# Annual Report 2019

Cassiopea

# 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 establish Cassiopea as a pure-play, fully integrated company whose mission is to identify, develop and commercialize treatments for skin diseases.

## Key events in 2019

On 26 March, we announced positive safety and efficacy data for our Phase III open-label safety study (Study 27) evaluating **Clascoterone cream 1% in acne** for a treatment period of up to one year.

The results confirmed that no hormonal imbalance was seen in the patients, even after a long-term treatment and an enlarged drug application surface including both the face and trunk to maximize the patient's exposure area. The topically applied drug did not raise significant side effects.

The open-label safety study enrolled a total of 609 subjects (ITT population), all of whom had completed twelve weeks of Clascoterone cream 1% or vehicle (placebo) treatment on the face in the preceding double-blind studies (Study 25 and Study 26). Subjects continued on open-label treatment with Clascoterone cream 1% for up to an additional nine months on the face and / or trunk. 416 subjects (safety population) received Clascoterone cream 1% therapy for an overall period of at least 26 weeks and, of them, 123 subjects completed participation in the study receiving Clascoterone cream 1% therapy for a total of 52 weeks.

The key safety findings from the study are the following: 18.1% reported treatment-emergent adverse events (TEAEs) during the study. Overall, the most frequently reported TEAEs were nasopharyngitis (common cold 2.6%) and upper respiratory tract infection (1.3%), all the other had an incidence <1%. Of the subjects with related TEAEs (2.3%), 17 TEAEs were dermal adverse events. No serious drug-related adverse events were reported.

At every study visit, the investigator documented application area Local Skin Reactions (LSRs); the overall incidence was mostly less than 10% except for erythema / reddening (24.2% and 16% on the face and trunk respectively) and scaling / dryness (16.6% on the face). Most LSRs were minimal-mild.

Open-label efficacy was also assessed throughout the additional nine months Clascoterone cream 1% application period, though not the primary study endpoint. The proportion of subjects (PP population) achieving treatment success, defined as Investigator's Global Assessment (IGA) with at least a 2-point improvement resulting in a 0 (clear) or 1 (almost clear), at Week 52 was 56.3% and 61.7% and at week 40 was 39.8% and 48.5% (of subjects with evaluable assessment) for face and trunk respectively.

On 16 April we announced very positive results of the twelve months phase II dose ranging clinical trial in men with androgenetic alopecia (AGA) for our topical androgen receptor inhibitor **Clascoterone solution**. The results show statistically significant improvement versus vehicle (placebo) for Target Area Hair Count (TAHC) for every dose tested along with directional improvement for Hair Growth Assessment (HGA). The results also indicate an excellent safety profile, similar to vehicle, for both adverse events and local skin reactions, even after 12 months treatment.

This phase II dose ranging trial, recruiting more than 400 subjects in Germany, was aimed to evaluate the efficacy and safety of four different doses of Clascoterone compared to vehicle in male subjects 18–55 years of age with mild to moderate androgenetic alopecia in the temple and vertex region. All subjects applied Clascoterone or vehicle to the balding areas of the scalp twice daily for a total of 12 months. The eligible subjects were randomly assigned to one of the following five treatment groups: 2.5% solution BID; 5.0% solution BID; 7.5% solution BID; 7.5% solution QD (once a day) and vehicle solution; vehicle solution BID.

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

The main secondary endpoints included (1) Changes from Baseline in non-vellus TAHC and HGA score at months 3, 6 and 9, and (2) Changes from Baseline in non-vellus TAHW (target area hair width) at Months 3, 6, 9, and 12.

For the TAHC, statistically highly significant changes vs. vehicle were observed in all active 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 grows new hair.

The HGA assessment represents the opinion of the patient on hair growth, expressed with a questionnaire. More subjects in all active groups saw an increase in their hair growth compared to the vehicle.

For the TAHW, statistically highly significant changes vs. vehicle were observed in all active groups with the highest change observed in the 7.5% BID group, which reached borderline statistical significance since the third month (first follow-up visit) and statistical significance at months 6, 9 and 12.

Meanwhile, the placebo group had a significant decrease in the TAHC and TAHW, representing the progression of AGA over time if left untreated. Also, these data confirm that Clascoterone stops the loss of hair and grows new hair.

The results indicate an excellent safety profile, similar to vehicle for both adverse events and local skin reactions, even after twelve months of 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 mechanism of action is not, cortisol levels were tested in a sub-group of patients to determine if Clascoterone had systemic steroidal activity. The mean absolute changes in cortisol values throughout the study were similar among groups, demonstrating that Clascoterone did not have a systemic effect on cortisol levels.

On 20 August, we announced that we had submitted a New Drug Application (NDA) to the U.S. Food and Drug Administration (FDA) seeking marketing approval for Clascoterone cream 1% for the treatment of acne.

On 8 November, we announced the U.S. Food and Drug Administration (FDA) has accepted for review the New Drug Application (NDA) for Clascoterone cream 1%. The FDA has set 27 August 2020 as the Prescription Drug User Fee Act (PDUFA) action date.

On 13 November, we announced that we had received approval from the German Authority BfArM and the coordinating ethical committee and would proceed to enroll the first patient in a 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 is planned to enroll approximately 280 female subjects between 18–55 years of age with mild to moderate AGA in Germany. The four-arm study will enroll 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.

All operations were carried out within the **budgeted framework**. In 2019, Cassiopea spent EUR 11,754 thousand predominantly in the advancement of our clinical programs. At the end of 2019, cash amounted to EUR 696 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

| PRODUCT | INDICATION | PRE-CLINICAL | PHASE I | PHASE II | PHASE III | APPROVAL |
|---|---|---|---|---|---|---|
| **Clascoterone cream 1%**<br>Androgen Receptor Inhibitor | **Acne** | | | | | |
| **Clascoterone solution**<br>Androgen Receptor Inhibitor | **Androgenetic alopecia in Males** | | | | | |
| | **Androgenetic alopecia in Females** | | | | | |
| **CB-06-01**<br>Antibiotic | **Acne** | | | | | |
| **CB-06-02**<br>Immune Modulator | **Genital Warts** | | | | | |

# Key figures

| EUR 1,000 | 31.12.2019 | 31.12.2018 |
|---|---|---|
| **Income statement** | | |
| Revenue | – | – |
| Other income | 686 | 916 |
| Cost of sales | – | – |
| R&D costs | (7,875) | (12,240) |
| SG&A costs | (3,879) | (1,890) |
| Operating result | (11,068) | (13,214) |
| Profit (loss) before taxes | (11,700) | (12,656) |
| Profit (loss) for the period | (11,700) | (12,656) |
| **Shares** | | |
| Weighted average number shares | 10,000,000 | 10,000,000 |
| Basic earnings (loss) per share (in EUR) | (1.170) | (1.266) |

| EUR 1,000 | 31.12.2019 | 31.12.2018 |
|---|---|---|
| **Statement of financial position** | | |
| Non-current assets | 12,536 | 9,760 |
| Cash and cash equivalents | 696 | 4,609 |
| Other current assets | 2,829 | 2,171 |
| Non-current liabilities | 10,660 | – |
| Current liabilities | 1,674 | 2,028 |
| Equity | 3,727 | 14,512 |
| Equity ratio | 23.2% | 87.7% |

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2020 will be the pivotal year for Cassiopea as we look forward to the PDUFA date for Clascoterone cream 1% in acne and then commercialization.

# Dear Shareholder

2019 has been a very productive year for Cassiopea. We made major development progress with our late stage pipeline and have begun preparing for the commercialization of our first product in the USA. Most importantly, in August we submitted our New Drug Application (NDA) for Clascoterone cream 1%, the first new mechanism of action for acne in nearly 40 years. Subsequently the FDA accepted the NDA and set 27 August 2020 as the PDUFA action date. In H1 we announced positive results from the Phase III open label safety study evaluating Clascoterone cream for up to 1 year and positive Phase II 12 months results for Clascoterone solution in treating males with androgenetic alopecia (AGA). Finally, in November we announced the enrollment of our first patient in our phase II trial for the treatment of AGA in females with Clascoterone solution.

To facilitate our preparations for the commercialization of Clascoterone cream 1% we have invested in extensive market research (with payers and health care providers), market access strategy and medical affairs. In 2019, we have built awareness of the Clascoterone new mechanism of action and data in acne and AGA among the dermatology Key Opinion Leaders (KOLs) and the dermatology community. This year 30 papers, posters and abstracts were published and Clascoterone was presented in nearly 70 podium presentations by KOLs. Importantly, plans have been made to prepare for the launch of Clascoterone cream 1% while balancing investment pre and post FDA approval to minimize risk.

2020 will be the pivotal year for Cassiopea as we look forward to the PDUFA date for Clascoterone cream 1% in acne and then commercialization.

At the shareholders meeting on 18 March 2019, shareholders approved a capital increase of up to three million shares, which continues being available. Further, we have received a credit facility of EUR 20 million from our biggest shareholder, Cosmo Pharmaceuticals. Both of these give us the needed flexibility in financing the Company needs to the PDUFA date of Clascoterone cream 1%.

Cassiopea is an Italian company and Italian company law does not allow a company to operate with negative equity. Thus, we need to do a small capital increase (EUR 15–20 million) at the latest by end of May, so unfortunately – for technical reasons – before the PDUFA date. This is not a liquidity issue as cash is already provided by Cosmo through loans. We are pursuing two options simultaneously: either a small capital increase with external investors to increase the free float or a rights offering to all existing shareholders. We will decide which way to go depending on the opportunity and on market conditions. In the event of a rights offering to all existing shareholders, Cosmo has already stated that it will subscribe its portion and also all eventually un-opted shares. We are therefore in a very comfortable position and I thank personally Cosmo for its continuous support and commitment for the benefit of all shareholders. Furthermore, upon approval of Clascoterone Cream 1%, if Cassiopea will decide to commercialize the asset by itself in absence of a strategic transaction, a more significant equity raise will be needed to advance the pipeline and establish the commercial organization in the USA.

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 2020.

Lainate, 18 March 2020

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.

It is our intention to generate the full value of our products in the U.S. market. The organizational expansion necessary for an integrated specialty pharma company will be executed when our lead product will have a high likelihood of FDA approval and the sales force will be hired upon approval of clascoterone cream 1%.

According to widely-cited data, 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. It is estimated that approximately 85% of people in the US between the ages of 12 and 24 experience at least minor acne, and acne is the reason most cited for visits to the dermatologists by patients 14 to 45 years old. 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. Based on U.S. IQVIA data, there were 25.2 million acne product prescriptions in 2016, 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 U.S. acne market generated retail sales of US$ 5.0 billion in 2018. Of these, US$ 3.6 billion were topical products.

According to scientific publications, androgen induced alopecia is prevalent in 50–60 million men and 30–35 million women in the US. Out 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. Hence, literature suggests that 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. With few drug options available, the global hair restoration surgery market has grown very quickly, amounting to US$ 4.2 billion in 2016, an increase of 64% since 2014 according to a 2017 survey by the International Society of Hair Restoration Surgery.

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 USA 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.

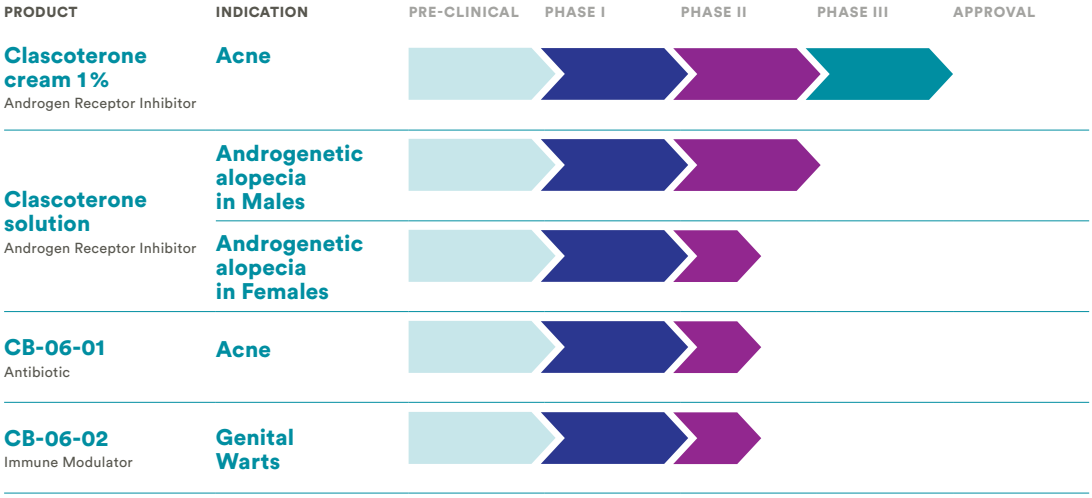
We believe that an overall lack of innovation in the research and development of new dermatology products has resulted in a limited number of effective treatment options. For example, the three mechanisms of action most commonly used to treat acne have been available for over 40 years. In fact, there has not been a new mechanism of action for the treatment of acne since 1982 when Accutane was launched. 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

## Cassiopea Pipeline




## Clascoterone cream 1%

Clascoterone, a new chemical entity, is a proposed first-in-class topical androgen receptor inhibitor under FDA review for the treatment of acne (in a 1% cream) and in late stage development for the treatment of androgenetic alopecia (in a higher strength solution) in males. Although Clascoterone's exact mechanism of action is unknown, laboratory studies suggest Clascoterone competes with androgens, specifically dihydrotestosterone (DHT), for binding to the androgen receptors within the sebaceous gland and hair follicles. Because of Clascoterone's likely local effect at the site of application, the risk of off-target, or systemic side effects, is minimized.

Clascoterone cream 1% targets androgen receptors at the site of application, inhibiting the local (skin) effects of DHT a key driver of acne lesion development. Laboratory studies show that Clascoterone inhibits lipid production from cultured oil producing cells (sebocytes) and reduces proinflammatory cytokines, mediators influenced by androgens. Thus, pathways that foster acne lesion development appear to be disrupted by Clascoterone at the site of application. Unlike oral hormonal therapies for acne, it may potentially be used in both male and female patients.

