formycon®

HIGH-QUALITY BIOSIMILARS FOR BETTER ACCESS TO VITAL MEDICINES

Annual Report 2018

formycon®

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To Our Shareholders

Dear shareholders, friends and colleagues,

As 2018 began, the entire biosimilar industry eagerly looked forward to a pivotal year, in particular to the upcoming **expiry of patent protection** for Humira®[1]), the world’s top-selling drug. With global sales revenue of more than EUR 16 billion at stake, several makers of Humira biosimilars were already on the starting blocks as patent protection came to an end in Europe on October 17, 2018. Just eight weeks after their market entry, Humira biosimilars managed to capture a share of nearly 30 percent of the German statutory healthcare market. In the previous year, expenditures by German statutory health insurers for the patented AbbVie originator drug for the treatment of rheumatoid arthritis and other inflammatory diseases had totaled roughly EUR 1 billion and thus, through full substitution with more cost-efficient biosimilars, Germany’s healthcare system stands to reap significant savings.

The example of this one drug, in one country, underscores the role which biosimilars are beginning to play in **easing the financial strains** on the world’s healthcare systems, so that these new drugs will, over the medium to long term, become an indispensable pillar of global healthcare. As in the past with conventional generic drugs, the entry of follow-on preparations with the same safety and efficacy as originator drugs creates market competition. This not only benefits only the world’s patients who depend upon these drugs but also drives new **innovation in the pharmaceutical industry**, leading to new treatment options.

Politicians and policymakers are also increasingly turning their attention to biosimilars. In Germany, for example, the federal cabinet gave its assent on January 30, 2019, to a draft law to strengthen pharmaceutical safety (*Gesetz für mehr Sicherheit in der Arzneimittelversorgung, GSAV*), which would, in particular, actively encourage biosimilars. Although the new law does not mandate a direct substitution of originator drugs with biosimilar alternatives, it would, however, introduce the default aut item (“or the like”) prescription mechanism following a three-year transitional period, so that as with conventional generics, pharmacies may substitute the prescribed drug with an equivalent drug unless expressly precluded by the prescribing physician.

This means that, during this transitional period, the physician will retain full control over the prescribed brand most appropriate to the individual patient. Biosimilar industry associations and producers agree that this is a sensible way to proceed, as acceptance of and **trust in these biosimilars** grows over the three-year period, among both doctors and patients.

With these favorable tailwinds at its back, Formycon was able to attain key milestones in the development of our biosimilar candidates over the past fiscal year, especially our flagship development project FYB201, a follow-on drug to the eye drug Lucentis®[2] (ranibizumab). Already in May of last year, our pending phase III clinical trials reached the primary efficacy endpoint, marking an interim success of particular significance. Then on June 6, 2018, the final patient in the COLUMBUS-AMD (age-related macular degeneration) study completed treatment, thus successfully demonstrating efficacy, safety and immunogenicity comparable to the reference product Lucentis®. These study results have now paved the way for the **preparation of registration documents**, which will be submitted to the U.S. Food and Drug Administration (FDA) in 2019. In addition, with our development of an innovative application system for which we have patent applications pending, Formycon is further strengthening its future potential market position upon entry of FYB201 into the U.S. market.

As exciting as these advances are, attention must also be directed to our FYB202 candidate biosimilar to Stelara®[3] (ustekinumab) and FYB203, our candidate biosimilar to Eylea®[4] (aflibercept). In both of these projects, we were able to make important progress over the past year in the development of large-scale production processes. Through close coordination with the responsible authorities under the “scientific advices” process, we see ourselves as well prepared for the requirements which we will soon face on the path to regulatory approval. We would, in addition, like to specially thank our **license partners**, whose constant support and seamless cooperation will prove especially valuable in the coming, pivotally important years.

On the financial side, we can likewise look back with satisfaction upon a successful year. The solid growth in our numbers is also reflected in the healthy expansion of our organization. We began 2018 with 83 employees, a number which grew over the year to 95 employees – but even more important than this numerical growth is the quality of our staff, with each an expert in his or her field, making an important individual contribution to the company’s success.

Because we know that we can only succeed as a team, we at Formycon consciously cultivate a shared culture of openness and transparency, of respect and mutual appreciation. For their hard efforts and continued commitment over the past year, we would like to sincerely thank our entire staff.

So that our internal processes and organizational resources keep pace with our growth, we have intensified our efforts to make our business processes more efficient and our organization stronger. In our relentless quest for **Operational Excellence**, we are constantly working to dynamically optimize each of the many processes along our value chain. It must be underscored, however, that this management is not just about making our core processes more efficient and effective; it is also about making significant investments in our people, and about our strategic commitment to competitively positioning ourselves for the long term as a leading independent developer of biosimilars.

Despite so much happening within our company, we must never lose sight of our ultimate mission, which is our strident desire to give the world’s patients better access to vitally important biologic drugs already on the market. It is with this in mind that we are developing our biosimilars for the treatment of serious eye diseases and for the treatment of chronic inflammatory diseases. We attach great importance to the quality of our work and of our products, with the shared goal of creating value for those who invest their trust, their time and their capital into our company.

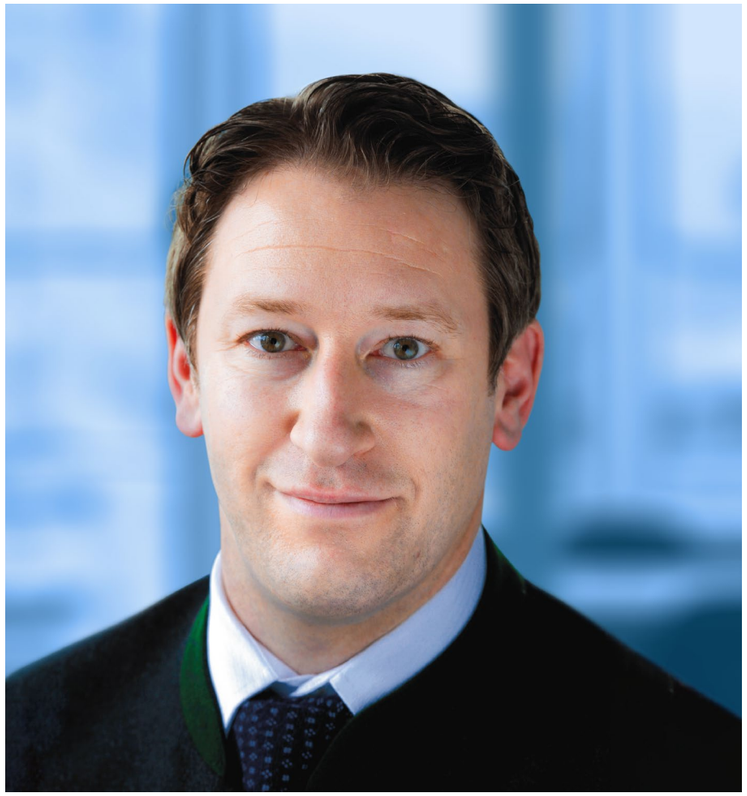
We are optimistic about the future. Sales revenue for the reference drugs to our three announced biosimilar candidates totaled more than **USD 15 billion** in 2018, a year-over-year increase of some USD 2 billion. And with vast additional potential through the development of additional biosimilars, this is only the beginning; of the roughly 200 biopharmaceuticals currently on the market, only 15 are available thus far in the form of a biosimilar drug.

We have exciting plans for Formycon, and much more lies ahead. We hope that you will continue with us on our path to broadening access to these vital drugs, making them more available to the many patients who urgently need them.

Formycon Management
May 2019

[1] Humira® is a registered trademark of AbbVie
[2] Stelara® is a registered trademark of Johnson & Johnson
[3] Lucentis® is a registered trademark of Genentech Inc.
[4] Eylea® is a registered trademark of Regeneron Pharmaceuticals Inc.

Report of the Supervisory Board



Dr. Olaf Stiller
Chairman of the Supervisory Board

During fiscal year 2018, the Supervisory Board intensively examined the financial condition and business performance of Formycon AG, thereby fulfilling its duties under governing law and under the company's articles of incorporation. It supervised and advised the Executive Board on an ongoing basis in its management of the company. The Supervisory Board was directly involved in all decisions of fundamental importance.

The Supervisory Board received regular reports from the Executive Board in both written and oral form, providing comprehensive and timely information. These reports fully met the requirements established by the Supervisory Board in terms of both content and scope. On the basis of these reports, current developments and business events of key importance were discussed. Furthermore, regular consultations were held with the Executive Board on matters of the company's strategy, planning, business development, risk position, risk management, and regulatory compliance.

The Chairman of the Supervisory Board was promptly informed by the Executive Board of all important events that were of material significance to the Supervisory Board's assessment of the company's financial condition and business performance and to the corporate management of Formycon AG. In addition, the Chairman of the Supervisory Board held regular interim discussions with the Executive Board to discuss current business performance as well as individual topics and decisions of particular importance. In this way, the Chairman of the Supervisory Board was regularly and extensively informed between meetings.

In the course of the four regular board meetings (which took place on February 28, April 4, October 1, and December 12, 2018), all business matters and pending decisions requiring concurrence of the Supervisory Board under governing law or under the company's articles of association were discussed in depth before being voted upon. All members of the Supervisory Board were in attendance at these meetings. The Executive Board was also present at these meetings in order to discuss issues and answer questions.

The meetings of the Supervisory Board focused primarily on ensuring that the company's financial resources are secure and on the current and future development of its areas of business, in particular with regard to the state of its drug development efforts and the initiation and continuing progress of preclinical studies and clinical trials, as well as related questions regarding key staff. Moreover, the Supervisory Board discussed and debated key strategic initiatives with the Executive Board.

Discussion during these meetings also centered on ways to ensure and strengthen the company's competitiveness and on strategic concepts for its future growth. At each of these quarterly meetings, the Executive Board and Supervisory Board together reviewed the company's financial performance and plan. In conjunction with the approval of the annual financial statements, discussions specifically focused on key details of valuations and the resulting consequences for the company's capital structure.

Where agenda items concerning the Executive Board were discussed or voted upon, or where closed discussion or votes of the Supervisory Board were otherwise required, members of the Executive Board were excluded from these meetings or portions of meetings.

The annual financial statements and consolidated financial statements as of December 31, 2018, including the respective management reports, were examined by the Munich office of PanTax Audit GmbH, the audit and tax firm appointed by the Annual Meeting of Shareholders for fiscal year 2018, which also examined the company's bookkeeping. The audit firm, having determined that these were in compliance with all legal requirements, provided its unqualified audit opinion. Furthermore, the audit firm determined that the Executive Board has enacted measures, as required under sec. 91 para. 2 of the German Stock Corporation Act, to establish a risk monitoring system in appropriate form, and that this system is suitable for recognizing, at an early stage, any developments which might endanger the company's continued existence.

Advance copies of the financial statement documents to be examined and of the audit reports were provided to the Supervisory Board to ensure that it was comprehensively informed. In addition, the Supervisory Board asserted its right to inspect the accounts and papers of the company, in particular by requesting presentation of certain legal agreements it deemed important, including documents not specifically requiring its concurrence.

All transactions requiring concurrence of the Supervisory Board under governing law or under the company's articles of incorporation were examined by the Supervisory Board before reaching its decision on such concurrence.

In its meeting of April 1, 2019 to discuss the financial results and audit report for 2018, the Supervisory Board reviewed the unconsolidated and consolidated financial statements of Formycon AG for fiscal year 2018 as well as the audit procedures and findings of PanTax Audit GmbH. At this meeting, a representative of the audit firm was present to report in depth upon key findings of the audit examination.

These findings were discussed with the Supervisory Board and questions answered by the representative of the audit firm. Based upon its own examining review, the Supervisory Board found no cause to raise any objections to the financial statement documents which it reviewed, including also the concluding statement of the Executive Board. The Supervisory Board thus approves the unconsolidated and consolidated financial statements for fiscal year 2018 as presented to it. The annual financial statements of Formycon AG are adopted accordingly.

The Supervisory Board did not form any committees.

The Supervisory Board would like to thank the members of the Executive Board along with the entire staff of Formycon for their continued commitment and for all their hard work over the past year. We also like to extend our gratitude to our business partners, who have likewise contributed substantially to our company's success.

Dr. Olaf Stiller
Munich, April 2019

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Unified Management Report

I Basic Information about the Group and FORMYCON AG

Business model

FORMYCON develops biosimilars, meaning follow-on products to biopharmaceuticals already on the market. The Company seeks to license out its biosimilar candidates once certain defined development milestones have been attained, or to further develop these through to regulatory approval together with cooperation partners. In doing so, FORMYCON is able to cover all technical stages of the biopharmaceutical development chain from analysis and cell line development to preclinical studies and clinical trials, all the way through to the creation and submission of regulatory approval application documents. Through these in-house capabilities, FORMYCON is also in a position, following such an out-licensing deal or partnership arrangement, to undertake portions of the remaining development work. The partner company generally assumes responsibility for subsequent production and product marketing.

As of the end of 2018, FORMYCON was working on the following biosimilar projects:

- FYB201 is a biosimilar candidate for Lucentis®* (ranibizumab), an ophthalmic drug used in the treatment of neovascular ("wet") age-related macular degeneration (nAMD) and other serious eye diseases. Phase III clinical trials were successfully completed in June 2018. Through the latter part of 2018 and into 2019, the focus of development activities has been on the preparation of regulatory approval documents for submission to the U.S. Food and Drug Administration (FDA).

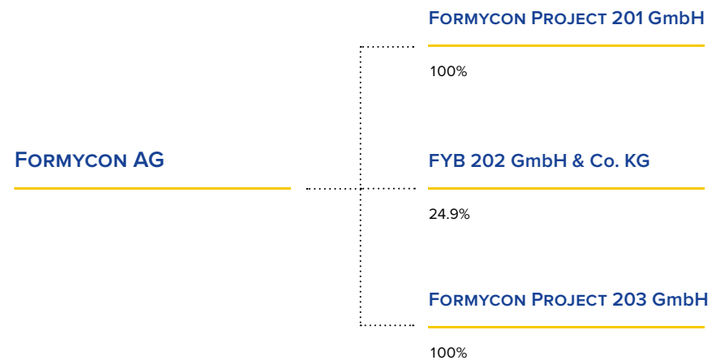
- FYB202 is a biosimilar candidate for Stelara®** (ustekinumab), a biopharmaceutical used in the treatment of certain serious inflammatory diseases, such as moderate to severe psoriasis, as well as Crohn's disease. As of the end of 2018, FYB202 was in the preclinical study phase and advancing in the development of production processes for the active ingredient, including the scaling of these for large-scale production.

- FYB203 is a biosimilar candidate for Eylea®*** (aflibercept). Similarly to Lucentis®, Eylea® is used to treat neovascular age-related macular degeneration (nAMD) and other serious eye diseases. As of the end of 2018, the project was in preclinical studies and likewise making significant progress in developing large-scale production processes for the active ingredient.

- FYB205 is a further development project about which details have not yet been announced. The rights to this project remain with FORMYCON.

