

AXON HOLDING SE

FINANCIAL STATEMENTS

For the year ended 31 December 2017

AXON HOLDING SE

FINANCIAL STATEMENTS

For the year ended 31 December 2017

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AXON HOLDING SE**OFFICERS AND PROFESSIONAL ADVISORS**

Board of Directors	Boris Krehel Michal Fresser Manti Giolanta Christou Daniel Legen
Secretary	Cymanco Services Ltd
Independent Auditors	KPMG Limited Certified Public Accountants and Registered Auditors P.O. Box 40075 6300 Larnaca Cyprus
Banker	J&T BANKA, a.s.
Registered Office	4, Arch. Makariou & Kalogreon Nicolaidis Sea View City, Block C, 5th floor, flat 506 6016, Larnaca Cyprus
Registration number	SE 19

AXON HOLDING SE**MANAGEMENT REPORT**

The Board of Directors of Axon Holding SE (the "Company") presents to the members its Annual Report together with the audited financial statements of the Company for the year ended 31 December 2017.

PRINCIPAL ACTIVITIES AND NATURE OF OPERATIONS OF THE COMPANY

The principal activity of the Company are the holding of investments and provision of financing services to related companies.

FINANCIAL RESULTS

The Company's financial results for the year ended 31 December 2017 are set out on page 8 to the financial statements. The net loss for the year attributable to the shareholders of the Company amounted to €36.273.418 (2016: €33.328.928).

EXAMINATION OF THE DEVELOPMENT, POSITION AND PERFORMANCE OF THE ACTIVITIES OF THE COMPANY

The current financial position as presented in the separate financial statements is not considered satisfactory and the Board of Directors is making an effort to reduce the Company losses.

REVENUE

The Company's revenue for the year ended 31 December 2017 was €107.040 (2016: €10.296).

DIVIDENDS

The Board of Directors does not recommend the payment of a dividend.

MAIN RISKS AND UNCERTAINTIES

The main risks and uncertainties faced by the Company and the steps taken to manage these risks, are described in note 14 to the financial statements.

USE OF FINANCIAL INSTRUMENTS BY THE COMPANY

The Company is exposed to interest rate risk and liquidity risk from the financial instruments it holds.

INTEREST RATE RISK

Interest rate risk is the risk that the value of financial instruments will fluctuate due to changes in market interest rates. Borrowings issued at variable rates expose the Company to cash flow interest rate risk. Borrowings issued at fixed rates expose the Company to fair value interest rate risk. Company's management monitors the interest rate fluctuations on a continuous basis and acts accordingly.

LIQUIDITY RISK

Liquidity risk is the risk that arises when the maturity of assets and liabilities does not match. An unmatched position potentially enhances profitability, but can also increase the risk of losses. The Company has procedures with the object of minimising such losses such as maintaining sufficient cash and other highly liquid current assets and by having available an adequate amount of committed credit facilities.

AXON HOLDING SE**MANAGEMENT REPORT (continued)****FUTURE DEVELOPMENTS**

The Board of Directors does not expect major changes in the principal activities of the Company in the foreseeable future.

SHARE CAPITAL

There were no changes in the share capital of the Company during the year.

BRANCHES

During the year ended 31 December 2017 the Company did not operate any branches.

BOARD OF DIRECTORS

The members of the Company's Board of Directors as at 31 December 2017 and at the date of this report are presented on page 1. All of them were members of the Board of Directors throughout the year ended 31 December 2017.

In accordance with the Company's Articles of Association all directors presently members of the Board continue in office.

There were no significant changes in the assignment of responsibilities and remuneration of the Board of Directors.

EVENTS AFTER THE REPORTING PERIOD

There were no material events after the reporting period, which have a bearing on the understanding of the financial statements.

RELATED PARTY TRANSACTIONS

Disclosed in note 13 to the financial statements.

INDEPENDENT AUDITORS

The independent auditors of the Company, KPMG Limited, have expressed their willingness to continue in office. A resolution giving authority to the Board of Directors to fix their remuneration will be submitted at the forthcoming Annual General Meeting.