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

The Special Protocol Assessment for the phase III clinical trial program for Clascoterone cream 1% was filed with the U.S. FDA in April 2015 and was subsequently approved in July 2015. In two clinical trials (study 25 and 26) a total of 1,440 subjects were enrolled in 112 sites in the USA and Europe. The trials were identical in design and evaluated the safety and efficacy of Clascoterone cream 1% compared to vehicle (placebo) in acne patients ages >9 years with an IGA score of 3 or 4. Subjects applied Clascoterone cream 1% or placebo twice daily for twelve weeks. Upon completion of the clinical trials, 609 subjects were rolled over into an open label long term safety trial to assess the safety of the treatment for a total duration of twelve months. The primary endpoints evaluated in the trials were: (1) the proportion of subjects in each treatment group with at least a two point reduction on IGA (Investigator's Global Assessment) compared to baseline and an IGA score of 0 (clear) or 1 (almost clear) at week 12, (2) the absolute change from baseline in non-inflammatory lesion counts (NILC) in each treatment group at week 12, and (3) the absolute change from baseline in inflammatory lesion counts (ILC) in each treatment group at week 12. The secondary endpoints evaluated in the trials were: (1) absolute reduction in total lesion counts at week 12, (2) percentage reduction in total lesion counts at week 12, (3) percentage reduction in non-inflammatory lesion counts at week 12, (4) percentage reduction in inflammatory lesion counts at week 12.

## Phase III Results

Clascoterone 1% cream 1% demonstrated statistically significant improvements for all primary and secondary clinical end points with side effects similar to placebo. Detailed results are as follows:

### Efficacy Results Primary End Points

#### IGA treatment success ITT population

- In Study 25, IGA Treatment Success for Clascoterone cream 1% treatment group was 18.8% versus 8.9% in vehicle (p=0.0008)
- In Study 26, IGA Treatment Success for Clascoterone cream 1% treatment group was 20.8% versus 6.5% in vehicle (p<0.0001)

#### Absolute reduction in non-inflammatory lesions ITT population

- In Study 25, absolute change in non-inflammatory lesion count for the Clascoterone cream 1% treatment group was –19.4 versus –13.1 in vehicle (p=0.0016)
- In Study 26, absolute change in non-inflammatory lesion count for the Clascoterone cream 1% treatment group was –19.4 versus –10.9 in vehicle (p<0.0001)

#### Absolute reduction in inflammatory lesions ITT population

- In Study 25, absolute change in inflammatory lesion count for the Clascoterone cream 1% treatment group was –19.4 versus –15.5 in vehicle (p=0.0029)
- In Study 26, absolute change in inflammatory lesion count for the Clascoterone cream 1% treatment group was –20.0 versus –12.6 in vehicle (p<0.0001)

## Efficacy Results Secondary End Points

### Absolute reduction of total lesions counts at week 12 ITT population

- In Study 25, absolute change in total lesion count for the Clascoterone cream 1% treatment group was –39.2 versus –28.9 in vehicle (p=0.0002)
- In Study 26, absolute change in total lesion count for the Clascoterone cream 1% treatment group was –40.3 versus –23.7 in vehicle (p<0.0001)

### Percentage reduction of total lesions counts at week 12 PP population

- In Study 25, percentage change in total lesion count for the Clascoterone cream 1% treatment group was –37.1% versus –28.5% in vehicle (p=0.0016)
- In Study 26, absolute change in total lesion count for the Clascoterone cream 1% treatment group was –37.7 versus –22.2 in vehicle (p<0.0001)

### Percentage reduction of non-inflammatory lesions count at week 12 ITT population

- In Study 25, percentage change in non-inflammatory lesion count for the Clascoterone cream 1% treatment group was –30.7% versus –21.9% in vehicle (p=0.0141)
- In Study 26, percentage change in non-inflammatory lesion count for the Clascoterone cream 1% treatment group was –29.3% versus –15.8% in vehicle (p<0.0001)

### Percentage reduction of inflammatory lesion count at week 12 ITT population

- In Study 25, percentage change in inflammatory lesion count for the Clascoterone cream 1% treatment group was –44.8% versus –36.6% in vehicle (p=0.0070)
- In Study 26, percentage change in inflammatory lesion count for the Clascoterone cream 1% treatment group was –47.0% versus –29.8% in vehicle (p<0.0001)

## Efficacy Results Sensitivity Analysis

### IGA treatment success PP population

- In Study 25, IGA Treatment Success for Clascoterone cream 1% treatment group was 22.0% versus 7.6% in vehicle (p<0.0001)
- In Study 26, IGA Treatment Success for Clascoterone cream 1% treatment group was 22.0% versus 5.5% in vehicle (p<0.0001)

### Absolute reduction in non-inflammatory lesions PP population

- In Study 25, absolute change in non-inflammatory lesion count for the Clascoterone cream 1% treatment group was –20.0 versus –11.5 in vehicle (p=0.0001)
- In Study 26, absolute change in non-inflammatory lesion count for the Clascoterone cream 1% treatment group was –21.8 versus –11.6 in vehicle (p<0.0001)

### Absolute reduction in inflammatory lesions PP population

- In Study 25, absolute change in inflammatory lesion count for the Clascoterone cream 1% treatment group was –20.7 versus –16.1 in vehicle (p=0.0005)
- In Study 26, absolute change in inflammatory lesion count for the Clascoterone cream 1% treatment group was – 21.4 versus –13.4 in vehicle (p<0.0001)

### Safety Data

- Clascoterone cream 1% appeared to be generally safe and well tolerated with side effects similar to placebo. There were no treatment-related serious adverse events.

### Percentage of subjects with treatment emergent adverse events

- In Study 25, percentage of Treatment-Emergent Adverse Events for the Clascoterone cream 1% treatment group was 11.3 % (40 Subjects with 56 TEAE) versus 11.5 % (41 Subjects with 52 TEAE) in vehicle
- In Study 26, percentage of Treatment-Emergent Adverse Events for the Clascoterone cream 1% treatment group was 11.4 % (42 Subjects with 59 TEAE) versus 13.8 % (50 Subjects with 87 TEAE) in vehicle

### Treatment emergent adverse events by severity

- In Study 25, percentage of severe, moderate and mild TEAE was 0 %, 21 %, 79 % for the Clascoterone cream 1% treatment group and 4 %, 35 %, 62 % in vehicle – only 1 SAE in vehicle group
- In Study 26, percentage of severe, moderate and mild TEAE was 0 %, 22 %, 78 % for the Clascoterone cream 1% treatment group and 1%, 24 %, 75 % in vehicle – only 1 SAE in vehicle group

### Related treatment-emergent adverse events description

- In Study 25, 4 subjects with 5 (9 with 11 for vehicle) related AEs all of them mild: 2 of them, each with 1 AE, continued the treatment (application site pain, application site dryness); 2 of them with 3 AEs withdrew the drug (application site hypersensitivity, oropharyngeal pain)
- In Study 26, 8 subjects with 9 (13 with 15 for vehicle) related AEs: 7 of them mild and 2 moderate (acne, peritonsillar abscess): 6 of them with 7 AEs (1 subject with 2 AEs) continued the treatment (headache, eye irritation, application site hypertrichosis, acne – moderate, application site dryness + erythema (same subject), peritonsillar abscess – moderate). 2 of them with 2 AEs withdrew the drug (contact dermatitis, hair color change)

In addition to the phase III study, a long-term safety study was conducted to determine the safety in at least 300 subjects for a total of six months of treatment and in at least 100 subjects treated for a total of twelve months.

The results confirmed that no hormonal imbalance was seen in the patients, even after a long-term treatment, and that the topically applied drug did not have significant side effects.

The open-label safety study enrolled a total of 609 (ITT population) subjects, all of whom had completed 12 weeks of Clascoterone cream 1% or vehicle treatment in the preceding double-blind studies (Study 25 and Study 26). Subjects continued on open-label treatment with Clascoterone cream 1% for up to an additional 9 months.

416 subjects (safety population) received Clascoterone cream 1% therapy for an overall period of at least 26 weeks and, of them, 123 subjects received Clascoterone cream 1%therapy for a total of 52 weeks, which is consistent with the subject sample size requirements specified in the regulatory guidance for this type of safety evaluation.

The key safety findings from the study were the following: 110 subjects (18.1%) reported 191 treatment-emergent adverse events (TEAEs) during the study. Overall the most frequently reported TEAEs were nasopharyngitis (common cold 2.6%) and upper respiratory tract infection (1.3%), all the other had an incidence <1%. Of the related TEAEs, 17 were dermal adverse events. No serious drug-related adverse events were reported.

At every study visit, the investigator documented application area Local Skin Reactions (LSRs); the overall incidence was mostly less than 10% apart erythema / reddening (24.2% and 16% on the face and trunk respectively) and scaling / dryness (16.6% on the face).

Open label efficacy was also assessed throughout the additional 9 months period. The key efficacy findings from the study were: The proportion of subjects (PP population) achieving treatment success, defined as Investigator Global Assessment (IGA) with at least a 2-step improvement resulting in a 0 (clear) or 1 (almost clear), at Week 52 was 56.3% and 61.7% and at week 40 was 39.8% and 48.5% (of subjects with evaluable assessment) for face and trunk respectively.

Clascoterone cream 1% NDA was filed on 20 August 2019 and the FDA has set the PDUFA for 27 August 2020.

## Clascoterone solution

Clascoterone solution is a different formulation and a different strength of the same NCE in Clascoterone cream 1%.

Clascoterone, a new chemical entity, is a proposed first-in-class topical androgen receptor inhibitor currently under review by the U.S. Food and Drug Administration (FDA) for the treatment of acne (in a 1% cream) and in late stage development for the treatment of AGA (in a higher strength solution). Laboratory studies suggest Clascoterone competes with androgens, specifically dihydrotestosterone (DHT), for binding to the androgen receptors within the sebaceous gland and hair follicles. Because of Clascoterone's likely local effect at the site of application, the risk of off-target, or systemic side effects, is minimized.

AGA is a leading cause of hair loss in men and women. 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. DHT dependent effects are considered, in most cases, reversible, such that AGA could be responsive to medical treatment with Clascoterone solution through its proposed MOA of direct inhibition of testosterone and DHT binding to local hair follicle androgen receptors. Clascoterone has the potential to be the only topical antiandrogen for use in both men and women with AGA if approved by the FDA.

Based on early clinical review, Cassiopea believes that topical 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 have not been observed in clinical trials to date. Clascoterone is quickly metabolized to cortexolone, a metabolite with a known safety profile. Due to its rapid metabolism and local activity, there appears to be limited systemic exposure to Clascoterone and thus potential systemic side effects are minimized.

After successful phase II trial, a Phase II Dose Ranging Study was conducted. 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.

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

## Twelve Month Efficacy Results (PP)

| Primary Endpoints at 12 months | Clascoterone 2.5 % BID | Clascoterone 5 % BID | Clascoterone 7.5 % BID | Clascoterone 7.5 % QD | Vehicle |
|---|---|---|---|---|---|
| Mean changes from baseline TAHC | 1.0 | 4.4 | 4.7 | 3.5 | –9.3 |
| Mean changes from vehicle TAHC | 10.2 | 13.8 | 14.3 | 12.7 | – |
| P value (vs. vehicle) | 0.0087 | 0.0006 | 0.0003 | 0.0016 | – |
| Favorable HGA (+1, +2, +3) | 60.8 % | 60.0 % | 61.8 % | 56.1 % | 50 % |

For the TAHC, statistically highly significant changes were observed in all active 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 grows 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 from the Month 12 visit 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.

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, proving that Clascoterone has no systemic effect on cortisol.

## 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 move ahead to produce a new GMP API batch, optimize the formulation and then conduct a formal Phase II Dose Ranging Program. During 2018, the synthesis of the new API was completed. We are planning to develop a new improved formulation in Q4 2020 / H1 2021, 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 treatments.

In July 2018, we announced the top line results of the phase II proof of concept trial for CB-06-02, in Israel testing 15 % CB-06-02 once a day for up to 14 weeks against placebo in 60 subjects, completed enrollment in November 2017. The objective was the assessment of efficacy, safety and tolerability of CB-06-02 versus vehicle in the treatment of genital warts in women. In the PP population (56 subjects), 75 % of the CB-06-02 group achieved complete clearance of external genital warts while 40.6 % of subjects achieved complete clearance using vehicle. These results are statistically significant with a p value of 0.0111. In the ITT population (67 subjects), 56.3 % of the CB-06-02 group achieved complete clearance of external genitals warts while 37.1 % of subjects achieved complete clearance using vehicle.

# Patents and Trademarks

## Patents granted in 2019

__ One patent granted in the USA
(CB-03-01/01 crystalline forms / Clascoterone cream 1% – expiry date 2028 – 34 days PTA – divisional application)
__ Two patents granted in Mexico
(CB-03-01/01 crystalline forms / Clascoterone cream 1% – expiry date 2028 – divisional application)
(CB-03-01/01 crystalline forms / Clascoterone cream 1% – expiry date 2028 – divisional application)
__ One patent granted in the European Union
(CB-03-01/01 crystalline forms / Clascoterone cream 1% – expiry date 2028 – divisional application)
__ One patent granted in India
(CB-03-01/01 crystalline forms / Clascoterone cream 1% – expiry date 2028 – divisional application)

## Notice of Allowance in 2019

__ One patent application allowed in the USA
(CB-03-11 Clascoterone solution 7.5 % – expiry date 2036)

## Patent New Filings in 2019

__ Three patent applications in the USA
(CB-03-11 Clascoterone solution 7.5 % – continuation application)
(CB-03-11 Clascoterone solution 7.5 % – continuation application)
(CB-03-01/01 Clascoterone solution 7.5 % – continuation application)

## Trademarks Registered in 2019

__ Two trademarks registered in Canada for the Clascoterone cream 1% (Winlevi®)
__ Two trademarks registered in Canada for the Clascoterone solution 7.5 % (Breezula®)
__ One trademark registered in Canada for the company logo (Cassiopea®)
__ One trademark registered in the European Union for the Clascoterone cream 1% (Winlevi®)

## Trademarks New Filings in 2019

__ Four trademarks filing in China
(WINLEVI/DEN-CN, BREEZULA/DEN-CN, CB-03-11/DEN-CN, CB-03-01/DEN-CN)
__ Three trademarks filing in Puerto Rico
(WINLEVI/FIG-PR CL5, CASSIOPEA/FIG-PR-CL5, CASSIOPEA/FIG-PR-CL42)
__ One trademark filing in the USA (WINLEVI/FIG-US)
__ One trademark filing in the European Union (WINLEVI/FIG-EP)

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

# 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 10,000 thousand represented by 10,000,000 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 (Consiglio di Amministrazione), which has the responsibility to manage the Company. The Board of Directors appoints a controlling body (Management Control Committee – Comitato per il Controllo sulla Gestione) from among its members. The shareholders' meeting must also appoint an external auditing body.

According to the corporate governance model the Company has adopted the structure of an S.p.A. (Joint Stock Corporation), that is in the responsibility of the Board of Directors. The Board of Directors may delegate its authority to the Executive Committee and / or to the Chief Executive Officer (CEO). The Board of Directors determines the duration of the term and the powers of the CEO. The CEO's functions include coordination and supervision. The Company does not adopt the model of a board of statutory auditors, but has chosen to designate appropriate Directors with respective qualifications to allow not to adopt such model.

