

**AXON NEUROSCIENCE SE**

**FINANCIAL STATEMENTS**

For the year ended 31 December 2019

**AXON NEUROSCIENCE SE**

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**For the year ended 31 December 2019**

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

Board of Directors	Daniel Legen Michal Novak Despina Cecilia O'Mahony Vikentios Vikentiou (Resigned on 31/01/2020) Ursula Theodorou (Appointed on 31/01/2020) Raduz Motan
Secretary	Cymanco Services Limited
Independent Auditors	KPMG Limited
Banker	Postova Banka
Registered Office	4, Arch. Makariou & Kalogreon Nicolaides Sea View City 5th Floor, office 406 6016, Larnaca Cyprus
Registration number	SE 24

## AXON NEUROSCIENCE SE

## STATEMENT OF FINANCIAL POSITION

As at 31 December 2019

	Note	2019 €	2018 €
<b>Assets</b>			
<b>Non-current assets</b>			
Property, plant and equipment	12	2.039.845	2.046.387
Intangible assets	13	2.885.750	39.916.209
Investments in subsidiaries	14	4.652.000	4.652.000
<b>Total non-current assets</b>		<u>9.577.595</u>	<u>46.614.596</u>
<b>Current assets</b>			
Inventories	16	2.902.435	1.738.656
Trade and other receivables	17	398.685	523.655
Loans receivable	15	1.234.099	1.053.840
Other investments	18	500	500
Cash and cash equivalents	19	2.867.336	3.299.894
<b>Total current assets</b>		<u>7.403.055</u>	<u>6.616.545</u>
<b>Total assets</b>		<u>16.980.650</u>	<u>53.231.141</u>
<b>Equity</b>			
Share capital	20	27.512.000	27.512.000
Reserves		(120.900.868)	(57.396.170)
<b>Total equity</b>		<u>(93.388.868)</u>	<u>(29.884.170)</u>
<b>Liabilities</b>			
<b>Non-current liabilities</b>			
Loans and borrowings	21	3.325.236	9.856.752
<b>Total non-current liabilities</b>		<u>3.325.236</u>	<u>9.856.752</u>
<b>Current liabilities</b>			
Short term portion of long-term loans	21	98.112.707	66.980.883
Trade and other payables	22	8.931.372	6.277.473
Tax liability	23	203	203
<b>Total current liabilities</b>		<u>107.044.282</u>	<u>73.258.559</u>
<b>Total liabilities</b>		<u>110.369.518</u>	<u>83.115.311</u>
<b>Total equity and liabilities</b>		<u>16.980.650</u>	<u>53.231.141</u>

  
 .....  
 Daniel Legen  
 Chairman of the Board of Director



The notes on pages 6 to 38 are an integral part of these financial statements.

## AXON NEUROSCIENCE SE

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOMEFor the year ended 31 December 2019

	Note	2019 €	2018 €
Other operating income		-	5.933
Administrative expenses	8	(23.385.038)	(11.622.294)
Other operating expenses	9	<u>(35.603.666)</u>	<u>-</u>
<b>Operating loss</b>		<u>(58.988.704)</u>	<u>(11.616.361)</u>
Finance income - total		60.018	46.080
Finance costs - total		<u>(4.575.963)</u>	<u>(3.662.354)</u>
<b>Net finance expenses</b>	10	<u>(4.515.945)</u>	<u>(3.616.274)</u>
<b>Loss before tax</b>		(63.504.649)	(15.232.635)
Tax	11	<u>(49)</u>	<u>(5)</u>
<b>Loss for the year</b>		<u>(63.504.698)</u>	<u>(15.232.640)</u>
<b>Other comprehensive income</b>		<u>-</u>	<u>-</u>
<b>Total comprehensive expense for the year</b>		<u>(63.504.698)</u>	<u>(15.232.640)</u>

The notes on pages 6 to 38 are an integral part of these financial statements.

**AXON NEUROSCIENCE SE**

**STATEMENT OF CHANGES IN EQUITY**

For the year ended 31 December 2019

	Share capital €	Reserves €	Retained earnings €	Total €
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>
Balance at 1 January 2019	27.512.000	24.959.794	(82.355.964)	(29.884.170)
Loss for the year	-	-	(63.504.698)	(63.504.698)
Balance at 31 December 2019	<u>27.512.000</u>	<u>24.959.794</u>	<u>(145.860.662)</u>	<u>(93.388.868)</u>

The notes on pages 6 to 38 are an integral part of these financial statements.

