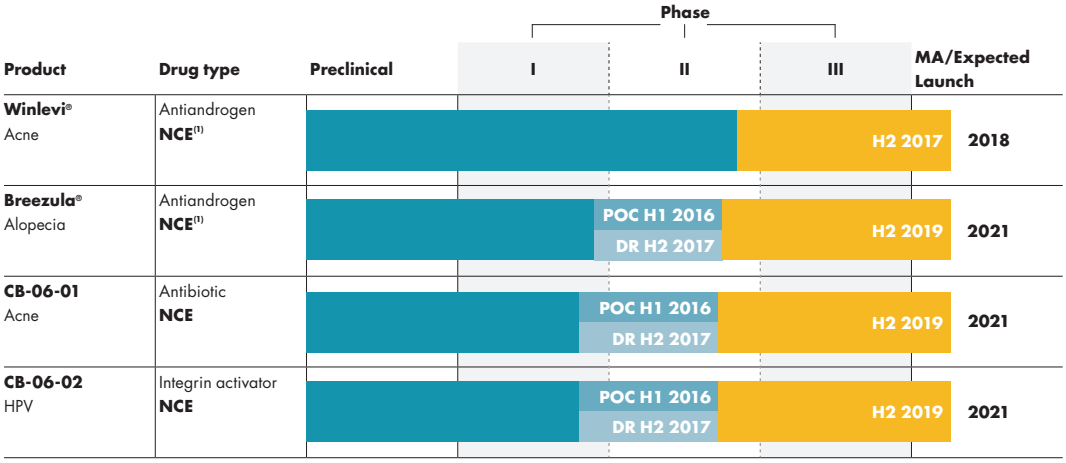
Annual Report 2015

Cassiopea

Cassiopea at a glance

Cassiopea is a clinical-stage specialty pharmaceutical company focused on developing and commercializing innovative and differentiated medical dermatology products. The Company's initial focus is on the topical treatment of acne; androgenic alopecia, or AGA; and genital warts. The portfolio comprises four unencumbered clinical candidates, for which the Company owns the worldwide rights. These drug candidates are based on three new chemical entities, or NCEs. They target unmet medical needs and address significant market opportunities in the medical dermatology market. The Company's management team has extensive experience in product development and commercialization, having served in prominent roles at several leading pharmaceutical and medical dermatology companies. The strategy is to leverage this expertise to establish Cassiopea as a pure-play, dermatology company whose mission is to identify, develop and commercialize treatments for skin diseases and has the potential for full vertical integration.

Cassiopea's pipeline



1) Winlevi® and Breezula® are different formulations of the same NCE, for different indications.

POC = Proof of Concept | DR = Dose Ranging

Key events in 2015

- The Special Protocol Assessment for the phase III clinical trial program for Winlevi® was filed with the US FDA in April 2015 and was subsequently approved in July 2015. The first subject was treated in November 2015. By year end 2015 32 centers were active.

- The phase II proof of concept trial for Breezula®, our novel topical antiandrogen for the treatment of androgenic alopecia, progressed on schedule. 95 subjects were enrolled; the last subject was enrolled in June 2015. Top line results are expected in H1 2016.

- The phase II proof of concept trial for CB-06-01, a novel antibiotic for the treatment of acne was started in January 2015. All in all 90 subjects were enrolled and 86 subjects completed treatment. Enrollment was completed in September 2015 and the data report is expected in H1 2016.

- The phase II proof of concept trial for CB-06-02, a novel integrin activator for the treatment of genital warts is ongoing. By year end 2015 10 subjects had been treated.

- Cosmo Pharmaceuticals S.A. and the minority shareholders injected EUR 49.9 million in a capital increase on 5 June 2015.

- On June 30 the secondary public offering was successfully concluded and the listing and commencement of trading of the shares on Swiss Stock Exchange (SIX) occurred on 1 July 2015. In total Cosmo Pharmaceuticals placed 5,163,640 of its shares at a price of CHF 34. This transaction did not raise any funds for the Company. The IPO was the largest healthcare IPO on the SIX since the year 2000.

Key figures

EUR 1,000	**31.12.2015**	**31.12.2014**
Income statement		
Revenue	–	–
Cost of sales	–	–
R&D costs	(7,597)	(3,858)
SG&A costs	(760)	(61)
Operating result	(8,357)	(3,919)
Profit (loss) before taxes	(6,451)	(3,883)
Profit (loss) for the period	(6,451)	(2,776)
Shares (quota)		
Weighted average number shares (quota)	5,795,890	100,000
Basic earnings (loss) per share (quota) (in EUR)	(1.113)	(27.760)

Statement of financial position	**31.12.2015**	**31.12.2014**
Non-current assets	232	1,463
Cash and cash equivalents	48,113	840
Other current assets	1,491	1,520
Liabilities	2,655	197
Equity	47,181	3,626
Equity ratio	94.7%	94.8%

Image concept

Acne can have profound social and psychological effects that do not necessarily correlate with clinical severity. Even mild acne can be very distressing. Acne is most common among teenagers, with a reported prevalence of 70 to 87 percent.

Most people normally shed 50 to 100 hairs a day. This usually doesn't cause noticeable thinning of scalp hair because new hair is growing in at the same time. Hair loss occurs when this cycle of hair growth and shedding is disrupted or when the hair follicle is destroyed and replaced with scar tissue.

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Today is not my day

Body image is paramount for teenagers and having acne can be an immense embarrassment, causing girls to wear heavy make-up and keeping boys from participating in activities such as sports and other social events.

Dear Shareholder

We are very pleased with the developments in 2015 both on the product development as well as the corporate side.

After reaching an agreement with the US FDA on the Special Protocol Assessment for the Winlevi® Phase 3 program in July we completed the preparations of the trials and recruited our first subject in November 2015. By year end we had 32 active sites in the US and Europe. We also made good progress on the three ongoing phase II proof of concept clinical trials for (1) Breezula® (topical antiandrogen for androgenic alopecia) recruiting the last subject in June and closing the trial before year end, (2) CB-06-01 (topical antibiotic for acne) where we completed recruitment in late 2015, and (3) CB-06-02 (integrin activator for the treatment of genital warts) where 10 subjects had begun treatment by year end.

In late March we initiated the preparations for our IPO on the SIX Swiss Exchange. In April we engaged the investment banks, Cosmo and the minority shareholders increased our capital by injecting EUR 49.9 million, we finalized agreements with key personnel, and successfully negotiated a Service Agreement with Cosmo allowing us to outsource parts of our activities to Cosmo at advantageous conditions. Together with Representatives of Cosmo we successfully completed a road show in Europe and the US. A quick book building process enabled us to allocate all the shares on 30 June, slightly under the mid-point of the announced book building range at CHF 34 and starting from 1 July 2015 our shares are listed on SIX. The green shoe was exercised shortly thereafter. Cosmo now owns 45.09% of our shares. The core shareholders of Cosmo (Cosmo Holding, Heinrich Herz and dievini Hopp) all participated in the offering in proportion to their shareholding in Cosmo. We are especially proud of the fact that over 80% of all other Cosmo shareholders also subscribed to shares in proportion to their shareholdings in Cosmo. In addition, our IPO was the largest healthcare IPO on the SIX since the year 2000.

In 2016, we expect to show progress in our early stage pipeline, with data of three proof-of-concept studies being published in the course of the first semester of 2016 we will have the data for Breezula®, as well as for CB-06-01 in acne. All of these are unencumbered products with a novel mechanism of action, and we will soon update you on the top-line results of these studies. We thank you for your continued confidence. We view the future with tremendous optimism now that we have the necessary resources to develop one of the most innovative pipelines in the dermatology industry.

Lainate, 23 February 2016

Jan E. de Vries
Chairman

Diana Harbort
CEO

Business Strategy and Markets

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

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

It is our intention to generate the full value of our products in the US market. The organizational expansion necessary for an integrated specialty pharma company will be executed when we have strong indications that our lead product will have a high likelihood of FDA approval.

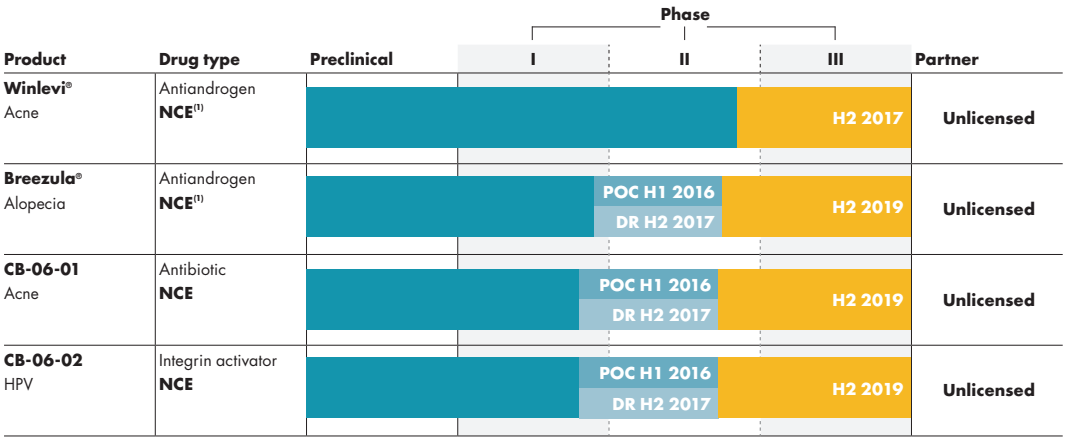
According to VisionGain, the global medical dermatology market generated revenues of US$ 22.6 billion in 2013, an increase of 7.3% over 2012. Management's analysis of IMS data indicates that the US acne market generated Retail sales of US$ 5.1 billion in 2014, growing at a 10.5% CAGR from 2012. Global sales of drugs for alopecia amounted to approximately US$ 600 million in 2013 according to data from EvaluatePharma; however, most drugs currently in the alopecia market are off-patent and have low effectiveness. The global hair restoration surgery market amounted to US$ 1.9 billion in 2012, an increase of 48% since 2008 according to a 2014 survey by the International Society of Hair Restoration Surgery. In 2012, 35 million men and 21 million women in the USA experienced hair loss. According to the Centers for Disease Control and Prevention, in the USA approximately 14 million people are newly infected with Human Papillomavirus (HPV), the causative pathogen of anogenital warts, each year.

We believe that an overall lack of innovation in the research and development of new dermatology products has resulted in a limited number of effective treatment options. For example, the three mechanisms of action most commonly used to treat acne have been available for over 30 years. Consequently, the few truly innovative therapies launched over the past few decades have resulted in significant sales. Furthermore, as dermatology medications have relatively short clinical trials compared to other pharmaceuticals, development costs are relatively contained.

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

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

Research and development



1) Winlevi® and Breezula® are different formulations of the same NCE, for different indications.

POC = Proof of Concept | DR = Dose Ranging

Winlevi®

Winlevi®, an NCE, is a topical antiandrogen which penetrates the skin and displaces androgen from the androgen receptor of the sebaceous glands. This displacement helps prevent the cascade of events that leads to acne. Once in the bloodstream, Winlevi® metabolizes to cortexolone, a substance produced naturally by the human body, with no clinically relevant safety issues noted to date. If successful, with side effects similar to placebo, this would be the first topically applicable antiandrogen that treats acne. Winlevi®, if approved, would be a first-in-class medication with a novel mechanism of action and we expect that it will be able to both compete with and to complement existing acne therapies.

The Special Protocol Assessment for the phase III clinical trial program for Winlevi® was filed with the US FDA in April 2015 and was subsequently approved in July 2015. The first subject was treated in November 2015. By year end 2015 32 centers were active.

Breezula®

Breezula® is a different formulation and a different strength of the same NCE in Winlevi®. In androgenic alopecia (AGA), high concentrations of dihydrotestosterone (DHT) at the hair follicle level shorten the hair cycle and gradually miniaturize scalp follicles inducing them to produce progressively smaller, thinner hairs until they become unable to produce new hair. These DHT dependent effects are considered, in most cases, reversible, so that AGA could be susceptible to medical treatment with drugs such as Breezula® by blocking DHT interaction with the specific hair follicle androgen receptors. If successful, Breezula® would be the only topical antiandrogen approved for use in AGA and could be used in both men and women. We believe that Breezula® will not have the contraindications and safety warnings of the only other antiandrogen approved for the treatment of AGA, which is administered orally and indicated only for men. Breezula® does not interfere with the hormonal and, in particular, testosterone profile of patients; libido and sexual behavior are unaffected in clinical trials to date.

The phase II proof of concept trial for Breezula® progressed on schedule. 95 subjects were enrolled; the last subject was enrolled in June 2015. Top line results are expected in H1 2016.

CB-06-01

CB-06-01, an NCE, is a topical antibiotic that is highly effective on bacteria implicated in acne, including strains resistant to some other antibiotics. We aim to market the product to replace the current topical antibiotics used in the treatment of acne.

The phase II proof of concept trial for CB-06-01 was started in January 2015. All in all 90 subjects were enrolled and 86 subjects completed treatment. Enrollment was completed in September 2015 and the data report is expected in H1 2016.

CB-06-02

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

Because all our product candidates are based on NCEs, if approved, they will enjoy regulatory exclusivity for five years. In addition, each of our candidates has long-term patent protection.

The phase II proof of concept trial for CB-06-02 is ongoing. By year end 2015 10 subjects had been treated.

Patents and trademarks

Patents granted in 2015

_two patents granted in Europe (according to the EPC) both for Winlevi® and Breezula®;
_one patent granted in three non European countries for Winlevi® and Breezula®;
_one patent granted in the USA for Winlevi® and Breezula®;
_one patent granted in Canada under Biomas license for CB-06-02;
_two patents granted in the USA under Biomas license for CB-06-02.

Patent New Filings in 2015

_two patent applications filed in the US: one for Breezula® and one for CB-06-01;
_two patent applications filed in the US both for Winlevi® and Breezula®;
_one patent application filed in Europe for Breezula®;
_two patent applications filed in a non European country both for Winlevi® and Breezula®;
_one patent application filed in a non European country for Winlevi® and Breezula®;
_two patent applications filed in the USA under Biomas license for CB-06-02;
_one patent application filed in the USA (co-owned Cassiopea and Biomas) for CB-06-02.