FORMYCON Group is structured in accordance with this business model. The actual research and development is performed by FORMYCON AG, which conducts these activities not only for its own projects but also on behalf of affiliated companies and separately spun-off, product-specific subsidiaries, such as FORMYCON Project 201 GmbH and FORMYCON Project 203 GmbH. These subsidiaries are named in accordance with the respective biosimilar projects. FYB201 is out-licensed to Bioeq IP AG, while marketing rights to FYB203 are held by Santo Holding (Deutschland) GmbH. In addition, FORMYCON AG provides development services to FYB 202 Project GmbH, a subsidiary of FYB 202 GmbH & Co. KG, which holds the project rights to FYB202, the candidate biosimilar to Stelara®.

The structure of FORMYCON Group is as follows:



FORMYCON Project 201 GmbH was the first such company to be spun off, during fiscal year 2014. This entity, along with now likewise FORMYCON Project 203 GmbH, have assumed all ongoing project activities for the two out-licensed biosimilar candidates, FYB201 and FYB203.

In addition, FORMYCON established a joint venture in December 2017 together with Aristo Pharma GmbH, a member of the Strüngmann Group, to further develop its biosimilar candidate FYB202. FORMYCON owns 24.9 percent of the joint venture company, named FYB202 GmbH & Co. KG, with the remaining 75.1 percent held by Aristo. FORMYCON and Aristo will bear the remaining development costs and share the potential future income from the marketing of FYB202 according to their respective ownership shares.

The current focus of FORMYCON Group is on research and development activities for its own biosimilar projects. Business activities of the Group beyond this are not significant.

The business of FORMYCON is directed toward the pharmaceutical market, and thus healthcare policy and regulation should be recognized as an important external influence factor.

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[1] Lucentis® is a registered trademark of Genentech Inc.
[2] Stelara® is a registered trademark of Johnson & Johnson
[3] Eylea® is a registered trademark of Regeneron Pharmaceuticals Inc.

II Report on Business Performance

General economic conditions and industry conditions

According to the German Federal Ministry for Economic Affairs, the German economy posted full-year 2018 real growth (after adjustment for price changes) of 1.5 percent. Compared to the relative boom year of 2017, with 2.2 percent growth, this represents a decline of 0.7 percentage points. In view of the turbulent foreign trade environment along with production and sales disruptions at car manufacturers, the Ministry nevertheless considers this as solid growth. According to calculations by the Ministry, the growth was almost entirely attributable to domestic economic factors. Government consumption rose by 1.1 percent but grew less than in the prior three years. Due to favorable trends in employment and income, the real disposable income of private households grew by 1.8 percentage points during 2018. Consumer spending by private households, however, rose by only 1.0 percentage points. According to figures from the German Federal Statistical Office, the savings rate for private households increased by 0.4 percentage points during the period, which dampened consumer spending accordingly. According to the Ministry, this resulted not only from investments in equipment and buildings, but also from a build-up of inventories due to delays in new car type approvals. Despite all of these macroeconomic uncertainties, Germany nonetheless posted a record government budget surplus in 2018. According to figures from the Statistical Office, the federal government, the federal states (Länder), local governments and social security funds together reported EUR 59.2 billion in revenue in excess of outlays, the largest surplus since the country's 1990 reunification. 2018 marked the fifth consecutive year of federal government budget surpluses.

At the global level, economic growth slowed during 2018, the result of weakness in industrial production and a decline in world trade. According to the Ministry for Economic Affairs, conditions in Germany's labor market were positive, with labor demand among companies continuing at a very strong level. The number of long-term unemployed persons also declined steadily, ending the year more than 11 percent below the prior-year level. Despite the rosy headlines, the Ministry sees continuing challenges as structurally weak regions within Germany continue to struggle economically. The federal government forecasts real GDP growth of 1.0 percent in 2019; if this forecast proves accurate, the German economy should entering its tenth consecutive year of economic growth. The government further predicts that personal income will benefit noticeably from forecasted further strengthening in the labor market, with net wages and salaries per employee expected to rise by 4.8 percent in 2019.

The overall German pharmaceutical market (including both pharmacy and clinical sales) again posted robust growth in 2018. According to IQVIA, a leading information platform for human data science, sales in Germany's pharmaceutical market totaled EUR 43.9 billion in 2018, an increase of 6.0 percent over the prior year.

Of this total, EUR 35.9 billion was sold through pharmacies, a growth of 5 percent over the prior year, with some 1.6 billion package units of pharmaceuticals dispensed to patients through both local and online pharmacies.

The German Chemical Industry Association (VCI) likewise views overall industry conditions during 2018 as favorable. According to its figures, aggregate sales revenue for the German chemical and pharmaceutical industry climbed by 4.5 percent to a total of EUR 204 billion, breaking the EUR 200 billion mark for the first time. The remarkable growth was mainly due to booming pharmaceutical production, which rose by a robust 11.5 percent over the prior year. This was offset by declines of between 2.0 and 3.0 percent in certain other sub-sectors, such as the manufacture of soaps, detergents and cleaning agents as well as the production of inorganic raw materials, polymers and petrochemicals. According to VCI forecasts, growth is likely to be more modest in 2019. VCI President Hans Van Bylen explains that the subdued growth outlook is due both to the weakening economy within Germany as well as slower global economic growth. On the latter, he particularly notes the trade conflicts of the United States with the EU and with China along with Brexit, political issues which have endangered the global trade order upon which the German chemical and pharmaceutical industry relies for its prosperity. Even if there are no such major setbacks, VCI nevertheless expects industry sales revenue to increase by only around 1.5 percent in 2019. In addition, Van Bylen mentioned the long-term competitiveness of German industry as a key issue for the German government. As to employment in Germany's third-largest industry, the number of employees rose by 2.0 percent over the prior year to a new high of 462,000.

As to innovation within the pharmaceutical sector, the German Association of Research-Based Pharmaceutical Companies (vfa) published an assessment of drug development during 2018 which was strikingly positive. The country's research-based pharmaceutical companies brought 36 new drugs onto the market last year, including 12 for cancer treatment and 10 for the treatment of metabolic diseases. These figures do not yet include biosimilars. The Association's report notes that the average annual number of new drugs introduced to market over the past ten years was 32, and thus the launch of 36 new drugs in 2018 – with new active ingredients which can be used in the treatment of more than 45 diseases – is significantly above the ten-year average. The Association is likewise optimistic about 2019 and expects more than 30 new drugs to be launched, including new antibiotics and cancer drugs, which will enable advances in patient treatment.

Business development during the period

Business performance during the reporting period was satisfactory, for both FORMYCON Group and FORMYCON AG. The Group ended the year with an annual consolidated net income of € 7,099K on consolidated revenue of € 42,994K, thereby posting the best full-year results in its history. For the parent company only, net income was € 7,280K on revenue of € 29,620K. Neither FORMYCON AG nor FORMYCON Group has any financial debt.

During fiscal year 2018, FORMYCON was once again able to attain numerous company milestones:

— In April 2018, FORMYCON was ranked by the *Financial Times*, together with the online data portal Statista, as #7 among Europe's 1,000 fastest-growing companies (FT1000). FORMYCON was the only biotechnology company to make the top ten. This prestigious ranking marks more high-profile recognition for the company's growth momentum, as reflected in its revenue increases over the years from 2013 through 2016.

— In May, FORMYCON, together with its licensing partner Bioeq IP AG, announced the attainment of an important development milestone, with ranibizumab biosimilar candidate FYB201 demonstrating comparable efficacy to the reference product Lucentis® in the interim results of phase III clinical trials.

— Also in May, FORMYCON released its financial statements for fiscal year 2017. Full-year revenues of EUR 29.0 million, a rise of more than 48 percent over the prior year, came in ahead of forecast.

— In August, development and production expert Thomas Siklosi was appointed to the Advisory Board. The former CEO of Rentschler Biopharma SE brings 34 years of management and technical experience in the development and production of biologics and biosimilars.

— In September, FORMYCON published the financial results for the first half of 2018, with sales revenue of EUR 24.59 million for the period ending June 30, 2018. On the basis of this strong six-month performance, FORMYCON raised its full-year 2018 revenue forecast from EUR 36 million to EUR 40 million. The significant increase was attributable to the rebooking of prior investment expenditures for the FYB202 project in the years from 2013 to 2016, under which these previous FORMYCON investments were credited against its financing obligations to the new joint venture entity FYB202 GmbH & Co. KG. This resulted in a non-recurring, non-cash boost to 2018 revenue and earnings in the amount of EUR 8.47 million.

— In November, FORMYCON announced further details regarding development programs and milestones, including importantly the successful completion of phase III clinical trials for FYB201. Satisfactory progress was likewise announced for two other projects in the development stage, FYB202 (candidate biosimilar to Stelara®) and FYB203 (candidate biosimilar to Eylea®).

The advance of the Company's biosimilar projects into later stages of development, its significant further increase in staff, and its preparations for later stages of growth were, moreover, accompanied by further developmental changes in its organization and processes during 2018. The guiding aim of these changes has been to consistently focus on operational excellence, meaning clear and effective processes as well as appropriate organizational structures.

More specifically, the changes seek to make internal processes as streamlined and effective as possible, so that FORMYCON's entrepreneurial agility and high quality standards may be retained while, at the same time, creating a scalable organization which can seamlessly grow with future expansion of the product portfolio. Towards this end, FORMYCON added several highly competent and experienced managers to strengthen key areas of the Company.

FORMYCON continues to strategically position itself as a leading and independent developer of biosimilar drugs, thereby helping patients gain better access to important, already established biopharmaceutical treatments. In pursuing its strategy, the company is particularly focused on regulatory approval in the highly regulated markets of the European Union, the United States, Japan, Canada and Australia and on positioning itself as a potential partner for major pharmaceutical corporations and generic drug producers.

Shares

The shareholding structure of FORMYCON AG was stable over the fiscal year, with approx. 35 percent held by family offices and approx. 15 percent by institutional investors. A further approx. 15 percent of shares are held by the Company's founders and management. The remaining approx. 35 percent are widely held. The Company's shares have, since March 1, 2017, been listed in the Frankfurt Stock Exchange's "Scale" segment for small- to medium-sized companies. FORMYCON shares were added to the Deutsche Börse's "Scale 30 Index" of the 30 most liquid shares within the Exchange's Scale segment in February 2018, soon after the launch of this new market index of Germany's most actively traded small- to medium-sized companies at the start of 2018. The inclusion of FORMYCON within the Scale 30 Index was based primarily upon order book turnover on the Xetra and Frankfurt Stock Exchange trading venues as well as quarterly adjusted market capitalization. The Scale 30 Index is calculated in real time, is denominated in euros, and is available in both price and performance variants. Since the creation of this select index of the most traded stocks in the Scale segment, these stocks have been gaining greater visibility among investors. The Scale 30 Index serves as a complement to Deutsche Börse's "Scale All Share Index", which tracks the entirety of stocks in the Scale segment.

Shares of FORMYCON AG opened 2018 at a price of € 33.15 in the Xetra trading segment and ended the year on December 28, the last trading day of the year, at € 26.00. This corresponds to a drop in share price over the course of the year of roughly 22 percent.

According to a review of the German stock market published by financial portal Onvista, the weaker performance of the market during 2018 has heightened investor anxiety. Issues which particularly dominated during the year were Brexit negotiations, concerns regarding Italy's budget deficit, and above all the trade conflict between China and the U.S.

These uncertainties also left their mark on the DAX market index. While the DAX had been able to close each year since 2012 with a profit, its poor performance during 2018 left it with an annual loss of 18.26 percent. Germany's mid-cap and small-cap stocks suffered similar declines, with the MDAX mid-cap index down 17.6 percent and the SDAX small-cap index down 20.0 percent. The Scale All-Share Index lost 23.6 percent of its value during 2018, reflecting the uncertainty and nervousness of the stock market during the year in the face of political and economic instability.

In addition, FORMYCON has, since its introduction throughout the EU in July 2016, been subject to the requirements of the Market Abuse Regulation (MAR), replacing key parts of the German Securities Trading Act (*Wertpapierhandelsgesetz*) with the stated goal of promoting the integrity of the financial markets by improving transparency. Under the MAR, the Company is obligated to publicly release ad hoc announcements of information relevant to its share price, to report securities transactions by

its executives (directors' dealings), and to maintain a registry of Company insiders. FORMYCON has implemented these requirements, integrating appropriate compliance processes into its existing risk management system as necessary.

Staff

Fiscal year 2018 was, once again, marked by a notable increase in staff. While FORMYCON employed 83 people at the beginning of the year, the number (including Executive Board members) grew to 95 by the end of December, of which 82 worked in research and development.

Among the particular areas where additional staff were hired were regulatory affairs and quality management. These units were expanded to meet anticipated needs within these areas. The analytical and preclinical areas were also expanded, likewise to be adequately staffed for extensive anticipated R&D work for the FYB202 and FYB203 projects.

Research and development

The Group's activities, during 2018 as in prior years, were substantially comprised of research and development activities at the parent company level.

The consolidated expenditures for these Group activities may be broken down as follows:

in €	Current year
Cost of raw materials, consumables and supplies	1,958,171
Third-party services	22,895,036
Staff expenses	7,928,911
Depreciation and amortization	904,284
Other	2,950,148
	36,636,550

As of the end of 2018, 82 employees worked in research and development. Expenditures during the period totaled € 36,636,550, and these were all were charged as current expense. No research and development expenditures were capitalized. In the area of patent protection, the Group pushed forward with the international phase of its pending patent applications. Product development activities are proceeding on schedule, and thus prospects for the success of these development activities remain strong.

Financial performance

The financial results herein are reported for the fiscal year from January 1, 2018 to December 31, 2018. Because of rounding errors, it is possible that the figures cited do not precisely add up to the stated total, or that percentages do not precisely correspond to the absolute figures.

a. Results of operations

During the reporting period, **FORMYCON Group** generated consolidated revenue of € 42,994K, compared to € 29,004K in the prior year, resulting in annual consolidated net income of € 7,099K. Cost of materials rose to € 24,853K, leading to an increase in consolidated gross profit from € 8,365K to € 18,909K.

During fiscal year 2018, **FORMYCON AG** continued to drive forward with the development of its four biosimilar projects according to its defined business model. As a result of the out-licensing deals for FYB 201 signed in late 2013 and for FYB 203 in 2015, the Company continued to post significant sales revenue. Under the terms of these deals, FORMYCON AG received ongoing payments for its product development services provided on behalf of the licensee.

As part of the creation of a new joint venture with Aristo Pharma GmbH in 2017, FORMYCON transferred its intellectual property rights in its FYB202 biosimilar project to the joint venture entities, FYB 202 GmbH & Co. KG and its subsidiary FYB 202 Project GmbH. During fiscal year 2018, FORMYCON was able to re-book a total of EUR 8.47 million of investment expenditures previously made from 2013 through 2016 as offsets to its financing obligations under its joint venture equity participation. This re-booking resulted in a non-recurring, non-cash increase in both revenue and earnings in the amount of EUR 8.47 million. FORMYCON holds a 24.9 percent stake in the joint venture with Aristo Pharma GmbH and, following the completion of the pilot phase, will bear a pro rata share of accumulated project investments and other development costs. Including this non-recurring item, full-year net income for FORMYCON AG (parent company only) thus totaled EUR 7,280K on revenue of EUR 29,620K.

b. Financial position

The financial position of both FORMYCON AG and FORMYCON Group remains stable, with key liquidity ratios significantly above average, as in prior years. Current assets totaled € 18,746K, compared to total current liabilities of € 6,382K. The Company did not have any bank loans or long-term loans during the period.

