Annual Financial Report at December 31st 2017

Approved by the shareholders' meeting of April 12, 2018

English translation
for convenience

FROM GENES TO THERAPY

MOLMED S.p.A.
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Share Capital € 21,514,284.36 fully paid - Office of Milan Company Registry number 1506630 - Tax identification n. 11887610159

MOLMED

From genes…

Our mission: focusing on innovative cell and gene therapies that can meet the therapeutic needs in the treatment of cancers and rare diseases, by combining scientific and research excellence with a clear and strong industrial project.

…to therapy

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General corporate information

Registered office:	Via Olgettina, 58 – 20132 MILANO (Italy)
Operating unit:	OpenZone, Via Meucci, 3 - 20091 Bresso (MI), Italy
Tax Number:	11887610159
VAT no.:	IT 11887610159
Milan Company Register:	no. 11887610159
REA (economic and administrative index):	1506630
Share capital:	Euro € 21,514,284.36 fully paid
Ticker Borsa italiana:	MLM
ISIN:	IT0001080248
Ticker Reuters:	MLMD.MI
Ticker Bloomberg:	MLM IM
LEI code	815600342FDC0C3F6E10
Outstanding shares: (100% ordinary shares with no par value)	456,962,393

DISCLAIMER

This financial report may contain certain forward-looking statements. *Although the company believes its expectations are based on reasonable assumptions, these forward-looking statements are subject to numerous risks and uncertainties, including scientific, business, economic and financial factors, which could cause actual results to differ materially from those anticipated in the forward-looking statements.*

The company assumes no responsibility to update forward-looking statements or adapt them to future events or developments.

This document does not constitute an offer or invitation to subscribe or purchase any securities of MolMed S.p.A.

Corporate bodies

President	Claudio Bordignon
Chief Executive Officer	Riccardo Palmisano
Directors	Alberto Luigi Carletti
	Laura Iris Ferro, *independent*
	Sabina Grossi
	Carlo Incerti, *independent*
	Mario Masciocchi, *independent*
	Alfredo Messina
	Elizabeth Robinson, *independent*
	Raffaella Ruggiero, *independent*
	Didier Trono, *independent*

The Board of Directors was appointed by the Shareholders' Meeting of April 18th, 2016, and shall remain in office until the Shareholders' Meeting called to approve the Financial Statements of December 31st, 2018.
Riccardo Palmisano also serves as "Director in charge of the internal control and risk management system".

Board of Statutory Auditors

Chairman	Riccardo Perotta
Standing auditors	Flavia Daunia Minutillo
	Enrico Scio
Deputy Auditors	Alessia Bastiani
	Giuliana Maria Converti

The Board of Statutory Auditors was appointed by the Shareholders' Meeting of April 18th, 2016, and shall remain office until the Shareholders' Meeting called to approve the Financial Statements of December 31st, 2018.

*Control and Risks Committee **

Chairman	Mario Masciocchi, *independent*
Members	Sabina Grossi
	Elizabeth Robinson, *independent*

** Also carries out the function of Committee for Transactions with Related Parties*

Remuneration and Nomination Committee

Chairman	Raffaella Ruggiero, *independent*
Members	Laura Iris Ferro, *independent*
	Didier Trono, *independent*

External Auditing Firm

EY S.p.A.

Scientific Advisory Board

MolMed's Scientific Advisory Board (SAB), chaired by Professor Claudio Bordignon, is an independent advisory body - typical of companies in which the quality of projects is determined by the value of their scientific content - which plays a role of guidance in the research and development of new therapeutic strategies, and gives an the external objective assessment of the results obtained.

MolMed's Scientific Advisory Board offers a unique combination of knowledge and experience, provided by leading international scientists. Its membership includes:

- Claudio Bordignon, Chairman and Founder – Founding member of the Scientific Board of the European Research Council; Professor of haematology at the University Vita-Salute San Raffaele in Milan (Italy)
- Malcolm K. Brenner, Director of the Centre for Cell and Gene Therapy at the Baylor College of Medicine, Houston, Texas, USA; Professor of Medicine and Paediatrics at Fayez S. Sarofim (Baylor College of Medicine), Houston, Texas, USA.
- Gianpietro Dotti, member of the UNC Lineberger Comprehensive Cancer Centre, Professor of the Department of Microbiology and Immunology at the University North Carolina School of Medicine, North Carolina, USA;
- Mohamad Mohty, Professor, Director of Haematology and Cell Therapy at the Saint-Antoine Hospital, Pierre and Marie Curie University, Paris, France;
- Miguel-Angel Perales, Vice-Director of the Bone-marrow Transplant Service at the Memorial Sloan Kettering Cancer Centre, NY, USA.

The professional profiles of the members of the Scientific Advisory Board are available on the Company's website (www. MolMed.com).

Letter to the Shareholders

Dear Shareholders,

The year just ended was undoubtedly a genuine turning point for Advanced Gene and Cell Therapy, a technological area in which MolMed operates. The analysis presented in March 2018 by Alliance for Regenerative Medicine[1] on the international scenario in the industry is fundamentally based on two objective elements, which we believe is appropriate to pick up on, owing to the significant impact that they will have over the next few years.
First and foremost, the approvals in the second half of 2017 by the FDA in the United States of the first CAR-T therapies and the first gene therapy for the treatment of a rare disease, which confirmed the positive risk-benefit ratio and the transformative nature of this highly innovative approach, also recognising its value in the definition of the associated prices.
At the same time, the growth interested the financial markets and the big bio-pharma companies in relation to the cell & gene world: in 2017, the gene and cell therapy segment alone registered an increase of more than 78% in capital investments compared to the previous year, reaching a total amount of USD 7.5 billion, while in the same period, the big bio-pharmaceutical companies concluded a series of acquisitions and partnerships, unprecedented in terms of the dimensions and multiples recognised, with specialised cell & gene companies.
Within this extremely dynamic scenario, in 2017, MolMed recorded significant results in relation to both the proprietary pipeline and GMP services on behalf of third parties.

In terms of proprietary products, the company actually concluded a series of commercial licence agreements regarding Zalmoxis® with Dompé farmaceutici, TTY and Megapharm, obtaining extremely quick access to the top European markets, Germany and Italy, and reaching a best negotiated price, which recognises the high value of its product, aligning it to the best prices of CAR-T in the United States.
Also for CAR T CD44v6, 2017 was a very positive year: MolMed presented promising pre-clinical safety and effectiveness data, regarding both blood tumours and some solid tumours. Based on these experimental results, the Company is completing a dossier targeted at obtaining the authorisation of the first human trials, which we are confident of being in a position to start by the end of this year.
In the same year, the company also recorded significant results in terms of the development services and GMP production on behalf of third parties, with the signing of two new major contracts with top-ranking international partners: Rocket Pharma, a US company specialised in gene therapies for rare diseases, and Cellectis, a French biotech firm which focuses on the research of allogeneic CAR-T therapies, chose the excellence of MolMed for the development and production of some of their highly innovative products.
Lastly, 2017 saw the successful continuation of the process of approval by the Regulatory Authorities of the second facility, built by MolMed at the Bresso Open Zone campus, which will greatly expand the space available as much for the development and production of proprietary products, as for the activities carried out by a growing number of customers-third parties.

[1] Alliance for Regenerative Medicine (ARM) is the main global organisation dedicated to support for regenerative and advanced therapies. ARM promotes research, development, investment and the marketing of transformative treatments and care for patients all over the world.

The results described are reflected in the economic-financial data, which saw growth in revenues from ordinary activities of 18% in the last year, and an improvement of 40% in the operating result. These indicators, which have recorded a continuous and clear improvement since 2015, together with available cash exceeding Euro 18 million with no debt, complete the framework in which MolMed is preparing to address and support the strategic priorities that, also thanks to the invaluable support of its new Scientific Advisory Board (SAB), it has identified for its future development.

First and foremost, further development of Zalmoxis®, will be a priority, in terms of both the penetration of new markets, and the therapeutic extension, thanks to demonstration of the positive risk-benefit ratio of clinical use of the product.

Secondly, simultaneously with the first human trials of CAR-T CD44v6 for acute myeloid leukaemia and multiple myeloma, it will be important to identify the most appropriate approach for the first experimentation on solid tumours.

Lastly, leveraging the experience acquired will be of primary importance, working not only on the development of the current product portfolio in the oncology-haematology area, but also on expansion of the CAR-T pipeline, with the development of other therapeutic targets and the introduction of new technology platforms.

In conclusion, starting with the results obtained with Zalmoxis®, one of the first authorised cell therapies in the world and real proof of concept of MolMed's concrete ability to go from basic research to introduction to the market, and from constantly expanding GMP Service activities, the Company believes it is in an ideal position to take advantage of the extraordinary momentum in the industry at global level, developing its excellence and exploring potential opportunities offered by the markets other than the Italian and European ones.

Thanks to this clear strategic focus and on the strength of the objectives reached in the last two years, the quality of its personnel, the valuable contribution from the governance bodies, the excellence of the new Scientific Advisory Board and the constant support from shareholders, MolMed is ready to confidently tackle the challenges that lie in wait in the short-term and medium-term, in order to play a key role in the world of cell & gene therapy, which has definitively proven to be one of the biggest undertakings for the resolution of serious health issues that are still lacking an effective response.

[Signed by]

Claudio Bordignon
Chairman

[Signed by]

Riccardo Palmisano
Chief Executive Officer

1. *A history of excellence*

MolMed is a medical biotechnology company, focused on research, development and clinical validation of novel gene and cell therapies to treat cancer and rare diseases, by combining scientific and research excellence with a clear and solid industrial project.

Created in 1996 as a spin-off of the San Raffaele Scientific Institute of Milan, dedicated to research, development and production in the field of gene and cell therapy, applied to both rare genetic diseases and haematologic neoplasms, over the years MolMed has developed a dual business model, where R&D activities for its own products are placed alongside GMP development and production services on behalf of third parties. Among the first companies in Europe to boast laboratories authorised for the GMP production of gene and cell therapies for the market, MolMed is now a consolidated company, as much in the CDMO (Contract Development & Manufacturing Organisation) area, where it boasts major international partnerships and growing turnover, as in the area of proprietary products, where it is able to internally carry out all the functions typical of a biotechnology company, from basic research, to development, production, up to clinical approval, to regulatory activities and negotiation of the price and reimbursement of its therapies.
The current product portfolio of MolMed includes three therapies:

- Zalmoxis® (TK), a cell therapy that allows the transplants of haematopoietic stem cells from donors partially compatible with the patient, eliminating post-transplant immunosuppression, currently at Phase III of clinical trials for the treatment of high-risk leukaemias, but has already received the Conditional Marketing Authorisation – CMA[2] from the European Commission, labelled haematological malignancies. Based on the CMA of 2016, Zalmoxis® was the object of licence agreements for all EU countries, as well as Switzerland, Israel, Turkey, Australia and a number of South-East Asian countries. At the start of 2018, it received the Marketing Authorisation in the two main markets for bone marrow transplants, Italy and Germany, while access, price and reimbursement activities are continuing in the other European markets.

- CAR-CD44v6, an immune gene therapy project, potentially effective for haematological neoplasms and several solid tumours, currently at the last phase of pre-clinical development, which demonstrated a high level of effectiveness and safety in experimental animal models.

- NGR-hTNF, a new therapeutic agent for solid tumours displays anti-tumour activity through its specific binding to blood vessels feeding the cancer and to the concentration of immune system cells into the tumour mass, involved a large program of advanced clinical development (phases II and III), which involved more than 1,000 patients.

MolMed also conducts Cell&Gene therapy projects in collaboration with third parties, offering resources and expertise in support of development and production for pre-clinical and clinical studies (Phase I-III). These projects include the development and the validation of the manufacturing process and control strategy, and the cGMP production of clinical-grade viral vectors and genetically modified cells. Thanks to its consolidated leadership in this sector, in the last few years, MolMed has entered into close agreements with some of the

[2] The detailed recommendations for the use of Zalmoxis®, described in the Summary of Product Characteristic (SmPC), are attached to the European Public Assessment Report (EPAR), available on the EMA's website.

major players in the gene and cell therapy sector, including Fondazione Telethon, GlaxoSmithKline (GSK), Genenta Science, Rocket Pharma and Cellectis, for the provision of development, manufacturing and technology transfer services for the clinical application of gene therapies based on viral vector cell transduction.

In particular, according to the agreements signed in 2011 and 2013, MolMed worked on the development and validation of the production process, the analytical methods and the supply process for the compassionate use of StrimvelisTM (autologous CD34+ cells transduced to express the gene encoding for ADA) of GSK, an ex-vivo gene therapy based on stem cells, for the treatment of patients with an extremely rare disease called ADA-SCID (Severe Combined Immunodeficiency due to Adenosine Deaminase deficiency) that obtained the EMA marketing authorisation in 2016. Following a successful collaboration process, based on the agreement signed with GSK in March 2015, and thanks to the AIFA authorisation of the manufacturing facility at DIBIT (Department of Biotechnologies at the San Raffaele Hospital) and the price & reimbursement guaranteed by AIFA to GSK, MolMed manufactures Strimvelis™ for the market.

In fact, MolMed has had the status of "Pharmaceutical Company" (Officina farmaceutica) since 2003 for its GMP facility located at DIBIT and carries out all activities in compliance with the guidelines on best practices for the production of genetically modified patient-specific cells and of active pharmaceutical ingredients. Thanks to the additional authorisation received from AIFA on December 1st, 2015, MolMed is the only Pharmaceutical Company authorised to manufacture gene therapies for the market.

In 2013, MolMed started a major project aimed at expanding its manufacturing capacity, which led to the construction of a second manufacturing facility at the Open Zone science park in the Municipality of Bresso (Milan). In July 2017, the AIFA granted this second facility the status of "Pharmaceutical Company" for the manufacturing of gene therapy experimental medicines. On completion of the AIFA authorisation process for other areas of GMP Manufacturing, MolMed will have trebled its production capacity with an additional and larger facility besides the one already operating at San Raffaele Hospital.

MolMed is a public company listed since March 2008, on the Mercato Telematico Azionario (MTA - screen-based equity market) managed by Borsa Italiana (Ticker Reuters: MLMD.MI).

2. *Therapeutic needs in the treatment of cancer*

MolMed's activities are focused on oncology and medical oncology-haematology, the therapeutic area devoted to cancer treatment. Cancer (i.e. tumour or neoplastic disease) is any type of malignant cell growth caused by abnormal and uncontrolled local cell proliferation that can have origin in different tissues, and its spread to other organs through the lymphatic system or the blood stream, giving origin to metastases.

In fact, cancer is actually a wide and heterogeneous group of diseases, made up of over 200 different types of tumour, commonly divided into two broad categories: solid tumours, and blood tumours (or haematological malignancies).

Conventional treatment options available for solid tumours are surgery, radiotherapy and pharmacotherapy (or chemotherapy). Early surgical removal is potentially curative for some tumour types. Sometimes, surgical treatment proves not to be sufficient or is unavailable for patients with advanced and/or metastatic disease. In this case, available options are only radio- and pharmacotherapy, often used in sequential combination. In haematological malignancies settings (e.g. leukaemia and lymphomas), these treatments are often followed by transplants of haematopoietic stem cells.

Within pharmacotherapy, the most commonly used regimens are based on cytotoxic agents, known as chemotherapies and characterised by high toxicity, lack of specificity and loss of efficacy over time, leading

patients to undergo a particular line of treatment until they become refractory or reach the maximum tolerated cumulative toxicity, and then having to switch to another line of treatment (when available).

Clinical benefits limited over time and high levels of toxicity of current standard treatments translate into a significant level of unmet medical needs in oncology, making it an area of high intensity in terms of research and development investments, with high potential for new therapies based on a better understanding of the mechanisms implied in tumour genesis and growth, and thus able to provide increased selectivity, reduced toxicity, enhanced therapeutic efficacy and improved survival of patients.

Over the next few years, the growth in the pharmaceutical market at global level will be guided by spending on oncological therapies, which constitute the main segment for global spending in 2016, and the second for rapidness of growth, after autoimmune therapy, according to a report drafted at the end of 2016 by the IMS Institute[3]. In Europe, the United States and Japan, cancer is the second most common cause of death, and recently an increase in incidence has been observed. This phenomenon is due to a combination of several factors. First of all to the ageing of the population worldwide. This leads per se to an increased incidence of cancer, as the risk of all tumours increases with age. Moreover, as treatments for cancer become more effective in prolonging patient survival the number of affected people increases, and the fall of mortality leads to a general increase of prevalence, i.e. of the number patients living with the disease.

Indeed, it is the very high level of medical needs in oncology, especially for certain types of tumours, that has decisively determined the emergence of the innovative therapies, based on biologics or nonetheless, derived from the use of biotechnologies. Such innovative therapies have as a common trait the fact of being specific and/or targeted, i.e. directed at specific molecular targets involved in tumour genesis and/or tumour growth, and thanks to their targeted action, they have a remarkably lower systemic toxicity if compared to conventional therapies.

The molecular targets of novel therapeutics may be tumour type-specific, or common to different tumour types, or specific to the blood vessels feeding the tumour mass or to the factors supporting their formation and growth: in the second and third case, they offer the potential for application of a therapy in several different oncology indications.

Finally, new targeted therapies often can act both as single-agent alternatives, and as enhancers of or in synergy with existing treatments. The current focus in tumour therapy improvement is to use a combination of different classes of agents rather than a single therapeutic approach: looking forward, the introduction of next-generation biotech-derived cancer therapies could enable further extension of patients' survival and improvement of their quality of life, eventually reducing tumours from rapidly progressing and life-threatening diseases to well-managed chronic pathologies.

The investigational therapeutics and/or therapeutic strategies developed by MolMed belong to the context of novel anti-tumour biologics.

[3] QuintilesIMS Institute, December 2016

3. The activities: research, development and production

3.1 R&D: targeted therapies for the treatment of severe and high-risk tumours

MolMed's activities are primarily focused on identification, characterisation, pre-clinical and clinical development of novel therapies for tumours with very different patterns and very different levels of incidence: however, they all share the common traits of severity and actual need of new therapeutic options. Alongside these unique activities of the R&D process, MolMed has also developed expertise in the fundamental areas of interaction with the International Regulatory Authorities and with Price and Reimbursement Systems.

The company is focused on tumours considered to be rare or uncommon, although with ever-growing incidence because of exposure to environmental conditions that contribute to disease onset, that have no or very few therapeutic options available (so-called unmet clinical needs). However, clinical experimentation of MolMed therapies also extends to much more widespread tumours, thus having indeed a much wider range of treatments available or in development - such as colorectal, ovarian and non-small cell lung cancer (NSCLC) - but with many patients becoming either intolerant (because reaching cumulative toxicity) or refractory (because of loss of disease control over time) to all possible treatment lines. For these heavily pre-treated patients with no effective treatment lines left, MolMed devotes its efforts to offer a new therapeutic option.

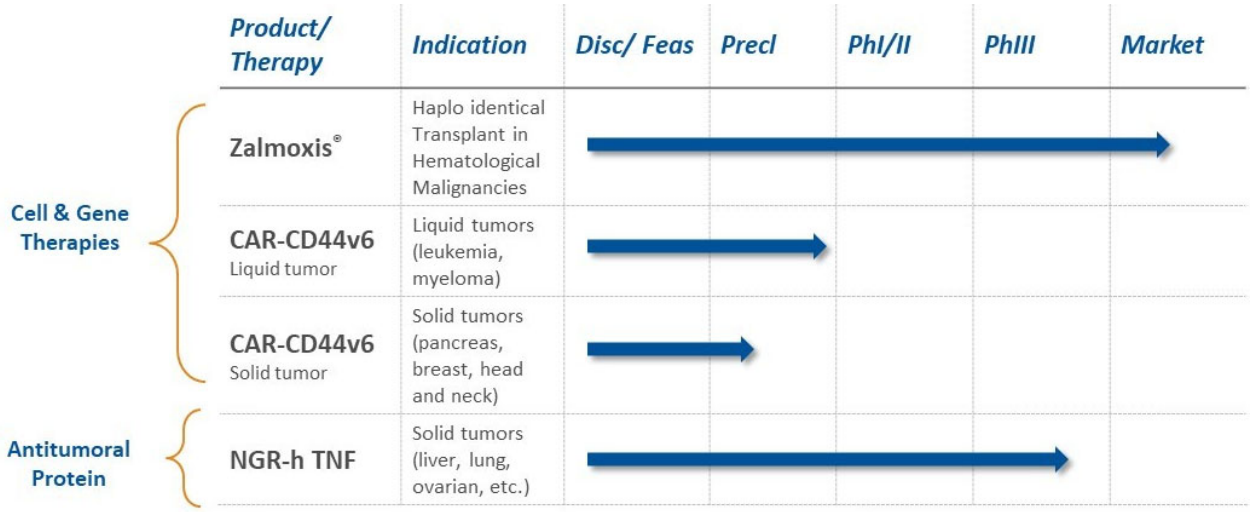


Figure 1. MolMed pipeline at December 31st, 2017

3.2 Zalmoxis® (TK) – a cell-based therapy for the treatment of leukaemia

Zalmoxis® is the first patient-specific cell therapy based on genetically engineered cells used in combination with haplo-identical haematopoietic stem cell transplant (haematopoietic stem-cell transplantation for adult patients affected by leukaemia or other high-risk haematological malignancies.

FROM GENES TO THERAPY

HSCT allows regenerating the haematopoietic and immune system of patients affected by leukaemia, which is severely compromised by the disease and by the radiotherapy and pharmacotherapy endured before the transplant; but it needs time – several months – in order to give origin to the mature cells characterising a fully functional immune system. In the meantime, the patient lacks any defence against both infections and possible disease relapse, so it is in absolute need of substitute protection: when the donor is fully compatible, this can be provided by donor T cells, thanks to their ability to fight infections and to detect and eliminate residual leukaemia cells. But, at present, donor T cells cannot be used as substitute protection when the donor is only partially compatible with the patient, because in this case they become a double-edged sword: on one hand, they provide an effective immunotherapeutic benefit against infections and leukaemia relapse, but on the other hand they carry a very high risk of eliciting an attack to the normal tissues of the patient, known as graft-versus-host disease (GvHD), the most significant and serious adverse event in haplo-identical transplantation, caused by the genetic disparity between patient and donor.

This extremely serious complication of transplants has severely limited the use of this therapeutic option in all cases of partial compatibility between donor and recipient, representing half of the leukaemia patients.

Therapy with TK cells was designed to benefit from the protective action of the donor T lymphocytes, essential for the successful transplant, even in the case of partial donor and patient compatibility. Zalmoxis® therapy is based on the use of genetically modified T lymphocytes in which a “suicide gene” has been inserted. Once infused into patients undergoing a partially compatible donor hematopoietic stem cell transplant, these cells eliminate the use of post-transplant immunosuppressive prophylaxis producing rapid immunological reconstitution, able to protect against leukaemia relapse and against transplant infective complications. In the event of emergence of acute GvHD, on appearance of the first symptoms, through the administration of a simple drug, Ganciclovir, the suicide gene is activated, allowing the elimination of the lymphocytes responsible for the attack, and only those, readily controlling the side effect. Thus, Zalmoxis® makes it possible to maintain all the benefits of immune system protection provided by donor T cells, for the time needed for the transplant, generating a new, complete and durable, immune system. Zalmoxis®, significantly increasing long-term survival, makes the haplo-identical transplant safer and more effective. In addition, the complete control mediated by suicide gene system of acute GvHD, is able to prevent or reduce almost completely the onset of this more severe and difficult to treat form of the disease, i.e. chronic GvHD, which is associated with a high level mortality, serious reduction in the patient’s quality of life, and considerable increase in costs for the Healthcare Facilities.

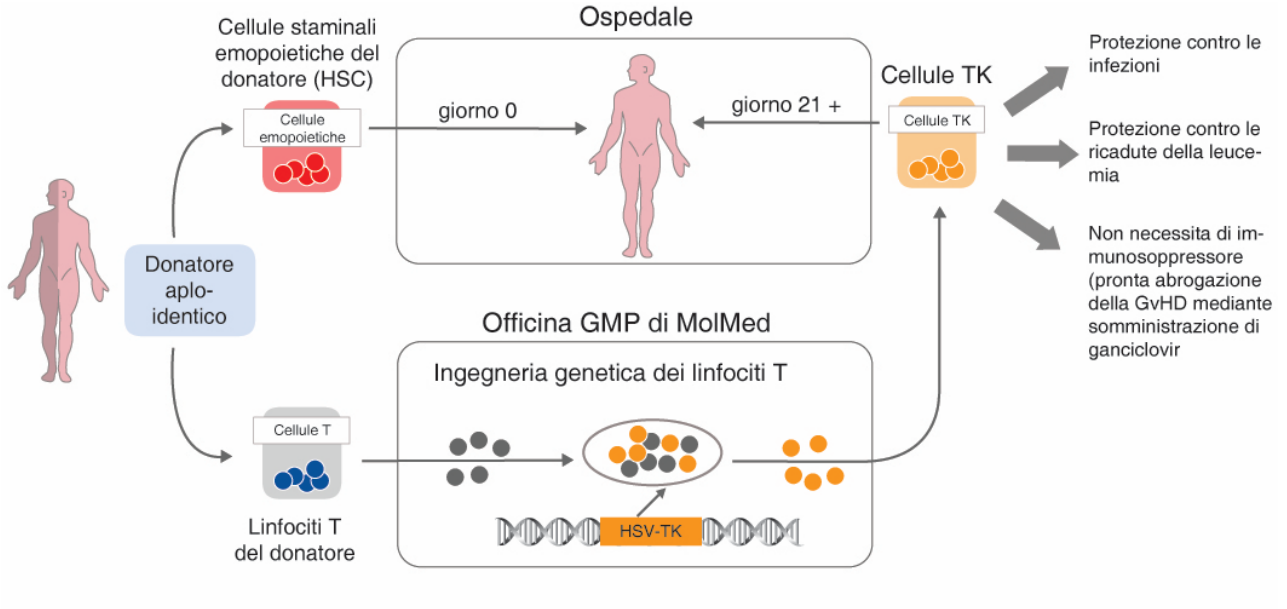


Figure 2. Overview of TK therapy application in HSC transplant from a partially compatible donor

On August 18th, 2016, the European Commission, following the recommendation issued on June 23rd 2016 by the CHMP, granted Conditional Marketing Authorisation (CMA) for Zalmoxis®, based on efficacy and safety data from patients enrolled in Phase I/II trial TK007[4], and in the randomised Phase III TK008 study currently ongoing. The trial TK008 involves adult patients affected by high-risk leukaemia and undergoing haplo-HSCT in the major European countries, the United States and Israel. The trial is aimed at assessing therapeutic efficacy and tolerability of the experimental product, and compares the outcome of haplo-HSCT with or without add-backs of TK cells with a randomisation ratio of 3:1 in favour of Zalmoxis®. The primary end-point of the trial is disease-free survival evaluated on a study population of 170 patients; secondary end-points include overall survival, reduction of transplant-related mortality associated with the haplo-HSCT procedure, safety profile and patients' quality of life. (Trial identifier in clinicaltrials.gov: NCT00914628).

Published cumulative data [5]were collected on over 130 patients treated with the TK technology in different academic studies. In the Phase I/II trial they demonstrated that this therapeutic approach can guarantee effective control of acute GvHD.

Moreover the analysis of data on the first 24 patients enrolled in the Zalmoxis® arm of this randomised Phase III TK008 trial showed a further increase in survival rates and an inverse correlation between the administered cell dose and the probability of leukaemia relapse: a 1-year disease free survival (the primary endpoint of the trial) rate of 74%, which exceeds the predefined objective of 52% in the Zalmoxis® arm, and rate of 30% expected in the control arm[6]. Notably, with regard to the secondary endpoint of the trial, i.e. overall survival, 85% of patients recruited in the Zalmoxis® arm were alive at one year (100% in the case of patients who achieved immune reconstitution), rising to 86% as to 1-year DSF. The therapeutic effect of TK cells was further confirmed by a very low rate of 1-year leukaemia relapse (16%, falling to 0% for patients receiving higher

[4] *Ciceri, Bonini et al, Lancet Oncology 2009;10:489-500*
[5] *European Society for Blood & Marrow Transplantation* (EBMT) *Tandem Meetings* 2013, Salt Lake City (USA), February 13th-17th 2013
[6] *ASCO 2014*

doses of Zalmoxis®) and of non-relapse related mortality (10%, falling to 0% % in the case of patients who achieved immune reconstitution).

As support to the EMA evaluation process for the Conditional Market Authorisation, as part of the phase I/II trials and the preliminary data of the phase III trial, the patients treated with Zalmoxis® (n = 37) were compared in a ratio of 1:4 with those of control patients undergoing haplo-identical transplantation (n = 140), recorded in the Register of European Group for Blood and Marrow Transplantation (EBMT), which showed demographic or disease characteristics almost similar to those of patients treated with Zalmoxis® (pair-matched analysis).

The results of the pair-matched analysis (table 1) were presented at the 1st EBMT International Transplant Course, held in Barcelona on 09-11 September 2016, and at the 58th American Society of Haematology (ASH), held in San Diego on 03-06 December 2016.

Table 1: Main outcomes of pair-matched analysis

1-year outcomes	Non-relapse mortality (NRM)	Overall survival	Chronic GvHD
Controls (n=140)	43%	37%	25%
Zalmoxis® (n=37)	22%	49%	6%
p-value (stratified)	0.014	0.01	0.04

An additional pair-matched analysis (table 2) performed at the request of the EMA, and based on the use of living patients free from disease 21 days post-transplant, confirmed the results of the previous analysis (table 1):

Table 2: Main outcomes of pair-matched analysis

1-year outcomes	Non-relapse mortality (NRM)	Overall survival	Chronic GvHD
Controls (n=139)	46%	34%	23%
Zalmoxis® (n=36)	20%	51%	6%
p-value (stratified)	0.003	0.007	0.02

These analyses have clearly established the clinical benefit for Zalmoxis®-treated patients with respect to the controls taken by the EBMT register, by means of clinically meaningful endpoints (overall survival, non-relapse mortality and chronic GvHD). So far, there were neither an approved therapy nor a widely accepted standard of care able to overcome opportunistic infections and GvHD, the two problems that continue to account for most of the non-relapse deaths, as well as to increase survival rates after haploidentical HSCT.

