

AXON NEUROSCIENCE SE

FINANCIAL STATEMENTS

For the year ended 31 December 2017

AXON NEUROSCIENCE SE

FINANCIAL STATEMENTS

For the year ended 31 December 2017

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AXON NEUROSCIENCE SE
OFFICERS AND PROFESSIONAL ADVISORS

Board of Directors	Daniel Legen Michal Novak Despina Cecilia Vikentios Vikentiou Raduz Motan
Secretary	Cymanco Services Limited
Independent Auditors	KPMG Limited
Banker	Postova Banka
Registered Office	4, Arch. Makariou & Kalogreon Nicolaidis Sea View City 5th Floor, office 406 6016, Larnaca Cyprus
Registration number	SE 24



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Independent Auditors' report

to the Members of

Axon Neuroscience SE

Report on the audit of the financial statements

Qualified opinion

We have audited the accompanying separate financial statements of parent company Axon Neuroscience SE (the “Company”), which are presented on pages 6 to 35 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, except for the effects of the matter described in the “*Basis for qualified opinion*” paragraph, 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 qualified opinion

As stated in note 9 to the separate financial statements, the Company commence the capitalization of development expenditure, as at 31 December 2017 amounting to €22.045.397, in relation to the development of AADvac1 because it assesses that the project has met all of the capitalization criteria.

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Independent Auditors' report

to the Members of

Axon Neuroscience SE

Basis for qualified opinion (continued)

We were unable to obtain sufficient appropriate audit evidence whether the capitalization of development expenditure is in accordance with IAS38.57 (a) because we were not granted access to the communications and documentations related to the ongoing negotiations between the Company and prospective strategic partners due to strict confidentiality provisions. Under these discussions the Company will grant licence on the patents and underlying intellectual property associated with the leading product of the Company. Access to the documentation was requested in order to ascertain whether is probable for such agreement to be concluded. Consequently, we were unable to determine whether any adjustments to the above amount was necessary.

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 separate the 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 qualified opinion.

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 €15.738.578 during the year ended 31 December 2017, as of that date, the Company’s total liabilities exceeded its total assets by €14.651.530. 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.

Responsibilities of the Board of Directors for the separate financial statements

The Board of Directors is responsible for the preparation of 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 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 Neuroscience SE

Auditors' responsibilities for the audit of the separate financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an 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 financial statements.

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

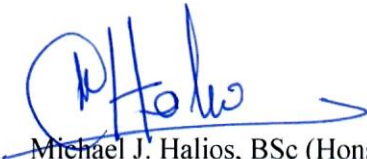
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting 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 Neuroscience SE

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 the Auditors' Law of 2017, L.53(I)/2017, as amended from time to time, 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.



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
Millenium Lion House
1 G. Aradioti Street
6016, Larnaca
Cyprus

17 December 2018

AXON NEUROSCIENCE SE

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOMEFor the year ended 31 December 2017

	Note	2017 €	2016 €
Other income	4	-	975.411
Administrative expenses	5	<u>(13.335.443)</u>	<u>(15.147.111)</u>
Operating loss		<u>(13.335.443)</u>	<u>(14.171.700)</u>
Finance income		13.568	42.771
Finance expenses		<u>(2.416.703)</u>	<u>(734.641)</u>
Net finance expenses	6	<u>(2.403.135)</u>	<u>(691.870)</u>
Loss before tax		<u>(15.738.578)</u>	<u>(14.863.570)</u>
Tax	7	<u>-</u>	<u>-</u>
Loss for the year		<u>(15.738.578)</u>	<u>(14.863.570)</u>
Other comprehensive income		<u>-</u>	<u>-</u>
Total comprehensive expense for the year		<u>(15.738.578)</u>	<u>(14.863.570)</u>

The notes on pages 10 to 35 are an integral part of these financial statements.

