AXON HOLDING SE

FINANCIAL STATEMENTS

For the year ended 31 December 2018

AXON HOLDING SE

FINANCIAL STATEMENTS

For the year ended 31 December 2018

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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 Nicolaides Sea View City, Block C, 5th floor, flat 506 6016, Larnaca Cyprus
Registration number	SE19

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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 the parent company Axon Holding SE (the "Company"), which are presented on pages 5 to 36 and comprise the statement of financial position as at 31 December 2018, and the statements of 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 financial statements give a true and fair view of the financial position of the parent company Axon Holding SE as at 31 December 2018, 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 financial statements"* section of our report. We remained independent of the Company throughout the period of our engagement, 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.

KPMG

INDEPENDENT AUDITORS' REPORT

TO THE MEMBERS OF

AXON HOLDING SE

Material Uncertainty Related to Going Concern

We draw attention to note 2.3 to the financial statements which indicates that the Company incurred a net loss of €39.706.513 during the year ended 31 December 2018 and, as of that date the Company's liabilities exceeded its assets by €109.299.049. As stated in note 2.3, these events or conditions, along with other matters as set forth in note 2.3, 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 11 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.

Responsibilities of the Board of Directors and those charged with governance for the 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 and those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditors' responsibilities for the audit of the financial statements

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

INDEPENDENT AUDITORS' REPORT

TO THE MEMBERS OF

AXON HOLDING SE

Auditors' responsibilities for the audit of the financial statements (continued)

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 a true and fair view.

We communicate with those charged with governance 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.

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
P.O. Box 40075
6300 Larnaca
Cyprus

28 June 2019

AXON HOLDING SE

STATEMENT OF FINANCIAL POSITION

As at 31 December 2018

	Note	2018 €	2017 €
Assets			
Investments in subsidiaries	11	350.013.950	350.013.950
Loans receivable	12	9.856.752	15.398.128
Total non-current assets		359.870.702	365.412.078
Cash and cash equivalents	13	2.397	2.304
Total current assets		2.397	2.304
Total assets		359.873.099	365.414.382
Equity			
Share capital	14	120.000	120.000
Reserves		(109.419.049)	(69.712.536)
Total equity		(109.299.049)	(69.592.536)
Liabilities			
Loans and borrowings	15	468.908.573	434.929.555
Total non-current liabilities		468.908.573	434.929.555
Other payables	16	263.575	77.363
Total current liabilities		263.575	77.363
Total liabilities		469.172.148	435.006.918
Total equity and liabilities		359.873.099	365.414.382

The Company has initially applied IFRS 15 and IFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information has not been restated.

On 28 June 2019 the Board of Directors of Axon Holding SE approved and authorised these financial statements for issue.

……………………………
Daniel Legen
Director

……………………………
Boris Krehel
Director

The notes on pages 9 to 36 are an integral part of these financial statements.

AXON HOLDING SE

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2018

	Note	2018 €	2017 €
Revenue	8	222.557	107.040
Administrative and selling expenses		(70.277)	(127.711)
Operating profit/(loss)		152.280	(20.671)
Finance income - total		-	269
Finance costs - total		(39.858.793)	(36.253.016)
Net finance expenses	9	(39.858.793)	(36.252.747)
Loss before tax		(39.706.513)	(36.273.418)
Tax	10	-	-
Loss for the year/period		(39.706.513)	(36.273.418)
Other comprehensive income		-	-
Total comprehensive expense for the year/period		(39.706.513)	(36.273.418)

The Company has initially applied IFRS 15 and IFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information has not been restated.

The notes on pages 9 to 36 are an integral part of these financial statements.

AXON HOLDING SE

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2018

	Share capital €	Retained earnings €	Total €
Balance at 1 January 2017	120.000	(33.439.118)	(33.319.118)
Comprehensive income			
Loss for the period	-	(36.273.418)	(36.273.418)
Balance at 1 January 2018	120.000	(69.712.536)	(69.592.536)
Comprehensive income			
Loss for the year	-	(39.706.513)	(39.706.513)
Balance at 31 December 2018	120.000	(109.419.049)	(109.299.049)

The notes on pages 9 to 36 are an integral part of these financial statements.

