3. RISK FACTORS AND INTERNAL CONTROL

Under the provisions of article 16 of Regulation(UE) 2017/1129 of the European Parliament and the Council, this section presents the key risks which on the date of this universal registration document could have a material adverse effect on its business, financial status, operating results, or ability to achieve its objectives. However, the occurrence of risks unknown on the date of this universal registration document or not considered likely to have a material adverse effect on the date of this universal registration document cannot be excluded. Each year the Board of Directors reviews the risks to which the Company is exposed and issues an opinion as to their importance.

The key risks to which the Company considers it is exposed are presented according to the following categories, without any order of importance: (i) risks relating to the Company's financial position and capital requirements, (ii) risks relating to the products developed by the Company, regulatory authorizations and sale, (iii) risks relating to a dependence on third parties, (iv) risks relating the Company's intellectual property, (iv) risks relating to the Company's organization, structure and operations, and (vi) risks relating to legal and administrative proceedings.

Within each of these categories, these risks are ranked according to both their adverse effect and probability of occurrence, while taking into account the risk management measures adopted by the Company on the date of this universal registration document. The following table summarizes the key risks identified by the Company and indicates for each, the probability of their occurrence and their adverse effect on the Company on the filing date of this universal registration document. The probability of occurrence is ranked according to three classifications ("low", "moderate" and "high") and the severity of their adverse effect is ranked according to four classifications (low", "moderate", "high" and "critical").

Ref.	Risk factors	Probability	Adverse effect
1.1	**Risks relating to the Company's financial position and capital requirements**		
3.1.1	Risks relating to cash burn which could impede or jeopardize the Company's continuing operations should it be unable to obtain the necessary financing	high	critical
3.1.2	Risks relating to the history of losses or the risk of future losses having affected or which may affect the financial position, cash flow and working capital of the Company and its ability to one day distribute dividends to its shareholders	high	high

Ref.	Risk factors	Probability	Adverse effect
3.1.3	Risks relating to commitments incurred in connection with bond financing obtained from Kreos Capital	moderate	critical
3.1.4	Risks associated with income and exchange rate fluctuations, reliability of investments	moderate	high
3.1.5	Market risks	low	low
3.2	**Risks relating to products developed by the Company, regulatory authorizations and their commercialization**		
3.2.1	Specific risks relating to NCX 470 and NCX 4251 whose development cannot be guaranteed	high	critical
3.2.2	Specific risks relating to NCX 470, NCX 4251 and ZERVIATE development in Chinese region and other ex-EU and ex-US geographies	high	critical
3.2.3	Risks relating to clinical and non-clinical trials affecting mainly NCX 470, NCX 4251 and NCX 4280 which could significantly impact the Company's activity in the event of failure or delays	high	critical
3.2.4	Risks relating to new products whose development or sale could be disrupted impacting mainly VYZULTA and ZERVIATE and which could significantly affect the Company's outlook and financial position	high	critical
3.2.5	Risks relating to competition and rapid technological developments which could render the products developed by the Company obsolete	high	critical
3.2.6	Uncertainty surrounding pricing and reimbursement schemes and reform of health insurance schemes	high	critical

Ref.	Risk factors	Probability	Adverse effect
3.2.7	Risks relating to the market launch of pharmaceutical products	moderate	critical
3.2.8	Risks relating to regulatory constraints which could impact the sale and or profitability of the Company's products, in the event of the refusal of an authorization or significant restrictions	moderate	critical
3.2.9	Specific risks relating to NCX 4280 (previously named AC-120) for which obtaining regulatory approval and the future sale are still uncertain	high	moderate
3.2.10	Specific risks relating to VYZULTA® (latanoprostene bunod ophthalmic solution), 0.024%, commercialized by Bausch + Lomb, whose commercial success depends on a number of factors and remains uncertain	moderate	high
3.2.11	Specific risks relating to ZERVIATE™ (cetirizine ophthalmic solution), 0.24% (previously named AC-170), whose commercial success depends on a number of factors and remains uncertain	high	moderate
3.2.12	Product liability and coverage from insurance policies	high	moderate
3.2.13	Environmental and industrial risks, financial risks linked to the effects of climate change, risks linked to coronavirus	low	critical
3.3	**Risks relating to dependence on third parties**		
3.3.1	Dependence on third parties for carrying out clinical and nonclinical trials	high	critical
3.3.2	Dependence on partners of collaboration agreements and outside consultants to effectively execute plans for development,	high	critical

Ref.	Risk factors	Probability	Adverse effect
	obtain regulatory approvals and the marketing of products.		
3.3.3	Risks associated with manufacturers, the manufacturing costs of products, the price of raw materials and reliance on third party manufacturers	high	critical
3.3.4	Holding in VISUfarma, where the sales made by VISUfarma could affect the valuation of VISUfarma assets held under the terms of agreement with GHO Capital the terms of which	high	high
3.4	**Risks relating to the Company's intellectual property**		
3.4.1	Infringement and potential infringement of patents and by other intellectual property rights covering our products and product candidates	moderate	critical
3.4.2	Scope, validity and enforceability of patents	moderate	critical
3.4.3	Litigation and defense of patent rights	moderate	critical
3.4.4	Possible infringements of third-party patents	moderate	critical
3.4.5	Products not protected by intellectual property rights, trade secrets for which the commercial potential could be affected	moderate	critical
3.4.6	Risk relating to the protection of trademarks the use of which could be subject to disputes	moderate	critical
3.4.7	Employees, consultants and subcontractors	moderate	critical
3.5	**Risks relating to the Company's organization, structure and operations**		
3.5.1	Reliance on qualified personnel	critical	critical

Ref.	Risk factors	Probability	Adverse effect
3.5.2	Risks associated with potential future acquisitions of products or companies and with potential future in-licensing transactions	moderate	moderate
3.6	**Risks relating to legal and administrative proceedings**	moderate	moderate

3.1 Risks relating to the Company's financial position and capital requirements

3.1.1 Risks associated with cash burn

At December 31, 2019, Nicox Group had cash and cash equivalents in the amount of €28.0 million compared to €22.1 million at December 31, 2018.

Based on a specific review of its liquidity risk, Nicox considers that on the date of this universal registration document the Company has sufficient net working capital to meet its cash requirements for the next twelve months and at least until the top line results of the Mont Blanc Phase 3 clinial trial of NCX 470. The Company is not currently financed to advance NCX 4251 or NO-donating phosphodiesterase-5 (PDE5) inhibitors appropriately.

Nicox anticipates significant capital requirements to complete the following projects:

- the development program for NCX 470 (a novel NO-donating bimatoprost analog based on Nicox's proprietary nitric oxide (NO)-donating research platform) for lowering of intra-ocular pressure (IOP) in patients with open angle glaucoma or ocular hypertension;
- the development program for NCX 4251 (a novel patented ophthalmic suspension of fluticasone propionate nanocrystals) for acute exacerbation of blepharitis; and
- the research and development programs focused on NO-donating phosphodiesterase-5 (PDE5) inhibitors;

Developments and the cost of clinical and nonclinical trials, as well as costs relating to research and development programs, filing patents and concluding collaboration or product manufacturing agreements also give rise to significant capital requirements that must be met by Nicox.

To date, limited revenues are generated from royalties derived from the direct sales of products. Nicox expects sales for 2020 will not be sufficient to reach profitability. Furthermore, Nicox cannot guarantee that its choices in terms of cash utilization will prove appropriate. Nicox will need to raise additional funds in amounts that will depend on many factors, including the cost of developing or registering new products and, if appropriate, their commercialization. The Company might therefore have to seek other sources of funding:

- either through capital increases, it being specified that as a result of the volatility of the Nicox share price and constraints imposed in connection with capital increases entailing the cancellation of preferential subscription rights, this source of financing could be considered limited;
- or in the form of a loan;
- or by signing strategic partnership agreements with a view to generating new revenue from patent licenses, or to sharing operating costs with partners.
- or by a combination of these different methods.

Nicox cannot guarantee that its future capital requirements will be met or that additional funding will be available on acceptable terms. Turmoil affecting the stock markets has generally made it more difficult to obtain financing by equity securities and could have a materially adverse effect on Nicox's ability to

obtain sufficient funding. The coronavirus epidemic which is raging on the date of this document, as well as any other comparable health situation can have a strong impact on the financial markets, on Nicox's share price, as well as on the Company's ability to finance itself. This could have a significant negative effect on the Company, its business, financial situation and results, as well as on its development and prospects. If the Group were unable to obtain the necessary funding, it could be forced to delay, reduce or eliminate expenses related to certain projects that are under development, to seek funding through partnerships, to grant licenses for the development or marketing of products that the Group would have preferred to develop or market itself, which would have the effect of reducing the added value that the Group might ultimately draw from these products. Such a situation could even jeopardize the continuation of the Company's activities.

