

**AXON NEUROSCIENCE SE**  
**FINANCIAL STATEMENTS**  
For the year ended 31 December 2018



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**AXON NEUROSCIENCE SE****OFFICERS AND PROFESSIONAL ADVISORS**

Board of Directors	Daniel Legen Michal Novak Despina Cecilia O'Mahony 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 the parent company Axon Neuroscience SE (the "Company"), which are presented on pages 6 to 44 and comprise the statement of financial position as at 31 December 2018, 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 incomplete disclosure of the information referred to in the "Basis for qualified opinion" section of our report, the accompanying financial statements give a true and fair view of the financial position of the parent company Axon Neuroscience 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").

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**INDEPENDENT AUDITORS' REPORT**  
**TO THE MEMBERS OF**  
**AXON NEUROSCIENCE SE**

*Basis for qualified opinion*

As stated in note 12 to the financial statements, the Company commence the capitalization of development expenditure, as at 31 December 2018 amounting to €35.587.584, in relation to the development of AADvac1 because it assesses that the project has met all of the capitalization criteria.

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 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 qualified audit opinion.

*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 €15.232.640 during the year ended 31 December 2018 and, as of that date the Company's liabilities exceeded its assets by €29.884.170. 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.

*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.





**INDEPENDENT AUDITORS' REPORT**  
**TO THE MEMBERS OF**  
**AXON NEUROSCIENCE SE**

*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.

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.



**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. Aradipiotti Street  
6016, Larnaca  
Cyprus

30 June 2019



**AXON NEUROSCIENCE SE**

STATEMENT OF FINANCIAL POSITION

As at 31 December 2018

	Note	2018 €	2017 €
<b>Assets</b>			
Property, plant and equipment	11	2.046.387	2.052.930
Intangible assets	12	39.916.209	27.816.897
Investments in subsidiaries	13	<u>4.652.000</u>	<u>4.652.000</u>
<b>Total non-current assets</b>		<u>46.614.596</u>	<u>34.521.827</u>
<b>Current assets</b>			
Lab supplies	15	1.738.656	1.361.109
Trade and other receivables	16	523.655	769.003
Loans receivable	14	1.053.840	478.111
Other investments	17	500	500
Cash and cash equivalents	18	<u>3.299.894</u>	<u>4.522.355</u>
<b>Total current assets</b>		<u>6.616.545</u>	<u>7.131.078</u>
<b>Total assets</b>		<u>53.231.141</u>	<u>41.652.905</u>
<b>Equity</b>			
Share capital	19	27.512.000	27.512.000
Reserves		<u>(57.396.170)</u>	<u>(42.163.530)</u>
<b>Total equity</b>		<u>(29.884.170)</u>	<u>(14.651.530)</u>
<b>Liabilities</b>			
Loans and borrowings	20	<u>9.856.752</u>	<u>15.398.128</u>
<b>Total non-current liabilities</b>		<u>9.856.752</u>	<u>15.398.128</u>
<b>Current liabilities</b>			
Short term portion of long-term loans	20	66.980.883	35.103.488
Trade and other payables	21	6.277.473	5.802.616
Tax liability	22	<u>203</u>	<u>203</u>
<b>Total current liabilities</b>		<u>73.258.559</u>	<u>40.906.307</u>
<b>Total liabilities</b>		<u>83.115.311</u>	<u>56.304.435</u>
<b>Total equity and liabilities</b>		<u>53.231.141</u>	<u>41.652.905</u>

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 30 June 2019 the Board of Directors of Axon Neuroscience SE approved and authorised these financial statements for issue.

.....  
Daniel Legen  
Director

.....  
Vikentios Vikentiou  
Director

The notes on pages 10 to 44 are an integral part of these financial statements.

**AXON NEUROSCIENCE SE**

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2018

	Note	2018 €	2017 €
Other operating income		5.933	-
Administrative expenses	8	<u>(11.622.294)</u>	<u>(13.335.443)</u>
<b>Operating loss</b>		<u>(11.616.361)</u>	<u>(13.335.443)</u>
Finance income - total		46.080	13.568
Finance costs - total		<u>(3.662.354)</u>	<u>(2.416.703)</u>
<b>Net finance expenses</b>	9	<u>(3.616.274)</u>	<u>(2.403.135)</u>
<b>Loss before tax</b>		(15.232.635)	(15.738.578)
Tax	10	<u>(5)</u>	<u>-</u>
<b>Loss for the year</b>		<u>(15.232.640)</u>	<u>(15.738.578)</u>
<b>Other comprehensive income</b>		<u>-</u>	<u>-</u>
<b>Total comprehensive expense for the year</b>		<u>(15.232.640)</u>	<u>(15.738.578)</u>

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 10 to 44 are an integral part of these financial statements.