As of the period closing date, consolidated cash and equivalents amounted to € 7,336K, while marketable securities, also included in cash and liquid resources in the following Statements of Cash Flows, totaled € 4,972K. Return on sales (annual net income/loss divided by sales revenue) for the period was 16.5%, while EBIT (operating profit) was € 7,126K and EBITDA (operating profit plus depreciation and amortization) was € 8,030K.

The Company did not have any financial debts. Its cash flows during the period are summarized in the following Statements of Cash Flows:

Consolidated Statement of Cash Flows

per German Accounting Standard (DRS) 21

in €K		2018	2017	€K	Change %
	Net income/loss	7,098.6	−1,581.4	8,680.0	−548.9
+/−	Depreciation, amortization, write-downs (impairments) and write-ups of fixed assets	904.3	784.8	119.5	15.2
−/+	Gain/loss resulting from disposals of fixed assets	34.5	11.6	22.9	197.7
=	**Gross cash flow before change in working capital**	**8,037.4**	**−785.0**	**8,822.4**	**−1,123.9**
+/−	Additions to/subtractions from medium- and short-term reserves	786.9	555.4	231.5	41.7
−/+	Changes to inventories and trade receivables, as well as other assets not included among investing and financing activities	4,653.0	−4,415.3	9,068.3	−205.4
+/−	Changes to trade payables, as well as other liabilities not included among investing and financing activities	−205.9	433.0	−638.9	−147.6
+/−	Interest expense/interest income	27.5	40.7	−13.2	−32.4
=	**Cash flow from operating activities**	**13,298.9**	**−4,171.2**	**17,470.1**	**−418.8**
−	Payments for investments in intangible assets	−114.1	−78.5	−35.6	45.4
−	Payments for investments in property, plant and equipment	−951.0	−432.3	−518.7	120.0
−	Payments for investments in financial assets	−15,973.0	−0.2	−15,972.8	7,986,400.0
+	Interest received	5.5	1.4	4.1	292.9
=	**Cash flow from investing activities**	**−17,032.7**	**−509.6**	**−16,523.1**	**3,242.4**
+	Proceeds from shareholders of the parent company for additions to equity capital	597.7	6,233.5	−5,635.8	−90.4
−	Interest paid	−33.0	−42.1	9.1	−21.6
=	**Cash flow from financing activities**	**564.7**	**6,191.4**	**−5,626.7**	**−90.9**
	Total changes in cash and liquid resources from cash flows	−3,169.0	1,510.6	−4,679.6	−309.8
+	Cash and liquid resources at the beginning of the period	15,477.5	13,966.9	1,510.6	10.8
=	**Cash and liquid resources at the end of the period***	**12,308.5**	**15,477.5**	**−3,169.0**	**−20.5**

* Cash and liquid resources includes cash and cash equivalents as well as short-term marketable securities available for sale.

Statement of Cash Flows (parent company only)

per German Accounting Standard (DRS) 21

in €K		2018	2017	€K	Change %
	Net income/loss	7,280.0	−1,492.2	8,772.2	−587.9
+/−	Depreciation, amortization, write-downs (impairments) and write-ups of fixed assets	904.3	784.8	119.5	15.2
−/+	Gain/loss resulting from disposals of fixed assets	34.5	11.6	22.9	196.8
=	**Gross cash flow before change in working capital**	**8,218.8**	**−695.8**	**8,914.6**	**−1,281.2**
+/−	Additions to/subtractions from medium- and short-term reserves	73.3	470.3	−396.9	−84.4
−/+	Changes to inventories and trade receivables, as well as other assets not included among investing and financing activities	5,036.4	−6,039.7	11,076.0	−183.4
+/−	Changes to trade payables, as well as other liabilities not included among investing and financing activities	−1,197.0	1,374.2	−2,571.3	−187.1
+/−	Interest expense/interest income	26.3	37.5	−11.2	−29.9
=	**Cash flow from operating activities**	**12,157.7**	**−4,853.5**	**17,011.2**	**−350.5**
−	Payments for investments in intangible assets	−114.1	−78.5	−35.7	45.5
−	Payments for investments in property, plant and equipment	−951.0	−432.3	−518.8	120.0
−	Payments for investments in financial assets	−15,973.0	−20.2	−15,952.8	78,782.9
+	Interest received	5.4	1.4	4.0	292.2
=	**Cash flow from investing activities**	**−17,032.8**	**−529.6**	**−16,503.1**	**3,116.1**
+	Proceeds from shareholders of the parent company for additions to equity capital	597.7	6,233.5	−5,635.8	−90.4
−	Interest paid	−31.7	−38.9	7.1	−18.4
=	**Cash flow from financing activities**	**566.0**	**6,194.6**	**−5,628.6**	**−90.9**
	Total changes in cash and liquid resources from cash flows	−4,309.0	811.5	−5,120.5	−631.0
+	Cash and liquid resources at the beginning of the period	14,422.1	13,610.6	811.5	6.0
=	**Cash and liquid resources at the end of the period***	**10,113.1**	**14,422.1**	**−4,309.0**	**−29.9**

* Cash and liquid resources includes cash and cash equivalents as well as short-term marketable securities available for sale.

c. Net assets

During the reporting period, the Group's equity capital ratio remained nearly unchanged at 83.9% (prior year: 82.9%), thereby continuing at its above-average level. Non-current assets, which rose as a result of investing activities, continued to be covered by equity capital, suggesting a healthy balance sheet structure.

The Company's current assets consist almost completely of cash and marketable, highly liquid securities and thus involve negligible risks.

Financial and non-financial performance indicators

Because FORMYCON remains in the product development phase, the informative value of customary financial indicators is necessarily limited. The performance indicators of importance to the Group are those which measure its long-term, sustainable financial strength.

Consolidated working capital, measured as the difference between current assets and current liabilities, amounted to € 12,364K as of the period closing date. Cash flow (calculated as annual net income + depreciation and amortization + changes in long-term provisions) for the period was € 8,037K, in line with Company plan. Cash flow from investing activities of -€ 17,032K was below the amount of annual depreciation and amortization. The large annual cash outflow relating to investing activities was substantially due to the capital increase of FYB 202 GmbH & Co. KG, for which the related investment outflow amount was € 15,973K.

Return on equity (annual net income/average equity) for the fiscal year was 24%, while return on total capital (annual net income/average total capital) was 21%. With respect to non-financial indicators, reference is made to the above report on research and development.

FORMYCON undertakes development for selected clients who see themselves as partners of FORMYCON and whose interests as to successful product development and subsequent market launch are fully aligned. The cooperative partnership arrangements and congruent objectives suggest a relatively low conflict potential. The Company's staff works primarily in research and development. Staff turnover is low, likewise demonstrating the high general level of employee satisfaction.

III Report on Subsequent Events

Since the end of the reporting period, there have been no subsequent events at FORMYCON of accounting significance.

IV Report on Outlook

Over the past years, FORMYCON successfully passed through various phases of its business development, successfully completing its capitalization, the initiation of multiple biosimilar R&D projects and out-licensing deals for two biosimilar candidates. With, in particular, the successful completion of phase III clinical trials for FYB201 (ranibizumab), the signing of an out-licensing agreement for FYB203 (aflibercept), and the transfer of FYB202 (ustekinumab) into a joint venture with Aristo Pharma GmbH, FORMYCON has put into place a sound foundation for its continued growth.

Meanwhile, the Company has now entered the next phase of its development. Its focus is now on the implementation of its strategy, on the operational optimization of processes and structures, on further and ongoing expansion to its product pipeline, and on additional future out-licensing deals for its biosimilar candidates, or transfer of its biosimilar projects into joint venture arrangements.

With its strong financial foundation and range of services and capabilities, the Group enjoys a strong market position, and its biosimilar projects are moving forward satisfactorily. Provided that development remains on track, the launch of FYB201 in the U.S. should be possible in the year 2021. Market entry in Europe is planned for 2022.

As in prior years, FORMYCON will continue to invest a major part of its resources into the development of biosimilars.

Based upon contractual income from its two projects already licensed out, FYB201 and FYB203, as well as the fee revenue from its provision of development services for FYB202, the Company expects that sales revenue in fiscal year 2019 will be roughly in line with the prior-year figure. Because the non-recurring gain in 2018 from the rebooking of accrued development expenses will not be repeated in 2019, annual net income is expected to be slightly negative. The balance sheet structure is thus not expected to materially change.

Following the further increase in staffing levels over 2018, FORMYCON anticipates a further modest rise in the number of staff during 2018, which will likewise lead to a moderate increase in staff expenses. The Company, as already mentioned, anticipates a slight full-year loss for 2019.

No significant risks are currently anticipated as a result of exchange rate changes or inflation, or from any other specific influencing factors.

V Report on Opportunities and Risks

Opportunities

FORMYCON continues to hold a positive view as to future growth in the healthcare sector, which is decisively important to the Company, for the following reasons:

- Advances in medical technology, in particular using powerful biopharmaceuticals, have enabled the treatment of diseases that were considered untreatable or only poorly treatable even just ten to twenty years ago. Because of the intensity of medical research, notably in the field of genetic technology, these rapid advances will continue in the coming years.

- Because of demographic trends, there is an ever increasing number of seniors who require extensive medical care. Moreover, the life expectancy of the population as a whole is increasing, so that their medical treatment, in particular with pharmaceuticals, is often possible or necessary over a significantly longer period of time.

- FORMYCON established its position in the highly promising market for biosimilars development at an early stage and, with its comprehensive expertise, is able to exploit the potential of this fast-growing market. FORMYCON's business model is scalable. The continued growth of both the market environment and the Company itself shows that FORMYCON is on the right path with its corporate strategy.

- Anticipated regulatory changes in the two markets currently most important in terms of sales revenue, the United States and Europe, suggest that environmental conditions for both the development and marketing of biosimilars will improve significantly over the coming years.

Opportunities for further growth lie in the expansion of the product portfolio, in the out-licensing of product candidates, and in strategic collaborations to jointly develop biosimilar projects or further expand the Company's value creation chain.

In positioning itself against competitors, FORMYCON continues to rely upon the experience and expertise of its staff, the innovations which they are able to achieve, the reliability of the scientific procedures which it uses in its development work, the reliability and consistency of its partners, and the high standards of quality and scientific expertise in the selection of its service providers and consultants.

Biosimilars have the advantage over their reference products of more cost-effective development because of procedures which are, for the most part, already scientifically proven and development processes which are largely well established. At the same time, the level of competition in the area of biosimilar development is generally, with few exceptions, modest compared to the market for conventional generic drugs due to the comparatively high barriers to market entry, in particular the complexity of producing biopharmaceuticals and the specialized expertise required. Because the similarity and comparability of a biosimilar to its reference product must already be demonstrated analytically, the likelihood that the development of the biosimilar will fail in one of the subsequent clinical phases is generally far lower than in the case of innovative biopharmaceuticals.

In addition to taking share in existing markets where their reference products are already being sold, biosimilars may, because of their lower price, be able to reach new markets where the more expensive reference products are not currently available.

Risks

Principles

FORMYCON, one of the few independent developers of biosimilars, operates in a global market with many different participants and influencers. Business success is determined by the identification of profit opportunities, along with the best possible assessment of the many and varied risks associated with these. In order to ensure that this happens, the entire staff of FORMYCON, up to and including the Executive Board, must adhere to the Company's established risk management system, thereby aiming to ensure that that these risks are handled optimally while at the same time providing the necessary entrepreneurial and operational flexibility. Regular reviews of this system further ensure that it is constantly improved and that, as circumstances change, changes are likewise made to the system promptly and in accordance with evolving needs. Towards this end, individual risks are identified across all relevant business areas and projects and are categorized according to the probability of occurrence as well as to their potential harmfulness. Where changes in these individual risks occur, or structural changes, these are then reevaluated through periodic reviews. This process aims to ensure that the Company steers clear of such risks to the extent possible, or if they arise, that their consequences are managed as effectively and expeditiously as possible.

Strategic risks

Compared to the development of an entirely new biopharmaceutical, the financial investment required for the development of a biosimilar drug is considerably less. Nevertheless, the development of a biosimilar drug generally costs in the range of USD 100 to 150 million, requiring cost-intensive analytical, preclinical and clinical studies to demonstrate its comparability to the reference product in terms of quality, safety and efficacy. Because of these lengthy studies, the development of a biosimilar also requires a relatively long development timeframe of six to eight years.

The prospects for the future commercial success of a biosimilar development project are largely determined by the selection of product candidates at the start of the process. With its FYB201 and FYB203 projects, FORMYCON is focusing on ophthalmic preparations, while its FYB202 project is targeted at immunological disorders. The intended therapeutic application of the company's latest development project, FYB205, has not yet been announced.

The future size and growth trajectory of these markets may be derived from existing sales statistics for the respective reference products. Declining sales of a reference product could, however, result in a potential future market size for a biosimilar under

development by FORMYCON which is significantly smaller than originally assumed. This could, in the worst case, lead to future product sales inadequate to make the biosimilar development effort profitable. At present, FORMYCON is developing biosimilars to compete with three of the world's best-selling biopharmaceuticals set to lose their patent protection following the year 2020, so that – provided that their development reaches successful completion – the profitability of the projects would seem assured.

Through its established out-licensing partnerships as well as its joint venture with Aristo Pharma, FORMYCON has the benefit of reliable partners with great expertise, who have already been working closely with FORMYCON for years. While the potential unplanned termination of such a partnership constitutes a significant strategic risk as a matter of principle, this risk is viewed as minimal.

Industry and market risks

From the standpoint of FORMYCON, conditions in the healthcare sector remain favorable. Demographic trends around the globe are also playing a key role as populations continue to age and live longer. Older people require more extensive medical care, regardless of economic cycles and consumer purchasing power.

Moreover, advances in medical technology have been enabling the treatment of diseases which a few decades or even years ago were regarded as untreatable or only poorly treatable. Biopharmaceuticals, in particular, have been a significant driver of these treatment advances. Of the world's 15 best-selling drugs, 12 are biopharmaceuticals. Specifically within Germany, biopharmaceuticals comprised 26 percent of the total drug market in 2017, equal to EUR 10.2 billion in sales revenue – and the trend is continuing upward.

At the same time, however, the high cost of these powerful treatments, which in some cases may cost up to EUR 100,000 per patient per year, is a major burden on healthcare system costs. The political will to act as a result of these cost pressures could also, by increasing the pressure on biopharmaceutical prices, impact FORMYCON's business environment.

Financial controls

Through its internal control system, FORMYCON ensures the correctness of its accounts and accounting processes, including the correctness and reliability of its financial reporting as this appears in its consolidated financial statements and group management report. In this, FORMYCON relies upon the standards established by the Institute of Public Auditors in Germany (*Institut der Wirtschaftsprüfer*, IDW) for accounting-related internal control systems and risk management systems.

Environmental, health and workplace safety

Workplace safety and health, as well as the protection of employees and the environment, is a top priority for FORMYCON. FORMYCON therefore places great importance not only on the fulfillment of statutory and regulatory requirements but also on the regular training and further qualification of all of its staff in the relevant aspects of workplace safety. In addition to our biological safety officer, our designated project manager as required under the German Genetic Engineering Act (*Gentechnikgesetz*) and our trained safety specialist, FORMYCON has designated several other experienced employees with specific responsibilities in the area of workplace safety and protection. A company doctor regularly conducts preventive examinations and advises employees and senior management on medical matters. FORMYCON holds all permits and approvals required for its operations. Compliance with all regulatory requirements regarded safety and the protection of employees and the environment is monitored internally on an ongoing basis.