AXON NEUROSCIENCE SE

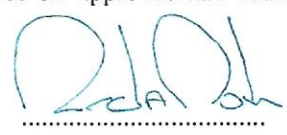
STATEMENT OF FINANCIAL POSITION

As at 31 December 2017

	Note	2017 €	2016 €
Assets			
Non-current assets			
Property, plant and equipment	8	2.052.930	2.059.472
Intangible assets	9	27.816.897	13.439.615
Investments in subsidiaries	10	<u>4.652.000</u>	<u>4.652.000</u>
Total non-current assets		<u>34.521.827</u>	<u>20.151.087</u>
Current assets			
Lab supplies	12	1.361.109	1.850.585
Trade and other receivables	13	769.003	1.531.690
Loans receivable	11	478.111	-
Other investments	14	500	500
Cash and cash equivalents	15	<u>4.522.355</u>	<u>139.263</u>
Total current assets		<u>7.131.078</u>	<u>3.522.038</u>
Total assets		<u>41.652.905</u>	<u>23.673.125</u>
Equity			
Share capital	16	27.512.000	27.512.000
Reserves		<u>(42.163.530)</u>	<u>(26.424.952)</u>
Total equity		<u>(14.651.530)</u>	<u>1.087.048</u>
Liabilities			
Non-current liabilities			
Loans and borrowings	17	<u>15.398.128</u>	<u>16.109.907</u>
Total non-current liabilities		<u>15.398.128</u>	<u>16.109.907</u>
Current liabilities			
Short term portion of long-term loans	17	35.103.488	-
Trade and other payables	18	5.802.616	6.475.567
Tax liability	19	203	603
Total current liabilities		<u>40.906.307</u>	<u>6.476.170</u>
Total liabilities		<u>56.304.435</u>	<u>22.586.077</u>
Total equity and liabilities		<u>41.652.905</u>	<u>23.673.125</u>

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


.....
Daniel Legen
Director


.....
Raduz Motan
Director

The notes on pages 10 to 35 are an integral part of these financial statements.

AXON NEUROSCIENCE SE

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2017

	Share capital €	Reserves €	Retained earnings €	Total €
Balance at 1 January 2016	27.512.000	24.959.794	(36.521.177)	15.950.617
Loss for the year	-	-	(14.863.570)	(14.863.570)
Balance at 31 December 2016	<u>27.512.000</u>	<u>24.959.794</u>	<u>(51.384.747)</u>	<u>1.087.047</u>
Balance at 1 January 2017	27.512.000	24.959.794	(51.384.746)	1.087.048
Loss for the year	-	-	(15.738.578)	(15.738.578)
Balance at 31 December 2017	<u>27.512.000</u>	<u>24.959.794</u>	<u>(67.123.324)</u>	<u>(14.651.530)</u>

The notes on pages 10 to 35 are an integral part of these financial statements.

AXON NEUROSCIENCE SE

STATEMENT OF CASH FLOWS

For the year ended 31 December 2017

	2017	2016
	€	€
Cash flows from operating activities		
Loss for the year	(15.738.578)	(14.863.570)
Adjustments for:		
Depreciation of property, plant and equipment	6.542	198.027
Unrealised exchange (profit)/loss	(2.760)	4.232
Amortisation of intangible assets	1.442.875	1.446.422
Interest income	(1.491)	(41.014)
Interest expense	2.410.708	724.247
Cash used in operations before working capital changes	<u>(11.882.704)</u>	<u>(12.531.656)</u>
Decrease/(increase) in inventories	489.476	(974.469)
Decrease in trade and other receivables	762.687	586.520
(Decrease)/increase in trade and other payables	(672.951)	409.035
Decrease in deferred income	-	(230.951)
Cash used in operations	<u>(11.303.492)</u>	<u>(12.741.521)</u>
Tax paid	(400)	(46.833)
Net cash used in operating activities	<u>(11.303.892)</u>	<u>(12.788.354)</u>
Cash flows from investing activities		
Payment for acquisition of intangible assets	(15.820.157)	-
Payment for acquisition of property, plant and equipment	-	(333.326)
Payment for acquisition of investments in subsidiaries	-	(3.391.961)
Loans granted	(477.000)	-
Interest received	381	
Proceeds from disposal of property, plant and equipment	-	41.041
Net cash used in investing activities	<u>(16.296.776)</u>	<u>(3.684.246)</u>
Cash flows from financing activities		
Proceeds from borrowings	31.981.000	15.390.000
Unrealised exchange profit	2.760	-
Net cash generated from financing activities	<u>31.983.760</u>	<u>15.390.000</u>
Net increase/(decrease) in cash and cash equivalents	4.383.092	(1.082.600)
Cash and cash equivalents at beginning of the year	<u>139.263</u>	<u>1.221.863</u>
Cash and cash equivalents at end of the year	<u><u>4.522.355</u></u>	<u><u>139.263</u></u>

The notes on pages 10 to 35 are an integral part of these financial statements.

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

For the year ended 31 December 2017

1. INCORPORATION AND PRINCIPAL ACTIVITIES

AXON Neuroscience SE (the "Company") was incorporated on 24 January 2011. On 17 May 2016 re-domicile to Cyprus. Axon Neuroscience SE is registered as a private limited liability company under the Cyprus Companies Law, Cap. 113 and its registered office is at 4, Arch. Makariou & Kalogreon, Nicolaides Sea View City, 5th Floor, office 406, 6016, Larnaca, Cyprus.

AXON Neuroscience SE is a clinical-stage biotech company developing disease-modifying immunotherapeutic for Alzheimer's disease and Frontotemporal lobar degeneration. The principal activities of the company are the holding of investments, and the licensing of its patented products.