The general policies and the management of the Company are the responsibility of the Board of Directors, which are:

1) Appoint the CEO of the company;
2) Assign powers among the members of the BoD;
3) Approve budget and strategic plans and supervise the management performance versus the budget;
4) establish the strategic, accounting, organizational and financing policies.

In particular, the Board of Directors approved the 2019 budget in relation with the clinical trials. The management was delegated to operate in the expenses limits as set forth in the 2019 Budget and to manage and supervise the clinical trials and operations according to the approved plans.

During 2019, the Board of Directors and the Management Control Committee have verified that the management operated in the full respect of budget limits.

Pursuant to the Company's Articles of Association (https://www.cassiopea.com/wp-content/uploads/2020/03/2019-CASSIOPEA-AoA-ENGL.pdf) the members of the Board of Directors are elected by the shareholders at the annual shareholders' meeting, for a term established by the shareholders, but not to exceed three financial years. The mandate of the current Directors will end with the shareholders meeting approving the financial statements as of the fiscal year 2019 to be held in 2020. 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 within a list shall be listed with progressive numbers. Each list shall contain a number of candidates not higher than the 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, providing evidence of ownership of the required amount of shares 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 the Auditors by sect. 2399 of the Italian Civil Code.

For the purpose of this provision, a director shall not be deemed independent if he / she: (i) falls within section 2382 of the civil code (provisions on ineligibility); (ii) is a spouse, relative or the like up to the fourth degree of kinship of the directors of the Company, is a spouse, relative and the like up to the fourth degree of kinship of the directors of the companies controlled by the Company, of the companies it is controlled by and of those subject to common control; (iii) is linked to the Company, the companies it controls, the companies it is controlled by and those subject to common control or to directors of the Company or persons referred to 91 above sub (ii) by self-employment or employee relationships or by other relationships of an economic or professional nature that might compromise their independence. 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.

The members of the Board of Directors may be re-elected for consecutive terms, except the independent directors that cannot be appointed for more than two tenures. There is no age limitation for board members. See "The Board of Directors".

Only in case the shareholders' meeting has not elected the Chairman (as a rule, the role of the Chairman is always granted to the first listed candidate on the list that obtained the most votes), the Board of Directors elects the Chairman, the Deputy Chairman of the Board (which is optional), and the CEO from among 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 the law to meetings of the shareholders.

Under Italian law, directors may be removed from office at any time by the shareholders in ordinary meetings. If removed without valid reasons, such directors may have a claim for damages against the Company, but may not stay in office. Directors may resign at any time by written notice to the Board of Directors and to the Chairman of the Board of Statutory Auditors. The Board of Directors must appoint substitute directors to fill vacancies arising from removals or resignations, subject to the approval of the Board of Statutory Auditors. Substitute directors serve until the following general meeting of shareholders.

Board of Directors meetings are called by the Chairman (or in his absence, by the eldest of the Deputy Chairmen) or by the CEO by written notice, highlighting the matters to be discussed, sent at least three days (or in cases of urgency, at least one day) before the date of the meeting. A minimum of two members of the Board of Directors or one of the Statutory Auditors may request the Chairman or the CEO to call a meeting, in such case the Chairman or the CEO are obligated to call the meeting. The minimum quorum required to validly hold Board meetings is a majority of the Directors in office. Directors may attend meetings via telephone conference or videoconference provided that all participants can be identified and that they are all able to follow the discussion and intervene in real time, in relation to the issues in discussion. Pursuant to the Company's Articles of Association, meetings of the Board of Directors are chaired by the Chairman of the Board of Directors or, if the Chairman of the Board is absent or otherwise unable to act, by the Deputy Chairman. If the Chairman and the Deputy Chairman are absent or otherwise unable to act, the meeting is presided by the CEO or by the eldest director among those present at the meeting. Resolutions are adopted by the majority votes of the Directors present at the meeting.

The Chairman of the Board of Directors is the legal representative of the Company. However, if the Chairman is absent or otherwise unable to act, each Deputy Chairman may also act on the Company's behalf within the limits prescribed by the Board of Directors. The Board of Directors may from time to time appoint the General Manager or one or more Deputy General Managers or confer powers on executives or an attorney of the Company to represent the Company, determining the scope and exercise of such powers on appointment.

According to section 2391 of the Italian Civil Code, 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 board. In such circumstances, the resolution of the board of directors 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, the resolution, if it may cause harm to the company, 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 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.

According to section 2409 octiesdecies of the Italian Civil Code and the Articles of Association, the Management Control Committee is appointed by the Board of Directors among its members. 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 section 2409 septiesdecies of the Italian Civil Code. For the purpose of this provision, a member of

the Management Committee shall not be deemed independent if he / she: (i) falls within section 2382 of the Italian civil code (provisions on ineligibility); (ii) is a spouse, relative or the like up to the fourth degree of kinship of the directors of the Company, is a spouse, relative and the like up to the fourth degree of kinship of the directors of the companies controlled by the Company, of the companies it is controlled by and of those subject to common control; (iii) is linked to the Company, the companies it controls, the companies it is controlled by and those subject to common control or to directors of the Company or persons referred to above sub (ii) by self-employment or employee relationships or by other relationships of an economic or professional nature that might compromise their independence.

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 36–42, all Board Members fulfilled the independence requirements.

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 sect. 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. This remuneration was decided on 18 March 2019.

The members of the Management Control Committee can attend to meetings by means of audio-video-conference or teleconference, in accordance to what is provided by the by-laws with reference to the Board of Directors' meetings.

According to section 2409 octiesdecies of the Italian Civil Code and 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, 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 members of the Management Control Committee may, individually, ask the President to call the Committee, specifying the subjects to be discussed. The meeting must be called without delay, unless there are reasons that prevent the meeting to be called, which should be promptly illustrated to the Committee during the next meeting. The member of the Management Control Committee may, upon notice to the Chairman of the Board of Directors, call the Board of Directors or the executive committee and avails oneself of employees of the company for the performance of its functions. 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 who has a specific mandate, may, at any time, carry out inspections and controls and exchange information with the corresponding bodies of subsidiaries with reference to the administration and control systems and general business trends.

In listed companies, the auditing of the accounts must be executed 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 4,508,987 shares or 45.09 % of all outstanding shares at year end 2018. Furthermore, Cosmo Holding S.a.r.l. holds 753,445 shares or 7.53 %.

At year end, Heinrich Herz AG / Logistable SA was reported as holding 482,156 shares respectively 4.82 % of the shares of the Company and LLB Swiss Investment AG was reported as holding 381,881 shares respectively 3.82 % 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.

Also on 27 May 2015, the shareholders' meeting resolved to delegate to the Board of Directors to increase the share capital of EUR 10,000 thousand by issuing 500,000 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 after completion of the Offering. On 18 March 2019, the shareholders' meeting resolved the revocation of the proxy granted on 27 May 2015, 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 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. The authority delegated to the Board of Directors has to be executed by 18 March 2024 the latest.

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.

Except for the above, the Company has no authorized share capital, no unit or profit-sharing certificates outstanding and no conditional capital.

As per 31 December 2019, the share capital is composed of 10,000,000 shares, each with a nominal value of EUR 1. 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.

As at 31 December 2019, the Company did not own any treasury shares.

### Stock option plans

The extraordinary shareholders' meeting of 18 March 2019, after revocation of the proxy granted on 27 May 2015, authorized the Board of Directors to increase the 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 to service an ESOP according to terms to be set by the Board of Directors.

On 7 February 2019, the Board of Directors granted a total of 147,666 options of which

- 49,224 with a vesting period of 1 year, expiring on 6 February 2025 and an exercise price of CHF 38.60 ("Option series 5a")
- 49,223 with a vesting period of 2 years, expiring on 6 February 2025 and an exercise price of CHF 38.60 ("Option series 5b")
- 49,219 with a vesting period of 3 years, expiring on 6 February 2025 and an exercise price of CHF 38.60 ("Option series 5c")

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 3.87 per option ("Option series 5a"), of CHF 5.51 per option ("Option series 5b") and of CHF 6.78 per option ("Option series 5c").

On 18 March 2019, the Board of Directors granted a total of 30,000 options of which

- 10,002 with a vesting period of 1 year, expiring on 17 March 2025 and an exercise price of CHF 45.10 ("Option series 6a")
- 9,999 with a vesting period of 2 years, expiring on 17 March 2025 and an exercise price of CHF 45.10 ("Option series 6b")
- 9,999 with a vesting period of 3 years, expiring on 17 March 2025 and an exercise price of CHF 45.10 ("Option series 6c")

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 4.52 per option ("Option series 6a"), of CHF 6.40 per option ("Option series 6b") and of CHF 7.87 per option ("Option series 6c").

On 17 July 2019, the Board of Directors granted a total of 5,000 options of which

- 1,667 with a vesting period of 1 year, expiring on 16 July 2025 and an exercise price of CHF 44.00 ("Option series 7a")
- 1,667 with a vesting period of 2 years, expiring on 16 July 2025 and an exercise price of CHF 44.00 ("Option series 7b")
- 1,666 with a vesting period of 3 years, expiring on 16 July 2025 and an exercise price of CHF 44.00 ("Option series 7c")

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 5.22 per option ("Option series 7a"), of CHF 7.35 per option ("Option series 7b") and of CHF 8.98 per option ("Option series 7c").

On 17 December 2019, the Board of Directors granted a total of 132,334 options of which

- 44,117 with a vesting period of 1 year, expiring on 16 December 2025 and an exercise price of CHF 42.00 ("Option series 8a")
- 44,112 with a vesting period of 2 years, expiring on 16 December 2025 and an exercise price of CHF 42.00 ("Option series 8b")

__ 44,105 with a vesting period of 3 years, expiring on 16 December 2025 and an exercise price of CHF 42.00 (“Option series 8c”)

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 5.00 per option (“Option series 8a”), of CHF 7.04 per option (“Option series 8b”) and of CHF 8.61 per option (“Option series 8c”).

Considering also the options forfeited in the previous years, 500,000 options of the total option program of 500,000 options are outstanding.

| | Numbers | Weighted average exercise price CHF |
|---|---|---|
| **Outstanding as at 31 December 2018** | **185,000** | **34.00** |
| Exercisable as at 31 December 2018 | 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 |

The share options outstanding at the end of the financial year had a weighted exercise price of CHF 38,24 and a weighted average remaining contractual life of 4.8 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 general policies and the management of the Company are the responsibility of the Board of Directors, which establishes the strategic, accounting, organizational and financing policies and appoints, recalls and supervises the members of the management. The Board of Directors may delegate its authority to the Executive management and / or to the Chief Executive Officer (CEO). 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 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 four non-executive members, each of them being elected for a term of 1 fiscal year and re-eligible to successive 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 2019, to be held in 2020, 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. However, the independent board members may not be elected for more than two consecutive terms.

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 https://www.cassiopea.com/wp-content/uploads/2020/03/2019-CASSIOPEA-AoA-ENGL.pdf), shareholders who own, alone or together with other shareholders, at least 2.5 % of the share capital are entitled to present a list, providing evidence of ownership of the required amount of shares 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 (https://www.cassiopea.com/wp-content/uploads/2020/03/2019-CASSIOPEA-AoA-ENGL.pdf), at least three directors shall fulfil the independence requirements provided for the Auditors by sect. 2399 of the Italian Civil Code. For the purpose of this provision, a director shall not be deemed independent if he / she: (i) falls within section 2382 of the civil code (provisions on ineligibility); (ii) is a spouse, relative or the like up to the fourth degree of kinship of the directors of the Company, is a spouse, relative and the like up to the fourth degree of kinship of the directors of the companies controlled by the Company, of the companies it is controlled by and of those subject to common control; (iii) is linked

to the Company, the companies it controls, the companies it is controlled by and those subject to common control or to directors of the Company or persons referred to above sub (ii) by self-employment or employee relationships or by other relationships of an economic or professional nature that might compromise their independence.

As listed on pages 36–42, all four non-executive Board Members fulfilled the independence requirements.

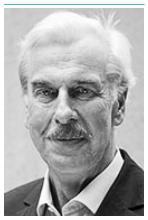
Should one or more Directors terminate their office, they shall be substituted pursuant to section 2386 of the Italian Civil Code[1], without regards to the list wherefrom the director comes. In case the majority of the Directors terminate the office, for resignation or other causes, the entire Board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

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.

At the Shareholders' Meeting held on 18 March 2019, the Board of Directors was re-elected for a one year period, eligible to successive terms following Italian civil code rules. The Board of Directors consists of four non-executive members and one executive Director. The Management of the Company is in the responsibility of the Board of Directors.

In 2019, four meetings of the new Board of Directors took place, each one lasting approximately three hours.

[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**<br>Non-executive Director;<br>Chairman | 2015 | __ Chairman, AIMM Therapeutics, Amsterdam, The Netherlands<br>__ Member Scientific Advisory Board, Anaptys, La Jolla |
|  | **Maurizio Baldassarini**<br>Non-executive Director | 2018 | __ Founding partner of BCG Associati<br>__ Board Member of EQ Value S.r.l.<br>Statutory Auditor President of:<br>__ Goldfleet S.p.A.<br>__ SSC Napoli S.p.A.<br>__ Fantini Sud S.p.A.<br>__ FB Associati S.p.A.<br>__ Lab.Farm.Krymi S.p.A.<br>__ Pastificio Paone S.p.A.<br>__ SSC Bari S.p.A. |
|  | **Øyvind Bjordal**<br>Non-executive Director | 2015 | __ Managing Director and Head of Lincoln International, Switzerland |
|  | **Pierpaolo Guzzo**<br>Non-executive Director | 2015 | __ CEO EQValue, Rome, Italy<br>__ Board member Agatos S.p.A.<br>__ Board member of Sistan Sgr<br>__ Board member of Femi S.p.A.<br>Statutory Auditor of:<br>__ Elco Group S.p.A. (Chairman)<br>__ Zeis Excelsa S.p.A. (Chairman)<br>__ CAM S.p.A. (Chairman)<br>__ IEN S.p.A. (Chairman)<br>__ Seco S.p.A. (Chairman)<br>__ Healthware S.r.l. (Sole Auditor)<br>__ LFK S.p.A.<br>__ Geico S.p.A.<br>__ Elco S.p.A.<br>__ Lux Vide S.p.A.<br>__ Filmauro S.p.A. |
|  | **Diana Harbort**<br>Executive Director;<br>CEO | 2015 | |

Except for 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; 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 1966), 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 mid-cap 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.