3.1.2 Risk relating to the history of losses or the risk of future losses

To date, the Company has not yet generated significant revenues. The Company has not yet generated profit and has incurred operating losses each year since the commencement of its operations in 1996, and notably net losses for the periods ended December 31, 2018 and December 31, 2019 of (€18.4) million and (€18.9) million respectively.

Almost all the operating losses of the Company resulted from costs incurred in connection with research and development programs and the manufacture of products in preparation for their commercial launch, including activities in clinical and pre-clinical development phases and general and administrative costs linked to the Company's activities.

The payments that Nicox might receive from strategic partners under collaboration agreements might not be sufficient to cover its operating expenses and there is no guarantee, moreover, that the Group will receive additional payments under its collaboration agreements.

Nicox may be expected to continue to incur significant expenses and its operating losses should increase in the near future as a consequence of the significant investments carried out in connection with the development of product candidates and the research programs on NO-donating phosphodiesterase-5 (PDE5) inhibitors.

These operating losses have had and may have a material unfavorable effect on the Company's financial position, cash flows and working capital. For that reason, no assurance can be given that the Company may one day be able to distribute dividends to its shareholders.

3.1.3 Risks relating to commitments incurred in connection with bond financing obtained from Kreos Capital

Nicox has obtained financing of €20 million from Kreos Capital structured as bonds accessible as 3 tranches. The financing was structured into 3 tranches of senior secured bonds, the second tranche being divided into two sub-tranches. The first tranche of €8 million was drawn down on February 1st, 2019, the first sub-tranche of €4 million was paid on November 1st, 2019, the second sub-tranche of €3 million and the last tranche of €5 million were both drawn down on December 12, 2019 and paid on January 2, 2020.

This financing includes standard early repayment clauses. A breach of Nicox's obligations under this contract could constitute a default event under these clauses and in consequence result in its early repayment. There can be no assurance that Nicox will have the resources required for the early repayment of this bond issue.

There can also be no assurance that cash flows generated by Nicox will be sufficient to pay the bonds at their maturity which could have a material adverse effect on its business, with security interests having been granted over certain tangible and intangible assets of Nicox S.A., and notably patents relating to the approved product VYZULTA (with the pledge having no impact on the exclusive worldwide license agreement with Bausch + Lomb), securities of the subsidiary Nicox Ophthalmics Inc. as well as a pledge of bank account balances and all receivables of more than €100,000.

For additional information about the bond financing agreement with Kreos Capital, refer to section 20.2 of this universal registration document.

3.1.4 Risks associated with income and exchange rate fluctuations, reliability of investments

To date the Groups only recurring revenue consists of royalties on VYZULTA sales. The Group considers that there exists an uncertainty about the evolution and stability of this revenue which could potentially impact its sources of funds.

The majority of the Group's expenses are denominated in US dollars. In fiscal year 2019, approximately 47.9% of operating expenses were in US dollars (39.2% in 2018).

Foreign exchange fluctuations in the value of the euro in relation to the US dollar may result in consequence have a material impact on the Group's operating results, notably with respect to the worldwide license for VYZULTA granted to Bausch + Lomb for which the Group may receive milestone payments for an amount, net of amounts payable to PFIZER, of up to US$165 million in addition to up 6% to 12% in net royalties.

The Group does not have significant receivables subject to foreign exchange risks.

The Group also holds US dollar bank accounts that are translated into euros in the consolidated financial statements at the year-end exchange rate. Cash amounted to €3,227,696 at December 31, 2019 (or 11.5% of cash and cash equivalents) and may be materially impacted by the Euro/US Dollar exchange rates. This risk is however mitigated by the fact that cash is exclusively destined to cover the Group's expenses denominated in US dollars resulting from its research and development activities in the United States over the medium term.

3.1.5 Market risks

For additional information, refer to note 26.3 "Market risk" to the consolidated financial statements for the period ended December 31, 2019.

3.2 Risks relating to products developed by the Company, regulatory authorizations and their commercialization

3.2.1 Specific risks relating to NCX 470 and NCX 4251

NCX 470 is a novel NO-donating bimatoprost analog in development for the lowering of IOP in patients with open-angle glaucoma and ocular hypertension. Another Nicox product candidate, which leverages an established molecule, is NCX 4251, a novel patented ophthalmic suspension of fluticasone propionate nanocrystals which is being developed as a targeted topical treatment of the eyelid margin for patients with acute exacerbations of blepharitis.

The Company has completed the NCX 470 Dolomites Phase 2 clinical trial. The first Phase 3 clinical trial (the Mont Blanc trial) necessary for U.S. regulatory approval is expected to be initiated in Q2 2020, following a successful End-of-Phase 2 meeting with the U.S. Food and Drug Administration (FDA).

The Company has also completed a Phase 2 clinical trial of NCX 4251 (the Danube trial). An additional Phase 2b and at least two Phase 3 clinical trials will be necessary before applying for regulatory approval in the United States. The next stage of development planned by the Company for NCX 4251 will be a larger Phase 2b clinical trial subject to the outcome of a meeting with the U.S. FDA scheduled in Q1 2020, and the necessary financial resources being secured.

There is a risk that the results of these trials may not be sufficient to move forward to for these products or that additional trials prove necessary before their development can be moved forward to Phase 3 or in order to file for approval to commercialize NCX 470 or NCX 4251. Trials may be more costly or longer than expected. There is no guarantee that Nicox can file an New Drug Application (NDA) in the United States for NCX 470 or NCX 4251 in the future.

The development of NCX 470 and NCX 4251 could be delayed or fail.

3.2.2 Specific risks relating to NCX 470, NCX 4251 and ZERVIATE development in the Chinese region and other ex-EU and ex-US geographies

The Company has multiple collaborations concerning the development and commercialization of its products and product candidats in countries outside of the U. S. and Europe, and expects to enter into further collaboratons in the future. The regulatory requirements in such countries may be different from those in the U.S. and Europe. If additional clinical or nonclinical studies are required, the Company or its partners may have difficulty finding suitable local contractors.

The development plans for product candidates are currently focused on obtaining regulatory approval in the U.S. initially, followed by Europe. Other countries may require additional clinical or non-clinical data to support regulatory approval, which may delay development and launch in those countries. Generating additional data or incorporating the regulatory requirements of those countries into the Company's development plans may results in delay to, or increase the risk of, the development of such product candidates in those countries.

For products which have been approved in the U.S., the FDA approval may, in some cases, be used as a basis for regulatory approval outside of the U.S. However there is no guarantee that such regulatory approval will be achieved without generation of additional clinical or nonclinical data, or that the product approved in the U.S. can be approved outside of the U.S.

3.2.3 Risks associated with clinical and non-clinical trials

It cannot be guaranteed that the necessary authorizations will be obtained to conduct clinical trials.

There can be no assurance that the authorized trials will be conducted in a timely manner or that they can be conducted without significant additional resources or knowledge. Significant delays in the conduct of clinical and non-clinical trials could generate additional costs in connection with the development of the drug candidates in question. Such delays could also limit the period of exclusivity available to Nicox to commercialize the drug candidates and in that way enable its competitors to commercialize said drug candidates before it.

Pharmaceutical companies or the regulatory authorities may suspend or terminate clinical trials if they consider that the trial patients are exposed to health risks.

The conduct of clinical trials depends on various factors such as indication, size of the affected population, nature of the clinical protocols followed, proximity between patients and clinical trial sites, eligibility criteria for trials, competition from other companies for the enrollment of patients to conduct clinical trials, availability of sufficient amounts of a compound of appropriate quality, ability to enter into agreements with appropriate subcontractors (and the discharge by them of their contractual obligations), and compliance with the regulatory standards.

The product candidates under development may not have the desired effects or may cause adverse reactions that preclude regulatory approval or limit their marketing. It frequently occurs that the favorable results of pre-clinical studies and preliminary clinical trials are not confirmed in subsequent clinical trials.

Clinical trials may produce insufficient data to obtain regulatory approval.

This risk concerns mainly NCX 470, NCX 4251 and NCX 4280 which are currently under clinical development. The risks related to the development of NCX 470 and NCX 4251 may be different ex-US and ex-EU (e.g. Chinese region and other geographies).

While VYZULTA and ZERVIATE have been approved in selected territories, they remain subject to risks relating to clinical development in those territories where a marketing authorization is required which remains contingent on the nature of requirements imposed by regulatory authorities in these territories.

For additional information, refer to Section 3.1 of this universal registration document.

3.2.4 Risks relating to new products

The development or sale of new products generates risks associated with their novelty.

