(*) Unaudited data

(**) Operating costs are the sum of the following balance sheet items: purchases of raw materials and consumables, costs for services, costs for use of third party assets, personnel costs and other operating costs.

(***) EBITDA is the operating result before depreciation and amortisation. EBITDA is a measure defined and used by the Group to monitor and evaluate the Group's operating performance, but it is not defined within IFRS. The Company believes that EBITDA is an important parameter for measuring the Group's performance as it allows the analysis of the Group's margins by eliminating the effects deriving from non-recurring economic elements. Since EBITDA is not a measure whose determination is regulated by the accounting standards of reference for the preparation of the consolidated financial statements of the Group, the criterion applied for the determination of EBITDA may not be homogeneous with that adopted by other groups, and therefore may not be comparable.

Revenues from contracts with customers reflect the change in strategy, initiated in 2019, which has led the Group to focus mainly on the clinical development of its most advanced proprietary products (Nidlegly™ and Fibromun) while continuing the development activities under existing contracts. The change compared to the period ended 30 June 2020 shows a decrease in revenues from contracts with customers of approximately € 760 thousand mainly related to the completion of some existing contracts during 2020.

Other income mainly relates to research grants for projects co-financed by the European Community, the Region of Tuscany, Eurostars projects, as well as the contribution of other tax breaks. In the period ended June 30, 2021, they showed an increase of 91.9% compared to the previous period. This change is mainly attributable to the 2021 lease credit, amounting to € 195 thousand, provided for by Decree 73/2021 (so-called "Decreto sostegni Bis") through which new measures were introduced to support the economic system still affected by the economic crisis linked to the Covid-19 pandemic. It should also be noted that the Company, given its primary activity of research and development, benefits from further tax breaks such as the R&D Credit, the Patent Box and the Industry 4.0 credit (for further details see note no. 8 of the condensed interim consolidated financial statements) which can only be recognised at the end of the year once their applicability and cumulability has been verified.

Operating costs, which include costs for production materials, costs for clinical and preclinical services, personnel costs and other operating costs, show an increase of 23.2% compared to the previous period. The change is mainly attributable to:

(i) extraordinary costs related to the listing process amounting to approximately Euro 1,200 thousand, net of IPO costs directly deducted from the share premium reserve amounting to approximately Euro 3,600 thousand in accordance with IAS 32; and

(ii) an increase in personnel costs due to the hiring plan aimed at structuring the workforce of the new GMP facility in Rosia and the strengthening of staff functions in accordance with the new corporate governance code. During the first six months of 2021, 21 new resources were hired.

Consequently, EBITDA decreased by approximately 43.6% compared to 30 June 2020, as a result of the above.

Depreciation and amortization are in line with the previous period.

EBIT, calculated as the difference between EBITDA and depreciation and amortisation, shows a negative balance, due to the reduction in EBITDA described above.

Net financial management ended the first half of 2021 with a positive balance of € 586 thousand compared to the previous period, in which it showed a negative balance of € 1,628 thousand. This reflected the negative trend of the financial markets related to the effects of the Covid-19 pandemic.

Taxes showed a decrease of 14.6% mainly related to lower revenues in the period ended June 30, 2021 compared to the same period last year. The item also includes the reversal of deferred tax effects recognized upon transition to IAS/IFRS.

The Group closed the period with a loss of Euro 8,653 thousand compared to a loss of Euro 8,424 thousand at 30 June 2020.

3.2 Balance Sheet

The table below shows the reclassified statement of financial position of the Group by "Sources and Uses" at 30 June 2021 and 31 December 2020:

<i>Figures in thousands of Euro and as a percentage</i>	At 30 June	At 31 December	Variations	
	2021	2020	2021 vs 2020	%
Employment				
Property, plant and equipment	8.671	5.163	3.508	67,9%
Intangible assets	989	961	28	2,9%
Assets for right of use	10.151	10.288	(137)	(1,3)%
Real estate investments	-	-	-	n.a.
Deferred tax assets	795	1.176	(381)	(32,4)%
Provisions for risks and charges	-	-	-	n.a.
Employee benefits	(882)	(847)	(35)	4,1%
Deferred tax liabilities	(224)	(234)	10	(4,1)%
Net fixed assets (*)	19.500	16.507	2.993	18,1%
Inventories	856	774	81	10,5%
Contractual activities	154	207	(53)	(25,5)%
Trade receivables	130	515	(385)	(74,7)%
Tax receivables	3.548	3.812	(265)	(6,9)%
Other current assets	1.043	635	408	64,3%
Trade payables	(4.067)	(3.920)	(147)	3,8%
Liabilities under contract	(2.763)	(4.155)	1.392	(33,5)%
Tax payables	(246)	(362)	116	(32,1)%
Other current liabilities	(1.447)	(2.578)	1.131	(43,9)%
Net working capital (*)	(2.792)	(5.072)	2.279	(44,9)%
Net invested capital (*)	16.708	11.435	5.273	46,1%
Sources				
Shareholders' equity	112.785	55.673	57.112	102,6%
Net financial debt (*)	(96.077)	(44.238)	(51.839)	117,2%
Total sources	16.708	11.435	5.273	46,1%

(*) Net fixed assets, net working capital, net capital employed and net financial debt are alternative performance indicators that are not identified as accounting measures within the IFRS framework and, therefore, should not be considered as alternative measures to those provided in the Group's financial statements for evaluating the Group's financial position.

An analysis of the balance sheet and financial situation shows that the Group has good liquidity and, in particular, shows a positive net financial debt of Euro 96,077 million with an increase of over 100% compared to the year ended 31 December 2020, thanks also to the capital raised in the IPO process. For an understanding of the changes in net financial debt, please refer to the table below.

Net Financial Indebtedness

Details of the Net Financial Indebtedness at June 30, 2021 and December 31, 2020 are prepared in accordance with the format of Consob Resolution No. DEM/6064293 of July 28, 2006 subsequently amended by ESMA Guideline 32-382-1138 of March 4, 2021 by means of Consob's Attention Reminder No. 5/21:

<i>Figures in thousands of euros</i>	30 June 2021	31 December 2020
Net financial debt		
(A) Cash and cash equivalents	1	2
(B) Cash equivalents	21.505	11.957
(C) Other current financial assets	91.736	49.984
(D) Liquidity (A+B+C)	113.242	61.943
(E) Current financial debt	14	15
(F) Current portion of non-current financial debt	2.018	1.790
(G) Net current financial debt (E+F)	2.033	1.805
(H) NET CURRENT FINANCIAL INDEBTEDNESS (G-D)	(111.209)	(60.138)
(I) Non-current financial debt	15.132	15.899
(J) Debt instruments	-	-
(K) Trade payables and other current payables	-	-
(L) Non-current financial debt (I+J+K)	15.132	15.899
(M) NET FINANCIAL DEBT (H+L)	(96.077)	(44.238)

For the sake of clarity, a reconciliation between the items in the Net Financial Indebtedness table and the Statement of Financial Position is provided below:

- "Cash and cash equivalents" (A) and "Cash equivalents" (B) are classified under "Cash and cash equivalents";
- "Other current financial assets" (C) are classified under "Other current financial assets";
- "Current financial debt" (E) is classified under "Current financial liabilities";
- "Current portion of non-current financial debt" (F) is classified under "Current financial liabilities" and "Current lease liabilities";
- "Non-current financial debt" (I) is classified under "Non-current financial liabilities" and "Non-current lease liabilities".

Net debt at June 30, 2021 consists of:

- Liquidity of Euro 113,242 thousand shows an increase of approximately 83% compared to the year ended 31 December 2020 thanks to the capital raised in the IPO process for Euro 65,404 thousand net of commissions paid to the placement consortium and costs related to the issue of new shares;
- Current and non-current financial indebtedness amounting to Euro 17,165 thousand consisted of Euro 11,851 thousand for the notional debt of the right of use of real estate (IFRS 16), Euro 4,827 thousand for the remaining part of the medium-long term loan stipulated with Ubi Banca S.p.A. in January 2021, in order to finance the expansion project of the Rosia (Siena) site that foresees the construction of a new GMP plant and Euro 487 thousand relating to the facilitated loan deriving from the Sabatini Law.

Existing loans require compliance with certain financial and commercial parameters ("covenants"). The commercial covenants will be tested beginning with the consolidated financial statements for the year ended December 31, 2021 and the financial covenants beginning with the consolidated financial statements for the year ended December 31, 2022 and require compliance with the following ratios:

- ratio of net financial debt to EBITDA equal to or less than 2;
- net equity equal to or greater than Euro 50 million.

Failure to comply with the *covenants* described above does not lead to early repayment of the loans, but only to an increase in the spread component of the interest rate, which will be increased by a further 0.50%.

3.3 Alternative Performance Indicators

In order to assess the Group's performance, management monitors, among other things, the Alternative Asset and Financial Performance Indicators ("APIs").

For a correct interpretation of these APIs, the following should be noted:

- the APIs are based on historical data and are not indicative of the Group's future performance;

- APIs are not measures for which the determination is governed by International Financial Reporting Standards (IFRS);
- APIs should not be considered as a substitute for the indicators provided for by the referenced accounting standards (IFRS);
- these APIs should be read in conjunction with the Group's financial information taken from the condensed interim consolidated financial statements for the six months ended 30 June 2021;
- the definitions of the APIs used by the Group, insofar as they do not derive from the referenced accounting standards, may not be consistent with those adopted by other groups and therefore may not be comparable with them.

Below are the Alternative Economic Performance Indicators identified by the Company:

<i>Figures in thousands of Euro and as a percentage</i>	Period ended 30 June	
	2021	2020
Revenues from contracts with customers	1.548	2.308
EBITDA	(8.107)	(5.646)
EBITDA <i>Margin</i>	(523,8)%	(244,6)%
EBIT	(8.860)	(6.352)

EBITDA is the operating result before depreciation and amortisation. EBITDA is a measure defined and used by the Group to monitor and evaluate the Group's operating performance, but it is not defined within IFRS; therefore, it should not be considered as an alternative measure for evaluating the Group's operating performance. Since EBITDA is not a measure for which the determination is regulated by the accounting standards of reference for the preparation of the consolidated financial statements of the Group, the criterion applied for the determination of EBITDA may not be homogeneous with that adopted by other groups, and therefore may not be comparable.

The table below provides a reconciliation of EBIT and EBITDA to net income (loss) for the period.

<i>Figures in thousands of Euro</i>	Period ended 30 June	
	2021	2020
Profit (loss) for the period	(8.653)	(8.424)
Income taxes	(379)	(444)
Financial income and expenses	586	(1.628)
EBIT	(8.860)	(6.352)
Depreciation	(753)	(706)
EBITDA	(8.107)	(5.646)

The EBITDA *Margin* is calculated as in the table below:

<i>Figures in thousands of Euro and as a percentage</i>	Period ended 30 June	
	2021	2020
Revenues from contracts with customers (A)	1.548	2.308
EBITDA (B)	(8.107)	(5.646)
EBITDA <i>Margin</i> (B/A)	(523,8)%	(244,6)%

Below are the Alternative Asset Performance Indicators identified by the Group:

<i>Figures in thousands of Euro and as a percentage</i>	At 30 June	At 31 December
	2021	2020
Net fixed assets	19.500	16.507
Net working capital	(2.792)	(5.072)
Net invested capital	16.708	11.435
Net financial debt	(96.077)	(44.238)
<i>Financial independence index</i>	80,8%	65,1%
<i>Structure margin</i>	547,3%	316,5%
<i>Liquidity index</i>	1.127,1%	529,5%
<i>Debt ratio</i>	15,2%	31,8%

It should be noted that net fixed assets, net working capital, net capital employed and net financial debt are alternative performance indicators, not identified as an accounting measure within the IFRS framework and, therefore, should not be considered as an alternative measure to those provided by the Group's financial statements for evaluating the Group's financial position.

The table below details the Financial Independence Index:

<i>Figures in thousands of Euro and as a percentage</i>	At 30 June	At 31 December
	2021	2020
Shareholders' equity (A)	112.785	55.673
Total assets (B)	139.579	85.473
Financial independence index (A/B)	80,8%	65,1%

The table below provides details of the Structure Margin:

<i>Figures in thousands of Euro and as a percentage</i>	At 30 June	At 31 December
	2021	2020
Shareholders' equity (A)	112.785	55.673
Non-current assets (B)	20.606	17.588
Structure margin (A/B)	547,3%	316,5%

The table below provides a breakdown of the Liquidity Index:

<i>Figures in thousands of Euro and as a percentage</i>	At 30 June	At 31 December
	2021	2020
Current assets (A)	118.973	67.885
Current liabilities (B)	10.556	12.820
Liquidity ratio (A/B)	1.127,1%	529,5%

The table below provides a breakdown of the Indebtedness Index:

<i>Figures in thousands of Euro and as a percentage</i>	At 30 June	At 31 December
	2021	2020
Financial debt(*) (A)	17.165	17.704
Shareholders' equity (B)	112.785	55.673
Debt ratio (A/B)	15,2%	31,8%

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

The indicators shown in the tables above highlight the Group's solid and liquid financial position.

4. Research and development activities

The Group's activities encompass all stages of the drug development process, including basic research, discovery, preclinical and clinical development and manufacturing activities.

The Group operates through:

- Philogen S.p.A., which manages the GMP laboratories in Siena and directs the creation and coordination of numerous clinical trial centres at an international level;
- Philochem AG, a 99.998%-owned subsidiary of Philogen S.p.A., which carries out research and development in the fields of selective discovery and therapeutic antibodies, as well as in the development of technologies such as antibody libraries and DNA-encoded chemical libraries, at its laboratories near Zurich.

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

The following table shows the research and development costs recognised in profit or loss during the periods ended 30 June 2021 and 30 June 2020 and their impact on the Group's total revenue from contracts with customers and total operating costs.

Figures in thousands of Euro and as a percentage	Period ended 30 June	
	2021	2020(*)
Research and development costs	5.770	5.553
Incidence on total contract revenues	372,8%	240,6%
Incidence on total operating costs	57,4%	68,8%

(*) unaudited data

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

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

In order to define with clarity and transparency the set of values that inspire it to achieve its institutional objectives, Philogen S.p.A. has adopted a Model of organization, management and control in accordance with Legislative Decree 231/2001, which has been updated from time to time to incorporate the evolution of the applicable regulations (the "Model").

Philogen S.p.A. has decided to adopt the Model in the conviction that, beyond the prescriptions contained in Legislative Decree 231/2001, the same can constitute a valid instrument for sensitizing all of the Company's employees and all those who operate in the name and on behalf of the Company or who have relations with the latter (i.e.: clients, suppliers, partners, collaborators in various ways), so that they may behave correctly and consistently in carrying out their activities, such as to prevent the risk of committing the crimes foreseen by Legislative Decree 231/2001.

The Company is planning to revise the Model in order to update it with regulatory changes and recent changes to the organisational structure that have an impact on the Model itself. The current version of the Model and the Code of Ethics are available on the Company's website (<http://www.philogen.com/>).

6. Information on corporate governance and ownership structure

Philogen S.p.A. adheres to the Self-Governance Code of listed Italian companies, adapting it to its own characteristics.

In order to comply with the transparency obligations provided for by sector regulations, the "Report on corporate governance and ownership structure" was prepared, as required by article 123-bis of the Consolidated Finance Act, containing a general description of the governance system adopted by Philogen S.p.A., in addition to information on the ownership structure, the organizational model adopted pursuant to Legislative Decree no. 231 of 2001, as well as the degree of adherence to the Corporate Governance Code, including the main governance practices applied and the characteristics of the risk management and internal control system in relation to the financial reporting process.

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

7. Management and coordination activities

Pursuant to paragraph 5, Article 2497-bis of the Italian Civil Code, it is hereby disclosed that the Group is not subject to management and coordination by other companies.

8. Main risks and uncertainties

The following is a more detailed analysis of the information as specifically required by Article 2428 of the Italian Civil Code.

The mapping and management of business risks is an activity constantly carried out by the Group in order to define in terms of probability and impact all aspects that, in some way, may hinder the achievement of corporate objectives. A distinction is made between operational risks, if linked to company processes and activities, and financial risks, if linked to the financial area.

8.1 Risks associated with external factors

Risks associated with products in clinical development

The Group's future revenues are heavily dependent on the continued successful development of its product candidates and, in particular, its products that are in Phase III trials, which are Nidlegly™ and Fibromun, for which the Group assumes completion of patient enrolment for Phase III by mid-2022 and late 2023, respectively. However, there can be no assurance that these clinical trials will be completed within these timeframes or that ongoing and future advanced clinical trials will be successful and, therefore, that the product candidates will be eligible for marketing approval.

Risks associated with changes and non-compliance with sector regulations

When conducting clinical trials on compounds, the Group must comply with the relevant national and international regulations in force, including, in particular, the Good Manufacturing Practice (GMP) and Good Clinical Practice (GCP) guidelines. Any changes to the current regulatory framework could result in a lengthening of the time required to produce the compounds and/or to conduct clinical trials on them and an increase in costs, with consequent negative effects on the Group's economic and financial situation and assets.

8.2 Strategic risks

Risks associated with research, clinical and preclinical studies and manufacturing

The Group's strategy is to market pharmaceutical products which are still in the experimental phase, of which only two are in the most advanced phase of study. Significant uncertainties exist with regard to the success of the experimental phase and to obtaining authorizations from the competent authorities to market pharmaceutical products. In addition, the products may not meet market expectations in terms of efficacy and safety and, therefore, no revenue can be generated from their marketing. Should the Group not be able to market the products and license its own product candidates, or should other competing products be preferred by the market over those of the Group, this will have serious negative effects on the Group's economic and financial situation and assets.

Risks associated with the protection of intellectual property rights and reliance on trade secrets

The Group's commercial success will also depend on its ability to protect its intellectual or industrial property rights, including potential ones (including processes and the use of the same products), in the European Union, the United States of America, Japan and other countries. To date, the Company owns more than 40 families of product and/or process and/or usage inventions, patented or in the process of being patented in numerous countries.

If the Group's efforts to protect its exclusivity and intellectual property rights are insufficient, competitors may exploit the Group's technologies to create competing products, erode competitive advantage, and seize all or part of market share. The occurrence of such risks could have a material adverse effect on the Group's financial position, results of operations and cash flows.

Risks associated with dependence on top management, key personnel and specialist staff

By virtue of the specialised nature of its activities, the Group is significantly dependent on qualified management and other key scientific personnel, for whom it faces intense competition and who it will need to expand in order to grow, including, in particular, the CEO and Chairman of the Scientific Committee, who has extensive scientific research experience at some of Europe's leading research centres, including the UK Medical Research Council and ETH Zurich.

The possible loss of key personnel or the inability to attract and retain additional qualified personnel could have an adverse effect on the development and marketing of the product candidates. The occurrence of such risks could have a material adverse effect on the Group's financial condition, results of operations and cash flows.