AXON HOLDING SE

STATEMENT OF CASH FLOWS

For the year ended 31 December 2018

	Note	2018 €	2017 €
Cash flows from operating activities			
Loss for the year/period		(39.706.513)	(36.273.418)
Adjustments for:			
Interest income	8	(1.308.625)	(1.692.220)
Loan interest expense	8	1.086.068	1.585.180
Bond interest expense	9	39.681.950	36.252.700
Cash used in operations before working capital changes		(247.120)	(127.758)
Increase in other payables		186.213	63.840
Cash used in operations		(60.907)	(63.918)
Cash flows from investing activities			
Loans granted		-	(1.996.000)
Net cash used in investing activities		-	(1.996.000)
Cash flows from financing activities			
Repayment of borrowings		-	(501.576)
Proceeds from borrowings		61.000	2.560.100
Net cash generated from financing activities		61.000	2.058.524
Net increase/(decrease) in cash and cash equivalents		93	(1.394)
Cash and cash equivalents at beginning of the year/period		2.304	3.698
Cash and cash equivalents at end of the year/period	13	2.397	2.304

The Company has initially applied IFRS 15 and IFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information has not been restated.

AXON HOLDING SE

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

1. Reporting entity

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 accounting

2.1 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 is not required by the Cyprus Companies Law, Cap.113, to prepare consolidated financial statements because the Company and its subsidiaries constitute a medium sized group as defined by the Law and the Company does not intend to issue consolidated financial statements for the year ended 31 December 2018.

The European Union has concluded that since its 4th Directive requires parent companies to prepare separate financial statements, and since the Cyprus Companies Law, Cap. 113, requires the preparation of such financial statements in accordance with IFRS as adopted by the European Union, the provisions of International Financial Reporting Standard 10 'Consolidated Financial Statements' that require the preparation of consolidated financial statements in accordance with IFRS do not apply.

2.2 Basis of measurement

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

2. Basis of accounting *(continued)*

2.3 Going concern basis

The Company incurred a loss of €39.706.513 during the year ended 31 December 2018 and, as of that date the Company's liabilities exceeded its assets by €109.299.049. 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 but have not yet been finalised. 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 €2,385 million in January 2019, €4,02 million in March 2019, €1,62 million in April 2019 and €5,07 million in May 2019.

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. These offers are covered by non-disclosure agreements.

3. Functional and presentation currency

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

4. Adoption of new and revised IFRSs and interpretations 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 2018. This adoption did not have a material effect on the accounting policies of the Company except for the adoption of IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers (see Note 6).

4. Adoption of new and revised IFRSs and interpretations by the European Union (EU) (continued)

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.

5. Use of estimates and judgments

In preparing these financial statements, management has made judgments, estimates and assumptions that affect 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 reviewed on an ongoing basis. Revisions to estimates are recognised prospectively - that is, 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.

5.1 Assumptions and estimation uncertainties
Information about assumptions and estimation uncertainties at the reporting date that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities in the next financial year is included in the following notes:

- Notes 11 and 7 "Impairment of investments in subsidiaries" - determine the recoverability of investments in subsidiaries whenever indicators of impairment are present.
- Note 12 Impairment of financial instruments: assessment of whether credit risk on the financial asset has increased significantly since initial recognition and incorporation of forward looking information in the measurement of ECL.

5.2 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.

5. Use of estimates and judgments (continued)

The Company recognises 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 18 - Financial instruments - Fair values and risk management

6. Changes in significant accounting policies

The Company has adopted the following new standards, amendments to a standard and new interpretations with a date of initial application of 1 January 2018. The nature and effects of the changes are explained below.

6.1 IFRS 9 Financial Instruments:

IFRS 9 sets out requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces IAS 39 Financial Instruments: Recognition and Measurement.

As a result of the adoption of IFRS 9, the Company has adopted consequential amendments to IAS 1 Presentation of Financial Statements, which require impairment of financial assets to be presented in a separate line item in the statement of profit or loss and OCI.

Additionally, the Company has adopted consequential amendments to IFRS 7 Financial Instruments: Disclosures that are applied to disclosures about 2018 but have not been generally applied to comparative information.