**AXON NEUROSCIENCE SE**

**STATEMENT OF CASH FLOWS**

**For the year ended 31 December 2019**

	Note	2019 €	2018 €
<b>Cash flows from operating activities</b>			
Loss for the year		(63.504.698)	(15.232.640)
Adjustments for:			
Depreciation of property, plant and equipment	12	6.542	6.542
Amortisation of trademarks and licences	13	1.442.875	1.442.875
Impairment charge - intangible assets	13	35.587.584	-
Impairment charge - other receivables		16.082	-
Interest income	10	(60.018)	(45.962)
Interest expense	10	4.573.849	3.642.080
Income tax expense		49	5
<b>Cash used in operations before working capital changes</b>		<u>(21.937.735)</u>	<u>(10.187.100)</u>
Increase in inventories		(1.163.779)	(377.547)
Decrease in trade and other receivables		108.888	245.349
Increase in trade and other payables		<u>2.653.899</u>	<u>474.857</u>
<b>Cash used in operations</b>		<u>(20.338.727)</u>	<u>(9.844.441)</u>
Interest paid		(311)	-
Tax paid		<u>(49)</u>	<u>(65)</u>
<b>Net cash used in operating activities</b>		<u>(20.339.087)</u>	<u>(9.844.506)</u>
<b>Cash flows from investing activities</b>			
Payment for acquisition of intangible assets	13	-	(13.542.187)
Loans granted		(200.000)	(530.000)
Loans repayments received		79.500	-
Interest received		<u>259</u>	<u>232</u>
<b>Net cash used in investing activities</b>		<u>(120.241)</u>	<u>(14.071.955)</u>
<b>Cash flows from financing activities</b>			
Repayment of borrowings		(7.200.000)	(9.350.000)
Proceeds from borrowings		27.226.770	32.059.000
Interest paid		-	(15.000)
<b>Net cash generated from financing activities</b>		<u>20.026.770</u>	<u>22.694.000</u>
<b>Net decrease in cash and cash equivalents</b>		<u>(432.558)</u>	<u>(1.222.461)</u>
Cash and cash equivalents at beginning of the year		<u>3.299.894</u>	<u>4.522.355</u>
<b>Cash and cash equivalents at end of the year</b>	19	<u>2.867.336</u>	<u>3.299.894</u>

The notes on pages 6 to 38 are an integral part of these financial statements.

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

For the year ended 31 December 2019

**1. Reporting entity**

Axon Neuroscience SE (the "Company") was incorporated and is domiciled 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 2019.

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 2019****2. Basis of accounting (continued)****2.3 Going concern basis**

The Company incurred a loss of €63.504.698 during the year ended 31 December 2019 and, as of that date the Company's liabilities exceeded its assets by €93.388.868.

Notwithstanding the level of accumulated losses, the financial statements have been prepared on a going concern basis based on the fact that the Company 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. At the end of 2019 Axon has successfully completed a phase II clinical trial in almost 200 Alzheimer's patients, which revealed excellent safety, immunogenicity and efficacy. The evidence from its clinical trials on Alzheimer's disease proved its peptide based vaccine platform very safe and well tolerated 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 expected to be 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 creditors (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 operations of the Company. The favorable outcome of the negotiations is supported by the decision of the creditors 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 creditors have already provided additional funding of €0,35 million in April 2020, €1,36 million in May 2020 and €0,7 million in June 2020.

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.

The Group 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. These 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 2020. These offers are covered by non disclosure agreements.

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 2020, the going concern basis of preparation may no longer be appropriate.

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

For the year ended 31 December 2019

**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)**

As from 1 January 2019, the Company adopted all changes to International Financial Reporting Standards (IFRSs) as adopted by the EU, which are relevant to its operations. This adoption did not have a material effect on the financial statements of the Company.

The following Standards, Amendments to Standards and Interpretations have been issued by the International Accounting Standards Board (IASB) but are not yet effective for annual periods beginning on 1 January 2019. Those which may be relevant to the Company are set out below. The Company does not plan to adopt these Standards early.

