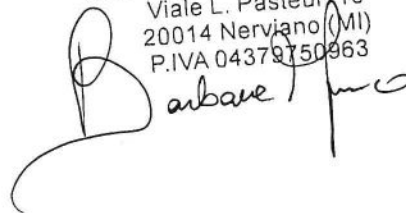


NERVIANO MEDICAL SCIENCES


Financial Statement at December 31, 2019

Nerviano Medical Sciences srl
Viale L. Pasteur, 10
20014 Nerviano (MI)
P.IVA 04379750963

 Barbara

SUMMARY

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Nerviano Medical Sciences srl
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CORPORATE BODIES OVERVIEW

Board of directors

Chairman	Barbara Marenco
CEO	Wu Guoxian
Director	Shao Ying

Board of Statutory auditors

Chairman	Mario Tagliaferri
Statutory auditors	Stefano Sacchi Massimo Venuti
Substitutes	Giovanni Ghelfi Carlo Pino

Audit firm

PricewaterhouseCoopers S.p.A.: Mandate for the 2017-2019 (three-years period)


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MAIN ECONOMIC AND FINANCIAL DATA OF NERVIANO MEDICAL SCIENCES S.R.L

(in millions of Euro)

2019

2018

ECONOMIC DATA

Value of production	46,9	21,9
Gross operating result	8,9	(13,7)
Amortisation depreciation and write-downs	(1,9)	(1,7)
Net operating result	6,9	(15,4)
Operating result before taxes	5,8	23,7
Net profit	4,2	26,7

BALANCE SHEET

Net invested capital	62,3	68,5
Provisions for risks and charges and Severance Indemnity	(4,8)	(4,2)
Net financial position	2,0	(6,4)
Net Equity	59,5	58,0

Average no. of employees	143	138
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 Nerviano Medical Sciences srl
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DIRECTORS' REPORT

1. THE COMPANY

Nerviano Medical Sciences S.r.l. (NMS S.r.l. or NMS) is the company of NMS Group involved in the research and development of new oncology drugs and represents the innovative heart of the Group. The activities of more than 140 researchers, with years of experience and multidisciplinary scientific skills in the field of chemical and biological research, are focused on research of innovative molecules target to cancer.

NMS has been able to cover the entire supply chain of drugs development, from the research phase, which involves the choice of a specific drug target for the cancer and the identification of a molecule able to inhibit it, to the preclinical and clinical development, including the production of the active ingredient. For the last two phases the company may avail themselves of the support of the other companies of the group.

The company had a business model that provided the licensing of molecules at different stages of development to pharmaceutical and/or biotech companies who continued the clinical development up to registration and commercialization, against payments of milestones progress and royalties on the future turnover. But, following the entry of a new ownership, occurred on March 28, 2018 the organizational model was modified with the aim of developing the proprietary oncological pipeline at least until the end of the phase II of clinical development.

This new strategic vision, on one side will require a great financial commitment by the current owner, but on the other it will also represent a great opportunity for the creation of value that is intrinsic in the oncological molecules that reach the market.

Between the significant event of the year 2019, it should be noted the following:

- ✓ On January 16, 2019, AIFA (Italian Drug Agency), approved the human trials of the NMS-088 project, a request submitted to the same in October 2018. This registration represents for the company an important milestone and the return to the market of clinical development, abandoned for some years.
- ✓ On January 17, 2019, the company received 15 million USD, net of the 8 % withholding tax, from the client Ignyta/Roche. The milestone contractually envisaged and reached in 2016 was to collect on a fixed date by the end of 2018.

- ✓ On February 14, 2019, Nerviano Medical Sciences S.r.l. through a deed of novation, transformed 2.046 thousand Euros of trade receivables due from NerPharMa S.r.l. into financial credits, renounced on February 20, 2019.
- ✓ On March 21, 2019 the Boards of Directors of Nerviano Medical Sciences S.r.l. and of NMS Group S.p.A. approved the partial demerger of the company Nerviano Medical Sciences S.r.l (demerged company) in favour of the beneficiary company NMS Group S.p.A. (beneficiary company) concerning the transfer of the entire participation, equal to hundred percent of the share capital, held by the demerged company in the companies Accelera S.r.l. and NerPharMa S.r.l. On the same date, the Board of Directors of Nerviano Medical Sciences S.r.l. has attributed to the Chief Executive Officer. the necessary power so that the same has to proceed in the name and on behalf of the Company to sign the demerger plan and deposit it at the Chamber of Commerce and more generally to provide for any necessary practice and fulfilment, inherent or connected with the implementation of the demerger project.
- ✓ On April 30, 2019 the Shareholder's meeting of Nerviano Medical Sciences S.r.l. and of NMS Group S.p.A. have approved the project of the partial demerger of the company Nerviano Medical Sciences S.r.l (demerged company) in favour of the beneficiary company NMS Group S.p.A. (beneficiary company) concerning the transfer of the entire participation, equal to hundred percent of the share capital, held by the demerged company in the companies Accelera S.r.l. and Nerpharma S.r.l..
- ✓ On May 24, 2019, for Parp's inhibitor, the company submitted an "*Investigational New Drug*" (IND) in the U.S. prior to the approval application "*Clinical Trial Authorization*" (CTA) in Europe made on July 9, 2019. On June 21, 2019 the company received FDA approval, while for the CTA, AIFA gave approval on January 9, 2020.
- ✓ On June 10, 2019 the Board of Directors of the company approved the plan for the merger by incorporation of the subsidiary UP S.r.l. into Nerviano Medical Sciences S.r.l.
- ✓ On June 18, 2019, the company obtained the first approval from the Japanese Ministry of Health for the marketing of the Entrectinib indication.
- ✓ On June 26, 2019 the Board of Directors of the company approved the plan for the merger by incorporation of the subsidiary Closs S.r.l. into Nerviano Medical Sciences S.r.l.

- ✓ On July 26, 2019 the Shareholders' Meeting of the company approved the plan for the merger by incorporation of the subsidiary UP S.r.l. into Nerviano Medical Sciences S.r.l.;
- ✓ On July 26, 2019, by deed N°8207, Nerviano Medical Sciences S.r.l. partially demerged in favour of the pre-existing beneficiary company NMS Group S.p.A. with reference to the demerger operations concerning the assignment in favour of the pre-existing beneficiary company NMS Group S.p.A. of its entire shareholding, with a nominal value of 100 thousand Euros, in Accelera S.r.l. and NerPharMa S.r.l. as per the demerger projects approved by the shareholders' meeting of April 30, 2019.

The demerger was drafted in a simplified way taking into consideration that the demerged company, Nerviano Medical Sciences S.r.l., was entirely owned by the beneficiary NMS Group S.p.A. and therefore no exchange ratio or cash settlement has been determined. Following the demerger, the demerged and beneficiary companies one will not change their statutes.

As a result of the demerger, Nerviano Medical Sciences S.r.l. will not reduce its share capital, since the book values to be assigned to the beneficiary company will be allocated to Net Equity items other than share capital.

For the demerger of NerPharMa S.r.l., the value of the Net Equity assigned to the beneficiary coincides with the book values that was equal to Euro 1.614.628,98 at February 28, 2019. The difference with the book value at the effective date of the demerger on August 1, 2019, amounts to Euro 406.793,49 was managed through "reciprocal credit items", with no changes in the amount of the book value transferred to the beneficiary.

For the demerger of Accelera S.r.l. the value of the Net Equity assigned to the beneficiary coincides with the book value that was equal to 1.120.809, 79 at February 28, 2019. The difference with the book value at the effective date of the demerger on August 1, 2019, amounts to Euro 273.623,74 was managed through "reciprocal payables items", with no changes in the amount of the book value transferred to the beneficiary.

In according with the civil law purposes, the demerger took effect from the first day of the first month following the date on which the last of the registrations required by Article 2506-quater of the Civil Code was made, that was August 1, 2019.

- ✓ On August 15, 2019, the company obtained the FDA approval for the marketing of two Entrectinib indication.

- ✓ On September 12, 2019 the Board of Directors of Nerviano Medical Sciences S.r.l. and NMS Group S.p.A approved the plan for the partial demerger of the business unit Nerviano Information Services (hereinafter "NSI"), a business unit of the demerged company in favour of the beneficiary company NMS Group S.p.A.
- ✓ On October 14, 2019 the Shareholders' Meetings of Nerviano Medical Sciences S.r.l. and NMS Group S.p.A., held on the same date, approved the plan for the partial demerger of the business unit Nerviano Information Services (hereinafter "NSI"), a business unit of Nerviano Medical Sciences S.r.l. (the demerged company) in favour of the beneficiary company NMS Group S.p.A.
- ✓ On October 25, 2019 the Shareholders' Meeting approved the plan for the merger by incorporation of the subsidiary Closs S.r.l. into Nerviano Medical Sciences S.r.l.;
The merger took effect from the date of the last of the registrations provided for by Article 2504 of the Italian Civil Code (December 31, 2019) while for tax and accounting purposes the merger will take effect retroactively to January 1, 2019.
- ✓ On November 1, 2019 the merger of UP S.r.l. into Nerviano Medical Sciences S.r.l. was completed. Since this is a merger by incorporation in which the share capital of the incorporated company is entirely owned by the acquiring company, the exchange ratio was not determined pursuant to the Article 2505 of the Italian Civil Code. The portion representing the capital of the merged company was cancelled without any increase in the share capital of the acquiring company, so there was no assignment of shares and no cash payments are expected.
- ✓ On November 19, 2019, the licensee Institut de Recherches Internationales Servier, by formal notice, informed the company of its intention to terminate the on-going clinical trials on the licensed project in 2015. The licensee's willingness, linked to a change in scientific strategies, will involve, in the first months of 2020, the transfer of the molecule to NMS S.r.l., which has already provided for its internal development in the update of its business plan.
- ✓ On November 21, 2019, after more than a year of negotiations with licensee Array, the company reached a settlement agreement with the latter concerning a request by the latter to deduct 50% of the royalties due for the entry into the market of the Encorafenib molecule. In the licensee's opinion, the latter had incurred costs for obtaining exclusive international

licenses which, contractually, should have been partially shared with NMS S.r.l. The company fully contested the counterparty's claims and, at the end of November, reached an agreement with Array stating that NMS S.r.l. was not involved in these claims.

- ✓ On December 16, 2019, by deed N. 8688, Nerviano Medical Sciences S.r.l. has been partially demerged in favour of the pre-existing beneficiary company NMS Group S.p.A. with reference to the demerger transaction as per the project approved with the resolutions on October 14, 2019.

In particular, the demerger concerns the assignment, to the pre-existing beneficiary company NMS Group S.p.A., the sole shareholder of the demerged company Nerviano Medical Sciences S.r.l., of the business unit called Nerviano Information Services (hereinafter "NSI"). This business unit is divided into two macro areas of activity: IT services management and development of IT projects to which two sub transversal -areas of activity overlap who deal security and quality/operating procedures.

The demerger was drafted in a simplified way in view of the fact that the company being demerged, Nerviano Medical Sciences S.r.l., is wholly owned by the beneficiary one. There is therefore no need to determine the exchange ratio, nor to provide for any cash settlement.

In according with the civil law purposes, the demerger will take effect from the first day of the first month following the date on which the last of the registrations required by Article 2506-quater of the Civil Code will be made, (January 1, 2020). The accounting and tax effects of the demerger will also take effect on the same date.

Following the demerger both companies will not change their company statutes. As a result of the demerger, the demerger company will not reduce its share capital, since the book values to be assigned to the beneficiary one will be allocated to Net Equity items other than share capital.

The actual value of the Net Equity that will be assigned to the beneficiary coincides with the book value that is equal to 183.975,56 Euros at June 30, 2019.

Any differences that may occur between the reference date of the financial statement and the effective date of the merger will be settled between the beneficiary company and the demerged company by means of a cash settlement or reciprocal payables or credit items, thus not resulting in changes in the amount of the accounting assets assigned to the Beneficiary.

- ✓ On December 31, 2019 the merger of Closs S.r.l. into Nerviano Medical Sciences S.r.l. was completed. Since this is a merger by incorporation in which the share capital of the

incorporated company is entirely owned by the acquiring company, the exchange ratio was not determined pursuant to the Article 2505 of the Italian Civil Code. The portion representing the capital of the merged company was cancelled without any increase in the share capital of the acquiring company, so there was no assignment of shares and no cash payments are expected.

2. ECONOMIC AND FINANCIAL PERFORMANCE

Nerviano Medical Sciences S.r.l. Balance Sheet is summarized as follows - values in thousands of euros:

Description	31/12/2019	31/12/2018
Fixed assets	86.097	87.659
Net working capital	(23.823)	(19.151)
Net invested capital	62.274	68.509
Provisions for risks and charges and Severance Indemnity	(4.773)	(4.156)
Net invested capital and funds	57.501	64.352
Net financial position	1.990	(6.360)
of which		
Financial assets that are not fixed assets	36	39
Cash and cash equivalents	24.071	17.956
Other loans	(83)	(139)
Use of credit line for cash elasticity and short-term / medium / long-term debts	(17.500)	(20.000)
Financial receivables and payables vs parent companies and subsidiaries	(4.534)	(4.215)
Net Equity	59.491	57.993

The fixed assets for 86.097 thousand Euros mainly include the value of the financial assets in the subsidiary companies, net of the provision for the write-down of investments, one investment in other companies, the value of licenses, software projects, trademarks and tangible assets located within the site.

Net working capital, is negative and equals to 23.823 thousand Euros, includes:

- advances to suppliers for 56 thousand Euros;
- receivables due from clients 2.665 thousand Euros, net of provision for receivables;
- receivables due from subsidiaries for 2.515 thousand Euros;
- receivables due from associate companies for 1.347 thousand Euros;
- receivables due from parent companies for 128 thousand Euros;
- tax receivables for 4.547 thousand Euros;
- other receivables for 1.593 thousand Euros;
- accrued income and prepaid expenses for 522 thousand Euros

Net of:

- advances received from clients for 389 thousand Euros;
- payables due to suppliers for 6.400 thousand Euros;
- payables due to subsidiaries for 10.523 thousand Euros;
- payables due to associate companies for 12.635 thousand Euros;
- payables due to parent companies for 4.932 thousand Euros;
- payables due to social security institutions and tax payables for 1.029 thousand Euros;
- other payables for 1.264 thousand Euros;
- accrued liabilities and deferred charges for 25 thousand Euros.

The Employee Severance Indemnity Fund amounts 2.350 thousand Euros and the total provisions for risks and charges amounts to approximately 2.423 thousand Euros.

Net equity amounts to 59.491 thousand Euros.

The Share Capital (comprising a single share) amounts to 1.040 thousand Euros and is entirely held by the parent company, NMS Group S.p.A

For further details of the above items, please refer to the section entitled "ANALYSIS OF THE BALANCE SHEET AND THE INCOME STATEMENT ITEM" in the Supplementary Notes.

The net financial position shows a positive balance of 1.990 thousand Euros and is determined by the available funds for current bank accounts, for 24.071 thousand Euros and financial assets not constituting fixed assets for an amount of 36 thousand Euro, net of the use of the following lines of financing:

1. Bank loan with Banca Popolare di Sondrio for 17.500 thousand Euros.
2. Payables to shareholders for loans due to parent company for 5.318 thousand Euros paid for the financial support of NMS net of financial receivables due from subsidiaries for 784 thousand Euros.
3. Payables to other lenders, amounting to 83 thousand Euros, consisting of a loan granted by Finlombarda S.p.A. relating to the MIUR - Lombardy Region Call for Proposals "*R&D - PATRI Integrated Translational Analysis Platform*" which ended in 2014 and for which the company had received on 7 August 2015 the collection of the subsidized credit envisaged related to an amortization plan at constant six-monthly instalments starting in 2017.