Financing and liquidity risks

FORMYCON's liquidity situation and equity capitalization is stable, and the Company's liquidity position is particularly strong for a company whose products are still in the development stage.

Irrespective of this, conditions within the Company's operating business may change, giving rise to financial risks. As none of the Company's product candidates has yet obtained regulatory approval, it cannot be ruled out that one or more such approvals could come later than anticipated, or that the scope of approval could be different than planned, or that approval could be denied. Moreover, the required financial outlays for product development, regulatory approval and market launch could substantially exceed planned budgets. There is also the possibility that future license income, even subsequent to regulatory approval, could be less than anticipated.

In order to mitigate such financial risks in its ongoing operating business, FORMYCON undertakes highly detailed and long-term planning, drawing also on outside expertise. The financial risks of project development, which FORMYCON bears entirely by itself during the initial development phase, have been significantly reduced in the case of the FYB201 and FYB203 projects through the successful out-licensing deals and in the case of FYB202 through the establishment of a joint venture partnership.

The possibility cannot be excluded, however, that such one or more development partnerships could be terminated for reasons not under FORMYCON's control. Such an event could have a material adverse impact on the Company's profit and loss accounts as well as on its financial planning. At the present time, FORMYCON assesses this risk as very low.

FORMYCON will continue to fund its future development pipeline projects from its own financial resources, with the aim of moving these into attractive partnership arrangements starting from a certain product development stage.

Risks to the Company's future financial performance could arise from the general economic environment, in which potential bank insolvencies cannot be ruled out. FORMYCON invests its liquid assets exclusively with financial institutions with strong and stable ratings and which can be regarded as relatively safe in the event of a financial crisis.

With its strong financial footing, FORMYCON is well positioned to overcome future financial risks as these may arise. The Company's existing financial resources should be sufficient to cover its short- to medium-term capital needs. This, however, cannot be used to infer any sort of assurance as to the availability of long-term financial resources. There are, at present, no identifiable fundamental risks which would jeopardize the Company's continued existence.

Organizational risks

FORMYCON's operating activities depend upon the proper functioning of its laboratories and IT infrastructure. Various risks can be identified which might impair or interrupt the availability of these critical resources, temporarily or even over an extended period. To the extent possible, the financial risks which might result from such events are insured. In addition, FORMYCON employs state-of-the-art security technology to eliminate or mitigate such risks – for example, relating to cyberattacks or data loss. The Company also regularly conducts maintenance and inspections of its critical equipment by trained personnel or specialized service providers, making changes to equipment as necessary to ensure that it remains at the state of the art.

Patent risks

The possibility of patent infringements, even if only alleged, is an inherent risk in biosimilar development because of the large number of potentially relevant patents which must be considered. Disputes with competitors or other patent owners, or defense against lawsuits claiming patent infringement, may pose a considerable financial burden. Particularly in the U.S., such legal actions generally involve very high costs. In the worst case, such a dispute could result in restrictions on, or even the prohibition of, the marketing of one or more products on one or more relevant markets, and/or the imposition of sizable fines. Such a legal action could also make it necessary to cease the development, launch, or ongoing marketing of one or more products.

In order to avoid infringements upon the intellectual property rights of others, FORMYCON conducts exhaustive patent searches already at the time that project candidates are selected, then continues to closely monitor the relevant patent environment over the course of the development of its biosimilar candidates. Nevertheless, the possibility cannot be excluded that FORMYCON could be the subject of patent litigation, even if such litigation is unjustified.

Staff risks

The expertise and many years of experience of its employees are key pillars of FORMYCON's success. In particular, the development of a biosimilar drug, from early-stage analysis through to regulatory approval, requires highly qualified specialists. Over recent years, FORMYCON has been able to recruit numerous highly qualified scientists and managers. This demonstrates that the Company is a highly attractive employer, able to successfully fill these critical positions, even in a fiercely competitive labor market. For a growing organization, staff turnover is relatively low. The loss of key staff would constitute a significant risk. To keep this risk as low as possible, the Company has implemented a number of staff motivation and retention initiatives, along with talent planning to ensure that future succession is in place.

Risks associated with product development

The quality, comparability, efficacy and safety of a biosimilar drug must be comprehensively demonstrated to the regulatory authorities through analytical and preclinical studies along with clinical trials. Both the planning and implementation of any individual stage of product development could potentially entail delays which are generally not predictable and which, in turn, would result in higher costs. There is, moreover, the risk that final regulatory approval of a biosimilar candidate might take longer than planned, or that the drug might not be approved at all.

With this in mind, FORMYCON plans all steps of product development with the greatest possible care and, to the extent feasible, with reasonable time allowances for delays that might arise. Preclinical and clinical studies as well as the extensive program of analytical characterization take place in close consultation with the respective authorities and with assistance and expert advice from outside specialists. Notwithstanding this, the precise results or outcome of any such study cannot be predicted in advance. It therefore cannot be ruled out that particular stages of a product development program might need to be repeated, that one or more such studies might not reach successful conclusion, or that a development program might fail in its entirety.

Within the scope of the Company's development activities, the production of active ingredients and finished products by third-party producers represents a substantial cost component. It should be specifically noted here, in the context of risks that might arise, that such production capacities must typically be planned and arranged with lead times of one to two years and that, for this reason, short-term changes to the project cycle could result in additional waiting periods along with substantial cancellation fees.

Another risk is that such outside partners might not be able to comply with the stringent regulatory requirements which apply to gaining regulatory approval of a biosimilar drug. Should such an event arise, regulatory approval could be delayed or completely denied. In addition, difficulties arising in the recruitment of patients for clinical trials may also affect the profitability of a drug development project. Because all of the Company's projects are currently in various stages of development, risks involved with manufacture and marketing are not yet relevant.

Legal risks

FORMYCON does business in an international environment and in highly regulated markets. There is thus the possibility that FORMYCON could be drawn into legal disputes which might even be unjustified or frivolous, based upon patent law, competitive or antitrust law, tax law or environmental law, or arising from other contractual claims. The possibility cannot be excluded that such legal actions might, whether through court judgements, binding arbitration or regulatory or other official decisions, result in financial burdens which are not covered by insurance or only partially insured. At the present time, no such legal disputes or proceedings are identifiable.

Additional risks arise from the Company's compliance obligations. Actions or inactions by the Company could, for example, be legally contested, inadequate or untimely financial communications could result in fines, or improperly conducted shareholder meetings or shareholder resolutions could be disputed. With these risks in mind, FORMYCON assesses and monitors all of its relevant processes, procedures and decisions from a legal standpoint, using in house and/or outside expertise as necessary.

Regulatory risks

The requirements and conditions for the regulatory approval of drugs by the relevant authorities are subject to constant change. The risk cannot be excluded that these authorities might change the regulatory requirements in such a way as to impede, or even entirely preclude, the regulatory approval required for a biosimilar to reach market. Moreover, a political and policy trend towards increasing restrictions on "off-label use" of prescribed drugs, particularly in the European Union, might significantly curtail future market opportunities which would otherwise arise from the use of biosimilars in such indications.

Competitive risks

The current aim of FORMYCON is to launch its products, through its respective partners, upon expiry of patent protection on the reference product in the respective market. In each such market, FORMYCON must compete not only with the manufacturer of the reference drug but also with other biosimilar producers. The competition situation in each specific case will depend upon the pricing of the reference drug as well as the pricing of any new competitors in the market. It is, in addition, entirely possible that the manufacturer of the originator product might reduce its pricing upon patent expiry, or seek to enter into discount agreements with health insurers or other major buyers over extended contractually binding periods, in order to retain market share. This would improve its defensive competitive position against a new biosimilar entry and make it more difficult for the biosimilar to take share.

Through the experience and expertise of its staff and its strategic partners, the strategic positioning of its product development portfolio, and its strong financial footing, FORMYCON strives to face these competitive challenges. Nevertheless, it cannot be excluded that competitors might, in an unexpected or unpredictable way, find themselves in an advantageous competitive position relative to, and to the detriment of, FORMYCON.

Summary assessment of risks

Even if the risks involved for FORMYCON are less than those in the development of original biotechnology-based drugs, there are, in the biosimilars development business, the same fundamental risks that one or several projects could fail, either partially or completely, for a range of different scientific, technical, regulatory, economic and other reasons.

In particular areas, FORMYCON must necessarily rely upon key outside partners and providers. Risks could thus potentially also arise within areas over which FORMYCON has no direct control.

It must, moreover, be fundamentally recognized that the Company faces not only various known and identifiable risks but also unknown risks and uncertainties. These include, but are not limited to, risks associated with research and development, the regulatory approval process, the workings of regulatory and other authorities, the results of clinical trials, changes in laws and regulations, product quality, patient safety and patent disputes. With regards to projects in its pipeline, FORMYCON AG provides no representations, warranties or other guarantees that these will receive the regulatory or other related approvals required for market entry, or that these will be profitable and/or successful.

Overall assessment

Compared to the previous year, there has been no fundamental change in the risks facing the Company. At present, no risks can be identified which might endanger the Company's continued existence. Through the use of internal control mechanisms, the Company is in a position to identify changes in its risk exposure at an early stage and to take appropriate action. Furthermore, in view of its financial stability, the Company is well equipped to deal with potential future risks.

VI Report on Risks Relating to the Use of Financial Instruments

The financial instruments currently used by FORMYCON Group to any significant extent are receivables, liabilities and bank balances. Liabilities are settled within the stipulated period. Potential currency risks, which could have a negative effect on the Group's asset situation, financial position and profitability, are mitigated by avoiding the accumulation of significant foreign-currency positions.

The Group's most significant foreign-currency exposure arises from purchases of third-party services in Swiss francs (CHF) and U.S. dollars, which are paid promptly in order to minimize currency risks.

FORMYCON's risk management policy is fundamentally to protect against financial risks of all kinds.

In managing its financial position, the Group follows a conservative risk policy. To the extent that payment default or other credit risks are identifiable with regard to financial assets, these risks are reflected through value adjustments.

No risks are foreseen which might endanger the Company as a going concern.

VII Report on Branches

The Company does not currently maintain any branches.

Martinsried/Planegg,
Germany, March 28, 2019

Dr. Carsten Brockmeyer

Dr. Nicolas Combé

Dr. Stefan Glombitza

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FORMYCON Group
Consolidated Financial Statements

Consolidated Interim Balance Sheet – Assets

as of December 31, 2018

in €	Dec. 31, 2018	Dec. 31, 2017
A. Fixed assets		
I. Intangible assets		
1. Purchased concessions, industrial property rights, and similar rights and assets, as well as licenses for such rights and assets	175,701.80	109,395.90
2. Goodwill	591,075.00	748,695.00
	766,776.80	**858,090.90**
II. Property, plant and equipment		
1. Land and buildings, including property-like rights and buildings on third-party land	135,032.00	134,484.48
2. Technical equipment and machinery	2,947,532.03	2,678,355.60
3. Other plant, production equipment and office equipment	390,340.80	442,401.67
	3,472,904.83	**3,255,241.75**
III. Financial assets		
Investment participations	15,973,249.00	249.00
	15,973,249.00	**249.00**
B. Current assets		
I. Inventories		
1. Raw materials, consumables and supplies	166,221.03	149,359.85
2. Unfinished products and services	1,013,200.00	428,500.00
3. Advance payments	36,131.37	0.00
	1,215,552.40	**577,859.85**
II. Receivables and other assets		
1. Trade accounts receivable	5,167,840.26	10,519,237.84
2. Other assets	53,964.20	55,967.82
	5,221,804.46	**10,575,205.66**
III. Securities		
Other securities	4,972,308.23	10,973,553.73
	4,972,308.23	**10,973,553.73**
IV. Cash and cash equivalents	**7,336,154.32**	**4,504,723.39**
C. Prepaid expenses	**145,407.93**	**82,669.63**
D. Deferred tax asset	**519,700.00**	**0.00**
	39,623,857.97	**30,827,593.91**

Consolidated Interim Balance Sheet – Liabilities and Equity

as of December 31, 2018

in €	Dec. 31, 2018	Dec. 31, 2017
A. Equity		
I. Subscribed capital[1]	9,422,603.00	9,343,853.00
II. Capital reserve	35,551,754.34	35,032,791.84
III. Loss carryforward	– 18,833,134.55	– 17,251,750.93
IV. Annual net income (loss)	7,098,615.08	– 1,581,383.62
	33,239,837.87	**25,543,510.29**
B. Provisions		
1. Tax provisions	519,700.00	0.00
2. Other provisions	2,062,309.00	1,275,386.00
	2,582,009.00	**1,275,386.00**
C. Liabilities		
1. Liabilities towards banks	0.00	789.85
of which due within one year € 0.00 (prior year: € 0.8K)		
2. Trade accounts payable	2,730,781.29	1,767,156.09
of which due within one year € 2,730,781.29 (prior year: € 1,767.2K)		
3. Other Liabilities	1,069,347.35	2,236,986.90
of which due within one year € 595,089.77 (prior year: € 1,667.0K)		
of which due in more than one year € 474,257.58		
of which from taxes € 213,491.81 (prior year: € 1,336.0K)		
of which relating to social security € 195.26 (prior year: € 0.3K)		
	3,800,128.64	4,004,932.84
D. Deferred income	**1,882.46**	**3,764.78**
	39,623,857.97	**30,827,593.91**

[1] Conditional Capital (2) 291,260 €

Consolidated Income Statement

for the period from January 1, 2018 to December 31, 2018

	in €	Current year	Prior year
1.	Sales revenue	42,993,517.36	29,003,536.99
2.	Increase or decrease in inventories of finished and unfinished products	584,700.00	428,500.00
	Total revenue	**43,578,217.36**	**29,432,036.99**
3.	Other operating income	184,325.40	111,070.06
	of which income attributable to foreign currency translation € 70,753.62 (prior year: € 52,3K)		
4.	Cost of materials		
	a. Cost of raw materials, consumables and supplies and of purchased goods	1,958,171.25	2,485,694.23
	b. Cost of purchased services	22,895,036.60	18,692,440.10
		24,853,207.85	21,178,134.33
	Gross profit	**18,909,334.91**	**8,364,972.72**
5.	Staff expenses		
	a. Wages and salaries	6,791,793.78	5,436,561.70
	b. Social contributions and costs for retirement benefits and for support benefits	1,137,117.51	888,703.28
	of which for retirement benefits € 111,409.64 (prior year: € 93.4K)		
		7,928,911.29	6,325,264.98
6.	Depreciation, amortization and write-downs of intangible assets and on property plant and equipment	904,283.98	784,774.64
7.	Other operating expenses	2,950,147.66	2,792,593.49
	of which expenses arising from foreign currency conversions € 64,093.90 (prior year: € 24.9K)		
	Operating income	**7,125,991.98**	**– 1,537,660.39**
8.	Other interest and similar income	5,509.74	1,381.69
9.	Writedowns of financial assets and securities held in current assets	85.00	0.00
10.	Interest and similar expense	32,964.52	42,100.92
	Financial result	**– 27,539.78**	**– 40,719.23**
11.	**Income after tax**	**7,098,452.20**	**– 1,578,379.62**
12.	Other taxes	– 162.88	3,004.00
13.	**Annual net income (loss)**	**7,098,615.08**	**– 1,581,383.62**
14.	Loss carryforward from prior year	18,833,134.55	17,251,750.93
15.	**Accumulated loss to balance sheet**	**– 11,734,519.47**	**– 18,833,134.55**

Notes to the Consolidated Financial Statements for the Fiscal Year from January 1, 2018 to December 31, 2018

General information about the Company

FORMYCON AG has its registered offices in Martinsried/Planegg, Germany, and is entered into the commercial register (*Handelsregister*) of the District Court of Munich under number HRB 200801.