8.3 Financial risks

Financial risks are defined as the economic/financial risks arising from the holding or trading of financial instruments. Tables detailing financial risks are set out in note 26 to the condensed consolidated interim financial statements.

In the area of business risks, the main risks identified, monitored and, to the extent specified below, actively managed by the Group, are as follows:

Credit Risk

Credit risk is the risk that a customer or one of the counterparties to a financial instrument will cause a financial loss by failing to meet a contractual obligation and arises primarily from the Group's trade receivables and debt securities.

The carrying amount of financial assets and assets arising from contracts represents the Group's maximum exposure to credit risk.

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

However, management also considers the variables typical of the Group's customer portfolio, including the insolvency risk of the industry and the country in which the customers operate. Assets under contract have as counterparts primary pharmaceutical and multinational companies characterized by a low risk profile.

Liquidity risk

This is the risk that the Group will have difficulty in meeting its obligations associated with financial liabilities settled in cash or through another financial asset. The Group's approach to liquidity management is to ensure that there are always, as far as possible, sufficient funds to meet its obligations as they fall due, both in normal and stressed financial conditions, without incurring excessive charges or risking damage to its reputation.

The Group ensures that there is cash on hand and other securities in excess of the expected cash outflows for financial liabilities (other than trade payables). In addition, the Group regularly monitors the level of expected cash inflows from trade and other receivables, as well as cash outflows relating to trade and other payables.

Market risk

Market risk is the risk that the *fair value* or future cash flows of a financial instrument will fluctuate as a result of changes in market prices, due to changes in exchange rates, interest rates or equity prices. The objective of market risk management is to manage and control the Company's exposure to market risk within acceptable levels while optimizing investment returns.

Exchange rate risk

The Group is exposed to exchange rate risk when sales, purchases, receivables and loans are denominated in a currency other than the Group's functional currency.

Manufacturing activities are limited to Italy and Switzerland and therefore the Group is exposed to fluctuations between the euro and the Swiss franc. The reporting currency is the euro, Philogen is subject to foreign exchange risk arising from the translation of the financial statements of its Swiss subsidiary Philochem AG, which affects consolidated net income and consolidated equity (translation risk).

The Group earns revenue from contracts with customers in foreign currencies and primarily in US Dollars. Revenue denominated in US Dollars for the period ended 30 June 2021 and 2020 accounted for 90.6% and 84.8% of total revenue from contracts with customers, respectively. Therefore, an unfavorable trend in the value of the U.S. Dollar relative to other relevant currencies could adversely affect the business and financial condition.

Risks associated with the *fair value* of the securities portfolio

The Group is subject to the risk of changes in the *fair value* of the financial instruments held in its portfolio, the value of which at June 30, 2021 was € 91,736 thousand. The occurrence of this risk could have significant negative effects on the Group's economic and financial situation and assets.

Country Risk Management

The Group does not operate with countries that are unstable from an economic, political or social point of view.

9. Personnel information

As of June 30, 2021, the Group had 122 employees, of which 85 were hired by Philogen S.p.A., at the plants in Siena (Rosia and Montarioso) and 37 by Philochem AG, at the Zurich site, marking an overall increase of 16% compared to December 31, 2020.

The increase, represented in the table below given by: (i) Philochem: 5 hires and 2 terminations (ii) Philogen: 16 hires and 2 terminations.

Number of Group employees	At 30 June	At 31 December	Variations	
	2021	2020	2021 vs 2020	%
Employees	122	105	17	16%

This growth is in line with the plans for 2021. The staff hired in the first half of 2021 is highly qualified, 59% of which are graduates and 24% are PhDs.

Information on new hires:

Characteristics of new hires	Philochem AG			Philogen S.p.a.			Group		
	Men	Women	Total	Men	Women	Total	Men	Women	Total
PhD	3	1	4	3	1	4	6	2	8
Degree	1	-	1	4	6	10	5	6	11
Diploma	-	-	-	1	-	1	1	-	1
No title	-	-	-	1	-	1	1	-	1
Grand total	4	1	5	9	7	16	13	11	21

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

The Group's staff is highly qualified and specialized, an aspect that contributes to enhancing the company's competitiveness.

The Company, which has always been attentive to issues of gender equality and inclusion, has 48% of its employees who are female, as well as staff from 15 different countries; in addition, many key roles are held by female employees.

The Philogen Group does not see any specific risks related to the issue of "diversity and inclusion", but identifies in a correct and careful management of this aspect, through the integration and enhancement of diversity, an opportunity to create a work environment that fosters creativity and confrontation.

In light of what has just been described in this section, the Company, as of the date of this Report, does not see the need to adopt specific diversity policies in relation to the composition of its workforce, gender composition and training and professional background.

Finally, in compliance with current Italian legislation, Philogen employs 4 employees belonging to protected categories.

10. Secondary offices

The company does not have any branch offices.

11. Own shares

As of 30 June 2021, the Group held no treasury shares.

12. Significant events subsequent to the period ended 30 June 2021

12.1 Purchase of Philogen S.p.A. shares

As of July 20, 2021 and up to the date of publication of this Report, the director Dr. Sergio Dompé, through the company Dompé Holding S.r.l., by virtue of the confidence placed in the possibilities and capabilities of the Company (of which, as of the aforementioned date of July 20, 2021 he held 28.199% of the ordinary share capital) purchased 185,831 Philogen shares on the market.

Communications pursuant to *Internal Dealing* regulations are available on the company's website (<http://www.philogen.com>).

On the basis of the information available to the Company, at the date of publication of this Report, the Company's shareholding structure was as follows:

	Type of Actions	Actions	% of share capital	% of voting rights
Nerbio S.r.l.	B shares	8.565.018	21,09%	40,56%
	Ordinary Shares	8.098.251	19,94%	12,78%
	Subtotal	16.663.269	41,03%	53,35%
Dompé Holdings S.r.l.	B shares	2.803.232	6,90%	13,28%
	Ordinary Shares	9.640.085	23,74%	15,22%
	Subtotal	12.443.317	30,64%	28,49%
Market	B shares	-	0,00%	0,00%
	Ordinary Shares	11.504.525	28,33%	18,16%
	Subtotal	11.504.525	28,33%	18,16%
Total		40.611.111	100,00%	100,00%

12.2 Lock-up period

On August 30, 2021, the *lock-up* period ended for the former shareholders of Palio Ordinarie S.p.A. (merged by incorporation into Philogen effective in 2021) and Philogen S.p.A. provided for during the merger (paragraph 2.2) by the *lock-up* agreement signed by the companies participating in the merger on January 13, 2021. As a result of the merger, the holders of the shares of Palio Ordinarie S.p.A. became holders of the ordinary shares of Philogen S.p.A. The purpose of the *lock-up* agreement was to stabilise the ordinary shares of Philogen S.p.A. by prohibiting their transfer for a period of 180 days from the start of trading. At the end of this period, the shares became freely transferable.

In addition, the *lock-up* period for the ordinary shares of the other minority shareholders of Philogen S.p.A. (Palio Speciali S.r.l., MRS S.r.l., and Mathias Winter) ended on 30 August 2021 (180 days from the start of trading).

Only for the majority shareholders (Nerbio S.r.l. and Dompé Holding S.r.l.) the *lock-up* has a duration of 365 days from the date of the start of trading.

12.3 MBO and Stock Grant Plan 2024-2026

Following the approval by the Shareholders' Meeting on May 31, 2021 of the Remuneration Policy referred to in Section I of the Report on Remuneration Policy and Compensation Paid (paragraph 2.4), the Board of Directors on September 28, 2021, upon the proposal of the Nominations and Remuneration Committee (i) with reference to the monetary incentive plan c.d. *management by objectives* ("MBO"), of which the executive officers are beneficiaries as of April 1, 2021, assigned the performance objectives and established the targets to which the maximum monetary compensation is associated; and (ii) approved the regulations of the "2024-2026 Stock Grant Plan", implemented the Plan itself, identifying the beneficiaries and establishing the *performance objectives* and related *targets*, and assigning a total of 145,000 units.

13. Foreseeable evolution of operations

During the first half of 2021, the patient enrollment rate, which had declined slightly in 2020, increased again. This increase is related, in addition to the general variable trend in patient enrollment speed from year to year and the improvement in the situation related to the COVID-19 emergency, to the opening of new clinical centers. In order to further accelerate recruitment, the Group intends to open new centers in several European and non-European countries for the various ongoing studies conducted with the proprietary drugs.

The Group also reports the following scientific events in the months following 30 June 2021:

- **Nidlegly™**
 - Recruitment of new patients and opening of new centers in the various ongoing clinical trials;
 - Recruited an additional 13 patients through June 30, 2021, reaching a total of 181 patients, as of the date of this Report, in the European Phase III study in Stage III B/C melanoma;
 - Submission of the revised clinical protocol to the U.S. Food and Drug Administration for the U.S. Phase II study in stage IV melanoma;
 - Submission of a new clinical protocol in France and Italy for a clinical trial in various non-melanoma skin cancers
- **Fibromun**
 - Recruitment of new patients and opening of new centers in the various ongoing clinical trials;
 - Opening of new centres in Germany, Spain, Italy and Poland for the European Phase III study in first-line soft tissue sarcoma. In this setting, Fibromun is administered in combination with Doxorubicin;
 - Opening of new centres in the United States for the Phase IIb study in first-line soft tissue sarcoma. In this setting, Fibromun is administered in combination with Doxorubicin;
 - Monitoring of Safety, Presence of Objective Responses and Progression Free Survival in patients treated during the Run-in portion of the European Phase II study in $\geq$ third-line soft tissue sarcoma patients. In this setting, Fibromun is administered in combination with Dacarbazine. Its Initiation of the randomised phase is planned, subject to approval by the Data and Safety Monitoring Board;
 - Consolidation of Overall Survival data from the Phase I/II study in grade III-IV glioma at first recurrence/recurrence conducted with Fibromun monotherapy;
 - Monitoring of Safety, Presence of Objective Responses and Progression Free Survival in patients treated during the dose escalation portion of the European Phase I/II trial in patients with recurrent glioblastoma. A 92.2% decrease was observed at 24 weeks from the start of treatment of the first patient's tumor. The historical objective response rate for this patient population is 4.3% (Wick et al., J Clin Oncol 2010, 28,1168)
- **Radio-conjugated OncoFAP**
 - Several international Phase I/II clinical trials are planned with the aim of studying OncoFAP-68Ga (diagnostic agent) and OncoFAP-177Lu (diagnostic and therapeutic agent) in a larger number of patients with different types of cancer. These studies will provide an indication of which tumor(s) will be the focus of clinical trials. These studies are expected to begin in 2022.
- **New GMP Rosia (Siena) facility:** the installation and validation of the process machinery for the new GMP site is expected to be completed in the first quarter of 2022, following which AIFA authorization for the production and marketing of drugs will be requested. It should be noted that this new facility will join the existing GMP plant in Montarioso (Siena), which is dedicated to the production of experimental drugs.

As is well known, the Group is committed to the development of contractual activities as well as to strengthening its internal research and development activities. It also maintains numerous contacts with other potential industrial partners in order to develop its business and seek new opportunistic scientific collaboration agreements.

While waiting to see how the pandemic evolves, the Group implemented the prevention systems indicated by the relevant ministerial authorities, while maintaining constant work activity in view of the sector in which it operates. *Business development* activities, *webinars*, roadshows, scientific conferences and investor conferences organised by the Healthcare Departments of international banks were carried out on web platforms. It is reasonable to assume that the digitization of these events will continue for the second half of 2021.

Despite this emergency situation, the Group has continued its research and development activities on an ongoing basis. The continuation of the current situation in the second half of 2021 and the consequent measures, including regulatory measures, that have become, and may become, necessary to counter the emergency could have a negative impact on the above activities, slowing them down in part.



Half-year condensed consolidated financial statements at 30 June 2021

Consolidated income statement

Figures in thousands of Euro

	Notes	Period ended 30 June			
		2021	Of which with related parties	2020 (*)	Of which with related parties
Revenues from contracts with customers	5	1.548		2.308	
Other income	5	404		211	
Total revenues and income		1.952	-	2.518	-
Purchases of raw materials and consumables	6	(823)		(608)	
Costs for services	6	(4.520)	(516)	(3.878)	(818)
Costs for use of third party assets	6	(51)		(43)	
Personnel costs	6	(4.606)	(305)	(3.534)	
Depreciation	6	(753)	(368)	(706)	(362)
Other operating costs	6	(59)		(100)	
Total operating costs		(10.812)	(1.189)	(8.870)	(1.180)
Operating result		(8.860)	(1.189)	(6.352)	(1.180)
Financial income	7	1.394		1.300	
Financial charges	7	(807)	(173)	(2.928)	(179)
Total financial income and charges		586	(173)	(1.628)	(179)
Profit before tax		(8.274)	(1.362)	(7.980)	(1.359)
Taxes	8	(379)		(444)	
Profit (loss) for the period		(8.653)	(1.362)	(8.424)	(1.359)
Profit (loss) for the period attributable to the shareholders of the parent company		(8.653)		(8.424)	
Earnings (loss) per share (in Euro)	9	(0,21)		(0,24)	
Diluted earnings (loss) per share (in Euro)	9	(0,21)		(0,24)	

(*) Unaudited data

Consolidated statement of comprehensive income

Figures in thousands of Euro

	Notes	Period ended 30 June	
		2021	2020 (*)
Profit (Loss) for the period (A)		(8.653)	(8.424)
<i>Other gains (losses) that will be reclassified subsequently to profit (loss) for the period</i>			
Translation differences on foreign financial statements	20	(23)	79
Profit (loss) from cash flow hedges	20	7	-
Fiscal effect	20	(2)	-
Total other gains (losses) to be reclassified to profit (loss) for the period (B)		(18)	79
<i>Other gains (losses) that will not be reclassified subsequently to profit (loss) for the period</i>			
Profit (loss) from actuarial valuation of employee benefits	20	3	3
Fiscal effect	20	(1)	(1)
Total other gains (losses) that will not be reclassified subsequently to net income (loss) for the period (C)		2	2
Total other components of comprehensive income (B+C)		(16)	81
Comprehensive income (loss) after tax (A+B+C)		(8.669)	(8.344)
Comprehensive income (loss) attributable to the shareholders of the parent company		(8.669)	(8.344)

(*) Unaudited data

Consolidated statement of financial position

<i>Figures in thousands of Euro</i>					
	Notes	30 June 2021	Of which with related parties	31 December 2020	Of which with related parties
ASSETS					
Property, plant and equipment	10	8.671		5.163	
Intangible assets	11	989		961	
Assets for right of use	12	10.151	10.005	10.288	10.117
Deferred tax assets	8	795		1.176	
Non-current assets		20.606	10.005	17.588	10.117
Inventories	13	856		774	
Contractual activities	14	154		207	
Trade receivables	15	130		515	
Tax receivables	16	3.548		3.812	
Other current financial assets	17	91.736		49.984	
Other current assets	18	1.043		635	
Cash and cash equivalents	19	21.506		11.958	
Current assets		118.973	-	67.885	-
Total assets		139.579	10.005	85.473	10.117
EQUITY					
Capital		5.731		5.158	
Share premium reserve		119.749		54.918	
Other reserves		(4.041)		8.882	
Profit (loss) for the period		(8.653)		(13.285)	
Equity attributable to the shareholders of the parent company	20	112.785	-	55.673	-
Total shareholders' equity	20	112.785	-	55.673	-
PASSIVITY					
Employee benefits	21	882		847	
Non-current lease liabilities	12	11.128	11.061	11.270	11.186
Non-current financial liabilities	22	4.004		4.629	
Deferred tax liabilities	8	224		234	
Non-current liabilities		16.238	11.061	16.980	11.186
Current financial liabilities	22	1.309		1.094	
Current lease liabilities	12	723	685	711	665
Trade payables	23	4.067	82	3.920	58
Liabilities under contract	14	2.763		4.155	
Tax payables	16	246		362	
Other current liabilities	24	1.447		2.578	
Current liabilities		10.556	766	12.820	723
Total liabilities		26.794	11.827	29.801	11.909
Total shareholders' equity and liabilities		139.579	11.827	85.473	11.909

Statement of changes in consolidated shareholders' equity

Figures in thousands of Euro	Other reserves													
	Capital	Share premium reserve	Restricted earnings reserve capital increase to service the 2024-2026 Stock Grant Plan	Legal reserve	FTA Reserve	Merger surplus reserve	IAS 19 reserve	Share-based payment reserve	Reserve for translation differences	Cash flow hedge reserve	Retained earnings (losses)	Total other reserves	Profit (loss) for the period	Total consolidated shareholders' equity
Opening balances as 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 previous year's result				42							1.360	1.402	(1.402)	-
Dividends distributed												-		-
Fair value of share-based payments								514				514		514
Result for the period												-	(8.424)	(8.424)
Other comprehensive income (loss) net of tax effect							2		79			81		81
Closing balances at 30 June 2020 (*)	5.158	54.918	-	892	(1.265)	50	(21)	514	1.164		7.985	9.322	(8.424)	60.974
Opening balances at 1 January 2021	5.158	54.918	-	892	(1.265)	50	(30)	-	1.123		8.112	8.882	(13.285)	55.673
Reverse merger with ordinary Palio						399						399		399
IPO share capital increase	573	68.466										-		69.039
IPO process costs		(3.635)										-		(3.635)
Allocation of previous year's result											(13.285)	(13.285)	13.285	-
Dividends distributed												-		-
Restrictions on reserves for free share capital increases to service the Stock Grant Plan			124								(124)	-		-
Reverse merger with ordinary Palio						399						399		399
Fair value of hedging dividends										(21)		(21)		(21)
Result for the period												-	(8.653)	(8.653)
Other comprehensive income (loss) net of tax effect							2		(23)	5		(16)		(16)
Closing balances at 30 June 2021	5.731	119.749	124	892	(1.265)	449	(28)	-	1.100	(16)	(5.297)	(4.041)	(8.653)	112.785

(*) Unaudited data

Consolidated cash flow statement

Figures in thousands of Euro

		Period ended 30 June				
		Notes	2021	Of which with related parties	2020 (*)	Of which with related parties
Cash flow from operating activities						
Result for the period			(8.653)	(1.362)	(8.424)	(1.359)
<i>Adjustments for:</i>						
Depreciation of tangible and intangible assets	6		753	368	706	362
Net financial income/(charges)	7		(586)	173	1.628	179
Gains on the sale of property, plant and equipment			-		-	
Provisions for employee funds and benefits	21		49		562	514
Income taxes	8		379		444	
Other non-monetary adjustments			37		(121)	
<i>Variations of:</i>						
Inventories	13		(82)		68	
Contractual activities	14		50		-	
Trade receivables	15		365		886	
Liabilities under contract	14		(1.392)		(1.968)	
Trade payables	23		(7)	82	447	
Other current assets and liabilities (**)	16,18,24		(1.387)		230	
Utilization of provisions and employee benefits	21		(14)		(54)	
Interest paid	7		(220)		(319)	
Income taxes paid	8		(4)		(4)	
Cash flow generated/absorbed by operations (A)			(10.712)	(739)	(5.920)	(304)
Cash flow from investing activities						
Interest received	7		144		459	
Proceeds from the sale of property, plant and equipment			-		-	
Proceeds from the sale of investment property	10		-		-	
Proceeds from the sale of financial assets	17		1.730		5.389	
Purchase of property, plant and equipment	10		(3.813)		(629)	
Purchase of intangible assets	11		(105)		(51)	
Purchase of other financial assets	17		(42.855)		(171)	
Cash flow generated/absorbed by investing activities (B)			(44.899)	-	4.997	-
Cash flow from financing activities						
Proceeds from the issue of shares	20		65.404		-	
Proceeds from the assumption of financial liabilities	22		-		-	
Repayment of financial liabilities	22		(438)		(239)	
Payment of lease liabilities	12		(360)	(360)	(387)	(387)
Dividends paid	20		-		-	
Cash flow generated/absorbed by financing activities (C)			64.606	(360)	(626)	(387)
Increase in cash and cash equivalents from merger (D)	19		560			
Total cash flow (A + B + C + D)			9.555	(1.099)	(1.549)	(691)
Opening cash and cash equivalents	19		11.958		3.564	
Change in cash and cash equivalents for the period			9.555		(1.549)	
Translation effect on cash and cash equivalents			(7)		11	
Closing cash and cash equivalents	19		21.506		2.026	

(*) Unaudited data

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

Notes to the condensed interim consolidated financial statements

Preparation criteria

1. Foreword

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

Regulation (EC) No. 1606/2002 of the European Parliament and Council of 19 July 2002 (the "EU Regulation") requires all companies with securities admitted for trading on a regulated market to prepare consolidated financial statements in accordance with IAS/IFRS starting in 2005. In Italy, the matter was regulated by Legislative Decree no. 38 of 28 February 2005, which provided for companies excluded from the obligation provided for by the EU Regulation the option to prepare condensed consolidated half-year financial statements in accordance with IAS/IFRS starting from the year ended 31 December 2005.