By order of the Board of Directors,


Cymando Services Ltd
Secretary
Larnaca, 17 December 2018



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Chartered Accountants
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Independent Auditors' report

**to the Members of
Axon Holding SE**

Report on the audit of the financial statements

Opinion

We have audited the accompanying separate financial statements of parent company Axon Holding SE (the “Company”), which are presented on pages 8 to 25 and comprise the statement of financial position as at 31 December 2017, and the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying separate financial statements give a true and fair view of the financial position of the Company as at 31 December 2017, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS-EU) and the requirements of the Cyprus Companies Law, Cap. 113, as amended from time to time (the “Companies Law, Cap.113”).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the “*Auditors’ responsibilities for the audit of the separate financial statements*” section of our report. We are independent of the Company in accordance with the Code of Ethics for Professional Accountants of the International Ethics Standards Board for Accountants (IESBA Code) and the ethical requirements in Cyprus that are relevant to our audit of the financial statements, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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Independent Auditors' report

to the Members of

Axon Holding SE

Material uncertainty related to going concern

We draw attention to Note 2(c) to the separate financial statements, which indicates that the Company incurred a net loss of €36.273.418 during the year ended 31 December 2017, as of that date, the Company's total liabilities exceeded its total assets by €69.592.536. As stated in Note 2(c), these events or conditions, along with other matters as set forth in Note 2(c), indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Emphasis of matter

We draw attention to Note 7 to the financial statements which describes the inherent uncertainties in the pharmaceutical sector which may adversely affect the value of the Company's investment and therefore the results and financial position in a manner not currently determinable. Our opinion is not modified in respect of this matter.

Other information

The Board of Directors is responsible for the other information. The other information comprises the information included in the Management Report, but does not include the financial statements and our auditors' report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon, except as required by the Companies Law, Cap.113.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. Our report in this regard is presented in the "Report on other legal requirements" section.

Responsibilities of the Board of Directors for the separate financial statements

The Board of Directors is responsible for the preparation of separate financial statements that give a true and fair view in accordance with IFRS-EU and the requirements of the Companies Law, Cap. 113, and for such internal control as the Board of Directors determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the separate financial statements, the Board of Directors is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting, unless there is an intention to either liquidate the Company or to cease operations, or there is no realistic alternative but to do so.

The Board of Directors is responsible for overseeing the Company's financial reporting process.

Independent Auditors' report
to the Members of
Axon Holding SE

Auditors' responsibilities for the audit of the separate financial statements

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

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

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

We communicate with the Board of Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Independent Auditors' report
to the Members of
Axon Holding SE

Report on other legal requirements

Pursuant to the additional requirements of the Auditors Law of 2017, L.53(I)/2017, as amended from time to time ("Law 53(I)/2017"), we report the following:

- In our opinion, the management report, the preparation of which is the responsibility of the Board of Directors, has been prepared in accordance with the requirements of the Companies Law, Cap 113, and the information given is consistent with the financial statements.
- In the light of the knowledge and understanding of the business and the Company's environment obtained in the course of the audit, we have not identified material misstatements in the Management Report.

Other matter

This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 69 of Law 53(I)/2017, and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whose knowledge this report may come to.

We will report separately at a later stage on the consolidated financial statements of the Company and its subsidiaries for the year ended 31 December 2017.



Michael J. Halios, BSc (Hons), CPA
Certified Public Accountant and Registered Auditor
for and on behalf of

KPMG Limited
Certified Public Accountants and Registered Auditors
P.O. Box 40075
6300 Larnaca
Cyprus

17 December 2018

AXON HOLDING SE

STATEMENT OF COMPREHENSIVE INCOMEFor the year ended 31 December 2017

	Note	2017 €	2016 €
Revenue	4	107.040	10.296
Administrative expenses		<u>(127.711)</u>	<u>(218.704)</u>
Operating loss		<u>(20.671)</u>	<u>(208.408)</u>
Finance expenses	5	<u>(36.252.747)</u>	<u>(33.120.520)</u>
Loss before tax		(36.273.418)	(33.328.928)
Tax	6	-	-
Loss for the year		<u>(36.273.418)</u>	<u>(33.328.928)</u>
Other comprehensive income		-	-
Total comprehensive expense for the year		<u>(36.273.418)</u>	<u>(33.328.928)</u>

The notes on pages 12 to 25 are an integral part of these financial statements.