Trademarks registered in 2015

_two trademarks registered in the European Community for Breezula® (word and device in colour);
_two trademarks registered in the European Community for Winlevi® (word and device in colour)
_Trademarks New Filings in 2015
_two trademarks filed in the USA for Breezula® (word and device in colour);
_two trademarks filed in the USA for Winlevi® (word and device in colour);
_two trademarks filed in Canada for Breezula® (word and device in colour);
_two trademarks filed in Canada for Winlevi® (word and device in colour);
_ two trademarks filed in the European Community for Breezula® (word and device in colour – now registered);
_two trademarks filed in the European Community for Winlevi® (word and device in colour – now registered);
_one trademark filed in Puerto Rico for Breezula®;
_one trademark filed in Puerto Rico for Winlevi®.

Scientific Advisory Board

In order to support the development of Cassiopea S.p.A. by providing advice on scientific and clinical development and product application, the Company established a Scientific Advisory Board. The Scientific Advisory Board comprises the following members:

James Leyden, MD

Emeritus Professor of Dermatology, Department of Dermatology, University of Pennsylvania School of Medicine

Dr. James J. Leyden, M.D., has been a Professor Emeritus of Dermatology at the School of Medicine of the University of Pennsylvania in Philadelphia since 2002. Dr. Leyden has been involved in clinical research and care of patients for more than 30 years. Dr. Leyden's research interests encompass a wide range of clinical problems including bacterial and fungal infections, acne, aging and photoaging and developing methodologies for in-vivo evaluation of anti-microbial effects. More basic interests have included mechanisms of inflammation in acne, bacterial taxonomy and bacterial production of body odors. He has also been instrumental in the development, testing and commercialization of Retin-A, Accutane, Bactroban, Nizoral, Cleocin, Benzamycin, Benzaclin, Minocin and the use of bicarbonate to control body odor. He is internationally recognized for his contributions to the field of dermatology, particularly to the understanding of the pathophysiology, diagnosis, and treatment of acne and rosacea.

During his long career he served on numerous boards and commissions: Consultant to the US Food and Drug Administration and the Federal Trade Commission, and to drug regulation agencies in England, Germany and Austria, Professor of Dermatology at the Hospital of the University of Pennsylvania in Philadelphia since 1983, Chairman of the Board of the dermatology foundation, member of the Executive Board of the dermatology foundation, numerous editorial boards and he is a Director of the American academy of Dermatology.

He received his medical degree from Perelman School of Medicine at the University of Pennsylvania and has been in practice for 49 years.

Diane Thiboutot, MD

Professor of Dermatology Vice-Chair for Research for Dermatology Director of Clinical & Transitional Science Research Education Penn State Hershey Dermatology

Dr. Diane Thiboutot is recognized for her research in the Regulation of sebum production and the treatment of acne. She is Professor of Dermatology and Vice-Chair at the College of Medicine, Penn State Milton S. Hershey Medical Center and serves as a reviewer for the National Institute of Health (NIH) as well as several dermatology journals. Both in her practice and research, Dr. Thiboutot specializes in the care of patients with acne, rosacea, and hair disorders. In addition to serving as a reviewer for the National Institutes of Health and several dermatology journals, she has authored or co-authored many studies, articles, and book chapters relating to acne and hormone metabolism in the skin. She is also a frequent lecturer at medical conferences.

Ken Washenik, MD

Ken Washenik, M.D., Ph.D., is the Chief Medical Officer and Medical Director of Bosley, the world's largest hair restoration practice and the past Chief Executive Officer of the Aderans Research Institute, a biotechnology firm involved in researching tissue engineered hair follicle neogenesis and cellular based hair restoration.

Dr. Washenik is the immediate past President and a Board member of the North American Hair Research Society and Vice Chair of the Board of Trustees of the Hair Foundation. He is also on the Board of the International Society of Hair Restoration Surgery and the Cicatricial Alopecia Research Foundation as well as a member of the American Academy of Dermatology and the medical honor society, Alpha Omega Alpha. He is a Diplomate of the American Board of Dermatology and a member of the Dermatological Society of Greater New York and the Los Angeles Metropolitan Dermatological Society.

The former director of the Dermatopharmacology Unit at the New York University School of Medicine, Dr. Washenik continues to serve as a clinical investigator and faculty member in the Department of Dermatology.

Dr. Washenik, a well known national and international lecturer, has presented many seminars on hair growth and loss, dermatopharmacology and dermatology-related issues. His Ph.D. is in Cell Biology and focused on hormone metabolism.

Dr. Washenik has published numerous scientific and medical articles in peer review journals including Endocrinology, Journal of the American Academy of Dermatology, Archives of Dermatology, The Lancet and The New England Journal of Medicine.

Jonathan Wilkin, MD

Founding director of the Division of Dermatology and Dental Products at the US Food and Drug Administration from March 1994 to October 2005 and was a member of the FDA's Dermatology Drugs Advisory Committee. Dr. Wilkin is a fellow of the American Academy of Dermatology and the American College of Physicians, a member of the American Dermatological Association, and board certified by both the American Board of Dermatology and the American Board of Clinical Pharmacology. He has remained active in regulatory matters, of American Academy of Dermatology's Ad Hoc Task Force on Academy's Efforts with the FDA. He served as Director, Dermatology Division and Professor of Medicine and Pharmacology Departments, of The Ohio State University. He served as Chief of Dermatology section, Hunter Holmes McGuire Veterans Administration Medical Center in Richmond, Virginia. Dr. Wilkin served as the Chairman of medical advisory board for the National Rosacea Society from 1998 to 2012.

Dr. Wilkin received his BA and MS in zoology from Ohio State University in Columbus, followed by his medical degree from the Ohio State University College of Medicine.

Andrea Zaenglein, MD pediatric Dermatologist

Professor of Dermatology and Pediatric Dermatology, Penn State Hershey Dermatology, Hershey, PA 1 since 2013. From 2007 to 2013 she was Associate Professor of Dermatology and Pediatrics at Penn State College of Medicine / Milton S.Hershey Medical Center, from 2001 to 2007 she was Assistant Professor of Dermatology and Pediatrics at Penn State College of Medicine / Milton S.Hershey Medical Center, from 1999 to 2000 she was on a Pediatric Dermatology Fellowship at NYU Hospital and Bellevue Hospital, New York, from 1997 to 2001 she was a Dermatology Resident at MCP Hahnemann University Hospitals, Philadelphia and from 1996 to 1997 she as in an Internal Medicine Internship at George Washington University Hospital, Washington DC.

She is a member of the American Academy of Dermatology, the Society for Pediatric Dermatology, the American acne and Rosacea Society, the American Academy of Pediatrics, and the International Society for the Study of Vascular Anomalies.

She has been the principal investigator in 11 completed funded research projects and is currently the principal investigator in 3 ongoing funded research projects, has been lecturer in 104 events, has published more than 60 articles in scientific journals and book chapters in 17 books. Dr Zaenglein received her BA in English Literature at the University of South Carolina in Columbia in 1990, and her Doctor of Medicine at the Pennsylvania State University College of Medicine, Hershey in 1996.

Will I look soon like my father?

The most common cause of hair loss is a hereditary condition. It usually occurs gradually and in predictable patterns — a receding hairline and bald spots in men and thinning hair in women.

Corporate governance

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

Corporate governance model

The Company has adopted the corporate governance model called "monistic model" which is ruled by Articles 2409 sexiesdecies and following of the Italian Civil Code. The shareholders' meeting appoints the Board of Directors (Consiglio di Amministrazione), which has the responsibility to manage the Company. The Board of Directors appoints a controlling body (Management Control Committee – Comitato per il Controllo sulla Gestione) from among its members. The shareholders' meeting must also appoint an external auditing body.

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

Pursuant to the Company's Articles of Association, the members of the Board of Directors are elected by the shareholders at the annual shareholders' meeting, for a term established by the shareholders, but not to exceed three financial years. The members of the Board of Directors may be re-elected for consecutive terms, except the independent directors that cannot be appointed for more than two tenures. See "The Board of Directors".

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

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

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

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

The Chairman of the Board of Directors is the legal representative of the Company. However, if the Chairman is absent or otherwise unable to act, each Deputy Chairman may also act on the Company's behalf within

the limits prescribed by the Board of Directors. The Board of Directors may from time to time appoint the General Manager or one or more Deputy General Managers or confer powers on executives or an attorney of the Company to represent the Company, determining the scope and exercise of such powers on appointment.

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

According to section 2409 octiesdecies of the Italian Civil Code and the Articles of Association, the Management Control Committee is appointed by the Board of Directors among its members. The members of the Management Control Committee cannot be less than three. The Management Control Committee is formed by Board members who fulfill the requirements of independence according to section 2409 septiesdecies of the Italian Civil Code. For the purpose of this provision, a member of the Management Committee shall not be deemed independent if he/she: (i) falls within section 2382 of the Italian civil code (provisions on ineligibility); (ii) is a spouse, relative or the like up to the fourth degree of kinship of the directors of the Company, is a spouse, relative and the like up to the fourth degree of kinship of the directors of the companies controlled by the Company, of the companies it is controlled by and of those subject to common control; (iii) is linked to the Company, the companies it controls, the companies it is controlled by and those subject to common control or to directors of the Company or persons referred to above sub (ii) by self-employment or employee relationships or by other relationships of an economic or professional nature that might compromise their independence.

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

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

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

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

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

According to section 2409 octiesdecies of the Italian Civil Code and the Articles of Association, if shareholders representing 5% of the capital stock file a complaint, the Management Control Committee must investigate the facts reported in the complaint without delay. The Members of Management Control Committee may, individually, ask other directors information, also with reference to the subsidiaries, on the performance of the business or on particular transactions. They can ask for the same information directly to the management and control bodies. The information is provided to all members of the Management Control Committee. The members of the Management Control Committee may, individually, ask the President to call the Committee, specifying the subjects to be discussed. The meeting must be call without delay, unless there are reasons that prevent the meeting to be call, which should be promptly illustrated to the Committee during the next meeting. The member of the Management Control Committee may, upon notice to the Chairman of the Board of Directors, call the Board of Directors or the executive committee and avails oneself of employees of the company for the performance of its functions. The powers to call meetings and request collaboration may also be exercised individually by each member of the Committee. The Management Control Committee, or a member of it who has a specific mandate, may, at any time, carry out inspections and controls and exchange information with the corresponding bodies of subsidiaries with reference to the administration and control systems and general business trends.

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

Major shareholders

Cosmo Pharmaceuticals S.A., Luxembourg, is the Company's main shareholder holding 4,508,987 shares or 45.09% of all outstanding shares at year end 2015. Furthermore Cosmo Holding SA holds 753,445 shares or 7.53%, other investors and managers of Cosmo that acted as Cornerstone investors by subscribing to the IPO prior to the transaction hold 410,155 shares i.e. 4.1%. These shares, together with the 282,000 shares, i.e. 2.8% of outstanding shares subscribed by other members of management and the Board of Directors all are part of the formal lock up agreement which expires on 1 July 2016.

The above lock-up group consists of sixteen members. Cosmo is the representative of the lock-up group. The entire lock-up group holds 5,954,587 shares, corresponding to 59.5% of the capital and voting rights, and 150,000 options held by members of the Board of Directors and the Management, corresponding to 1.48% of the capital and the voting rights.

Capital structure

Share capital

The Company was incorporated by its founding shareholder Cosmo Pharmaceuticals on 29 July 2013 in the form of a limited liability company (Società a responsabilità limitata) under the name of Cosmo Dermatos S.r.l. with a capital of EUR 100,000. The Company was registered with the commercial register of Milan at no. 08338370961 and REA MI-2018773 as of 30 July 2013. The Company's current registered address is Via C. Colombo 1, Lainate, Milan. The Company was originally incorporated with a share capital of EUR 100,000.

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

On 27 May 2015 its share capital was increased to nominal EUR 10,000,000, with the issue of 9,900,000 new common shares with a nominal value of EUR 1 each reserved to the existing shareholders for the purpose of this Offering (including the Over-Allotment Option).

Also on 27 May 2015, the shareholders' meeting resolved to delegate to the Board of Directors to increase the share capital of EUR 10,000,000 by issuing 500,000 new common shares with a nominal value of EUR 1 each to service an employee stock option plan ("ESOP") according to terms to be set by the Board of

Directors after completion of the Offering. The authority delegated to the Board of Directors has to be executed by 27 May 2020 the latest.

Except for the authorization with respect to the ESOP, the Company has no conditional capital, no authorized share capital and no unit or profit-sharing certificates outstanding. As of the date of this Offering, the Company does not own any treasury shares.

As per 31 December 2015 the share capital is composed of 10,000,000 shares, each with a nominal value of EUR 1. The share capital is fully paid up. The shares are issued in book entry form according to Italian law. No share certificates have been issued and share certificates will not be available for physical delivery. Shares are centralized in the central security depository system managed by Monte Titoli.

Stock option plans

The extraordinary shareholders' meeting of 27 May 2015 authorized the Board of Directors to increase the capital by a nominal amount of EUR 500,000 by issuing 500,000 new common shares with a nominal value of EUR 1 each to service an ESOP according to terms to be set by the Board of Directors.

On 3 December 2015, the Board of Directors granted a total of 140,000 options of which:

- 49,800 with a vesting period of 1 year, expiring on 3 December 2021 and an exercise price of CHF 34 ("Option series 1a")
- 46,600 with a vesting period of 2 years, expiring on 3 December 2022 and an exercise price of CHF 34 ("Option series 1b")
- 43,600 with a vesting period of 3 years, expiring on 3 December 2023 and an exercise price of CHF 34 ("Option series 1c")

The fair value of options granted, determined on the basis of a binomial tree generated by the Fincad program – technique similar to the Black-Scholes valuation model, resulted in a value of CHF 14.45 per option ("Option series 1a"), of CHF 19.28 per option ("Option series 1b") and of CHF 22.56 per option ("Option series 1c")

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

Transfer of shares and disclosure of principal shareholders

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

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

Share purchases by the Company

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

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

Shareholders' rights

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

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

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

To attend a meeting, the owners of shares are required to instruct any relevant authorized intermediary

with which their accounts are held to provide to the Company admission certificates or notice.

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

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

Dividends, allocation of annual net profits and other financial rights

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

Pre-emptive rights

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

Information policy

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

The Company publishes additional information on important events.