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

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

The Company has not prepared consolidated financial statements as the exemption from consolidation in paragraph 4(a) of IFRS10 'Consolidated Financial Statements', has been used. The Company's ultimate parent Axon Holding SE, a Company incorporated in Cyprus, will produce consolidated financial statements available for public use that comply with International Financial Reporting Standards as issued by the IASB. These consolidated financial statements that will be prepared will be available at 4, Arch. Makariou & Kalogreon, Nicolaides Sea View City, 5th Floor, office 406, 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 net loss of €15.738.578 during the year ended 31 December 2017, as of that date, the Company's total liabilities exceeded its total assets by €14.651.530. 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 the Company, is fully in line and compliance with its 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 required technical, financial and other resources for the completion of the development of the respective asset are available.

AXON NEUROSCIENCE SE

NOTES TO THE FINANCIAL STATEMENTSFor the year ended 31 December 2017**2. BASIS OF PREPARATION** *(continued)***(c) Going concern basis (continued)**

Negotiations with the main creditor (PPF Group N.V.) 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 total operational needs of the Company. The favorable outcome of the negotiations is supported by the decision of the creditor to provide ongoing funding to meet the Company'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.

Furthermore the Company is under mutual negotiations with Pharma Companies for granting them a licence on the Intellectual property and associate R&D. The possibility of successfully completing the negotiations is more than 50% probable.

Should the Company fail to successfully renegotiate the terms of the existing facilities with its current creditor PPF Group N.V. and extend the existing credit facility line to covers its total operational needs in 2019, the going concern basis of preparation may no longer be appropriate.

(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.

AXON NEUROSCIENCE SE

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

- Note 9 - impairment test: key assumptions underlying recoverable amounts and value in use.
- Note 13 "Provision for bad and doubtful debts" - the Company reviews its trade and other receivables for evidence of their recoverability.
- Note 12 "Provision for obsolete and slow-moving inventory" - the Company reviews its inventory records for evidence regarding the saleability of inventory and its net realizable value on disposal.
- Note 19 "Income taxes" - to determine any provision for income taxes.
- Notes 10 and 3 "Impairment of investments in subsidiaries" - determine the recoverability of investments in subsidiaries whenever indicators of impairment are present.

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.

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 8 - Property, plant and equipment
- Note 21 - Financial instruments

(f) Functional and presentation currency

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

AXON NEUROSCIENCE 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.

Changes in the Company's ownership interests in existing subsidiaries

Changes in the Company's ownership interests in subsidiaries that do not result in the Company losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Company's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity as transactions with shareholders acting in their capacity as shareholders. No adjustments are made to goodwill and no gain or loss is recognised in profit or loss.

When the Company loses control of a subsidiary, the resulting profit or loss is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. The resulting profit or loss is recognised in profit or loss.

Any interest retained in the former subsidiary is measured at fair value when control is lost.

Subsidiaries

Subsidiaries are entities controlled by the Group. Control exists where the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

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.

Revenue recognitionSale of goods

Revenue is recognised when the significant risks and rewards of ownership have been transferred to the customer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably. Revenue is measured net of Value Added Tax, return, volume rebates and trade discounts.

The timing of the transfer of risks and rewards depends on when the goods are delivered to customer.

- *Rendering of services*

Sales of services are recognised in the accounting period in which the services are rendered by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided.

- *Income from investments in securities*

Dividend from investments in securities is recognised when the right to receive payment is established. Withheld taxes are transferred to profit or loss. Interest from investments in securities is recognised on an accruals basis.

AXON NEUROSCIENCE SE

NOTES TO THE FINANCIAL STATEMENTSFor the year ended 31 December 2017**3. SIGNIFICANT ACCOUNTING POLICIES** *(continued)*Employee benefits

The Company and its employees contribute to the Government Social Insurance Fund based on employees' salaries. The Company's contributions are expensed as incurred and are included in staff costs. The Company has no legal or constructive obligations to pay further contributions if the scheme does not hold sufficient assets to pay all employees benefits relating to employee service in the current and prior periods.

Finance income

Interest income is recognised on a time-proportion basis using the effective method.

Finance expenses

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

Foreign currency translation*(i) Functional currency*

Items included in the Company's financial statements are measured using the currency of the primary economic environment in which the entity operates ('the functional currency').

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at the reporting date exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss. Non-monetary assets and liabilities that are measured at fair value in a foreign currency are translated into the functional currency at the exchange rate when the fair value is determined. Translation differences on non-monetary items such as equities held at fair value through profit or loss are reported as part of the fair value gain or loss.

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.

AXON NEUROSCIENCE SE

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Property, plant and equipment

Property, plant and equipment are measured at cost less accumulated depreciation and impairment losses.

Properties in the course of construction for production, rental or administrative purposes, or for purposes not yet determined, are carried at cost, less any recognised impairment loss. Cost includes professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Company's accounting policy. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Depreciation is recognised in profit or loss on the straight-line method over the useful lives of each part of an item of property, plant and equipment. The annual depreciation rates used for the current and comparative periods are as follows:

	%
Property under construction	-
Motor vehicles	20
Furniture, fixtures and office equipment	20

Depreciation methods, useful lives and residual values are reassessed at each reporting date and adjusted if appropriate.