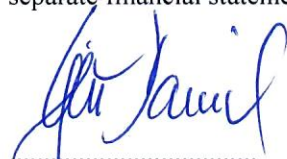
AXON HOLDING SE

STATEMENT OF FINANCIAL POSITION

As at 31 December 2017

	Note	2017 €	2016 €
Assets			
Investments in subsidiaries	7	350.013.950	350.013.950
Loans receivable	8	<u>15.398.128</u>	<u>16.109.907</u>
Total non-current assets		<u>365.412.078</u>	<u>366.123.857</u>
Cash and cash equivalents	9	<u>2.304</u>	<u>3.698</u>
Total current assets		<u>2.304</u>	<u>3.698</u>
Total assets		<u>365.414.382</u>	<u>366.127.555</u>
Equity			
Share capital	10	120.000	120.000
Reserves		<u>(69.712.536)</u>	<u>(33.439.118)</u>
Total equity		<u>(69.592.536)</u>	<u>(33.319.118)</u>
Liabilities			
Loans and borrowings	11	<u>434.929.555</u>	<u>399.433.150</u>
Total non-current liabilities		<u>434.929.555</u>	<u>399.433.150</u>
Other payables	12	<u>77.363</u>	<u>13.523</u>
Total current liabilities		<u>77.363</u>	<u>13.523</u>
Total liabilities		<u>435.006.918</u>	<u>399.446.673</u>
Total equity and liabilities		<u>365.414.382</u>	<u>366.127.555</u>

On 17 December 2018 the Board of Directors of Axon Holding SE approved and authorised these separate financial statements for issue.



.....
Daniel Legen
Director



.....
Manti Giolanta Christou
Director

The notes on pages 12 to 25 are an integral part of these financial statements.

AXON HOLDING SE

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2017

	Share capital €	Retained earnings €	Total €
Balance at 1 January 2016	120.000	(110.190)	9.810
Comprehensive income			
Loss for the period	-	(33.328.928)	(33.328.928)
Balance at 31 December 2016	<u>120.000</u>	<u>(33.439.118)</u>	<u>(33.319.118)</u>
Balance at 1 January 2017	120.000	(33.439.118)	(33.319.118)
Comprehensive income			
Loss for the year	-	(36.273.418)	(36.273.418)
Balance at 31 December 2017	<u>120.000</u>	<u>(69.712.536)</u>	<u>(69.592.536)</u>

The notes on pages 12 to 25 are an integral part of these financial statements.

AXON HOLDING SE

STATEMENT OF CASH FLOWS

For the year ended 31 December 2017

	Note	2017 €	2016 €
Cash flows from operating activities			
Loss for the year		(36.273.418)	(33.328.928)
Adjustments for:			
Interest income	4	(1.692.220)	(719.996)
Loan interest expense	4	1.585.180	709.700
Bond interest expense	5	<u>36.252.700</u>	<u>33.119.900</u>
Cash used in operations before working capital changes		(127.758)	(219.324)
Increase in other payables	12	<u>63.840</u>	<u>9.023</u>
Cash used in operations		<u>(63.918)</u>	<u>(210.301)</u>
Cash flows from investing activities			
Loans granted		(1.996.000)	(15.389.946)
Loans repayments received		<u>-</u>	<u>101.502</u>
Net cash used in investing activities		<u>(1.996.000)</u>	<u>(15.288.444)</u>
Cash flows from financing activities			
Proceeds from borrowings		2.560.100	15.501.600
Repayment of borrowings		<u>(501.576)</u>	<u>-</u>
Net cash generated from financing activities		<u>2.058.524</u>	<u>15.501.600</u>
Net (decrease)/increase in cash and cash equivalents		(1.394)	2.855
Cash and cash equivalents at beginning of the year		<u>3.698</u>	<u>843</u>
Cash and cash equivalents at end of the year	9	<u><u>2.304</u></u>	<u><u>3.698</u></u>

The notes on pages 12 to 25 are an integral part of these financial statements.

AXON HOLDING SE**NOTES TO THE FINANCIAL STATEMENTS**

For the year ended 31 December 2017

1. INCORPORATION AND PRINCIPAL ACTIVITIES

Axon Holding SE (the "Company") was incorporated in Cyprus on 23 October 2014 as a private limited liability company under the Cyprus Companies Law, Cap. 113. Its registered office is at 4, Arch. Makariou & Kalogreon, Nicolaides Sea View City, Block C, 5th floor, flat 506, 6016, Larnaca, Cyprus.

The principal activity of the Company are the holding of investments and provision of financing services to related companies.

2. BASIS OF PREPARATION**(a) Statement of compliance**

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union (EU) and the requirements of the Cyprus Companies Law, Cap.113.

The Company has prepared these parent's separate financial statements for compliance with the requirements of the Cyprus Income Tax Law.