2. Entity drawing up the condensed interim consolidated financial statements

Philogen S.p.A. is based in Italy. The address of the Company's registered office is Piazza La Lizza, 7 Siena. The Group is mainly active in the field of integrated biotechnology and is particularly active in the development of advanced biopharmaceutical products for the treatment of diseases characterized by or associated with angiogenesis, mainly based on antibody conjugates which are capable of achieving selective accumulation at the sites where the pathology is present.

Pursuant to paragraph 5 of Article 2497-bis of the Italian Civil Code, it should be noted that the Company is not subject to management and coordination by another company.

3. Drafting criteria

These condensed interim consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board ("IASB") and endorsed by the European Union, including all International Financial Reporting Standards (IFRS) and interpretations issued by the International Financial Reporting Interpretation Committee (IFRIC) and the former Standing Interpretations Committee (SIC).

Please refer to the three-year consolidated financial statements for the years ended 31st December 2019, 2018 and 2017, prepared for inclusion in the Prospectus prepared as part of the listing of our common stock on the MTA, for further details on *first-time adoption*.

These condensed interim consolidated financial statements have been prepared in accordance with article 154-ter of Legislative Decree 58 of 24 February 1998 (TUF) and subsequent amendments and additions. These condensed interim consolidated financial statements for the first half of 2021 have been prepared in accordance with the international accounting standard on interim reporting (IAS 34 Interim Financial Reporting) and do not include all the information required in the annual consolidated financial statements and consequently should be read in conjunction with the Group's consolidated financial statements for the year ended 31 December 2020, published on the institutional website <http://philogen.com>, section Investor Relations. The estimation processes and assumptions have been maintained in continuity with those used to prepare the annual financial statements. For comparative purposes, the consolidated financial statements present a comparison with the consolidated balance sheet figures of the financial statements at 31 December 2020 and 30 June 2020 and with the consolidated income statement figures at 30 June 2020.

These condensed consolidated interim financial statements were approved and authorized for issue by the Company's Board of Directors on September 28, 2021.

Details of the principal accounting policies adopted by the Group are provided in note 30.

Functional and presentation currency

These condensed interim consolidated financial statements are expressed in Euro, the functional currency of the Parent Company. Unless otherwise indicated, all amounts expressed in Euro have been rounded to the nearest thousand. It should also be noted that any differences in tables are due to the rounding of amounts expressed in thousands of Euro.

Use of estimates and valuations

As part of the preparation of the condensed interim consolidated financial statements, management was required to make estimates and judgments that affect the application of accounting principles and the amounts of assets, liabilities, revenues and expenses recognized in the financial statements. However, it should be noted that since these are estimates, the results obtained will not necessarily be the same as those represented in these financial statements.

These estimates and the underlying assumptions are reviewed regularly. Any changes arising from the revision of accounting estimates are recognised prospectively.

The following is a summary of the items in the financial statements that require greater subjectivity on the part of the Directors in the preparation of estimates and for which a change in the conditions underlying the assumptions used could have a significant impact on the condensed consolidated interim financial statements.

The preparation of the condensed interim consolidated financial statements requires the use of estimates and assumptions in determining both certain assets and liabilities and in measuring contingent assets and liabilities, based on the best information available. Events may not fully confirm the estimates. Refer to the consolidated financial statements for the year ended December 31, 2020, for details of the principal discretionary judgments and accounting estimates used in the preparation of the condensed consolidated financial statements for the year ended June 30, 2021, as they are consistent.

i) Assessments

The decisions made by management that have the most significant effect on the amounts recognized in the financial statements are provided in the notes below:

- Notes No. 5 and 30 - revenue recognition: determine whether license revenue should be recognized at a specific point in time or over time;
- Notes No. 17 and 30 - accounting for securities: evaluation of the business model and related accounting treatment;
- Notes No. 12 and 30 - lease term: main assumptions about renewal options at the end of the non-cancellable period of the lease.

ii) Estimation uncertainty assumptions

For the period ended 30 June 2021, information about assumptions and uncertainties in estimates that have a significant risk of causing material changes to the carrying amount of assets and liabilities in the financial statements of the subsequent period is provided in the notes below:

- Notes No. 5 and 30 - revenue recognition: assumptions in determining the total transaction price in relation to variable consideration;
- Notes No. 21 and 30 - Measurement of defined benefit obligations: main actuarial assumptions;
- Note No. 30 - Valuation of financial instruments: main assumptions underlying the calculation of *fair value*;
- Note No. 30 - definition of the discount rate: main assumptions on the calculation of the Incremental Borrowing Rate (IBR), where the implicit interest rate is not present.
- Notes No. 8 and 30 - recognition of deferred tax assets: availability of future taxable profits against which deductible temporary differences and tax loss carryforwards can be utilised;
- Notes No. 10 and 11 - Impairment test of non-current assets: main assumptions for determining recoverable amounts;
- Note No. 30 - recognition and measurement of provisions and contingent liabilities: key assumptions about the probability and extent of an outflow of resources;

- Note No. 30 - Measurement of the allowance for expected losses on trade receivables and assets arising from contracts: key assumptions in the determination of "Expected Credit Losses".

4. Sector information

For the purposes of IFRS 8, the Management has identified a single operating segment "Biotechnology", within which all the activities carried out by the Group are included.

The Group is mainly active in the field of integrated biotechnology, and particularly in the development of advanced biopharmaceutical products for the treatment of diseases characterized by or associated with angiogenesis, mainly based on antibody conjugates which are capable of achieving selective accumulation at the sites where the pathology is present.

Details of revenues from contracts with customers by type of product and service, by geographical area and information on the degree of dependence of the Company on its main customers are provided in note 5.

The Chief Operating Decision Maker (CODM) is identified as the Executive Chairman.

Profit and Loss Account

5. Revenues and income

<i>Figures in thousands of Euro</i>	Period ended 30 June	
	2021	2020
Revenues from contracts with customers	1.548	2.308
Other income	404	211
Total revenues and income	1.952	2.518

Revenues from contracts with customers

Revenues from contracts with customers refer mainly to royalties from licensing agreements and to research and development activities that the Group carries out on behalf of third parties.

At 30 June 2021, revenues from contracts with customers amounted to € 1,548 thousand, a decrease of € 706 thousand compared to the same period of the previous year. The change is mainly due to the conclusion during 2020 of existing contracts and is particularly attributable to the Group's willingness, following the entry of new shareholders in 2019, to opportunistically evaluate new proprietary product licensing activities, focusing on the clinical development of the more advanced products in the *pipeline* while continuing the development activities under existing contracts.

Revenues recognised at June 30, 2021 relate approximately 90% to fees recognised *over time* in relation to the development of Product 1 and approximately 10% to revenues for R&D services recognised on an accrual basis.

Further details of revenue from customer contracts are provided below.

Detail by type of consideration

<i>Figures in thousands of Euro</i>	Period ended 30 June	
	2021	2020
Revenues from <i>up-front</i> and <i>maintenance fees</i>	1.402	1.419
Revenues from R&D services	145	889
Total revenues from contracts with customers	1.548	2.308

Detail by recognition mode

<i>Figures in thousands of Euro</i>	Period ended 30 June	
	2021	2020
Revenues recognised <i>at a point in time</i>	11	300
Revenues recognised <i>over time</i>	1.537	2.008
Total revenues from contracts with customers	1.548	2.308

Detail by geographical area

<i>Figures in thousands of Euro</i>	<i>Period ended 30 June</i>	
	2021	2020
USA	1.402	1.958
European Union	112	300
Extra EU (Switzerland)	34	50
Total revenues from contracts with customers	1.548	2.308

Detail by product or service type

<i>Figures in thousands of Euro</i>	<i>Period ended 30 June</i>	
	2021	2020
Product Development 1	1.392	1.419
Encoded Self-Assembling Chemical (ESAC) Services	28	540
Good Manufacturing Practices (GMP) Services	127	350
Total revenues from contracts with customers	1.548	2.308

Details of customers that generate revenue for the Group in excess of 10% of total revenue from contracts with customers, as required by IFRS 8, note no. 30, are set out below:

<i>Figures in thousands of Euro</i>	<i>Period ended 30 June</i>			
	2021	Inc.	2020	Inc.
Customer 1	1.392	90%	1.418	61%
Customer 2	-	-	540	23%
Customer 3	-	-	300	13%
Other customers < 10%.	156	10%	50	2%
Total revenues from contracts with customers	1.548	100%	2.308	100%

Other income

<i>Figures in thousands of Euro</i>	<i>Period ended 30 June</i>	
	2021	2020
Operating grants	396	196
Other income	8	15
Total other income	404	211

Other income consists mainly of operating grants and research subsidies, relating mainly to research projects co-financed by the European Community and the Region of Tuscany.

The increase of approximately Euro 193 thousand in other income is mainly due to the allocation, in the period ended June 30, 2021, of the tax credit for leases provided for by Decree Law 73/2021 (known as the "Support bis Decree"), a new government intervention to support the economic system still affected by the economic crisis due to the Covid-19 pandemic.

6. Operating costs

Details of operating costs at 30 June 2021 and 30 June 2020 are set out below:

<i>Figures in thousands of Euro</i>	<i>Period ended 30 June</i>	
	2021	2020
Purchases of raw materials and consumables	823	608
Costs for services	4.520	3.878
Lease and rental costs	51	43
Personnel costs	4.606	3.534
Depreciation	753	706
Other operating costs	59	100
Total operating costs	10.812	8.870

Costs for purchases of raw materials and consumables

The cost of raw materials and consumables, amounting to €823 thousand at 30 June 2021 (€608 thousand at 30 June 2020), is mainly attributable to the cost of materials used in laboratories, the change in which is linked to drug production activities for ongoing clinical trials and/or the production of antibodies on behalf of third parties.

Costs for services

The item "Costs for services" includes, among others, the following categories:

<i>Figures in thousands of euros</i>	Period ended 30 June	
	2021	2020
Costs related to Clinical Centres and CROs	1.160	980
Outsourcing services for research and development activities	327	1.057
IPO costs	1.200	-
Remuneration of corporate bodies (net of contributions)	519	1.100
Social contributions on corporate bodies remuneration	55	95
Corporate expenses and consultancy	407	104
Utilities and overheads	314	236
Other service costs	538	307
Total costs for services	4.520	3.878

Costs for services consist mainly of costs relating to the Group's operating activities, i.e. costs incurred for trials in clinical centres and costs relating to outsourced research and development services. The most significant changes are:

- (i) The change of 730,000 euros in service costs for research and development activities is due to the higher costs incurred in 2020 for some preclinical activities requested, on a one-time basis, by the FDA for a product under development in the United States;
- (ii) The total IPO costs incurred in the first half of 2021 amounted to approximately Euro 4,800 thousand, of which Euro 1,200 thousand are to be charged directly to the income statement as they relate to the Company's general listing process and the remainder to reduce the Share Premium Reserve;
- (iii) The decrease in compensation for corporate bodies, amounting to approximately €581, is due to the allocation, in the first half of 2020, of the *fair value* of the *bonus* provided for a member of the board of directors under the incentive plan approved on 26 March 2020 and amended on 25 November 2020 by agreement between the parties (section 2.3 of the interim report on operations) due to his operational commitment to the development of certain products. The *bonus* was paid in March 2021 following the listing of the Company;
- (iv) The increase in corporate expenses in the period ended 30 June 2021 was due to higher post-listing operating costs of the Company;
- (v) The increase in utilities, overhead and service costs is related to the increase in company size, the increase in activities and personnel and the resulting increase in overhead costs.

Lease and rental costs

Lease and rental costs amounted to € 51 thousand at June 30, 2021 (€ 43 thousand at June 30, 2020). This item includes rental costs, exclusively in relation to leases of less than twelve months' duration and those of small amounts (excluded from the scope of application of IFRS 16) and variable fees linked to ancillary expenses quantified on an actual basis, which are also not included in the calculation of the financial liability and the related right of use in accordance with IFRS 16.

Personnel costs

Details of the composition of the Group's staff costs for the period ended 30 June 2021 and 2020 are set out below:

<i>Figures in thousands of Euro</i>	Period ended 30 June	
	2021	2020
Wages and Salaries	3.725	2.940
Social charges	780	503
Provision for severance indemnities	101	90
Total personnel costs	4.606	3.534

The increase in personnel costs, amounting to Euro 1,072 thousand, is attributable to the increase in the average number of employees, as shown in the table below.

	30 June 2021	30 June 2020	Variation
Average number of employees	115	105	10

For the precise number of employees at 30 June 2021, please refer to paragraph 9 of the interim report on operations.

Depreciation

The breakdown of "Depreciation and amortization" at June 30, 2021 and 2020 is shown below:

<i>Figures in thousands of Euro</i>	Period ended 30 June	
	2021	2020
Amortisation of intangible assets	78	75
Depreciation of property, plant and equipment	282	238
Depreciation of assets for right of use	394	393
Total depreciation	753	706

Depreciation and amortization are substantially unchanged from the previous period.

Other operating costs

A breakdown of "Other operating expenses" at June 30, 2021 and 2020 is provided below:

<i>Figures in thousands of Euro</i>	Period ended 30 June	
	2021	2020
Membership fees	6	20
Company vehicle costs	4	5
Deductible taxes	39	3
Representation expenses	8	3
Miscellaneous operating costs	2	70
Total other operating costs	59	100

Other operating expenses are mainly attributable to contingent liabilities and other operating expenses. The change is mainly due to (i) the increase in taxes and duties in the first half of 2021 in relation to the annual charges due to Borsa Italiana on the Company's market capitalization and (ii) the decrease in other operating expenses in the first half of 2021 mainly related to extraordinary costs.

7. Financial income and expenses

Financial income and expenses are made up as follows:

<i>Figures in thousands of Euro</i>	Period ended 30 June	
	2021	2020
Financial income		
Gains on the sale of financial assets	144	459
Gains on the measurement of financial assets at <i>fair value</i>	629	216
Foreign exchange gains	620	625
Financial income	1.394	1.300
Financial charges		

Losses on valuation of financial assets at <i>fair value</i>	(1)	(1.872)
Losses on the sale of financial assets	(18)	(127)
Interest payable on leasing	(174)	(182)
Interest on bank loans	(28)	(10)
<i>Interest cost</i> for employee benefits	(1)	(3)
Foreign exchange losses	(585)	(734)
Financial charges	(807)	(2.928)
Total financial income (expense)	586	(1.628)

The result of financial management for the period ended June 30, 2021 was positive for Euro 586 thousand, compared to the period ended June 30, 2020, which showed a negative balance of Euro 1,628 thousand.

The main impact on financial management at June 30, 2021 relates to the net capital gains recognized on financial assets measured at *fair value* of Euro 629 thousand due to the positive performance of the financial markets, compared to a negative market performance in the period ended June 30, 2020, where the *fair value* measurement shows a loss of approximately Euro 1,872 thousand related to the effects of the Covid-19 pandemic.

8. Taxes

The following is a table detailing the income taxes recorded for the period ended June 30, 2021 and 2020:

<i>Figures in thousands of Euro</i>	Period ended 30 June	
	2021	2020
Current taxes	(4)	(4)
Deferred taxes	(375)	(440)
Total taxes	(379)	(444)

Deferred taxes refer exclusively to the reversal of the tax effects recognized upon transition to the IAS/IFRS international accounting principles. For changes in the period, reference should be made to the relevant tables provided below.

The Group has estimated tax losses for the periods ended June 30, 2021 and 2020 for which, however, it has decided not to recognize deferred tax assets in view of the uncertainties surrounding research and development activities and consequently the possibility of having convincing evidence of the ability to generate future taxable income.

