Heidelberg PHARMA

Focused Cancer Therapies

ANNUAL REPORT 2017

KEY FIGURES

	2017[1] € '000	2016[1] € '000	Change in %
Earnings			
Sales revenue	1,900	1,362	39 %
Other income	582	1,381	(58 %)
Operating expenses	(13,235)	(9,104)	45 %
of which research and development costs	(9,323)	(6,119)	52 %
Operating result	(10,753)	(6,361)	(69 %)
Earnings before tax	(10,970)	(6,380)	(72 %)
Net loss for the period	(10,970)	(6,389)	(72 %)
Earnings per share in €	(0.76)	(0.53)	(43 %)
Balance sheet at end of period			
Total assets	41,490	15,241	172 %
Cash and cash equivalents	30,381	4,574	564 %
Equity	37,024	9,756	279 %
Equity ratio[2] in %	89.2	64.0	39 %
Cash flow statement			
Cash flow from operating activities	(7,940)	(6,535)	22 %
Cash flow from investing activities	(416)	(538)	(23 %)
Cash flow from financing activities	34,181	10,335	231 %
Employees (number)			
Employees as of the end of the period[3]	58	53	9 %
Employees as of the end of the period (full-time equivalents)[3]	52	49	8 %

[1] The reporting period begins on 1 December and ends on 30 November.

[2] Equity/total assets

[3] Including members of the Executive Management Board

Rounding of exact figures may result in differences in all tables of this report.

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= *Glossary (term marked in blue) or cross reference*
@ = Internet reference

ABOUT US

Heidelberg Pharma is a biopharmaceutical company focused on oncology and antibodies and specializing in antibody drug conjugates (ADCs).

We were the first company to start research and development of the Amanitin toxin for use in cancer therapies. We do this by applying our proprietary and innovative ADC technology for antibody drug conjugates, which use Amanitin as an active ingredient and are therefore called Antibody Targeted Amanitin Conjugates (ATACs). The biological mode of action of this toxin represents a new therapeutic principle.

Our goal is to refine and market the ATAC technology as part of a hybrid business model.

For this purpose, we are working on building our own product pipeline. Based on our scientific data, we develop proprietary ATACs until the early clinical development stage in order to demonstrate their applicability and efficacy in patients. Our first development candidate – the BCMA-ATAC HDP-101 is expected to start clinical development in multiple myeloma at the end of 2018. At the same time, we are collaborating with various partners on different ATAC candidates through research collaborations and licensing partnerships in which the partners provide specific antibodies that are combined with Amanitin. Preclinical and clinical development of these ATACs is carried out at the partner.

The clinical drug candidates MESUPRON® and REDECTANE® have been out-licensed to partners for further development and subsequent marketing. RENCAREX® is available for out-licensing and further development.

Our focus is on oncology and our mission is to research and develop therapies for cancer patients enabling them to receive a targeted and tailor-made course of treatment that is both highly effective and as well-tolerated as possible.

This objective is supported by strong partnerships with international pharmaceutical and biotech companies as well as important scientific research institutions.

PORTFOLIO

Product	Target	Indication	Research	Preclinic	Clinic I	Clinic II	Clinic III	Partners
HDP-101	BCMA	Multiple myeloma (DLBCL/CLL)						Proprietary
PSMA-ATAC	PSMA	Prostate cancer						Proprietary
CD19-ATAC	CD19	Hematological tumors						Proprietary
NN-ATACs	n/a	Leukemias						Nordic Nanovector
ATAC licensing projects								
TAK-XX-ATACs	n/a	n/a						Takeda/Millennium
MGTA-XX-ATACs	n/a	Conditioning programs for bone marrow transplant						Magenta
Clinical partnering projects								
RENCAREX®	CAIX (therapeutic)	Non-metastatic ccRCC						To be partnered (ROW), Esteve (Southern Europe)
REDECTANE®	CAIX (diagnostic)	Kidney cancer						Telix (worldwide)
MESUPRON®	uPA inhibitor	Solid tumors						Link Health (China)
MESUPRON®	uPA inhibitor	Solid tumors						RedHill (Rest of world outside China)

MILESTONES IN FISCAL YEAR 2017

November 2017

- Results from research collaboration with Heidelberg University and DKFZ presented at ASH Annual Meeting
- Corporate action incl. contribution in kind and issue of a convertible bond completed with a transaction volume of € 34.4 million

October 2017

- Relocation of WILEX AG and change of name to Heidelberg Pharma AG
- Partner RedHill obtains Orphan Drug designation for MESUPRON®

July 2017

Annual General Meeting

June 2017

Exclusive multi-target research agreement signed with Takeda for the development of ATACs

May 2017

Rights issue for € 5.0 million executed

February 2017

Financing commitment by main shareholder dievini

January 2017

- REDECTANE® out-licensed to Telix Pharmaceuticals
- BCMA antibodies in-licensed from Max Delbrück Center

LETTER TO THE SHAREHOLDERS

Dear Ladies and Gentlemen,

The most important cornerstones of our strategy are to enter into partnership agreements with other biopharmaceutical companies to use our ATAC (Antibody Targeted Amanitin Conjugates) technology, to expand our own ATAC pipeline, to further develop our lead proprietary candidate HDP-101, and to ensure sufficient mid-term financing for our own development activities. We made good progress in implementing our strategy in 2017 and the first few months of the current fiscal year.

Attractive partnerships with great potential

Licensing partnerships with pharmaceutical companies are a key pillar of our business model. We are delighted to have signed research and license option agreements with Takeda Pharmaceuticals in June 2017 and, after the end of the reporting period, in early March 2018 with Magenta Therapeutics. Takeda is a world leader in oncology and antibody drug conjugate (ADC) technologies. Magenta is a highly regarded young US biotechnology company seeking to improve outcomes for bone marrow transplant patients.

Tests for the use of our technology successfully conducted with both companies in 2017 formed the basis of our agreements. In addition to gaining access to our technology, the partners bear all costs for the development of the potential ATAC candidates. We benefit from milestone payments and royalties in the event of successful development and approval. Both collaborations are an external validation of our ATAC technology and should provide interesting data on the use of the innovative Amanitin toxin in the fight against different types of cancer. We value our partnerships with these renowned companies and look forward to the next milestones with great excitement.

Academic institutions are also important partners for us in evaluating and developing our technologies. For example, we published very interesting results in cooperation with Heidelberg University and the German Cancer Research Center that confirmed our scientific theses concerning efficacy of ATACs on dormant tumor cells, including in the first ex vivo models. In February of this year, we licensed patent applications from the University of Texas MD Anderson Cancer Center arising from joint research, the results of which were previously published. These discoveries should make it possible to select patients who could particularly benefit from the mode of action of ATACs.

Our partner for REDECTANE®, Australian company Telix Pharmaceuticals, successfully completed an initial public offering (IPO) at the end of 2017 and thus opened up opportunities for financing further studies.

Despite being increasingly busy with the Company's internal development projects, our pharmacology service business continues to operate successfully and to the satisfaction of our customers.

HDP-101 – our development candidate for treating multiple myeloma

Building a proprietary ATAC portfolio and the clinical validation of our own candidates is an important part of our strategy.

This requires working on a wide range of tasks and overcoming a multitude of challenges. We made good progress in preparing our own candidate HDP-101 for clinical development.

HDP-101, an ATAC based on a BCMA antibody, will initially be developed for the treatment of multiple myeloma. Multiple myeloma is a cancer affecting specific bone marrow blood cells and is considered to be incurable despite the availability of several therapeutic options. The cancer cells develop resistance comparatively quickly and there is a high medical need for new therapeutic approaches.

Given that we plan to start clinical development of HDP-101 at the end of 2018, we are already putting the required processes in place now: biological production of the antibody, synthetic production of Amanitin and the subsequent manufacturing of the ATAC under Good Manufacturing Practices (GMP) and on a larger scale. Regulatory requirements (IND) must also be fulfilled before clinical studies can be conducted on humans.

The next few months will involve further discussions with regulatory authorities, the preparation of the clinical trial protocol and tolerability testing with the goal of entering the clinic at the end of 2018.

We also continued to work on developing the ATAC technology and researching additional development candidates.

Successful financing through corporate actions

We successfully completed two corporate actions to finance our development activities in 2017 to ensure that our cash reach is secured until 2020 based on current budget planning. Gross issue proceeds of € 5 million were generated as part of the first corporate action in May 2017; the second, significantly more complex corporate action in November 2017 involved a total transaction volume of € 34.4 million. It consisted of a combined cash and non-cash increase including convertible bonds.

We are very grateful for the trust of our shareholders, particularly our main shareholder dievini. The financing measures carried out in 2017 secured the funds required to begin the clinical development of HDP-101. It gives us the financial runway to concentrate fully on developing our technologies and projects.

Change of name and relocation complete realignment

In July 2017, the Annual General Meeting agreed to change the name of the Company from WILEX AG to Heidelberg Pharma AG and relocate from Munich to Ladenburg. Both of these activities were successfully completed in October 2017 and our corporate branding was redesigned to reflect this. The change of name and relocation mark the formal completion of our strategic realignment and the refinement of our business model.

Business performance of the Group continues to gain momentum

We set ourselves lofty goals and unveiled ambitious plans for 2017. Despite positive operating performance, we did not fully reach these targets. Revenue for the 2017 financial year was slightly below that of the previous year and fell short of our expectations, partly for accounting reasons but also due to the postponement of planned inflows.

This led us to amend our guidance in October 2017, in part because revenue from the Takeda agreement was deferred to future quarters. Milestone payments from Link Health were also postponed to 2018 planning as the Chinese regulatory authorities have not yet issued the expected IND approval for the upcoming clinical trial. As expected, our expenses were significantly higher compared to last year and in line with our budgets. Our aim was to considerably expand our research and development activities for our proprietary technology and own ATAC pipeline in order to increase our own value contribution. The service business was stable and performed in line with expectations.

Our vision – to harness Amanitin as a compound for different cancer therapies

Our activities are focused on the significant therapeutic potential of the Amanitin conjugate. Our strategy also includes driving the development and marketing of our ATAC technology by securing additional licensing and partners for the technology platform but particularly by carrying out the clinical development of HDP-101 for the treatment of multiple myeloma.

We would like to sincerely thank our shareholders, business partners and employees for their many years of support.

Ladenburg, 20 March 2018

Yours sincerely,

Dr. Jan Schmidt-Brand
Chief Executive Officer and Chief Financial Officer

Professor Andreas Pahl
Chief Scientific Officer

INTERVIEW WITH THE EXECUTIVE MANAGEMENT BOARD

Dr. Jan Schmidt-Brand (left), Chief Executive Officer and Chief Financial Officer, and Professor Andreas Pahl (right), Chief Scientific Officer, explain the reasons behind the change of name and the business model of Heidelberg Pharma.

Dr. Schmidt-Brand, you have spoken about realignment and have even given the Company a new name. What is the rationale behind this?

Between 2012 and 2015, the old WILEX AG experienced drastic corporate development setbacks triggered by an unsuccessful Phase III trial. Unfortunately this meant that we had to discontinue the clinical development of several product candidates and almost completely shut down a site in Munich. That was a great pity and very difficult for all those involved. We have since left this dark period behind us and are on the right track with our new business model. While the ATAC technology obviously involves the usual risks for our industry, it also offers tremendous possibilities that we would like to harness for the benefit of patients.

Instead of being completely new to us, our name and strategic alignment represent logical steps in our development. Since 2009, our subsidiary Heidelberg Pharma Research GmbH has been working on a technology platform in Ladenburg, near Heidelberg, that we are currently developing and beginning to successfully market as ATAC technology. It therefore seemed natural for us to name our company Heidelberg Pharma, a name already associated with this ATAC technology. There were two reasons for the relocation: there was no longer a development department operating at the Munich site, and the idea of headquartering a company called Heidelberg Pharma in Munich prompted legal concerns from the registration court and would always pose a communications challenge. We all feel very much at home on the outskirts of Heidelberg.

Can you explain the business model in just a few words?

Our business model is multifaceted and is centered around our proprietary ATAC technology. We use a chemical compound to crosslink specific antibodies to the highly effective toxin Amanitin to form what we call Antibody Targeted Amanitin Conjugates (ATACs). The antibody is designed to lead the entire construct to

the cancer cells, where it is taken up by the cells and the toxin is released, which should then destroy the cancer cells. The advantage of such a technology platform is its applicability to different cancer antigens and corresponding antibodies. This means we are able to work in parallel with various partners on a wide range of ATACs for different indications.

In addition to using this technology for our own development candidates, we also make it available for collaborations with partners. These partnerships can take the form of licensing agreements, as well as product or research partnerships. The main difference between our partnerships is the allocation of tasks between us and the partner.

Professor Pahl, why did you decide to develop your own pipeline when you could have simply earned money from partnerships?

We entered our first early partnerships after completing what one might call basic in-house research. The aim of these material transfer agreements was to enable us to test a wide variety of antibodies with our technology. We decided to in-license antibodies and develop our own proprietary ATACs to further validate the technology internally. The data generated to date regarding the quality of antibodies, different synthesized forms of Amanitin, and in particular the search for and optimization of the perfect linkers and cross-linking positions was extremely important for our understanding and our discussions with partners. The successful preclinical development of our proprietary candidates provides us with validation and encouragement. There is also the potential to create significantly higher value from our own pipeline than from technology partnerships.

Can you describe your portfolio in more detail?

We are working on several of our own development candidates based on our ATAC technology. Different antibodies that bind to various target proteins such as BCMA, PSMA and CD 19 and thus determine the indication, are currently in preclinical testing for their efficacy and tolerability.

You have selected a lead candidate, HDP-101 – what does that mean?

Our most advanced development candidate, HDP-101, is the focus of our current financial resources, as we believe it to be a highly promising drug candidate based on available data and medical need. We plan to start the clinical development of HDP-101 for the treatment of multiple myeloma at the end of 2018.

HDP-101 consists of a BCMA antibody, a chemical linker and the Amanitin toxin. BCMA is a surface protein that is highly expressed in multiple myeloma cells and to which the antibody specifically binds. Preclinical data to date show strong anti-tumor activity that leads to complete tumor remission even at very low doses. Tolerability studies have also identified a very good therapeutic window, which means the ratio of efficacy to safety is favorable compared to other forms of treatment. Multiple myeloma is the third most common hematologic cancer and represents an urgent need for new, more effective therapies. We hope that we can help to meet this need with HDP-101.

What is special about Amanitin and what potential advantages does it have compared to other toxins used in ADC technologies?

With Amanitin, we are pursuing a completely new mode of action. Amanitin binds to RNA polymerase II and, in doing so, inhibits mRNA synthesis. This then triggers what is known as “programmed cell death” or apoptosis in the cells. In contrast to other toxins, ATACs thus have the potential to attack and destroy not only dividing cells but also resistant and quiescent tumor cells. To date, our ATAC technology has demonstrated strong efficacy and good tolerability in preclinical testing. The mechanism of Amanitin is novel to cancer therapy and, in combination with our ATAC technology, can be used against almost any type of tumor if the right antibody can be found.

REPORT OF THE SUPERVISORY BOARD

During the reporting year, the Supervisory Board performed all its duties in accordance with the law, the Company's Articles of Association and its Internal Rules of Procedure.

The Supervisory Board worked closely with the Executive Management Board, regularly advising it on the management of the Company and monitoring the Executive Management Board's activities. The Executive Management Board presented all significant strategic and operational measures to the Supervisory Board and agreed to their implementation in advance with the Supervisory Board. The Supervisory Board obtained regular reports on the situation and development of the Company, both at regular Supervisory Board meetings and in additional conference calls. It also received regular, comprehensive and timely information on all major business developments and basic issues relating to business policy, corporate management and planning (including financial, investment and personnel planning). Discussions included, in particular, the following topics: M&A transactions, the status of licensing and partnering negotiations and financing. Without exception, the Supervisory Board examined all documents submitted and prepared by the Executive Management Board and the related departments. The parties providing the information, in particular the members of the Executive Management Board, were consulted on significant matters.

The Supervisory Board also obtained information about all significant events that were particularly important for the assessment of the status, implementation of strategy and achievement of goals, as well as for the development and management of Heidelberg Pharma AG and its subsidiary Heidelberg Pharma Research GmbH. The Chairman of the Supervisory Board regularly discussed the strategy and reviewed the progress of the business with the Executive Management Board. The Chairman of the Supervisory Board was advised promptly of all important resolutions taken by the Executive Management Board and, when necessary, arranged for the discussion of important issues by the Supervisory Board or the appropriate Supervisory Board subcommittees.

Main topics at the meetings of the Supervisory Board in the 2017 fiscal year

In the 2017 fiscal year (1 December 2016 to 30 November 2017), the Supervisory Board met for six regular meetings. In addition, several conference calls were conducted as a regular part of monitoring and advising the Executive Management Board.

In the 2017 fiscal year, the Supervisory Board discussed and approved the following items requiring its approval:

- The budget and corporate objectives for the 2017 fiscal year and the budget for the 2018 fiscal year;
- Focus on further developing and marketing the ADC technology and developing the Company's own ATAC pipeline;
- Financing commitment by the main shareholder, dievini Hopp BioTech holding GmbH & Co. KG in the amount of € 10 million in February 2017;
- A share capital increase and determination of the final scope of the May 2017 rights issue using authorized capital;
- A share capital increase and determination of the final scope of the corporate action in return for cash contributions and/or contributions in kind from authorized capital in addition to the issue of convertible bonds in November 2017;
- Revocation of existing authorized capital and creation of new authorized capital by the 2017 Annual General Meeting;
- Approval of the 2017 Stock Option Plan including creation of new Contingent capital 2017/I;
- Reduction of Contingent capital II and 2011/I;
- Review of and support for M&A activities;
- Negotiating mandates for the license agreements with Takeda Pharmaceutical Company Limited and other potential contractual partners;
- Amendment of the Supervisory Board's Internal Rules of Procedure;
- The director's contract of Professor Andreas Pahl;
- Relocation of WILEX AG to Ladenburg and change of name to Heidelberg Pharma AG;
- Negotiation mandate for the REDECTANE® license agreement with Telix Pharmaceuticals Limited.

The full Supervisory Board approved all of the actions submitted for approval following in-depth review and discussion.

The Supervisory Board was informed, regularly and comprehensively, about the Company's financial situation, its future funding requirements and the risk management system and discussed the Company's future strategy with the Executive Management Board. The Supervisory Board approved the further development of Heidelberg Pharma Research GmbH's ADC technology not only as part of technology partnerships but also to develop the Company's own ATAC candidates. This means that Heidelberg Pharma Research GmbH will not just offer the toxin-linker technology as such but will also refine licensed antibodies with the proprietary ATAC technology into specific development candidates. Establishing its own pipeline will become an increasingly important part of the Company's overall strategy. The Executive Management Board kept the Supervisory Board updated on discussions with potential licensing partners for the ATAC technology.