There is no effect on the opening retained earnings on 1 January 2018 from the adoption of IFRS 9.

6.1.1 Classification and measurement of financial assets and financial liabilities

IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, FVOCI and FVTPL.

The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. IFRS 9 eliminates the previous IAS 39 categories of held to maturity, loans and receivables and available for sale. Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never separated. Instead, the hybrid financial instrument as a whole is assessed for classification.

IFRS 9 largely retains the existing requirements in IAS 39 for the classification and measurement of financial liabilities.

For an explanation of how the Company classifies and measures financial instruments and accounts for related gains and losses under IFRS 9, see Note 7.

AXON HOLDING SE

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

6. Changes in significant accounting policies *(continued)*

6.1 IFRS 9 Financial Instruments *(continued)*:

6.1.1 Classification and measurement of financial assets and financial liabilities *(continued)*

The following table and the accompanying notes below explain the original measurement categories under IAS 39 and the new measurement categories under IFRS 9 for each class of the Company's financial assets and financial liabilities as at 1 January 2018. The effect of adopting IFRS 9 on the carrying amounts of financial assets at 1 January 2018 relates solely to the new impairment requirements.

	Note	Original classification under IAS 39	New classification under IFRS 9	Original carrying amount under IAS 39 €	New carrying amount under IFRS 9 €
Financial assets					
Cash and cash equivalents		Loans and receivables	Amortised cost	2.304	2.304
Loans and receivables		Loans and receivables	Amortised cost	15.398.128	15.398.128
Total financial assets				15.400.432	15.400.432

6. Changes in significant accounting policies *(continued)*

6.1 IFRS 9 Financial Instruments *(continued):*

6.1.1 Classification and measurement of financial assets and financial liabilities *(continued)*

The following table reconciles the carrying amounts of financial assets under IAS 39 to the carrying amounts under IFRS 9 on transition to IFRS 9 on 1 January 2018.

	IAS 39 carrying amount at 31 December 2017	Reclassification	Remeasurement	IFRS 9 carrying amount at 1 January 2018
	€	€	€	€
Financial assets				
Amortised cost				
Cash and cash equivalents:				
Brought forward: Loans and receivables	2.304			
Carried forward: Amortised cost				2.304
Loans and receivables				
Brought forward: Loans and receivables	15.398.128			
Carried forward: Amortised cost	-	-	-	15.398.128
Total amortised cost	15.400.432	-	-	15.400.432

6.1.2 Impairment of financial assets

IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' (ECL) model. The new impairment model applies to:

- financial assets measured at amortised cost;
- debt investments at FVOCI;
- contract assets;
- lease receivables;
- loan commitments and financial guarantee contracts issued.

The new impairment model does not apply to investments in equity instruments.

Under IFRS 9, credit losses are recognised earlier than under IAS 39.

For assets in the scope of the IFRS 9 impairment model, impairment losses are generally expected to increase and become more volatile.

Additional information about how the Company measures the allowance for impairment is described in note 7.7.3.

7. Significant accounting policies

The following accounting policies have been applied consistently for all the years presented in these financial statements, except if mentioned otherwise (see also note 6).

Certain comparative amounts in the statement of profit or loss and OCI have been restated, reclassified or re-presented, as a result of:

- a change in accounting policy (see note 6).

7.1 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.

7.2 Revenue recognition

Revenues earned by the Company are recognised on the following basis:

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

7.3 Finance income and finance costs

The Company's finance income and finance costs include:

- interest expense;

7.4 Finance income

Finance income include foreign exchange differences

7.5 Finance costs

Finance expenses include interest expense on bonds, foreign exchange differences and bond administration costs as well as bank charges. Finance expenses, excluding bank charges, foreign exchange differences and bond administration costs, are recognised to profit or loss using the effective interest method. Bank charges, foreign exchange differences and bond administration costs are recognised in profit or loss in the period which incurred.

7.6 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').