The Company has formulated a corporate commitment to keep its investors fully apprised of the Company's developments. The Chairman, CEO, CFO and Head of Investor Relations are responsible for communication with the financial community. The Company adheres strictly to the ad hoc publicity rules of the SIX Swiss Exchange and has issued all press releases to a wide range of international agencies as required by the SIX Swiss Exchange. In selective cases such as the presentation of annual report and the half-year report, the Company has also invited shareholders and the financial press to conference calls and selective news events.

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

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

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

The Board of Directors

The general policies and the management of the Company are the responsibility of the Board of Directors, which establishes the strategic, accounting, organizational and financing policies and appoints, recalls and supervises the members of the management. Furthermore, the Board of Directors is responsible for the preparation of annual reports, organization and preparation of shareholders' meetings and carrying out shareholders' resolutions.

The Company's current Articles of Association provide for a Board of Directors of at least 3 and no more than 9 members; in addition section 13, second paragraph, of the Company's Articles of Association provides for the Board of Directors to consist of five members until the shareholders' meeting's approval of the financial statements as of the fiscal year 2017. Note that resolutions concerning the amendment of such provision of the Articles of Association before the

shareholders' meeting's approval of the financial statements as of the fiscal year 2017 requires a favorable vote of 60% of the share capital.

The Company's Board of Directors is currently composed of five members, each of them being elected for a term of 3 fiscal years and re-eligible to successive terms following the above-mentioned Italian civil code rules. The mandates of the current Directors will terminate with the shareholders' meeting approving the financial statements as of the fiscal year 2017, to be held in 2018, but they may be reelected so that their mandates will continue for another three fiscal years. As stated above, members of the Company's Board of Directors may be removed by resolution of the shareholders' meeting.

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

Pursuant to the Company's Articles of Association, at least three directors shall fulfill the independence requirements provided for the Auditors by sect. 2399 of the Italian Civil Code. For the purpose of this provision, a director shall not be deemed independent if he/she: (i) falls within section 2382 of the civil code (provisions on ineligibility); (ii) is a spouse, relative or the like up to the fourth degree of kinship of the directors of the Company, is a spouse, relative and the like up to the fourth degree of kinship of the directors of the companies controlled by the Company, of the companies it is controlled by and of those subject to common control; (iii) is linked to the Company, the companies it controls, the companies it is controlled by and those subject to common control or to directors of the Company or persons referred to above sub (ii) by self-employment or employee relationships or by other relationships of an economic or professional nature that might compromise their independence.

The Articles of Association also provide that, if the director registered with the national register of auditors (Registro dei Revisori Contabili) is not elected from the list which obtains the highest number of votes, the director registered with the national register of auditors shall be the first candidate listed on the minority list fulfilling this requirement, even if he is not the first on the list.

At the Extraordinary Shareholders' Meeting held on 27 May 2015, the new Board of Directors was appointed for a three-year period, eligible to successive terms following Italian civil code rules. The Board of Directors consists of four nonexecutive members and one executive Director. The Management of the Company is in the responsibility of the Board of Directors.

Starting from 27 May 2015, five meetings of the new Board of Directors took place.

If I don't move ... they won't see me

Acne, whether moderate or severe, can cause teenagers to be bullied because of the physical nature of the disease. The psychological effects of poor self-esteem and depression also place teenagers at risk of being intimidated.

	Name/current position	Member since	Relevant external positions
	Jan E. de Vries Nonexecutive Director; Chairman	2015	CEO and Board member, AIMM Therapeutics Amsterdam, The Netherlands Chairman and Member of the Scientific Advisory, Board Artax, Boston Member Scientific Advisory Board, Anaptys, La Jolla
	Øyvind Bjordal Nonexecutive Director	2015	Managing Director and Head of Lincoln International, Switzerland
	Pierpaolo Guzzo Nonexecutive Director	2015	CEO EQValue, Rome, Italy Board member of Smartika S.p.A. Board member of Sistan Sgr Board member of Femi S.p.A. Statutory Auditor of: Elco Group S.p.A. (Chairman) Zeis Excelsa S.p.A. (Chairman) CAM S.p.A. (Chairmn) Aloiq Wind Italia Srl (Chairman) 3 TI Progetti S.p.A. (Chairman) LFK S.p.A. Geico S.p.A. Elco S.p.A. Lux Vide S.p.A. Filmauro S.p.A.
	David Hale Nonexecutive Director	2015	Chairman & CEO of Hale BioPharma Ventures LLC Chairman of the Board of Biocept Inc (NASDAQ) and Connatus Pharmaceuticals Inc (NASDAQ) Board member of: Colorscience Inc (private) MD Rejuvena Inc (private) Skylit Medical Inc (private) Recross Medica Inc (private) Dermata Therapeutics Inc (private) Ridge Therapeutics Inc (private) Agility Clinical Advantar Laboratories IDUN
	Diana Harbort Executive Director; CEO	2015	

Jan E. de Vries

Dr. de Vries, born 1946, Dutch citizen, has been the Chairman of Cassiopea S.p.A. since 2015.

He has more than 30 years of experience in drug discovery and development both in biotech and large pharmaceutical companies. He is currently the CEO of AIMM–Therapeutics, Amsterdam. Prior to that Dr. de Vries was VP and Head of the Novartis Research Institutes for Biomedical Research in Basel, Switzerland. From 1997–2007 he was the Head of the Novartis Research Institute in Vienna and Global Head of the Disease Area Autoimmunity, Transplantation and Inflammation (including Dermatology) in Basel. At Novartis Dr. de Vries led the discovery and early development of four marketed drugs: Elidel, Ilaris, Gilenya and Consentyx.

Dr. de Vries joined Novartis from the DNAX Research Institute for Molecular Biological Research, owned by Schering–Plough (now Merck), in Palo Alto in California where he was Director of the Human Immunology Department and did pioneering studies on the biological functions of cytokines and their receptors. Before that he was co-director of the Schering-Plough Institute for Immunological Research in Lyon, France.

Prior to joining industry Dr. de Vries held various academic positions with increasing responsibilities at the Netherlands Cancer Institute in Amsterdam, where he was Head of the Immunology Department.

Dr. de Vries holds a MSc. degree in biochemistry from the University of Utrecht, the Netherlands, a PhD in immunology from the University of Amsterdam and did his postdoctoral studies at the University of California San Diego.

Øyvind Bjordal

Norwegian (born 1966), has been a Board Member of Cassiopea S.p.A. since 2015

Mr Bjordal is Managing Director and Head of Switzerland of Lincoln International. He manages key client relationships, leads deal teams and is responsible for marketing Lincoln International's services to Swiss based companies, in Switzerland and globally.

Prior to joining Lincoln International in 2014 to launch the Swiss operations, Mr. Bjordal worked as a Managing Director / Partner with a corporate finance advisory team since its foundation in 1999, covering the Swiss mid-cap market. The team based in Zurich was initially with Andersen / EY, before continuing with Sal. Oppenheim and most recently Leonardo & Co. where he was also co-leading the pan-European Consumer & Retail team.

After completing his studies and working in the finance area for a global industrial firm, he started his investment banking career at UBS in 1994 where he worked on transactions throughout Europe, including several privatization assignments in the telecoms sector.

Mr. Bjordal graduated in Business Administration at the University of Fribourg in Switzerland in 1990 and holds an MBA degree.

Pierpaolo Guzzo

Italian (born 1968), has been a Board Member and Chairman of the Management Control Committee of Cassiopea S.p.A. since 2015.

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

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

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

David Hale

American (born 1949), has been a Board Member of Cassiopea S.p.A. since 2015.

He is also Chairman and CEO of Hale BioPharma Ventures, Chairman of Biocept Inc (NASDAQ) a cancer diagnostic company and Conatus Pharmaceuticals Inc, (NASDAQ) a liver disease company. He was Chairman

of Santarus prior to its sale to Salix Pharmaceuticals in 2014, Chairman of SkinMedica prior to its sale to Allergan in 2012, Chairman of Micromet prior to its sale to Amgen in 2012, Chairman of Somaxon Pharmaceuticals prior to its sale to Pernisx in 2013 and Crisi Medical Systems prior to its sale to Becton-Dickinson in 2015. He co-founded CancerVax in 2000 and served as its President and CEO until its merger with Micromet in 2006. From 1997 to 2000 he was President and CEO of Women First HealthCare. From 1987 to 1995 he was co-founder and Chairman of Viagene when the company was acquired by Chiron and from 1987 to 1997 he was Chairman, President and CEO of Gensia which merged with Sicor to become Gensia Sicor and then was acquired by Teva Pharmaceuticals. From 1982 to 1987 he was first COO, then President and then CEO of Hybritech when it was acquired by Eli Lilly. From 1980 to 1982 he was VP and General Manager of BBL Microbiology Systems, a division of Becton Dickinson and from 1971 to 1980 he held various marketing and sales management positions with Ortho Pharmaceutical Corporation and J&J Derm, both divisions of Johnson and Johnson.

Mr. Hale received his Bachelor of Arts degree from Jacksonville State University in Biology & Chemistry.

Diana Harbort

American (born 1966), has been CEO and Board Member of Cassiopea S.p.A. since 2015.

She was the VP Corporate Development and Head of Business Development of Medicis, the largest independent specialty pharma company focusing on skin diseases, a company she joined in 1998, up until its acquisition by Valeant in 2012. From 1989 to 1998 she was at Abbot Laboratories, initially in a management professional development program, then production planning specialist, marketing product manager and business development manager.

Diana Harbort has a BBA of the University of Wisconsin Whitewater (1989) and a MBA from JL Kellog Graduate School of Management, Northwestern University in 1998.

Board Committees

The Management Control Committee

The Management Control Committee includes the functions usually assigned to the audit committees in other jurisdictions. For a description of its responsibilities see "Board of Directors, Management and Independent Auditors – General". The Management Control Committee is composed of Pierpaolo Guzzo, (Chairman), Øyvind Bjordal and David Hale.

Starting from 27 May 2015, 3 meeting of the Management Control Committee took place.

Nomination and Compensation Committee

The Board of Directors has established a Nomination and Compensation Committee, which enacts guidelines for selecting candidates for the election to the Board of Directors in the event one or more directors is replaced pursuant to section 2386 of the Italian civil code. It also enacts guidelines for the appointment of senior management and makes arrangements to select such candidates. Further it assists the Board of Directors in compensation related matters, including matters related to the Company's stock option plan. The Nomination and Compensation Committee provides recommendations on and policies for the compensation of the members of the Board of Directors, the management and other employees. The Nomination and Compensation Committee is composed of David Hale (Chairman), Jan de Vries and Øyvind Bjordal.

Executive Management

The Management is responsible for the operational management of Cassiopea S.p.A. in line with the instructions issued by the Board of Directors. The Board has decided to pursue a strategy wherein there is extreme focus on developing the existing product pipeline as efficiently as possible. To this end the effective Executive Management Team is very small and where possible, the activities are outsourced. The Executive Management consists of persons with extensive experience in dermatology and in managing the various dermatology activities. In order to provide continuity, the Company has entered into a Service Agreement with Cosmo Pharmaceuticals thus assuring that the existing expertise is retained and that costs

only accrue when these persons actually do work for Cassiopea. Furthermore both Luigi Moro, the CSO and Chris Tanner, the CFO receive no compensation for their work in Cassiopea.

The table below shows the Group's senior managers' names and position within the Company (the "Management"):

Name	Position
Diana Harbort	CEO
Louise Dube	Global Director of R&D
Diane S. Goostree	Head of Program Management (resigned at the end of 2015)
Luigi Moro	CSO
Marco Pasero	Chief Operating Officer
Hans Christoph Tanner	CFO; Head of IR

Diana Harbort, US national, resident in Scottsdale (AZ), United States, Chief Executive Officer of Cassiopea. See "The Board of Directors".

Louise Dube, US national, resident in Scottsdale (AZ), United States, has been Global Director of R&D of Cassiopea since 2015. Prior to that she was a consultant to Cosmo Dermatos, the predecessor company of Cassiopea. From 2007 to 2012 she was Director of Scientific Assessment of Medicis, from 2001 to 2015 she was President Scientific consultant at Pleiades Consultation, from 1987 to 2001 she was at Abbot Laboratories as Director Scientific Assessment, Venture Head Immunoscience, Operations Manager Drug Development and Senior Pharmacologist. Dr. Dube has a PhD in Pharmacokinetics from Purdue University and D. Pharm and BSc from the University of Montreal.

Diane S. Goostree, US national, resident in San Diego CA, United States, was head of Program Management at Cassiopea up to the end of 2015 when she resigned to become CEO of another company. Prior to that, in her function as CEO of Intrepid Therapeutics, she managed the clinical trials for Cassiopea's predecessor company Cosmo Dermatos. 2006 she was President and CEO of Artes Medical and aesthetic dermatology company. From 2002 to 2006 she was SVP and Head Corporate Development and Operations at SkinMedica. From 2000 to 2002 she was VP Business Development at Elan. From 1995 to 2000 she was in Business Development and Sales Management at Dura Pharmaceuticals, and from 1984 to 1995 at Sanofi Aventis. Ms Goostree has an MBA from the University of Missouri and a BSc in Chemical Engineering from the University of Kansas.

Luigi Moro, Italian national, resident in Cairate, Italy, has been chief scientific officer of Cosmo since 2001. He graduated in chemistry and pharmacology at the University of Milan, Italy. He began his career in 1976 with Farmitalia – Carlo Erba, working on discovery/preclinical phase technological projects and the development of new drug administration systems, with particular concentration on anticancer drugs. From 1985 to 1988, with Recordati Industria Chimica e Farmaceutica S.p.A., he collaborated on the direction of technological projects of the parent company and in the definition of drug delivery systems developed by the subsidiary company Pharmetrix, a Californian company specializing in the application of polymer membranes and control systems for problems relating to the controlled administration of drugs. He was appointed manager of the pharmaceutical technology laboratories of Poli Industria Chimica S.p.A. in 1988 and from 1990 to 1995, he coordinated that company's research activities and industrial applications in the pharmaceutical, synthesis and fermentation sector. In 1996, he became manager of industrial development, responsible for the identification of the technical resources and facilities for the industrial implementation of development projects. He is the author of numerous scientific publications and papers and inventor of numerous international technology patents. He joined Cosmo in 1999.

Marco Pasero, Italian National, resident in Milano, Italy, Chief Operating Officer, has been Chief Operating Officer of Cassiopea since 2015.