**(i) Standards and Interpretations adopted by the EU**

- "Amendments to References to the Conceptual Framework in IFRS Standards" (effective for annual periods beginning on or after 1 January 2020).
- IAS 1 and IAS 8 (amendments): Definition of Material (effective for annual periods beginning on or after 1 January 2020).

**(ii) Standards and Interpretations not adopted by the EU**

- Amendments to IAS 1 Presentation of Financial Statements: Classification of Liabilities as Current or Non-current (issued on 23 January 2020) (effective for annual periods beginning on or after 1 January 2020).

The Board of Directors expects that the adoption of these standards in future periods will not have a material effect on the financial statements of the Company.

**5. Use of estimates and judgements**

In preparing these financial statements, management has made judgements, 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.

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

For the year ended 31 December 2019

**5. Use of estimates and judgements (continued)****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 13 - Impairment test of non-financial assets: key assumptions underlying recoverable amounts and value in use.
- Note 17 "Provision for bad and doubtful debts" - the Company reviews its trade and other receivables for evidence of their recoverability.
- Note 16 "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 14 and 7 "Impairment of investments in subsidiaries" - determine the recoverability of investments in subsidiaries whenever indicators of impairment are present.
- Note 15 - 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 categorised 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 categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

**AXON NEUROSCIENCE SE****NOTES TO THE FINANCIAL STATEMENTS****For the year ended 31 December 2019****5. Use of estimates and judgements (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 12 - Property, plant and equipment
- Note 25 - 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 2019. The nature and effects of the changes are explained below.

**6.1 IFRS 16 Leases**

The Company applied IFRS 16 using the modified retrospective approach, under which the cumulative effect of initial application (if any) is recognised in retained earnings at 1 January 2019. Accordingly, the comparative information presented for 2018 is not restated - i.e. it is presented, as previously reported, under IAS 17 and related interpretations and the disclosure requirements in IFRS 16 have not generally been applied to comparative information.

**6.1.1 Definition of a lease**

Previously, the Company determined at contract inception whether an arrangement was or contained a lease under IFRIC 4 "Determining whether an Arrangement contains a Lease". The Company now assesses whether a contract is or contains a lease based on the definition of a lease.

On transition to IFRS 16, the Company elected to apply the practical expedient to grandfather the assessment of which transactions are leases. The Company applied IFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed for whether there is a lease under IFRS 16. Therefore, the definition of a lease under IFRS 16 was applied only to contracts entered or changed on or after 1 January 2019.

**6.1.2 As a lessee**

The Company previously classified leases as operating or finance leases based on its assessment of whether the lease transferred significantly all of the risks and rewards incidental to ownership of the underlying asset to the Company. Under IFRS 16, the Company recognises right-of-use assets and lease liabilities for most of these leases - i.e. these leases are on-balance sheet.

At commencement or on modification of a contract that contains a lease component, the Company allocates the consideration in the contract to each lease component on the basis of its relative stand-alone price.

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

For the year ended 31 December 2019

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

However, if the Company concludes for a finance lease that it is impracticable to separate the payments reliably, then an asset and a liability are recognised at an amount equal to the fair value of the underlying asset.

**6.1.2.1 Leases classified as operating leases under IAS 17**

On transition, for these leases, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Company's incremental borrowing rate as at 1 January 2019. Right-of-use assets are measured at either:

- their carrying amount as if IFRS 16 had been applied since the commencement date, discounted using the Company's incremental borrowing rate at the date of initial application; or
- an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments.

The Company has tested its right-of-use assets for impairment on the date of transition.

The Company used a number of practical expedients when applying IFRS 16 to leases previously classified as operating leases under IAS 17. In particular, the Company:

- did not recognise right-of-use assets and liabilities for leases for which the lease term ends within 12 months of the date of initial application;
- did not recognise right-of-use assets and liabilities for leases of low value assets
- excluded initial direct costs from the measurement of the right-of-use asset at the date of initial application; and
- used hindsight when determining the lease term.

**6.1.3 Impact of the change**

On transition to IFRS 16, the Company did not recognise additional right-of-use assets and additional lease liabilities. The adoption of IFRS 16 did not have a material effect on the Company's financial statements.