New Molecular Entities (NMEs) are compounds whose chemical and pharmacological profile is unknown at the time of their discovery. The product candidates under development covered by patents filed by Nicox relating to our nitric oxide release technology are NMEs. Each NME must be subjected to studies or extensive testing so that its chemical and pharmacological properties can be studied and investigated

in detail. The outcome of these studies can entail a degree of uncertainty. Consequently, there can be no assurance that these compounds will demonstrate the same chemical and pharmacological properties in patients as those observed in the preliminary laboratory studies, nor that these compounds will not interact unpredictably and toxically with human biological functions. NCX 470 is a product candidate containing an NME.

When a molecule achievs first regulatory approval, it may be considered a New Chemical Entity (NCE). This classification allows for certain additional periods of marketing or patent exclusivity. We believe NCX 470 is a product candidate containing an NCE, however the classification is made upon regulatory approval and there is no guarantee that such NCE status will be granted.

As new compounds, given that the uncertainties of their development, manufacture and properties are not known at the time of their design, difficulties may arise which might cause the company to terminate their development or their sale, thereby potentially affecting the company's prospects or financial position.

Certain product candidates under development by Nicox include molecules that have already been approved. If the development data relating to the previous development of these molecules is available, Nicox may use it, but there is a risk that a molecule used in another formulation or for another indication will present different side effects. Additional safety studies and/or efficacy studies on the new indication or formulation may be required. NCX 4251 and NCX 470 are product candidates containing molecules which have already been approved.

3.2.5 Risks relating to competition and rapid technological developments

The markets in which Nicox operates are highly competitive and rapidly changing. The company competes with larger companies with development programs that target the same indications, and with greater experience in the development and marketing of products. In addition, these companies have far greater financial and human resources than the company. As a result, the company cannot guarantee that its products:

- Will be able to obtain the required regulatory approval or be brought to market more quickly than those of its competitors;
- Will be able to compete with safer, more effective or less expensive existing or future products;
- will adapt quickly enough to new technologies and scientific progress; and
- Will be accepted and selected by medical centers, physicians or patients to replace existing products.

New developments are expected both in the healthcare industry and in public and private research facilities. In addition to the development of safer, more effective and less costly products than those developed or marketed by Nicox, its competitors may manufacture and market products under better conditions. Furthermore, competitors' rapid technology developments may render products of the

Company obsolete before Nicox is able make the costs of research, development, acquisitions/licenses and marketing incurred profitable.

3.2.6 Uncertainty surrounding pricing and reimbursement schemes and reform of health insurance schemes

The ability of Nicox and its partners to secure commercially viable prices for its products that may potentially be marketed in the future depends on several factors, including the profile of its product compared to that of its competitors' products, the price of competing products, the existence of generic products and the targeted geographic area. The company cannot guarantee that its products will secure pricing agreements for cost-effective marketing within the broader context, where pressure on pricing and reimbursement intensifies (greater control over prices, increased delisting, trend towards the promotion of generics).

In fact, the commercial success of the Group's products depends in part on the agreement of the regulatory authorities responsible for health insurance, private insurance companies and other similar organizations in terms of product prices and reimbursement rates. Governments and third-party payers seek to control public health expenditure by limiting the reimbursement of new products. The Group cannot guarantee that it, its partners or its distributors will obtain a high enough reimbursement rate or price for the Company's products and the commercial profitability of these products in the market may consequently be affected.

In addition, pricing and prescribing freedom in some European and other markets are governed and limited by the public authorities. The introduction of more stringent controls on pharmaceutical pricing can have a negative impact on the company's activities, either directly on the products it intends to sell or indirectly on the amount of income that the company can earn through its partnerships and licensing agreements.

3.2.7 Risks relating to the market launch of pharmaceutical products

The market launch of pharmaceutical products of the Company is subject to the following risks:

- Regulatory approvals may not be granted in time to secure a commercial return;
- The products may be difficult to produce on an industrial scale or their production on an industrial scale may prove too expensive;
- The products may not be profitable because of their cost of production, distribution and/or sale price as imposed by the relevant regulatory authorities;
- The products may not qualify for reimbursement arrangements in some countries, thereby jeopardizing their commercial potential in certain jurisdictions;
- It may be difficult to achieve acceptable quality standards;
- The company may not find a trading partner for the marketing of its products;

- The products may not be marketable on account of rights held by third parties;
- Third parties may market similar products that offer a higher benefit-risk ratio or a more competitive price; and
- A secondary effect or a manufacturing quality problem may arise at any time for a marketed product, which could lead to the restriction or withdrawal of regulatory authorizations for this product.

A pharmaceutical product can only be introduced on the market only after it has successfully completed all phases of development provided for by regulations in force in the territory in question. This risk concerns, in the short term, VYZULTA and ZERVIATE. Specifically, VYZULTA is currently being commercialized by partner Bausch+ Lomb in the United States and Canada, and has been approved in Mexico, Hong Kong and Argentina. However, no assurance can be given that the product will be marketed in other territories. While ZERVIATE has been approved in the United States and is scheduled by partner Eyevance Pharmaceuticals to be launched in H1 2020, no assurance at the present time can be given that in the future this product will be marketed in this territory, which could prove to be a commercial failure. It is possible that ZERVIATE might never be marketed in other territories. With respect to the other drug candidates, the risk associated with marketing will persist until a future date in light of their current stage of development.

Each of the risks outlined above is likely to seriously affect the financial position of the company and its prospects.

3.2.8 Risks relating to regulatory constraints

The regulatory process may give rise to delays or rejections. The U.S. ,European, Chinese and other regulatory authorities tend to impose ever more cumbersome requirements, particularly regarding the volume of data required to demonstrate safety and efficacy.

Pharmaceutical products cannot be marketed in a given jurisdiction until they have been approved by the relevant regulatory authority, and all pharmaceutical developments require non-clinical and clinical trials to demonstrate the safety and efficacy of the compound under evaluation. The unfavorable outcome of clinical trials or applications for regulatory approval of the therapeutic products developed by the Group is likely to have a material adverse effect on its business.

The achievement of primary endpoints of clinical trials, even with statistically significant results, does not guarantee that the drug-candidate will then be approved by the regulatory authorities. Those authorities may argue that the comparator was inadequate, that the number of patients involved was insufficient or that the results, although statistically significant, are not clinically significant.

Even after they have been approved, drugs and their manufacturers are subject to continuous and permanent review and the uncovering of problems or the inability to comply with the manufacturing and quality control requirements may lead to restrictions in the distribution, sale or use of these products and even to their withdrawal from the market.

The regulatory authorities have the authority, when approving a product, to impose significant limitations on the product in the form of warnings, precautions and contraindications, or restrictions on the indicated use, conditions for use, labeling, advertising, promotion, marketing, distribution and/or production of the product that could negatively affect its profitability.

The French National Agency of Medicine and Health Products Safety (ANSM), the EMA, the U.S. FDA and similar regulatory bodies may also implement new standards, or change their interpretation and enforcement of existing standards and requirements, for the manufacture, packaging or testing of products at any time. A company that is unable to comply could be subject to regulatory or civil proceedings or be ordered to pay fines.

New regulations may be enacted. Given the disparity of the regulations and procedures, which vary from one country to another, obtaining authorization in each country within a reasonable time frame cannot be guaranteed.

As part of its research and development work Nicox is, or may be, subject to regulations concerning safety standards, good laboratory practice (GLP), good clinical practice (GCP), good manufacturing practice (GMP), the experimental use of animals, the use and destruction of hazardous substances, in addition to regulations and market surveillance good practice (including medical device vigilance and pharmacovigilance) where the products are marketed. In the event of non-compliance with the applicable regulations, the company may be subject to penalties which may take the form of temporary or permanent suspension of operations, withdrawal of the product, restrictions on the marketing of the product and civil and criminal penalties.

3.2.9 Specific risks related to NCX 4280 (previously AC-120)

In January 2016, Nicox out-licensed to Ora, Inc. ("Ora") the exclusive worldwide rights for NCX 4280, an ophthalmic solution that targets eyelid swelling or morning ocular congestion. Eyelid swelling or morning ocular congestion is a common condition of the aging population and a pathology with various underlying causes. The regulatory approval and commercial success of NCX 4280, as an over-the-counter (OTC) product cannot be guaranteed and is dependent on Ora and, as the case may be, a potential sub-licensee of Ora. Nicox may never receive additional payments under this license.

Under the terms of the license agreement, Ora will be responsible for all development activities. Ora plans to sub-license this component to a third-party for future commercialization. Nicox is also eligible to receive a percentage of any proceeds received by Ora under any potential sub-license agreement. However, there is no assurance that Ora will be able to successfully complete the development of NCX 4280 or identify a third party for future commercialization. Furthermore, there is no assurance that NCX 4280 will be approved by the U.S. FDA nor, if approved, that the product will become commercially successful.