He completed his studies in Economy and Commerce at the State University of Pavia in1993 and got his accreditation as a "commercalista" in 2001 and as official auditor in 2002. Since 2002 he has been developing his

activities as a "commercialista". He is the President of Adras SpA and the Sindaco of Ahsi SpA, Italiana Valorizzazioni Immobiliari Srl, and the Sindaco supplente of Carini SA, Atmos Venture SpA and Residenze Porta Nuova Srl as well as Amministratore Unico of ARthos Srl, Soara Immobilaire Srl, Edil Mite, Vetabbia, Primal Wear Europe Srl, Sunnergy Group SpA, Pike Srl, La Casa del Bosco Srl, 20 Votes, Srl.

Hans Christoph Tanner, Swiss national, resident in Horgen (Zurich), Switzerland, Chief Financial Officer and Head of Investor Relations, has been the CFO of Cassiopea since 2015. Since 2006 he has been a Board Member and CFO of Cosmo Pharmaceuticals S.p.A., now S.A. He is also a member of the board of directors or advisory board (Beirat) of DKSH AG (SIX: DKSH), Private Equity Holding AG (SIX: PEH), CureVac AG, Tuebingen, Qvanteq AG and Joimax GmbH. From 1998 to 2001 he was a partner of Dr. Ernst Mueller-Moehl and co-founder of the 20 Minutes group of newspapers, founded A&A Active Investor, a SIX listed investment company. From 1992 to 1998 he was the head of corporate finance & capital markets of UBS in Zurich and from 1976 to 1991 he had various functions in the Corporate Banking Department of UBS in Zurich, Madrid and Los Angeles. Dr. Tanner has a PhD in economics and diploma as an economist from the University of St. Gallen.

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

Service agreements

The Company has entered into Service Agreements with Cosmo Pharmaceuticals SA as well as with its subsidiary, Cosmo S.p.A ("Services Agreements").

Services agreement with Cosmo Pharmaceuticals SA

On 13 May 3015, the Company entered into a services agreement with Cosmo Pharmaceuticals SA. Pursuant to this agreement, Cosmo provides the Company with the services of its Chief Financial Officer, Hans Christoph Tanner, and its Chief Scientific Officer (CSO), Luigi Moro. The services provided under this agreement will not exceed 30% of their respective available working time.

Cosmo provides the Company these services to at no cost. The agreement is for a term of two years. Either party may terminate the agreement earlier with two months' notice; Cosmo is entitled to exercise its termination right only six months after the beginning of the supply of services.

Services Agreement with Cosmo S.p.A.

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

Cosmo S.p.A., will charge the Company or the use of its personnel at an agreed hourly rate equal to its own labor cost plus a 10% margin. Similarly, Cosmo S.p.A. will charge the Company for direct costs incurred in connection with its services, such as the cost of laboratory materials, at cost plus a 10% margin. In addition, the Company will pay Cosmo S.p.A. an annual reservation fee in the amount of EUR 200,000, subject to certain adjustments, to cover the provision of on-demand office space and indirect costs which cannot be separately identified, such as utilities, general services, IT assistance, phone lines and internet access.

The services agreement with Cosmo S.p.A. is for a term of three years. The Company is entitled to terminate the agreement with two months' prior notice at any time and at no cost. Cosmo S.p.A. has no right to terminate the agreement prior to the end of its term.

Compensation, shareholdings and loans

Compensation of Board of Directors

EUR

Board of Directors	Function	Base compensation	Additional compensation		Stock options	Total compensation
Jan E. de Vries	Nonexecutive, Chairman	21,532	2,175	*	15,097	38,804
David Hale	Nonexecutive, Independent director	22,683	2,175	*	15,097	39,955
Øyvind Bjordal	Nonexecutive, Independent director	21,532	–		7,718	29,250
Pierpaolo Guzzo	Nonexecutive, Independent director	22,683	2,175	*	7,718	32,576
Diana Harbort	Executive, CEO	107,658	–		37,266	144,924
Total		196,088	6,525		82,896	285,509

* compensation Management Control Committee

Compensation for Management

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

a) The compensation consists of base salary, cash bonuses and stock-based remuneration.
b) To distribute bonuses only if the Company is profitable.

Here below the compensation for the year 2015:

EUR

Executive Management	No. of members	Base compensation	Additional compensation	Stock options	Total compensation
Executive Management*	3 members	172,488	–	22,815	195,303
highest paid of 3 members		79,276	–	15,097	94,373

* excluding CEO

Stock option plans

On 3 December 2015, the Board of Directors granted a total of 140,000 options of which:

- 49,800 with a vesting period of 1 year, expiring on 3 December 2021 and an exercise price of CHF 34 ("Option series 1a")
- 46,600 with a vesting period of 2 years, expiring on 3 December 2022 and an exercise price of CHF 34 ("Option series 1b")
- 43,600 with a vesting period of 3 years, expiring on 3 December 2023 and an exercise price of CHF 34 ("Option series 1c")

The fair value of options granted, determined on the basis of a binomial tree generated by the Fincad program – technique similar to the Black-Scholes valuation model, resulted in a value of CHF 14.45 per option ("Option series 1a"), of CHF 19.28 per option ("Option series 1b") and of CHF 22.56 per option ("Option series 1c")

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

Below the situation at year-end 2015:

Nonexecutive Members of the Board	**Outstandig as at 1 January 2015**	**Granted**	**Forfaited**	**Exercised**	**Expired**	**Outstanding as at 31 December 2015**
			in 2015			
Jan E. de Vries	–	20,000	–	–	–	20,000
David Hale	–	20,000	–	–	–	20,000
Øyvind Bjordal	–	10,000	–	–	–	10,000
Pierpaolo Guzzo	–	10,000	–	–	–	10,000
	–	60,000	–	–	–	60,000
Of which exercisable	–					–

Executive Members of the Board and Members of Management detailed if allocation exceeds 5,000 options	**Outstandig as at 1 January 2015**	**Granted**	**Forfaited**	**Exercised**	**Expired**	**Outstanding as at 31 December 2015**
			in 2015			
Diana Harbort	–	50,000	–	–	–	50,000
Louise Dube	–	20,000	–	–	–	20,000
Marco Pasero	–	10,000	–	–	–	10,000
Other members of the management	–	–	–	–	–	–
		80,000		–	–	80,000
Of which exercisable	–					–

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

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

Independent Auditors

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

The Company has appointed the auditing company Mazars S.p.A., Milan as its external auditor on 14 April 2015. Mazars has not served as auditor of the Company before. Mazars audited the Annual Financial Statements and has reviewed the Interim Financial Statements and the Pro-Forma Financial Statements. Such appointment shall last for three fiscal years and shall expire with the approval of the 31 December 2017 financial statements. Mr. Carlo Consonni is the partner in charge for the report of the independent auditors. In August 2015 there was a re-organization of Mazars Italy. All personnel and mandates were transferred to BDO Italia who is now the independent auditor of record.

Auditing honorarium

Mazars'/BDOs honorariums for 2015, amounted to EUR 62,000 including costs associated with the IPO.

Additional honorariums

Mazars/BDO did not perform any additional services for the Company.

No other honorariums have been paid to the Independent Auditors.

If I just could keep on the bandana all day

46% of men feel insecure due to hair loss and therefore less attractive. In Europa every year EUR 200 million are spent on cosmetic products by men.

Financial review

Income results

EUR 1,000	Year ended 31 December			
	2015	**2014**	**Change**	**% change**
Revenue	–	–	–	–
Cost of sales	–	–	–	–
Research and development costs	(7,597)	(3,858)	(3,739)	96.9%
Selling, general and administrative costs	(760)	(61)	(699)	1145.9%
Net operating expenses	(8,357)	(3,919)	(4,438)	113.2%
Operating result	(8,357)	(3,919)	(4,438)	113.2%
Financial income	1,980	48	1,932	4025.0%
Financial expenses	(74)	(12)	(62)	516.7%
Profit (loss) before taxes	(6,451)	(3,883)	(2,568)	66.1%
Income tax expenses	–	1,107	(1,107)	–100.0%
Profit (loss) for the year	(6,451)	(2,776)	(3,675)	132.4%

Revenue

The Company has no approved products, does not market any third party products and did not enter into any licensing agreements for any of the products under development, so it had no operating revenues in 2015 and 2014.

Net Operating expenses

Operating expenses increased from EUR 3,919 thousand by 113.2% to EUR 8,357 thousand. This increase was primarily due to the increase of Research & Development costs from EUR 3,858 thousand to EUR 7,597 thousand or 96.9%. General administrative cost increased from EUR 61 thousand to EUR 760 thousand.

Operating expenses as per nature

EUR 1,000	Year ended 31 December			
	2015	**2014**	**Change**	**% change**
Raw materials and consumables used	(291)	(63)	(228)	361.9%
Personnel expenses	(444)	–	(444)	–
Outsourced preclinical and clinical trial costs	(6,395)	(2,693)	(3,702)	137.5%
Other operating expenses	(1,212)	(1,145)	(67)	5.9%
Depreciation and amortization	(15)	(18)	3	–16.7%
Total net operating expenses	(8,357)	(3,919)	(4,438)	113.2%

Broken down by nature, the bulk of these operating expenses i.e. 76.5% of costs, were outsourced preclinical and clinical trial costs which increased from EUR 2,693 thousand to EUR 6,395 thousand (+137.5%).

Within the outsourced preclinical and clinical expense, the development of CB-03-01 Winlevi® was by far the most important cost factor, increasing from EUR 1,836 thousand to EUR 5,304 thousand whilst outsourced preclinical and clinical trial costs for CB-03-11 Breezula® increase from EUR 538 thousand to EUR 563 thousand; for 2015 for the new acne antibiotic CB-06-01 EUR 325 thousand (EUR 233 thousand in 2014) and for CB-06-02, the genital warts product, increased from EUR 86 thousand to EUR 157 thousand in 2015.

Raw materials and consumables necessary for the development of these projects increased from EUR 63 thousand to EUR 291 thousand.

Now that starting from May 2015 the Company is operating as a separate entity, it incurred first time personnel costs of EUR 444 thousand. At year end 2015 the Company had first time dedicated 7 staff.

Other operating expenses increased by 5.9% from EUR 1,145 thousand to EUR 1,212 thousand. In comparison to 2014 there were no license fees to be paid but there were first time costs for nonexecutive directors considering also the stock option plan, and an increase in scientific consultancies.

Financial income and Expenses

Following the capital increase by EUR 49,900 thousand, the bulk of the funds were converted to US$. Financial income rose form EUR 48 thousand to EUR 1,980 thousand mainly on foreign exchange gains on the funds raised in the capital increase.

Income tax expenses

Until 31 December 2014, the Company participated in the Italian domestic tax consolidation program and in 2014 brought a tax loss into Cosmo's consolidation group, and as a result recorded a tax credit reimbursed by our then parent company that offset the Company's loss at the group level.

In 2015 the Company did not recognize deferred tax assets relating to the loss before income tax due to the uncertainty of the availability of future tax profits against which such an asset may be offset.

Assets

EUR 1,000	As at 31 December			
	2015	**2014**	**Change**	**% change**
Assets				
Non-current assets				
Property, plant and equipment	2	–	2	–
Other intangible assets	230	19	211	1110.5%
Financial assets	–	1,444	(1,444)	–100.0%
Total non-current assets	232	1,463	(1,231)	–84.1%
Current assets				
Current tax assets	8	–	8	–
Other receivables and other assets	1,483	1,520	(37)	–2.4%
Cash and cash equivalents	48,113	840	47,273	5627.7%
Total current assets	49,604	2,360	47,244	2001.9%
Total assets	49,836	3,823	46,013	1203.6%

99.5% of all assets are current assets, the bulk of which are cash and cash equivalents of EUR 48,113 thousand raised in the capital increase that was made prior to the IPO. Receivables and other assets of EUR 1,520 thousand declined by 2.4% to EUR 1,483 thousand. These consist of prepaid expenses and VAT receivables.

Non-current assets declined from EUR 1,463 thousand to EUR 232 thousand mainly in relation to the sold of the investment in BioMAS in May 2015.

Equity and liabilities

EUR 1,000	As at 31 December			
	2015	**2014**	**Change**	**% change**
Equity				
Share (Quota) capital	10,000	100	9,900	9900.0%
Share premium	40,000	–	40,000	–
Extraordinary reserve	3,526	6,302	(2,776)	–44.0%
Available for sale financial assets reserve	–	–	–	–
Stock option plan reserve	106	–	106	–
Profit/(Loss) for the year	(6,451)	(2,776)	(3,675)	132.4%
Total equity	47,181	3,626	43,555	1201.2%
Liabilities				
Total non-current liabilities	–	–	–	–
Current liabilities				
Trade payables	2,635	196	2,439	1244.4%
Current tax liabilities	16	1	15	1500.0%
Other current liabilities	4	–	4	–
Total current liabilities	2,655	197	2,458	1247.7%
Total liabilities	2,655	197	2,458	1247.7%
Total equity and liabilities	49,836	3,823	46,013	1203.6%

Equity increased from EUR 3,626 thousand to EUR 47,181 thousand because of the issuance of 9,900,000 shares for a capital contribution of EUR 49,900 thousand that was made on 5 June 2015. After deducting the 2015 loss of EUR 6,451 thousand, overall equity rose from EUR 3,626 thousand to EUR 47,181 thousand.

The Company has no non-current liabilities. Trade payables increased from EUR 196 thousand to EUR 2,635 thousand. These payables were incurred for services in conjunction with the clinical trials.