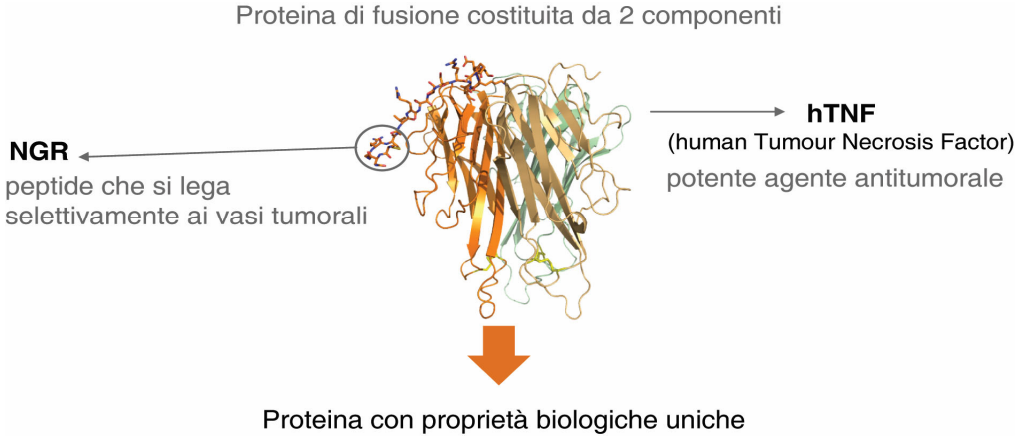
It should be noted that Zalmoxis® was granted Orphan Drug designation both in the European Union and in the United States.

The major publications related to Zalmoxis® can be found on Company's website (www.molmed.com).

3.3 NGR-hTNF – a biological drug targeting tumour vessels for the treatment of solid tumours

NGR-hTNF is a selective vascular targeting agent characterised by a unique mechanism of action, and is first-in-class in the combination of peptide-cytokine targeting tumour vessels. It is a homo-trimeric protein, where each of the three subunits is formed by combining the powerful anticancer human cytokine Tumour Necrosis Factor (hTNF) with a tumour homing peptide (NGR) targeting a particular receptor complex including CD13, present only on the surface of endothelial cells forming the walls of blood vessels feeding the tumour.

Figure 3. NGR-hTNF molecule: structure of a monomer and properties of its moieties



NGR-hTNF acts specifically on vessels feeding the tumour mass, exerting an anti-vascular activity that allows, inter alia, an improved penetration into the tumour tissue of other anticancer drugs administered in combination, thereby enhancing their therapeutic efficacy. Therefore, NGR-hTNF can be used both as new single-agent therapeutic option, and in combinations with most chemotherapeutic regimens currently available.

Unlike all other drugs commonly classified as vascular disrupting agents, NGR-hTNF appears to exert its anti-vascular and anti-tumour activity without inducing harmful counter-regulatory mechanisms: in particular, it does not increase bone marrow-derived cell infiltrates at the tumour site nor circulating growth factors, i.e. two phenomena that stimulate angiogenesis, post-therapy tumour re-growth and formation of metastases.

The clinical development of NGR-hTNF includes clinical trials both as monotherapy and in combination with different chemotherapeutic regimens, in a total of seven indications: colorectal, liver, small-cell lung, non-small-cell lung and ovarian carcinomas, malignant pleural mesothelioma and soft tissue sarcomas. For mesothelioma and liver cancer, NGR-hTNF has received Orphan Drug designation both in the U.S. and in the European Union. Clinical data obtained by MolMed so far demonstrate the clinical efficacy of NGR-hTNF in six different types of solid tumours; these include two orphan indications as well as more widespread diseases, which altogether account for more than 1.4 million new cases each year in Europe, North America and Japan.

With regard to malignant pleural mesothelioma, a Phase III trial (NGR015) was completed, involving more than 40 clinical centres across 12 countries in Europe, North America and Egypt. NGR015 was a randomised, double-blind, placebo-controlled trial, involving patients affected by malignant pleural mesothelioma resistant

or refractory to the standard pemetrexed-based chemotherapy. The primary endpoint of the trial was overall survival; secondary endpoints included progression-free survival, disease control rate, tolerability profile and patients' quality of life. The trial investigated the weekly administration of either NGR-hTNF or placebo in addition to the "best investigator's choice", consisting of supportive care either alone or combined with one chemotherapeutic agent selected among doxorubicin, gemcitabine or vinorelbine. (Trial identifier in clinicaltrials.gov: NCT01098266).

Although the primary endpoint of the trial – i.e. overall survival - was not met for the entire patient population, its results showed a statistically significant improvement of 40% (p=0.02 in unstratified analysis, p=0.01 in stratified analysis) observed in both overall survival and progression-free survival in patients with a poorer prognosis, i.e. those progressing either during or immediately after first-line treatment. These patients, representing 50% of the study population, were identified by means of a protocol pre-specified analysis based on the treatment-free interval after completion of the first-line chemotherapy.

In addition, an increased impact of NGR-hTNF on survival was observed in parallel with treatment duration, particularly marked in patients treated for at least 3 months who showed a median survival almost doubled compared to patients in the control arm: 16.5 versus 9.8 months.

These data, obtained mainly in combination with gemcitabine or vinorelbine in a disease particularly aggressive and resistant to standard chemotherapy, are of particular significance as they confirm the efficacy previously shown by the combination of NGR-hTNF and gemcitabine in a first-line Phase II trial for patients affected by squamous lung cancer, who have a poorer prognosis with respect to those affected by non-squamous lung cancer.

With regard to soft tissue sarcomas, a four-arm, randomised Phase II trial showed a statistically significant doubled survival time observed for the treatment based on low-dose NGR-hTNF in combination with doxorubicin as compared with the other schedules investigated, including high-dose NGR-hTNF in combination with doxorubicin or NGR-hTNF as monotherapy, at either low or high dose. The 3- year survival rate with this schedule exceeded 40% and, notably, similar results were reported for both chemo-naïve and pre-treated patients, thus further confirming the high degree of effectiveness of NGR-hTNF in more aggressive and chemo-resistant disease forms.

In a randomised Phase II trial in patients with resistant/refractory ovarian cancer (NGR018), NGR-hTNF in combination with anthracycline improved overall survival in patients with normal or high baseline lymphocyte counts, as compared to patients receiving anthracycline alone.

Furthermore, NGR-hTNF confirmed in these broad patient populations its very favourable tolerability profile, also in combination with the different chemotherapeutic agents administered in the trials.

Taken together, these clinical evidences are consistent with the drug mechanism of action, based both on promoting an increased intra-tumour chemotherapy uptake and on interacting with the patient's immune system. Results obtained so far in randomised Phase II trials for the treatment of different solid tumours are supportive of the therapeutic potential of the investigational drug, which may find application in a wide range of oncological indications.

The key publications on NGR-hTNF – both presentations at congresses and full-text open-source articles - are available on Company website www.molmed.com).

In terms of manufacturing, scale-up and formulation, NGR-hTNF is a fusion protein suited for industrial development; it is produced by recombinant DNA technology in the host bacterium Escherichia coli through a

fermentation and purification process. Manufacturing of the molecule - representing the active pharmaceutical ingredient of the experimental drug - and of the drug product in its final formulation are outsourced to external specialised companies.

3.4 CAR-T

In April 2015, MolMed exercised its option right for the purchase from the San Raffaele Hospital of the cancer immune-gene therapy project CAR-CD44v6, belonging to the CAR-T family, i.e. T-cells armed with chimeric receptors that have demonstrated high anti-tumour potential.

In the field of adoptive cell immunotherapy, engineering T cells with receptors directed against tumour antigens is an effective strategy to quickly generate a high number of tumour-specific T cells. In particular, the use of chimeric antigen receptors (CAR) represents, to date, an innovative therapeutic strategy, already clinically validated as in terms of safety and effectiveness. Most of the clinical trials conducted so far have used CARs specific for the CD19 antigen, expressed exclusively by B cells and by tumours derived therefrom.

The CAR-CD44v6 project has high therapeutic potential, as it specifically recognises the version 6 (v6) of the antigen CD44 (CD44v6), expressed by many haematological malignancies, including acute myeloid leukaemia and multiple myeloma, as well as by several epithelial tumours (including breast, lung, colon, pancreatic and head-and-neck carcinomas). Moreover, this CAR displays a peculiar spacing structure between the external and internal parts of the protein, i.e. between the antigen-targeting portion and the intracellular signal-activating domain, which is covered by a patent application.

The CAR-CD44v6 project will benefit from MolMed's extensive experience and know-how in the field of cell and gene therapy and from the conjugation with the suicide gene HSV-TK Mut2. The therapy using CAR-CD44v6, already successfully tested in appropriate murine models, implies the isolation of T cells derived from a patient affected by a tumour expressing the antigen CD44v6 and their modification in vitro using a retroviral or lentiviral vector in order to make them express the CAR-CD44v6 and the suicide gene HSV-TK Mut2 (see Figure 4).

The presence of CAR-CD44v6 allows T cells to recognise and kill cancer cells, while HSV-TK Mut2 will enable the removal of CAR-CD44v6-expressing cells should adverse reactions occur during the treatment. After their genetic engineering, the CAR-expressing T cells are expanded in vitro until obtaining the therapeutic dose, and then are infused into the patient. Before the infusion, the patient undergoes T cell-depleting chemotherapy, i.e. a treatment with drugs, which, by eliminating some of the patient's T cells, create the space needed for the engraftment and persistence in the patient's circulation of the CAR-CD44v6-expressing T cells.

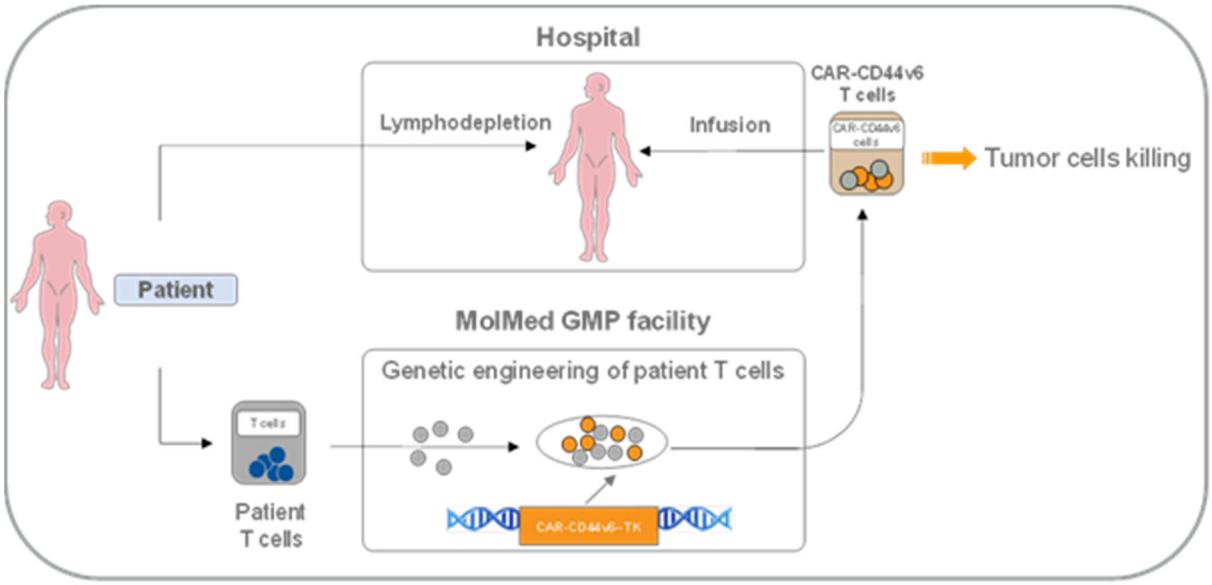


Figure 4. Summary of the CAR-CD44v6 project therapeutic procedure

T cells infused in the patient will be guided in vivo by the CAR-CD44v6 to the tumour site, where they can exert their cytotoxic function destroying cancer cells. In the case of adverse reactions arising, e.g. the targeting of normal tissues of the patient, the presence of the suicide gene HSV-TK Mut2 will allow to kill T cells through the administration of ganciclovir. This proprietary technology allows to reduce the risks typically associated with this approach of cancer immuno-gene therapy.

At the 58th Annual Meeting of the American Society of Haematology (ASH), held in December 2016, and the 4th International Congress on Stem Cell Transplantation and Cellular Therapies, held in Berlin in October 2017, highly promising data from pre-clinical studies conducted on CAR-CD44v6 were reported, confirming their efficacy and safety profile and supporting their therapeutic potential in both blood cancer and solid tumours.

On the subject of leukaemia, pre-clinical outcomes confirmed CAR-T CD44v6 efficacy and showed higher safety profile compared to CAR-T CD19 cells; but even more noteworthy are outcomes on solid tumours, as results from a human lung adenocarcinoma model showed interesting and highly promising features of MolMed's CD44v6 CAR-T project. In particular, T cells expressing the CD44v6 CAR-T very efficiently and preferentially migrate to the tumour site, where they exert impressive tumour killing potential: the analysis performed straight after the treatment showed that, in the tumour lesions, neoplastic cells were almost entirely eliminated and replaced by CAR-T lymphocytes.

The pre-clinical results support the feasibility of a future exploitation of the CD44v6 CAR-T in the therapy of solid tumours too; starting from these data, it will be possible to properly outline the potential of the project, its place in therapy, and finally to better define the development path to initiate trials in man.

CD44v6 CAR-T lymphocytes will be used for both research and clinical studies performed in the context of the EURE-CART (EURopean Endeavour for Chimeric Antigen Receptor Therapies) project. MolMed is the coordinator of the EURE-CART project that received, at the end of 2016, Euro 5,903,146 as part the funds for new therapies for chronic diseases (including cancer) of the EU Research and Innovation Framework Programme "Horizon 2020".

The main expected impact of EURE-CART implementation is the establishment of CAR-T-cell therapy as ultimate personalised therapy, capable of defeating neoplastic diseases. EURE-CART project's main object is

to conduct a multicentre, first-in-man Phase I/IIa clinical trial to demonstrate the safety and the efficacy of the immunotherapy with CD44v6 CAR-T cells in patients Acute Myeloid Leukaemia and Multiple Myeloma. EURE-CART will involve a Consortium of prestigious partners from five different European Union countries, all leaders and excellences in their respective fields of clinical, scientific and industrial activity.

3.5 Development and GMP production activities for third parties

Over the years, MolMed has developed a specific expertise in the field of gene and cell therapy, including the use of Hematopoietic stem cells and T cells for the treatment of different pathologies and tissues, positioning the Company among the leading players at international level.

In this field, MolMed performs tailor-made activities for third parties, offering top-level competencies and expertise to develop, conduct and validate investigational therapies, from pre-clinical to Phase III trials, as well as devising innovative testing procedures addressing the unique test specifications required for novel cell-based therapeutics. In particular, MolMed holds leading expertise in clinical-grade manufacturing of viral vectors and genetically modified cells according to current good manufacturing practices (cGMP - good manufacturing standards required by regulatory authorities for medicinal products for human use).

Development

Development activities, conducted by staff with high experience in the fields of cell biology, virology and molecular biology, involve design and optimisation of processes and analytical methods in order to transfer procedures from the lab to GMP production. In this context, MolMed works constantly on a dual perspective: on one hand, implementing a technology platform for the large-scale, semi-stable and stable production of lentiviral vectors; on the other hand, automating cell transduction and quality control processes. Such process improvements allow to both enhance manufacturing capacity and improve the process output, and to increase the Company's competitive advantage and differentiation allowing to broaden its partner portfolio and keep its role of co-developer.

GMP production

MolMed has since 2003 the status of Pharmaceutical Company (Officina farmaceutica), granted by the Italian healthcare authority AIFA (Agenzia Italiana del Farmaco - Italian Medicines Agency), and owns two GMP facilities formally authorised for the production of cell- and gene-based medicinal products for clinical use, qualified to support all stages of drug development of therapies, including pivotal clinical trials.

The facility, located in the science park of San Raffaele, has held, since December 2015, the authorisation granted by AIFA to produce Zalmoxis® and Strimvelis™ intended for the market.

The facility, which includes various sterile rooms dedicated to GMP production, plus a separate Quality Control laboratories area, with a total surface area of approximately 1,500 m2, currently satisfies the regulatory requirements of the European Union (EMA) and the United States (FDA) for the production of clinical-grade sterile investigational medicines.

Besides manufacturing Zalmoxis® for its own Phase III clinical trial, MolMed's GMP facilities also provide production services in gene and cell therapy to third parties. Provision of such services often also includes the relevant regulatory support activities. These service activities allow the Company to optimise its manufacturing capacity and to build and maintain strategic collaborations.

4. A key element: intellectual property

The cell and gene therapy industry develops innovative therapeutic options based on biotechnology. In this area, patents and know-how represent tools to protect and enhance knowledge and innovation of primary importance. For the peculiarity of the industry, potentially patentable inventions relate to technical applications of biology such as therapeutic genes or variants of existing genes that have therapeutic or diagnostic applications, processes for the manufacturing of genetically engineered cells, gene transfer technologies such as viral vectors, proteins and processes for their production. The granting of patents allows for the exclusive marketing of the therapies developed on the basis of these inventions for the entire duration of the patent (twenty years from filing). Know-how, in addition, allows building a wealth of knowledge about processes and operating procedures that are particularly relevant for manufacturing, offering, indirectly, a further exclusive tool. The Company aims to obtain market exclusivity and freedom to operate in the major pharmaceutical markets as well as in emerging markets worldwide. MolMed holds rights to a patent portfolio covering its products and technologies and including proprietary or in-licensed patents and patent applications, and it constantly carries out activities aimed to the growth and consolidation of its patent portfolio. In particular, the Company directly follows the entire process leading to the granting of a patent in the countries of interest, starting from the filing stage of a patent application for a new invention, throughout the examination procedure of patentability requirements where such proceedings are in place, until the grant phase and subsequent patent maintenance. The rights to new inventions may arise both from internal research activity, as in the case of the recently granted patents on the packaging cell line for the production of lentiviral vectors, as well as from the purchase of new research projects that can enrich the pipeline, such as the CAR-CD44v6 project.

At December 31st, 2017, MolMed holds rights – as owner or licensee - to 16 patent families, for a total of 482 granted patents or pending applications, namely 435 granted patents (of which 314 European National Patents) and 54 patent applications filed. MolMed's patent portfolio includes:

- three patent families (88 granted patents and 1 pending patent application), either owned or in-licensed from third parties, covering the key elements of Zalmoxis®, safe and effective variants of the TK gene

and the relevant production processes. In addition, MolMed filed an application in 26 European countries for granting of the Supplementary Certificate of Extension of the patent to the variant of the Herpes Simplex Thymidine Kinase gene used in the product Zalmoxis. The certificate was already granted in 7 countries, including Italy;

- five patent families (190 granted patents and 17 pending patent applications) either owned or in-licensed from third parties, covering the NGR-TNF molecule, its use at low doses either alone or in combination with other drugs, its therapeutic use for mesothelioma, as well as the recombinant system for its production;
- two patent families (32 granted patents and 20 pending patent applications), one covering chimeric antigen receptors (CARs) containing new spacer molecules between the antigen-targeting portion and the intracellular signal-activating portion and another claiming a process for the production of genetically modified cells, and a further patent application concerning therapeutic combinations;
- five patent families (115 granted patents and 16 pending patent applications), either owned or in-licensed from third parties, covering gene therapy-related technologies and including, inter alia, stable and semi-stable packaging cell lines for the production of retroviral and lentiviral vectors, production methods based on their use and a new system for the purification of retroviral or lentiviral vectors;
- one patent family (including 10 granted patents) covering molecules targeting tumour blood vessels.

5. A Key factor for success: our people

MolMed's highly qualified and skilled staff is indeed of key importance in order to successfully attain the Company's strategic goals, especially in a highly technologically advanced industry where along with patents knowhow is a fundamental value.

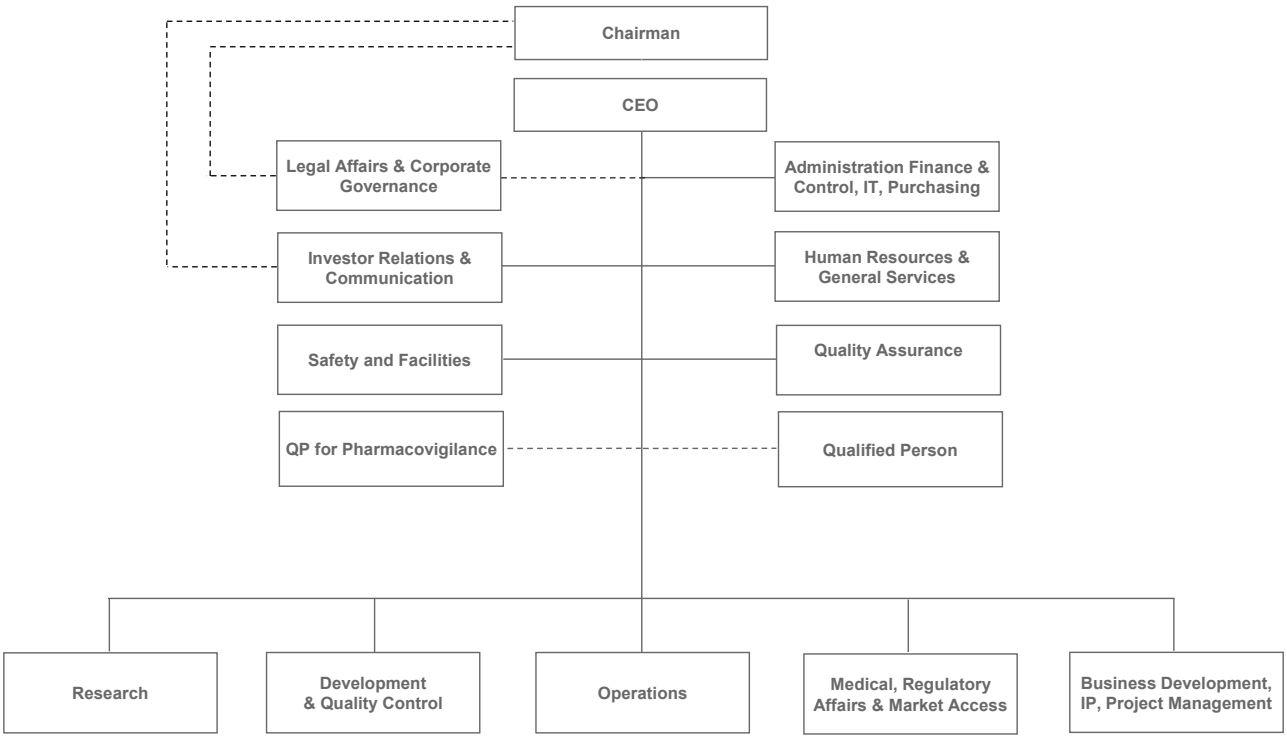
In the biotechnologies industry, where innovation is rapid and only a highly qualified and motivated team can ensure the maintenance of excellence. Respect for and appreciation of people, equal treatment, professional growth, teamwork and continuing education are therefore key issues for the Company.

In addition, a project was implemented in 2017, which led, on the one hand, to a reorganisation of the structure, and on the other, the implementation of some initiatives targeted at bringing people more into line with company strategies.

MolMed's staff can be distinguished by a high level of education and training: more than 77% hold a university degree and over 22% a post-graduate degree. MolMed's management team consists of a team of highly

experienced professionals, who provide the company with a wealth of scientific, clinical, business and management expertise.
At December 31st 2017, MolMed's total personnel counts 186 employees.

MolMed organisation chart at December 31st 2017 is shown as below:



6. *MolMed and the environment and health & safety issues in the workplace*

Both the Company's facilities and operations must comply with stringent environmental and work safety regulations. These regulations set provisions for, inter alia, air-polluting emissions, release of harmful substances into water, soil or subsoil, storage and disposal of waste and hazardous materials.

The Company has adopted safety procedures for the management and disposal of waste in accordance with Italian Legislative Decree 81/2008 and Italian Legislative Decree 206/01 on the handling of genetically modified microorganisms (GMMOs). Concerned staff members are provided with specific training and operate following procedures aimed at minimising the risk of biological contamination.

In compliance with the obligations of Article 37 of Italian Legislative Decree 81/08 and pursuant to the procedures indicated by the State-Regions Agreement of December 21st 2011, periodic training and refresher courses on safety issues are implemented for all staff members, including general and specific training.

Operations require the Company to use chemical and biological agents for which specific risk assessments are performed pursuant to Italian Legislative Decree 81/2008. Staff uses personal protective equipment in line with regulatory requirements.

Disposal of special waste is carried out in accordance with the applicable regulations (Italian Legislative Decree 152/06), in accordance with specific procedures, with the support of a specialised and authorised company. The company has also adopted the Waste Tracking Control System (SISTRI) according to the directives of the Ministry of the Environment and appointed a certified advisor for the transport of hazardous goods (ADR) according to Italian Legislative Decree 35/2010.

The Company believes that it carries out its activities in full compliance with regulations on environmental issues, and has obtained all the authorisations required by law. It is committed to operate responsibly as regards the environment, also through the implementation of measures aimed at improving the impact of its operations by reducing the use of natural resources, in line with its business, financial and investment management systems.

7. Corporate Governance

MolMed complies with the conduct code for listed companies issued by the Corporate Governance Committee promoted by Borsa Italiana (the "Code"). In compliance with regulatory requirements and the provisions of the Code, the corporate governance report, which contains information on ownership structure, on compliance with codes of conduct and on compliance with the commitments, is annually drawn up, highlighting the Company's choices in order the effective application of the principles of self-discipline. The corporate governance report, to which reference is made, is published on the Company's website (www.molmed.com) and is deposited in the authorised storage system 1INFO-STORAGE in terms and ways complying with applicable provisions.

7.1 Direction and coordination activities

The Company is not subject to direction and coordination activities pursuant to art. 2497 of the Italian Civil Code.

Please note that:

- information required by Article 123-bis, paragraph 1, letter i) of the Italian consolidated law on finance (TUF), "agreements between the company and the directors which provide for compensation in case of resignation or dismissal without just cause or if their employment is terminated due to a tender offer purchase" is included in the remuneration report published pursuant to art. 123-ter of the TUF.
- Information required by article 123-bis, paragraph 1, letter l) of the TUF, "rules governing the replacement of directors and the amendment of the corporate bylaws, if different from supplementary applicable laws and regulations" is reported within the chapter devoted to the board of directors of the report on corporate governance (Chapter 4.1).

7.2 *Model of organization, management and control (pursuant to Italian Legislative Decree No. 231/2001)*

As set forth by the Italian Legislative Decree No. 231/2001, legal entities are subject to administrative liability in relation to offences committed by directors, officers or employees to the benefit or advantage of the entity, unless the entity proves, inter alia, the adoption and effective implementing of a model of organisation, management and control suitable to prevent such offences from being committed.

In order to clearly and transparently define the set of values that are inspired to achieve their institutional goals, MolMed has adopted a model of organization, management and control pursuant to Legislative Decree 231/2001, from time to time updated to understand the evolution of applicable legislation (the "**Model**").

MolMed's decision to adopt the Model was taken in the belief that, beyond the requirements contained in Legislative Decree 231/2001, the Model could be a valuable tool for raising awareness of all employees of the Company and of all those who operate on behalf of and on behalf of the Company or who engage in relations with the latter in order to maintain proper and linear conduct in the performance of their activities, so as to prevent the risk of commission of the offenses provided for in Legislative Decree 231/2001.

At the same time as adoption of the Model, the Company established a supervisory body, currently composed in joint form, characterised by the required requirements of autonomy, independence and professionalism, as well as with the powers of inspection and control and the functions provided for in the Model.

In addition, following the introduction of bribery offences within the private sector among the predicate offences included in Italian Legislative Decree 231/2001, Company has prepared anti-corruption guidelines.

Both the public version of the Model (to which reference should be made for more information) and the anti-corruption guidelines are available within the section "Investors", item "Corporate Governance/Documents" of the Company's website.

The Model is constantly updated with the help of external advisors, both to acknowledge the regulatory changes and to take account of the changes to the organisational structure that have an impact on the Model itself.

7.3 *Transactions with related parties*

MolMed has adopted procedures for performing related party transactions ("OPC Procedures"). The Board also permanently entrusted the tasks of the Committee for Operations with Related Parties ("COPC") - referred to the approved OPC Procedures and Article 7 of the Consob Regulation - to the Control and Risk Committee, consisting of three non-executive directors, majority of which are independent and are considered as appropriate body by composition, competence and nature to carry out the functions of COPC.
The procedures are published on the Company's website, section "Investors/Corporate Governance/Documents.
Information on transactions with related parties are presented below in the **Note 32**, to which reference should be made.