The economic position of Nerviano Medical Sciences S.r.l. is summarized as follows - values in thousands of euros:

Description	31/12/2019	31/12/2018
Value of production	46.890	21.939
Costs of production	(38.039)	(35.646)
Gross operating result (E.B.I.T.D.A.)	8.851	(13.707)
Amortisation depreciation and write-downs	(1.941)	(1.657)
Net operating result (E.B.IT.)	6.909	(15.364)
Net financial charges	(20)	116.288
Value adjustments of financial assets	(1.106)	(77.274)
Operating result before taxes	5.783	23.650
Current taxes	(1.549)	3.080
Prepaid and deferred taxes	0	0
Net profit	4.234	26.731

The value of production, in 2019, amounts to 46.890 thousand Euros and included revenues from service activities carried out for customers and activities in favour of the Group for Information & Communication Technologies services.

For further details of the above mentioned items, please refer to section A - PRODUCTION VALUE of the Supplementary Notes and to paragraph 3 "THE STATUS OF PIPELINES AND SCIENTIFIC RESEARCH STRUCTURES" .

Costs of production amount to 38.039 thousand Euros and include:

- a) cost for primary, ancillary materials, consumables and goods for 1.680 thousand Euros;
- b) costs for services 24.588 thousand Euros;
- c) costs for use of third party goods for 2.205 thousand Euros;
- d) staff costs for 8.878 thousand Euros;
- e) risk provisions for 556 thousand Euros;
- f) other operating expenses for 133 thousand Euros.

For further details of the above items, please refer to the section entitled "B – COST OF PRODUCTION" of the Supplementary Notes.

The charges for current taxes, which amount to 1.549 thousand Euros, are mainly related to the determination of the IRES (income taxes) as a result of the application of the tax regime envisaged by the national tax consolidation scheme.

In order to complete the analysis of the company's business, the progress status relating to completed and on-going financed projects by NMS S.r.l. shall now be summarized:

1. On March 27, 2009 the MIUR definitively approved the decree entitled for the research *"Identification and development of a new integrated technology system in the field of oncology"* and for the

training of *"New specialists in advanced technologies intended for the research of new anti-cancer drugs"* totalling approximately 44,2 million Euros. The project, for both the part concerning research and the training part, was completed on December 31, 2012. The company, following the successful completion of the investigation carried out by the Ministry of Research and Universities, supported by the credit guarantee institute, is pending the issuance of a new decree following which and after verification of the parameters of financial reliability and creditworthiness of the lending bank, it will be possible to sign a financing agreement with the Ministry to obtain the grant in a subsidized form, subject to the positive outcome of the scientific and economic audit;

2. On June 30, 2009, the company completed its research activities on the project *"Identification of innovative anti-cancer drugs: from genomics to therapy"*, whose MIUR decree was approved in October 2007 for a total of 9.377 thousand Euros (1.407 thousand Euros in the form of a contribution towards expenses on FAR allocations, 7.173 thousand Euros in the form of subsidized credit on the allocations of the revolving fund for business support and investments in research under the separate management of Cassa Depositi e Prestiti and 797 thousand Euros in the form of ordinary credit).

During 2018 the MIUR has completed, with positive results, its investigation for the reduction of the project partners from 4 to 2 parties, therefore, after verification of the financial ratios and creditworthiness by the lending bank, it will be possible to proceed with the signing of the loan contract only after which it will be possible to obtain the disbursement of the non-repayable grant and facilitated credit. The company, within the time necessary to close the preliminary investigation with the lending bank preparatory to the issuance of the credit rating, also in consideration of the age of the credit deriving from the setting up of the grant in relation to the project in analysis, prudently considered correct to proceed to the devaluation of the same.

3. On January 1, 2012, the company started the activities related to the industrial research and training project pursuant to Ministerial Decree 593/2000 relating to the National Operational Program of Research and Competitiveness 2007-2013 (PON) *"Translational Medicine in Oncology: from Research to Therapy - HUMAN HEALTH AND BIOTECHNOLOGY"*. The project was successfully completed in October 2015 and in 2019 the company received the amount of 1.994 thousand Euros.

3. UPDATE ON THE DRUG DISCOVERY PIPELINE

3.1 Executive Summary

At December 31st, 2019, the NMS Srl pipeline included the following assets:

➤ **Out licensed products:**

- Encorafenib
- Entrectinib
- Milciclib
- Onvasertinib
- NMS-P153 / S81694 (MPS1 inhibitor)
- Target 1

➤ **Internal products:**

- Danusertib (Aurora inhibitor)
- NMS-088 (FLT3/KIT/CSF1R inhibitor)
- NMS-293 (PARP inhibitor)
- NMS-338 (RET inhibitor)
- NMS-812 (PERK inhibitor)
- Other preclinical programs and ADC platform

Overall, the 2019 has seen significant changes for NMS S.r.l. (NMS), since the new company situation has overcome the need to out license proprietary molecules for clinical development, allowing re-initiation of internal clinical development. This has required significant reorganizational changes, including establishment of a Global Clinical Development function, with dedicated hiring as well as increasing involvement of CLIOSS in the support of internal clinical studies, culminating in the merger by incorporation of the CLIOSS organization into NMS which became effective in December 2019. In light of these strategic and organizational changes, new contracts for third parties services will no longer be pursued.

Moreover, the strategy for clinical development has changed from being essentially focused on Italy/Europe to a global development approach that foresees, starting from the earliest development stages, global studies comprising Europe, US and China. This has already had implications on the 2019 development plan, in particular for PARP, since it is necessary that a US “*Investigational New Drug*” (IND) is submitted prior to “*Clinical Trial Authorization*” (CTA) in Europe, in order to facilitate timely IND submission in China.

Overall, in 2019 two molecules, NMS-088 (FLT3 inhibitor) and NMS-293 (PARP inhibitor) initiated First in Human clinical studies in AML and solid tumors, respectively.

In view of their promising potential, activities to initiate a second study in combination were also conducted in 2019, both for NMS-088 as well as for NMS-293.

The preclinical pipeline also advanced successfully. A new molecule, NMS-812 (PERK), with potential for first in class, confirmed its efficacy in Multiple Myeloma models and successfully advanced towards the completion of the IND package for clinical studies, planned in 2020.

Moreover, the IDH program successfully developed molecules with PC-like properties, and the significant majority of remaining projects advanced into their next development stage as foreseen by the 2019 plan. In addition, target identification and validation activities resulted in the selection of three candidate new targets, for which a High Throughput Screening campaign of NMS chemical libraries was completed within the year. The ADC platform also pursued several collaborations with third parties for possible joint development of new ADCs, including a new potential partner in China, where there is significant interest in the field.

Here below the state of advancement of the key individual products/programs.

3.2 Outlicensed products

Encorafenib (BRAFTOVI™)

Encorafenib is a B-Raf inhibitor object of an NMS licensing agreement of enabling IP rights for commercialization (made originally with Novartis, who then transferred it to Array BioPharma) in return for development milestones and royalties.

In 2018 the use of Encorafenib in combination with the Mek kinase inhibitor binimetinib (BRAFTOVI™ and MEKTOVI®) was approved in USA, Europe and Japan for the treatment of patients with unresectable metastatic melanoma with B-Raf mutations, starting the NMS royalties stream.

In June 17th, 2019 Pfizer Inc. acquired Array BioPharma and continued the clinical development of Encorafenib in B-Raf mutant colorectal cancer (CRC) as well as other tumor settings with B-Raf mutations. In December 2019 Pfizer Inc. announced that the FDA granted priority review to the sNDA for Encorafenib in combination with cetuximab doublet in B-Raf mutant CRC, based on results from the Phase 3 BEACON CRC clinical trial.

The acquisition of Array BioPharma by Pfizer obviously represents an opportunity for maximal commercial success of Encorafenib in B-Raf mutant melanoma, colorectal cancer and other possible indications.

Entrectinib (ROZLYTREK™)

In 2019 Entrectinib, a Ros, Trk and Alk inhibitor which was invented and developed by NMS achieved marketing approval in two different indications.

The molecule was initially developed into Phase I by NMS, then licensed in 2013 to Ignyta (San Diego, CA, USA), which was acquired by Roche in 2017. In 2018, Roche sublicensed to its subsidiary, Chugai Pharmaceutical Co. the exclusive rights to Entrectinib for Japan.

Efficacy of Entrectinib in NTRK-positive tumors was investigated in three multicenter clinical trials: ALKA, STARTRK-1, and STARTRK-2, enrolling patients with TRK-rearrangements. The most common cancers were sarcoma, NSCLC, mammary analogue secretory carcinoma, breast, thyroid, and colorectal. Among 54 adult patients, the overall response rate was 57% and response duration was ≥ 12 months for 45% of patients. Efficacy in ROS1-positive metastatic NSCLC was investigated in 51 adult patients, showing an overall response rate of 78% and a response duration ≥ 12 months for 55% of patients. The drug was efficacious also in patients with brain metastases and showed a good tolerability profile.

Based on these data, in June 2019, Entrectinib (Rozlytrek) was approved in TRK-mutant tumors, independent of tumor type, in Japan. In August 2019 Entrectinib also received two independent marketing approvals in TRK-mutant tumors, as well as in ROS1 mutant Non Small Cell Lung Cancer (NSCLC) from the US FDA. The molecule is also in pre-registration phase in Europe. These approvals triggered milestone payments and royalties stream. Roche is continuing the clinical development of Entrectinib in additional indications.

Milciclib (PHA-848125/TZLS-201)

Milciclib, a selected kinase inhibitor, was out-licensed in January 2015 with rights to develop, manufacture and commercialize worldwide to Tiziana Life Sciences Ltd, a public company quoted in London and, as of December of 2019, also at NASDAQ in NY. Tiziana is developing the drug in a hepatocellular carcinoma (HCC). In 2019 a phase two study in HCC was on going.

Onvasertinib (NMS-937/PCM-075)

Onvasertinib (NMS-937) is a PLK1 inhibitor that was invented and developed into Phase I by NMS, then licensed in March 2017 to the US Biotech Trovogene, in return for an upfront payment and



success milestone payments, as well as royalties from future sales. Trovogene is developing the drug in AML and solid tumors.

In 2019 the molecule completed the Phase Ib portion of a phase Ib/II study in combination with Cytarabine in AML patients, showing promising preliminary efficacy and good tolerability, and is progressing in Phase II. A second phase II study in combination with Zytiga in patients with castration resistant prostate cancer was also started in 2018 and is on going.

In 2019, Trovogene started a Phase Ib/II study of Onvansertib in combination with FOLFIRI and bevacizumab for second line treatment of metastatic colorectal cancer in patients with a Kras mutation.

NMS-P153 / S81694 (MPS1 inhibitor)

This molecule is an inhibitor of MPS1, a kinase that plays a fundamental role in the control of chromosome separation during cell division, a mechanism relevant for tumor growth and with potential for First-in-Class. In 2013, the molecule was the subject of a co-development and licensing agreement with the French pharmaceutical company Servier, which then started its clinical development in solid tumors. In 2019 Servier communicated that, as a consequence of an internal change strategic of Oncology assets, they are willing to transfer back the molecule to NMS to allow continuation of its clinical development. The molecule is currently planned to become part of NMS internal development pipeline in 2020.

Target 1

This enzyme is involved in the repair of DNA damage that arises during the replication process, which was identified and validated in-house by NMS as a highly innovative anticancer target in different tumors, with potential for first in class. At the end of 2018 an agreement was signed with Merck KgAA, which acquired the rights to the inhibitors of the target against an upfront payment, followed by progress milestones and future royalties on revenues. Under the agreement, in 2019 preclinical research activities were performed at NMS in collaboration with Merck. The collaboration will continue in 2020 with the ultimate goal to identify a clinical Lead compound.

Overall, in 2019 NMS total revenues from milestones payments and royalties from outlicensed products amounted to 34 million Euros.

3.3 NMS internal product pipeline

Danuserib (Aurora inhibitor)

In 2019 the Company re-evaluated the potential clinical development opportunities for Danuserib, an Aurora kinase inhibitor, but due to the significantly reduced patent life span of the product, it was decided not to independently pursue further development and instead to continue to look for potential partners that would take over the full development and the commercialization of the molecule. The potential failure of this objective will probably lead to the termination of the project.

NMS-088 (FLT3, KIT, CSF1R inhibitor)

NMS-088 is a potent inhibitor of FLT3, KIT and CSF1R kinases. Activating mutations of FLT3 are involved in the pathogenesis of about 30% of acute myeloid leukemia (AML), while KIT mutations are present in a small subset of AMLs and are the main drivers of GIST gastrointestinal tumors. Furthermore, there is a rationale for use of the molecule in Chronic Myelomonocytic Leukemia (CMML) on the basis of the observed effects of CSF1R inhibition, a highly expressed and activated target in this type of tumor. In preclinical studies the drug is the most active among the FLT3 comparators tested, also in the presence of the gatekeeper mutation of resistance observed after treatment with the other FLT3 inhibitors.

Based on these observations, in 2019 a Phase I/II study in relapsed/refractory AML and CMML patients was initiated in Italy. The study will be conducted in two parts: a Phase I dose escalation including patients with AML and CMML, which is on going, and a Phase II part comprising two parallel cohorts of selected patients that are more likely to respond to the drug: a cohort of AML FLT3 mutated patients and a cohort of patients with CMML. The Phase II part will be expanded to include US and China.

The study was presented at the 2019 ASH (American Society of Hematology) Annual Meeting held in Orlando, Florida. A second study in combination with other drugs used in AML is also being planned.

NSM-293 (PARP inhibitor)

Treatment with PARP inhibitors affects DNA repair and is clinically effective in patients with defects in the BRCA gene, due to the simultaneous impairment of two complementary DNA repair pathways.

NMS-293 is a second generation PARP inhibitor that differentiates from other approved or advanced molecules for its PARP1 selectivity vs other PARP family members and low DNA trapping, both features potentially linked to lower haematological toxicity and higher potential for

combination with other drugs. It also has a superior ability to penetrate the blood brain barrier, a characteristic enabling its utilization in CNS tumors and brain metastases.

In 2019 a Phase I single agent multicenter first-in-human study was initiated in patients with solid tumors. The study consists of a dose escalation part, followed by a dose-expansion enrolling patients with different tumors harboring a BRCA mutation. The high brain penetration observed for NMS-293 in preclinical studies provides a strong rationale for investigating the potential efficacy of this agent against CNS tumors. For this reason, planning of a second study in combination is ongoing, with the object to start the study in 2020.

NMS-338 (RET inhibitor)

RET kinase activating mutations are present in about 50% of sporadic cases of medullary thyroid tumors, and in lower percentages in papillary thyroid tumors, lung and colorectal tumors and other solid tumors and leukemias. Drug safety studies on the clinical candidate NMS-338 highlighted aspects that required additional studies in 2019 to allow a complete characterization of the preclinical tolerability profile and differentiation vs comparators, which is on going.

Preclinical Pipeline

NMS-812 (PERK inhibitor)

PERK is a kinase that plays a fundamental role in the regulation of protein production and degradation, which is particularly important for the survival of tumors that produce and secrete high amounts of proteins, such as antibody-secreting multiple myeloma (MM). PERK inhibition induces death of MM cancer cells due to proteotoxicity.