Changes in deferred taxes during the period

Details and changes in deferred tax assets and liabilities from January 1 to December 31, 2020 and from January 1 to June 30, 2021, the balances of which originate exclusively from the IAS/IFRS transition entries, are provided below:

<i>Figures in thousands of Euro</i>	Book value at 1 January 2020	Use	Acc.to	Exchange rate effect	Book value at 31 December 2020
Deferred tax assets					
Liabilities from contracts with customers	2.107	(948)	-	1	1.159
Intangible assets	1	-	-	-	1
Assets for right of use	-	-	5	-	5
IAS 19 reserve (recognised in the comprehensive income statement)	8	-	3	-	11
Total Deferred tax assets	2.115	(948)	8	1	1.176
Deferred tax liabilities					
Other financial assets	142	(131)	-	(1)	10
Intangible assets	178	-	11	2	191
Assets from contracts with customers	-	-	34	-	34
Total deferred tax liabilities	320	(131)	45	1	234

Figures in thousands of Euro

	Book value at 1 January 2021	Use	Acc.to	Exchange rate effect	Book value at 30 June 2021
Deferred tax assets					
Liabilities from contracts with customers	1.159	(388)	-	-	771
Intangible assets	1	-	-	-	1
Assets for right of use		-	2	-	7
IAS 19 reserve (recognised in the comprehensive income statement)	11	-	-	-	11
Cash flow hedge reserve (recognised in the statement of comprehensive income)	-	-	5	-	5
Total Deferred tax assets	1.176	(388)	7	-	795
Deferred tax liabilities					
Other financial assets	10	(1)	-	-	9
Intangible assets	191	(7)	4	-	188
Assets from contracts with customers	34	(13)	7	-	28
IAS 19 reserve (recognised in the comprehensive income statement)	-	(1)	-	-	(1)
Total deferred tax liabilities	234	(21)	11	-	224

Uncertainties regarding the accounting treatment to be applied to taxes

It should be noted that as of June 30, 2021, there are no disputes with tax authorities that could give rise to uncertainties regarding the treatment of income taxes.

9. Earnings per share

The calculation of basic earnings per share was based on the profit attributable to holders of ordinary shares and the weighted average number of ordinary shares outstanding during the period ended 30 June 2020 and 30 June 2021.

The calculation of diluted earnings per share was made considering the profit attributable to holders of ordinary shares and the weighted average number of ordinary shares outstanding during the period to take into account the effects of all potential ordinary shares with a dilutive effect.

The income and stock information used in the calculation of basic and diluted earnings per share is presented below:

Figures in thousands of Euro Basic and diluted earnings (loss) per share	Period ended 30 June	
	2021	2020
Profit (loss) for the year - in Euro thousands (A)	(8.653)	(8.424)
Weighted average number of ordinary shares in circulation (B)	40.611.111	35.550.000
Weighted average number of dilutive potential ordinary shares outstanding (C)	-	1.000.000
Weighted average number of outstanding share options granted (D)	-	-
Weighted average shares outstanding adjusted for dilution effects (E=B+C+D)	40.611.111	36.550.000
Basic earnings (loss) per share - in Euro (A/B*1000)	(0,21)	(0,24)
Diluted earnings (loss) per share - in Euro (A/E*1000) (*)	(0,21)	(0,24)

(*) Note that the diluted loss per share for the year ended December 31, 2020 was determined without considering the instruments referred to in (C) above because in the presence of a loss for the year

(C) The number of potential dilutive shares of common stock is, as of June 30, 2020, an aggregate of 1,000,000, as each performance share, special share 1 and special share 2 may be converted at the rate of 6 shares of common stock, special share or performance share.

Assets

10. Property, plant and equipment

Changes in property, plant and equipment from January 1 to December 31, 2020 and from January 1 to June 30, 2021 are shown below:

Philogen Group

Half-year condensed consolidated financial statements at 30 June 2021

Figures in thousands of Euro

	Plant and machinery	Industrial and commercial equipment	Leasehold improvements	Other tangible fixed assets	Construction in progress and advances	Total
Historical cost	1.699	5.436	61	665	616	8.476
Depreciation fund	(1.270)	(4.440)	(5)	(513)	-	(6.229)
Net book value as at 01 January 2020	429	995	56	152	616	2.248
Increases	73	826	18	19	2.519	3.454
(Decreases)	-	-	-	-	-	-
Reclassifications	823	-	-	25	(848)	-
Depreciation	(142)	(344)	(7)	(55)	-	(547)
Exchange rate effects (historical cost)	1	10	(0)	32	3	45
Exchange rate effect (accumulated depreciation)	(0)	(6)	0	(31)	-	(37)
Historical cost	2.595	6.271	79	740	2.290	11.976
Depreciation fund	(1.412)	(4.790)	(12)	(599)	-	(6.813)
Net book value at 31 December 2020	1.183	1.481	67	141	2.290	5.163
Increases	25	420	10	174	3.185	3.813
(Decreases)	-	-	-	-	-	-
Depreciation	(73)	(178)	(4)	(31)	-	(286)
Exchange rate effects (historical cost)	(16)	(33)	(0)	(3)	0	(52)
Exchange rate effect (accumulated depreciation)	3	27	-	2	-	32
Historical cost	2.604	6.658	88	911	5.476	15.737
Depreciation fund	(1.482)	(4.940)	(15)	(629)	-	(7.067)
Net book value at 30 June 2021	1.122	1.718	73	283	5.476	8.671

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

Industrial and commercial equipment includes mainly the purchase cost incurred to equip the Montarioso production unit.

Other tangible assets mainly refer to company cars and furniture and fittings. Company cars are partly assigned for mixed use by employees, partly assigned to some members of the Board of Directors and partly at the disposal of company personnel.

Assets under construction and advances mainly include the amounts paid for the construction of a new GMP plant as well as for the reactivation and *revamping* of the current R&D and quality control laboratories at the Rosia site, activities which began in 2020. The aforementioned project for the expansion of the Rosia site involves the construction of a new biotechnology "GMP" plant including all the advanced technology and automated facilities and equipment, for a total value of approximately Euro 10-12 million, financed in part with the Group's liquidity and in part through loans entered into at the end of 2020 (see Note 22 for further details). During the first six months ended in 2021, the Company made investments, related to the construction of the new GMP plant, for approximately Euro 3,185 thousand.

11. Intangible assets

Changes in intangible assets from 1 January to 31 December 2020 and from 1 January to 30 June 2021 are shown below:

Figures in thousands of Euro	Patent and intellectual property rights	Concessions, licenses, trademarks and similar rights	Total
Historical cost	2.276	115	2.391
Depreciation fund	(1.345)	(104)	(1.449)
Book value as at 01 January 2020	931	10	941
Increases	190	5	195
(Decreases)	-	-	-
Depreciation	(166)	(10)	(175)
Exchange rate effect	(1)	-	(1)
Historical cost	2.483	120	2.604
Depreciation fund	(1.528)	(114)	(1.642)
Book value at 31 December 2020	955		961
Increases	94	10	105

Philogen Group

Half-year condensed consolidated financial statements at 30 June 2021

41

(Decreases)	-	-	-
Depreciation	(71)	(3)	(74)
Exchange rate effect	(3)	-	(3)
Historical cost	2.570	130	2.700
Depreciation fund	(1.594)	(117)	(1.712)
Net book value at 30 June 2021	975	13	989

As of June 30, 2021, the Group owns more than 40 international patent families and more than 100 valid national patents. The increases recognised during the first six months of 2021, amounting to €94 thousand, relate to expenses incurred by the Group to file new patent applications and for nationalisations in order to acquire the exclusive right to exploit inventions relating to new cancer applications in specific countries around the World.

Concessions, licenses and trademarks mainly include the cost of corporate software licenses.

It should also be noted that there are no assets with an indefinite useful life, goodwill and intangible assets not yet in use.

12. Right-of-use assets and lease liabilities

The main balance sheet information relating to the leases held by the Group, which acts solely as lessee, is shown in the following tables:

<i>Figures in thousands of Euro</i>	Properties	Cars	IT Services	Total
Historical cost	11.221	100	43	11.363
Depreciation fund	(311)	(30)	(37)	(378)
Book value at 01 January 2020	10.910	70	6	10.985
Increases	-	-	68	68
(Decreases)	-	-	-	-
Depreciation	(725)	(33)	(23)	(781)
Exchange rate effect	16	-	-	16
Historical cost	11.236	100	111	11.446
Depreciation fund	(1.035)	(63)	(60)	(1.158)
Book value at 31 December 2020	10.201	37	51	10.288
Increases	304	-	-	304
(Decreases)	-	-	-	-
Depreciation	(368)	(15)	(11)	(394)
Exchange rate effect	256	-	-	256
Historical cost	11.484	100	111	11.699
Depreciation fund	(1.399)	(78)	(71)	(1.548)
Book value at 30 June 2021	10.089	22	39	10.151

Assets for right of use at 30 June 2021 are mainly attributable to the leasing of three properties used by the Group for the management of its operating activities. In particular, during 2019, a project for the functional and structural reorganization of the Group was put in place, through which the Company's real estate branch was separated from the operating branch. At the same time, lease agreements were entered into, resulting in the recognition of assets for rights of use and related financial liabilities in accordance with IFRS 16.

Changes in financial lease liabilities from January 1 to December 31, 2020 and from January 1 to June 30, 2021 are provided below:

<i>Figures in thousands of Euro</i>	
Lease liabilities at 01 January 2020	12.627
Increases	68
Decreases	-
Capital repayments	(736)
Exchange rate effect	22
Lease liabilities at 31 December 2020	11.981
Increases	304
Decreases	-
Capital repayments	(360)

Exchange rate effect	(73)
Lease liabilities at 30 June 2021	11.851
Of which current	723
Of which non-current	11.128

The following table provides a reconciliation of cash outflows with respect to leases for the period ended June 30, 2021 and 2020:

<i>Figures in thousands of Euro</i>	Period ended 30 June	
	2021	2020
Real estate capital share	343	330
Interest paid on leasing (real estate)	174	181
Capital share cars	13	13
Interest paid on leasing (cars)	-	1
Capital share IT services	4	44
Interest paid on leasing (IT services)	-	1
Total cash outflows for leasing	534	569

It should be noted that for the purposes of determining lease liabilities and the related right-of-use assets, the Group has applied:

- i. For leases relating to buildings, cars and IT services leased to the Parent Company, a discount rate of 2.73%;
- ii. For the lease relating to the building leased to the Swiss subsidiary Philochem AG, a discount rate of 3.10%.

As at 30 June 2021, the Group has not identified any indicators of impairment in respect of right-of-use assets.

Impairment test

We report that, as at 30 June 2021, there was no evidence that would lead the Directors to believe that the reasons that led to the recognition of the property, plant and equipment, intangible assets and rights-of-use assets had been disregarded; furthermore, no further indicators of impairment emerged that would have led the Directors to believe that there might be an impairment of the property, plant and equipment, intangible assets and rights-of-use assets; consequently, it was not necessary to carry out impairment tests on the value recorded in the financial statements.

13. Inventories

Details of inventories are as follows:

<i>Figures in thousands of Euro</i>	30 June 2021	31 December 2020
Raw materials and consumables	856	774
Total inventories	856	774

Stocks of raw materials and consumables include inventories valued at the lower of purchase cost and market value.

At June 30, 2021, inventories amounted to €856 thousand, an increase mainly due to the increased procurement of consumables used in the Group's operations.

14. Contract assets and liabilities

The net balance of assets and liabilities arising from contracts is made up as follows:

Contracts with positive net balance

<i>Figures in thousands of Euro</i>	30 June 2021	31 December 2020
Advances received from customers	(102)	(1.609)
Revenues recognized on advances received	256	1.816
Contract activities with customers, net	154	207

Contracts with negative net balance

<i>Figures in thousands of Euro</i>	30 June 2021	31 December 2020
Advances received from customers	9.782	11.774
Revenues recognized on advances received	(7.019)	(7.619)
Liabilities under contract with customers, net	2.763	4.155

Payments on account received from customers mainly relate to *up-front fees* received for *performance obligations* to be fulfilled by the Group in the future, which are recognised over time based on the progress of the related contract costs. (revenue recognised on payments on account).

Contract assets and liabilities arise from the balance of the two items above.

Liabilities under contracts with customers are classified as current liabilities as the Group expects to complete the performance obligations over the next 12 months.

15. Trade receivables

The item "Trade receivables" is made up as follows:

<i>Figures in thousands of Euro</i>	30 June 2021	31 December 2020
Receivables from customers	130	515
Total trade receivables	130	515

At 30 June 2021, trade receivables from customers amounted to €130 thousand, a decrease of €385 thousand compared to 31 December 2020. The change, in line with the decrease in revenues from contracts, is due to the fact that, at 30 June 2021, the Group had collected almost all of its trade receivables, while at 31 December 2020 it had some open credit positions, which were collected in the first few months of 2021.

Past due credit positions are monitored by the administrative management through periodic analyses of the main positions. The estimate of the expected loss in accordance with IFRS 9 ("*Expected Credit Loss*") is not significant in view of the type of Group customers, the expected contractual terms and the timing of credit collection.

Breakdown of receivables included in current assets by geographical area

The following table shows the breakdown by geographic area of receivables included in current assets.

<i>Figures in thousands of Euro</i>	Geographical area	
	30 June 2021	31 December 2020
Italy	13	-
European Union	82	509
Extra European Union (USA)	35	6
Total trade receivables	130	515

16. Tax receivables and payables

The item "Tax receivables" is made up as follows:

<i>Figures in thousands of Euro</i>	30 June 2021	31 December 2020
Various tax credits	1.251	2.138
VAT credits	2.193	1.338
Other tax receivables	103	336
Total tax receivables	3.548	3.812

The item "Sundry tax credits" mainly consists of the research and development credit, which refers to the tax benefit obtained in relation to costs incurred for research and development activities. In particular, the item includes:

- research and development tax credit year 2020 for Euro 1,019 thousand for which the compensation will be in three annual instalments of equal amount, in compliance with the reference legislation (Article 1 paragraph 200 Law 160 of 27 December 2019);

- industry 4.0 credit for Euro 37 thousand;

- lease credit 2021 for € 195 thousand.

Other tax receivables mainly include receivables for withholding taxes.

The item "Taxes payable" is made up as follows:

<i>Figures in thousands of Euro</i>	30 June 2021	31 December 2020
Payables to tax authorities for withholdings	99	169
Other tax payables	147	193
Total tax payables	246	362

The Group has estimated a tax charge for current taxes of zero.

Other tax liabilities mainly include the amount due to the tax authorities accrued as a result of an assessment that ended with a settlement in December 2019. The Company has decided to accrue the tax debt with quarterly payments, to be offset against other taxes.

17. Other current financial assets

An analysis of the changes in other current financial assets is provided below:

<i>Figures in thousands of Euro</i>	Other current financial assets
Book value as at 01 January 2020	70.962
Increases	8.005
(Decreases)	(28.471)
Gains/Losses from <i>fair value</i> adjustment	(380)
Change in accrued income on coupons	(132)
Book value at 31 December 2020	49.984
Increases	42.855
(Decreases)	(1.731)
Gains/Losses from <i>fair value</i> adjustment	628
Book value at 30 June 2021	91.736

The Group invests excess liquidity in financial instruments, held mainly with Mediobanca, which also acts as manager, and, to a lesser extent, in deposits with Banca Monte dei Paschi di Siena (it should be noted that in July 2021 this deposit was extinguished).

The item "Other current financial assets" includes:

- the balance on securities held in the portfolio, consisting of insurance policies, equity instruments and fund units, held to collect contractual cash flows and to sell and whose contractual terms do not provide for repayment of principal and interest payments on the principal amount to be repaid (i.e. which do not pass the "SPPI test"), which were compulsorily measured at *fair value* with an impact recognised in profit (loss) for the period (FVTPL);
- the balance relating to the bond segment of the outstanding portfolio, included in the "Other" Business Model, which are measured at *fair value* with an impact recognised in profit (loss) for the period (FVTPL).

Below is a breakdown of financial assets by type of instrument and *business model*:

<i>Figures in Euro thousands</i>	30 June 2021	31 December 2020
Financial assets held for collection of cash flows and for sale (Held to collect and sell)		
Shares	2.200	3.159
Funds	7.229	4.917
Insurance investment products	81.863	41.552
Total	91.291	49.628
Other financial assets (Other)		
Bonds and Certificates	445	356
Coupon accrual on bonds	-	-
Total	445	356
Total other current financial assets	91.736	49.984

With reference to insurance investment products, amounting to Euro 81,863 thousand at 30 June 2021 (Euro 41,552 thousand at 31 December 2020), the Group has signed three investment contracts, whose contractor and sole beneficiary is Philogen S.p.A., with three different insurance companies.

The first contract, signed in 2013 for approximately € 10 million, is a whole-life insurance investment product with capital revaluable on the basis of the return on the separate asset management. The management invests the resources mainly in the following asset classes: government securities or bonds directly or through units of UCITS funds, residually in cash and equities listed on regulated markets also directly or through UCITS units. At least 70% of the assets are made up of bonds and the exposure in equities and OICR units does not exceed 10% of the management assets. This contract provides for the guarantee of the invested capital.

The second contract, signed during the 2019 financial year, is represented by a multi-branch whole life insurance investment product with a total value of approximately € 60 million. This investment is in turn divided into two separate funds consisting of:

- diversified management (class I): a whole-life insurance investment product with capital that can be revalued according to the performance of the separate asset management scheme. The management mainly invests in government securities or bonds directly or through OICR (collective investment undertakings) fund units, and residually in cash and equities listed on regulated markets, also directly or through OICR units;
- separate management (class III): the management may invest in equities, corporate bonds, government bonds, investment funds and cash. As at 30 June 2021, the breakdown of the diversified management is as follows: 60% in cash and deposits, 34% in corporate bonds, 5% in equities, and 1% in investment funds.

The third contract, signed in May 2021, is a whole life multi-branch insurance investment product with a total value of approximately € 10 million. This investment is in turn divided into two separate funds consisting of:

- Euro 7 million in a segregated account (Ramo I) managed by the company with annual capitalisation of returns. The management company invests mainly in bonds, mainly government and supranational bonds. The management can be partially or totally liquidated at any time starting from the twelfth month after the original investment.
- Euro 3 million divided equally between two internal funds (Ramo III), one of which is a bond fund and the other mainly an equity fund. The two funds may be liquidated at any time. The financial instruments described above may be redeemed promptly at the request of the beneficiary.

At June 30, 2021, the *fair value* of financial assets not held as fixed assets was €91,736 thousand, an increase over December 31, 2020 due to:

- investment in new and existing insurance products for approximately Euro 40,000 thousand;
- the sale/maturity of part of the securities portfolio for approximately Euro 1,725 thousand.

18. Other current assets

The item "Other current assets" is made up as follows:

<i>Figures in thousands of Euro</i>	30 June 2021	31 December 2020
Other current receivables	714	529
Other current assets	329	106
Other current assets	1.043	635

Other current receivables refer mainly to advances to third-party suppliers and various types of receivables.

Other current assets mainly include prepaid expenses relating to costs incurred in advance and recorded in the financial statements for the relevant portion.

19. Cash and cash equivalents

A breakdown of cash and cash equivalents is provided below:

<i>Figures in thousands of Euro</i>	30 June 2021	31 December 2020
Bank and postal deposits	21.505	11.957
Cash and valuables in hand	1	
Cash and cash equivalents	21.506	11.958

The Group has active current accounts both in Euro and in foreign currency (USD and CHF).

The following are the changes in cash and cash equivalents that occurred during the period ended June 30, 2021 and December 31, 2020:

<i>Figures in thousands of Euro</i>	Cash and cash equivalents
Book value at 31 December 2020	11.958
Fusion	560
Change during the period	8.988
Book value at 30 June 2021	21.506

Refer to the Statement of Cash Flows for more details on the change in cash flows for the period ended June 30, 2021.