The Company will also prepare consolidated financial statements in accordance with IFRSs for the Company and its subsidiaries (the "Group"). The consolidated financial statements that will be prepared will be available from 4, Arch. Makariou & Kalogreon, Nicolaides Sea View City, Block C, 5th floor, flat 506, 6016, Larnaca, Cyprus.

(b) Basis of measurement

The financial statements have been prepared under the historical cost convention.

(c) Going concern basis

The Company incurred a loss of €36.273.418 during the year ended 31 December 2017 and, as of that date the Company's total liabilities exceeded its total assets by €69.592.536. These conditions indicate the existence of a material uncertainty which may cast significant doubt about the Company's ability to continue as a going concern.

Notwithstanding the level of incurred losses, the financial statements have been prepared on a going concern basis based on the fact that its subsidiary company Axon Neuroscience SE as a startup clinical stage biotech company is fully in line and compliance with the clinical development plan and the relevant set assumptions and timelines. As per development plan, Phase II study is expected to be completed in Q3 2019, with further additional study analysis expected to be finalised in Q4 2020. Completion of phase III study is expected in 2023, NDA (New Drug Application) Phase is expected in 2024 and the final marketing approval of AADvac1 for both USA and the European Union will be achieved in 2025. All financial and other resources for the completion of the development of the respective asset are available.

The terms to the maturity of the liabilities will be in line with the funds to be generated to support the repayment of the liabilities as these come due. Negotiations with the main creditor (PPF Group) are ongoing and currently in the stage of finalization. The subject matters of the negotiations are the restructuring of the existing credit facilities and the granting of additional funding to finance the operations of its subsidiary, Axon Neuroscience SE. The favorable outcome of the negotiations is supported by the decision of the creditor to provide ongoing funding to meet the subsidiary's operational needs. The funding is provided monthly after evaluating the prospective monthly cash flow needs of the Company. The creditor has already provided additional funding of €10 million in September 2018, €1,9 million in October 2018 and €8,15 million in November 2018.

AXON HOLDING SE**NOTES TO THE FINANCIAL STATEMENTS**

For the year ended 31 December 2017

2. BASIS OF PREPARATION (continued)**(c) Going concern basis (continued)**

The Company has been exploring of international strategic partnership opportunities for the further development of the products currently being developed by its subsidiary Axon Neuroscience SE with leading global biotech and pharmaceutical companies. This partnerships could take the form of a joint – venture undertaking, licensing agreements or direct investments. A series of exploratory meetings were conducted with several large international pharmaceutical companies.

Such partnership will provide the Company with the necessary funding to enable its subsidiary to complete the planned research and development of AADvac1. These offers are more than 50% probable due to the intention of the Company to arrange the execution and the implementation of the most suitable offer from a pharma company within the year 2019.

(d) Adoption of new and revised International Financial Reporting Standards and Interpretations as adopted by the European Union (EU)

During the current year the Company adopted all the changes to International Financial Reporting Standards (IFRS) that are relevant to its operations and are effective for accounting periods beginning on 1 January 2017. This adoption did not have a material effect on the accounting policies of the Company.

At the date of approval of these financial statements, Standards, Revised Standards and Interpretations were issued by the International Accounting Standards Board which were not yet effective. Some of them were adopted by the European Union and others not yet. The Board of Directors expects that the adoption of these financial reporting standards in future periods will not have a significant effect on the financial statements of the Company.

(e) Use of estimates and judgments

The preparation of financial statements in accordance with IFRSs requires from Management the exercise of judgment, to make estimates and assumptions that influence the application of the Company's accounting policies and the reported amounts of assets, liabilities, income and expenses. The estimates and underlying assumptions are based on historical experience and various other factors that are deemed to be reasonable based on knowledge available at that time. Actual results may deviate from such estimates.

The estimates and underlying assumptions are revised on a continuous basis. Revisions in accounting estimates are recognised in the period during which the estimate is revised, if the estimate affects only that period, or in the period of the revision and future periods, if the revision affects the present as well as future periods.

Assumptions and estimation uncertainties

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year is included in the following notes:

- Notes 7 and 3 "Impairment of investments in subsidiaries" - determine the recoverability of investments in subsidiaries whenever indicators of impairment are present.

AXON HOLDING SE

NOTES TO THE FINANCIAL STATEMENTSFor the year ended 31 December 2017**2. BASIS OF PREPARATION** *(continued)**(e) Use of estimates and judgments (continued)**Measurement of fair values*

A number of the Company's accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities.