**6.1.4 Policy applicable before 1 January 2019**

For contracts entered into before 1 January 2019, the Company determined whether the arrangement was or contained a lease based on the assessment of whether:

- fulfilment of the arrangement was dependent on the use of a specific asset or assets; and

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

For the year ended 31 December 2019

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

- the arrangement had conveyed a right to use the asset. An arrangement conveyed the right to use the asset if one of the following was met: the purchaser had the ability or right to operate the asset while obtaining or controlling more than an insignificant amount of the output;
- the purchaser had the ability or right to control physical access to the asset while obtaining or controlling more than an insignificant amount of the output; or
- facts and circumstances indicated that it was remote that other parties would take more than an insignificant amount of the output.

**6.1.4.1 As a lessee**

In the comparative period, as a lessee the Company classified leases that transferred substantially all the risks and rewards of ownership as finance leases. When this was the case, the leased assets were measured initially at an amount equal to the lower of their fair value and the present value of the minimum lease payments. Minimum lease payments were the payments over the lease term that the lessee was required to make, excluding any contingent rent. Subsequent to initial recognition, the assets were accounted for in accordance with the accounting policy applicable to that asset.

Assets held under other leases were classified as operating leases and were not recognised in the Company's statement of financial position.

Payments made under operating leases were recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received were recognised as an integral part of the total lease expense, over the term of the lease.

**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).

**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 Employee benefits**

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

**AXON NEUROSCIENCE SE****NOTES TO THE FINANCIAL STATEMENTS****For the year ended 31 December 2019****7. Significant accounting policies (continued)****7.3 Finance income and finance costs**

The Company's finance income and finance costs include:

- interest income;
- interest expense;

**7.4 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.

**7.5 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.

**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').

**7.7 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.

**AXON NEUROSCIENCE SE**

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

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

**7.8 Property, plant and equipment**

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

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

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

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

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

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

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

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



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

For the year ended 31 December 2019

**7. Significant accounting policies (continued)****7.9 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%.

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.

**7.10 Financial instruments*****7.10.1 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 2019****7. Significant accounting policies (continued)****7.10 Financial instruments (continued)****7.10.2 Classification and subsequent measurement****7.10.2.1 Financial assets**

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.

**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**

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;

## AXON NEUROSCIENCE SE

NOTES TO THE FINANCIAL STATEMENTSFor the year ended 31 December 2019**7. Significant accounting policies (continued)****7.10 Financial instruments (continued)**

- 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**

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 2019

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

**7.10 Financial instruments (continued)**

**Financial assets - Subsequent measurement and gains and losses:**

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.
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**7.10.2.2 Financial liabilities - Classification, subsequent measurement and gains and losses**

Financial liabilities are classified as measured at amortised cost. 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.

## AXON NEUROSCIENCE SE

NOTES TO THE FINANCIAL STATEMENTSFor the year ended 31 December 2019**7. Significant accounting policies (continued)****7.10 Financial instruments (continued)**

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 rate method.

**(ii) Trade and other payables**

Trade payables and other are stated at their nominal values.

**7.10.3 Impairment****• Financial instruments and contract assets**

The Company recognises loss allowances for ECLs on:

- financial assets measured at amortised cost;

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

## AXON NEUROSCIENCE SE

NOTES TO THE FINANCIAL STATEMENTSFor the year ended 31 December 2019**7. Significant accounting policies** (continued)**7.10 Financial instruments** (continued)

- 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.

- 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.

## AXON NEUROSCIENCE SE

NOTES TO THE FINANCIAL STATEMENTSFor the year ended 31 December 2019**7. Significant accounting policies (continued)****7.10 Financial instruments (continued)**

- *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.

**7.11 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

**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.

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

For the year ended 31 December 2019

**7. Significant accounting policies (continued)****7.12 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.

**7.13 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.

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.

**7.14 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.

**7.15 Non-current liabilities**

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



## AXON NEUROSCIENCE SE

NOTES TO THE FINANCIAL STATEMENTSFor the year ended 31 December 2019**7. Significant accounting policies (continued)****7.16 Comparatives**

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

**8. Administrative expenses**

	2019 €	2018 €
Staff costs	523.568	436.132
Legal fees	372.108	295.517
Other professional fees	722.337	239.724
Travelling	175.661	449.866
Material consumption expenses	3.249.267	1.919.583
Marketing and advertising expenses	78.796	69.817
Clinical services fees	16.645.341	6.645.703
Amortisation of trademarks and licences	1.442.875	1.442.875
Depreciation	6.542	6.542
Sundry expenses	<u>168.543</u>	<u>116.535</u>
	<u>23.385.038</u>	<u>11.622.294</u>