1. Report on operations

1.1 Summary of main activities in 2017

Zalmoxis® (TK)

Following the conditional marketing authorisation received on August 18th, 2016 and renewed on July 13th, 2017, which allows MolMed to sell Zalmoxis® in the 28 EU Member States and in the European economic area, the necessary activities for its introduction to the European markets continued in 2017. In particular, the procedure of definition of the price and reimbursement of Zalmoxis in Italy was concluded. After the formal launch of the procedure for access to the Italian market through the transmission of the relevant dossier for the definition of the price and reimbursement in December 2016, the Company negotiated the 'place in therapy', the originality and reimbursement file with the technical-scientific committee of AIFA (CTS) and, in the last quarter, defined the reimbursement price of the therapy with the price-reimbursement committee of AIFA (CPR). The price of Zalmoxis in Italy is Euro 149,000 per infusion (from 1 to 4 per patient) gross of all legal reductions and the selective reductions as per AIFA Determinations of July 3rd, 2006 and September 27th, 2006. Provision is also made for a flat price per patient and a turnover protection clause for the first 24 months. Owing to the nature of the product, the supply system will be hospital-based. The agreement signed with AIFA is in force from March 1st, 2018, the fifteenth day after its publication in the Official Journal of the Italian Republic on February 14th, 2018. As regards Germany, the price-reimbursement dossier was also filed on January 15th, 2018, where Zalmoxis® can be prescribed and reimbursed, at the proposed sale price of Euro 163,900 per infusion (ex-factory price net of VAT). Dompé farmaceutici is also continuing with negotiation activities for the price and reimbursement request in the other main European markets.

As regards the sale and development of Zalmoxis® outside the European borders, April 2017 saw MolMed and Megapharm Ltd sign a distribution and licence agreement for the supply, registration, promotion and distribution of the product in Israel, as envisaged on December 1st, 2016, the date on which an agreement had been signed which defined its main contents.

In particular, Megapharm will distribute and market Zalmoxis® in Israel, once approved by the Israeli Ministry of Health and included by the latter in the Israeli National Health Basket of drugs, and will be responsible for conducting all activities prior to the marketing authorisation in Israel, including market access and price & reimbursement negotiation.

Again, as regards the sale of Zalmoxis®, in June 2017, MolMed and TTY Biopharm Company Ltd signed an exclusive licence and distribution agreement for the importing, use, marketing, sale and/or distribution of the product in Taiwan, Hong Kong, Singapore, Thailand, the Philippines, Vietnam and Malaysia. Based on this agreement, TTY will deal with applications for marketing authorisations in the countries concerned and, if necessary, will also perform further local clinical studies to obtain them, and will conduct all associated regulatory activities after marketing authorisation including therein market access and price & reimbursement negotiation. Furthermore, TTY may promote the enrolment of patients in the TK008 clinical trial or through compassionate use and, if applicable, will be responsible for engaging clinical centres and relations with the competent authorities to allow its performance in interested countries.

In relation to the rights conferred to TTY, MolMed may receive up to Euro 13.5 million, including an initial payment and milestones linked to the performance of the authorisation processes and achievement of given revenue levels; more specifically, MolMed will be entitled to receive royalties of between 10% and 20%

calculated on annual net sales made in each country covered by the agreement.

On July 26th, 2017, MolMed and Dompé farmaceutici S.p.A. announced that they had signed an exclusive 15-year licence and distribution agreement, which attributes Dompé the exclusive right and obligation to carry out all the activities targeted at promoting, marketing, developing, distributing and selling Zalmoxis® in all member countries of the European Economic Area, with an option right for Australia, Switzerland and Turkey.

Based on this contract, Dompé will manage and/or complete the activities for access to the market and will negotiate the reimbursement price of Zalmoxis® in all the interested countries, excluding Italy, where MolMed has dealt directly with the market access and price and reimbursement negotiation activities. MolMed also maintains the responsibility for renewing the conditional marketing authorisation and respect for the post-approval commitments imposed by EMA for the purpose of obtaining full authorisation for the marketing of Zalmoxis®.

At the same time as signing of the licence and distribution agreement, MolMed and Dompé signed a production and supply agreement based on which MolMed will be responsible for the production, supply and delivery of Zalmoxis® to end users in the areas concerned and Dompé will recognise a purchase price proportional to the product reimbursement price.

In addition to the purchase price, based on the licence and distribution agreement, MolMed may receive up to Euro 43.5 million, of which up to Euro 12.5 million as contribution in the 2017-2020 period, and up to Euro 31 million in the form of the milestones recognised on achievement of given net annual sales levels in the area covered by the contract.

CAR CD44v6

In 2017, based on the pre-clinical data collected, which confirm its effectiveness and the safety profile in leukaemias and solid tumours, the pre-clinical research and development activities of the proprietary immuno-gene therapy CAR CD44v6 project continued, in order to enhance its unique characteristics, correctly outline its potential and place in therapy, and to best define the development process to be followed for human trials.

In particular, at the time of the annual conventions of the *European Haematology Association* (Madrid, June 22nd-25th 2017) and the International Congress on Stem Cell Transplantation and Cellular Therapies (Berlin, October 26th-29th 2017), Dr. Attilio Bondanza, Head of the Innovative Immunotherapy Unit at the Immunology, Transplant and Infective Diseases Division at the San Raffaele Scientific Institute-Hospital (Milan), presented the experimental data that support the safety profile of CAR-CD44v6 and highlight that the keratinocytes, although they express a detectable CD44v6 antigen target, are highly resistant to the CAR-T lymphocytes activated. In addition, in an immunodeficient mouse model transplanted with human skin, unlike special CAR-T lymphocytes for EGFR, the special CAR-T lymphocytes for CD44v6 do not cause skin toxicity, as demonstrated by the reduced build-up of engineered cells in the skin and the dermal-epidermal junction. The results obtained in these models are fundamental proof of the safety of special CAR-T lymphocytes for CD44v6 with respect to tissue, such as skin, that expresses low levels of this antigen. These data suggest a sufficiently broad therapeutic spectrum to exploit the anti-cancer activity of CAR-CD44v6 without incurring intolerable epithelial toxicity.

In 2017, the therapeutic potential of T lymphocytes transduced ex vivo with CAR-CD44v6, in solid tumours was demonstrated in pre-clinical model of human tumours. In this experimental setting, a sustained proliferation of human lymphocytes expressing CAR CD44v6 but not those expressing a control CAR, was observed at tumour mass level. Parallel to the proliferation, the lymphocytes expressing CAR CD44v6 were

able to control neoplastic growth in a statistically significant manner.

Lastly, the activities set out in the project EURE-CART (EURopean Endeavour for Chimeric Antigen Receptor Therapies) continued , to which the European Commission, as part of the funds allocated to the new therapies for chronic diseases (including cancer) of the research and innovation framework programme "Horizon 2020", awarded a Euro 5,903 thousand loan in December 2016. The main objective of the EURE-CART project, which involves a consortium of nine partners from five different EU countries and which is coordinated by MolMed, is to manage a multicentre, first-in-man Phase I/IIa clinical trial to demonstrate the safety and the effectiveness of the immunotherapy based on CAR T-CD44v6 lymphocytes in patients with leukaemia.
The meetings held in June and September by the Steering Committee of EURE-CART verified the progress of the project, which is line with the planned timescales.

NGR-hTNF

On December 23rd, 2016, the European Medicines Agency (EMA) validated the application for a Conditional Marketing Authorisation (CMA) submitted on December 6th, 2016 in relation to NGR-hTNF, to be used for the treatment of adult patients suffering from malignant pleural mesothelioma with a disease progression within six months from the end of the first-line therapy, then the procedure started for the evaluation of the associated dossier by the competent authority which, during the first quarter of 2017, led to the identification of the *Rapporteur* and the *Co-Rapporteur*, responsible for the CMA procedure, and the formulation of the *List of Questions* – (LoQ), by the CHMP (*Committee for Medicinal Products for Human Use*) at day 120. Following the meetings in the second quarter of 2017 with the European Medicines Agency (EMA), in which some issues relating to the list of questions formulated at the LoQ were discussed, MolMed decided to withdraw the application for the conditional marketing authorisation once completed, as it did not have sufficient time to complete, in the time window granted by the competent Authority for the CMA procedure, the activities targeted at obtaining the data relating to the production and control of the product. MolMed believes that NGR-hTNF, which has completed enrolment of the NGR019 trial as a therapy for maintenance in the first-line mesothelioma, is a valid anti-cancer therapy and reserves the right to go ahead with new authorisation requests in the future for the aforementioned or other therapeutic indications, and will continue the search for potential partners for the clinical and industrial development of the product.

Development and GMP production

Development and production activities continued in 2017, which MolMed is managing on behalf of third parties, as part of the pathologies forming the object of the partnerships and collaborations in place (GSK, Telethon and Genenta), and new ones were launched.

In particular, GSK, after the recent Group restructuring, is refocusing its activities and, in particular, is looking for a partner to continue the development of the Tiget/Telethon therapies in the field of rare genetic diseases. Consequently, MolMed started discussions with both GSK and possible future partners to ensure continued development and treatment, guarantee quicker transfer of ownership of the projects and, potentially, expand the areas of collaboration.

On February 27th 2017, the Company signed an agreement with Rocket Pharmaceuticals Ltd. for the development and manufacturing of a gene therapy product for the treatment of Fanconi Anaemia.

Rocket Pharma is a US biotech company active in the field of gene therapy, with both a clinical development project and several pre-clinical programs. All programs are focused on developing curative treatments for rare

genetic conditions with high unmet needs.

Pursuant to this agreement, MolMed will develop and manufacture the lentiviral vectors to be used for the ex vivo transduction of hematopoietic stem cells, as part of the manufacturing process of Rocket Pharma's cellular therapy products intended for clinical trials and in related research and development activities.

Furthermore, on July 27th, 2017, the Company signed an agreement with Cellectis for development and manufacturing in the field of allogenic CAR-Ts.

The company Cellectis develops UCARTs (Universal Chimeric Antigen Receptor T-cells) which represent "ready-for-use" allogenic CARs. They can be manufactured on a large-scale and standardised in compliance with the manufacturing criteria set out for pharmaceutical products. Cellectis' UCARTs are the first "ready-for-use" allogenic CAR-T cellular products put forward for clinical use, with the objective of becoming readily available for a broad section of the population.

Based on this agreement, Cellectis tasked MolMed with the development and production of viral vectors and of genetically modified T cells for expressing allogenic CAR-Ts.

Simultaneously, in 2017 the Company also continued to look for new partners and customers and to carry out feasibility studies with the aim of further increasing the number of collaborations.

As regards the new facility located at the Open Zone in Bresso, following the authorisation of the Quality Control, materials storage and product storage areas, in July 2017, the AIFA granted this facility the status of "Pharmaceutical Company" for the manufacturing of gene therapy experimental medicines, in particular genetically modified T lymphocytes with viral vectors. With this indication, the Bresso facility is therefore authorised to carry out GMP Manufacturing activities, execute quality control tests and produce TK cells intended for clinical trials.

The process of validation of the other GMP Manufacturing areas is also continuing, for which the authorisation process was launched in July and November 2017.

Intellectual property protection activities

In 2017, MolMed carried on activities aimed at consolidating the intellectual property covering its two advanced experimental products Zalmoxis® and NGR-hTNF. In addition, further activities have been performed in order to broaden the patent portfolio owned by the Company on new cancer therapies and on technologies for manufacturing and purification of vectors for gene therapy.

As regards Zalmoxis®, as the key-patent on a non-splicing variant of the TK gene forming the basis of the investigational product has been granted in all territories where the application was filed, in 2017 activities were focused on maintenance of these and other patents covering market exclusivity on the product and its manufacturing. In addition, between the end of 2016 and the start of 2017, as a result of the European Commission's granting of Conditional Marketing Authorisation (CMA) for Zalmoxis®, requests for the granting of the Supplementary Certificate of Protection have been filed in 26 European countries where the legislation provides for it, based on the patent claiming the non-splicing variation of the HSV-TK gene used in the product. The procedure has already seen the granting of the Supplementary Certificate of Protection in 7 countries, including Italy, which will make it possible to extend in these countries the duration of the market exclusivity to Zalmoxis® up to a maximum of 5 years after the expiration of the patent.

FROM GENES TO THERAPY

As far as NGR-hTNF is concerned, during 2017 activities were focused on maintenance of the granted patents covering the product, its use at low dose alone or in combination with other drugs, and the use of NGR-hTNF to treat mesothelioma. In addition, during the year, activities continued aimed at obtaining the granting of patent applications still under evaluation deriving from these families. As regards the latter, a patent was granted in the United States which claims the use at low doses of NGR-TNF in combination with a tumour "imaging" compound.

In 2017, MolMed carried out activities targeted at continuing and expanding the patent portfolio to cover CAR technology, in particular: the PCT International Patent Application for Chimeric Antigen Receptors (CAR) containing new spacer molecules between the portion targeting the antigen and the portion responsible for the activation of the intracellular signal, was extended to the national phases through the filing of patent applications in 18 countries, including the five main markets of interest, i.e. Europe, Japan, United States, Australia and Canada, and various countries in Asia and South America.
Finally, regarding the protection of technologies for the manufacturing of viral vectors, in 2017 MolMed continued the activities of maintenance of granted patents and prosecution of pending applications covering a stable packaging cell line for the production of viral vectors for gene therapy, its relative semi-stable intermediate and the production processes, as well as the viral vector purification process.

Organisation and human resources

In 2017, staff attended training courses, seminars, congresses and other events, differentiated by professional type or organisational area, in order to update and develop specific professional skills. In addition to the technical-scientific skills, the issues regarding the management of company projects were analysed in depth, also from an economic and contractual point of view, as well as the management of procurement, regulatory aspects and internal communication. Some training sessions were also held in 2017 for company managers regarding both organisation and leadership and HR management. Compulsory training on safety (Italian Legislative Decree 81/08) also continued, in addition to training on the key principles of Legislative Decree 231/01.

Environment and safety in the workplace

In 2017 the Company carried on the periodic review and implementation of safety procedures at its Olgettina site and the application and adaptation of security procedures in the new Bresso site, pursuant to the Italian Legislative Decree 81/08 and to the Italian Legislative Decree 206/01 on the handling of genetically modified microorganisms (GMMOs). For each new GMMO introduced and used, in both Olgettina and Bresso laboratories, a specific authorisation to the Ministry of Health (notification of use) was requested.
Pursuant to Italian Legislative Decree 81/08, the general risk assessment document (DVR), the document on the evaluation of the risks of exposure to chemical agents, biological agents, cancerogenic agents and mutagens and ionising radiation, were also updated and prepared.
In compliance with the provisions of Article 37 of Italian Legislative Decree 81/08 and pursuant to the procedures indicated by the State-Region Agreement of December 21st 2011, training courses on safety issues were implemented also in 2017 for staff members in Olgettina and Bresso, including general and specific training.
Disposal of special waste potentially infected or at chemical risk is carried out in accordance with the applicable regulations (Italian Legislative Decree 152/06), in accordance with a specific procedure, with the support of a specialised and authorised company. During the year, the waste procedure and management were also

adapted to the new 2017 European legislation concerning the international carriage of dangerous goods by road (ADR).
The company also maintained the Waste Tracking Control System (SISTRI) for both the Olgettina and Bresso sites, according to the directives of the Ministry of the Environment.
During the year, the company was subject to a workplace health and safety audit by PwC (PricewaterhouseCoopers Advisory SpA) as the Internal auditor, with particular regard to the provisions contained in Italian Legislative Decree 81/08 and subsequent amendments and additions and in Italian Legislative Decree 152/06 and subsequent amendments and additions and/or the reference best practices.
At December 31st 2017, there were no specific environmental issues that may affect the use of existing fixed assets by the Company.

Communication and investor relations activities

Communication has been a key instrument to come up the financial community to the Company's business, which is intrinsically technical and specific, and to build a trustworthy relationship with its national and international stakeholders.

Thanks to transparent and timely information and to the organization of several meetings with the financial and international scientific community, MolMed has strengthened its image with key stakeholders, and has disclosed and commented on the main events of 2017. During the year, the Company held several meetings with the financial community, organised on an ad-hoc basis or as part of banking conferences, in Milan, London, Paris, New York, Boston, Denver, San Francisco and Palo Alto (in particular the JP Morgan Healthcare Conference, the Jefferies Healthcare Conference, the Rodman Renshaw Conference, the Roth Capital Conference) during which the top management made company presentations and updated its shareholders.

In 2017, MolMed also attended the most important international scientific conferences, holding oral presentations, presenting posters and abstracts and sponsoring symposia on the topics most related to its own business and in which MolMed boasts a leading position.

Also for 2018, MolMed is committed to engaging in continuous dialogue with analysts and investors (both institutional and individual), seizing and promoting opportunities to meet the financial community, also with the goal of ensuring increasingly greater internationalisation of the shareholders' base.

Supervisory body activities

As in previous years, the Supervisory Body accurately monitored the company's operations, also through targeted audits of the company functions. No relevant criticalities pursuant to Italian Legislative Decree 231/2001 emerged following the supervisory activities and on the basis of the information received. The Supervisory Body also monitored the updating of the Organisational Model and operating procedures according to Italian Legislative Decree 231/2001.

During the year, the Supervisory Body finally verified that the Company continued to carry out training on Italian Legislative Decree 231/2001 and on its Organisational Model, also training the staff hired during the year.

Transactions with related parties

Information on transactions with related parties are presented in the Notes, to which reference should be made.

1.2 Other information

Grants and other financial support

In its particular area of activity, MolMed takes advantage of the benefits resulting from European, national or regional subsidised loans intended to support and encourage innovation.
In 2017, MolMed was a strategic partner and coordinator of EURE-CART (EURopean Endeavour for Chimeric Antigen Receptor Therapies), a project co-financed by the European Union as part of the funds intended for new therapies for chronic diseases (including cancer) of the research and innovation framework programme "Horizon 2020".
In this regard, it was assigned a grant of Euro 5,903 thousand in December 2016; MolMed holds a share of the total amount of Euro 1,995 thousand, which will cover part of the R&D costs for a period of 48 months. In December 2016, the first portion of the financing (pre-financing) was disbursed for an amount of roughly 50% of the grant awarded.

Treasury shares

The Company does not – either directly or indirectly - own treasury shares, nor were purchases or sales of such shares made - either directly or indirectly – during this period.

Protection of sensitive data and information

Because of the activities carried out by the Company, the protection of personal data and information collected and stored – both electronically and using traditional methods – is of great importance. For this reason, the Company has adopted a personal data protection system that meets the requirements of applicable regulations provided for by the personal data protection code (i.e. the Italian Legislative Decree 196/2003).

In particular, during the previous year, part of the documentation has been updated which has an impact also on the protection of personal data, by publishing such information on the corporate intranet so as to allow, through this easy internal communication tool, employees' access to constantly updated information.

Furthermore, with the assistance of its advisors, the Company continued reviewing a number of corporate processes where personal information can be managed. This process will continue in 2017 in order to verify compliance of its activities with the new European Regulation on this matter, which will be directly applicable in all EU Member States from May 25th 2018.

It should be noted that during the previous year, there was no missing information, omissions, deletion or any other situations that jeopardised the safety of anyone's personal data within the Company.

Shares held by directors, general managers, statutory auditors and executives with strategic responsibilities (Article 79 of Consob Regulations, Resolution No. 11971 of May 14th 1999)

Pursuant to Article 79 of Consob Issuers' Regulations, MolMed specifies that, based on information received at December 31st 2017, the following shares were held by directors, general managers, statutory auditors and executives with strategic responsibilities, as well as by their spouses who are not legally separated, and their underage children, either directly or through a subsidiary, fiduciary business or any other intermediary.

Nome	Carica	Società partecipata	Numero azioni possedute al 31.12.2016	Numero azioni acquistate o sottoscritte	Numero azioni vendute	Numero azioni possedute al 31.12.2017
Alfredo Messina	Consigliere	MolMed S.p.A.	1.343.495	-	-	1.343.495

1.3 *Performance and financial highlights*

(amounts in Euro thousand)	Year 2017	Year 2016	Change	% change
Revenues from sales	23,000	19,484	3,516	18.0%
Other revenues	987	3,341	(2,354)	(70.5%)
Total operating revenues	**23,987**	**22,825**	**1,162**	**5.1%**
Purchases of raw materials and consumables	5,393	4,540	853	18.8%
Costs for services	10,807	16,859	(6,052)	(35.9%)
Costs for use of third-party assets	1,472	1,417	55	3.9%
Personnel costs	12,928	12,309	619	5.0%
Other operating costs	186	193	(7)	(3.6%)
Amortization and depreciation	1,349	1,093	256	23.4%
Total operating costs	**32,135**	**36,411**	**(4,276)**	**(11.7%)**
Operating result	**(8,148)**	**(13,586)**	**5,438**	**40.0%**
Financial income	204	165	39	23.6%
Financial charges	(553)	(455)	(98)	(21.5%)
Net financial income (charges)	**(349)**	**(290)**	**(59)**	**(20.3%)**
Pre-tax result	**(8,497)**	**(13,876)**	**5,379**	**38.8%**
Income taxes	-	-	-	-
Profit (loss) for the year	**(8,497)**	**(13,876)**	**5,379**	**38.8%**

Comments on the main income statement items and indicators for the year 2017 are provided below. Further details are provided in the Notes.

Operating revenues

Operating revenues amounted to Euro 23,987 thousand in 2017, compared to Euro 22,825 thousand in 2016, broken down as follows:

- sales totaling Euro 23,000 thousand and increasing by 18.0% compared to the previous year, and consisting of:
  - ✓ Euro 20,500 thousand revenues arising from development and production activities on behalf of third parties—a 5.2% increase compared to the previous year;
  - ✓ Euro 2,500 thousand revenues relating to Zalmoxis®, arising from (i) the first milestone of the exclusive agreement entered into between MolMed and TTY Biopharm on June 30, 2017 for the purpose of selling the above-mentioned product in some Asian countries, and (ii) the exclusive license and distribution agreement entered into between MolMed and Dompé farmaceutici S.p.A. on July 26, 2017, and applying to all the countries belonging to the European Economic Area (EEA), with an option right in relation to Australia, Switzerland and Turkey;
- other income of Euro 987 thousand , mainly relating to research and development grants the Company received based on its participation in public sector subsidized projects (841 thousand).

Operating costs

Operating costs amounted to Euro 32,135 thousand in 2017, decreasing by Euro 4,276 thousand (-11.7%) compared to 2016 (Euro 36,411 thousand).

This change is primarily due to:

- A reduction in costs for services to the tune of Euro 6,052 thousand (-35.9%) attributable to:

  ✓ Lower outsourced development costs, declining from Euro 7,802 thousand in 2016 to Euro 2,348 thousand in 2017 (-69.9%). This change is mainly attributable to the reduction in the costs incurred for the industrial development of one of the products in the pipeline and in the costs concerning the SUPERSIST project, completed in October 2016.

  ✓ The reduction in license fees and patent costs from Euro 1,614 thousand in 2016 to Euro 1,004 thousand in 2017 (-37.8%). 2016 figures included the recognition of the first tranche amounting to USD 1,800 thousand (Euro 1,613 thousand) following the achievement of specific development milestones concerning Zalmoxis®, after the Conditional Marketing Authorization (CMA) was granted. At the end of 2017, the second tranche amounting to USD 500 thousand (Euro 422 thousand) was recognized.

- Increase in costs for the purchase of raw materials and consumables, mainly due to growing GMP development and production activities on behalf of third parties, and concerning one of the products in the pipeline.

Operating result

Operating result for the year 2017 improved by 40.0% compared to the prior year. The operating loss amounted to Euro 8,148 thousand, down by 5,438 thousand from the Euro 13,586 thousand loss recognized in 2016.

This improvement is mainly attributable to the combined effect of a sharp decrease in operating costs—declining by 11.7% in 2017 compared to 2016, as explained before—and of an increase in revenues, growing by 5.1% compared to the previous year.

MolMed's financials are peculiar to the business model of biotech companies developing new therapeutic products that have not reached a balanced income and financial position yet. At this stage significant costs must be borne, in relation to the testing and development of investigational new drugs, and return is expected in forthcoming years.

It should be noted that, based on the Company's operations and the objective characteristics of the trials performed, research and development costs are fully expensed as incurred.

Net financial income and charges

The Company's financial activities generated a negative result of Euro 349 thousand, Euro 59 thousand deterioration compared to the previous year, mainly due to the fees on the installments provided for by the SEF agreement (for further details, reference should be made to the **Notes** of this Report).

Profit (loss) for the period

As a result of the above, the Company recognized a loss of Euro 8,497 thousand in 2017 compared to a loss of Euro 13,876 thousand in 2016, showing a +38.8% improvement on the previous year.

Equity and financial results

The following table shows the Company's equity and financial results, reclassified based on sources and uses of funds:

(amounts Euro thousand)	December 31, 2017	December 31, 2016
Non-current assets		
Fixed assets and other non-current assets	15.918	15.571
Total non-current assets	**15.918**	**15.571**
Net working capital		
Inventories	1.754	1.067
Trade receivables and other commercial assets	4.896	5.015
Tax receivables	1.079	2.392
Other receivables and current assets	1.326	3.154
Trade payables	(9.766)	(12.526)
Other liabilities	(3.927)	(5.580)
Total net working capital	**(4.638)**	**(6.478)**
Non-current liabilities		
Other non-current liabilities	(4.758)	(6.646)
Total non-current liabilities	**(4.758)**	**(6.646)**
TOTAL USES	**6.522**	**2.447**
Shareholders' equity	**24.633**	**22.149**
Net financial position	**18.111**	**19.702**
TOTAL SOURCES	**6.522**	**2.447**

Non-current assets

Non-current assets at December 31, 2017 and December 31, 2016 are detailed in the table below:

(amounts Euro thousand)	December 31, 2017	December 31, 2016	Change	% change
Tangible assets	11,860	11,567	293	2.5%
Goodwill	77	77	-	0.0%
Intangible assets	589	494	95	19.2%
Financial assets	210	211	(1)	(0.5%)
Tax receivables	2,182	1,722	460	26.7%
Other assets	1,000	1,500	(500)	(33.3%)
Total non-current assets	**15,918**	**15,571**	**347**	**2.2%**

Non-current assets amounted to Euro 15,918 thousand at December 31, 2017.

Investments in intangible and tangible assets of Euro 2,098 thousand are broadly offset by amortization/depreciation for the reporting period.

Consisting of VAT credits, tax receivables increased by Euro 460 thousand (from Euro 1,722 thousand at December 31, 2016 to Euro 2,182 thousand at December 31, 2017).

Other non-current assets include an advance on future rents paid to the owners of the property located in the "Open Zone" scientific park in Bresso (Milan) that belongs to the Zambon chemical-pharmaceutical group. The Euro 500 thousand decrease is due to the fact that pursuant to the lease agreement, starting from 2018 and for the two following years, the advance payment made by the lessee shall be repaid by the lessor through a reduction in three annual lease fees to the tune of Euro 500 thousand. As a consequence of this, an amount equal to Euro 500 thousand was reclassified as current asset.

Net working capital

Net working capital at December 31, 2017 and December 31, 2016 is broken down as follows:

(amounts Euro thousand)	December 31, 2017	December 31, 2016	Change	% change
Inventories	1,754	1,067	687	64.4%
Trade receivables and other commercial assets	4,896	5,015	(119)	(2.4%)
Tax receivables	1,079	2,392	(1,313)	(54.9%)
Other receivables and current assets	1,326	3,154	(1,828)	(58.0%)
Trade payables	(9,766)	(12,526)	2,760	22.0%
Other liabilities	(3,927)	(5,580)	1,653	29.6%
Total net working capital	**(4,638)**	**(6,478)**	**1,840**	**28.4%**

Net working capital at December 31, 2017 was negative to the tune of Euro 4,638 thousand , improving by Euro 1,840 thousand (+28.4%) compared to December 31, 2016 (negative to the tune of Euro 6,478 thousand).

Change in Inventories from Euro 1,067 thousand at December 31, 2016 to Euro 1,754 thousand at December 31, 2017 (+64.4%) is due to the increase in stock for GMP development and production activities carried out on behalf of third parties and for production activities concerning Zalmoxis®.

The Euro 1,313 thousand decrease (-54.9%) in current tax receivables is primarily due to the use for offsetting purposes of the Euro 1,517 thousand tax credits for research and development purposes pursuant to Ministerial Decree dated May 27, 2015.

The Euro 1,828 thousand decrease in Other receivables and current assets (-58.0%) is primarily due to the reduction in receivables relating to grants for subsidized projects at a European level.

The Euro 2,760 thousand decline in Trade payables (-22.0%), from Euro 12,526 thousand at December 31, 2016 to Euro 9,766 thousand at December 31, 2017, is mainly attributable to the reduction in deferred income. This decline is related to routine billing activities.

The decrease in Other liabilities amounting to Euro 1,653 thousand , from Euro 5,580 thousand at December 31, 2016 to Euro 3,927 thousand at December 31, 2017, is primarily due to:

- ✓ the reclassification from long to short-term of Euro 756 thousand accounting for 40% of total pre-financing payment attributable to the subsidized EURE-CART project partners (MolMed is project coordinator);
- ✓ the payment of part of the payables recognized at December 31, 2016 and due to the subsidized EURE-CART project partners (Euro 313 thousand);
- ✓ the completion of the advance payment concerning the subsidized SUPERSIST project (Euro 1,961 thousand), since the last tranche of grants was paid in May 2017.

For further details, reference should be made to the Notes.

Non-current liabilities

The table below shows the items included in non-current liabilities:

(amounts Euro thousand)	December 31, 2017	December 31, 2016	Change	% change
Liabilities for pensions and employee severance indemnity (TFR)	147	146	1	0.7%
Trade payables	1,000	1,800	(800)	(44.4%)
Other liabilities	3,611	4,700	(1,089)	(23.2%)
Total non-current liabilities	**4,758**	**6,646**	**(1,888)**	**(28.4%)**

Non-current liabilities decreased by Euro 1,888 thousand , from Euro 6,646 thousand at December 31, 2016 to Euro 4,758 thousand at December 31, 2017. This change is mainly attributable to the Euro 800 thousand decrease in Non-current trade payables, after the deferred income relating to the GSK's up-front payment pursuant to the agreement signed on March 19, 2015 was reclassified as a short-term payable, and to the above-mentioned reclassification from long to short-term of Euro 756 thousand accounting for 40% of total pre-financing payment attributable to the subsidized EURE-CART project partners (MolMed is project coordinator).