The Supervisory Board was regularly informed about MESUPRON® and REDECTANE® activities at partners and about negotiations with potential licensing partners for the RENCAREX® Phase III project.

The Supervisory Board also discussed at length the Company's financing strategy. In February 2017, the Company received a financing commitment from its main shareholder for € 10 million. Furthermore, the Supervisory Board approved a rights issue in May of last year and, in November of last year, a corporate action consisting of contributions in cash and in kind and the issue of convertible bonds. An overall transaction volume of € 39.4 million was achieved that will be used for further development of the ADC technology, in particular to advance drug production. The two corporate actions increased the share capital by 7,484,190 shares.

The Supervisory Board was also regularly briefed on the business activities of the Company's subsidiary Heidelberg Pharma Research, which is focused on refining and marketing its technology platform for therapeutic antibody drug conjugates.

The Annual General Meeting of Heidelberg Pharma AG on 20 July 2017 approved the following changes regarding authorized and contingent capital:

- Revocation of the existing authorized capital and creation of new authorized capital in the amount of € 7,484,190 by issuing 7,484,190 no par value shares;
- Creation of new Contingent capital 2017/I in the amount of € 661,200 by issuing 661,200 no par value shares for the purpose of satisfying the 2017 Stock Option Plan;
- Reduction of Contingent Capital II from € 986,491 to € 237,194;
- Reduction of Contingent Capital 2011/I from € 1,156,412 to € 598,437;
- Creation of new Contingent Capital 2017/II in the amount of € 5,987,000 by issuing 5,987,000 no par value shares for the purpose of satisfying convertible bonds.

Corporate governance

The Supervisory Board together with the Executive Management Board decided on 2 February 2018 to implement the recommendations and suggestions of the German Corporate Governance Code (GCGC) to a large extent. The new joint Declaration of Conformity by the Executive Management Board and the Supervisory Board was adopted on the same day and is available on the Company's website under "Press & Investors > Corporate Governance > Declaration of Conformity". For more information on corporate governance at Heidelberg Pharma, please see the "Corporate Governance" chapter of the Group management report.

www.heidelberg-pharma.com

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Conflicts of interest on the Supervisory Board

Any conflicts of interest affecting members of the Supervisory Board pursuant to Section 5.5 of the GCGC were disclosed to the other members of the Supervisory Board, and the Supervisory Board members affected by the given conflict of interest acted as follows during the respective deliberations and resolutions of the Supervisory Board:

Professor Christof Hettich, Chairman of the Supervisory Board, is a partner at Rittershaus law firm, which provides legal consulting services to the Heidelberg Pharma Group. This relationship has been identified as a potential conflict of interest. To the extent that the services provided by the Rittershaus law firm were the subject of deliberations of the Supervisory Board, the Chairman of the Supervisory Board did not take part in these deliberations and abstained from any votes taken.

While some Supervisory Board members also hold positions on supervisory boards of other companies in the pharmaceutical and biotech sectors, none of these companies can be considered major competitors of Heidelberg Pharma, which complies with GCGC requirements.

Activities of the Committees

The Supervisory Board established three committees to efficiently fulfill its responsibilities; each committee is responsible for preparing issues within its purview for the full Supervisory Board. At the regular Supervisory Board meetings, each committee chairman reported to the Supervisory Board on the work of his committee.

For efficiency, a joint Compensation and Nomination Committee was established, which covers both areas separately in its meetings. The Compensation Committee did not meet in fiscal year 2017. The renewal of Professor Pahl's director's contract was approved by the full Supervisory Board.

The Audit Committee met five times in the year under review. Among other actions, the committee recommended to the Supervisory Board that the board propose to the Annual General Meeting to reappoint Deloitte GmbH Wirtschaftsprüfungsgesellschaft, Mannheim, Germany, (Deloitte) as auditor for the 2017 fiscal year. Based on a proposal by the Supervisory Board, Deloitte was elected by the Annual General Meeting on 20 July 2017 and subsequently commissioned by the Supervisory Board to audit the Company's annual financial statements for the 2017 fiscal year. The Supervisory Board obtained in advance a declaration of the auditor's independence in accordance with Section 7.2.1 of the GCGC. The Audit Committee also discussed the annual report for 2017 with the auditor, Deloitte. The Audit Committee discussed the interim management statements and the half-yearly report for 2017 with the Executive Management Board prior to publication. The Supervisory Board also discussed in depth the Company's risk management system.

The Research and Development Committee held no meeting during the reporting period. As a rule, the full Supervisory Board discusses at its meetings the status of in-house research activities at Heidelberg Pharma Research and the preparations and considerations for building the Company's own ATAC product portfolio.

The Supervisory Board did not establish any other committees.

Adoption of the annual financial statements

The auditors, Deloitte GmbH Wirtschaftsprüfungsgesellschaft, audited the combined management report, the annual financial statements of Heidelberg Pharma AG and the consolidated financial statements as of 30 November 2017, including the underlying accounting, and issued an unqualified audit opinion. The auditors conducted their audit in compliance with the generally accepted German standards for the audit of financial statements of the German Institute of Public Auditors (IDW). The combined management report, the annual financial statements of Heidelberg Pharma AG and the consolidated financial statements were each prepared pursuant to the principles of the German Commercial Code and in accordance with the International Financial Reporting Standards (IFRSs) as adopted by the EU, taking into account Section 315a of the German Commercial Code.

The aforementioned documents as well as the dependent company report and the audit reports of Deloitte GmbH Wirtschaftsprüfungsgesellschaft were made available to all members of the Supervisory Board in a timely manner and discussed in detail with the auditors both at Audit Committee meeting on 15 March 2018 and today's financial meeting of the Supervisory Board. The auditors reported to the Supervisory Board on the material findings of their

audit, that the combined management report presents a true and fair view of the risks and opportunities and that the measures taken by the Executive Management Board in accordance with Section 91 (2) of the German Stock Corporation Act were suitable for identifying at an early stage any developments which could jeopardize the Company's existence. The auditors also discussed the audit's scope, focal points and costs.

The Audit Committee discussed the audit result in detail and proposed to the Supervisory Board that it approve the financial statements as prepared by the Executive Management Board. The Supervisory Board also reviewed the audit result and examined both sets of annual financial statements and the combined management report, as well as the proposed appropriation of accumulated loss (under the German Commercial Code) in accordance with legal provisions and concurred with the results of the audit. Based on the conclusive findings of its examination, the Supervisory Board has no objections and at today's meeting approved the financial statements as prepared by the Executive Management Board; they are hereby adopted.

The Report by Heidelberg Pharma AG on Relationships with Affiliated Companies in Accordance with Section 312 of the German Stock Corporation Act (dependent company report) prepared by the Executive Management Board was also reviewed by Deloitte GmbH in accordance with Section 313 (3) of the German Stock Corporation Act.

The auditors issued the following unqualified audit opinion on 19 March 2018:
"On completion of our review and assessment in accordance with professional standards, we confirm that
1. the actual disclosures contained in the report are accurate, and
2. that the consideration paid by the Company for the transactions listed in the report was not inappropriately high."

The dependent company report prepared by the Executive Management Board and the audit report prepared by the auditors for this dependent company report were examined and discussed in detail by the members of the Supervisory Board. The representative of the auditors reported in detail on the main findings of the audit. He also addressed questions from the Supervisory Board and was available to provide additional information. At the meeting to discuss the financial statements, the Supervisory Board concurred with the findings of the audit of the dependent company report and raised no objections. Following its own examination, the Supervisory Board raised no objections to the dependent company report.

Following the examination by the Supervisory Board, there were no objections to the statement by the Executive Management Board at the end of the dependent company report.

Recognition of commitment

The Supervisory Board would like to take this opportunity to thank the Executive Management Board and all employees of Heidelberg Pharma AG and its subsidiary Heidelberg Pharma Research for the impressive commitment they showed in the 2017 fiscal year. It is due to their commitment that key milestones such as the signing of various financing agreements and important cooperation agreements with partners were reached.

Ladenburg, 20 March 2018

For the Supervisory Board

Professor Christof Hettich
Chairman of the Supervisory Board

INVESTOR RELATIONS

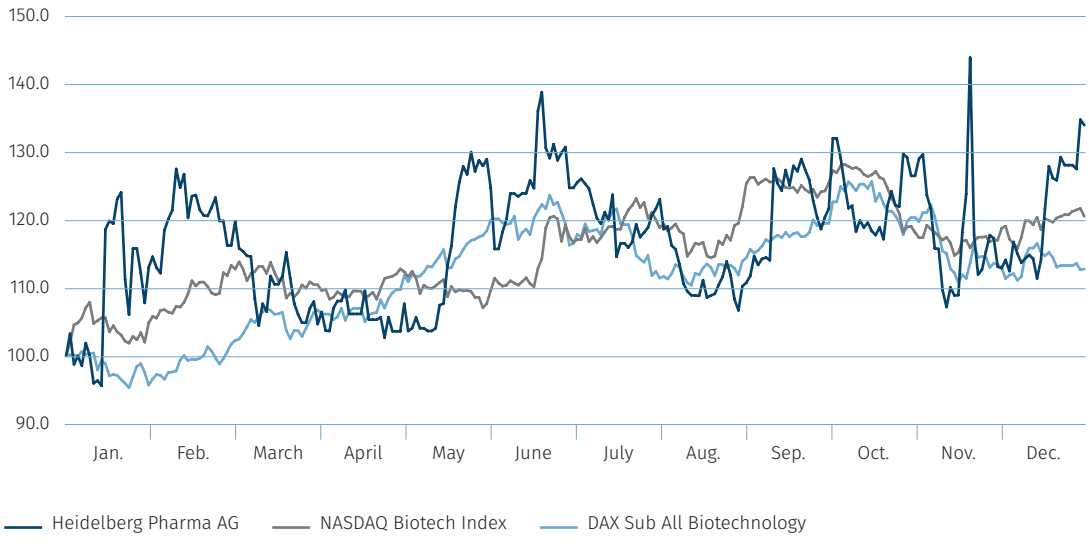
At the end of 2016, Heidelberg Pharma began to present the Company's realignment to ATAC technology to interested investors, analysts and media representatives. The milestones reached, new ATAC data and the possibilities of the innovative technology and an investment were explained at conferences and one-on-one meetings in the United States and Europe. The Company plans to continue these talks in 2018.

Share price performance

Following a turbulent year, 2017 turned out to be a very successful year on the stock exchanges from the perspective of most investors. Thanks to robust, global economic growth, low inflation and low interest rates, the equity markets delivered a positive performance, reaching new record highs in the course of the year. Germany's benchmark index, the DAX, finished 2017 with growth of 11 %, while the TecDAX technology index climbed 37 %. After plummeting 22 % in the previous year, the US NASDAQ Biotechnology Index regained considerable ground in 2017, closing up 21 %. On the back of good industry figures from the United States and positive news about individual stocks, the German DAXsubsector Biotechnology Index also rose by 13 %, a substantial increase compared with the previous year (5 %).

Heidelberg Pharma's shares benefited from the generally strong sentiment in the stock market and began 2017 trading at € 2.41. During the year, the share price moved between € 2.50 and € 2.90, with temporary breakouts above the € 3.00 mark. A positive news flow and securing of longer-term financing boosted the share price, which closed the year up 34 % at € 3.25.

Heidelberg Pharma's share price performance, indexed as of 1 January 2017



Trading and liquidity

At 19,172 shares, the average daily trading volume of Heidelberg Pharma's shares in the 2017 fiscal year (1 December 2016 to 30 November 2017) was significantly higher than the prior-year average of 7,161 shares. Due to the higher number of shares and the higher share price, the Company's market capitalization at

the end of November 2017 was € 61.30 million, about two-and-a-half times the figure for the previous year (€ 24.6 million).

Key share figures as of the end of the reporting period[1]	FY 2017	FY 2016
Market capitalization in € million	61.30	24.56
Number of shares issued	22,452,570	12,927,564
Closing price (XETRA) in €	2.730	1.900
High[2] in €	3.514 (on 20 Nov. 2017)	2.304 (on 11 Jan. 2016)
Low[2] in €	1.845 (on 6 Dec. 2016)	1.380 (on 12 Aug. 2016)
Volatility (260 days; XETRA)[1] in %	60.39	52.46
Average daily trading volume[2] in shares	19,172	7,161
Average daily trading volume[2] in €	54,104.22	12,681.49

[1] As of the end of the period

[2] All stock exchanges

Source: Bloomberg

Corporate actions and financing

In the 2017 fiscal year, Heidelberg Pharma succeeded in securing funding for its ongoing activities by implementing two corporate actions. A rights issue carried out in May generated gross proceeds of € 5 million from the issue of 2,040,816 new shares at a subscription price of € 2.45 per share.

The corporate action completed in November was a mixed capital increase consisting of contributions in cash and in kind. This entailed the issue of 7,484,190 new shares at a price of € 2.60 each in addition to 14,968,380 convertible bonds. The transaction volume for this capital increase was € 34.4 million (including the contribution in kind and the issue of convertible bonds).

The two corporate actions increased the share capital by a total of € 9,525,006, from € 12,927,564 to € 22,452,570.

The cash has been and will be used for further development of the proprietary ADC technology and expansion of the Company's own ATAC pipeline. The corporate actions and the loan are described in detail in the management report and the notes to the financial statements in this annual report.

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Annual General Meeting

The Annual General Meeting of Heidelberg Pharma AG (still WILEX AG at that time) was held in Munich on 20 July 2017. Of the share capital of Heidelberg Pharma AG at that time made up of 14,968,380 no par value bearer shares, 11,674,998 shares were represented with the same number of votes. This means that 78 % of the Company's share capital was present at the Annual General Meeting. In addition to addressing obligatory

items such as the approval of the annual financial statements, formal approval of the actions of the members of the Executive Management Board and Supervisory Board and the appointment of the auditor, the Annual General Meeting adopted resolutions on the following changes regarding authorized and contingent capital and the corresponding amendment to the Articles of Association:

- Revocation of the existing authorized capital and creation of new authorized capital in the amount of € 7,484,190 by issuing 7,484,190 no par value shares.
- Creation of new contingent capital in the amount of € 661,200 by issuing 661,200 no par value shares for the purpose of satisfying the 2017 Stock Option Plan
- Reduction of Contingent Capital II from € 986,491 to € 237,194
- Reduction of Contingent Capital 2011/I from € 1,156,412 to € 598,437
- Creation of new Contingent Capital 2017/II in the amount of € 5,987,000 by issuing 5,987,000 no par value shares for the purpose of satisfying convertible bonds.

With the corporate actions implemented in November, the authorized capital available for the issue of new shares has been fully utilized.

All proposed resolutions were adopted by majorities of more than 99 %.

Shareholder structure of Heidelberg Pharma AG[1]	
Dietmar Hopp, parties related to him and companies controlled by him[2]	75.16 %
UCB	4.03 %
Corporate bodies (held directly)	0.76 %
Free float	20.05 %

[1] As of 28 February 2018

[2] Comprises dievini Hopp BioTech holding GmbH & Co. KG and DH-Holding Verwaltungs GmbH. All figures are assumptions by Heidelberg Pharma AG based on the most recent notifications in accordance with the German Securities Trading Act (Wertpapierhandelsgesetz – WpHG) and/or the voting rights reported at the most recent General Meeting.

General information[1]	
Listed:	Regulated Market (Prime Standard)
Stock exchange symbol:	WL6
WKN/ISIN:	000A11QVV/DE000A11QVV0
Share capital:	€ 28,102,534
Admitted capital:	28,102,534 bearer shares of common stock
Designated sponsors:	Equinet Bank, OddoSeydler

[1] As of 28 February 2018

www.heidelberg-pharma.com

Please see page 164 for the current financial calendar. The current conference calendar is available on the website.

COMBINED MANAGEMENT REPORT

COMBINED MANAGEMENT REPORT

for the Heidelberg Pharma Group and die Heidelberg Pharma AG, Ladenburg

for the fiscal year from 1 December 2016 to 30 November 2017

1 Business and operating environment

This management report is a combined management report for the Heidelberg Pharma Group (IFRS) and Heidelberg Pharma AG (HGB).

Chapters 1 through 5 and chapter 10 of this management report provide an overview of business activities in the past fiscal year, while chapters 7 through 10 outline the current situation and predict future developments. Reference is made particularly to chapter 7, "Risk report."

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1.1 Corporate structure, locations and reporting

Heidelberg Pharma AG was founded in 1997 as WILEX GmbH by a team of physicians and cancer research specialists from the Technische Universität München (TUM). The Company was converted into a stock corporation (Aktiengesellschaft) under German law in 2001 and WILEX AG was recorded in the Commercial Register in the same year. In November 2006, the Company was listed on the Regulated Market (Prime Standard) of the Frankfurt Stock Exchange. The Company is domiciled in Ladenburg near Heidelberg, Germany. Since October 2017, the Company has been doing business as Heidelberg Pharma AG. Heidelberg Pharma AG rents office space; it does not own real estate. The Company's Executive Management Board consists of Dr. Jan Schmidt-Brand and Professor Andreas Pahl.

The subsidiary Heidelberg Pharma Research GmbH (formerly: Heidelberg Pharma GmbH; hereinafter referred to Heidelberg Pharma Research) has been part of the Heidelberg Pharma Group since March 2011. The subsidiary's Managing Director is Dr. Jan Schmidt-Brand. Heidelberg Pharma Research GmbH is also domiciled in Ladenburg and does not own any property. Its offices and laboratories are located in rented premises.

These consolidated financial statements were prepared in accordance with the International Financial Reporting Standards (IFRS) of the International Accounting Standards Board (IASB), London, as applicable in the European Union (EU), taking into account the recommendations of the International Financial Reporting Standards Interpretation Committee (IFRS IC). The provisions applicable in accordance with section 315a (1) German Commercial Code (Handelsgesetzbuch – HGB) were also taken into account. The IFRS consolidated financial statements include Heidelberg Pharma AG as the parent company as well as the subsidiary Heidelberg Pharma Research GmbH for the full 2017 fiscal year (1 December 2016 to 30 November 2017). "Heidelberg Pharma" will be used as a synonym for the Group hereinafter. Each entity's full corporate name is stated whenever facts specific to Heidelberg Pharma AG as the parent company or Heidelberg Pharma Research GmbH as the subsidiary are reported.

As of the close of the fiscal year, Heidelberg Pharma had 58 employees, including the two Executive Management Board members.