Equity and liabilities

20. Shareholders' equity

A statement of changes in consolidated shareholders' equity as of June 30, 2021 is included in the financial statements section.

As already specified in the introduction, on 3 March 2021 the Company was admitted to listing on the Mercato Telematico Azionario organised and managed by Borsa Italiana S.p.A. Specifically, 4,061,111 shares were issued, corresponding to approximately 10% of the share capital at the start of trading, at a price of Euro 17 each.

A. Share capital and shares

The shares issued by the Parent Company represent the entire share capital of Euro 5,731,226.64, which consists of 40,611,111 shares. Below are the categories of shares held:

Categories Actions	30 June 2021
Ordinary shares (listed on the MTA market)	29.242.861
Special shares with multiple voting rights (class B)	11.368.250
Total	40.611.111

The Parent Company has not issued any shares with dividend rights.

The main characteristics of the types of actions listed above are as follows.

Ordinary shares

Ordinary shares are registered, indivisible, freely transferable and confer on their holders equal rights. In particular, each ordinary share confers the right to one vote at the Company's ordinary and extraordinary shareholders' meetings, as well as other financial and administrative rights pursuant to the articles of association and the law.

Multiple-vote shares

Multi-voting Shares carry the same rights and obligations as Ordinary Shares and have the following characteristics:

- a) attribute a voting right at the shareholders' meeting equal to 3 votes;
- b) are automatically converted into Ordinary Shares at a ratio of one Ordinary Share for each Multiple Voting Share (without the need for a resolution by either the special meeting of shareholders holding Multiple Voting Shares or the shareholders' meeting of the Company) in the event of a change of control of the Company or a transfer of Multiple Voting Shares to parties who are not already holders of Multiple Voting Shares
- c) may be converted, in whole or in part, even in several *tranches*, into Ordinary Shares at the simple request of the holder of the same, to be sent to the Chairman of the Board of Directors and in copy to the Chairman of the Board of Statutory Auditors, in the ratio of one Ordinary Share for each multiple voting Share

B. Nature and purpose of reserves

The breakdown of shareholders' equity is shown below, indicating the nature and purpose of the reserves:

<i>Figures in thousands of Euro</i>	Nature	Possible uses	30 June2021	31 December2020
Capital			5.731	5.158
Share premium reserve(*)	Capital	A, B, C	119.749	54.918
Earnings reserve restricted to capital increase to service the 2024-2026 Stock Grant Plan (**)	Useful	A	124	-
Legal reserve	Useful	A, B	892	892
FTA Reserve	Useful	A, B	(1.265)	(1.265)
Merger surplus reserve	Capital	A, B	449	50
Actuarial gains/losses reserve	Useful	A, B	(28)	(30)
Cash-flow hedge reserve	Useful	A, B	(16)	-
Reserve for translation differences	Useful	A, B	1.100	1.123
Retained earnings (losses)	Useful	A, B, C	(5.297)	8.112
Profit (loss) for the period			(8.653)	(13.285)
Shareholders' equity			112.785	55.673

(*) The Share premium reserve represents the share capital increase through the Company's listing net of the costs of the IPO process recognized directly in equity, amounting to approximately € 3.6 million.

(**) Earnings reserve tied to the bonus share capital increase, free of charge and divisible, to service the 2024-2026 Stock Grant Plan. The reserve will remain tied up to service the plan until the final subscription date, December 31, 2026 (paragraph 2.4 interim report on operations).

Legend:

- A) For capital increase
- B) To cover losses
- C) For distribution to members.

21. Employee benefits

This item includes all pension obligations and other employee benefits, subsequent to the termination of the employment relationship or to be paid upon maturity of certain requirements, and consists of provisions for severance indemnities relating to the employees of the Parent Company. Liabilities for severance indemnities amounted to € 882 thousand at June 30, 2021 (€ 847 thousand at December 31, 2020). Changes for the period ended June 30, 2021 and for 2020 are shown below:

<i>Figures in thousands of Euro</i>	30 June 2021	31 December 2020
Balance at the beginning of the period	847	803
Uses	(14)	(66)
Provision for severance indemnities	49	94
Financial charges	1	
Actuarial gains/(losses)	(1)	10
Total employee benefits	882	847

Provisions for employee benefits represent the estimated obligation, determined on the basis of actuarial techniques, relating to the amount to be paid to employees on termination of employment. At June 30, 2021 and December 31, 2020, the provisions for employee benefits refer to the Employee Severance Indemnity (hereinafter "TFR") set aside and allocated to employees.

In application of IAS 19, the valuation of the Employee Severance Indemnity has been carried out using the method envisaged by the recent provisions on the subject introduced by the National Order of Actuaries together with the competent bodies OIC, Assirevi and ABI for companies with more than 50 employees.

The main assumptions made for the actuarial estimation process are shown below:

Economic recruitment	30 June 2021	31 December 2020
Annual inflation rate	0,80%	0,80%
Annual discount rate	0,79%	0,34%
Annual rate of increase in severance pay	2,10%	2,10%

Annual frequency of turnover and advances to employees' severance indemnities	30 June 2021	31 December 2020
Frequency of advances	2,00%	2,00%
Frequency of turnover	10,00%	10,00%

Demographic assumptions	30 June 2021	31 December 2020
Death	RG48 mortality tables published by the State General Accounting Office	RG48 mortality tables published by the State General Accounting Office
Inability	INPS tables broken down by age and gender	INPS tables broken down by age and gender
Retirement	100% upon achievement of AGO requirements adjusted to Legislative Decree no. 4/2019	100% upon achievement of AGO requirements adjusted to Legislative Decree no. 4/2019

22. Current and non-current financial liabilities

The following table shows the changes in current and non-current financial liabilities during the period ended June 30, 2021 and December 31, 2020:

<i>Figures in thousands of Euro</i>	Amount
Financial liabilities at 01 January 2020	1.200
Financing	(5.011)
Capital repayments	(487)
Exchange rate effect	-
Financial liabilities at 31 December 2020	5.723
Financing	-
Financial liabilities from hedging derivatives	21
Interest on loans	7
Capital repayments	(438)
Exchange rate effect	-
Financial liabilities at 30 June 2021	5.313
Of which current	1.309
Of which non-current	4.004

<i>Figures in thousands of Euro</i>	30 June 2021	31 December 2020
Current financial liabilities	1.309	1.094
Non-current financial liabilities	4.004	4.629
Total financial liabilities	5.313	5.723

Financial liabilities are represented by:

- a subsidised loan at a rate of 1.70% under the Sabatini Law, amounting to €473 thousand at 30 June 2021 and €709 thousand at 31 December 2020. The decrease compared to December 31, 2020 is due to the repayment of the principal during the first months of 2021.

- a medium-long term loan with UBI Banca S.p.A, amounting to Euro 4,798 thousand at June 30, 2021, and Euro 5,000 thousand at December 31, 2020. The decrease with respect to December 31 is due to the repayment of the principal amounts during the first few months of 2021. The two loans were stipulated on 5 January 2021, for a total amount of €5,000 million and are made up as follows:

(i) a loan of €2,350 thousand, maturing on 7 January 2027, with a variable rate equal to the three-month EURIBOR rate plus a spread of 1.15%;

(ii) a loan of €2,650 thousand, maturing on 7 April 2024, with a variable rate equal to the three-month EURIBOR rate plus a spread of 1.15%.

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

Both loans, with UBI S.p.A, are 90% guaranteed by Medio Credito Centrale, taking advantage of the facilities put in place by Decree-Law No. 23 of 8 April 2020, converted with amendments by Law No. 40 of 5 June 2020, as subsequently amended and supplemented (so-called Liquidity Decree).

Existing loans require compliance with certain financial and commercial parameters ("*covenants*"). The commercial covenants will be tested beginning with the consolidated financial statements for the year ended December 31, 2021 and the financial covenants beginning with the consolidated financial statements for the year ended December 31, 2022 and require compliance with the following ratios:

-ratio of net financial debt to EBITDA equal to or less than 2;

-equity equal to or greater than Euro 50 million.

Failure to comply with the *covenants* described above will not result in early repayment of the loans, but will lead to an increase in the spread component of the interest rate, which will be increased by a further 0.50%.

It should also be noted that these loans were taken out in order to finance, in part, the expansion project of the Rosia site, which provides for the construction of a new "GMP" biotechnology plant, including all the plants and equipment of advanced and automated technology, for a total value of approximately Euro 10-12 million, financed in part with the Company's liquidity and in part through the two loans mentioned above.

The remaining balance consists of payables given by the market to market valuation of the derivative hedging interest on the UBI Banca loans described above, interest accruing as at 30th June 2021 also on those loans and amounts due to banks for balances due on company credit cards.

23. Trade payables

Trade payables to suppliers amounting to € 4,067 thousand at June 30, 2021 (€ 3,920 thousand at December 31, 2020) are mainly attributable to payables to medical institutions at which the Group conducts clinical trials and for the remainder to other suppliers of services and consumables.

Changes in trade payables during the period ended June 30, 2021 and December 31, 2020 are shown below:

<i>Figures in thousands of Euro</i>	Trade payables
Book value at 31 December 2020	3.920
Fusion	159
Change during the period	(12)
Book value at 30 June 2021	4.067

Breakdown of payables by geographical area

<i>Figures in thousands of Euro</i>	Geographical area	
	30 June 2021	31 December 2020
Italy	1.729	1.874
European Union	1.583	1.323
Extra European Union (USA)	355	413
Extra European Union (other)	399	310
Total trade payables	4.067	3.920

24. Other current liabilities

The Group's other current liabilities at 30 June 2021 and 31 December 2020 are detailed below:

<i>Figures in thousands of Euro</i>	30 June 2021	31 December 2020
Payables to social security institutions	385	360
Accrued expenses and deferred income	11	24
Other payables	1.050	2.193
Other current liabilities	1.447	2.578

Payables due to social security institutions express the amount of payables due to INPS and INAIL for withholdings to be paid and amount to Euro 385 thousand at June 30, 2021.

The remainder, equal to € 1,061 thousand at June 30, 2021, refers mainly to:

- Payables to employees for wages and salaries to be paid, equal to Euro 986 thousand;
- Other sundry payables of €75 thousand.

The following changes in "Other current liabilities" occurred during the period ended June 30, 2021 and December 31, 2020

<i>Figures in thousands of Euro</i>	Other current liabilities
Book value at 31 December 2020	2.578
Fusion	2
Change during the period	(1.133)
Book value at 30 June 2021	1.447

The change in the first half of 2021 is mainly attributable to a *bonus*, provided for a member of the Board of Directors, as well as a member of the Scientific Committee due to the operational commitment of the aforementioned to the development of the two most advanced products, paid in March 2021 (section 2.3 of the interim report on operations).

More information

25. Commitments

It should be noted that, at both June 30, 2021 and December 31, 2020, there were no commitments not reflected in the statement of financial position. Please refer to Note 10 for more details on the construction of a new biotechnology "GMP" plant at the Rosia site.

26. Disclosure of financial risks

Within the scope of business risks, the main risks identified, monitored and, to the extent specified below, actively managed by the Group, are as follows:

Credit Risk

Credit risk is the risk that a customer or one of the counterparties to a financial instrument will cause a financial loss by failing to meet a contractual obligation and arises primarily from the Company's trade receivables and debt securities.

The carrying amount of financial assets and assets arising from contracts represents the Group's maximum exposure to credit risk.

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

However, management also considers the variables typical of the Group's customer portfolio, including the insolvency risk of the industry and the country in which the customers operate. Assets under contract have as counterparts primary pharmaceutical and multinational companies characterized by a low risk profile.

The following table shows details by rating class of the debt securities in the portfolio:

<i>Figures in thousands of Euro</i> Band Credit rating	30 June 2021	31 December 2020
AAA / AA-	-	-
A+ / A-	-	-
BBB+ / BBB-	-	-
BB+ / B-	-	-
Lower than B-	-	-
Unrated	-	1
Total Debt securities	-	1
Total Other securities	91.736	49.983
Total assets measured at fair value	91.736	49.984

(*) Rating source: Standard&Poor's.

Unrated debt securities consist of bonds issued by leading banks and listed corporate companies.

Liquidity risk

This is the risk that the Group will have difficulty in meeting its obligations associated with financial liabilities settled in cash or through another financial asset. The Group's approach to liquidity management is to ensure that there are always, as far as possible, sufficient funds to meet its obligations as they fall due, both in normal and stressed financial conditions, without incurring excessive charges or risking damage to its reputation.

The Group ensures that there is cash on hand and other securities in excess of the expected cash outflows for financial liabilities (other than trade payables). In addition, the Group regularly monitors the level of expected cash inflows from trade and other receivables, as well as cash outflows relating to trade and other payables.

The following is a maturity analysis for trade receivables and payables and financial liabilities as of June 30, 2021:

<i>Figures in thousands of Euro</i>	30 June 2021				
	Within 90 days	From 90 days to 1 year	From 1 to 5 years	Over 5 years	Total
Leasing liabilities	181	543	3.123	8.004	11.851
Financial liabilities	225	1.084	3.788	216	5.313

Trade payables	4.067	-	-	-	4.067
Total	4.473	1.626	6.912	8.220	21.231

Figures in thousands of Euro	30 June 2021				
	Within 90 days	From 90 days to 1 year	From 1 to 5 years	Over 5 years	Total
Trade receivables	130	-	-	-	130
Total	130	-	-	-	130

In addition, the Group holds a financial portfolio totalling euro 91,736 thousand at June 30, 2021, which is readily liquid and can be used to meet any liquidity requirements.

The following table provides details by maturity of the debt securities held in the portfolio:

Figures in thousands of Euros	30 June 2021	31 December 2020
Maturity band		
1 year	-	-
2 years	-	-
3 - 5 years	-	-
6-10 years	-	-
11-20 years	-	-
21-30 years	-	-
Over 30	-	-
Perpetual	-	1
Total Debt securities	-	1
Total Other securities	91.736	49.983
Total assets measured at fair value	91.736	49.984

Market risk

Market risk is the risk that the *fair value* or future cash flows of a financial instrument will fluctuate as a result of changes in market prices, due to changes in exchange rates, interest rates or equity prices. The objective of market risk management is to manage and control the Group's exposure to market risk within acceptable levels while optimizing investment returns.

The following tables show the composition of debt securities by type of rate and maturity.

Figures in thousands of Euro	Fixed rate	Variable rate	Amount at 30 June 2021
Maturity band			
1 year	-	-	-
2 years	-	-	-
3 - 5 years	-	-	-
6-10 years	-	-	-
11-20 years	-	-	-
21-30 years	-	-	-
Over 30	-	-	-
Perpetual	-	-	-
Total Debt securities	-	-	-
Total Other securities	-	-	91.736
Total assets measured at fair value	-	-	91.736

Figures in thousands of Euro	Fixed rate	Variable rate	Mixed rate	Amount at 31 December 2020
Maturity band				
1 year	-	-	-	-
2 years	-	-	-	-
3 - 5 years	-	-	-	-
6-10 years	-	-	-	-
11-20 years	-	-	-	-

21-30 years	-	-	-	-
Perpetual	1	-	-	1
Total Debt securities	1	-	-	1
Total Other securities	-	-	-	49.983
Total assets measured at fair value	-	-	-	49.984

Exchange rate risk

The Group is exposed to exchange rate risk when sales, purchases, receivables and loans are denominated in a currency other than the Group's functional currency.

Manufacturing activities are limited to Italy and Switzerland and therefore the Group is exposed to fluctuations between the euro and the Swiss franc. The reporting currency is the euro; Philogen is subject to foreign exchange risk arising from the translation of the financial statements of its Swiss subsidiary Philochem AG, which affects consolidated net income and consolidated equity (translation risk).

The Group earns revenue from contracts with customers in foreign currencies and primarily in US Dollars. Revenue denominated in US Dollars for the periods ended 30 June 2021 and 2020 accounted for 90.7% and 84.8% of total revenue from contracts with customers, respectively. Therefore, an unfavorable trend in the value of the U.S. dollar relative to other relevant currencies could adversely affect the business and financial position. Details of revenue with customers by currency for the periods ended June 30, 2021 and 2020 are set out below:

<i>Figures in thousands of Euro</i>	Period ended 30 June			
	2021	%	2020	%
US Dollar (USD)	1.402	91%	1.958	85%
Euro (EUR)	112	7%	300	13%
Swiss Franc (CHF)	34	2%	50	2%
Total revenues from contracts with customers	1.548	100%	2.308	100%

The following is an absolute value sensitivity analysis on revenue from contracts with customers resulting from a 1% change in the exchange rate of the currencies listed above for the periods ended June 30, 2021 and 2020:

<i>Figures in thousands of Euro in absolute terms</i>	Period ended 30 June	
	2021	2020
US Dollar (USD)	12	20
Euro (EUR)	1	3
Swiss Franc (CHF)	-	1
Total effect on revenues from contracts with customers	13	24

The Group also incurs operating costs in foreign currencies, and primarily in US Dollars and Swiss Francs. Details of operating costs by currency for the periods ended 30 June 2021 and 2020 are set out below:

<i>Figures in thousands of Euro</i>	Period ended 30 June			
	2021	%	2020	%
US Dollar (USD)	278	3%	303	3%
Euro (EUR)	7.768	72%	6.233	70%
Pounds Sterling (GBP)	15	-	40	-
Dirham United Arab Emirates (AED)	-	-	2	-
Polish zloty (PLN)	1	-	-	-
Swiss Franc (CHF)	2.750	25%	2.292	26%
Total operating costs	10.812	100%	8.870	100%

The following is an absolute value sensitivity analysis on operating expenses resulting from a 1% change in the exchange rate of the currencies listed above for the periods ended June 30, 2021 and 2020:

<i>Figures in thousands of Euro in absolute terms</i>	Period ended 30 June	
	2021	2020
US Dollar (USD)	3	3
Euro (EUR)	78	62

Pounds Sterling (GPB)	-	-
Dirham United Arab Emirates (AED)	-	-
Polish zloty (PLN)	-	-
Swiss Franc (CHF)	28	23
Total effect on operating costs	109	89

The Group does not adopt exchange rate hedging instruments.

The following table summarises the quantitative data on the exposure of the Group's financial assets to exchange rate risk:

<i>Figures in thousands of Euro</i>	31 December2020	31 December2020
EUR	89.806	48.063
GBP	-	-
RUB	-	-
USD	1.930	1.921
TRY	-	-
Total current financial assets	91.736	49.984

Financial investment risk management

Following careful financial planning, the Parent Company has invested the portion of liquidity in excess of ordinary cash requirements in current financial assets. The choice of investments was made on the basis of monitoring and consultations with the securities depository banks. Constant information on the solvency of issuers, country risk and market variables is made available to the company in order to take prompt corrective action.