General information about the content and structure of these Consolidated Financial Statements

Items in the consolidated balance sheet and consolidated income statement for which there is no reportable amount either in the current fiscal year or the prior year are omitted as provided under sec. 298 para. 1 and sec. 265 para. 8 of the German Commercial Code (*Handelsgesetzbuch*, HGB).

The Consolidated Financial Statements and Group Management Report, presented here in translation from the German original, have been prepared in accordance with the legal provisions of the Commercial Code as well as the applicable sections of the German Stock Corporation Act (*Aktiengesetz*, AktG).

The Consolidated Financial Statements have been prepared in accordance with the principles of accounting and valuation prescribed for large corporations under the Commercial Code, in particular sections 297 and 298.

The Consolidated Balance Sheet uses the presentation structure required by sec. 298 para. 1 and sec. 266 para. 2 and 3 of the Commercial Code.

The Consolidated Income Statement retains the total expenditure format, as used in prior years, and in accordance with sec. 298 para. 1 and sec. 275 para. 2 of the Commercial Code. This format is appropriate to the Group's structure.

Fiscal year and period of consolidation

These Consolidated Financial Statements have been prepared as of December 31, 2018, which is the balance sheet closing date for FORMYCON AG, the parent company.

These Consolidated Financial Statements are based upon the duly attested financial statements of the individual consolidated companies, the fiscal years of which likewise end on the same date.

Scope of consolidation

These Consolidated Financial Statements include, in addition to FORMYCON AG, two other companies in which FORMYCON AG has a direct or indirect controlling interest. Further information about shareholdings may be found further below in these Notes.

Principles of consolidation

For subsidiaries which are fully consolidated into the Consolidated Financial Statements (per sec. 301 of the Commercial Code), capital is consolidated in accordance with the revaluation method, under which assets and liabilities are stated at their full present value and the acquired cost of the shareholding offset against the owned percentage share of the present value of the subsidiary's equity at the time of its acquisition. Should this difference be positive, i.e. an asset, it is carried as goodwill. Should this difference be negative, i.e. a liability, it is shown as an excess resulting from capital consolidation. Such items were not required.

Sales revenue, expenses and earnings, as well as receivables and liabilities, between fully consolidated companies are eliminated in accordance with sec. 303 and sec. 305 of the Commercial Code.

The elimination of intermediate results in accordance with sec. 304 para. 2 of the Commercial Code was not necessary because the influence of intracompany sales of goods and services was of minimal importance for the presentation of a true and fair view of the Group's net assets, earnings and financial position.

In the procedures for consolidation, deferred tax items were taken into account in accordance with sec. 306 of the Commercial Code, with the resulting effect on reported net income, so long as the difference in tax expense is expected to be reversed in subsequent fiscal years.

Foreign currency translation

In preparing these Consolidated Financial Statements, there were no consolidated companies with accounts in other currencies.

The remaining term of liabilities, along with their collateralization through liens or similar rights, as well as their relationship to other balance sheet items, is shown in the Consolidated Schedule of Liabilities included as Attachment 3 to these Notes.

Derivatives

The Group did not hold any derivative financial instruments as of December 31, 2018.

Principles of balance sheet presentation and valuation

The balance sheet includes all assets, all liabilities and all prepaid and deferred items. Assets and liabilities are valued individually. The valuation of assets and liabilities takes all risks into account which are identifiable based on the principles of prudent business judgment.

In deviation from the prior year, deferred tax assets are recognized for the first time, which has become possible because of the positive earnings outlook. Otherwise, there are no changes from the accounting, valuation and consolidation methods applied to the prior year.

Fixed assets

Purchased **intangible assets** are capitalized and amortized based upon expected useful life. The Group has not made any use of its elective right under sec. 248 para. 2 of the Commercial Code to capitalize self-produced intangible assets.

Previously existing goodwill continues to be amortized on a linear pro rata basis over a business-customary useful life of ten years (under the continuity principle).

The long useful life (extending until September 30, 2022) was chosen because this goodwill represents, among other factors, licensing opportunities over long periods.

Property, plant and equipment are valued at their cost of acquisition or production, less accumulated depreciation. Should a permanent impairment of valuation be expected, the asset is written down accordingly. Should the reasons for such permanent impairment no longer exist, a previous write-down may be reversed, as provided by the Commercial Code, up to the original acquisition cost. Depreciation of property, plant and equipment is generally linear, with depreciation in the year of acquisition on a pro rata basis.

Low-value fixed assets acquired prior to January 1, 2018 and with an individual acquisition cost of from € 150.00 to € 410.00 are expensed in full in their year of acquisition.

Starting from January 1, 2018, newly acquired low-value fixed assets with an individual acquisition cost of from € 250.00 to € 800.00 are depreciated in full in their year of acquisition.

For reasons of simplification, these write-off methods allowed under German tax law are also applied to this balance sheet under the Commercial Code, as the resulting differences in valuation compared to individual valuation of each such asset are immaterial.

Financial assets are stated at their cost of acquisition, or should there be an impairment in value, regardless of whether it is expected to be permanent or temporary, written down to the lower fair value.

Current assets

Raw materials, consumables and supplies as well as purchased goods in **inventories** are valued at their average cost of acquisition, insofar as a write-down to a lower value as of the balance sheet closing date is not required. Finished and unfinished products are valued at their cost of production in accordance with sec. 255 para. 2 sentence 2 of the Commercial Code.

Receivables and other assets are valued at the lower of nominal or fair value. In the case of doubtful receivables, bad debt allowances are made individually. There are no general provisions for bad debts.

Securities are stated at the lower of their cost of acquisition or fair (market) value as of the balance sheet closing date.

Cash and cash equivalents are stated at their nominal value.

Prepaid and deferred items are posted in accordance with sec. 298 para. 1 and sec. 250 of the Commercial Code.

The calculation of **deferred taxes**, in accordance with sec. § 274 of the Commercial Code, is based upon timing differences between balance sheet items as these are stipulated under the Commercial Code and under German tax law. The resulting cumulative deferred tax relief (deferred tax asset) and cumulative deferred tax burden (deferred tax liability) are determined on a net basis in accordance with sec. 274 para. 1 sentence 3 of the Commercial Code. In addition, the deferred tax relief resulting from existing loss carryforwards has now been recognized. The income tax rate used to calculate deferred taxes is 29.83%, or in the case of investment participations in partnerships, 15.83%.

On this basis, the deferred tax amounts are calculated as follows:

	Difference in taxable amount (in €)	Tax rate (in %)	Deferred taxes (in €)
Valuation of participation in FYB 202 GmbH & Co. KG	2,411,513.00	15.83	–381,700.00
Deferred tax asset from loss carryforward		29.83	901,400.00
Deferred tax assets to balance sheet			519,700.00
Prior year			0.00
Addition to deferred tax assets			519,700.00

Provisions

Tax provisions and **other provisions** take into account all uncertain obligations and all identifiable risks. These are stated at the amount required for their fulfillment using prudent business judgment, including future increases in prices and costs. Provisions due after more than one year are discounted from the time of their expected fulfillment at the average market interest rate over the past seven fiscal years.

Liabilities

Liabilities are stated at the amount required for their fulfillment.

Additional Notes to the Consolidated Balance Sheet

The names of other companies in which shares are held, along with registered location, share of capital, and amount of equity, is separately presented below in these Notes.

Fixed assets

A schedule of changes in consolidated fixed assets, including depreciation and amortization taken in the current fiscal year, is provided in Attachment 1 to these Notes.

Receivables and other assets

The remaining term of receivables and other assets, and their relationship to other balance sheet items, is shown in the Consolidated Schedule of Receivables included as Attachment 2.

Equity capital and share issuances

Changes to consolidated equity are presented in the Consolidated Schedule of Changes in Equity provided as Attachment 4. During the fiscal year, a total of 78,750 nominal value shares (*Nennbetragsaktien*) were subscribed from Conditional Capital at a nominal value of € 1.00 per share.

Information required per sec. 160 of the Stock Corporation Act

Number of shares outstanding

The Company has registered capital (*Grundkapital*) of € 9,422,603.00, which is divided into 9,422,603 bearer shares without par value.

Approved capital

By resolution of the annual shareholders' meeting of June 30, 2015, the Executive Board is authorized, subject to the approval of the Supervisory Board, to increase the Company's registered capital one or more times at any time until June 29, 2020, and by no more than a total of € 4,340,801.00, through the issuance of up to 4,340,801 new no-par-value bearer shares, against contributions in cash and/or in kind (the "Authorized Capital 2015"). The newly issued shares shall participate in profits from the start of the fiscal year for which, at the time of their issuance, no resolution has yet been taken by the annual shareholders' meeting as to the application of retained profits. The Company's shareholders shall, in general, be granted subscription rights. The shares may, however, also be assumed by one or more banks subject to the obligation that they offer these to the Company's shareholders for subscription (indirect subscription rights).

Number of subscription rights per sec. § 192 para. 2 no. 3 of the Stock Corporation Act

The Company's Executive Board is authorized, subject to the approval of the Supervisory Board, to issue subscription rights on the Company's shares one or more times at any time until June 29, 2020, granting the right to subscribe to up to 715,260 no-par-

value bearer shares of the Company, in accordance with the agreed terms and condition. As of the balance sheet date, subscription rights to 424,000 shares were issued and outstanding under the Company's Stock Option Plan 2015.

Provisions

Other provisions are comprised of the following:

per sec. 285 no. 12 of the Commercial Code

in €	Current year
Unpaid invoices	1,027,000.00
Bonuses	702,859.00
Accrued vacation	143,000.00
Safekeeping obligations	103,100.00
Audit and advisory costs	56,650.00
Occupational cooperative and other social expenses	19,700.00
Miscellaneous provisions	10,000.00

Liabilities

The remaining term of liabilities, along with their collateralization through liens or similar rights and their relationship to other balance sheet items, is shown in the Consolidated Schedule of Liabilities included as Attachment 3 to these Notes.

Other financial obligations

The total amount of other financial obligations, within the meaning of sec. 314 para. 2 no. 2a of the Commercial Code, results from contractual obligations for ongoing performance. For obligations up to one year, the total amount is € 519,271.46, for obligations between one and five years € 1,310,506.90, and for obligations beyond five years, € 0.00.

Additional notes to the Consolidated Income Statement

Sales revenue may be broken down as follows:

per sec. 314 para. 1 no. 3 of the Commercial Code

in €	Current year
Sales revenue from development services	42,993,517.36

Of this amount, € 8,473K is attributable to the transfer of the FYB 202 project.

Other operating income includes income attributable to foreign currency translation in the amount of € 70,753.62 (prior year: € 52K).

Staff expenses include costs for retirement contributions in the amount of € 111,409.64 (prior year: € 93K).

Other operating expenses include expenses attributable to foreign currency translation in the amount of € 64,093.90 (prior year: € 25K).

Total research and development costs during the fiscal year were € 36,636K.

The balance sheet item "Depreciation, amortization and write-downs of intangible assets and on property plant and equipment" includes write-downs in accordance with sec. 253 para. 3 sentence 3 of the Commercial Code in the amount of € 25.4K (prior year: € 0.00).

Other Information

Number of staff

Sec. 314 para. 1 no. 4 of the Commercial Code requires the following information regarding the **average number of staff** during the fiscal year:

per sec. 314 para. 1 no. 4 of the Commercial Code

	Current year
Administration	8
Research & development	77
Total company staff	**85**

Information on members of the Executive Board and Supervisory Board per sec. 314 para. 1 no. 6 of the Commercial Code

Members of the Executive Board:

- **Dr. Carsten Brockmeyer**, residing in Marzling, CEO
- **Dr. Nicolas Combé**, residing in Munich, CFO
- **Dr. Stefan Glombitza**, residing in Holzkirchen, COO

Members of the Supervisory Board:

- **Dr. Olaf Stiller**, residing in Marburg (Chairman)
  member of the executive board of Paedi Protect AG
- **Hermann Vogt**, residing in Dieburg (Deputy Chairman)
  independent management advisor and financial advisor
- **Peter Wendeln**, residing in Oldenburg
  managing partner of Wendeln & Cie. Asset Management GmbH

Remuneration

During the fiscal year, the members of the Supervisory Board received total remuneration of € 58,952.06, while total remuneration to members of the Executive Board, within the meaning of sec. 314 para. 1 no. 6 of the Commercial Code, was € 1,302,864.94 (of which € 475,000 was success-based), along with 45,000 stock options with a current fair value of € 0.00.

The following members of the Supervisory Board are members of other supervisory boards:

- **Dr. Olaf Stiller**, Marburg: Bodenwert Immobilien AG, Nano Repro AG
- **Hermann Vogt**, Dieburg: Cumerius AG

Information on shareholdings per sec. 313 para. 2 no. 1–8 of the Commercial Code

Subsidiary companies included within these consolidated financial statements in accordance with sec. 313 para. 2 no. 1 of the Commercial Code:

	Registered location	Share of capital (in %)	Equity (in € K)
FORMYCON PROJECT 201 GmbH	Martinsried/Planegg	100	–62
FORMYCON PROJECT 203 GmbH	Martinsried/Planegg	100	– 1,752
FYB 202 GmbH & Co. KG*	Berlin	24.9	13,649

* per sec. 313 para. 2 no. 4 which are not consolidated per sec. 313 para. 2 no. 1–3

Information on auditor fees per sec. 314 para. 1 no. 9 of the Commercial Code

in €	Current year
Audit services	72,240.00
Tax advisory and other services	15,095.00

Extraordinary income

The rebooking and transfer of accrued development expenses to the FYB 202 GmbH & Co. KG partnership resulted in a non-recurring, non-cash gain in the amount of € 8,473K.

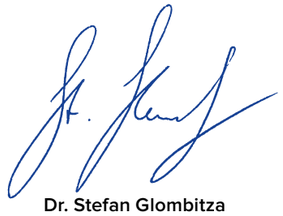
Appropriation of profits

The Executive Board of the parent company proposes to carry forward the annual net income to the next fiscal year.