1.2 Business activities

The purpose of Heidelberg Pharma AG as a holding company is to act as the parent company of the Group and to out-license the portfolio of diagnostic and therapeutic oncology drug candidates with the related intellectual property rights. The Heidelberg Pharma AG team mainly performs functions relating to Group strategy, finance, investor relations, legal affairs and contract management. Other areas covered are alliance and data management, as well as patents. In addition, strong research & development (R&D) support is being provided to the partner to develop the out-licensed clinical drug candidates.

Glossary

R&D activities are focused on the operations of the subsidiary Heidelberg Pharma Research GmbH in Ladenburg, which refines and markets a proprietary novel approach for therapeutic antibody drug conjugates (ADCs) and offers preclinical services. Heidelberg Pharma is the first company to utilize and develop the compound Amanitin for cancer therapies. It uses the toxin's unique biological mode of action as a new therapeutic principle, employing its proprietary ATAC (Antibody Targeted Amanitin Conjugates) technology platform for this purpose. The objective is to produce, research and develop selected proprietary Antibody Targeted Amanitin Conjugates as well as a large number of ATAC candidates in collaborations with external partners.

For detailed information regarding the products and the current status of development, please see chapter 3, "Course of business in 2017." A summary of markets and competitors is contained in chapter 2, "Economic environment in 2017."

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1.3 Management and control

In keeping with the dual management structure predominant under German law, the Company is managed and controlled by both an Executive Management Board and a Supervisory Board. The Executive Management Board comprising two members manages the business and closely collaborates with the Supervisory Board. The Supervisory Board regularly advises and monitors the Executive Management Board with respect to its management of the Company. The Company's Supervisory Board has comprised five members, as specified in the Company's Articles of Incorporation. Three committees have been established to enhance the Supervisory Board's efficiency: a joint Remuneration and Nomination Committee, an R&D Committee and an Audit Committee. For detailed information on corporate governance, please see chapter 6, "Corporate governance."

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1.4 Corporate strategy and goals

Heidelberg Pharma is committed to the interests of shareholders and employees, who are at the center of the Company's strategic, value-driven management.

Its research and development work is aimed at developing new targeted cancer therapies for patients based on biopharmaceutical, highly potent compounds.

In recent years, Heidelberg Pharma has developed extensive expertise and an extensive patent portfolio around the compound Amanitin, which can be linked with various antibodies. The result is a platform approach enabling a series of new development projects and research alliances based on these ATACs.

Heidelberg Pharma intends to further develop and market the ATAC technology as part of a hybrid business model.

Glossary

On the one hand, the Company will produce its own ATAC molecules based on licensed antibodies, test these as R&D candidates and thus build its own pipeline. This approach was enabled by in-licensing suitable antibodies in recent years and applying extensive selection and optimization processes. At present, the most important of the Company's pipeline projects is HDP-101, consisting of an antibody targeting the protein BCMA and an Amanitin linker construct. Our goal for 2018 is to prepare this project for clinical development and submit an application to carry out a clinical trial. This includes establishing GMP manufacturing for antibodies and toxin linker constructs before producing the clinical trial material and carrying out a toxicological analysis of HDP-101 in accordance with GLP guidelines. The first patients with the multiple myeloma indication are scheduled to commence treatment with HDP-101 as part of a Phase I trial in early 2019.

At the same time, additional ATAC candidates will undergo preclinical testing to determine their efficacy and tolerability. The goal is to identify additional potential development candidates.

In addition, work is underway with partners to produce ATACs using the partners' antibodies as part of early-stage research partnerships. These early-stage collaborations are expected to culminate in license agreements based on which the partners would make payments for technology support and licenses. Heidelberg Pharma expects these ATAC alliances and the preclinical service business to continually generate sales revenue and license payments. The agreement signed with Takeda in June 2017 is one example of such an ATAC alliance. Our goal is to enter into additional alliances of this type.

Page 27

Heidelberg Pharma's own development activities and envisaged out-licensing take place exclusively for specific antigens (biological target proteins). Given that numerous tumor-specific antigens exist, this enables the development of the Company's own product candidates as well as parallel alliances with various pharmaceutical and biotech companies for their candidates. These may be developed as different products and for different indications. The hybrid business model of business-to-business activities and building a proprietary ATAC portfolio offers a prime opportunity for leveraging the technology's potential.

The main objective of parent company Heidelberg Pharma AG is to continue developing the corporate strategy and securing finance for the Group. Going forward, Heidelberg Pharma AG's existing clinical R&D projects will only be developed in cooperation with licensing partners. The out-licensing of MESUPRON® and REDECTANE® would generate milestone payments plus royalties on net sales in the event of successful development and regulatory approval. This also applies to a potential partnership for RENCAREX®.

To date, the total income generated has not been sufficient to finance Heidelberg Pharma's ongoing research activities; so, R&D activities must also be financed in the medium term by raising capital.

1.5 Internal management system

Cash funds, cash reach, sales revenue and other income, as well as operating expenses, are reviewed at least monthly and are the key control variables of Heidelberg Pharma. Research and development expenses incurred by the subsidiary in its projects are a particularly important measure of performance for the parent company as well. These expenses exceed income and will continue to do so in the medium term. Hence the average change in cash funds – i.e., the cash flow in a given period – is a key financial indicator. The ratio of liquid funds to cash usage shows how long sufficient cash will be available to fund operations.

The section entitled, "Overall assessment of the fiscal year 2017 by the Executive Management Board of Heidelberg Pharma" in chapter 5, "Results of operations, financial position and net assets of the Group", contains a qualitative and quantitative assessment of the Company's internal control system.

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2 Economic environment 2017

2.1 Macroeconomic environment

In addition to continuing conflicts in the Middle East and the refugee crisis, the geopolitical situation in 2017 was primarily shaped by two significant events: the US presidency of Donald J. Trump and Brexit. Both the statements issued by President Trump as well as Brexit negotiations and fears of their impact on the global economy caused considerable uncertainty on the financial markets. The developments last year did not directly impact Heidelberg Pharma's business activities, but they did exert a considerable influence on the financial markets.

The International Monetary Fund (IMF) is reporting a global growth rate of 3.7 % for 2017 (2016: 3.1 %).[1] This means that global growth remains below the long-term average. For the eurozone, the IMF is estimating increased growth in gross domestic product (GDP) of 2.4 % in 2017 (2016: 1.8 %).[2] With expected GDP growth of 2.5 % in 2017, the German economy is developing at a similar pace as the eurozone and will again clearly exceed the prior-year figure (2016: 1.7 %).[3]

After getting off to a weak start in 2017 that even triggered speculation of reaching parity, the euro made significant gains against the US dollar during the year and ended the 2017 calendar year at 1.2005 USD/EUR.[4]

The equity markets once again delivered a positive performance in 2017; pharmaceutical and biotechnology indices steadily rose with small fluctuations.

2.2 Development of the pharmaceutical and biotechnology industry

The general growth trend in the healthcare industry and rising demand for more effective treatments continue, with global drug spending reaching USD 1.1 billion in the past year.[5]

2017 was an exceptional year for the approval of new drugs. The US Food and Drug Administration (FDA) approved 46 new drugs (2016: 22), compared to an annual average of 31 new drugs between 2008 and 2016.[6] The 46 newly approved drugs included 16 anti-cancer drugs.[7]

Glossary

In Germany, 31 new drugs were approved in 2017, including nine anti-cancer drugs.[8] As a result, the number of newly approved drugs was at a similar level to recent years (2008–2016: average of 31.5 approvals per year).[9] Particularly noteworthy is the approval of the antibody guselkumab (Tremfya®) from Germany in the USA and Europe, generated from the antibody bank of German company MorphoSys and developed and marketed by Janssen.

1 http://www.imf.org/en/Publications/WEO/Issues/2018/01/11/world-economic-outlook-update-january-2018/
2 http://www.imf.org/en/Publications/WEO/Issues/2018/01/11/world-economic-outlook-update-january-2018
3 http://www.imf.org/en/Publications/WEO/Issues/2018/01/11/world-economic-outlook-update-january-2018
4 https://www.finanzen.net/waehrungsrechner/euro_us-dollar
5 https://de.statista.com/statistik/daten/studie/493557/umfrage/arzneimittelausgaben-weltweit-nach-pharmamaerkten/
6 https://www.fda.gov/Drugs/DevelopmentApprovalProcess/DrugInnovation/ucm537040.htm
7 https://www.centerwatch.com/drug-information/fda-approved-drugs/therapeutic-area/12/oncology
8 https://www.vfa.de/embed/2017-in-deutschland-neu-eingefuehrte-medikamente-mit-neuem-wirkstoff.pdf
9 https://www.vfa.de/de/arzneimittel-forschung/neueinfuehrungen/neueinfuehrungen-und-zulassungserweiterungen-seit-2003.html

According to BioCentury, 2017 was an unusually weak year for mergers and acquisitions in the biotechnology sector. In 2017, there were only 54 transactions (–38 %) with a total reported value of USD 59.8 billion (–30 %) – compared to 87 M&A transactions with a volume of USD 85.8 billion in 2016. Excluding the acquisition of Actelion Inc. by Johnson & Johnson – by far the largest deal of the year at USD 30 billion – the total value of the M&A transaction volume in 2017 was at its lowest level since 2010.[10]

In contrast, the capital market for the biotechnology sector regained its former strength in 2017 after a weak 2016. The NASDAQ Biotechnology Index steadily rose during the year, ending the year up 21 % despite a weak fourth quarter.[11] After initial uncertainty surrounding the policies of the Trump administration, the climate in the US capital market improved significantly in the second half of the year, as reflected by a considerable increase in financing. A total of USD 5.7 billion was raised in 75 IPOs (–19.7 %) and 241 capital increases brought in a further USD 22.6 billion (+117 %).[12]

Biotech shares in Europe also performed satisfactorily overall (BioCentury Europe Index +10 %, DaxBiotech index +14 %), which was also reflected in financing. In total, € 5.1 billion was brought in by European biotechnology companies on the European markets and the US NASDAQ in 2017, 54 % more than in 2016. A total of € 815 million was raised in 19 IPOs (+47 %) and 122 financing agreements brought in € 4.27 billion (+56 %). As in previous years, a majority of these companies opted for a European listing (2017: Europe 15, NASDAQ 4; 2016: Europe 14, NASDAQ 3). Nevertheless, European biotechnology companies still benefited from US investor interest in biotech stocks in 2017, raising € 2.16 billion from initial public offerings (IPOs), secondary listings and follow-up financing on the NASDAQ (2016: € 303.3 million). Oncology remains the most attractive sector for investors.[13]

In Germany, financing proceeds from the stock market totaled € 283.9 million in 2017, up 23 % on the previous year (€ 230.6 million).[14] Although no German companies floated on the Frankfurt Stock Exchange, German firm InflaRx completed an exceptional NASDAQ IPO that generated proceeds of USD 100 million.[15]

2.3 Oncology

According to estimates from the World Health Organization (WHO), more than 8.8 million people worldwide died from cancer in 2015, equivalent to one in every six deaths.[16] The number of new cancer cases diagnosed per year is expected to reach 23.6 million worldwide by 2030.[17] The global cost of oncology therapeutics and drugs for supportive treatments totaled approximately USD 113 billion in 2016, with the USA incurring 46 % of all oncology costs.[18]

10 BioCentury, 13 January 2018: Choosy investors. https://www.biocentury.com/biocentury/finance/2018-01-12/why-2018-will-be-stock-picker%E2%80%99s-market-biotech

11 BioCentury, 29 December 2017: Biotech indexes close 2017 with a whimper. https://www.biocentury.com/bc-extra/financial-news/2017-12-29/biotech-indexes-close-2017-whimper

12 BioCentury, 13 January 2018: Choosy investors. https://www.biocentury.com/biocentury/finance/2018-01-12/why-2018-will-be-stock-picker%E2%80%99s-market-biotech

13 BIOCOM (2018): Destination Growth. 6th Analysis of European Biotech Companies on the Stock Markets: US versus Europe

14 BIOCOM (2018): Destination Growth. 6th Analysis of European Biotech Companies on the Stock Markets: US versus Europe

15 Company press releases, 8 November 2017

16 WHO Cancer Fact Sheet, http://www.who.int/mediacentre/factsheets/fs297/en/ (Februar 2017)

17 http://www.cancerresearchuk.org/health-professional/cancer-statistics/worldwide-cancer

18 https://www.iqvia.com/institute/reports/global-oncology-trends-2017-advances-complexity-and-cost

Between 2011 and 2016, 68 novel therapies for treating cancer were introduced to the market worldwide. The advanced oncology pipeline consists of 278 biological therapies, including 133 new monoclonal antibodies and 14 biosimilars of established antibodies.[19] Promising approaches such as cell therapies, oncolytic viruses and vaccines are also being pursued. CAR-T cell therapies in particular are currently listed among the top 20 most valuable R&D projects in oncology and will be the fastest growing therapy until 2022 with an anticipated average growth of 12 % per year.[20]

Glossary

Therapies using monoclonal antibodies and ADCs

Antibodies are part of the fastest-growing sector in the pharmaceutical industry. Therapies based on monoclonal antibodies continue to be considered among the most promising medical treatment options for cancer or autoimmune diseases. In 2017, 31 new biopharmaceuticals were approved, including six monoclonal antibodies. By 2017, the market for these powerful therapeutic agents is predicted to reach USD 31.7 billion, after growing at an annual rate of 10.6 %.[21] Between 2014 and 2016, an average of approximately 80 antibody-based therapeutics were brought to the clinical development (first-in-man) stage, of which more than 60 % are designed to treat cancer.[22]

According to the Antibody Society, it can be clearly seen that antibody therapies are becoming increasingly diversified. Immune checkpoint inhibitors in particular are currently often being developed as targeted therapies. In 2017, four therapies with anti-PD1 and anti-PD-L1 antibodies received regulatory approval for oncology indications.[23]

The ADC market is also gaining momentum and was estimated at around USD 1.3 billion worldwide in 2016.[24] Two more antibody drug conjugates entered the market in 2017 and joined the two approved ADC products – brentuximab vedotin (Adcetris®) and trastuzumab vedotin (Kadcyla®). Both the FDA and EMA approved Pfizer drugs Mylotarg® (gemtuzumab ozogamicin) and Besponsa® (inotuzumab ozogamicin). Pfizer resubmitted Mylotarg® for regulatory review based on additional data from a further randomized open Phase III trial for the use of Mylotarg® in CD33-positive tumors in patients with acute myeloid leukemia (AML) in first-line therapy for children and relapsed patients.[25] Besponsa® received approval for the treatment of certain patients with acute lymphatic leukemia (ALL), particularly as a monotherapeutic for adults with relapsing or refractory CD22-positive B-precursor ALL.[26]

At the end of 2017, seven (2016: four) oncological ADCs were in clinical Phase III trials, an additional 20 (2016: 16) ADCs in Phase II trials and 67 (2016: 60) in Phase I trials. 58 ADC candidates (2016: 46) are currently in preclinical studies.[27]

19 https://morningconsult.com/wp-content/uploads/2017/06/QuintilesIMS-Institute-Oncology-Report.pdf

20 http://info.evaluategroup.com/rs/607-YGS-364/images/WP17.pdf

21 GBI Research, Monoclonal Antibodies Market to 2017 – Multiple Indication Approvals and the Potential for MAbs in Oncology and Autoimmune Diseases are Re-Shaping the Market, December 2011

22 http://www.antibodysociety.org

23 http://www.antibodysociety.org

24 BCC Research Antibody Drug Conjugates, June 2017

25 http://www.antibodysociety.org/category/adc/

26 Pfizer press release dated 17 August 2017

27 BioCentury data base BCIQ, as of 5 January 2018

The rising popularity and potential of ADCs is also reflected by the sharp increase in the number of patent applications. Since 2009, these have risen from almost 1,400 to approximately 10,200 patents and applications in the first half of 2017.[28] The more knowledge and data is amassed on this class of compounds, the faster and more often ADCs will be developed.

Most ADCs are developed as cancer therapies, with antibodies in particular used against antigens (targets) that are typically highly expressed on the surface of cancer cells compared to normal cells. Popular antigens for a series of ADCs are BCMA, CD19, CD20, CD22, CD37, EGFR, HER2 and mesothelin.[29] The two most common indications are lymphomas and breast cancer[30], but also other solid tumors.[31]

Competitive environment for HDP-101

In particular the B-cell maturation antigen (BCMA), a cell surface protein generally expressed by malign plasma cells, has proven to be an extremely selective antigen and is thus a target of novel treatments for multiple myeloma (MM), the second most common type of blood cancer, chronic lymphatic lymphoma (CLL) and diffuse large B-cell lymphoma (DLBCL).

The ATAC candidate HDP-101 will initially be developed with the multiple myeloma indication. According to BioCentury, 12 companies are currently working in the area of BCMA antigens, focusing on three technologies and MM in particular. While Autolus, bluebird bio, Genscript Biotech, Gilead, Novartis and Poseida Therapeutics are currently developing CAR-T cell therapies (6) in Phase I and II, Affimed, Boehringer Ingelheim/Amgen, Celgene and Johnson & Johnson/Genmab work on therapies with bispecific antibodies (4). Apart from Heidelberg Pharma, only GlaxoSmithKline is currently dealing with the development of ADCs (2) for MM. In 2017, GSK received US Breakthrough Therapy and EU PRIority MEdicines (PRIME) status for the development of its ADC in the multiple myeloma indication.[32]

Glossary

Chemotherapy is still being used as standard therapy for MM, including in combination with autologous hematopoietic stem cell transplantation or radiotherapy.[33] At present, the most successful therapy in this indication is the immunomodulator REVLIMID® from Celgene. With annual sales of USD 6.9 billion and growth of 20 % compared to 2015, it was also the most successful drug in the world in 2016.[34] Other BCMA-independent therapeutic approaches are also currently in clinical development.

We believe that the preclinical data described for HDP-101 and the properties of the ATAC technology provide us with a good and competitive starting position.