NMS-812 is an extremely potent PERK inhibitor with good efficacy and tolerability in MM models, also in combination with standards of care, with potential for first in class. In 2019 IND enabling studies were initiated. These activities will continue in 2020 with the aim of submitting the IND request to start a first in human clinical trial.

CDC7 program

NMS has contributed to establish CDC7 kinase as an anticancer target, due to its role in DNA replication and other intracellular processes. The activities of 2019 have been focused on advancing selected chemical series, resulting in the prioritization of a chemical class with Leads possessing metabolic stability, oral availability and activity in vitro and in vivo. Lead optimization activities will continue in order to identify a preclinical candidate (PC) within 2020.

IDH program

This is a class of metabolic enzymes frequently mutated in acute myeloid leukemia and in gliomas, and with different frequencies also in other solid tumors. The mutation of these enzymes alters their biological function by inducing the production of an active oncometabolite.

In 2019 we performed Lead Optimization activities on a chemical series of inhibitors, which proved to be very potent in down modulating the oncometabolite both in vitro and in vivo, with good tolerability and different/improved features with respect to first generation target inhibitors. Based on these data the most interesting Lead was selected for further development in 2020, while in parallel activities will continue to identify follow on/back up molecules. Additional Lead candidates are being pursued according to an agreement with an external partner.

Target 1

This is a target involved in the regulation of phosphocholine metabolism, through the modulation of phosphatidylcholine levels, the main component of the cell membrane. Literature and in house data suggest that inhibition of this pathway may synergize with modulation of tyrosine kinase receptor pathway(s). In 2019 the project advanced into Lead Optimization. Activities will continue in 2020 to further optimize the inhibitors efficacy/ADME and to identify settings of preferential sensitivity to target inhibition.

Target 2

This is a family of growth factor receptor kinases, which are activated in different tumors. In 2019 NMS has identified a chemical series of potent and selective inhibitors, with promising ADME properties and preliminary efficacy in target-dependent models. Based on these data, the project has transitioned into Lead Optimization. Activities will continue in 2020 to further improve Lead properties.

The ADC platform

An "*Antibody-drug conjugate*" (ADC) is a molecule composed of a cytotoxic conjugated via a linker to an antibody that recognizes a tumor-specific antigen and allows to selectively deliver the cytotoxin to the tumor, sparing the healthy tissue and thus increasing the therapeutic window. The approved/most advanced ADCs are based on different antibodies conjugated to a few cytotoxic drug. NMS has leveraged in house expertise on cytotoxics to develop an innovative and proprietary chemical class of thienoindeole molecules amenable to conjugation with antibodies, with different mechanisms of action with respect to the most used toxins.

In 2019 contract activities and collaborations with third parties were carried out as part of exploratory agreements for possible joint development of new ADCs: these included exploratory collaborations with new potential partners in China, where some key leaders in the sector are located. Other collaborations, including with a medium sized European pharma and an American biotech are on-going with interesting preliminary results on both fronts.

3.4 External market activities

In 2019 CLIOSS S.r.l. operated as a Contract Research Organization (CRO) in the field of Clinical Research. Thanks to a strong expertise and experience in the design and implementation of clinical studies and its specialization in the early stages of clinical development in oncology and hematology, together with the quality of its services, it addressed the intermediate market segment of high added value niche CROs.

In 2019, CLIOSS continued its collaborations with clients already acquired in previous years, ensuring the timely termination in 2019 of the projects when already planned, or supporting the transition of on-going/planned projects after 2019 back to the Sponsor or the service providers identified by the Sponsor.

In particular, this was applied to the clinical trials supported by Region of Lombardy (Fondazione Regionale per la Ricerca Biomedica) where, also in consideration of the expected termination by December 31, 2019 of the FRRB financing regarding CLIOSS activities within the frame of the Lombardy Oncological Network (ROL) and Lombardy Hematological Network (REL), CLIOSS rescheduled the activities in agreement with the Sponsors in order to ensure a smooth transition or termination.

Revenues related to CLIOSS CRO activities in 2019 amounted to 1.029 thousand Euro.

As already mentioned, after incorporation into NMS, former CLIOSS personnel will work in 2020 as an integral part of NMS and will discontinue CRO activities.

4. HUMAN RESOURCES AND INDUSTRIAL RELATIONS

The company recognizes human resources as a key factor for its activities and therefore the motivation and commitment of employees are considered fundamental elements for the achievement of corporate objectives.

In this context, the management of Human Resources has continued to be based on the development of skills, the improvement of the well-being of employees, the increase in the efficiency of organizational processes, ensuring the optimization of personnel costs, in order to improve the Company's competitiveness towards the major market players.



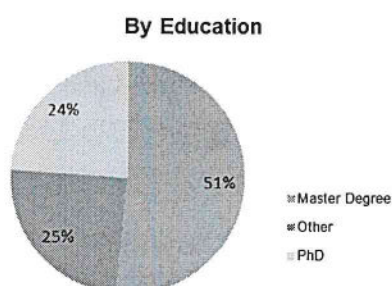
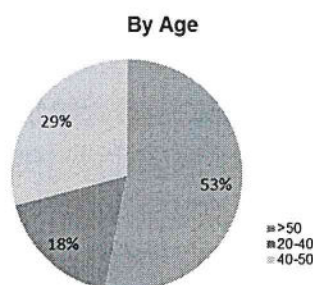
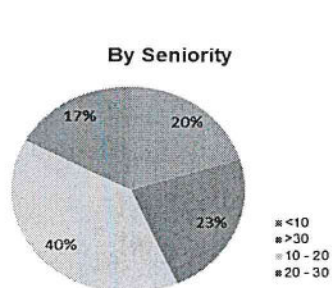
During 2019 NMS, like the other Group companies, continued to implement the activities aimed at improving the health of its employees in the context of the *'Workplace Health Promotion (WHP) - Companies that promote health in Lombardy'*, an initiative of "Corporate Social Responsibility" dedicated to the corporate population who consider Health as a shared value.

The interventions in 2019 focused on the theme of correct nutrition through adherence to the "SALT AWARENESS" campaign for the Reduction of Salt Consumption, promoted by the World Action on Salt&Health.

At December 31, 2019, the total number of employees employed by Nerviano Medical Sciences S.r.l. following the merger with Clioss S.r.l. amounted to 141 units.

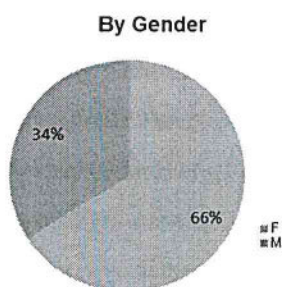
The age and average seniority of the employees testify to the Company's commitment to retain its structure in order to value key competences within itself and not to disperse the professional skills built over time.

NMS employees detail as of 31/12/2019:



In Nerviano Medical Sciences, the presence of women at all levels of responsibility also shows the company's attention to the policy of equal opportunities.

M



Also for the year 2019, the company has confirmed the collaboration path with some Italian universities, with which it has for years been running agreements aimed at hosting theses in order to allow the exchange of knowledge and to create synergies with the academic world.

The reorganization process started with the procedure pursuant to art 4-24 Law 223/91 in May 2018, aimed at adopting a new organizational structure, provided for 36 redundant positions for the company Nerviano Medical Sciences S.r.l. and 5 positions for Clios S.r.l. to be managed - in accordance with the agreement with the trade unions of June 2018 - by 31 December 2019.

The agreement with trade unions provided for the use of both conservative instruments ('intra-group' transfers - that is internal mobility and professional retraining pursuant to art. 2103 of the civil code - so-called internal mobility in derogation) and restructuring tools (collective redundancies and collective redundancies with so-called Pension Slide).

At the end of the previous year, there were 13 redundancies in force for the company Nerviano Medical Sciences S.r.l. and 3 positions for Clios S.r.l. for which the companies had set aside 1.601 thousand Euros in their debts and a Provision for Risks of 294 thousand Euros.

During the year 2019 the whole process was successfully concluded: of the 16 positions declared redundant and still in force on 31 December 2018, 9 redundancies have met the requirements to access the pension slide, 1 resource left the company with incentivated dismissal, 3 resources were transferred to another group company (NerPharMa) and for the remaining 3 redundancies it was confirmed the consolidation of the employment relationship in Nerviano Medical Sciences.

The Provision for Risks previously set aside and unused has been fully released, while the amount of the redundant employees who ceased on 31 December 2019 and which will be liquidated in January 2020 is still recorded in the debts.

The amount of debt relating to the positions to be liquidated in 2020 is 285 thousand Euros.

5. INVESTMENTS

During the year, investments were made for a total amount of approximately 1.225 thousand Euros, mainly refer to departments of Chemistry, Biology and Biotechnology.

With regard to the Department of Chemistry of particular importance, the following should be noted:

- the acquisition of a robot used for the preparation of experiments for the crystallization of target proteins with inhibitors (116 thousand Euros) and
- the installation of an instrument that allows the analytical chromatographic separation of samples and the acquisition of mass spectra for the determination of molecular weight (167 thousand Euros).

Investments were also completed within the Chemistry department:

- a probe for the acquisition of NMR spectra for the determination of the structure and characterization of new chemical entities (NCE) (67 thousand Euros),
- an instrument used to perform small/medium scale hydrogenation reactions in a controlled system (50 thousand Euros) and
- a synthesizer used for the synthesis of oligonucleotides used for the cloning of protein constructs and DNA sequencing (58 thousand Euros).

As regards the Biology Department of relevance is the start of the first phase of the planned investment for a robotic station equipped with a plate reader capable of performing cell culture treatments and treatments with RNA compounds or oligonucleotides (85 thousand Euros).

Finally, as regards the Biotechnology Department, the purchase of a multi-purpose dispenser that allows the delivery of low-volume, high-precision reagents (127 thousand Euros) and a chromatography system used for the purification of recombinant proteins (57 thousand Euros) are worth mentioning.

In addition to the investments highlighted above, a number of interventions of lesser unitary value were carried out both in support of the scientific technological heritage and in the Information Technologies area, within which 26 thousand Euros was invested for the implementation of a platform to support the "*Procurement to pay process*".

6. CORPORATE CRIMINAL LIABILITY (Italian Legislative Decree 231/01)

Legislative Decree 231/2001 on "*Corporate Criminal Liability*" provides commitments and ethical responsibilities of managers and employees in the conduct of business activities.

According to above Decree (art. 6) in Nerviano Medical Sciences S.r.l. an "*Organization, Management and Control Model*" is in force.

General Section of the Model is common to all companies of the NMS Group.

The Model was introduced in 2012 and revised in 2016, and it includes the Code of Ethics, also in common with all companies of the NMS Group.

A Compliance Supervisory Board was in charge for 2019 financial year is composed by Luciano Bagna, a chartered accountant acting as Chairman, by Rossella Infante, member, lawyer with 231 compliance experience, and Mr. Ubaldo Percivalle, member with legal training and consolidated corporate experience in the sector.

The Compliance Supervisory Board was appointed by company Board of Directors with resolution dated October 31, 2017, for a three-year period 01.18.2018 - 31.12.2020.

During the year, the Body actively followed the Model revision process launched at the end of 2018, which led to the drafting and subsequent approval by the Board of Directors of the Company on 7 January 2020, shared with the other Group Companies. At the same time, the Body followed with interest the launch of a project to redefine the entire internal control system of the Group Companies ("*Internal Control System*"), which includes, among other things, new *Internal Audit* and *Compliance Officer* functions as recommended several times by the Body itself.

In any case, the Body continued its ordinary activity of constant monitoring of the application of the organisational model, following the corporate evolution and the process of internationalization of the existing Group, held training sessions, maintained the usual channels for the online collection of any reports and carried out verifications and punctual interventions also on reports.

During the year, the Body did not report any significant violations of the Model in force or inadequacies.

7. ACCOUNTING OF RESEARCH AND DEVELOPMENT COSS

The "core" activity of Nerviano Medical Sciences S.r.l. involves researching new therapeutic strategies capable of addressing the needs of cancer patients; the most relevant part of the total costs incurred by the group result from this applied research and development activity.

For the current year, the Management, in accordance with the provisions of the applicable legislation on the preparation of the Financial Statements, did not proceed with any capitalisation of these costs which, therefore, are fully expensed in the income statement.

8. INFORMATION ON RISKS AND UNCERTAINTIES

Nerviano Medical Sciences S.r.l., given its specific field of activity, is subject to risks associated with external factors (typically related to clinical and preclinical development activities) and financial risks (liquidity risks, credit risk, interest rate risk and exchange rate risk).

RISKS ASSOCIATED WITH EXTERNAL FACTORS

1. Risks associated with products undergoing clinical development

Company products undergoing clinical development, given the specific nature of this activity, could cause - during the trial phases - damages due to side effects, or prove to be ineffective in combating the target in question and/or not receiving the approvals from the competent bodies (national and international). The clinical trial could also be suspended at any stage of progress by decision of the company or by the competent bodies, in the event that it is believed that patients are exposed to high health risks. Specifically, on a monthly basis, the SSC "*Scientific Strategic Committee*", (a meeting attended by all heads of department of the same business unit, in addition to the head of research) assesses the progress status of works, data and information received from the project monitors and, based thereupon, defines strategies and possibly also the closure of the project. Finally, the company, as provided for by the current legislation uses insurance policies with leading companies for each individual trial/country in which it operates.

2. Risks associated with sector legislation

The nature of the activities carried out by Nerviano Medical Sciences S.r.l. subjects the company to strict legislation, both nationally and internationally. All competent bodies (Ministry of Health – AIFA – EMEA – FDA or other similar bodies in other countries) governing the manufacturing and marketing activities provide, in order to obtain the necessary authorizations, for long and complex procedural processes, which could lead to delays in the initiation and conduct of clinical trials.

FINANCIAL RISKS

1. Liquidity risk

Liquidity risk is the risk that the available financial resources may be insufficient to finance normal operations and to develop the company's own research activities. The typical nature of the company leads to a high incidence of operating costs (staff, services, purchase of laboratory materials, clinical trial costs) compared with the revenue dynamics. Liquidity risk is substantiated by the need to find adequate resources to finance the Group's operations, in addition to the need for an effective management of the short-term funding lines.

2. Credit risk

Credit risk is the exposure to potential losses resulting from non-compliance with the obligations assumed by the counterparties. Outstanding receivables at the end of the financial year are mainly commercial credits from national and international biotech companies and major pharmaceutical groups. Credit risk is therefore considered low.

3. Exchange rate fluctuation risk

The exposure of the Group companies to the risks of exchange rate fluctuations at December 31, 2019 is not relevant from a debtor point of view since there are no significant positions, while from a creditor point of view, the company is exposed to the effect of the current account in foreign currency with Banca Intesa which at the end of the year showed a positive balance of 19.649 thousand USD . The positive trend in the euro/dollar exchange rate at the end of the year led the company to have a positive impact on the income statement of approximately 301 thousand Euros.

4. Interest rate fluctuation risk

The Group uses external financial resources in the form of debt and uses the available liquidity in monetary and financial market instruments (e.g. bank deposits). All loans obtained from Nerviano Medical Sciences S.r.l. provide for variable interest rates. This risk is represented by the exposure of financial flows to interest rate fluctuations. The performance of interest rates is constantly monitored by the Management of Nerviano Medical Sciences S.r.l. which controls its effects on the forecast cash flows ready to carry out interventions to hedge this risk.

