Cassiopea

ANNUAL REPORT

2020

Cassiopea at a Glance

Cassiopea is a specialty pharmaceutical company developing and preparing to commercialize prescription drugs with novel mechanisms of action (MOA) to address long-standing and essential dermatological conditions, particularly acne, androgenetic alopecia (or AGA) and genital warts. Cassiopea is investing in innovation that is driving scientific advancement in areas that have been largely ignored for decades. The Company's portfolio comprises four unencumbered clinical candidates, for which the Company owns the worldwide rights. These product candidates are based on three new chemical entities ("NCEs") that target unmet medical needs and address significant market opportunities in the medical dermatology market. Cassiopea's management team directly and indirectly through the service agreement with Cosmo, has extensive experience in product development and commercialization, having served in prominent roles at several leading pharmaceutical and medical dermatology companies. The Company's strategy is to leverage this expertise to optimize the commercial potential for its products directly or with a partner in the US and partner the products in countries outside of the US.

Key events in 2020

During the first half 2020, development activity focused on fluid interaction with the FDA in conjunction with the Clascoterone Cream 1% NDA, the ongoing Phase II trial of Clascoterone solution for androgenetic alopecia in females, the Special Protocol Assessment submission to the FDA for the Phase III program of Clascoterone solution 7.5% in males, and completing the Supply Agreement with Cosmo for Clascoterone cream 1%, assuring a long term reliable source of supply.

From an operating perspective, our comprehensive strategic and tactical launch plan was established, thus laying the blueprint for the launch of Clascoterone cream 1% after FDA approval is obtained. Meanwhile, prestigious dermatology journals such as JAMA Dermatology and Journal of the American Academy of Dermatology (JAAD) have published our Phase III data.

On 18 June 2020, we announced that the capital increase reserved for existing shareholders was successfully concluded and 750,000 new registered shares were subscribed at an offer price of EUR 31 with gross proceeds of EUR 23.25 million.

On 27 August 2020, we announced that the United States Food and Drug Administration (FDA) approved Winlevi® (clascoterone cream 1%) for the treatment of acne in patients 12 years and older.[1] Notwithstanding acne being the most prevalent skin condition in the US. affecting up to 50 million Americans annually.[2] the last FDA approval of an acne drug with a new mechanism of action (MOA) occurred nearly 40 years ago.

Acne is a multifactorial skin condition, affected by four distinct pathways: excess oil (sebum) production, clogged pores (hyperkeratinization), bacteria growth (C. acnes), and inflammation.[3] Topical treatment options that target androgens, which largely drive sebum production and inflammation,[3] presented a significant unmet need in the acne treatment market until now.

Cassiopea's first-in-class topical androgen receptor inhibitor, Winlevi®, tackles the androgen hormone component of acne in both males and females.[1] Androgen receptor inhibitors act by limiting the effects of these hormones on increasing sebum production and inflammation.[4]

In pivotal clinical trials, Winlevi® demonstrated treatment success and reductions in acne lesions and was well tolerated when used twice a day. The most frequently observed local skin reaction was mild erythema.[5, 6]

Although Winlevi's® exact mechanism of action is unknown, laboratory studies suggest the active ingredient, clascoterone, competes with androgens, specifically dihydrotestosterone (DHT), for binding to the androgen receptors within the sebaceous gland and hair follicles.[7]

Winlevi® is expected to be available in the United States in Q3 2021. Complete prescribing information is available on www.WINLEVI.com.[1]

On 8 October 2020, we announced that we have completed the enrollment of its phase II trial investigating clascoterone solution for the treatment of androgenetic alopecia (AGA) in females.

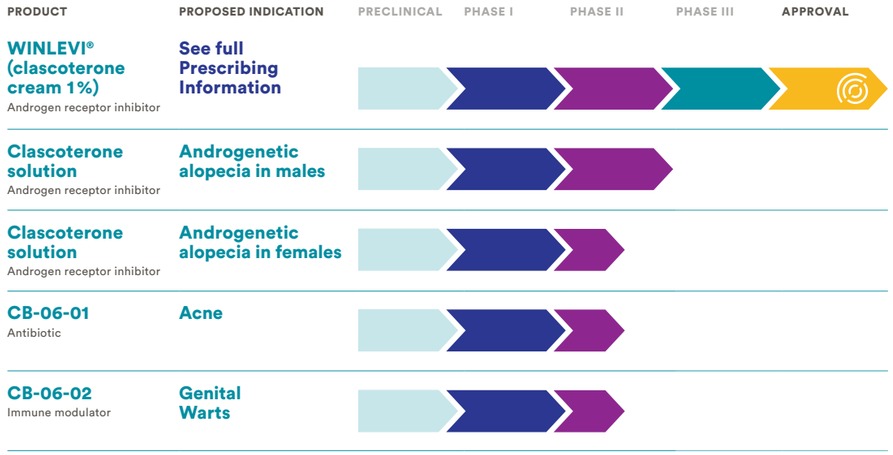
The Phase II multicenter, prospective, randomized, double-blind, vehicle controlled, dose ranging study will evaluate the efficacy and safety of clascoterone solution for the treatment of AGA in females. The six-month study enrolled 293 female subjects between 18–55 years of age with mild to moderate AGA in Germany. The four-arm study enrolled approximately 70 subjects per arm in each of four treatment groups: clascoterone solution 5 % BID (twice daily), clascoterone solution 7.5 % BID (twice daily), minoxidil solution 2 % BID (twice daily) and vehicle BID (twice daily). The co-primary endpoints are: (1) change from baseline in non-vellus Target Area Hair Count (TAHC) at month 6 in comparison to vehicle and (2) Hair Growth Assessment (HGA) score at month 6 in comparison to vehicle. Top line results are expected to be available in Q3 2021.

On 23 December 2020, we announced that Chris Tanner is retiring as Chief Financial Officer as of 31 December 2020. Chris Tanner served as Cassiopea's Chief Financial Officer since its formation and helped bring the company public in 2015. At the meeting of December 22 the board approved the nomination of Pierpaolo Guzzo as Chief Financial Officer of Cassiopea starting 1 January 2021. Pierpaolo Guzzo is a Certified Public Accountant, with an extensive track record in accounting, private equity and merchant banking, and will retain his role as board member of Cassiopea.

All operations were carried out within the **budgeted framework.** In 2020, Cassiopea spent EUR 6,440 thousand predominantly in the advancement of our clinical programs. At the end of 2020, cash amounted to EUR 2,646 thousand, which is in line with what had originally been planned.

Concerning forward-looking statements
This report contains certain "forward-looking statements," which can be identified by the use of terminology such as "could," "might," "propose," "addressable," "outlook," "attractive" or similar wording. Such forward-looking statements reflect the current views of the Management and are not guarantees of future performance and involve risks and uncertainties. Readers are cautioned that actual results may differ materially from those in the forward-looking statements as a result of various factors. Cassiopea is providing the information in this report as of this date and does not undertake any obligation to update any forward-looking statements contained in it as a result of new information, future events or otherwise.

Cassiopea Pipeline



Key figures

EUR 1,000	31.12.2020	31.12.2019
Income statement		
Revenue	–	–
Other income	594	686
Cost of sales	–	–
R&D costs	(6,440)	(7,875)
SG&A costs	(5,175)	(3,879)
Operating result	(11,021)	(11,068)
Profit (loss) before taxes	(12,308)	(11,700)
Profit (loss) for the period	(12,308)	(11,700)
Shares		
Weighted average number shares	10,401,639	10,000,000
Basic earnings (loss) per share (in EUR)	(1.183)	(1.170)

EUR 1,000	31.12.2020	31.12.2019
Statement of financial position		
Non-current assets	12,797	12,536
Inventories	761	–
Cash and cash equivalents	2,646	696
Other current assets	2,423	2,829
Non-current liabilities	66	10,660
Current liabilities	2,946	1,674
Equity	15,615	3,727
Equity ratio	83.8%	23.2%

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OUR

We are a specialty pharma-ceutical company developing and preparing to commercialize prescription drugs to address essential dermatological conditions.

Dear Shareholder

2020 has been a very productive time for Cassiopea, despite the worldwide COVID-19 pandemic. Most importantly, our efforts were focused on the regulatory progress and commercial launch preparation of Winlevi® (clascoterone cream 1%), the clinical development program for Clascoterone solution, a capital increase of 750,000 shares reserved for existing shareholders and advancing multiple opportunities related to optimizing the commercialization of Winlevi® in the US.

The highlight of the year was the US FDA approval announced on 27 August 2020 for Winlevi®, our first-in-class[8] topical androgen receptor inhibitor for the acne in patients twelve years and older.[1] This marks the approval of the first new mechanism of action in acne in nearly forty years. During the course of the year, we have made substantial progress in medical affairs, market access, commercial launch planning and product supply. Thousands of dermatologists are now aware of the new mechanism of action in acne and scientific platform of Winlevi®. Our priority now is optimizing the commercial strategy for Winlevi® taking into account the dynamics of COVID-19 affecting the entire pharmaceutical industry.

The ongoing Phase II trial of Clascoterone solution in females with androgenetic alopecia, which started in Q4 2019, was affected by the COVID-19 pandemic as enrollment was suspended for about three months. Recruitment restarted in June 2020 and we announced the completion of enrollment on 8 October 2020, which would allow us to have results in Q3 2021.

We filed a Special Protocol Assessment with the FDA for the Phase III Program for Clascoterone solution 7.5% in males, and selected the CRO for the execution of this trial. Given that there has been little clinical development for androgenetic alopecia in males in the last twenty years, we are having further interaction with the FDA before we will start enrolling patients.

At the shareholders meeting of 28 May 2020, shareholders approved a capital increase of 750,000 shares reserved for existing shareholders and we then immediately executed this transaction to reconstitute the share capital according to Italian legal requirements. Furthermore, shareholders approved the increase of the capital reserved for the benefit of the Employee stock ownership plan (ESOP).

We thank all our shareholders and our employees, including the Cosmo team for their commitment to our Company. We are convinced that we have one of the most innovative pipelines in the dermatology industry and view the future with great optimism. We look forward to an exciting 2021.

Lainate, 24 March 2021

Jan E. de Vries
Chairman
Cassiopea S.p.A.

Diana Harbort
CEO
Cassiopea S.p.A

Business Strategy and Markets

It is our intention to focus on therapies for the treatment of skin diseases and to focus solely on innovative new treatments, containing new chemical entities.

Currently, we have a lean organization that is managing the ongoing clinical trials and development programs for our pipeline (located in Italy) as efficiently as possible and managing the pre-launch activities in the USA. Under our Service Agreement with Cosmo, we have ready access to a team, which is very knowledgeable in the history of our programs and is very experienced in product development and manufacturing, thereby mitigating our need to build a large, expensive organization of our own in the short term.

The Company's strategy is to optimize the commercial potential for its products in the US and partner the products in countries outside of the US.

Acne vulgaris is one of the most common skin conditions, affecting up to 50 million people in the USA, of whom approximately 10 million suffer from moderate to severe acne.[2] It is estimated that approximately 85 % of people in the US between the ages of 12 and 24 experience at least mild acne, and acne is the reason most cited for visits to dermatologists by patients 14 to 45 years old.[2,9] For most people, acne diminishes over time and tends to disappear or decrease, by age 25. However, some individuals continue to suffer from acne well into their 30s, 40s and later.[2]

Based on US IQVIA data, there were 24.3 million acne product prescriptions in 2018, 62 % of which were for topical products. The major product classes predominantly used to treat acne have been available for over 40 years, and we believe that growth in this market recently has been significantly limited by a lack of innovation in new product development.

Based on research by VisionGain, the global dermatological drugs market generated revenues of US$ 26.23 billion in 2018 and is expected to grow by more than 9.9 % to nearly US$ 54 billion in 2024 according to Zion Market Research (January 2019). Management's analysis of IQVIA data indicates that the US acne market generated retail sales of US$ 5.0 billion in 2018. Of these, US$ 3.6 billion were topical products.

Androgen induced alopecia, also known as Androgenetic Alopecia (AGA) or patterned hair loss, is the most common type of hair loss affecting 50–60 million men and 30–35 million women in the US.[10–12] Of these, only 25–30 million men and 15–20 million women have been diagnosed, and only 2.7 million men and 2 million women or 5–10 % of the total are actually being treated.[12] A vast majority of patients have not sought treatment for their condition, likely due to the limitations of current treatments and the lack of available options.[12] With few drug options available, the global hair restoration surgery market has grown very quickly, amounting to US$ 4.6 billion in 2019, an increase of 16 % since 2016 according to a 2020 survey by the International Society of Hair Restoration Surgery.[13] Over three quarters (77.6 %) of the estimated 2 million patients undergoing hair restoration procedures in 2019 did so for genetic (AGA) hair loss.[13]

Research & Markets estimates that the global alopecia market reached US$ 8.5 billion in 2018 and is targeted to grow by 5.5 % p.a. to US$ 12.4 billion in 2025. In 2018, the global androgenetic alopecia market was estimated at US$ 7.25 billion, i.e. approximately 85 % of the market. This market is split between the drug market, the hair transplant market and the laser market.

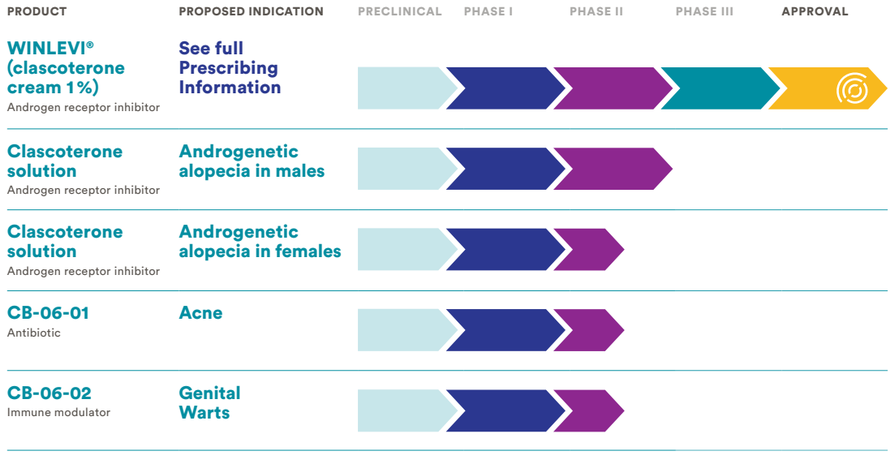
According to the American Sexual Health Organization, in the US approximately 14 million people are newly infected with Human Papillomavirus ("HPV") every year and 79 million persons are estimated to be currently infected. HPV is the causative pathogen of anogenital warts.[14]

We believe that an overall lack of innovation in the research and development of new dermatology products has resulted in a limited number of effective treatment options. For example, the three mechanisms of action most commonly used to treat acne have been available for over 40 years. In fact, there has not been a new mechanism of action for the treatment of acne since 1982 when Accutane was launched.[15] Consequently, the few truly innovative therapies launched over the past few decades have resulted in significant sales. Furthermore, as dermatology medications have relatively short clinical trials compared to other pharmaceuticals, development costs are relatively contained.

We believe that the field of dermatology offers an exceptional opportunity to build relationships with opinion leaders, advocacy groups and medical practitioners. We believe that consolidation in the dermatology industry has resulted in an enhanced opportunity for a medical dermatology-focused company to build relationships with these stakeholders and has made available a large and growing talent pool of experienced employees who can make significant contributions to our company.

In addition, the fact that the US acne market is served by a relatively small, addressable number of practicing dermatologists, could allow a small and dedicated sales force to efficiently cover the customer base.

Research and Development



Winlevi® (clascoterone cream 1%)

On 27 August, 2020, Cassiopea announced the US FDA approval for Winlevi® (clascoterone cream 1%), a first-in- class[8] topical androgen receptor inhibitor indicated for the topical treatment of acne vulgaris in patients 12 years of age and older.[1] Notwithstanding acne being the most prevalent skin condition in the US affecting up to 50 million Americans annually,[2] the last FDA approval of an acne drug with a new mechanism of action (MOA) occurred nearly 40 years ago.[15]

Cassiopea's first-in-class topical androgen receptor inhibitor, Winlevi®, tackles the androgen hormone component of acne in both males and females.[16] Androgen receptor inhibitors act by limiting the effects of these hormones on increasing sebum production and inflammation.[3]

In pivotal clinical trials, Winlevi® demonstrated treatment success and reductions in acne lesions and was well tolerated when used twice a day. The most frequently observed local skin reaction was mild erythema.[5, 6]

Winlevi® (clascoterone cream 1%) is approved for the treatment of acne vulgaris in people aged 12 and older.[1] Although Winlevi's exact mechanism of action in acne is unknown,[1] laboratory studies suggest the active ingredient, clascoterone, competes with androgens, specifically dihydrotestosterone (DHT), for binding to the androgen receptors within the sebaceous gland and hair follicle.[7]

Winlevi® is expected to be available in the United States in Q3 2021.

Acne

Acne is the eighth most prevalent disease in the world,[17] affecting more than 640 million people.[18] Although acne often coincides with puberty affecting ~85% of adolescents, it also impacts young adults (aged 12–25 years and may persist into,[19] or develop during, adulthood.[20]

Acne is a multifactorial inflammatory condition characterized by excess skin oil (sebum) production, a build up of dead skin cells that clog the pores and growth of bacteria that further enhance inflammation, redness and pore blockage.[21] These events lead to acne's characteristic lesions including blackheads, whiteheads, and pus-filled inflamed lesions often present on the face, neck, back and shoulders of sufferers.

Treatment of acne usually involves combinations of oral and/or topical treatments. Current first-line therapies target one or two aspects of acne and may include benzoyl peroxide, topical retinoids, and topical or oral antibiotics.[22–24] Antibiotic resistance in acne is a concern.[25] Oral isotretinoin, a potent retinoid, may be considered for more severe acne, but is associated with side effects and must be used with caution in females of childbearing age due to known harm to the fetus.[22–24, 26] Female acne patients can be treated with a combined oral contraceptive (COC) or spironolactone,[27, 28] both of which affect androgens.[4, 24]

Androgen hormones are a key driver of acne in both males and females with acne. Androgen receptors (ARs) are expressed throughout the skin and found in the sebum producing glands.[29] Circulating and locally (skin) synthesized androgens such as testosterone and dihydrotestosterone (DHT) bind to the AR and stimulate sebum production in both males and females.[3, 4, 29]

Androgen inhibition is an effective strategy for the treatment of female acne. Certain COCs (norgestimate, norethindrone) are FDA approved to treat acne in females;[4, 24] these drugs suppress androgen production, thereby reducing circulating androgens.[3, 27] Spironolactone is an aldosterone inhibitor and AR blocker,[3, 18] used off-label to treat female acne.[18]

Both COCs and spironolactone are associated with systemic side effects, are contraindicated in pregnancy, and are unsuitable for male acne patients.[3, 28] AR inhibitors and/or anti-androgens have not been approved for the treatment of acne in males.

Novel therapeutic innovations for the treatment of acne have been sparse in recent years, with no new mechanism of action approved by FDA since isotretinoin in 1982.[15] In 2020, Cassiopea received FDA approval for a new therapeutic topical drug class to treat acne.[1, 8] In what has been hailed by US dermatologists as an exciting, "game changer" in the acne armamentarium, Winlevi® (clascoterone) cream 1% is poised in 2021 to be a groundbreaking treatment for acne in the US dermatology market, one of the largest in the world.

Clascoterone solution

Whereas Winlevi® (clascoterone cream 1%), is an androgen receptor inhibitor product indicated for the topical treatment of acne vulgaris in patients 12 years of age and older[1], Clascoterone solution is a liquid formulation with a different strength of same active ingredient.[30]

Clascoterone solution is in late stage development for the treatment of androgenetic alopecia (AGA). Although clascoterone's exact mechanism of action is unknown, laboratory studies suggest Clascoterone competes with androgen hormones, specifically dihydrotestosterone (DHT), for binding to the androgen receptors within the sebaceous gland and hair follicles.[7, 30]

Based on early clinical review, Cassiopea believes that topical application of Clascoterone will not have the contraindications and safety warnings of an orally administered androgen modulator used for the treatment of AGA in men. It appears Clascoterone does not interfere with the hormonal and, in particular, testosterone profiles of male subjects; libido and sexual behavior changes, the typical side effects of the systemic antiandrogens, have not been observed in clinical trials to date.[31, 32]

Clascoterone is quickly metabolized to cortexolone, a metabolite with a known safety profile.[33, 34] Due to its rapid metabolism and local activity, there appears to be limited systemic exposure to Clascoterone and thus potential systemic side effects are likely minimized.