7. Significant accounting policies *(continued)*

7.7 Financial instruments

7.7.1 Recognition and initial measurement

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

A financial asset (unless it is a trade receivable without a significant financing component) or financial liability is initially measured at fair value plus, for an item not at fair value through profit or loss (FVTPL), transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

7.7.2 Classification and subsequent measurement

7.7.2.1 Financial assets - policy applicable from 1 January 2018

On initial recognition, a financial asset is classified as measured at: amortised cost; Fair Value through Other Comprehensive income (FVOCI) debt investment; Fair Value through Other Comprehensive income (FVOCI) equity investment; or FVTPL.

Financial assets are not reclassified subsequent to their initial recognition unless the Company changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A debt investment is measured at FVOCI if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Cash and cash equivalents

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

7. Significant accounting policies *(continued)*

7.7 Financial instruments (continued)

7.7.2 Classification and subsequent measurement (continued)

7.7.2.1 Financial assets policy applicable from 1 January 2018 (continued)

Financial assets - Business model assessment: Policy applicable from 1 January 2018

The Company makes an assessment of the objective of the business model in which a financial asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice. These include whether management's strategy focuses on earning contractual interest income, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of any related liabilities or expected cash outflows or realising cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Company's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how managers of the business are compensated - e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- the frequency, volume and timing of sales of financial assets in prior periods, the reasons for such sales and expectations about future sales activity.

Transfers of financial assets to third parties in transactions that do not qualify for derecognition are not considered sales for this purpose, consistent with the Company's continuing recognition of the assets.

Financial assets that are held for trading or are managed and whose performance is evaluated on a fair value basis are measured at FVTPL.

Financial assets - Assessment whether contractual cash flows are solely payments of principal and interest: Policy applicable from 1 January 2018

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as a profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Company considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making this assessment, the Company considers:

- contingent events that would change the amount or timing of cash flows;
- terms that may adjust the contractual coupon rate, including variable-rate features;
- prepayment and extension features; and
- terms that limit the Company's claim to cash flows from specified assets (e.g. non-recourse features).

7. Significant accounting policies *(continued)*

7.7 Financial instruments (continued)

7.7.2 Classification and subsequent measurement (continued)

7.7.2.1 Financial assets policy applicable from 1 January 2018 (continued)

A prepayment feature is consistent with the solely payments of principal and interest criterion if the prepayment amount substantially represents unpaid amounts of principal and interest on the principal amount outstanding, which may include reasonable additional compensation for early termination of the contract. Additionally, for a financial asset acquired at a discount or premium to its contractual par amount, a feature that permits or requires prepayment at an amount that substantially represents the contractual par amount plus accrued (but unpaid) contractual interest (which may also include reasonable additional compensation for early termination) is treated as consistent with this criterion if the fair value of the prepayment feature is insignificant at initial recognition.

Financial assets - Subsequent measurement and gains and losses: Policy applicable from 1 January 2018

Financial assets at FVTPL	These assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognised in profit or loss.
Financial assets at amortised cost	These assets are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss.
Debt investments at FVOCI	These assets are subsequently measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment are recognised in profit or loss. Other net gains and losses are recognised in OCI. On derecognition, gains and losses accumulated in OCI are reclassified to profit or loss.
Equity investments at FVOCI	These assets are subsequently measured at fair value. Dividends are recognised as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses are recognised in OCI and are never reclassified to profit or loss.

7.7.2.2 Financial assets - Classification: Policy applicable before 1 January 2018

The Company classified its financial assets into one of the following categories:

- loans and receivables;
- held to maturity;
- available for sale; and
- at FVTPL, and within this category as:
  - held for trading;
  - derivative hedging instruments; or
  - designated as at FVTPL.

7. **Significant accounting policies** *(continued)*

7.7 Financial instruments (continued)

7.7.2 Classification and subsequent measurement (continued)

7.7.2.3 Financial assets Subsequent measurement and gains and losses: Policy applicable before 1 January 2018

Financial assets at FVTPL	Measured at fair value and changes therein, including any interest or dividend income, were recognised in profit or loss.
Held-to-maturity financial assets	Measured at amortised cost using the effective interest method.
Loans and receivables	Measured at amortised cost using the effective interest method.
Available-for-sale financial assets	Measured at fair value and changes therein, other than impairment losses, interest income and foreign currency differences on debt instruments, were recognised in OCI and accumulated in the fair value reserve. When these assets were derecognised, the gain or loss accumulated in equity was reclassified to profit or loss.