**AXON NEUROSCIENCE SE**  
**STATEMENT OF CHANGES IN EQUITY**

For the year ended 31 December 2018

	Share capital €	Reserves €	Retained earnings €	Total €
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>
Balance at 1 January 2018	27.512.000	24.959.794	(67.123.324)	(14.651.530)
Loss for the year	-	-	(15.232.640)	(15.232.640)
Balance at 31 December 2018	<u>27.512.000</u>	<u>24.959.794</u>	<u>(82.355.964)</u>	<u>(29.884.170)</u>

The notes on pages 10 to 44 are an integral part of these financial statements.

**AXON NEUROSCIENCE SE**

**STATEMENT OF CASH FLOWS**

For the year ended 31 December 2018

	Note	2018 €	2017 €
<b>Cash flows from operating activities</b>			
Loss for the year		(15.232.640)	(15.738.578)
Adjustments for:			
Depreciation of property, plant and equipment	8	6.542	6.542
Unrealised exchange profit		-	(2.760)
Amortisation of intangibles assets	8	1.442.875	1.442.875
Interest income	9	(45.962)	(1.491)
Interest expense	9	3.642.080	2.410.708
Income tax expense	10	5	-
<b>Cash used in operations before working capital changes</b>		<u>(10.187.100)</u>	<u>(11.882.704)</u>
(Increase)/decrease in inventories		(377.547)	489.476
Decrease in trade and other receivables		245.349	762.687
Increase/(decrease) in trade and other payables		474.857	(672.951)
<b>Cash used in operations</b>		<u>(9.844.441)</u>	<u>(11.303.492)</u>
Tax paid		(65)	(400)
<b>Net cash used in operating activities</b>		<u>(9.844.506)</u>	<u>(11.303.892)</u>
<b>Cash flows from investing activities</b>			
Payment for acquisition of intangible assets	12	(13.542.187)	(15.820.157)
Loans granted		(530.000)	(477.000)
Interest received		232	381
<b>Net cash used in investing activities</b>		<u>(14.071.955)</u>	<u>(16.296.776)</u>
<b>Cash flows from financing activities</b>			
Repayment of borrowings		(9.350.000)	-
Proceeds from borrowings		32.059.000	31.981.000
Unrealised exchange profit		-	2.760
Interest paid		(15.000)	-
<b>Net cash generated from financing activities</b>		<u>22.694.000</u>	<u>31.983.760</u>
<b>Net (decrease)/increase in cash and cash equivalents</b>		(1.222.461)	4.383.092
Cash and cash equivalents at beginning of the year		<u>4.522.355</u>	<u>139.263</u>
<b>Cash and cash equivalents at end of the year</b>	18	<u>3.299.894</u>	<u>4.522.355</u>

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 10 to 44 are an integral part of these financial statements.



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

For the year ended 31 December 2018

**1. Reporting entity**

Axon Neuroscience SE (the "Company") was incorporated in on 24 January 2011. 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 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 small 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.

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

For the year ended 31 December 2018

**2. Basis of accounting (continued)****2.3 Going concern basis**

The Company incurred a loss of €15.232.640 during the year ended 31 December 2018 and, as of that date the Company's liabilities exceeded its assets by €29.884.170.

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.

Negotiations with the main creditor (PPF Group N.V.) 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 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 €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.

Furthermore the Company is under mutual negotiations with Pharma Companies for granting them a licence on the Intellectual property and associate R&D. These negotiations are covered by non-disclosure agreements. 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 extent the existing credit facility line to covers its total operational needs in 2019, the going concern basis of preparation may no longer be appropriate.

**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).

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.

**AXON NEUROSCIENCE SE**

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

**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:

- Note 12 - impairment test of non-financial assets: key assumptions underlying recoverable amounts and value in use.
- Note 16 "Provision for bad and doubtful debts" - the Company reviews its trade and other receivables for evidence of their recoverability.
- Note 15 "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.
- Notes 13 and 7 "Impairment of investments in subsidiaries" - determine the recoverability of investments in subsidiaries whenever indicators of impairment are present.
- Note 14 - 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).