After successful phase IIa trial, a Phase II Dose Ranging Study was conducted in males and results were announced in 2019. In the dose ranging trial, a total of 404 subjects were enrolled in six sites in Germany. This double-blind trial evaluated the efficacy and safety of four different doses of Clascoterone compared to vehicle (placebo) in male subjects 18–55 years of age with mild to moderate androgenetic alopecia in temple and vertex region (rating III vertex to V on the Modified Norwood-Hamilton Scale, i.e. IIIv, IV, or V), with a history of ongoing hair loss. All subjects applied Clascoterone or vehicle to the balding areas of the scalp twice daily for a total of twelve months. The eligible subjects were randomly assigned to one of the following five treatment groups: 2.5 % Clascoterone solution BID; 5.0 % Clascoterone solution BID; 7.5 % Clascoterone solution BID; 7.5 % Clascoterone solution QD (once a day) and vehicle solution in the evening; vehicle solution BID.[35]

The co-primary efficacy endpoints evaluated at month 12 in the trials were: 1) change from baseline in non-vellus TAHC (target area hair count) and 2) HGA (hair growth assessment) score. The target area is defined as an area of one square centimeter.[35]

For the TAHC, statistically highly significant changes were observed in all active treatment groups with the highest change observed in the 7.5 % BID group, which reached statistical significance at all timepoints, beginning with the third month (first follow-up visit), while the placebo group had a decrease in TAHC, representing the progression of AGA over time if left untreated. These results indicate that Clascoterone stops the loss of hair and promote the growth of new hair. For the HGA assessment, the subjects used the Baseline standardized global photograph of their scalp and compared it, side by side, with a "real time" standardized global photo to assess their hair growth using a seven-point scale from –3 to +3. More subjects in all active groups saw an increase in their hair growth compared to the vehicle group.[35]

The results indicate a safety profile similar to vehicle for both adverse events and local skin reactions, even after 12 months treatment. There were no treatment-related serious adverse events among patients treated with Clascoterone.

Since the chemical structure of Clascoterone is similar to that of a steroid while its function is not, cortisol levels were tested in a sub-group of patients to verify that Clascoterone is free from systemic steroid activity. The mean absolute changes of cortisol values throughout the study were similar among groups, suggesting that Clascoterone has no systemic effect on cortisol.

On 8 October 2020, we announced that we have completed the enrollment of its phase II trial investigating clascoterone solution for the treatment of androgenetic alopecia (AGA) in females.

The Phase II multicenter, prospective, randomized, double-blind, vehicle controlled, dose ranging study will evaluate the efficacy and safety of clascoterone solution for the treatment of AGA in females. The six-month study enrolled 293 female subjects between 18–55 years of age with mild to moderate AGA in Germany. The four-arm study enrolled approximately 70 subjects per arm in each of four treatment groups: clascoterone solution 5 % BID (twice daily), clascoterone solution 7.5 % BID (twice daily), minoxidil solution 2 % BID (twice daily) and vehicle BID (twice daily). The co-primary endpoints are: (1) change from baseline in non-vellus Target Area Hair Count (TAHC) at month 6 in comparison to vehicle and (2) Hair Growth Assessment (HGA) score at month 6 in comparison to vehicle. Top line results are expected to be available in Q3 2021.

There has been little clinical development for AGA in males over the last 20 years. In dermatological conditions, especially those with a profound effect on self-esteem and well-being, the FDA has focused on the importance of including disease-specific, validated patient reported outcome (PRO) questionnaires within clinical trials.

We are in active discussions with FDA on the Phase III program for Clascoterone solution 7.5 % in males. We filed a Special Protocol Assessment (SPA) with the FDA In May and received a response in June, followed by a Type A meeting in November. The CRO to execute the Phase III program has been selected and the FDA has requested inclusion of an AGA-specific patient reported outcome (PRO) question-

naire to be included as part of the endpoints for Phase III clinical AGA studies. As there is no current validated AGA PRO tool, we have begun the process, along with an expert CRO in this area, to develop and validate a proprietary AGA PRO tool. Developing such a tool portends an advantage to Cassiopea as the company would be retain exclusive ownership of the tool for future AGA studies. We continue to remain in communication with the FDA before executing enrollment for the Phase III studies.

Androgenetic alopecia

Androgen induced alopecia, also known as Androgenetic Alopecia (AGA) or patterned hair loss, is the most common type of hair loss affecting 50–60 million men and 30–35 million women in the US[10–12]. Of these, only 25–30 million men and 15–20 million women have been diagnosed, and only 2.7 million men and 2 million women or 5–10 % of the total are actually being treated.[12] A vast majority of patients have not sought treatment for their condition, likely due to the limitations of current treatments and the lack of available options.[12]

In the US, treatment of AGA in men and women is limited to topical minoxidil, laser therapy, platelet rich plasma (PRP) and over the counter nutritional supplements.[36] Balding men may also use oral finasteride,[13] which is associated with a number of systemic side effects such as loss of libido and feminization.[37] In the US, oral finasteride is not FDA approved for females with AGA.

In AGA, high local concentrations of DHT bind to androgen receptors within the scalp hair follicles, resulting in shortening of the hair cycle and gradual miniaturization of scalp follicles in men and women with a genetic predisposition. Over time, these progressively smaller, thinner hair follicles are unable to produce new hair, thus resulting in AGA's characteristic patterned baldness.[3, 38] DHT dependent effects are considered, in most cases, reversible,[3] yet a topical treatment that can be used in both males and females with AGA remains elusive.

AGA could be responsive to medical treatment with topical androgen receptor inhibitors. Indeed, Clascoterone solution through its proposed MOA of direct inhibition of testosterone and DHT binding to local hair follicle androgen receptors,[30] has the potential to be the only topical androgen receptor inhibitor for use in both men and women with AGA if approved by the FDA.

CB-06-01

CB-06-01, an NCE, is a topical antibiotic (licensed from Naicons, an Italian company) that is highly effective on bacteria implicated in acne, including strains resistant to some other antibiotics. We aim to develop and then market the product to replace the current topical antibiotics used in the treatment of acne.

Based on the results of the phase II proof of concept trial, it was decided to continue the development of this product. During 2018, the synthesis of the new API was completed. We are planning to develop a new absorption-improved formulation, conduct skin penetration tests and to begin the preparation for the Phase II Dose Ranging Trial.

CB-06-02

CB-06-02, also an NCE (licensed from BioMas, an Israeli company), is being developed for the treatment of genital warts. We believe that it is the first potential treatment for this condition based on tellurium, a rare element. It acts as a low-toxicity immunomodulator in supporting the natural immune response against Human Papilloma Virus, or HPV. Based on the drug profiling we have performed to date, we believe that CB-06-02 has the potential to have a faster onset of action and a lower recurrence rate than currently available topical treatments.

Based on the positive results of the phase II proof of concept trial, it was decided to continue the development of this product. We are planning to produce a new GMP batch, develop a new improved formulation and to begin the preparation for the Phase II Dose Ranging Trial.

Genital warts

External genital warts are extremely common, currently 79 million Americans are infected with HPV, with about 14 million people becoming newly infected each year and an estimated 80 % of sexually active people contracting HPV in their lifetime.[14, 39] There are more than 120 distinct subtypes of human papillomavirus identified. Current treatment options are largely centered upon removal of the warts rather than elimination of the underlying viral infection. There are many therapies in use, which differ in cost, dosing schedules, duration of treatment, and overall effectiveness. As of yet, no single therapy has emerged as the gold standard of care in the treatment of genital warts.[40]

Patents and Trademarks

Patents granted in 2020

__ One patent granted in the US
__ (CB-03-01/01 crystalline forms / Clascoterone cream 1% – expiry date 2028 – divisional application);
_ One patent granted in the US (CB-03-11 Clascoterone solution – expiry date June 2036);
_ One patent granted in Russian Fed. (CB-03-11 Clascoterone solution – expiry date June 2036);
__ One patent granted in Mexico
__ (CB-03-01/01 crystalline forms / Clascoterone cream 1% – expiry date 2028 – divisional application).

Patent New Filings in 2020

__ One patent application in the US
(CB-03-11 Clascoterone solution – continuation application)

Trademarks Registered in 2020

__ One trademark registered in the US for Clascoterone cream 1% (Winlevi® – device in color/logo)
__ One trademark registered in China for Clascoterone cream 1% (Winlevi® – wordmark);
_ One trademark registered in China for Clascoterone solution (Breezula® – wordmark);

Trademarks New Filings in 2020

__ One trademark filed in Puerto Rico for Clascoterone lotion (Breezula® – device in color/logo)

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It is our intention to focus on therapies for the treatment of skin diseases and to focus solely on innovative new treatments, containing new chemical entities.

SKIN

Corporate Governance

The Company is a stock corporation, Società per Azioni, (S.p.A.), organized under the laws of Italy and listed on the SIX Swiss Exchange. The share capital amounts to EUR 10,750,000 represented by 10,750,000 shares each with a nominal value of EUR 1.00.

Corporate governance model

The Company has adopted the corporate governance model called "monistic model" which is ruled by Articles 2409 sexiesdecies and following of the Italian Civil Code. The shareholders' meeting appoints the Board of Directors (i.e. "Consiglio di Amministrazione"), which has the responsibility to manage the Company. The Board of Directors appoints, amongst its members, a controlling body (the Management Control Committee, i.e. "Comitato per il Controllo sulla Gestione").The Management Control committee essentially performs the functions normally attributed to the board of statutory auditors. The shareholders' meeting also appoints an external auditor.

The Company's current Articles of Association (https://www.cassiopea.com/wp-content/uploads/2020/03/2019-CASSIOPEA-AoA-ENGL.pdf) states that the Board of Directors must be composed of at least three and no more than nine members.

Appointment of the Board of Directors

The Company's Articles of Association establish a slate voting system for the election of the members of the Board of Directors. According to this system, each shareholder can present or concur to the presentation of just one list and each candidate can present himself in just one list, under sanction of ineligibility; each shareholder is entitled to vote for just one list. According to the Article of Association, shareholders who own, alone or together with other shareholders, at least 2.5 % of the share capital are entitled to present a list at the latest ten days prior to the scheduled date for the shareholders' meeting on first call. The Company's Articles of Association provide that one Director (the one which is listed as first) is appointed from the list which has obtained the second highest number of votes. This last provision entitles minority shareholders to appoint one minority director.

Pursuant to the Company's Articles of Association, at least three directors shall fulfil the independence requirements provided for by Article 2399 of the Italian Civil Code and also the independence requirement provided for by the code of conduct stated by corporate governance codes set up by the managing body of recognized stock exchange on which the shares are listed. At least one of the members of the Board of Directors must be selected among statutory auditors enrolled in the dedicated register. For the purpose of this provision art. 2382 of the Italian Civil Code defines the provisions on ineligibility. The Articles of Association also provide that, if the director registered with the national register of auditors ("Registro dei Revisori Contabili") is not elected from the list which obtains the highest number of votes, the director registered with the national register of auditors shall be the first candidate listed on the minority list fulfilling this requirement, even if he is not the first on the list.

Should one or more Directors terminate their office, they shall be substituted pursuant to section 2386 of the Italian Civil Code[1], without regards to the list wherefrom the director comes. In case the majority of the Directors terminate the office, for resignation or other causes, the entire Board shall be considered as terminated and a shareholders' meeting shall be called for the appointment of a new Board.

Only in case the shareholders' meeting has not elected the Chairman, the Board of Directors elects the Chairman, the Deputy Chairman of the Board (which is optional), and the CEO from amongst the members of the Board.

Pursuant to the Articles of Association, the Board of Directors has full power over the management of the Company, except for actions reserved by law, or by the Articles of Association, to meetings of the shareholders.

Pursuant to the Company's Articles of Association the members of the BoD are elected by the shareholders at the annual shareholders' meeting and starting with the financial year ending 31 December 2018, renewed year by year (i.e. the mandate of the Directors currently in office will end with the shareholders meeting approving the financial statements as of the fiscal year 2020 to be held in 2021).

According to the Articles of Association (https://www.cassiopea.com/wp-content/uploads/2020/03/2019-CASSIOPEA-AoA-ENGL.pdf) at least three directors shall fulfil the independence requirements. As listed on pages 35–41, all Board Members fulfilled the independence requirements.

Conflict of Interests

As stated by the Article 2391 of the Italian Civil Code (and by the Articles of Association), each director must inform the other directors of any interest he has on his behalf or on behalf of third persons in a specific transaction of the Company, specifying the nature, the terms, the origin and the relevance of his interest. If the conflicted party is the CEO, he must abstain from executing the transaction and must refer the transaction to the BoD. In such circumstances, the resolution of the BoD must adequately justify the reasons and the convenience for the company to execute the transaction. In the event of non-compliance with these provisions or if the resolution of the Board or of the executive committee is adopted with the determining vote of the conflicted director, in case the resolution may cause harm to the Company, it may be challenged by the directors and by the board of auditors within 90 days from the date of its adoption. The person who consented to the resolution having been provided with the relevant information cannot challenge it. In any case the rights acquired by third parties in good faith, on the basis of acts made in execution of the resolution, cannot be challenged. The director is liable for damages caused to the Company by his / her action or omission. The director is also liable for the damages suffered by the Company in case the director uses, for his own benefit or for the benefit of third parties, data, information or business opportunities obtained in connection with his appointment

Operations of the Board of Directors and of Board Committees

The Board of Directors may delegate its powers to i) the Chief Executive Officer (CEO) and / or ii) the Executive Committee composed of three members). The Board of Directors determines the nature and duration powers delegated to the CEO and/or the Executive Committee.

The general policies and the management of the Company are in the responsibility of the Board of Directors (BoD), which has the exclusive right to:

1) appoint the CEO and the deputy CEO from amongst its members;
2) delegate powers to the CEO or the Executive Committee;
3) set up the budget and the strategic plans and supervise the management performance with respect to the achievement of the budget;
4) set up financial plans and approval of debt financing transactions over a twelve months period;
5) approve strategic agreements, of those having a significant economic value and of those that provide obligations of the Company for a period exceeding three years;
6) set the accounting, organizational and financing policies.

The matters stated by Articles 2420-ter, 2423, 2446, 2447, 2501-ter, 2506-bis of the Italian Civil Code shall not be delegated.

The delegated powers include coordination and supervision. With no delay and in any case at least on a quarterly basis, the BoD receives, from Directors with delegated powers, information on the activities carried out, on the general management of the Company, on its foreseeable development and on the main economic, financial and commercial operations.

According to Article 2409 octiesdecies of the Italian Civil Code and to the Articles of Association, the Management Control Committee is appointed by the Board of Directors. The members of the Management Control Committee cannot be less than three. The Management Control Committee is formed by Board members who fulfill the requirements of independence according to Article 2409 septiesdecies of the Italian Civil Code.

At least one of the members of the Management Control Committee must be selected among statutory auditors registered with the national register of auditors ("Registro dei Revisori Contabili").

None of the members of the Management Control Committee can be a member of the executive committee – if appointed – and no powers or specific offices can be delegated to a member of the Management Control Committee. In any case the members of the Management Control Committee cannot perform, even de facto, functions relating to the management of the company's business or the companies which control it or is under control by it. The Management Control Committee elects its chairman among its members, by an absolute majority of the latter.

The Management Control Committee exercise its functions according to the provisions of Article 2409 octiesdecies of the Italian Civil Code, namely: (i) it monitors the adequacy of the company's organizational structure, of the internal auditing system and on the administrative and accounting system as well as on its capacity to correctly represent the acts of the management; (ii) it performs the additional functions assigned to it by the Board of Directors with specific reference to the relationship with the persons entrusted with the statutory accounting audit.

The annual remuneration of the members of the Management Control Committee must be determined by the shareholders' meeting upon appointment of the members of the Management Control Committee, for the entire duration of their term of office.

According to Article 2409 octiesdecies of the Italian Civil Code and to the Articles of Association, if shareholders representing 5 % of the capital stock file a complaint, the Management Control Committee must investigate the facts reported in the complaint without delay. The Members of Management Control Committee may, jointly or individually, ask other directors' information, also with reference to the subsidiaries, on the performance of the business or on particular transactions. They can ask for the same information directly to the management and control bodies. The information has to be provided to all members of the Management Control Committee. The member of the Management Control Committee may, upon notice to the Chairman of the Board of Directors, call meetings of the the Board of Directors or the executive committee and use employees of the Company in performing its duties. The powers to call meetings and request collaboration may also be exercised individually by each member of the Committee. The Management Control Committee, or a member of it with a specific mandate, may, at any time, carry out inspections and controls and exchange information with the corresponding bodies of subsidiaries with reference to management and control systems and the general performance of the business.

In listed companies, the auditing of the accounts must be performed by an external independent auditing company, which must be enrolled in the Registro dei Revisori Contabili.

The Articles of Association of the Company can be found on the Company's web site under the following link: https://www.cassiopea.com/wp-content/uploads/2020/03/2019-CASSIOPEA-AoA-ENGL.pdf

Major shareholders

Cosmo Pharmaceuticals N.V., Amsterdam, is the Company's main shareholder holding 5.005.066 shares or 46.56 % of all outstanding shares at year end 2020. Furthermore, Cosmo Holding S.a.r.l. holds 809.953 shares or 7.53 %.

At year end, Heinrich Herz AG / Logistable SA was reported as holding 504.432 shares respectively 4.69 % of the shares of the Company and LLB Swiss Investment AG was reported as holding 420.305 shares respectively 3.91 % of the shares of the Company.

Capital structure

Share capital

The Company was incorporated by its founding shareholder Cosmo Pharmaceuticals on 29 July 2013 in the form of a limited liability company (Società a responsabilità limitata) under the name of Cosmo Dermatos S.r.l. with a capital of EUR 100 thousand. The Company was registered with the commercial register of Milan at no. 08338370961 and REA MI- 2018773 as of 30 July 2013. The Company's current registered address is Via C. Colombo 1, Lainate, Milan.

The Company, on 14 April 2015, was transformed into a joint stock corporation (S.p.A., or società per azioni). On the same date, the nominal value of the common shares was set into EUR 1 per share.

On 27 May 2015, its share capital was increased to nominal EUR 10,000 thousand, with the issue of 9,900,000 new common shares with a nominal value of EUR 1 each reserved to the existing shareholders for the purpose of the Initial Public Offering concluded in July 2015.

On 17 June 2020 a capital increase reserved for the existing shareholders was successfully concluded and 750,000 new registered shares were subscribed at an offer price of EUR 31. As a result, at 31 December 2020 Cassiopea S.p.A. had 10,750,000 (10,000,000 shares as at 31 December 2019) shares issued, fully subscribed and paid up, each share with a nominal value of EUR 1.00, for a total share capital of EUR 10,750 thousand.

The share capital is fully paid up. The shares are issued in book entry form according to Italian law. No share certificates have been issued and share certificates will not be available for physical delivery. Shares are centralized in the central security depository system managed by Monte Titoli.

On 5 April 2018, the shareholders' meeting resolved to delegate to the Board of Directors, the faculty to increase the Company's capital by up to a maximum nominal amount of EUR 1000 thousand, by issuing 1,000,000 new common shares with a nominal value of EUR 1 each, to be issued with the exclusion of subscription rights according to section 2441, 4° subsection Italian Civil Code. The resolution is valid until 5 April 2023.

On 18 March 2019, the shareholders' meeting resolved to delegate to the Board of Directors, the faculty to increase the Company's capital by up to a maximum nominal amount of EUR 3,000 thousand, by issuing 3,000,000 new common shares with a nominal value of EUR 1 each, according to section 2443 Italian Civil Code. The resolution is valid until 18 March 2024.

On 28 May 2020, the shareholders' meeting resolved the revocation of the proxy granted on 18 March 2019 (delegation to the Board of Directors to increase the Company's capital by up to a maximum nominal amount of EUR 500 thousand, by issuing 500,000 new common shares with a nominal value of EUR 1 each, for the purpose of the Employee Stock Option Plan), and resolved to delegate to the Board of Directors, according to sect. 2443 of the Italian Civil Code, the faculty to increase the Company's capital by up to a maximum nominal amount of EUR 900 thousand, by issuing 900,000 new common shares with a nominal value of EUR 1 each, to cover the company's obligations out of its Stock Option Program ("SOP"). The authority delegated to the Board of Directors has to be executed by 28 May 2025 the latest.

Except for the above described authorizations, the Company has no conditional capital, no authorized share capital and no unit or profit-sharing certificates outstanding. As at 31 December 2020, the Company does not own any treasury shares.

Stock option plans

On 28 May 2020, the Board of Directors granted a total of 63,332 options of which

- 21,116 with a vesting period of 1 year, expiring on 27 May 2026 and an exercise price of CHF 34.80 ("Option series 9a")
- 21,113 with a vesting period of 2 years, expiring on 27 May 2026 and an exercise price of CHF 34.80 ("Option series 9b")
- 21,103 with a vesting period of 3 years, expiring on 27 May 2026 and an exercise price of CHF 34.80 ("Option series 9c")

The fair value of options granted, determined on the basis of a binomial tree generated by the Fincad program – technique similar to the Black-Scholes valuation model, resulted in a value of CHF 4.18 per option ("Option series 9a"), of CHF 5.91 per option ("Option series 9b") and of CHF 7.24 per option ("Option series 9c").

On 22 December 2020, the Board of Directors granted a total of 143,232 options of which

- 47,748 with a vesting period of 1 year, expiring on 21 December 2026 and an exercise price of CHF 48.50 ("Option series 10a")
- 47,745 with a vesting period of 2 years, expiring on 21 December 2026 and an exercise price of CHF 48.50 ("Option series 10b")
- 47,739 with a vesting period of 3 years, expiring on 21 December 2026 and an exercise price of CHF 48.50 ("Option series 10c")

The fair value of options granted, determined on the basis of a binomial tree generated by the Fincad program – technique similar to the Black-Scholes valuation model, resulted in a value of CHF 6.48 per option ("Option series 10a"), of CHF 9.10 per option ("Option series 10b") and of CHF 11.09 per option ("Option series 10c").

As at 31 December 2020, 706,564 options of the total program of 900,000 options are allocated and outstanding, of which 290,010 exercisable.