Before 1 January 2018, the Company subsequently measured its financial instruments as follows:

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

7.7.2.4 Financial liabilities - Classification, subsequent measurement and gains and losses

Financial liabilities are classified as measured at amortised cost or FVTPL. A financial liability is classified as at FVTPL if it is classified as held-for-trading, it is a derivative or it is designated as such on initial recognition. Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognised in profit or loss. Other financial liabilities are subsequently measured at amortised cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognised in profit or loss. Any gain or loss on derecognition is also recognised in profit or loss.

The financial liabilities of the Company are measured as follows:

(i) 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.

(ii) Other payables
Trade payables are stated at their nominal values.

7. Significant accounting policies *(continued)*

7.7 Financial instruments (continued)

7.7.3 Impairment:

Policy applicable from 1 January 2018

- Financial instruments and contract assets

The Company recognises loss allowances for ECLs on:

- financial assets measured at amortised cost;
- debt investments measured at FVOCI; and

The Company measures loss allowances at an amount equal to lifetime ECLs, except for the following, which are measured at 12-month ECLs:

- debt securities that are determined to have low credit risk at the reporting date; and
- other debt securities and bank balances for which credit risk (i.e. the risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Company considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Company's historical experience and informed credit assessment and including forward-looking information.

The Company assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due.

The Company considers a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the Company in full, without recourse by the Company to actions such as realising security (if any is held); or
- the financial asset is more than 90 days past due.

The Company considers a debt security to have low credit risk when its credit risk rating is equivalent to the globally understood definition of 'investment grade'. The Company considers this to be Baa3 or higher per Moody's rating agency or BBB- or higher per Moody's Rating Agency.

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument.

12-month ECLs are the portion of ECLs that result from default events that are possible within the 12 months after the reporting date (or a shorter period if the expected life of the instrument is less than 12 months).

The maximum period considered when estimating ECLs is the maximum contractual period over which the Company is exposed to credit risk.

7. Significant accounting policies *(continued)*

7.7 Financial instruments *(continued)*

7.7.3 Impairment *(continued)*:

- Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Company expects to receive). ECLs are discounted at the effective interest rate of the financial asset.

- Credit-impaired financial assets

At each reporting date, the Company assesses whether financial assets carried at amortised cost and debt securities at FVOCI are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or being more than 90 days past due;
- the restructuring of a loan or advance by the Company on terms that the Company would not consider otherwise;
- it is probable that the borrower will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for a security because of financial difficulties.

- Presentation of allowance for ECL in the statement of financial position

Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the assets. For debt securities at FVOCI, the loss allowance is charged to profit or loss and is recognised in OCI.

Financial assets measured at amortised cost

For financial assets measured at amortised cost, the Company considers evidence of impairment for these assets at both an individual and a collective level. All individually significant assets are individually assessed for impairment. Those found not to be impaired are then collectively assessed for any impairment that has been incurred but not yet individually identified. Assets that are not individually significant are collectively assessed for impairment. Collective assessment is carried out by grouping together assets with similar risk characteristics.

In assessing collective impairment, the Company uses historical information on the timing of recoveries and the amount of loss incurred, and makes an adjustment if current economic and credit conditions are such that the actual losses are likely to be greater or lesser than suggested by historical trends.

7. Significant accounting policies *(continued)*

7.7 Financial instruments *(continued)*

7.7.3 Impairment *(continued)*:

An impairment loss is calculated as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss. When the Company considers that there are no realistic prospects of recovery of the asset, the relevant amounts are written off. If in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Available-for-sale financial assets

In respect of available for sale equity securities, impairment losses are measured by comparing the recoverable amount of the investment with its carrying amount. An impairment loss is recognised in profit or loss, and is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. Impairment losses previously recognised in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognised in other comprehensive income and accumulated under the heading of investments revaluation reserve.