Financial statements

Income Statement

EUR 1,000		Year ended 31 December	
	Notes	**2015**	**2014**
Revenue		–	–
Cost of sales		–	–
Research and development costs		(7,597)	(3,858)
Selling, general and administrative costs		(760)	(61)
Net operating expenses	4	(8,357)	(3,919)
Operating result		(8,357)	(3,919)
Financial income	5	1,980	48
Financial expenses	5	(74)	(12)
Profit (loss) before taxes		(6,451)	(3,883)
Income tax expenses	6	–	1,107
Profit (loss) for the year		(6,451)	(2,776)
Earnings (loss) per quota		EUR	EUR
Basic	7	(1.113)	(27.760)
Diluted	7	(1.112)	(27.760)

Statement of Comprehensive Income

EUR 1,000		Year ended 31 December	
	Notes	**2015**	**2014**
Profit (loss) for the year (A)		(6,451)	(2,776)
Total other comprehensive income that will not be reclassified subsequently to profit or loss, net of tax (B1)		–	–
Total other comprehensive income that will be reclassified subsequently to profit or loss, net of tax (B2)		–	–
Total other comprehensive income, net of tax (B)=(B1+B2)		–	–
Total comprehensive income (A)+(B)		(6,451)	(2,776)

Statement of Financial Position

EUR 1,000		As at 31 December	
	Notes	**2015**	**2014**
Assets			
Non-current assets			
Property, plant and equipment		2	–
Other intangible assets	8	230	19
Financial assets	9	–	1,444
Total non-current assets		232	1,463
Current assets			
Current tax assets		8	–
Other receivables and other assets	10	1,483	1,520
Cash and cash equivalents	11	48,113	840
Total current assets		49,604	2,360
Total assets		49,836	3,823
Equity			
Share (Quota) capital		10,000	100
Share premium		40,000	–
Extraordinary reserve		3,526	6,302
Available for sale financial assets reserve		–	–
Stock option plan reserve		106	–
Profit/(Loss) for the year		(6,451)	(2,776)
Total equity	12	47,181	3,626
Liabilities			
Total non-current liabilities		–	–
Current liabilities			
Trade payables	13	2,635	196
Current tax liabilities	14	16	1
Other current liabilities		4	–
Total current liabilities		2,655	197
Total liabilities		2,655	197
Total equity and liabilities		49,836	3,823

Cash Flow Statement

EUR 1,000		As at 31 December	
	Notes	**2015**	**2014**
Profit (loss) before taxes		(6,451)	(3,883)
Income taxes paid (net)		1,111	533
Depreciation and amortization	4	15	18
Share payment based expenses	16	106	
		(5,219)	(3,332)
Change in trade payables		2,439	22
Change in other receivables and other assets		(1,075)	(296)
Change in other current liabilities		4	–
Change in current tax assets		(7)	–
Change in current tax liabilities		15	(1)
Cash flows from operating activities		(3,843)	(3,607)
Investments in property, plant and equipment		(2)	–
Investments in other intangible assets	8	(226)	(26)
Investments in financial assets available for sale	9	–	(1,444)
Disposal of financial assets available for sales	9	1,444	–
Cash flows from investing activities		1,216	(1,470)
Share capital increase	1	49,900	–
Cash flows from financing activities		49,900	–
Net increase/(decrease) in cash and cash equivalents		47,273	(5,077)
Cash and cash equivalents at the beginning of the year	11	840	5,917
Cash and cash equivalents at the end of the year	11	48,113	840
Cash at hand		–	–
Bank accounts		48,113	840
Total cash and cash equivalents at the end of the year	11	48,113	840

Statement of Changes in Equity

EUR 1,000	*Number of Quota (n)*	Quota capital	Share premium	Extraordinary reserve	Available for sale financial assets reserve	Stock option plan reserve	Retained earnings	Total
Net equity as at 1 January 2014	100,000	100	–	7,542	–	–	(1,240)	6,402
Allocation of prior year result				(1,240)			1,240	–
Total comprehensive income for the year							(2,776)	(2,776)
Net equity as at 31 December 2014	100,000	100		6,302	–	–	(2,776)	3,626

EUR 1,000	*Number of Shares (Quota) (n)*	Share (Quota) capital	Share premium	Extraordinary reserve	Available for sale financial assets reserve	Stock option plan reserve	Retained earnings	Total
Net equity as at 1 January 2015	100,000	100	–	6,302	–	–	(2,776)	3,626
Allocation of prior year result				(2,776)			2,776	–
Capital increase	9,900,000	9,900	40,000					49,900
Cost for stock options						106		106
Total comprehensive income for the year							(6,451)	(6,451)
Net equity as at 31 December 2015	10,000,000	10,000	40,000	3,526	–	106	(6,451)	47,181

Notes to the financial statements

1 General information

The company and its core business

Cassiopea S.p.A. formerly Cosmo Dermatos S.r.l., ("Cassiopea" or the "Company") is a company established and domiciled in Italy. The address of the registered office is Via Cristoforo Colombo 1 Lainate (MI), Italy.

Cassiopea is a clinical-stage specialty pharmaceutical company focused on developing and commercializing innovative and differentiated medical dermatology products: the initial focus is on the topical treatment of acne, androgenic alopecia, or AGA, and genital warts. The Company's portfolio comprises four unencumbered clinical candidates, for which the Company owns the worldwide rights. These product candidates are based on three new chemical entities, ("NCEs"), and target unmet medical needs and significant market opportunities in the medical dermatology market. Cassiopea's management team has extensive experience in product development and commercialization, having served in prominent roles at several leading pharmaceutical and medical dermatology companies. The Company's strategy is to leverage this expertise to establish Cassiopea as a pure-play, fully integrated company whose mission is to identify, develop and commercialize treatments for skin diseases.

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

- Winlevi®, which is being developed as first-in-class antiandrogen for the topical treatment of acne;
- Breezula®, which is being developed as the first antiandrogen for the topical treatment of androgenic alopecia;
- CB-06-01, a first-time application of an antibiotic with a targeted antibacterial spectrum for the treatment of acne; and
- CB-06-02, a novel application using the rare element tellurium to treat genital warts.

Since 1 July 2015, Cassiopea's shares have been publicly listed on the Swiss Stock Exchange (SIX: SKIN).

The Company's stock market capitalization as at 31 December 2015 was equal to CHF 325,000,000.

Background

On 14 April 2015, Cosmo Dermatos S.r.l.'s quotaholders' meeting resolved: for the transformation of the Company into an S.p.A. (Joint Stock Corporation);

- for the change of the Company's name in Cassiopea;
- for the adoption of a new articles of association;
- for the adoption of a nominal value of EUR 1 per share;
- for the dematerialization of the shares;
- for the adoption of the corporate governance model called "monistic model";
- for the appointment of a new board of directors of the Company, the Management Control Committee and the Auditing Company.

This resolution became effective on 29 April 2015, upon the publication of said deed in the Register of Enterprises of Milan.

On 27 May 2015, Cassiopea's shareholders' meeting resolved:

- for the adoption of the current Articles of Association;
- for a capital increase to a maximum of nominal EUR 10,000,000 with the issue of 9,900,000 new shares reserved to the existing shareholders granting the Board of Directors all necessary powers and authority required for the implementation of such capital increase including share price determination and establishing the deadline for subscription rights in ten days from 27 May 2015;
- for the delegation to the Board of Directors to increase the capital by a nominal amount of EUR 500,000 by issuing 500,000 new common shares with a nominal value of EUR 1 each to service an employee stock option plan ("ESOP") according to terms to be set by the Board of Directors after completion of the Offering (including the Over-Allotment Option);
- for the appointment of the new Board of Directors of the Company and the new Management Control Committee.

This resolution became effective on 9 June 2015, upon the publication of said deed in the Register of Enterprises of Milan an d the capital increase was

concluded on 5 June 2015 with the subscription of the 9,900,000 new shares of EUR 1 each and with the contribution of EUR 9,900 thousand as capital and EUR 40,000 thousand as share premium.

2 Basis of preparation

The 2015 financial statements have been prepared in accordance with the International Financial Reporting Standards issued by the International Accounting Standards Board (IASB) and adopted by the European Union (following IFRS) and with the orders issued in implementation of Article 9 of Legislative Decree no 38/2005. The designation IFRS also includes all valid International Accounting Standards (IAS), as well as all interpretations of the International Financial Reporting Interpretations Committee (IFRIC), formerly the Standing Interpretations Committee (SIC).

Cassiopea adopted IFRS as from 1 January 2015 so these are this is the first set of financial statements prepared in accordance with these standards.

As the prior year financial statements were prepared in accordance with the Accounting Standards issued by the Italian Accounting Board (Organismo Italiano di Contabilità – OIC), as required by the applicable regulations, the prior year comparative figures have been recalculated and restated in accordance with International Accounting Standards (IFRS).

The Appendix on the "Transition to International Accounting Standards" contains the reconciliations required by IFRS 1, together with notes on the effects of adopting these accounting standards.

These schedules have been audited by BDO Italia S.p.A.

We also note that Cassiopea has already prepared financial statements as at 31 December 2014, 2013 and 2012 as restated in accordance with International Accounting Standards, solely for the purposes of the inclusion in the Offering Memorandum and for the procedure of admission of its shares on SIX Swiss exchange. For the same reason and with the same International Accounting Standards the Company has already prepared the Half-Year Financial Statements as at 30 June 2015. We point out that shareholders' equity as at 1 January 2014, as determined for the purposes of preparing these financial statements as at 31 December 2015, in accordance with IFRS, is the same shareholders' equity as at 1 January 2014 as determined when preparing the financial information included in the Offering Memorandum.

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

3 Basis of accounting

Classification criteria

The financial statements and related classification criteria adopted for the preparation of the Company's financial statements are based on the option allowed by IAS1 – Presentation of financial statements:

- the statement of financial position has been prepared presenting asset and liabilities as current and non-current;
- the income statement presents a classification based on the function of expenses („cost of sales method");
- the statement of comprehensive income includes other changes in equity related to non-owner transactions as well as the profit/loss of the year;
- the statements of cash flows present cash flows from operating activities using the indirect method;
- the statement of changes in equity includes all the changes in equity.

Measurement criteria

The financial statements have been prepared using the historical cost criterion, except when it mandatory to measure financial assets and liabilities at fair value.

The financial statements have been prepared on a going concern basis as the financial resources made available by the shareholders were considered adequate to meet the cash requirements projected in the business plans. This is despite the fact that, Company has, since it was incorporated, sustained losses mainly because of the massive research and clinical development costs incurred for its products and its business plans project that further operating losses will be incurred at least until one of its products is launched for sale or out-licensed.

Critical accounting estimates and assumptions

The preparation of the Company financial statements and the related notes require the use of estimates and assumptions that affect the application of accounting policies and the reported amount of assets, liabilities, income and expenses. However, as they are estimates, actual future results could differ from those included in the financial statements. The management exercises judgment in selecting and applying the accounting principles, particularly in cases where the existing IFRS standards offer alternative recognition, valuation or presentation methods.

Accounting policies

The accounting policies adopted are consistent with those of the previous financial year, as no new IFRS or IFRIC interpretations that became effective on 1 January 2015 are relevant for the Company's operations.

Standards, amendments and interpretations effective from 1 January 2015 but not applicable to the Company

- On 20 May 2013, the IASB issued the IFRIC Interpretation 21 – Levies, an interpretation of IAS 37 – Provisions, Contingent Liabilities and Contingent Assets. The interpretation sets out the accounting for an obligation to pay a levy that is not income tax. The interpretation addresses what the obligating event is that gives rise to pay a levy and when a liability should be recognized. IFRIC 21 is effective for annual periods beginning on or after June 2014.
- In December 2013, the IASB issued Annual Improvements to IFRSs 2011 – 2013 Cycle. The most important topics addressed in these amendments are, among others, the extension of the exclusion from the scope of IFRS 3 – Business Combinations to all types of joint arrangements and to clarify the application of certain exceptions in IFRS 13 – Fair value Measurement. The improvements are effective for annual periods beginning on or after 1 January 2015.

Accounting principles, amendments and interpretations not yet applicable and not early adopted by the Company

- In November 2013, the IASB published narrow scope amendments to IAS 19 – Employee benefits entitled "Defined Benefit Plans: Employee Contributions". These amendments apply to contributions from employees or third parties to defined benefit plans in order to simplify their accounting in specific cases.
  The amendments are effective, retrospectively, for annual periods beginning on or after 1 February 2015 with earlier application permitted.
- In December 2013, the IASB issued Annual Improvements to IFRSs 2010 – 2012 Cycle. The most important topics addressed in these amendments are, among others, the definition of vesting conditions in IFRS 2 – Share-based payments, the disclosure on judgment used in the aggregation of operating segments in IFRS 8 – Operating Segments, the identification and disclosure of a related party transaction that arises when a management entity provides key management personnel service to a reporting entity in IAS 24 – Related Party disclosures. The improvements are effective for annual periods beginning on or after 1 February 2015.
- In May 2014, the IASB issued amendments to IFRS 11 – Joint arrangements: Accounting for acquisitions of interests in joint operations, clarifying the accounting for acquisitions of an interest in a joint operation that constitutes a business. The amendments are effective, retrospectively, for annual periods beginning on or after 1 January 2016 with earlier application permitted.
- In May 2014, the IASB issued an amendment to IAS 16 – Property, Plant and Equipment and to IAS 38 – Intangible Assets. The IASB has clarified that the use of revenue-based methods to calculate the depreciation of an asset is not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset. The IASB also clarified that revenue is generally presumed to be an

inappropriate basis for measuring the consumption of the economic benefits embodied in an intangible asset. This presumption, however, can be rebutted in certain limited circumstances. These amendments are effective for annual periods beginning on or after 1 January 2016, with early application permitted.

- In May 2014, the IASB issued IFRS 15 – Revenue from contracts with customers. The standard requires a company to recognize revenue upon transfer of control of goods or services to a customer at an amount that reflects the consideration it expects to receive. This new revenue recognition model defines a five step process to achieve this objective. The updated guidance also requires additional disclosures about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts. The standard is effective for annual periods beginning on or after 1 January 2018, and requires either a full or modified retrospective application.
- In July 2014 the IASB issued IFRS 9 – Financial Instruments. The improvements introduced by the new standard includes a logical approach for classification and measurement of financial instruments driven by cash flow characteristics and the business model in which an asset is held, a single "expected loss" impairment model for financial assets and a substantially reformed approach for hedge accounting. The standard is effective, retrospectively with limited exceptions, for annual periods beginning on or after 1 January 2018 with earlier application permitted.
- In September 2014, the IASB issued narrow amendments to IFRS 10 – Consolidated Financial Statements and IAS 28 – Investments in Associates and Joint Ventures (2011). The amendments address an acknowledged inconsistency between the requirements in IFRS 10 and those in IAS 28 (2011), in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognized when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognized when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary. At the present the IASB has suspended the application of this amendment.
- In September 2014 the IASB issued the Annual Improvements to IFRSs 2012–2014 cycle, a series of amendments to IFRSs in response to issues raised mainly on IFRS 5 – Non-current assets held for sale and discontinued operations, on the changes of method of disposal, on IFRS 7 – Financial Instruments: Disclosures on the servicing contracts, on the IAS 19 – Employee Benefits, on the discount rate determination. The effective date of the amendments is 1 January 2016.
- In December 2014 the IASB issued amendments to IAS 1 – Presentation of Financial Statements as part of its major initiative to improve presentation and disclosure in financial reports. The amendments make clear that materiality applies to the whole of financial statements and that the inclusion of immaterial information can inhibit the usefulness of financial disclosures. Furthermore, the amendments clarify that companies should use professional judgment in determining where and in what order information is presented in the financial disclosures. The amendments are effective for annual periods beginning on or after 1 January 2016 with early application permitted.
- In January 2016 the IASB issued IFRS 16 – Leases. The new standard has developed a new approach to lease accounting that require a lessee to recognise assets and liabilities for the rights and obligations created by the lease. The standard replaces IAS 17 Leases and is effective for annual periods beginning on or after 1 January 2019. Early application is permitted for companies that also apply IFRS 15 Revenue from Contracts with Customers.