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

For the year ended 31 December 2018

**5. Use of estimates and judgments (continued)****5.2 Measurement of fair values (continued)**

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 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 11 - Property, plant and equipment
- Note 24 - Financial instruments - Fair value measurement

**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 NEUROSCIENCE 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.

	Original classification under IAS 39	New classification under IFRS 9	Original carrying amount under IAS 39 €	New carrying amount under IFRS 9 €
<b>Financial assets</b>				
Trade and other receivables	Loans and receivables	Amortised cost	769.003	769.003
Cash and cash equivalents	Loans and receivables	Amortised cost	4.522.355	4.522.355
Loans receivable	Loans and receivables	Amortised cost	<u>478.111</u>	<u>478.111</u>
<b>Total financial assets</b>			<u>5.769.469</u>	<u>5.769.469</u>
	Original classification under IAS 39	New classification under IFRS 9	Original carrying amount under IAS 39 €	New carrying amount under IFRS 9 €
<b>Financial liabilities</b>				
Loan from parent company	Other financial liabilities	Other financial liabilities	15.398.128	15.398.128
Other loans	Other financial liabilities	Other financial liabilities	35.103.488	35.103.488
Trade and other payables	Other financial liabilities	Other financial liabilities	<u>5.802.616</u>	<u>5.802.616</u>
<b>Total financial liabilities</b>			<u>56.304.232</u>	<u>56.304.232</u>

**AXON NEUROSCIENCE 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 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 €
<b>Financial assets</b>				
<i>Amortised cost</i>				
Cash and cash equivalents:				
Brought forward: Loans and receivables	4.522.355			
Carried forward: Amortised cost				4.522.355
Trade and other receivables:				
Brought forward: Loans and receivables	769.003			
Carried forward: Amortised cost				769.003
Loans receivable				
Brought forward: Loans and receivables	478.111			
Carried forward: Amortised cost	-	-	-	478.111
<b>Total amortised cost</b>	<u>5.769.469</u>	<u>-</u>	<u>-</u>	<u>5.769.469</u>

*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.

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

For the year ended 31 December 2018

**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 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.

**7.2 Finance income and finance costs**

The Company's finance income and finance costs include:

- interest income;
- interest expense;

**7.3 Finance income**

Interest income is recognised on a time-proportion basis using the effective method. Foreign exchange differences are recognised in profit or loss in the period which incurred.

The 'effective interest rate' is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to:

- the gross carrying amount of the financial asset; or
- the amortised cost of the financial liability.

The effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit-impaired). However, for financial assets that have become credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the amortised cost of the financial asset. If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis.

**7.4 Finance costs**

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

**AXON NEUROSCIENCE SE**

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

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

**7.5 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').

**7.6 Tax**

Tax liabilities and assets for the current and prior periods are measured at the amount expected to be paid to or recovered from the taxation authorities, using the tax rates and laws that have been enacted, or substantively enacted, by the reporting date. Current tax includes any adjustments to tax payable in respect of previous periods.

**7.7 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
Computer hardware	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 2018**7. Significant accounting policies (continued)****7.8 Intangible assets***(i) 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.

*(ii) 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%.

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.

**7.9 Financial instruments****7.9.1 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.

**AXON NEUROSCIENCE SE**

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

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

**7.9 Financial instruments** *(continued)*

**7.9.2 Classification and subsequent measurement**

**7.9.2.1 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.

*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

**AXON NEUROSCIENCE SE**

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

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

**7.9 Financial instruments** *(continued)*

**7.9.2 Classification and subsequent measurement** *(continued)*

**7.9.2.1 Financial assets - policy applicable from 1 January 2018** *(continued)*

*Financial assets - Business model assessment: Policy applicable from 1 January 2018 (continued)*

- 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).

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.

**AXON NEUROSCIENCE SE**

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

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

**7.9 Financial instruments** *(continued)*

**7.9.2 Classification and subsequent measurement** *(continued)*

**7.9.2.1 Financial assets - policy applicable from 1 January 2018** *(continued)*

*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.