28 https://www.researchandmarkets.com/research/phpcrj/antibody_drug

29 http://www.antibodysociety.org

30 BCC Research Antibody Drug Conjugates, June 2017

31 BioCentury data base BCIQ, as of 5 January 2018

32 GSK press release dated 2 November 2017

33 http://www.myelom-deutschland.de/das-multiple-myelom/therapie-des-multiplen-myeloms/

34 Celgene press release dated 26 January 2017 and https://igeahub.com/2017/09/23/top-30-oncology-drugs-2017/

3 Course of business in 2017

3.1 Research and development projects of Heidelberg Pharma Research GmbH

Amanitin as an innovative compound for cancer therapy

Heidelberg Pharma Research GmbH is developing the compound Amanitin for the first time as a new cancer therapy. Amanitin has a unique biological mode of action which could serve as the basis for developing highly effective, innovative drugs. Amanitin is a member of the amatoxin group of natural poisons, which occur in the death cap mushroom (Amanita phalloides), among others. It works by inhibiting RNA polymerase II, which results in programmed cell death, or apoptosis. All other chemotherapy drugs used to date, including other ADCs, either function as what are known as "spindle poisons" (tubulin inhibitors) or work via DNA, which makes them dependent on cell division. RNA polymerase inhibition is a novel principle in cancer therapy and offers the possibility of breaking through drug resistance and destroying dormant tumor cells, which could produce major clinical advances.

Glossary

To enable therapeutic use of this natural toxin, Heidelberg Pharma Research GmbH is utilizing already clinically proven ADC technology, which is being refined for use with Amanitin. The core of the ADC technology consists of using a chemical compound (linker) to crosslink a suitable antibody to a toxin. The role of the antibody is to transport the crosslinked toxin specifically to – and then into – the cancer cell. After binding to the tumor cell, the ADC is taken up and releases the toxin within the cell. The released toxin then destroys the tumor cell without affecting healthy tissue.

The combination of antibody specificity and toxin efficacy potentially offers new approaches to antitumor therapy. New cytotoxic substances such as Amanitin can be developed in this way for antitumor therapy. Selective treatment of tumors using cytotoxins via specific antibody drug conjugates could thus enable much more effective cancer treatments with acceptable side effect profiles. Antibody Targeted Amanitin Conjugates (ATACs) are third generation ADCs characterized by improved efficacy, including in quiescent tumor cells, which are scarcely reached with existing standard therapies and contribute to tumor recurrence and resistance formation. These ATACs are also being developed to treat tumors that no longer respond to standard chemotherapy or anti-tumor antibodies.

Amanitin's mechanism of action has the potential to be especially effective against tumors that have changed due to certain mutations to bypass a specific mechanism of cell protection. These kinds of change are found in most cancers, and especially in those that are very aggressive. Known as a '17p deletion', this mutation could be an especially effective target for treatment with ATACs.

Building Heidelberg Pharma's own ATAC pipeline

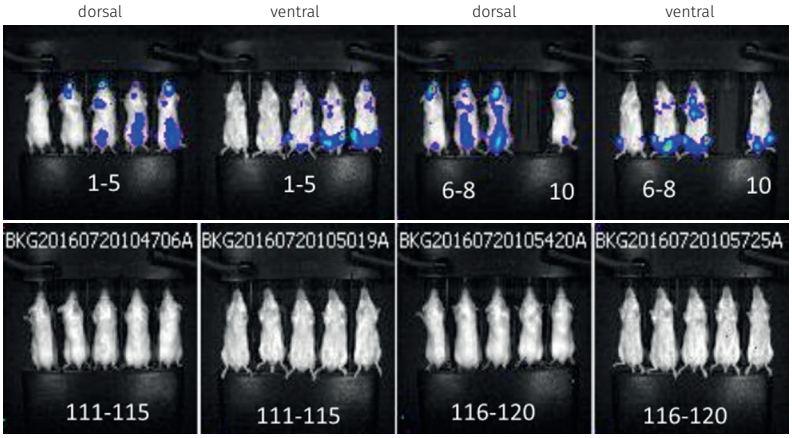
The activities of Heidelberg Pharma Research GmbH are focused on building its own pipeline. To this end, various antibodies have been in-licensed and used to produce and test ATACs. The data generated so far support that the advantages of products based on Amanitin can be transferred also to specific ATACs for use in different cancer indications.

BCMA-ATAC project/HDP-101: In January 2017, Heidelberg Pharma Research GmbH signed a license agreement with the Max Delbrück Center for Molecular Medicine in the Helmholtz Association (MDC) in Berlin covering BCMA antibodies. The license agreement follows an option agreement signed in September 2016. BCMA is a surface protein that is highly expressed in multiple myeloma cells and to which the selected antibodies specifically bind. Scientists at the MDC developed these BCMA-specific antibodies. Heidelberg Pharma Research GmbH has generated several proprietary ATAC molecules with these antibodies and generated comprehensive preclinical data. Based on these data, Heidelberg Pharma has selected the lead candidate HDP-101, which consists of a BCMA antibody, a specific linker and the Amanitin toxin.

Glossary

Preclinical data showed that HDP-101 had strong *in vitro* anti-tumor activity and led to complete tumor remission in mouse models for multiple myeloma even at very low doses. In addition, tolerability studies conducted in different *in vivo* models identified a very favorable therapeutic window. Multiple myeloma is the third most common hematologic cancer and represents a major unmet medical need where new, more effective therapies are urgently needed. HDP-101 also has potential in other hematologic indications, such as chronic lymphatic lymphoma (CLL) and diffuse large B-cell lymphoma (DLBCL).

In a mouse model, human multiple myeloma cells were modified in such a way that they emit light after a suitable substrate has been added. We can thus follow the progression of the cancer in live animals. In the top row, in the control animals, many blue dots of varying intensity light up, depicting the progression and spread of the tumor cells. In the bottom row, animals that were treated with HDP-101 on a single occasion are completely free of detectable tumor cells. These photographs were taken 40 days after treatment to underpin the lasting effect of HDP-101 in tumor remission.



Preparations for formal preclinical and clinical development of HDP-101 are now being made. This includes cell line development for the production of GMP-compliant antibody material to be used in the manufacture of HDP-101 clinical material. These tasks are being performed externally by Celonic AG, Basel, Switzerland, a contract development and manufacturing organization (CDMO) for biopharmaceutical proteins. Other preclinical trials are planned to be conducted at the same time, including tolerability studies in monkeys, in line with high quality standards (GLP/GMP) to guarantee safety for the subsequent human trials.

The company plans to start clinical development in late 2018 and initial results are expected by 2021.

On the occasion of the 59th ASH Annual Meeting of the American Society of Hematology, initial results were published from a research collaboration focusing on the development candidate HDP-101 with the University of Heidelberg and the German Cancer Research Center (DKFZ), led by Dr. Marc-Steffen Raab. The collaboration examined the efficacy of HDP-101 on multiple myeloma cells taken from patients. In the jointly conducted preclinical study, HDP-101 was examined in particular with regard to non-dividing cancer cells. A strong cytotoxic effect was observed including at very low doses of HDP-101, even in cancer cells with a low concentration of BCMA antigens. No toxicity was observed on non-BCMA expressing control cells. This is the first time that the efficacy of Amanitin on cancer cells taken from human patients was demonstrated.

Glossary

PSMA-ATAC research project: Another proprietary project is the development of a PSMA-ATAC (PSMA; prostate-specific membrane antigen). In January 2015, Heidelberg Pharma Research GmbH received a research grant commitment for the development of PSMA antibody drug conjugates for the treatment of prostate cancer. The research project involving total costs of € 1.8 million ran for 30 months and received grants from the Federal Ministry of Education and Research (BMBF) totaling € 0.9 million.

PSMA is overexpressed in prostate cancer and is a promising target for ATAC technology, as it shows very low expression in normal tissues.

In pilot studies, Heidelberg Pharma Research GmbH investigated the anti-tumor efficacy of several monoclonal antibodies targeting PSMA conjugated to amatoxin. After humanization and de-immunization of the chosen anti-PSMA antibody, this was used to produce various ATACs, which will be further optimized preclinically in terms of safety, tolerability and efficacy.

CD19-ATAC research project: The German Cancer Research Center in Heidelberg granted Heidelberg Pharma Research GmbH licensed access to various CD19 antibodies that have been genetically improved and bound with a linker to an ATAC molecule. CD19 is a B lymphocyte antigen, and a protein that is found on the surface of dendritic cells and B cells. B cells are a type of white blood cell. Antibodies that bind to B cells are used to treat several types of leukemia.

Predictive biomarker p53/RNA polymerase II project

Amanitin has the potential to be particularly effective against aggressive tumors in connection with a 17p deletion. 17p is a section of chromosome whose DNA contains both the tumor suppressor TP53 as well as the gene for RNA polymerase II. Tumors frequently suppress TP53 in tumor cells to weaken the cells' natural defenses. Since the RNA polymerase II is regularly also suppressed, the altered tumor cells are particularly sensitive to Amanitin. Heidelberg Pharma Research GmbH is now working to develop a companion diagnostic with the aim of identifying and quantifying a TP53/polymerase II deletion in patients. This would be a further step in the direction of personalized medicine that maximizes efficacy and minimizes side effects in ATAC treatment. The associated potential for the identification of suitable patient groups could also accelerate the clinical development of suitable treatments.

ATAC partnerships

Licensing model for toxin linker technology: The second key pillar in the business model involves the granting of ATAC technology licenses and application on antibodies provided by customers. Heidelberg Pharma Research GmbH also offers customers the necessary preclinical work related to designing, optimizing, profiling and manufacturing new ATACs. Integrated into license agreements, toxin linker prototypes are to be made available and cross-linked to antibodies developed by partners and tested biologically. These technology partnerships give licensees access to the ATAC technology and rapidly generate initial sales revenue through technology support to customers and from licenses to access the technology. These partnerships are also intended to provide attractive potential for generating sales revenue and creating added value. Such agreements provide for upfront payments, assumption of development costs, milestone payments and royalties.

The agreement signed with Takeda is one example of such a collaboration. On 19 June 2017, an exclusive multi-target research agreement was signed with Takeda Pharmaceutical Company Limited for the joint development of antibody drug conjugates (ADCs) that use Amanitin as the payload.

Under the terms of the exclusive research agreement, Heidelberg Pharma produces Antibody Targeted Amanitin Conjugates (ATACs) via its subsidiary for up to three undisclosed targets, using antibodies from Takeda's proprietary portfolio. Takeda has an option for an exclusive license for global development and

commercialization rights to each of the product candidates resulting from the research collaboration. If it exercises the option, Takeda would be responsible for further preclinical and clinical development, as well as potential commercialization, of any product candidate it licenses.

Product partnerships: In this model, Heidelberg Pharma Research GmbH will contribute the toxin linker technology to the cooperative partnership as a contribution in kind, while other biotechnology companies will contribute their traditional antibodies or innovative antibody formats such as antibody fragments. Together, novel ATACs will be developed up to the preclinical stage, in which their efficacy and tolerability can be meaningfully assessed. Through the consolidation of the relevant skills and resources at the project level, the internal contribution to the value chain is expected to be increased. A decision will later be taken with the partner in question as to whether joint clinical development is possible or whether direct licensing or sale of the product to third parties is preferable.

In this context, evaluations of antibodies have been conducted in partnership with MabVax (San Diego, USA; since February 2015) and Nordic Nanovector ASA (Oslo, Norway; since October 2016). On the basis of available data, talks are being held with both partners about possible next steps.

Technology partnerships: Heidelberg Pharma cooperates with a number of companies and academic institutions with the aim of researching innovative technologies for site-specific conjugation, linker strategies and protein variants in the context of ATAC technology.

Funding projects: Since 2015, the ATAC research strategy has also been applied to peptides, for example, in a research program. The European Union supports promising research projects within the Horizon 2020 Framework Programme for Research and Innovation and granted the ETN MAGICBULLET consortium, to which Heidelberg Pharma belongs, a subsidy for the period from 2015 to 2018 for the development of new peptide-based concepts for anti-tumor therapies.

Academic collaboration with the MD Anderson Cancer Center: Study results achieved in cooperation with the well-known MD Anderson Cancer Center in Texas, USA, showed exceptionally good efficacy of an ATAC therapeutic in a colorectal cancer subpopulation with changes in the status of the tumor suppressor gene TP53. In a clinical setting, selecting patients based on their TP53 or POLR2A gene status could broaden the therapeutic window of ATACs and ensure high efficacy while minimizing side effects. These data were published in Nature in 2015. Heidelberg Pharma Research GmbH is currently working on a biomarker that is intended to be used to identify patients who stand to benefit in particular from ATAC-based treatment options.

Glossary

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The collaboration with the MD Anderson center established the basis for this model and Heidelberg Pharma Research GmbH is now working on its technical implementation and clinical validation. The company is also collaborating with an external diagnostics company that is evaluating feasibility and is also prepared to handle development.

3.2 Customer-specific preclinical services business

In addition to its core technology business and independent of the ATAC technology, Heidelberg Pharma Research GmbH has the technical expertise and required infrastructure for *in vivo* pharmacology, cell biology, bioanalytics, molecular biology and chemistry and offers preclinical research services in the field of cancer as well as inflammatory and autoimmune diseases. In its research, the Company focuses on early substances (for example, lead structures to be optimized) up to the profiling of preclinical candidates. Both standard models and innovative developments are offered to customers for specified indications. Finally,

Heidelberg Pharma Research GmbH develops customer-specific efficacy models upon request to support customers' individual research activities.

All of the 2017 revenue targets of the customer-specific service business were met. Given that internal capacities were increasingly utilized for ATAC projects, the target figure for external revenue remained unchanged from the previous year.

3.3 Clinical portfolio of Heidelberg Pharma AG – partnering

MESUPRON® – oral uPA inhibitor

With MESUPRON® (INN: upamostat), Heidelberg Pharma AG developed an oral uPA/serine protease inhibitor until Phase II that is designed to block the activity of tumor-relevant serine proteases such as uPA, plasmin and thrombin to prevent tumor growth and metastasis.

Glossary

In 2014, the development and commercialization rights for MESUPRON® were out-licensed to Link Health Co., Guangzhou, China (Link Health) for China, Hong Kong, Taiwan and Macao, and RedHill Biopharma Ltd., Tel Aviv, Israel (RedHill) for the rest of the world. More information about the two license agreements can be found in chapter 4.3 "Patents".

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In 2016, Heidelberg Pharma's partner Link Health submitted an investigational new drug (IND) application to the China Food and Drug Administration (CFDA) for a Phase I dose-escalation study with MESUPRON®.

The Company's partner RedHill conducted further non-clinical trials and analyzed earlier clinical data in order to define the molecular markers and the patient groups for future trials more precisely.

As a result of findings from preclinical studies, RedHill has received new, independent patents in the field of combination therapies and for certain autoimmune diseases. In October 2017, RedHill was granted orphan drug status for MESUPRON® by the FDA for the adjuvant treatment of pancreatic cancer. Orphan Drug designation provides various development incentives, including a seven-year marketing exclusivity period for the indication, if approved.

The Company is in regular dialogue with its two partners about the further clinical development of MESUPRON®.

REDECTANE® – diagnostic antibody

REDECTANE® (INN: 124I-Girentuximab) is a radiolabeled form of the antibody Girentuximab, which binds to the antigen CAIX (carbonic anhydrase IX) on clear cell renal cell carcinoma. Accumulation of this antibody in tumor tissue can be visualized by positron emission tomography scans (PET). Additional information provided by computer tomography (CT) can be used to localize the accumulation of the antibody. This could fundamentally change therapy planning for renal cancer patients and avoid potentially unnecessary surgery. REDECTANE® may also prove suitable for monitoring response to treatment and for diagnosing other kinds of tumors.

The Phase III REDECT trial completed in 2010 showed that REDECTANE® can differentiate between clear cell and non-clear cell renal cell cancer and that PET/CT with REDECTANE® was clearly superior to CT.

In January 2017, an exclusive license agreement for the development and commercialization of the imaging agent REDECTANE®, which also covers radiotherapy applications, was signed with the Australian company Telix Pharmaceuticals Limited, Melbourne, Australia, (Telix).

Heidelberg Pharma AG granted Telix the worldwide licensing rights to further develop and commercialize REDECTANE®. Under the agreement, Telix will, as a first step, invest in an improved manufacturing process for the antibody.

Telix will also develop a therapeutic radioimmunoconjugate program based on Girentuximab. Early clinical data has suggested that Lutetium-177-labeled Girentuximab has disease stabilizing effects in patients with advanced metastatic renal cancer. Telix is evaluating the use of CAIX-antibodies with both beta- and alpha-emitting radionuclides, which could serve as therapeutic candidates for a variety of malignancies. Under the terms of the agreement, if a therapeutic product developed by Telix is ultimately granted marketing approval, Heidelberg Pharma AG will receive royalties in the single-digit percentage range.

RENCAREX® – therapeutic antibody

Glossary

RENCAREX® (INN: Girentuximab) is a chimeric monoclonal antibody made from human and murine genetic sequences that binds to the tumor-specific antigen CAIX. This antigen is expressed in several types of cancer but is generally not present in healthy tissue. The fact that the antibody binds to the antigen makes the tumor detectable to the endogenous immune system such that natural killer cells can bind to destroy the tumor. CAIX is also present in renal, colon and head and neck cancer.

Renal cell carcinoma (RCC) is the most common type of kidney cancer and accounts for more than 90 % of malignant kidney tumors. Two-thirds of RCC patients show no evidence of metastases at the time of first diagnosis but have a high risk of relapse within a few years after surgery. RENCAREX® is designed to prevent relapsing tumor cells or metastases (adjuvant therapy).

The results of the ARISER Phase III trial were announced in October 2012. While no efficacy was demonstrated in the patient population investigated, a retrospective analysis revealed a potential efficacy for certain patient groups.

Further development of this immunotherapy at Heidelberg Pharma AG will not be conducted due to the discontinuation of operating R&D activities at the Munich site. Another option would be to further develop it for specific patient groups together with a future partner based on a license agreement signed by Heidelberg Pharma AG.

3.4 Other key events in fiscal year 2017

Implementation of several corporate actions

Heidelberg Pharma AG carried out a rights issue in May 2017 during which the shareholders subscribed for 2,040,816 new no par value bearer shares by exercising their subscription and oversubscription rights at a subscription price of € 2.45 per share. The rights offering increased the Company's share capital by € 2,040,816, from € 12,927,564 to € 14,968,380, after it was entered in the Commercial Register.

In November 2017, a mixed non-cash and cash capital increase was completed. A total of 7,484,190 new shares at a price of € 2.60 each and 14,968,380 convertible bonds with a principal amount of € 1.00 each were placed with existing shareholders of Heidelberg Pharma AG and new, institutional investors. The corporate action was oversubcribed.

In the context of this corporate action, majority shareholder dievini subscribed 1,511,128 new shares in return for its contribution in kind, which consisted of a repayment claim including interest from 1 January 2017 to 20 November 2017 amounting to € 3,928,933 arising from the loan agreement dated 11 October 2016 between dievini and Heidelberg Pharma AG.

After the execution of the capital increase was recorded in the Commercial Register at Mannheim Local Court on 22 November 2017, the new share capital is now € 22,452,570 divided into 22,452,570 no par value bearer shares. Heidelberg Pharma AG has thus fully utilized the authorized capital available for the issuance of new shares.