Equity and capital transactions

Details about changes in shareholders' equity from January 1, 2017 to December 31, 2017 are provided in the table below:

(amounts in Euro thousand)	Capital	Share premium reserve	Other reserves	Stock option plan reserve	Actuarial valuation reserve	Retained earnings (accumulated losses)	Profit (loss) for the year	Total shareholders' equity
Balance at Jaunary 1st 2017	**20,313**	**49,347**	**223**	**251**	**(13)**	**(34,096)**	**(13,876)**	**22,149**
Allocation of prior year result	-	-	-	-	-	(13,876)	13,876	-
Personnel costs for stock options 2016-2021	-	-	-	151	-	-	-	151
Other variations - stock options, Plan 2016-2021	-	-	-	(6)	-	6	-	-
Capital increase dedicated to SG	1,201	9,692	-	-	-	-	-	10,893
Capital increase expences capitalized	-	(63)	-	-	-	-	-	(63)
Profit (loss) for the year	-	-	-	-	-	-	(8,497)	(8,497)
Balance at December, 31 2017	**21,514**	**58,976**	**223**	**396**	**(13)**	**(47,966)**	**(8,497)**	**24,633**

Further details about changes in shareholders' equity are provided in the Notes.

Net financial position

(amounts Euro thousand)	December 31, 2017	December 31, 2016
Cash on hand	12	13
Other cash	13,093	19,688
Cash equivalents	-	-
A. Total cash and cash equivalents	**13,105**	**19,701**
B. Current financial receivables and other financial assets	**5,006**	**1**
Finance lease payables	-	-
Current financial Debts	-	-
C. Current financial debt	-	-
D. Net current financial position (A+B+C)	**18,111**	**19,702**
Finance lease payables	-	-
Non current financial Debts	-	-
E. Non-current financial debt	-	-
F. Net financial position (D+E)	**18,111**	**19,702**

Net financial position was positive to the tune of Euro 18,111 thousand at December 31, 2017. It only consists of cash and cash equivalents and current financial receivables (time deposits), since no financial debt was recognized.

2. Main risks and uncertainties to which MolMed is exposed

2.1 Risks associated with external factors

Risks associated with products in the clinical development stage

The Company has still not completed the development of its experimental products that are currently at the clinical trial stage. As regards Zalmoxis®, on December 13th, 2017, the company obtained the first national marketing authorisation for its product Zalmoxis®: In fact, the Board of Directors of AIFA (Italian Medicines Agency) approved the negotiated agreement between the Price and Reimbursement Committee of AIFA and MolMed, which defined the price and reimbursement of the medicinal speciality Zalmoxis®. On January 16th, 2018, Dompé farmaceutici S.p.A, filed the AMNOG dossier (Gesetz zur Neuordnung des Arzneimittelmarkt) at the Joint Federal Institution (Gemeinsamer-Bundesausschuss G-BA) relating to the product. Following this filing and the simultaneous publication of the sale price of LauerTaxe®, as of January 15th, 2018 Zalmoxis® can be prescribed and reimbursed in Germany. For NGR-hTNF, a similar application was filed on December 6th, 2016 with the European Medicine Agency (EMA) for the Conditional Marketing Authorisation (CMA). Following the meetings in the second quarter of 2017 with the European Medicines Agency (EMA), in which some issues relating to the list of questions formulated at the LoQ were discussed, MolMed decided to withdraw the application for the conditional marketing authorisation once completed, as it did not have sufficient time to complete, in the time window granted by the competent Authority for the CMA procedure, the activities targeted at obtaining the data relating to the production and control of the product.

With regards to the experimental products Zalmoxis®, CAR CD44v6 and NGR-hTNF, no guarantee can be provided that the Company will successfully complete the clinical trial.
A situation may arise whereby, despite having received the necessary approvals from the competent authorities, as well as the guaranteed price, the number of patients that actually access the therapy may actually determine different results than those expected by management in terms of profitability.

The experimental products which are being developed by the Company could still prove to be ineffective or cause side effects during clinical trials and may not receive the necessary approvals (or confirmations of authorisation, in the case of a CMA already granted) from the competent authorities or may not obtain such approvals promptly enough to sell the products. In addition, it might happen that the non-randomized Phase II trials, which were successfully completed, do not provide the same positive results in subsequent stages of development. Moreover, clinical trials may be suspended at any time by the Company, or by the competent authorities in the interest of the patients' health. Even after approval by the competent authorities, a product might prove to be unsafe or not to have the expected effects (for example, side effects might emerge after the product is sold on the market or the product's real effectiveness may be lower than that emerging in the experimental stages), or, in any case, it might not be accepted by the market (which might prefer rival products) or, generally, for other reasons which are beyond the Company's control, thus preventing the product's use on a wide scale or forcing the Company to withdraw it from the market. Should the Company not be able to timely complete the development programs and clinical trials for its products, its business and financial position, results of operations, and cash flows could be negatively affected.

Risks associated with strong competition

The biotechnology and pharmaceutical product markets are characterised by intense competition. This is especially true in the field of oncology. The Company may face competition from pharmaceutical multinationals and often larger companies that can take advantage of economies of scale, and can more effectively and timely develop their products. Both during the development and the product sales stage, the Company also

faces competition from current and potential competitors benefitting from higher financial resources, investment budget and better capacity to acquire (in-license) new products and technologies.

Moreover, the Company is in competition with companies of similar size and operations to sign out-licensing agreements or partnerships with other biopharmaceutical companies. In the future, these competitors might be able to develop safer, more effective or cheaper products than those developed by MolMed. In addition, these companies might be more effective at producing and selling their own products, thanks to resources of their own or of their licensors and/or licensees. The level of competition in the reference market and the presence of organised and larger competitors might therefore cause a loss of market share in the future, with a consequent negative impact on the Company's competitive position and a drop in expected revenue and profit.

Such circumstances might limit the Company's chances of competing on the market, with potential negative effects on its financial position, results of operations, and cash flows.

Risks associated with sector regulations

The Company's activities are subject to extensive and strict international, EU and Italian regulations. The Ministry of Health in Italy, the European Medicines Agency (EMA) in Europe, the Food and Drug Administration (FDA) in the United States, and similar institutions in other countries, impose restrictions on the production and sale of therapeutic products, which, together with the complex and lengthy authorisation process, may cause significant delays, both in the launch of future trials, and in the sale of the Company's products.

Moreover, the authorised sale of a product in a particular country does not ensure that the product will be authorised in other countries, but it may need to be further tested, thus involving the use of other significant resources. In addition, the subsequent identification of previously unknown problems or failure to comply with applicable regulations, might lead to restrictions on the sale of the products, the withdrawal of the authorisation or the withdrawal of the products from the market, as well as the application of sanctions. Furthermore, regulatory changes may delay the production and/or trial process, with a consequent increase in the costs incurred by the Company.

Should these circumstances occur in the future, the Company's business and its financial position, result of operations and cash flows could be negatively affected.

2.2 *Strategic and operating risks*

Risks associated with research, clinical and pre-clinical trials, and production

The Company undertakes research, pre-clinical and clinical trials on its products as well as production activities both directly and through third parties on the basis of cooperation agreements (with entities, institutions and companies operating in the medical biotechnology industry). The Company's strategy involves maintaining the current cooperation and possibly signing other agreements to develop these products with third parties, to perform a number of clinical trials and any subsequent drug production.
In addition, despite there are numerous companies specialising in the sector and the Company is not contractually bound, it may happen that third parties appointed to carry out research, pre-clinical and clinical trials, and production activities on behalf of the Company do not fulfil their obligations in whole or in part or in an appropriate manner or do not meet the deadlines required or do not comply with the quality standards requested by the Company. Should such circumstances occur, the pre-clinical and clinical trials could be delayed or it may become necessary to replace the third party that had been appointed.
Should these circumstances occur in the future, they could have negative effects on the Company's business and financial position, results of operations, and cash flows.

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

MolMed is committed to protecting intellectual property and actively seeks to protect its inventions through international patents, when appropriate. In addition, MolMed also actively protects its industrial secrets, including those relating to the production of biologically active products. The effectiveness of this intellectual property protection policy is essential for the success of the Company's business. In this regard, it should be noted that it is not possible for the Company to ensure it will be able to develop new patentable products or processes, or that currently pending or future patent applications will be accepted, or that the validity of a Company's patent is not challenged or that a patent becomes invalid, or, finally, that it acquires the right to use third-party patents which are necessary to carry out its business at arm's length. In addition, exclusive rights conferred by a patent might not be sufficiently comprehensive in terms of scope or geographical area, and/or its duration might not be long enough for its purposes. Moreover, patent applications are usually published 18 months after the filing date; therefore, it is impossible to rule out the possibility of the same invention being already developed by others who had previously filed the patent application.
In addition, the Company relies on proprietary and non-patented technologies, processes, know-how and data considered as industrial secrets and protected under confidentiality agreements entered into with its employees, consultants and a number of counterparties, including third-party manufacturers. In this regard, it should be noted that it is not possible to ensure: (i) that such agreements or measures aimed at protecting industrial secrets will, in fact, provide adequate protection, or that such agreements will not be breached; (ii) that the Company can effectively enforce remedies in the event of any breach of contract; or (iii) that the industrial secrets of the Company will not become known to the public or will not be developed by competitors.
Finally, it should be noted that the protection of intellectual or industrial property or exclusive rights is normally very complex and often leads to legal disputes on ownership. Therefore, during its sales and research and development activities, the Company could be involved in disputes on breach of third-party intellectual or industrial property rights, or could be forced to take legal action against third parties to protect its own rights. Any claims and/or disputes for breach of patent and/or other intellectual or industrial property rights – filed by the Company or against it – could entail significant legal expense, limits or a ban on the use of the products involved in the dispute and/or lead to the payments for their marketing.
Should these circumstances occur in the future, they could have negative effects on the Company's business and financial position, results of operations, and cash flows.

Risks associated with license and supply agreements

As part of its operations, the Company has entered into several license agreements with different companies (including biotechnology and pharmaceutical companies, universities and research institutes) to acquire rights over a range of technologies, patents and manufacturing and supply processes for the development and future sale of its own products as well as for the purchase of equipment for its own research and business activities. Should MolMed not be able to maintain the current contract conditions and/or sign new licence and/or supply agreements at suitable conditions, or should the Company's suppliers not be able to provide MolMed with the equipment needed to perform its research and business activities, the Company's business and financial position, results of operations, and cash flows could be negatively affected.

Risks associated with reliance on key personnel

Up to how, the Company heavily depends on the professional contribution of key scientific and managerial staff who have been actively contributing to the Company's growth and to the development of its strategies. Should MolMed lose any of the key personnel, there would be no assurance that the Company can promptly find adequate substitutes with the same operational and professional skills.
In addition, the development and future sale of new products will largely depend on the Company's ability to attract and retain its highly qualified scientific staff and other senior personnel, also in light of the intense recruitment competition by biotech and pharmaceutical companies, universities and research institutes. Moreover, the Company's ongoing expansion in areas and activities, which require greater know-how (for example in commercial development), will make it necessary to recruit managerial and technical staff with a range of competences.
The loss of any of the Company's key personnel, or the Company's failure to recruit, successfully integrate or retain qualified scientific staff or other senior personnel, could have an adverse effect on its business, and financial position, results of operations, and cash flows.

Risks associated with operations and production capacity of the GMP manufacturing facility and the laboratories

MolMed owns a GMP manufacturing facility formally authorized by the Italian Medicines Agency (AIFA), for the production of genetically modified cell therapy products to be used in clinical trials. Besides supplying TK cell therapy for its own clinical trials, at the GMP facility MolMed provides cell therapy services to selected customers or partners. In addition, MolMed performs research and development activities in its own laboratories.

This facility is subject to operating risks, such as breakdowns or delays in manufacturing processes, equipment failure or malfunction, crashes, delays in the supply of raw materials, strikes, natural disasters, the risk of the authorisations being revoked, new regulatory measures or environmental regulations, including the risk that the facility be non-compliant with GMP regulations, that may prevent the Company from performing its research and development activities and treating patients as part of clinical trials, and promptly processing its customers' orders. In addition, although the Company has taken out relevant insurance, the negative impact of such events might not be fully covered by the policies that the Company has entered into or may exceed the indemnity limits. Should these circumstances occur in the future, they could have negative effects on the Company's business and financial position, results of operations, and cash flows. The Company's GMP facility is adequate for its current production needs and the business plans provide for an increase in the production capacity aimed at both supporting patients being treated with the TK cell therapy so that the Phase III trial can continue and the product will be able to be sold in the future, and at intensifying the development and production activities for new gene and cell therapy treatments on behalf of third parties. However, should the Company increase the number of products under development in the future or should it be necessary to

produce greater quantities of existing products, the facility production capacity might reach saturation point, with consequent possible delays in the clinical trial process and/or in the product time-to-market. The Company constantly monitors this risk and has mitigated it by expanding its facilities and production capacity in the new Bresso premises – additional to the current registered offices in Milan (via Olgettina).
This risk is mitigated through the lease of laboratories in Bresso, as detailed in the Notes.

Risks associated with civil liability related to product trials, production and sale

The Company has never been involved in legal action for its trial activities. Nonetheless, the Company is exposed to civil liability risks related to its current and future clinical trials, production and sale of therapeutic products for human use. Despite the fact it has taken out specific insurance, in keeping with market practice and in compliance with the current regulations, with indemnity limits which are deemed adequate for its trial activities, should the Company face legal proceedings, be liable for compensation, and be forced to pay damages exceeding the indemnity limits provided for by its insurance policies, it could be required to directly cover the relevant costs.
The Company signs specific contracts with the Italian and foreign clinical centres at which trials are carried out. Although the Company, in line with industry regulations, has taken out insurance for the trials performed at these clinics, it is exposed to the risk of claims by the clinics and their insurers. In addition, contracts signed with clinics and testing facilities generally exclude the Company's liability if the clinical protocol is not complied with. However, should the clinical or testing facilities deviate from the clinical protocols, the Company could be exposed to the risk of being involved in compensation suits and claims and be sentenced to pay compensation for any damage caused to third parties.
Should these circumstances occur in the future, the Company's business and its financial position, result of operations and cash flows could be negatively affected.

Risks associated with the use of dangerous materials and the breach of regulations on environment and health protection

In its research and development activities, the Company uses dangerous materials and chemical and biological substances requiring special disposal systems which must be set up in compliance with specific legislative and regulatory provisions on environment, health and safety at workplaces. In this regard it should be noted that, although the safety procedures adopted by the Company for the handling and disposal of such materials are considered to be suitable to avoid or reduce the risks of accidental contamination or workplace injuries, it is impossible to exclude that these events will occur in the future and the Company will be required to pay compensation for any damage caused as a consequence of its operations. Should these circumstances occur in the future, the Company's business and its financial position, result of operations and cash flows could be negatively affected.

2.3 Financial risks

Risks associated with funding research and development activities

The financial risk that the Company could be subject to is the failure to obtain adequate financial resources necessary for its operations.

As is common knowledge, the Company's business model, typical of biotech companies developing new therapeutic products and that have not reached a balanced income and financial position yet, features negative cash flows. This is due to the fact that at this stage costs must be borne in relation to the testing and development of investigational new drugs, and return is not certain and in any case it is expected in forthcoming years.

The Company is also subject to some uncertainties associated with the sector in which it operates (notably, the current product trial stage) regarding both the results that it may actually achieve, and the relevant methods and timings.

Based on the accounting policies adopted, requiring full recognition of research and development costs in the income statement of the year they are incurred, the Company has always reported a loss since its incorporation. Notably, the loss for 2017 was 8,497 thousand , down 5,379 thousand from the 13,876 thousand loss recorded in the previous year. This performance in 2017 is mainly due to the impact of revenues arising from the first milestones relating to the Zalmoxis® agreements signed by MolMed with TTY Biopharm and Dompé and to lower research and development costs incurred in line with the business plan. Further details of the main events occurred in 2017 are provided in paragraph *1.1 Summary of activities performed in 2017*.

Approved in December 2017, the 2018-2020 business plan envisages the continuation of the clinical and industrial development of the Company's main experimental products, notably:

- securing market access for Zalmoxis® in other European countries;
- carrying on with investments in preclinical research and development activities, aimed at enhancing the peculiar features of the CAR-CD44v6 project;
- searching for potential partners supporting the clinical and industrial development of NGR-hTNF;
- looking for new service agreements in relation to development and production activities on behalf of third parties.

Finally, the Company entered into a SEF – Standby Equity Facility agreement with Société Générale (executed in October 2016 and expiring in October 2018) aimed at increasing MolMed's financial flexibility. Following 2016 and 2017 drawdowns, 6,488,279 shares are still available for future capital increases.

Taking account of the above and, in particular, based on the Company's net financial position (positive to the

tune of 18,111 thousand at December 31, 2017), the improved results for 2017 compared to 2016, and based on future cash flows projected by the 2018-2020 business plan, the Company deems that the financial resources and equity available are adequate enough to continue its business operations for a foreseeable future of at least 12 months from the date of this Report. As at today, no significant uncertainties were reported on the Company's ability to continue as a going concern.

Although the financial position at the date of this Report can guarantee enough resources for the Company to continue its operations in the foreseeable future, it cannot be ruled out that in the future the Company, even before it completes the development of its products, may require additional financial resources, to be collected through venture capital or debt financing, or by entering into further partnership agreements, through sponsored research, or by any other means.
In this respect, it should be noted that it is impossible to guarantee that further funds will be available or, if found, they will be provided at satisfactory conditions for the Company. In particular, loan agreements could include obligations such as financial and non-financial covenants that could result in restrictions to the Company's operational flexibility. Should sufficient funds not be available, the Company's activity could be negatively influenced and the latter could be forced to delay, reorganize or cancel research and development programs, enter into loan, licensing or partnership agreements under unfavorable terms or waive rights on certain products that it would not otherwise waive.
Should these circumstances occur in the future, they could have negative effects on the Company's business and financial position, results of operations, and cash flows.

Currency and interest rate risk

At December 31st, 2017, the Company did not have significant exposure to currency fluctuations, because there were no significant receivables or payables in a currency other than the Euro, nor were there any financial instruments subject to currency risk.
The Company has no financial payables or receivables. Interest rate risk exclusively concerns financial instruments used to manage liquidity such as bank accounts, government bonds, corporate bonds, repurchase agreements and other short-/medium-term cash instruments.
Further information on risk management is provided in the Notes to which reference should be made.

3. Key events occurred after closure of financial year

Filing of the Zalmoxis® price-reimbursement dossier in Germany where the product can be prescribed and reimbursed from January 15th, 2018

On January 16th, 2018, the company announced that Dompé farmaceutici S.p.A, licence holder of Zalmoxis® for Europe, filed the AMNOG dossier (Gesetz zur Neuordnung des Arzneimittelmarkt) at the Joint Federal Institution (Gemeinsamer-Bundesausschuss G-BA) relating to the product. Following this filing and the simultaneous publication of the sale price of LauerTaxe®, as of January 15th, Zalmoxis® can be prescribed and reimbursed in Germany at a proposed sale price of Euro 163,900 per infusion (ex-factory price net of VAT). The approved dosage is 1 or more infusions, until immune reconstitution is achieved, with a maximum of 4 allowed. These sale conditions will be valid for 12 months, during which, in application of the AMNOG model, and as indicated on the G-BA site, an evaluation will be conducted on the additional benefit of the new therapy in patients in order to negotiate the final price on this basis.
Based on the licence and distribution agreement for all European countries signed in July last year, MolMed will retain the responsibility for manufacturing and supplying Zalmoxis®, while Dompé will manage the promotion and marketing of the therapy in Germany, paying MolMed a purchase price in proportion to the reimbursement price of the product.

Dompé's exercise of the option to commence activities geared towards accessing the markets in Switzerland, Turkey and Australia to market Zalmoxis®

On February 8th, 2018, the company announced that Dompé farmaceutici S.p.A. ("Dompé") has exercised the option for the development and marketing of Zalmoxis® in Switzerland, Turkey and Australia set out in the strategic agreement for the marketing and supply of MolMed's proprietary therapy signed with the Company and disclosed to the market on July 26th, 2017.
Exercising of the option, whose value is included in the compensation communicated on July 26th last year, will allow the launch of activities involving access to the market in the listed areas, including the activities targeted at obtaining the marketing authorisation and obtainment of the price and reimbursement from the reference regulatory authorities, therefore expanding the potential reference market for Zalmoxis®.

Publication in the Official Journal of the AIFA Determination on the system of reimbursement and the sale price of the proprietary cell therapy Zalmoxis®

On February 15th, 2018, the Company announced the publication, in Official Journal of the Italian Republic no. 37 of February 14th, 2018, of AIFA Determination no. 139/2018 of January 29th, 2018, regarding the system of reimbursement and price of the medicine Zalmoxis®, indicated as an extra treatment in the haploidentical transplantation of hematopoietic stem cells (HSCT) in adult patients with high-risk hematologic malignancies. The Determination will take effect from the fifteenth day after the publication in the Official Journal, and Zalmoxis®, owing to the nature of the product, will be supplied on a hospital basis.

EMA's approval of use of the CliniMACS Prodigy® instrument in the manufacturing process for commercial purposes of Zalmoxis®, patient-specific cell therapy for the treatment of adult patients with leukaemia or other high-risk blood tumours

On February 26th, 2018, the Company announced that the European Medicines Agency (EMA) approved the use of CliniMACS Prodigy®, the closed system for automated cell manufacture, developed by Miltenyi Biotec, in the GMP manufacturing of Zalmoxis®.

4. Business outlook

In 2018, the Company is continuing the clinical and industrial development of the Company's main experimental products.
On the strength of the obtainment, in December 2017, of the price and reimbursement from AIFA in Italy and the entry into the German market in January 2018, Zalmoxis® is expected to gradually access the market in the remaining European countries. The Company will also carry on the activities aimed at expanding the collaborations regarding the development and production of cell and gene therapy products on behalf of third parties.

In particular, in 2018, based on the contractual provisions, Dompé will continue to engage in dialogue with the local European healthcare authorities in order to define the price and reimbursement, while MolMed will proceed with Phase III clinical experimentation. As regards the US market, the Company is working with the American transplantation community to identify the most suitable strategy for obtaining accelerated access from the FDA.

In addition, with regards to the CAR-CD44v6 project, based on the promising pre-clinical data collected in 2016 and 2017, the grant obtained from the European Commission for the EURE-CART project, and by exploiting the consolidated development expertise within the Company, MolMed will continue investing in research and development activities, in order to increase the value of the special and unique characteristics of the project, to accurately define its therapeutic positioning and to commence the first clinical human trial, planned for 2018.

As regards NGR-hTNF, the Company will continue with the search for potential partners for its clinical and industrial development, reserving the right to go ahead with new applications for marketing authorisations in the future.

Lastly, in 2018 the new facility in Bresso will be gradually activated in line with the evolution of the portfolio of existing and future collaborations.

5. Proposed allocation of the result for the year

The Company's Financial Statements, as also described by this Report and the Notes, reported a loss of Euro 8,497 thousand in 2017, which is proposed to be carried forward.

Financial Statements at December 31st, 2017

1. Statement of financial position

(amounts in Euro thousand)		December 31, 2017	December 31, 2016
ASSETS			
Tangible assets	1	11,860	11,567
Goodwill	2	77	77
Intangible assets	2	589	494
Financial assets	3	210	211
Tax receivables	4	2,182	1,722
Other assets	5	1,000	1,500
TOTAL NON-CURRENT ASSETS		**15,918**	**15,571**
Inventories	6	1,754	1,067
Trade receivables and other commercial assets	7	4,896	5,015
Tax receivables	8	1,079	2,392
Other receivables and sundry assets	9	1,326	3,154
Other financial assets	10	5,006	1
Cash and cash equivalents	11	13,105	19,701
TOTAL CURRENT ASSETS		**27,166**	**31,330**
TOTAL ASSETS		**43,084**	**46,901**
LIABILITIES AND SHAREHOLDERS' EQUITY			
Capital		21,514	20,313
Share premium reserve		58,976	49,347
Other reserves		606	461
Retained earnings (accumulated losses)		(47,966)	(34,096)
Profit (loss) for the year		(8,497)	(13,876)
TOTAL SHAREHOLDERS' EQUITY	12	**24,633**	**22,149**
Liabilities for pensions and employee severance indemnity (TFR)	13	147	146
Trade payables	14	1,000	1,800
Other liabilities	15	3,611	4,700
TOTAL NON-CURRENT LIABILITIES		**4,758**	**6,646**
Trade payables	16	9,766	12,526
Other liabilities	17	3,927	5,580
TOTAL CURRENT LIABILITIES		**13,693**	**18,106**
TOTAL LIABILITIES & SHAREHOLDERS' EQUITY		**43,084**	**46,901**

2. Income statement

(amounts in Euro thousand)	Note	Year 2017	Year 2016
Revenues from sales	18	23,000	19,484
Other revenues	19	987	3,341
Total operating revenues		**23,987**	**22,825**
Purchases of raw materials and consumables	20	5,393	4,540
Costs for services	21	10,807	16,859
Costs for use of third-party assets	22	1,472	1,417
Personnel costs	23	12,928	12,309
Other operating costs	24	186	193
Amortization and depreciation	25	1,349	1,093
Total operating costs		**32,135**	**36,411**
Operating result		**(8,148)**	**(13,586)**
Financial income		204	165
Financial charges		(553)	(455)
Net financial income (charges)	26	**(349)**	**(290)**
Pre-tax result		**(8,497)**	**(13,876)**
Income taxes	27	-	-
Profit (loss) for the year		**(8,497)**	**(13,876)**

(amounts in Euro)	Year 2017	Year 2016
Basic earnings/(loss) per share	(0.0194)	(0.0329)
Diliuted earnings/(loss) per share	(0.0194)	(0.0329)

3. Statement of comprehensive income

(amounts in Euro thousand)	Year 2017	Year 2016
Profit (loss) for the year	**(8,497)**	**(13,876)**
Other comprehensive income (not subsequently reclassified to the income statement)		
Profit (loss) actuarial		**(1)**
Other comprehensive income, net of taxes (not subsequently reclassified to the income statement)	**-**	**(1)**
Other comprehensive income (subsequently reclassified to the income statement)		
Net change in fair value of assets available for sale	**-**	-
Other comprehensive income, net of taxes (subsequently reclassified to the income statement)	**-**	**-**
Total comprehensive income (loss) for the year	**(8,497)**	**(13,877)**

4. Statement of cash flows

(amounts in Euro thousand)		December 31, 2017	December 31, 2016
Cash and cash equivalents		19,701	11,770
Opening cash and cash equivalents	**A**	**19,701**	**11,770**
Cash flow from operating activities:			
Profit (loss) for the year		(8,497)	(13,876)
Amortization/Depreciation of intangible/tangible assets		1,349	1,093
Change in liabilities for pensions and employee severance indemnity		-	2
Non-cash costs for stock options		151	43
Decrease in other current assets due to option rights		-	86
Reversal of financial income and charges		349	290
Cash flow from operating activities before changes in working capital		**(6,648)**	**(12,362)**
Changes in current assets and liabilities:			
(Increase) decrease in inventories		(687)	(273)
(Increase) decrease in trade and other receivables		3,260	(96)
Increase (decrease) in trade and other payables		(2,760)	(1,033)
Increase (decrease) in other liabilities		(1,319)	626
Total changes in current assets and liabilities		**(1,506)**	**(776)**
(Increase) decrease in non-current tax receivables		40	735
Increase (decrease) in other liabilities		(800)	(800)
Increase (decrease) in other financial assets		(1,089)	1,336
Increase (decrease) in other activities		1	1
Interest paid		(471)	(314)
Total cash flow generated (absorbed) by operating activities	**B**	**(10,473)**	**(12,179)**
Cash flow from investing activities:			
Net (investment) divestment in tangible assets		(1,746)	(1,888)
Net (investment) divestment in intangible assets		(211)	(245)
(investment) in other financial assets		(5,005)	18,000
Interest received		9	190
Total cash flow generated (absorbed) by investing activities	**C**	**(6,953)**	**16,056**
Cash flow from financing activities:			
Increases in capital and share premium reserve		10,893	4,246
Other Equity movemenets (share increase cost)		(63)	(192)
Total cash flow generated (absorbed) by financing activities	**D**	**10,830**	**4,054**
Cash flow generated (absorbed) during the year	**E=B+C+D**	**(6,596)**	**7,932**
Closing cash and cash equivalents	**A+E**	**13,105**	**19,701**

5. Statement of changes in equity

(amounts in Euro thousand)	Capital	Share premium reserve	Other reserves	Stock option plan reserve	Actuarial valuation reserve	Retained earnings (accumulated losses)	Profit (loss) for the year	Total shareholders' equity
Balance at Jaunary 1st 2015	**11,019**	**5,635**	**8,638**	**644**	**(19)**	**(832)**	**(13,003)**	**12,082**
Allocation of prior year result	-	-	-	-	-	(13,003)	13,003	-
Shareholders' advance payment for share capital increase	-	-	1,552	-	-	-	-	1,552
Use of Shareholders' advance payment for share capital increase	-	-	(10,145)	-	-	-	-	(10,145)
Capital increase	8,823	41,002	-	-	-	-	-	49,825
Capital increase expenses capitalized	-	(873)	-	-	-	-	-	(873)
Unsubscribed rights for share capital increase	-	-	178	-	-	-	-	178
Personnel costs for stock options 2012	-	-	-	87	-	-	-	87
Other variations - stock options, Plan 2012	-	-	-	(315)	-	315	-	-
Profit (loss) for the year	-	-	-	-	7	-	(20,784)	(20,777)
Balance at December, 31 2015	**19,842**	**45,764**	**223**	**416**	**(12)**	**(13,520)**	**(20,784)**	**31,929**