Share options	Numbers	Weighted average exercise price CHF
Outstanding as at 31 December 2019	**500,000**	**38.24**
Exercisable as at 31 December 2019	160,400	34.00
Granted during the period	206,564	44.30
Forfeited during the period	–	–
Exercised during the period	–	–
Expired during the period	–	–
Outstanding as at 31 December 2020	**706,564**	**40.01**
Exercisable as at 31 December 2020	290,010	36.44

The share options outstanding at the end of the financial year had a weighted exercise price of CHF 40.01 and a weighted average remaining contractual life of 4.4 years.

Italian law does not foresee the creation of conditional capital for stock option plans. The share capital will thus not be increased until such time when the option holders execute their options.

Transfer of shares and disclosure of principal shareholders

The transfer of shares is affected by corresponding entry in securities accounts, which record the transfer of financial instruments opened with authorized financial intermediaries and in accordance with the applicable law. Upon registration of the transfer and upon request of the shareholder, the financial intermediaries shall inform the Company of the transfer of shares, and the Company shall update the shareholders' register in accordance with Italian law. A shareholder may ask for his registration at any time.

The Company has been advised that, as an Italian company listed in Switzerland, it and its shareholders may not have the protection of either Italian or Swiss laws and regulations governing disclosure of significant shareholdings. However, each shareholder (as defined in the Articles of Association) who directly, indirectly or beneficially has voting or investment power in the Company is required by the Articles of Association to comply with the laws, rules and regulations.

Share purchases by the Company

The Company has a market-making agreement with a well-known bank. The Company does not have any authorization to repurchase shares.

At year-end, the Company had no own shares on its books.

Shareholders' rights

Each share carries one vote. Holders of the shares are entitled to attend and vote at shareholders' meetings on the basis of one vote for each share held, although shares held in breach of certain provisions of applicable law and / or the Company's Articles of Association may not be voted.

According to the Italian law, Shareholders representing at least 2.5 % of the issued and outstanding share capital are entitled to put issues on the agenda of the meeting, provided that their request is filed at least within five days from the publication of the notice of call.

In addition, even in absence of notice, a meeting will be deemed duly convened if shareholders representing 100 % of the share capital, together with the majority of directors and members of the Board of Statutory Auditors, are present at the meeting. In this case, shareholders attending may object to discussions of matters on which they have not been sufficiently informed.

Since 1 May 2013, foreign companies listed in Switzerland are subject to the Swiss takeover provisions as regulated under SESTA (Swiss Exchange Take Over Act) and SESTO (Swiss Exchange Take Over Ordinance).

The Articles of Association also require investors in the shares to notify the Company of certain acquisitions and dispositions of shares.

To attend a meeting, the owners of shares are required to instruct any relevant authorized intermediary with which their accounts are held to provide to the Company admission certificates or notice.

The Company's shareholders may appoint proxies in writing. Proxies are valid only for single meetings (including, however, the first, second and subsequent calls). General proxies can be released only by companies, associations, foundations or other legal entities or institutions, and only to their own employees.

Directors, Independent Auditors and employees of the Company or of its subsidiaries, or a subsidiary itself, may not act as proxies for shareholders. A shareholder may also appoint another shareholder to represent it at shareholders' meetings.

No voting rights restriction, statutory group clauses and rules on granting exceptions exist.

Dividends, allocation of annual net profits and other financial rights

The board does not intend to propose the distribution of a dividend before the Company generates solid revenues and profits.

Pre-emptive rights

New issues of shares, whether shares or other classes of share capital, are authorized by a resolution of the shareholders passed at an extraordinary meeting. Pursuant to Italian law, holders of ordinary shares are entitled to subscribe for new issue of shares, debt instruments convertible into shares and any other warrants, rights or options entitling the holder to acquire shares, in each case in proportion to their respective shareholdings.

Information policy

Cassiopea S.p.A. is committed to a clear, transparent, consistent and nonselective disclosure of material information. In accordance with the Italian and the SIX Swiss Exchange rules, Cassiopea S.p.A. provides complete and detailed information in annual and half-year reports and regularly updates its website www.cassiopea.com

The Company publishes additional information on important events.

The Company has formulated a corporate commitment to keep its investors fully apprised of the Company's developments. The Chairman, CEO, CFO and Head of Investor Relations are responsible for communication with the financial community. The Company

adheres strictly to the ad hoc publicity rules of the SIX Swiss Exchange and has issued all press releases to a wide range of international agencies as required by the SIX Swiss Exchange. In selective cases such as the presentation of annual report and the half-year report, the Company has also invited shareholders and the financial press to conference calls and selective news events.

To extent the law or the Articles of Association do not require a written personal notice, all announcements prescribed by law and other notices to the shareholders are therefore validly made through publication in a daily newspaper (chosen alternately between Il Corriere della Sera, La Repubblica, Il Sole 24 Ore, the Financial Times and the Neue Zürcher Zeitung) as provided in the Articles of Association. In the event the publication in an Italian newspaper is not possible under applicable Italian law, the Company shall publish notice of call and other announcements in the Italian Official Gazette (Gazzetta Ufficiale). Notice shall also be published as required by the listing rules of the SWX Swiss Exchange.

A notice of a shareholders' meeting generally specifies two meeting dates (calls) and may specify three calls for extraordinary meetings.

Notices are also to be published as required by the listing rules of the SIX Swiss Exchange.

The Board of Directors

The Board of Directors has the responsibility to set up the general policies and the management of the Company. The BoD establishes the strategic, accounting, organizational and financing policies and appoints, recalls and supervises the members of the management. Furthermore, the Board of Directors is responsible for the preparation of annual reports, organization and preparation of shareholders' meetings and carrying out shareholders' resolutions. The Board of Directors may delegate its powers to the Executive Committee and / or to the Chief Executive Officer (CEO).

During 2020, the BoD and the Management Control Committee have regularly verified the management has operated in the full respect of limits set in the budget.

The Company's current Articles of Association (https://www.cassiopea.com/wp-content/uploads/2020/03/2019-CASSIOPEA-AoA-ENGL.pdf) provide for a Board of Directors of at least three and no more than nine members.

The Company's Board of Directors is currently composed of five members, three of which non-executive, each of them being elected for a term of one fiscal year and re-eligible to subsequent terms following the above-mentioned Italian civil code rules. The mandates of the current Directors will terminate with the shareholders' meeting approving the financial statements as of the fiscal year 2020, to be held in 2021, but they may be re-elected so that their mandates will continue for further terms. As stated above, members of the Company's Board of Directors may be removed by resolution of the shareholders' meeting.

The Company's Articles of Association establish a slate voting system for the election of the members of the Board of Directors. According to this system, each shareholder can present or concur to the presentation of just one list and each candidate can present himself in just one list, under sanction of ineligibility; each shareholder is entitled to vote for just one list. The candidates on each list shall be listed with progressive numbers. Each list shall contain a number of candidates not higher than the total number of members of the Board to be elected. According to the Article of Association, shareholders who own, alone or together with other shareholders, at least 2.5 % of the share capital are entitled to present a list at the latest ten days prior to the scheduled date for the shareholders' meeting on first call. The Company's Articles of Association provide that one Director (the one which is listed as first) is appointed from the list which has obtained the second highest number of votes. This last provision entitles minority shareholders to one board member to represent their interests. See also "Description of the Company's Capital Structure and Shares – Minority shareholders' rights".

Pursuant to the Company's Articles of Association, at least three directors shall fulfil the independence requirements provided for by Article 2399 of the Italian Civil Code and also the independence requirement provided for by the code of conduct stated by corporate governance codes set up by the managing body of recognized stock exchange on which the shares are listed. At least one of the members of the Board of Directors must be selected among statutory auditors enrolled in the dedicated register. The Articles of Association also provide that, if the director registered in the national register of auditors (Registro dei Revisori Contabili) is not elected from the list which obtains the highest number of votes, the director registered in the national register of auditors shall be the first candidate listed on the minority list fulfilling this requirement, even if he is not the first on the list.

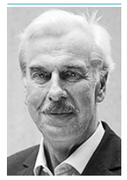
Should one or more Directors terminate their office, they shall be substituted pursuant to section 2386 of the Italian Civil Code[1], without regards to the list wherefrom the director comes. In case the majority of the Directors terminate the office, for resignation or other causes, the entire Board shall be considered as terminated and a shareholders' meeting shall be called for the appointment of a new Board.

At the Shareholders' Meeting held on 28 May 2020, the Board of Directors was re-elected for a one-year period, eligible to subsequent terms following Italian civil code rules.

In 2020, seven meetings of the Board of Directors, each lasting between one and three hours took place.

As listed on pages 35–41, all non-executive Board Members fulfilled the independence requirements.

[1] Section 2386 of the Italian Civil Code provides that if one or more (but not the majority of the Directors) terminate their office, the board shall co-opt one or more new director; Directors co-opted by the Board of Directors shall remain in office until the next shareholders' meeting, which will then replace the director leaving office.

	Name / current position	Member since	Relevant external positions
	**Jan E. de Vries** Non-executive Director; Chairman	2015	__ CEO of Tr1x Inc., La Jolla (California), USA. __ Member of the board of directors and CEO of AIMM Therapeutics, Amsterdam
	**Maurizio Baldassarini** Non-executive Director	2018	__ Founding partner of BCG Associati __ Board Member of EQ Value S.r.l. Statutory Auditor President of: __ Goldfleet S.p.A. __ SSC Napoli S.p.A. __ Fantini Sud S.p.A. __ FB Associati S.p.A. __ Lab.Farm.Krymi S.p.A. __ Pastificio Paone S.p.A. __ SSC Bari S.p.A.
	**Øyvind Bjordal** Non-executive Director	2015	__ Managing Director and Head of Lincoln International, Switzerland
	**Pierpaolo Guzzo** Non-executive Director until 31 December 2020. Starting 1 January 2021, Executive Director, CFO	2015	__ CEO EQValue, Rome, Italy __ Board member Agatos S.p.A. __ Board member of Sistan Sgr __ Board member of Femi S.p.A. __ Board member of Elco S.p.A. __ Board member of Yape S.r.l. Statutory Auditor of: __ Elco Group S.p.A. (Chairman) __ CAM S.p.A. (Chairman) __ IEN S.p.A. (Chairman) __ Seco S.p.A. (Chairman) __ Healthware S.r.l. (Sole Auditor) __ S'Astore S.r.l. (Sole Auditor) __ LFK S.p.A. __ Geico S.p.A. __ Lux Vide S.p.A. __ Filmauro S.p.A.
	**Diana Harbort** Executive Director; CEO	2015	

With the exception of Diana Harbort, none of the board members was part of senior management of the Company nor any of its subsidiaries in the three financial years preceding the period under review and none has significant business connections with the Company or any of its subsidiaries.

None of the board members had any activities in governing and supervisory bodies of important Swiss companies.

None of the board members had any official functions or political posts in Italy or Switzerland.

Jan E. de Vries

Dutch (born 1944), has been the Chairman of Cassiopea S.p.A. since 2015. Dr. de Vries was not part of senior management of Cassiopea in the three financial years preceding the period under review. Neither he, nor any of the companies he is on the board of, have significant business connections with Cassiopea. Dr. de Vries has a) no activities in governing or supervising bodies of important Swiss and foreign organizations, institutions and foundations under private and public law, b) no permanent management and consultancy functions for important Swiss nor foreign interest groups; c) no official functions nor political posts. Dr. de Vries has decades of experience across research and development in academia, biotechnology, and pharmaceutical industries. De Vries is the co-founder and CEO of Tr1X. Prior to that, de Vries was the CEO of AIMM Therapeutics and currently serves as AIMM's Chairman of the Board. Before joining AIMM, de Vries was Senior Vice President, Drug Discovery and Early Development at Novartis and Head of the Novartis Research Institutes for Biomedical Research in Basel, Switzerland. He was also Global Head of the Therapeutic Area of Autoimmunity, Inflammation, and Transplantation in Basel and Vienna. At Novartis, he led the discovery and early development of dozens of compounds, both low molecular weight, and biologics including the marketed drugs Elidel®, Ilaris®, Gilenya®, Cosentyx®, and Maizent®. De Vries joined Novartis from the California-based DNAX Research Institute for Molecular Biological Research (acquired by Schering-Plough and Merck & Co), where he was Director of Immunology. Prior to that, he was Co-Director of the Schering–Plough Institute for Immunological Research in Lyon, France. De Vries is a member of the scientific advisory boards of several private and public biotechnology companies. He started his career in academia at the Netherlands Cancer Institute in Amsterdam, where he was Head of the Department of Immunology. De Vries has published more than 300 scientific papers in peer-reviewed journals and holds 20 patents. He earned a MSc degree in Biology / Biochemistry from the University of Utrecht, a PhD degree in Immunology from the University of Amsterdam, and completed his Post Doctoral studies with John Mendelsohn at the University of California, San Diego.

Maurizio Baldassarini

Italian (born 1963), has been a board member of Cassiopea S.p.A. since 2018. Mr. Baldassarini was not part of the senior management of Cassiopea in the three financial years preceding the period under review and neither he nor any of the companies he is in have significant business connections with Cassiopea. Mr. Baldassarini has a) no activities in governing or supervising bodies of important Swiss and foreign organizations, institutions and foundations under private and public law, b) no permanent management and consultancy functions for important Swiss nor foreign interest groups, and c) no official functions nor political posts. Mr. Baldassarini is the founding partner of BOCG Associati, Rome, a financial and legal advisory firm.

Øyvind Bjordal

Norwegian (born 1965), has been a Board Member of Cassiopea S.p.A. since 2015. Mr. Bjordal was not part of senior management of Cassiopea in the three financial years preceding the period under review and neither he nor any of the companies he is in have significant business connections with Cassiopea. Mr. Bjordal has a) no activities in governing or supervising bodies of important Swiss and foreign organizations, institutions and foundations under private and public law, b) no permanent management and consultancy functions for important Swiss nor foreign interest groups; c) no official functions nor political posts. Mr. Bjordal is Managing Director and Head of Switzerland of Lincoln International. He manages key client relationships, leads deal teams and is responsible for marketing Lincoln International's services to Swiss based companies, in Switzerland and globally. Prior to joining Lincoln International in 2014 to launch the Swiss operations, Mr. Bjordal worked as a Managing Director / Partner with a corporate finance advisory team since its foundation in 1999, covering the Swiss midcap market. The team based in Zurich was initially with Andersen / EY, before continuing with Sal. Oppenheim and most recently Leonardo & Co. where he was also co-leading the pan-European Consumer & Retail team. After completing his studies and working in the finance area for a global industrial firm, he started his investment-banking career at UBS in 1994 where he worked on transactions throughout Europe, including several privatization assignments in the telecoms sector. Mr. Bjordal graduated in Business Administration at the University of Fribourg in Switzerland in 1990 and holds an MBA degree.

Pierpaolo Guzzo

Italian (born 1968), has been a Board Member and Chairman of the Management Control Committee of Cassiopea S.p.A. since 2015. Mr. Guzzo was not part of senior management of Cassiopea in the three financial years preceding the period under review and neither he nor any of the companies he is in have significant business connections with Cassiopea. Mr. Guzzo has a) no activities in governing or supervising bodies of important Swiss and foreign organizations, institutions and foundations under private and public law, b) no permanent management and consultancy functions for important Swiss nor foreign interest groups; c) no official functions nor political posts. Starting 1 January 2021, Pierpaolo Guzzo has been appointed Chief Financial Officer, following the retirement of Mr Chris Tanner.

He has been the CEO of EQValue, an Italian M&A and business advisory boutique since 2008. In his role he manages all of the key client relationships and leads deal teams.

After completing his studies, Mr. Guzzo started his career in 1993 at Arthur Andersen, where he worked for both the audit and the business consulting areas. In 1996, he joined the M&A Team of SOFIPA, an Italian Merchant Bank. In 1998, he joined the private equity team of ABN AMRO in Italy, where he served as Investment Manager. In 2000, he joined, as Director, PM & Partners S.p.A., a EUR 200 million private equity fund focused on Italian companies.

He graduated in Business Administration at the University of Rome "La Sapienza" in 1991, qualified as a CPA – Certified Public Accountant ("Dottore Commercialista") in 1993 and as an External Auditor ("Revisore Contabile") in 1997.

Diana Harbort

American (born 1966), has been CEO and Board Member of Cassiopea S.p.A. since 2015. Ms. Harbort has a) no activities in governing or supervising bodies of important Swiss and foreign organizations, institutions and foundations under private and public law, b) no permanent management and consultancy functions for important Swiss nor foreign interest groups; c) no official functions nor political posts. Harbort has held executive positions at leading pharmaceutical companies, including 17 years (1998–2012) at Medicis Pharmaceutical Corporation, an industry leading dermatology and aesthetics company, ultimately serving as the Vice President of Corporate Development. In this role, she in-licensed or acquired most of the company's products and pipeline before its acquisition by Valeant for US$ 2.3 billion in 2012. Earlier in her career (1989–1998), she spent 10 years in various roles at Abbott Laboratories, in marketing, business development and operations across Abbott's pharmaceutical, hospital products and diagnostic divisions. She was also a highly sought out advisor and independent consultant immediately prior to joining Cassiopea. Throughout her career, she has evaluated over 3000 opportunities in the dermatology space and negotiated over 75 agreements, becoming an expert across a broad range of dermatology diseases and markets. Diana Harbort has a BBA of the University of Wisconsin Whitewater (1989) and an MBA from JL Kellogg Graduate School of Management, Northwestern University in 1998. She currently is a member of the American Academy of Dermatology and the Women's Dermatological Society.

Board Committees

Management Control Committee

The Management Control Committee includes the functions usually assigned to the audit committees in other jurisdictions. For a description of its responsibilities, see "Corporate governance model". The Management Control Committee is composed of Pierpaolo Guzzo, (Chairman), Maurizio Baldassarini, and Øyvind Bjordal. The Management Control Committee did not call upon any external consultants to help it deal with any of the issues addressed.

Starting 1 January 2021, Pierpaol Guzzo is no longer a member of the MCC Committee, since he has been appointed Chief Financial Officer, following the retirement of Mr Chris Tanner. A new member will be appointed in the next Shareholders Meeting, in compliance with the provisions of the Articles of Association.

In 2020, four meetings of the Management Control Committee, each lasting between one and three hours took place.

Nomination and Compensation Committee

The Board of Directors has established a Nomination and Compensation Committee, which provides recommendations to the full board and enacts guidelines for selecting candidates for the election to the Board of Directors in the event one or more directors is replaced pursuant to section 2386 of the Italian civil code. It also enacts guidelines for the appointment of senior management and makes arrangements to select such candidates. It also assists the Board of Directors in compensation related matters, including matters related to the Company's stock option plan. No formal compensation criteria have been defined; compensation proposals are entirely at the discretion of the Committee. The Nomination and Compensation Committee provides recommendations on and policies for the compensation of the members of the Board of Directors, the management and other employees.

The Nomination and Compensation Committee is composed of Jan E. de Vries (Chairman), Maurizio Baldassarini and Øyvind Bjordal. In 2020, the Nomination & Compensation Committee met once, for two hours.

Neither the Management Control nor the Nomination & Compensation Committee have decision making authority. They report their findings to the full board, which then takes the necessary decisions.

ESG Committee

In 2020 the Board of Directors has appointed a Committee, made of two board members, as responsible for the implementation and supervision of Cassiopea's ESG approved policy. Cassiopea's ultimate objective on this matter, is to integrate the "ESG framework" into the corporate strategy, with the aim to get a complete alignment of internal and external stakeholders' interests.

In 2020 the two board appointed members were Jan E. de Vries (as President) and Pierpaolo Guzzo.

Transaction Committee

The Board of Directors held on 28 July 2020 has approved the constitution of a Transaction Committeee within the Board, aimed at supporting the CEO in relation to M&A operations. In 2020 the members of the committee were Jan E. de Vries, Øyvind Bjordal and Chris Tanner.

Senior Management

The Executive Management and the members of the enhanced management team are responsible for the operational management of Cassiopea in line with the instructions issued by the Board of Directors. The Board has decided to pursue a strategy wherein there is extreme focus on developing the existing product pipeline as efficiently as possible. To this end, the effective Executive Management Team is very small and where possible, the activities are outsourced. The Executive Management consists of persons with extensive experience in dermatology and in managing the various dermatology activities.

The table below shows the Company's senior managers' names (Executive Management and enhanced management team) and position within the Company:

Executive Management

Name	Position
Diana Harbort	CEO
Alessandro Mazzetti	Chief Medical Officer
Luigi Moro	CSO
Hans Christoph Tanner (until 31 December 2020)	CFO; Head of IR

Enhanced Management Team

Name	Position
Martina Cartwright	Senior Director – Medical Affairs
Marco Lecchi	Finance Director
Marco Pasero	Chief Operating Officer
Sheetal Sahel	Vice President – Marketing
David Wood	Vice President – Sales

Biographies

Diana Harbort

American (born 1966), Chief Executive Officer of Cassiopea. See “The Board of Directors”.

Alessandro Mazzetti

Italian (born 1952), has served as the Chief Medical Officer (CMO) for Cassiopea since 2017. In this role, he oversees all aspects of clinical research. Previously, he spent three years at Cosmo Pharmaceuticals, the largest shareholder of Cassiopea, as CMO where he also oversaw all aspects of clinical research. He has 40 years of clinical development experience, having managed over 15 clinical development programs across a broad range of therapeutic areas.