In respect of available for sale debt securities, impairment losses are recognised by reclassifying the losses accumulated in the fair value reserve to profit or loss. The amount reclassified is the difference between the acquisition cost (net of any principal repayment and amortization) and the current fair value, less any impairment loss previously recognised in profit or loss. Impairment losses are subsequently reversed through profit or loss if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss; otherwise, impairment losses are reversed in other comprehensive income.

7.8 Derecognition of financial assets and liabilities

Financial assets

The Company derecognises a financial asset (or, where applicable a part of a financial asset or part of a Company of similar financial assets) 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 transfers the rights to receive the contractual 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 derecognised financial assets that is created or retained by the Company is recognised as a separate asset or liability

7. Significant accounting policies *(continued)*

7.8 Derecognition of financial assets and liabilities (continued)

Financial liabilities

The Company derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire.

The Company also derecognises a financial liability when it is replaced by another from the same lender on substantially different terms, or when the terms of the liability are substantially modified, and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognised at fair value.

On derecognition of a financial liability, the difference between the carrying amount extinguished and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognised in profit or loss.

7.9 Offsetting financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position when, and only when, the Company has a currently enforceable legal right to offset the recognised amounts and it intends to settle them 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.

7.10 Non-current liabilities

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

7.11 Comparatives

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

8. Revenue

The effect of initially applying IFRS 15 on the Company's revenue from the contracts with customers is described in Due to the transition method chosen in applying IFRS 15, comparative information has not been restated to reflect the new requirements.

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NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

8. Revenue *(continued)*

8.1 Revenue streams: the Company generates revenue from the provision of financing to related parties.

	2018 €	2017 €
Interest income on loan receivable from subsidiary (Note 17(ii))	1.308.625	1.692.220
Interest expense on loan payable to third party	(1.086.068)	(1.585.180)
Total revenue	222.557	107.040
	222.557	107.040

9. Net finance income and costs

The effect of initially applying IFRS 9 in the Company's financial instruments is described in note 6.1.

	2018 €	2017 €
Exchange profit	-	269
	-	269
Net foreign exchange transaction losses	(39)	-
Interest expense	(39.681.950)	(36.252.700)
Sundry finance expenses	(176.804)	(316)
Finance costs - total	(39.858.793)	(36.253.016)
Net finance expenses	(39.858.793)	(36.252.747)

AXON HOLDING SE

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

10. Taxation

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

	2018	2018 €	2017	2017 €
Accounting loss before tax		(39.706.513)		(36.273.418)
Tax calculated at the applicable tax rates	12,50%	(4.963.314)	12,50%	(4.534.177)
Tax effect of expenses not deductible for tax purposes	(12,55)%	4.982.356	(12,50)%	4.532.628
Tax effect of group tax relief	0,05%	(19.042)	-%	-
Tax effect of loss for the year/period	-%	-	-%	1.549
Tax as per statement of comprehensive income - charge	-%	-	-%	-

The corporation tax rate is 12,5%, (2017:12,5%).

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%.

11. Investments in subsidiaries

	2018 €	2017 €
Balance at 1 January	350.013.950	350.013.950
Balance at 31 December	350.013.950	350.013.950

The details of the subsidiaries are as follows:

Name	Country of incorporation	Principal activities	2018 Holding %	2017 Holding %	2018 €	2017 €
AXON Neuroscience SE	Slovak Republic	Neuroscience research	73,60%	73,60%	350.013.950	350.013.950
					350.013.950	350.013.950

The investment in the subsidiary company is stated at cost.

Management has assessed the recoverable amount of the Company's investment in Axon Neuroscience SE, on the basis of a valuations performed by an independent valuer in 2018. 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.

12. Loans receivable

The effect of initially applying IFRS 9 in the Company's financial instruments is described in note 6.1. Due to the transition method chosen in applying IFRS 9, comparative information has not been restated to reflect the new requirements.

AXON HOLDING SE

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

12. Loans receivable *(continued)*

	2018 €	2017 €
Loans to own subsidiary (Note 17 (iii))	9.856.752	15.398.128
	9.856.752	15.398.128

Loan to own subsidiary related to loan provided to Axon Neuroscience SE at the principal amount of €9.792.364. 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 loans are repayable as follows:

	2018 €	2017 €
Between one and five years	9.856.752	15.398.128

The exposure of the Company to credit risk is reported in note 18 to the financial statements.