**9. Other operating expenses**

	2019 €	2018 €
Impairment charge - intangible assets	35.587.584	-
Impairment charge - other receivable	<u>16.082</u>	<u>-</u>
	<u>35.603.666</u>	<u>-</u>

## AXON NEUROSCIENCE SE

NOTES TO THE FINANCIAL STATEMENTSFor the year ended 31 December 2019**10. Net finance income and costs**

	2019 €	2018 €
Interest income from related parties (Note 24(i))	59.759	45.729
Interest income	259	233
Exchange profit	-	118
Finance income - total	<u>60.018</u>	<u>46.080</u>
Net foreign exchange transaction losses	(269)	(18.276)
Interest expense from related parties (Note 24(ii))	(668.484)	(1.308.625)
Interest expense	(3.905.365)	(2.333.455)
Sundry finance expenses	<u>(1.845)</u>	<u>(1.998)</u>
Finance costs - total	<u>(4.575.963)</u>	<u>(3.662.354)</u>
<b>Net finance expenses</b>	<u>(4.515.945)</u>	<u>(3.616.274)</u>

**11. Taxation**

	2019 €	2018 €
Overseas tax	<u>49</u>	<u>5</u>
Charge for the year	<u>49</u>	<u>5</u>

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

	2019	2019 €	2018	2018 €
Accounting loss before tax		<u>(63.504.649)</u>		<u>(15.232.635)</u>
Tax calculated at the applicable tax rates	12,50%	(7.938.081)	12,50%	(1.904.079)
Tax effect of expenses not deductible for tax purposes	(10,52)%	6.681.790	(1,20)%	183.540
Tax effect of allowances and income not subject to tax	0,57%	(361.031)	0,04%	(5.760)
Tax effect of loss for the year	(2,55)%	1.617.322	(11,33)%	1.726.299
Overseas tax in excess of credit claim used during the year	-%	<u>49</u>	-%	<u>5</u>
Tax as per statement of profit or loss and other comprehensive income - charge	-%	<u>49</u>	-%	<u>5</u>

## AXON NEUROSCIENCE SE

NOTES TO THE FINANCIAL STATEMENTSFor the year ended 31 December 2019**11. Taxation (continued)**

The corporation tax rate is 12,5%, (2018: 12,5%).

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

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

**12. Property, plant and equipment**

	Property under construction	Motor vehicles	Furniture, fixtures and office equipment	Total
	€	€	€	€
<b>Cost</b>				
Balance at 1 January 2018	2.033.302	20.200	12.512	2.066.014
Balance at 31 December 2018	2.033.302	20.200	12.512	2.066.014
Balance at 1 January 2019	2.033.302	20.200	12.512	2.066.014
Balance at 31 December 2019	2.033.302	20.200	12.512	2.066.014
<b>Depreciation</b>				
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	-	12.120	7.507	19.627
Balance at 1 January 2019	-	12.120	7.507	19.627
Depreciation for the year	-	4.040	2.502	6.542
Balance at 31 December 2019	-	16.160	10.009	26.169
<b>Carrying amounts</b>				
Balance at 31 December 2019	2.033.302	4.040	2.503	2.039.845
Balance at 31 December 2018	2.033.302	8.080	5.005	2.046.387

## AXON NEUROSCIENCE SE

NOTES TO THE FINANCIAL STATEMENTSFor the year ended 31 December 2019**13. Intangible assets**

	Research and development €	Patents and trademarks €	Total €
<b>Cost</b>			
Balance at 1 January 2018	22.045.397	14.428.750	36.474.147
Additions	<u>13.542.187</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>
Balance at 1 January 2019	35.587.584	14.428.750	50.016.334
Impairment charge	<u>(35.587.584)</u>	-	<u>(35.587.584)</u>
Balance at 31 December 2019	<u>-</u>	<u>14.428.750</u>	<u>14.428.750</u>
<b>Amortisation</b>			
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>
Balance at 1 January 2019	-	10.100.125	10.100.125
Amortisation for the year	<u>-</u>	<u>1.442.875</u>	<u>1.442.875</u>
Balance at 31 December 2019	<u>-</u>	<u>11.543.000</u>	<u>11.543.000</u>
<b>Carrying amounts</b>			
Balance at 31 December 2019	<u>-</u>	<u>2.885.750</u>	<u>2.885.750</u>
Balance at 31 December 2018	<u>35.587.584</u>	<u>4.328.625</u>	<u>39.916.209</u>

Management has taken the decision to fully derecognise the capitalized development expenses to date for the development of AADvac1, the leading product of the Company, in compliance with IAS38.