The valuation team regularly reviews significant unobservable inputs and valuation adjustments. If third party information, such as broker quotes or pricing services, is used to measure fair values, then the valuation team assesses the evidence obtained from the third parties to support the conclusion that such valuations meet the requirements of IFRSs, including the level in the fair value hierarchy in which such valuations should be classified.

When measuring the fair value of an asset or a liability, the Company uses observable market data as far as possible.

Fair values are categorized into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

- Level 1 - quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 - inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 - inputs for the asset or liability that are not based on observable market data (unobservable inputs).

If the inputs used to measure the fair value of an asset or a liability fall into different levels of the fair value hierarchy, then the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The Company recognizes transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

Further information about the assumptions made in measuring fair values is included in notes:

- Note 14 - Financial instruments

(f) Functional and presentation currency

The financial statements are presented in Euro (€) which is the functional currency of the Company.

AXON HOLDING SE

NOTES TO THE FINANCIAL STATEMENTSFor the year ended 31 December 2017**3. SIGNIFICANT ACCOUNTING POLICIES**

The following accounting policies have been applied consistently for all the years presented in these financial statements.

Subsidiaries

Subsidiaries are entities controlled by the Group. Control exists where the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

Investments in subsidiaries are stated at cost, which includes transaction costs, less provision for permanent diminution in value, which is recognised as an expense in the period in which the diminution is identified.

The Company periodically evaluates the recoverability of investments in subsidiaries whenever indicators of impairment are present. Indicators of impairment include such items as declines in revenues, earnings or cash flows or material adverse changes in the economic or political stability of a particular country, which may indicate that the carrying amount of an asset is not recoverable. If facts and circumstances indicate that investment in subsidiaries may be impaired, the estimated future discounted cash flows associated with these subsidiaries would be compared to their carrying amounts to determine if a write-down to fair value is necessary.

Finance expenses

Interest expense and other borrowing costs are recognised in profit or loss using the effective interest method.

Dividends

Dividend distribution to the Company's shareholders is recognised in the Company's financial statements in the year in which they are approved by the Company's shareholders.

Financial instruments

Financial assets and financial liabilities are recognised when the Company becomes a party to the contractual provisions of the instrument.

(i) Loans granted

Loans originated by the Company by providing money directly to the borrower are categorised as loans and are carried at amortised cost. This is defined as the fair value of cash consideration given to originate those loans as is determined by reference to market prices at origination date. All loans are recognised when cash is advanced to the borrower.

(ii) Investments

The Company classifies its investments in equity and debt securities in the following categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments and available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. Management determines the classification of investments at initial recognition.

AXON HOLDING SE

NOTES TO THE FINANCIAL STATEMENTSFor the year ended 31 December 2017**3. SIGNIFICANT ACCOUNTING POLICIES** *(continued)*Financial instruments (continued)• *Loans and receivables*

Investments with fixed or determinable payments that are not quoted in an active market and are not classified as financial assets at fair value through profit or loss or as financial assets available-for-sale.

Recognition and measurement:

Regular way purchases and sales of investments are recognised on trade-date which is the date on which the Company commits to purchase or sell the asset. Investments are initially recognised at fair value plus directly attributable transaction costs for all financial assets not carried at fair value through profit or loss. For financial assets at fair value through profit or loss the directly attributable transaction costs are recognised in profit or loss as incurred.

Realised and unrealised gains and losses arising from changes in the fair value of financial assets at fair value through profit or loss are included in profit or loss.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Company establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same and discounted cash flow analysis, making maximum use of market inputs and relying as little as possible on entity specific inputs. Equity investments for which fair values cannot be measured reliably are recognised at cost less impairment.

(iii) Cash and cash equivalents

For the purpose of the statement of cash flows, cash and cash equivalents comprise cash at bank and in hand.

(iv) Borrowings

Borrowings are recorded initially at the proceeds received, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption value is recognised in profit or loss over the period of the borrowings using the effective interest method.

(v) Other Payables

Trade payables are stated at their nominal values.

AXON HOLDING SE

NOTES TO THE FINANCIAL STATEMENTSFor the year ended 31 December 2017**3. SIGNIFICANT ACCOUNTING POLICIES** *(continued)*Derecognition of financial assets and liabilities*Financial assets*

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- the contractual rights to receive cash flows from the asset have expired;
- the Company retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass through' arrangement; or
- the Company has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Any interest in such derecognized financial assets that is created or retained by the Company is recognised as a separate asset or liability

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in profit or loss.