Pursuant to Article 2428, paragraph 3, point 6-bis, of the Italian Civil Code, it should be noted that the Group companies have not used or issued financial instruments relevant for the purposes of assessing of the equity and financial situation.

9. PRIVACY AND PERSONAL DATA PROTECTION

Nerviano Medical Sciences S.r.l. processes some personal data but does not directly process, except accidentally, any sensitive data of its employees/collaborators, as within the Group this treatment is carried out by the holding company NMS Group S.p.A.

In order to the activities to comply with the new Personal Data Protection Regulation ("*General Data Protection Regulation*", hereinafter also referred to as "GDPR") during the year, NMS Group S.p.A. has reiterated to all employees and collaborators of the Group companies information on the processing of personal data and updated and used information for other categories of data subjects and appointments to external data processors, as well as other requirements.

10. INFORMATION ON THE PROTECTION OF HEALTH AND SAFETY IN THE WORKPLACE

Nerviano Medical Sciences S.r.l. places among its main objectives the protection of the health of its resources and the diffusion, at all levels, of the culture of safety as an asset to be preserved and encouraged.

This commitment has been translated in the year 2019 in the lack of occupational accidents, there was only one accident "*in itinere*".

It can therefore be considered primary the commitment to the punctual performance of work activities with due attention to prevention and minimization of possible accidents at work.

This perspective, together with the strong intention of continuously recalling and consolidating the pre-existing foundations, had as a common goal the intention to follow up proactive attitudes during the working methods and therefore to call workers' attention to the issues of prevention and protection.

The employees of NMS Srl have been trained in an appropriate manner in order to achieve shared solutions that bring effective involvement, aimed at improving working conditions and collective well-being.

The following courses were held during 2019:

- ✓ general training courses, in accordance with Legislative Decree 81/08, Agreement between the State and the Regions Conference of 21/12/2011 for all newly hired personnel and in any case for each new placement in the company;
- ✓ specific training courses (4 or 12 hours depending on the destination of work);
- ✓ annual refresher course for RSPP;
- ✓ refresher and practical training for the members of the Emergency Fire Fighting Team;
- ✓ upgrade for materials handling trolley drivers.

As regards risk assessment, during 2019 Nerviano Medical Sciences S.r.l. consolidated and spread a culture of safety among its workers, suppliers and customers, developing risk awareness and promoting responsible behaviour on the part of each individual; in this sense, in cooperation and collaboration between those who work in various capacities in the Site areas, specific Interference Risk Assessment Documents (DUVRI) were formalized and shared in order to manage and eliminate this type of risk.

11. BUSINESS OUTLOOK

Nerviano Medical Sciences S.r.l. has maintained its commitment to all the research activities currently underway for the 2019 financial year. For the 2020 financial year, in addition to the normal continuation of scientific activities in the preclinical area, the strategic objective of starting and/or continuing new clinical trials in humans on at least two oncological targets is confirmed.

Management's plans presuppose a commitment to strengthen the composition of the capital of NMS Group companies in order to ensure business continuity and financial self-sufficiency in subsequent years. In this regard, reference should be made to the section on going concern in the Supplementary Notes to the financial statement.


12. OTHER INFORMATION

The cost relating to the remuneration paid to the members of the Board of Directors totalled 280 thousand Euros, that paid to the members of the Board of Statutory Auditors amount to 73 thousand Euros and that paid to the audit firm amounted to 118 thousand Euros.

Nerviano Medical Sciences S.r.l. is subject to the management and coordination of NMS Group S.p.A. pursuant to Article 2497 of the Italian Civil Code.


Nerviano, March 24th 2020

The Chairman
(Mrs. Barbara Marengo)



Nerviano Medical Sciences srl
Viale L. Pasteur, 10
20014 Nerviano (MI)
P.IVA 04379750963

***Financial Statement
at December 31, 2019
and
Supplementary Notes***


Nerviano Medical Science
Viale L. Pasteur, 10
20014 Nerviano (MI)
P.IVA 04379750967

BALANCE SHEET - Assets

Value in euro		Financial Year 2019	Financial Year 2018	Differences
A)	Receivables due from shareholders		-	-
B)	Fixed assets			
I)	Intangible Fixed Assets			
3)	patent and intellectual property rights	162.756	160.253	2.503
4)	licences trademarks and similar rights	3.625	4.327	(702)
6)	fixed assets in progress and advances	0	32.092	(32.092)
7)	other intangible fixed assets	2.555.000	-	2.555.000
	Total	2.721.381	196.671	2.524.710
II)	Tangible Fixed Assets			
1)	land and buildings	-	-	-
2)	plants and machinery	95.612	65.809	29.803
3)	industrial and commercial equipment	1.144.993	717.820	427.172
4)	other assets	191.963	160.543	31.421
5)	fixed assets in progress and advances	335.523	335.073	749
	Total	1.771.391	1.255.246	486.145
III)	Financial fixed assets			
1)	Equity investments	81.604.425	86.177.564	(4.573.139)
a)	Investments in subsidiaries	78.586.516	83.139.955	(4.573.139)
	Sumis S.r.l. investment	102.000.000	102.000.000	-
	Accelera S.r.l. investment	-	26.390.873	(26.390.873)
	Nephroma S.r.l. investment	-	33.597.615	(33.597.615)
	partecipazione NMS4 Srl	-	-	-
	Centro Ricerca Life Lab Srl investment	18.417.803	18.417.803	-
	Up S.r.l. investment	-	36.725.118	(36.725.118)
	Clonis S.r.l. investment	-	2.010.000	(2.010.000)
	partecipazione Consorzio Infa	83.330	33.715	47.615
	Provision on investments in subsidiaries	(42.314.317)	(139.187.172)	116.672.855
d-bis)	Investments in other companies	3.017.609	3.017.609	-
	Tiziana Life Sciences PLC investment	3.017.609	3.017.609	-
2)	Receivables due from subsidiaries	784.535	784.535	(812.875)
	- due within the next year	784.535	784.535	(812.875)
	- due beyond the next year	-	-	-
	Total	82.388.960	86.962.099	(4.573.139)
	Total fixed assets	86.881.732	88.444.016	(1.562.284)
C)	Current assets			
I)	Inventory	56.535	100.447	(43.912)
1)	subsidiary materials and consumables	-	-	-
2)	products in progress and finished products	-	-	-
3)	work in progress on order	-	-	-
5)	advances to suppliers	56.535	100.447	(43.912)
II)	Receivables			
1)	due from clients	2.665.463	16.661.651	(14.196.198)
	- due within the next year	2.665.463	16.661.651	(14.196.198)
	- due beyond the next year	-	-	-
2)	due from subsidiaries	2.515.430	4.097.816	(1.582.385)
	- due within the next year	2.515.430	4.097.816	(1.582.385)
	- due beyond the next year	-	-	-
4)	due from parent company	127.942	56.791	41.151
	- due within the next year	127.942	56.791	41.151
	- due beyond the next year	-	-	-
5)	due from subsidiaries	1.347.225	-	1.347.225
	- esigibili entro l'esercizio successivo	1.347.225	-	1.347.225
	- esigibili oltre l'esercizio successivo	-	-	-
5 bis)	tax credits	4.547.327	1.002.737	3.544.591
	- due within the next year	4.547.327	1.002.737	3.544.591
	- due beyond the next year	-	-	-
5 quater)	due from others	1.592.674	3.681.622	(2.088.948)
	- due within the next year	1.592.674	3.681.622	(2.088.948)
	- due beyond the next year	-	-	-
	Total	12.796.082	25.730.646	(12.934.564)
III)	Financial assets that are not fixed assets			
6)	other securities	38.173	38.822	(2.649)
	Totale	36.173	38.822	(2.649)
IV)	Cash and cash equivalents			
1)	bank and post office deposits	24.070.804	17.955.521	6.115.283
3)	cash on hand	492	480	12
	Total current assets	24.071.296	17.956.001	6.115.295
		36.960.086	43.825.916	(6.865.830)
D)	Accrued income and prepaid expenses			
1)	accrued income	155.545	1.159	154.386
2)	prepaid expenses	366.465	499.118	(132.650)
	Total prepaid expenses and accrued income	522.013	500.277	21.735
TOTAL ASSETS		124.363.831	132.770.210	

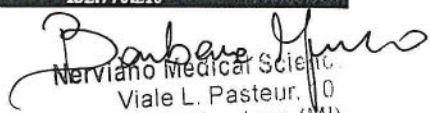
BALANCE SHEET - Liabilities

Value in euro		Financial Year 2019	Financial Year 2018	Differences
A)	Net Equity			
I)	Capital	1.040.000	1.040.000	-
II)	Quota premium reserve	28.094.746	28.094.746	-
III)	Riserve di rivalutazione	-	-	-
IV)	Legal reserve	6.538.908	1.192.756	5.346.152
VI)	Other reserves	65.916.223	68.651.662	(2.735.439)
VIII)	Profits (losses) carried forward	(46.332.655)	(67.717.264)	21.384.609
IX)	Profit (loss) for the year	4.233.773	26.730.762	(22.496.989)
	Total Net Equity	59.490.995	57.992.661	1.498.334
B)	Provisions for risks and charges			
2)	for taxes	-	-	-
4)	other	2.423.316	2.032.344	390.972
	Total provisions for risks and charges	2.423.316	2.032.344	390.972
C)	Employee severance indemnity	2.350.139	2.123.940	226.199
D)	Payables			
3)	payables to shareholders for loans	5.318.291	5.000.000	318.291
	- due within the next year	5.318.291	5.000.000	318.291
	- due beyond the next year	-	-	-
4)	payables due to banks	17.500.000	20.000.000	(2.500.000)
	- due within the next year	2.500.000	2.500.000	0
	- due beyond the next year	15.000.000	17.500.000	(2.500.000)
5)	payables to other funders	83.426	139.043	(55.617)
	- due within the next year	55.617	55.617	-
	- due beyond the next year	27.809	83.426	(55.617)
6)	advances received from clients	388.994	189.160	199.834
	- due within the next year	388.994	189.160	199.834
	- due beyond the next year	-	-	-
7)	payables due to suppliers	6.400.229	6.780.551	(380.323)
	- due within the next year	6.400.229	6.780.551	(380.323)
	- due beyond the next year	-	-	-
9)	payables due to subsidiaries	10.522.779	32.762.930	(22.240.151)
	- due within the next year	10.522.779	32.762.930	(22.240.151)
	- due beyond the next year	-	-	-
10)	payables due to parent companies	4.932.229	2.724.900	2.207.329
	- due within the next year	4.932.229	2.724.900	2.207.329
	- due beyond the next year	-	-	-
11-bis)	payables due to subsidiaries	12.635.087	-	12.635.087
	- esigibili entro l'esercizio successivo	12.635.087	-	12.635.087
	- esigibili oltre l'esercizio successivo	-	-	-
12)	taxes due	467.577	430.451	37.125
	- due within the next year	467.577	430.451	37.125
	- due beyond the next year	-	-	-
13)	payables due to social security institutions	562.007	500.876	61.131
	- due within the next year	562.007	500.876	61.131
	- due beyond the next year	-	-	-
14)	other payables	1.263.548	1.995.622	(732.074)
	- due within the next year	1.263.548	1.995.622	(732.074)
	- due beyond the next year	-	-	-
	Total payables	60.074.167	70.523.534	(10.449.367)
E)	Accrued liabilities and deferred charges			
1)	Accrued liabilities	25.214	23.409	1.805
2)	Deferred charges	-	74.322	(74.322)
	Total accrued liabilities and deferred charges	25.214	97.732	(72.518)

TOTAL LIABILITIES

124.363.831

132.770.210


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INCOME STATEMENT

(Value in Euro)

	Financial Year 31/12/2019	Financial Year 31/12/2018	Differences
A) Value of production			
1) revenue from sales and services	41.112.882	16.041.324	25.071.558
5) other revenue and income	5.777.061	5.897.511	(120.450)
Total value of production	46.889.943	21.938.835	24.951.108
B) Costi della produzione			
6) for primary, ancillary materials, consumables and goods	(1.679.608)	(1.003.603)	(676.005)
7) costs for services	(24.587.556)	(19.549.728)	(4.737.828)
8) costs for use of third party goods	(2.205.297)	(2.116.239)	(89.058)
9) staff costs:	(8.877.752)	(11.361.915)	2.484.163
- wages and salaries	(6.934.595)	(6.707.940)	(226.565)
- social security contributions	(2.232.575)	(2.225.053)	(207.320)
- severance indemnity	(513.083)	(525.443)	12.377
- other staff costs	802.393	(2.103.477)	2.905.870
10) amortisations/depreciations and write-downs:	(1.941.410)	(1.656.600)	(284.811)
- amortisations of intangible fixed assets	(638.430)	(36.233)	(602.193)
- amortisations of tangible fixed assets	(716.521)	(353.364)	(363.557)
- write-downs of fixed assets	(363.959)	-	(363.959)
- write-downs of current assets' receivables	(2.500)	(1.244.400)	1.241.900
11) changes in inventory of raw materials	-	-	-
12) risk provisions	(555.854)	(1.272.337)	716.483
14) other operating expenses	(133.015)	(42.184)	(90.832)
Total costs of production	(39.980.493)	(37.302.605)	(2.677.888)
Difference between value and cost of production (A-B)	6.909.450	(15.363.770)	22.273.220
C) Financial income and expenses			
15) Income from investments	-	57.154	(57.154)
a) From subsidiaries	-	57.154	(57.154)
16) other financial incomes:	18.487	129.998	(111.510)
a) from receivables entered in the fixed assets	-	-	-
b) from securities entered in the fixed assets	-	-	-
c) from securities entered in the current assets	-	-	-
d) income other than the above from third parties	18.487	129.998	(111.510)
<i>Others</i>	18.487	129.998	(111.510)
17) Interest and other financial expenses:	(340.223)	115.029.629	(115.370.052)
17 bis) Profit and losses of currency exchange	301.323	1.071.094	(769.770)
Totale proventi ed oneri finanziari	(20.412)	116.288.074	(116.308.486)
D) Value adjustments of financial assets			
19) write-downs	(1.105.911)	(77.273.825)	76.167.913
Total value adjustment of financial assets	(1.105.911)	(77.273.825)	76.167.913
Result before taxes	5.783.127	23.650.479	(17.867.353)
20) Income tax for the year	(1.549.354)	3.080.282	(4.629.636)
- prepaid taxes	-	-	-
- deferred taxes	-	-	-
- irap	(435.195)	-	(435.195)
- IRES	(1.350.518)	3.080.282	(4.430.800)
- tax adjustments of previous years	236.359	-	236.359
21) Profit (loss) for the year	4.233.773	26.730.762	(22.500.000)


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CASH FLOW STATEMENT

(value in euro)

	2019	2018
A. Cash flow generated from operating management		
Profit (loss) for the year	4.233.773	26.730.762
+ income tax	1.549.354	(3.080.282)
+ interests payable/(interests receivable)	20.412	(116.288.074)
- (dividends)	-	-
+ capital losses	-	-
- capital gain from transfer of assets	-	-
= Profit (loss) for the year before taxes, interests, dividends and capital interests dividends and capital gains/losses from	5.803.539	(92.637.594)
<i>Adjustments for non-monetary elements that are not offset in the net working capital</i>		
+ allocation to funds	617.171	(9.763)
+ amortisation/depreciation fixed assets	1.941.410	412.200
+ write-downs for impairment	1.105.911	77.273.825
+ Other adjustments for non-monetary elements	-	-
= Financial flows prior to adjustments of NOWC	9.468.032	(14.961.333)
<i>Changes in net working capital</i>		
+ Decrease/(increase) inventory	43.912	(66.258)
- Decrease/(increase) of receivables due from clients	14.196.198	7.277.960
+ Decrease/(increase) of payables due to suppliers	(380.323)	(1.785.769)
- Decrease/(increase) of accrued income and prepaid expenses	(21.735)	(197.022)
- Decrease/(increase) of accrued liabilities and deferred charges	(72.518)	(60.560)
- Other changes in net working capital	(10.642.796)	39.729.005
= Financial flows following adjustments of NOWC	12.590.770	29.936.025
<i>Other adjustments for non-monetary elements</i>		
- Interests collected/(paid)	(20.412)	(1.258.245)
- (Income taxes paid)	-	-
- Dividends collected	-	-
+ (Use of provisions)	108.377	-
= Financial flows following adjustments	12.678.735	28.677.780
= Cash flows from operations	12.678.735	28.677.780
B. Financial flows from investment activities		
Investments in tangible and intangible fixed assets	(1.224.770)	(1.055.600)
Other financial assets	-	0
Equity investments	(47.615)	(10.958.861)
Dividends collected by the Subsidiaries	-	-
Changes from the sale of fixed assets	-	-
= Financial flows from investment activities	(1.272.385)	(12.014.461)
C. Financial flows from investment activities		
Opening of new loans	-	-
Capital increase	(2.735.439)	24.100.000
Loan repayments	(2.555.617)	(24.100.000)
Dividends paid	-	-
= Financial flows from financing activities	(5.291.056)	-
= Changes in cash on hand and cash equivalents	6.115.295	16.663.319
Cash on hand as at January 1, 2019	17.956.001	1.292.683
Cash on hand as at December 31, 2019	24.071.296	17.956.001


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ACCOUNTING PRINCIPALS FOR THE PREPARATION OF THE FINANCIAL STATEMENTS AT DECEMBER 31, 2019

The Supplementary Note constitutes an integral part of the financial statement as at 31 December, 2019 and contains information required by Art. 2427 of the Italian Civil Code, which is in line with the regulation changes introduced by Italian Legislative Decree no. 139/15 and in compliance with the provisions of the accounting principle issued by the Italian GAAP.