Where the carrying amount of an asset is greater than its estimated recoverable amount, the asset is written down immediately to its recoverable amount.

Expenditure for repairs and maintenance of property, plant and equipment is charged to profit or loss of the year in which it is incurred. The cost of major renovations and other subsequent expenditure are included in the carrying amount of the asset when it is probable that future economic benefits in excess of the originally assessed standard of performance of the existing asset will flow to the Company. Major renovations are depreciated over the remaining useful life of the related asset.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

AXON NEUROSCIENCE SE

NOTES TO THE FINANCIAL STATEMENTSFor the year ended 31 December 2017**3. SIGNIFICANT ACCOUNTING POLICIES** *(continued)*Intangible assets*(i) Goodwill*

Goodwill represents the excess of the cost of an acquisition over the fair value of the Company's share of the net identifiable assets of the acquired undertaking at the date of acquisition. Goodwill on acquisition of subsidiaries is included in "intangible assets". Goodwill on acquisitions of associates is included in 'investments in associates'.

Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Gains and losses on the disposal of an undertaking include the carrying amount of goodwill relating to the undertaking sold. Goodwill is allocated to cash-generating units for the purpose of impairment testing.

(ii) Internally-generated intangible assets - research and development

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

Development expenditure is capitalised only if the expenditure can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable and the Company intends to and has sufficient resources to complete development and to use or sell the asset.

Otherwise, it is recognised in profit or loss as incurred. Subsequent to initial recognition, internally-generated intangible assets are measured at cost less accumulated amortisation and any accumulated impairment losses.

Amortisation methods, useful lives and residual values are reviewed at each reporting date and adjusted accordingly.

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss when the asset is derecognised.

(iii) Patents and trademarks

Patents and trademarks are measured initially at purchase cost and are amortised on a straight-line basis over their estimated useful lives. The annual depreciation rates used for the current and comparative periods are 10%.

AXON NEUROSCIENCE SE

NOTES TO THE FINANCIAL STATEMENTSFor the year ended 31 December 2017**3. SIGNIFICANT ACCOUNTING POLICIES** *(continued)*Intangible assets (continued)*(iv) Computer software*

Costs that are directly associated with identifiable and unique computer software products controlled by the Company and that will probably generate economic benefits exceeding costs beyond one year are recognised as intangible assets. Subsequently computer software is carried at cost less any accumulated amortisation and any accumulated impairment losses. Expenditure which enhances or extends the performance of computer software programs beyond their original specifications is recognised as a capital improvement and added to the original cost of the computer software. Costs associated with maintenance of computer software programs are recognised as an expense when incurred. Computer software costs are amortised using the straight-line method over their useful lives, not exceeding a period of three years. Amortisation commences when the computer software is available for use and is included within administrative expenses. The annual depreciation rates used for the current and comparative periods are 33%.

Amortisation methods, useful lives and residual values are reviewed at each reporting date and adjusted accordingly.

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss when the asset is derecognised.

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. The amortised cost is the amount at which the loan granted is measured at initial recognition minus principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between the initial amount and the maturity amount, and minus any reduction for impairment or uncollectibility. All loans are recognised when cash is advanced to the borrower.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability.

(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 NEUROSCIENCE SE

NOTES TO THE FINANCIAL STATEMENTSFor the year ended 31 December 2017**3. SIGNIFICANT ACCOUNTING POLICIES** *(continued)*Financial instruments (continued)*(ii) Investments* (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) Trade and other payables

Trade payables are initially recognised at fair value and are subsequently measured at amortised cost, using the effective interest rate method.

AXON NEUROSCIENCE 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.

Impairment of non-financial assets

Assets (other than biological assets, investment property, inventories and deferred tax assets) that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to depreciation or amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Goodwill is tested annually for impairment.

For impairment testing, assets are grouped together into the smallest group of assets that generates cash flows from continuing use that are largely independent of the cash inflows of other assets or cash generating units. Goodwill arising from a business combination is allocated to cash-generating units or groups of cash-generating units that are expected to benefit from the synergies of the combination.

AXON NEUROSCIENCE SE

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Impairment of non-financial assets *(continued)*

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. Value in use is based on the estimated future cash flows, discounted to their present value using pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or cash-generating unit.

An impairment loss is recognised if the carrying amount of an asset or cash-generating unit exceeds its recoverable amount.

Impairment losses are recognised in profit or loss. They are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit, and then to reduce the carrying amounts of the other assets in the cash-generating unit on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. For other assets, an impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognised.

Inventories

Inventories are stated at the lower of cost and net realisable value. The cost is determined using the weighted average method. Net realisable value is the estimated selling price in the ordinary course of business, less the costs to completion and selling expenses.