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 2020. 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 2019

**14. Investments in subsidiaries**

	2019 €	2018 €
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>	2019 Holding %	2018 Holding %	2019 €	2018 €
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 Company periodically evaluates the recoverability of investments in subsidiaries whenever indicators of impairment are present. Indicators of impairment include such items as declines in revenues, earnings or cash flows or material adverse changes in the economic or political stability of a particular country, which may indicate that the carrying amount of an asset is not recoverable. If facts and circumstances indicate that investment in subsidiaries may be impaired, the estimated future discounted cash flows associated with these subsidiaries would be compared to their carrying amounts to determine if a write-down to fair value is necessary.

The investment in the subsidiary companies is stated at cost.

**15. Loans receivable**

	2019 €	2018 €
Loans to own subsidiaries (Note 24 (v))	<u>1.234.099</u>	<u>1.053.840</u>
	<u>1.234.099</u>	<u>1.053.840</u>

The exposure of the Company to credit risk is reported in note 25 to the financial statements.

## AXON NEUROSCIENCE SE

NOTES TO THE FINANCIAL STATEMENTSFor the year ended 31 December 2019**16. Inventories**

	2019 €	2018 €
Lab supplies	<u>2.902.435</u>	<u>1.738.656</u>
	<u>2.902.435</u>	<u>1.738.656</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.

**17. Trade and other receivables**

	2019 €	2018 €
Receivables from own subsidiaries (Note 24 (iii))	-	15.134
Receivables from parent (Note 24 (iv))	15.513	15.513
VAT Refundable	379.810	424.186
Deferred expenses	2.727	52.677
Other receivables	<u>635</u>	<u>16.145</u>
	<u>398.685</u>	<u>523.655</u>

The exposure of the Company to credit risk and impairment losses in relation to trade and other receivables is reported in note 25 to the financial statements.

**18. Other investments**

	2019 €	2018 €
Balance at 1 January	<u>500</u>	<u>500</u>
Balance at 31 December	<u>500</u>	<u>500</u>

The exposure of the Company to market risk in relation to financial assets is reported in note 25 to the financial statements.

## AXON NEUROSCIENCE SE

NOTES TO THE FINANCIAL STATEMENTSFor the year ended 31 December 2019**19. Cash and cash equivalents**

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

	2019 €	2018 €
Cash at bank and in hand	<u>2.867.336</u>	<u>3.299.894</u>
	<u>2.867.336</u>	<u>3.299.894</u>

The exposure of the Company to credit risk and impairment losses in relation to cash and cash equivalents is reported in note 25 to the financial statements.

**20. Share capital**

	2019 Number of shares	2019 €	2018 Number of shares	2018 €
<b>Authorised</b>				
<b>Issued and fully paid</b>				
Balance at 1 January	<u>27.392.012</u>	<u>27.512.000</u>	<u>27.392.012</u>	<u>27.512.000</u>
Balance at 31 December	<u>27.392.012</u>	<u>27.512.000</u>	<u>27.392.012</u>	<u>27.512.000</u>

**21. Loans and borrowings**

	2019 €	2018 €
<b>Non-current liabilities</b>		
Loan from parent company (Note 24 (viii))	<u>3.325.236</u>	<u>9.856.752</u>
		<u>9.856.752</u>
	<u>3.325.236</u>	
<b>Current liabilities</b>		
Other loans	<u>98.112.707</u>	<u>66.980.883</u>
Total	<u>101.437.943</u>	<u>76.837.635</u>
Maturity of borrowings:		
	2019 €	2018 €
Within one year	98.112.707	66.980.883
Between one and five years	<u>3.325.236</u>	<u>9.856.752</u>
	<u>101.437.943</u>	<u>76.837.635</u>

**AXON NEUROSCIENCE SE**

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

**21. Loans and borrowings (continued)**

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 creditors have already provided additional funding of €0,35 million in April 2020, €1,36 million in May 2020 and €0,7 million in June 2020.