In drawing up the financial statement, the principles indicated in Art. 2423 and subsequent of the Italian Civil Code have been complied with, as reformed by Italian Legislative Decree no. 139/15 in carrying out the European Directive 2013/34, and reference was made to the interpretations and integrations established by the Accounting Standards of Chartered Accountants and Accounting Experts and O.I.C documents (Italian GAAP).

The valuations of the individual balance sheet items were made based on the principle of prudence and with a view to going concern. With regard to the issue of going concern, reference is made to what is reported in the notes to the consolidated financial statement and in the notes to the parent company NMS Group S.p.A.

The Financial Statement for the period from 1/1/2019 to 31/12/2019 is composed by the Balance Sheet, the Income Statement, the Supplementary Notes and the Cash Flow Statement.

Income and charges were considered on an accrual basis independent of their financial manifestation; costs and revenue were considered pertinent although the same refer to events occurring subsequent to the date of the Financial Statement closure.

Moreover Supplementary note provides information which are deemed essential to give a true and fair view of the economic - equity and financial situation of the company.

At the end of the period, the company is 100% controlled by NMS Group S.p.A.

Going concern

After a strong transition 2018, Nerviano Medical Sciences S.r.l. closed the current year with a profit of more than 4 million Euros and a positive equity value of 59, 5 million Euros.

This result is not affected by non-recurring and/or extraordinary items and is the result of important business goals achieved between the end of 2018 and 2019 (in particular the arrival on the international market of 2 licensed drugs which had a strong and significant impact on revenues related to milestones and royalties).

The previous year was characterized by the closing of the Group's M&A process to which NMS belongs and the entry into the holding company, NMS Group S.p.A., in March 2018, of a new shareholder (pool of Chinese investors) that by means of a capital increase of 51 million Euros carried out by Luxembourg Investment 240 S.a.r.l. (indirectly held by Hefei-Sari V- Capital

Management Co. LTD) had acquired 90% of the shares of NMS Group S.p.A. and indirectly of the entire NMS Group. The previous shareholder Regional Foundation for Biomedical Research, (so called FRRB) remained in the holding company's capital with a 10% minority stake.

At the same time as the change of governance operation, the holding company and NMS S.r.l. signed a framework agreement for debt restructuring ex Art. 67 comma 3 lett. D) L.F. with Unicredit S.p.a. Bank, that provided for a total repayment of 29 million Euros as the balance and elimination of the entire debt accrued by the Group to the bank (of which 24,1 million Euros at the company's head) which at March 28, 2018 amounted to a total of 175 million Euros (of which 140,3 million Euros at the company's head).

On January 2020, the Board of Directors of NMS S.r.l. together with that of NMS Group S.p.A. approved an update of the Business Plan (2020-2024) confirming the main strategies already envisaged in the previous version and in particular with the objective of optimising the company's assets with particular attention to the company's intangible assets (the cd. "pipeline"), considering it essential to focus its financial resources on the development of new drugs also through direct investments in the clinical development phases with the aim di of not licensing preclinical products but to return to being a market player in clinical development potentially able to register their drugs. The new Plan, in addition to providing for consolidation in the market of the subsidiaries Accelera S.r.l. and NerPharMa S.r.l., with related positive impacts in terms of income and finance, notes the entry into the market of two molecules, Encorafenib, with partner Pfizer, and Entrectinib, with partner Roche, which had been licensed in 2010 and 2013 respectively and which, as previously described, during 2018, the first, and 2019 the second obtained registration in the market by the major world regulators. These events represent for NMS and obviously for the Group as a whole, a moment of strong discontinuity, positive, compared to the past, as the royalty flow provided by the contracts and the international reach of the licensees will represent from an economic and financial point of view an important support for future development.

The new Business Plan considered:

- of the recruitments described previously;
- the company's outstanding debt to Banca Popolare di Sondrio, subscribed on 31 May 2017, the remainder of which, as at December 31, 2019, is equal to Euro 17,5 million of the initial 25 million Euro subscribed and which provides for a repayment plan in a further 7 annual instalments of Euro 2,5 million each;
- of the financial requirements of the company and the Group as a whole, as reflected in the projected cash flows prepared by management for at least the next 12 months,;
- of the loan agreement issued by Bank of China in favor of NMS Group Spa for 20 million euros, subscribed on June 19th 2019 to be repaid in a single payment in June 2022;

shows an economic and financial performance such that the Board of Directors of NMS S.r.l.,

- having analysed the same,
 - given the approval of the same plan by the holding company and its will to continue to provide financial support and industrial development of the business in progress,
- deemed that the set of transactions described above can contribute to ensuring the continuation of the operations of the company and of the Group for the whole of 2020 and reasonably also beyond that date and, therefore, allow the preparation of these financial statement according to the going concern as there are no conditions of significant uncertainty.

Accounting standards

B I) INTANGIBLE FIXED ASSETS

Intangible fixed assets are booked at the original purchase cost and amortized on a straight-line basis relevant to the period of expected future use. The rates used are proportional to a period not exceeding five years.

Costs for pure research applied relevant to the pre-clinical and clinical trial stages of Phase I and II of each product are recorded in the Income Statement for the period in which they are incurred.

In compliance with the new accounting standard OIC 9, if there is an impairment loss, regardless of the amortization already paid, the company will estimate the recoverable amount of the fixed assets, that is accordingly amortized.

The recoverable amount of an asset or cash generating unit is the higher between its value in use and its fair value, net of sales costs. An impairment loss is the decrease in value that expresses the recoverable amount of a fixed asset, determined with a long-term perspective, lower than its net accounting value.

The original value, net of the amortization that would have been calculated should no write-down have been booked, is recovered when the reasons for the value adjustment no longer exist.

Pursuant to art. 2427, sub. 3-bis of the Italian Civil Code, it is noted that the intangible fixed assets did not suffer any impairment losses, except for those relevant to amortizations.

B II) TANGIBLE FIXED ASSETS

Tangible fixed assets are booked at purchase or production cost and the relevant depreciation was calculated on the basis of the residual useful life of the asset.

The purchase or production cost includes accessory charges and costs incurred for the amount reasonably attributable to the asset until the date of entry into operation of the same.

Fixed assets have an amount consistently lower than those determined pursuant to the above-mentioned standards were booked at this lower amount.

However, pursuant to the art. 2427, sub. 3-bis of the Italian Civil Code, it is noted that, over the period, tangible fixed assets did not suffer any impairment losses, except for those relevant to depreciations.

It is specified that the tangible fixed assets have never been subject to revaluation procedures pursuant to specific laws, and to re-evaluation processes carried out for other purposes

Maintenance and repair costs with conservative effects are charged to the Income Statement for the period in which they were incurred on an accrual basis.

Those of an incremental nature, in that they are aimed at extending the useful life of the asset or its technological adaptation, are attributed to the asset to which they refer.

The cost of fixed assets with limited use over time is depreciated on a straight-line basis of the economic technical rates determined in relation to the residual useful life.

The following rates, which reflect the result of the technical depreciation schedules, were applied, since the same were considered representative of the effective deterioration, also specifying that the year in which the asset became operational the coefficient was calculated on the basis of the relevant period of possession.

The depreciation rates applied to the values of assets not fully depreciated existing as at December 31, 2019, unchanged compared to the previous year are highlighted here below:

Tangible fixed assets	%
Building	5,50%
Lightweight construction	10,00%
Industrial plant/general machinery	10,00%
Slightly corrosive plant and machine	12,00%
Waste water treatment	15,00%
Various lab equipment	40,00%
Ordinary office furniture and machinery	12,00%
Electrical equipment	20,00%
Motor vehicles/automotive	25,00%
Internal transport vehicle	20,00%

Impairment loss

At each closing date of the financial year, the existence of indicators that indicate the probability that a fixed asset may have undergone impairment is assessed.

Should such indicators exist, goodwill, other intangible assets and tangible assets are subjected to an "impairment test" in order to verify that the recoverable value of such assets, defined as the higher

value between the value in use and the fair value ("*fair value*") less costs to sell, is higher than their carrying amount.

In the event that the recoverable amount is lower than the net book value, it is reported at the recoverable value, recognising the loss in value, as a general rule, in the Profit and Loss Account under the item "*Other write-downs of fixed assets*". The original value is reinstated if the reasons for the impairment are no longer valid (with the exception of any write-downs made with regard to goodwill).

B III) FINANCIAL FIXED ASSETS

Investments in the subsidiaries Simis S.r.l. and Centro di Ricerca Life Lab S.r.l. in Liquidation were booked, as long-term investments, among the financial fixed assets.

The investments in subsidiaries are valued at cost and written down in the case of permanent losses in value. For companies subject to conferment, the carrying value of the investment coincides with the value of the net assets transferred.

C I) INVENTORY

Inventory of raw materials, semi-finished and finished products are evaluated at the lower amount between the purchase or production cost and the estimated realizable value inferable from the market trend. Specifically, the purchase cost was used for materials of direct or indirect use, purchased and used in the production cycle. The cost of production was, however, used for finished products or that are being obtained from the manufacturing process. For the determination of the purchase cost the price effectively paid, net of any commercial discounts, was taken into consideration.

For the cost of production, instead, other than the cost of materials used, as above defined, the directly and indirectly charged industrial costs were taken into consideration.

The obsolete warehouse inventory and slow turnaround are measured at their presumable realization value, for this purpose their value is adjusted by a provision for obsolescence.

C II) RECEIVABLES

Receivables are recognized according to the amortized cost method, taking into consideration the time factor and the estimated realizable value. In particular, the initial value is represented by the nominal value of the credit, net of all premiums, discounts and rebates, and including any costs directly attributable to the transaction that generated the credit.

Transaction costs, any commission income and expenses and any difference between the initial value and the nominal value at maturity are included in the calculation of the amortized cost using the effective interest criterion.

The company has chosen to use the optional exception provided by Legislative Decree no. 139/15, which introduced the criterion for the evaluation of the amortized cost to be used for the representation of receivables, payables and fixed assets represented by securities, which allows not to apply the amortized cost criterion for receivables, payables and fixed assets represented by securities registered in the 2015 balance.

Consequently, the positions that arose from January 1, 2016 have been valued using the amortized cost criterion, while the positions which arose prior to January 1, 2016 have been accounted for using the old rules.

Any estimates of losses are based on the analytical valuation of receivables that present risks of non-collectability

CIII) CURRENT FINANCIAL ASSETS

The shares held in Banca Popolare di Sondrio are recorded, given that they are not long-term investments, under current financial assets and valued at cost or, if lower, at market value.

B) PROVISIONS FOR RISKS AND CHARGES

Provisions for risks and charges are set aside to cover losses or debts of a specific nature, certain or probable at the end of the financial year, but whose amount or date of occurrence is uncertain. The provisions reflect the most reliable estimate on the basis of available information.

C) EMPLOYEE SEVERANCE INDEMNITY (so called T.F.R.)

The provision represents that actual debt accrued towards all employees as at year-end and was calculated according to the provisions contained in Law no. 297 of May 29, 1982, in accordance with the national collective labour agreement and supplementary company agreements. The provisions correspond to the total of individual indemnities accrued in favour of employees as at the date of the financial statements, net of advances paid, and is equal to what should have been paid thereto in the event of termination of the employment relationship as at that date.

D) PAYABLES

Payables are recognized in the financial statements according to the amortized cost method, taking into consideration the time factor, and the estimated realizable value. In particular, the initial value is

represented by the nominal value of the debt, net of all premiums, discounts and rebates, and including any costs directly attributable to the transaction that generated the debt.

Transaction costs, any commission income and expenses and any difference between the initial value and the nominal value at maturity are included in the calculation of the amortized cost using the effective interest criterion.

The company has chosen to use the optional exception provided for by Legislative Decree no. 139/15, which introduced the criterion for the evaluation of the amortized cost to be used for the representation of receivables, payables and fixed assets represented by securities, which allows not to apply the amortized cost criterion for receivables, payables and fixed assets represented by securities registered in the 2015 balance. Consequently, the positions that arose from January 1, 2016 have been valued using the amortized cost criterion, while the positions which arose prior to January 1, 2016 have been accounted for using the old rules.

E) ACCRUED LIABILITIES AND DEFERRED INCOME

The criteria for booking the accrued liabilities and deferred income were determined in compliance with the accrual basis accounting and calculated pursuant to art. 2424 bis, 6 of the Italian Civil Code. These entries correspond to the amounts pertinent to the period payable in subsequent years or paid within the date of the financial statement but pertinent to following years. These items only include portions of economic items, common to several financial years, the amount of which varies over time.

REVENUES AND COSTS FOR THE YEAR

Costs and revenues are recorded in the financial statements on an accrual basis. Revenues from the sale of products were recognized at the time of transfer of ownership, which normally corresponds to delivery or shipment, whilst revenues from services were recognized based on the progress of works. Revenues and income, costs and charges relating to foreign currency transactions are determined at the exchange rate in effect on the date on which the transaction was performed.

TAXES

The calculation of the tax burden and, as a result the relevant payable due to the tax authorities, is carried out on the basis of a realistic forecast of the taxes to be paid, in application of the applicable tax laws in force.