Share capital

Ordinary shares are classified as equity.

Non-current liabilities

Non-current liabilities represent amounts that are due more than twelve months from the reporting date.

Comparatives

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

4. OTHER INCOME

	2017	2016
	€	€
Other operating income	-	898.497
Revenue from sale of non-current assets	-	68.664
Revenue from services	-	8.250
	-	975.411

AXON NEUROSCIENCE SE

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

5. ADMINISTRATIVE EXPENSES

	2017	2016
	€	€
Staff costs	415.557	1.072.244
Material consumption expenses	1.959.373	2.061.395
Clinical services fees	6.306.630	4.360.481
Impairment of goodwill	-	2.455.761
Amortisation of intangible assets	1.442.875	1.446.422
Depreciation of property plant and equipment	6.542	198.027
Other administrative expenses	<u>3.204.466</u>	<u>3.552.781</u>
	<u>13.335.443</u>	<u>15.147.111</u>

6. NET FINANCE INCOME AND EXPENSES

	2017	2016
	€	€
Interest income from related parties (Note 20 (i))	1.110	-
Interest income	381	41.014
Exchange profit	<u>12.077</u>	<u>1.757</u>
	<u>13.568</u>	<u>42.771</u>
Net foreign exchange transaction losses	(3.838)	(5.989)
Interest expense from related parties (Note 20 (ii))	(1.692.220)	(724.247)
Interest expense	(718.488)	-
Sundry finance expenses	<u>(2.157)</u>	<u>(4.405)</u>
Finance expenses	<u>(2.416.703)</u>	<u>(734.641)</u>
Net finance expenses	<u>(2.403.135)</u>	<u>(691.870)</u>

AXON NEUROSCIENCE SE

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

7. TAXATION

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

	2017	2017	2016	2016
		€		€
Accounting loss before tax		<u>(15.738.578)</u>		<u>(14.863.570)</u>
Tax calculated at the applicable tax rates	12,50%	(1.967.322)	12,50%	(1.857.946)
Tax effect of expenses not deductible for tax purposes	(1,15)%	181.726	(2,29)%	340.338
Tax effect of allowances and income not subject to tax	-%	(532)	0,04%	(5.346)
Tax effect of loss for the year	<u>(11,35)%</u>	<u>1.786.128</u>	<u>(10,25)%</u>	<u>1.522.954</u>
Tax as per statement of profit or loss and other 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.

8. PROPERTY, PLANT AND EQUIPMENT

2017	Property under construction	Motor vehicles	Computer Hardware	Total
	€	€	€	€
Cost				
Balance at 1 January	<u>2.033.302</u>	<u>20.200</u>	<u>12.512</u>	<u>2.066.014</u>
Balance at 31 December	<u>2.033.302</u>	<u>20.200</u>	<u>12.512</u>	<u>2.066.014</u>
Depreciation				
Balance at 1 January	-	4.040	2.502	6.542
Depreciation for the year	-	4.040	2.502	6.542
Balance at 31 December	-	<u>8.080</u>	<u>5.004</u>	<u>13.084</u>
Carrying amounts				
Balance at 31 December	<u>2.033.302</u>	<u>12.120</u>	<u>7.508</u>	<u>2.052.930</u>

AXON NEUROSCIENCE SE

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

8. PROPERTY, PLANT AND EQUIPMENT (continued)

2016	Land and buildings	Property under construction	Motor vehicles	Furniture, fixtures and office equipment	Computer Hardware	Total
	€	€	€	€	€	€
Cost						
Balance at 1 January	488.078	1.764.095	-	3.939.169	-	6.191.342
Additions	-	269.207	20.200	31.407	12.512	333.326
Transfer to subsidiaries	(488.078)	-	-	(3.970.576)	-	(4.458.654)
Balance at 31 December	-	2.033.302	20.200	-	12.512	2.066.014
Depreciation						
Balance at 1 January	59.816	-	-	2.328.084	-	2.387.900
Depreciation for the year	-	-	4.040	-	2.502	6.542
Transfer to subsidiaries	(59.816)	-	-	(2.328.084)	-	(2.387.900)
Balance at 31 December	-	-	4.040	-	2.502	6.542
Carrying amounts						
Balance at 31 December	-	2.033.302	16.160	-	10.010	2.059.472

9. INTANGIBLE ASSETS

2017	Research and development	Patents and trademarks	Total
	€	€	€
Cost			
Balance at 1 January	6.225.240	14.428.750	20.653.990
Acquisitions-internally developed	15.820.157	-	15.820.157
Balance at 31 December	22.045.397	14.428.750	36.474.147
Amortisation			
Balance at 1 January	-	7.214.375	7.214.375
Amortisation for the year	-	1.442.875	1.442.875
Balance at 31 December	-	8.657.250	8.657.250
Carrying amounts			
Balance at 31 December	22.045.397	5.771.500	27.816.897