**7.9.2.2 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.

**7.9.2.3 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.

**AXON NEUROSCIENCE SE**

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

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

**7.9 Financial instruments** *(continued)*

**7.9.2 Classification and subsequent measurement** *(continued)*

**7.9.2.3 Financial assets - Subsequent measurement and gains and losses: Policy applicable before 1 January 2018** *(continued)*

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

*(i) Trade and other receivables*

Trade and other receivables are stated at their nominal values.

*(ii) 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.

*(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.

**7.9.2.4 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) Trade and other payables*

Trade and other payables are stated at their nominal values.

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

For the year ended 31 December 2018

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

**7.9 Financial instruments** *(continued)*

**7.9.3 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.

**AXON NEUROSCIENCE SE**

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

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

**7.9 Financial instruments** *(continued)*

**7.9.3 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.

## AXON NEUROSCIENCE SE

NOTES TO THE FINANCIAL STATEMENTSFor the year ended 31 December 2018**7. Significant accounting policies** *(continued)***7.9 Financial instruments** *(continued)***7.9.3 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.

**7.10 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



## AXON NEUROSCIENCE SE

NOTES TO THE FINANCIAL STATEMENTSFor the year ended 31 December 2018**7. Significant accounting policies** *(continued)***7.10 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.

**7.11 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.

**7.12 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.

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.

**AXON NEUROSCIENCE SE**

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

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

**7.12 Impairment of non-financial assets** *(continued)*

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.

**7.13 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.

**7.14 Non-current liabilities**

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

**7.15 Comparatives**

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

**8. Administrative expenses**

	2018	2017
	€	€
Staff costs	436.132	415.557
Legal fees	295.517	596.592
Other professional fees	239.724	41.250
Travelling	449.866	2.068.824
Material consumption expenses	1.919.583	1.959.373
Marketing and advertising expenses	69.817	126.428
Clinical services fees	6.645.703	6.306.630
Amortisation of intangibles assets	1.442.875	1.442.875
Depreciation of property, plant and equipment	6.542	6.542
Sundry expenses	<u>116.535</u>	<u>371.372</u>
	<u>11.622.294</u>	<u>13.335.443</u>

## AXON NEUROSCIENCE SE

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

**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 €
Interest income from related parties (Note 23(i))	45.729	1.110
Interest income	233	381
Exchange profit	118	12.077
	<u>46.080</u>	<u>13.568</u>
Finance income - total		
Net foreign exchange transaction losses	(18.276)	(3.838)
Interest expense from related parties (Note 23(ii))	(1.308.625)	(1.692.220)
Interest expense	(2.333.455)	(718.488)
Sundry finance expenses	(1.998)	(2.157)
	<u>(3.662.354)</u>	<u>(2.416.703)</u>
Finance costs - total		
<b>Net finance expenses</b>	<u>(3.616.274)</u>	<u>(2.403.135)</u>

**10. Taxation**

	2018 €	2017 €
Overseas tax	5	-
Charge for the year	<u>5</u>	<u>-</u>

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

	2018	2018 €	2017	2017 €
Accounting loss before tax		<u>(15.232.635)</u>		<u>(15.738.578)</u>
Tax calculated at the applicable tax rates	12,50%	(1.904.079)	12,50%	(1.967.322)
Tax effect of expenses not deductible for tax purposes	(1,20)%	183.540	(1,15)%	181.726
Tax effect of allowances and income not subject to tax	0,04%	(5.760)	-%	(532)
Tax effect of loss for the year	(11,33)%	1.726.299	(11,35)%	1.786.128
Overseas tax in excess of credit claim used during the year	-%	5	-%	-
Tax as per statement of profit or loss and other comprehensive income - charge	<u>-%</u>	<u>5</u>	<u>-%</u>	<u>-</u>

**AXON NEUROSCIENCE SE**

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

**10. Taxation (continued)**

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. Property, plant and equipment**