Mazzetti has extensive experience managing clinical trials, having done so extensively during his tenure at Boehringer Ingelheim, SmithKline Beecham Group and RBM Serono. Previously, he was one of the founders and held the positions of Vice President and Medical Director of Dermogyn S.r.l., a dermocosmetic company, and General Manager of TRD S.r.l., a CRO company, serving as a consultant and advisor in the medical industry.

Mazzetti graduated with a degree in Medicine and Surgery from the University of Florence, Italy, and is an author of numerous scientific publications and papers.

Luigi Moro

Italian (born 1951), has been the Chief Scientific Officer (CSO) at Cassiopea since 2015. He has also served as CSO at Cosmo Pharmaceuticals, the former company developing the dermatological projects in the Cassiopea pipeline and today the largest shareholder of Cassiopea, since 1999. Dr. Moro has over 40 years of development experience in all stages of research from discovery through regulatory, having been involved in the full development of several products across a wide range of therapeutic areas. As CSO, Moro focuses on the oversight of all Cassiopea’s development programs and technology.

Previously, Moro spent eleven years at Poli Industria Chimica S.p.A. where he had roles of increasing responsibility in the management of pharmaceutical technologies, research activities and industrial development of APIs and finished products.

He began his career with Farmitalia Carlo Erba where he focused on discovery / preclinical phase projects and the development of new drug administration systems, particularly for anticancer drugs. He later worked with Recordati, collaborating on the oversight of technological projects and the drug delivery systems.

Dr. Moro graduated and was a contract professor in Pharmaceutical Technology at University of Milan, is an author of numerous scientific communications, publications and papers, and holds multiple international technology patents.

Hans Christoph Tanner

Swiss (born 1951), Chief Financial Officer and Head of Investor Relations, has been the CFO of Cassiopea since 2015. Chris Tanner retired on 31 December 2020.

Martina Cartwright

American (born 1968), as both a research scientist and clinician, Martina Cartwright has a perspective and skill set that bring invaluable insight to her role as the Senior Director of Medical Affairs at Cassiopea since March 2019. Cartwright oversees strategic development and execution of all medical affairs activities, including scientific communications and publications, medical education, key opinion leader outreach, field medical, and research presentations.

Dr. Cartwright has a long history as an expert in medical, scientific and regulatory affairs, having spent many years consulting for mid- and large-size pharmaceutical companies and other industries. Her diverse therapeutic background includes working with both adult and pediatric populations in the fields of medical dermatology and cosmetics, infectious diseases, critical care / neuro-trauma, cardiology and oncology. She also served as the lead task force liaison between the US military and Eli Lilly & Co. on a special projects team focused on infectious disease / bioterror preparedness after the September 11 attacks in New York.

In addition to a bachelor’s degree in Dietetics, Cartwright also has a master’s degree in Clinical / Community Nutrition, both from the University of Arizona. She earned a Ph.D. in Nutritional Science from the University of Wisconsin.

Marco Lecchi

Italian (born 1964), Finance Director since 2017. Chief Operating Officer of Cosmo Pharmaceuticals since January 2021, Mr. Lecchi has been with Cosmo since 2001 and served as Deputy CFO since 2007 prior to his appointment as Head of Internal Audit in 2016. From 1992 to 1999 he worked at an international audit firm. From 1999–2001 he was the Director of Administration at Gianfranco Ferrè S.p.A. and its subsidiary GF Manufacturing S.r.l. He graduated in Economics and Business Administration specializing in financial administration at the Bocconi University in Milan. In 1999 he was admitted to the Official Register of Public Auditors.

Marco Pasero

Italian (born 1966), Chief Operating Officer since 2015. He completed his studies in Economy and Commerce at the State University of Pavia in1993 and got his accreditation as a commercialista in 2001 and as official auditor in 2002. Since 2002 he has been developing his activities as a "commercialista". He is the President of Adras S.p.A and the Sindaco of Ahsi S.p.A, Italiana Valorizzazioni Immobiliari S.r.l., and the Sindaco supplente of Carini SA, Atmos Venture S.p.A and Residenze Porta Nuova S.r.l. as well as Amministratore Unico of ARthos S.r.l., Soara Immobilaire S.r.l., Edil Mite, Vetabbia, Primal Wear Europe S.r.l., Sunnergy Group S.p.A, Pike S.r.l., La Casa del Bosco S.r.l., 20 Votes, S.r.l.

Sheetal Sahel

American (born 1974), Sheetal Sahel joined Cassiopea as Vice President of Marketing in 2019, bringing with her extensive pharmaceutical experience and business acumen. A strategic thinker, Sahel serves on Cassiopea's executive leadership team and oversees commercial strategic and operational planning, the development of commercial product plans, and all aspects of marketing.

Sahel has 20 years of experience in commercial development and execution. Prior to joining Cassiopea, she served in leadership roles at start-up and R&D companies that included FirstSense Medical and Novan Inc. She spent 8 years at Galderma Laboratories, Inc. where she led a US$ 1.2 billion portfolio with responsibilities across four disease franchises and over 20 brands. Previously, she developed and led the acne business at Stiefel Laboratories. She started her career in sales and marketing at Janssen Ortho, Inc. and has held positions at all levels of marketing management, building teams and launching multiple brands along the way. Sahel has a consistent track record of success leading the flagship business of small- to medium-sized organizations. She possesses a deep knowledge of the dermatology business and executing for launch excellence.

Sahel earned a bachelor's degree in Biological Sciences from the University of Alberta and an MBA in Marketing and International Business from York University's Schulich School of Business.

Dave Wood

American (born 1961), joined Cassiopea in 2019 to help establish the company's commercial infrastructure for product launch and execute a strategy to meet profit goals consistent with long-range strategic objectives. As the Vice President of Sales and member of the Cassiopea executive leadership team, Wood stewards the commercial build of both the sales leadership team and the field sales team. He also assists with building internal support teams, from training to market access, by tapping into his vast dermatological network.

An expert in the sales and marketing of dermatological products, Wood has a 25-year proven track record of fine-tuning infrastructure, both pre and post launch. During his career, he has overseen the sales and marketing of 17 dermatological and aesthetics products while holding executive sales positions at Valeant (Ortho Dermatologics), Medicis Pharmaceutical Corporation, and Allerderm / Virbac. Immediately prior to joining Cassiopea, Wood served as Vice President of Sales at Pfizer / Anacor Pharmaceuticals where he helped launch and promote a novel PDE-4 inhibitor for atopic dermatitis.

Wood received a bachelor's degree in Operations Management from Missouri State University and an MBA from the University of Missouri at Kansas City.

All the members of the Management have their business address at the registered offices of the Company.

Service agreements

The Company has entered into Service Agreements with Cosmo Pharmaceuticals N.V. as well as with its subsidiary, Cosmo S.p.A.

Services Agreement with Cosmo Pharmaceuticals N.V.

On 13 May 2015, the Company entered into a services agreement with Cosmo Pharmaceuticals N.V. Pursuant to this agreement, Cosmo Pharmaceuticals N.V. provides the Company with the services of its Chief Financial Officer, Hans Christoph Tanner, and its Chief Scientific Officer (CSO), Luigi Moro. The agreement had an original term of two years from the date of the IPO (1 July 2015) and was subsequently renewed until 31 December 2020. Following Chris Tanner retirement at the end of 2020, the agreement was renewed until 31 December 2021, for the services of the CSO Luigi Moro and of the Finance Director, Marco Lecchi.

During the period 2017–2020, the Board of Directors of the Company, resolved to award to the three managers, Luigi Moro (CSO), Hans Christoph Tanner (CFO), and Marco Lecchi (Finance director) respectively 86,000, 64,000 and 40,500 options to subscribe Cassiopea shares for the services provide to Cassiopea under the above service agreement. Furthermore, in the same period, it was resolved to award 10,582 options to an administrative employee of Cosmo S.p.A..

Services Agreement with Cosmo S.p.A.

On 5 June 2015, the Company entered into a services agreement with Cosmo S.p.A. Pursuant to this agreement, Cosmo S.p.A. provides the Company with general administrative services, regulatory services and clinical lots manufacturing and lab testing services. Cosmo S.p.A. is to perform these services on demand.

Cosmo S.p.A., charges the Company for the use of its personnel at an agreed hourly rate equal to its own labor cost plus a 10 % margin. Similarly, Cosmo S.p.A. charges the Company for direct costs incurred in connection with its services, such as the cost of laboratory materials, at cost plus a 10 % margin. In addition, the Company pays Cosmo S.p.A. an annual reservation fee in the amount of EUR 200 thousand, subject to certain adjustments, to cover the provision of on-demand office space and indirect costs which cannot be separately identified, such as utilities, general services, IT assistance, phone lines and internet access.

The services agreement with Cosmo S.p.A. has been renewed until 31 December 2021 at the same condition. The Company is entitled to terminate the agreement with two months' prior notice at any time and at no cost. Cosmo S.p.A. has no right to terminate the agreement prior to the end of its term.

Compensation, shareholdings and loans

Compensation of Board of Directors

EUR

Board of Directors	Function	Base compensation	Additional compensation	Cash bonus	Fringe benefits	Stock options	Total compensation
Jan E. de Vries	Non-executive, Chairman	35,000	–	–	–	7,025	42,025
Maurizio Baldassarini	Non-executive, Independent director	35,000	3,500*	–	–	7,025	45,525
Øyvind Bjordal	Non-executive, Independent director	35,000	3,500*	–	–	7,025	45,525
Pierpaolo Guzzo	Non-executive, Independent director	35,000	3,500*	–	–	7,025	45,525
Diana Harbort	Executive, CEO	400,318	–	168,105	14,834	234,122	817,379
Total		**540,318**	**10,500**	**168,105**	**14,834**	**262,222**	**995,979**

* compensation Management Control Committee

Compensation for the Senior Management

The compensation of the members of Senior Management is proposed by the CEO and reviewed annually by the Compensation Committee of the Board of Directors who then requests the approval by the full Board of Directors. The compensation policy of Cassiopea is based on the following:

a) The compensation consists of base salary, cash bonuses and stock-based remuneration.

Here below the compensation for the year 2020:

EUR

Executive Management and enhanced management team	No of members	Base compensation	Cash bonus	Fringe benefits	Stock options	Total compensation
Executive Management**	8 members	878,889	179,525	57,903	759,836	1,876,153
highest paid of 8 members		250,793	67,949	20,985	50,827	390,554

** excluding CEO

Stock option for Board of Directors and Senior Management

As at 31 December 2020 in relation to the Stock option plan of Cassiopea S.p.A., the situation was as follows:

	Outstanding as at 1 January 2020	Granted	Forfeited in 2020	Exercised	Expired	Outstanding as at 31 December 2020
Non-executive Members of the Board						
Jan E. de Vries	22,617	1,583	–	–	–	24,200
Pierpaolo Guzzo	12,617	1,583	–	–	–	14,200
Øyvind Bjordal	12,617	1,583	–	–	–	14,200
Maurizio Baldassarini	2,617	1,583	–	–	–	4,200
	50,468	**6,332**	**–**	**–**	**–**	**56,800**
Of which exercisable	**40,000**					**43,492**

	Outstanding as at 1 January 2020	Granted	Forfeited in 2020	Exercised	Expired	Outstanding as at 31 December 2020
Executive Members of the Board and Members of Senior Management detailed if allocation exceeds 5,000 options						
Diana Harbort	137,242	52,758	–	–	–	190,000
Alessandro Mazzetti	82,345	44,655	–	–	–	127,000
Luigi Moro	54,897	31,103	–	–	–	86,000
Chris Tanner	54,897	9,103	–	–	–	64,000
Martina Cartwright	17,448	10,552				28,000
Marco Lecchi	27,448	13,052	–	–	–	40,500
Marco Pasero	18,725	5,275	–	–	–	24,000
Sheetal Sahel	17,448	10,552	–	–	–	28,000
David Wood	17,448	10,552	–	–	–	28,000
	427,898	**187,602**	**–**	**–**	**–**	**615,500**
Of which exercisable	**115,400**					**235,973**

Loans granted by the Company to Members of the Board of Directors or the Management

The Company has not granted any loans or guarantees to any Member of the Board of Directors or members of the Management.

Independent Auditors

Duration of the mandate and term of office of the Independent Auditors

The Independent Auditors BDO Italia S.p.A. was appointed in April 2015 for the audit of the financial statements 2015; such appointment has been renewed till the approval of the 31 December 2020 financial statements. Mr. Paolo Beretta is the partner in charge for the report of the independent auditors. Auditor's honorariums for the audit of 2020 financial statements amounted to EUR 29 thousand.

In 2020, the auditor's perform additional services in relation to the June capital increase and for the R&D tax credit: the honorarium amounted to EUR 17 thousand.

COVID-19 impact

In light of the ongoing COVID-19 pandemic, we are committed to keeping our stakeholders informed as the situation evolves. In the face of this highly unpredictable and complex scenario, the Board of Directors promptly took action to:

- understand the immediate consequences for the Company;
- adopt all safeguard measures for employee health;
- understand, as far as possible, the evolution of the emergency;
- adopt all the solutions to be put in place to protect the company's assets.

In addition, the Company promptly implemented all the requested measures based on the legislation currently in force for the protection of the health of workers and places. The Company decided to prudently suspend, where possible, any work activity at the Company's offices, organizing work in "smart working" mode, with the necessary electronic equipment. For people for whom smart working is not possible, we have stringent cleaning and sanitation protocols in place, and we strictly respect social distancing policies at all times, in order to minimize risk of exposure. These actions have allowed the continuation of the main operating activities, among which the preparation of the Financial Statements, the convocations and teleconference meetings of the Board of Directors and of the Shareholders Meeting.

The ongoing Phase II trial of Clascoterone solution in females with androgenetic alopecia, which started in Q4 2019, was affected by the COVID-19 pandemic as enrollment was suspended for about three months. Recruitment restarted in June 2020 and we announced the completion of enrolment on 8 October 2020, which would allow us to have results in Q3 2021.

Following the US FDA approval announced on 27 August 2020 for Winlevi®, our first-in-class topical androgen receptor inhibitor for the acne in patients twelve years and older, the Company priority now is optimizing the commercial strategy for the product taking into account the dynamics of COVID-19 affecting the entire pharmaceutical industry.

ESG

In order to fully spread and implement the sustainability principles within its business culture, In 2020 the Board of Directors has appointed a Committee, made of two board members, as responsible for the implementation and supervision of Cassiopea's ESG approved policy. Cassiopea's ultimate objective on this matter, is to integrate the "ESG framework" into the corporate strategy, with the aim to get a complete alignment of internal and external stakeholders' interests.

The tasks for 2021 of the ESG Committee will be:

- ESG STRATEGY: a list of KPIs and intermediate goals, set on the basis of the approved criteria and, where applicable, linked to incentive plans.
- ESG CONSULTANTS: hiring external experts providing for advice on ESG topics;
- ESG POLICIES: to be integrated in all the operative procedures of the Company;
- ESG'S CRITERIA: set within a specific roadmap policy and checked annually (the criteria approved by the Board of Directors are shown in the table below).

a. Environmental policy
- i. Hazardous waste disposal
- ii. Disposal of expired products
- iii. Electricity usage
- iv. Water usage

b. Freedom of association policy
- i. Trade unions

c. Employee relations & Diversity programs
- i. Male female composition by levels
- ii. Turn over
- iii. Accidents at work place
- iv. Work days lost
- v. Minorities
- vi. Handicapped persons

d. Human capital development programs
- i. Determination of training needs on a yearly basis
- ii. % of employees in external career development programs
  1. How much is spent on this
- iii. inhouse training programs

e. Scope of Supplier Standards
- i. Standards required
- ii. Reports on maintenance of standards
- iii. Inspections of standard maintenance

f. Product and Service Safety Programs
- i. Reported adverse events
- ii. Returned products

g. Drug Promotion Standards
- i. Scientific Advisory Boards
- ii. KOL policy
- iii. Trade fairs & congresses

h. Access to Medicine Program

i. Lobbying policy

j. Bribery & Corruption Policy

k. Whistleblower Programs

l. Clinical Trial Standards
- i. Quality of CRO
- ii. Minimal country criteria
- iii. GCP criteria and Supervision standards
  1. Adverse events reporting
  2. Extraordinary event reporting
- iv. Animal Welfare Policy

m. Accounting & Taxation policy

n. Intellectual property policy

o. Financial flexibility policy

p. Governance policy
- i. Board composition
  1. Independence
  2. Gender
  3. Age
  4. Duration
  5. Board meeting attendance
- ii. Management composition
  1. Gender
  2. Age
  3. Duration

TELLS

The United States FDA has approved Winlevi® (clascoterone cream 1%) for the treatment of acne in patients 12 years and older.[1] The last FDA approval of an acne drug with a new mechanism of action (MOA) occurred nearly 40 years ago.

Financial review

Income statement

EUR 1,000	2020	2019	Change	% change
Revenue	**–**	**–**	**–**	**0.0%**
Other income	594	686	(92)	–13.4%
Cost of sales	–	–	–	0.0%
Research and development costs	(6,440)	(7,875)	1,435	–18.2%
Selling, general and administrative costs	(5,175)	(3,879)	(1,296)	33.4%
Net operating expenses	**(11,021)**	**(11,068)**	**47**	**–0.4%**
Operating result	**(11,021)**	**(11,068)**	**47**	**–0.4%**
Financial income	26	90	(64)	–71.1%
Financial expenses	(1,313)	(722)	(591)	81.9%
Profit (loss) before taxes	**(12,308)**	**(11,700)**	**(608)**	**5.2%**
Income tax expenses	–	–	–	–
Profit (loss) for the period	**(12,308)**	**(11,700)**	**(608)**	**5.2%**

Revenue

The Company has no products on the market and did not enter into any licensing agreements for any of the products under development, so it had no operating revenues in 2020 and 2019.

Net Operating expenses

Net operating expenses slightly decreased by EUR 47 thousand from EUR 11,068 thousand to EUR 11,021 thousand, mainly due to the reduction in research and development costs (EUR 1,435 thousand) because the Phase III trials in alopecia in men had not yet started, partially offset by an increase of the selling, general and administrative costs (EUR 1,296 thousand) that were primarily due to increased market research expenses.

Net operating expenses as per nature

EUR 1,000	2020	2019	Change	% change
Other income	594	686	(92)	–13.4%
Raw materials and consumables used	(611)	(242)	(369)	152.5%
Personnel expenses	(3,216)	(2,480)	(736)	29.7%
Outsourced preclinical and clinical trial costs	(2,112)	(4,062)	1,950	–48.0%
Other operating expenses	(5,615)	(4,915)	(700)	14.2%
Depreciation and amortization	(61)	(55)	(6)	10.9%
Total net operating expenses	**(11,021)**	**(11,068)**	**47**	**–0.4%**

Broken down by nature, the bulk of the operating expenses is composed of i) other operating expenses which increased by 14.2% from EUR 4,915 thousand to EUR 5,615 thousand and mainly related to pre-commercial activities; and ii) personnel expenses, which increased from EUR 2,480 thousand to EUR 3,216 thousand (+29.7%), mainly due to the new employees in the US from 1 March 2019.

The average number of employees is 11.5 for both 2020 and 2019.

Outsourced preclinical and clinical trial costs decreased from EUR 4,062 thousand to EUR 2,112 thousand mainly due to Winlevi® costs that decreased from EUR 2,130 thousand to EUR 209 thousand. The development of Clascoterone solution became the most important cost factor representing 89.4% of the total.

Raw materials and consumables necessary for the development of these projects increased from EUR 242 thousand to EUR 611 thousand.

Financial income and expenses

Financial income decreased by EUR 64 thousand to EUR 26 thousand due to the reduction in the bank deposit and consequently of the interest received on cash and cash equivalents. Financial expenses increased by EUR 591 thousand to EUR 1,313 thousand due to the increase in foreign exchange losses; in 2020 financial expenses include EUR 668 thousand for the interests on Cosmo Pharmaceuticals N.V.'s unsecured credit facility (EUR 654 thousand in 2019).

Income tax expenses

In both 2020 and 2019, the Company did not recognize deferred tax assets relating to the loss before income tax due to the uncertainty of the availability of future tax profits against which such an asset may be offset.

Profit (loss) for the period

Loss for the 2020 increased by EUR 608 thousand to EUR 12,308 thousand.

Assets

EUR 1,000	31.12.2020	31.12.2019	Change	% change
Assets				
Non-current assets				
Property, plant and equipment	9	14	(5)	–35.7%
Other intangible assets	2,989	2,959	30	1.0%
Tax receivables	9,799	9,563	236	2.5%
Total non-current assets	**12,797**	**12,536**	**261**	**2.1%**
Current assets				
Inventories	761	–	761	n/a
Current tax assets	370	370	–	0.0%
Other receivables and other assets	2,053	2,459	(406)	-16.5%
Cash and cash equivalents	2,646	696	1,950	280.2%
Total current assets	**5,830**	**3,525**	**2,305**	**65.4%**
Total assets	**18,627**	**16,061**	**2,566**	**16.0%**

Non-current assets slightly increased from EUR 12,536 thousand to EUR 12,797 thousand and mainly consist of the non-current tax receivable (EUR 9,799 thousand at the end of the period) in relation to the tax credit for research and development pursuant to Italian Law No. 190 of 23 December 2014 and subsequent implementation decrees. Other intangible assets refer to the costs for filing and extension of patents owned by the Company and include also EUR 2,339 thousand for the payment of the fee at the submission of the New Drug Application (NDA) to the US Food and Drug Administration (FDA) seeking marketing approval for Clascoterone cream 1% (Winlevi®).