Heidelberg Pharma generated gross issue proceeds of € 14,968,380 from issuing 14,968,380 convertible bonds with a principal amount of € 1.00 each. The Company will not make any interest payments on the convertible bonds (zero-coupon bonds). The bond creditors have the right to convert the convertible bonds into a maximum of 5,757,069 new shares at a conversion price of € 2.60 per share from 11 January 2018 up to the final maturity date, subject to certain lock-up periods. At the end of the two-year term starting on the issue date, the Company may request that the convertible bonds be converted into shares of the Company.

Heidelberg Pharma AG received gross proceeds of approximately € 5 million from the May 2017 corporate action. The corporate action in November 2017 resulted in a transaction volume of € 34.4 million (including the contribution in kind and the issuing of convertible bonds). The inflow from the rights issue and the issue of mandatory convertible bonds will be used to finance the ATAC development programs.

Legal dispute with Siemens Corporation

Heidelberg Pharma AG had to assume a rent guarantee in 2010 in connection with the acquisition of WILEX Inc. (Oncogene Science). WILEX Inc. was sold to Nuclea Biotechnologies Inc. (Nuclea) in 2013 and merged with Nuclea shortly afterwards. In accordance with the principle of prudence, the Company therefore recognized a provision in the amount of € 408 thousand for the liability from a rent guarantee to Siemens Corporation, NJ, USA, as of 30 November 2015. Since bankruptcy proceedings were opened for Nuclea in mid-2016, Siemens is now demanding that Heidelberg Pharma AG pay the rent in arrears and compensation claims for Nuclea for the period through July 2016 totaling USD 832 thousand. In May 2017, Siemens Corporation brought an action against Heidelberg Pharma AG for this amount before the United States District Court for the District of Massachusetts, USA.

Heidelberg Pharma AG considers these claims to be unjustified and has already submitted an answer to the complaint. Heidelberg Pharma AG's economic and legal assessment has not changed compared with the disclosures made in the 2016 Annual Report. The Company considers the existing provision to be adequate. A ruling is expected in 2018.

Change of registered office and name

The Company's relocation from Munich to Ladenburg and its name change to Heidelberg Pharma AG were successfully completed with the entry into the Mannheim Commercial Register on 18 October 2017. The Company's shares will continue to be listed on the Regulated Market of the Frankfurt Stock Exchange's Prime Standard under their previous ISIN, German securities identification code (WKN) and symbol. At the same time, the subsidiary Heidelberg Pharma GmbH was renamed Heidelberg Pharma Research GmbH. The Annual General Meeting on 20 July 2017 adopted a resolution to change the name of the Company and relocate its headquarters from Munich to Ladenburg.

4 Non-financial key performance indicators and contracts

4.1 Manufacturing and supply

Heidelberg Pharma AG and Heidelberg Pharma Research GmbH currently do not possess a manufacturing and import permit in accordance with Section 13 (1) and Section 72 (1) German Medicines Act (Arzneimittelgesetz – AMG). Instead, they collaborate with third-party manufacturers (CMOs) who possess the required qualifications.

4.2 License agreements and important contracts

Heidelberg Pharma has signed several license agreements and other important contracts essential to the Group's business activities.

Contracts of Heidelberg Pharma Research GmbH

An exclusive patent and expertise license agreement has been in place since 2009 between Heidelberg Pharma Research GmbH as the licensee and Professor Heinz Faulstich and the German Cancer Research Centre (DKFZ), Heidelberg, Germany, as the licensors.

The licensors jointly developed Amanitin oncology antibody conjugates and had specialist expertise in the utilization of Amanitin based on this ADC technology. In accordance with the contractual arrangements, the licensors granted Heidelberg Pharma Research GmbH an exclusive license to the licensed patent rights and know-how for the development, production and distribution of antibody Amanitin conjugates.

Furthermore, an exclusive license agreement signed in January 2017 is in place with the Max Delbrück Center for Molecular Medicine in the Helmholtz Association (MDC) in Berlin covering various BCMA antibodies. The license agreement follows an option agreement from 2016.

In addition, through license agreements with the University of Freiburg and the DKFZ, Heidelberg Pharma Research GmbH has had access since 2017 to several antibodies for exclusive use in the production and development of ATACs as oncology therapeutics.

An exclusive research and option agreement was signed with Takeda Pharmaceutical Company Limited (trading via its US subsidiary Millennium Pharmaceuticals, Inc.) in June 2017 for the joint development of antibody drug conjugates (ADCs) that utilize the Amanitin compound. On these terms, Takeda can work with Heidelberg Pharma Research GmbH to use the ATAC technology on up to three exclusive target molecules. On signing the contract, Heidelberg Pharma Research GmbH received an upfront technology access fee in the third quarter and will receive payments for the research services to be provided. In the event that Takeda exercises its option for an exclusive license, the subsidiary is entitled to receive an option fee for each product candidate. Under the exclusive license agreement, Heidelberg Pharma Research GmbH could be eligible to receive clinical development, regulatory and sales-related milestone payments of up to USD 113 million for each product candidate, as well as attractive royalties in case of successful market approval.

The ATAC technology is currently being reviewed by several interested parties as part of material transfer agreements (MTAs). Confidentiality was agreed with the partners. If the outcome is positive, additional cooperation and license agreements may be signed granting exclusivity for selected target proteins for the ATAC technology.

For several years, Heidelberg Pharma Research GmbH has also entered into contracts for the manufacture and optimization of Amanitin antibody conjugates. Firstly, there is a license agreement between Heidelberg

Pharma Research GmbH and a scientific institute covering knowledge relating to the fermentation technique developed there for the manufacture of Amanitin from certain types of mushrooms. Secondly, the company has placed orders with an external subcontractor for manufacturing optimization and humanization of certain antibodies.

Contracts entered into by Heidelberg Pharma AG

Contracts relating to the antibody Girentuximab

Several of these agreements related to the development and commercialization of Girentuximab, the antibody on which both REDECTANE® and RENCAREX® are based. The Company licensed the antibody in 1999 from Centocor Inc., Malvern, PA, USA, and Leiden University, The Netherlands. A further license for the antibody's target antigen has been granted by Bayer Corporation Business Group Diagnostics, Tarrytown, NY, USA, (Bayer) by way of a sub-license. Following the termination of the main license agreement between Bayer and the Biomedical Research Center, Slovak Academy of Sciences, Slovakia, Heidelberg Pharma AG signed a direct license agreement with the Biomedical Research Center in 2017. To exclude possible patent violations, Heidelberg Pharma AG also acquired a non-exclusive license for the Cabilly II patent from Genentech Inc., San Francisco, CA, USA.

Contracts relating to REDECTANE®

In January 2017, Heidelberg Pharma AG signed a license agreement for REDECTANE® with the Australian company Telix Pharmaceuticals Ltd. Telix has been granted the worldwide licensing rights and has taken over further development and commercialization of the diagnostic antibody. Under the terms of the agreement, Heidelberg Pharma AG received an upfront payment and could receive milestone payments totaling up to USD 3.7 million if the collaboration is successful.

Contracts relating to RENCAREX®

An exclusive sales and marketing agreement for RENCAREX®, as well as an option regarding future Girentuximab products in certain southern European countries, has been in place with the Spanish pharmaceutical company Laboratorios del Dr. Esteve S.A., Barcelona, Spain (Esteve) since 2004. Esteve was granted the marketing rights for Spain, Italy, Portugal, Greece and Andorra, as well as an option for the Turkish market. Heidelberg Pharma AG could receive undisclosed license payments for this in case of successful further development and approval.

Contracts relating to MESUPRON®

In 2006, Heidelberg Pharma AG acquired five patent families and patent applications for its uPA programs from Pentapharm AG, Basel, Switzerland, related to WX-UK1 and MESUPRON®. In addition to these patents directly held by the Company, this patent portfolio provides protection against third-party copies or the therapeutic use of the relevant serine protease inhibitors.

In March 2014, Heidelberg Pharma AG agreed a licensing and development partnership for MESUPRON® with Link Health Co., Guangzhou, China (Link Health). Link Health received the exclusive licensing rights for the development and potential subsequent marketing of MESUPRON® in China, Hong Kong, Taiwan and Macao. Link Health is responsible for performing and financing the entire clinical development of MESUPRON® in China for all oncology indications, as well as for the regulatory process and future marketing of the product. Under the terms of the agreement, Heidelberg Pharma AG received an upfront payment and, in the case of successful clinical development, is entitled to milestone payments of over €7 million, as well as tiered royalties in the mid-single-digit percentage range.

In June 2014, Heidelberg Pharma AG signed an exclusive license agreement for MESUPRON® with RedHill Biopharma Ltd., Tel Aviv, Israel (RedHill) under which RedHill acquired the exclusive development and

subsequent marketing rights to MESUPRON® in all indications for all territories outside of China, Hong Kong, Taiwan and Macao. Heidelberg Pharma AG received an upfront payment of USD 1 million and, in the event of successful product development and marketing following regulatory approval, would be entitled to tiered royalties ranging from the mid-teens up to 30 %. RedHill is responsible for the entire development and would be responsible for regulatory approval and subsequent marketing of MESUPRON®.

4.3 Patents

A strong patent position is essential for Heidelberg Pharma for the successful marketing and licensing of early-stage research projects or clinical product candidates, which is why the Company endeavors to safeguard its product candidates, as well as their manufacture and use, through patents or licenses.

Patents for the ATAC technology held by Heidelberg Pharma Research GmbH

Through a license from the German Cancer Research Center (Deutsches Krebsforschungszentrum; DKFZ) and Professor Faulstich, Heidelberg Pharma Research GmbH has access to technology patents protecting the ATAC technology. The patents underlying the technology have been registered with the European and the US Patent Offices, among others, as an invention by Professor Faulstich and the DKFZ. By implementing proprietary programs, the Company has systematically improved the technology since 2009 and expanded its patent portfolio through applications for new patents. In the meantime, applications for seven more international patents have been filed, which have already been nationalized and regionalized in many countries. Altogether, three priority applications for the development candidate HDP-101 were submitted to the European Patent Office. Patent protection for the improved toxin linker technology has been strengthened in recent years through the granting of intellectual property rights in Europe and the United States. The current patent horizon extends until 2038.

An important patent for the proprietary ATAC technology for the production of Antibody Targeted Amanitin Conjugates was granted to Professor Faulstich and employees of the DKFZ in the US. The patent, "Amatoxin-armed therapeutic cell surface binding components designed for tumour therapy", was out-licensed exclusively to Heidelberg Pharma Research GmbH in December 2009 by Professor Faulstich and employees of the DKFZ. The patent relates to the chemical reaction to crosslink certain carrier molecules, such as antibodies, to amatoxins. Heidelberg Pharma Research GmbH is the first company worldwide to work with the corresponding Amanitin toxin to develop ATACs for use in cancer therapy.

Furthermore, a second important patent was granted, specifically for the chemical synthetic building block dihydroxyisoleucine for the production of Amanitin. The European Patent Office granted Heidelberg Pharma Research GmbH a patent for the Company's proprietary chemical synthesis of dihydroxyisoleucine. The patent has a term until 2033. The amino acid dihydroxyisoleucine is an important synthetic building block of alpha-Amanitin and of Amanitin derivatives. Without this building block, it is not possible to chemically produce Amanitin. Dihydroxyisoleucine, on the other hand, has to be chemically produced as it has no natural source. The patent protects the company's internal Amanitin production process, since the production of adequate quantities of Amanitin in GMP quality for clinical use can only be ensured by a completely chemical production of Amanitin. In April 2017, Heidelberg Pharma Research GmbH was granted this patent by the US Patent Office as well.

Patents held by Heidelberg Pharma AG

These patents refer to the clinical portfolio and were submitted by and granted to the Company under its former name WILEX AG. At the end of the 2017 fiscal year, Heidelberg Pharma AG held licensed intellectual property rights, owned more than 90 patents worldwide and had filed 20 applications for patents in 17 patent families. Whilst most of these patent families were developed by the Company itself, Heidelberg

Pharma AG has expanded its intellectual property rights in targeted ways through strategic acquisitions of patent portfolios.

The uPA-based patent family currently comprises well over 70 patents and patent applications. Patent protection applies to both the active ingredients (claim to the compound, i.e., the chemical structure) and the medical use of the given ingredients, as well as to both formulation and production. In fiscal year 2014, nine patent families with 50 patents and patent applications for the lead compound MESUPRON® and for WX-UK1 were out-licensed to RedHill, while seven patents and patent applications were out-licensed in China and Hong Kong to Link Health.

More than 40 patents and patent applications currently apply to the Girentuximab antibody program. These patents and applications for patents, if granted, are set to expire between 2022 and 2034. The intellectual property rights cover, among others, the hybridoma cell line producing the Girentuximab antibody, the production of Girentuximab or a pharmaceutical compound containing this antibody, and the antibody itself for use in adjuvant therapy or as combination therapy.

4.4 Employees and remuneration system

The development of a new generation of cancer drugs and diagnostic agents requires special dedication, know-how and scientific expertise on the part of Heidelberg Pharma's employees. The Heidelberg Pharma Group employed 58 (November 30, 2016: 53) people (including members of the Management Board) at the end of the fiscal year. Heidelberg Pharma Research GmbH employs 53 people, while Heidelberg Pharma AG, which primarily engages in holding company activities for the Group, employs a team of six people (including the two members of the Executive Management Board). Two Heidelberg Pharma Research GmbH employees are financed externally through the EU's HORIZON 2020 program and are employed temporarily for the duration of the project.

The employees are distributed as follows among business areas as of the end of year:

Employees	30 Nov. 2017	30 Nov. 2016
Administration	15	13
Research and development	23	24
Manufacturing, service and distribution	20	16
Employees, total	**58**	**53**

Heidelberg Pharma has developed a performance-related remuneration system for its employees. Every employee is paid variable remuneration based on defined goals in addition to an annual fixed salary. Participation in the success of the Company is achieved by the 2005 and 2011 Stock Option Plans, as well as the newly created 2017 Stock Option Plan. Authorization to grant options for 2005 and 2011 has since expired, however, and no new options can now be issued from these plans.

No stock options were issued and no stock options were exercised in the 2017 financial year. Additionally, no stock options were returned as a result of Executive Management Board members and/or employees leaving the Company.

The following table shows a summary of the Company's stock options:

All information provided in no. of options	Plan 2005	Plan 2011	Plan 2017	Total
Max. number of stock options to be issued acc. to plan terms	**1,289,157**	**1,156,412**	**661,200**	**3,106,769**
of which Executive Management Board	900,000	346,924	201,200	1,448,124
of which employees	389,157	809,488	460,000	1,658,645
Stock options actually issued	**1,161,431**	**685,726**	**0**	**1,847,157**
of which Executive Management Board[1]	894,515	364,000	0	1,258,515
of which employees	266,916	321,726	0	588,642
Max. number of stock options still available for issue	**0**	**0**	**661,200**	**661,200**
of which Executive Management Board	0	0	201,200	201,200
of which employees	0	0	460,000	460,000
Return of stock options by beneficiaries leaving the Company	**201,753**	**87,289**	**0**	**289,042**
of which Executive Management Board	165,180	26,500	0	191,680
of which employees	36,573	60,789	0	97,362
of which Executive Management Board in 2017	0	0	0	0
of which employees in 2017	0	0	0	0
Expiry of stock options without replacement after ten-year term	**899,684**	**0**	**0**	**899,684**
of which Executive Management Board	729,335	0	0	729,335
of which employees	170,349	0	0	170,349
of which Executive Management Board in 2017	150,000	0	0	150,000
of which employees in 2017	27,200	0	0	27,200
Stock options outstanding	**59,994**	**598,437**	**0**	**658,431**
of which Executive Management Board	0	337,500	0	337,500
of which employees	59,994	260,937	0	320,931
Vested stock options (outstanding)	**59,994**	**338,921**	**0**	**398,915**
of which Executive Management Board	0	180,000	0	180,000
of which employees	59,994	158,921	0	218,915
of which have vested in 2017 YTD	0	103,807	0	103,807
of which Executive Management Board	0	63,000	0	63,000
of which employees	0	40,807	0	40,807
Non-vested stock options (outstanding)	**0**	**259,516**	**0**	**259,516**
of which Executive Management Board	0	157,500	0	157,500
of which employees	0	102,016	0	102,016
Exercisable stock options (outstanding)	**59,994**	**183,211**	**0**	**243,205**
of which Executive Management Board	0	85,500	0	85,500
of which employees	59,994	97,711	0	157,705

[1] When options under the 2011 Stock Option Plan were issued, Dr. Schmidt-Brand had not yet been appointed as a member of the Executive Management Board of Heidelberg Pharma AG. The options granted to him were added to the portion attributable to the Executive Management Board after his appointment.

Independent of this, employee inventions that lead to patent applications are compensated under the Patent Incentive Program.

4.5 Sustainable corporate governance

Sustainability is particularly important at Heidelberg Pharma. The Company is keen to exercise its economic, ecological and social responsibility in a conscientious manner.

The business model is oriented towards sustainable growth in a forward-looking industry. Our goal is to create new therapeutic options for the treatment of cancer. This is to be achieved by providing cancer patients with a new biological mechanism of action that is both highly effective and as well-tolerated as possible. The Company thereby creates value that benefits patients, employees and shareholders alike. Quality management plays a significant role here. Internal processes, procedures and policies are all modeled on good laboratory practice (GLP). External service providers and production companies that work with us to prepare for clinical investigations of our drug candidates are subject to stringent regulatory requirements, such as GMP (good manufacturing practice), and monitored by us in the context of routine audits conducted to the best of our ability and in accordance with our obligations.

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Heidelberg Pharma meets all legal requirements relating to environmental protection and animal welfare as well as occupational safety.

The Company also fulfills its responsibility to employees by attaching importance to a pleasant working atmosphere and mutual respect and offering future prospects to employees at all levels. A Code of Conduct, formally accepted by all employees when commencing employment, regulates conduct towards co-workers, business partners and service providers.

In this context, all employees are required to report any circumstances that could violate either the Code's internal rules or our legal obligations directly to their immediate supervisor or the responsible member of the Executive Management Board. For further information about compliance, please see the chapter 6.2 „Corporate Governance Report", sub-section "Compliance in the 2017 fiscal year".

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5 Results of operations, financial position and net assets of the Group

The 2017 fiscal year concerns the period from 1 December 2016 to 30 November 2017. Due to rounding, it is possible that individual figures in this combined management report may not add up exactly to the totals and that percentages given may not precisely reflect the absolute figures to which they relate. The results of operations, financial position and net assets according to the German Commercial Code (HGB) of Heidelberg Pharma AG as an independent company are explained separately in chapter 10.