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

### The 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.

In 2019, five meetings, each lasting between one and three hours, of the Management Control Committee 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. Further, it 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 2019, the Nomination & Compensation Committee met one time, for one hour.

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.

## 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 | 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. He is a Board Member and Head of Transactions at Cosmo Pharmaceuticals N.V. He is also a member of the board of directors or advisory board (Beirat) of DKSH AG (SIX: DKSH), Paion AG (XETRA:PA8), CureVac AG,

Tuebingen, Qvanteq AG and Joimax GmbH. From 1998 to 2001, he was a partner of Dr. Ernst Mueller-Moehl and co-founder of the 20 Minutes group of newspapers, founded A&A Active Investor, a SIX listed investment company. From 1992 to 1998, he was the head of corporate finance & capital markets of UBS in Zurich and from 1976 to 1991 he had various functions in the Corporate Banking Department of UBS in Zurich, Madrid and Los Angeles. Dr. Tanner has a PhD in economics and diploma as an economist from the University of St. Gallen.

### 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 U.S. 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. Head of Internal Audit of Cosmo Pharmaceuticals, he joined the Group in 2001; from 1999 to 2001 he worked as director of administration of Gianfranco Ferrè S.p.A. and its subsidiary GF Manufacturing S.r.l., and from 1992 to 1999 he worked at an international audit firm. In 1999, he gained admittance to the Official Register of Public Auditors. Marco Lecchi obtained his degree in economics and business administration, specializing in financial administration, from the Bocconi University in Milan, Italy.

### 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 4 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 services provided under this agreement will not exceed 30 % of their respective available working time and Cosmo provided the Company the services of the CSO and the CFO at no cost. 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.

During the period 2017–2019, the Boards of Director of the Company, resolved to award to the two managers, Luigi Moro (CSO) and Hans Christoph Tanner (CFO), each 54,897 options in total to subscribe Cassiopea shares; furthermore, it was resolved to award 27,448 options to Marco Lecchi (Finance director), Head of Internal Audit of Cosmo Pharmaceuticals N.V. and 5,817 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. in 2018 has been renewed until 31 December 2020 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 | Fringe benefits | Stock options | Total compensation |
|---|---|---|---|---|---|---|
| Jan E. de Vries | Non-executive, Chairman | 35,057 | – | – | 3,674 | 38,731 |
| Maurizio Baldassarini | Non-executive, Independent director | 35,057 | 3,508* | – | 3,674 | 42,239 |
| Øyvind Bjordal | Non-executive, Independent director | 35,057 | 3,508* | – | 3,674 | 42,239 |
| Pierpaolo Guzzo | Non-executive, Independent director | 35,057 | 3,508* | – | 3,674 | 42,239 |
| Diana Harbort | Executive, CEO | 354,624 | – | 5,907 | 122,455 | 482,986 |
| **Total** | | **494,852** | **10,524** | **5,907** | **137,151** | **648,434** |

* 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 2019:

EUR

| Executive Management and enhanced management team | No of members | Base compensation | Cash bonus | Fringe benefits | Stock options | Total compensation |
|---|---|---|---|---|---|---|
| Executive Management and enhanced management team ** | 8 members | 758,224 | 47,857 | 47,567 | 540,339 | 1,393,987 |
| highest paid of 8 members | | 118,677 | 47,857 | 5,419 | 163,229 | 335,182 |

** excluding CEO

## Stock option for Board of Directors and Senior Management

As at 31 December 2019 in relation to the Stock option plan of Cassiopea S.p.A., the situation was as follows:

| | Outstandig as at 1 January 2019 | Granted | Forfeited in 2019 | Exercised | Expired | Outstanding as at 31 December 2019 |
|---|---|---|---|---|---|---|
| **Non-executive Members of the Board** | | | | | | |
| Jan E. de Vries | 20,000 | 2,617 | – | – | – | 22,617 |
| Maurizio Baldassarini | – | 2,617 | – | – | – | 2,617 |
| Øyvind Bjordal | 10,000 | 2,617 | – | – | – | 12,617 |
| Pierpaolo Guzzo | 10,000 | 2,617 | – | – | – | 12,617 |
| | **40,000** | **10,468** | **–** | **–** | **–** | **50,468** |
| **Of which exercisable** | **40,000** | | | | | **40,000** |

| | Outstandig as at 1 January 2019 | Granted | Forfeited in 2019 | Exercised | Expired | Outstanding as at 31 December 2019 |
|---|---|---|---|---|---|---|
| **Executive Members of the Board and Members of Senior Management detailed if allocation exceeds 5,000 options** | | | | | | |
| Diana Harbort | 50,000 | 87,242 | – | – | – | 137,242 |
| Alessandro Mazzetti | 30,000 | 52,345 | – | – | – | 82,345 |
| Luigi Moro | 20,000 | 34,897 | – | – | – | 54,897 |
| Hans Christoph Tanner | 20,000 | 34,897 | – | – | – | 54,897 |
| | | | | | | |
| Martina Cartwright | – | 17,448 | – | – | – | 17,448 |
| Marco Lecchi | 10,000 | 17,448 | – | – | – | 27,448 |
| Marco Pasero | 10,000 | 8,725 | – | – | – | 18,725 |
| Sheetal Sahel | – | 17,448 | – | – | – | 17,448 |
| David Wood | – | 17,448 | – | – | – | 17,448 |
| | **140,000** | **287,898** | **–** | **–** | **–** | **427,898** |
| **Of which exercisable** | **87,800** | | | | | **115,400** |

## 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.

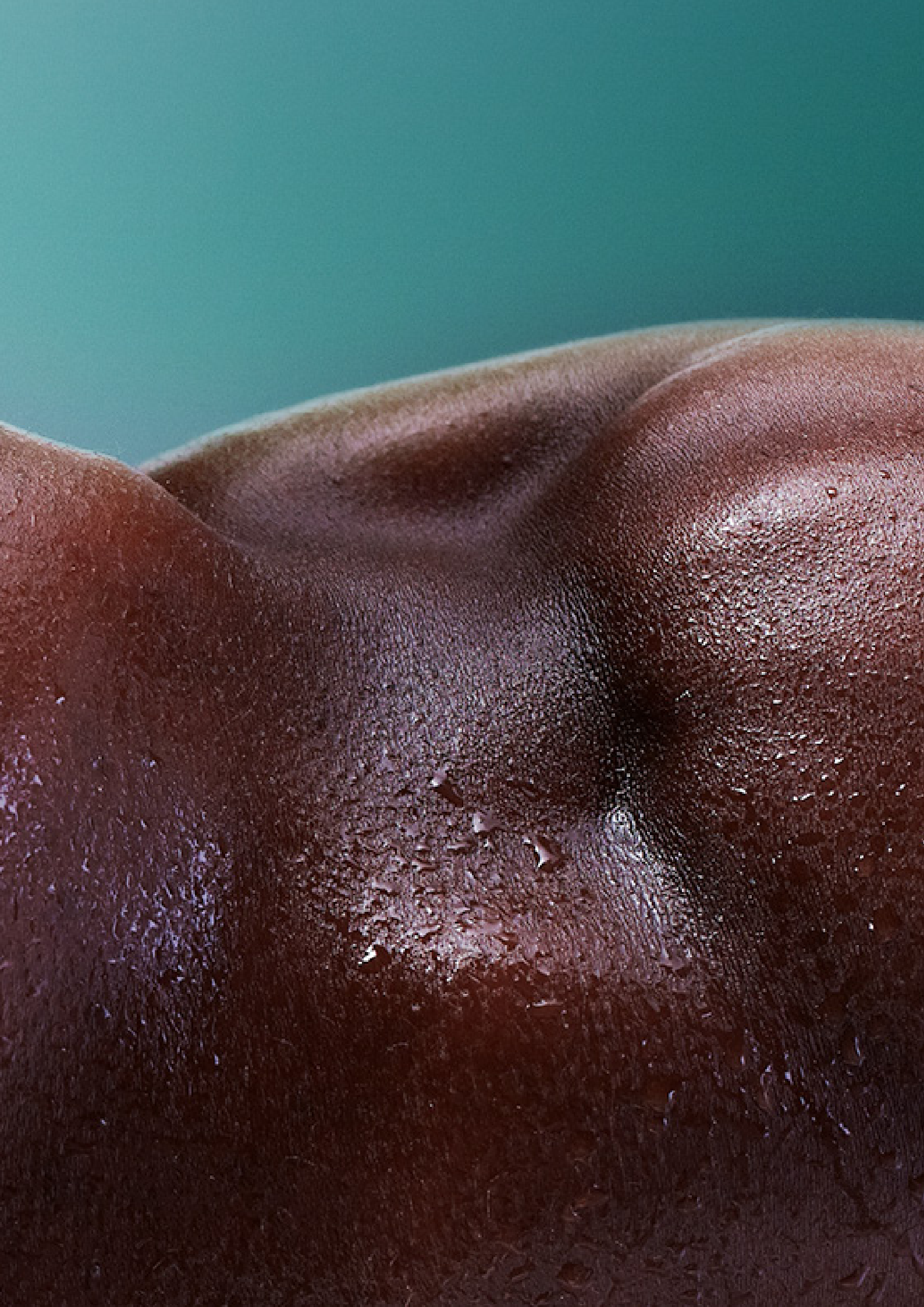
# Independent Auditors

### 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 2019 financial statements amounted to EUR 30 thousand.

In 2019, the auditor's perform additional services for the R&D tax credit and for the VAT conformity confirmation: the honorarium amounted to EUR 6 thousand.

**In the reporting year, all operations were carried out within the budgeted framework.**



# Financial review

## Income statement

| EUR 1,000 | 2019 | 2018 | Change | % change |
|---|---|---|---|---|
| **Revenue** | **–** | **–** | **–** | **0.0%** |
| Other income | 686 | 916 | (230) | –25.1% |
| Cost of sales | – | – | – | 0.0% |
| Research and development costs | (7,875) | (12,240) | 4,365 | –35.7% |
| Selling, general and administrative costs | (3,879) | (1,890) | (1,989) | 105.2% |
| **Net operating expenses** | **(11,068)** | **(13,214)** | **2,146** | **–16.2%** |
| **Operating result** | **(11,068)** | **(13,214)** | **2,146** | **–16.2%** |
| Financial income | 90 | 878 | (788) | –89.7% |
| Financial expenses | (722) | (320) | (402) | 125.6% |
| **Profit (loss) before taxes** | **(11,700)** | **(12,656)** | **956** | **–7.6%** |
| Income tax expenses | – | – | – | – |
| **Profit (loss) for the year** | **(11,700)** | **(12,656)** | **956** | **–7.6%** |

### Revenue

The Company has no approved products, does not market any third-party products and did not enter into any licensing agreements for any of the products under development, so it had no operating revenues in 2019 and 2018.

### Net Operating expenses

Net operating expenses decreased by EUR 2,146 thousand from EUR 13,214 thousand to EUR 11,068 thousand, mainly due to the reduction in research and development costs (EUR 4,365 thousand) partially offset by an increase of the selling, general and administrative costs (EUR 1,989 thousand).

## Net operating expenses as per nature

| EUR 1,000 | 2019 | 2018 | Change | % change |
|---|---|---|---|---|
| Other income | 686 | 916 | (230) | –25.1% |
| Raw materials and consumables used | (242) | (311) | 69 | –22.2% |
| Personnel expenses | (2,480) | (1,411) | (1,069) | 75.8% |
| Outsourced preclinical and clinical trial costs | (4,062) | (8,906) | 4,844 | –54.4% |
| Other operating expenses | (4,915) | (3,463) | (1,452) | 41.9% |
| Depreciation and amortization | (55) | (39) | (16) | 41.0% |
| **Total net operating expenses** | **(11,068)** | **(13,214)** | **2,146** | **–16.2%** |

"Other income" entirely refers to the tax credit of EUR 686 thousand (EUR 916 thousand in 2018) for research and development pursuant to the Ministerial Decree of 27 May 2015. 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 to 2019.

Broken down by nature, the bulk of the operating expenses is composed of outsourced preclinical and clinical trial costs, which decreased from EUR 8,906 thousand to EUR 4,062 thousand (–54.4%), other operating expenses which increased by 41.9% from EUR 3,463 thousand to EUR 4,915 thousand and Personnel expenses which increased by 75.8% to EUR 2,480 thousand.

Within the outsourced preclinical and clinical expense, the development of Clascoterone cream (CB-03-01) represents the 52.4% of the total even if decreasing from EUR 6,151 thousand to EUR 2,130 thousand. Outsourced preclinical and clinical trial costs for Clascoterone solution (CB-03-11) decreased from EUR 2,666 thousand to EUR 1,921 thousand; in both 2019 and 2018 no outsourced preclinical and clinical activities have been performed for the new acne antibiotic CB-06-01 while CB-06-02, the genital warts product, decreased from EUR 89 thousand to EUR 11 thousand.

The increase in Other operating expenses is mainly due to CB-03-01 preparatory NDA and pre-commercial activities.

Personnel expenses increased from EUR 1,411 thousand to EUR 2,480 thousand, mainly due to new employees in US. The average number of employees increased from 9.0 in 2018 to 11.5 in 2019.

Raw materials and consumables necessary for the development of these projects decreased from EUR 311 thousand to EUR 242 thousand.

### Financial income and expenses

Financial income decreased by EUR 788 thousand to EUR 90 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 402 thousand to EUR 722 thousand mainly for the interests on Cosmo Pharmaceuticals N.V.'s unsecured credit facility.

### Income tax expenses

In both 2019 and 2018, 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 2019 decreased by EUR 956 thousand to EUR 11,700 thousand.

# Assets

| EUR 1,000 | 31.12.2019 | 31.12.2018 | Change | % change |
|---|---|---|---|---|
| **Assets** | | | | |
| **Non-current assets** | | | | |
| Property, plant and equipment | 14 | 4 | 10 | 250.0% |
| Other intangible assets | 2,959 | 496 | 2,463 | 496.6% |
| Tax receivables | 9,563 | 9,260 | 303 | 3.3% |
| **Total non-current assets** | **12,536** | **9,760** | **2,776** | **28.4%** |
| **Current assets** | | | | |
| Current tax assets | 370 | 319 | 51 | 16.0% |
| Other receivables and other assets | 2,459 | 1,852 | 607 | 32.8% |
| Cash and cash equivalents | 696 | 4,609 | (3,913) | –84.9% |
| **Total current assets** | **3,525** | **6,780** | **(3,255)** | **–48.0%** |
| **Total assets** | **16,061** | **16,540** | **(479)** | **–2.9%** |

Non-current assets increased from EUR 9,760 thousand to EUR 12,536 thousand mainly due to the payment of the fee at the submission of the New Drug Application (NDA) to the U.S. Food and Drug Administration (FDA) seeking marketing approval for Clascoterone cream 1%.