The company has elected, together with Simis S.r.l., Accelera S.r.l. and NerPharMa S.r.l. to be subject to the National Tax Consolidation filed by the parent company NMS Group S.p.A. on October 27, 2017, valid for the three-year period 2017-2019, to which indirect control is entrusted

For that which regards deferred taxes, the provision of the accounting standard OIC 25 “*accounting treatment of income taxes*” was applied for the determination and recognition of the advance and deferred taxes resulting from the temporary differences between the amounts recorded in the accounting values and the amounts recognized for tax purposes.

For the principle of prudence, any advance taxes are recorded only where a reasonable certainty exists for recovery of the same based on the results relevant for tax purposes expected for the following years.

FOREIGN CURRENCY TRANSACTIONS

Receivables and payables originally expressed in foreign currency are booked in the financial statements using the spot exchange rate in force as at December 31, 2019 the relevant profits and losses on exchange rates are charged to the Income Statement and any net profits are allocated to a specific non-distributable reserve until realization.

During the period no transactions were executed for the hedging of specific exchange risks relevant to commercial transactions with clients and suppliers.

ANALYSIS OF THE ITEMS OF THE BALANCE SHEET AND INCOME STATEMENT¹

The most relevant items of the Balance Sheet and Income Statement are commented in the Supplementary Note in thousands of Euros, and they are compared with the previous year's value.

The items in the Balance Sheet and Income Statement that do not appear have a zero balance or are considered irrelevant. Changes during the year also include the share contributed by UP S.r.l. and Closs S.r.l. following the merger.

INFORMATION ON THE BALANCE SHEET

B.1) INTANGIBLE FIXED ASSETS

Net intangible assets at December 31, 2019 amount to 2.721 thousand Euros.

In consideration of their long-term usefulness, the intangible assets recorded in the financial statements are amortized over a five-year period.

¹ Any increase or decrease of 1 unit is due to rounding

Transactions made during the year are as follows:

	31/12/2018	Merger contribution	Purchase	Transfer from assets under construction	Write-downs	Amortisations	31/12/2019
Patent and intellectual property rights	160	-	39	32	-	(69)	163
Licenses and projects software	160	-	39	32	-	(69)	163
License, brands and patents	4	-	-	-	-	(1)	4
Brands	4	-	-	-	-	(1)	4
Other immaterial assets	-	2.865	-	-	-	(310)	2.555
Goodwill	-	564	-	-	(564)	-	-
Intangible fixed assets under development	32	-	-	(32)	-	-	-
Total	197	3.429	39	0	(564)	(380)	2.721

The merger contribution increases, equal to 3.429 thousand Euros, refer to four molecules of which UP S.r.l. had patent ownership since its incorporation (Danutertib, Milciclib, Onvansertinib and CDC-7 inhibitors) and the goodwill of Closs S.r.l., subsequently write-down.

The increases amount to 39 thousand Euro, details of which are provided in paragraph 5. "INVESTMENTS" in the Directors' report.

B II) TANGIBLE FIXED ASSETS

Net tangible assets at December 31, 2019 amount to 1.771 thousand Euros. Depreciation was determined based on rates in line with the residual possibility of use of the assets. The transactions made during the year are summarized as follows:

	31/12/2018					31/12/2019					31/12/2019			
	Historical value	Revaluation (write-downs)	Amort. Fund	Valuation at balance		Purchases	Merger contribution	Transfer from assets under construction	Transfer Costs	Amort. Fund	Revaluation (write-downs)	Historical value	Revaluation (write-downs)	Amort. Fund
Plants and machinery	11.690	-	(11.371)	69		50	2	-	-	-	(26)	11.690	0	(11.396)
General machinery	11.214	-	(11.215)	81		25	2	-	-	-	(25)	11.246	-	(11.215)
eq. for highly expensive processing	318	-	(335)	0		-	-	-	-	-	(35)	339	-	(333)
eq. for highly expensive processing	2	-	(2)	-		-	-	-	-	-	-	2	-	(2)
Water waste treatment machinery	4	-	(4)	-		-	-	-	-	-	-	4	-	(4)
al and commercial equipment	21.177	-	(20.460)	718		802	-	248 (59)	38	(622)	-	22.168	-	(21.623)
Laboratory equipment	21.177	-	(20.460)	718		802	-	248 (59)	38	(622)	-	22.168	-	(21.623)
Other assets	4.860	-	(3.999)	161		85	16	1 (3)	3	(89)	-	4.158	-	(3.966)
Transport vehicles	5	-	(5)	-		-	-	-	-	-	-	5	-	(5)
Automotive	5	-	(5)	-		-	-	-	-	-	-	5	-	(5)
eq. office furniture and stationary	267	-	(263)	4		-	-	-	-	-	(1)	269	-	(268,1)
Office electron. Equip.	3.771	-	(3.612)	159		21	18	1 (3)	3	(67)	-	3.869	-	(3.677)
Items in progress and advances	338	-	-	338		249	-	(248)	-	-	-	339	-	-
and assets in progress and advances	338	-	-	338		249	-	(248)	-	-	-	339	-	-
Total	37.215	-	(35.939)	1.285		1.185	19	-	(62)	61	(717)	38.355	-	(36.593)

For increases in the year of 1.185 thousand Euros, please refer to paragraph 5. "INVESTMENTS" in the Directors' report.

B.III) FINANCIAL FIXED ASSETS

Financial fixed assets amount to 82.389 thousand Euros and are composed by investments and by financial receivables due from subsidiaries.

Equity investments amounted to 81.604 thousand Euros and are represented in the table below:

Investments in subsidiaries (value in Euro)

	Site	Net Equity	PN	Profit (loss) for the period		% ownership	Balance Value
				31/12/2019	31/12/2018		31/12/2019
Simis Srl	Viale Pasteur 10, 20014 Neriano	30.000	53.951		276	100	78.503
Centro di ricerca Life Lab Srl	Contrada Valcorrente SC 05032 Belpasso CT	20	1194		(8)	100	-
Consorzio Infra in liquidazione	Viale Pasteur 10, 20014 Neriano	100	559		60	5,33	83
Totale							78.587

Name	% ownership	shares value	Balance Value
Tiziana Life Sciences Ltd	4.333.616	0,00	3.015
Total			31.604

The change of financial receivables from subsidiaries is shown in the table below:

	31/12/2019	Changes for the period	31/12/2018
Financial receivables	785	-	785
Total	785	-	785

Simis S.r.l. is the company that owns the real estate assets of the research center and specialises in the maintenance and management of both real estate and scientific pharmaceutical and research facilities and equipment.

The book value as at December 31, 2019 of the investment in Simis S.r.l. was equal to 78.503 thousand Euros net of a write-down of 24.097 thousand Euros.

In relation to the entry into the NMS Group of a new Chinese investor, operation concluded on March 28, 2018 with the acquisition by the company, Luxembourg Investment Company 240 Sarl, of 90% of the shares of the parent company NMS Group S.p.A. and in the context of the necessity of the same, as envisaged by the international accounting standards, to calculate the "*Purchase Price Allocation*" (PPA), that is the process of assigning a "*fair value*" to all the major assets and liabilities acquired the indirect parent company Chinese, Hefei SARI Oborgen Biopharma Co., Ltd., entrusted this task to Grant Thornton Value Management Consulting Co. Ltd. China.

In the analysis, the consultant assigned a higher value to the industrial land and buildings held by the subsidiary Simis S.r.l. (net of the effect of deferred taxes) of approximately 24.828 thousand Euros before depreciation. Considering the value of the Net equity of the company Simis S.r.l. at December 31, 2019 and the higher value to be paid to land and buildings not stated in the subsidiary's financial statements, the Net Equity adjusted for the analysis of the impairment test is congruent compared with the carrying amount of the investment.

Centro Ricerche Life Lab S.r.l. in liquidation (ex SSR S.r.l.): A company that has been held since August 2010, non-operational, and which holds exclusively health-related receivables in its assets in favour of Azienda Sanitaria Locale Roma E. The company included in its assets receivables from the health service of the Lazio Region for a nominal value of 18, 4 million Euros, the presence of which has not yet been formally recognized by the counterparty. After filing two injunctive decrees on July 30, 2014 and March 25, 2015 an application for access to administrative documents was filed with ASL Roma 1 during 2016. (ex ASL Roma E and subsequently at the Lazio Region.

ASL Roma 1 replied that the invoices were for reason not recognised by the Lazio Region and therefore rejected and contested by the Region. Regione Lazio, in turn, following an appeal to the Regional Administrative Court against the silent denial of access to the documentation relating to the receivables in question, in a note dated January 25, 2018, replied by contesting the credit reasons of Centro di Ricerche Life Lab S.r.l. and adding that the requested documentation had not been found. Following the full write-down of receivables in the portfolio, the company has recorded, since 2013, a loss exceeding the value of its shareholders' equity, thus being in the case provided for by Article 2482-ter of the Italian Civil Code, with a negative Net Equity. The Shareholders' Meeting of April 29, 2016 therefore entered the company into voluntary Liquidation and appointed Mr. Roberto Monteforte, former Chief Executive Officer, as Liquidator.

At December 31, 2019 the company had a negative net equity of 194 thousand Euros. NMS S.r.l. consequently wrote down the value of the investment in its financial statements, by setting aside the entire amount to the risk fund.

The management of the parent company Nerviano Medical Sciences S.r.l. is still willing to close the liquidation within the first months of 2020 through a merger by incorporation.

The item "*Investments in Other Companies*", amounting to 3 million Euros, represents the holding of 4.233.616 shares in Tiziana Life Sciences Plc, acquired in 2015 following the licensing agreement, equivalent to approximately 5% of the company's capital. The shares, as provided for by the agreement, were recorded at a unit value of half a pound sterling, totalling 2.138 thousand of pounds equivalent to approximately 3 million Euros, equal to the value reported in the agreement. The agreement also provides for success-based milestones, equals to 35 million dollars, plus royalties if the product is sold to the market. Tiziana shares received as upfront fees are not negotiable before the completion of at least one Phase II study.

The agreement, also, provides for Tiziana a call option, which can be exercised in the event of failure of Phase II of the Hepatocellular or Breast clinical trial, or if, after 5 years from the signing of the agreement, no phase II has been launched or in the event that Tiziana decides to abandon the research project for just cause. The repurchase price agreed in the event that Tiziana exercises the option is contractually established in a pound sterling. Any dividends and other economic rights pertaining to such shares remain with NMS S.r.l. but give rise to the temporary deposit of the amounts in a restricted deposit that can only be exercised when the aforementioned call option is no longer valid.

The decision of the Management of Nerviano Medical Sciences S.r.l. to purchase the Tiziana shares as upfront fees stems from the intention to directly monitor the molecule development process, whilst maintaining a possibility of influencing the decision-making process and the intention to forge

a strategic alliance with the company, in addition to the belief that the development process may have a positive outcome. As shareholder of Tiziana Life Sciences, the company maintains the right to be constantly informed about the progress of the product development and marketing activities. It also maintains its right to vote in the Shareholders' Meetings in relation to the shares held and is a regular member (with at least two participants) of the Joint Development Committee, a committee with the purpose of overseeing, reviewing and coordinating the product development plan, including any amendment and/or change that should be decided upon for its clinical development and patent strategies.

The combination of these instruments allows the company to protect its interests and safeguard the value of its shares.

It should be reminded that, a Phase II clinical trial refers to an assessment study of the drug on selected patient populations, in order to assess its efficacy and tolerability and to define its dosage. Phase II studies can also be divided into phase IIA (pilot study, often open-label with various doses, but with measurable results) and phase IIB (randomized parallel-group studies with broader case studies and compared with placebo). It is therefore necessary to specify that there is a risk which phase II studies may be discontinued in the event that the drug proves to be excessively toxic or in the event that it is found to be ineffective. Therefore, there is a possibility of Tiziana exercising the aforementioned call option by purchasing the shares held by Nerviano for the symbolic value of a pound sterling.

Despite this, the company deemed it appropriate to record this item in the financial statements, including for the part relating to the shares, for the following reasons:

- ✓ The nature of upfront fees of the shares received and the decision of the company's Management to invest in these shares in lieu of accepting entirely monetary upfront fees;
- ✓ The contractual obligation of the licensee to develop at least one of the two main indications to which the right to sell the shares is related.

In the opinion of the company's Management, given the current progress of the clinical trials

The book value of the shares at December 31, 2019 is higher than the market value at the same date.

The company did not consider it necessary to adjust the value and write it down because, given the extremely variable trend of listed biotech prices, often directly related to specific press releases, and considering that this was the first year in which this case occurred, it did not consider this loss as a permanent loss.



C I) INVENTORY AND WORK IN PROGRESS ON ORDER

At December 31, 2019 the item amounts to 57 thousand Euros and referred to advances to national suppliers.

	31/12/2019	of which merger contribution Up srl	of which merger contribution Closs srl	Changes for the period	31/12/2018
Finished products	-	-	-	-	-
Finished products	1.426	-	-	(6)	1.432
Provision for finished products	(1.426)	-	-	6	(1.432)
Semi finished products	-	-	-	-	-
Semi finished products	154	-	-	(0)	155
Provision for semi finished products	(154)	-	-	0	(155)
Advances to suppliers	57	-	-	(44)	100
Total	57	-	-	(44)	100

C II) RECEIVABLES

At December 31, 2019 this item amounts to 12.796 thousand Euros and it composed as follows:

	31/12/2019	of which merger contribution Up srl	of which merger contribution Closs srl	Changes for the period	31/12/2018
Receivables due from clients	2.665	-	698	(14.196)	16.862
Receivables due from clients	2.675	-	698	(14.194)	16.869
Provision for receivables	(10)	-	-	(3)	(7)
Receivables due from subsidiaries	2.515	-	-	(1.582)	4.098
Receivables due from subsidiaries	1.347	-	-	1.347	-
Receivables due from parent companies	128	-	-	41	87
Tax credits	4.547	-	0	3.545	1.003
IRAP receivable	-	-	0	-	-
IRES receivable	59	-	-	-	59
Other tax credits	4.488	-	-	3.545	944
Receivables due from others	1.593	0	106	(2.089)	3.682
Employee advances	13	-	6	10	3
High employees severance indemnity Receivables	924	-	100	2	922
Others	656	0	1	(2.101)	2.757
Total	12.796	1	804	(12.935)	25.731

The breakdown of trade receivables by geographical area shows receivables from Italian customers for 632 thousand Euros, customers belonging to the UE for 966 thousand Euros, Extra UE customers for 1.077 thousand Euros. These receivables are net of a write-down provision for an amount of 10 thousand Euros. The contribution of the merger of Closs S.r.l., amounting to 698 thousand Euros, mainly refers to receivables due to EU customers.

The reduction in trade receivables is mainly due to the fact that on January 17, 2019 the company collected 13.658 thousand Euros from the customer Ignyta.

Receivables from subsidiaries equal to 2.515 thousand Euros were mainly due to:

- receivables from security deposits paid to Simis S.r.l. for 2.240 thousand Euros;
- receivables from other group companies, equal to 275 thousand Euros, for services provided, relating to Information & Communication Technologies activities and on-site technical services and for credit transfers made within the Group.

Receivables from parent companies, amount to 128 thousand Euros and it refers to invoices to be issued for services provided to NMS Group S.p.A.

The item "Tax receivables" equals to 4.547 thousand Euros refers to 8% withholdings on collections from US foreign customers.

The item "Other Receivables", amounts to 1.593 thousand Euros, composed by 924 thousand Euros for receivables due from INPS (Italian National Social Welfare Institute) for the employee severance indemnity fund (of which 100 thousand Euros from merger contribution), 656 thousand Euros of "Other receivables" mainly composed by 585 thousand Euros of Security deposits (of which 170 thousand Euros of ItalPower and 400 thousand Euros of Energie Italia).