In Current assets, Cash and cash equivalents increased by EUR 1,950 thousand to EUR 2,646 thousand following the capital increase in June 2020.

Other receivables and other assets decreased by EUR 406 thousand to EUR 2,053 thousand and mainly include prepaid expenses and VAT receivables.

Inventories refer to the API (Active Principle Ingredient) stock required for the commercial launch of Winlevi®.

Equity and liabilities

EUR 1,000	31.12.2020	31.12.2019	Change	% change
Equity				
Share capital	10,750	10,000	750	7.5%
Share premium	21,638	1,868	19,770	1058.4%
Capital contribution	123	437	(314)	–71.9%
Stock option plan reserve	4,184	3,111	1,073	34.5%
Currency translation reserve	623	11	612	5563.6%
Losses carried forward	(9,395)	–	(9,395)	n/a
Profit / (Loss) for the period	(12,308)	(11,700)	(608)	5.2%
Total equity	**15,615**	**3,727**	**11,888**	**319.0%**
Liabilities				
Non-current liabilities				
Interest-bearing loans and borrowings	66	10,660	(10,594)	–99.4%
Total non-current liabilities	**66**	**10,660**	**(10,594)**	**–99.4%**
Current liabilities				
Interest-bearing loans and borrowings	4	4	–	0.0%
Trade payables	2,839	1,562	1,277	81.8%
Current tax liabilities	29	27	2	7.4%
Other current liabilities	74	81	(7)	–8.6%
Total current liabilities	**2,946**	**1,674**	**1,272**	**76.0%**
Total liabilities	**3,012**	**12,334**	**(9,322)**	**–75.6%**
Total equity and liabilities	**18,627**	**16,061**	**2,566**	**16.0%**

Equity increased from EUR 3,727 thousand to EUR 15,615 thousand because of the issuance of 750,000 shares for a capital contribution of EUR 23,250 thousand that was made in June 2020, and for the 2020 loss of EUR 12,308.

Non-current liabilities decreased by EUR 10,594 thousand, from EUR 10,660 thousand to EUR 66 thousand, mainly in relation to the setting-off of the amount due to Cosmo Pharmaceuticals N.V., for the credit facility, with the subscription price of the shares in Cassiopea's capital increase.

In Current liabilities, trade payables increased from EUR 1,562 thousand to EUR 2,839 thousand for services in conjunction with the clinical trials and pre-commercial activities.

Consolidated Financial Statements

Consolidated Income Statement

EUR 1,000	Notes	2020	2019
Revenue		**–**	**–**
Other income		594	686
Cost of sales		–	–
Research and development costs		(6,440)	(7,875)
Selling, general and administrative costs		(5,175)	(3,879)
Net operating expenses	4	**(11,021)**	**(11,068)**
Operating result		**(11,021)**	**(11,068)**
Financial income	5	26	90
Financial expenses	5	(1,313)	(722)
Profit (loss) before taxes		**(12,308)**	**(11,700)**
Income tax expenses	6	–	–
Profit (loss) for the period		**(12,308)**	**(11,700)**

EUR 1			
Earnings (loss) per share			
Basic	7	(1.183)	(1.170)
Diluted	7	(1.183)	(1.170)

Consolidated Statement of Comprehensive Income

EUR 1,000	Notes	2020	2019
Profit (loss) for the period (A)		**(12,308)**	**(11,700)**
Total other comprehensive income that will not be reclassified subsequently to profit or loss, net of tax (B1)		–	–
Exchange differences on translating foreign operations		612	11
Total other comprehensive income that will be reclassified subsequently to profit or loss, net of tax (B2)		612	11
Total other comprehensive income, net of tax (B)=(B1+B2)		**612**	**11**
Total comprehensive income (A)+(B)		**(11,696)**	**(11,689)**

The accompanying notes form an integral part of the Consolidated Financial Statements.

Consolidated Statement of Financial Position

EUR 1,000	Notes	31.12.2020	31.12.2019
Assets			
Non-current assets			
Property, plant and equipment	8	9	14
Other intangible assets	9	2,989	2,959
Tax receivables	10	9,799	9,563
Total non-current assets		**12,797**	**12,536**
Current assets			
Inventories	11	761	–
Current tax assets	12	370	370
Other receivables and other assets	13	2,053	2,459
Cash and cash equivalents	14	2,646	696
Total current assets		**5,830**	**3,525**
Total assets		**18,627**	**16,061**
Equity			
Share capital		10,750	10,000
Share premium		21,638	1,868
Capital contribution		123	437
Stock option plan reserve		4,184	3,111
Currency translation reserve		623	11
Losses carried forward		(9,395)	–
Profit / (Loss) for the period		(12,308)	(11,700)
Total equity	15	**15,615**	**3,727**
Liabilities			
Non-current liabilities			
Interest-bearing loans and borrowings		66	10,660
Total non-current liabilities	16	**66**	**10,660**
Current liabilities			
Interest-bearing loans and borrowings	16	4	4
Trade payables	17	2,839	1,562
Current tax liabilities	18	29	27
Other current liabilities	19	74	81
Total current liabilities		**2,946**	**1,674**
Total liabilities		**3,012**	**12,334**
Total equity and liabilities		**18,627**	**16,061**

The accompanying notes form an integral part of the Consolidated Financial Statements.

Consolidated Cash Flow Statements

EUR 1,000	Notes	31.12.2020	31.12.2019
Profit (loss) for the period before tax		**(12,308)**	**(11,700)**
Adjustment for:			
Interest on loan not paid		668	654
Depreciation and amortization	4	61	55
Share payment-based expenses	20	1,196	904
Tax credit R&D costs		(594)	(686)
R&D credit offset		358	333
Net unrealized foreign exchange differences on cash and cash equivalents		32	10
Operating cash outflow before changes in working capital		**(10,587)**	**(10,430)**
Change in inventories		(761)	–
Change in trade payables		1,027	(394)
Change in other receivables and other assets		406	(607)
Change in other current liabilities		(7)	42
Change in current tax assets		–	(1)
Change in current tax liabilities		2	5
Cash flows from operating activities		**(9,920)**	**(11,385)**
Income taxes paid (net)		–	–
Net cash from operating activities		**(9,920)**	**(11,385)**
Investments in property, plant and equipment		–	(1)
Investments in other intangible assets	9	(86)	(2,513)
Cash flows from investing activities		**(86)**	**(2,514)**
Proceeds from interest-bearing loans and borrowings	16	4,000	10,000
Repayments of interest-bearing loans and borrowings		(4)	(4)
Share capital increase	15	7,992	–
Cash flows from financing activities		**11,988**	**9,996**
Net increase / (decrease) in cash and cash equivalents		**1,982**	**(3,903)**
Cash and cash equivalents at the beginning of the year	14	**696**	**4,609**
Net unrealised foreign exchange differences on cash and cash equivalents		**(32)**	**(10)**
Cash and cash equivalents at the end of the period	14	**2,646**	**696**
Cash at hand		–	–
Bank accounts	14	2,646	696
Advances on invoices and bank overdraft		–	–
Total cash and cash equivalents at the end of the period		**2,646**	**696**

The accompanying notes form an integral part of the Consolidated Financial Statements.

Consolidated Statement of Changes in Equity

EUR 1,000	Number of Shares (n)	Share Capital	Share premium	Capital contribution	Stock option plan reserve	Currency translation reserve	Retained earnings	Losses carried forward	Total
Net equity as at 1 January 2019	**10,000,000**	**10,000**	**14,524**	**236**	**2,408**	**–**	**(12,656)**	**–**	**14,512**
Allocation of prior year result	–	–	(12,656)	–	–	–	12,656	–	–
Cost for stock options	–	–	–	201	703	–	–	–	904
Total comprehensive income for the period	–	–	–	–	–	11	(11,700)	–	(11,689)
Net equity as at 31 December 2019	**10,000,000**	**10,000**	**1,868**	**437**	**3,111**	**11**	**(11,700)**	**–**	**3,727**

EUR 1,000	Number of Shares (n)	Share Capital	Share premium	Capital contribution	Stock option plan reserve	Currency translation reserve	Retained earnings	Losses carried forward	Total
Net equity as at 1 January 2020	**10,000,000**	**10,000**	**1,868**	**437**	**3,111**	**11**	**(11,700)**	**–**	**3,727**
Allocation of prior year result	–	–	(1,868)	(437)	–	–	11,700	(9,395)	–
Capital increase	750,000	750	21,638	–	–	–	–	–	22,388
Cost for stock options	–	–	–	123	1,073	–	–	–	1,196
Total comprehensive income for the period	–	–	–	–	–	612	(12,308)	–	(11,696)
Net equity as at 31 December 2020	**10,750,000**	**10,750**	**21,638**	**123**	**4,184**	**623**	**(12,308)**	**(9,395)**	**15,615**

The accompanying notes form an integral part of the Consolidated Financial Statements.

Notes to the Consolidated Financial Statements

1 General information

The company and its core business

Cassiopea S.p.A. with its subsidiaries ("Cassiopea" or the "Company" or "Group") is a specialty pharmaceutical company established and domiciled in Italy. The address of the registered office is Via Cristoforo Colombo 1, Lainate (MI), Italy.

Cassiopea is a specialty pharmaceutical company developing and preparing to commercialize prescription drugs with novel mechanisms of action (MOA) to address long-standing and essential dermatological conditions, particularly acne, androgenetic alopecia (or AGA) and genital warts. Cassiopea is investing in innovation that is driving scientific advancement in areas that have been largely ignored for decades The Company's portfolio comprises four unencumbered clinical candidates, for which the Company owns the worldwide rights. These product candidates are based on three new chemical entities ("NCEs") that target unmet medical needs and address significant market opportunities in the medical dermatology market. Cassiopea's management team directly and indirectly through the service agreement with Cosmo, has extensive experience in product development and commercialization, having served in prominent roles at several leading pharmaceutical and medical dermatology companies. The Company's strategy is to leverage this expertise to optimize the commercial potential for its products directly or with a partner in the US and partner the products in countries outside of the US.

The four product candidates represent a diversified portfolio of late and mid stage clinical programs addressing significant market opportunities and unmet needs in the medical dermatology space:

- Clascoterone cream 1% (Winlevi®), first-in-class topical androgen receptor inhibitor, which on 27 August 2020 has been approved by the FDA for the treatment of acne in patients 12 years and older;
- Clascoterone solution, which is being developed as the first androgen receptor inhibitor for the topical treatment of androgenetic alopecia;
- CB-06-01, a first-time application of an antibiotic with a targeted antibacterial spectrum for the treatment of acne; and
- CB-06-02, a novel formulation using the rare element tellurium to treat genital warts.

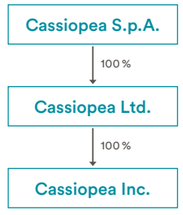
On 28 May 2020, Cassiopea's shareholders' meeting resolved:

- for a capital increase to a maximum of nominal EUR 750 thousand with the issue of 750,000 new shares reserved for the existing shareholders at a subscription price equal to 95 % of the official closing price of the Company's shares on the SIX Swiss Stock Exchange on the date of 28 May, granting the Board of Directors all necessary powers and authority required for the implementation of such capital increase;
- for the delegation to the Board of Directors to increase the capital by a nominal amount of EUR 900 thousand by issuing 900,000 new common shares with a nominal value of EUR 1 each to service an employee stock option plan ("ESOP") according to terms to be set by the Board of Directors.

In relation to the first resolution, 750,000 new registered shares, corresponding to 7.5 % of Cassiopea's share capital before the rights offering, were offered to existing shareholders at an offer price of EUR 31 per share (EUR 1 each as capital and EUR 30 each as share premium). Up to the end of the subscription period on 17 June 2020, 100 % of the subscription rights were exercised and hence 750,000 new registered shares were subscribed for.

Since 1 July 2015, Cassiopea's shares have been publicly listed on the Swiss Stock Exchange (SIX: SKIN). The Company's stock market capitalization as at 31 December 2020 was equal to CHF 521,375 thousand.

The structure of the Company as at 31 December 2020 is as follows:



2 Basis of preparation

Authorization of Consolidated Financial Statements

The Consolidated Financial Statements, together with notes thereto of Cassiopea S.p.A. at 31 December 2020, were authorized for issuance by the Board of Directors on 24 March 2021.

Basis of Preparation

These consolidated financial statements as at 31 December 2020, have been prepared in accordance with the International Financial Reporting Standards issued by the International Accounting Standards Board (IASB) and adopted by the EU (following IFRS) and with the orders issued in implementation of Article 9 of Legislative Decree no 38/2005. The designation IFRS also includes all valid International Accounting Standards (IAS), as well as all interpretations of the International Financial Reporting Interpretations Committee (IFRIC), formerly the Standing Interpretations Committee (SIC).

The accounting principles and policies used in preparation of the consolidated financial statements are consistent with those used in the Consolidated Financial statements for the year ended 31 December 2019, except as otherwise stated under "New accounting standard and IFRIC interpretations" in the following paragraphs.

Cassiopea's consolidated financial statements and notes are prepared and expressed in thousands of Euros, except where otherwise stated, rounding the amounts to the nearest thousand.

3 Basis of accounting

3.1 Classification criteria

For presentation of the Consolidated Financial Statements, the Group uses a classification based on the function of expenses, rather than based on their nature, as it is more representative of the format used for internal reporting and management purposes and is consistent with international practice in the pharmaceuticals sector. The statement of financial position has been prepared presenting assets and liabilities as current and non-current; the statements of cash flows present cash flows from operating activities using the indirect method and the statement of changes in equity includes all the changes in equity.

3.2 Measurement criteria

The Consolidated Financial Statements have been prepared under the historical cost convention, modified as required for the valuation of certain financial instruments, as well as on the going concern assumption.

Going concern

Cassiopea's financials are particular to the business model of pharmaceuticals companies developing new drugs and having no products on the market. At this stage high costs must be sustained, linked to the clinical and pharmaceutical development of new drugs, and a return is expected only in forthcoming years.

In keeping with the accounting arrangements adopted, which envisage the recognition of all research and development costs in the Income Statement in the year they are incurred, from its incorporation the Company has always reported losses.

The Company is subject to the classical uncertainties associated with the sector in which it operates and the ongoing product testing, in terms of results that it may effectively achieve, and the methods and timeframes with which these results could be attained.

The business plans of the Company envisage that in coming years the Company will continue its research and development activities, which results currently seem promising, thus recording losses until the commercialization or licensing of one of its products.

More specifically, current business plans envisage:

- The company plans to optimize the commercial potential for Winlevi® directly or with a partner in the US and partner the products in countries outside of the US. Strategic options are being considered, including a license agreement, the possible purchase of an existing commercial organization, a merger, or other strategic alternatives.
- Following the good results of the Clascoterone solution Phase II dose ranging trial, the Company filed a Special Protocol Assessment with the FDA for the Phase III Program for Clascoterone solution 7.5 % in males and selected the CRO for the execution of this trial. Given that there has been little clinical development for androgenetic alopecia in males in the last twenty years, the Company expects further interaction with the FDA before starting enrolling patients.
- The ongoing Phase II POC trial of Clascoterone solution in females with andro- genetic alopecia, which started in Q4 2019, was affected by the COVID-19 pandemic as enrolment was suspended for about three months. Recruitment restarted in June and the Company is targeting to complete enrolment by end of September which would allow to have results by Q3 2021.
- On the basis of the above, the Company will therefore need to raise financial resources by a new capital increase and / or raising debt and / or enter into licensing agreements in those territories where it is highly unlikely that it could develop commercial activities of its own.
- The Board of Directors has prepared the Consolidated Financial Statements at 31 December 2020 on a going concern basis, by virtue of the following considerations:
- on 17 June 2020, the capital increase reserved to shareholders was successfully concluded, and 750,000 new registered shares were subscribed at an offering price of EUR 31.
- Cosmo Pharmaceuticals N.V. credit facility as at 31 December 2020 remains available for EUR 6 million; furthermore, Cosmo Pharmaceuticals N.V. has made itself available to increase by an additional EUR 10 million the credit facility.
- The business plan consists of various projects that are expected to start at different dates during 2021: this would allow scaling the projects down or delaying them on the basis of the financial means available.
- should a capital increase be necessary, the Extraordinary Shareholders' meeting on 5 April 2018 has already delegated to the board of directors the faculty to execute a capital increase up to 1 million new shares with the exclusion of subscription rights pursuant to Article 2441 Italian Civil code, provided that the issue price corresponds to the market value of the shares (resolution valid until 5 April 2023); furthermore on 18 March 2019, the Extraordinary Shareholders' meeting delegated to the Board of Directors, according to Article 2443 of the Italian Civil Code, the faculty to increase the Company's capital by up to a maximum nominal amount of EUR 3,000 thousand (resolution valid until 28 May 2025).
- Taking account of the foregoing, the Company believes that it has adequate financial resources to continue its business in the foreseeable future of at least twelve months from the date of this report, therefore, as of today's date, there are no significant uncertainties regarding the going concern.

3.3 Changes in accounting policies

New standards, interpretations and amendments effective from 1 January 2020

A number of new standards and interpretations are effective from 1 January 2020, but they do not have a material effect on the Company's financial statements. Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2020 reporting periods and have not been early adopted by the group. These standards are not expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

3.4 Summary of significant Accounting policies

The most significant accounting policies and measurement criteria applied to prepare the financial statements are summarized below.

Principles of consolidation

Subsidiaries

Subsidiaries are entities over which the Group has control. Control is achieved when the Group has power over the investee, when it is exposed to, or has rights to, variable returns from its involvement with the investee, and has the ability to use its power over the investee to affect the amount of the investor's returns. Subsidiaries are consolidated on a line by line basis from the date on which control is achieved by the Group. The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

The Group recognizes a non-controlling interest in the acquiree on a transaction-by-transaction basis, either at fair value or at the non-controlling interest's share of the recognized amounts of the acquiree's identifiable net assets. Net profit or loss and each component of Other comprehensive income / (loss) are attributed to Equity attributable to owners of the parent and to non-controlling interest.

Total comprehensive income / (loss) of subsidiaries is attributed to Equity attributable to the owners of the parent and to the non-controlling interest even if this results in a deficit balance in non-controlling interest. Changes in the Group's ownership interests in a subsidiary that do not result in the Group losing control over the subsidiary are accounted for as an equity transaction. The carrying amounts of the Equity attributable to owners of the parent and non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiary.

Any difference between the carrying amount of the non-controlling interests and the fair value of the consideration paid or received in the transaction is recognized directly in the Equity attributable to the owners of the parent.

Subsidiaries are deconsolidated from the date on which control ceases. When the Group ceases to have control over a subsidiary, it de-recognizes the assets (including any goodwill) and liabilities of the subsidiary at their carrying amounts at the date when control is lost, and de-recognizes the carrying amount of non-controlling interests in the former subsidiary at the same date and recognizes the fair value of any consideration received from the transaction. Any retained interest in the former subsidiary is remeasured to its fair value at the date when control is lost. This fair value is the initial carrying amount for the purposes of subsequent accounting for the retained interest as an associate, or financial asset. In addition, any amounts previously recognized in Other comprehensive income / (loss) in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognized in Other comprehensive income / (loss) are reclassified to the Consolidated income statement or transferred directly to retained earnings as required by other IFRS.

Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Transactions eliminated in consolidation

All intra-group balances and transactions and any unrealized gains and losses arising from intragroup transactions are eliminated in preparing the Consolidated financial statements.

Unrealized gains and losses arising from transactions with associates are eliminated to the extent of the Group's interest in those entities.

Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment.

Consolidation of foreign entities

All assets and liabilities of foreign consolidated companies with a functional currency other than the Euro are translated using the closing rates at the date of the Consolidated statement of financial position. Income and expenses are translated into EUR at the average exchange rate for the period.

Translation differences resulting from the application of this method are classified as Other comprehensive income / (loss) until the disposal of the investment. Average exchange rates for the period are used to translate the cash flows of foreign subsidiaries in preparing the Consolidated statement of cash flows.

Goodwill, assets acquired and liabilities assumed arising from the acquisition of entities with a functional currency other than the Euro are recognized in the Consolidated financial statements in the functional currency and translated at the exchange rate at the acquisition date. These balances are translated at subsequent balance sheet dates at the relevant exchange rate.

Property, plant and equipment

Property, plant and equipment are stated at cost including related expenses, less accumulated depreciation and impairment losses.

Depreciation is recognized starting from the month in which the asset is available for use or potentially able to provide the economic benefits associated therewith on a systematic basis, whereby the assets are depreciated over their useful lives or, in the event of disposal, until their final month of use.

For assets disposed of during the year, depreciation is calculated for the period in which the asset was available for use, excluding assets purchased during the year.

Residual amounts, useful lives and the depreciation methods are reviewed at the end of every accounting period.

The depreciation rates applied to the items of property, plant and equipment are the following:

Other tangible assets – office equipment electronics: 5 years

Other intangible assets

Other intangible assets are recognized as assets where it is probable that the use of the asset will generate future economic benefits and where the costs of the asset can be determined reliably. Other intangible assets that are acquired by the Company are stated at cost less accumulated amortization (see below) and impairment losses, if any.

Subsequent expenditures on capitalized intangible assets are capitalized only when they increase the future economic benefits embodied in the specific assets to which they relate. All other expenditure is expensed as incurred.

Other intangible assets with definite useful lives are amortized on a straight-line basis over their useful lives, being the estimated period over which the Company will use the assets. Other intangible assets are amortized from the date they are available for use.