3.2.10 Specific risks related to VYZULTA® (latanoprostene bunod ophthalmic solution), 0.024% commercialized by Bausch + Lomb

VYZULTA® is a prostaglandin analog with one of its metabolites being NO. VYZULTA is developed for the reduction of intra-ocular pressure (IOP) in patients with open angle glaucoma or ocular hypertension. The marketing authorization application for VYZULTA, submitted by its exclusive licensee, Bausch + Lomb (a company of Bausch Health Companies, Inc.) was approved by the U.S. FDA in November 2017 and VYZULTA has been marketed in the United States by the licensee since December 2017. VYZULTA is also approved and commercialized in Canada and has been approved in Mexico, Hong Kong and Argentina.

The Company has identified the main risks related to VYZULTA below. Moreover, it should be noted that all of the "Risks related to Nicox's strategy and business: the research, development and marketing of ophthalmic products" apply to VYZULTA

Outside the United States, Canada, Mexico, Hong Kong and Argentina, it is still necessary to obtain regulatory approvals before launching VYZULTA drug on the market. There is no guarantee that Bausch + Lomb will file an application for countries other than the United States, Canada, Mexico, Hong Kong and Argentina or that if such applications are filed, that they will be successful.

As for marketing authorizations in Europe, a marketing authorization application (MAA) must be filed with the EMA (European Medicines Agency) or – in accordance with the decentralized procedure – with the national regulatory authorities of the European countries covered, which would conduct a validation process and scientific approval to evaluate the safety and efficacy of the drug.

The requirements of the EMA or national regulatory authorities may differ significantly from those of the U.S. FDA and these authorities may request the conduct of different pre-clinical and clinical studies.

If VYZULTA has limited or no commercial potential, the Group's activities could be harmed

Nicox is contractually entitled to receive from Bausch + Lomb net royalties on sales of 6 % to 12 % after deduction of payments owed to Pfizer (see Section 5.2.1 for additional information concerning these payments). Royalties received by Nicox depend on sales generated by Bausch + Lomb, which depend on the commercial success of VYZULTA in the United States, Canada, Mexico, Hong Kong and Argentina and any other territories where it may be commercialized. Nicox cannot guarantee such commercial success. Figures for actual sales may be impacted by the following factors:

- The potential commercial success of VYZULTA depends on several factors (none of these factors can be guaranteed by the Group), including:
    - Bausch + Lomb's success in obtaining a satisfactory product reimbursement level and sale price after, as applicable, discounts, allowing for viable business development;
    - The maintenance and development of commercial production capabilities at Bausch + Lomb that provide for flexible conditions to ensure enough orders are processed;
    - VYZULTA's acceptance by the medical community, and, more generally, the success of its launch, commercial sales and distribution.

- Bausch + Lomb's ability to manufacture VYZULTA in accordance with applicable regulatory requirements; and

- Bausch + Lomb's ability to obtain marketing approvals in other countries for VYZULTA and its wish to apply for such authorizations.

- In addition, restrictions on the use, promotion or sale of VYZULTA or other post-approval restrictions could limit the market potential and reduce the sales volume of the product and its profitability;

Bausch + Lomb has focused its efforts on the United States and countries which accept U.S. FDA approval or reference to existing studies in support of marketing applications in local countries. To our knowledge, marketing applications have not been filed in Europe or Japan and we are not aware of any such plans. In addition, no assurances can be given that such marketing authorizations would be approved. The absence of a marketing authorization for VYZULTA outside the United States, Canada, Mexico, Hong Kong and Argentina could limit the commercial success of this product and have a significant effect on the Company's financial position and delay achieving its objectives.

3.2.11 Specific risks related to ZERVIATE™ (cetirizine ophthalmic solution), 0,24% (previously named AC-170)

ZERVIATE™ is an innovative and patented cetirizine-based eye-drop developed to treat ocular itching (itchy eyes) associated with allergic conjunctivitis. In May 2017, the NDA (New Drug Application) for ZERVIATE for the United States was approved by the U.S. FDA.

The Company has identified the main specific risks associated with ZERVIATE and has listed them below.

If ZERVIATE has limited or no commercial potential, the Group's activities could be harmed

In September 2017, Nicox entered into an exclusive license agreement with Eyevance Pharmaceuticals LLC for the commercialization of ZERVIATE in the United States. All manufacturing and regulatory responsibilities, together with decisions on launch timing, lie with Eyevance. Eyevance informed Nicox that the launch of ZERVIATE is currently planned for H1 2020 instead of the summer of 2019. Eyevance intends to launch ZERVIATE in the U.S. initially in a unit-dose presentation and expects a multi-dose presentation to be launched in 2021. Many countries outside of the U.S. and other major markets base their regulatory approval on FDA approvals. Consequently, the development programs outside of the U.S. may be negatively impacted by the delayed availability of the multidose trade unit product presentation and their development risks may increase.

In March 2019, the Company entered into an exclusive license agreement with Ocumension Therapeutics for the development and commercialization of ZERVIATE for a territory comprising mainland China, Hong Kong, Macau and Taiwan or the Chinese market The Ocumension ZERVIATE development program is likely to increase in risk due to the lack of availability of the multidose trade unit product presentation.

In December 2019, the Company entered into an exclusive license agreement with Samil Pharmaceutical for the development and commercialization of ZERVIATE in South Korea.

No guarantee exists that the Company or its partners will obtain regulatory authorizations to sell ZERVIATE outside the United States.

The Company cannot guarantee such commercial success.

- Regulatory authorities might impose restrictions on the use or sale of ZERVIATE. These restrictions could limit the potential market, delay the launch and/or reduce the level of sales and profitability of the product.

- The commercial success of ZERVIATE will depend on several factors (none of which can be guaranteed by the Group), including:

    - Availability of the product within the timeframe and in insufficient quantities to support the commercial launch;

    - Eyevance's success in obtaining a satisfactory reimbursement level and sale price after, as applicable, discounts, allowing for viable business development;

    - The maintenance and development of commercial production capacities that provide for flexible conditions to ensure enough orders are processed;

    - The Company's ability to include new partnerships to develop and market ZERVIATE in other countries;

    - The ability of our partners to obtain regulatory authorizations in other countries; and

    - The acceptance of ZERVIATE by the medical community, and, more generally, the success of the launch, commercial sales and distribution.

3.2.12 Product liability and coverage from insurance policies

The use of product candidates under development in clinical trials and the possible sale of drugs may expose the company to liability suits. In the United States, the approval of a product by the U.S. FDA may only offer limited or indeed no protection against liability claims based on federal state law (federal preemption cannot be invoked), and the obligations imposed on the company may vary from one federal state to another. If the company cannot successfully defend against liability suits, including liability in connection with clinical trials of its product candidates under development or with future commercial sales of its therapeutic products under development, it could incur heavy liability with potentially adverse consequences for the company.

The insurance policies obtained by the Company might not adequately cover the risks of its existing activities.

Whatever the grounds or eventual outcome of any liability suits, they could result in a fall in demand for a product, a reputation loss for the company, the withdrawal of volunteers from clinical trials, the withdrawal of a product from the market and/or loss of revenue.

3.2.13 Environmental and industrial risks, financial risks linked to the effects of climate change, risks linked to coronavirus

Nicox's research and development activities involve the storage, use and disposal of hazardous radioactive and biological products (see Section 5.6.3 of the 2019 Universal Registration Document). Since 2012, these activities have been outsourced. Although these activities are monitored and involve only small amounts of hazardous materials, they pose a risk of contamination to the environment. Even though the Group believes that its activities and procedures comply with standards laid down by applicable laws and regulations, the risk of accidental contamination or injury due to the storage, use and disposal of these hazardous materials cannot be completely eliminated. Nicox could therefore be held liable for amounts over and above the limits of its insurance policy (see Section 3.7.1 of this universal registration document). The occurrence of such a risk could have a significant negative impact on the Group's financial position.

The Company has not identified any specific risk, in particular financial, linked to the effects of climate change and has therefore not taken any action in this regard, which does not mean that this risk does not exist.

There is a risk that the coronavirus epidemic which rages on the date of this document disrupts the activities of the Company, its partners and / or subcontractors and therefore has consequences for the development of its drug candidates and its financing needs.

3.3 Risks relating to dependence on third parties

3.3.1 Dependence on third parties for carrying out clinical and nonclinical trials

The Company has recourse to subcontractors, and in particular medical institutions, clinical researchers, clinical research organizations to conduct its clinical and non-clinical trials. The Company is able to exercise full control over the activity of its subcontractors.