Non-current tax receivables (EUR 9,563 thousand at the end of the period) are related to the cumulated tax credit for research and development pursuant to Ministerial Decree of 27 May 2015.

In Current assets, Cash and cash equivalents decreased by EUR 3,913 thousand to EUR 696 thousand.

Other receivables and other assets increased by EUR 607 thousand to EUR 2,459 thousand and mainly include prepaid expenses and VAT receivables.

# Equity and liabilities

| EUR 1,000 | 31.12.2019 | 31.12.2018 | Change | % change |
|---|---|---|---|---|
| **Equity** | | | | |
| Share capital | 10,000 | 10,000 | – | 0.0% |
| Share premium | 1,868 | 14,524 | (12,656) | –87.1% |
| Capital contribution | 437 | 236 | 201 | 85.2% |
| Stock option plan reserve | 3,111 | 2,408 | 703 | 29.2% |
| Currency translation reserve | 11 | – | 11 | n/a |
| Profit / (Loss) for the period | (11,700) | (12,656) | 956 | –7.6% |
| **Total equity** | **3,727** | **14,512** | **(10,785)** | **–74.3%** |
| | | | | |
| **Liabilities** | | | | |
| **Non-current liabilities** | | | | |
| Interest-bearing loans and borrowings | 10,660 | – | 10,660 | n/a |
| **Total non-current liabilities** | **10,660** | **–** | **10,660** | **n/a** |
| **Current liabilities** | | | | |
| Interest-bearing loans and borrowings | 4 | – | 4 | n/a |
| Trade payables | 1,562 | 1,967 | (405) | –20.6% |
| Current tax liabilities | 27 | 22 | 5 | 22.7% |
| Other current liabilities | 81 | 39 | 42 | 107.7% |
| **Total current liabilities** | **1,674** | **2,028** | **(354)** | **–17.5%** |
| **Total liabilities** | **12,334** | **2,028** | **10,306** | **508.2%** |
| | | | | |
| **Total equity and liabilities** | **16,061** | **16,540** | **(479)** | **–2.9%** |

Equity decreased from EUR 14,512 thousand to EUR 3,727 thousand, mainly because of the loss of the period.

Non-current liabilities refer for EUR 10,654 to the installment drawn (EUR 10,000 thousand) and interest (Eur 654 thousand) of the loan facility granted by Cosmo Pharmaceuticals N.V.

In Current liabilities, trade payables decreased from EUR 1,967 thousand to EUR 1,562 thousand. These payables were incurred mainly for services in conjunction with the clinical trials.

# Consolidated Financial Statements

## Consolidated Income Statement

| EUR 1,000 | Notes | 2019 | 2018 |
|---|---|---|---|
| **Revenue** | | **–** | **–** |
| Other income | | 686 | 916 |
| Cost of sales | | – | – |
| Research and development costs | | (7,875) | (12,240) |
| Selling, general and administrative costs | | (3,879) | (1,890) |
| **Net operating expenses** | 4 | **(11,068)** | **(13,214)** |
| **Operating result** | | **(11,068)** | **(13,214)** |
| Financial income | 5 | 90 | 878 |
| Financial expenses | 5 | (722) | (320) |
| **Profit (loss) before taxes** | | **(11,700)** | **(12,656)** |
| Income tax expenses | 6 | – | – |
| **Profit (loss) for the year** | | **(11,700)** | **(12,656)** |

| EUR 1 | | | |
|---|---|---|---|
| **Earnings (loss) per share** | | | |
| Basic | 7 | (1.170) | (1.266) |
| Diluted | 7 | (1.170) | (1.266) |

## Consolidated Statement of Comprehensive Income

| EUR 1,000 | Notes | 2019 | 2018 |
|---|---|---|---|
| **Profit (loss) for the year (A)** | | **(11,700)** | **(12,656)** |
| Total other comprehensive income that will not be reclassified subsequently to profit or loss, net of tax (B1) | | – | – |
| Exchange differences on translating foreign operations | | 11 | – |
| Total other comprehensive income that will be reclassified subsequently to profit or loss, net of tax (B2) | | 11 | – |
| **Total other comprehensive income, net of tax (B)=(B1+B2)** | | **11** | **–** |
| **Total comprehensive income (A)+(B)** | | **(11,689)** | **(12,656)** |

The accompanying notes form an integral part of the Statutory financial statements.

# Consolidated Statement of Financial Position

| EUR 1,000 | Notes | 31.12.2019 | 31.12.2018 |
|---|---|---|---|
| **Assets** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | 8 | 14 | 4 |
| Other intangible assets | 9 | 2,959 | 496 |
| Tax receivables | 10 | 9,563 | 9,260 |
| **Total non-current assets** | | **12,536** | **9,760** |
| **Current assets** | | | |
| Current tax assets | 11 | 370 | 319 |
| Other receivables and other assets | 12 | 2,459 | 1,852 |
| Cash and cash equivalents | 13 | 696 | 4,609 |
| **Total current assets** | | **3,525** | **6,780** |
| **Total assets** | | **16,061** | **16,540** |
| | | | |
| **Equity** | | | |
| Share capital | | 10,000 | 10,000 |
| Share premium | | 1,868 | 14,524 |
| Capital contribution | | 437 | 236 |
| Stock option plan reserve | | 3,111 | 2,408 |
| Currency translation reserve | | 11 | – |
| Profit / (Loss) for the year | | (11,700) | (12,656) |
| **Total equity** | 14 | **3,727** | **14,512** |
| | | | |
| **Liabilities** | | | |
| **Non-current liabilities** | | | |
| Interest-bearing loans and borrowings | 15 | 10,660 | – |
| **Total non-current liabilities** | | **10,660** | **–** |
| **Current liabilities** | | | |
| Interest-bearing loans and borrowings | 15 | 4 | – |
| Trade payables | 16 | 1,562 | 1,967 |
| Current tax liabilities | 17 | 27 | 22 |
| Other current liabilities | 18 | 81 | 39 |
| **Total current liabilities** | | **1,674** | **2,028** |
| **Total liabilities** | | **12,334** | **2,028** |
| | | | |
| **Total equity and liabilities** | | **16,061** | **16,540** |

The accompanying notes form an integral part of the Statutory financial statements.

# Consolidated Cash Flow Statements

| EUR 1,000 | Notes | 31.12.2019 | 31.12.2018 |
|---|---|---|---|
| **Profit (loss) for the period before tax** | | **(11,700)** | **(12,656)** |
| **Adjustment for:** | | | |
| Interest on loan not paid | | 654 | – |
| Depreciation and amortization | 4 | 55 | 39 |
| Share payment based expenses | 19 | 904 | 814 |
| Tax credit R&D costs | | (686) | (916) |
| R&D credit offset | | 333 | 349 |
| Net unrealized foreign exchange differences on cash and cash equivalents | | 10 | (186) |
| **Operating cash outflow before changes in working capital** | | **(10,430)** | **(12,556)** |
| Change in trade payables | | (394) | (45) |
| Change in other receivables and other assets | | (607) | (397) |
| Change in other current liabilities | | 42 | (38) |
| Change in current tax assets | | (1) | (7) |
| Change in current tax liabilities | | 5 | (4) |
| Change in tax receivables (non current) | | – | – |
| **Cash flows from operating activities** | | **(11,385)** | **(13,047)** |
| Income taxes paid (net) | | – | – |
| **Net cash from operating activities** | | **(11,385)** | **(13,047)** |
| Investments in property, plant and equipment | | (1) | (3) |
| Investments in other intangible assets | 9 | (2,513) | (125) |
| **Cash flows from investing activities** | | **(2,514)** | **(128)** |
| Proceeds from interest-bearing loans and borrowings | | 10,000 | – |
| Repayments of interest-bearing loans and borrowings | | (4) | – |
| **Cash flows from financing activities** | 15 | **9,996** | **–** |
| **Net increase / (decrease) in cash and cash equivalents** | | **(3,903)** | **(13,175)** |
| **Cash and cash equivalents at the beginning of the year** | 13 | **4,609** | **17,598** |
| **Net unrealized foreign exchange differences on cash and cash equivalents** | | **(10)** | **186** |
| **Cash and cash equivalents at the end of the year** | 13 | **696** | **4,609** |
| Cash at hand | | – | – |
| Bank accounts | | 696 | 4,609 |
| Advances on invoices and bank overdraft | | – | – |
| **Total cash and cash equivalents at the end of the year** | 13 | **696** | **4,609** |

The accompanying notes form an integral part of the Statutory financial statements.

# Consolidated Statement of Changes in Equity

| EUR 1,000 | Number of Shares | Share capital | Share premium | Capital contribution | Stock option plan reserve | Currency translation reserve | Retained earnings | Total |
|---|---|---|---|---|---|---|---|---|
| **Net equity as at 1 January 2018** | **10,000,000** | **10,000** | **28,172** | **122** | **1,716** | **–** | **(13,656)** | **26,354** |
| Allocation of prior year result | – | – | (13,656) | – | – | – | 13,656 | – |
| Cost for stock options | – | – | – | 114 | 700 | – | – | 814 |
| Forfeited stock options | – | – | 8 | – | (8) | – | – | – |
| Total comprehensive income for the period | – | – | – | – | – | – | (12,656) | (12,656) |
| **Net equity as at 31 December 2018** | **10,000,000** | **10,000** | **14,524** | **236** | **2,408** | **–** | **(12,656)** | **14,512** |

| EUR 1,000 | Number of Shares | Share capital | Share premium | Capital contribution | Stock option plan reserve | Currency translation reserve | Retained earnings | 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** |

The accompanying notes form an integral part of the Statutory 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 establish Cassiopea as a pure-play, fully integrated company whose mission is to identify, develop and commercialize treatments for skin diseases.

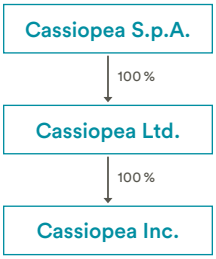
The four product candidates that the Company is currently developing represent a diversified portfolio of late and mid stage clinical programs addressing significant market opportunities and unmet needs in the medical dermatology space:

- CB-03-01, which is being developed as first-in-class androgen receptor inhibitor for the topical treatment of acne;
- CB-03-11, 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.

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 2019 was equal to CHF 420,000 thousand.

In January 2019, Cassiopea S.p.A., following the decision to distribute in the US – once approved – the products that are currently under late stage of clinical development, established two new companies: Cassiopea Pharmaceuticals Ltd in Ireland and its US subsidiary, Cassiopea Inc.

The structure of the Company as at 31 December 2019 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 2019, were authorized for issuance by the Board of Directors on 18 March 2020.

### Basis of Preparation

These consolidated financial statements as at 31 December 2019, have been prepared in accordance with the International Financial Reporting Standards issued by the International Accounting Standards Board (IASB) and adopted by the European Union (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 presented comparative data as at 31 December 2018, refers to the separate financial statements of Cassiopea S.p.A., but are comparable because the consolidated financial statements include the two newco subsidiaries incorporated by Cassiopea S.p.A. at the beginning of 2019.

The accounting principles and policies used in preparation of the consolidated financial statements are consistent with those used in the Financial statements for the year ended 31 December 2018, 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:

- after the filing of the NDA for CB-03-01 in Q3 2019, the Company is looking forward to a PDUFA date in Q3 2020, provided that it will promptly and adequately reply to any queries the FDA may raise during the approval process. In the twelve months from filing to PDUFA date, the Company is conducting market research and pre-commercial activities to best determine the price of CB-03-01 and to gain, as early as possible, acceptance from the payers. A sales organization in the USA will be established once approval is attained.
- Following the good results of the CB-03-11 phase II dose ranging trial and the EOPII meeting the Company is preparing a SPA which will be presented to the FDA in Q2 2020 where the clinical end points and duration of the planned ph III trial will be discussed and determined.
- In H1 2020 the proof of concept trial of CB-03-11 in women continue.

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.

Furthermore, the parent company, Cassiopea S.p.A., is an Italian company and pursuant to article 2446 of the Italian civil code, when the share capital has decreased by more than a third as a result of losses, the directors, must immediately call the shareholder meeting for the appropriate measures.

The Board of Directors has prepared the Consolidated Financial Statements at 31 December 2019 on a going concern basis, by virtue of the following considerations:

- Cosmo Pharmaceuticals N.V. has provided a EUR 10 million term credit facility and this has been increased to 20 million.

- The business plan consists of various projects that are expected to start at different dates during 2020: this would allow scaling the projects down or delaying them on the basis of the financial means available.
- Several investors have expressed their interest in participating in a capital increase of the Company. In this regard 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; 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.
- At latest by the end of May, the Company intends to launch a capital increase (EUR 15–20 million) and is pursuing two options simultaneously: either a small capital increase with external investors to increase the free float or a rights offering to all existing shareholders. The Company will decide which way to go depending on the opportunity and on market conditions. In the event of a rights offering to all existing shareholders, Cosmo Pharmaceuticals N.V. (the major shareholder) has already stated that it will subscribe its portion and also all eventually un-opted shares.

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 2019

The Company has initially adopted IFRS 16 Leases from 1 January 2019. A number of other new standards and interpretations are effective from 1 January 2019, but they do not have a material effect on the Company's financial statements.

IFRS 16 - Leases ("IFRS 16") requires lessees to recognize assets and liabilities under an on-balance sheet model. The Group adopted IFRS 16 using the modified retrospective approach, with the cumulative effect of initially applying the standard recognized as an adjustment to the Group's opening equity balance on 1 January 2019, which was nil.

The comparative period has not been restated and continues to be reported under the accounting standards in effect for periods prior to 1 January 2019.

#### Transition

On transition to IFRS 16, at 1 January 2019 the Group recognized additional right-of-use assets (Eur 14 thousand as right -of-use asset presented in property, plant and equipment) and additional lease liability (Eur 14 thousand as Lease liability of which Eur 10 thousand in non-current liabilities and Eur 4 thousand in current liabilities) in relation to a company car previously classified as operating lease under IAS 17. Lease liability was measured at the present value of the remaining lease payments, discounted at the Group's incremental borrowing rate as at 1 January 2019. Right-of-use asset is measured at an amount equal

to the lease liability, adjusted by the amount of any prepaid, accrued lease payments or lease incentives.

The net impact to deferred tax on adoption as at 1 January 2019 was nil. The net deferred tax impact in future periods is expected to be immaterial.