On the basis of the logic described in note no. 17 "Other current financial assets", to which reference should be made for further details, the Group has adopted an "Other" business model for the bond segment of its portfolio, with consequent measurement at FVTPL. The remaining securities held in the portfolio have been associated with an HTCS model. Failure to pass the SPPI Test resulted in their valuation at FVTPL.

Country Risk Management

The Group does not operate with countries that are unstable from an economic, political or social point of view.

27. Information on financial instruments

Categories of financial assets and liabilities

The following tables provide a breakdown of financial assets and liabilities by category, in accordance with IFRS 9, at 30 June 2021 and 31 December 2020.

<i>Figures in thousands of Euro</i>	30 June2021	31 December2020
Financial assets:		
Financial assets measured at amortised cost		
Trade receivables	130	515
Current financial assets	-	-
Cash and cash equivalents	21.506	11.958
Other current assets	1.043	635
Financial assets measured at fair value		
Current financial assets	91.736	49.984
Non-current financial assets	-	-
Total financial assets	114.415	63.092
Financial liabilities valued at amortised cost		
Non-current financial liabilities	4.004	4.629
Non-current lease liabilities	11.128	11.270
Current financial liabilities	1.309	1.094
Current lease liabilities	723	711
Trade payables	4.067	3.920

Other current liabilities	1.447	2.578
Total financial liabilities	22.678	24.202

Given the nature of short-term financial assets and liabilities, for most of these items the carrying amount is considered a reasonable approximation of *fair value*.

Non-current financial liabilities and assets are settled or measured at market rates and it is therefore believed that their *fair value* is substantially in line with current carrying amounts.

Fair value disclosures

In relation to the assets and liabilities recognised in the statement of financial position and measured at *fair value*, IFRS 13 requires these values to be classified on the basis of a hierarchy of levels that reflects the significance of the inputs used in determining *fair value*.

The following tables summarise the financial assets and liabilities measured at *fair value*, broken down on the basis of the levels envisaged in the hierarchy:

<i>Figures in thousands of Euro</i>	31 December 2020			
	Level 1	Level 2	Level 3	Total
Current financial assets measured at <i>fair value</i> through profit or loss in the profit (loss) for the year	8.432	41.552	-	49.984
Total assets measured at <i>fair value</i>	8.432	41.552	-	49.984

<i>Figures in thousands of Euro</i>	30 June 2021			
	Level 1	Level 2	Level 3	Total
Current financial assets measured at <i>fair value</i> through profit or loss in profit (loss) for the period	9.873	81.863	-	91.736
Total assets measured at <i>fair value</i>	9.879	81.863	-	91.736

Financial assets relating to level 1 of the *fair value* hierarchy refer to securities in the portfolio relating to bonds, equities and units in investment funds listed on regulated markets. Please refer to note no. 17 for further details.

Level 2 of the *fair value* hierarchy includes current financial assets measured at *fair value* through profit or loss for the period in accordance with IFRS 9, consisting of insurance investment products held by the Group for the purpose of investing excess liquidity (see Note 17 for further details on the nature of these assets).

These investments represent financial assets managed by insurance companies and are valued, at the balance sheet date, on the basis of the NAV (*Net Asset Value*) communicated by the insurance companies, representing the settlement value of the policies at the balance sheet date.

There were no transfers between the different levels of the *fair value* hierarchy during the periods considered.

28. Related parties

On April 27, 2021, following the favorable opinion of the Committee for Related Party Transactions issued on April 14, 2021, the Board of Directors of the Parent Company, approved the "Procedure for Related Party Transactions" pursuant to Article 2391-bis of the Italian Civil Code and the Related Party Regulations.

The Procedure for Transactions with Related Parties, approved by the Board of Directors, complies with the provisions of CONSOB Regulation No. 17221 of March 12, 2010, as amended by CONSOB Resolution No. 21624 of December 10, 2020.

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

Total transactions with related parties are summarised below.

Period ended 30 June 2021

Figures in thousands of euros

	Related party						Inc. % on balance sheet item
	Rendo S.r.l.	Rendo AG	Strategic executives	Directors and Endoconsiliar Bodies	Board of Statutory Auditors	Total	
Statement of financial position							
Assets for right of use	6.931	3.074	-	-	-	10.005	99%
Financial liabilities for current leases	461	224	-	-	-	685	95%
Financial liabilities for non-current leases	6.632	4.429	-	-	-	11.061	99%
Trade payables	-	-	-	53	29	82	2%
Profit and Loss Account							
Depreciation	273	95	-	-	-	368	49%
Costs for services	-	-	-	488	29	516	11%
Personnel costs	-	-	305	-	-	305	7%
Financial charges	99	74	-	-	-	173	21%

Financial year ended 31 December 2020

Figures in thousands of euros

Financial year ended 31 December 2020							
Figures in thousands of euros							
	Related party						Inc. % on balance sheet item
	Rendo S.r.l.	Rendo AG	Studio Neri- Tanini	Administrators and Scientific Committee	Board of Statutory Auditors	Total	
Statement of financial position							
Assets for right of use	7.205	2.912	-	-	-	10.117	98%
Financial liabilities for current leases	455	210	-	-	-	665	93%
Financial liabilities for non-current leases	6.864	4.322	-	-	-	11.186	99%
Trade payables	-	-	6	-	53	58	1%

Period ended 30 June 2020

Figures in thousands of euros

Related party							
	Rendo S.r.l.	Rendo AG	Neri-Tanini Consulting S.r.l.	Administrators and Scientific Committee	Board of Statutory Auditors	Total	Inc. % on balance sheet item
Profit and Loss Account							
Depreciation	274	88	-	-	-	362	51%
Costs for services	-	-	13	779	26	818	21%
Financial charges	105	74	-	-	-	179	6%

The transactions with related parties described above do not qualify as atypical or unusual, as they are part of the normal course of business of the Group companies and are conducted on an arm's length basis.

Remuneration of directors, strategic managers, statutory auditors, other endoconsiliar bodies and scientific committee

In relation to relations with the Directors, Statutory Auditors and the Scientific Committee of Group companies, these are limited to the payment of fees and remuneration as shown in the following tables:

i) Board of Directors

Figures in thousands of euros	30 June 2021	30 June 2020
Duccio Neri - Executive Chairman	150	140
Dario Neri - CEO	75	16
Giovanni Neri - Managing Director	45	100
Sergio Gianfranco Luigi Maria Dompé - Director	15	15
Roberto Marsella - Director	16	16
Nathalie Francesca Maria Dompé - Director	15	15
Leopoldo Zambeletti Pedrotti	15	15

Roberto Ferraresi	16	16
Guido Guidi	16	16
Marta Bavasso (*)	10	-
Other Directors	50	52
Total remuneration	422	400
Share-based payments (*)	-	514
Monetary incentive plan (**)	38	-
Total	460	914

(*) At 30 June 2020, provision was made for the *fair value* relating to the share-based payment resolved on 26 March 2020 by the Board of Directors for a member of the aforementioned corporate body, amended on 25 November 2020 through an agreement between the Company and the Beneficiary under which, as an alternative to the reserved capital increase, the Company could have awarded the Beneficiary a *bonus* of €1,500 thousand to be paid in cash or shares, in the event of the listing or change of control (pursuant to Article 2359 of the Italian Civil Code) of Philogen by 31 December 2021. In March 2021, following the listing of the Company, the above *bonus* was paid in full.

(**) At 30 June 2021, two-thirds of the MBO plan provided for executive directors was set aside (section 2.4 of the interim report).

ii) Strategic executives

<i>Figures in thousands of euros</i>	30 June 2021	30 June 2020
Duccio Neri	46	-
Dario Neri	162	-
Giovanni Neri	97	-
Remuneration for Strategic Executives	305	-

As per the resolution of the Board of Directors dated December 16, 2020, the three executive members of the Board of Directors were appointed as strategic executives with effect from January 1, 2021, pursuant to the reorganization of corporate governance following the listing process.

iii) Board of Statutory Auditors

<i>Figures in thousands of euros</i>	30 June 2021	30 June 2020
Stefano Mecacci - Chairman	14	11
Pierluigi Matteoni - Statutory Auditor	9	8
Marco Tanini - Statutory Auditor	-	8
Alessandra Pinzuti - Standing auditor	6	-
Remuneration of the Board of Statutory Auditors	29	26

iv) Endoconsiliar organs

<i>Figures in thousands of euros</i>	30 June 2021	30 June 2020
Marta Bavasso	10	-
Roberto Marsella	7	-
Leopoldo Zambelletti Pedrotti	3	-
Roberto Ferraresi	3	-
Remuneration of Endoconsiliar Committees	23	-

Control, Risk and Sustainability Committee: Marta Bavasso (Chairman), Roberto Marsella and Roberto Ferraresi. This committee also acts as the Committee for Transactions with Related Parties.

Remuneration and Appointments Committee: Marta Bavasso (Chairman), Roberto Marsella and Roberto Ferraresi.

v) Scientific Committee

<i>Figures in thousands of euros</i>	30 June 2021	30 June 2020
Dario Neri - Chairman	-	105
Guido Guidi	-	30
Wolfgang Berdel	4	12
Cornelia Halin	-	9
Fees of the Scientific Committee	4	156

By resolution of the Board of Directors on October 5, 2020, the compensation for the position of Chairman of the Scientific Committee was absorbed by the compensation of the Board of Directors.

Accounting principles

29. Evaluation criteria

These condensed interim consolidated financial statements have been prepared using the historical cost convention, with the exception of financial instruments, which are measured at *fair value at the end* of each reporting period.

These condensed interim consolidated financial statements have also been prepared on a going concern basis. The Directors' assessment of this assumption takes into account the Group's current development strategies, its equity and financial position and the possibility of reviewing the timing and structure of its development strategy, as well as its ability to raise the financial resources needed to continue its activities, including by licensing some of its proprietary products to third parties through *outlicensing* agreements.

30. Main accounting principles

Drafting criteria

The condensed interim consolidated financial statements have been prepared in accordance with the international accounting standard on interim reporting (IAS 34 Interim Financial Reporting). All the schedules comply with the minimum content required by international accounting standards and the applicable provisions of national legislation and Consob. The schedules used are deemed adequate for the purpose of providing a fair representation of the Group's financial position, results of operations and cash flows. In particular, it is believed that the income statements reclassified by nature provide reliable information that is relevant for the purposes of providing a fair representation of the Group's performance. The schedules that make up the Financial Statements are as follows:

Consolidated statement of financial position

The statement is presented by showing current and non-current assets and current and non-current liabilities separately, with a description in the notes for each asset and liability item of the amounts expected to be settled or recovered within or beyond 12 months from the balance sheet date.

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

- is expected to be realized/extinguished or is expected to be sold or used in the normal operating cycle of the Group;
- is held primarily for negotiation;
- is expected to be realized/extinguished within 12 months from the balance sheet date.

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

Consolidated income statement

Costs are classified by nature, highlighting the intermediate results relating to the operating result and the result before tax.

Consolidated statement of comprehensive income

The table includes the components that make up the result for the period and the income and charges recognised directly in equity for transactions other than those carried out with shareholders.

Statement of changes in consolidated shareholders' equity

The table shows the changes in the shareholders' equity items relating to:

- allocation of the profit for the period of the parent company and subsidiaries to minority shareholders;
- amounts relating to transactions with shareholders (purchase and sale of treasury shares);
- each item of profit and loss net of any tax effects which, as required by IFRS, are either recognised directly in equity (gains or losses from the purchase or sale of treasury shares, actuarial gains and losses generated by the measurement of defined benefit plans), or have a balancing entry in an equity reserve (share-based payments for incentive plans);
- movements in the valuation reserves for derivative instruments hedging future cash flows, net of any tax effect.

Consolidated cash flow statement

The Statement of Cash Flows is presented in accordance with the indirect method, whereby net income is adjusted for the effects of non-monetary transactions, any deferrals or accruals of past or future operating cash receipts or payments, and items of income or expense associated with cash flows from investing or financing activities.

Income and expenses related to interest, dividends received and income taxes are included in cash flows based on the type of underlying transaction that generated them.

Cash and cash equivalents included in the statement of cash flows comprise the balance of this item at the reporting date. Cash flows in foreign currencies have been translated at the average exchange rate for the period.

Consolidation criteria

The condensed interim consolidated financial statements of the Philogen Group include the period financial statements of Philogen S.p.A. and those of its subsidiary Philochem AG, a company incorporated under Swiss law in which the Parent Company holds a controlling interest pursuant to Article 26 of Legislative Decree 127/91. The following is a summary of the information concerning the companies in the Group and the consolidation methods used:

Company name	Registered office	% control	Currency	Consolidation method
Philogen S.p.A.	Siena - Italy	Group leader	EUR	Integral
Philochem AG	Zurich - Switzerland	99,99%	CHF	Integral

Subsidiaries are those entities in which the Group has control, i.e. when the Group is exposed to variable returns from its relationship with the entity, or has rights to such returns, while at the same time having the ability to influence them by exercising its power over the entity. The financial statements of subsidiaries are included in the condensed consolidated interim financial statements from the time when the parent company begins to exercise control until the date when such control ceases.

These financial statements are appropriately reclassified and adjusted to bring them into line with the accounting principles and valuation criteria of the parent company in the event of significant differences. All Group companies close their financial year on 31 December.

The book value of investments in companies included in the consolidation is eliminated against the corresponding portion of the shareholders' equity of the investee companies, attributing to the individual elements of the assets and liabilities their current value at the date of acquisition. Any residual difference, if positive, is recorded under non-current assets and, residually, under goodwill; if negative, it is charged to the income statement.

Changes in the Group's interest in a subsidiary that do not result in the loss of control are accounted for as transactions between shareholders in their capacity as shareholders.

In the preparation of the condensed interim consolidated financial statements, the balances of intercompany transactions and unrealized intercompany revenues and costs are eliminated. Unrealized losses are eliminated, as are unrealized gains, to the extent that there is no evidence of impairment.

Foreign currency

Foreign currency transactions

Transactions in foreign currencies are translated into the functional currency of each Group entity at the exchange rate prevailing on the date of the transaction.

Monetary items in foreign currency at the end of the period are translated into the functional currency using the exchange rate at that date. Non-monetary items that are measured at *fair value* in a foreign currency are translated into the functional currency using the exchange rates at the date the *fair value* was determined. Non-monetary items that are measured at historical cost in a foreign currency are translated using the exchange rate at the same date of the transaction. Exchange differences arising from translation are generally recognised in profit/(loss) for the period within finance costs.

Foreign operations

The assets and liabilities of foreign operations, including goodwill and *fair value* adjustments arising from the acquisition, are translated into Euros using the exchange rate at the end of the period. Revenues and costs of foreign operations are translated into Euro using the exchange rate in force at the date of the transactions. Exchange rate differences are recognised in other comprehensive income and included in the translation reserve, with the exception of exchange rate differences that are attributed to minority interests. When the Group disposes of all or part of an investment in a foreign operation so that it loses control, significant influence or joint control over it, the amount accumulated in the translation reserve relating to that foreign operation is reclassified to profit/(loss) for the period as an adjustment to the gain or loss on disposal.

The exchange rates used at June 30, 2021 and December 31, 2020 for the translation of income statement and balance sheet items in foreign currencies are summarized in the following table and refer to the subsidiary Philochem:

Exchange rates (CHF/EUR)	2021	2020
Spot exchange rate (for conversion of assets and liabilities)	1,0980	1,0802
Average exchange rate for the period (for conversion of costs and revenues)	1,0943	1,0703

Changes in international accounting standards, interpretations and amendments

The following are the new accounting standards, interpretations and enhancements issued by the IASB and adopted from 1 January 2020.

Covid-19-Related Rent Concessions (Amendment to IFRS 16)

With Regulation (EU) No 2020/1434 of 9 October 2020, published in the Official Journal of the European Union on 12 October 2020, the IASB document "Concessions on Leases Related to COVID-19 (amendment to IFRS 16 Leases)" was adopted ("endorsed").

This amendment introduces a practical expedient to simplify the accounting by lessees for rent *concessions* (i.e., reductions, cancellations and/or deferrals of leases granted to a lessee by the lessor) obtained as a result of the Covid-19 pandemic. The practical expedient, if the rent *concession* derives from a right acquired by the lessee through a specific contractual clause or a specific local regulation, makes it possible to record a "negative variable rent" to be recognised in the income statement as an operating income directly reducing the lease liability.

The practical expedient applies only to *rents* directly attributable to the Covid-19 event if all of the following conditions are met:

- as a result of the *rent concession*, the total payments due for the lease are substantially equal to or lower than those that were originally provided for in the contract

- the *rent concession* must refer to a partial or total reduction in lease payments that were expected in 2020; in the event that the agreement with the lessor provides for a deferment in the payment of lease payments, income may be recognized for a negative variable payment in 2020 for only the portion of the actual reduction in lease payments expected in 2020, net of increases expected in subsequent years
- there have been no material changes with respect to other terms and conditions of the lease.

If the above conditions are not met, the Group accounts for *rent concessions* on the basis of the general principle dictated by IFRS 16 regarding *lease modifications*, which does not take into account the practical expedient and which requires for each individual contract a legal analysis of the clauses and of the applicable local regulations, in order to redetermine the lease liability using a new discount rate. The reduction in the lease liability, determined in this manner, is made as a direct adjustment to the right-of-use asset.

It should be noted that the Group did not benefit from any *concession* at December 31, 2020; therefore, this new accounting standard had no impact on the condensed interim consolidated financial statements.

Amendments to "References to the Conceptual Framework in IFRS Standards".

The IASB published the Conceptual Framework in March 2018, which establishes a comprehensive set of concepts for financial reporting, standard setting, guidance in developing consistent accounting policies, and assistance in understanding and interpreting the standards. It includes some new concepts, provides updated definitions and recognition criteria for assets and liabilities, and clarifies some important concepts. These amendments had no impact on the consolidated financial statements as of December 31, 2020.

Amendments to IFRS 3 - Definition of a Business

The IASB has issued amendments to the definition of a business in IFRS 3 Business Combinations to help entities determine whether or not an acquired set of assets and liabilities is a business. They clarify the minimum requirements for having a business, remove the assessment of whether market participants are able to replace any missing elements, add guidance to help entities assess whether an acquired process is substantial, and narrow the definitions of a business. New illustrative examples were provided along with the amendments. These amendments had no impact on the consolidated financial statements as of December 31, 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 align the definition of "material" between the standards and clarify certain aspects of the definition. The new definition states that "Information is material if the omission, misrepresentation or obscuration could reasonably be expected to affect the decisions that primary users of general purpose financial statements make on the basis of those financial statements." The amendments clarify that materiality will depend on the nature or size of the information, or both. An entity will need to assess whether the information, individually or in combination with other information, is material in the context of the financial statements. These amendments had no impact on the consolidated financial statements as of December 31, 2020.