The decrease in "Other receivables" compared to the previous year is mainly due to the collection of contributions relating to a research and development project financed by the National Research and Competitiveness Operational Programme 2007-2013 (PON R&C).

Pursuant to Article 2427, paragraph 1, p.6 of the Italian Civil Code, it should be noted that there were no receivables due after five year.

CIII) FINANCIAL ASSETS

Amount to 36 thousand Euros and consist, for 45 thousand Euros, of the purchase of 14.750 shares by Banca Popolare di Sondrio, of which 4.750 assigned with option rights during 2014.

At December 31, 2019 a provision was made to the reserve for doubtful accounts amounting to 3 thousand Euros, in consideration of the fact that the market value of the shares at the end of 2019, amounting to 2,11 Euros, was lower than the average unit carrying amount, calculated at 3,69 Euros.

C IV) CASH AND CASH EQUIVALENTS

These amounted to 24.071 thousand Euros and consisted of cash and cash equivalents and short-term bank accounts.

D) ACCRUED INCOME AND PREPAID EXPENSES

The item, at December 31, 2019, is equal to 522 thousand Euros. The composition and changes of the period are the following:

	31/12/2019	of which merger contribution Up srl	of which merger contribution Closs srl	Changes for the period	31/12/2018
Accrued income	156	0	66	154	1
Prepaid expenses	366	0	4	(133)	499
<i>Lease</i>	0	-	-	(1)	1
<i>Insurance</i>	61	0	4	13	48
<i>Licenses, maintenance and IT outsourced services</i>	2	-	-	(205)	207
<i>Various</i>	300	-	-	60	240
<i>V's subsidiaries</i>	3	-	-	(0)	3
<i>V's subsidiaries</i>	0	-	0	0	0
Totale	522	0	70	22	500

Accrued income and Prepaid Expenses refer to costs relating to the ordinary management of the company, already accounted for in 2019, but pertaining to subsequent years.

The amount of 522 thousand Euros is mainly composed by Prepaid expenses for 366 thousand Euros which refer to insurance costs for 61 thousand Euros and 300 thousand Euros for patent costs incurred in 2019 but whose accrual is after the end of the financial year.

A) NET EQUITY

At December 31, 2019, Net Equity amounts to 59.941 thousand Euros. The quota capital (comprising a single share) equals to 1.040 thousand Euros is entirely held by the parent company, NMS Group S.p.A..

The table below shows the changes during the year in the amount of shareholders' equity over the last three financial years:

(ammontari in Euro/1,000)	Quota capital	Legal reserve	Other reserves	Profits (losses) carried forward	Profits (losses) for the Year	Total
Balance at 31 December 2015	40	1.193	53.646	(34.920)	(10.650)	9.280
Report the result of 2015				(10.650)	10.650	-
Capitalization transaction			10.000			10.000
Report the result of 2016					(4.123)	(4.123)
Balance at 31 December 2016	40	1.193	63.646	(45.599)	(4.123)	15.157
Report the result of 2016				(4.123)	4.123	-
Capitalization transaction			10.000			10.000
Report the result of 2017					(17.995)	(17.995)
Balance at 31 December 2017	40	1.193	73.646	(49.722)	(17.995)	7.162
Report the result of 2017				(17.995)	17.995	-
Capitalization transaction	1.000		23.100			24.100
Report the result of 2018					26.731	26.731
Balance at 31 December 2018	1.040	1.193	96.746	(67.717)	26.731	57.993
Report the result of 2018		5.346,15		21.385	(26.731)	0
Demerger operation Accelera S.r.l. e NerPharma S.r.l.			(2.735)			(2.735)
Report the result of 2019					4.234	4.234
Balance at 31 December 2019	1.040	6.539	94.011	(46.333)	4.234	59.491
<i>of which:</i>						
No- distributable share	1.040	1.306			847	3.195
Distributable share		5.231	94.011	(46.333)	3.387	56.296
	1.040	6.539	94.011	(46.333)	4.234	59.491

Other reserves decreased by 2.735 thousand Euros as a result of the demerger of the equity investments in Accelera S.r.l. and NerPharMa S.r.l. to NMS Group S.p.A.. The amount refers to the value of the Net Equity of the two companies at February 28, 2019.

In the meeting of shareholders' of April 30, 2019 for the approval of the merger plan it was decided that *"the actual value of the shareholders' equity that will be assigned to the beneficiary coincides with the book values and amounts to 1.121 thousand Euros for the First Demerger (relating to the assignment of the equity investment in Accelera S.R.L.) and Euro 1.615 for the Second Demerger (relating to the assignment of the equity investment in NerPharMa S.R.L.). Any differences that may occur between the reference date of the accounting situation and the effective date of the demerger will be settled between the beneficiary company and the company being demerged by means of a cash settlement or reciprocal debit or credit items, thus not resulting in changes in the amount of the accounting assets transferred to the Beneficiary"*.

B) PROVISIONS FOR RISKS AND CHARGES

Provisions for risks and charges amount to 2.423 Euros. The table below shows the changes during the year in the amount of provisions for risks and charges:

	31/12/2018	Merger contribution Closs srl	Provisions	Utilizations	Changes for the period Release	31/12/2019
Provisions for risks on future costs	1.846	5	548	(10)	(159)	2.229
Provision for risks on negative Net Equity parent company	186		8			194
Total	2.032	5	556	(10)	(159)	2.423

➤ Provisions for risks amount to 2.229 thousand Euros including:

- estimated costs of 50 thousand Euros for the dismantling of the chemical synthesis fermentation pilot plant;
- provision for contingent liabilities against former employees of the company, amounting to 2.166 thousand Euros;
- Provisions, for 9 thousand Euros, for legal expenses for an injunction received by the company from a former director for alleged variable compensation due for the years 2009-2011 for the results achieved as NMS Administrator;
- Merger contribution Closs srl for 4 thousand Euros.

➤ Provision for risks to hedge the negative Net Equity of the subsidiary Centro Ricerche life Lab S.r.l. in Liquidation which, at December 31, 2019 amounts to 194 thousand Euros.

The release of the fund refers to procedure 231 as already mentioned in the Directors' Report.

C) EMPLOYEE SEVERANCE INDEMNITY

The severance indemnity balance amounted to 2.350 thousand Euros gross of 924 thousand Euros in receivables due from the INPS (Italian National Social Welfare Institute) for the amount paid to the institution in accordance with Welfare regulations and represents the rights accrued at December 31, 2019 by employees, based on the current legal provisions, the National Collective Labor Agreement and the supplementary company agreements. The analysis of the transactions carried out in the fund is as follows:

	Provision value as at 31/12/18	Other charges	Transfer	Provision	Merger CLOSS	Tax Substitute	Payment to welfare provisions	Amounts Liquidated	Treasury AC	Provision value as at 31/12/19	Payment to INPS	Provision gross of payment to INPS
Tfr Executives	133			67	35	(0)	(26)	(36)	(16)	133	(133)	267
Tfr Managers	847	(11)		239	65	(2)	(182)	(9)	(27)	939	(238)	1.177
Tfr Employee	234	11	(21)	186	85	(1)	(108)	(27)	(29)	352	(354)	886
Total	1.214	-	(21)	513	184	(3)	(318)	(72)	(72)	1.425	(924)	2.350

D) PAYABLES

Payables at December 31, 2019 amount to 60.055 thousand Euros. The breakdown of items and related transactions are analysed below in their most relevant parts:

	31/12/2019	of which merger contribution Up srl	of which merger contribution Closs srl	Changes for the period	31/12/2019
Payables to shareholders for loans	5.318	-	318	318	5.000
Payables due to banks	17.500	-	-	(2.500)	20.000
Other short term loan	2.500	-	-	-	2.500
Other long term loan	17.000	-	-	(2.500)	17.500
Payables to other funders	83	-	-	(56)	139
Advances received from clients	359	-	357	200	189
Payables due to suppliers	6.400	5	257	(380)	6.781
National Suppliers	1.748	5	66	48	1.868
Foreign Suppliers	1.348	-	97	182	1.627
Invoices to receive from national suppliers	2.257	-	88	41	2.317
Invoices to receive from national suppliers	1.048	-	7	(651)	1.487
Payables due to subsidiaries	10.523	-	164	(22.240)	32.763
Invoices to receive from subsidiaries	374	-	14	(511)	503
Receivables due from subsidiaries	10.148	-	151	(21.750)	31.838
Payables due to subsidiaries	12.635	619	5.845	12.635	-
Invoices to receive from subsidiaries	3.235	258	19	3.235	-
Receivables due from subsidiaries	9.400	361	5.826	9.400	-
Payables due to parent company	4.932	1.819	4.661	2.207	2.725
Invoices to receive from parent company	608	1.819	148	337	251
Other payables due to parent company	4.324	-	4.514	1.870	2.474
Tax payables	468	2	82	37	430
Wages employees	303	2	78	53	230
Wages professionals	5	1	3	(17)	22
Payables IRI/AP	180	-	-	1	180
Other tax payables	-	-	-	-	-
Payables due to social security institutions	562	1	114	61	501
INPS on wages of december	254	1	78	86	308
Contribution on allocation	58	-	11	10	48
Others	110	-	25	(34)	144
Others payables	1.264	21	198	(732)	1.996
Payables for unused vacation days	100	-	8	41	38
Other payables due to employees	834	-	137	(879)	1.613
Other	230	21	53	106	124
Total	60.074	2.466	11.998	(10.449)	70.524

Payables to shareholders for loans amounted to 5.318 thousand Euros of which 318 thousand Euros are due to the parent company, NMS Group S.p.A. as a shareholder loan granted to support the financial needs of the company and of its subsidiaries.

Medium-/long-term payables due to banks equal to 17.481 thousand Euros, represent the payable to Banca Popolare di Sondrio following the dispute settlement agreement, which provides for a repayment, in 7 annual instalments, of 2, 5 million Euros each, respectively, plus accrued interest.

Payables to other funders, equal to 83 thousand Euros, refers to a loan granted by Finlombarda S.p.A. for the Bando MIUR - Regione Lombardia for the project "R&D - Integrated Translational Analysis Platform called PATRP" ended in 2014 and for which the company had received on 7 August 2015 the collection of the subsidized credit related with an amortization plan with half-yearly instalments starting from 2017.

Trade payables by geographical area for 6.400 thousand Euros shows:

- Payables due to National suppliers for 4.005 thousand Euros (of which 2.257 thousand Euros for invoices to be received)
- Payables due to UE suppliers for 1.692 thousand Euros (of which 890 thousand Euros for invoices to be received)

- Payables due to Extra- UE suppliers for 703 thousand Euros (of which 156 thousand Euros for invoices to be received)

Payables to subsidiaries amount to 10.523 thousand Euros (of which 374 for invoices to be received) and are divided into:

- payables to Simis S.r.l. for 10.520 thousand Euros relating to some credit transfer transactions carried out between the various companies of the Group and the current active rental contract with the same;
- payables to Consorzio Infra in Liquidation for 2 thousand Euros for the recharge of the costs incurred for the operations of the Nerviano site.

Payables to associate companies amount to 12.635 thousand Euros (of which 3.235 for invoices to be received) and are divided into:

- payables to Accelera S.r.l. for 8.616 thousand Euros (of which 1.724 thousand Euro for invoices to be received) related to intragroup credit assignments and for activities supporting the NMS S.r.l. pipeline projects
- payables to NerPharMa S.r.l. for 4.019 thousand Euros (of which 1.510 thousand Euros for invoices to be received) related to intragroup credit assignments and for active ingredient and finished product development on projects in the NMS pipeline.

Payables to the parent company amount to 4.932 thousand Euros, of which for 608 thousand Euros or to invoices to be received, and refer to payables to NMS Group S.p.A. for invoices to be received on staff activities charged by the same during the period and for receivables transfers within the Group.

Items “Other payables” and “Payables due to social security institutions “ for 1.871 thousand Euros mainly refer to employee payables for holidays, unused paid leave, the provisions for unpaid attendance and the short-term portion of the allocation for the mobility procedure Law 223/91 thus as described in Paragraph “4. HUMAN RESOURCES AND INDUSTRIAL RELATIONS” of the Directors’ Report, from payables due to Board of Statutory Auditors and Supervisory Body.

Finally, it should be noted that the amount of payables expressed in currency other than the euro at December 31, 2019 amount to 96 thousand GBP, 540 thousand USD and 2 thousand CAD valued at the exchange rate at the end of the year, for an equivalent of approximately 581 thousand Euros.

There are no debts whose duration exceeds five years with the exception of the debt against Banca Popolare di Sondrio.

INFORMATION ON THE INCOME STATEMENT

A) VALUE OF PRODUCTION

The value of production amounts to 46.890 thousand Euros at December, 31 2019; the composition of the items and relevant movements are analysed here below for the most important items:

	31/12/2019	of which merger contribution Up srl	of which merger contribution Closs srl	Changes for the period	31/12/2018
Revenue from sales and services	41.113	-	1.026	24.687	16.041
Revenue from sales and services	7.195	-	1.026	(3.422)	10.617
Revenue from services to subsidiaries	23	-	-	(2.423)	2.446
Revenue from services to parent company	38	-	-	(109)	147
Revenue from services to subsidiaries	385	-	-	-	-
Revenue from research and development projects	31.088	-	-	28.256	2.831
Royalties	2.385	-	-	2.385	-
Other revenue	5.777	0	10	(120)	5.898
Grants on financed projects	139	-	-	33	106
Utilization of provision risk fund	10	-	-	10	-
Other revenue to subsidiaries	589	-	-	(4.137)	4.745
Other revenue to parent company	476	-	-	115	362
Other revenue to subsidiaries	4.581	-	-	4.581	-
Various income	(18)	0	10	(703)	685
Total	46.890	0	1.036	24.951	21.939

The value of production includes both service activities performed in favour of customers, mainly in applied to pharmaceutical technology to support clinical trials that activities in favour of the Group for Information and Communication technologies.

Revenue from sales and services amount to 7.195 thousand Euros and are determined by scientific services to third parties and revenues from scientific activities carried out for the Regional Foundation for Biomedical Research in relation to the preclinical and clinical areas of the Lombardy Oncological Network projects.

Revenue from research and development projects amount to 31.088 thousand Euros and the increase is mainly due to milestones related to the registration of Entrectinib in Japan for one therapeutic indication and in the USA for two therapeutic indications.

Royalties resulting from the current license agreement with the customer Array Biopharma Inc. and Ignyta Inc.

Other revenue, equal to 5.777 thousand Euros, is mainly generated by other revenues from subsidiaries for 4.581 thousand Euros relating to charges for technical services and costs of Information & Communication Technologies and contributions for projects financed for 106 thousand Euros.

B) COSTS OF PRODUCTION

B.6) Costs for primary, ancillary materials, consumables and goods

As December 31, 2019 these amounted to 1.680 thousand Euros. The breakdown of items and related transactions are analysed below in their most relevant parts:

	31/12/2019	of which merger contribution Up srl	of which merger contribution Closs srl	Changes for the period	31/12/2018
Purchase of consumables not in stock	1.656	40	0	687	969
Purchase of stationary/paper	15	-	5	(2)	17
Others	9	-	-	(9)	18
Total	1.680	40	5	676	1.004

Purchases of non-stock material mainly refer to chemicals, pharmaceuticals, reagents and laboratory supplies for in vitro and in vivo experiments.