13. Cash and cash equivalents

The effect of initially applying IFRS 9 in the Company's financial instruments is described in note 6.1. Due to the transition method chosen in applying IFRS 9, comparative information has not been restated to reflect the new requirements.

Cash balances are analysed as follows:

	2018 €	2017 €
Cash at bank and in hand	2.397	2.304
	2.397	2.304

The exposure of the Company to credit risk and impairment losses in relation to cash and cash equivalents is reported in note 18 to the financial statements.

AXON HOLDING SE

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

14. Share capital

	2018 Number of shares	2018 €	2017 Number of shares	2017 €
Authorised				
Ordinary shares of €1 each	120.000	120.000	120.000	120.000
Issued and fully paid				
Balance at 1 January	120.000	120.000	120.000	120.000
Balance at 31 December	120.000	120.000	120.000	120.000

15. Loans and borrowings

	2018 €	2017 €
Non-current liabilities		
Non-convertible bond	459.156.500	419.474.550
Loan payable	9.752.073	15.455.005
	468.908.573	434.929.555

Maturity of borrowings:

	2018 €	2017 €
Between one and five years	468.908.573	434.929.555

Loan payable comprises of a credit facility from PM Squared Limited. The principal as at 31 December 2018 amounts to €7.907.304. 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 18 to the financial statements.

16. Other payables

	2018 €	2017 €
Social insurance and other taxes	7.256	7.256
VAT	20.900	-
Accruals	37.188	70.107
Other creditors	182.718	-
Payables to own subsidiaries (Note 17 (iv))	15.513	-
	263.575	77.363

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 18 to the financial statements.

17. 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:

	2018 €	2017 €
Directors' remuneration	47.164	47.164
	47.164	47.164

(ii) Interest received from subsidiary (Note 8)

	2018 €	2017 €
Axon Neuroscience SE	1.308.625	1.692.220
	1.308.625	1.692.220

17. Related party transactions *(continued)*

(iii) Loan to own subsidiary (Note 12)

		2018	2017
		€	€
	Terms		
Axon Neuroscience SE	Financing	9.856.752	15.398.128
		9.856.752	15.398.128

(iv) Payable to own subsidiary (Note 16)

	2018	2017
	€	€
Name		
Axon Neuroscience SE	15.513	-
	15.513	-

18. Financial instruments - fair values and risk management

The effect of initially applying IFRS 9 in the Company's financial instruments is described in note 6.1. Due to the transition method chosen in applying IFRS 9, comparative information has not been restated to reflect the new requirements.

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 the 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.

18. 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.

		Carrying amount		
		Financial assets at amortised cost	Other financial liabilities	Total
31 December 2018	Note	€	€	€
Financial assets not measured at fair value				
Loan receivable		9.856.752	-	9.856.752
Cash and cash equivalents	13	2.397	-	2.397
Total		9.859.149	-	9.859.149
Financial liabilities not measured at fair value				
Loan payable	15	-	9.752.073	9.752.073
Non-convertible bond	15	-	459.156.500	459.156.500
Other payables	15	-	235.419	235.419
Total		-	469.143.992	469.143.992

18. Financial instruments - fair values and risk management *(continued)*

		Carrying amount		
		Financial assets at amortised cost	Other financial liabilities	Total
31 December 2017	Note	€	€	€
Financial assets not measured at fair value				
Loan receivable		15.398.128	-	15.398.128
Cash and cash equivalents	13	2.304	-	2.304
Total		15.400.432	-	15.400.432
Financial liabilities not measured at fair value				
Loan payable	15	-	15.455.005	15.455.005
Non-convertible bond	15	-	419.474.550	419.474.550
Other payables	15	-	70.107	70.107
Total		-	434.999.662	434.999.662

18. Financial instruments - fair values and risk management *(continued)*

B. Financial risk management

The Group has exposure to the following risks arising from financial instruments:

- credit risk (see note B(i));
- liquidity risk (see note B(ii)); and
- market risk (see note B(iii)).