The Group used the following practical expedients when applying IFRS 16 to leases previously classified as operating leases under IAS 17:

- Applied the exemption not to recognize right-of-use assets and liabilities for leases with less than 12 months of lease term or leases of low-value assets.
- Excluded initial direct costs from measuring the right-of-use asset at the date of initial application.
- Used hindsight when determining the lease term if the contract contains options to extend or terminate the lease.
- When measuring lease liabilities for leases that were classified as operating leases, the Group discounted lease payments using its incremental borrowing rate at 1 January 2019. The rate applied is 5.00 %.

### Leases as a Lessee (policy applicable from 1 January 2019)

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.

This policy is applied to contracts entered into, or modified, on or after 1 January 2019.

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.

### Right-of-use asset

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.

### 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. The incremental borrowing rate is determined considering macro-economic factors such as the risk free rate based on the relevant currency and term, as well as Company specific factors contributing to Company's credit spread, including

the impact of security. The Group primarily uses the incremental borrowing rate as the discount rate for its lease liabilities.

Lease payments used to measure the lease liability include the following, if appropriate:
- 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;
- if reasonably certain to exercise, the exercise price under a purchase option, or lease payments in an optional renewal period; 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.

As a result of initially applying IFRS 16, in relation to the lease that was previously classified as operating lease, as at 31 December 2019 the carrying value of right of use asset and related lease liability are EUR 10 thousand and EUR 10 thousand respectively. Also, in relation to this lease under IFRS 16, the Group has recognized depreciation and interest costs, instead of operating lease expense. In 2019, the Group recognized EUR 4 thousand of depreciation charges and EUR 0.6 thousand of interest costs from this lease.

## 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

Subsequently the incorporation of the two subsidiaries in January 2019, the following accounting policies have been applied starting from these consolidated financial statements.

### 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 12.6 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.

### 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 alue 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 | 2019 | 2018 |
|---|---|---|
| Other income | 686 | 916 |
| Raw materials and consumables used | (242) | (311) |
| Personnel expenses | (2,480) | (1,411) |
| Outsourced preclinical and clinical trial costs | (4,062) | (8,906) |
| Other operating expenses | (4,915) | (3,463) |
| Depreciation and amortization | (55) | (39) |
| **Total net operating expenses** | **(11,068)** | **(13,214)** |

## Other income

Other income entirely refers to the tax credit of EUR 686 thousand (EUR 916 thousand in 2018) for research and development pursuant to Ministerial Decree of 27 May 2015, implementing Law No. 190 of 23 December 2014 (2015 Stability Law). The amount of EUR 686 thousand, refers to the accrued 2019 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 is calculated every year as a percentage of the increase in the R&D expenses in comparison with the average R&D costs for the period 2012–2014. 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 | 2019 | 2018 |
|---|---|---|
| Purchase of consumables | 1 | 3 |
| Purchase of laboratory supplies and materials for clinical trial | 241 | 308 |
| **Total raw materials and consumables used** | **242** | **311** |

## Personnel expenses

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

| EUR 1,000 | 2019 | 2018 |
|---|---|---|
| Salaries and wages | 1,401 | 552 |
| Social security contributions | 161 | 96 |
| Employee benefits | 19 | 17 |
| Stock options | 889 | 737 |
| Other costs | 10 | 9 |
| **Total personnel expenses** | **2,480** | **1,411** |

Personnel expenses increase from EUR 1,411 in 2018 thousand to EUR 2,480 thousand, in relation to the setup of the U.S. subsidiary.

In 2019, the expense for the value of employees' and executives Directors' services exchanged for stock options amounted to EUR 889 thousand (EUR 737 thousand in 2018) and it refers to the cost accounted in relation to the options granted by the Board of Directors in the period 2015–2019 and to the options granted by Cosmo Pharmaceuticals N.V. (see note 19, "Share-based payments").

The average number of the entire staff for the years ended 31 December 2019 and 2018 are the following:

| No. of people | 2019 | 2018 |
|---|---|---|
| Managers* | 8.5 | 6.0 |
| Junior managers | 3.0 | 3.0 |
| **Total average number** | **11.5** | **9.0** |

The entire staff as at 31 December 2019 and 2018 is shown by category here below:

| No. of people | 31.12.2019 | 31.12.2018 |
|---|---|---|
| Managers* | 9 | 6 |
| Junior managers | 3 | 2 |
| **Total number** | **12** | **8** |

*Includes the managers provided by Cosmo Pharmaceuticals N.V. as for service agreement (see note 20 "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 20 "Related parties transactions").

### Outsourced preclinical and clinical trial costs

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

| EUR 1,000 | 2019 | 2018 |
|---|---|---|
| CB-03-01 | 2,130 | 6,151 |
| CB-03-11 | 1,921 | 2,666 |
| CB-06-02 | 11 | 89 |
| **Outsourced preclinical and clinical trials costs** | **4,062** | **8,906** |

In 2019, the Company has been charged by Linkverse S.r.l. (subsidiary of Cosmo Pharmaceuticals N.V. since 1 July 2018) for an amount of EUR 32 thousand for activities related to CB-03-01 (EUR 14 thousand in 2018).

## Other operating expenses

Other operating expenses comprises the following:

| EUR 1,000 | 2019 | 2018 |
|---|---|---|
| Service costs | 4,903 | 3,448 |
| Operating lease expenses | 4 | 9 |
| Other operating costs | 8 | 6 |
| **Total other operating expenses** | **4,915** | **3,463** |

"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 2019 also include EUR 15 thousand (EUR 77 thousand in 2018) for the Stock Option Plan to the non-executive directors.

| EUR 1,000 | 2019 | 2018 |
|---|---|---|
| External consultancy services | 1,642 | 1,284 |
| Patent costs | 258 | 170 |
| Investor relations and web site maintenance | 169 | 169 |
| Technical assistance | 3 | 5 |
| Utilities, telephone, internet | 4 | 7 |
| Insurance | 90 | 99 |
| Non-executive directors | 140 | 127 |
| Stock options non-executive directors | 15 | 77 |
| Management control committee | 11 | 10 |
| Auditing | 35 | 26 |
| Advertising and marketing costs | 1,459 | 540 |
| Freight and customs | 19 | 8 |
| Travel expenses | 241 | 170 |
| External laboratory services | 70 | 214 |
| R&D and Regulatory services | 732 | 532 |
| Other costs | 15 | 10 |
| **Total service costs** | **4,903** | **3,448** |

In 2019 External consultancy services increased by EUR 358 thousand mainly due to the activities for CB-03-01 New Drug Application submission, advertising and marketing costs increased by EUR 919 thousand in relation to CB-03-01 pre-commercial activities.

In the period ended 31 December 2019, the Company has been charged by Cosmo S.p.A. (subsidiary of Cosmo Pharmaceuticals N.V.) for an amount of EUR 732 thousand (in 2018 EUR 508 thousand from Cosmo S.p.A. and EUR 24 thousand from Bellatrix Inc.) for Research / Development / Regulatory services.

In 2019, 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 141 thousand, included in External consultancy services (EUR 144 thousand in 2018).

### Depreciation and amortization

The item comprises the following:

| EUR 1,000 | 2019 | 2018 |
|---|---|---|
| Depreciation of property, plant and equipment | 5 | 1 |
| Amortization of other intangible assets | 50 | 38 |
| **Total depreciation and amortization** | **55** | **39** |

As a result of initially application of IFRS 16, the group in 2019 has recognized depreciation for an amount of EUR 4 thousand on the value of the right of use of a company car.

## 5 Financial income / expenses

The item comprises the following:

| EUR 1,000 | 2019 | 2018 |
|---|---|---|
| **Financial income** | | |
| Other | 90 | 878 |
| **Total financial income** | **90** | **878** |
| **Financial expenses** | | |
| Interests on Cosmo Pharmaceuticals N.V. unsecured credit facility | 654 | – |
| Other | 68 | 320 |
| **Total financial expenses** | **722** | **320** |
| **Financial income (expense), net** | **(632)** | **558** |

Other financial income as at 31 December 2019 includes EUR 78 thousand for foreign exchange differences (EUR 693 thousand in 2018) and EUR 12 thousand for interest received on cash and cash equivalents (EUR 185 thousand in 2018).

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

Other financial expenses mainly include foreign exchange losses and, in 2019, as result of initially application of IFRS 16, EUR 0.6 thousand of interest costs on lease of a company car.

## 6 Income tax expenses

On the tax losses for 2019 and 2018 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 | 2019 | 2018 |
|---|---|---|
| **Profit (loss)before taxes** | **(11,700)** | **(12,656)** |
| Nominal Tax rate - Ires | 24.00% | 24.00% |
| Nominal Tax rate - Irap | 3.90% | 3.90% |
| **Total theoretical income taxes** | **(3,264)** | **(3,531)** |
| ACE tax benefit | (21) | (52) |
| Permanent difference R&D tax credit | (191) | (256) |
| Tax effect of other permanent differences | 228 | 6 |
| Effect of different corporate tax rate in the US subsidiary (a) | 153 | – |
| Effect of different corporate tax rate in the IE subsidiary (b) | 4 | – |
| Unrecognized theoretical tax benefit for tax loss carryforwards & ace (c) | 2,748 | 3,305 |
| Unrecognized theoretical tax benefit for tax loss for Irap tax | 343 | 528 |
| **Current and deferred income tax recognized 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 68.5 million for an amount of deferred tax assets not recognized of EUR 16.4 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:

| | 2019 | 2018 |
|---|---|---|
| Net profit (loss) attributable to Shareholders (in EUR 1,000) | (11,700) | (12,656) |
| Weighted average number shares | 10,000,000 | 10,000,000 |
| **Basic earnings (loss) per share** (in EUR) | **(1.170)** | **(1.266)** |

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

As a result of initially applying IFRS 16, in relation to the lease that was previously classified as operating lease, as at 31 December 2019 the net carrying value of right of use asset in relation to a company car is EUR 10 thousand.

## 9 Other intangible assets

Other intangible assets as at 31 December 2019 is composed as follows:

| EUR 1,000 | Patents and rights | Development costs | Total |
|---|---|---|---|
| **Net book value as at 1 January 2018** | **409** | **–** | **409** |
| Additions of the year | 125 | – | 125 |
| Amortization charge for the year | (38) | – | (38) |
| **Net book value as at 31 December 2018** | **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** |

"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 12.6 years).

The increase 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 U.S. Food and Drug Administration (FDA) seeking marketing approval for Clascoterone cream 1%.

## 10 Tax receivables (non current)

The item comprises the following:

| EUR 1,000 | 31.12.2019 | 31.12.2018 |
|---|---|---|
| Tax credit R&D costs | 9,563 | 9,260 |
| **Total tax receivables** | **9,563** | **9,260** |

Tax receivables refer to the non-current amount of the tax credit for research and development pursuant to Ministerial Decree of 27 May 2015, implementing Law No. 190 of 23 December 2014 (2015 Stability Law).

## 11 Current tax assets

The item comprises the following:

| EUR 1,000 | 31.12.2019 | 31.12.2018 |
|---|---|---|
| Advance payments of income taxes | 20 | 19 |
| Tax credit R&D costs | 350 | 300 |
| **Total current tax assets** | **370** | **319** |

Tax credit R&D costs refer to the current amount of tax credit for research and development pursuant to Ministerial Decree of 27 May 2015, that will be offset against social security contributions and withholdings tax in the course of the following twelve months.

## 12 Other receivables and other assets

The item comprises the following:

| EUR 1,000 | 31.12.2019 | 31.12.2018 |
|---|---|---|
| VAT receivables | 1,691 | 1,333 |
| Prepaid expenses | 692 | 392 |
| Other prepaid | 76 | 127 |
| **Total other receivables and other assets** | **2,459** | **1,852** |

## 13 Cash and cash equivalents

The item comprises the following:

| EUR 1,000 | 31.12.2019 | 31.12.2018 |
|---|---|---|
| Cash at hand | – | – |
| Bank accounts | 696 | 4,609 |
| **Total cash and cash equivalents** | **696** | **4,609** |

“Bank accounts” are composed of availability on current bank accounts. Part of the availability is held in US$ and in particular as at 31 December 2019 the amount includes US$ 611 thousand equal to EUR 544 thousand at 31 December 2019 exchange rate.

# 14 Total shareholders' equity

The item comprises the following:

| EUR 1,000 | 31.12.2019 | 31.12.2018 |
|---|---|---|
| Share capital | 10,000 | 10,000 |
| Share premium | 1,868 | 14,524 |
| Capital contribution | 437 | 236 |
| Stock option plan reserve | 3,111 | 2,408 |
| Currency translation reserve | 11 | – |
| Profit / (Loss) for the period | (11,700) | (12,656) |
| **Total equity** | **3,727** | **14,512** |

## Share capital

As at 31 December 2019 and 31 December 2018, Cassiopea S.p.A. had 10,000,000 shares issued, fully subscribed and paid up, each share with a nominal value of EUR 1.00, for a total share capital of EUR 10,000 thousand.

## Share premium

"Share premium" refers to the proceeds from April 2015 capital increase, reduced in relation to the allocation of prior year losses.

## 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 2019, the expense for the stock options allocated in the period 2015–2019, amounted to EUR 703 thousand of which EUR 688 thousand for management and personnel and EUR 15 thousand for non-executive Directors (In 2018 EUR 623 thousand and EUR 77 thousand respectively).

## Currency translation reserve

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

# 15 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 | 31.12.2019 | 31.12.2018 |
|---|---|---|
| Cosmo Pharmaceuticals N.V. unsecured loan | 10,654 | – |
| Financial lease liabilities | 6 | – |
| **Total interest-bearing loans and borrowings (non current)** | **10,660** | **–** |

Non-current liabilities refer for EUR 10,654 thousand to the instalment drew (EUR 10 million) and accrued interests on Cosmo Pharmaceuticals N.V. unsecured credit facility, and for EUR 6 thousand to the lease liability related to the initial application of IFRS 16.

## b) Current

| EUR 1,000 | 31.12.2019 | 31.12.2018 |
|---|---|---|
| Financial lease liabilities | 4 | – |
| **Total interest-bearing loans and borrowings (current)** | **4** | **–** |

Financial lease liabilities refer to the lease liability, due within 12 months, related to the initial application of IFRS 16.

# 16 Trade payables

The item comprises the following:

| EUR 1,000 | 31.12.2019 | 31.12.2018 |
|---|---|---|
| Trade payables | 1,208 | 1,803 |
| Trade payables related company | 354 | 164 |
| **Total trade payables** | **1,562** | **1,967** |

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

## 17 Current tax liabilities

The item comprises the following:

| EUR 1,000 | 31.12.2019 | 31.12.2018 |
|---|---|---|
| Withholding tax for employees | 18 | 10 |
| Withholding tax for consultants | 9 | 12 |
| **Total current tax liabilities** | **27** | **22** |

## 18 Other current liabilities

The item comprises the following:

| EUR 1,000 | 31.12.2019 | 31.12.2018 |
|---|---|---|
| Social security payables | 22 | 11 |
| Other liabilities | 59 | 28 |
| **Total other current liabilities** | **81** | **39** |

## 19 Share-based payment

The extraordinary shareholders' meeting of 18 March 2019, after revocation of the proxy granted on 27 May 2015, authorized the Board of Directors to increase the 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 to service an ESOP according to terms to be set by the Board of Directors.