Should its subcontractors fail to respect the terms of their engagement or not succeed in meeting the deadlines provided for within the framework of the trials to be conducted, the Company might be required to delay the development and sale of certain drug candidates.

In the event of default by subcontractors responsible for conducting clinical and non-clinical trials, no assurance can be given that the Company will find an alternative solution with other parties which offer acceptable commercial conditions.

In consequence, the occurrence of one or more of these risks could have a material adverse effect on the Group's business, financial position and prospects.

3.3.2 Dependence on partners of collaboration agreements and on outside consultants

To maximize its chances of success to launch its products on the market, it could be preferable for Nicox to enter into collaboration agreements with third party companies, and notably Bausch + Lomb for VYZULTA, Eyevance Pharmaceuticals for ZERVIATE, Samil Pharmaceutical for ZERVIATE, Ocumension Therapeutics for ZERVIATE, NCX 4251, NCX 470 and Ora, Inc. for NCX 4280. The company cannot guarantee that it will be able to maintain the collaboration agreements in force, enter into new agreements in future on acceptable terms, or that these agreements will produce the desired results.

When the company enters into a collaboration agreement, it runs the risk that its partner may unilaterally and arbitrarily terminate the agreement or decide not to market the product. If current partners decided to terminate the agreements in place, or the development of selected compounds, the company would then have to pursue the development of these products itself, seek new partners or cease their development. Such a situation could increase the company's costs and/or adversely affect its business. The termination or non-renewal of a collaboration agreement could also adversely affect the company's image and share price.

Conflicts could arise with the company's partners. In addition, the company's partners could seek to compete with it. The existence of non-competition clauses in the company's collaboration agreements may not provide adequate protection.

Nicox also relies on outside consultants and subcontractors (such as academic researchers, medical specialists, and clinical and pre-clinical research organizations) to develop its products. Agreements between the company and such consultants and subcontractors may include limitation of liability clauses in favor of the other contracting party, in which case the company may not be able to secure full compensation for any losses incurred if the other contracting party fails to perform. Competition for access to these consultants is high, and the company cannot guarantee that it will be able to maintain its existing relationships on commercially acceptable terms. In general, contracting parties may terminate the contract at any time.

The Company depends on the successful execution by its partner licensees of the development plans, regulatory submissions and for obtaining regulatory and marketing approvals for the products. In consequence, the occurrence of one or more of these risks could have a material adverse effect on the Group's business, financial position and prospects.

3.3.3 Risks associated with manufacturers, the manufacturing costs of products, the price of raw materials and reliance on third party manufacturers

Because Nicox's products and drug candidates are manufactured by third parties, it has limited control over manufacturing activities. Nicox has neither the infrastructure nor the experience required to manufacture pharmaceutical products. Nicox's dependency vis-à-vis third parties and its lack of experience in commercial-scale production increases the risk of difficulties or delays since its drug candidates are manufactured by third-party manufacturers, for clinical and non-clinical trials, but also for sale after the products have been approved. Unforeseen manufacturing problems could cause delays in commercial sourcing.

The manufacture of VYZULTA is the responsibility of Bausch + Lomb worldwide.

The manufacture of ZERVIATE for the U.S. is the responsibility of Eyevance. However, in countries whose regulatory approval depends, or will depend, on the U.S. FDA approval of ZERVIATE, any changes in the approval and status of manufacturing may negatively impact Nicox's development partners and programs in such country. In some cases, a different manufacturer or product presentation may also be required by Nicox's partners. In such case, transfer of manufacturing may result in delays to regulatory approval.

Any decision by the manufacturers to alter the price of the products could negatively affect the margin received by Nicox. Nicox might be obliged to delay the development or marketing of its products under development if their manufacture is disrupted or stopped.

The manufacture of medicines must comply with the applicable regulations and with good manufacturing practices, which is a complex, time-consuming and expensive process. Manufacturers may be subject to inspections prior to approval by regulatory authorities before obtaining marketing authorizations. Even after product approval, the facilities of manufacturers with whom the Company is associated are subject to periodic inspections by regulatory authorities or administrative authorizations that may be suspended. Nicox cannot guarantee that such inspections would not give rise to compliance issues that may prevent or delay marketing authorization, adversely impact the Group's ability to retain approval of the product or its distribution, or oblige the Group to use additional resources, financial or otherwise. Business would be negatively affected should its manufacturers fail to comply with the applicable regulations and recommendations.

A higher than anticipated cost of manufacturing the products or a significant rise in the cost of the raw materials needed for their manufacture could affect the commercial prospects of these products or the Group's margin. In these circumstances, the Group may have to halt the development or sale of these products, thereby potentially affecting the Group's financial position or prospects.

In addition, the Group's ability to develop and deliver products in a timely and competitive manner could be significantly affected if, for example, the Group is unable to maintain relations with manufacturers possessing the requisite facilities and expertise, if contract disputes arise, or if other events hinder production.

3.3.4 Holding in VISUfarma, where the sales made by VISUfarma could affect the valuation of VISUfarma assets held under the terms of agreement with GHO Capital the terms of which

On August 9, 2016, Nicox completed the transfer of its European and international commercial operations to the newly founded pan-European ophthalmic specialty pharmaceutical company called VISUfarma created by GHO Capital. The Company has identified the following main specific risks associated with this transaction.

Should VISUfarma be sold by the majority shareholder, Nicox would be required to accept the conditions of this transaction. The price paid by the acquirer might in such case not be sufficient to cover the repayment of loans in the form of bonds held by Nicox.

The valuation of VISUfarma assets in our consolidated balance sheet could be impacted in the future by our assessment of the probability of an event of default or a change in the evaluation of the credit risk.

The failure or poor performance of VISUfarma would negatively affect the value of the VISUfarma ordinary shares and payment in kind loan notes received by Nicox as consideration and, in addition, Nicox might never receive additional performance-based consideration.

Pursuant to the GHO Capital transaction, as amended, Nicox received €9 million in cash and a combination of ordinary shares of the new company and interest-bearing payment in kind loan notes valued at an aggregate of €13.65 million. Nicox may be entitled to receive up to €3.35 million in additional payment-in-kind loan notes on the achievement by VISUfarma or any of its subsidiaries of defined business and commercial milestones that are not guaranteed. The value of VISUfarma, and by extension the value of the ordinary shares and payment-in-kind loan notes received by Nicox, are subject to the risks inherent to a company engaged in the sale of pharmaceutical products and there is no guarantee that VISUfarma will be successful or that Nicox will be able receive the full value, or any payment, in consideration for the ordinary shares or payment in kind loan notes, which could have an adverse effect on Nicox's business, financial condition and prospects (See Note 5.2 "Risk of expected credit loss on the loan to VISUfarma" to the interim financial statements for the period ended December 31, 2019 for additional information).

3.4 Risks relating to the Company's intellectual property

3.4.1 Infringement and potential infringement of patents and by other intellectual property rights covering our products and product candidates

The Company, by the nature of its activity, is highly dependent on the protection of its intellectual property.

As far as patent-protected products are concerned, if the patent or patents relating to a product developed, in-licensed or acquired by the company were invalidated or declared unenforceable, the development and marketing of such compound or product would be directly affected or interrupted. The company may, for budgetary or other reasons, not be able to retain its patent portfolio in full, given the high cost of annuities and of potential lawsuits.

Nicox cannot therefore guarantee that:

- It will develop new patentable inventions, or that its patents will allow it to develop commercially profitable products;
- The filed patent applications will be granted;

- If these patents are granted, they will not be challenged, invalidated or declared unenforceable;
- that third parties will not develop products that are not in the scope of protection of its patents; or
- The products that it develops or might in-license or acquire will not infringe, or will not be alleged to infringe, patents or other intellectual property rights owned by third parties.

3.4.2 Scope, validity and enforceability of patents

The grant of a patent does not guarantee its validity or its enforceability and may not provide exclusive protection or competitive advantages against competitors with similar products.

To ensure the longest possible exclusivity, the company intends to seek an extension of certain of its patents for a period of up to 5 years. Nevertheless, it cannot guarantee that such extensions will be obtained and failure to obtain these extensions is likely to harm the products concerned. The portfolio of patents and patent applications of the Company covers a number of products. The failure to obtain an extension for patents could have a significant impact for the sale of products concerned and expose the Company to increased competition, which would have consequences on the Company's financial position and prospects.

In particular, the expiration of patents protecting VYZULTA (protection in the United States until 2025, which may be subject to extension to 2030), ZERVIATE (protection aux in the United States until 2030 and 2032), NCX 470 (protection in the United States until 2029 and for the formulation patent until 2039), and NCX 4251 (protection in the United States by a parent patent expiring in 2033) could have a material adverse effect on the Company's business and financial position (for additional information, refer to Sections 5 and 7 of this universal registration document).