Residual amounts, useful lives and the amortization methods are reviewed at the end of every accounting period. The estimated useful lives are as follows:

- Patents and rights are amortized considering the patents expiry date as their useful life (patents expiry from 2025 to 2036 and their average useful life is equal to 11.6 years).
- Expenditures on research activities, undertaken with the prospect of gaining new technical knowledge and understanding, are recognized in the income statements as an expense as incurred.

Development costs are capitalized as an intangible asset if all of the following criteria are met:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- the asset will generate probable future economic benefits and demonstrate the existence of a market or the usefulness of the intangible asset if it is to be used internally;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell it;
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

Following initial recognition of the development expenditure as an intangible asset, the cost model is applied requiring the intangible asset to be carried at cost, less any accumulated amortization and accumulated impairment losses. The intangible asset is amortized on a straight-line basis over the period of its expected benefit, starting from the date of full commercial use of the product. During the period of development, the asset is tested for impairment annually.

If specific events indicate that impairment of an item of intangible asset may have taken place, the item's recoverability is assessed by comparing its carrying amount with its recoverable amount.

Foreign currency transactions

Transactions in foreign currency are translated into Euros using the exchange rate ruling on the transaction date. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated into Euros at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognized in the income statement. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated into Euros at foreign exchange rates ruling at the dates the fair value was determined.

Trade and other receivables and payables

Trade and other receivables are stated at amortized cost net of impairment losses. The impairment loss is calculated on the basis of recovery assessments by analyzing each receivable considered unlikely to be collected and the overall risk of non-recovery of the receivables. When the payment of the sum due is postponed beyond normal credit terms offered to customers, it is necessary to discount the receivable.

Trade and other payables are measured at amortized cost which reflects the effective interest rate in the income statement and represents the rate used to discount the expected future cash flows to the carrying value of the assets to which they relate.

They are included in current assets or liabilities, except for maturities greater than 12 months after the balance sheet date.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits. Cash equivalents are short-term and highly liquid investments, mainly time deposits, that are readily convertible to known amounts of cash, are subject to risk of fluctuations and have an original maturity of no more than three months.

Interest bearing loans and borrowings

All loans and borrowings are initially recognized at fair value less directly attributable transaction costs, and have not been designated as "at fair value through profit or loss". After initial recognition, interest bearing loans and borrowings are measured at amortized cost using the effective interest method. Gains and losses are recognized in profit or loss when the liabilities are derecognized as well as through the amortization process.

Employee benefits
Obligations for contributions to defined contribution pension plans are recognized as an expense in the income statement as incurred.

Forms of remuneration involving participation in stock capital (stock option plans)
The Company grants additional benefits to the Board and senior management and key employees through stock option plans. Pursuant to IFRS 2, "Share-based payment", these plans represent a form of remuneration for the beneficiaries. The cost is equal to the fair value as calculated on the date the option rights are granted and is recorded in the income statement on a straight-line basis over the vesting period, i.e., the date between the date the stock option plan was granted and the date the rights matured. The corresponding entry is made directly to shareholders' equity. Changes in fair value after the grant date do not have an effect on the initial valuation. At each balance sheet date, the Company revises its estimate of the number of options that are expected to become exercisable.

It recognizes the impact of the revision to original estimates, if any, in the income statements, with a corresponding adjustment to equity. The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

Other income and cost recognition
Research government grants are recognized at their fair value at the moment in which the issuing body has confirmed its approval and the proceeds are definite; they are recognized in the income statement over the period necessary to match them with the costs that they are intended to compensate.

Interest income is accounted for based on the effective rate of return on an accrual basis.

Expenditures on research activities, undertaken with the prospect of gaining new technical knowledge and understanding, as well as development costs not capitalized, are recognized in the income statement as an expense as incurred. Since inception, all research and development costs have been treated as expenses.

Leases as a Lessee
At the inception of a contract, the Group assesses whether the contract is, or contains, a lease. A contract is or contains a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

At inception or on reassessment of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of their relative stand-alone prices.

The Group recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The estimated useful life of the right-to-use asset is determined based on the nature of the asset, taking into consideration the lease term. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain corresponding remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that have not been paid at the commencement date discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. Generally, the Group uses its incremental borrowing rate as the discount rate.

The Group determines its incremental borrowing rate by obtaining interest rates from various external financing sources and makes certain adjustments to reflect the terms of the lease and type of the asset leased.

Lease payments included in the measurement of the lease liability comprises the following:
- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate applicable as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that the Group is reasonably certain to exercise, lease payments in an optional renewal period if the Group is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Group is reasonably certain not to terminate early.

The lease liability is subsequently measured at amortized cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, or if the Group changes its assessment of whether it will exercise a purchase, extension or termination option.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Group presents right-of-use assets that do not meet the definition of investment property in Property, plant and equipment and lease liabilities in Long-term debt and Short-term debt and current portion of long-term debt in the Consolidated Statement of Financial Position.

The Group has elected to not recognize right-of-use assets and lease liabilities for short-term leases and low-value leases for all classes of leased assets. The Group recognizes the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

Income tax

The tax charge for the period is determined on the basis of prevailing laws and regulations. Taxes on income are recognized in the income statement except to the extent that they relate to items directly charged or credited to equity, in which case the related income tax effect is recognized in equity.

Deferred tax assets and liabilities are determined on the basis of all the temporary differences between the carrying amount of an asset or liability in the statement of financial position and its corresponding tax basis. Deferred tax assets resulting from unused tax losses and temporary differences are recognized to the extent that it is probable that future taxable profit will be available against which they can be utilized.

Current and deferred income taxes and liabilities are offset when there is a legally enforceable right to offset. Deferred tax assets and liabilities are measured at the substantively enacted tax rates that are expected to apply to taxable income in the periods in which temporary differences will be reversed.

Earnings per share

Basic earnings per share are calculated dividing the net profit (loss) attributable to the owners of ordinary shares in the Company (the numerator) by the weighted average number of ordinary shares in issue (the denominator) during the year.

Diluted earnings per share is calculated by adjusting the net profit attributable to owners of ordinary shares and the weighted average number of ordinary shares during the year to take account of all potential ordinary shares with a diluting effect. A potential ordinary share is a financial instrument or other contract that could give its owner the right to obtain ordinary shares.

3.5 Critical accounting estimates, assumptions and judgments

The preparation of the financial statements and the related notes requires the use of estimates and assumptions that affect the application of accounting policies and the reported amount of assets, liabilities, income and expenses. However, as they are estimates, actual future results could differ from those included in the financial statements. Such estimates and assumptions are based on accumulated experience and on other factors deemed to be appropriate in the calculation of the carrying amounts of assets and liabilities that cannot be measured on the basis of other sources. Revisions to accounting estimates are recognized in the period in which the estimate is revised and any future period affected.

Accounting estimates that require the more subjective judgment of the Management in making assumptions or estimates regarding the effects of matters that are inherently uncertain and for which changes in conditions may significantly affect the results reported in the financial statements, are reported below.

Deferred tax assets

The Company has a considerable amount of tax losses carried forward that allow for the recognition of deferred tax assets. Deferred tax assets are recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized, determined on the basis of future results forecasts.

Share-based compensation expenses

The Company has granted stock options to some of its employees and Directors. Since there is no market for trading these stock options, the Management must use a fair-value method to value the stock options. Fair-value methods require the Management to make several assumptions, the most significant of which are the selection of a fair value model, stock price volatility and the average life of an option. The fair value of the stock options is determined separately by an external appraiser. Estimates have been based on Company history or market data where appropriate. There is no certainty that the results of a fair-value method would be the value at which the stock options would be traded for cash. Should different assumptions be used, the expenditure recognized could be different. Additional information is reported in “Accounting policies – Employee benefits – Forms of remuneration involving participation in stock capital (stock option plans).”

4 Net operating expenses

Net operating expenses presented in the income statements by function are detailed and commented by nature below:

EUR 1,000	2020	2019
Other income	594	686
Raw materials and consumables used	(611)	(242)
Personnel expenses	(3,216)	(2,480)
Outsourced preclinical and clinical trial costs	(2,112)	(4,062)
Other operating expenses	(5,615)	(4,915)
Depreciation and amortization	(61)	(55)
Total net operating expenses	**(11,021)**	**(11,068)**

Other income

Other income entirely refers to the tax credit of EUR 594 thousand (EUR 686 thousand in 2019) for research and development pursuant to Italian Law No. 190 of 23 December 2014 and subsequent implementation decrees. The amount of EUR 594 thousand, refers to the accrued 2020 tax credit. Said law provides for the grant of a tax credit to all companies investing in research and development activities with effect from the tax year 2015. The R&D tax credit can be used to offset income / regional taxes and social security contributions in the payment form (Modello F24) since the year following that ongoing when expenses were borne.

Raw materials and consumables used

The item "Raw materials and consumables used" comprises the following:

EUR 1,000	2020	2019
Purchase of consumables	–	1
Purchase of laboratory supplies and materials for clinical trial	611	241
Total raw materials and consumables used	**611**	**242**

Personnel expenses

This item, which includes the cost of the entire staff, comprises the following:

EUR 1,000	2020	2019
Salaries and wages	1,855	1,401
Social security contributions	162	161
Employee benefits	18	19
Stock options	1,168	889
Other costs	13	10
Total personnel expenses	**3,216**	**2,480**

Personnel expenses increase from EUR 2,480 thousand in 2019 to EUR 3,216 thousand, in relation to the setup of the US subsidiary.

In 2020, the expense for the value of employees' and executives Directors' services exchanged for stock options amounted to EUR 1,168 thousand (EUR 889 thousand in 2019) and it refers to the cost accounted in relation to the options granted by the Board of Directors in the period 2015–2020 and to the options granted by Cosmo Pharmaceuticals N.V. (see note 20, "Share-based payments").

The average number of the entire staff for the years ended 31 December 2020 and 2019 are the following:

No. of people	2020	2019
Managers*	9.0	8.5
Junior managers	2.5	3.0
Total average number	**11.5**	**11.5**

The entire staff as at 31 December 2020 and 2019 is shown by category here below:

No. of people	2020	2019
Managers*	9	9
Junior managers	2	3
Total number	**11**	**12**

*Includes the managers provided by Cosmo Pharmaceuticals N.V. as for service agreement (see note 21 "Related parties transactions")

In addition, the companies of the Cosmo Pharmaceuticals N.V. group provide the services for research and development, regulatory, secretarial, and accounting services at a cost determined in the Services Agreement (see note 21 "Related parties transactions").

Outsourced preclinical and clinical trial costs

The item "Outsourced preclinical and clinical trial costs" comprises the following:

EUR 1,000	2020	2019
Winlevi®	209	2,130
Clascoterone solution	1,888	1,921
CB-06-01	2	–
CB-06-02	13	11
Outsourced preclinical and clinical trials costs	**2,112**	**4,062**

Other operating expenses

Other operating expenses comprises the following:

EUR 1,000	2020	2019
Service costs	5,607	4,903
Other operating costs	8	12
Total other operating expenses	**5,615**	**4,915**

"Service costs" mainly comprises costs for professional and consultancy services (i.e., scientific and administrative services), advertising and marketing costs, cost for the maintenance of the patent, and costs for the investor relations activities.

Service costs in 2020 also include EUR 28 thousand (EUR 15 thousand in 2019) for the Stock Option Plan to the non-executive directors.

EUR 1,000	2020	2019
External consultancy services	2,252	1,642
Patent costs	291	258
Investor relations and web site maintenance	176	169
Technical assistance	11	3
Utilities, telephone, internet	12	4
Insurance	89	90
Non-executive directors	140	140
Stock options non-executive directors	28	15
Management control committee	11	11
Auditing	36	35
Advertising and marketing costs	1,883	1,459
Freight and customs	8	19
Travel expenses	43	241
External laboratory services	38	70
R&D and Regulatory services	581	732
Other costs	8	15
Total service costs	**5,607**	**4,903**

In 2020 External consultancy services increased by EUR 610 thousand mainly due to activities for Winlevi®, advertising and marketing costs increased by EUR 424 thousand in relation to Winlevi® pre-commercial activities.

In the period ended 31 December 2020, the Company has been charged by Cosmo S.p.A. (subsidiary of Cosmo Pharmaceuticals N.V.) for an amount of EUR 581 thousand (in 2019 EUR 732 thousand) for Research / Development / Regulatory services.

In 2020, the Company has been charged by Cosmo S.p.A. (subsidiary of Cosmo Pharmaceuticals N.V.) for secretarial and accounting services for an amount of EUR 140 thousand, included in External consultancy services (EUR 141 thousand in 2019).

Depreciation and amortization

The item comprises the following:

EUR 1,000	2020	2019
Depreciation of property, plant and equipment	5	5
Amortization of other intangible assets	56	50
Total depreciation and amortization	**61**	**55**

5 Financial income / expenses

The item comprises the following:

EUR 1,000	2020	2019
Financial income		
Other	26	90
Total financial income	**26**	**90**
Financial expenses		
Interests on Cosmo Pharmaceuticals N.V. unsecured loan	668	654
Other	645	68
Total financial expenses	**1,313**	**722**
Financial income (expense), net	**(1,287)**	**(632)**

Other financial income as at 31 December 2020 is totally composed of foreign exchange differences (in 2019 EUR 78 thousand for foreign exchange differences and EUR 12 for interest received on cash and cash equivalents).

Financial expenses include EUR 668 thousand (EUR 654 thousand in 2019) due to Interests on Cosmo Pharmaceuticals N.V.'s unsecured credit facility.

Other financial expenses mainly refer to foreign exchange losses.

6 Income tax expenses

On the tax losses for 2020 and 2019 no deferred tax assets have been recognized in the Company's consolidated financial statements due to uncertainties concerning the availability of future taxable profits against which such an asset may be offset.

EUR 1,000	2020	2019
Profit (loss)before taxes	**(12,308)**	**(11,700)**
Nominal Tax rate - Ires	24.00%	24.00%
Nominal Tax rate - Irap	3.90%	3.90%
Total theoretical income taxes	**(3,434)**	**(3,264)**
ACE tax benefit	(74)	(21)
Permanent difference R&D tax credit	(166)	(191)
Tax effect of other permanent differences	69	228
Effect of different corporate tax rate in the US subsidiary (a)	282	153
Effect of different corporate tax rate in the IE subsidiary (b)	87	4
Unrecognised theoretical tax benefit for tax loss carry forwards & ace (c)	2,985	2,748
Unrecognised theoretical tax benefit for tax loss for Irap tax	251	343
Current and deferred income tax recognised in the financial statements	**–**	**–**

Notes:
(a) Applicable tax rate in US 22.58 %
(b) Applicable tax rate in Ireland 12.50 %
(c) Due to uncertainty for the taxable profit in the foreseeable future, no deferred tax asset calculated for tax loss carry forwards

The cumulated tax losses since inception of the Company on which no deferred tax assets have been recognized in the financial statements is EUR 81.5 million for an amount of deferred tax assets not recognized of EUR 19.4 million.

7 Basic and diluted earnings (loss) per share

Basic earnings (loss) per shares are calculated by dividing the net profit (loss) for the period attributable to ordinary shareholders by the weighted average number of shares outstanding during the period. Basic earnings (loss) per share are as follows:

	2020	2019
Net profit (loss) attributable to Shareholders (in EUR 1,000)	(12,308)	(11,700)
Weighted average number shares	10,401,639	10,000,000
Basic earnings (loss) per share (in EUR)	**(1.183)**	**(1.170)**

Diluted earnings (loss) per share are calculated by dividing the net profit for the period attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the period, plus the weighted average number of potential ordinary shares.

Potential ordinary shares from the exercise of stock options only have a dilutive effect if the new ordinary shares from the exercise of stock options led to a lower result per share. Under consideration of the current result of Cassiopea, potential new ordinary shares do therefore not induce a dilutive effect.

8 Property plan and equipment

The amount refers to the net carrying value of right of use asset in relation to a company car.

9 Other intangible assets

Other intangible assets as at 31 December 2020 is composed as follows:

EUR 1,000	Patents and rights	Development costs	Total
Net book value as at 1 January 2019	**496**	**–**	**496**
Additions of the year	174	2.339	2.513
Amortization charge for the year	(50)	–	(50)
Net book value as at 31 December 2019	**620**	**2,339**	**2,959**
Additions of the year	86	–	86
Amortization charge for the year	(56)	–	(56)
Net book value as at 31 December 2020	**650**	**2,339**	**2,989**

"Patents and rights" refer to the costs for filing and extension of patents owned by the Company, and are amortized considering the patents expiry date as their useful life (patents expiry from 2025 to 2036 and their average useful life is equal to 11.6 years).

The amount of EUR 2,339 thousand in "Development costs" refers to the payment of the fee at the submission of the New Drug Application (NDA) to the US Food and Drug Administration (FDA) for Winlevi®.

10 Tax receivables (non current)

The item comprises the following:

EUR 1,000	31.12.2020	31.12.2019
Tax credit R&D costs	9,799	9,563
Total tax receivables	**9,799**	**9,563**

Tax receivables refer to the non-current amount of the tax credit for research and development pursuant to Italian Law No. 190 of 23 December 2014 and subsequent implementation decrees.

11 Inventories

EUR 1,000	31.12.2020	31.12.2019
Raw materials, auxiliary materials and consumables	761	–
Total inventories	**761**	**–**

"Raw materials, auxiliary materials and consumables" refers to the API required for the commercial launch of Winlevi®.

12 Current tax assets

The item comprises the following:

EUR 1,000	31.12.2020	31.12.2019
Advance payments of income taxes	20	20
Tax credit R&D costs	350	350
Total current tax assets	**370**	**370**

Tax credit R&D costs refer to the current amount of tax credit for research and development pursuant to Italian Law No. 190 of 23 December 2014 and subsequent implementation decrees, that will be offset against social security contributions and withholdings tax in the course of the following twelve months.

13 Other receivables and other assets

The item comprises the following:

EUR 1,000	31.12.2020	31.12.2019
VAT receivables	1,128	1,691
Prepaid expenses	871	692
Other prepaid	54	76
Total other receivables and other assets	**2,053**	**2,459**

14 Cash and cash equivalents

The item comprises the following:

EUR 1,000	31.12.2020	31.12.2019
Cash at hand	–	–
Bank accounts	2,646	696
Total cash and cash equivalents	**2,646**	**696**

"Bank accounts" include availability on current bank accounts. Part of the availability is held in US$ and in particular as at 31 December 2020 the amount includes US$ 2,066 thousand equal to EUR 1,683 thousand at 31 December 2020 exchange rate.

15 Total shareholders' equity

The item comprises the following:

EUR 1,000	31.12.2020	31.12.2019
Share capital	10,750	10,000
Share premium	21,638	1,868
Capital contribution	123	437
Stock option plan reserve	4,184	3,111
Currency translation reserve	623	11
Losses carried forward	(9,395)	–
Profit / (Loss) for the period	(12,308)	(11,700)
Total equity	**15,615**	**3,727**

Share capital

After the June 2020 capital increase reserved for the existing shareholders, as at 31 December 2020 Cassiopea S.p.A. had 10,750,000 (10,000,000 shares as at 31 December 2019) shares issued, fully subscribed and paid up, each share with a nominal value of EUR 1.00, for a total share capital of EUR 10,750 thousand (10,000 thousand as at 31 December 2019).

Share premium

As at 31 December 2020, "Share premium" refers to the proceeds from June 2020 capital increase, equal to a share premium of EUR 30 for share for a total of EUR 22,500 thousand, net of EUR 862 thousand as expenses related to the capital increase.

Capital contribution

"Capital contribution" has accounted in relation to the stock options of Cosmo Pharmaceuticals N.V. granted to the employees of the Company.

Stock option plan reserve

In 2020, the expense for the stock options allocated in the period 2015–2020, amounted to EUR 1,073 thousand of which EUR 1,045 thousand for management and personnel and EUR 28 thousand for non-executive Directors (In 2019 EUR 688 thousand and EUR 15 thousand respectively).

Currency translation reserve

Currency translation reserve arise from the consolidation of foreign entity with a functional currency other than the Euro.

Losses carried forward

Losses carried forward arise from the previous year's result not allocated.

16 Interest bearing loans and borrowings (non current and current)

Non current and current interest bearing loans and borrowings are detailed as follows:

a) Non Current

EUR 1,000	31.12.2020	31.12.2019
Cosmo Pharmaceuticals N.V. unsecured loan	64	10,654
Financial lease liabilities	2	6
Total interest-bearing loans and borrowings (non current)	**66**	**10,660**

Non-current liabilities decreased by EUR 10,594 thousand, from EUR 10,660 thousand to EUR 66 thousand mainly in relation to the setting-off of the amount due to Cosmo Pharmaceuticals N.V. (Instalment drawn EUR 14,000 thousand of which EUR 4,000 thousand drawn in 2020, and EUR 1,258 thousand for interests and signing fee at the date of capital increase) for the credit facility, with the subscription price of the shares in Cassiopea capital increase.

b) Current

EUR 1,000	31.12.2020	31.12.2019
Financial lease liabilities	4	4
Total interest-bearing loans and borrowings (current)	**4**	**4**

17 Trade payables

The item comprises the following:

EUR 1,000	31.12.2020	31.12.2019
Trade payables	2,489	1,208
Trade payables related company	350	354
Total trade payables	**2,839**	**1,562**

Trade payables related company refers to the payables for the services rendered by Cosmo Pharmaceuticals Group.