On 7 February 2019, the Board of Directors granted a total of 147,666 options of which
- 49,224 with a vesting period of 1 year, expiring on 6 February 2025 and an exercise price of CHF 38.60 ("Option series 5a")
- 49,223 with a vesting period of 2 years, expiring on 6 February 2025 and an exercise price of CHF 38.60 ("Option series 5b")
- 49,219 with a vesting period of 3 years, expiring on 6 February 2025 and an exercise price of CHF 38.60 ("Option series 5c")

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 3.87 per option ("Option series 5a"), of CHF 5.51 per option ("Option series 5b") and of CHF 6.78 per option ("Option series 5c").

On 18 March 2019, the Board of Directors granted a total of 30,000 options of which
- 10,002 with a vesting period of 1 year, expiring on 17 March 2025 and an exercise price of CHF 45.10 ("Option series 6a")
- 9,999 with a vesting period of 2 years, expiring on 17 March 2025 and an exercise price of CHF 45.10 ("Option series 6b")
- 9,999 with a vesting period of 3 years, expiring on 17 March 2025 and an exercise price of CHF 45.10 ("Option series 6c")

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 4.52 per option ("Option series 6a"), of CHF 6.40 per option ("Option series 6b") and of CHF 7.87 per option ("Option series 6c").

On 17 July 2019, the Board of Directors granted a total of 5,000 options of which
- 1,667 with a vesting period of 1 year, expiring on 16 July 2025 and an exercise price of CHF 44.00 ("Option series 7a")
- 1,667 with a vesting period of 2 years, expiring on 16 July 2025 and an exercise price of CHF 44.00 ("Option series 7b")
- 1,666 with a vesting period of 3 years, expiring on 16 July 2025 and an exercise price of CHF 44.00 ("Option series 7c")

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 5.22 per option ("Option series 7a"), of CHF 7.35 per option ("Option series 7b") and of CHF 8.98 per option ("Option series 7c").

On 17 December 2019, the Board of Directors granted a total of 132,334 options of which

- 44,117 with a vesting period of 1 year, expiring on 16 December 2025 and an exercise price of CHF 42.00 (“Option series 8a”)
- 44,112 with a vesting period of 2 years, expiring on 16 December 2025 and an exercise price of CHF 42.00 (“Option series 8b”)
- 44,105 with a vesting period of 3 years, expiring on 16 December 2025 and an exercise price of CHF 42.00 (“Option series 8c”)

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 5.00 per option (“Option series 8a”), of CHF 7.04 per option (“Option series 8b”) and of CHF 8.61 per option (“Option series 8c”).

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

In 2019, in relation to the “Option series 1,2,3,4,5,6,7,8 – a,b,c”, the expense for the value of employees’ and Directors’ services exchanged for stock options amounted to EUR 703 thousand of which EUR 688 thousand for management and personnel and EUR 15 thousand for non-executive Directors. As at 31 December 2019, the total option program of 500,000 options are allocated and outstanding, of which 160,400 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 |
| **Total** | **557,000** | **57,000** | **500,000** | | | | | |

| Share options | Numbers | Weighted average exercise price CHF |
|---|---|---|
| **Outstanding as at 1 January 2018** | **187,000** | **34.00** |
| Exercisable as at 1 January 2018 | 70,100 | 34.00 |
| | | |
| Granted during the period | – | 34.00 |
| Forfeited during the period | (2,000) | 34.00 |
| Exercised during the period | – | – |
| Expired during the period | – | – |
| **Outstanding as at 31 December 2018** | **185,000** | **34.00** |
| Exercisable as at 31 December 2018 | 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 |

The share options outstanding at the end of the financial period had a weighted exercise price of CHF 38.24 and a weighted average remaining contractual life of 4.8 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% |

## 20 Related party transactions

In the period ended 31 December 2019, the Company has been charged by Cosmo S.p.A., subsidiary of Cosmo Pharmaceuticals N.V., under a service agreement for an amount of EUR 732 thousand (in 2018 EUR 508 thousand from Cosmo S.p.A. and EUR 24 thousand from Bellatrix Inc) for research /development /regulatory services.

In 2019, the Company has been charged by Linkverse S.r.l. (subsidiary of Cosmo Pharmaceuticals N.V. since 1 July 2018) for an amount of EUR 32 thousand (EUR 14 thousand in 2018).

In 2019, the Company has been charged by Cosmo S.p.A., under a service agreement, for secretarial and accounting services for an amount of EUR 141 thousand (EUR 144 thousand in 2018).

Since May 2015, Cosmo Pharmaceuticals N.V. provides Cassiopea with the services of its Chief Financial Officer, 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 2017–2019, the Board of Directors of the Company, resolved to award to the two managers, Luigi Moro (CSO) and Hans Christoph Tanner (CFO), each 54,897 options in total to subscribe Cassiopea shares; furthermore, it was resolved to award 27,448 options to Marco Lecchi (Finance director), Head of Internal Audit of Cosmo Pharmaceuticals N.V. and 5,817 options to an administrative employee of Cosmo S.p.A.. The cost to the Company, determined on the basis of the fair value of the option, is equal to EUR 298 thousand (EUR 317 thousand in 2018).

In 2017 and 2019, Cosmo Pharmaceuticals N.V., under a stock option plan, has granted options to some employees of the Company. The cost to the Company for 2019, determined on the basis of the fair value of the option, is equal to EUR 201 thousand (EUR 114 thousand in 2018).

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 pay at the repayment date

As at 31 December 2019, the Company owed Cosmo Pharmaceuticals N.V. EUR 10,654 million of which EUR 10,000 million relates to the loan facility drawn and EUR 654 thousand relates to interests and signing fee.

## Director and Senior Management compensation

Compensation to the Board of Directors and and Senior Management (Executives management and enhanced Management team) recognized in the income statements 2019 was as follows:

EUR

| Board of Directors | Function | Base compensation | Additional compensation | Fringe benefits | Stock options | Total compensation |
|---|---|---|---|---|---|---|
| Jan E. de Vries | Non-executive, Chairman | 35,057 | – | – | 3,674 | 38,731 |
| Maurizio Baldassarini | Non-executive, Independent director | 35,057 | 3,508* | – | 3,674 | 42,239 |
| Øyvind Bjordal | Non-executive, Independent director | 35,057 | 3,508* | – | 3,674 | 42,239 |
| Pierpaolo Guzzo | Non-executive, Independent director | 35,057 | 3,508* | – | 3,674 | 42,239 |
| Diana Harbort | Executive, CEO | 354,624 | – | 5,907 | 122,455 | 482,986 |
| **Total** | | **494,852** | **10,524** | **5,907** | **137,151** | **648,434** |

* 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 and enhanced management team ** | 8 members | 758,224 | 47,857 | 47,567 | 540,339 | 1,393,987 |
| highest paid of 8 members | | 118,677 | 47,857 | 5,419 | 163,229 | 335,182 |

** excluding CEO

As at 31 December 2019 in relation to the Stock option plan of Cassiopea S.p.A. the situation was as follows:

| | Outstandig as at 1 January 2019 | Granted | Forfeited in 2019 | Exercised | Expired | Outstanding as at 31 December 2019 |
|---|---|---|---|---|---|---|
| **Non-executive Members of the Board** | | | | | | |
| Jan E. de Vries | 20,000 | 2,617 | – | – | – | 22,617 |
| Maurizio Baldassarini | – | 2,617 | – | – | – | 2,617 |
| Øyvind Bjordal | 10,000 | 2,617 | – | – | – | 12,617 |
| Pierpaolo Guzzo | 10,000 | 2,617 | – | – | – | 12,617 |
| | **40,000** | **10,468** | **–** | **–** | **–** | **50,468** |
| **Of which exercisable** | **40,000** | | | | | **40,000** |

| | Outstandig as at 1 January 2019 | Granted | Forfeited in 2019 | Exercised | Expired | Outstanding as at 31 December 2019 |
|---|---|---|---|---|---|---|
| **Executive Members of the Board and Members of Senior Management detailed if allocation exceeds 5,000 options** | | | | | | |
| Diana Harbort | 50,000 | 87,242 | – | – | – | 137,242 |
| Alessandro Mazzetti | 30,000 | 52,345 | – | – | – | 82,345 |
| Luigi Moro | 20,000 | 34,897 | – | – | – | 54,897 |
| Hans Christoph Tanner | 20,000 | 34,897 | – | – | – | 54,897 |
| | | | | | | |
| Martina Cartwright | – | 17,448 | – | – | – | 17,448 |
| Marco Lecchi | 10,000 | 17,448 | – | – | – | 27,448 |
| Marco Pasero | 10,000 | 8,725 | – | – | – | 18,725 |
| Sheetal Sahel | – | 17,448 | – | – | – | 17,448 |
| David Wood | – | 17,448 | – | – | – | 17,448 |
| | **140,000** | **287,898** | **–** | **–** | **–** | **427,898** |
| **Of which exercisable** | **87,800** | | | | | **115,400** |

# 21 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 2019 and 2018.

| | As at 31 December | |
|---|---|---|
| | 2019 | 2018 |
| EUR 1,000 | Carrying amount | Carrying amount |
| Cash and cash equivalents | 696 | 4,609 |
| **Total Assets** | **696** | **4,609** |
| Cosmo Pharmaceuticals N.V. loan | (10,654) | 0 |
| Financial lease liabilities | (10) | 0 |
| Trade payables | (1,562) | (1,967) |
| **Total Liabilities** | **(12,226)** | **(1,967)** |

## 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 2019 and 2018 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. 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** | **–** |
| Trade payables | 1,967 | 1,967 | 1,967 | – | – | – |
| **Total as at 31 December 2018** | **1,967** | **1,967** | **1,967** | **–** | **–** | **–** |

### Market risk

The actual exposure to such sources of risk is illustrated as of 31 December 2019 and 2018, 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 2019 and 2018. The analysis was carried out by assuming that the other variables remained constant.

| EUR 1,000 | Profit or (loss) 50 bp increase | 50 bp decrease |
|---|---|---|
| **31 December 2019** | | |
| Cash and cash equivalents | 9 | 9 |
| **Cash flow sensitivity** | **9** | **9** |
| **31 December 2018** | | |
| Cash and cash equivalents | 55 | 55 |
| **Cash flow sensitivity** | **55** | **55** |

### 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 619 thousand and EUR 587 thousand as at 31 December 2019 and 2018 respectively. A 10 % weakening of the EUR against the US$ as at 31 December 2019 and 2018 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 2019, a 5 % strengthening of the EUR against the US$ would have resulted in a loss increase of EUR 25 thousand. A 5 % weakening of the EUR against the US$ would have had the opposite effect, for the equal amount shown above.

## 22 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 2019 and 31 December 2018, 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 2019 | | As at 31 December 2018 | |
|---|---|---|---|---|
| EUR 1,000 | Carrying amount | Fair value | Carrying amount | Fair value |
| Cash and cash equivalents | 696 | 696 | 4,609 | 4,609 |
| **Total Assets** | **696** | **696** | 4,609 | **4,609** |
| Unrecognized (loss) gain | – | – | – | – |
| Cosmo Pharmaceuticals N.V. unsecured loan | (10,654) | (10,654) | – | – |
| Financial lease liabilities | (10) | (10) | – | – |
| Trade payables | (1,562) | (1,562) | (1,967) | (1,967) |
| **Total Liabilities** | **(12,226)** | **(12,226)** | (1,967) | **(1,967)** |
| 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.

## 23 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 2019 | |
|---|---|---|---|---|---|
| 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 |

## 24 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.

As part of the process in the NDA review, the FDA amongst other, also inspects the facility in which Clascoterone cream 1% is manufactured. Clascoterone cream 1% is planned to be manufactured at Cosmo Pharmaceuticals plant in Lainate in Italy. Given restrictions currently in place because of the COVID-19, the FDA had to postpone the inspection planned for March and will not be able to make an inspection until restrictions are lifted. This may cause a delay in the PDUFA which is scheduled for 27 August 2020. Except for the above, there are no significant impacts on the activities and the company will continue to monitor the evolution of COVID-19 situation.

Lainate, 18 March 2020

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

Jan E. de Vries
Chairman

# Auditor report

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20131 Milano

## 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, 2019, 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, 2019 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.

### Emphasis of matter

We draw attention to the information provided by the Directors in the "Going concern" section of the notes of the consolidated financial statements in relation to the Group's ability to operate as a going concern.

The Board of Directors explained that the Group is still developing new drugs and during the fiscal year 2019 does not yet have sales of 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 the forthcoming years. The Group business plans envisage that in the coming years, the Group will continue its research and development activities, which results currently seem promising; thus it will suffer losses until the commercialization or licensing of one of its products.

On the basis of what above mentioned, the Group will therefore need to raise financial resources through *i)* a new capital increase, *ii)* increasing debt, *iii)* enter into licensing agreements in those territories where it is highly unlikely that it could develop commercial activities for its own.

The Board of Directors has prepared the consolidated financial statements at December 31, 2019 on going concerns basis in consideration of: *i)* the increase of credit facility from Euro 10 million to Euro 20 million granted by the main shareholder Cosmo Pharmaceuticals N.V.; ii) the business plan consists of various projects that are expected to start at different dates during 2020, or eventually postponed or delayed on the basis of the financial means available; *iii*) at latest by the end of May, the launch of a capital increase (Euro 15/20 million), for which several investors have just expressed their interest, and Cosmo Pharmaceuticals NV (the major shareholder) has already stated that it will subscribe its portion and also all eventually un-opted shares.

Based on the elements above, the Board of Directors believes that the Group has adequate financial resources to continue in business in the foreseeable future of the last 12 months from the date of the report; therefore, as of today's date, they believe there are no significant uncertainties regarding the going concern.

Our opinion is not expressed with regard to this issue.