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The basis of consolidation comprises Heidelberg Pharma AG, Ladenburg, Germany, and Heidelberg Pharma Research GmbH, Ladenburg, Germany.

As a consequence of the restructuring measures implemented in 2014, which led to the discontinuation of research and development activities at the parent company, business activities since the 2015 fiscal year have not differed materially in their risk/reward profiles. Since R&D activities have focused on the operations of the subsidiary, segment reporting is no longer applied.

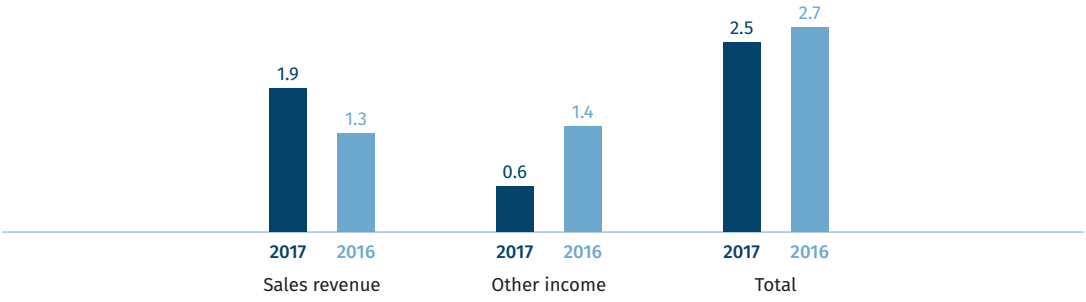
The Heidelberg Pharma Group recognized earnings before tax of € –11.0 million (previous year: € –6.4 million) in the 2017 fiscal year. The net loss for the year was also € 11.0 million (previous year: € 6.4 million). Earnings per share also fell from € –0.53 in the previous year to € –0.76. As expected, expenses (€ 13.2 million) were higher than sales revenue and other income (€ 2.5 million). The financial result amounted to € –0.2 million.

5.1 Sales revenue and other income

In fiscal year 2017 Heidelberg Pharma posted sales revenue of € 1.9 million (previous year: € 1.3 million), which was mainly attributable to Heidelberg Pharma Research GmbH (€ 1.6 million). Of this figure, the ATAC technology accounted for € 0.7 million and the service business for € 0.9 million. The parent company's sales revenue (€ 0.3 million) was mainly attributable to the out-licensing of REDECTANE®.

In the previous year, Heidelberg Pharma Research GmbH reported sales revenue of € 1.2 million, of which € 0.2 million was from the ATAC technology and € 1.0 million from the service business. Additionally, portions of a milestone payment were due to the parent company in 2016 from Link Health in the context of the out-licensing of MESUPRON® (€ 0.1 million).

Income in € million[1]



[1] Rounded

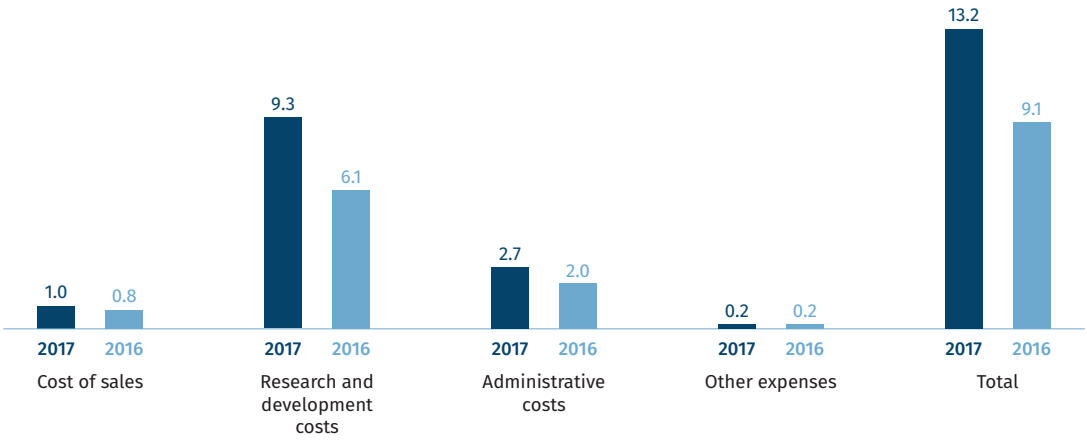
At € 0.6 million, other income was down compared to the previous year (€ 1.4 million). This figure includes German and European grants, which support Heidelberg Pharma Research GmbH projects in the amount of € 0.2 million (previous year: € 0.8 million). Both grant programs from which income was generated in 2017 were approved in fiscal year 2015. Furthermore, income of € 0.3 million (previous year: € 0.4 million) was generated from the reversal of unutilized accrued liabilities and provisions, most of which were subject to limitation. Other items amounted to € 0.1 million (previous year: € 0.2 million).

Other income	2017 € '000	2016 € '000
Income from grants	165	763
Liabilities and provisions not utilized to date	325	387
Nuclea income	0	162
from sublease and sales of fixed assets	7	12
Income from exchange rate gains	5	8
Other items	80	49
Total	**582**	**1,381**

5.2 Operating expenses

Operating expenses including depreciation and amortization rose according to plan to € 13.2 million in 2017 (previous year: € 9.1 million).

Operating expenses in € million[1]



[1] Rounded

Cost of sales includes costs directly related to revenue from services provided. At € 1.0 million, the cost of sales was higher than in the previous year (€ 0.8 million), which was in line with the increase in sales revenue and represents 7 % of operating expenses. These costs mainly related to Heidelberg Pharma Research GmbH expenses for customer-specific research.

Research and development (R&D) costs rose from € 6.1 million in the previous year to € 9.3 million as planned due to the advancement of the proprietary platform technology and the ongoing CMC (chemistry, manufacturing and controls) development of HDP-101 at Heidelberg Pharma Research GmbH. The reason for these activities is that the Company is preparing HDP-101, its first ATAC candidate, for clinical development. R&D costs thus accounted for 70 % of operating expenses.

Administrative costs were € 2.7 million, up 35 % compared to the prior year (€ 2.0 million) and accounted for 21 % of operating expenses. In addition to staff costs (€ 1.2 million; previous year: € 1.1 million), this line item also included, legal and operating consulting costs (€ 0.5 million; previous year: € 0.2 million), rent and utilities (€ 0.2 million; previous year: € 0.1 million), as well as expenses related to the Annual General Meeting, Supervisory Board remuneration and the stock market listing (combined: € 0.5 million; previous year: € 0.4 million). Administrative costs increased mainly because the Company stepped up investor relations and financing activities and conducted extensive licensing negotiations.

The proportionate directly attributable capital procurement costs incurred in connection with the two capital increases and the issue of a mandatory convertible bond amounted to a total of € 1.3 million and in accordance with IAS 32.37 in conjunction with IAS 32.38 were each deducted directly from the capital reserves and were not recognized as administrative expenses.

Other expenses for business development, marketing and commercial market supply activities were unchanged year-over-year at € 0.2 million. They accounted for 2 % of operating expenses and mainly included staff, travel and consulting costs.

5.3 Financing and liquidity

The Group had cash and cash equivalents of € 30.4 million at the close of the fiscal year (30 November 2016: € 4.6 million). The increase resulted from the proceeds of the capital increases during the fiscal year. Cash and cash equivalents at the end of 2017 were sufficient according to the financial planning to ensure the continued existence of the Company as a going concern into 2020.

In the past fiscal year, no finance income was generated (previous year: € 1 thousand) because of the current lack of interest accruing on credit balances. Heidelberg Pharma exclusively used short-term deposits for investing its liquid funds (e.g., overnight money); at no time were investments made in stock or share-based financial instruments. At € 218 thousand, finance costs were significantly higher than in the previous year (€ 20 thousand) due to the interest-bearing shareholder loan granted by dievini over almost the entire year. The financial result was therefore € –218 thousand (previous year: € –19 thousand).

The Company's liquidity ratio (cash positions plus bank credit balances divided by current liabilities) was 682 % as of 30 November 2017 (previous year: 84 %).

5.4 Cash flow statement

Net cash outflow from operating activities during the reporting period was € 7.9 million (previous year: € 6.5 million). The year-over-year increase is attributable to the higher operating expenses, especially for R&D.

Total cash outflow from investing activities was € 0.4 million (previous year: € 0.5 million) and was mainly due to the acquisition of property, plant and equipment, specifically laboratory equipment, by Heidelberg Pharma Research GmbH.

The net change in cash flow from financing activities was dominated by cash inflows of € 34.2 million from the capital increases completed during the year and the issue of a mandatory convertible bond. Cash inflows of € 10.3 million from three capital increases were recorded in the previous year along with a payment received from the dievini shareholder loan.

Furthermore, there was a negative exchange rate effect of € 18 thousand (previous year: gain of € 6 thousand) due to the increase in the value of the US dollar.

The total net change in cash and cash equivalents in the 2017 fiscal year was € 25.8 million (previous year: € 3.3 million). This corresponded to an average net change of € 2.2 million per month (previous year: € 0.3 million per month).

Excluding the effect of capital increases, the issue of a mandatory convertible bond and the dievini shareholder loan, which affected liquidity only in 2016, i. e., the financing components including financial liabilities, the average monthly outflow in fiscal 2017 was € 0.7 million compared to € 0.6 million in 2016.

Cash flow	2017 € million	2016 € million
Cash as of 01 December	4.6	1.3
Net change in cash from operating activities	(7.9)	(6.5)
Net change in cash from investing activities	(0.4)	(0.5)
Net change in cash from financing activities	34.2	10.3
Exchange rate effect	(0.02)	0.01
Cash as of 30 November	**30.4**	**4.6**

5.5 Assets

The cash and cash equivalents raised from the capital increases and the issue of a mandatory convertible bond significantly extended the Company's cash reach, which enabled it to prepare the financial statements on a going-concern basis.

Non-current assets rose slightly to € 10.3 million as of 30 November 2017 (previous year: € 10.2 million). As in the previous year, they mainly included the goodwill of Heidelberg Pharma Research GmbH (€ 6.1 million) as well as the recognition of the not yet ready for use intangible assets "In Process Research & Development" (IP R&D) (€ 2.5 million) identified in connection with the purchase price allocation.

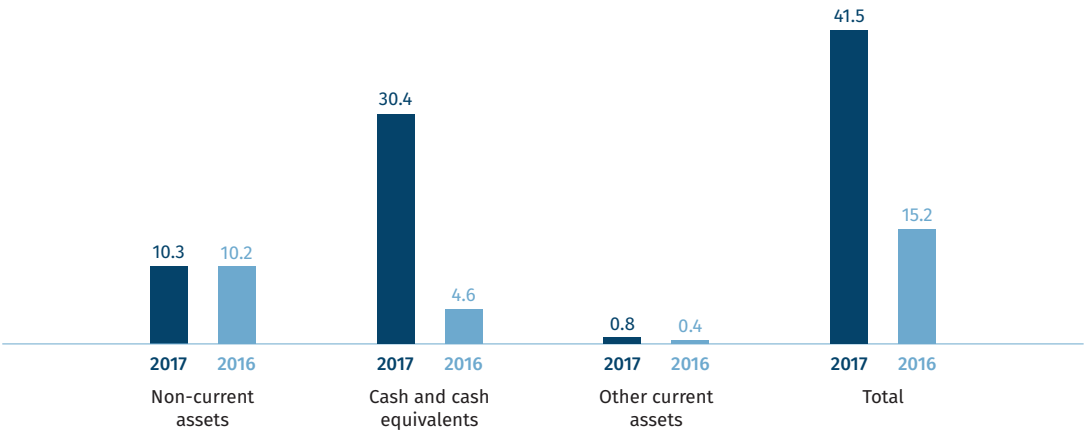
Glossary

As of 30 November 2017, property, plant and equipment remained at the prior-year level of € 1.3 million, and intangible assets excluding goodwill and IP R&D also remained steady at € 0.3 million.

Other non-current assets of € 51 thousand increased compared to the previous year (€ 31 thousand).

Current development expenses for Heidelberg Pharma's product and development candidates were not capitalized because they were not deemed to fully meet the requirements of IAS 38 for capitalization. They were expensed in full as current research and development costs.

Balance sheet – assets in € million[1]



[1] Rounded

Current assets increased to € 31.2 million (previous year: € 5.0 million). Cash and cash equivalents included in this item amounted to € 30.4 million and were up significantly on the prior-year figure of € 4.6 million due to the completed capital increases and the issue of a mandatory convertible bond.

Other current assets increased to € 0.8 million (previous year: € 0.4 million). Inventories and prepayments made included in this figure were € 0.3 million, slightly higher than the previous year (€ 0.2 million). At € 0.5 million, aggregated trade receivables and other receivables at the reporting date were also higher than the previous year (€ 0.2 million).

At the end of the fiscal year, total assets amounted to € 41.5 million, up € 26.3 million from the previous year (€ 15.2 million), due to higher cash and cash equivalents.

5.6 Liabilities

Non-current liabilities of € 9 thousand were reported for a pension liability (previous year: € 7 thousand).

Current liabilities fell to € 4.5 million at the close of the reporting period (previous year: € 5.5 million), primarily as a result of the disposal of the loan liability. In addition to provisions for the potential utilization of a rent guarantee (€ 0.4 million; previous year: € 0.4 million) and other current liabilities (€ 2.5 million; previous year: € 1.2 million), this item also includes trade payables of € 1.5 million, which were up considerably compared to the previous year (€ 0.1 million) because of expanded R&D activities.

The shareholder loan contributed by dievini against the issue of shares in the course of the capital increase completed in November 2017 is the equivalent of the disposal of financial liabilities. In the previous year, this item totaled € 3.8 million.

Other current liabilities included the following:

Other current liabilities	30 Nov. 2017 € million	30 Nov. 2016 € million
Provisions for holidays not taken	0.1	0.1
Other deferred income	0.8	0.1
Social security and other taxes	0.1	0.1
Other accrued liabilities	1.5	0.9
Total	**2.5**	**1.2**

The considerably higher other deferred income of € 0.8 million (previous year: € 0.1 million) had to be recognized in the context of the Takeda research agreement signed during the year.

Heidelberg Pharma recognized other accrued liabilities (€ 1.5 million; previous year: € 0.9 million) for goods and services (€ 1.1 million; previous year: € 0.6 million) as well as for employee bonuses (€ 0.3 million; previous year: € 0.2 million) and for the auditing of the financial statements (€ 0.1 million; previous year: € 0.1 million).

5.7 Equity

Equity of the Heidelberg Pharma Group at the end of the reporting period was € 37.0 million (30 November 2016: € 9.7 million).

As a result of the capital increases completed during the year and entry of these corporate actions in the Commercial Register, the total number of Heidelberg Pharma shares issued as of the reporting date increased from 12,927,564 by 9,525,006 to 22,452,570.

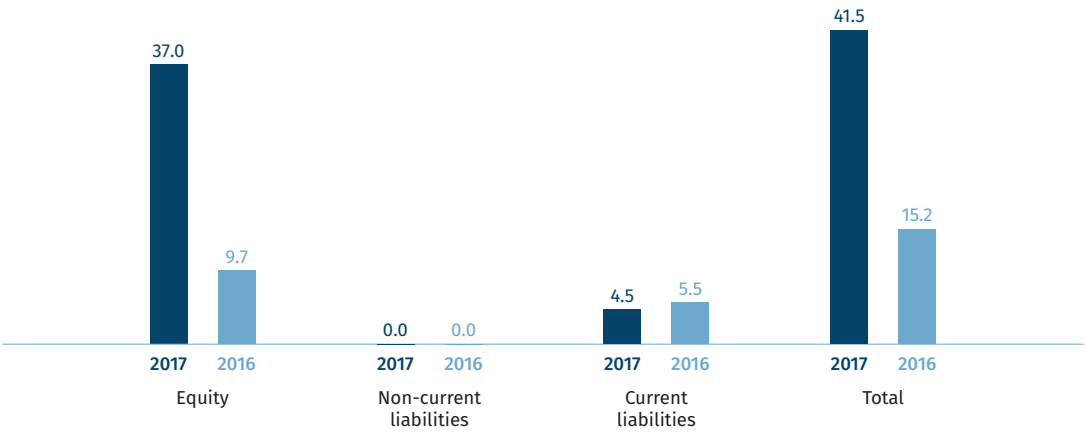
In addition, in November 2017, the Company issued € 14,968,380 of convertible bonds. Because Heidelberg Pharma AG is entitled to require mandatory conversion, they are regarded as a mandatory convertible bond and therefore classified as an equity instrument in accordance with IAS 32.11 in conjunction with IAS 32.16 bearing in mind the substance of the contractual arrangement (IAS 32.15). In line with its classification as an equity instrument, the proceeds of the mandatory convertible bond issue were allocated at initial recognition to the capital reserves within equity.

The proportionate directly attributable capital procurement costs incurred in connection with the capital increases and the issue of the mandatory convertible bond amounted to € 1.3 million and in accordance with IAS 32.37 in conjunction with IAS 32.38 were each deducted directly from capital reserves.

Due to the issue of the mandatory convertible bond and taking into account the capital procurement costs, the capital reserve increased by a net € 28.7 million, from € 191.1 million in the previous year to € 219.8 million as of 30 November 2017.

The losses accumulated since the foundation of the Heidelberg Pharma Group totaled € 205.2 million (30 November 2016: € 194.3 million). The equity ratio was 89.2 % (30 November 2016: 64.0 %).

Balance sheet – equity and liabilities in € million [1]



[1] Rounded

5.8 Overall assessment of the 2017 fiscal year by the Executive Management Board

In 2017, important milestones were reached in implementing the new corporate strategy. The spotlight was on Heidelberg Pharma's proprietary development candidate, HDP-101. GMP-compliant processes must be set up for the manufacture of antibodies and toxin linkers, and great strides were made in this regard in 2017. The first end-to-end process to manufacture the complex target at our production partners was successful. Moreover, additional data on tolerability was collected for purposes of preparing for the formal, preclinical GLP audit, and therefore applying for approval for clinical use in humans. HDP-101 was presented at the Paul Ehrlich Institute and important questions regarding its further development resolved. The steps for planning development up to clinical development were defined with the help of external consultants.

The cooperation strategy was pursued further and in June resulted in the signing of a research and licensing option contract with Takeda, providing important external validation of the ATAC technology. This agreement was signed largely on the basis of the excellent data and results Heidelberg Pharma Research GmbH was able to achieve with the in-house HDP-101 project. The partnership has been kicked off successfully and is proceeding according to plan with processing of the work packages.