	Property under construction €	Motor vehicles €	Computer hardware €	Total €
<b>Cost</b>				
Balance at 1 January 2017	2.033.302	20.200	12.512	2.066.014
Balance at 31 December 2017	<u>2.033.302</u>	<u>20.200</u>	<u>12.512</u>	<u>2.066.014</u>
Balance at 1 January 2018	2.033.302	20.200	12.512	2.066.014
Balance at 31 December 2018	<u>2.033.302</u>	<u>20.200</u>	<u>12.512</u>	<u>2.066.014</u>
<b>Depreciation</b>				
Balance at 1 January 2017	-	4.040	2.502	6.542
Depreciation for the year	-	4.040	2.502	6.542
Balance at 31 December 2017	<u>-</u>	<u>8.080</u>	<u>5.004</u>	<u>13.084</u>
Balance at 1 January 2018	-	8.080	5.004	13.084
Depreciation for the year	-	4.040	2.503	6.543
Balance at 31 December 2018	<u>-</u>	<u>12.120</u>	<u>7.507</u>	<u>19.627</u>
<b>Carrying amounts</b>				
Balance at 31 December 2018	<u>2.033.302</u>	<u>8.080</u>	<u>5.005</u>	<u>2.046.387</u>
Balance at 31 December 2017	<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 2018

**12. Intangible assets**

	Research and development €	Patents and trademarks €	Total €
<b>Cost</b>			
Balance at 1 January 2017	6.225.240	14.428.750	20.653.990
Additions	<u>15.820.157</u>	<u>-</u>	<u>15.820.157</u>
Balance at 31 December 2017	<u>22.045.397</u>	<u>14.428.750</u>	<u>36.474.147</u>
Balance at 1 January 2018	22.045.397	14.428.750	36.474.147
Additions	<u>13.542.187</u>	<u>-</u>	<u>13.542.187</u>
Balance at 31 December 2018	<u>35.587.584</u>	<u>14.428.750</u>	<u>50.016.334</u>
<b>Amortisation</b>			
Balance at 1 January 2017	-	7.214.375	7.214.375
Amortisation for the year	<u>-</u>	<u>1.442.875</u>	<u>1.442.875</u>
Balance at 31 December 2017	<u>-</u>	<u>8.657.250</u>	<u>8.657.250</u>
Balance at 1 January 2018	-	8.657.250	8.657.250
Amortisation for the year	<u>-</u>	<u>1.442.875</u>	<u>1.442.875</u>
Balance at 31 December 2018	<u>-</u>	<u>10.100.125</u>	<u>10.100.125</u>
<b>Carrying amounts</b>			
Balance at 31 December 2018	<u>35.587.584</u>	<u>4.328.625</u>	<u>39.916.209</u>
Balance at 31 December 2017	<u>22.045.397</u>	<u>5.771.500</u>	<u>27.816.897</u>

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 once the Phase II results which are expected to be ready and available by mid October 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 STATEMENTS

For the year ended 31 December 2018

**13. Investments in subsidiaries**

	2018 €	2017 €
Balance at 1 January	<u>4.652.000</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>	2018 Holding %	2017 Holding %	2018 €	2017 €
Axon Neuroscience CRM Services SE	Slovakia	Clinical and medical management	100	100	802.000	802.000
Axon Neuroscience R&D Services SE	Slovakia	Research and development	100	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.

**14. 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.

	2018 €	2017 €
Loans to own subsidiaries (Note 23 (v))	<u>1.053.840</u>	<u>478.111</u>
	<u>1.053.840</u>	<u>478.111</u>

The exposure of the Company to credit risk is reported in note 24 to the financial statements.

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

**AXON NEUROSCIENCE SE**

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

**15. Lab supplies**

	2018	2017
	€	€
Lab supplies	<u>1.738.656</u>	<u>1.361.109</u>
	<u>1.738.656</u>	<u>1.361.109</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 recognised 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.

**16. Trade and other receivables**

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.

	2018	2017
	€	€
Receivables from own subsidiaries (Note 23 (iii))	15.134	414.181
Receivables from parent (Note 23 (iii))	15.513	-
VAT Refundable	424.186	219.254
Deferred expenses	52.677	119.486
Other receivables	<u>16.145</u>	<u>16.082</u>
	<u>523.655</u>	<u>769.003</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 24 to the financial statements.

**AXON NEUROSCIENCE SE**

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

**17. Other investments**

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.

	2018 €	2017 €
Balance at 1 January	500	500
Balance at 31 December	500	500

The exposure of the Company to market risk in relation to financial assets is reported in note 24 to the financial statements.

**18. 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.

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

	2018 €	2017 €
Cash at bank and in hand	3.299.894	4.522.355
	3.299.894	4.522.355

The exposure of the Company to credit risk and impairment losses in relation to cash and cash equivalents is reported in note 24 to the financial statements.