3.4.3 Litigation and defense of patent rights

Competitors can or could infringe the patents of products developed or marketed by Nicox or attempt to circumvent them. The company may have to resort to legal action to enforce its rights, to protect its trade secrets or to determine the scope and validity of others' proprietary rights. Furthermore, the ability of the Group to assert its rights under patents depends on its ability to detect infringements. It is difficult to detect infringers who do not advertise the compounds used in their products.

The protection conferred by a patent in practice varies by product and by country, and depends on many factors such as the nature of the patent, the scope of its protection, the possibility of regulatory extensions, the existence of legal remedies in a given country, and the validity and enforceability of the patents. The laws governing patents are constantly changing and vary from one country to another, with potential for rendering protection uncertain. The Company's patent portfolio includes patents issued in various foreign countries which are on that basis at particular risk.

Any litigation to assert or defend the Group's rights under patents, even if the rights of the Company should prevail, may prove costly in resources and time, and would divert the attention of management

teams and key employees from carrying out Company business, which could have a material adverse effect on the Company's operations.

3.4.4 Possible infringements of third-party patents

Products developed or in-licensed by the company must not infringe the exclusive rights belonging to third parties. Third parties may also allege infringement by Nicox of their patents or of other intellectual property rights (see Section 3.6 "Risks relating to legal and administrative proceedings"). If a legal action is brought against the company on such grounds, there can be no assurance that the company will win the case. Moreover, even if Nicox conducted prior art searches to determine whether its rights infringe the rights held by third parties, it cannot be certain that all relevant rights have been identified because of the uncertainty inherent in this type of search. Such disputes could divert the attention of management teams and key personnel from their task of managing the Company's operations which could have a material adverse effect on the Company's business.

Any claim of patent infringement whose outcome is unfavorable to Nicox could require it to pay significant damages as well as royalties. As a result of claims by third parties, the company may be forced to change or rename its products to avoid infringement of the intellectual property rights of third parties, which could prove either impossible or costly in resources and time. In these circumstances, the Group may have to halt the development and/or sale of these products which may have adverse effects on the Company's financial condition and prospects.

3.4.5 Products not protected by intellectual property rights; trade secrets;

The Company may be required in connection with its activities to license or sell therapeutics that are not protected, in all or part of the territories concerned, by intellectual property rights. In this case, it is likely that other market participants will market similar or identical products on the same markets, which may seriously affect the commercial prospects of such products as a result of this increased competition, or indeed the financial condition of the Company.

The development new therapies by the Company depends in part on protecting trade secrets in order to preserve the confidentiality of technologies and processes used. Where there exists non-public know-how or other trade secrets concerning a product (whether or not the product is patent-protected), the company cannot be certain that confidentiality will be ensured and that such know-how or trade secrets will not be disclosed. If disclosed, the products covered by such trade secrets could see their commercial potential diminished.

3.4.6 Risks relating to the protection of trademarks

Nicox is exposed to certain risks related to trademarks. Nicox has submitted applications in numerous countries in order to register several trademarks, particularly for its products. These trademark applications may not result in registration or may be canceled following their registration on the grounds of non-use, revocation or infringement. The company may be denied use of the brand name. Some trademark applications filed by the company may be subject to opposition proceedings. There is no guarantee that the company will be able to resolve these trademark-related disputes and similar disputes

in the future. Also, trademarks intended to designate products may be rejected by the relevant regulatory authorities.

3.4.7 Employees, consultants and subcontractors

The company cannot guarantee that the confidentiality agreements signed with its employees, consultants and subcontractors will be respected, that it will have adequate remedies for disclosure of confidential information, or that sensitive data will not be brought to the knowledge of third parties in another manner or independently developed by competitors.

Nicox regularly enters into agreements with researchers working in academia or with other public or private entities and, in such cases, the company has entered into intellectual property agreements with these entities. However, the company cannot guarantee that these entities will not claim intellectual property rights over the results of work conducted by their researchers, or that they will grant licenses for such rights to the company on acceptable terms. This would have a significant adverse impact on the company's business and financial condition.

3.5 Risks relating to the Company's organization, structure and operations

3.5.1 Reliance on qualified personnel

The company's activities rely on a number of key managers and scientists, including particularly members of the Executive Committee. Competition for the recruitment of managers and qualified personnel is fierce in the Group's area of activity. The Group's strategy for development and expansion requires the continuing expansion of teams by recruiting qualified personnel. The Group cannot guarantee that it will be able to retain the human resources currently available to it or that it will be able to recruit any new resources it might require. The departure of key managers or scientists could delay the achievement of objectives in terms of research and development and the commercialization of products, which would significantly impact the Group's business and prospects.

In addition, the Group's limited workforce does not allow for replacements in the case of the absence of an employee so that the prolonged leave of an employee can significantly disrupt operations.

3.5.2 Risks associated with potential future acquisitions of products or companies and with potential future in-licensing transactions

In response to competition and the increasing concentration of resources in the pharmaceutical industry, the Group has carried out and will continue to carry out acquisitions. In addition to the portfolio of assets developed in-house, the Group could acquire rights to product candidates through in-licensing transactions, at different stages of advancement. The Group might however be unable to identify appropriate acquisition targets or conduct acquisitions under acceptable terms or could even find itself unable to complete the integration of these acquisitions, which would be likely to disrupt Group operations and have a negative impact on its activities and its results.

Nicox might continue to seek acquisitions with the aim of optimizing its business model, developing its customer base, accessing new markets and achieving economies of scale. Acquisitions entail certain

known and unknown risks that could mean that the Group's growth and actual operating results differ from its forecasts. Thus, the Group:

- might not manage to identify suitable acquisition targets under acceptable terms;
- might seek acquisitions in foreign countries, which represents greater risks than those inherent to domestic acquisitions;
- might find itself in competition with other companies for acquiring complementary products and activities, which could be reflected by lesser availability or an increase in the acquisition costs of intended targets;
- might not achieve the necessary financing under favorable terms, or not achieve any financing at all, for all or some of the potential acquisitions; or
- the products or activities acquired might not generate results in line with the Group's forecasts, which would then risk not achieving the anticipated revenue and returns.

Furthermore, such an acquisition strategy could divert Management's attention from its existing activities, resulting in a loss of key employees. This strategy could also expose the management to unexpected problems or liabilities, such as successor liability for contingent or undisclosed liabilities related to the activities or assets acquired.

If the Group fails to conduct effective prior assessment of these potential targets (due diligence), it risks, for example, to not identify the problems of target companies or not identify incompatibilities or other obstacles to successful integration. Its inability to integrate future acquisitions satisfactorily could prevent it from receiving all the benefits of these acquisitions and considerably weaken its operational activities. The process of integration may also disrupt its activity and, if new products or activities are not implemented effectively, prevent the Group from fully achieving the expected returns and prejudice its operating results. Furthermore, the total integration of new products or new activities may cause unexpected problems, expenses, liabilities and reactions from the competition. Difficulties related to the integration of an acquisition include the following:

- difficulties in integrating products or activities of the target company with those of the Group;
- incompatibility between marketing and employee management techniques;
- maintaining staff motivation and retaining key employees;
- integrating the cultures of both companies;
- maintaining important strategic customer relationships;
- consolidating corporate and administrative infrastructures and eliminating duplications; and
- coordinating and integrating geographically separate organizations.

Moreover, even if the integration of an acquisition's operations is successful, the Group may not receive all the anticipated benefits, including in terms of the synergies, cost savings and growth opportunities expected. These benefits might not be obtained within the planned deadlines, or even never be obtained, which would have a material adverse effect on the Company's business, financial position, results of operations and prospects.

Furthermore, as a result of acquisitions, the Group may find itself forced to:

- use a substantial portion of its cash resources;
- increase its expenses and its debt level if the Group has to make additional borrowings to finance an acquisition;
- take on liabilities for which the Group is not indemnified by the former owners, given that indemnification obligations may also be the subject of litigation or concerns in connection with the solvency of the previous owners;
- lose existing or potential contracts owing to conflicts of interests;
- suffer adverse tax consequences or deferred compensation charges;

3.6 Risks relating to legal and administrative proceedings

Teva Pharmaceutical Industries Ltd filed a notice of opposition on November 23, 2016 with the European Patent Office (EPO) against the European patent covering latanoprostene bunod and requested the revocation of the patent as a whole, alleging the absence of novelty or an inventive step. The European patent office rejected this notice of opposition and decided to maintain the patent as delivered. Teva Pharmaceuticals appealed this decision of the EPO on September 12, 2018. The date this appeal decision will be rendered is not known on this date.

The Group considers that the risk of invalidity of the patent is low, and in consequence has not recorded a provision for this contingency.