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

	2018	2017
	€	€
Loan receivable	9.856.752	15.398.128
Cash at bank	288	660
	9.857.040	15.398.788

Loans and receivables

The Company's exposure to credit risk is influenced mainly by the individual characteristics of each borrower. However, management also considers the factors that may influence the credit risk, including the default risk of the industry and country in which the borrower operates.

The maximum exposure to credit risk for loans receivables classified at amortised cost (2017: loans and receivables) at the reporting date by geographic region was as follows:

	Carrying amount	
	2018	2017
	€	€
Cyprus	9.856.752	15.398.128
	9.856.752	15.398.128

18. Financial instruments - fair values and risk management *(continued)*

(i) Credit risk (continued)

The following table presents an analysis of the credit quality of loans receivable at amortised cost (2017: loans and receivables). It indicates whether assets measured at amortised cost were subject to a 12 month ECL or lifetime ECL allowance and, in the latter case, whether they were credit impaired.

Credit rating	2018 At amortised cost Lifetime ECL not credit impaired €	2017 Loans and receivables €
B3 – B1	9.856.752	15.398.128
Carrying amount	9.856.752	15.398.128

When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Company considers reasonable and supportable information that is relevant and available without undue cost or effort. The Company allocates each exposure to a credit risk grade based on data it determined to be predictive of the risk of loss (including but not limited to external ratings, audited financial statements, management accounts and cash flow projections) and applying experienced credit judgment. Credit risks are defined using quantitative and qualitative information and analysis, based on the Company's that are indicative of the risk of default and are aligned to external credit definitions from agencies (Moody's and Standard and Poor's external credit rating). The Company determined that it has not been a significant increase in credit risk and therefore calculated twelve month ECL. In calculating the ECL the Company estimated the PD and LGD using Moody's external credit rating of Cyprus as a starting point. The Company performed a quantitative and qualitative analysis in order to assess whether the country rating is appropriate or whether any further adjustments are needed. Specifically, the Company took into consideration the industry as well as the financial position and projected cash flows of the borrower.

Cash and cash equivalents

The table below shows an analysis of the Company's bank deposit by the credit rating of the bank in which they are held:

Bank group based on credit ratings by Moody's	No of banks	2018 €	2017 €
Without credit rating	1	288	660
	1	288	660

The Company held cash and cash equivalents of €288 at 31 December 2018 (2017: €660). The cash and cash equivalents are held with bank and financial institution counterparties, which are rated lower than A, based on Moody's ratings.

18. Financial instruments - fair values and risk management *(continued)*

(i) Credit risk (continued)

Impairment on cash and cash equivalents has been measured on a 12-month expected loss basis and reflects the short maturities of the exposures. The Company considers that its cash and cash equivalents have low credit risk based on the external credit ratings of the counterparties.

On initial application of IFRS 9, the Company did not recognised any impairment allowance as at 1 January 2018 and the amount of the allowance did not change during 2018.

(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 undiscounted, and include contractual interest payments and exclude the impact of netting agreements.

31 December 2018	Carrying amounts €	Contractual cash flows €	Between 3-12 months €	Between 1-5 years €
Non-derivative financial liabilities				
Non-convertible bond	459.156.500	550.000.000	-	550.000.000
Loan payable	9.752.073	11.486.209	-	11.486.209
Other payables	219.906	219.906	219.906	-
Payables to own subsidiary	15.513	15.513	15.513	-
	469.143.992	561.721.628	235.419	561.486.209

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	70.107	70.107	70.107	-
	434.999.662	569.820.505	70.107	569.750.398

The inflows/(outflows) disclosed in the above table represent the contractual undiscounted cash flows relating to derivative financial liabilities held for risk management purposes and which are not usually closed out before contractual maturity. The disclosure shows net cash flow amounts for derivatives that are net cash-settled and gross cash inflow and outflow amounts for derivatives that have simultaneous gross cash settlement.

18. Financial instruments - fair values and 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:

	2018	2017
	€	€
Fixed rate instruments		
Financial assets	9.856.752	15.398.128
Financial liabilities	(468.908.573)	(434.929.555)
	(459.051.821)	(419.531.427)

On 28 June 2019 the Board of Directors of Axon Holding SE approved and authorised these financial statements for issue.