Summary of significant accounting policies and practices

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

Property, plant and equipment

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

The cost of self-constructed assets includes the cost of materials, direct labour, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located, and an appropriate proportion of production overheads.

Subsequent expenditures are capitalized only if they increase the future economic benefits embodied in the related item of property, plant and equipment. All other expenditures are expensed as incurred.

Property, plant and equipment that are being constructed or developed for future use are classified as "Assets under construction" and stated at cost until construction is complete, at which time they are reclassified as property, plant and equipment.

Where parts of an item of property, plant and equipment have different useful lives, they are separately identified and depreciated on the basis of their estimated useful lives ("component approach").

The cost of replacing part of an item is recognized in the carrying amount of an item of property, plant and equipment when that cost is incurred if it is probable that the future economic benefits embodied in the item will flow to the Group and the cost of the item can be measured reliably. The residual carrying amount of the replaced component is recognized in the income statement as an expense. All other costs are recognized in the income statement as an expense as incurred. Financial expenses related to the purchase of such assets are recognized in the income statement.

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

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

Residual amounts, useful lives and the depreciation methods are reviewed at the end of every accounting period. The depreciation rates applied to the items of property, plant and equipment are the following:

Buildings – owned buildings	33 years
Buildings – leasehold – improvements	At the lower of the useful life of the improvement and the residual term of the lease
Plant and machinery – general	10 years
Plant and machinery – specific	8 years
Industrial and commercial equipment	3 years
Other tangible assets – office equipment – electronics	5 years
Other tangible assets – office equipment – furniture	8 years
Other tangible assets – means of internal transportation	5 years

Appurtenance land related to own buildings or purchased through finance leases is stated separately and is not depreciated.

Improvements to third-party assets are classified under property, plant and equipment depending on the nature of the asset to which it refers.

The depreciation period is based on the lower of the asset's remaining useful life and the residual duration of the lease of the principal asset.

If specific events indicate that impairment of an item of property, plant and equipment may have taken place, the item's recoverability is assessed by comparing its carrying amount with its recoverable amount, represented by the higher of the fair value net of disposal costs and value in use, as defined in the paragraph "Impairment of property, plant and equipment and intangible assets".

Assets held under finance leases, which provide the Group with substantially all the risks and rewards of ownership, are recognized as assets of the Group at their fair value or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the financial statements as financial liabilities. Leases where the lessor retains substantially all the risks and rewards of ownership of the assets are classified as operating leases.

Operating lease expenditures are expensed on a straight-line basis over the lease terms.

Other intangible assets

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

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

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

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

- Patents and rights are amortized over their useful lives.
- Expenditures on research activities, undertaken with the prospect of gaining new technical knowledge and understanding, are recognized in the income statements as an expense as incurred.

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

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

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

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

Financial assets

Financial assets within the scope of IAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale financial assets, as appropriate. When financial assets are recognized initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Company determines the classification of its financial assets on initial recognition and, where allowed and appropriate, re-evaluates this designation at the end of each financial year.

All "regular way" purchases and sales of financial assets are recognized on the trade date, which is the date that the Company commits to purchase the asset.

Regular-way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Available-for-sale financial assets are those non-derivative financial assets that are designated as available for sale or are not classified in any of the three preceding categories. After initial measurement, available-for-sale financial assets are measured at fair value, at the close of business on the balance sheet date, with unrealized gains or losses recognized directly in equity until the investment is derecognized or determined to be impaired, at which time the cumulative

gain or loss previously recorded in equity is recognized in profit or loss.

The fair values of listed investments are based on current market prices. If the market for a financial asset is not active and for unlisted securities, the Company establishes fair values by using valuation techniques. These include the use of recent arm's-length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option-pricing models refined to reflect the Company's specific circumstances.

At each balance sheet date, the Company assesses whether a financial asset or group of financial assets is impaired.

If an available-for-sale financial asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortization) and its current fair value, less any impairment loss previously recognized in profit or loss, is transferred from equity to profit or loss.

Foreign currency transactions

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

Trade and other receivables and payables

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

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

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

Cash and cash equivalents

Cash and cash equivalents comprises cash balances and call deposits. Advances on invoices and bank overdrafts that are repayable on demand and form an integral part of the Company's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

Employee benefits

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

Forms of remuneration involving participation in stock capital (stock option plans)

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

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

Revenue and cost recognition

Revenue, income, costs and charges are recorded net of discounts and allowances.

Revenues from licensing contracts for non-refundable up-front fees, in situations where no further performance obligation exists, are recognized on the earlier of when payments are received or collection is assured. Up-front fees related to future performance obligations are either spread over the duration of such obligations or part of the revenue provisioned therefore. Where continuing significant involvement is required in the form of support, revenues are recognized over the relevant period.

Revenues from licensing contracts for milestones are recognized in the period the outcome can be estimated reliably, which is in general when the milestone is successfully achieved, which is determined when the funding party agrees that the required results stipulated in the agreement have been met.

Expenditures on research activities, undertaken with the prospect of gaining new technical know-ledge and understanding, as well as development costs not capitalized, are recognized in the income statement as an expense as incurred.

Income tax

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

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

Current and deferred income taxes and liabilities are offset when there is a legally enforceable right to offset.

Deferred tax assets and liabilities are measured at the substantively enacted tax rates that are expected to apply to taxable income in the periods in which temporary differences will be reversed.

Until 31 December 2014, Cosmo Pharmaceuticals S.p.A. (now S.A.) and its Italian subsidiaries, including Cosmo Dermatos S.r.l. (now Cassiopea S.p.A.), have elected to take part in the domestic tax consolidation program pursuant to Articles 117/129 of the Consolidated Income Tax Act (TUIR).

Cosmo Pharmaceuticals S.p.A. acts as the consolidating company in this program and calculates a single taxable base for the group of companies taking part, thereby enabling benefits to be realized from the offsetting of taxable income and tax losses in a single tax return. Each company participating in the consolidation transfers its taxable income or tax loss to the consolidating company. Cosmo Pharmaceuticals S.p.A. recognizes receivables from companies contributing taxable incomes, corresponding to the amount of IRES (corporate income tax) paid on its behalf. In the case of a company bringing a tax loss into the consolidation, Cosmo Pharmaceuticals S.p.A. recognizes a payable to that company for the amount of the loss actually set off at a group level.

Earnings per share (quota)

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

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

Until the transformation in S.p.A., the Company presents the basic and diluted earnings (loss) per theoretical quota, assumed equal to EUR 1.

Would you like to dance with me?

Due to the obvious visual nature of the disease, especially when it occurs on the face, many sufferers lack self-esteem and confidence.

4 Net operating expenses

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

	Year ended 31 December	
EUR 1,000	**2015**	**2014**
Raw materials and consumables used	(291)	(63)
Personnel expenses	(444)	–
Outsourced preclinical and clinical trial costs	(6,395)	(2,693)
Other operating expenses	(1,212)	(1,145)
Depreciation and amortization	(15)	(18)
Total net operating expenses	(8,357)	(3,919)

Raw materials and consumables used

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

	Year ended 31 December	
EUR 1,000	**2015**	**2014**
Purchase of consumables	1	–
Purchase of laboratory supplies and materials for clinical trial	290	63
Total raw materials and consumables used	291	63

Personnel expenses

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

	Year ended 31 December	
EUR 1,000	**2015**	**2014**
Salaries and wages	378	–
Social security contributions	5	–
Employee benefits	1	–
Stock options	60	–
Total personnel expenses	444	–

As of 31 December 2014, the company had no full time equivalent employees. Starting from May 2015 the Company engaged the CEO, the Director of R&D, the Head of Program management, the COO and 3 junior managers (two clinical project managers and one quality manager).

The company of the group Cosmo Pharmaceuticals S.A. provides the services of the remaining member of the senior management, the services for research and development for preclinical and clinical trial and secretarial and accounting services.

In 2015 the expense for the value of employees' and executives Directors' services exchanged for stock options amounted to EUR 60 thousand and it refers to the cost accounted in relation to the 80,000 options granted by the Board of Directors on 3 December 2015 (see note 16, "Share-based payments").

The entire staff as at 31 December 2015 and 2014 is shown by category here below:

	Year ended 31 December	
No. of people	**2015**	**2014**
Managers	4	–
Junior managers	3	–
Employees	–	–
Workers	–	–
Total number	7	–

Outsourced preclinical and clinical trial costs

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

	Year ended 31 December	
EUR 1,000	**2015**	**2014**
CB-03-01 Winlevi®	5,304	1,836
CB-03-11 Breezula®	563	538
CB-06-01	325	233
CB-06-02	157	86
Others	46	–
Outsourced preclinical and clinical trials costs	6,395	2,693

In the periods ended 31 December 2015 and 31 December 2014 the Company has been charged by Cosmo S.p.A. (a subsidiary of Cosmo Pharmaceuticals S.A.) for an amount of EUR 720 thousand and EUR 910 thousand respectively, for research and development services for preclinical and clinical trial and related activities.

Other operating expenses

Other operating expenses comprises the following:

	Year ended 31 December	
EUR 1,000	**2015**	**2014**
Service costs	1,209	1,144
Other operating costs	3	1
Total other operating expenses	1,212	1,145

"Service costs" mainly comprises costs for professional and consultancy services (i.e., scientific and administrative services).

In 2014 it also includes EUR 720 thousand paid to BioMAS Ltd for the exclusive licence fee of the product CB-06-02 (see note 9 "Financial assets").

	Year ended 31 December	
EUR 1,000	**2015**	**2014**
External consultancy services	396	102
Patent costs	152	121
Licence fee	–	870
Investor relations and web site maintenance	133	–
Technical assistance	1	–
Utilities, telephone, internet	13	–
Insurance	56	–
Nonexecutive directors	94	7
Stock options nonexecutive directors	46	–
Management control committee	6	–
Auditing	64	–
Freight and customs	47	–
Travel expenses	77	–
External laboratory services	123	44
Other costs	1	–
Total service costs	1,209	1,144

In the periods ended 31 December 2015 and 31 December 2014 the Company has been charged by Cosmo S.p.A. (a subsidiary of Cosmo Pharmaceuticals S.A.) for an amount of EUR 71 thousand and EUR 20 thousand respectively, for secretarial and accounting services included in External consultancy services.

Depreciation and amortization

The item comprises the following:

	Year ended 31 December	
EUR 1,000	**2015**	**2014**
Amortization of other intangible assets	15	18
Total depreciation and amortization	15	18

5 Financial income/expenses

The item comprises the following:

	Year ended 31 December	
EUR 1,000	**2015**	**2014**
Financial income:		
Other	1,980	48
Total financial income	1,980	48
Financial expenses:		
Other	74	12
Total financial expenses	74	12
Financial income (expense), net	1,906	36

Other financial income as at 31 December 2015 includes EUR 1,948 thousand for foreign exchange differences (EUR 25 thousand in 2014) and EUR 32 thousand for interests received on cash and cash equivalents (EUR 23 thousand in 2014); financial expenses mainly includes foreign exchange differences.

6 Income tax expenses

The item comprises the following:

	Year ended 31 December	
EUR 1,000	2015	2014
Income tax I.R.E.S. and other corporation taxes	–	(1,107)
Income tax I.R.A.P.	–	–
Current income tax	–	(1,107)
Deferred tax	–	–
Total income tax expenses	–	(1,107)

Until 31 December 2014, the Company has taken part to the Italian domestic tax consolidation program of the parent company Cosmo Pharmaceuticals S.p.A. (now S.A.), pursuant to Articles 117/129 of the Consolidated Income Tax Act (TUIR): as at 31 December 2014, the Company has brought a tax loss into the consolidation, and for this reason in 2014 accounts positive income tax.

On the tax loss for 2015 and on the Italian fiscal relief "ACE" (Aiuto alla crescita economica) (for a total amount of approximately EUR 8,000 thousand), no deferred tax assets have been recognised in the Company's financial statements due to uncertainties concerning the availability of future taxable profits against which such an asset may be offset.

According to the amended article 84 of the Italian TUIR, the losses can be carried forward indefinitely, but a quantitative limit for the use of tax losses is introduced, up to 80% of the income realized in the subsequent years. The quantitative limit of 80% does not apply to losses that arose in the first three years from the establishment of the Company.

7 Basic and diluted earnings (loss) per share (quota)

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

	Year ended 31 December		
	2015	2014 Adjusted*	2014
Net profit (loss) attributable to Shareholders (Quotaholders) (in EUR 1,000)	(6,451)	(2,776)	(2,776)
Weighted average number shares (quota)	5,795,890	5,795,890	100,000
Basic earnings (loss) per share (quota) (in EUR)	(1.113)	(0.479)	(27.760)

*retrospectively adjusted to reflect the April 2015 capital increase

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

With reference to the stock option plans, the potential number of ordinary shares is represented by the shares that would be issued as a consequence of the conversion of all options into ordinary shares; regarding the stock option plans set up in December 2015, as the weighted average market price in 2015 was higher than exercise price, the potential shares are included in the calculation of diluted earnings (loss) per share for 2015 starting from 1 January 2015.