**19. Share capital**

	2018 Number of shares	2018 €	2017 Number of shares	2017 €
<b>Issued and fully paid</b>				
Balance at 1 January	27.392.012	27.512.000	27.392.012	27.512.000
Balance at 31 December	27.392.012	27.512.000	27.392.012	27.512.000



**AXON NEUROSCIENCE SE**

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

**20. Loans and borrowings**

	2018	2017
	€	€
<b>Non-current liabilities</b>		
Loan from parent company (Note 23 (viii))	<u>9.856.752</u>	<u>15.398.128</u>
	<u>9.856.752</u>	<u>15.398.128</u>
<b>Current liabilities</b>		
Other loans	<u>66.980.883</u>	<u>35.103.488</u>
Total	<u><u>76.837.635</u></u>	<u><u>50.501.616</u></u>
<b>Maturity of borrowings:</b>		
	2018	2017
	€	€
Within one year	66.980.883	35.103.488
Between one and five years	<u>9.856.752</u>	<u>15.398.128</u>
	<u><u>76.837.635</u></u>	<u><u>50.501.616</u></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 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 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 €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 exposure of the Company to interest rate risk in relation to financial instruments is reported in note 24 to the financial statements.

## AXON NEUROSCIENCE SE

NOTES TO THE FINANCIAL STATEMENTSFor the year ended 31 December 2018**21. Trade and other payables**

	2018 €	2017 €
Trade payables	179.121	236.811
Social insurance and other taxes	122.870	51.284
Payroll accruals	22.525	33.212
Accruals to own subsidiaries (Note 23 (vii))	2.516.218	1.764.418
Accruals	200.536	129.425
Other creditors	25.051	256.126
Payables to own subsidiaries (Note 23 (vi))	<u>3.211.152</u>	<u>3.331.340</u>
	<u>6.277.473</u>	<u>5.802.616</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 24 to the financial statements.

**22. Tax liability**

	2018 €	2017 €
Corporation tax	<u>203</u>	<u>203</u>
	<u>203</u>	<u>203</u>

The above amounts are payable within one year.

**23. 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 9)**

	2018 €	2017 €
Axon Neuroscience R&D Services SE	<u>45.729</u>	<u>1.110</u>
	<u>45.729</u>	<u>1.110</u>

## AXON NEUROSCIENCE SE

NOTES TO THE FINANCIAL STATEMENTSFor the year ended 31 December 2018**23. Related party transactions (continued)****(ii) Interest expense (Note 9)**

	2018 €	2017 €
Axon Holding SE	<u>1.308.625</u>	<u>1.692.220</u>
	<u>1.308.625</u>	<u>1.692.220</u>

**(iii) Receivables from own subsidiaries (Note 16)**

<u>Name</u>	2018 €	2017 €
Axon Neuroscience R&D Services SE	5.000	63.755
Axon Neuroscience CRM Services SE	<u>10.134</u>	<u>350.426</u>
	<u>15.134</u>	<u>414.181</u>

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

**(iv) Receivables from parent company (Note 16)**

<u>Name</u>	2018 €	2017 €
Axon Holding SE	<u>15.513</u>	-
	<u>15.513</u>	-

**(v) Loan receivable from own subsidiary (Note 14)**

	2018 €	2017 €
Axon Neuroscience R&D Services SE	<u>1.053.840</u>	<u>478.111</u>
	<u>1.053.840</u>	<u>478.111</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 STATEMENTSFor the year ended 31 December 2018**23. Related party transactions (continued)****(vi) Payables to own subsidiaries (Note 21)**

	2018 €	2017 €
<u>Name</u>		
Axon Neuroscience CRM Services SE	280.925	1.281.585
Axon Neuroscience R&D Services SE	2.930.227	2.047.309
Axon Neuroscience CRM Services SE	-	1.005
Axon Neuroscience R&D Services SE	-	1.441
	<u>3.211.152</u>	<u>3.331.340</u>

**(vii) Accruals to own subsidiaries (Note 21)**

	2018 €	2017 €
<u>Name</u>		
Axon Neuroscience CRM Services SE	1.690.956	1.031.448
Axon Neuroscience R&D Services SE	825.262	732.970
	<u>2.516.218</u>	<u>1.764.418</u>

**(viii) Loan payable from parent company (Note 20)**

	2018 €	2017 €
Axon Holding SE	<u>9.856.752</u>	<u>15.398.128</u>
	<u>9.856.752</u>	<u>15.398.128</u>

The loan in the principal amount of €9.792.364 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 2018

**24. Financial instruments - fair values and risk management****Financial risk factors**

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.