The exposure of the Company to interest rate risk in relation to financial instruments is reported in note 25 to the financial statements.

**22. Trade and other payables**

	2019 €	2018 €
Trade payables	1.494.514	179.121
Social insurance and other taxes	202.447	122.870
Payroll accruals	46.823	22.525
Accruals to own subsidiaries (Note 24 (vii))	670.511	2.516.218
Accruals	88.484	200.536
Other creditors	332.140	25.051
Payables to own subsidiaries (Note 24 (vi))	<u>6.096.453</u>	<u>3.211.152</u>
	<u>8.931.372</u>	<u>6.277.473</u>

The exposure of the Company to liquidity risk in relation to financial instruments is reported in note 25 to the financial statements.

**23. Tax liability**

	2019 €	2018 €
Corporation tax	<u>203</u>	<u>203</u>
	<u>2</u>	<u>2</u>
	<u>03</u>	<u>03</u>

The above amounts are payable within one year.

**24. Related party transactions**

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



## AXON NEUROSCIENCE SE

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

**24. Related party transactions (continued)**

The transactions and balances with related parties are as follows:

**(i) Interest income (Note 10)**

	2019 €	2018 €
Axon Neuroscience R&D Services SE	<u>59.759</u>	<u>45.729</u>
	<u>59.759</u>	<u>45.729</u>

**(ii) Interest expense (Note 10)**

	2019 €	2018 €
Axon Holding SE	<u>668.484</u>	<u>1.308.625</u>
	<u>668.484</u>	<u>1.308.625</u>

**(iii) Receivables from own subsidiaries (Note 17)**

	2019 €	2018 €
<u>Name</u>		
Axon Neuroscience R&D Services SE	-	5.000
Axon Neuroscience CRM Services SE	<u>-</u>	<u>10.134</u>
	<u>-</u>	<u>15.134</u>

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

**(iv) Receivables from parent company (Note 17)**

	2019 €	2018 €
<u>Name</u>		
Axon Holding SE	<u>15.513</u>	<u>15.513</u>
	<u>15.513</u>	<u>15.513</u>

**(v) Loan receivable from own subsidiary (Note 15)**

	2019 €	2018 €
Axon Neuroscience R&D Services SE	<u>1.234.099</u>	<u>1.053.840</u>
	<u>1.234.099</u>	<u>1.053.840</u>

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

## AXON NEUROSCIENCE SE

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

**24. Related party transactions (continued)****(vi) Payables to own subsidiaries (Note 22)**

	2019	2018
	€	€
<u>Name</u>		
Axon Neuroscience CRM Services SE	1.737.688	280.925
Axon Neuroscience R&D Services SE	<u>4.358.765</u>	<u>2.930.227</u>
	<u>6.096.453</u>	<u>3.211.152</u>

**(vii) Accruals to own subsidiaries (Note 22)**

	2019	2018
	€	€
<u>Name</u>		
Axon Neuroscience CRM Services SE	241.880	1.690.956
Axon Neuroscience R&D Services SE	<u>428.631</u>	<u>825.262</u>
	<u>670.511</u>	<u>2.516.218</u>

**(viii) Loan payable from parent company (Note 21)**

	2019	2018
	€	€
Axon Holding SE	<u>3.325.236</u>	<u>9.856.752</u>
	<u>3.325.236</u>	<u>9.856.752</u>

The loan in the principal amount of €3.302.616 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.

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

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

- Credit risk
- Liquidity risk
- Market risk

The Board of Directors has 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 2019

**25. 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		Total €
	Financial assets at amortised cost €	Other financial liabilities €	
<b>31 December 2019</b>			
<b>Financial assets not measured at fair value</b>			
Trade and other receivables	398.685	-	398.685
Cash and cash equivalents	2.867.336	-	2.867.336
Loan receivable	1.234.099	-	1.234.099
<b>Total</b>	<b>4.500.120</b>	<b>-</b>	<b>4.500.120</b>
<b>Financial liabilities not measured at fair value</b>			
Loans and borrowings	-	101.437.943	101.437.943
Social and other tax liabilities	-	202.447	202.447
Payroll accruals	-	46.823	46.823
Trade and other payables	-	8.682.103	8.682.103
<b>Total</b>	<b>-</b>	<b>110.369.316</b>	<b>110.369.316</b>