Interest rate benchmark reform - Amendments to IFRS9, IAS 39 and IFRS7

In September 2019, the IASB issued amendments to IFRS 9, IAS 39 and IFRS 7 'Financial Instruments: Disclosures', concluding the first phase of its work to address the effects of the Interbank Offered Rates (IBOR) reform on financial reporting. The amendments provide temporary changes that allow hedge accounting to be applicable during the period of uncertainty brought about by the replacement of the pre-existing interest rate benchmark with an alternative risk-free interest rate. The amendments assume that the benchmark on which the hedged cash flows and/or the hedging instrument are based will not change as a result of the IBOR reform. The amendments are to be applied retrospectively. The amendments are effective for fiscal years opening on or after January 1, 2020. The amendments are effective for financial years opening on or after 1 January 2021. The Group will monitor the evolution of the ongoing amendments on reform. These amendments have had no impact on the Group's condensed consolidated financial statements.

Revenues from contracts with customers

Revenues are measured taking into account the consideration specified in the contract with the customer. The Group recognises revenue when it transfers control of goods or services.

IFRS 15 "Revenue from contracts with customers" defines the criteria for recognising and measuring revenue from contracts with customers. In general, IFRS 15 requires recognition of revenue at an amount that reflects the consideration to which the entity believes it is entitled in exchange for the transfer of goods or services to the customer. Specifically, IFRS 15 requires revenue recognition to be based on the following 5 steps:

- (i) identification of the contract with the customer;
- (ii) identification of *performance* obligations (i.e. contractual promises to transfer goods and/or services to a customer;
- (iii) determination of the transaction price;
- (iv) allocation of the transaction price to the *performance* obligations identified on the basis of the stand-alone selling price of each good or service;
- (v) recognition of revenue when the relative *performance* obligation is satisfied.

The Group's revenues mainly derive from licensing agreements and contracts for the provision of research and development services commissioned by customers.

With regard to contracts for the granting of licensing rights over the Group's intellectual property, firstly it is analysed whether the granting of the licensing right is distinguishable from other *performance obligations*. The Group recognises distinct performance obligations when:

- the customer can benefit from the good/service either alone or in combination with other resources that are readily available;
- the promise to transfer a good or service is identifiable separately from other promises in the contract.

If it is found that the grant of a licence right is not distinguishable from the promise to transfer other goods or services, the Group accounts for the promise to grant a licence and the other promised goods or services as a single obligation to do.

If, on the other hand, it is found that the grant of the license right is distinct from the promise to transfer other goods or services, the Group analyzes whether the customer obtains a right of access or a right to use the intellectual property. The customer has a right of access to the company's intellectual property if all of the following conditions are met:

- The contract provides for, or the customer expects, the Group to carry out activities that have significant impacts on intellectual property;
- These activities at the time they are performed do not transfer distinct goods/services to the customer;
- The rights arising from the licence expose the customer to positive/negative effects on the Group's activities with regard to intellectual property.

If the granting of the license right confers a right of access to the intellectual property, the revenues are recognised *over the duration of this right ("over time")*. On the other hand, if the license is a right to use the intellectual property, the related revenues are recognized *at the time the right is granted ("at a point in time")*.

Below is a summary of the main fees and related payment terms covered by the Group's licence agreements:

Type of consideration	Accounting records
<i>Up-front Fees</i>	These represent consideration received in advance of entering into the contract. If they relate to the granting of license rights, they are recognized: — <i>at point in time</i>, in the case of rights of use of intellectual property; — <i>over time</i>, in the case of access rights to intellectual property.

	If specific goods/services transferred to the customer are not identified when the <i>up-front fee</i> is collected, this collection represents an advance and is recognised as revenue in the future when the <i>performance obligations</i> are met ("over time"). The Group issues an invoice for the <i>up-front fee</i> when the contract is signed. This invoice is usually due within 30 days. The payment terms do not provide for commercial discounts.
<i>Commercial Option Fees</i>	If the licence right is separable from other obligations requiring performance, they are recognised as rights to use the intellectual property and the related revenue is recognised <i>at a point in time</i> when that licence right is granted. If the licence right is not separable from the other obligations requiring performance, this collection represents an advance and is recognised as revenue in the future when the <i>performance obligations</i> are satisfied ("over time"). The Group issues an invoice for the <i>commercial option fee</i> at the same time as the customer notifies the Group that it wishes to exercise this option. This invoice is usually due within 30 days. The payment terms do not provide for commercial discounts.
<i>Milestones</i>	They represent variable payments contingent upon the achievement of certain significant milestones in the development of the product (e.g. the commencement of Phase III clinical trials). Upon entering into the contract, management assesses whether achievement of the <i>milestones</i> is highly probable and estimates the amount to be included in the transaction price using the <i>most likely amount</i> method. If it is probable that a subsequent significant reversal of revenue will not occur, the <i>milestone</i> value is included in the transaction price. Payments linked to events that are not under the Group's control and which typically depend on obligations on the part of the counterparty (such as, for example, approval of the product by the regulatory authorities or achievement of the research stages conducted by the customer), are not considered highly probable until there is certainty that the <i>milestone</i> will be achieved (for example, a communication from the customer or the regulatory authorities). At the end of each financial year, management reassesses the probability of achieving all <i>milestones</i> and adjusts its estimate of the overall transaction price if necessary. The Group issues an invoice for the <i>milestone</i> at the same time as the customer notifies the Group that the objective/event has been achieved. This invoice is usually due within 30 days. The payment terms do not include commercial discounts.
<i>Royalties (based on sales)</i>	The Group recognizes sales-based royalty revenue only when (or as) the last of the following events occurs: — subsequent sale or use; and — the performance (or partial performance) of the obligation to do all or part of the sales-based royalty.

With regard to *other performance obligations* contained in contracts (typically consisting of the performance of research and development services or the sale of GMP products), the Group recognises the transaction price allocated to these activities as the *performance obligation* is fulfilled ("over time") if one of the following criteria is met:

- the client simultaneously receives and uses the benefits deriving from the service provided by the Group as and when it performs it;
- the Group's performance creates or improves the activity that the customer controls as the activity is created or improved;
- the service does not create an asset with an alternative use for the Group and the Group has the enforceable right to payment for the completed service up to the date in question.

If not even one of the above criteria is met, the *performance obligation* is considered fulfilled when the good or service is transferred and the related revenues are recognised *at a later date*.

Public contributions

Unrestricted government grants are recognised in profit/(loss) for the period as other income when the government grant becomes receivable. Other government grants related to assets are recognised initially at *fair value* as deferred revenue if there is reasonable assurance that they will be received and that the Group will meet the expected conditions for their receipt and are then recognised in profit/(loss) for the period as other income on a systematic basis over the useful life of the asset to which they relate.

Grants that are intended to offset costs incurred by the Group are recognised in profit/(loss) for the period, on a systematic basis, to offset them in the same period against the costs that the grant is intended to offset.

Recognition of costs

Costs are recognised when they relate to goods and services purchased or consumed during the period or by systematic allocation on an accrual basis.

Financial income and expenses

Financial income and expenses are recognised on an accruals basis based on the interest accrued on the net value of the related financial assets and liabilities using the effective interest rate.

Financial charges are accounted for on an accruals basis and recognised in the income statement in the period in which they accrue.

Financial income is recorded on the basis of the effective rate of return on an accruals basis.

The Group's financial income and expenses include:

- interest income;
- interest expense;
- dividends received;
- net gains or losses from financial assets to the FVTPL;
- foreign exchange gains or losses on financial assets and liabilities;
- reclassification of net gains or losses previously recognized in other comprehensive income on cash flow hedges related to interest rate risk and foreign exchange risk for borrowings.

Interest income and expense is recognised in profit/(loss) for the period on an accruals basis using the effective interest method. Dividend income is recognised when the Group's right to receive payment 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:

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

When calculating interest income and interest expense, the effective interest rate is applied either to the gross carrying amount of the asset (when the asset is not impaired) or to the amortised cost of the liability. However, in the case of financial assets that have become impaired after initial recognition, interest income is calculated by applying the effective interest rate to the amortised cost of the financial asset. If the asset ceases to be impaired, interest income reverts to being calculated on a gross basis.

Taxes

The tax charge for the period includes current and deferred taxes recognised in profit/(loss) for the period, except for those relating to business combinations or items recognised directly in equity or other comprehensive income.

The Group has determined that interest and penalties relating to income taxes, including accounting treatments to be applied to income taxes of an uncertain nature, are accounted for in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* as they do not meet the definition of income taxes.

i) Current taxes

Current taxes include the estimated amount of income taxes payable or receivable, calculated on the taxable income or tax loss for the year, as well as any adjustments to taxes for previous years. The amount of taxes payable or receivable, determined on the basis of tax rates in force or substantially in force at the end of the period, also includes the best estimate of any amount payable or receivable that is subject to uncertainty. Current taxes also include any taxes relating to dividends.

Current tax assets and liabilities are offset only when certain criteria are met.

ii) Deferred taxes

Deferred taxes are recognised with reference to temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding amounts recognised for tax purposes. Deferred taxes are not recognised for:

- temporary differences relating to the initial recognition of assets or liabilities in a transaction other than a business combination that affects neither accounting profit (or loss) nor taxable profit (or tax loss);
- temporary differences relating to investments in subsidiaries, associates and joint ventures to the extent that the Group is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future; and
- taxable temporary differences relating to the initial recognition of goodwill.

Deferred tax assets are recognized for deductible temporary differences to the extent that it is probable that future taxable profit will be available against which these assets can be utilized. Future taxable income is defined on the basis of the reversal of the related deductible temporary differences. If the amount of taxable temporary differences is not sufficient to fully recognise a deferred tax asset, future taxable income, adjusted for the reversal of existing temporary differences, is taken into account, as envisaged by the business plans of the individual Group companies. The value of deferred tax assets is reviewed at each balance sheet date and is reduced to the extent that it is no longer probable that the related tax benefit will be realized. These reductions must be reversed when the probability of future taxable income increases.

Unrecognized deferred tax assets are reviewed at the end of each reporting period and are recognized to the extent that it has become probable that the Group will earn sufficient taxable profit in the future to utilize them.

Deferred taxes are measured using the tax rates that are expected to apply to temporary differences in the year in which they reverse based on tax rates established by regulations in force or substantially in force at the reporting date and reflect any uncertainties relating to income taxes.

The measurement of deferred taxes reflects the tax effects arising from the manner in which the Group expects, at the balance sheet date, to recover or settle the carrying amount of assets and liabilities. The assumption that the carrying amount of investment property measured at *fair value* will be recovered in full through a sale transaction has not been rebutted.

Deferred tax assets and liabilities are offset only when certain criteria are met.

Operating result

Operating profit is determined by the Group's operating activities that generate ongoing revenues and other income and expenses related to operating activities. Operating profit excludes net finance costs and income taxes.

Earnings per share

The calculation of basic earnings per share was made considering the profit attributable to holders of ordinary shares and the weighted average number of ordinary shares outstanding during the period.

The calculation of the diluted earnings per share was made considering the profit attributable to the holders of ordinary shares and the weighted average number of ordinary shares in circulation during the period, taking into account the effects of all the potential ordinary shares with a diluting effect. The calculation of the dilutive effect of potential ordinary shares was carried out on the basis of the *treasury share method* provided for by IAS 33.

Property, plant and equipment

i) Detection and evaluation

An item of property, plant and equipment is measured at cost, including capitalized borrowing costs, less accumulated depreciation and impairment losses.

If an item of property, plant and equipment is composed of various components with different useful lives, those components are accounted for separately (significant components).

The gain or loss generated by the disposal of an item of property, plant and equipment is recognised in profit/(loss) for the period under "Other income" and "Other operating expenses" respectively.

ii) Subsequent costs

Subsequent costs are capitalised only when it is probable that the related future economic benefits will flow to the Group.

iii) Depreciation

Depreciation of an item of property, plant and equipment is computed to reduce the cost of that item, net of its estimated residual value, on a straight-line basis over the useful life of the item. Depreciation is generally recognized in profit/(loss) for the period under the caption "Depreciation and amortization". Land is not depreciated.

The estimated useful lives of the current period 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 furnishings	12%
Leasehold improvements	8%

Depreciation methods, useful lives and residual values are checked at the end of the period and adjusted where necessary.

Intangible assets

i) Detection and evaluation

Research and development: expenditure on research activities is recognised in profit/(loss) for the period in which it is incurred. Development costs are capitalised only if the cost attributable to the asset during its development can be reliably measured, 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 its development and to use or sell the asset. Other development expenditure is recognised in profit/(loss) for the period as incurred. Capitalised development expenditure is recognised at cost less accumulated amortisation and any accumulated impairment losses.

If all the capitalisation requirements are not met, the costs incurred by the Group for research and development activities are charged to the income statement in the period in which they are incurred.

Other *intangible* assets: other intangible assets, patents and licenses that have a finite useful life, are recorded at cost less accumulated amortization and any impairment losses.

ii) Subsequent costs

Costs incurred after initial recognition are capitalized only when they increase the expected future economic benefits attributable to the asset to which they relate. All other subsequent costs, including those relating to goodwill and internally generated brands, are included in profit/(loss) for the period in which they are incurred.

iii) Depreciation

Amortisation is recognised in profit/(loss) for the year on a straight-line basis over the estimated useful life of the intangible assets, from when the asset is available for use.

The estimated useful lives of the current period and comparative periods are as follows:

Category	Average rate
Patent and intellectual property rights	5%
Concessions, licenses, trademarks and similar rights	10%

Depreciation methods, useful lives and residual values are reviewed at each period end and amended as necessary.

Assets for right of use

At the inception of the contract the Group assesses whether the contract is, or contains, a lease. The contract is, or contains, a lease if, in exchange for consideration, it transfers the right to control the use of an identified asset for a period of time. To assess whether a contract transfers the right to control the use of an identified asset, the Group uses the definition of a lease in IFRS 16.

At the inception of a contract or upon amendment of a contract that contains a lease component, the Group allocates the contract consideration to each lease component on the basis of its stand-alone price.

At the inception of the lease, the Group recognises the right-of-use asset and the lease liability. The right-of-use asset is initially measured at cost, including the amount of the initial measurement of the lease liability, adjusted for lease payments made on or before the effective date, plus the initial direct costs incurred and an estimate of the costs that the lessee will incur in dismantling and removing the underlying asset or restoring the underlying asset or the site where it is located, net of lease incentives received.

The right-of-use asset is subsequently depreciated on a straight-line basis from the effective date to the end of the lease term, unless the lease transfers ownership of the underlying asset to the Group at the end of the lease term or, considering the cost of the right-of-use asset, the Group is expected to exercise the purchase option. In this case, the right-of-use asset will be depreciated over the useful life of the underlying asset, determined on the same basis as that of property and equipment. In addition, the right-of-use asset is regularly reduced by any impairment losses and adjusted to reflect any changes arising from subsequent valuations of the lease liability.

The Group measures the lease liability at the present value of the unpaid lease payments due at the effective date, discounting them using the lease's implicit interest rate. Where this rate cannot be readily determined, the Group uses the marginal borrowing rate. In general, the Group uses the marginal lending rate as the discount rate.

The Group's marginal borrowing rate is calculated based on interest rates obtained from various external financing sources making certain adjustments to reflect the terms of the lease and the type of leased asset.

Lease payments due included in the measurement of the lease liability include:

- fixed payments (including substantially fixed payments);
- variable lease payments that depend on an index or rate, measured initially using an index or rate at the effective date;

- the amounts expected to be paid under the residual value guarantee; and
- the exercise price of a purchase option that the Group is reasonably certain to exercise, payments due on the lease over an optional renewal period if the Group is reasonably certain to exercise the renewal option, and penalties for early termination of the lease, unless the Group is reasonably certain not to terminate the lease early.

The lease liability is measured at amortised cost using the effective interest method and is remeasured when there is a change in the future lease payments due as a result of a change in the index or rate, when there is a change in the amount that the Group expects to have to pay as a guarantee on the residual value or when the Group changes its assessment with reference to whether or not it has exercised an option to purchase, extend or terminate the lease or when there is a review of the payments due under the lease that are substantially fixed.

When the lease liability is remeasured, the lessee makes a corresponding change to the right-of-use asset. If the carrying amount of the right-of-use asset is reduced to zero, the lessee recognises the modification in profit or loss for the period.

The Group has applied IFRS 16 using the modified retrospective application method as at 1 January 2017.

Short-term leasing and leasing of low-value assets

The Group has elected not to recognise right-of-use assets and lease liabilities relating to low-value assets and short-term leases, including computer equipment. The Group recognises the related lease payments due as an expense on a straight-line basis over the lease term.

Lease back

If an entity transfers an asset to another entity and obtains it on a leaseback basis, it is necessary to determine, on the basis of the requirements of IFRS 15, whether the transfer should be accounted for as a sale. If so, the lessee-seller shall measure the asset consisting of the right of use arising from the leaseback at the proportion of the asset's previous carrying amount that is transferred to the right of use retained by the lessee-seller. Accordingly, the lessee-seller shall recognise only the amount of gain or loss that relates to the rights transferred to the lessor-purchaser. If the fair value of the consideration for the sale of the asset does not equal the fair value of the asset, or if the lease payments payable are not at market prices, the entity shall make the following adjustments to measure the sale proceeds at fair value: (i) terms below market prices shall be accounted for as a prepayment of lease payments due and (ii) terms above market prices shall be accounted for as additional financing provided by the lessor-buyer to the lessee-seller.

Real estate investments

Property, plant and equipment held for income generation purposes and not for instrumental use are classified in a specific class called "Investment property", in accordance with IAS 40, and are recorded at cost. These assets consist of land and/or buildings (or parts of buildings) held by the owner or by the lessee under a finance or operating lease agreement for the purpose of renting them out. These types of property are classified separately from other property held. Investment property is shown 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 reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount cannot be recovered. Impairment losses are recognised in the income statement under depreciation, amortisation and impairment losses. These impairment losses are reversed if the reasons for them cease to exist.

Investment property is derecognised from the financial statements when it is disposed of (i.e. at the date on which the purchaser obtains control) or when the investment is permanently unusable and no future economic benefits are expected from its disposal. The amount of consideration to be taken into account in determining the gain or loss on derecognition of investment property is determined in accordance with the transaction pricing requirements in IFRS 15.

Inventories

Inventories are valued at the lower of purchase or production cost and net realizable value. Purchase cost is defined as the actual purchase price plus accessory charges. The purchase cost of materials includes, in addition to the price of the

material, the costs of transport, customs, other taxes and other costs directly attributable to that material. Returns, trade discounts, allowances and bonuses are deducted from costs. Production cost means all direct costs and indirect costs for the portion reasonably attributable to the product over the period of manufacture and up to the time when the asset can be used, considered on the basis of normal production capacity. The realizable value that can be inferred from market trends is equal to the estimated selling price of goods and finished products in the course of normal operations, net of presumed completion costs and direct selling costs. For the purposes of determining the realisable value based on market trends, account is taken, among other things, of the rate of obsolescence and the turnaround time of inventories. The cost of inventories is determined using the weighted average cost method. In the case of inventories of goods produced by the Group, the cost includes a portion of overheads determined on the basis of normal production capacity.