Martinsried/Planegg,
Germany, March 28, 2019

Dr. Carsten Brockmeyer

Dr. Nicolas Combé



Dr. Stefan Glombitza

Consolidated Schedule of Fixed Assets

Attachment 1

in €	Changes in historical cost of acquisition					Changes in accumulated depreciation & amortization				Changes in net book value		
	Historical cost of acquisition or production at Dec. 31, 2017	Additions	Rebookings	Historical cost of disposals	Historical cost of acquisition or production at Dec. 31, 2018	Accumulated depreciation & amortization at Dec. 31, 2017	Current-year depreciation & amortization	Depreciation & write-downs on disposals	Accumulated depreciation & amortization at Dec. 31, 2018	Net book value at Dec. 31, 2017	Net book value of disposals	Net book value at Dec. 31, 2018
Intangible assets												
Purchased concessions, industrial property rights, and similar rights and assets, as well as licenses for such rights and assets	394,433.55	114,120.78	0.00	19,216.96	489,337.37	285,037.65	47,048.50	18,450.58	313,635.57	109,395.90	766.38	175,701.80
Goodwill	1,576,200.00	0.00	0.00	0.00	1,576,200.00	827,505.00	157,620.00	0.00	985,125.00	748,695.00	0.00	591,075.00
Property, plant and equipment												
Land and buildings, including property-like rights and buildings on third-party land	446,664.47	66,551.09	0.00	9,168.57	504,046.99	312,179.99	65,021.20	8,186.20	369,014.99	134,484.48	982.37	135,032.00
Technical equipment and machinery	4,927,888.09	664,398.72	77,964.38	403,906.81	5,266,344.38	2,249,532.49	447,902.31	378,622.45	2,318,812.35	2,678,355.60	25,284.36	2,947,532.03
Other plant, production equipment and office equipment	1,006,900.03	140,145.18	1,989.93	51,691.72	1,097,343.42	564,498.36	186,691.97	44,187.71	707,002.62	442,401.67	7,504.01	390,340.80
Advance payments and plant under construction		79,954.31	−79,954.31	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Financial assets												
Investment participations	249.00	15,973,000.00	0.00	0.00	15,973,249.00	0.00	0.00	0.00	0.00	249.00	0.00	15,973,249.00
Total	**8,352,335.14**	**17,038,170.08**	**0.00**	**483,984.06**	**24,906,521.16**	**4,238,753.49**	**904,283.98**	**449,446.94**	**4,693,590.53**	**4,113,581.65**	**34,537.12**	**20,212,930.63**

Consolidated Schedule of Receivables

Attachment 2

in € (prior year in € K)	Dec. 31, 2018	of which due in more than 1 year	of which from trade receivables	of which other assets	of which from affiliated companies	of which from companies in which an investment participation exists	of which from company officers*	of which from Supervisory Board**
Trade accounts receivable	5,167,840.26	0.00	-.-	-.-	0.00 (prior year: 0.0)	0.00 (prior year: 0.0)	0.00	0.00
Other assets	53,964.20	0.00	-.-	-.-	0.00 (prior year: 0.0)	0.00 (prior year: 0.0)	0.00	0.00
Total	**5,221,804.46**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**

* Receivables due from company officers (Executive Board members and other legal representatives) are charged interest at the prevailing base rate plus 2%.

** Receivables due from Supervisory Board members are charged interest at the prevailing base rate plus 2%.

Consolidated Schedule of Liabilities

Attachment 3

in € (prior year in € K)	Dec. 31, 2018	of which due within 1 year	of which due in 1 – 5 years	of which due in more than 5 years	of which collateralized	of which to affiliated companies	of which to companies in which an investment participation exists	of which to shareholders
Trade accounts payable	2,730,781.29	2,730,781.29	0.00	0.00	0.00	0.00 (prior year: 0.0)	0.00 (prior year: 0.0)	0.00 (prior year: 0.0)
Other liabilities	1,069,347.35	595,089.77	474,257.58	0.00	0.00	0.00 (prior year: 0.0)	0.00 (prior year: 0.0)	0.00 (prior year: 0.0)
Total	**3,800,128.64**	**3,325,871.06**	**474,257.58**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**

Consolidated Schedule of Changes in Equity

Attachment 4

in €	Subscribed capital	Capital reserves	Profitreserves	Profit (loss) carryforward	Adjustments for capital consolidation	Consolidated net income	Consolidated equity
as of Dec. 31, 2017	**9,343,853.00**	**35,032,791.84**	**0.0**	**– 17,251,750.93**	**0.00**	**– 1,581,383.62**	**25,543,510.29**
Additions to equity	78,750.00	518,962.50	0.0	0.00	0.00	0.00	597,712.50
Appropriation of prior-year profit	0.00	0.00	0.0	– 1,581,383.62	0.00	1,581,383.62	0.00
Annual consolidated net income	0.00	0.00	0.0	0.00	0.00	7,098,615.08	7,098,615.08
as of Dec. 31, 2018	**9,422,603.00**	**35,551,754.34**	**0.0**	**– 18,833,134.55**	**0.00**	**7,098,615.08**	**33,239,837.87**

Discrepencies in totals are due to rounding errors.

Consolidated Statement of Cash Flows

Attachment 5

per German Accounting Standard (DRS) 21

	in €K	2018	2017	Change	
				€K	%
	Net income/loss	7,098.6	–1,581.4	8,680.0	–548.9
+/–	Depreciation, amortization, write-downs (impairments) and write-ups of fixed assets	904.3	784.8	119.5	15.2
–/+	Gain/loss resulting from disposals of fixed assets	34.5	11.6	22.9	197.7
=	**Gross cash flow before change in working capital**	**8,037.4**	**–785.0**	**8,822.4**	**–1,123.9**
+/–	Additions to/subtractions from medium- and short-term reserves	786.9	555.4	231.5	41.7
–/+	Changes to inventories and trade receivables, as well as other assets not included among investing and financing activities	4,653.0	–4,415.3	9,068.3	–205.4
+/–	Changes to trade payables, as well as other liabilities not included among investing and financing activities	–205.9	433.0	–638.9	–147.6
+/–	Interest expense/interest income	27.5	40.7	–13.2	–32.4
=	**Cash flow from operating activities**	**13,298.9**	**–4,171.2**	**17,470.1**	**–418.8**
–	Payments for investments in intangible assets	–114.1	–78.5	–35.6	45.4
–	Payments for investments in property, plant and equipment	–951.0	–432.3	–518.7	120.0
–	Payments for investments in financial assets	–15,973.0	–0.2	–15,972.8	7,986,400.0
+	Interest received	5.5	1.4	4.1	292.9
=	**Cash flow from investing activities**	**–17,032.7**	**–509.6**	**–16,523.1**	**3,242.4**
+	Proceeds from shareholders of the parent company for additions to equity capital	597.7	6,233.5	–5,635.8	–90.4
–	Interest paid	–33.0	–42.1	9.1	–21.6
=	**Cash flow from financing activities**	**564.7**	**6,191.4**	**–5,626.7**	**–90.9**
	Total changes in cash and liquid resources from cash flows	–3,169.0	1,510.6	–4,679.6	–309.8
+	Cash and liquid resources at the beginning of the period	15,477.5	13,966.9	1,510.6	10.8
=	**Cash and liquid resources at the end of the period***	**12,308.5**	**15,477.5**	**–3,169.0**	**–20.5**

* Cash and liquid resources includes cash and cash equivalents as well as short-term marketable securities available for sale.

Report of Independent Auditor

Audit opinions

We have examined the consolidated annual financial statements of FORMYCON AG and its subsidiaries (the "Group"), consisting of the consolidated balance sheet as of December 31, 2018, and the consolidated income statement, consolidated schedule of changes in equity and consolidated statement of cash flows for the fiscal year from January 1 to December 31, 2018, along with the notes to the consolidated financial statements, including the presentation of the accounting policies employed. We have, in addition, examined the management report of FORMYCON Group for the fiscal year from January 1 to December 31, 2018. We have not, in accordance with German legal requirements, examined the content of the components of the management report cited in the annex.

In our opinion, on the basis of the findings of our audit examination,

- the accompanying consolidated financial statements comply, in all material respects, with the requirements of the German Commercial Code (*Handelsgesetzbuch*, HGB) and provide a true and fair view of the assets, liabilities and financial position of the Group as of December 31, 2018, and of its financial performance for the fiscal year from January 1, to December 31, 2018, in accordance with German principles of proper accounting, and
- the accompanying group management report as a whole provides an accurate picture of the Group's position, is consistent in all material respects with the consolidated financial statements, complies with German legal requirements, and suitably presents the opportunities and risks relating to future development. Our audit opinion on the group management report does not extend to the components of the management report cited in the annex.

Pursuant to sec. 322 para. 3 sentence 1 of the Commercial Code, we declare that our audit examination has not led to any reservations relating to the compliance of the consolidated financial statements and group management report with legal and accounting requirements.

Basis for our audit opinions

We conducted our audit examination of the consolidated financial statements in accordance with Sec. 317 of the Commercial Code and German generally accepted standards for the audit of financial statements promulgated by the Institute of Public Auditors in Germany (*Institut der Wirtschaftsprüfer*, IDW). Our responsibilities under these legal requirements and standards are further described in the section of this audit report entitled "Responsibility of the auditor in its audit examination of the consolidated financial statements and group management report".

We are, in accordance with the requirements of the Commercial Code as well as German laws and regulations governing public accountants, independent of the subject group and have fulfilled our other professional duties as German public accountants in accordance with these requirements.

We believe that the evidence we have obtained through our audit examination provides a sufficient and suitable basis for our audit opinions regarding the consolidated financial statements and group management report.

Responsibility of the company's legal representatives for the consolidated financial statements and group management report

The company's legal representatives [members of the Executive Board, per sec. 78 of the German Stock Corporation Act] are responsible for the preparation of the consolidated financial statements and for ensuring that these comply, in all material respects, with the Commercial Code and provide a true and fair view of the assets, liabilities, financial position and financial performance of the Group in accordance with German principles of proper accounting. In addition, the legal representatives are responsible for such internal controls as they deem necessary, in accordance with German principles of proper accounting, to facilitate the preparation of consolidated financial statements that are free from material misstatement, whether intentional or unintentional.

In preparing the consolidated financial statements, the company's legal representatives are responsible for assessing the Group's continued viability as a going concern, as well as for disclosing, as applicable, any information relevant to the Group's continuance as a going concern. They are, in addition, responsible for maintaining financial accounts on the basis of the going concern principle, unless contrary to law or factual circumstances.

Furthermore, the company's legal representatives are responsible for the preparation of the group management report which, as a whole, provides an accurate picture of the Group's position, is consistent in all material respects with the consolidated financial statements, complies with German legal requirements, and suitably presents the opportunities and risks relating to future development. The legal representatives are, in addition, responsible for such procedures and precautionary measures (systems) as they deem necessary to facilitate the preparation of the group management report in accordance with the applicable German legal requirements, and to be able to provide appropriate and sufficient evidence for the assertions in the group management report.

Responsibility of the auditor in its audit examination of the consolidated financial statements and group management report

The objective of our audit examination is to obtain reasonable assurance as to whether the consolidated financial statements as a whole are free from material misstatement, whether intentional or unintentional, and as to whether the group management

report as a whole provides an accurate picture of the Group's position, is consistent in all material respects with the consolidated financial statements and the findings of our audit examination, complies with German legal requirements and suitably presents the opportunities and risks relating to future development, then to issue a report of our audit examination including our audit opinions regarding the consolidated financial statements and group management report.

"Reasonable assurance" is a high level of assurance but is not a guarantee that an audit conducted in accordance with Sec. 317 of the Commercial Code and with German generally accepted standards for the audit of financial statements promulgated by the Institute of Public Auditors in Germany (IDW) will always detect a material misstatement. Misstatements may arise through error or through intentional act and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the business decisions of users of this information taken on the basis of these consolidated financial statements.

During our audit examination, we exercise due professional discretion and maintain a critical stance. Furthermore, we

- identify and assess the risks of material misstatement, whether intentional or unintentional, in the consolidated financial statements and group management report, plan and perform audit procedures responsive to such risks, and obtain audit evidence that is sufficient and appropriate to form a basis for our audit opinions. The risk of not detecting a material misstatement resulting from intentional act is higher than for one resulting from error, as intentional acts may involve fraudulent collusion, forgery of documents, intentional omissions, misrepresentations or the override of internal controls.

- gain an understanding of the internal control systems relevant to our audit examination of the consolidated financial statements, and of the company's procedures and precautionary measures relevant to our audit examination of the group management report, so that we are able to design audit methods appropriate to the circumstances, but not for the purpose of expressing an audit opinion on the effectiveness of these systems.

- assess the appropriateness of the accounting policies employed by the company's legal representatives and the reasonableness of their accounting estimates and related disclosures.

- draw conclusions as to the suitability of the accounting policies employed by the legal representatives on the basis of the going concern principle and, on the basis of the audit evidence obtained, whether material uncertainty exists relating to events or circumstances which raise significant doubts regarding the Group's ability to continue as a going concern. If we conclude that such material uncertainty exists, we are required to draw attention in our audit report to the related disclosures in the consolidated financial statements and group management report or, if these disclosures are inadequate, to modify our audit opinions accordingly. We draw our conclusions upon the basis of the audit evidence obtained up to the date of our audit opinion. Subsequent events or circumstances could, however, cause the Group to cease being able to continue as a going concern.

- assess the overall presentation, structure and content of the consolidated financial statements, including related disclosures, and determine whether the consolidated financial statements present the underlying transactions and events in such a way that the consolidated financial statements provide a true and fair view of the assets, liabilities, financial position and financial performance of the Group in accordance with German principles of proper accounting.

- obtain sufficient suitable audit evidence in support of the accounting information of the companies or business activities within the Group to form audit opinions on the consolidated financial statements and group management report. We are responsible for the planning, supervision and execution of the audit examination of the consolidated financial statements. We bear sole responsibility for our audit opinions.

- assess the consistency of the group management report with the consolidated financial statements, its conformity with German law, and the picture it conveys of the Group's position.

- conduct audit examinations of forward-looking statements made by the company's legal representatives in the group management report. On the basis of sufficient and suitable audit evidence, we validate, in particular, the significant assumptions used by the company's legal representatives as a basis for forward-looking statements and determine whether these assumptions provide a reasonable basis for the forward-looking statements. We do not express any audit opinion specific to such forward-looking statements or to the underlying assumptions. There is a substantial and unavoidable risk that actual future circumstances may differ substantially from such forward-looking statements.

In our discussions with those responsible for the supervision of the company, we determine the planned scope and timeframe of the audit examination. We then report significant audit findings, specifically including any deficiencies in internal control systems identified during our audit examination.