18 Current tax liabilities

The item comprises the following:

EUR 1,000	31.12.2020	31.12.2019
Withholding tax for employees	15	18
Withholding tax for consultants	14	9
Total trade payables	**29**	**27**

19 Other current liabilities

The item comprises the following:

EUR 1,000	31.12.2020	31.12.2019
Social security payables	21	22
Other liabilities	53	59
Total other current liabilities	**74**	**81**

20 Share-based payment

The extraordinary shareholders' meeting of 28 May 2020, after revocation of the proxy granted on 18 March 2019, authorized the Board of Directors to increase the capital by up to a maximum nominal amount of EUR 900 thousand by issuing 900,000 new common shares with a nominal value of EUR 1 each to service an ESOP according to terms to be set by the Board of Directors.

On 28 May 2020, the Board of Directors granted a total of 63,332 options of which
- 21,116 with a vesting period of 1 year, expiring on 27 May 2026 and an exercise price of CHF 34.80 ("Option series 9a")
- 21,113 with a vesting period of 2 years, expiring on 27 May 2026 and an exercise price of CHF 34.80 ("Option series 9b")
- 21,103 with a vesting period of 3 years, expiring on 27 May 2026 and an exercise price of CHF 34.80 ("Option series 9c")

The fair value of options granted, determined on the basis of a binomial tree generated by the Fincad program – technique similar to the Black-Scholes valuation model, resulted in a value of CHF 4.18 per option ("Option series 9a"), of CHF 5.91 per option ("Option series 9b") and of CHF 7.24 per option ("Option series 9c").

On 22 December 2020, the Board of Directors granted a total of 143,232 options of which
- 47,748 with a vesting period of 1 year, expiring on 21 December 2026 and an exercise price of CHF 48.50 ("Option series 10a")
- 47,745 with a vesting period of 2 years, expiring on 21 December 2026 and an exercise price of CHF 48.50 ("Option series 10b")
- 47,739 with a vesting period of 3 years, expiring on 21 December 2026 and an exercise price of CHF 48.50 ("Option series 10c")

The fair value of options granted, determined on the basis of a binomial tree generated by the Fincad program – technique similar to the Black-Scholes valuation model, resulted in a value of CHF 6.48 per option ("Option series 10a"), of CHF 9.10 per option ("Option series 10b") and of CHF 11.09 per option ("Option series 10c").

The options granted are recognized as costs over the vesting period.

In 2020, in relation to the Option series outstanding and not yet vested, the expense for the value of employees' and Directors' services exchanged for stock options amounted to EUR 1,073 thousand of which EUR 1,045 thousand for management and personnel and EUR 28 thousand for non-executive Directors.

As at 31 December 2020, 706,564 options of the total program of 900,000 options are allocated and outstanding, of which 290,010 exercisable.

Option series	Options granted	Forfeited	Options outstanding	Grant date	Vesting date	Expiry date	Exercise price CHF	Fair value of the option at the grant date CHF
1a) Issued 3 December 2015	49,800	14,000	35,800	03/12/2015	03/12/2016	03/12/2021	34.00	14.45
1b) Issued 3 December 2015	46,600	14,000	32,600	03/12/2015	03/12/2017	03/12/2022	34.00	19.28
1c) Issued 3 December 2015	43,600	12,000	31,600	03/12/2015	03/12/2018	03/12/2023	34.00	22.56
2a) Issued 23 February 2016	6,800	5,100	1,700	23/02/2016	23/02/2017	23/02/2022	34.00	11.28
2b) Issued 23 February 2016	6,700	5,000	1,700	23/02/2016	23/02/2018	23/02/2023	34.00	15.87
2c) Issued 23 February 2016	6,500	4,900	1,600	23/02/2016	23/02/2019	23/02/2024	34.00	18.98
3a) Issued 23 February 2017	4,100	700	3,400	23/02/2017	23/02/2018	23/02/2023	34.00	11.59
3b) Issued 23 February 2017	4,000	700	3,300	23/02/2017	23/02/2019	23/02/2024	34.00	15.84
3c) Issued 23 February 2017	3,900	600	3,300	23/02/2017	23/02/2020	23/02/2025	34.00	18.84
4a) Issued 14 November 2017	24,400	–	24,400	14/11/2017	14/11/2018	14/11/2023	34.00	10.46
4b) Issued 14 November 2017	24,300	–	24,300	14/11/2017	14/11/2019	14/11/2024	34.00	14.32
4c) Issued 14 November 2017	21,300	–	21,300	14/11/2017	14/11/2020	14/11/2025	34.00	17.11
5a) Issued 7 February 2019	49,224	–	49,224	07/02/2019	07/02/2020	06/02/2025	38.60	3.87
5b) Issued 7 February 2019	49,223	–	49,223	07/02/2019	07/02/2021	06/02/2025	38.60	5.51
5c) Issued 7 February 2019	49,219	–	49,219	07/02/2019	07/02/2022	06/02/2025	38.60	6.78
6a) Issued 18 March 2019	10,002	–	10,002	18/03/2019	18/03/2020	17/03/2025	45.10	4.52
6b) Issued 18 March 2019	9,999	–	9,999	18/03/2019	18/03/2021	17/03/2025	45.10	6.40
6c) Issued 18 March 2019	9,999	–	9,999	18/03/2019	18/03/2022	17/03/2025	45.10	7.87
7a) Issued 17 July 2019	1,667	–	1,667	17/07/2019	17/07/2020	16/07/2025	44.00	5.22
7b) Issued 17 July 2019	1,667	–	1,667	17/07/2019	17/07/2021	16/07/2025	44.00	7.35
7c) Issued 17 July 2019	1,666	–	1,666	17/07/2019	17/07/2022	16/07/2025	44.00	8.98
8a) Issued 17 December 2019	44,117	–	44,117	17/12/2019	17/12/2020	16/12/2025	42.00	5.00
8b) Issued 17 December 2019	44,112	–	44,112	17/12/2019	17/12/2021	16/12/2025	42.00	7.04
8c) Issued 17 December 2019	44,105	–	44,105	17/12/2019	17/12/2022	16/12/2025	42.00	8.61
9a) Issued 28 May 2020	21,116	–	21,116	28/05/2020	28/05/2021	27/05/2026	34.80	4.18
9b) Issued 28 May 2020	21,113	–	21,113	28/05/2020	28/05/2022	27/05/2026	34.80	5.91
9c) Issued 28 May 2020	21,103	–	21,103	28/05/2020	28/05/2023	27/05/2026	34.80	7.24
10a) Issued 22 December 2020	47,748	–	47,748	22/12/2020	22/12/2021	21/12/2026	48.50	6.48
10b) Issued 22 December 2020	47,745	–	47,745	22/12/2020	22/12/2022	21/12/2026	48.50	9.10
10c) Issued 22 December 2020	47,739	–	47,739	22/12/2020	22/12/2023	21/12/2026	48.50	11.09
Total	**763,564**	**57,000**	**706,564**					

Share options	Numbers	Weighted average exercise price CHF
Outstanding as at 1 January 2019	**185,000**	**34.00**
Exercisable as at 1 January 2019	131,200	34.00
Granted during the period	315,000	40.73
Forfeited during the period	–	–
Exercised during the period	–	–
Expired during the period	–	–
Outstanding as at 31 December 2019	**500,000**	**38.24**
Exercisable as at 31 December 2019	160,400	34.00
Granted during the period	206,564	44.30
Forfeited during the period	–	–
Exercised during the period	–	–
Expired during the period	–	–
Outstanding as at 31 December 2020	**706,564**	**40.01**
Exercisable as at 31 December 2020	290,010	36.44

The share options outstanding at the end of the financial period had a weighted exercise price of CHF 40.01 and a weighted average remaining contractual life of 4.4 years.

Option series 1	**a)**	**b)**	**c)**
Issued 3 December 2015			
Share price at grant date (in CHF)	35.40	35.40	35.40
Previous monthly average at grant date share price (in CHF)	32.30	32.30	32.30
Exercise price (in CHF)	34.00	34.00	34.00
Expected volatility	30%	30%	30%
Employee Exit Rate	0%	0%	0%
Dividend Yield	0%	0%	0%
Option life	1,826 days	1,826 days	1,826 days
Risk-free interest rate	0.84%	1.02%	1.18%

Option series 2	**a)**	**b)**	**c)**
Issued 23 February 2016			
Share price at grant date (in CHF)	30.95	30.95	30.95
Previous monthly average at grant date share price (in CHF)	29.88	29.88	29.88
Exercise price (in CHF)	34.00	34.00	34.00
Expected volatility	30%	30%	30%
Employee Exit Rate	0%	0%	0%
Dividend Yield	0%	0%	0%
Option life	1,826 days	1,826 days	1,826 days
Risk-free interest rate	0.73%	0.91%	1.07%

Option series 3	**a)**	**b)**	**c)**
Issued 23 February 2017			
Share price at grant date (in CHF)	34.35	34.35	34.35
Previous monthly average at grant date share price (in CHF)	33.26	33.26	33.26
Exercise price (in CHF)	34.00	34.00	34.00
Expected volatility	30%	30%	30%
Employee Exit Rate	0%	0%	0%
Dividend Yield	0%	0%	0%
Option life	1,826 days	1,826 days	1,827 days
Risk-free interest rate	0.50%	0.67%	0.86%

Option series 4	**a)**	**b)**	**c)**
Issued 14 November 2017			
Share price at grant date (in CHF)	34.50	34.50	34.50
Previous monthly average at grant date share price (in CHF)	33.85	33.85	33.85
Exercise price (in CHF)	34.00	34.00	34.00
Expected volatility	25%	25%	25%
Employee Exit Rate	0%	0%	0%
Dividend Yield	0%	0%	0%
Option life	1,826 days	1,827 days	1,826 days
Risk-free interest rate	0.33%	0.49%	0.65%

Option series 5	a)	b)	c)
Issued 7 February 2019			
Share price at grant date (in CHF)	38.60	38.60	38.60
Previous monthly average at grant date share price (in CHF)	39.80	39.80	39.80
Exercise price (in CHF)	38.60	38.60	38.60
Expected volatility	25%	25%	25%
Employee Exit Rate	0%	0%	0%
Dividend Yield	0%	0%	0%
Option life	1,826 days	1,460 days	1,095 days
Risk-free interest rate	0.20%	0.27%	0.33%

Option series 6	a)	b)	c)
Issued 18 March 2019			
Share price at grant date (in CHF)	45.10	45.10	45.10
Previous monthly average at grant date share price (in CHF)	40.84	40.84	40.84
Exercise price (in CHF)	45.10	45.10	45.10
Expected volatility	25%	25%	25%
Employee Exit Rate	0%	0%	0%
Dividend Yield	0%	0%	0%
Option life	1,825 days	1,460 days	1,095 days
Risk-free interest rate	0.11%	0.17%	0.23%

Option series 7	a)	b)	c)
Issued 17 July 2019			
Share price at grant date (in CHF)	44.00	44.00	44.00
Previous monthly average at grant date share price (in CHF)	44.47	44.47	44.47
Exercise price (in CHF)	44.00	44.00	44.00
Expected volatility	30%	30%	30%
Employee Exit Rate	0%	0%	0%
Dividend Yield	0%	0%	0%
Option life	1,825 days	1,460 days	1,095 days
Risk-free interest rate	−0.16%	−0.13%	−0.09%

Option series 8	a)	b)	c)
Issued 17 December 2019			
Share price at grant date (in CHF)	42.00	42.00	42.00
Previous monthly average at grant date share price (in CHF)	42.02	42.02	42.02
Exercise price (in CHF)	42.00	42.00	42.00
Expected volatility	30%	30%	30%
Employee Exit Rate	0%	0%	0%
Dividend Yield	0%	0%	0%
Option life	1,825 days	1,460 days	1,095 days
Risk-free interest rate	−0.08%	−0.05%	−0.02%

Option series 9	a)	b)	c)
Issued 28 May 2020			
Share price at grant date (in CHF)	34.80	34.80	34.80
Previous monthly average at grant date share price (in CHF)	35.51	35.51	35.51
Exercise price (in CHF)	34.80	34.80	34.80
Expected volatility	30%	30%	30%
Employee Exit Rate	0.00%	0.00%	0.00%
Dividend Yield	0.00%	0.00%	0.00%
Option life	1,825 days	1,460 days	1,095 days
Risk-free interest rate	0.20%	0.22%	0.26%

Option series 10	a)	b)	c)
Issued 22 December 2020			
Share price at grant date (in CHF)	48.50	48.50	48.50
Previous monthly average at grant date share price (in CHF)	45.53	45.53	45.53
Exercise price (in CHF)	48.50	48.50	48.50
Expected volatility	34%	34%	34%
Employee Exit Rate	0.00%	0.00%	0.00%
Dividend Yield	0.00%	0.00%	0.00%
Option life	1,825 days	1,460 days	1,095 days
Risk-free interest rate	−0.30%	−0.27%	−0.24%

21 Related party transactions

In the period ended 31 December 2020, the Company has been charged by Cosmo S.p.A., under a service agreement for an amount of EUR 581 thousand (in 2019 EUR 732 thousand) for research / development / regulatory services.

In 2020, the Company has been charged by Cosmo S.p.A., under a service agreement, for secretarial and accounting services for an amount of EUR 140 thousand (EUR 141 thousand in 2019).

Since May 2015, Cosmo Pharmaceuticals N.V. provides Cassiopea with the services of its Chief Financial Officer (service terminated as at 31 December 2020), and its Chief Scientific Officer. The services provided under this agreement will not exceed 30 % of their respective available working time. Cosmo provides Cassiopea these services to at no cost. During the period 2017–2020, the Board of Directors of the Company, resolved to award to the three managers, Luigi Moro (CSO), Hans Christoph Tanner (CFO), and Marco Lecchi (Finance director) respectively 86,000, 64,000 and 40,500 options to subscribe Cassiopea shares for the services provide to Cassiopea under the above service agreement. Furthermore, in the same period, it was resolved to award 10,582 options to an administrative employee of Cosmo S.p.A.. The total cost to the Company, determined on the basis of the fair value of the option, is equal to EUR 425 thousand in 2020 (EUR 298 thousand in 2019).

In the period 2017–2020, Cosmo Pharmaceuticals N.V., under a stock option plan, has granted options to some employees of the Company. The cost to the Company for 2020, determined on the basis of the fair value of the option, is equal to EUR 123 thousand.

On 12 December 2018, Cosmo Pharmaceuticals N.V. granted the Company a committed unsecured term loan facility of EUR 10 million, extendable up to EUR 20 million, on the following terms:

- the loan shall expire on 31 December 2021, but may be repaid in advance by the Company
- the Company shall pay a signing fee of 0.5 %
- the interest rate will be 10 % per annum for the drawn amount and 2 % commitment fee will be payable on undrawn amount
- signing fee, interests and commitment fee will be paid at the repayment date

Cosmo Pharmaceuticals N.V. has covered the subscription price of the shares in Cassiopea capital increase, setting-off the outstanding credit for a total amount of EUR 15,258 thousand (of which EUR 14,000 thousand for the credit facility drawn and EUR 1,258 thousand for interests and signing fee at the date of capital increase). The remaining amount of EUR 121 thousand to cover the subscription price of the total 496,079 shares has been paid in cash.

The credit facility as at 31 December 2020 remains available for EUR 6 million: the amount due to Cosmo Pharmaceuticals N.V. as at 31 December 2020 is equal to EUR 64 thousand for the commitment fee due on the undrawn credit facility.

Director and Senior Management compensation

Compensation to the Board of Directors and Senior Management (Executives management and enhanced Management team) recognized in the income statements 2020 was as follows:

EUR

Board of Directors	Function	Base compensation	Additional compensation	Cash bonus	Fringe benefits	Stock options	Total compensation
Jan E. de Vries	Non-executive, Chairman	35,000	–	–	–	7,025	42,025
Maurizio Baldassarini	Non-executive, Independent director	35,000	3,500*	–	–	7,025	45,525
Øyvind Bjordal	Non-executive, Independent director	35,000	3,500*	–	–	7,025	45,525
Pierpaolo Guzzo	Non-executive, Independent director	35,000	3,500*	–	–	7,025	45,525
Diana Harbort	Executive, CEO	400,318	–	168,105	14,834	234,122	817,379
Total		**540,318**	**10,500**	**168,105**	**14,834**	**262,222**	**995,979**

* compensation Management Control Committee

EUR

Executive Management and enhanced management team	No of members	Base compensation	Cash bonus	Fringe benefits	Stock options	Total compensation
Executive Management**	8 members	878,889	179,525	57,903	759,836	1,876,153
highest paid of 8 members		250,793	67,949	20,985	50,827	390,554

** excluding CEO

As at 31 December 2020 in relation to the Stock option plan of Cassiopea S.p.A., the situation was as follows:

	Outstanding as at 1 January 2020	Granted	Forfeited in 2020	Exercised	Expired	Outstanding as at 31 December 2020
Non-executive Members of the Board						
Jan E. de Vries	22,617	1,583	–	–	–	24,200
Pierpaolo Guzzo	12,617	1,583	–	–	–	14,200
Oyvind Bjordal	12,617	1,583	–	–	–	14,200
Maurizio Baldassarini	2,617	1,583	–	–	–	4,200
	50,468	**6,332**	**–**	**–**	**–**	**56,800**
Of which exercisable	**40,000**					**43,492**

	Outstanding as at 1 January 2020	Granted	Forfeited in 2020	Exercised	Expired	Outstanding as at 31 December 2020
Executive Members of the Board and Members of Senior Management detailed if allocation exceeds 5,000 options						
Diana Harbort	137,242	52,758	–	–	–	190,000
Alessandro Mazzetti	82,345	44,655	–	–	–	127,000
Luigi Moro	54,897	31,103	–	–	–	86,000
Chris Tanner	54,897	9,103	–	–	–	64,000
Martina Cartwright	17,448	10,552	–	–	–	28,000
Marco Lecchi	27,448	13,052	–	–	–	40,500
Marco Pasero	18,725	5,275	–	–	–	24,000
Sheetal Sahel	17,448	10,552	–	–	–	28,000
David Wood	17,448	10,552	–	–	–	28,000
	427,898	**187,602**	**–**	**–**	**–**	**615,500**
Of which exercisable	**115,400**					**235,973**

22 Financial risk management objectives and policies

Financial risk management

Cassiopea's financial assets, mainly cash and cash equivalents, are managed by the Management Control Committee of the Company's Board of Directors.

Cassiopea's principal financial liabilities, which comprise interest bearing loans and trade payables, are mainly related to finance raised for its operations.

The major risks arising from the Cassiopea's financial instruments are credit risk, liquidity risk and market risk (primarily interest rate risk and foreign currency risk). The Management Control Committee periodically reviews the policies for managing each of the above-mentioned risks.

To illustrate the correlation between the financial instruments and the related risk exposure, a description of the policies and the measures adopted by the Company to manage its financial risk exposure is provided here below.

Credit risk

Credit risk is the risk of financial loss to Cassiopea if a counterparty to a financial instrument fails to meet its contractual obligations. It arises mainly from the Cassiopea's cash and cash equivalents.

The counterparties of financial instruments are chosen based on the Cassiopea Management Control Committee estimate on their reliability.

Liquidity risk

Cassiopea's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damages to the Cassiopea's reputation.

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates prices, will affect Cassiopea's income / cost or the value of its holdings of financial instruments. The objective of market risk management is to manage and control the market risk exposures within acceptable parameters, while optimizing the return on risk.

Interest rate risk

Cassiopea's exposure to the risk of changes in market interest rates relates to Cassiopea's cash in bank deposits and equivalent investments, therefore no material-hedging activities (such as interest rate swaps) were used during the period under review.

Foreign currency risk

Cassiopea is exposed to currency risk on revenues and costs that are denominated in a currency other than its functional currency (EUR).

Cassiopea intends to work with natural hedges where possible, matching foreign currency inflows with out-flows.

Where this is not possible, foreign currency advice from renowned experts will be sought, and a decision will then be made to either run the currency risk or to hedge it.

Capital management

Cassiopea's capital management objectives are focused on safeguarding Cassiopea's capacity to safely execute the business plan of the Company.

With reference to the supplemental disclosures required by IFRS 7, the comments below supply details about the measures and mechanisms implemented by the Company to manage its exposure to financial risks.

Classes of financial instruments

The table below shows the financial assets and liabilities, as required by IFRS 7 within the framework of the different categories contemplated by IAS 39, resulting on 31 December 2020 and 2019.

	As at 31 December	
	2020	2019
EUR 1,000	Carrying amount	Carrying amount
Cash and cash equivalents	2,646	696
Total Assets	**2,646**	**696**
Cosmo Pharmaceuticals N.V. unsecured loan	(64)	(10,654)
Financial lease liabilities	(6)	(10)
Trade payables	(2,839)	(1,562)
Total Liabilities	**(2,909)**	**(12,226)**

Information and financial risk analysis

Liquidity risk

The liquidity risk is the risk that the Company will encounter difficulty in meeting future obligations with respect to financial liabilities, after considering the Company's cash and cash equivalents' availability. The risk analysis is aimed at quantifying, on the basis of contractual maturity, the cash flow in relation to the reimbursement of the Company's financial liabilities as of 31 December 2020 and 2019 as much as they are considered significant for the purpose of liquidity risk.

The following are the remaining contractual maturities of financial liabilities at the reporting date. The amounts are gross and undiscounted and include contractual interest payment.