AXON NEUROSCIENCE SE

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

9. INTANGIBLE ASSETS (continued)

2016	Goodwill €	Computer software €	Research and development €	Patents and trademarks €	Total €
Cost					
Balance at 1 January	2.455.761	50.350	-	14.428.750	16.934.861
Acquisitions-internally developed	-	-	6.225.240	-	6.225.240
Transfer to subsidiaries	-	(50.350)	-	-	(50.350)
Impairment of goodwill	(2.455.761)	-	-	-	(2.455.761)
Balance at 31 December	-	-	6.225.240	14.428.750	20.653.990
Amortisation					
Balance at 1 January	-	7.190	-	5.771.500	5.778.690
Transfer to subsidiaries	-	(7.190)	-	(3.547)	(10.737)
Charge for the year	-	-	-	1.446.422	1.446.422
Balance at 31 December	-	-	-	7.214.375	7.214.375
Carrying amounts					
Balance at 31 December	-	-	6.225.240	7.214.375	13.439.615

The Company has taken the decision to capitalize development expenses incurred to date for the development of AADvac1, the leading product of the Company, after evaluating that there are ongoing technical, financial and other resources to make available the completion of the development of the product.

The Company is under mutual negotiations with Pharma Companies for granting them a licence to a pharma company on the patents and underlying intellectual property associated with all the R&D work carried out by the Company to date. The Company confirms that these offers are more than 50% probable to be concluded and that the most suitable offer will be concluded in 2019. The fact that it is probable that a third party is willing to pay a non-refundable upfront fee to acquire the right to use the IP ensures that criteria (a), (b), (c), (d) and (e) outlined in IAS38.57 are met and demonstrates that the IP has stand-alone functionality. The communications and documentations related to the ongoing negotiations with the Pharma companies are subject to strict confidentiality arrangements.

Axon Neuroscience SE operates in the pharmaceutical sector that carries various inherent risks and uncertainties that may affect the business of the subsidiary. The development of pharmaceutical product candidates is a complex, risky and lengthy process involving significant financial, R&D and other resources. There are various inherent uncertainties involved in assessing the outcomes of the development process that cannot be predicted at present. The risk exists that the project may fail at any stage of the process due to various factors, including failure to obtain the regulatory or marker approvals for the product candidate or for its manufacturing facilities, unfavorable clinical efficiency data, and/or safety concerns.

AXON NEUROSCIENCE SE

NOTES TO THE FINANCIAL STATEMENTSFor the year ended 31 December 2017**10. INVESTMENTS IN SUBSIDIARIES**

	2017 €	2016 €
Balance at 1 January	4.652.000	-
Additions	<u>-</u>	<u>4.652.000</u>
Balance at 31 December	<u>4.652.000</u>	<u>4.652.000</u>

The details of the subsidiaries are as follows:

<u>Name</u>	<u>Country of incorporation</u>	<u>Principal activities</u>	<u>Holding %</u>	2017 €	2016 €
Axon Neuroscience CRM Services SE	Slovakia	Clinical and medical management	100	802.000	802.000
Axon Neuroscience R&D Services SE	Slovakia	Research and development	100	<u>3.850.000</u>	<u>3.850.000</u>
				<u>4.652.000</u>	<u>4.652.000</u>

The investment in the subsidiary companies is stated at cost.

AXON NEUROSCIENCE SE

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

11. LOANS RECEIVABLE

	2017	2016
	€	€
Loans to own subsidiaries (note 20 (iv))	478.111	-
	<u>478.111</u>	<u>-</u>

The exposure of the Company to credit risk is reported in note 21 to the financial statements.

The fair values of non-current receivables approximate to their carrying amounts as presented above.

12. LAB SUPPLIES

	2017	2016
	€	€
Lab supplies	1.361.109	1.850.585
	<u>1.361.109</u>	<u>1.850.585</u>

The Company reviews its inventory records for evidence regarding the saleability of inventory and its net realizable value on disposal. The provision for obsolete and slow-moving inventory is based on management's past experience, taking into consideration the value of inventory as well as the movement and the level of stock of each category of inventory.

The amount of provision is recognized in the profit or loss. The review of the net realisable value of the inventory is continuous and the methodology and assumptions used for estimating the provision for obsolete and slow-moving inventory are reviewed regularly and adjusted accordingly.

13. TRADE AND OTHER RECEIVABLES

	2017	2016
	€	€
Receivables from own subsidiaries (note 20 (iii))	414.181	1.211.117
VAT Refundable	219.254	130.256
Deferred expenses	119.486	134.932
Other receivables	16.082	55.385
	<u>769.003</u>	<u>1.531.690</u>

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

The exposure of the Company to credit risk and impairment losses in relation to trade and other receivables is reported in note 21 to the financial statements.