Munich, Germany, March 29, 2019

PANTAXAUDIT GMBH WIRTSCHAFTSPRÜFUNGSGESELLSCHAFT ★ MÜNCHEN ★ WIRTSCHAFTS-PRÜFUNGS-GESELLSCHAFT SIEGEL

PanTaxAudit GmbH
Wirtschaftsprüfungsgesellschaft

Dr. Rudolf Schmitz
Wirtschaftsprüfer
[German Public Accountant]

Doris Wolff
Wirtschaftsprüferin
[German Public Accountant]

Legal Information

Company name	FORMYCON AG
Legal form	German stock corporation (*Aktiengesellschaft*)
Registered offices	Martinsried/Planegg, Germany
Street address	Fraunhoferstr. 15 82152 Martinsried/Planegg, Germany
Founding and articles of incorporation	The Company was founded through its articles of incorporation (*Satzung*) of May 5, 2010, which were most recently amended as of July 21, 2018.
Subject of business	The subject of the Company's business is the development of pharmaceutical and biopharmaceutical products, the development of drug delivery systems, the provision of diagnostic laboratory services and works for third parties, and the carrying out of diagnostic laboratory services.
Commercial register	The Company is entered into the commercial register (*Handelsregister*) of the District Court of Munich under number HR B 200801.
Fiscal year	The Company's fiscal year runs from January 1 to December 31 of each year.
Registered capital	The Company's registered capital (*Grundkapital*) is € 9,422,603.00
Executive Board	Dr. Carsten Brockmeyer, residing in Marzling
	Dr. Nicolas Combé, residing in Munich
	Dr. Stefan Glombitza, residing in Holzkirchen
Supervisory Board	Dr. Olaf Stiller, residing in Marburg, Chairman
	Hermann Vogt, residing in Dieburg, Deputy Chairman
	Peter Wendeln, residing in Oldenburg

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FORMYCON AG
Financial Statements

Balance Sheet – Assets

as of December 31, 2018

in €	Dec. 31, 2018	Dec. 31, 2017
A. Fixed assets		
I. Intangible assets		
1. Purchased concessions, industrial property rights, and similar rights and assets, as well as licenses for such rights and assets	175,701.80	109,395.90
2. Goodwill	591,075.00	748,695.00
	766,776.80	**858,090.90**
II. Property, plant and equipment		
1. Land and buildings, including property-like rights and buildings on third-party land	135,032.00	134,484.48
2. Technical equipment and machinery	2,947,532.03	2,678,355.60
3. Other plant, production equipment and office equipment	390,340.80	442,401.67
4. Advance payments and plant under construction	0.00	0.00
	3,472,904.83	**3,255,241.75**
III. Financial assets		
1. Shares in affiliated companies	50,000.00	50,000.00
2. Loans to affiliated companies	1,577,000.00	1,557,000.00
3. Investment participations	15,973,249.00	249.00
	17,600,249.00	**1,627,249.00**
B. Current assets		
I. Inventories		
1. Raw materials, consumables and supplies	166,221.03	149,359.85
2. Unfinished products and services	220,400.00	343,500.00
3. Advance payments	36,131.37	0.00
	422,752.40	**492,859.85**
II. Receivables and other assets		
1. Trade accounts receivable	1,137,074.70	6,978,013.44
2. Receivables from affiliated companies	4,943,537.39	4,128,386.29
3. Other assets	52,763.04	55,967.82
	6,133,375.13	**11,162,367.55**
III. Securities		
Other securities	4,972,308.23	10,973,553.73
	4,972,308.23	**10,973,553.73**
IV. Cash and cash equivalents	**5,140,825.18**	**3,448,577.97**
C. Prepaid expenses	**145,407.93**	**82,669.63**
D. Deferred tax asset	**519,700.00**	**0.00**
	39,174,299.50	**31,900,610.38**

Balance Sheet – Liabilities and Equity

in €	Dec. 31, 2018	Dec. 31, 2017
A. Equity		
I. Subscribed capital[1]	9,422,603.00	9,343,853.00
II. Capital reserve	35,551,754.34	35,032,791.84
III. Loss carryforward	– 17,150,269.34	– 15,658,078.35
IV. Annual net income (loss)	7,279,990.42	– 1,492,190.99
	35,104,078.42	**27,226,375.50**
B. Provisions		
1. Tax provisions	519,700.00	0.00
2. Other provisions	1,252,809.00	1,179,486.00
	1,772,509.00	**1,179,486.00**
C. Liabilities		
1. Liabilities toward banks	0.00	789.85
2. Trade accounts payable	1,219,483.40	1,234,384.52
of which due within one year € 1,219,483.40 (prior year: € 1,234.4K)		
3. Liabilities toward affiliated companies	7,397.16	18,822.83
of which due within one year € 7,397.16 (prior year: € 18,8K)		
4. Other liabilities	1,068,949.06	2,236,986.90
of which from taxes € 213,491.81 (prior year: € 1,336K)		
of which relating to social security € 195.26 (prior year: € 0,3K)		
of which due within one year € 594,691.48 (prior year: € 1,667.0K)		
of which due in more than one year € 474,257.58 (prior year: € 570.0K)		
	2,295,829.62	**3,490,984.10**
D. Deferred income	**1,882.46**	**3,764.78**
	39,174,299.50	**31,900,610.38**

[1] Conditional Capital (2) € 291,260

Income Statement

for the period from January 1, 2018 to December 31, 2018

in €		Current year	Prior year
1.	Sales revenue	29,619,510.49	16,391,413.79
2.	Increase or decrease in inventories of finished and unfinished products	– 123,100.00	343,500.00
	Total revenue	**29,496,410.49**	**16,734,913.79**
3.	Other operating income	161,021.13	70,565.52
	of which income attributable to foreign currency translation € 58,330.26 (prior year: € 11,839.30)		
4.	Cost of materials		
	a. Cost of raw materials, consumables and supplies and of purchased goods	1,958,171.25	2,485,694.23
	b. Cost of purchased services	8,707,676.44	5,925,398.47
	Gross profit	**18,991,583.93**	**8,394,386.61**
5.	Staff expenses		
	a. Wages and salaries	6,791,793.78	5,436,561.70
	b. Social contributions and costs for retirement benefits and for support benefits	1,137,117.51	888,703.28
	of which for retirement benefits € 111,409.64 (prior year: € 93,405.85)		
6.	Depreciation, amortization and write-downs of intangible assets and on property plant and equipment	904,283.98	784,774.64
7.	Other operating expenses	2,852,191.59	2,736,062.89
	of which expenses arising from foreign currency conversions € 14,326.36 (prior year: € 8,215.87)		
	Operating Income	**7,306,197.07**	**– 1,451,715.90**
8.	Other interest and similar income	5,419.15	1,381.69
9.	Writedowns of financial assets and securities held in current assets	85.00	0.00
10.	Interest and similar expense	31,703.68	38,852.78
	Financial result	**– 26,369.53**	**– 37,471.09**
11.	Taxes on income and earnings	0.00	0.00
12.	**Income after tax**	**7,279,827.54**	**– 1,489,186.99**
13.	Other taxes	– 162.88	3,004.00
14.	**Annual net income**	**7,279,990.42**	**– 1,492,190.99**

Notes to the Financial Statements for the Fiscal Year from January 1, 2017 to December 31, 2018

I General information about the Company

FORMYCON AG has its registered offices in Martinsried/Planegg, Germany, and is entered into the commercial register (*Handelsregister*) of the District Court of Munich under number HRB 200801.

II General information about the content and structure of these Financial Statements

These Financial Statements, presented here in translation from the German original, have been prepared in accordance with sections 242 et seq. of the German Commercial Code (*Handelsgesetzbuch*, HGB) under observance of the supplementary provisions of sections 242 et seq. of the Commercial Code applicable to medium-sized corporations as well as of the German Stock Corporation Act (*Aktiengesetz*, AktG).

The Company has made use of financial statement simplification provisions depending upon company size allowed by sec. 266 para. 1, sec. 276 and sec. 288 of the Commercial Code.

The Income Statement has been prepared using the total expenditure format as prescribed by sec. 275 para. 2 of the Commercial Code.

III Accounting and valuation methods

The accounting and valuation methods applied to balance sheet and income statement items in the prior year were retained.

Foreign currency translation

Assets and liabilities denominated in foreign currency are translated into euros at the average spot exchange rate on the day of their original posting. Changes in exchange rates between then and the balance sheet date are reflected by write-downs of assets or write-ups of liabilities only for amounts due in more than one year and only to the extent necessary so that valuation on the balance sheet date is without losses. Items due within a period of less than one year are translated at the average spot exchange rate as of the date of the financial statements. The resulting income or expense arising from currency translation is shown separately in the Income Statement under other operating income or expenses.

Principles of balance sheet presentation and valuation

The balance sheet includes all assets, all liabilities and all prepaid and deferred items. Assets and liabilities are valued individually.

The valuation of assets and liabilities takes all risks into account which are identifiable based on the principles of prudent business judgment.

In deviation from the prior year, deferred tax assets are recognized for the first time, which has become possible because of the positive earnings outlook. Otherwise, there are no changes from the accounting and valuation methods applied to the prior year.

Purchased **intangible assets** are capitalized and amortized based upon expected useful life.

The Company has not made any use of its elective right under sec. 248 para. 2 of the Commercial Code to capitalize self-produced intangible assets.

Previously existing goodwill continues to be amortized on a linear pro rata basis over a business-customary useful life of ten years (under the continuity principle). The long useful life (extending until September 30, 2022) was chosen because this goodwill represents, among other factors, licensing opportunities over long periods.

Property, plant and equipment are valued at their cost of acquisition, less accumulated depreciation. The depreciation of moveable assets is linear, with depreciation in the year of acquisition on a pro rata basis. In the event of any impairment in value which is expected to be permanent, the respective asset is written down to the lower fair value.

Low-value fixed assets acquired prior to January 1, 2018 and with an individual acquisition cost of from € 150.00 to € 410.00 are expensed in full in their year of acquisition.

Starting from January 1, 2018, newly acquired low-value fixed assets with an individual acquisition cost of from € 250.00 to € 800.00 are depreciated in full in their year of acquisition. For reasons of simplification, these write-off methods allowed under German tax law are also applied to this balance sheet under the Commercial Code, as the resulting differences in valuation compared to individual valuation of each such asset are immaterial.

Financial assets are stated at their cost of acquisition, or should there be an impairment in value, regardless of whether it is expected to be permanent or temporary, written down to the lower fair value.

Raw materials, consumables and supplies as well as purchased goods in **inventories** are valued at their average cost of acquisition, insofar as a write-down to a lower value as of the balance sheet closing date is not required. Finished and unfinished products are valued at their cost of production in accordance with sec. 255 para. 2 sentence 2 of the Commercial Code.

Receivables and other assets are valued at the lower of nominal or fair value. In the case of doubtful receivables, bad debt allowances are made individually. There are no general provisions for bad debts.

Securities are stated at the lower of their cost of acquisition or fair (market) value as of the balance sheet closing date.

Cash and cash equivalents are stated at their nominal value.

Prepaid and deferred items are posted in accordance with sec. 250 of the Commercial Code.

The calculation of **deferred taxes**, in accordance with sec. § 274 of the Commercial Code, is based upon timing differences between balance sheet items as these are stipulated under the Commercial Code and under German tax law. The resulting cumulative deferred tax relief (deferred tax asset) and cumulative deferred tax burden (deferred tax liability) are determined on a net basis in accordance with sec. 274 para. 1 sentence 3 of the Commercial Code. In addition, the deferred tax relief resulting from existing loss carryforwards has now been recognized. The income tax rate used to calculate deferred taxes is 29.83%, or in the case of investment participations in partnerships, 15.83%.

On this basis, the deferred tax amounts are calculated as follows:

	Tax rate (in %)	Difference in taxable amount (in €)	Deferred taxes (in €)
Valuation of participation in FYB 202 GmbH & Co. KG	15.83	2,411,513.00	–381,700.00
Deferred tax asset from loss carryforward	29.83		901,400.00
Deferred tax assets to balance sheet			519,700.00
Prior year			0.00
Addition to deferred tax assets			**519,700.00**

Tax provisions and **other provisions** take into account all uncertain obligations and all identifiable risks. These are stated at the amount required for their fulfillment using prudent business judgment, including future increases in prices and costs. Provisions due after more than one year are discounted from the time of their expected fulfillment at the average market interest rate over the past seven fiscal years.

Liabilities are stated at the amount required for their fulfillment.

IV Additional Notes to the Balance Sheet

Fixed assets

A schedule of changes in the individual fixed asset accounts, including depreciation and amortization during the current year, is provided as Attachment 1 to these Notes.

Receivables and other assets

A schedule of receivables and other assets is provided as Attachment 2, showing their scheduled maturities as well as their relationship to other balance sheet items.

Equity

A schedule of changes in equity is provided as Attachment 4.

Information required per sec. 160 of the Stock Corporation Act

Number of shares outstanding

The Company has registered capital (*Grundkapital*) of € 9,422,603.00, which is divided into 9,422,603 bearer shares without par value.

Approved capital

By resolution of the annual shareholders' meeting of June 30, 2015, the Executive Board is authorized, subject to the approval of the Supervisory Board, to increase the Company's registered capital one or more times at any time until June 29, 2020, and by no more than a total of € 4,340,801.00, through the issuance of up to 4,340,801 new no-par-value bearer shares, against contributions in cash and/or in kind (the "Authorized Capital 2015"). The newly issued shares shall participate in profits from the start of the fiscal year for which, at the time of their issuance, no resolution has yet been taken by the annual shareholders' meeting as to the application of retained profits. The Company's shareholders shall, in general, be granted subscription rights. The shares may, however, also be assumed by one or more banks subject to the obligation that they offer these to the Company's shareholders for subscription (indirect subscription rights).

Number of subscription rights per sec. § 192 para. 2 no. 3 of the Stock Corporation Act

The Company's Executive Board is authorized, subject to the approval of the Supervisory Board, to issue subscription rights on the Company's shares one or more times at any time until June 29, 2020, granting the right to subscribe to up to 715,260 no-par-value bearer shares of the Company, in accordance with the agreed terms and condition. As of the balance sheet date, subscription rights to 424,000 shares were issued and outstanding under the Company's Stock Option Plan 2015.

Provisions

Other provisions are substantially comprised of the following:

per sec. 285 no. 12 of the Commercial Code

in €	Current year
Bonuses	702,859.00
Unpaid invoices	234,200.00
Accrued vacation	143,000.00
Safekeeping obligations	102,300.00
Audit and advisory costs	40,750.00
Occupational cooperative and other social expenses	19,700.00
Miscellaneous provisions	10,000.00

Liabilities

The remaining term of liabilities, along with their collateralization through liens or similar rights and their relationship to other balance sheet items, is shown in the Consolidated Schedule of Liabilities included as Attachment 3 to these Notes.

Contingent liabilities

The Company has issued a letter of comfort (Patronatserklärung) in support of its subsidiaries FORMYCON Project 201 GmbH and FORMYCON Project 203 GmbH. To the best of our knowledge, the respective companies will be able, in all cases, to fulfill their underlying obligations. Claims thereunder are thus not anticipated.

Other financial obligations

The total amount of other financial obligations, within the meaning of sec. 285 sentence 1 no. 3a of the Commercial Code, results from contractual obligations for ongoing performance. For obligations up to one year, the total amount is € 519,271.46, for obligations between one and five years € 1,310,506.90, and for obligations beyond five years, € 0.00.

V Additional notes to the Income Statement

Sec. 158 of the Stock Corporation Act requires the following supplementary information:

in €		Current year
	Annual net income	7,279,990.42
+	Loss carryforward from prior year	– 17,150,269.34
=	Accumulated loss to balance sheet	– 9,870,278.92

Total research and development costs during the fiscal year were € 36,636K.

The balance sheet item “Depreciation, amortization and write-downs of intangible assets and on property plant and equipment” includes write-downs in accordance with sec. 253 para. 3 sentence 3 of the Commercial Code in the amount of € 25.4K (prior year: € 0.00).

The rebooking and transfer of accrued development expenses to the FYB 202 GmbH & Co. KG partnership resulted in a non-recurring, non-cash gain in the amount of € 8,473K.

VI Other Information

Number of staff

Sec. 285 no. 7 of the Commercial Code requires the following information regarding the average number of staff during the fiscal year:

per sec. 285 no. 7 of the Commercial Code

	Current year
Administrative activities	8
Research activities	77
Total	**85**

Information on members of the Executive Board and Supervisory Board

Information on members of the Executive Board:

- **Dr. Carsten Brockmeyer**, residing in Marzling, CEO
- **Dr. Nicolas Combé**, residing in Munich, CFO
- **Dr. Stefan Glombitza**, residing in Holzkirchen, COO

Information on members of the Supervisory Board:

- **Dr. Olaf Stiller**, residing in Marburg (Chairman)
  member of the executive boardof Paedi Protect AG
- **Hermann Vogt**, residing in Dieburg (Deputy Chairman)
  independent management advisor and financial advisor
- **Peter Wendeln**, residing in Oldenburg
  managing partner of Wendeln & Cie. Asset Management GmbH

Remuneration

During the fiscal year, the members of the Supervisory Board received total remuneration of € 58,952.06, while total remuneration to members of the Executive Board, within the meaning of sec. 286 no. 9 of the Commercial Code, was € 1,302,864.94 (of which € 475,000 was success-based), along with 45,000 stock options with a current fair value of € 0.00.