B.7) Costs for services

These include costs for:

	31/12/2019	of which merger contribution Up srl	of which merger contribution Closs srl	Changes for the period	31/12/2018
Technical consultancy from parent company	233	-	-	(7,748)	7,981
Energy utilities	7.270	-	-	467	6,803
Services from parent company	1.865	3	297	523	1,342
Services from Consorzio	2	-	1	(824)	825
Patent consultancy	581	-	-	152	330
Maintenances and repairs	703	-	97	311	372
Consultancy for research	919	-	343	501	358
Corporate costs	311	74	73	231	280
Other services outsourced	233	-	4	(17)	232
R. & D. services	1.246	-	-	1,080	160
Insurances	134	1	14	2	132
Maintenances and repairs from subsidiaries	127	-	-	9	118
Managerial consultancy	47	-	-	(83)	110
Catering	89	-	13	(2)	92
Others	108	1	3	35	73
Reimbursement travel expenses and tickets	89	-	18	18	71
Telephonic expenses	78	-	21	19	59
Non recurring costs for services	(43)	(1)	(24)	(78)	35
Legal advice	77	-	-	47	30
Maintenances and repairs from subsidiaries	38	-	38	38	-
Maintenances and repairs from parent company	536	-	-	536	-
Trasporti per studi clinici da consociata	10	-	5	10	-
Costs for staff recruitment	93	-	19	93	-
Technical consultancy v/subsidiary	8	-	1	3	-
Other services from subsidiary	16	-	16	16	-
R. & D. services from associated company	8,801	458	18	8,801	-
R&S biostatistics / data management	19	-	19	19	-
Project contract wages	103	-	73	103	-
Project contract contributions	16	-	12	16	-
Gardening expenses from parent company	14	-	-	14	-
Participation in conferences and conventions	33	-	6	23	29
Councils	38	-	18	39	19
Notary services	25	3	3	7	18
Waste disposal	16	-	-	1	17
Administrative and tax consultancy	33	-	-	20	14
On line scientific subscriptions	14	-	14	(5)	14
Reimbursement of automotive	3	-	1	(1)	3
Technical and IT consultancy	233	-	127	232	3
Consultancy and medical-activity	3	-	0	0	3
Professional training	23	-	1	21	2
Total	24.588	579	1.231	4.738	19.850

Costs for services amount to 24.588 thousand Euros, and mainly include:

- Energy utilities for 7.270 thousand Euros refer to electricity and steam costs for the entire site;
- Parent company services for 1.865 thousand Euros refer to costs, charged back by NMS Group S.p.A., for central staff;

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- Maintenance and repairs, equal to 703 thousand Euros, mainly referring to costs incurred to maintain IT system equipment.
- R. & D. services equal to 1.240 thousand Euros. This cost item increased compared to the previous year as collaborations with external laboratories were activated to support the pre-clinical development of pipeline projects;
- R. & D. services from subsidiary companies, particularly from Accelera S.r.l. and NerPharMa S.r.l., provided to support pipeline projects

In the item “Others” are mainly included costs for Supervisory board, expenses of work wear, no recurring costs for services relating adjustment on 2018 allocations.

It should be noted that the cost relating to remuneration paid to the members of the Board of Directors for 2019 amounts to 280 thousand Euros, that paid to the members of the Board of Statutory Auditors amount to 113 thousand Euros and fees of audit firm amounted to 118 thousand euros.

B.8) Costs for use of third party goods

This item breaks down as follows:

	31/12/2019	of which merger contribution Up srl	of which merger contribution Clioss srl	Changes for the period	31/12/2018
Vehicle rental	13	-	-	4	8
Rental of Office machinery	30	-	2	29	1
Software licenses	121	-	2	13	107
Rental from parent	84	-	-	84	-
Rental from subsidiaries	3	-	3	3	-
Rental from subsidiaries	1.953	-	67	(48)	2.000
Total	2.205	-	76	89	2.116

The item includes 1.953 thousand Euros in rental expenses relating to the rental agreement signed on April 29, 2016 with Simis S.r.l., valid for 6 years and renewable for another six years on expiry and 121 thousand Euros of software leasing used by staff's company and 84 thousand Euros rentals from subsidiaries relating to the reversal of costs incurred by the subsidiary Simis S.r.l. for the rental of the thermal power plant (during 2018 these costs were included in the charge-back of consortium costs made by Consorzio Infra in Liquidation).

B.9) Staff costs

Staff costs amount to 8.878 thousand Euros. The breakdown of these costs is provided in the Income Statement for the year, which should be referred to.

The average number of employees and the breakdown by category are shown below.

	Average no. of employees 2019	Changes for the period	Average no. of employees 2018
Executives	8	(0)	8
Managers	67	3	64
Employee	69	2	66
Total	143	5	138

B.10) Amortization, depreciation and impairment

Amortization and depreciation of intangible assets for the year amount to 658 thousand Euros, while amortization and depreciation of tangible assets amount to 717 thousand Euros.

The breakdown is as follows:

	31/12/2019	of which merger contribution Up srl	of which merger contribution Closs srl	Changes for the period	31/12/2018
Amortization of intangible fixed assets	658	258	279	602	56
Trademarks	1	-	-	(2)	1
Software licenses	28	-	-	14	14
Goodwill	279	-	279	279	-
Software projects	41	-	-	-	41
Amortization other intangible fixed assets	310	258	-	310	-
Amortization of tangible fixed assets	717	-	6	361	356
General machinery	25	-	1	3	22
Machinery for slightly and highly corrosive processing	0	-	-	(2)	0
Office furniture and machinery	59	-	5	16	53
Various equipments	622	-	-	342	279
Electrical equipments	1	-	-	(1)	1
Write-downs of receivables	3	-	-	(1.242)	1.244
Write-downs of other assets	564	-	-	364	-
Total	1.941	258	285	285	1.657

The item other write-downs of fixed assets refers to the write-down of the goodwill of Closs S.r.l. after the merger of December 19, 2019.

B.12) Risk provisions

The item is equal to 556 thousand Euros, for the detail of which, please refer to section “B - FUNDS FOR RISKS AND CHARGES” and is composed of:

- 538 thousand Euros for potential liabilities towards former employees of the company;
- 9 thousand Euros for legal expenses for an injunction received by the company from a former manager;
- 8 thousand Euros referring to the adjustment of the net equity of the subsidiary company Centro di Ricerche Life Lab in liquidation.

B.14) Other operating costs

These had a negative value of 133 thousand Euros and are composed as follows:

	31/12/2019	of which merger contribution Up srl	of which merger contribution Closs srl	Changes for the period	31/12/2018
Taxes	55	1	4	35	20
Membership fee	20	-	-	(2)	22
Entertainment expenses	48	-	7	42	6
Subscription paper, magazine and periodical	2	-	-	(1)	3
Non recurring revenues	-	-	-	10	(10)
Various	9	0	2	7	2
Total	133	1	14	91	42

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The tax charges, amounting to 55 thousand Euros, mainly refer to registration duty on rents and membership contributions for 20 thousand Euros, payment of the TARI (Regional Administrative Court) for 2019 for 8 thousand Euros and customs duties for 22 thousand Euros.

The associated contributions, amounting to 20 thousand Euros, refer to the annual contributions paid to Federchimica and Farindustria.

C) FINANCIAL INCOME AND EXPENSES

C.16) Other financial incomes

The amount of 18 thousand Euros refers to the following items:

	31/12/2019	of which merger contribution Up srl	of which merger contribution Closs srl	Changes for the period	31/12/2018
Other interest income	15	0	15	(113)	128
Interest income from a bank account	3	-	0	2	1
Income on investment	-	-	-	(57)	57
Income on investment management	1	-	0	(2)	1
Total	18	0	15	(169)	187

It should be noted that the item “Other financial income” refers to interest income paid by a client for interest on arrears.

C.17) Interest and financial charges

The composition and change in this item, which amount to 340 thousand Euros, are shown in the table below:

	31/12/2019	of which merger contribution Up srl	of which merger contribution Closs srl	Changes for the period	31/12/2018
Interest expense	336	-	-	(42)	378
Default interests	4	-	-	(5)	9
Non recurring interest and financial charges	-	-	-	116.154	(116.154)
Non recurring costs for financial charges	-	-	-	(737)	737
Total	340	-	-	115.370	(115.030)

Interest expense mainly refer to interest on the debt to Banca Popolare di Sondrio for the year 2019.

It should be noted that the item Non recurring interest on financial charges for 2018 represented the income generated by the closure of the Unicredit debt, the balance of which, amounting to 140 million Euros, had been repaid in full for a total of 24 million Euros.

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C.17 bis) Profits and losses of currency exchange

At December 31, 2019 this item amounts to a profit of 301 thousand Euros. The composition and changes that occurred in the period are as follows:

	31/12/2019	of which merger contribution Up srl	of which merger contribution Closs srl	Changes for the period	31/12/2018
Unrealized exchange rate losses	562	2	(0)	354	207
Unrealized exchange rate gains	167	-	0	(507)	674
Realized exchange rate gains	331	-	0	125	206
Realized exchange rate losses	(758)	-	(1)	(742)	(16)
Total	301	2	(1)	(770)	1.071

This item includes the profits and losses realized and unrealized, recorded during the period at the time the receivables were collected and debts were paid. The item “Unrealized exchange rate loss/gains” results from the conversion, at the exchanges rate at December 31, 2019, of the receivables and payables expressed in foreign currency at the end of the year.

D) VALUE ADJUSTMENTS TO FINANCIAL ASSETS

Value adjustments of financial assets, at December 31, 2019, amount to 1.106 thousand Euros.

	31/12/2019	Changes for the period	31/12/2018
Investment on management write-downs	(9)	(3)	(6)
Investments write-downs	(1.097)	76.171	(77.268)
Accelera S.r.l. Investments write-downs	(38)	1.118	(1.156)
Nerpharma S.r.l. Investments write-downs	(1.059)	1.885	(2.944)
Closs S.r.l. Investments write-downs	0	188	(188)
UP S.r.l. Investments write-downs	0	54.318	(54.318)
Simis S.r.l. Investments write-downs	0	18.661	(18.661)
Total	(1.106)	76.168	(77.274)

Following the reduction in the net book equity of the subsidiaries Accelera S.r.l. and NerPharMa S.r.l. before the demerger in favour of NMS Group S.p.A. the related investments have been written down to the extent of those values.

The item “Investment on management write-downs” refers to write downs of Banca Popolare di Sondrio’ share as mentioned in in the section “C III) FINANCIAL FIXED ASSET”.

20) INCOME TAX FOR THE YEAR

Income tax for the year

At December 31, 2019 the company closed with a tax profit of 5.627 thousand Euros and, therefore, a tax burden income of 1.351 thousand Euros. The company recognize IRAP for 435 thousand Euros.

Other information

Commitments, guarantees given and potential liabilities not shown on the balance sheet

Pursuant to Article 2427, subsection 9 of the Civil Code, the following commitments, guarantees given and contingent liabilities not shown in the balance sheet are highlighted:

Guarantees

The company has a guarantee for 220 thousand Euros with Banca Popolare di Sondrio for the loan received from Finlombarda for the “Call for proposals for industrial research and experimental development in the energy sectors of the Lombardy Region and the Ministry of Education”.

Commitments

The company has not assumed commitments that have not been recognized in the Financial Statement.

Potential liabilities

The Company has not assumed contingent liabilities that have not been recognized in the Financial Statement.

Income or cost elements resulting from exceptional transactions

Pursuant to Article 2427, point 13 of the Italian Civil Code, it should be noted that no income or cost elements resulting from exceptional transactions.

Fees of manager and statutory auditors

Below are reported information about fees of manager and statutory auditors pursuant to Article 2427, point 16 and 16-bis of the Civil Code:

1) Position	2) 2019	3) 2018
Directors	280.000 Euro	85.000 Euro
Board of Auditors	113.000 Euro	73.000 Euro
Independent auditing firm	118.000 Euro	88.000 Euro

Transactions with related parties not concluded at market conditions

Transactions with related parties were concluded at normal market conditions, with the exception of loans received from the shareholder and granted to subsidiaries.

Derivative financial instruments

Pursuant to art. 2427-bis, first paragraph, n. 1 of the Italian Civil Code, the Company has not underwritten derivative financial instruments.

Agreements not resulting from the Balance Sheet

There are no agreements not resulting from the Balance Sheet, which can significantly influence the equity and financial situation and the economic result of the company, pursuant to art. 2427, point 22-ter of the Civil Code.

Information pursuant to art. 1, paragraph 125, of the law of 4 August 2017 n. 124

According to the art. 1, paragraph 125, of the Law of 4 August 2017, n. 124, in compliance with the obligation of transparency, it should be noted that, during the year, the following sums were received for subsidies, contributions, paid positions and in any case economic advantages of any kind from public administrations:

Organization	Cash collected 2019 (value in Euro)
Fondazione per la Ricerca Sulla Fibrosi	8.866,20
Fondazione Crui	63.006,00
Asst Papa Giovanni XXIII	8.196,72
Fondazione Regionale per la Ricerca Biomedica	7.215.836,06
Total	7.295.904,98

Name and registered office of the company preparing the consolidated financial statements

With reference to the information required by article 2427, point 22-quinquies and sexies of the Civil Code, the company NMS Group S.p.A., with its registered office in Nerviano, street L.Pasteur 10, prepares the Group's consolidated financial statements.

Significant events after the reporting period

Due to COVID-19 local infection cases in some of the Italian Regions, since February 21st , 2020 Decrees about containment of infection and medical emergency were issued. On March 8th , 2020 the Italian Prime Minister issue a DPCM - Prime Minister Decree - providing for containment measures based on geographic areas of action, then on March 10th, 2020 such containment was extended to the whole national Italian territory.


Presence of such virus in Italian national territory and internationally will reasonably impact on 2020 Company business progress; probably in terms of delays in performing activity and related economic and financial consequences whose extension cannot be measured at the date approval of the financial statement.



Proposals for the allocation of profits or the hedging of losses

With reference to the information required by Article 2427, point 22-septies of the Italian Civil Code, it is proposed to the Shareholders' Meeting to allocate the profit for the year as follows:

Profit at 31-12-2019	Euro	4.233.773,06
Legal reserve	Euro	846.754,61
Carry forward	Euro	3.387.018,45


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Viale L. Pasteur, 10
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Essential data regarding the company exercising management and coordination activities

Pursuant to Article 2497-bis, paragraph 4 of the Italian Civil Code, below is a summary of the essential data resulting from the latest approved financial statements of the parent company, NMS Group S.p.A., as at 31.12.2018

Description	2018
Fixed assets	111.545
Financial assets that are not fixed assets	3
Net working capital	20.432
Net invested capital	131.979
Provisions for risks and charges and Severance Indemnity	(1.002)
Net invested capital and funds	130.978
Net financial position	5.565
Totale Net invested capital and net financial position	136.543
Net Equity	136.543

Description	2018
Value of production	4.493
Costs of production	(7.335)
Gross operating result (E.B.I.T.D.A.)	(2.842)
Amortisation depreciation and write-downs	(985)
Net operating result (E.B.IT.)	(3.826)
Net financial charges	29.439
Value adjustments of financial assets	(0)
Operating result before taxes	25.612
Current taxes	(4.620)
Prepaid and deferred taxes	0
Net profit	20.992

Report
of the Board of Statutory
Auditors
on the financial statement

Report
of the Audit firm
on the financial statement