(amounts in Euro thousand)	Capital	Share premium reserve	Other reserves	Stock option plan reserve	Actuarial valuation reserve	Retained earnings (accumulated losses)	Profit (loss) for the year	Total shareholders' equity
Balance at Jaunary 1st 2016	**19,842**	**45,764**	**223**	**416**	**(12)**	**(13,520)**	**(20,784)**	**31,929**
Allocation of prior year result	-	-	-	-	-	(20,784)	20,784	-
Personnel costs for stock options 2012	-	-	-	14	-	-	-	14
Other variations - stock options, Plan 2012	-	-	-	(208)	-	208	-	-
Personnel costs for stock options 2016-2021	-	-	-	29	-	-	-	29
Capital increase dedicated to SG	471	3,775	-	-	-	-	-	4,246
Capital increase expences capitalized	-	(192)	-	-	-	-	-	(192)
Profit (loss) for the year	-	-	-	-	(1)	-	(13,876)	(13,877)
Balance at December, 31 2016	**20,313**	**49,347**	**223**	**251**	**(13)**	**(34,096)**	**(13,876)**	**22,149**

(amounts in Euro thousand)	Capital	Share premium reserve	Other reserves	Stock option plan reserve	Actuarial valuation reserve	Retained earnings (accumulated losses)	Profit (loss) for the year	Total shareholders' equity
Balance at Jaunary 1st 2017	**20,313**	**49,347**	**223**	**251**	**(13)**	**(34,096)**	**(13,876)**	**22,149**
Allocation of prior year result	-	-	-	-	-	(13,876)	13,876	-
Personnel costs for stock options 2016-2021	-	-	-	151	-	-	-	151
Other variations - stock options, Plan 2016-2021	-	-	-	(6)	-	6	-	-
Capital increase dedicated to SG	1,201	9,692	-	-	-	-	-	10,893
Capital increase expences capitalized	-	(63)	-	-	-	-	-	(63)
Profit (loss) for the year	-	-	-	-	-	-	(8,497)	(8,497)
Balance at December, 31 2017	**21,514**	**58,976**	**223**	**396**	**(13)**	**(47,966)**	**(8,497)**	**24,633**

6. *Statement of Financial Position pursuant to Consob Resolution no. 15519 of July 27th, 2006*

(amounts in Euro thousand)	Notes	December 31, 2017	December 31, 2016
ASSETS			
Tangible assets	1	11,860	11,567
Goodwill	2	77	77
Intangible assets	2	589	494
Financial assets	3	210	211
Tax receivables	4	2,182	1,722
Other assets	5	1,000	1,500
TOTAL NON-CURRENT ASSETS		**15,918**	**15,571**
Inventories	6	1,754	1,067
Trade receivables and other commercial assets	7	4,896	5,015
Tax receivables	8	1,079	2,392
Other receivables and sundry assets	9	1,326	3,154
Other financial assets	10	5,006	1
Cash and cash equivalents	*11*	13,105	19,701
of which with related parties	*32*	*24*	*3,465*
TOTAL CURRENT ASSETS		**27,166**	**31,330**
TOTAL ASSETS		**43,084**	**46,901**
LIABILITIES AND SHAREHOLDERS' EQUITY			
Capital		21,514	20,313
Share premium reserve		58,976	49,347
Other reserves		606	461
Retained earnings (accumulated losses)		(47,966)	(34,096)
Profit (loss) for the year		(8,497)	(13,876)
TOTAL SHAREHOLDERS' EQUITY	12	**24,633**	**22,149**
Liabilities for pensions and employee severance indemnity (TF	13	147	146
Trade payables	14	1,000	1,800
Other liabilities	15	3,611	4,700
TOTAL NON-CURRENT LIABILITIES		**4,758**	**6,646**
Trade payables	16	9,766	12,526
Other liabilities	17	3,927	5,580
TOTAL CURRENT LIABILITIES		**13,693**	**18,106**
TOTAL LIABILITIES & SHAREHOLDERS' EQUITY		**43,084**	**46,901**

7. Income statement pursuant to Consob Resolution no. 15519 of July 27th, 2006

(amounts in Euro thousand)	Notes	Year 2017	Year 2016
Revenues	18	23,000	19,484
Other income	19	987	3,341
Total operating revenues		**23,987**	**22,825**
Purchases of raw materials and consumables	20	5,393	4,540
Costs for services	21	10,807	16,859
Costs for use of third-party assets	22	1,472	1,417
Personnel costs	23	12,928	12,309
Other operating costs	24	186	193
Amortization, depreciation and write-downs	25	1,349	1,093
Total operating costs		**32,135**	**36,411**
Operating result		**(8,148)**	**(13,586)**
Financial income		204	165
of which with related parties	32		*1*
Financial charges		(553)	(455)
Net financial income (charges)	26	**(349)**	**(290)**
Pre-tax result		**(8,497)**	**(13,876)**
Income taxes	27	-	-
Profit (loss) for the year		**(8,497)**	**(13,876)**

Notes

1. General information

MolMed's Financial Statements for the year ended December 31, 2017 have been prepared in compliance with the International Accounting Standards ("IFRSs") issued by the International Accounting Standards Board ("IASB") and endorsed by the European Union, as well as with the provisions issued pursuant to Article 9 of Legislative Decree 38/2005. Where this document refers to "IFRSs", it is also intended to include the revised International Accounting Standards (IASs) currently in force, as well as all the interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC"), previously known as Standing Interpretations Committee ("SIC").

The statements have been prepared on the basis of the revised version of IAS 1 – Presentation of Financial Statements, as approved by Regulation 1274/2008 issued by the European Commission on December 17, 2008 and effective since January 1, 2009.

The financial statements format adopted is consistent with the one indicated in IAS 1. In particular, the statement of financial position has been prepared by classifying assets and liabilities as current and non-current; the income statement has been prepared by classifying costs by nature. This type of presentation is deemed to be suitable to represent the Company's business.

The statement of cash flows has been prepared by recognizing the financial flows based on the "indirect method", as indicated by IAS 7. In order to provide a better view of flows, some comparative figures recognized in the statement of cash flows have been reclassified.

In compliance with the requirements of Consob Resolution no. 15519 of July 27, 2006 as to the format of financial statements, specific supplementary statements have been provided, separately recording significant transactions with related parties and non-recurring transactions so as not to compromise the overall readability of the statements.

Amounts included in these Financial Statements are in thousands of Euro, unless otherwise indicated. The Euro is the Company's functional currency.

2. Accounting standards and basis of measurement

General principles
The Company's Financial Statements have been prepared on a historical cost basis, adjusted as required to measure some financial instruments, and on a going concern basis.

Going concern
As is common knowledge, the Company's business model, typical of biotech companies developing new therapeutic products and that have not reached a balanced income and financial position yet, features negative cash flows. This is due to the fact that at this stage costs must be borne in relation to the testing and development of investigational new drugs, and return is not certain and in any case it is expected in forthcoming years.

The Company is also subject to some uncertainties associated with the sector in which it operates (notably, the current product trial stage) regarding both the results that it may actually achieve, and the relevant methods

and timings. Taking account of the peculiarities of the sector in which the Company operates, although it obtained the required authorizations from the relevant authorities, it should be noted that some uncertainties persist, both in relation to the number of patients that can be treated in a context of evolving alternative therapies in clinical practice, and in relation to the result of negotiations over pricing and reimbursement in relation to the Company's products that may actually be different from management's expectations in terms of profitability.

Based on the accounting policies adopted, requiring full recognition of research and development costs in the income statement of the year they are incurred, the Company has always reported a loss since its incorporation. Notably, the loss for 2017 was Euro 8,497 thousand, down Euro 5,379 thousand from the Euro 13,876 thousand loss recorded in the previous year. This performance in 2017 is mainly due to the impact of revenues arising from the milestones relating to the Zalmoxis® agreements, and to lower research and development costs incurred in line with the business plan.

With reference to 2017, it is also worth noting that:

- As far as Zalmoxis is concerned:
  - ✓ following the conditional marketing authorization obtained in the second half of 2016, the Company entered into the following license and distribution agreements: (i) with Megapharm on April 28, 2017 concerning Israel and (ii) with TTY Biopharm Company Ltd on June 30, 2017 concerning Taiwan, Hong Kong, Singapore, Thailand, Philippines, Vietnam and Malaysia;
  - ✓ on July 26, 2017, MolMed and Dompé farmaceutici S.p.A. announced that they entered into an exclusive license and distribution agreement for 15 years, based on which Dompé shall have the right and obligation to carry out all the activities aimed at promoting, marketing, enhancing, distributing and selling Zalmoxis® in all the countries belonging to the European Economic Area (EEA), with an option right in relation to Australia, Switzerland and Turkey;
  - ✓ on December 13, 2017, the first marketing authorization was obtained in relation to the domestic market. The Board of AIFA (the Italian Medicines Agency) approved the agreement entered into between AIFA's Prices and Reimbursement Committee and MolMed, which sets the price and conditions of reimbursement for Zalmoxis®. Pursuant to the agreement, the ex-factory price (VAT excluded) is Euro 149,000 per infusion, before all price reductions provided for by the law and selective discounts set by AIFA Determinations of July 3, 2006 and September 27, 2006. A flat rate per patient and a "safeguard clause" on sales in the first 24 months have also been included. Considering the nature of the product, it will only be supplied to hospitals.

- With reference to CAR CD44v6:
  - ✓ in February 2017 the EURE-CART project officially started. In relation to this project, a grant of Euro 5,903 thousand had been awarded by the European Commission in December 2016. As project coordinator, MolMed received Euro 1,995 thousand .

- As for NGR-hTNF:
  - ✓ following talks with the EMA, MolMed decided to withdraw its application for conditional marketing authorization submitted in December 2016, since it deemed it would not be able to provide the data concerning the production and control of the product within the deadlines required by the relevant Authority.

- Within the framework of GMP development and production activities:
  - ✓ on February 27, 2017 MolMed entered into an agreement with Rocket Pharmaceuticals Ltd to develop and produce a gene therapy to treat the Fanconi anemia;
  - ✓ on July 27, 2017, MolMed and Cellectis entered into a partnership agreement providing for MolMed's development and production of lentiviral vectors and gene-modified T cells to express allogeneic CAR-T.

Furthermore, as illustrated in paragraph *3. Significant events after the reporting period*, on January 16, 2018, the Company announced that Dompé farmaceutici S.p.A.—as the licensee for Zalmoxis® in Europe—filed the product dossier pursuant to AMNOG (*Gesetz zur Neuordnung des Arzneimittelmarkt*, Act on the Reform of the Market for Medicinal Products) with the German Federal Joint Committee (*Gemeinsamer-Bundesausschuss*, G-BA). Following this submission and simultaneous disclosure of the sale price concerning Lauer-Taxe®, Zalmoxis® can be prescribed and reimbursed in Germany (since January 15, 2018). The proposed sale price is Euro 163,900 per infusion (ex-factory price, VAT excluded).

On February 8, 2018, the Company announced that Dompé farmaceutici S.p.A. ("Dompé") exercised the option to develop and sell Zalmoxis® in Switzerland, Turkey and Australia, as allowed by the strategic agreement on the sale and supply of MolMed's therapy entered into with the Company and disclosed on July 26, 2017.
Following the exercise of this option—whose amount is included in fees disclosed on July 26, 2017—access to the above-mentioned markets will begin, and the activities aimed at obtaining marketing authorization as well as the negotiations over pricing and reimbursement with the relevant authorities will be carried out, thus widening the potential relevant market for Zalmoxis®.

Approved in December 2017, the 2018-2020 business plan envisages the continuation of the clinical and industrial development of the Company's main experimental products, notably:

- securing market access for Zalmoxis® in other countries;
- carrying on with investments in preclinical research and development activities, aimed at enhancing the peculiar features of the CAR-CD44v6 project;
- searching for potential partners supporting the clinical and industrial development of NGR-hTNF;
- looking for new service agreements in relation to development and production activities on behalf of third parties.

Finally, the Company entered into a SEF – Standby Equity Facility agreement with Société Générale (executed in October 2016 and expiring in October 2018) aimed at increasing MolMed's financial flexibility. With reference to this facility, Euro 6,488,279 shares are still available for future capital increases.

Taking account of the above and based on the Company's net financial position (positive to the tune of Euro 18,111 thousand at December 31, 2017), the improved results for 2017 compared to 2016, and based on future cash flows projected by the business plan, the Company deems that the financial resources and equity available are adequate enough to continue its business operations for a foreseeable future of at least 12 months from the date of this Report. As at today, no significant uncertainties were reported on the Company's ability to continue as a going concern.

Business combinations
Acquisitions of subsidiaries are accounted for using the acquisition method. The acquisition cost is determined based on the sum of the fair values, at the acquisition date, of the assets acquired, the liabilities incurred or

assumed and the financial instruments issued by the Company in exchange for control of the acquiree, increased by the costs directly attributable to the business combination.
The acquiree's identifiable assets, liabilities and contingent liabilities complying with the recognition requirements of IFRS 3 are recognized at fair value at the acquisition date, except for non-current assets (or disposal groups) which are recognized and measured at the lower of carrying amount and fair value less costs to sell.
Therefore, the cost of a business combination includes the recognition of the fair value of identifiable assets, liabilities and contingent liabilities at the acquisition date. The positive difference between the acquisition cost and the share of the fair value of identifiable assets, liabilities and contingent liabilities is recognized as goodwill. If the difference is negative, it is recognized in profit or loss.
Goodwill arising from acquisition is initially measured at cost and subsequently impaired, if needed.
In accordance with IAS 36 – Impairment of assets, goodwill is tested for impairment annually, or more frequently, if specific events or changes in circumstances indicate that it may be impaired. However, an impairment loss is not reversed when indications of impairment no longer exist. For further details reference should be made to the “Impairment” section below.
Upon first-time adoption of IFRSs, MolMed opted to retrospectively apply IFRS 3 to business combinations taking place before January 1, 2004, as provided for by IFRS 1. Consequently, goodwill generated from acquisitions prior to that date was recognized (without prejudice to any effects arising from the application of new standards) at the value previously measured using the Italian accounting standards, after assessing its recoverability. This measurement was used for the acquisition of the 100% shareholding in the research company Genera S.p.A. in December 2001, followed by its merger into MolMed S.p.A. effective since May 2, 2002.

Impairment
Intangible assets with an indefinite useful life (goodwill) are tested for impairment at least annually and whenever there is an indication that they may be impaired.
Tangible and intangible assets are tested for impairment if an indication of impairment exists. If there is any indication that the assets may be impaired, the recoverable amount shall be estimated to determine the amount of the impairment loss. If it is not possible to estimate the recoverable amount of the individual asset, the Company shall determine the recoverable amount of the cash-generating unit to which the asset belongs.
The recoverable amount of an asset is the higher of the asset’s fair value, less costs to sell, and its value in use. For the purpose of determining the value in use, the estimated future cash flows are discounted, using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the asset.
An impairment loss is recognized in profit or loss when the recoverable amount of an asset or of a cash-generating unit is lower than the carrying amount.
If any indication of impairment for assets other than goodwill no longer exists, the carrying amount of the asset or of the cash-generating unit is increased to the revised estimate of its recoverable amount, but it shall not exceed the carrying amount that would have been determined had no impairment loss been recognized. A reversal of an impairment loss is recognized in profit or loss.
For the purpose of preparing the Financial Statements for the year ended December 31, 2017, and specifically testing tangible and intangible assets for impairment, the recoverable amount is calculated based on expected cash flows and on the following assumptions:

- use of post-tax cash flows deriving from the plans drawn up by the management;
- use of a discount rate equivalent to the Weighted Average Cost of Capital (WACC) at 13.05% and determined by considering a 2.07% free risk rate, a 5.5% market risk premium and a 1.33 beta

coefficient. For the sake of prudence, this rate was increased by 3.67 percentage points, taking account of the risks inherent in the Company's business;
- assessment of the probability of success of the products in the pipeline, based on studies in the sector and previous knowledge.

For the purpose of determining the period over which management projected cash flows, account was taken of MolMed's business model, which is typical of biotech companies that are engaged in the development of new biopharmaceutical products and do not yet have any products on the market. During this phase, huge costs are incurred, primarily due to testing and development of investigational new drugs, and return is expected in forthcoming years. For this reason, a 10-year period was estimated to assess the positive financial effects arising from the launch and distribution of the Company's products on the market, until they become mature, based on the industry penetration curves. It should also be noted that no terminal value has been calculated.
Therefore, for the impairment test to be performed, use was made of the 2018-2020 business plan, as approved by the Board of Directors on December 18, 2017. According to the plan, flows were projected based on management's best forecasts to take account, under a variety of assumptions, of the effects arising from the launch on the market of products currently being developed.
A sensitivity analysis of results was also performed, based on scenarios that take into account a reduced probability of success for products in the pipeline—a key parameter in estimating fair value. In all cases, the value in use proved to be higher than the relevant carrying amount, even assuming a +/- 10% decrease in these probabilities.
Measurements made for the medium/long term take account of the sector in which the Company operates and of its research and development activities. In addition, forecast figures concerning the Company's activities and expected results are based on corporate assessments regarding future and uncertain events: their occurrence could lead to significant differences from the forecasts made.
These uncertain events include, among other things, the Company's ability to find adequate financial resources to meet the investment planned in order to continue with its research and development activities, since the financial sustainability of the approved plans involves, as noted above, the acquisition of these resources.
At December 31, 2017, the carrying amount of the Company's tangible and intangible assets, and equity was considerably lower than its market capitalization.

Tangible assets
Net of accumulated depreciation and any impairment losses, tangible assets are recognized at acquisition cost, including directly attributable ancillary costs. Costs subsequently incurred for improvement and transformation of tangible assets are capitalized only if they increase the reliably measurable future economic benefits. Maintenance or repair costs that did not generate any significant and measurable increase in the production capacity or the useful life of the assets are fully recognized in profit or loss.
Depreciation, recognized in profit or loss, is calculated taking account of the usage, purpose, and technical or commercial obsolescence of the assets, based on their remaining life. The depreciation rates below (unchanged from 2016) apply:

- General and laboratory plant and machinery 10-30%;
- laboratory equipment 10-20%;
- office electronic equipment 20%;
- office furniture and equipment 12%;
- leasehold improvements 8.33%.

Depreciation starts when assets are ready for use.
Depreciation rates are reviewed annually and changed if the current estimated useful life is different from that estimated previously.
Leasehold improvements are capitalized as part of the item to which they refer and are depreciated over their estimated useful life or, if shorter, over the lease term.

Leased assets
Lease agreements are classified as finance leases when all the risks and rewards incidental to ownership are substantially transferred to the lessee. All other leases are considered as operating leases. Assets held under finance leases are recognized as tangible assets at their fair value at the date the agreement was signed or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is recognized in the financial statements as a financial liability.
Furthermore, gains from sale and leaseback transactions based on finance leases are deferred over either the lease term or, if shorter, over the remaining life of the asset.
If there is no reasonable certainty that the lessee will obtain ownership by the end of the lease term, the asset shall be fully depreciated over the shorter of the lease term and its useful life.
A lease is classified as an operating lease if it does not substantially transfer all the risks and rewards incidental to ownership. Operating lease payments are recognized in profit or loss on a straight-line basis over the lease term.

Intangible assets
In compliance with IAS 38 – Intangible Assets, an acquired or internally-generated intangible asset is recognized only if it is identifiable and separable, it can be controlled by the entity, and if it is probable that future economic benefits are generated and its cost can be measured reliably.
Intangible assets may be classified as assets with a finite useful life and assets with an indefinite useful life.
The former are recognized at acquisition or production cost, net of amortization and any accumulated impairment losses. Amortization is calculated over their estimated useful lives, beginning from the date the asset is ready for use. The useful life is reviewed annually and any changes are recognized prospectively in profit or loss.
Intangible assets with an indefinite useful life are not amortized but are tested for impairment annually or more frequently, if needed.

Goodwill
Goodwill—equal to the difference between the cost of the acquisition and the fair value of the assets, liabilities and contingent liabilities identified by the acquirer on the acquisition date—is classified as an asset with an indefinite useful life and is initially recognized at cost.
After the acquisition date, goodwill is not amortized, but it is tested for impairment annually or more frequently, if an indication of impairment exists. If the recoverable amount is lower than the carrying amount, the value of the assets is reduced to its recoverable amount. If goodwill is allocated to a cash-generating unit partially subject to sale/disposal, the relevant goodwill is considered for determining any gain/loss deriving from the transaction.

Other intangible assets
Other intangible assets are recognized at their historical acquisition cost, including directly attributable ancillary costs, or based on the costs directly incurred for their generation. They are amortized on a straight-line basis over their expected useful life, estimated at ten years, except for certain costs regarding concessions, licenses and software, which are amortized over five years.

Specifically:

Concessions, licenses and trademarks
These assets concern costs incurred under license and sub-license agreements on intellectual property used to develop the Company's products. They are amortized on a straight-line basis over their expected useful life (estimated at ten years).

Patents and intellectual property rights
Patents acquired in exchange for consideration are initially recognized at acquisition cost and amortized on a straight-line basis over their expected useful life (estimated at ten years).

Research and development costs
Research costs are recognized in profit or loss in the period in which they are incurred.
Internally-generated costs arising from the development of new products are classified as intangible assets and recognized only if the entity can demonstrate the following:

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

Taking account of the Company's business and the objective characteristics of its experimental activities, research and development costs are entirely expensed in the year they are incurred. For the sake of prudence, Management deemed it better not to capitalize research and development costs based on the current development phase of MolMed's products.

Non-current financial assets
Non-current financial assets include items such as security deposits that the Company intends and is able to hold until maturity. These assets do not fulfill the requirements for classification as cash equivalents. They are recognized and derecognized based on the trade date. Such assets are initially recognized at fair value and subsequently measured at amortized cost, net of any impairment losses.

Receivables
Receivables are initially recognized at par value (equal to the fair value of the transaction). They are then measured at amortized cost, net of any impairment losses recognized in profit or loss, if evidence shows that impairment has occurred.
Impairment losses arise from the difference between the carrying amount of receivables and the present value of estimated future cash flows, discounted at the effective interest rate. In particular, measurement at amortized cost of short-term trade receivables, for which the time component is not significant, is equal to the par value, net of any impairment losses.

Inventories
Inventories are recognized at the lower of cost and net realizable value arising from the market trend. Acquisition cost is calculated based on the weighted average cost.
The carrying amount of inventories is adjusted to take account of obsolete and slow-moving stock, based on their expected usage and estimated realizable value.

Cash and cash equivalents
Cash and cash equivalents are recognized, depending on their nature, at par value (i.e. the fair value) or amortized cost. Cash includes cash on hand.
Cash equivalents are short-term and highly liquid investments, mainly time deposits, that are readily convertible to known amounts of cash, are subject to a negligent risk of fluctuations and have an original maturity of no more than three months.

Other current financial assets
Financial assets are classified as available-for-sale and measured at fair value. As required by IAS 39, accumulated changes in fair value are recognized as a separate component of equity until reversal or impairment, with recognition of any gain or loss in profit or loss. The fair value is equivalent to the price of securities listed on regulated markets at the end of the reporting period.
Acquisition and disposal of financial assets are recorded at the trade or settlement date.

Derecognition of financial instruments
A financial asset is derecognized when the rights to the cash flows arising from it expire and all risks and rewards of ownership are substantially transferred or in the event that the asset is considered not recoverable after exhausting all collection procedures. An entity removes a financial liability from its statement of financial position when its obligation is extinguished. Receivables sold as a result of factoring transactions are derecognized only when all risks and rewards of ownership have been substantially transferred to the factor. The Company continues to recognize receivables factored with or without recourse that do not meet this requirement, even though it formally sold them; in this case, it recognizes a financial liability of the same amount for the advance payment received.

Employee benefits
Employee severance indemnity (TFR) is determined using an actuarial method; the amount of the benefits earned by employees during the period is recognized in profit or loss as part of personnel costs, while the notional financial cost the Company would incur for a loan of the same amount as the TFR is recognized as net financial income (charges). Actuarial gains and losses reflecting the effects of changes in the actuarial assumptions used are recognized in other comprehensive income, taking account of the average remaining working life of employees.
Under IAS 19, the employee severance indemnity is considered as a “defined benefit plan”, and the related liability to be recognized in the financial statements is determined through an actuarial calculation, using the Projected Unit Credit Method. Costs arising from the increase in TFR present value (as the period for payment of benefits gets closer) are recognized as part of “Personnel costs”.
Effective since January 1, 2007, the 2007 Budget Law, and the relevant implementation decrees, introduced significant changes in employee severance indemnity (TFR) regulations, including the choice for employees to allocate their post-employment benefits either to supplementary pension schemes or to the fund managed by INPS, the Italian social security agency.
As a result, the Company’s contributions to the INPS fund and to the supplementary pension schemes are classified as “defined contribution plans” under IAS 19, while allocations to TFR are classified as “defined

benefit plans".
Liabilities relating to post-employment benefits recognized in the statement of financial position as a defined benefit plan represent the present value of the defined benefit plan adjusted to include any actuarial gains and losses.

Stock option plans
The Company grants additional benefits to the Chairman, CEO and specific categories of employees and consultants through stock option plans.
In accordance with IFRS 2 – Share-based Payments, these plans are granted as part of the beneficiaries' remuneration package whose cost is equivalent to the fair value of stock options at the grant date and is recognized in profit or loss on a straight-line basis starting from the grant date through the vesting period, with a corresponding entry in equity. Any subsequent changes in fair value do not have any effect on the initial measurement.
Personnel costs include stock options by virtue of their remuneration nature.

Financial payables
Financial payables, consisting of liabilities arising from finance leases, are initially recognized at cost, equal to the fair value of the amount received, net of any ancillary costs. Subsequently, they are measured at amortized cost, based on the effective interest rate.

Payables
Trade and other payables are recognized at amortized cost, which is normally equivalent to the par value, due to the nature and due dates of payables.

Provisions for risks and charges
Allocations include liabilities arising from current (legal or implicit) obligations, relating to a past event, in relation to which a disbursement will be made that can be reliably estimated. If it is expected to occur after the following reporting period, the liability is recognized at the present value, determined by discounting expected future cash flows at an interest rate that takes into account the cost of borrowing and the risk of the liability.
The provisions are reviewed at each reporting date, and they are adjusted, as needed, to reflect the best current estimate. Any changes are recognized in profit or loss in the period in which they took place.
Risks involving a possible obligation (contingent liabilities) are disclosed in the Notes, but no provision is made.

Revenue Recognition
Revenues are recognized when it is probable that the Company will enjoy future economic benefits and their amount can be reliably determined. They are recognized net of discounts, allowances and returns.
Revenues from services are recognized based on the stage of completion of the service only when the result can be reliably estimated.
As part of the development of new biopharmaceutical products, the Company enters into license and distribution agreements with third parties, which may include upfront payments for the transfer of rights to products being developed as well as milestone payments or royalties relating to the achievement of specific targets or the occurrence of events specified by the agreement. For the purpose of recognizing revenues arising from license and distribution agreements, the Management has to identify each individual revenue defined under the agreement and the relevant time period for recognition. Revenues relating to upfront payments that are not subject to reimbursement and arise from the sale of rights to products being developed under license and distribution agreements to third parties are fully recognized in profit or loss at the execution date only if the Company is not committed to a further performance obligation. Revenues relating to milestone

payments based on achievement of specific development objectives are fully recognized when the right to such payment arises. Royalties are recognized as revenues in the period when the right to receive them arises. Revenues arising from government grants are recognized when it is reasonably certain that they will be received. This takes place when the subsidized project is approved by the relevant public sector bodies. Such revenues are recognized based on the costs actually incurred as a percentage of the total costs budgeted for the subsidized research projects.

Recognition of costs and charges

Costs are accounted for on an accrual basis when they concern goods and services purchased or used during the reporting period or when they have no identifiable future benefits.

Financial income and charges

Interest income and charges are accounted for on an accrual basis, based on interests accruing on the net value of the relevant financial assets and liabilities, using the effective interest rate.
Financial charges are accounted for on an accrual basis and recognized in profit or loss as incurred.
Financial income is accounted for on an accrual basis, based on the effective rate of return.

Income taxes

Income taxes include all taxes calculated on the basis of the Company's taxable income.
Income tax expense pertaining to the reporting period is determined based on the legislation in force. Income taxes are recognized in profit or loss, except for those relating to items which are directly charged or credited to equity; in this case the tax effect is directly recognized in equity.
Taxable income differs from the figure recognized in profit or loss, as it does not include revenues and charges that will be taxable or deductible in future years, as well as the items that will never be taxable or deductible.
Deferred taxes are determined based on the taxes the Company is expected to pay or recover on the temporary differences between the carrying amount of assets or liabilities and their tax value used in calculating taxable income, and they are accounted for using the liability method.
Deferred tax liabilities are generally recognized for all taxable temporary differences, except for those cases in which the Company can monitor the reversal of these temporary differences and it is likely that they will not be reversed in the foreseeable future.
Any deferred tax assets, whether arising from temporary differences and/or accumulated tax losses, are recognized to the extent that it is likely that there will be future taxable income making it possible to use the deductible temporary differences and/or the accumulated tax losses. In this regard, Decree-Law 98/2011 governing urgent provisions for the financial stabilization of the country (Corrective Measure 2011) was converted into Law 111/2011, approved on July 15, 2011. In particular, the Decree-Law amended Article 84 of the Consolidated Law on Income Tax (TUIR) on the possibility to carry tax losses forward, by removing the 5-year time limit set for carrying tax losses forward (meaning that they can be endlessly carried forward), and introducing a quantitative limit to the use of previous tax losses equal to 80% of income generated in the following reporting periods. This 80% quantitative limit is not applicable to tax losses generated in the first three years since the company's incorporation, provided that they relate to a new business.
These assets and liabilities are not recognized if the temporary differences arise from goodwill or initial recognition (not from business combinations) of other assets or liabilities involved in transactions which do not have any impact on accounting or taxable results. The carrying amount of deferred tax assets is reviewed at the end of each reporting period and decreased if it is no longer probable that there will be sufficient future taxable income to allow recovery of all or part of the assets.
Deferred taxes are calculated by using the tax rates that the Company expects to be in force when the asset is realized or the liability is settled, taking account of the rates in force or issued at the end of the reporting

period. If the relevant conditions are met, deferred taxes are directly recognized in profit or loss, except for those concerning items directly recognized in equity. In this case, deferred taxes are also recognized in equity. Current and deferred tax assets and liabilities are offset when it is allowed by the law, and they are classified as receivables or payables in the statement of financial position.
Taxes other than income taxes are included in other operating costs.