**AXON NEUROSCIENCE SE**

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

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

**A. Accounting classifications and fair values**

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

31 December 2018	Financial assets at amortised cost €	Carrying amount Other financial liabilities €	Total €
<b>Financial assets not measured at fair value</b>			
Trade and other receivables	523.655	-	523.655
Cash and cash equivalents	3.299.894	-	3.299.894
Loan receivable	1.053.840	-	1.053.840
<b>Total</b>	<b>4.877.389</b>	<b>-</b>	<b>4.877.389</b>
<b>Financial liabilities not measured at fair value</b>			
Loans and borrowings		76.837.635	76.837.635
Social and other tax liabilities		122.870	122.870
Payroll accruals		22.525	22.525
Trade and other payables		6.132.078	6.132.078
<b>Total</b>		<b>83.115.108</b>	<b>83.115.108</b>

**AXON NEUROSCIENCE SE**

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

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

31 December 2017	Financial assets at amortised cost €	Carrying amount Other financial liabilities €	Total €
<b>Financial assets not measured at fair value</b>			
Trade and other receivables	769.003	-	769.003
Cash and cash equivalents	4.522.355	-	4.522.355
Loans receivable	478.111	-	478.111
<b>Total</b>	<b>5.769.469</b>	<b>-</b>	<b>5.769.469</b>
<b>Financial liabilities not measured at fair value</b>			
Loans and borrowings	-	50.501.616	50.501.616
Social and other tax liabilities	-	51.284	51.284
Payroll accruals	-	33.212	33.212
Trade and other payables	-	5.718.120	5.718.120
<b>Total</b>	<b>-</b>	<b>56.304.232</b>	<b>56.304.232</b>

**AXON NEUROSCIENCE SE**

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

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

	2018	2017
	€	€
Loans receivables from related parties	1.053.840	478.111
Trade and other receivables	440.331	235.336
Bank current accounts	3.293.091	4.515.091
Receivables from related companies	<u>30.647</u>	<u>414.181</u>
	<u>4.817.909</u>	<u>5.642.719</u>

**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
	€	€
Slovakia	<u>1.053.840</u>	<u>478.111</u>
	<u>1.053.840</u>	<u>478.111</u>



**AXON NEUROSCIENCE SE**

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

**24. 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	2017
	At amortised cost Lifetime ECL - not credit-impaired €	Loans and receivables €
B3 – B1	1.053.840	478.111
<b>Carrying amount</b>	<u>1.053.840</u>	<u>478.111</u>

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:

<u>Bank group based on credit ratings by Moody's</u>	2018		2017	
	No of banks	€	No of banks	€
Without credit rating	1	3.293.091	1	4.515.091
	<u>1</u>	<u>3.293.091</u>	<u>1</u>	<u>4.515.091</u>

**AXON NEUROSCIENCE SE**

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

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

*(i) Credit risk (continued)*

The Company held cash and cash equivalents of €3.293.091 at 31 December 2018 (2017: €4.515.091). The cash and cash equivalents are held with bank and financial institution counterparties, which are rated lower than A , based on Moody's ratings.

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 €
Other loans	66.980.883	66.980.883	66.980.883	-
Trade and other payables	550.103	550.103	550.103	-
Payables to related parties	5.727.370	5.727.370	5.727.370	-
Loan from parent company	9.856.752	12.059.363	-	12.059.363
	<u>83.115.108</u>	<u>85.317.719</u>	<u>73.258.356</u>	<u>12.059.363</u>

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>

**AXON NEUROSCIENCE SE**

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

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

*(ii) Liquidity risk (continued)*

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.

*(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
	€	€
<i>Fixed rate instruments</i>		
Financial assets	1.053.840	478.111
Financial liabilities	<u>(76.837.635)</u>	<u>(50.501.616)</u>
	<u>(75.783.795)</u>	<u>(50.023.505)</u>

On 30 June 2019 the Board of Directors of Axon Neuroscience SE approved and authorised these financial statements for issue.