EUR 1,000	Carrying amount	Total	Less than 1 year	1–2 years	2–5 years	More than 5 years
Cosmo Pharmaceuticals N.V. unsecured loan	64	184	184	–	–	–
Financial lease liabilities	6	7	4	3	–	–
Trade payables	2,839	2,839	2,839	–	–	–
Total as at 31 December 2020	**2,909**	**3,030**	**3,027**	**3**	**–**	**–**
Cosmo Pharmaceuticals N.V. unsecured loan	10,654	12,654	–	12,654	–	–
Financial lease liabilities	10	11	4	4	3	–
Trade payables	1,562	1,562	1,562	–	–	–
Total as at 31 December 2019	**12,226**	**14,227**	**1,566**	**12,658**	**3**	**–**

Market risk

The actual exposure to such sources of risk is illustrated as of 31 December 2020 and 2019, along with the possible balance sheet impact of the risk factor's plausible variations.

Interest rate risk and sensitivity analysis

The table below provides an indication of the impact on the profit before tax of a parallel ± 50 basis-point shift of the rate curve estimated as of 31 December 2020 and 2019. The analysis was carried out by assuming that the other variables remained constant.

	Profit or (loss)	
EUR 1,000	50 bp increase	50 bp decrease
31 December 2020		
Cash and cash equivalents	16	–
Cash flow sensitivity	**16**	**–**
31 December 2019		
Cash and cash equivalents	9	9
Cash flow sensitivity	**9**	**9**

Foreign currency risk and sensitivity analysis

The Company is exposed to currency risk on costs that are denominated in a currency other than the functional currency of the Company (EUR).

At the present time, no hedges are in place for the excess of US$ outflows, but the Company regularly reviews this position.

A 10 % strengthening of the EUR against the US$ would have resulted in a loss decrease of EUR 585 thousand and EUR 619 thousand as at 31 December 2020 and 2019 respectively. A 10 % weakening of the EUR against the US$ as at 31 December 2020 and 2019 would have had the opposite effect, for the equal amount shown above.

Furthermore, in relation to monetary assets and liabilities held in US$ at the end of 2020, a 5 % strengthening of the EUR against the US$ would have resulted in a loss increase of EUR 46 thousand. A 5 % weakening of the EUR against the US$ would have had the opposite effect, for the equal amount shown above.

23 Fair value measurement

IFRS 13 establishes a hierarchy that categorizes into three levels the inputs to the valuation techniques used to measure fair value by giving the highest priority to quoted prices (unadjusted) in active markets for identical assets and liabilities (level 1 inputs) and the lowest priority to unobservable inputs (level 3 inputs). In some cases, the inputs used to measure the fair value of an asset or a liability might be categorized within different levels of the fair value hierarchy. In those cases, the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy at the lowest level input that is significant to the entire measurement.

Levels used in the hierarchy are as follows:
- Level 1 inputs are quoted prices (unadjusted) inactive markets for identical assets and liabilities that the Company can access at the measurement date.
- Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the assets or liabilities, either directly or indirectly.
- Level 3 inputs are unobservable inputs for the assets and liabilities.

Assets and liabilities that are measured at fair value on a recurring basis

As at 31 December 2020 and 31 December 2019, there are no assets and liabilities measured at fair value on a recurring basis.

Assets and liabilities not measured at fair value on a recurring basis

This table shows the comparison of fair values versus carrying amounts of financial assets and liabilities:

	As at 31 December 2020		As at 31 December 2019	
EUR 1,000	Carrying amount	Fair value	Carrying amount	Fair value
Cash and cash equivalents	2,646	2,646	696	696
Total Assets	**2,646**	**2,646**	**696**	**696**
Unrecognized (loss) gain	–	–	–	–
Cosmo Pharmaceuticals N.V. unsecured loan	(64)	(64)	(10,654)	(10,654)
Financial lease liabilities	(6)	(6)	(10)	(10)
Trade payables	(2,839)	(2,839)	(1,562)	(1,562)
Total Liabilities	**(2,909)**	**(2,909)**	**(12,226)**	**(12,226)**
Unrecognized (loss) gain	–	–	–	–

The carrying amount of Cash and cash equivalents, which consist primarily of bank current accounts approximates fair value.

For Cosmo Pharmaceuticals N.V. unsecured credit facility and financial lease liabilities the carrying amount approximates the fair value calculated based on the present value of future principal and interest cash flows, discounted at the interest market rate at the reporting date.

For Trade payables for which the present value of future cash flows does not differ significantly from carrying value, we assume that carrying value is a reasonable approximation of the fair value.

24 Principal Group subsidiaries

The following table lists the principal subsidiaries controlled by Cassiopea S.p.A.. The equity interest percentage shown in the table also represents the share in voting rights in those entities.

				As at 31 December 2020	
Company Name	Country of incorporation		Share Capital	Equity interest	Direct/Indirect Subsidiary
Cassiopea Pharmaceuticals Ltd.	Ireland	EUR	10,000	100%	Direct
Cassiopea Inc.	USA	USD	80	100%	Indirect

25 Subsequent events

As at the date of presentation of these financial statements, there were no material events after the balance sheet date. The Company is continuing to carry out its activities, in line with plans and programmed activities and will continue to monitor the evolution of the COVID-19 situation.

Lainate, 24 March 2021

On behalf of the Board of Directors of Cassiopea S.p.A.

Jan E. de Vries
Chairman

Auditor report

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Independent auditor's report on the consolidated financial statements

To the Shareholders of
CASSIOPEA S.p.A.

Report on the Audit of the consolidated financial statements

Opinion

We have audited the consolidated financial statements of CASSIOPEA S.p.A. and its subsidiaries (the "Cassiopea Group"), which comprises the consolidated statement of financial position as at December 31, 2020, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity, and the consolidated cash flows statement for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as at December 31, 2020 and of the result of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the consolidated financial statements* section of our report.
We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and we have fulfilled our other ethical responsibilities in accordance with these requirements.
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key Audit Matter	Audit Response
R&D tax credit recognition The Group through its parent Company Cassiopea S.p.A. recognized tax receivables related to the tax credit for research and development pursuant to the Italian Law that provides for the grant of a tax credit to all companies investing in research and development activities.	The main audit procedures we performed are the following: ▪ We obtained an understanding of the relevant Company process to determine the R&D tax credit recognition pursuant the Italian Ministerial Decree of May 27, 2015 and related updating (Act No.160 of December 27, 2019 and decree of May 26, 2020).

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Income arising from such tax credit has been recognized starting from 2016, when the Italian Tax Office, following a tax ruling requested by the Company, made it clear that also Phase III clinical trial costs may be considered eligible for the tax credit.

During the year, the Company recorded other income from R&D tax credit amounting to Euro 0,6 million as disclosed in note 4 (Net operating expenses – Other income).

As at December 31, 2020, tax receivables amounted to Euro 10,2 million of which Euro 9,8 million classified as non-current (note 10 "Tax Receivable non-current") and Euro 0,4 million classified as current as (note 12 "Current tax assets").

We focus on this area because the significance of the tax credit R&D costs in the consolidated financial statements.

- We performed substantive procedures for R&D tax credit including reconciliation of R&D costs to supporting documents of services rendered and authorized purchase contract for the year 2020.
- We have assessed the assumptions regarding R&D costs by nature, the accuracy of costs considered in the valuation and the computation of the amount applying the percentage provided by the Decree above mentioned.

Finally, we have assessed the accuracy and completeness of the disclosure in the consolidated financial statements relating to R&D tax credit.

Other Information

The Board is responsible for the preparation of the other information included in the annual report. Next to the financial statements and our auditor's report thereon, the annual report consists of other information including: Cassiopea at a glance, the letter to shareholders, corporate governance, and other information for investors.

Our opinion on the financial statements does not cover the other information in the annual report and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Board of Directors and Those Charged with Governance for the consolidated financial statements

Board of Directors is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Those Charged with Governance are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISA Italia will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

- Identified and assessed the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, designed and performed audit procedures responsive to those risks, and obtained audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtained an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluated the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Concluded on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluated the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with Those Charged with Governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Milan 24 March, 2021

BDO Italia S.p.A.

Paolo Beretta
Partner


In the reporting year, we carried out all activities of our company within the budgeted framework.
A

Information for Investors

Capital structure

EUR 1,000	31.12.2020
Total equity	15,615
Share capital	10,750
Reserves	26,568
Profit (Loss) for the period	(12,308)
Number of registered shares	10,750,000
Nominal value per share (in EUR)	1.00

Major shareholders	No. of shares	% of share capital
Cosmo Pharmaceuticals N.V.	5,005,066	46.56%
Cosmo Holding S.a.r.l.	809,953	7.53%
Herz / Logitable group	507,734	4.72%
LLB Swiss Investment AG	410,522	3.82%

Share price data

CHF	Price	Date
First trading day close	37.30	01.07.2015
2020 lowest	24.00	20.03.2020
2020 highest	58.60	31.08.2020
2020 last trading date	48.50	30.12.2020
Market capitalization (in CHF million)	521.38	30.12.2020

Share earnings

EUR	31.12.2020
Basic earnings (loss) per share	(1.183)

Stock exchange information

Listing	SIX Swiss Exchange, Main Board
Security ID	SKIN
ISIN	IT0005108359
Swiss security number (Valor)	28 252 872
Number of shares	10,750,000

Research coverage

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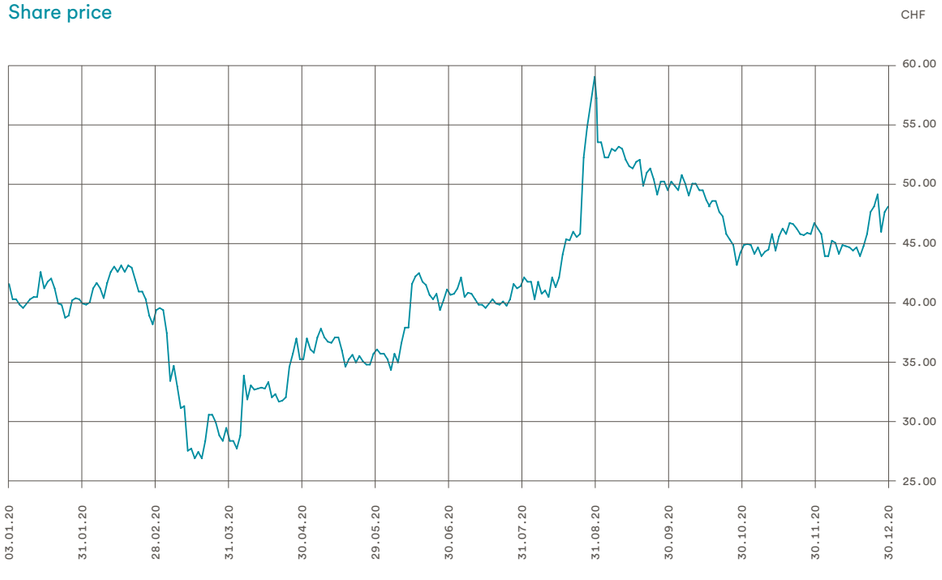
valuationLAB AG	Bob Pooler	Phone: +41 79 652 67 68
Credit Suisse, EMEA Equity Research Switzerland	Barbora Blaha	Phone: +41 44 334 60 54
H.C Wainwright	Raghuram Selvaraju	Phone: +01 212 916 39 66
Research Partners AG	Paul Verbraecken	Phone: +41 44 533 40 30

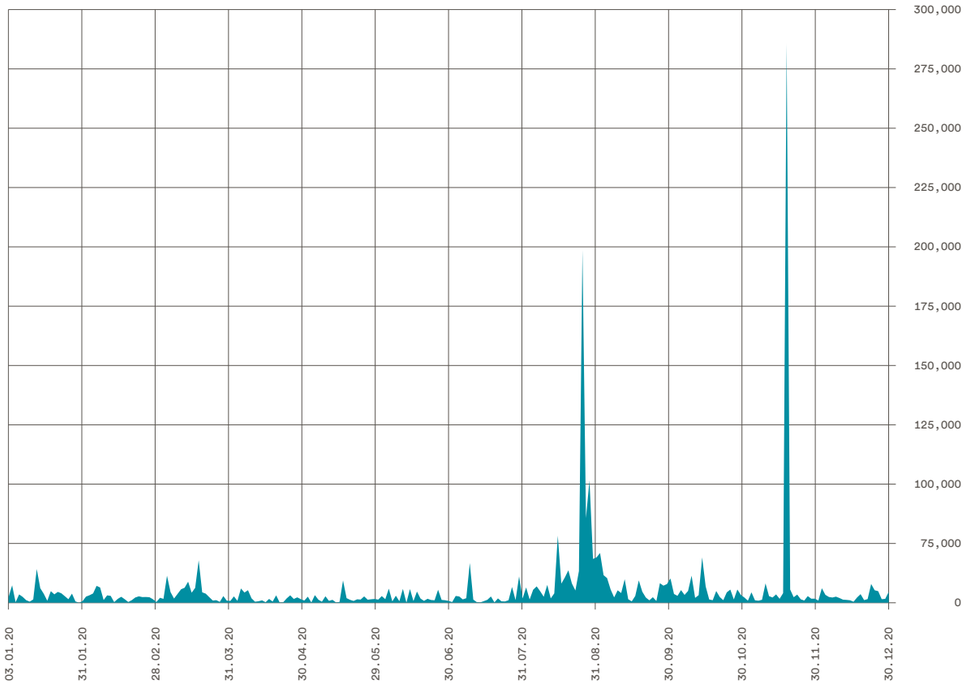
Calendar

Annual General Shareholders Meeting	Lainate, 29 April 2021
Jefferies Virtual Healthcare Conference	1–3 June 2021
Half Year Report 2021	July 2021
Investora	Zurich, 15–16 September 2021
Credit Suisse Swiss Equity Conference	Zurich, Mid-November 2021
Jefferies Global Healthcare Conference	London, 16–18 November 2021

Share price



Trading volumes



STORY

We are convinced that we have one of the most innovative pipelines in the dermatology industry and view the future with great optimism.

Glossary

505 (b)2
Refers to a section of the FDA act which allows a new drug approval application (NDA) that contains full reports of investigations of safety and effectiveness but where at least some of the information required for approval comes from studies not conducted by or for the applicant and for which the applicant has not obtained a right of reference. This allows the filing avoiding lengthy, costly and in many cases repetitive preclinical trials. Drugs approved under 505 (b)2 generally get 3 or 5 years market exclusivity.

Abbreviated NDA (ANDA)
Is for a proposed drug that is identical to a reference listed drug. The proponent must prove its bio-equivalence. Drugs approved under an ANDA only get exclusivity of 180 days.

Acne
Skin disorder characterized by inflammation as a result of overactivity of the sebaceous glands.

Acute
Disease or its symptoms that could be suddenly, severe but of short duration.

AGA
Androgenetic alopecia.

Alopecia
Hair follicle disease that cause partial or complete absence of hair.

Androgens
Male sex hormones.

Antibiotic
Drug that kills bacteria or prevents them from multiplying.

API
Active Principle Ingredient.

AUC (area under the curve)
Term used in pharmacokinetic studies as measure of systemic absorption.

Autoimmune
A condition in which the body produces antibodies to its own tissue.

Bacteria
Single-celled microorganisms that can exist independently or dependently upon another organism for life. They can cause infection and are usually treated with antibiotics.

BfArM
Bundesinstitut für Arzneimittel und Medizinprodukte: the German Federal Institute for Drugs and Medical Devices.

Chronic
Lasting a long time.

Clinical need
Therapeutic need not covered by drugs that are currently marketed.

Clinical phase I
Phase I trials are the first stage of drug testing on human subjects.

Clinical phase II
Once the initial safety of therapy has been confirmed in phase I trials, phase II trials are performed on larger groups (20–200) and are designed to assess clinical efficacy of the therapy, as well as to continue safety assessment on a larger group of patients.

Clinical phase III
Phase III studies are randomized controlled trials on large patient groups (≥ 200, depending on the condition) and are aimed at producing a definitive assessment of the efficacy of the new therapy, sometimes in comparison with current “gold standard” treatment.

Clinical trial
A meticulously controlled test of a drug / device / medical strategy candidate on humans, to explore its safety and efficacy.

Cmax
Maximum drug concentration reached in a body fluid, usually plasma or blood.

Compliance
Compliance with the therapeutic regime imposed by the prescribing doctor.

C.P.O.
Contract Pharmaceutical Organization, a company that carries out services in the pharmaceutical sector on behalf of third parties.

C.R.O.
Contract Research Organization, a company that carries out research and / or development activities in the pharmaceutical sector on behalf of third parties.

Cytokines
Any class of substances that are secreted by cells of the immune system.

DHT
Dihydrotestosterone.

Dose-finding study
A clinical study designed to determine the efficacy and safety of different doses to help in the identification of the most efficacious and well-tolerated dose.

Double-blind study
A clinical trial design in which neither the participating individuals nor the study staff know which participants are receiving the experimental drug and which are receiving placebo or another active ingredient (comparator).

Drug delivery system
A technology or method that is able to control the time and the extent of the release of a drug.

Efficacy
The ability of a drug to control or cure an illness.

EMA
European Medicines Agency.

Endogenous
Produced or synthesized within the organism.

Enzyme
A molecule that includes the conversion of one chemical substance to another.

Epidemiology
Analysis of cause, pattern, effect of a disease in populations.

EPO
European Patent Office.

Ethical drugs
Prescription drugs used for treatment of serious diseases.

ESOP
Employee Stock Option Plan.

Excipient
An inert substance used as a diluent or vehicle for a drug.

FDA
Food and Drug Administration, the US government agency that governs the entry and monitoring of products on the market.

FPI
First Patient In.

Galenic
Galenic formulation deals with the principles of preparing and compounding medicines in order to optimize their absorption.

GMP
Good Manufacturing Practice.

Generic drugs
Drugs equivalent to brand drugs.

Hirsutism
Excessive growth of thick hair in women, with a male pattern.

HGA
Hair Growth Assessment.

ICH
The International Conference on Harmonization of Technical Requirements for Registration of Pharmaceuticals for Human Use.

IGA
Investigator Global Assessment.

Infection
A condition resulting from the presence of bacteria or other microorganisms in the body.

Inflammation
Swelling, reddening, heat and / or pain produced in the area of the body as a result of irritation, injury or infection.

Investigational New Drug Application (IND)
Once the drug has been screened for pharmacological activity and acute toxicity potential in animals, the sponsor must next test its therapeutic potential for humans. At that point the molecule changes legal status under the FDA act and becomes a new drug subject to specific requirements of the drug regulatory system. An Investigator IND is submitted by the party who both initiates and conducts an investigation and under whose immediate direction the investigational drug is administered or dispensed. Technically the IND is the means through which a sponsor obtains the authority to transport an investigational drug across state lines for clinical trial purposes. Once the IND is submitted, the sponsor must wait for 30 days before initiating clinical trials.

In vitro
In an artificial environment, referring to a process or reaction occurring therein, as in a test tube or culture media.

Lesions
A lesion is any abnormal tissue found on or in an organism, usually damaged by disease or trauma.

Lipophilic
The property of a chemical compound to dissolve in fats, oils, lipids, and nonpolar solvents.

LPO
Last Patient Out.

Mechanism of action
The manner by which a drug exerts its activity.

NCE
New Chemical Entity, chemical structure that is not part of existing technical know-how.

NDA
The New Drug Application, a procedure through which drug sponsors formally propose that the FDA approves a new pharmaceutical for sale and marketing in the US.

Off-label
The use of a drug for a medical condition other than for which it was officially approved and marketed.

Onset of action
The length of time it takes for a medicine to start to work.

Open-label
A study in which all parties (patient, physician and study coordinator) are informed of the drug and dose being administrated.

Orphan diseases
Diseases characterized by a limited incidence in the population, generally fewer than five cases per 10,000, and for which there are currently no valid therapies available.

Orphan drug
Drug intended to cure orphan diseases.

OTC drugs
Over-the-counter drugs are medicines that may be sold without the prescription of a medical professional, in contrast to prescription drugs.

Pharmaceutical manufacturing plant
Facilities for the manufacturing of drugs, subject to authorization by specific health authorities.

Pharmacokinetic
The process by which a drug is absorbed, distributed, metabolized and eliminated by the body.

Pharmacokinetic parameters
Measures related to drug absorption and elimination rates that are useful to evaluate the behavior of the drugs after administration to a living organism (such as Cmax, Tmax, AUC, etc.).

Pivotal study
Usually a phase III study that presents the data that the governmental agencies responsible for approving the marketing of pharmaceutical products (e.g., the FDA and the EMEA) use to decide whether or not to approve a drug.

Placebo
Drug with no active ingredients.

Proof-of-concept study
Phase IIa clinical trials, usually conducted within the target patient group, to determine whether the considerable resources necessary to complete drug development should be invested.

Prophylaxis
A method to prevent a disease.

Randomized / Randomization
The procedures ensuring that the subjects are equally and randomly distributed to treatment or control groups.

REACH
Registration, Evaluation, Authorization and Restriction of Chemical substances.

Receptor
A protein complex located inside or on the wall of the cells characterized by selective binding of a specific substance.

Registration
Authorization required to market a drug.

Seborrhea
A skin disease characterized by increase of sebum associated or not to inflammation.

Technology platform
Technology applied to various molecules generating certain products.

Tmax (time to maximum concentration)
Term used in pharmacokinetic studies to indicate the time after administration when the maximum concentration in a body fluid is obtained.

TAHC
Target Area Hair Counts.

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