Foreign currency transactions
Transactions in currencies other than the Euro are initially recognized at the exchange rate at the transaction date. Monetary assets and liabilities are translated at the exchange rate in effect at the end of the reporting period.
Exchange differences arising from the settlement of monetary items and from their translation at year-end rates differing from those measured upon initial recognition are recognized in profit or loss.

Earnings per share
Basic earnings per share shall be calculated by dividing profit or loss attributable to ordinary equity holders of the Company (the numerator) by the weighted average number of ordinary shares outstanding (the denominator) during the reporting period.
Diluted earnings per share are calculated by adjusting profit or loss attributable to ordinary equity holders and the weighted average number of shares outstanding (the denominator) to take into account the effects of all dilutive potential ordinary shares. A potential ordinary share is a financial instrument or any other contract that may entitle its holder to ordinary shares.

Use of estimates
In compliance with IFRSs, the preparation of the financial statements and related notes requires Management to make estimates and assumptions that can impact the amounts of assets and liabilities recognized and the disclosure of contingent assets and liabilities at the end of the reporting period.
The estimates and assumptions used are based on experience and other factors that are considered as significant. Future results could differ from such estimates. Estimates and assumptions are reviewed periodically, and the effects of any changes are immediately recognized in profit or loss in the relevant period, if they have an impact on this period only, or in future years, if they impact both the current reporting period and future periods.
Furthermore, the preparation of the financial statements requires Management to apply accounting principles and methods that, in some cases, are based on difficult and subjective assumptions and assessments arising from past experience and on assumptions which are considered as realistic and reasonable according to circumstances. The application of such estimates and assumptions has an impact on the amounts recognized in the statement of financial position, income statement, statement of cash flows and disclosed in the report.
A description of critical estimates requiring subjective judgments, assumptions and estimates involving issues that are uncertain by nature is provided further on. Changes in the conditions underlying the judgments, assumptions and estimates adopted might have a major impact on future results since there is the risk that significant adjustments to the carrying amount of assets and liabilities may emerge in periods following the reporting period.

Impairment of assets
Tangible and intangible assets are impaired when specific events or changes in circumstances suggest that the carrying amount is not recoverable. Impairment is calculated by comparing the carrying amount and the relevant recoverable amount, calculated as the higher of fair value—net of disposal costs—and the value in use determined by discounting the expected cash flows arising from the use of the asset. The expected cash

flows are determined based on the information available at the time of measurement, based on subjective judgments regarding the trends of future variables.
Management periodically reviews the carrying amount of non-current assets held and used, and that of assets to be disposed of, when events and circumstances suggest such a review. This is performed by using estimates of expected cash flows arising from the use or disposal of the asset, and suitable discount rates to calculate the present value. If a non-current asset has been impaired, the Company recognizes an impairment equal to the difference between the carrying amount of the asset and its estimated recoverable amount arising from use or disposal, determined based on the most recent business plans.
For the purpose of preparing the Financial Statements for the year ended December 31, 2017, and, more specifically, of testing tangible and intangible assets for impairment, the Company has taken into account the expected performance for 2017 and future years, arising from the approved business plans and based on the current economic and financial situation.
No impairment losses were recognized in the reporting period. Models used for testing are based on the assumptions indicated in the paragraph “Impairment”.
In particular, with reference to intangible assets, the assumption of their recoverability has been assessed based on the business plans which, as previously indicated in the paragraph “Impairment”, assume that adequate financial resources will be found in the future to meet the investment planned in order to continue with the research and development activities, and which are currently uncertain. The uncertainty of this condition could lead to the impairment of intangible assets which is not foreseeable at the moment and therefore not recorded in these financial statements.

Deferred taxes
Any deferred tax assets, whether arising from temporary differences and/or accumulated tax losses, are recognized to the extent that it is likely that there will be future taxable income making it possible to use the deductible temporary differences and/or the accumulated tax losses. Recoverability of deferred taxes mainly depends on the recognition of a future taxable profit allowing to use them within the relevant deadlines. In preparing the financial statements, Directors did not find sufficient evidence to consider recoverability as probable. Therefore, no deferred taxes were recognized. Judgment is required for this assessment since changes in the assumptions could have a material impact on the recognition of deferred tax assets.

Amortization/depreciation
Intangible and tangible assets with a finite useful life are amortized/depreciated on a straight-line basis over their estimated useful life. Their estimated useful life is determined by Directors when assets are acquired or completed. The actual economic life may differ from the estimated useful life. The Company periodically assesses any technological changes, market conditions and forecasts of future events that may impact useful life. Such periodical updates may change the amortization/depreciation period, as well as the amortization/depreciation amounts recognized in future periods.

Stock option plans
The Company grants additional benefits to some Senior Managers through stock option plans. In accordance with IFRS 2 – Share-based Payments, these plans are granted as part of the beneficiaries’ remuneration package. Stock options granted to employees are measured at fair value at the grant date, based on models that take into account a number of factors—such as option strike price, vesting period, current price of the underlying shares, expected share price volatility, expected dividends and interest rate for a risk-free investment over the option term—at the grant date as well as the probability to achieve the relevant targets for vesting.
At the end of each reporting period, the fair value of options previously determined is neither reviewed nor

updated, but maintained at its original value. At that date, on the contrary, the estimates on the market conditions and future events that could impact the measurement are updated.

Accounting standards, interpretations and amendments effective for annual periods beginning on or after January 1, 2017

- **"Disclosure Initiative" Amendments to IAS 7** (issued on January 29, 2016). The amendments aim at clarifying disclosure on financial liabilities. Specifically, they require an entity to provide disclosure that enables users of financial statements to evaluate changes in liabilities arising from financing activities.
- **"Recognition of Deferred Tax Assets for Unrealized Losses" Amendments to IAS 12** (issued on January 19, 2016). The amendments aim at clarifying when a deferred tax asset should be recognized for unrealized losses on available-for-sale financial assets based on specific circumstances and the estimate of taxable income for future years.

Accounting standards, amendments and IFRS and IFRIC interpretations endorsed by the European Union, not yet mandatory and for which the Company has not opted for early adoption at December 31, 2017

- **IFRS 15 – Revenue from Contracts with Customers** (issued on May 28, 2014 and further amended on April 12, 2016). This standard will replace the following standards and interpretations: IAS 18 – Revenue, IAS 11 – Construction Contracts, IFRIC 13 – Customer Loyalty Programmes, IFRIC 15 – Agreements for the Construction of Real Estate, IFRIC 18 – Transfers of Assets from Customers and SIC 31 – Revenue – Barter Transactions involving Advertising Services. The standard outlines a single comprehensive framework for entities to use in accounting for revenue arising from contracts with customers, except for those within the scope of other IASs/IFRSs such as leases, insurance contracts, and financial instruments. The key steps to account for revenue based on this new model are:
  - identify the contract(s) with a customer;
  - identify the performance obligations in the contract;
  - determine the transaction price;
  - allocate the transaction price to the performance obligations in the contract;
  - recognize revenue when (or as) the entity satisfies a performance obligation.

  The standard is effective for annual periods beginning on or after January 1, 2018. Clarifications to IFRS 15 – Revenue from Contracts with Customers were endorsed by the European Union on November 6, 2017. The Company will apply the new standard at the effective date by using the full retrospective method. During 2016, the Company performed a preliminary assessment on the impact of IFRS 15, which continued in more detail in 2017. The Company does not expect any significant impact on its financial position, equity, and disclosure to be provided following the application of the above-mentioned standard.
- Final version of IFRS 9 – Financial Instruments (issued on July 24, 2014). This standard brings together the results of the IASB's project to replace IAS 39:
  - it introduces new requirements for recognition and measurement of financial assets and liabilities (incorporating requirements for measuring minor modifications of financial liabilities);
  - it introduces a new impairment model based on expected losses (rather than incurred losses as per IAS 39) by using reasonable and supportable information that is available without

undue cost or effort about past events, current conditions and forecasts of future economic conditions;

- it introduces a new model for hedge accounting (increase of the types of transactions qualifying for hedge accounting, revision to the accounting treatment for forward contracts and options when they are included in a hedge accounting relationship, changes to the effectiveness test).

The new standard is applicable for annual periods beginning on or after January 1, 2018. The Company will apply the standard at the effective date without disclosing any comparative information. During 2017, the Company performed an in-depth analysis of the impacts arising from the application of IFRS 9. This analysis was based on the information available during the reporting period and therefore, it could be subject to changes after the disclosure of further information in 2018, when the Company will apply IFRS 9. In general, the Company does not expect any significant impact on its financial position and equity from the application of the above-mentioned standard.

- **IFRS 16 – Leases** (issued on January 13, 2016) will replace the following standards and interpretations: IAS 17 – Leases; IFRIC 4 – Determining Whether an Arrangement Contains a Lease; SIC-15 – Operating Leases – Incentives and SIC-27 – Evaluating the Substance of Transactions in the Legal Form of a Lease.
  The new standard provides a new definition of lease and applies a control model (right of use) to distinguish between a lease and a service contract based on the following: identification of the asset, the right to substitute it, the right to obtain substantially all of the economic benefits from use of the identified asset and the right to direct the use of the underlying asset.

  The standard sets out a comprehensive model for the identification of lease arrangements and their treatment in the financial statements of the lessee. Assets held under a lease (including an operating lease) shall be recognized as assets in an entity's statement of financial position and the relevant financial payable shall be accounted for. Furthermore, IFRS 16 does not require an entity to recognize assets and liabilities for leases of low-value assets and leases with a term of 12 months or less. On the contrary, this standard does not introduce any significant changes for lessors.

  The standard is effective for annual periods beginning on or after January 1, 2019. An entity can choose to apply IFRS 16 before that date only if it also applies IFRS 15 – Revenue from Contracts with Customers. The Company's assessment of the application of this standard and any relevant impact is currently underway. Early application of this standard is not expected.
- **Applying IFRS 9 – Financial Instruments with IFRS 4 – Insurance Contracts** (issued on September 12, 2016). These amendments are intended for entities in the insurance sector and aim at addressing concerns about the application of the new IFRS 9 (effective for annual periods beginning on or after January 1, 2018) to financial assets, before IASB replaces current IFRS 4 with a new standard—currently being discussed—to measure financial liabilities.

The following table provides an overview of other standards or amendments that have not yet been endorsed by the European Union.

Description	Endorsed at the end of the reporting period	Scheduled effective date for the standard
Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (issued in September 2014)	NO	Not defined
Amendments to IFRS 2: Classification and Measurement of Share-based Payment Transactions (issued in June 2016)	NO	1/1/2018
Amendments to IFRS 4: Applying IFRS 9 – Financial Instruments with IFRS 4 – Insurance Contracts (issued in September 2016)	NO	1/1/2018
IFRS – 17 Insurance Contracts	NO	1/1/2021
Annual Improvements to IFRS Standards 2014-2016 Cycle (issued in December 2016)		
IFRIC Interpretation 22 "Foreign Currency Transactions and Advance Consideration" (issued in December 2016)	NO	1/1/2018
IFRIC 23 – Uncertainly over Income Tax Treatment (issued in June 2017)	NO	1/1/2019
Applying IFRS 9 – Financial Instruments with IFRS 4 – Insurance Contracts – Amendments to IFRS 4	NO	1/1/2018
IAS 28 – Investments in Associates and Joint Ventures: clarification that measuring investees at fair value through profit or loss is an investment-by-investment choice	NO	1/1/2018

3. *Segment reporting*

Focusing on biotechnology, MolMed's business is made up of a single operating segment concerning the research, development and production of innovative therapies for both its products in the pipeline and for third parties' products.
The essentially uniform nature of the activities performed and the progress of projects under development do not allow to break down business by sector based on risks and benefits.
The CEO is highest-level decision maker with regard to operating issues. The most significant decisions are submitted to the approval of the Board of Directors and of a Scientific Advisory Board (consisting of 5 members), in case of medical/technical issues. Precisely because the research, development and production activity is considered as a whole, the CEO is responsible for Zalmoxis®, CAR, NGR, general research and development as well as for activities carried out on behalf of third parties. Therefore, the CEO is responsible for the operating segment which is the only segment of the Company.

4. Notes to the statement of financial position

Note 1 – Tangible assets

The breakdown and changes of tangible assets at December 31, 2017 are shown in the table below:

(amounts in Euro thousand)	Balance at December 31, 2016	Purchases	Reclassifications	Disposals	Depreciation and write downs	Balance at December 31, 2017
Gross book value						
Plant and machinery	1,499	133	170	(2)		1,800
Industrial and commercial equipment	8,497	418	592	(139)		9,368
Leasehold improvements	9,630	42	208			9,880
Other tangible assets	1,752	159	-			1,911
Ass. under construction and payments on account (Plant Bresso)	30	183	(170)			43
Ass. under construction and payments on account (Industrial equipment Bresso)	197	910	(592)			515
Ass. under construction and payments on account (Leasehold improvements Bresso)	183	42	(208)			17
Total gross book value	**21,789**	**1,887**	**-**	**(141)**	**-**	**23,535**
Accumulated depreciation						
Plant and machinery	(328)	-	-	2	(151)	(477)
Industrial and commercial equipment	(3,850)	-	-	110	(777)	(4,517)
Leasehold improvements	(4,952)	-	-	-	(483)	(5,435)
Other tangible assets	(1,092)	-	-	-	(155)	(1,247)
Total accumulated depreciation	**(10,222)**	**-**	**-**	**112**	**(1,566)**	**(11,676)**
Net book value						
Plant and machinery	1,171	133	170	-	(151)	1,323
Industrial and commercial equipment	4,647	418	592	(29)	(777)	4,851
Leasehold improvements	4,679	42	208		(483)	4,446
Other tangible assets	660	159	-	-	(155)	665
Ass. under construction and payments on account (Plant Bresso)	30	183	(170)	-	-	43
Ass. under construction and payments on account (Industrial equipment Bresso)	197	910	(592)	-	-	515
Ass. under construction and payments on account (Leasehold improvements Bresso)	183	42	(208)			17
Total net book value	**11,567**	**1,887**	**-**	**(29)**	**(1,566)**	**11,860**

** The depreciation shown in the table includes the portion relating to leasehold improvements at the site in Bresso, totaling 333 thousand .As detailed in the Notes, this was neutralized in profit or loss following the pro rata reversal of the relevant deferred income, as the costs of said improvements are charged to the site's lessor.*

The item “Plant and machinery” includes specific plant and machinery used to develop the Company’s products and to provide services.

“Industrial and commercial equipment” includes tangible assets used in laboratories to develop the Company’s products and to provide services.

“Leasehold improvements” include the cost of renovating the premises used by the Company, in particular its pharmaceutical laboratories and offices. The above-mentioned costs concern building work and work on the systems that form an integral part of the premises. The costs accounted for and invoiced to the property owner in accordance with the relevant agreements, concerned building work, and work planning services carried out by the “General Contractor”. The aforementioned costs are depreciated over the term of the lease agreement, i.e. 12 years. The depreciation of all areas held under the lease agreement began in January 2015, when laboratories were also ready to be used. Based on the agreement signed with the property's owner, the costs necessary to renovate the property and make it fully operational, up to a maximum amount of Euro 4 million, will be borne by the property’s owner. As provided for under the agreement, the Company transferred the costs incurred for extraordinary maintenance work to the owner up to the previously-mentioned amount.

The item “Other tangible assets” includes furniture, fittings and electronic office equipment.

Tangible assets increased from 11,567 thousand at December 31, 2016 to 11,860 thousand at December 31, 2017.

Investments of 1,887 thousand were made in tangible assets in 2017. The most significant changes in the period are shown below:

- Increase in plant and machinery to the tune of Euro 303 thousand . This change is due to the amount actually invested in 2017 (Euro 133 thousand), and to the reclassification of Euro 170 thousand from assets under construction when the assets involved became fully operational.

- Increase in industrial and commercial equipment to the tune of Euro 1,010 thousand . This change is due to the amount actually invested in 2017 (Euro 418 thousand), and to the reclassification of Euro 592 thousand from assets under construction when the assets involved became fully operational.

- Increase in leasehold improvements to the tune of Euro 250 thousand. This change is due to the amount actually invested in 2017 (Euro 42 thousand), and to the reclassification of Euro 208 thousand from assets under construction when the assets involved became fully operational.

- Increase in assets under construction and payments on account to the tune of Euro 165 thousand. This change is due to the amount actually invested in 2017 (Euro 1,135 thousand), net of a reclassification of Euro 970 thousand when the assets involved became fully operational.

Such increases were primarily due to investments made to bring new production facilities online, following the acquisition of new customers, and to routine replacement of laboratory equipment, where necessary, to the purchase of new equipment used in the production process, as well as to maintenance and improvement work on the existing GMP facility.

Overall depreciation amounted to Euro 1,566 thousand. Its increase compared to the previous year (Euro 1,371 thousand) is due to the beginning (in second half of 2016) of the depreciation period for the equipment held at the new facility in Bresso. The depreciation includes the portion relating to leasehold improvements at the facility in Bresso, totaling Euro 333 thousand. This was neutralized in profit or loss following the pro rata reversal of the relevant deferred income, as the costs of said improvements are charged to the site's lessor up to an amount of Euro 4 million, as provided for by the relevant agreement.
It should also be noted that there is no collateral on tangible assets.

Note 2 – Intangible assets and goodwill

The breakdown and change in intangible assets at December 31, 2017 are shown in the table below:

(amounts in Euro thousand)	Balance at December 31, 2016	Purchases	Reclassifications	Disposals	Depreciation and write downs	Balance at December 31, 2017
Merger with Genera S.p.A.	77	-	-	-	-	77
Goodwill	**77**	-	-	-	-	**77**
Patents and intellectual property rights	234	43	-	-	(52)	225
Concessions, licenses and trademarks	221	151	39	-	(64)	347
Assets under construction	39	17	(39)	-	-	17
Intangible assets	**494**	**211**	-	-	**(116)**	**589**
Total	**571**	**211**	-	-	**(116)**	**666**

"Goodwill" refers to the amount recorded subsequent to the merger of Genera S.p.A. in 2002.

Recoverability is linked to the know-how of technical personnel carrying out both research activities at the GMP facility and activities relating to the new product development projects that could generate potential revenues following their commercial development.

The gross increase of Euro 211 thousand in Intangible assets is primarily due to the purchase of software to manage laboratory equipment held at the new facility.

Overall amortization amounted to Euro 116 thousand.

It should be noted that there were no intangible assets with an indefinite useful life other than goodwill.

As for the recoverability of intangible assets, reference should be made to the section "Use of estimates" in these Notes.

Note 3 – Financial assets

Non-current financial assets of Euro 210 thousand are in line with the prior-year figures and mainly consist of securities.

Note 4 – Tax receivables (non-current)

Non-current tax receivables of Euro 2,182 thousand refer to VAT credits accrued by the Company. As costs exceed revenues at this stage of business development, VAT credits are regularly recognized.

Note 5 – Other assets (non-current)

"Other non-current assets" refer to the long-term portion (Euro 1,000 thousand) of the amount paid as an advance on future rents to the owner of the property in the "Open Zone" scientific park in Bresso. Pursuant to the lease agreement, starting from 2018 and for the two following years, the advance payment made by the lessee shall be repaid by the lessor through a reduction in the lease fees to the tune of Euro 500 thousand. As a consequence of this, an amount equal to Euro 500 thousand was reclassified as current asset.

Note 6 – Inventory

Inventory at December 31, 2017 is broken down as follows:

(amounts in Euro thousand)	**December 31, 2017**	**December 31, 2016**
Processing materials	471	422
Reagents	1,152	510
General materials	131	135
Total inventories	**1,754**	**1,067**

Consisting of reagents and materials used in the Company's laboratories, inventory increased from Euro 1,067 thousand at December 31, 2016 to Euro 1,754 thousand at December 31, 2017, mainly due to forecasts concerning GMP production activities on behalf of third parties and Zalmoxis® production activities.

Note 7 – Trade receivables and other commercial assets

The breakdown of trade receivables and other commercial assets at December 31, 2017 is as follows:

(amounts in Euro thousand)	December 31, 2017	December 31, 2016
Trade receivables	2,880	3,714
Prepayments	532	267
Invoices to be issued	1,480	953
Prepaid expenses concerning costs pertaining to future periods	4	81
Total trade receivables and other commercial assets	**4,896**	**5,015**

The decrease in trade receivables and other commercial assets reflects the billing and collection trends in relation to the services provided.

Receivables are recognized net of a bad debt provision of Euro 28 thousand, created in 2011 in relation to the impairment of receivables due from Fondazione San Raffaele del Monte Tabor in liquidation.

Except for the above-mentioned bad debt, there are no significant amounts past due.

Note 8 – Tax receivables (current)

Tax receivables at December 31, 2017 are broken down as follows:

(amounts in Euro thousand)	December 31, 2017	December 31, 2016
VAT receivables	700	700
Tax crediti R&D costs	-	1,517
Withholding taxes	379	175
Total tax receivables	**1,079**	**2,392**

Current tax receivables of Euro 1,079 thousand at December 31, 2017 (compared to Euro 2,392 thousand at December 31, 2016) mainly consist of VAT credits.

The Company recognizes as current tax receivables only the amount of VAT credits that may offset other taxes under Italian tax law, as well as VAT credits for which refunds were requested in previous years and which are expected to be collected within the next 12 months (including interests).

The remaining VAT credits are recognized as part of non-current tax receivables, in relation to which reference should be made to **Note 4**.

The Euro 1,313 thousand decrease compared to December 31, 2016 is primarily due to the Euro 1,517 thousand decrease in tax credits for research and development purposes, since they were used for offsetting purposes in the year 2017.

Note 9 – Other receivables and sundry assets

Other receivables and sundry assets at December 31, 2017 are broken down as follows:

(amounts in Euro thousand)	December 31, 2017	December 31, 2016
Accrued research and development grants	990	2,684
Prepayments relating to costs not pertaining to the period	334	470
Other receivables	2	-
Total other receivables and sundry asset	**1,326**	**3,154**

Other receivables and sundry assets amounted to Euro 3,154 thousand and Euro 1,326 thousand at December 31, 2016 and December 31, 2017, respectively. They primarily consist of:

- accrued public sector research and development grants amounting to Euro 990 thousand;
- prepayments amounting to Euro 334 thousand and relating to:
  - ✓ operating costs incurred for contracts based on "work progress" and maintenance and assistance fees for information services and other minor amounts (Euro 321 thousand);
  - ✓ insurance premium costs (Euro 13 thousand).

The change compared to the end of the previous year (-58,0%) is due to the final amount received in relation to the subsidized SUPERSIST project in May 2017. The project had been completed in October 2016.

Note 10 – Other financial assets

This item amounted to 5,006 thousand at December 31, 2017 compared to 1 thousand at December 31, 2016. This change is due to the use of corporate financial resources in 2017—time deposits expiring in January 2018. These assets were classified as held to maturity. This item also includes accrued interest income on such investments amounting to Euro 6 thousand .

Note 11 – Cash and cash equivalents

Cash and cash equivalents are broken down as follows:

(amounts in Euro thousand)	December 31, 2017	December 31, 2016
Bank and post office accounts	13,069	16,723
Bank and post office accounts - related parties	24	2,965
Cash and cash equivalents	12	13
Total cash and cash equivalents	**13,105**	**19,701**

At December 31, 2017 cash and cash equivalents amounted to Euro 13,105 thousand (Euro 19,701 thousand at December 31, 2016), including Euro 13,093 thousand of bank deposit accounts and 12 thousand of cash on hand.

Note 12 – Shareholders' equity

Shareholders' equity at December 31, 2017 totaled Euro 24,633 thousand. Its breakdown is as follows:

(amounts in Euro thousand)	December 31, 2017	December 31, 2016
Share capital	21,514	20,313
Share premium reserve	58,976	49,347
Other reserves:		
Stock option plan reserve	396	251
Actuarial valuation reserve	(13)	(13)
Fair value valuation reserve	-	-
Other	223	223
Retained earnings (accumulated losses)	(47,966)	(34,096)
Profit (loss) for the year	(8,497)	(13,876)
Total shareholders' equity	**24,633**	**22,149**

In compliance with the SEF – Standby Equity Facility agreement entered into with Société Générale on October 6, 2016, subscription for shares resulting from the dedicated capital increase, excluding SG's pre-emption rights, was made in 2017 (second, third and fourth installment).
After these three capital increases, a total number of 25,511,721 shares were issued for an overall amount of Euro 10,983 thousand , of which Euro 1,201 thousand credited to the capital account and Euro 9,692 thousand to the share premium account, gross of Euro 63 thousand costs directly connected to the transaction.
Specifically:

- ✓ Second installment: 4,500,000 shares were subscribed for on August 8, 2017, for an overall amount of Euro 1,840 thousand , of which Euro 212 thousand credited to the capital account and Euro 1,628 thousand to the share premium account.

- ✓ Third installment: 9,011,721 shares were subscribed for on September 22, 2017, for an overall amount of Euro 3,761 thousand , of which 424 thousand credited to the capital account and Euro 3,336 thousand to the share premium account.

- ✓ Fourth installment: 12,000,000 shares were subscribed for on November 14, 2017, for an overall amount of Euro 5,293 thousand , of which Euro 565 thousand credited to the capital account and Euro 4,728 thousand to the share premium account.

Capital

At December 31, 2017, the fully subscribed and paid-in capital amounted to Euro 21,514 thousand and consisted of 456,962,393 ordinary shares with no par value.

Shareholder	No. of shares (*)	%
Fininvest S.p.A.	107,173,138 *	25.43
Airain Lda	24,037,678 *	5.70
H-Equity S.r.l.	8,079,208 *	2.55
H-Invest S.p.A.	7,866,216 *	2.73
Mercato	309,806,153	63.59
Total	**456,962,393**	**100.00**

** based on the Company's figures at September 15, 2017*

The Company does not directly or indirectly own treasury shares, nor were acquisitions or disposals of said shares made, directly or indirectly, during the period.

Share premium reserve

The share premium reserve totaled Euro 58,976 thousand. The net increase in the share premium reserve of 9,629 thousand reflects the changes set out below:

- the 9,692 thousand rise resulting from the capital increases provided for under the SEF – Standby Equity Facility agreement entered into with Société Générale and illustrated in the paragraph above.
- the Euro 63 thousand decrease relating to the deduction of costs directly connected to the above-mentioned capital increase.

Other reserves

Other reserves are broken down as follows:

a) Stock option plan reserve

The stock option plan reserve of Euro 396 thousand was set up on January 1, 2006 upon first-time adoption of IFRSs, in order to include the fair value of stock option plans. The reserve was calculated by determining the fair value of the rights granted at the granting dates. In later years, the stock option plan reserve has increased, and changes were recognized as part of personnel costs in the income statement. Changes in the period are the result of a Euro 151 thousand increase arising from the recognition of the amount accrued based on the 2016-2021 stock option plan and pertaining to the period, as well as of a Euro 6 thousand decrease due to the expiry of options granted to the former General Manager and two other Executives who resigned in the year.

b) Actuarial valuation reserve

The Actuarial valuation reserve was negative to the tune of 13 thousand at December 31, 2017, and it was unchanged compared to the previous year.

c) Other reserves

Other reserves of Euro 223 thousand mainly consist of the following:

- a Euro 45 thousand reserve for unexercised rights relating to the 2014 capital increase including income arising from the sale of such rights;
- a Euro 178 thousand reserve for unexercised rights relating to the 2015 capital increase including income arising from the sale of such rights.

Retained earnings (accumulated losses)

This item totaled Euro 47,966 thousand at December 31, 2017. The Euro 13,870 thousand change compared to the year ended December 31, 2016, is due to:

- a Euro 13,876 thousand increase relating to the loss for 2016 which was recognized as accumulated losses as per the Shareholders' Meeting resolution of April 8, 2017;
- a Euro 6 thousand decrease resulting from the reversal of the Reserve relating to the 2016-2021 stock option plan, due to the expiry of options granted to the former General Manager and two other Executives who resigned in the year.

Main shareholders' equity items

(amounts in Euro thousand)	Balance at December 31, 2017	Purpose of use	Amount available
Reserves			
-Share premium reserve	58,976	A,B	58,976
-Stock option plan reserve	396	-	-
-Fair value reserve	-		-
-Other reserves			
- Actuarial valuation reserve	(13)	-	-
- Unexercised rights 2014 reserve	45	A,B	178
- Unexercised rights 2015 reserve	178	A,B	(47,966)
-Retained earnings (accumulated losses)	(47,966)		

Key:
A: for share capital increase
B: for coverage of losses
C: for distribution to shareholders

Note 13 – Liabilities for pensions and employee severance indemnity (TFR)

This item includes all liabilities for pension schemes and other employee benefits following termination of the employment relationship or payable when certain requirements are met. It consists of accruals relating to the employee severance indemnity (TFR) pertaining to Company's staff.

Liabilities for pensions and employee severance indemnity totaled Euro 147 thousand at December 31, 2017 (Euro 146 thousand at December 31, 2016).