**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 |
|---|---|
| *Assessment of the going concern assumption*<br><br>As at December 31, 2019, the consolidated financial statements showed a loss as of Euro 11,7 million and a negative net cash position as of Euro 10 million.<br><br>As reported in Note 15 of Explanatory Notes, interest bearing loans and borrowings, non-current and current, amounted to Euro 10,7 million as at December 31, 2019; they referred mainly to non-current liabilities (Euro 10,7 million) to the instalment drew (10 million of Euro) and accrued interests on Cosmo Pharmaceuticals N.V. (main shareholder) unsecured credit facility.<br><br>The Group is still developing new drugs and during the fiscal year 2019 does not yet have sales of products on the market, and consequently it needs financial supports for its development costs.<br><br>At the beginning of financial year 2020, the main shareholder increased the term credit facility to Euro 20 million and it confirmed its participation in any capital increase with its full quota and also all eventually un-opted shares.<br><br>Furthermore, several investors expressed their interest in participating in a capital increase of the Group.<br><br>In consideration of the negative performance occurred during the financial year, and the financial needs for development activities, the relevance of the Board of Directors judgements in order to define the criteria for the preparation of the consolidated financial statements, as the relevance of the appropriate disclosure in the financial statements, the going concern assumption has been considered a key audit matter in the context of this audit. | The main audit procedures we performed are the following:<br><br>▪ understanding of the analysis performed by the Board of Directors on evaluating the appropriateness of going concern assumption in the preparation of the consolidated financial statements;<br><br>▪ analysis of subsequent events occurred between the financial statements' date and the date of the auditor's report;<br><br>▪ examination of provisional data of the business plan 2020-2028 and the cash flow plan for financial year 2020;<br><br>▪ analysis of main shareholder's commitment declaration for financial support;<br><br>▪ critical review of the of the minutes of the Shareholders' meetings, the Board of Directors' meetings and the management control committee's meetings;<br><br>▪ assess the adequacy of the disclosures provided in the financial statements as of December 31, 2019 relating to the "*Measurement criteria - Going concern*". |

*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 with effect in the tax year from 2015 to 2019.

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. The R&D tax credit is calculated every year as a percentage of the increase in the R&D expenses in comparison with the average R&D costs for the period 2012-2014.

During the year, the Company recorded other income from R&D tax credit amounting to Euro 0,7 million as disclosed in note 4 (Net operating expenses – Other income).

As at December 31, 2019, tax receivables amounted to Euro 9,9 million of which Euro 9,6 million classified as non-current (note 10 "Tax Receivable non-current") and Euro 0,4 million classified as current as (note 11 "Current tax assets").

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

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.
- 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 2019.
- We have performed detailed testing on the calculation as a percentage of the increase in the R&D expenses in comparison with the average R&D costs for the period 2012-2014, in agreement with the regulation.
- 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 aspects

The consolidated financial statements presents for comparative purposes the amounts of the separate financial statements of the holding company, Cassiopea S.p.A.. As described in explanatory note no.2 to the consolidated financial statements, these amounts are comparable because the entities included in the perimeter of consolidation included Cassiopea S.p.A. and two subsidiaries established at the beginning of 2019.

The Separate financial statements of Cassiopea S.p.A. for the year ended December 31, 2018 was audited by the writing audit company, and we expressed an unmodified audit opinion on those financial statements on February 7, 2019.

## 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.

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 March 18, 2020

BDO Italia S.p.A.

Paolo Beretta
Partner

**Cassiopea is on a mission to be the catalyst for a new era of treatments in dermatology by developing new products with the ability to help millions of patients.**

# Information for Investors

## Capital structure

| EUR 1,000 | 31.12.2019 |
|---|---|
| Total equity | 3,727 |
| Share capital | 10,000 |
| Reserves | 5,427 |
| Profit (Loss) for the period | (11,700) |
| Number of registered shares | 10,000,000 |
| Nominal value per share (in EUR) | 1.00 |

| Major shareholders | No. of shares | % of share capital |
|---|---|---|
| Cosmo Pharmaceuticals N.V. | 4,508,987 | 45.09% |
| Cosmo Holding S.a.r.l. | 753,445 | 7.53% |
| Herz / Logitable group | 482,156 | 4.82% |
| LLB Swiss Investment AG | 381,881 | 3.82% |

## Share price data

| CHF | Price | Date |
|---|---|---|
| First trading day close | 37.30 | 01.07.2015 |
| 2019 lowest | 36.10 | 15.02.2019 |
| 2019 highest | 57.00 | 18.04.2019 |
| 2019 last trading date | 42.00 | 30.12.2019 |
| Market capitalization (in CHF million) | 420.00 | 30.12.2019 |

## Share earnings

| EUR | 31.12.2019 |
|---|---|
| Basic earnings (loss) per share | (1.170) |

## Stock exchange information

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

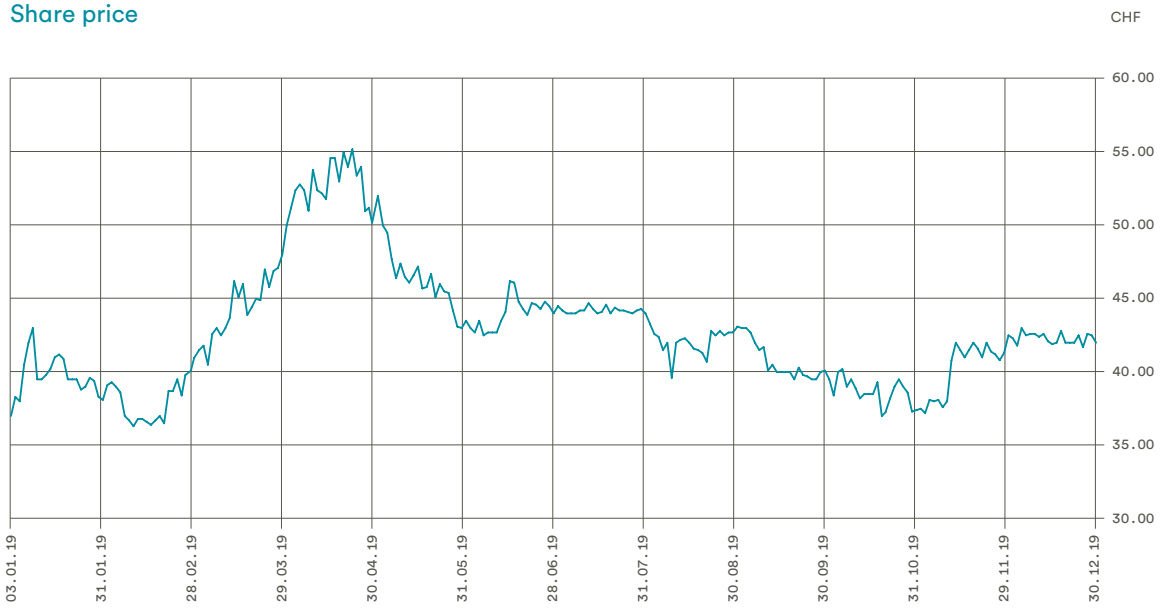
## Research coverage

| | | |
|---|---|---|
| Jefferies International | Peter Welford | Phone: +44 20 702 986 68 |
| Valuation Labs for Bank am Bellevue | Bob Pooler | Phone: +41 44 267 72 85 |
| 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 |
| Bryan, Garnier & Co, Research Partners France | Gary Waanders | Phone: +33 1 56 68 75 57 |

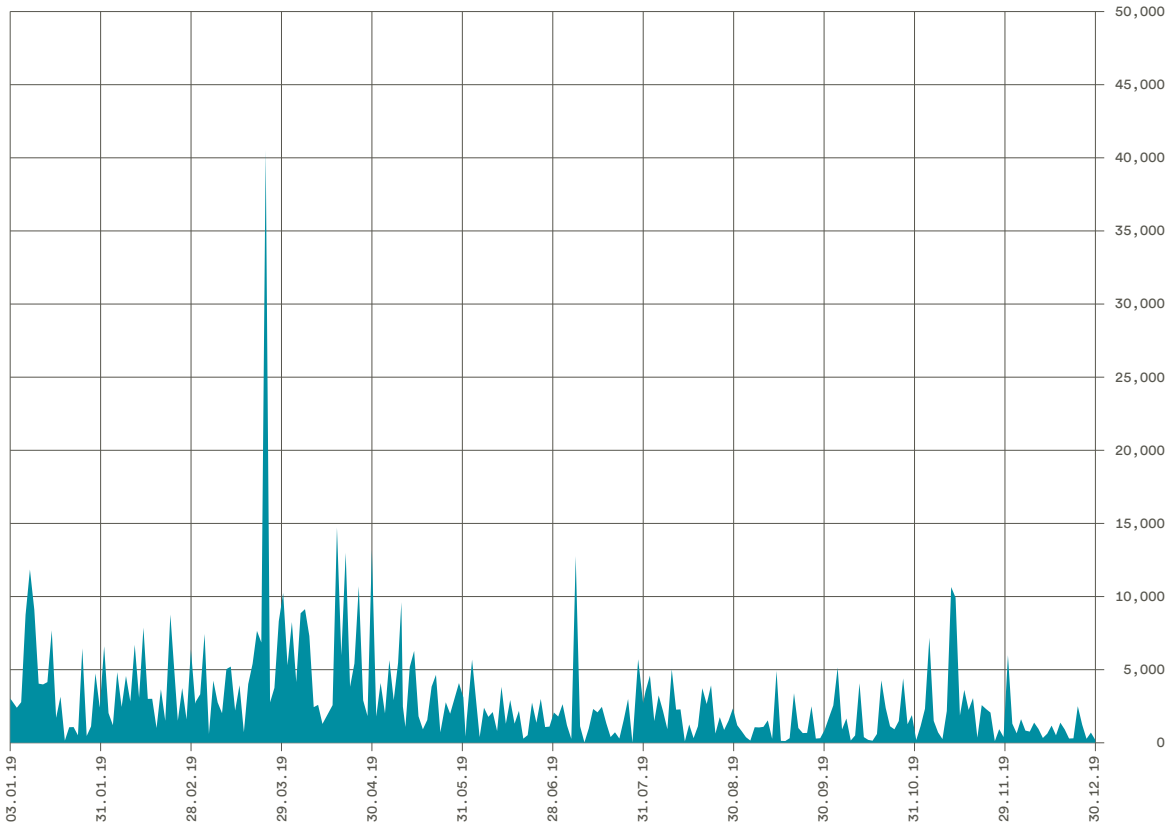
## Calendar 2020

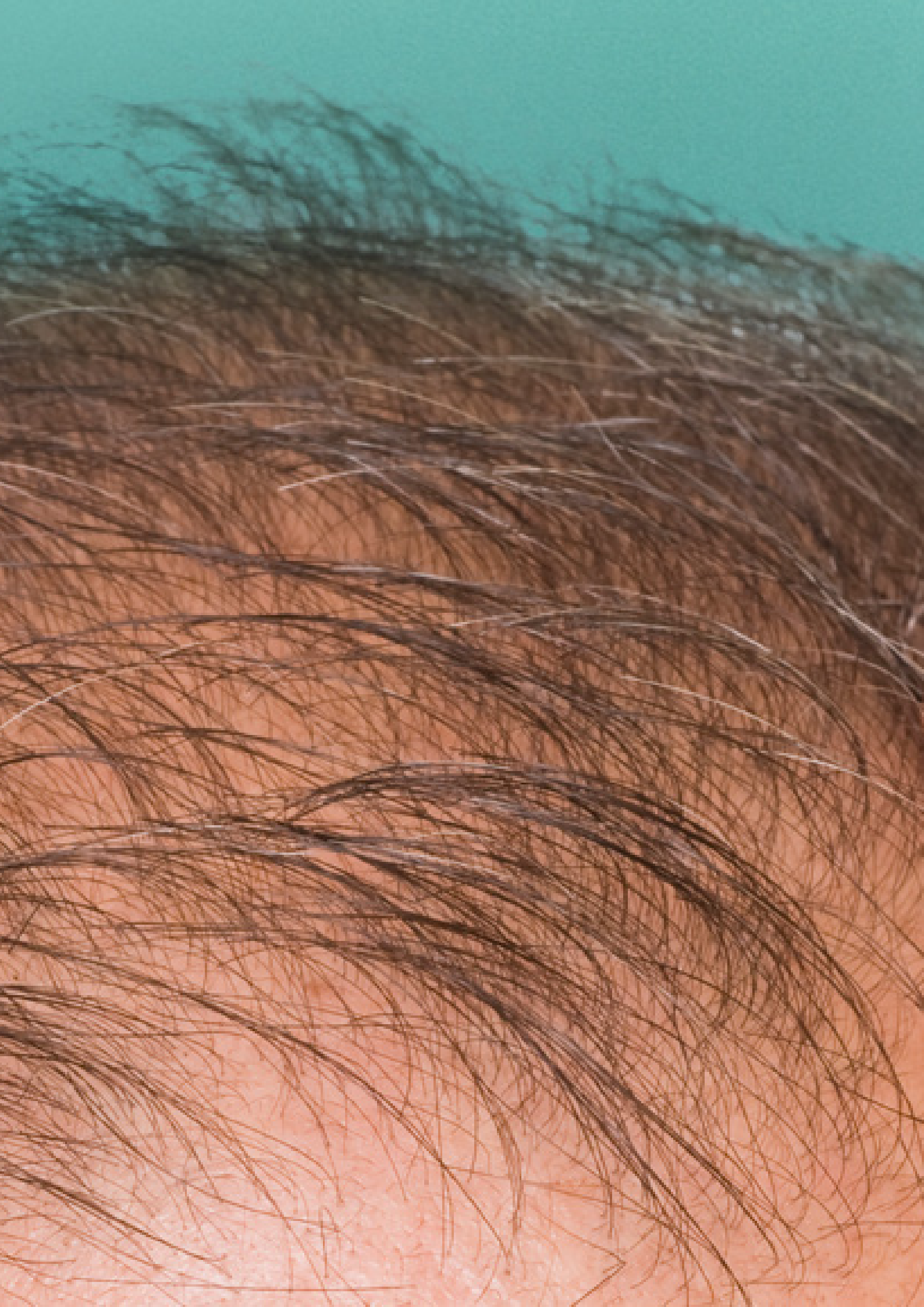
| | |
|---|---|
| H.C. Wainwright Annual Global Life Sciences Conference | London, 19–21 April 2020 |
| Annual General Shareholders Meeting | Lainate, 29 April 2020 |
| Extraordinary Shareholders Meeting | Lainate, 28 May 2020 |
| Jefferies Global Health Care Conference | New York, 2–4 June 2020 |
| Half Year Report 2020 | July 2020 |
| Investora | Zurich, 23–24 September 2020 |
| Credit Suisse Small & Mid Cap Conference | Zurich, 18–20 November 2020 |

## Share price




## Trading volumes





**To facilitate the preparations for the commercialization of Clascoterone cream 1%, the Company has invested in extensive market research (with payers and health care providers), market access strategy and medical affairs.**

# 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 bioequivalence. 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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