The following members of the Supervisory Board are members of other supervisory boards:

- **Dr. Olaf Stiller**, Marburg: Bodenwert Immobilien AG, Nano Repro AG
- **Hermann Vogt**, Dieburg: Cumerius AG

Information on shareholdings per sec. 285 no. 11 of the Commercial Code

	Share of capital (in %)	Equity (in € K)	Annual net income (in € K)
FORMYCON PROJECT 201 GmbH Planegg/Martinsried	100	–62.00	–58.00
FORMYCON PROJECT 203 GmbH Planegg/Martinsried	100	–1,752.00	–123.00
FYB 202 GmbH & Co. KG Berlin	24.9	13,788.00	–9,821.00

Information on auditor fees per sec. 285 no. 17 of the Commercial Code

in €	Current year
Audit services	45,000.00
Tax advisory and other services	15,095.00

Appropriation of profits

The Executive Board proposes to carry forward the annual net income to the next fiscal year.

Planegg, March 28, 2019

Dr. Carsten Brockmeyer

Dr. Nicolas Combé

Dr. Stefan Glombitza

Schedule of Fixed Assets

Attachment 1

in €	Changes in historical cost of acquisition					Changes in accumulated depreciation & amortization				Changes in net book value		
	Historical cost of acquisition or production at Dec. 31, 2017	Additions	Rebookings	Historical cost of disposals	Historical cost of acquisition or production at Dec. 31, 2018	Accumulated depreciation & amortization at Dec. 31, 2017	Current-year depreciation & amortization	Writedowns on disposals	Accumulated depreciation & amortization at Dec. 31, 2018	Net book value at Dec. 31, 2017	Net book value of disposals	Net book value at Dec. 31, 2018
Intangible assets												
Purchased concessions, industrial property rights, and similar rights and assets, as well as licenses for such rights and assets	394,433.55	114,120.78	0.00	19,216.96	489,337.37	285,037.65	47,048.50	18,450.58	313,635.57	109,395.90	766.38	175,701.80
Goodwill	1,576,200.00	0.00	0.00	0.00	1,576,200.00	827,505.00	157,620.00	0.00	985,125.00	748,695.00	0.00	591,075.00
Property, plant and equipment												
Land and buildings, including property-like rights and buildings on third-party land	446,664.47	66,551.09	0.00	9,168.57	504,046.99	312,179.99	65,021.20	8,186.20	369,014.99	134,484.48	982.37	135,032.00
Technical equipment and machinery	4,927,888.09	664,398.72	77,964.38	403,906.81	5,266,344.38	2,249,532.49	447,902.31	378,622.45	2,318,812.35	2,678,355.60	25,284.36	2,947,532.03
Other plant, production equipment and office equipment	1,006,900.03	140,145.18	1,989.93	51,691.72	1,097,343.42	564,498.36	186,691.97	44,187.71	707,002.62	442,401.67	7,504.01	390,340.80
Advance payments and plant under construction	0.00	79,954.31	−79,954.31	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Financial assets												
Shares in affiliated companies	50,000.00	0.00	0.00	0.00	50,000.00	0.00	0.00	0.00	0.00	50,000.00	0.00	50,000.00
Loans to affiliated companies	1,577,000.00	0.00	0.00	0.00	1,577,000.00	0.00	0.00	0.00	0.00	1,577,000.00	0.00	1,577,000.00
Investment participations	249.00	15,973,000.00	0.00	0.00	15,973,249.00	0.00	0.00	0.00	0.00	249.00	0.00	15,973,249.00
Total	**9,979,335.14**	**17,038,170.08**	**0.00**	**483,984.06**	**26,533,521.16**	**4,238,753.49**	**904,283.98**	**449,446.94**	**4,693,590.53**	**5,740,581.65**	**34,537.12**	**21,839,930.63**

Schedule of Receivables

Attachment 2

for the fiscal year from January 1, 2018 to December 31, 2018

in €	Total	of which due within 1 year (prior year: € 11,162.4K)	of which due in more than 1 year (prior year: € 0.00)	of which due from legal representatives of the Company	of which due from Supervisory Board members
Trade accounts receivable	1,137,074.70	1,137,074.70	0.00	0.00	0.00
Receivables from affiliated companies	4,943,537.39	4,943,537.39	0.00	0.00	0.00
Receivables from companies in which an ownership interest exists	0.00	0.00	0.00	0.00	0.00
Other assets	52,763.04	52,763.04	0.00	0.00	0.00
Total	**6,133,375.13**	**6,133,375.13**	**0.00**	**0.00**	**0.00**

Schedule of Liabilities

Attachment 3

for the fiscal year from January 1, 2018 to December 31, 2018

in €	Total	of which due within 1 year (prior year: € 570,0K)	of which due in 1 – 5 years (prior year: € 2,921.0K)	of which due in more than 5 years	of which collateralized	Form of collateralization
Liabilities toward banks	0.00	0.00	0.00	0.00	0.00	
Trade accounts payable	1,219,483.40	1,219,483.40	0.00	0.00	0.00	Conditional reservation of ownership title as usual and customary within the industry
Liabilities toward affiliated companies	7,397.16	7,397.16	0.00	0.00	0.00	
Other liabilities	1,068,949.06	594,691.48	474,257.58	0.00	788,512.23	Conditional reservation of ownership title as usual and customary within the industry
Total	**2,295,829.62**	**1,821,572.04**	**474,257.58**	**0.00**	**788,512.23**	

Schedule of Changes in Equity

Attachment 4

for the fiscal year from January 1, 2018 to December 31, 2018

in €	Subscribed capital	Capital reserves	Profit (loss) carryforward	Net income	Equity
as of Dec. 31, 2017	**9,343,853.00**	**35,032,791.84**	**– 15,658,078.35**	**– 1,492,190.99**	**27,226,375.50**
Capital increases	78,750.00	0.00	0.00	0.00	78,750.00
Additions to capital reserves	0.00	518,962.50	0.00	0.00	518,962.50
Appropriation of prior-year profit	0.00	0.00	– 1,492,190.99	1,492,190.99	0.00
Annual net income	0.00	0.00	0.00	7,279,990.42	7,279,990.42
as of Dec. 31, 2018	**9,422,603.00**	**35,551,754.34**	**– 17,150,269.34**	**7,279,990.42**	**35,104,078.42**

Report of Independent Auditor

Audit opinions

We have examined the annual financial statements of FORMYCON AG (the "Company"), consisting of the balance sheet as of December 31, 2018, and the income statement, schedule of changes in equity and statement of cash flows for the fiscal year from January 1 to December 31, 2018, along with the notes to the financial statements, including the presentation of the accounting policies employed. We have, in addition, examined the management report of FORMYCON AG for the fiscal year from January 1 to December 31, 2018.

In our opinion, on the basis of the findings of our audit examination, the accompanying financial statements comply, in all material respects, with the requirements of the German Commercial Code (*Handelsgesetzbuch*, HGB) and provide a true and fair view of the assets, liabilities and financial position of the Company as of December 31, 2018, and of its financial performance for the fiscal year from January 1, to December 31, 2018, in accordance with German principles of proper accounting, and the accompanying management report as a whole provides an accurate picture of the Company's position, is consistent in all material respects with the financial statements, complies with German legal requirements, and suitably presents the opportunities and risks relating to future development.

Pursuant to sec. 322 para. 3 sentence 1 of the Commercial Code, we declare that our audit examination has not led to any reservations relating to the compliance of the financial statements and management report with legal and accounting requirements.

Basis for our audit opinions

We conducted our audit examination of the annual financial statements in accordance with Sec. 317 of the Commercial Code and German generally accepted standards for the audit of financial statements promulgated by the Institute of Public Auditors in Germany (Institut der Wirtschaftsprüfer, IDW). Our responsibilities under these legal requirements and standards are further described in the section of this audit report entitled "Responsibility of the auditor in its audit examination of the financial statements and management report". We are, in accordance with the requirements of the Commercial Code as well as German laws and regulations governing public accountants, independent of the Company and have fulfilled our other professional duties as German public accountants in accordance with these requirements. We believe that the evidence we have obtained through our audit examination provides a sufficient and suitable basis for our audit opinions regarding the financial statements and management report.

Responsibility of the company's legal representatives and supervisory board for the financial statements and management report

The company's legal representatives [members of the Executive Board, per sec. 78 of the German Stock Corporation Act] are responsible for the preparation of the annual financial statements and for ensuring that these comply, in all material respects, with the Commercial Code and provide a true and fair view of the assets, liabilities, financial position and financial performance of the Company in accordance with German principles of proper accounting. In addition, the legal representatives are responsible for such internal controls as they deem necessary, in accordance with German principles of proper accounting, to facilitate the preparation of financial statements that are free from material misstatement, whether intentional or unintentional.

In preparing the financial statements, the company's legal representatives are responsible for assessing the Company's continued viability as a going concern, as well as for disclosing, as applicable, any information relevant to the Company's continuance as a going concern. They are, in addition, responsible for maintaining financial accounts on the basis of the going concern principle, unless contrary to law or factual circumstances.

Furthermore, the Company's legal representatives are responsible for the preparation of the management report which, as a whole, provides an accurate picture of the Company's position, is consistent in all material respects with the financial statements, complies with German legal requirements, and suitably presents the opportunities and risks relating to future development. The legal representatives are, in addition, responsible for such procedures and precautionary measures (systems) as they deem necessary to facilitate the preparation of the management report in accordance with the applicable German legal requirements, and to be able to provide appropriate and sufficient evidence for the assertions in the management report.

The Company's supervisory board is responsible for oversight of the accounting processes used by the Company in its preparation of the annual financial statements and management report.

Responsibility of the auditor in its audit examination of the annual financial statements and management report

The objective of our audit examination is to obtain reasonable assurance as to whether the annual financial statements as a whole are free from material misstatement, whether intentional or unintentional, and as to whether the management report as a whole provides an accurate picture of the Company's position, is consistent in all material respects with the financial statements and the findings of our audit examination, complies with German legal requirements and suitably presents the opportunities and risks relating to future development, then to issue a report of our audit examination including our audit opinions regarding the annual financial statements and management report.

“Reasonable assurance” is a high level of assurance but is not a guarantee that an audit conducted in accordance with Sec. 317 of the Commercial Code and with German generally accepted standards for the audit of financial statements promulgated by the Institute of Public Auditors in Germany (IDW) will always detect a material misstatement. Misstatements may arise through error or through intentional act and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the business decisions of users of this information taken on the basis of these financial statements.

During our audit examination, we exercise due professional discretion and maintain a critical stance. Furthermore, we:

— identify and assess the risks of material misstatement, whether intentional or unintentional, in the annual financial statements and management report, plan and perform audit procedures responsive to such risks, and obtain audit evidence that is sufficient and appropriate to form a basis for our audit opinions. The risk of not detecting a material misstatement resulting from intentional act is higher than for one resulting from error, as intentional acts may involve fraudulent collusion, forgery of documents, intentional omissions, misrepresentations or the override of internal controls.

— gain an understanding of the internal control systems relevant to our audit examination of the financial statements, and of the Company’s procedures and precautionary measures relevant to our audit examination of the management report, so that we are able to design audit methods appropriate to the circumstances, but not for the purpose of expressing an audit opinion on the effectiveness of these systems.

— assess the appropriateness of the accounting policies employed by the Company’s legal representatives and the reasonableness of their accounting estimates and related disclosures.

— draw conclusions as to the suitability of the accounting policies employed by the legal representatives on the basis of the going concern principle and, on the basis of the audit evidence obtained, whether material uncertainty exists relating to events or circumstances which raise significant doubts regarding the Company’s ability to continue as a going concern. If we conclude that such material uncertainty exists, we are required to draw attention in our audit report to the related disclosures in the annual financial statements and management report or, if these disclosures are inadequate, to modify our audit opinions accordingly. We draw our conclusions upon the basis of the audit evidence obtained up to the date of our audit opinion. Subsequent events or circumstances could, however, cause the Company to cease being able to continue as a going concern.

— assess the overall presentation, structure and content of the annual financial statements, including related disclosures, and determine whether the financial statements present the underlying transactions and events in such a way that the financial statements provide a true and fair view of the assets, liabilities, financial position and financial performance of the Company in accordance with German principles of proper accounting.

— assess the consistency of the management report with the annual financial statements, its conformity with German law, and the picture it conveys of the Company’s position.

— conduct audit examinations of forward-looking statements made by the Company’s legal representatives in the management report. On the basis of sufficient and suitable audit evidence, we validate, in particular, the significant assumptions used by the Company’s legal representatives as a basis for forward-looking statements and determine whether these assumptions provide a reasonable basis for the forward-looking statements. We do not express any audit opinion specific to such forward-looking statements or to the underlying assumptions. There is a substantial and unavoidable risk that actual future circumstances may differ substantially from such forward-looking statements.

In our discussions with those responsible for the supervision of the Company, we determine the planned scope and timeframe of the audit examination. We then report significant audit findings, specifically including any deficiencies in internal control systems identified during our audit examination.

Munich, March 29, 2019

PANTAXAUDIT GMBH WIRTSCHAFTSPRÜFUNGSGESELLSCHAFT ★ MÜNCHEN ★ WIRTSCHAFTS-PRÜFUNGS-GESELLSCHAFT SIEGEL

PanTaxAudit GmbH
Wirtschaftsprüfungsgesellschaft

Dr. Rudolf Schmitz
Wirtschaftsprüfer
[German Public Accountant]

Doris Wolff
Wirtschaftsprüferin
[German Public Accountant]

Legal Information

Company name	FORMYCON AG
Registered offices	Martinsried/Planegg, Germany
Legal form	German stock corporation (*Aktiengesellschaft*)
Street address	Fraunhoferstr. 15 82152 Martinsried/Planegg, Germany
Articles of incorporation	The Company was founded through its articles of incorporation (*Satzung*) of May 5, 2010, which were most recently amended as of July 21, 2018.
Commercial register	The Company is entered into the commercial register (*Handelsregister*) of the District Court of Munich under number HR B 200801
Subject of business	The subject of the Company's business is the development of pharmaceutical and biopharmaceutical products, the development of drug delivery systems, the provision of diagnostic laboratory services and works for third parties, and the carrying out of diagnostic laboratory services.
Fiscal year	January 1 to December 31
Subscribed capital	€ 9,422,603.00
Executive Board	Dr. Carsten Brockmeyer, Member of Executive Board
	Dr. Nicolas Combé, Member of Executive Board
	Dr. Stefan Glombitza, Member of Executive Board
Supervisory Board	Dr. Olaf Stiller, residing in Marburg, Chairman
	Hermann Vogt, residing in Dieburg, Deputy Chairman
	Peter Wendeln, residing in Oldenburg
Prior year financial statements	The financial statements as of December 31, 2017, were audited by us and provided with an unqualified audit opinion.

Imprint

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