Changes in the period are reported below:

(amounts in Euro thousand)	December 31, 2017	December 31, 2016
Opening balance	**146**	**197**
Uses	-	(53)
Other movements	-	-
Financial loss	1	2
Actuarial (gain)/loss	-	-
Total liabilities for pensions and employee severance indemnity (TFR)	**147**	**146**

Under IAS 19, the Employee severance indemnity has been considered as a "Defined benefit plan", determined on the basis of actuarial calculations performed by an external consultant in accordance with international accounting standards.

Pursuant to IAS 19, the Employee severance indemnity was measured using the methods described below, as provided for by the recent relevant provisions introduced by the National Association of Actuaries together with the competent bodies—OIC (Italian Accounting Body), Assirevi, (Italian Association of Auditors), and ABI (Italian Banking Association)—for companies with more than 50 employees.

Under IAS 19, at December 31, 2017, the Iboxx Corporate AA discount rate was used with seven to ten year duration. Specifically, the Company chose an instrument with a term comparable to the duration of the group of employees concerned.

The calculation method can be broken down as follows:

- projection for each staff member employed at the measurement date, of the employee severance indemnity accrued at December 31, 2006 and revalued at the measurement date;
- calculation for each staff member of the probability-based payments concerning the employee severance indemnity that must be made should an employee leave the Company due to dismissal, resignation, disability, death and retirement, and also in the case of request of early payments;
- discounting, at the measurement date, of each probability-based payment.

More specifically, the following assumptions were adopted:

- Annual discount rate: 0.88%
- Annual inflation rate: 1.50%
- TFR annual increase rate: 2.625%

Demographic assumptions

- Mortality rate: RG48 table
- Disability: INPS tables by age and sex
- Retirement age: 100% fulfillment of General Compulsory Insurance (AGO) requirements

Annual turnover and TFR advance payments

- Advance payment frequency, %: 5.00%
- Turnover frequency: 7.00%

Further disclosure required by the Amendments to IAS 19 is shown below:

hypothesis variation						
TFR	turnover frequency		inflation rate		discount rate	
	-1%	1%	+ 1/4 %	- 1/4 %	+ 1/4 %	- 1/4 %
146	147	145	148	145	144	149

Below is the amount of the contribution for the subsequent reporting period and the average financial duration for defined benefit plans:

- Cost service: 0
- Plan duration: 6.9

Note 14 – Trade payables (non-current)

Non-current trade payables amounted to Euro 1,000 thousand at December 31, 2017. They entirely consist of the non-current portion of the deferred income relating to GSK's upfront payment arising from the agreement signed on March 19, 2015, and recognized in the income statement over the term of the relevant agreement.

Note 15 – Other liabilities (non-current)

Other non-current liabilities amounted to Euro 3,611 thousand at December 31, 2017. Their breakdown is as follows:

(amounts in Euro thousand)	December 31, 2017	December 31, 2016
Project pre-financing payments	964	964
Other debts	-	756
Deferred income relating to the Bresso	2,647	2,980
Total cash and cash equivalents	**3,611**	**4,700**

The item mainly consists of:

- Deferred income relating to the Bresso facility to the tune of Euro 2,647 thousand . This item mainly includes the deferred income relating to costs incurred for the new Bresso facility up to December 31, 2017. Based on the agreement signed with the property's owner, the costs necessary to renovate the property and make it fully operational, up to a maximum amount of Euro 4 million, shall be borne by the property's owner. As provided for by the agreement, the Company shall transfer the costs incurred for extraordinary maintenance work to the owner. Costs are recorded as fixed assets and deferred income arising from the owner's contribution is also recognized. The relevant recognition in the income statement is based on the lease duration starting from when the property progressively becomes ready for use.

  The Company reclassified most of said deferral as non-current following the formal delivery of the offices in 2014 and the laboratories in 2015. The event triggered the beginning of the depreciation period, estimated at 12 years based on the lease agreement. The Company continued recognizing

Euro 333 thousand , representing the depreciation for the next 12 months, as current liabilities. For further details, reference should be made to **Note 17**.

The Euro 333 thousand decrease in the period is due to the reclassification of the depreciation relating to the January-to-December 2018 period from long to short term.

- Project pre-financing payments to the tune of Euro 964 thousand . The amount is related to the pre-financing payment that MolMed (as project coordinator) received on December 22, 2016 in relation to the EURE-CART project funded by the European Union, within the Horizon 2020 – Research and Innovation Framework Programme. The pre-financing amount is approximately 50% of the amount that will be paid to MolMed. As project coordinator, the Company received approximately 50% of the entire project funding. Pursuant to the relevant consortium contract, 60% of the EU pre-financed amount was paid by the coordinator to the project partners after collection, while the remaining 40% (Euro 756 thousand) will be distributed to participants 12 months after the project is launched, i.e. in January 2018. For this reason, at December 31, 2017, the above-mentioned 40% portion due to project partners was reclassified from long to short term, thus reducing to zero the item “Other payables”.
  It should be specified that the project funding will cover a portion of R&D costs relating to the CAR-T project over a period of 48 months.
  The item has not changed compared to the end of the previous year.

Note 16 – Trade payables

Trade payables amounted to Euro 9,766 thousand at December 31, 2017, compared to Euro 12,526 thousand at December 31, 2016, and are broken down as follows:

(amounts in Euro thousand)	December 31, 2017	December 31, 2016
Trade payables	8,542	9,252
Deferred income concerning revenues pertaining to future periods	1,224	3,274
Total trade payables	**9,766**	**12,526**

At December 31, 2017, payables to suppliers included Euro 7,478 thousand due in Italy, Euro 638 thousand due in other European Union countries and Euro 426 thousand due in other countries (mainly in USD).

Deferred income mainly refers to revenues from gene and cell therapy services, to be provided by the Company in the first months of 2018. This item, decreasing by Euro 2,050 thousand compared to the end of 2016, mainly includes deferred income arising from the agreement signed with GSK to the tune of Euro 800 thousand. The above-mentioned agreement and its subsequent amendments provide for the recognition of deferred income relating to the up-front payment and advances recorded in the income statement over the duration of the agreement and when the service is actually provided, respectively.

Note 17 – Other liabilities

This item is broken down as follows:

(amounts in Euro thousand)	December 31, 2017	December 31, 2016
Amounts due to employees for holidays and bonuses	1,667	1,830
Amounts due to social security institutions	702	550
Tax payables	344	405
Other payables	776	2,379
Deferred income (Bresso)	438	416
Total other liabilities	**3,927**	**5,580**

Amounts due to employees for holiday and bonus pay decreased by Euro 163 thousand, from Euro 1,830 thousand at December 31, 2016 to Euro 1,667 thousand at December 31, 2017.

Amounts due to social security institutions and tax payables consist of withholding taxes and social security contributions on employee salaries and on the remuneration of freelance consultants for the month of December 2017, paid to the authorities the following month.

The Company recorded tax losses in the two periods considered; it has no taxable income for IRAP purposes.

The Euro 1,603 thousand decrease in Other payables, from Euro 2,379 thousand at December 31, 2016 to Euro 776 thousand at December 31, 2017, is essentially due to:

- Reducing to zero the amount of payables recognized at December 31, 2016 due to EURE-CART project partners—MolMed received the grant in December 2016 and the partners received their amounts in January 2017 (Euro 313 thousand).

- Reclassifying from long to short term the portion (managed by MolMed as project coordinator) of the pre-financing payment relating to the above-mentioned EURE-CART project. Pursuant to the contract, such portion will be distributed to participants at least 12 months after the project is launched, i.e. in January 2018. For this reason, at December 31, 2017, the above-mentioned 40% portion due to project partners was reclassified from long to short term. It should be specified that the project funding will cover a portion of R&D costs relating to the CAR-T project over a period of 48 months.
- Completing the advance payment concerning the subsidized SUPERSIST project, since the last tranche of grants was paid in May 2017.

Deferred income mainly relates to the current portion (Euro 333 thousand) of depreciation for the next 12 months of an amount equal to Euro 4 million, recorded as tangible assets and charged to the owner of the property in the “Open Zone” park in Bresso. For further details, reference should be made to **Note 15**.

5. Notes to the income statement

Note 18 – Revenues

(amounts Euro thousand)	**Year 2017**	**Year 2016**
Revenues from development and manufacturing activities	20,500	19,484
Revenues from Zalmoxis®	2,500	-
Total operating revenues	**20,500**	**19,484**

(amounts Euro thousand)	**Year 2017**	**Year 2016**
Revenues from development and manufacturing activities	20,500	19,484
Revenues from Zalmoxis®	2,500	-
Total operating revenues	**23,000**	**19,484**

Sales revenues amounted to Euro 23,000 thousand in 2017, compared to Euro 19,484 thousand in 2016, broken down as follows:

- Euro 20,500 thousand revenues from activities carried out on behalf of third parties, an increase by 5.2% compared to 2016;
- Euro 2,500 thousand revenues relating to Zalmoxis®, arising from (i) the first milestone of the exclusive agreement entered into between MolMed and TTY Biopharm on June 30, 2017 for the purpose of selling the above-mentioned product in some Asian countries, and (ii) the exclusive license and distribution agreement entered into between MolMed and Dompé farmaceutici S.p.A. on July 26, 2017, and applying to all the countries belonging to the European Economic Area (EEA), with an option right in relation to Australia, Switzerland and Turkey.

Note 19 – Other income

This item, amounting to Euro 987 thousand, mainly consists of public sector research and development grants and is broken down as follows:

(amounts in Euro thousand)	**Year 2017**	**Year 2016**
Other revenues	987	3,341
Total other income	**987**	**3,341**

At December 31, 2017, other income, recognized as part of operating revenues and amounting to Euro 987 thousand (compared to Euro 3,341 thousand in 2016), mainly consists of:

- Euro 841 thousand income relating to research and development grants the Company received based on its participation in public sector subsidized projects;
- Euro 196 thousand income relating to tax credits for hiring highly qualified staff (Ministerial Decree of October 23, 2013).

Note 20 – Purchases of raw materials and consumables

This item is broken down as follows:

(amounts in Euro thousand)	Year 2017	Year 2016
Processing materials	1,473	1,048
Reagents	2,540	2,387
General laboratory materials	649	687
Maintenance materials	75	146
Change in raw materials inventory	656	272
Total purchases of raw materials and consumables	**5,393**	**4,540**

Costs for raw materials and consumables, which largely consist of materials and reagents used in production and development activities, rose from Euro 4,540 thousand at the end of 2016 to Euro 5,393 thousand at the end of 2017.
The Euro 853 thousand increase is mainly due to growing GMP development and production activities carried out on behalf of third parties, and to activities concerning one product in the pipeline.

Note 21 – Costs for services

The breakdown of this item at December 31, 2017 and December 31, 2016 is as follows:

(amounts in Euro thousand)	Year 2017	Year 2016
Outsourced development costs	2,348	7,802
Option rights	-	86
Consultancy and technical fees	619	861
License and patents consultancy fees	1,004	1,614
Maintenance	898	657
Transport and storage of laboratory materials	581	493
Utilities	1,172	1,179
Directors and statutory auditors' fees	374	392
Audit	74	68
Legal, administrative and managerial fees	550	634
Listing consultancy fees and other listing costs	68	110
Supervisory board fees	112	130
Communications agency fees	904	883
IT assistance and other IT costs	338	427
Other general and administrative costs	916	822
Ttravel, staff training and othe personnel costs	849	701
Total costs for services	**10,807**	**16,859**

Costs for services declined from Euro 16,859 thousand at December 31, 2016 to Euro 10,807 thousand at December 31, 2016. The Euro 6,052 thousand decrease in the period is mainly attributable to the following combined effects:

- Lower outsourced development costs, declining from Euro 7,802 thousand in 2016 to Euro 2,348

thousand in 2017 (-69.9%). This change is mainly attributable to the reduction in the costs incurred for the industrial development of one of the products in the pipeline and in the costs concerning the SUPERSIST project, completed in October 2016.

- Reduction of costs for option rights to zero, following the expiration in March 2016 of the option agreement for the purchase of research projects entered into by the Company and Ospedale San Raffaele.

- Decrease in costs for consultancy and technical fees from Euro 861 thousand in 2016 to Euro 619 thousand in 2017 (-28.1%). This decline is mainly attributable to lower costs incurred in 2016 in relation to the facility in Bresso and to the development of one of the products in the pipeline.

- Increase in maintenance costs from Euro 657 thousand at December 31, 2016 to Euro 898 thousand at December 31, 2017, mainly due to the costs incurred for the ordinary revamping of the production systems in the current GMP facility and for the ordinary maintenance of the new facility in Bresso.

Note 22 – Costs for use of third-party assets

(amounts in Euro thousand)	**Year 2017**	**Year 2016**
Rental of premises	1,300	1,254
Other rentals	172	163
Total costs for use of third-party assets	**1,472**	**1,417**

Costs for use of third-party assets of Euro 1,472 thousand in 2017 are broadly in line with the prior year (Euro 1,417 thousand).

Note 23 – Personnel costs

These costs are broken down as follows:

(amounts in Euro thousand)	**Year 2017**	**Year 2016**
Wages and salaries	9,317	9,527
Social security contributions	2,545	2,197
Defined contribution plans	875	512
Stock option costs	151	43
Other personnel costs	40	30
Total personnel costs	**12,928**	**12,309**

Personnel costs slightly increased compared to the previous year (+5.0%), from Euro 12,309 thousand in 2016 to Euro 12,928 thousand in 2017. This rise is mainly due to the increase in the number of employees performing operating tasks within the organization.

The remuneration component arising from stock option plans refer to plans with Company shares as underlying securities and is represented by the notional cost recognized as a separate component of equity (see **Note 12**).

Personnel costs include the fixed fees paid to Mr. Bordignon for a total gross amount of Euro 400 thousand and to Mr. Palmisano for a total gross amount of Euro 450 thousand , as well as their variable bonuses for 2017 connected to the achievement of corporate performance objectives. Such amounts refer to the agreements entered into between the Company and Messrs. Bordignon and Palmisano on the activities they perform within the framework of the powers granted by the Shareholders' Meeting and the Board of Directors on December 11, 2015 and following the appointment of corporate bodies on April 18, 2016. For further details, reference should be made to **Note 32** of this Report.

During 2017, the average number of employees was 185 (compared to 184 in the first half of 2017 and 170 in 2016). The number of employees at December 31, 2017 was 186, broken down by position as follows:

	2017	2016
Executives	9	12
Middle management	32	36
Clerical staff	141	129
Technicians	4	4
Total	**186**	**152**

Note 24 – Other operating costs

The item "Other operating costs" of Euro 186 thousand at December 31, 2017 is broken down below and compared with figures at December 31, 2016.

(amounts in Euro thousand)	**Year 2017**	**Year 2016**
Printed and promotional materials	3	6
Stationery	18	24
Entertainment costs	27	26
Membership fees	59	53
Donations	-	31
Books and magazines	17	17
Other costs	62	36
Total other operating costs	**186**	**193**

Note 25 – Amortization, depreciation and impairment

Amortization, depreciation and impairment totaled Euro 1,349 thousand in 2017. They increased by Euro 256 thousand compared to the previous year (Euro 1,093 thousand) following the beginning of the amortization/depreciation period for the assets relating to the new facility in Bresso. Investments in the year of Euro 2,098 thousand were primarily made to bring new production facilities online following the acquisition of new customers, and to routine replacement of laboratory equipment, where necessary, to the purchase of new equipment used in the production process, as well as to maintenance and improvement work on the existing GMP facility.

This item was recognized net of the relevant depreciation on leasehold improvements at the facility in Bresso totaling Euro 333 thousand and charged to the site's lessor. This was neutralized in profit or loss following the pro rata reversal of the relevant deferred income. For further details, reference should be made to **Note 15**.

(amounts in Euro thousand)	**Year 2017**	**Year 2016**
Amortization of intangible assets	116	55
Depreciation of tangible assets	1,233	1,038
Total amortization, depreciation & write-downs	**1,349**	**1,093**

Note 26 – Financial income and charges

This item is broken down as follows:

(amounts in Euro thousand)	**Year 2017**	**Year 2016**
FINANCIAL INCOME:		
Interest and other financial income	20	9
Gains on securities	-	67
Exchange gains	184	89
Total financial income	**204**	**165**
FINANCIAL CHARGES:		
Exchange losses	(24)	(176)
Other charges	(529)	(279)
Total financial charges	**(553)**	**(455)**
Total financial income (charges)	**(349)**	**(290)**

The Company's financial activities generated a negative result of Euro 349 thousand, a decrease of Euro 59 thousand compared to 2016.

Financial income increased by 23.6% from Euro 165 thousand at December 31, 2016 to Euro 204 thousand at December 31, 2017. Such increase is mainly attributable to foreign exchange gains.
Financial charges amounted to Euro 553 thousand in 2017, increasing by +21.5% compared to 2016. Such increase is mainly due to the combined effect of the decrease in foreign exchange losses and the increase in other financial charges, arising from the fees paid following subscription for shares, as provided for by the SEF – Standby Equity Facility agreement with Société Générale, in three installments (in August, September and November).

Note 27 – Income taxes

No current or deferred taxes were recorded at the date of this Report.

As in the previous reporting periods, the Company did not recognize any tax credit that could arise from calculation of deferred taxes on temporary differences deductible in future years. At December 31, 2017 the tax losses to be carried forward totaled Euro 203,430 thousand and the theoretical deferred tax assets totaled Euro 48,823 thousand . Pursuant to reference accounting standards, the Company will recognize deferred tax assets only if it is likely that such amounts will be recovered through future taxable income.

The following table provides a summary of the temporary differences at December 31, 2017 and 2016:

(amounts in Euro thousand)	December 31, 2017			December 31, 2016		
	Temporary differences amount	Rate	Tax effect	Temporary differences amount	Rate	Tax effect
Directors' fees	-	24.00%	-	17	24.00%	4
Manteinance in exceeds	583	24.00%	140	360	24.00%	86
Other temporary differences	27	24.00%	6	712	24.00%	171
Upfront & milestone revenues difference	29	24.00%	7	29	24.00%	7
Article 84, par. 2 TUIR (start up losses)	1,552	24.00%	372	1,552	24.00%	372
Tax losses carried forward as perArticle 84,	201,239	24.00%	48,297	191,715	24.00%	46,012
Total advance tax	**203,430**		**48,823**	**194,385**		**46,652**
Other temporary difference	138	24.00%	33	-	24.00%	-
Total deferred taxes	**138**		**33**	**-**		**-**

Note 28 – Basic and diluted earnings (loss) per share

The basic earnings (loss) per share are detailed below:

(amounts in Euro)	Year 2017	Year 2016
Basic earnings/(loss) per share	(0.0194)	(0.0329)
Diliuted earnings/(loss) per share	(0.0194)	(0.0329)

As required under IAS 33, diluted earnings (loss) per share take into account the effects of all dilutive potential ordinary shares. The Company has set up two stock option plans which offer call options on Company's shares at a set strike price.

The Company has not calculated the diluted loss per share, since with reference to the 2008 Plan the strike price is higher than the average market price in the period, and therefore the options would not be exercised, while in relation to the 2016-2021 Plan, the strike price is lower than the average market price in the period, and therefore, an anti-dilutive effect would be generated that should not be indicated.

The calculation of the basic earnings (loss) per share is based on the net loss recorded in 2017 and 2016—8,497 thousand and 13,876 thousand , respectively—and on the weighted average number of ordinary shares outstanding in the relevant periods—437,236,661 and 421,724,675, respectively.

6. Other notes

Note 29 – Net financial position

The net financial position, based on the format provided for by Consob Communication no. 6064293 of July 28, 2006, is provided below:

(amounts Euro thousand)	December 31, 2017	December 31, 2016
Cash on hand	12	13
Other cash	13,093	19,688
Cash equivalents	-	-
A. Total cash and cash equivalents	**13,105**	**19,701**
B. Current financial receivables and other financial assets	**5,006**	**1**
Finance lease payables	-	-
Current financial Debts	-	-
C. Current financial debt	-	-
D. Net current financial position (A+B+C)	**18,111**	**19,702**
Finance lease payables	-	-
Non current financial Debts	-	-
E. Non-current financial debt	-	-
F. Net financial position (D+E)	**18,111**	**19,702**

The net financial position was positive to the tune of 18,111 thousand at December 31, 2017. It only consists of cash and cash equivalents since no financial debt was recognized.

Note 30 – Contingent liabilities, commitments, and guarantees

Contingent liabilities

With reference to Zalmoxis®, based on the agreements currently in force with some counterparties, a contingent liability of a maximum overall amount of USD 1.95 million was recognized. It will be paid in tranches following the achievement of specific product development milestones.

Commitments and guarantees

Commitments and guarantees are broken down as follows:

(amounts in Euro thousand)	December 31, 2017	December 31, 2016
Guarantees	1,718	6,637
Commitments	-	-
Total guarantees and commitments	**1,718**	**6,637**

Guarantees mainly consist of bank guarantees for the refund of VAT credits (Euro 1,280 thousand). Furthermore, Euro 363 thousand refer to the guarantees issued for the payment of real estate leases, Euro 75

thousand refer to the guarantees issued in favor of Università Vita Salute San Raffaele for commitments undertaken by the Company in relation to the funding of research scholarships.

Note 31 – Share-based payments

2008 stock option plan

Pursuant to the Shareholders' Meeting resolution dated October 29, 2007 on a capital increase with consideration, the Board of Directors, pursuant to the powers granted to it, approved the rules of an incentive scheme, as amended on October 11, 2010, under which the Company's executive directors, consultants, and employees may receive two different types of options, including in multiple tranches:

- type A options: vesting at the end of the third year from the date on which the Company's shares start to be traded on the MTA; these may be exercised in a single tranche, starting from the vesting date and up to a deadline of seven years from the vesting date;
- type B options: vesting is subject to achievement of specific business objectives, identified by the Board of Directors upon granting and, in any case, no earlier than the end of the third year from the grant date. The options may be exercised in one or more tranches, starting from the vesting date and up to a deadline of seven years from the vesting date.

  At the meetings on May 9, 2011 and June 24, 2013, the Board of Directors acknowledged that the vesting condition for the first and second tranches of type B options was not met; therefore, all type B options have expired.

Following the approximately Euro 57.9 and Euro 50 million capital increases made in 2010 and 2015 respectively, the Board of Directors approved the necessary amendments to the rules of the above-mentioned stock option plan to maintain the substantial value of the options by adjusting the strike price of those not yet exercised, as required by said rules.

2016-2021 stock option plan

On November 7, 2016, the Shareholders' Meeting of the Company approved the 2016-2021 stock option plan pursuant to Article 114-bis of the Consolidated Law on Finance and vested the Board of Directors with the power of implementing the plan in compliance with the terms and conditions provided for by the Regulations.

The 2016-2021 stock option plan is reserved for the Company's executive directors, executives with strategic responsibilities, employees, and consultants, and involves granting free-of-charge options to subscribe for ordinary shares resulting from the dedicated capital increase with consideration, including in installments, and excluding pre-emption rights, up to Euro 595,250.46 (i.e. 12,643,520 ordinary shares), approved by the Shareholders' Meeting of November 7, 2016.

Therefore, on November 7, 2016, the Board of Directors granted 11,442,386 options to subscribe for an equivalent number of shares in the Company, whose vesting is conditional on the achievement of specific performance targets. The strike price of the options granted was set at 0.3878 Euro. The Chairman Claudio Bordignon and CEO Riccardo Palmisano abstained from voting on said resolution, as they are beneficiaries of the plan concerned.

The following table shows the changes occurred in 2017 with reference to the 2016-2021 stock option plan for executive directors, general managers, and executives with strategic responsibilities as well as, in aggregate form, other executives, employees, and consultants.

Name and Surname	Position held	N. Options assigned	N. Opzions expiring during 2017	N. Options at 31.12.2017
Claudio Bordignon	President of Board Directors	1,896,528	-	1,896,528
Riccardo Palmisano	CEO	2,275,834	-	2,275,834
Gian Paolo Maria Rizzardi	ex General Manager	1,264,352	1,264,352	-
Germano Carganico*	ex Executive Director,Strategic Affairs	505,741	505,741	-
Executives		4,425,233	316,088	4,109,145
Managers responsible for unity		758,610	-	758,610
Collaborators		316,088	-	316,088
		11,442,386		**9,356,205**

**Executive with Strategic Responsability*

It is worth noting that the options granted to executives who terminated their employment with the Company in 2017 have expired in accordance with the rules of the 2016-2021 stock option plan.

For more information on the 2016-2021 stock option plan, see the relevant disclosure on the Company's website.

Note 32 – Transactions with related parties

The Company has a current and deposit account with Banca Mediolanum S.p.A. Transactions are regulated at arm's length.

Income and equity impact

Income impact

The following table shows the effect of transactions with related parties, identified in accordance with IAS 24, on the Company's income statement and statement of financial position for the year 2017:

(amounts in Euro thousand)	Financial income	Financial charges
Banca Mediolanum S.p.A.	-	-
Total	-	-
Financial statements item	**37**	**58**
% on financial statements item	**0%**	**0%**

Equity impact

(amounts in Euro thousand)	Cash and cash equivalents
Banca Mediolanum S.p.A.	24
Total	**24**
Financial statements item	**13,105**
% on financial statements item	**0%**

Cash and cash equivalents consist of bank deposit accounts.

For information on stock options granted to directors and executives with strategic responsibilities, reference should be made to **Note 31**.

Note 33 – Significant non-recurring events and transactions

Pursuant to Consob Communication of July 28, 2006, it should be noted that during 2017 the Company carried out a capital increase, which qualify as significant non-recurring transaction:

(amounts in Euro thousand)	Equity		Profit (loss) for the year		Cash flow	
	Value	%	Value	%	Value	%
Value	**24,633**	**%**	**(8,497)**	**%**	**(6,596)**	**%**
Capital increase effect 2015	(10,893)	(44%)	-	0%	(10,893)	165%
Capital increase costs 2015	63	0%	**439**	0%	502	(8%)
Gross notional value	**13,803**		**(8,058)**		**(16,987)**	

Note 34 – Transactions resulting from atypical and/or unusual events

Pursuant to Consob Communication of July 28, 2006, it should be noted that, during the period, the Company did not enter into any atypical or unusual transactions. The Communication defines as atypical or unusual transactions those transactions that may raise doubts as to the accuracy/completeness of the information in the Financial Statements, the existence of conflicts of interest, the safeguarding of the business net assets and of the minority shareholders, due to their significance/importance, the counterparties involved in the transaction, the subject of the transaction, the way the transfer price was determined and when the event/transaction takes place (close to year end).

Note 35 – Fees due to Directors and Statutory Auditors

Pursuant to Article 78 of Consob Regulation no. 11971 of May 14, 1999, as subsequently amended, concerning the adoption of regulations implementing Legislative Decree no. 58 of February 24, 1998 (*Testo Unico Draghi*) on the provisions governing issuers, the following disclosure is provided in relation to the fees paid to the Directors and Statutory Auditors.

Name Surname	Position held	Term of office	Term of office expiry date	Defined Fee	Fee for presence Board of Directors	Defined Fee Commitee	Fee for presence Commitee	Variable fee		Non monetary fee	Other fee	Total	Fair value Equity fee	Allowance charge end or termination employment relationship
								Bonus and other incentives	Partecip. in profit					
DIRECTORS - Board of Directors in charge from April 18, 2016														
Claudio Bordignon	President	01.01.2017-31.12.2017	on approval of 2018 Fin.Statement	400	-	-	-	129	-	89	-	618	-	-
Riccardo Palmisano	CEO	01.01.2017-31.12.2017	on approval of 2018 Fin.Statement	450	-	-	-	129	-	14	-	593	-	-
Allberto Carletti	Director	01.01.2017-31.12.2017	on approval of 2018 Fin.Statement	12	9	-	-	-	-	-	-	21	-	-
Laura Iris Ferro	Director	01.01.2017-31.12.2017	on approval of 2018 Fin.Statement	12	8	5	3	-	-	-	-	28	-	-
Sabina Grossi	Director	01.01.2017-31.12.2017	on approval of 2018 Fin.Statement	12	10	15	9	-	-	-	-	46	-	-
Carlo Incerti	Director	01.01.2017-31.12.2017	on approval of 2018 Fin.Statement	12	8	-	-	-	-	-	-	20	-	-
Mario Masciocchi	Director	01.01.2017-31.12.2017	on approval of 2018 Fin.Statement	12	10	23	9	-	-	-	-	54	-	-
Alfredo Messina	Director	01.01.2017-31.12.2017	on approval of 2018 Fin.Statement	12	10	-	-	-	-	-	-	22	-	-
Elisabeth Robinson	Director	01.01.2017-31.12.2017	on approval of 2018 Fin.Statement	12	9	15	9	-	-	-	-	45	-	-
Raffaella Ruggiero	Director	01.01.2017-31.12.2017	on approval of 2018 Fin.Statement	12	10	8	3	-	-	-	-	33	-	-
Didier Trono	Director	01.01.2017-31.12.2017	on approval of 2018 Fin.Statement	12	8	5	3	-	-	-	-	28	-	-
				958	**82**	**70**	**36**	**258**	-	**103**	-	**1,507**	-	-
STATUTORY AUDITORS - Statutory Auditors in charge from April 18, 2016														
Riccardo Perotta	President	01.01.2017-31.12.2017	on approval of 2018 Fin.Statement	30	-	-	-	-	-	-	-	30	-	-
Enrico Scio	Statutory Auditor	01.01.2017-31.12.2017	on approval of 2018 Fin.Statement	20	-	-	-	-	-	-	-	20	-	-
Flavia Daunia Minutillo	Statutory Auditor	01.01.2017-31.12.2017	on approval of 2018 Fin.Statement	20	-	-	-	-	-	-	-	20	-	-
				70	-	-	-	-	-	-	-	**70**	-	-
GENERAL DIRECTOR														
Gian Paolo Maria Rizzardi		01.01.2017-06.03.2017		**47***	-	-	-	-	-	**2**	-	**49**	-	**670****
OTHER MANAGERS WITH STRATEGIC RESPONSIBILITIES **				**182**	-	-	-	-	-	**6**	-	**188**	-	**175*****

On April 18, 2016, the Board of Directors resolved to pay the Company's Chairman Claudio Bordignon a gross fixed remuneration of Euro 400 thousand per year to carry out its duties. The Board of Directors also resolved to pay Mr. Bordignon Euro 800 thousand , gross of taxes, as compensation for the 24-month non-competition obligation after the end of his term of office for whatever reason. Such amount is to be paid in a lump sum at the end of his term of office and should it not be renewed. A penalty shall apply if the obligation is not fulfilled.