AXON NEUROSCIENCE SE

NOTES TO THE FINANCIAL STATEMENTSFor the year ended 31 December 2017**14. OTHER INVESTMENTS**

	2017 €	2016 €
Balance at 1 January	<u>500</u>	<u>500</u>
Balance at 31 December	<u><u>500</u></u>	<u><u>500</u></u>

The exposure of the Company to market risk in relation to financial assets is reported in note 21 to the financial statements.

15. CASH AND CASH EQUIVALENTS

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

	2017 €	2016 €
Cash at bank and in hand	<u>4.522.355</u>	<u>139.263</u>
	<u><u>4.522.355</u></u>	<u><u>139.263</u></u>

The exposure of the Company to credit risk and impairment losses in relation to cash and cash equivalents is reported in note 21 to the financial statements.

16. SHARE CAPITAL

	2017 Number of shares	2017 €	2016 Number of shares	2016 €
Issued and fully paid				
Balance at 1 January	<u>27.392.012</u>	<u>27.512.000</u>	<u>27.392.012</u>	<u>27.512.000</u>
Balance at 31 December	<u><u>27.392.012</u></u>	<u><u>27.512.000</u></u>	<u><u>27.392.012</u></u>	<u><u>27.512.000</u></u>

AXON NEUROSCIENCE SE

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

17. LOANS AND BORROWINGS

	2017 €	2016 €
Non-current liabilities		
Loan from parent company (note 20 (vii))	<u>15.398.128</u>	<u>16.109.907</u>
	<u>15.398.128</u>	<u>16.109.907</u>
Current liabilities		
Other loans	<u>35.103.488</u>	-
Total	<u>50.501.616</u>	<u>16.109.907</u>
Maturity of borrowings:		
	2017 €	2016 €
Within one year	35.103.488	-
Between one and five years	<u>15.398.128</u>	<u>16.109.907</u>
	<u>50.501.616</u>	<u>16.109.907</u>

Other loans comprise of loans payable from PPF Group N.V. at an interest rate of 5% per annum. This interim financing provided by PPF Group N.V. was due in September 2018. Negotiations with the PPF Group N.V. 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 total operational needs of the Company.

The favorable outcome of the negotiations is supported by the decision of the creditor to provide ongoing funding to meet the Company'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.

The exposure of the Company to interest rate risk in relation to financial instruments is reported in note 21 to the financial statements.

AXON NEUROSCIENCE SE

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

18. TRADE AND OTHER PAYABLES

	2017	2016
	€	€
Trade payables	492.936	1.521.871
Social insurance and other taxes	51.284	9.317
Payable to employees	33.212	40.288
Accruals to own subsidiaries (note 20 (vi))	1.764.418	-
Accruals	129.426	21.903
Payables to own subsidiaries (note 20 (v))	<u>3.331.340</u>	<u>4.882.188</u>
	<u>5.802.616</u>	<u>6.475.567</u>

The fair values of trade and 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 21 to the financial statements.

19. TAX LIABILITY

	2017	2016
	€	€
Corporation tax	<u>203</u>	<u>603</u>
	<u>203</u>	<u>603</u>

The above amounts are payable within one year.

AXON NEUROSCIENCE SE

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

20. RELATED PARTY TRANSACTIONS

The Company is controlled by Axon Holding SE, incorporated in Cyprus, which owns 73,60% of the Company's shares.

The transactions and balances with related parties are as follows:

(i) Interest income (Note 6)

	2017 €	2016 €
Axon Neuroscience R&D Services SE	<u>1.110</u>	<u>-</u>
	<u>1.110</u>	<u>-</u>

(ii) Interest expense (Note 6)

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

(iii) Receivables from own subsidiaries (note 13)

<u>Name</u>	2017 €	2016 €
Axon Neuroscience R&D Services SE	63.755	559.626
Axon Neuroscience CRM Services SE	<u>350.426</u>	<u>651.491</u>
	<u>414.181</u>	<u>1.211.117</u>

The receivables from the subsidiary companies do not bear any interest and are repayable on demand.

(iv) Loan receivable from own subsidiary (note 11)

	2017 €	2016 €
Axon Neuroscience R&D Services SE	<u>478.111</u>	<u>-</u>
	<u>478.111</u>	<u>-</u>

Loan receivable comprise of loan receivable from Axon Neuroscience R&D Services SE at an interest rate of 5% per annum and receivable on 15 December 2023.