However, this procedure is by nature uncertain and an unfavorable decision for the Company by this body would have a material adverse effects on its business and financial position (see section 18.6 "Judicial or arbitration proceedings" of this universal registration document.

The Company contests the application of social security contributions on attendance fees paid to two non-employee directors whose tax residence is in the United States. By judgment of January 24, 2020, the Court of Justice of Nice granted the requests of the Company. As of the date of filing of this document, the Company is not aware of an appeal from this judgment.

3.7 Insurance and risk coverage

3.7.1 Insurance

Civil liability of senior officers

The Company purchased a global directors and officers liability policy for Group's senior officers (including directors) including coverage for defense costs before the civil and criminal courts, with a coverage limit for 2019 of €25,000,000 per period of insurance. For 2019, a new policy was obtained providing coverage in the amount of €20,000,000 per period of insurance.

General civil liability: Operational, product and professional civil liability

The Company purchased a master policy to cover the civil liability of Nicox Group companies' operations, with a coverage limit for 2019 of €15,000,000 per claim for damage to third parties arising from their operations. The Company obtained an extension of guarantee for Product and Professional Liability in the amount of €15,000,000 per claim and per year of insurance with a deductible of €30,000 per claim. Lower limits of coverage exists for the different guarantees.

This Master Policy provides DIC/DIL (difference in conditions/difference in limits) coverage on top of a local civil liability policy obtained by Nicox Ophthalmics Inc. for the civil liability of the latter within a limit of USD 1,000,000 per claim and per insurance year.

Nicox Ophthalmics Inc. took out a compulsory insurance policy to reimburse the wages and medical expenses of employees involved in occupational accidents and diseases (Workers' Compensation) within a limit of USD 500,000 and USD 100,000 per claim.

Nicox Research Institute purchased coverage for civil liability, civil and criminal legal protection, property damage, products, premises and damage to third parties occurring on its premises and in the premises of the laboratory of the University of Milan, occupational accidents, death and disability for certain designated persons.

Premium for 2019 for the above insurance policies amounted to €212,623.

3.7.2 Risk coverage

Besides the insurance policies described in the preceding paragraph, the Company took precautions to ensure continued operations and to avoid any significant loss in the event of a major incident. The Company's computer data are stored on central servers located in a secure room. Daily, weekly and monthly backups are performed. A copy of the weekly backups is transferred each week to an atomic shelter located off company premises. The Company entrusts the storage and backup of all materials relating to its clinical trials, its financial data and its human resources data to a specialist company.

3.8 Internal control system

The Company has based the development, implementation and description of its internal control and risk management system on the framework published by the AMF (*Autorité des Marchés Financiers)* for small and midcap companies.

It should be noted that the procedures described in this report apply to the parent company and all companies included in the Group's consolidated accounts. This report describes the situation as of December 31, 2019.

3.8.1 Group objectives for Internal Audit:

The Group is implementing the structuring of its Internal Audit mechanism over time.

In this respect, the Group notes that Internal Audit is a mechanism of the Company defined and implemented under its responsibility, and intended to ensure:

- Application of the instructions and strategies defined by Management;
- The reliability of financial information;
- Compliance with laws and regulations;
- The correct operation of the Group's internal processes, particularly those which help to protect its assets;

and, in general, it contributes to the control of its activities, the effectiveness of its operations and the efficient use of its resources. However, Internal Audit cannot provide an absolute guarantee that the Company's objectives will be met.

3.8.2 Organization of Internal Audit

The Nicox Internal Audit is based on organizational structures and methods responsible for direction and control, but also responsible for risk management.

The Board of Directors and its different committees:

The Board of Directors

The Board of Directors is the leading player in the Group's Internal Audit. It has adopted internal rules that define, among other items, the responsibilities and procedures for the operation of the Audit Committee, the Compensation Committee, and the Corporate Governance Committee.

The Audit Committee

For the work of its Audit Committee, the Group relies on the report of the AMF working group on the Audit Committee (AMF Recommendation of July 22, 2010).

The Audit Committee, whose role is to advise the Board of Directors, is responsible for the following within the framework of the Internal Audit process:

- to monitor the effectiveness of the Internal Audit and risk management systems within the Group;
- to review the controls performed by the Finance Department to evaluate the relevance and effectiveness of the procedures in effect;
- to monitor the implementation of the recommendations developed on the basis of the results of the Finance Department's controls;
- to regularly review the Group's main financial risks and its significant off-balance sheet commitments;
- to take a position on any changes in accounting principles and the determinant financial statements judgments and estimates.

In the context of the missions it has been assigned, the Audit Committee may ask the Chair to provide it with any document or allow the committee to interview any person, particularly the Vice President for Finance and the Statutory Auditors, in order to obtain information about the specific accounting, financial and operational features of the company. The Audit Committee is regularly informed in reports of the progress on the different work being performed as part of the Internal Audit of Group companies.

The Compensation Committee

The Compensation Committee, which has an advisory role with the Board of Directors, is responsible for the following within the Internal Audit process:

- to review annually the compensation, in-kind benefits, stock options and restricted stock units (*actions gratuities* or "free shares") awarded to corporate officers and senior management employees, and the members of the Management Committee;
- to review the plan for long-term allocation of stock options and restricted stock units;
- to review the annual increase in employee payroll.

The Corporate Governance Committee

The Corporate Governance Committee, which has an advisory role with the Board of Directors, is responsible for the following tasks within the Internal Audit process:

- to establish criteria to assess the independence of the members of the Board of Directors;
- to evaluate and monitor corporate governance procedures;
- to verify the appropriate application of the regulations and recommendations on corporate governance;
- to examine candidates for corporate officers and senior management employees.

The Science and Technology Committee

The Science and Technology Committee, which has an advisory role with the Board of Directors, is responsible for the following tasks within the Internal Audit process:

- Assisting the Board in supervising the scientific and technical aspects of the company's activities;
- Examining the progress and performances of Management in achieving the objectives and limiting the associated risks;

The Management Committee

In addition to the Board of Directors and its different committees, Internal Audit also relies on an operational committee: the Management Committee.

The Management Committee, led by the Chief Executive Officer is currently composed of five members. The Management Committee monitors the Group's plan, ensures respect for the operating plan and targets assigned by the Board of Directors at all management levels, and debates all organization and operational strategy questions placed on the agenda by its members.

In addition, it is responsible for defining, leading and monitoring the Internal Audit process best adapted to the Group's situation and activities. Within this framework, it is continually informed of any malfunctions, insufficiencies or difficulties in application. The Management Committee ensures the commitment to the correct actions necessary.

Advisory Committees

The Group regularly organizes meetings of Advisory Committees composed of independent experts in order to exchange information on various issues related, in particular, to its business development activities and its new commercial activities. These committees provide an independent opinion and propose recommendations that assist the Group to make strategic and operational choices.

Quality Assurance and Finance Department

Finally, the other players in Internal Audit are Quality Assurance and the Finance Department:

Quality Assurance (QA)

The Quality management system is organized around two pillars:

- Designing, preparing and managing a quality information system as reflected by procedures, instructions, forms and models. QA ensures the distribution of procedures and the homogeneity of formats and media used.
- Conducting quality audits to evaluate in an independent manner
    - Compliance with procedures and internal processes for the purpose of ensuring continuing improvement for operations;

- The capabilities of suppliers and service providers for the purpose of guaranteeing compliance with applicable requirements.

The Finance Department

The Vice President of Finance (with the support of QA for the document support area) is responsible for maintaining the Internal Audit process which is based on:

- continual update and improvement of the existing administrative and financial procedures;
- the establishment of new procedures, as needed;
- the availability of adapted information tools.

3.8.3 Internal information distribution

Disseminating information for making it possible to implement Internal Audit within the Group through Quality Assurance which directs production and centralizes all standard procedures through a Quality gateway after formal approval. Each newly issued procedure is transmitted in an accompanying email by Quality Assurance in order to:

- Summarize the objectives of the procedure,
- Indicate its application date.

A reply from each recipient is requested to ensure follow-up (confirmation that it has been read).

Each new employee receives an email from Quality Assurance which informs the employee where he can access the procedures for his department.

In addition, certain procedures are covered by internal training sessions in order to explain the content and responsibilities.

3.8.4 Risk management

In its management of risks, the Group relies on three main tools, which complete the Internal Audit process. This approach is moving it toward conformity with the transposition of the fourth and seventh European Directives, primarily by establishing a specific risk management process.

The universal registration document

Nicox prepares each year a universal registration document (URD) that includes a chapter on the risk factors that could have a material negative impact on its activity, financial position and results. This document deals with operational risk factors as well as financial, environmental, commercial and technological risk factors.