Offsetting financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously. This is not generally the case with master netting agreements, and the related assets and liabilities are presented gross in the statement of financial position.

Share capital

Ordinary shares are classified as equity.

Provisions

Provisions are recognised when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where the Company expects a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

Comparatives

Where necessary, comparative figures have been adjusted to conform to changes in presentation in the current year.

AXON HOLDING SE

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

4. REVENUE

	2017 €	2016 €
Interest income on loan receivable from subsidiary (Note 13 (ii))	1.692.220	719.907
Interest income on loan receivable from third party	-	89
Interest expense on loan payable to third party	<u>(1.585.180)</u>	<u>(709.700)</u>
	<u>107.040</u>	<u>10.296</u>

5. NET FINANCE EXPENSES

	2017 €	2016 €
Exchange profit	<u>269</u>	<u>-</u>
	<u>269</u>	<u>-</u>
Interest expense	(36.252.700)	(33.119.900)
Sundry finance expenses	<u>(316)</u>	<u>(620)</u>
	<u>(36.253.016)</u>	<u>(33.120.520)</u>
Net finance expenses	<u>(36.252.747)</u>	<u>(33.120.520)</u>

6. TAXATION

Reconciliation of tax based on the taxable income and tax based on accounting losses:

	2017	2017 €	2016	2016 €
Accounting loss before tax		<u>(36.273.418)</u>		<u>(33.328.928)</u>
Tax calculated at the applicable tax rates	12,50%	(4.534.177)	12,50%	(4.166.116)
Tax effect of expenses not deductible for tax purposes	(12,496)%	4.532.628	(12,49)%	4.163.891
Tax effect of loss for the year/period	<u>(0,004)%</u>	<u>1.549</u>	<u>(0,01)%</u>	<u>2.225</u>
Tax as per statement of comprehensive income – charge	<u>-%</u>	<u>-</u>	<u>-%</u>	<u>-</u>

The corporation tax rate is 12,5%.

Under certain conditions interest income may be subject to defence contribution at the rate of 30%. In such cases this interest will be exempt from corporation tax. In certain cases, dividends received from abroad may be subject to defence contribution at the rate of 17%.

Due to tax losses sustained in the year, no tax liability arises on the Company. Tax losses may be carried forward for five years. Group companies may deduct losses against profits arising during the same tax year.

AXON HOLDING SE

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

7. INVESTMENTS IN SUBSIDIARIES

	2017 €	2016 €
Balance at 1 January	<u>350.013.950</u>	<u>350.013.950</u>
Balance at 31 December	<u>350.013.950</u>	<u>350.013.950</u>

The details of the subsidiaries are as follows:

<u>Name</u>	<u>Country of incorporation</u>	<u>Principal activities</u>	2017 Holding %	2016 Holding %	2017 €	2016 €
AXON Neuroscience SE	Slovak Republic	Neuroscience research	73,60%	73,60%	<u>350.013.950</u>	<u>350.013.950</u>
					<u>350.013.950</u>	<u>350.013.950</u>

Management has assessed the recoverable amount of the Company's investment in Axon Neuroscience SE, on the basis of a valuations by an independent valuer. Axon Neuroscience SE is a clinical-stage biotech company developing disease-modifying immune therapeutics for Alzheimer's disease. The independent valuer used the discounted cash flow method using variations in the probability of success of various assumptions (based on industry success rates) necessitated due to the nature and complex business challenges associated with the development and successful launch of innovative new drugs, such as AADvac1. Such methodology has resulted in a range of indicative fair values, all higher than the carrying amount of the investment.

Axon Neuroscience SE operates in the pharmaceutical sector that carries various inherent risks and uncertainties that may affect the business of the subsidiary. There are various inherent uncertainties involved in assessing the outcomes of the development process that cannot be predicted. The development of pharmaceutical product candidates is a complex, risky and lengthy process involving significant financial, R&D and other resources. The valuation results are volatile and depend at each stage of development on the profitability of the drug candidate, AADvac1, successfully reaching launch from each clinical phase (success rates).

The risk exists that the development of the product may fail at any stage of the process due to various factors, including failure to obtain the regulatory or market approvals for the product candidate or for its manufacturing facilities, and unfavorable clinical efficiency.