AXON NEUROSCIENCE SE

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

20. RELATED PARTY TRANSACTIONS *(continued)*

(v) Payables to own subsidiaries (note 18)

	2017	2016
	€	€
<u>Name</u>		
Axon Neuroscience CRM Services SE	1.281.585	1.232.530
Axon Neuroscience R&D Services SE	2.047.309	2.236.690
Axon Neuroscience CRM Services SE	1.005	1.394.544
Axon Neuroscience R&D Services SE	<u>1.441</u>	<u>18.424</u>
	<u>3.331.340</u>	<u>4.882.188</u>

(vi) Accruals to own subsidiaries (note 18)

	2017	2016
	€	€
<u>Name</u>		
Axon Neuroscience CRM Services SE	1.031.448	-
Axon Neuroscience R&D Services SE	<u>732.970</u>	<u>-</u>
	<u>1.764.418</u>	<u>-</u>

(vii) Loan payable from parent company (note 17)

	2017	2016
	€	€
Axon Holding SE	<u>15.398.128</u>	<u>16.109.907</u>
	<u>15.398.128</u>	<u>16.109.907</u>

The loan in the principal amount of €15.351.862 bears interest at the rate of 10% per annum and agreed repayment date 31 March 2021. As per agreement, the parent company is obliged to provide to Axon Neuroscience SE financial credit of €50.000.000.

AXON NEUROSCIENCE SE

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

21. FINANCIAL INSTRUMENTS – FAIR VALUES AND RISK MANAGEMENT

Financial risk factors

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

- Credit risk
- 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.

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

	Loans and receivables €	Carrying amount Borrowings and other financial liabilities €	Total €
Financial assets not measured at fair value			
Loans receivable	478.111	-	478.111
Trade and other receivables	769.003	-	769.003
Cash and cash equivalents	<u>4.522.355</u>	-	<u>4.522.355</u>
	<u>5.769.469</u>	-	<u>5.769.469</u>
Financial liabilities not measured at fair value			
Loans and borrowings	-	50.501.616	50.501.616
Trade and other payables	-	<u>5.802.616</u>	<u>5.802.616</u>
	-	<u>56.304.232</u>	<u>56.304.232</u>

AXON NEUROSCIENCE SE

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

21. FINANCIAL INSTRUMENTS – FAIR VALUES AND RISK MANAGEMENT (continued)**A. Accounting classifications and fair values (continued)**

31/12/2016	Loans and receivables €	Carrying amount Borrowings and other financial liabilities €	Total €
Financial assets not measured at fair value			
Trade and other receivables	1.531.690	-	1.531.690
Cash and cash equivalents	<u>139.263</u>	<u>-</u>	<u>139.263</u>
	<u>1.670.953</u>	<u>-</u>	<u>1.670.953</u>
Financial liabilities not measured at fair value			
Loans and borrowings	-	16.109.907	16.109.907
Trade and other payables	<u>-</u>	<u>6.475.567</u>	<u>6.475.567</u>
	<u>-</u>	<u>22.585.474</u>	<u>22.585.474</u>

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

Credit risk arises when a failure by counter parties to discharge their obligations could reduce the amount of future cash inflows from financial assets on hand at the reporting date. The Company has no significant concentration of credit risk. The Company has policies in place to ensure that sales of products and services are made to customers with an appropriate credit history and monitors on a continuous basis the ageing profile of its receivables.

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

	2017 €	2016 €
Loans receivables from related parties	478.111	-
Trade and other receivables	235.336	185.641
Cash and cash equivalents	4.515.091	131.555
Receivables from related companies	<u>414.181</u>	<u>1.211.117</u>
	<u>5.642.719</u>	<u>1.528.313</u>

The Company establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables. The main components of this allowance are a specific loss component that relates to individually significant exposures and a collective loss component established for groups of similar assets in respect of losses that have been incurred but not yet identified.

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21. FINANCIAL INSTRUMENTS – FAIR VALUES AND RISK MANAGEMENT (continued)**B. Financial risk management** (continued)(ii) *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.

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 €
Other loans	35.103.488	35.103.488	35.103.488	-
Trade and other payables	706.858	706.858	706.858	-
Payables to related parties	5.095.758	5.095.758	5.095.758	-
Loan from parent company	15.398.128	20.386.431	-	20.386.431
	<u>56.304.232</u>	<u>61.292.535</u>	<u>40.906.104</u>	<u>20.386.431</u>
31 December 2016				
	Carrying amounts €	Contractual cash flows €	Between 3-12 months €	Between 1-5 years €
Trade and other payables	1.571.476	1.571.476	1.571.476	-
Payables to related parties	4.882.188	4.882.188	4.882.188	-
Loan from parent company	16.109.907	23.482.597	-	23.482.597
	<u>22.563.571</u>	<u>29.936.261</u>	<u>6.453.664</u>	<u>23.482.597</u>

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21. FINANCIAL INSTRUMENTS – FAIR VALUES AND RISK MANAGEMENT *(continued)***B. Financial risk management (continued)***(iii) 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.

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

	2017	2016
	€	€
<i>Fixed rate instruments</i>		
Financial assets	478.111	-
Financial liabilities	<u>(50.501.616)</u>	<u>(16.109.907)</u>
	<u>(50.023.505)</u>	<u>(16.109.907)</u>

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