**AXON NEUROSCIENCE SE**

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

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

	Carrying amount		Total
	Financial assets at amortised cost	Other financial liabilities	€
	€	€	€
<b>31 December 2018</b>			
<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>-</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 2019

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

**B. Financial risk management**

The Company 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:

	2019	2018
	€	€
Loans receivables from related parties	1.234.099	1.053.840
Trade and other receivables	380.445	440.331
Bank current accounts	2.859.853	3.293.091
Receivables from related companies	<u>15.513</u>	<u>30.647</u>
	<u>4.489.910</u>	<u>4.817.909</u>

Impairment losses on financial assets and contract assets recognised in profit or loss were as follows:

Impairment charge - other receivables	<u>(16.082)</u>	-
	<u>(16.082)</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.

When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Group 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. 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 Slovakia 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 performance of the borrower.

**AXON NEUROSCIENCE SE**

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

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

(i) *Credit risk* (continued)

The Company did not recognised any impairment allowance as at 31 December 2018 and the amount of the allowance did not change during 2019.

**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>	<u>No of banks</u>	2019 €	2018 €
Without credit rating	<u>1</u>	<u>2.859.853</u>	<u>3.293.091</u>
	<u>1</u>	<u>2.859.853</u>	<u>3.293.091</u>

The Company held cash and cash equivalents of €2.859.853 at 31 December 2019 (2018: €3.293.091). The cash and cash equivalents are held with bank and financial institution counterparties, which is without credit rating.

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.

The Company did not recognised any impairment allowance as at 31 December 2018 and the amount of the allowance did not change during 2019.

(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.

## AXON NEUROSCIENCE SE

NOTES TO THE FINANCIAL STATEMENTSFor the year ended 31 December 2019**25. Financial instruments - fair values and risk management** (continued)*(ii) Liquidity risk* (continued)

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 2019	Carrying amounts €	Contractual cash flows €	Between 3-12 months €	Between 1-5 years €
Other loans	98.112.707	98.112.707	98.112.707	-
Trade and other payables	2.164.409	2.164.409	2.164.409	-
Payables to related parties	6.766.964	6.766.964	6.766.964	-
Loan from parent company	3.325.236	3.737.837	-	3.737.837
	<u>110.369.316</u>	<u>110.781.917</u>	<u>107.044.080</u>	<u>3.737.837</u>
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>

*(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.

## AXON NEUROSCIENCE SE

NOTES TO THE FINANCIAL STATEMENTSFor the year ended 31 December 2019**25. Financial instruments - fair values and risk management (continued)***(iii) Market risk (continued)**Interest rate risk (continued)*

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

	2019	2018
	€	€
<i>Fixed rate instruments</i>		
Financial assets	1.234.099	1.053.840
Financial liabilities	<u>(101.437.94)</u>	<u>(76.837.635)</u>
	<u>(100.203.84)</u>	<u>(75.783.795)</u>

**26. Events after the reporting period**

On 11 March 2020, the World Health Organization declared the Coronavirus COVID 19 outbreak to be a pandemic in recognition of its rapid spread across the globe, with over 150 countries now affected. Many governments are taking increasingly stringent steps to help contain, and in many jurisdictions, now delay, the spread of the virus, including: requiring self isolation/ quarantine by those potentially affected, implementing social distancing measures, and controlling or closing borders and "locking down" cities/regions or even entire countries. These measures will slow down both the broader Cyprus and world economies and the operations of the company.

At present the Company is assessing the impact of these market developments for its financial position, financial performance and future cash flows. Regardless of these risks, the Company is of the opinion that, any downside is expected to be temporary in nature.

The Company, was quickly to respond in the COVID 19 fight by using its established peptide based vaccine platform to produce a novel prophylactic COVID 19 vaccine, intended to treat infected patients and protect healthy individuals from infection.

We cannot however preclude the possibility of a second wave of the pandemic during the autumn period which may reinstate lock down periods, an escalation in the severity of measures, or a consequential adverse impact of such measures on the economic environment we operate in, will not have an adverse effect on the Company, and its financial position and operation results, in the medium and longer term. Management continues to monitor the situation closely and will respond to mitigate the impact of such events and circumstances as they occur.