	Year ended 31 2015
Net profit (loss) attributable to Shareholders (in EUR 1,000)	(6,451)
Weighted average number of outstanding ordinary Shares	5,795,890
Incremental Shares from assumed options exercise	7,654
Adjusted weighted average number of outstanding ordinary Shares	5,803,544
Diluted earnings (loss) per share (in EUR)	(1.112)

8 Other intangible assets

"Patents and rights" refers to the costs for filing and extension of patents owned by the Company:

EUR 1,000	Patents and rights	Total
Net book value as at 1 January 2014	11	11
Additions of the year	26	26
Amortization charge for the year	(18)	(18)
Net book value as at 31 December 2014	19	19
Additions of the year	226	226
Amortization charge for the year	(15)	(15)
Net book value as at 31 December 2015	230	230

9 Financial assets

The item comprises the following:

	As at 31 December	
EUR 1,000	2015	2014
Financial assets available for sale- BioMas shares	–	1,444
Non current financial assets	–	1,444

On 11 March 2014, the Company acquired an interest corresponding to 17.24% of the capital of BioMAS Ltd (Israel), via new shares issued in conjunction with a capital increase. BioMAS Ltd, is an Israeli company focused on the development of Tellurium for therapeutic applications. The total amount paid amounted to EUR 1,444 thousand. At the same time the Company got the worldwide license for all topical applications of their main product CB-06-02 (see note 4, "Net operating expenses").

The investment in BioMAS has been sold to a company of Cosmo Pharmaceuticals Group in May 2015 for proceeds equal to the carrying amount of EUR 1,444 thousand.

10 Other receivables and other assets

The item comprises the following:

	As at 31 December	
EUR 1,000	2015	2014
Receivables from parent company for income taxes	–	1,112
VAT receivables	680	381
Prepaid expenses	636	27
Other prepaid	167	–
Total other receivables and other assets	1,483	1,520

Until 31 December 2014, the Company has taken part to the Italian domestic tax consolidation program pursuant to Articles 117/129 of the Consolidated Income Tax Act (TUIR): as at 31 December 2014 the Company has brought a tax loss into the consolidation, and for this reason Cosmo Pharmaceuticals S.p.A. (now S.A.) recognized a payable to the Company for the amount of the loss set off at a group level.

11 Cash and cash equivalents

The item comprises the following:

	As at 31 December	
EUR 1,000	2015	2014
Cash at hand	–	–
Bank accounts	48,113	840
Total cash and cash equivalents	48,113	840

"Bank accounts" include availability on current bank accounts. Part of the availability is held in US$ and in particular as at 31 December 2015 the amount includes US$ 52,075 thousand equal to EUR 47,832 thousand at 31 December 2015 f/x.

12 Total share (quota) holders' equity

The item comprises the following:

	As at 31 December	
EUR 1,000	2015	2014
Share (Quota) capital	10,000	100
Share premium	40,000	–
Extraordinary reserve	3,526	6,302
Available for sale financial assets reserve	–	–
Stock option plan reserve	106	–
Profit/(Loss) for the year	(6,451)	(2,776)
Total equity	47,181	3,626

Share capital

As at 31 December 2015, Cassiopea S.p.A. had 10,000,000 shares issued, fully subscribed and paid up, each share with a nominal value of EUR 1.00, for a total share capital of EUR 10,000 thousand.

Share premium

As at 31 December 2015, "Share premium" of EUR 40,000 thousand refers to the proceeds from April 2015 capital increase.

Extraordinary reserve

As at 31 December 2015, "Extraordinary reserve" of EUR 3,526 thousand refers to the initial amount of EUR 7,542 thousand originated in 2013 with the incorporation of the Company following the demerger from Cosmo S.p.A., net of the losses of the following periods.

Stock option plan reserve

In 2015, the expense for the stock options allocated in December 2015 amounted to EUR 106 thousand of which EUR 60 thousand for management and personnel and EUR 46 thousand for nonexecutive Directors.

13 Trade payables

The item comprises the following:

	As at 31 December	
EUR 1,000	2015	2014
Trade payables	2,413	166
Trade payables group company	222	30
Total trade payables	2,635	196

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

14 Current tax liabilities

The item comprises the following:

	As at 31 December	
EUR 1,000	2015	2014
Withholding tax for employees	3	–
Withholding tax for consultants	13	1
Total current tax liabilities	16	1

15 Other current liabilities

The item comprises the following:

	As at 31 December	
EUR 1,000	2015	2014
Social security payables	2	–
Other liabilities	2	–
Total other current liabilities	4	–

16 Share-based payment

The extraordinary shareholders' meeting of 27 May 2015 authorized the Board of Directors to increase the capital by a nominal amount of EUR 500,000 by issuing 500,000 new common shares with a nominal value of EUR 1 each to service an ESOP according to terms to be set by the Board of Directors.

On 3 December 2015, the Board of Directors granted a total of 140,000 options of which:

- 49,800 with a vesting period of 1 year, expiring on 3 December 2021 and an exercise price of CHF 34 ("Option series 1a")
- 46,600 with a vesting period of 2 years, expiring on 3 December 2022 and an exercise price of CHF 34 ("Option series 1b")
- 43,600 with a vesting period of 3 years, expiring on 3 December 2023 and an exercise price of CHF 34 ("Option series 1c")

The fair value of options granted, determined on the basis of a binomial tree generated by the Fincad program – technique similar to the Black-Scholes valuation model, resulted in a value of CHF 14.45 per option ("Option series 1a"), of CHF 19.28 per option ("Option series 1b") and of CHF 22.56 per option ("Option series 1c").

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

In 2015, in relation to the "Option series 1a,b,c" the expense for the value of employees' and Directors' services exchanged for stock options amounted to EUR 106 thousand of which EUR 60 thousand for management and personnel and EUR 46 thousand for Nonexecutive Directors.

Option series	Number	Grant date	Vesting date	Expiry date	Exercise price	Fair value of the option at the grant date
					CHF	CHF
1a) Issued 3 December 2015	49,800	03/12/2015	03/12/2016	03/12/2021	34.00	14.45
1b) Issued 3 December 2015	46,600	03/12/2015	03/12/2017	03/12/2022	34.00	19.28
1c) Issued 3 December 2015	43,600	03/12/2015	03/12/2018	03/12/2023	34.00	22.56

	2015		2014	
	Number	Weighted average exercise price	Number	Weighted average exercise price
		CHF		CHF
Outstanding as at 1 January	–	–	–	–
Granted during the period	140,000	34.00	–	–
Forfeited during the period	–	–	–	–
Exercised during the period	–	–	–	–
Expired during the period	–	–	–	–
Outstanding as at 31 December	140,000	34.00	–	–
Exercisable as at 31 December	–	–	–	–

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

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

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

17 Related-parties transactions

Related parties transactions are carried out on an arm's-length basis.

In the periods ended 31 December 2015 and 31 December 2014 the Company has been charged by Cosmo S.p.A. (a subsidiary of Cosmo Pharmaceuticals S.A.) for an amount of EUR 720 thousand and EUR 910 thousand respectively, for research and development services for preclinical and clinical trial and related activities and for an amount of EUR 71 thousand and EUR 20 thousand respectively, for secretarial and accounting services.

In May 2015 the investment in BioMAS has been sold to a company of Cosmo Pharmaceuticals Group for proceeds equal to the carrying amount of EUR 1,444 thousand.

Key Management personnel compensation

Key Management personnel consist of the Board of Directors and the Executive Management; the table below shows the compensation recognized in the profit and loss statement 2015.

EUR

Board of Directors	Function	Base compensation	Additional compensation	Stock options	Total compensation
Jan de Vries	Nonexecutive, Chairman	21,532	2,175*	15,097	38,804
David Hale	Nonexecutive, Independent director	22,683	2,175*	15,097	39,955
Øyvind Bjordal	Nonexecutive, Independent director	21,532	–	7,718	29,250
Pierpaolo Guzzo	Nonexecutive, Independent director	22,683	2,175*	7,718	32,576
Diana Harbort	Executive, CEO	107,658	–	37,266	144,924
Total		196,088	6,525	82,896	285,509

* compensation Management Control Committee

EUR

Executive Management	No of members	Base compensation	Additional compensation	Stock options	Total compensation
Executive Management**	3 members	172,488	–	22,815	195,303
highest paid of 3 members		79,276	–	15,097	94,373

** excluding CEO

Additional fees and remuneration

Pleiades Consultation Inc., through the person of Louise Dube, before the engagement as R&D Director provides consulting services to the Company for EUR 47,972 thousand.

18 Financial risk management objectives and policies

Financial risk management

Cassiopea's financial assets, such as cash and cash equivalents, other receivables, financial assets available for sales, are generated by its operations and are managed by the Management Control Committee of the Company's Board of Directors.

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

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

Credit risk

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

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

Liquidity risk

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

To this end, the Company has invested its cash in short-term deposits.

Cassiopea rates managing the liquidity risk as more important than optimizing investment income.

Market risk

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

Interest rate risk

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

Foreign currency risk

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

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

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

Capital management

Cassiopea's capital management objectives are focused on safeguarding Cassiopea's capacity to safely execute the business plan of the Company. To this end, Cassiopea will not rely on debt to finance any of its longer-term capital requirements and will not strive to maintain an optimal capital structure until its income streams reach a high level of predictability.

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

Classes of financial instruments

The table below shows the financial assets and liabilities, as required by IFRS 7 within the framework of the different categories contemplated by IAS 39, resulting on 31 December 2015 and 2014.

	Carrying amount	
	As at 31 December	
EUR 1,000	2015	2014
Non current financial assets	–	1,444
Other receivables and other assets *	–	1,112
Cash and cash equivalents	48,113	840
Trade payables	(2,635)	(196)

* only financial assets/liabilities

EUR 1,000	Profit or (loss)	
31 December 2015	50 bp increase	50 bp decrease
Cash and cash equivalents	151	–
Cash flow sensitivity	151	–

EUR 1,000	Profit or (loss)	
31 December 2014	50 bp increase	50 bp decrease
Cash and cash equivalents	40	6
Cash flow sensitivity	40	6

Information and financial risk analysis

Credit risk

As at 31 December 2015 and 2014, the item "Other receivables" does not include overdue positions.

Liquidity risk

The liquidity risk is the risk that the Company will encounter difficulty in meeting future obligations with respect to financial liabilities, after considering the Company's cash and cash equivalents' availability. The risk analysis is aimed at quantifying, on the basis of contractual maturity, the cash flow in relation to the reimbursement of the Company's financial liabilities as of 31 December 2015 and 2014 as much as they are considered significant for the purpose of liquidity risk.

Market risk

The actual exposure to such sources of risk is illustrated as of 31 December 2015 and 2014, along with the possible balance sheet impact of the risk factor's plausible variations.

Interest rate risk and sensitivity analysis

The table below provides an indication of the impact on the profit before tax of a parallel ± 50 basis-point shift of the rate curve estimated as of 31 December 2015 and 2014. The analysis was carried out by assuming that the other variables remained constant, and it was also carried out for 2015 and 2014 on the basis of the same assumptions.

Foreign currency risk and sensitivity analysis

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

It is the Company's policy to primarily maintain its cash and cash equivalents in US$ due to the business plan that foresee for the following 2 years costs mainly denominated in US$.

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

A 10% strengthening of the euro against the US$ would have resulted in a loss decrease of EUR 454 thousand and EUR 247 thousand as at 31 December 2015 and 2014 respectively. A 10% weakening of the euro against the US$ as at 31 December 2015 and 2014 would have had the opposite effect, for the equal amount shown above.

Furthermore, in relation to the cash held in US$ at the end of 2015, a 5% strengthening of the US$ against the euro would have resulted in a loss decrease of EUR 2,392 thousand. A 5% weakening of the US dollar against the euro would have had the opposite effect, for the equal amount shown above.

19 Fair value measurement

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

Levels used in the hierarchy are as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets and liabilities that the Group can access at the measurement date.
- Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the assets or liabilities, either directly or indirectly.
- Level 3 inputs are unobservable inputs for the assets and liabilities.

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

This table shows the comparison of fair values versus carrying amounts of financial assets and liabilities, as required by IFRS 7.

	As at 31 December 2015		As at 31 December 2014	
EUR 1,000	Carrying amount	Fair value	Carrying amount	Fair value
Non current financial assets	–	–	1,444	1,444
	–	–	1,444	1,444

The following table shows the fair value hierarchy for financial assets that are measured at fair value on a recurring basis at 31 December 2015 and 2014:

	As at 31 December 2015				As at 31 December 2014			
EUR 1,000	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Non current financial assets								
Financial assets available for sale – BioMas shares	–	–	–	–	–	–	1,444	1,444
Total	–	–	–	–	–	–	1,444	1,444

The fair values of the BioMAS shares are determined through a market approach measurement that uses prices and other relevant information generated by market transactions involving identical or comparable investments, in particular for the measurement of the fair value the Company has adopted valuation techniques derived from a set of comparable transactions in dermatology area.

The following table provides a reconciliation from the opening balances to the closing balances for fair value measurements categorized in Level 3 in 2015 and in 2014:

EUR 1,000	Non current financial assets
As at 1 January 2014	–
Investment in BioMAS shares	1,444
(Gains)/Losses recognized in Income statement	–
Gains/(Losses) recognized in Other comprehensive income/losses	–
Disposal/Settlements	–
As at 31 December 2014	1,444
(Gains)/Losses recognized in Income statement	–
Gains/(Losses) recognized in Other comprehensive income/losses	–
Disposal/Settlements	(1,444)
As at 31 December 2015	–

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

This table shows the comparison of fair values versus carrying amounts of financial assets and liabilities, as required by IFRS 7.

EUR 1,000	As at 31 December 2015		As at 31 December 2014	
	Carrying amount	Fair value	Carrying amount	Fair value
Other receivables and other assets *	–	–	1,112	1,112
Cash and cash equivalents	48,113	48,113	840	840
Trade payables	(2,635)	(2,635)	(196)	(196)
	45,478	45,478	1,756	1,756
Unrecognised (loss) gain		–		–

* only financial assets

For financial instruments represented by Other receivables and other assets and Trade payables, for which the present value of future cash flows also taking into account the credit risk of the counterparties, does not differ significantly from carrying value, we assume that carrying value is a reasonable approximation of the fair value.

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

20 Subsequent events

No significant events occurred subsequently the year ended 31 December 2015.

Lainate, 23 March 2016

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

Jan E. de Vries
Chairman

Appendix: Transition to International Accounting Standards (IFRS)

Foreword

The Company, starting from this year, also in relation to the historical financial statements 2014, 2013 and 2012 and to the 2015 half year report prepared in accordance with IAS / IFRS solely for the purposes of the inclusion in the Offering Memorandum and for the procedure of admission of its shares on SIX Swiss exchange, has decided to prepare Statutory Financial Statements as at 31 December 2015 for the deposit in Italy in accordance with IAS / IFRS.