AXON HOLDING SE

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

8. LOANS RECEIVABLE

	2017 €	2016 €
Loan to own subsidiary (note 13 (iii))	<u>15.398.128</u>	<u>16.109.907</u>
	<u>15.398.128</u>	<u>16.109.907</u>

Loan to own subsidiary related to loan provided to Axon Neuroscience SE at the principal amount of €15.351.862. The loan bears an interest rate at 10% per annum and has repayment date 31 March 2021. As per agreement, the Company is obliged to provide to Axon Neuroscience SE with financial funds for maximum credit amount of €50.000.000.

The exposure of the Company to credit risk is reported in note 14 to the financial statements.

9. CASH AND CASH EQUIVALENTS

For the purposes of the statement of cash flows, the cash and cash equivalents comprise of the following:

	2017 €	2016 €
Cash at bank and in hand	<u>2.304</u>	<u>3.698</u>
	<u>2.304</u>	<u>3.698</u>

The exposure of the Company to credit risk and impairment losses in relation to cash and cash equivalents is reported in note 14 to the financial statements.

10. SHARE CAPITAL

	2017 Number of shares	2017 €	2016 Number of shares	2016 €
Authorised				
Ordinary shares of €1 each	<u>120.000</u>	<u>120.000</u>	<u>120.000</u>	<u>120.000</u>
		€		€
Issued and fully paid				
Balance at 1 January	<u>120.000</u>	<u>120.000</u>	<u>120.000</u>	<u>120.000</u>
Balance at 31 December	<u>120.000</u>	<u>120.000</u>	<u>120.000</u>	<u>120.000</u>

AXON HOLDING SE

NOTES TO THE FINANCIAL STATEMENTSFor the year ended 31 December 2017**11. LOANS AND BORROWINGS**

	2017 €	2016 €
Non-current liabilities		
Non-convertible bond	419.474.550	383.221.850
Loan payable	<u>15.455.005</u>	<u>16.211.300</u>
	<u>434.929.555</u>	<u>399.433.150</u>
 Maturity of borrowings:		
	2017 €	2016 €
Between one and five years	<u>434.929.555</u>	<u>399.433.150</u>

Loan payable comprises of a credit facility from PM Squared Limited. The principal as at 31 December 2017 amounts to €13.595.843. The loan bears interest rate at 9,75% per annum and has repayment date 31 March 2021. As per agreement, PM Squared Limited is obliged to provide to the Company with the financial funds within the amount of €50.000.000.

On the 29 December 2015 the company issued 550 bonds of nominal value €1.000.000 per bond at an issue price of 63.6389% of the nominal value of the bond, € 350.013.950. The bond yield to maturity is determined as of the Issue Date by the difference between the nominal value of the Bond and its issue price. The bond maturity date is the 29 December 2020, with an option to the issuer for early repayment after no less than two (2) years from the Issue Date of the bond.

The exposure of the Company to interest rate risk in relation to financial instruments is reported in note 14 to the financial statements.

12. OTHER PAYABLES

	2017 €	2016 €
Payable to employees	7.256	5.449
Accruals	70.107	5.474
Other payables	<u>-</u>	<u>2.600</u>
	<u>77.363</u>	<u>13.523</u>

The fair values of other payables due within one year approximate to their carrying amounts as presented above.

The exposure of the Company to liquidity risk in relation to financial instruments is reported in note 14 to the financial statements.

AXON HOLDING SE

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

13. RELATED PARTY TRANSACTIONS

The Company is controlled by Paperline Holdings Ltd incorporated in Cyprus, which owns 99,995% of the Company's shares.

There were no related party transactions for the period under review.

(i) Directors' remuneration

The remuneration of Directors and other members of key management was as follows:

	2017 €	2016 €
Directors' remuneration	<u>47.165</u>	<u>26.186</u>
	<u>47.165</u>	<u>26.186</u>

(ii) Interest received from subsidiary (note 4)

	2017 €	2016 €
Axon Neuroscience SE	<u>1.692.220</u>	<u>719.907</u>
	<u>1.692.220</u>	<u>719.907</u>

(iii) Loan to own subsidiary (note 8)

<u>Name</u>	<u>Terms</u>	2017 €	2016 €
Axon Neuroscience SE	Financing	<u>15.398.128</u>	<u>16.109.907</u>
		<u>15.398.128</u>	<u>16.109.907</u>

14. FINANCIAL INSTRUMENTS – FAIR VALUES AND RISK MANAGEMENT

Financial risk factors

The Company is exposed to the following risks from its use of financial instruments:

- Liquidity risk
- Market risk

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework.

The Company's risk management policies are established to identify and analyse the risks faced by the Company, to set appropriate risk limits and controls, and monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and in the Company's activities.