Financial instruments

i) Detection and evaluation

Trade receivables and debt securities issued are recognised at the time they are originated. All other financial assets and liabilities are initially recognised on the trade date, i.e. when the Group becomes a contractual party to the financial instrument.

Except for trade receivables that do not contain a significant financing component, financial assets are measured initially at *fair value* plus or minus, in the case of financial assets or financial liabilities not measured at FVTPL, the transaction costs directly attributable to the acquisition or issue of the financial asset. Upon initial recognition, trade receivables that do not have a significant financing component are measured at their transaction price.

ii) Classification and further evaluation

Financial assets:

Upon initial recognition, a financial asset is classified based on its measurement: amortized cost; *fair value recognized* in other comprehensive income (FVOCI) - debt security; FVOCI - equity security; or *fair value* recognized in profit/(loss) for the period (FVTPL).

Financial assets are not reclassified after their initial recognition unless the Group changes its business model for managing financial assets. In this case, all the financial assets concerned are reclassified on the first day of the first financial year following the change in the business model.

A financial asset shall be measured at amortized cost if both of the following conditions are met and it is not designated at FVTPL:

- the financial asset is held as part of a business model whose objective is to own the financial assets in order to collect the related contractual cash flows; and
- the contractual terms of the financial asset provide for cash flows at specified dates consisting solely of payments of principal and interest on the principal amount to be repaid.

A financial asset must be assessed at FVOCI if both of the following conditions are met and it is not designated at FVTPL:

- the financial 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 provide for cash flows at specified dates consisting solely of payments of principal and interest on the principal amount to be repaid.

Upon initial recognition of an equity security not held for trading purposes, the Group may make an irrevocable election to present subsequent changes in *fair value* in other comprehensive income. This choice is made for each asset.

All financial assets not classified as measured at amortized cost or FVOCI, as noted above, are measured at FVTPL. This includes all derivative financial instruments. On initial recognition, the Group may irrevocably designate the financial asset as measured at *fair value through* profit or loss for the period if doing so eliminates or significantly reduces an accounting mismatch that would otherwise result from measuring the financial asset at amortised cost or FVOCI.

Financial activities: evaluation of the business model

With specific reference to the Business Model, IFRS 9 identifies three different business models, which in turn reflect the ways in which financial assets are managed:

- i. "Held To Collect": a business model that includes financial assets held with the objective of realizing contractual cash flows, maintaining the financial instrument until maturity;
- ii. "Held to Collect and Sell": a business model that includes financial assets held with the objective of both realizing contractual cash flows over the life of the asset and collecting proceeds from the sale of the asset;
- iii. "Other": business model includes financial instruments that cannot be classified in the previous categories, mainly represented by financial assets held for the purpose of realizing cash flows through sale (assets held for trading).

The business model therefore represents the way in which the Group manages its financial assets, i.e. how it intends to realise their cash flows.

The Group assesses the objective of the business model under which the financial asset is held at the portfolio level as best reflecting how the asset is managed and the information reported to management. Such information includes:

- the stated criteria and objectives of the portfolio and the practical application of those criteria, including, among other things, whether management's strategy is based on earning interest from the contract, maintaining a specified interest rate profile, matching the maturity of financial assets with that of related liabilities or expected cash flows or raising cash flows by selling assets;
- the methods for evaluating portfolio performance and the methods for communicating performance to the Group's key management personnel;
- the risks that affect the performance of the business model (and the financial assets held within the business model) and how those risks are managed;
- the remuneration arrangements for the enterprise's managers (for example, whether remuneration is based on the *fair value* of assets under management or on contractual cash flows collected); and
- the frequency, value and timing of sales of financial assets in prior periods, the reasons for the sales and expectations about future sales.

Transfers of financial assets to third parties as part of transactions that do not result in derecognition are not considered to be sales for the purposes of business model valuation, in line with the Group's retention of such assets on the balance sheet.

Financial assets that meet the definition of financial assets held for trading or whose performance is measured on a *fair value* basis are measured at FVTPL.

Financial assets: assessment of whether the contractual cash flows represent solely payments of principal and interest.

For measurement purposes, 'principal' is the *fair value* of the financial asset on initial recognition, while 'interest' is the consideration for the time value of money, the credit risk associated with the amount of principal to be repaid during a given period of time and other basic risks and costs associated with the loan (e.g. liquidity risk and administrative costs), as well as the profit margin.

In assessing whether the contractual cash flows consist solely of principal and interest payments, the Group considers the contractual terms of the instrument. Therefore, it assesses, among other things, whether the financial asset contains a contractual provision that changes the timing or amount of the contractual cash flows such that the following condition is not met. For assessment purposes, the Group considers:

- contingent events that would change the timing or amount of cash flows;
- clauses that could adjust the contractual coupon rate, including variable rate elements;
- prepayment and extension elements; and
- clauses limiting the Group's requests for cash flows from specific assets (e.g. non-recourse items).

The prepayment element is consistent with the criterion of 'cash flows represented solely by payments of principal and interest' when the prepayment amount represents substantially the unpaid amounts of principal and accrued interest on the principal amount to be repaid, which may include reasonable compensation for the early termination of the contract. In addition, in the case of a financial asset acquired at a significant premium or discount to the nominal contractual amount, an item that permits or requires a prepayment of an amount that substantially represents the nominal contractual amount plus accrued (but unpaid) contractual interest (which may include reasonable compensation for early termination of the contract) is accounted for in accordance with that criterion if the *fair value* of the prepayment item is not significant at initial recognition.

Financial assets: subsequent measurement and gains and losses

<i>Financial assets measured at FVTPL</i>	These assets are subsequently measured at <i>fair value</i> . Net gains and losses, including dividends or interest received, are recognised in profit/(loss) for the year.
<i>Financial assets measured at amortised cost</i>	These assets are subsequently measured at amortised cost in accordance with the effective interest method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment losses are recognised in profit/(loss) for the period as are any gains or losses on derecognition.
<i>Debt securities valued at FVOCI</i>	These assets, subject to passing the SPPI Test, are subsequently measured at <i>fair value</i> . Interest income calculated in accordance with the effective interest method, foreign exchange gains and losses and impairment losses are recognised in profit/(loss) for the year. Other net gains and losses are recognised in other comprehensive income. On derecognition, accumulated gains or losses in other comprehensive income are reclassified to profit or loss for the period.
<i>Equity securities valued at FVOCI</i>	These assets are subsequently measured at <i>fair value</i> . Dividends are recognised in profit/(loss) for the period unless they clearly represent a recovery of part of the cost of the investment. Other net gains and losses are recognised in other comprehensive income and are never reclassified to profit/(loss) for the period.

Financial liabilities: classification, subsequent measurement and gains and losses

Financial liabilities are classified as measured at amortized cost or at FVTPL. A financial liability is classified at FVTPL when it is held for trading, represents a derivative or is designated as such upon initial recognition. Financial liabilities at FVTPL are measured at *fair value* and any changes, including interest expense, are recognised in profit/(loss) for the period. Other financial liabilities are subsequently measured at amortized cost using the effective interest method. Interest expense and foreign exchange gains/(losses) are recognised in profit/(loss) for the period, as are any gains or losses arising on derecognition.

iii) Accounting elimination

Financial assets

Financial assets are derecognised from the financial statements when the contractual rights to receive the cash flows from them expire, when the contractual rights to receive the cash flows as part of a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred or when the Group neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset and does not retain control of the financial asset.

The Group is involved in transactions involving the transfer of assets recognised in its statement of financial position, but retains all or substantially all of the risks and rewards of the transferred asset. In these cases, the transferred assets are not derecognised.

Financial liabilities

The Group derecognizes a financial liability when the obligation specified in the contract has been fulfilled or cancelled or has expired. The Group also derecognizes a financial liability when the relative contractual terms have changed and the cash flows of the modified liability are substantially different. In this case, a new financial liability is recorded at *fair value* on the basis of the modified contractual terms.

The difference between the carrying amount of the financial liability extinguished and the consideration paid (including assets not represented by cash transferred or liabilities assumed) is recognised in profit/(loss) for the period.

iv) Compensation

Financial assets and liabilities may be offset and the amount resulting from the offsetting is presented in the statement of financial position if, and only if, the Group currently has the legal right to offset such amounts and intends to settle the balance on a net basis or to realize the asset and settle the liability simultaneously.

Impairment losses

i) *Financial instruments and assets arising from contracts*

The Group recognizes allowances for expected losses on receivables related to:

- financial assets measured at amortised cost;
- debt securities valued at FVOCI; and
- activities arising from the contract.

In addition, the Group recognises impairment provisions for expected losses over the life of the receivables implicit in lease contracts under trade and other receivables.

The Group assesses impairment provisions at an amount equal to the expected losses over the life of the loan, except as noted below, for the following twelve months:

- debt securities with low credit risk at the balance sheet date; and
- other debt securities and bank current accounts whose credit risk (i.e. the risk of default over the expected life of the financial instrument) has not significantly increased since initial recognition.

Provisions for impairment of trade receivables (including those relating to leases) and contract assets are always measured at an amount equal to the expected losses over the life of the receivable.

To determine whether the credit risk relating to a financial asset has increased significantly since initial recognition in order to estimate expected credit losses, the Group considers reasonable and demonstrable information that is relevant and available without excessive cost or effort. This includes quantitative and qualitative information and analyses, based on the Group's historical experience, on the credit evaluation and on information indicative of expected developments ('forward-looking information').

Expected losses on long-lived receivables are the expected losses on receivables arising from all possible defaults over the expected life of a financial instrument.

Expected credit losses at 12 months are expected losses on loans arising from possible defaults within 12 months of the reporting date (or within a shorter period if the expected life of a financial instrument is less than 12 months).

The maximum period to be considered in assessing expected credit losses is the maximum contractual period during which the Group is exposed to credit risk.

Measurement of expected credit losses

Expected credit losses (ECLs) are a probability-weighted estimate of credit losses. Credit losses are the present value of all uncollected receivables (i.e. the difference between the cash flows due to the entity under the contract and the cash flows the Group expects to receive).

ECLs are discounted using the effective interest method for financial assets.

Non-financial assets

At each balance sheet date, the Group verifies whether there is objective evidence of impairment with reference to the carrying amounts of its non-financial assets, with the exception of investment property, inventories, assets arising from contracts and deferred tax assets. If, on the basis of this verification, it emerges that the assets have effectively suffered a reduction in value, the Group estimates their recoverable value.

Share capital

In accordance with IAS 32, ordinary shares and other shares issued by the Parent Company are classified as equity instruments.

Incremental costs directly attributable to the issue of ordinary shares are recognised as a decrease in equity. Income taxes relating to the transaction costs of an equity transaction are recognised in accordance with IAS 12.

Funds

The amount of the provisions is represented by the present value of the estimated expected cash flows, discounted at a pre-tax rate that reflects current market assessments of the time value of money and the specific risks associated with the liability.

Employee benefits

As of 1 January 2007, the 2007 Budget Law and the related implementation decrees introduced significant changes in the rules governing severance indemnities, including the choice left to workers as to whether to allocate their accruing severance indemnities to supplemental retirement benefit funds or to the "Treasury Fund" managed by INPS. It follows, therefore, that the obligation to INPS and the contributions to supplementary pension funds assume, under IAS 19, the nature of "Defined contribution plans", while the amounts recorded in the TFR maintain the nature of "Defined benefit plans".

The Group's net obligation arising from defined benefit plans is calculated separately for each plan by estimating the amount of future benefit that employees have accrued in exchange for their service in the current and prior periods; this benefit is discounted and the *fair value* of any plan assets is deducted from liabilities.

The calculation is carried out by an independent actuary using the projected unit credit method. If the calculation generates a benefit for the Group, the amount of the asset recognised is limited to the present value of the economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan. In order to establish the present value of the economic benefits, the minimum funding requirements applicable to any plan of the Group are considered.

Actuarial gains and losses, returns from plan assets (excluding interest) and the effect of capping the asset (excluding any interest) that arise from remeasurements of the net defined benefit liability are recognised immediately in other comprehensive income. Net interest for the period on the net defined benefit liability/(asset) is calculated by applying to the net liability/(asset), the discount rate used to discount the defined benefit obligation, determined at the beginning of the period, considering any changes in the net defined benefit liability/(asset) during the period as a result of contributions received and benefits paid. Net interest and other costs relating to defined benefit plans are recognised in profit/(loss) for the period.

When changes are made to a plan's benefits or when a plan is curtailed, the portion of the economic benefit relating to past service or the gain or loss resulting from the curtailment is recognised in profit or loss for the period when the adjustment or curtailment occurs.

Share-based payments

The grant date *fair value* of equity-settled share-based payment awards granted to employees is usually recognised as an expense, with a corresponding increase in equity, over the period during which the employees become eligible for the awards. The amount recognised as an expense is adjusted to reflect the actual number of awards for which the conditions of continued service and non-market performance are satisfied, so that the final amount recognised as an expense is based on the number of awards that satisfy those conditions at the vesting date. In the case of incentives recognized in share-based payment whose conditions are not to be considered vesting, the grant date *fair value* of the share-based

payment is measured to reflect those conditions. With respect to non-vesting conditions, any differences between the assumptions at the grant date and the actual assumptions will have no impact on the financial statements.

The *fair value* of the amount payable to employees in respect of cash-settled share appreciation rights is recognised as an expense with a corresponding increase in the liability over the period during which employees accrue the unconditional right to receive payment. The liability is measured at each reporting date and at the settlement date based on the *fair value* of the share appreciation rights. Any changes in the *fair value* of the liability are recognised in profit/(loss) for the period.

Fair value measurements

Various accounting standards and certain disclosure requirements require the Group to measure the *fair value* of financial and non-financial assets and liabilities. In measuring the *fair value* of an asset or liability, the Group uses observable market data to the extent possible. *Fair values* are separated into various hierarchical levels based on the inputs used in the valuation techniques, as illustrated below.

- *Level 1*: Quoted prices (unadjusted) in active markets for identical assets or liabilities.
- *Level 2*: Inputs other than quoted prices in Level 1 that are observable for the asset or liability, either directly (prices) or indirectly (price derivatives).
- *Level 3*: Input data related to the asset or liability that are not based on observable market data.

The *fair value* is the price that would be received at the measurement date for the sale of an asset or that would be paid for the transfer of a liability in a regular transaction between market participants in the principal (or most advantageous) market to which the Group has access at that time. The *fair value* of a liability reflects the effect of a default risk.

Where available, the Group measures the *fair value* of an instrument using the quoted price of that instrument in an active market. A market is active when transactions relating to the asset or liability occur with sufficient frequency and in sufficient volume to provide useful information for pricing on an ongoing basis.

In the absence of a quoted price in an active market, the Group uses valuation techniques maximising the use of observable inputs and minimising the use of unobservable inputs. The valuation technique chosen includes all factors that market participants would consider in estimating the transaction price.

If an asset or liability measured at *fair value* has a bid price and a ask price, the Group measures long and active positions at the bid price and short and passive positions at the ask price.

The best evidence of the *fair value* of a financial instrument at initial recognition is usually the transaction price (i.e. the *fair value* of the consideration given or received). If the Group notices a difference between the *fair value at initial recognition* and the transaction price and the *fair value* is not determined either by using a quoted price in an active market for identical assets or liabilities or by using a valuation technique whose unobservable inputs are considered insignificant, the financial instrument is initially measured at *fair value*, adjusted to defer the difference between the *fair value* at initial recognition and the transaction price. Subsequently, this difference is recognised in profit/(loss) for the period over the life of the instrument using an appropriate method, but no later than when the valuation is fully supported by observable market data or the transaction is completed.

Operational sector

IFRS 8 - Operating Segments - defines an operating segment as a component:

- involving business activities that generate revenues and costs;
- whose operational results are periodically reviewed at the highest decision-making level;
- for which separate economic and financial data are available.

The *Chief Operating Decision Maker* ("CODM") is identified as the Executive Chairman.

The CODM receives information, primarily from the *Chief Medical Officer (CMO)* and the *Chief Financial Officer (CFO)*, regarding the progress of research programs, licensing agreements and products in order to monitor business performance and take related decision-making actions.

In this regard, the Company's management has identified a single business segment. The substantially homogeneous nature of the business, together with the status of projects under development, does not allow for the division of the company's activities into several segments subject to different risks and benefits from the other business segments. In addition, the services provided, the nature of the production processes and the type of clientele by product do not allow the company's activities to be divided into different business segments. Therefore, the company believes that, at present, an economic and financial representation by business and geographical segments would not provide a better representation and understanding of the business or of its risks and benefits.

Accounting standards, amendments and interpretations not yet applicable

At the date of this Report, the competent bodies of the European Union had not yet completed the endorsement process necessary for the adoption of the following accounting standards and amendments:

- In May 2017, the IASB issued the new standard IFRS 17 "Insurance Contracts". The new standard will replace IFRS 4 and will be applicable with effect from 1 January 2023.
- In January 2020, the IASB published amendments to IAS 1 that clarify that the definition of "current" or "non-current" of a liability is a function of the right in place at the balance sheet date. The amendments will be applicable with effect from 1 January 2022.
- In May 2020, the IASB published certain narrow amendments to IFRS 3, IAS 16, IAS 17 and certain annual revisions to IFRS 1, IFRS 9, IAS 41 and IFRS 16. The amendments will be applicable with effect from 1 January 2022.
- In February 2021, the IASB published a number of narrow amendments to IAS 1, Practice Statement 2 and IAS 8. The amendments are intended to improve disclosures about accounting policies and to help users of financial statements distinguish between changes in accounting estimates and changes in accounting policies. The amendments will be applicable with effect from 1 January 2023. - In March 2021, the IASB published amendments to IFRS 16 that move from June 30, 2021 to June 30, 2022 the final date to take advantage of a practical expedient for measuring leases where renegotiated lease payments have been made as a result of Covid-19. A lessee may elect to account for the concession as a variable rent in the period in which a lower payment is recognized. The amendments will be applicable with effect from 1 April 2021.
- In May 2021, the IASB issued amendments to IAS 12 - Deferred Taxes Relating to Assets and Liabilities Arising from a Single Transaction. The amendments require companies to recognize deferred taxes when an asset or liability is initially recognized in a transaction that results in equal amounts of deductible and taxable temporary differences.

The Group will adopt these new standards, amendments and interpretations on the basis of the expected date of application and will assess their potential impact when they are endorsed by the European Union.