On April 18, 2016 the Board also resolved that compensation equal to the Chairman's overall annual remuneration of Euro 400 thousand , multiplied by the number of remaining years until the date of the Shareholders' Meeting convened to approve the 2018 Financial Statements, will be paid, if the Shareholders' Meeting revokes his appointment as a Director without a fair reason, or all or part of his powers and/or mandates are revoked—including those relating to his role as Chairman of the Scientific Advisory Board and of the Strategic Committee—and/or all or part of such powers or responsibilities are attributed to other parties without a fair reason, or if the Company is put into liquidation.

On April 18, 2016, the Board of Directors resolved to pay the Company's CEO Riccardo Palmisano a gross fixed remuneration of Euro 450 thousand per year. The Board of Directors also resolved to pay Mr. Palmisano Euro 225 thousand , gross of taxes, as compensation for the 24-month non-competition obligation required by the Company after the end of his term of office for whatever reason. Furthermore, the Board resolved that compensation equal to the CEO's overall annual remuneration of Euro 450 thousand will be paid if his appointment as CEO is revoked without a fair reason before the end of current Board's term of office, or before the date of approval of the Financial Statements at December 31, 2018.

No agreements have been signed by other Directors, and no compensation was paid to Directors resigning from their office in the period.

Note 36 – Disclosure pursuant to Article 149-duodecies of the Consob Issuers' Regulations

The table below has been prepared in accordance with Article 149-duodecies of the Consob Issuers' Regulations. It shows the fees for 2017 and 2016 for the audit services and for other non-audit services provided by External Auditors. No additional services were provided by other entities belonging to the External Auditors' network.

	Entity that provided the service	Fees for 2017	Fees for 2016
Audit	EY S.p.A.	72 (1)	68 (1)
Certification services	EY S.p.A.		89
Total		**72**	**157**

(1) Audit of Statutory Financial Statements and limited review of the half-year report and verification that accounting records are properly mantained and reflect accurately operating events

(2) issuance of the report on the fairness of the issue price of the shares Molmed in relation to the capital increase with exclusion of option rights related to the contract of SEF - standby equity agreement with Societe Generale and issuance of the report on the fairness of issue price of the shares in relation to capital increase pursuant art.2441 5° and 8° paragraph of Civil Code and art. 158, first paragraph of d.lgs. 58/98

(3) Activities relating to the signing of Modello Unico and Modello 770 tax returns and issuance of comfort letters on Registration document related to 2015 capital increase

Note 37 – Information on financial risks

The Company constantly monitors the financial risks to which it is exposed, in order to detect the potentially negative effects in advance and take the necessary action to mitigate them. The following section provides qualitative and quantitative disclosure on the effects that these risks may have on the Company.

The quantitative data reported in the following paragraphs should not be considered as forecasts; specifically, the sensitivity analysis on market risks is unable to reflect the complexity of the market and the reactions that may result from any estimated changes.

Capital management

The Company manages its capital with the aim of pursuing the best interests of its stakeholders while also maintaining a sound capital structure.

Market risk

Market risk is the risk of fluctuations in the fair value or the financial flows of a financial instrument following variations in the market price due to changes in exchange or interest rates, or in the price of equity instruments.

Interest rate risk

The Company has no significant financial payables or receivables. Funds raised through listing on the stock market were invested in current account deposits, government securities and bonds. Their yield depends on the trend in short-term interest rates. In order to limit the risk of counterparties' default in performing their obligations, investments were made at various top-flight banks and financial institutions with high credit ratings, in order to diversify the counterparty risk.
The extent of exposure to interest rate risk is measured through a sensitivity analysis, as provided for by IFRS 7. This analysis shows the effects of a given and assumed change in the levels of relevant variables on financial income and charges arising from financial activities and, at times, directly on equity. The sensitivity analysis was carried out on the basis of the following assumptions:

- the analysis was performed by applying reasonably possible changes in the relevant risk variables to the figures of the Financial Statements at December 31, 2017 and 2016, assuming that these figures are representative of the entire year;
- changes in the value of financial assets generated by changes in the benchmark interest rates have an effect on income only when they are recognized at their fair value in compliance with IAS 39;
- changes in the value of floating rate financial assets generated by changes in the benchmark interest rates have an impact on financial income for the year.

In order to determine the effects of interest rate changes on the income statement and on the statement of comprehensive income, below are the results of a sensitivity analysis, in line with the requirements of IFRS 7, applying parallel, negative and positive shifts to the zero-coupon curves of market rates. The shifts in the zero-coupon curves are equal to +/- 100 basis points.

(amounts inEuro thousand)	**FY 2017 effect on financial income**		**FY 2016 effect on the fair value reserve**	
Shift compared to zero-coupon	**+1%**	**-1%**	**+1%**	**-1%**
Effect	131	(131)	-	-

Currency risk

The Company's exposure to fluctuations in exchange rates is marginal, since there are no significant debit or credit positions in foreign currency, or financial instruments subject to currency risks. Financial assets are denominated in Euro. The Company does not use instruments aimed at hedging against the currency risk.

Credit risk

This is the risk that a client or counterparty causes a loss by defaulting on an obligation and it is primarily related to financial transactions. Given the nature of the Company's business, and the relevant asset structure, the Company is subject to limited credit risk. The maximum credit risk relating to the Company's current assets, including cash and cash equivalents, other financial assets, tax receivables, trade receivables and other assets, is equal to the value of these assets in the event that the counterparty becomes insolvent. There are no significant amounts past due. It should also be noted that all the main counterparties consist of leading financial institutions and widely recognized companies. In particular, investments were made at a number of different credit institutions, in order to diversify the counterparty risk.

Classes of financial instruments

In order to provide full disclosure as required by IFRS 7, the following table shows a break-down of the types of financial instruments recorded in the Financial Statements, with an indication of the measurement bases and, in the case of financial instruments at fair value, of the relevant recognition (profit or loss or equity). When applicable, the last two columns of the table list the fair value of the financial instrument at December 31, 2017, and the amount recognized in the relevant reserve.

(amounts in Euro thousand)	Measurement criteria for financial instruments in the Statutory Financial Statements					
Class of financial instruments	Financial instruments at fair value through		Financial instruments at amortized cost	Book value at December 31, 2017	Fair value at December 31, 2017	of which fair value reserve
	profit or loss	equity				
	(1)	(2)	(3)			
Assets						
Cash and cash equivalents	-	-	13,105	13,105	13,105	-
Financial assets	-	-	5,006	-	-	-
Trade receivables	-	-	4,896	4,896	4,896	-
Liabilities						
Trade payables	-	-	10,766	10,766	10,766	-
Finance lease payables	-	-	-	-	-	-

(1) Financial assets and liabilities measured at fair value with changes recognized in profit or loss
(2) Financial assets available for sale measured at fair value with gain or loss recognized in equity
(3) Loans & receivables and financial liabilities measured at amortized cost

The following table includes the net financial income and charges relating to financial assets and liabilities broken down into the categories provided for by IAS 39, showing the type of charge and income for each item.

IAS 39 categories at December 31, 2017	From interest	From changes in fair value	From write-down at fair value	From shareholders' equity reserve	From other income and charges	Net profit (loss)
Assets						
Cash and cash equivalents	20	-	-	-	-	20
Financial assets	-	-	-	-	-	-
Trade receivables	-	-	-	-	-	-
Liabilities						
Trade payables	-	-	-	-	-	-
Finance lease payables	-	-	-	-	-	-
Other financial debts	-	-	-	-	-	-
IAS 39 categories - total	**20**	**-**	**-**	**-**	**-**	**20**

For further details on cash and cash equivalents, and other financial assets, reference should be made to **Notes 10** and **11**.

Fair value hierarchy

In relation to the financial instruments recognized at fair value in the statement of financial position, IFRS 7 requires such values to be classified on the basis of a hierarchy of levels which reflects the inputs used in determining the fair value. Levels are broken down as follows:

- Level 1 – quoted prices in active markets for assets or liabilities to be measured;
- Level 2 – inputs other than quoted prices included within Level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices);
- Level 3 – inputs that are not based on observable market data.

Financial assets measured at fair value at December 31, 2017 were classified under Level 1.

Liquidity risk

Liquidity risk is the inability to obtain, under reasonable conditions, the financial resources necessary for the operations and business development. The Company has no indebtedness and, at December 31, 2017, it recorded a positive net financial position of Euro 18,111 thousand, consisting of cash and cash equivalents and financial receivables. The two main factors that determine the Company's liquidity are, on the one hand, the resources generated or absorbed by the operating and investing activities and, on the other hand, the characteristics of the financial investments in terms of their maturity and renewal, as well as market conditions. The Company has implemented a series of policies and processes designed to optimize the management of financial resources and reduce liquidity risk:

- keeping an adequate level of cash and cash equivalents;
- constant monitoring of the financial flows generated by the Company's operations and of the net financial position, so that any necessary actions can be taken forthwith;
- monitoring of prospective liquidity conditions related to corporate planning.

For further information, reference should be made to the section "Going concern" in these Notes, and to the section "Financial risks" in the Management Report.

Note 38 – Significant events after the reporting period

For further information on significant events after the reporting period, reference should be made to paragraph *3. Significant events after the reporting period*.

Right to depart from disclosure requirements in the event of significant transactions

During the Board of Directors' meeting of November 12, 2012, based on the amendments to Articles 70 and 71 of the Issuers' Regulations introduced by Consob Resolution no. 18214 dated May 9, 2012, the Company resolved to depart from the disclosure requirement as described in paragraph 6 and paragraph 1, respectively, disclosing this decision in the financial reports published pursuant to Article 154-ter of the Consolidated Law.

Certification of the Financial Statements pursuant to Article 81-ter of Consob Regulation no. 11971 of May 14, 1999 and subsequent amendments and additions

The undersigned, Mr. Claudio Bordignon, Chairman, and Mr. Andrea Quaglino, Executive Officer responsible for preparing MolMed's financial reports, having taken into account the provisions of Article 154-bis, paragraphs 3 and 4, of Legislative Decree no. 58 of February 24, 1998, hereby certify the following:

- the adequacy in relation to the characteristics of the Company; and
- the effective implementation of the administrative and accounting procedures for the preparation of the Company's Financial Statements for the year ended December 31, 2017;
- measurement of the adequacy of the administrative and accounting procedures used for the preparation of the Financial Statements for the year ended December 31, 2017 is based on a process defined in keeping with the Internal Control – Integrated Framework model issued by the Committee of Sponsoring Organizations of the Treadway Commission which is a reference framework generally accepted internationally.

It is also stated that:

- the Financial Statements for the year ended December 31, 2017:

  a) were prepared in compliance with the applicable international accounting standards endorsed by the European Union pursuant to Regulation (EC) 1606/2002 of the European Parliament and Council of July 19, 2002, as subsequently amended and supplemented;

  b) are consistent with the entries in accounting books and records;

  c) provide a true and fair view of the financial position, results of operations and cash flows of the issuer;

  d) the Management Report includes a reliable analysis of the Company's performance and results of operations, as well as a description of its situation and the main risks and uncertainties to which it is exposed.

Milan, March 9, 2018

[Signed by]

Claudio Bordignon
Chairman

[Signed by]

Andrea Quaglino
Executive Officer responsible for
preparing company financial reports

Board of Statutory Auditors' Report

Report of the Board of Statutory Auditors to the Shareholders' Meeting of MolMed S.p.A. pursuant to art. 153 of Legislative Decree no. 58/1998

Dear Shareholders,

this Report illustrates the activities carried out by the Board of Statutory Auditors during the year 2017 and up to the current date, in accordance with the requirements of Consob Communication DEM/1025564 dated April 6, 2001, as subsequently amended.

During the year ended December 31, 2017, the Board of Statutory Auditors of MolMed S.p.A. (hereinafter also the "Company") performed the supervisory activities provided for under the law, also in consideration of the principles of conduct recommended by the Italian Councils of Certified Public Accountants and Bookkeepers and the Consob's communications on company audits and activities of the Board of Statutory Auditors.

1. During 2017, the Board of Statutory Auditors acquired the necessary information to perform its general supervisory duties, by participating in the meetings of the Board of Directors and the board committees (i.e. the Control and Risk Management Committee and the Remuneration and Nomination Committee), meetings with the top management, hearings of the Company's management, meetings with the External Auditors, meetings with the Supervisory Board appointed pursuant to Legislative Decree no. 231/2001, as well as through the analysis of the information flows obtained from the relevant corporate functions, and through the specific audit activities carried out during its own meetings or during those held jointly with the Control and Risk Management Committee. The Board of Directors collectively provides prior approval of significant or material transactions with related parties, with the Board of Statutory Auditors' members being present. The Board of Statutory Auditors obtained information from the Directors on the activities undertaken and the most significant transactions carried out at least on a quarterly basis.

   MolMed is a medical biotechnology company, focused on the research, development and clinical validation of innovative therapies for the treatment of malignant tumors with high medical need. MolMed has developed an innovative and diversified product portfolio and specific expertise in the gene and cell therapy sector, including the use of stem cells for various diseases or tissues, ranking the Company among the key players at an international level. Furthermore, MolMed carries out customized activities on behalf of third parties for projects in this field, offering high-level expertise to develop, produce and validate experimental therapies, from the pre-clinical stage to Phase III clinical trials and, eventually, to the market,

in addition to the development of innovative control procedures that meet the requirements of the new advanced cell-based therapies.

Based on the Company bodies' disclosure and as a result of the Board of Statutory Auditors' analyses carried out during its supervisory activities, it was found that the Company's most significant income, financial and equity transactions, aimed at implementing its business plan – specifically as for the development of its product portfolio and the gene and cell therapy activities performed on behalf of third parties –, are adequately described in the Directors' Report and in the Notes to the Financial Statements.

Obtaining the financial resources necessary to support the Company's development plan

It should be noted that, on October 6, 2016, the Company's Board of Directors agreed to sign a "SEF - Stand-by Equity Facility" agreement with Société Générale ("SG").

On August 2, 2017 the Company sent SG a request to underwrite a second tranche of the share capital increase reserved to it, which took place on August 8, 2017 with the issue of 4,500,000 ordinary shares corresponding to 1.03% of MolMed's share capital, for a total value of Euro 1,840,050.

On September 18, 2017 the Company sent SG a request to underwrite a third tranche of the share capital increase reserved to it, which took place on September 22, 2017 with the issue of 9,011,721 ordinary shares corresponding to 2.025% of MolMed's share capital, for a total value of Euro 3,760,592.

On November 8, 2017 the Company sent SG a request to underwrite a fourth tranche of the share capital increase reserved to it, which took place on November 14, 2017 with the issue of 12,000,000 ordinary shares, corresponding to 2.63% of MolMed's share capital, for a total value of Euro 5,293,200.

At the date of the Report, the new composition of the share capital – fully underwritten and paid-up – was Euro 21,514,284.36 divided into 456,962,393 shares.

The Board of Statutory Auditors confirmed that the above-mentioned transactions comply with the law, the company by-laws and the principles of good management, having ascertained that they were not manifestly imprudent or risky, with a potential conflict of interest, that they did not conflict with the resolutions of the Shareholders' Meeting or negatively affect the Company's assets. Transactions with related parties were subject to procedures aimed at ensuring their transparency, as provided for by the relevant provisions.

2. The Board of Statutory Auditors did not find any atypical and/or unusual corporate transactions carried out with third parties or related parties during the year 2017 or after the reporting period.

   Information on transactions with related parties in 2017 and a description of their characteristics and income effects is available in the Directors' Report (point 7.3), in the Notes (no. 32), in the Statement of Financial Position and in the Income Statement.

   During 2017, the Board of Statutory Auditors, also through joint meetings with the Control and Risk Management Committee, verified whether the Company implemented actions aimed at ensuring both the procedural and substantive fairness and transparency of decision-making and operating processes involved in transactions with related parties. In particular, the Board monitored compliance with the Code provisions relating to significant or material corporate transactions with related parties pursuant to Consob Regulation no. 17221 of March 12, 2010, as subsequently amended. The Board of Statutory Auditors monitored the compliance of the procedure adopted by the Company with Consob's requirements, as well as its effective enforcement.

3. Since no atypical and/or unusual transactions took place and taking into account the Company's size and structure, the Board of Statutory Auditors believes that the disclosure on Company’s transactions with related parties, described in the Notes to MolMed's Financial Statements for 2017, should be considered as adequate.

4. On the date hereof, the External Auditors EY S.p.A. have issued their report pursuant to Articles 14 and 16 of Legislative Decree no. 39/2010, in which they certify that the Financial Statements at December 31, 2017 comply with the policies used for their preparation, they have been prepared clearly and provide a true and fair view of the Company’s financial position, results of operations and cash flows. According to the External Auditors, the Directors' Report and disclosure pursuant to Article 123-bis, paragraph 4 of the Consolidated Law on Finance (Testo Unico sulla Finanza, TUF), included in the Report on corporate governance and ownership structure, are consistent with MolMed S.p.A's Financial Statements at December 31, 2017. Finally, the External Auditors have identified as key aspects of the audit:

   a) the presumption of the business as a going concern;

   b) the recognition of the revenues arising from license and distribution agreements.

5. During the year 2017, no reports of the type referred to under Article 2408 of the Italian Civil Code, nor findings from third parties, were submitted to the Board of Statutory Auditors.

6. Pursuant to the provisions of Article 19 of Italian Legislative Decree no. 39 of January 27, 2010, the Board of Statutory Auditors monitored the independence of the external auditors. During 2017, MolMed S.p.A. did not assign any tasks other than the financial statement audit to the External Auditors EY S.p.A., nor did it assign any tasks to entities connected to EY on the basis of continuing relations and/or to companies belonging to EY's network. Taking account of the annual statement confirming their independence issued by EY pursuant to art. 17, of Legislative Decree no. 39 of January 27, 2010, modified by Legislative Decree no. 135 of July 17, 2016, and the nature of the engagements conferred on EY and the companies in its network, no evidence or situations emerged such as to lead to the belief that there are risks for the independence of the company engaged for the audit.

7. During the year 2017, the Company's Board of Directors held 10 meetings, which were all attended by the Board of Statutory Auditors.

   The Control and Risk Management Committee met 9 times. The Remuneration and Nomination Committee met 3 times. The Board of Statutory Auditors participated in all the meetings of both committees with at least one member present. The Board of Statutory Auditors held 10 meetings. The Board of Statutory Auditors also took part in the Shareholders' Meeting held on April 10, 2017.

8. The Board of Statutory Auditors obtained information on and monitored compliance with the principles of good management, within the scope of its responsibilities, by attending all the meetings of the Board of Directors, through interviews, direct observations and collection of information during meeting with members of the top management, internal audit and Supervisory Body. With regard to the decision-making processes of the Board of Directors, the Board of Statutory Auditors verified, also through direct participation in board meetings, that the Directors' decisions complied with the law and the company by-laws, as well as that the resulting resolutions were adequately supported by reliable information, analysis and assessment processes. For the purposes of these activities the Board of Statutory Auditors relied, when necessary, on the services provided by outside professionals.

   The Board of Statutory Auditors carefully monitored the Company's equity and financial position, and encouraged the Board of Directors to consider the most appropriate measure to strengthen it. Finally, it took note of the actions undertaken and completed in this regard as a part of the Company's business plan.

The Board of Statutory Auditors obtained information on, and monitored the adequacy of the Company's organizational structure by collecting relevant information from the management staff responsible for it. In particular, the Board of Statutory Auditors monitored the organizational changes introduced in 2017, consequent to the project which led to a reorganization of the structure in line with the corporate strategies. The Board of Statutory Auditors' opinion on the organizational structure, as currently modified, is positive: it appears adequate to cover the functions necessary to achieve corporate targets and suitable with respect to the size of the Company, the activities to be performed and the coordination to be implemented.

9. During 2017, the Board of Statutory Auditors took note of the overall assessment of the internal control system by the Internal Audit Manager, who found the internal control system to be adequate and functional in reducing the risk profiles to an acceptable level for the proper operation of business processes. The Board of Statutory Auditors monitored the internal control and risk management system adopted by the Company, by assessing its adequacy through meetings with the Internal Audit Manager, the Executive Officer responsible for preparing company financial reports, the Management and the External Auditors.

10. The Board of Statutory Auditors also acquired due information on organizational and procedural activities which were undertaken pursuant to Legislative Decree no. 231/2001, sharing information with the Supervisory Board on the respective checks and controls undertaken. From the information provided by the Supervisory Board, also through its annual Report on the work undertaken, no facts and/or circumstances emerged which are worthy of note.

11. The Board of Statutory Auditors assessed and monitored the adequacy of the administrative/accounting system, as well as its reliability in terms of providing a true and fair view of operating results, by obtaining information from the managers of the relevant corporate departments, examining the Company's documentation and analyzing the results of the activities carried out by the External Auditors EY.

    The Board of Statutory Auditors acknowledged the statements issued by the Chief Executive Office together with the Executive Officer responsible for preparing company financial reports regarding the adequacy – in relation to the Company's characteristics – and the actual application of the administrative and accounting procedures during the preparation of 2017 Financial Statements.

    Finally, the Board of Statutory Auditors monitored the financial disclosure process, by verifying, also through the information collected from the Company's management, the adequacy and effectiveness of the procedure whereby information is produced and shared with the public.

12. The Board of Statutory Auditors ascertained, through direct assessments and based on information received from the External Auditors EY and the Management, that the Financial Statements and the Directors' Report were drafted in compliance with IASs/IFRSs (as well as with relevant rules and regulations). In particular, Directors detailed in the Directors' Report the financial risks to which the Company is exposed and, in the Notes, the activities carried out to cover financial needs.

13. The Board of Statutory Auditors monitored the actual implementation procedures of the corporate governance rules provided for by the Corporate Governance Code prepared by Borsa Italiana's Corporate Governance Committee, which the Company adheres to.

    MolMed adopted the criteria established by Borsa Italiana's Corporate Governance Code regarding the independence of Directors. The Board of Directors, based on the information provided by the Directors themselves, verified the existence of the independence requirements of the six non-executive Directors, qualifying as independent.

    The Board of Statutory Auditors verified the existence of the independence requirements for its members, pursuant to Article 148, paragraph 3, of the Consolidated Law on Finance, and of those provided for by Borsa Italiana's Corporate Governance Code, as described in the Report on corporate governance.

14. The supervisory and control activities carried out by the Board of Statutory Auditors, as described earlier, did not result in further findings to be pointed out in the Report to the Shareholders' Meeting or to be reported to the supervisory and control bodies, nor worthy of mention in this report on the Financial Statements at December 31, 2017.

15. Given the above, on the basis of the supervisory work undertaken during the year, the Board of Statutory Auditors does not find any grounds to reject approval of the Financial Statements at December 31, 2017 and has no objections to raise regarding the resolution proposals submitted by the Board of Directors about carrying forward the loss for 2017.

Milan, March 20, 2018

The Board of Statutory Auditors

Riccardo Perotta (Chairman) [Signature]

Flavia Daunia Minutillo (Statutory Auditor) [Signature]

Enrico Scio (Statutory Auditor) [Signature]

External Auditing Firm's Report

Building a better working world

MolMed S.p.A.

Financial statements as at December 31, 2017

Independent auditor's report pursuant to article 14 of Legislative Decree n. 39, dated 27 January 2010, and article 10 of EU Regulation n. 537/2014

EY S.p.A.
Via Meravigli, 12
20123 Milano

Tel: +39 02 722121
Fax: +39 02 722122037
ey.com

Independent auditor's report pursuant to article 14 of Legislative Decree n. 39, dated 27 January 2010 and article 10 of EU Regulation n. 537/2014
(Translation from the original Italian text)

To the Shareholders of
MolMed S.p.A.

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of MolMed S.p.A. (the Company), which comprise the statement of financial position as at 31 December 2017, and the income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and the notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements give a true and fair view of the financial position of the Company as at 31 December 2017, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISA Italia). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the regulations and standards on ethics and independence applicable to audits of financial statements under Italian Laws. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

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

We identified the following key audit matters:

Key Audit Matter	Audit Response
Going concern	
The Company's business model, typical of biotech companies developing new therapeutic products and not having yet reached a stable income and financial position, foresees negative cash flows, mainly related to the financing of research and development costs for new products, whose return is uncertain and expected in the forthcoming years. The assumptions underlying the 2018-2020 business plan, representing the basis supporting the Directors' assessment over the ability of the Company to act as a going concern in the foreseeable future of 12 months starting from the approval date of the financial statements, include the uncertainties which are typically embedded in such forecast analysis; in particular, the Company is subject to the uncertainties related to the sector in which it operates and the current stage of development of its products, regarding the results that it may achieve, as well as the related methodologies and timing. Considering the estimates and assumptions made by management underlying the forecasted future results, we deemed that this matter represents a key audit matter. Financial statements disclosure related to the going concern assessment are reported in the notes to the financial statements at paragraph "Going concern" and in the report on the operations at paragraph "Risk associated with funding research and development activities".	The procedures performed to address the key audit matter included, among others, gaining an understanding, also through inquiries with management, of the elements underlying the assessment of going concern, the analysis of the key assumptions included in the 2018 – 2020 business plan approved by the Board of Directors in December 2017 and the examination of the events occurred after the balance sheet date. Lastly, we reviewed the disclosure included in the notes to the financial statements as at 31 December 2017.
Recognition of revenues related to license and distribution agreements	
As part of the development of new biopharmaceuticals products, the Company enters into license and distribution agreements with third parties, which may include upfront payments for the transfer of rights on products being developed, as well as royalties or milestone payments related to the achievement	The procedures performed to address the key audit matter included, among others, the analysis of the accounting treatment adopted by the Company to identify the contractual elements in the transactions and the timing for their recognition, through the analysis of the underlying contracts.

of specific targets or the occurrence of events contractually agreed. In the 2017 financial statements, the Company recognized total revenues from license and distribution agreements for Euro 2.5 million. The recognition of revenues from such contracts requires management to identify each element in accordance with the terms of the contract, as well as the timing for their recognition. Considering the judgment assumed by management to complete such analyses, we deemed that this matter represents a key audit matter. Financial statements disclosure related to revenue recognition for such agreements are reported in the notes to the financial statements at paragraph "Revenue recognition" in the section "Accounting standards and basis of measurement".	Lastly, we reviewed the disclosure included in the notes to the financial statements as at 31 December 2017.

Responsibilities of Directors and Those Charged with Governance for the Financial Statements

The Directors are responsible for the preparation of the financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union and, within the terms provided by the law, for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Directors are responsible for assessing the Company's ability to continue as a going concern and, when preparing the financial statements, for the appropriateness of the going concern assumption, and for appropriate disclosure thereof. The Directors prepare the financial statements on a going concern basis unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

The statutory audit committee ("Collegio Sindacale") is responsible, within the terms provided by the law, for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing (ISA Italia) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Building a better working world

As part of an audit in accordance with International Standards on Auditing (ISA Italia), we have exercised professional judgment and maintained professional skepticism throughout the audit. In addition:

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

We have communicated with those charged with governance, identified at an appropriate level as required by ISA Italia, regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We have provided those charged with governance with a statement that we have complied with the ethical and independence requirements applicable in Italy, and we have communicated with them all matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we have determined those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We have described these matters in our auditor's report.

Additional information pursuant to article 10 of EU Regulation n. 537/14

The shareholders of MolMed S.p.A., in the general meeting held on 18 April 2016, engaged us to perform the audits of the financial statements for each of the years ending 31 December 2016 to 31 December 2024.

We declare that we have not provided prohibited non-audit services, referred to article 5, par. 1, of EU Regulation n. 537/2014, and that we have remained independent of the Company in conducting the audit.

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We confirm that the opinion on the financial statements included in this report is consistent with the content of the additional report to the audit committee (Collegio Sindacale) in their capacity as audit committee, prepared pursuant to article 11 of the EU Regulation n. 537/2014.

Report on compliance with other legal and regulatory requirements

Opinion pursuant to article 14, paragraph 2, subparagraph e), of Legislative Decree n. 39 dated 27 January 2010 and of article 123-bis, paragraph 4, of Legislative Decree n. 58, dated 24 February 1998

The Directors of MolMed S.p.A. are responsible for the preparation of the Report on Operations and of the Report on Corporate Governance and Ownership Structure of MolMed S.p.A. as at 31 December 2017, including their consistency with the related financial statements and their compliance with the applicable laws and regulations.

We have performed the procedures required under audit standard SA Italia n. 720B, in order to express an opinion on the consistency of the Report on Operations and of specific information included in the Report on Corporate Governance and Ownership Structure as provided for by article 123-bis, paragraph 4, of Legislative Decree n. 58, dated 24 February 1998, with the financial statements of MolMed S.p.A. as at 31 December 2017 and on their compliance with the applicable laws and regulations, and in order to assess whether they contain material misstatements.

In our opinion, the Report on Operations and the above mentioned specific information included in the Report on Corporate Governance and Ownership Structure are consistent with the financial statements of MolMed S.p.A. as at 31 December 2017 and comply with the applicable laws and regulations.

With reference to the statement required by art. 14, paragraph 2, subparagraph e), of Legislative Decree n. 39, dated 27 January 2010, based on our knowledge and understanding of the entity and its environment obtained through our audit, we have no matters to report.

Milan, 20 March 2018

EY S.p.A.
Signed by: Luca Pellizzoni, Partner

This report has been translated into the English language solely for the convenience of international readers.