AXON HOLDING SE

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

14. FINANCIAL INSTRUMENTS – FAIR VALUES AND RISK MANAGEMENT (continued)

A. Accounting classifications and fair values

The following table shows the carrying amounts and fair values of financial assets and financial liabilities, including their levels in the fair value hierarchy. It does not include fair value information for financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value.

31/12/2017	Carrying amount		
	Loans and receivables €	Borrowings and other financial liabilities €	Total €
Financial assets not measured at fair value			
Loan receivable from subsidiary	15.398.128	-	15.398.128
Cash and cash equivalents	<u>2.304</u>	<u>-</u>	<u>2.304</u>
	<u>15.400.432</u>	<u>-</u>	<u>15.400.432</u>
Financial liabilities not measured at fair value			
Loan payable	-	15.455.005	15.455.005
Non-convertible bond	<u>-</u>	<u>419.474.550</u>	<u>419.474.550</u>
	<u>-</u>	<u>434.929.555</u>	<u>434.929.555</u>
31/12/2016	Carrying amount		
	Loans and receivables €	Borrowings and other financial liabilities €	Total €
Financial assets not measured at fair value			
Loan receivable	16.109.907	-	16.109.907
Cash and cash equivalents	<u>3.698</u>	<u>-</u>	<u>3.698</u>
	<u>16.113.605</u>	<u>-</u>	<u>16.113.605</u>
Financial liabilities not measured at fair value			
Loan payable	-	16.211.300	16.211.300
Unsecured bond issues	<u>-</u>	<u>383.221.850</u>	<u>383.221.850</u>
	<u>-</u>	<u>399.433.150</u>	<u>399.433.150</u>

B. Financial risk management*(i) Liquidity risk*

Liquidity risk is the risk that arises when the maturity of assets and liabilities does not match. An unmatched position potentially enhances profitability, but can also increase the risk of losses. The Company has procedures with the object of minimising such losses such as maintaining sufficient cash and other highly liquid current assets and by having available an adequate amount of committed credit facilities.

AXON HOLDING SE

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

14. FINANCIAL INSTRUMENTS – FAIR VALUES AND RISK MANAGEMENT (continued)*(i) Liquidity risk (continued)*

The following are the contractual maturities of financial liabilities at the reporting date. The amounts are gross and are undiscounted, and include estimated interest payments:

31 December 2017	Carrying amounts €	Contractual cash flows €	Between 3-12 months €	Between 1-5 years €
Non-derivative financial liabilities				
Non-convertible bond	419.474.550	550.000.000	-	550.000.000
Loan payable	15.455.005	19.750.398	-	19.750.398
Other payables	77.363	77.363	77.363	-
	<u>435.006.918</u>	<u>569.827.761</u>	<u>77.363</u>	<u>569.750.398</u>
 31 December 2016				
	Carrying amounts €	Contractual cash flows €	Between 3-12 months €	Between 1-5 years €
Non-derivative financial liabilities				
Non-convertible bond	383.221.850	550.000.000	-	550.000.000
Loan payable	16.211.300	22.616.193	-	22.616.193
Other payables	13.523	13.523	13.523	-
	<u>399.446.673</u>	<u>572.629.716</u>	<u>13.523</u>	<u>572.616.193</u>

(ii) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Company's income or the value of its holdings of financial instruments.

The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

Interest rate risk

Interest rate risk is the risk that the value of financial instruments will fluctuate due to changes in market interest rates. Borrowings issued at variable rates expose the Company to cash flow interest rate risk. Borrowings issued at fixed rates expose the Company to fair value interest rate risk. Company's management monitors the interest rate fluctuations on a continuous basis and acts accordingly.

AXON HOLDING SE

NOTES TO THE FINANCIAL STATEMENTSFor the year ended 31 December 2017**14. FINANCIAL INSTRUMENTS – FAIR VALUES AND RISK MANAGEMENT** *(continued)**(ii) Market risk (continued)*

At the reporting date the interest rate profile of interest-bearing financial instruments was:

	2017	2016
	€	€
<i>Fixed rate instruments</i>		
Financial assets	15.398.128	16.109.907
Financial liabilities	<u>(434.929.555)</u>	<u>(399.433.150)</u>
	<u>(419.531.427)</u>	<u>(383.323.243)</u>

On 17 December 2018 the Board of Directors of Axon Holding SE approved and authorised these financial statements for issue.