Pursuant to IFRS 1, the date of transition to IFRS is 1 January 2014.

This document provides the reconciliations and explanatory notes required by IFRS 1 – *First time adoption of IFRS* – on shareholders' equity and result for the year as prepared in accordance with the former Italian Accounting Standards and in accordance with the new international accounting standards (hereafter "IAS / IFRS standards"):

- at the date of transition (1 January 2014) which represents the start of the period used for comparative with the first year of adoption of IAS / IFRS standards;
- at 31 December 2014 and the result for 2014.

As required by IFRS 1, at the date of transition to the new accounting standards (1 January 2014), a statement of Financial Position was prepared in which:

- all assets and liabilities recorded under the IAS / IFRS standards were shown;
- assets and liabilities were valued as if the IAS / IFRS standards had been applied retrospectively;
- items previously reported using a method different to that required by IFRS were reclassified.

As required by IFRS 1, the effect of the adoption of IAS / IFRS standards on the opening asset and liability balances should be reflected in net equity, by means of specific earnings reserve (First Time Adoption Reserve) with considering the tax effect as it is the period over which deferred tax assets and liabilities will be used cannot be foreseen.

It should be noted that the account schedules and reconciliations were only prepared for the purposes of the first time adoption of IAS / IFRS standards. Therefore, they do not include comparative figures for the corresponding periods in prior year or the explanatory notes that would be required in order to provide a true and fair view of the Statement of Financial Position of Cassiopea S.p.A. and the result for the year in accordance with IFRS adopted by the European Union. The figures recorded in accordance with Italian Accounting Standards have been reclassified so as to show the new financial statements format that the Company has decided to adopt.

Accounting options made upon first time adoption of IAS/IFRS

When the opening Balance Sheet at 1 January 2014 was prepared together with the financial statements at 31 December 2014, it was necessary to choose between the following options as available under IAS / IFRS Standards:

- the disclosure method adopted for the financial statements; the "current/non-current" method was chosen for the Statement of Financial Position while costs were classified by destination for Income Statement purposes; this made it necessary to restate the historic financial statements as prepared in the format required by Legislative Decree 127/1991;
- optional exemptions under IFRS 1 on first time adoption (1 January 2014)

Upon first time adoption, the restatement of the Statement of Financial Position at the date of transition to the new standards required a number of decisions to be made in relation to optional exemptions permitted by IFRS 1. The main options chosen by Cassiopea regarded exclusively the maintenance of historic cost (rather than fair value) as the valuation method applied to intangible and tangible fixed assets after initial recording.

Reconciliations between figures stated in the financial statements prepared under Italian Accounting Standards and those stated in the financial statements as restated in accordance with IFRS adopted by the European Union

Statement of financial position as at 1 January 2014

Effect of transition to IFRS

EUR 1,000	Italian GAAP	Reclassif-ications	Adjust-ments	IFRS
Assets				
Non-current assets				
Other intangible assets	11			11
Total non-current assets	11	–	–	11
Current assets				
Other receivables and other assets	650			650
Cash and cash equivalents	5,917			5,917
Total current assets	6,567	–	–	6,567
Total assets	6,578	–	–	6,578
Equity				
Share (Quota) capital	100			100
Extraordinary reserve	6,302			6,302
Total equity	6,402	–	–	6,402
Liabilities				
Total non-current liabilities	–	–	–	–
Current liabilities				
Trade payables	174			174
Current tax liabilities	2			2
Total current liabilities	176	–	–	176
Total liabilities	176	–	–	176
Total equity and liabilities	6,578	–	–	6,578

As at 1 January 2014, the transition date, no reclassification and adjustments arise from the IFRS Standard first time adoption, on the Statement of Financial Position.

Income statement as at 31 December 2014

Effect of transition to IFRS

EUR 1,000	Italian GAAP	Reclassifications	Adjustments	IFRS
Revenue	–	–	–	–
Cost of sales	–	–	–	–
Research and development costs	(3,858)	–	–	(3,858)
Selling, general and administrative costs	(61)	–	–	(61)
Net operating expenses	(3,919)	–	–	(3,919)
Operating result	(3,919)	–	–	(3,919)
Financial income	48	–	–	48
Financial expenses	(12)	–	–	(12)
Profit (loss) before taxes	(3,883)	–	–	(3,883)
Income tax expenses	1,107	–	–	1,107
Profit (loss) for the year	(2,776)	–	–	(2,776)

Net operating expenses by nature

EUR 1,000	Italian GAAP	Reclassifications	Adjustments	IFRS
Raw materials and consumables used	(63)	–	–	(63)
Outsourced preclinical and clinical trial costs	(2,693)	–	–	(2,693)
Other operating expenses	(1,145)	–	–	(1,145)
Depreciation and amortization	(18)	–	–	(18)
Total net operating expenses	(3,919)	–	–	(3,919)

For the 2014 income statement, no reclassification and adjustments arise from the IFRS Standard first time adoption.

Statement of comprehensive income as at 31 December 2014

Effect of transition to IFRS

EUR 1,000	Italian GAAP	Adjustments	IFRS
Profit (loss) for the year (A)	(2,776)		(2,776)
Total other comprehensive income that will not be reclassified subsequently to profit or loss, net of tax (B1)	–	–	–
Total other comprehensive income that will be reclassified subsequently to profit or loss, net of tax (B2)	–	–	–
Total other comprehensive income, net of tax (B)=(B1+B2)	–	–	–
Total comprehensive income (A)+(B)	(2,776)	–	(2,776)

For the 2014 statement of comprehensive income, no reclassification and adjustments arise from the IFRS Standard first time adoption.

Statement of financial position as at 31 December 2014

Effect of transition to IFRS

EUR 1,000	Italian GAAP	Reclassif-ications	Adjust-ments	IFRS
Assets				
Non-current assets				
Other intangible assets	19			19
Financial assets	1,444			1,444
Total non-current assets	1,463	–	–	1,463
Current assets				
Other receivables and other assets	1,520			1,520
Cash and cash equivalents	840			840
Total current assets	2,360	–	–	2,360
Total assets	3,823	–	–	3,823
Equity				
Share (Quota) capital	100			100
Extraordinary reserve	6,302			6,302
Profit/(Loss) for the year	(2,776)			(2,776)
Total equity	3,626	–	–	3,626
Liabilities				
Total non-current liabilities	–	–	–	–
Current liabilities				
Trade payables	196			196
Current tax liabilities	1			1
Total current liabilities	197	–	–	197
Total liabilities	197	–	–	197
Total equity and liabilities	3,823	–	–	3,823

For the Statement of financial position as at 31 December 2014, no reclassification and adjustments arise from the IFRS Standard first time adoption.

Reconciliations between shareholders' equity and result for the year as per the financial statements prepared in accordance with Italian Accounting Standards and shareholders' equity and result for the year per the figures as restated in accordance with IFRS as adopted by the European Union.

Reconciliation of shareholders' equity as at 1 January 2014

EUR 1,000	
Shareholders' equity per Italian GAAP	6,402
Reclassification	–
IFRS Adjustments	–
Shareholders' equity per Italian GAAP	6,402

Reconciliation of shareholders' equity and income statement for 2014

EUR 1,000	**Shareholders' equity**	**Net loss fo the year**
Italian GAAP Financial Statements	3,626	(2,776)
Reclassification	–	–
IFRS Adjustments	–	–
IFRS Financial Statements	3,626	(2,776)

Auditors' report

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Independent Auditors' Report on the Financial Statements

To the Board of Directors of
Cassiopea S.p.A.

We have audited the accompanying financial statements of Cassiopea S.p.A, which comprise the statement of financial position as at December 2015, income statement and statement of comprehensive income, statement of changes in equity and cash flows statement for the year then ended and a summary of significant accounting policies and other explanatory information included in the Notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with the International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control system relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control system. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of Cassiopea S.p.A. as at December 31, 2015, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) adopted by European Union.

Emphasis of matter

We draw attention to note *Appendix - Transition to International Accounting Standards (IFRS)* to the financial statements, which describes the effects of the transition to IFRS adopted by European Union. The information presented in this note regarding the restatement to the prior year financial statements have been examined by us for the purpose of expressing our opinion on the financial statements as of December 31, 2015.

Milan, 23 February 2016

BDO Italia S.p.A.

Carlo Consonni
Partner

Information for investors

Capital structure

EUR 1,000	31.12.2015
Total equity	47,181
Share capital	10,000
Reserves	43,632
Profit (Loss) for the period	(6,451)
Number of registered shares	10,000,000
Nominal value per share (in EUR)	1.00

Major shareholders	No. of shares	% of share capital
Cosmo Pharmaceuticals S.A.	4,508,987	45.09%
Cosmo Holding Sarl	753,445	7.53%
Herz / Logitable group	409,000	4.09%

Share price data

CHF	Price	Date
First trading day close	37.30	01.07.2015
2015 lowest	29.20	16.11.2015
2015 highest	44.00	06.07.2015
2015 last trading date	32.50	30.12.2015
Market capitalization (in CHF million)	325.00	31.12.2015

Share earnings

EUR	31.12.2015
Basic earnings (loss) per share	(1.113)

Stock exchange information

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

Research coverage

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Credit Suisse	Dr. Thomas Kaufmann	Phone: +41 44 333 05 83
Bank am Bellevue	Dr. Maurizio Bernasconi	Phone: +41 44 267 72 85

Calendar

Key reporting dates

2016 Half Year Report – July 2016

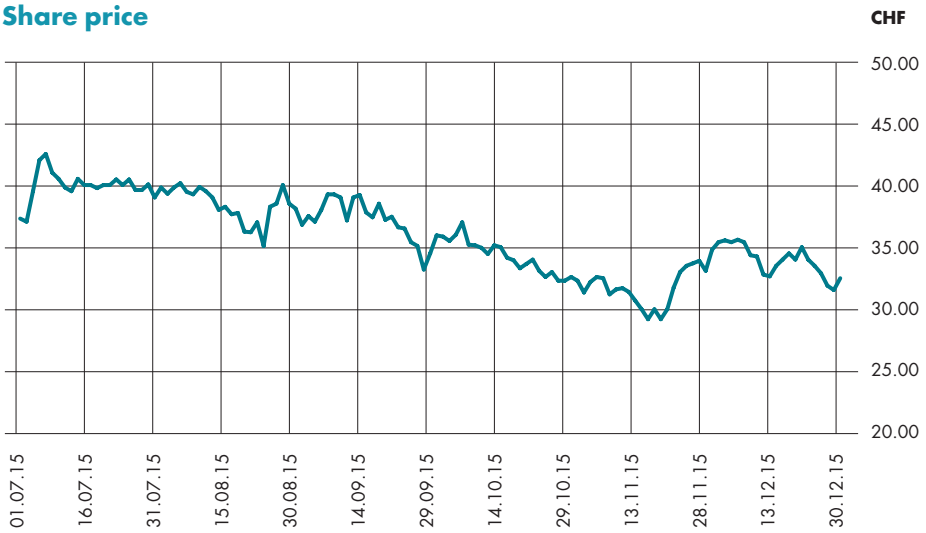
CS one on one

London, 1–2 March, 2016

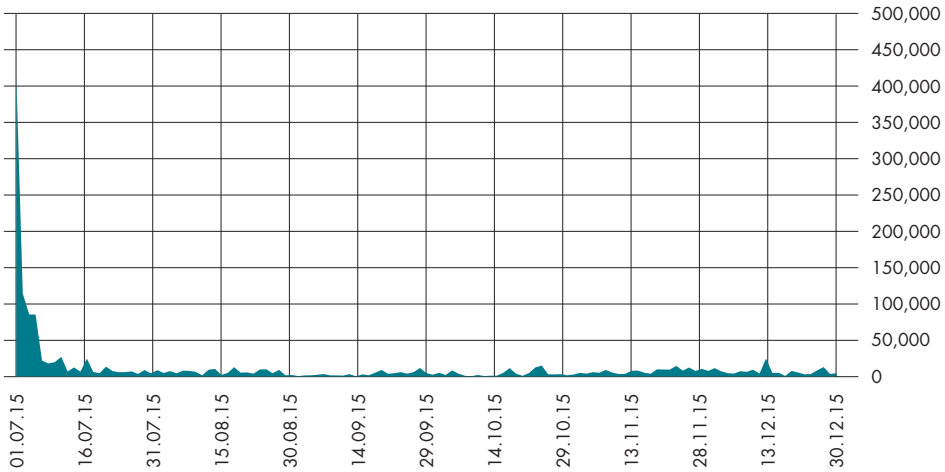
Jefferies' 2016 Global Healthcare Conference

New York, 7–9 June, 2016
London, 18–19 November 2016

Share price



Trading volumes



I wished the ground would open

Suffering hair loss has a huge impact on the emotional wellbeing of people. 68% of men feel very self-conscious, 43% even feel depressed.

Glossary

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

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

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

Acute
Acute often means urgent. An acute disease occurs suddenly.

Alopecia (male-pattern baldness)
Hair follicle disease that involves individuals genetically predisposed.

Androgens
Male sex hormones.

Antibiotic
Drug that kills bacteria or prevents them from multiplying.

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

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

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

Chronic
Lasting a long time.

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

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

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

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

Clinical trial
A meticulously controlled test of a drug candidate on humans.

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

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

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

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

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

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

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

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

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

EMEA
European Medicine Evaluation Agency.

Endogenous
Produced or synthesized within the organism.

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

Epidemiologic
Cause and development characteristics of a disease in populations.

EPO
European Patent Office.

Ethical drugs
Prescription drugs used for treatment of serious diseases.

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

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

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

Generic drugs
Drugs equivalent to brand drugs.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Orphan drug
Drug intended to cure orphan diseases.

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

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

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

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

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

Placebo
Drug with no active ingredients.

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

Prophylaxis
A method to prevent a disease.

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

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

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

Registration
Authorization required to market a drug.

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

Technology platform
Technology applied to various molecules generating certain products.

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

Concerning forward-looking statements

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

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Daniel Ammann

Apprenticeship as a draughtsman | F&F School of Art and Design Zurich, major in photography and painting | freelance photographer in St. Gallen | Several photo essays after trips through Nepal, Armenia, Georgia, South Pacific, Palestine, Chad, Greece, China, Ecuador | designed the stamp 'golden cow' for the Swiss Post 1996 | Fuji Swiss Press Award 1999 | Eastern Switzerland Media Award

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