Major advances were also made with the existing clinical portfolio apart from the ATAC technology. Particularly gratifying is the license agreement for REDECTANE® signed with Telix Pharmaceuticals in January. During the year, Telix worked on restarting production of the antibody Girentuximab and preparing for further clinical trials.

Our partner RedHill identified new indications for MESUPRON® while conducting its own research activities; these culminated in new patents. In addition, preparations were completed for a Phase I/II trial. Unfortunately, our partner Link Health was unable so far to obtain approval from Chinese regulators for its application to begin a clinical Phase I/II trial, but is continuing to work on this.

The preclinical service business was successfully carried out in line with planning.

In fiscal 2017, we were able to further refine Heidelberg Pharma's profile. In addition to moving the registered office of the parent company to Ladenburg and renaming it Heidelberg Pharma AG, our main accomplishment was securing medium-term financing for Heidelberg Pharma. The transaction volume of the corporate actions completed by Heidelberg Pharma AG in 2017 was € 39.4 million, which provides sufficient funds for the activities currently planned into 2020.

Comparison of target to actual performance for certain targets and key indicators in the 2017 fiscal year:

Operational Goals	Targets 2017	Actual 2017
ADC	• Technology transfer and establishing GMP manufacturing of payload, linker and antibody completed	• GMP manufacturing of BCMA antibodies initiated • GMP manufacturing of Amanitin initiated
	• Scientific advice obtained from regulatory authorities, namely Paul Ehrlich Institute in Germany and the US FDA	• Discussions with Paul Ehrlich Institute held • Meeting scheduled for discussion with FDA in April 2018
	• GMP availability of complete ATAC molecule HDP-101	• First total syntheses successfully completed • Larger scale planned for August 2018
	• Design and preparation of clinical trial	• Study synopsis prepared
	• Approval process for clinical trial initiated	• Regulatory plans developed with external consultants • Submission of investigational new drug application (IND) planned for end of 2018
	• Further development of the ADC technology platform for expanding the therapeutic window for ATACs	• Ongoing testing of various binding and linking technologies for alternative product versions in partnerships and downstream products
	• Expansion of business-to-business activities	• Additional research agreements (MTAs) signed • Multi-target research agreement signed with Takeda
Portfolio	• MESUPRON®: Advance development activities at partners Link Health and RedHill	• IND granting for Link Health in China not yet achieved • Partner RedHill obtains Orphan Drug designation for MESUPRON®
	• Commercialization of RENCAREX®	• Ongoing review at potential licensees
	• New partner for development and commercialization of REDECTANE®	• License agreement signed with Telix Pharmaceuticals
Financing	• Substantial financing from license agreements • Financing through capital measures	• Signing of Takeda license agreement • Implementation of several corporate actions with a transaction volume of € 39.4 million

The guidance for the current fiscal year published in March 2017 was adjusted in early October 2017. The downward revision of the sales revenue guidance was due to deferred revenue arising under the Takeda agreement, as the first payment had to be split in favor of coming quarters. There is also a postponement of milestone payments from Link Health because the IND approval has not been granted.

Financials	Guidance 03/2017 € million	Guidance 10/2017 € million	Actual 2017 € million
Sales revenue and other income	4.0–6.0	2.0–3.0	2.5
Operating expenses	11.0–15.0	12.0–14.0	13.2
Operating result	(6.0)–(10.0)	(9.0)–(11.0)	(10.8)
Total funding requirement[1]	6.0–10.0	8.0–10.0	8.6
Funds required per month[1]	0.5–0.8	0.6–0.8	0.7

[1] Not including inflows from the completed capital increases and the shareholder loan

Total assets and equity increased year over year because the newly raised liquid funds from the corporate action were higher than the excess of expense over income and the negative cash flow from operating activities.

6 Corporate governance

6.1 Statement on Corporate Governance pursuant to Sections 289a, 315 (5) German Commercial Code (old version) for the 2017 fiscal year

The Statement on Corporate Governance pursuant to Sections 289a and 315 (5) (old version) of the German Commercial Code contains the Declaration of Conformity of the Executive Management Board and the Supervisory Board with the German Corporate Governance Code (GCGC) pursuant to section 161 of the German Stock Corporation Act (Aktiengesetz, AktG). Both corporate bodies had an in-depth discussion regarding compliance with the requirements of the GCGC as amended on 07 February 2017.

In addition, the Statement addresses the principles of proper corporate governance and makes relevant disclosures about the Company's actual corporate governance practices above and beyond statutory requirements. It also describes the procedures of the Executive Management Board and the Supervisory Board as well as the composition and procedures of their committees.

The Statement on Corporate Governance was posted on the Company's website under "Press & Investors > Corporate Governance" on 2 February 2018. Pursuant to Section 317 (2) sentence 4 of the German Commercial Code, the content of the statement on corporate governance in accordance with Sections 289a and 315 (5) (old version) of the German Commercial Code is not part of the audit of the financial statements.

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6.2 Corporate governance report

Responsible corporate governance is integral to Heidelberg Pharma's philosophy. As an instrument of self-regulation, the GCGC contains recommendations and suggestions for transparent and exemplary corporate governance. This code, compliance with which is voluntary, is designed to enhance the trust of the financial markets and the public in the management of listed companies based on transparent descriptions of management and control mechanisms as well the disclosure of corporate governance rules. Both the Executive Management Board and the Supervisory Board of Heidelberg Pharma AG expressly endorsed the Code and have implemented it with exceptions.

Remuneration of the Executive Management Board and the Supervisory Board

Heidelberg Pharma AG complies with the recommendations of the GCGC to disclose all remuneration paid to the Executive Management Board and the Supervisory Board, broken down by individual. Please see chapter 6.3 "Remuneration Report" for more detailed disclosures on the remuneration of the Executive Management Board members (broken down by fixed and variable components as well as other ancillary benefits) and the remuneration of the Supervisory Board members. The remuneration paid to the members of the Executive Management Board and the Supervisory Board is also disclosed on the Company's website under "Press & Investors > Corporate Governance > Corporate Bodies and Shareholdings."

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Directors' dealings

The German Securities Trading Act (Wertpapierhandelsgesetz, WpHG) requires that members of the Executive Management Board, the Supervisory Board and the inner circle of Heidelberg Pharma AG's executives and parties related to them must disclose any personal trading of Heidelberg Pharma shares to the extent that such trading surpasses the statutory de minimis limit of € 5,000 per calendar year.

In the 2017 fiscal year, Heidelberg Pharma AG's executives reported the following transactions subject to disclosure in accordance with Article 19 of the European Market Abuse Regulation (MAR) (Directors' dealings). These transactions have also been published on the Heidelberg Pharma website in the section „Press & Investors > Announcements > Directors' Dealings".

Name	Date	Transaction	Market-place	Price €	Number	Volume €
Curacyte GmbH i.L.[1]	19 Dec. 2016	Sale	OTC	1.84	574,324	1,056,756.16
dievini Hopp BioTech holding GmbH & Co. KG[2]	19 Dec. 2016	Purchase	OTC	1.84	574,324	1,056,756.16
Dr. Jan Schmidt-Brand (Executive Management Board member)	15 May 2017	Purchase	OTC	2.45	7,173	17,573.85
dievini Hopp BioTech holding GmbH & Co. KG[2]	15 May 2017	Purchase	OTC	2.45	1,810,201	4,434,992.45
NewMarket Venture Verwaltungs GmbH[3]	15 May 2017	Purchase	OTC	2.45	6,337	15,525.65
Dr. Georg F. Baur (Supervisory Board member)	18 May 2017	Purchase	OTC	2.45	4,263	10,444.35
Professor Andreas Pahl (Executive Management Board member)	19 May 2017	Purchase	OTC	2.45	10,186	24,955.70
Dr. Jan Schmidt-Brand (Executive Management Board member)	22 Nov. 2017	Purchase	OTC	2.60	26,303	68,387.80
Dr. Birgit Kudlek (Supervisory Board member)	22 Nov. 2017	Purchase	OTC	2.60	850	2,210.00
Dr. Birgit Kudlek (Supervisory Board member)	22 Nov. 2017	Purchase of convertible bonds	OTC	2.60	1,700	1,700.00
Professor Andreas Pahl (Executive Management Board member)	22 Nov. 2017	Purchase	OTC	2.60	15,000	39,000.00
Dr. Georg F. Baur (Supervisory Board member)	22 Nov. 2017	Purchase	OTC	2.60	15,634	40,648.40

[1] Supervisory Board member Dr. Mathias Hothum has management responsibilities at Curacyte GmbH i.L., which was a shareholder of Heidelberg Pharma AG.

[2] The Supervisory Board members Professor Christof Hettich, Dr. Friedrich von Bohlen und Halbach and Dr. Mathias Hothum have management responsibilities at dievini Hopp BioTech holding GmbH & Co. KG, which is a shareholder of Heidelberg Pharma AG.

[3] Supervisory Board member Professor Christof Hettich has management responsibilities at NewMarket Venture Verwaltungs GmbH, which is a shareholder of Heidelberg Pharma AG.

As of September 2017, no reports on directors' dealings have been prepared regarding the Supervisory Board members Professor Christof Hettich, Dr. Friedrich von Bohlen und Halbach and Dr. Mathias Hothum in their capacity as Managing Directors of the Company's main shareholder dievini Hopp BioTech holding GmbH & Co. KG. It is the opinion of the Federal Financial Supervisory Authority (BaFin) that merely holding dual mandates is insufficient to require reporting of directors' dealings; instead, there must be a significant economic benefit from the business. This arises in particular when the executive in question or an individual closely

related to the executive holds an interest of 50 % or more of the company or is entitled to 50 % or more of the profits of the company. The Managing Directors of dievini Verwaltungs GmbH who are also Supervisory Board members of Heidelberg Pharma AG do not hold a significant interest in the liable capital, or hold none at all, and therefore do not participate in the profits generated by dievini.

Shares held by the Supervisory Board and the Executive Management Board

Name	Function	Shareholdings	Number
Dr. Georg F. Baur	Deputy Chairman of the Supervisory Board	Direct	46,902
Dr. Friedrich von Bohlen und Halbach	Member of the Supervisory Board	Indirect[1]	14,668,749
Professor Christof Hettich	Chairman of the Supervisory Board	Indirect[1] Indirect[2]	14,668,749 40,141
Dr. Mathias Hothum	Member of the Supervisory Board	Indirect[1]	14,668,749
Dr. Birgit Kudlek	Member of the Supervisory Board	Direct	2,550
Dr. Jan Schmidt-Brand	Spokesman of the Executive Management Board	Direct	78,910
Professor Andreas Pahl	Head of Research and Development	Direct	45,371

[1] Professor Hettich, Dr. von Bohlen und Halbach and Dr. Hothum are Managing Directors of dievini Verwaltungs GmbH, the general partner of dievini Hopp BioTech holding GmbH & Co. KG, which presumably holds the shares.

[2] In his capacity as Managing Director of NewMarket Venture Verwaltungs GmbH

Two members of the Supervisory Board listed above directly held 49,452 shares in the Company as of 30 November 2017; both members of the Executive Management Board together directly hold a total of 124,281 shares.

Changes in the shareholdings of members of the Company's corporate bodies are posted on Heidelberg Pharma's website under "Press & Investors > Corporate Governance > Corporate Bodies and Shareholdings."

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Shareholders and Annual General Meeting

The shareholders of Heidelberg Pharma AG exercise their co-determination and control rights at the Company's Annual General Meeting, which takes place at least once a year. It resolves all matters determined by law with binding effect on all shareholders and the Company. Each share grants one vote at the Annual General Meeting. Every shareholder who registers in time has the right to participate in the Annual General Meeting. The Company makes it easy for shareholders to exercise their voting rights without attending the Annual General Meeting in person through proxies bound by shareholder instructions. In addition, shareholders may also appoint proxies of their own choosing. Heidelberg Pharma AG makes the Executive Management Board's speech and presentation as well as all voting results available to all shareholders unable to attend the Annual General Meeting in person immediately after the meeting has ended. The notice of the Annual General Meeting as well as the reports and information required for the resolutions are published in accordance with the requirements of German stock corporation law and are also made available on the Heidelberg Pharma AG website under "Press & Investors > Annual General Meeting."

Transparency and timeliness

Heidelberg Pharma AG regularly informs shareholders and analysts, as well as the media and the interested public, of the Company's position and any major changes; in so doing, it complies with all requirements of the German Corporate Governance Code in terms of transparency, timeliness, openness and equal treatment. Heidelberg Pharma's corporate communications aims first and foremost to make identical information available to all target groups at the same time and in a timely manner. It goes without saying that on this basis Heidelberg Pharma AG makes publications of the Company available in German and English simultaneously.

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All information relevant to the capital markets – such as annual and half-yearly financial reports, interim management statements, ad hoc announcements and press releases as well as directors' dealings and voting share notifications – are posted on the Company's website under "Press & Investors." Presentations at conferences and investor and analyst meetings, as well as all information related to the Company's Annual General Meeting, are also posted there. The financial calendar contains information on dates relevant to the capital market, e.g., financial reports and Annual General Meetings. Analyst and media conferences are held at least once per year. In addition, the "Press & Investors" section also provides disclosures related to corporate governance in both German and English, which are updated on a regular basis. This includes the Declaration of Conformity, the Statement on Corporate Governance, the Articles of Association, the Report of the Supervisory Board, the Remuneration Report and all archived Declarations of Compliance. The Company website (www.heidelberg-pharma.com) also offers comprehensive information on the Company and its shares.

Compliance in the 2017 fiscal year

Ethical standards, professionalism and compliance with statutory requirements are among the key ingredients of Heidelberg Pharma AG's corporate governance. In the 2017 fiscal year, there were no deviations from the Declaration of Conformity applicable to this period. There were no conflicts of interest among members of the Executive Management Board as defined in Section 4.3 of the GCGC. Any conflicts of interest affecting members of the Supervisory Board pursuant to Section 5.5 of the GCGC were disclosed to the other members of the Supervisory Board, and the Supervisory Board members affected by the given conflict of interest acted as follows during the respective deliberations and resolutions of the Supervisory Board:

The role of Professor Christof Hettich, the Chairman of the Supervisory Board, as partner of the Rittershaus law firm, which provides legal consulting services for Heidelberg Pharma, has been identified as a potential conflict of interest by the Supervisory Board. All consulting contracts agreed with the Rittershaus law firm are approved by the Supervisory Board. To the extent that the services provided by the Rittershaus law firm were the subject of deliberations of the Supervisory Board, the Chairman of the Supervisory Board did not take part in these deliberations and abstained from any votes taken.

While some Supervisory Board members also hold positions on supervisory boards of other companies in the pharmaceutical and biotech sectors, none of these companies can be considered major competitors of Heidelberg Pharma, which complies with GCGC requirements.

Within the framework of the EU Market Abuse Regulation (MAR) that became effective on 03 July 2016 and the EU Market Abuse Directive (CRIM-MAD), which revised and tightened existing financial market laws, all members of the corporate bodies and employees were briefed once again on the legal regulations on insider trading and on responsible use of sensitive information at Heidelberg Pharma.

Under compliance rules, all of Heidelberg Pharma's employees are obligated to report violations of compliance rules to their supervisor or the responsible member of the Executive Management Board.

Risk management

The responsible management of risks is a material part of good corporate governance. Heidelberg Pharma has established a risk management system which enables the Executive Management Board to detect the relevant risks and market trends and respond to them in a timely manner. Please see chapter 7, "Risk report" for details on the Company's risk management and for the risk report. The report on the internal control system relevant to the financial reporting process required since the German Accounting Law Modernisation Act (Bilanzrechtsmodernisierungsgesetz) took effect is included in chapter 7.2 "Internal control system relevant to financial reporting".

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Both of these systems are continuously refined and adjusted to the changing environment. The Executive Management Board discusses the given risk report and any actions that might be required at its meetings and regularly briefs the Supervisory Board on existing risks and their development.

Accounting and audit of financial statements

Heidelberg Pharma regularly informs both its shareholders and third parties by means of its consolidated financial statements, half-yearly interim reports and interim management statements on the first and third quarter. As a listed corporation located within the European Union, Heidelberg Pharma AG must prepare and publish its consolidated financial statements in accordance with the International Financial Reporting Standards (IFRSs), taking into account Section 315a of the German Commercial Code. Both the consolidated financial statements and the annual financial statements are prepared by the Executive Management Board, audited by the auditor and reviewed by the Supervisory Board. The auditor elected by the Annual General Meeting and commissioned by the Supervisory Board participates in the deliberations of both the Audit Committee and the Supervisory Board regarding the Company's financial statements and reports on the material findings of its audit. The Audit Committee uses this information for its own assessment of the Company's financial statements and reports. The combined management report, the annual financial statements of Heidelberg Pharma AG and the consolidated financial statements for the 2017 fiscal year were audited by Deloitte GmbH Wirtschaftsprüfungsgesellschaft (Deloitte). These audits also review the risk early warning system defined by Section 91 (2) of the German Stock Corporation Act as to its general suitability for the early detection of going-concern risks. Deloitte reports to the Chief Financial Officer and the Audit Committee of the Supervisory Board. The auditor also checks whether the Declaration of Conformity in accordance with Section 161 of the German Stock Corporation Act has been issued and published.

6.3 Remuneration report

The remuneration report summarizes the principles used to determine the total remuneration of the Executive Management Board of Heidelberg Pharma AG and explains the structure as well as the remuneration received by the Executive Management Board members. The principles and the amount of remuneration received by the members of the Supervisory Board are also described. The remuneration report follows the recommendations of the GCGC and satisfies the requirements in accordance with the applicable provisions of Section 314 (1) no. 6, Section 315 (2) no. 4 and Section 289 (2) no. 4 German Commercial Code including the German Act on Disclosure of Management Board Remuneration (Vorstandsvergütungs-Offenlegungsgesetz).

Remuneration of the Executive Management Board

The Supervisory Board is responsible for determining the remuneration of the Executive Management Board in accordance with Section 107 (3) of the German Stock Corporation Act. Remuneration consists of a salary (fixed remuneration), other benefits (non-cash remuneration), a variable remuneration component and a stock option plan with a long-term incentive and risk element.

In the event of the termination of an Executive Management Board member's service for Heidelberg Pharma, there is no contractual entitlement to a settlement.

Salary and benefits

The annual salary of members of the Executive Management Board is determined for the term of office and paid in equal amounts over 12 months. These salaries take into account the financial position of Heidelberg Pharma AG and the level of remuneration paid by competitors.