Faced with a number of these risks, the Group adopts a policy of precautions for risk insurance and coverage. Nicox believes that, as of this date, its insurance coverage is adequate for all the operations of its Group.

Assessment of risk management

There was no formal review of risk management in 2019.

Statutory Auditors' review of Internal Audit procedures

The Statutory Auditors conduct a yearly review of the Internal Audit Procedures. The conclusions of this work are presented to the Finance Department and allow the Internal Audit teams to enhance the risk identification process. The answers provided by management are reconciled with the correct action plan.

In December 2019, the Auditors' work consisted of individual interviews with managers of the Company and walk-through tests on the functional processes of certain Company operations.

3.8.5 Control activities

3.8.5.1 Internal control procedures relating to the preparation and processing of financial and accounting information

3.8.5.1.1. Accounting and financial management and organization

Parties involved

The Group's company accounts are kept under the direction of the Vice President for Finance. The accounts of Nicox S.A., Nicox Research Institute SRL are maintained internally. The accounts of subsidiaries Nicox Ophthalmics Inc. and Nicox Science Ireland Limited were entrusted to an external service provider, as was the consolidation of the Group's financial results.

As part of their procedures on behalf of the parent company and the publication of its consolidated financial statements, the statutory auditors conducted an audit of companies included in the consolidation scope of Nicox S.A. and considered at December 31, 2019 as significant entities based on the thresholds set by them.

In addition, at December 31, 2019, the payroll function was outsourced.

Forward-looking management tools

The Business Plan: This is a projected business model prepared for all Group operations over a time horizon of five years (or ten, if necessary). This document is prepared and updated regularly on the basis of the Group's strategic decisions, taking into account the different objectives to be achieved for each operational development, and also taking into consideration changes in the pharmaceutical markets, regulations and the competitive environment. Each update of the Business Plan is presented to the Board of Directors.

The "Annual Budget": Every year in the final quarter of the year, the Group Finance Department prepares an annual Budget, in close collaboration with the operational departments. On the basis of the strategic objectives defined in the Business Plan, the Management Committee defines the Group's objectives for the coming year. These objectives are then approved by the Board of Directors and distributed to the operational departments. The various operational departments assess their detailed needs in terms of operating expenses, investments and equipment, and human resources. This information is centralized by the Vice President of Finance and the Group Management Controller. The Management Committee evaluates the various budget proposals and makes certain decisions. The finalized Budget is presented to the Audit Committee and then to the Board of Directors for approval. Achievements are monitored and analyzed every quarter as part of the annual reporting process and subject to a detailed review by the Audit Committee at the end of each quarter.

The Revised Budget: budget revision process carried out midyear. This process updates budget assumptions for the following six-month period by comparison of the actual figures for the year to date with the initial budget projection. The Revised Budget is presented to the Audit Committee and then to the Board of Directors.

The Business Plan: the Annual Budget and the Revised Budget compose a set of financial documents and statements intended for the operational departments, the Management Committee, the Audit Committee and the Board of Directors of the Group. These financial documents and statements are shared by a defined and limited group of users, for strictly internal use, and are not, under any circumstance or in any form, communicated to the public.

3.8.5.1.2. Preparation of financial and accounting information

The consolidated internal reporting system

The internal reporting system is based on the collection and compilation of local general accounting and budget data/revised budget of all Group entities. The data are returned in the form of detailed reports and consolidated statements that reflect the discrepancies between actual and forecast data. Consolidation adjustments are recognized at the close of each half-year.

Based on this information, the Finance Department produces each month, as part of a closing procedure, a monthly operating reporting document. This consists of various cost accounting financial statements, both for the reference month and year to date as well as an analysis of the most significant variances in relation to *Budget and the Revised Budget* excluding consolidation adjustments.

The operational reporting information is made available to line management departments. This report is presented every quarter to the Audit Committee.

Added to these monthly operational reporting items are an interim and annual consolidated report including in particular consolidation adjustments and a reconciliation table with the operational reporting information. This report is submitted to and discussed by the Audit Committee, and then submitted to the Board of Directors.

The consolidated monthly, semi-annual and annual reports are a major component of the financial information control system. They are favored by the Executive Committee as a monitoring, control and management tool. The reconciliation of accounting and forecast data, combined with the monthly analysis, ensures that the information produced is of high quality and reliable.

These reporting elements and analytical reviews are strictly for internal use and accessible to a defined and limited group of users. They are in no way and in no manner disclosed to the public.

The consolidated financial statements

The consolidated reporting system described above, and in particular the monthly report produced as part of a monthly closing procedure, is the basis on which the consolidated financial statements are prepared.

The procedures for escalating information from the subsidiaries to the parent company, along with the closing procedures, enable the parent company to prepare the consolidated financial statements. A closure timetable is circulated in the month preceding each closing to allow the various accounting divisions to arrange for all the necessary information to be submitted on time.

The consolidated accounts are closed semi-annually on June 30 and December 31 of each year (statutory accounting year-end date). They are subject to an audit by the statutory auditors on December 31 and to a limited review on June 30. The statutory auditors carry out a review of internal control procedures in the last quarter of each year.

The separate statutory financial statements of each Group company are prepared only as of December 31 of each year. Each subsidiary prepares its own financial statements (except in special cases as indicated above in the paragraph entitled Parties involved) according to the accounting standards applicable locally. For consolidation purposes, the data are restated using the Group's accounting standards (IFRS since January 1, 2005).

3.8.5.1.3. Update of standard procedures relating to the preparation and processing of financial and accounting information

The accounting manual and four (4) procedures dealing with the preparation and processing of accounting and financial information have remained in application since 2018.

No procedure was required to be updated at December 31, 2019.

Only the "Requirements for vendor creation" form (FO-FI-13-04) was updated in May 2019 and reproduced in Italian.

3.8.5.2 Information systems

During 2019, the reporting documents, business plan and budget were prepared using Excel.

3.8.6 Oversight of the Internal Control system

3.8.6.1 Verification or Periodic Control of the proper implementation of procedures

Operational area

Periodic control of operational areas was undertaken by Quality Assurance and is detailed in Section 3.8.6.3.2, which focuses on Quality Assurance work in 2019.

Accounting and financial area

The Group did not update the self-assessment record in 2019, including:

- The application guide for internal control of accounting and financial information;
- General internal control principles with regard to accounting and financial information;
- Questionnaires on internal control of accounting and financial reporting and on risk analysis and management.

3.8.6.2 Reporting of work on Risks and Internal Control operations

The work conducted on Risks and Internal Control operations is submitted by the Finance Department to the Audit Committee and is a major component of the risk management process.

This work involves the following:

Work in relation to the AMF Reference Framework (Selection of control points involving a self-assessment, identification of the scope of existence tests, proposed corrective action plan, selection of working processes for risk mapping);

- Improvement of the Internal Control system to encompass the updating of procedures, improved management tools, improved security and confidentiality of computer data, the conduct of audits by Quality Assurance.

3.8.6.3 Work carried out in 2019 on Internal Control and Quality System management

In 2019, the Company updated certain procedures as described in Section 3.8.6.4.

3.8.6.3.1 Monitoring work undertaken by Quality Assurance

The Quality Group was consolidated within the, Quality and Compliance functional entity. The Quality function covers all Group operations (research and development, the manufacture and surveillance of drugs).

At December 31, 2019, the process of simplifying and harmonizing quality documents is continuing with the goal of implementing identical Quality processes across all sites and subsidiaries (Nicox S.A, Nicox Research Institute S.r.l, Nicox Ophthalmics Inc.).

3.8.6.3.2. Work undertaken in the field of IT

The work in the IT area in 2019 was limited to maintenance and infrastructure rationalization. Given its size, the Group subcontracts IT services with an objective of ensuring the continuity of service.

3.8.6.4 Areas for improvement in the Internal Control system

3.8.6.4.1. Adaptation of accounting and financial tools to the Group's new environment

In 2019, the Company acquired a tool for invoices in electronic form that included an electronic approval process.

3.8.6.4.2. Network architecture and IT security

In 2019, the Group continued to adapt and rationalize the IT infrastructure of Nicox Group: by replacing obsolete equipment to ensure availability, the integrity and confidentiality of Nicox's IT infrastructure; by outsourcing as much as possible IT operations to guarantee continuity of service in the context of a small structure and by educating end users about information systems to assist them in becoming more autonomous with IT procedures and quality documents.

3.8.6.4.3. Audit program conducted by the Quality Assurance

Service providers (logistics, distribution, non-clinical development, pharmaceutical development, clinical development, the production of active ingredients and finished products, secondary packaging) were audited either for vendor approval purposes of oversight.

Four (4) External Audits were performed in 2019 concerning activities outsourced in 2019 by Group subsidiaries.