In addition to a salary, Dr. Schmidt-Brand receives the following benefits: Under the director's contract, Heidelberg Pharma Research GmbH makes payments into a defined-contribution, reinsured pension plan. The amount paid was € 10,567 in 2017 (previous year: € 10,567). Payments were also made into a pension fund; an amount of € 2,688 (previous year: € 2,688) was expensed for this in the reporting period.

No non-cash benefits were granted to Professor Pahl within the context of a pension in the fiscal year ended. Prior to Professor Pahl's appointment to the Executive Management Board, € 738 was spent on a company pension plan for him that, as agreed, was financed by Heidelberg Pharma.

In addition, company cars were made available to Dr. Schmidt-Brand and Professor Pahl for the entire fiscal year. The value of this benefit in 2017 was € 9,369 for Dr. Schmidt-Brand (previous year: € 781) and € 10,140 for Professor Pahl (previous year: € 10,140).

No further benefit obligations exist towards the members of the Executive Management Board.

Variable remuneration

Variable remuneration is contingent upon the achievement of personal targets and Heidelberg Pharma's performance targets. The performance-based remuneration of the members of the Company's Executive Management Board is primarily tied to the corporate goals of Heidelberg Pharma and refers to achieving defined milestones, securing additional funding through (e. g.) license agreements and share performance.

Dr. Schmidt-Brand receives a maximum annual bonus of € 80 thousand for his work as a member of the Executive Management Board of Heidelberg Pharma AG and as Managing Director of Heidelberg Pharma Research GmbH. This represents 37 % of his fixed salary (previous year: 37 %). In the fiscal year now ended, Dr. Schmidt-Brand was paid a bonus of € 80 thousand for the 2016 fiscal year.

Professor Pahl's annual bonus is capped at € 75 thousand after his contract was amended and extended during the fiscal year. This equals 38 % of his new fixed salary (previous year: 45 % of his fixed salary at the time). In the fiscal year now ended, Professor Pahl was paid a bonus of € 44 thousand for the 2016 fiscal year.

Remuneration component with incentive and risk features

This remuneration component is based on the 2011 Stock Option Plan adopted by the Annual General Meeting on 18 May 2011. Up to 346,924 stock options (30 % of the total volume) may be granted to the members of the Executive Management Board thereunder. This authorization remained in effect until 1 July 2016. The stock options may only be exercised when they have vested after four years and the performance target has been achieved. In order for the performance target to be achieved, the price of Heidelberg Pharma's share on the ten trading days preceding the onset of the respective exercise period must exceed the exercise price by a minimum of 20 % as well as surpass the gains of the TecDAX during the maturity of the given stock option.

Taking into account a capital reduction completed in 2014 at a ratio of 4:1 for the issue in March 2012 (Tranche 1), four stock options entitle the holder to the acquisition of one no par value bearer share of Heidelberg Pharma AG at an exercise price of € 3.53. As a result, the conversion price for one share is € 3.53 x 4 = € 14.12. The reference price is € 3.53 + 20 % x € 3.53 = € 4.24. This does not affect the issue of Tranche 2 in

June 2016 because it took place after the capital reduction. Here one stock option entitles the holder to the acquisition of one new share at an exercise price equal to the conversion price of € 1.89. The reference price is € 1.89 + 20 % x € 1.89 = € 2.27.

As of the 30 November 2017 reporting date, the active members of the Executive Management Board held 312,000 options under the 2011 Stock Option Plan (Dr. Schmidt Brandt 222,000 options, Professor Pahl 90,000). At the reporting date 30 November 2017, three former members of the Executive Management Board held a total of 25,500 options under this plan.

Overall, the following fixed and variable remuneration components as well as non-cash remuneration for Executive Management Board members were recognized as an expense in the 2017 fiscal year:

Executive Management Board member	Fixed remuneration €		Variable remuneration [1] €		Other remuneration (non-cash benefits) €		Total remuneration [1,2] €	
	2017	2016	2017	2016	2017	2016	2017	2016
Dr. Jan Schmidt-Brand [2]	217,242	217,242	60,000	70,000	22,624	14,036	299,866	301,278
Professor Andreas Pahl	170,833	145,227	59,380	54,840	10,388	10,608	240,601	210,675
Dr. Paul Bevan [3, 4]	0	46,083	0	14,286	0	15,000	0	75,369
Total	**388,075**	**408,552**	**119,380**	**139,126**	**33,011**	**39,644**	**540,466**	**587,322**

[1] The exact variable remuneration is usually determined and paid in the following fiscal year. The figures shown here for the 2017 fiscal year are based on provisions that were determined on the basis of assumptions and historical data.

[2] The remuneration of Dr. Schmidt-Brand refers to his work as Chief Executive Officer and Chief Financial Officer of Heidelberg Pharma AG and as Managing Director of Heidelberg Pharma Research GmbH. A portion of €197 thousand of the total remuneration is attributable to his work as a member of the Executive Management Board of Heidelberg Pharma AG.

[3] Dr. Bevan left the Executive Management Board of Heidelberg Pharma AG effective at the end of 31 March 2016.

[4] After the expiration of his director's contract, Dr. Bevan was available to the Company as an advisor in the 2016 fiscal year. In this capacity, he received remuneration of GBP 3,000 thousand.

The following overview shows the stock options held by members of the Executive Management Board during the year under review and changes in these holdings, as well as the portion of staff costs per beneficiary attributable to these stock options:

Executive Management Board member	01. Dec. 2016 Number	Additions Number	Expiry/ return Number	Exercise Number	30 Nov. 2017 Number
Dr. Jan Schmidt-Brand	222,000	0	0	0	222,000
Professor Pahl	90,000	0	0	0	90,000
Total	**312,000**	**0**	**0**	**0**	**312,000**

Executive Management Board member	Expense in the IFRS statement of comprehensive income €	Fair value of the options held on 30 Nov. 2017[1] €
Dr. Jan Schmidt-Brand	57,801	323,611
Professor Pahl	32,112	126,864
Total	**89,913**	**450,475**

[1] As of the respective issue date.

As in the previous year, no expense was recognized for former members of the Executive Management Board.

The following figures applied to the previous period:

Executive Management Board member	01 Dec. 2015 Number	Additions Number	Expiry/ return Number	Exercise Number	30 Nov. 2016 Number
Dr. Jan Schmidt-Brand	60,000	162,000	0	0	222,000
Professor Pahl	0	90,000	0	0	90,000
Dr. Paul Bevan	183,180	0	175,180	0	8,000
Total	**243,180**	**252,000**	**175,180**	**0**	**320,000**

Executive Management Board member	Expense in the IFRS statement of comprehensive income €	Fair value of the options held on 30 Nov. 2016[1] €
Dr. Jan Schmidt-Brand	35,018	323,611
Professor Pahl	16,012	126,864
Dr. Paul Bevan	835	12,700
Total	**51,865**	**463,175**

[1] As of the respective issue date.

Remuneration of the Supervisory Board

In accordance with the Company's Articles of Association, the members of the Supervisory Board receive a fixed remuneration of € 15,000 for each full fiscal year of service on the Supervisory Board. The Chairman of the Supervisory Board receives a fixed remuneration of € 35,000 and the Deputy Chairman receives € 25,000. Supervisory Board remuneration is paid in four equal installments on the last day of February and on 31 May, 31 August and 30 November of each fiscal year.

Members of a Supervisory Board committee are paid a flat fee of € 3,000, while chairpersons of such committees are paid € 7,000 per fiscal year and committee. In each case, remuneration is limited to activities on a maximum of two committees. Over and above this individual limit, Heidelberg Pharma AG does not pay more than € 39,000 per fiscal year for committee activities of all Supervisory Board members combined. If this cap is not sufficient to cover all memberships and chairmanships of Supervisory Board committees, it is distributed proportionally among all committee members and chairpersons in line with the above provisions, unless the Supervisory Board unanimously resolves a different regulation.

An additional allowance is paid for attendance at a maximum of six Supervisory Board meetings in each fiscal year. Meeting chairpersons are paid a flat fee of € 3,000 and all other members € 1,500 each per meeting. Supervisory Board members who attend meetings by telephone receive only half of the allowance. This allowance must be paid with the Supervisory Board member's fixed remuneration. Members of Supervisory Board committees do not receive an attendance allowance for committee meetings.

The remuneration paid to Supervisory Board members who were not in service for a full fiscal year is pro rated in accordance with the duration of their membership on the Supervisory Board.

Supervisory Board members do not receive variable remuneration, nor are they granted options or similar rights. Supervisory Board members are not entitled to a settlement if their membership ends.

In the 2017 fiscal year, the members of the Supervisory Board were paid remuneration of € 183,750 (previous year: € 196,524) without accounting for reimbursement of travel expenses.

The table below shows the individual remuneration:

	Fixed remuneration €		Attendance allowance €		Committee fee €		Total remuneration[1] €	
Supervisory Board member	2017	2016	2017	2016	2017	2016	2017	2016
Professor Christof Hettich	35,000	35,000	18,000	18,000	7,000	7,000	60,000	60,000
Dr. Georg F. Baur	25,000	25,000	7,500	8,250	10,000	8,500	42,500	41,750
Dr. Friedrich von Bohlen und Halbach	15,000	15,000	3,000	6,000	7,000	10,000	25,000	31,000
Dr. Birgit Kudlek	15,000	15,000	9,000	8,250	6,000	6,000	30,000	29,250
Dr. Mathias Hothum	15,000	15,000	8,205	9,000	3,000	0	26,250	24,000
Andreas R. Krebs[1]	0	6,774	0	750	0	3,000	0	10,524
Total	**105,000**	**111,774**	**47,750**	**50,250**	**33,000**	**34,500**	**183,750**	**196,524**

[1] Andreas R. Krebs left the Supervisory Board effective at the end of the Annual General Meeting on 13 May 2016.

6.4 Disclosures under Section 289 (4) and 315 (4) of the German Commercial Code as well as explanatory report

Summary of subscribed capital

As a result of the capital increases implemented in 2017, the Company's subscribed capital incrementally increased from € 12,927,564 to € 22,452,570 compared with the end of the previous year.

The share capital is composed of 22,452,570 no par value bearer shares. These shares are fully paid in. The Company does not hold any treasury shares.

Restrictions on voting rights or on the transfer of shares

The rights and duties related to the shares arise, in particular, from Sections 12, 53a ff, 118 ff and 186 of the German Stock Corporation Act and the Company's Articles of Association. There are no restrictions on voting rights or on the transfer of shares. No shareholder or shareholder group has special rights. Each share entitles the holder to one vote at the Annual General Meeting and is determinant for the proportion of the Company's profits the shareholder will receive.

No shareholder was prohibited from selling, pledging or otherwise disposing of the Company's securities (shares and options) as of 30 November 2017.

Equity interests exceeding 10 % of voting rights

Section 315 (4) number 3 of the German Commercial Code requires any interest in a Company's capital in excess of ten percent of the voting rights to be disclosed.

Entity with disclosure requirement	Voting interest as of the reporting date
Dietmar Hopp, parties related to him and companies controlled by him[1,2]	approx. 70.26 %

[1] Shares of dievini Hopp BioTech holding GmbH & Co. KG and DH-Holding Verwaltungs GmbH (based on voting rights notifications received as of November 2017)

[2] In January 2018, the conversion of the mandatory convertible bond resulted in an increase in the voting interest of dievini Hopp BioTech holding GmbH & Co. KG. For more information, please see the report on post-balance sheet date events.

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The shareholdings of Dietmar Hopp and parties related to him, and the companies they control, exceed the 50 % threshold. They are majority shareholders and can exercise far-reaching control over Heidelberg Pharma AG or can exert significant influence over the Company.

Shares with special rights conferring powers of control

None of the shareholders have shares with special rights conferring powers of control. In particular, no individual may claim a right to be appointed to the Supervisory Board pursuant to Section 101 (2) of the German Stock Corporation Act.

Nature of voting control where employees have an equity interest and do not directly exercise their control rights

Any employees of Heidelberg Pharma AG who hold an equity interest in the Company exercise their voting rights directly.

Legal regulations and provisions of the Articles of Association on the appointment and dismissal of members of the Executive Management Board and on amendments to the Articles of Association

The members of the Executive Management Board are appointed for a maximum of five years by the Supervisory Board in accordance with Section 84 German Stock Corporation Act and Articles 7–9 of the Articles of Association. The appointment of members of the Executive Management Board may be renewed, or the term of office extended, provided that the term of each such renewal or extension does not exceed five years. The Supervisory Board may revoke appointments to the Executive Management Board for good cause as defined in Section 84 (3) of the German Stock Corporation Act.

If the Executive Management Board does not have the required number of members, a court shall make the necessary appointment in urgent cases in accordance with Section 85 of the German Stock Corporation Act.

Pursuant to Section 179 (1) of the German Stock Corporation Act, any amendment to the Articles of Association requires a resolution by the Annual General Meeting be passed with a majority of at least three-quarters of the share capital represented at the adoption of the resolution.

Authority of the Executive Management Board to issue and buy back shares

Contingent capital:

In accordance with Article 5 (4) of the Articles of Association, the Company's share capital is contingently increased by € 237,194 through the issue of up to 237,194 new no par value bearer shares (Contingent Capital II). The increases of the share capital entered in the Commercial Register in May and November 2017 have no effect on the Company's contingent capital.

Any contingent capital increase will only be implemented to the extent that holders of the stock options issued by the Company on the basis of and subject to the terms and conditions of the authorization by the Annual General Meeting on 8 September 2005 (resolution in accordance with item 9.1) make use of their stock options. In accordance with item 9.1 (5) of the above-mentioned resolution by the Annual General Meeting, the shares will be issued at the exercise price set in each case as the issue price and also at the specific terms and conditions determined in this resolution. The new shares participate in profits from the start of the fiscal year in which they are issued.

In accordance with Article 5 (6) of the Articles of Association, the Company's share capital is contingently increased by € 598,437 through the issue of up to 598,437 new no par value bearer shares (Contingent Capital 2011/I). The contingent capital increase is exclusively for the purpose of satisfying subscription rights issued on the basis of the authorization resolved by the Annual General Meeting on 18 May 2011 with respect to Agenda item 6. The conditional capital increase will only be implemented to the extent that the holders of the subscription rights issued under the "Heidelberg Pharma 2011 Stock Option Plan" exercise their right to subscribe for shares of the Company and the Company does not grant treasury shares or offer a cash settlement to satisfy the option rights. The new shares participate in profits from the start of the fiscal year for which, at the time they are issued, a resolution regarding the appropriation of net profits has not yet been adopted.

In accordance with Article 5 (7) of the Articles of Association, the Company's share capital can be increased by up to € 661,200 through the issue of up to 661,200 no par value bearer shares (Contingent Capital 2017/I). Contingent Capital 2017/I was created exclusively to grant employees and Executive Management Board members of the Company as well as employees of affiliated companies up to 661,200 stock options in accordance with the provisions of the authorization resolution of the Annual General Meeting on 20 July 2017 (2017 Stock Option Plan). This contingent capital increase will only be implemented to the extent that the holders of the subscription rights issued under the 2017 Stock Option Plan exercise their right to subscribe

for shares of the Company and the Company does not grant treasury shares or offer a cash settlement to satisfy the subscription rights.

In accordance with Article 5 (8) of the Articles of Association, the Company's share capital accordingly is contingently increased by € 5,987,000 as of the reporting date through the issue of up to 5,987,000 new no par value bearer shares (Contingent Capital 2017/II). The contingent capital increase is exclusively for the purpose of granting new shares to holders of conversion rights or options granted on the basis of the authorization by the Annual General Meeting on 20 July 2017, resolved in respect of Agenda Item 7, by the Company or by companies in which the Company holds either a direct or indirect majority interest. The shares shall be issued at the conversion or option price to be determined pursuant to the aforementioned resolution. The contingent capital increase will only be implemented to the extent that the holders of conversion rights or options make use of their conversion rights or options or fulfill conversion obligations arising from such bonds. The new shares participate in profits from the start of the fiscal year for which, at the time they are issued, a resolution regarding the appropriation of net profits has not yet been adopted. The Supervisory Board is authorized to adapt the wording of Article 5 (8) of the Articles of Association in line with the respective issue of shares and to make all other associated amendments to the Articles of Association that relate solely to the wording. The preceding applies accordingly in the event of the non-utilization of the conversion rights or options to issue subscription rights after expiration of the authorization period and in the event of the non-utilization of the contingent capital after expiration of the periods for exercising the conversion rights or options.

Total contingent capital as of the 30 November 2017 reporting date thus amounts to € 7,483,831 (previous year: € 2,142,903).

The Executive Management Board, with the approval of the Supervisory Board, and – to the extent that members of Executive Management Board are affected – the Supervisory Board are authorized to determine any other details concerning the contingent capital increase and its implementation in connection with all contingent capital. The Supervisory Board is authorized to change the wording of the Articles of Association to reflect the scope of the respective capital increase from Contingent Capital.

By 28 February 2018, 14,689,925 (98.14 %) of the 14,968,380 convertible bonds issued as part of the corporate action in November 2017 were converted at a conversion price of € 2.60. This resulted in 5,649,964 new no par value shares that increased the share capital of Heidelberg Pharma AG from € 22,452,570 to € 28,102,534 divided into 28,102,534 no par value bearer shares (see also section 8 "Report on post-balance sheet date events").

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Authorized capital:

On 20 July 2017, the Annual General Meeting approved new authorized capital of € 7,484,190, denominated in 7,484,190 new no par value bearer shares (Authorized Capital 2017/I). Up until the reporting date, the Executive Management Board was thus authorized pursuant to Article 5 (5) of the Articles of Association to increase the Company's share capital, with the approval of the Supervisory Board, by up to € 7,484,190 by issuing up to 7,484,190 new no par value bearer shares in return for cash contributions and/or contributions in kind on one or several occasions up to and including 19 July 2022 (Authorized Capital 2017/I).

The shareholders generally have a subscription right in connection with capital increases. The shares may also be acquired by one or more banks, subject to the obligation to offer them to the shareholders for subscription. The Executive Management Board is authorized, however, subject to the approval of the Supervisory Board, to exclude shareholders' subscription rights in connection with cash capital increases in the following cases:

a) In the event of a cash capital increase, if the issue price of the new shares is not substantially lower than the market price and if the total share of the new shares issued in direct or analogous application of section 186 para. 3 clause 4 of the German Stock Corporation Act in return for cash contributions subject to the exclusion of shareholders' subscription rights while this authorization is in effect does not exceed a total of 10 % of the share capital, specifically, neither at the date this authorization takes effect nor at the time it is exercised. Shares that are, or shall be, issued for the purpose of satisfying bonds that are issued with conversion rights or options shall be counted toward this 10 % limit of the share capital, to the extent that and insofar as these bonds are issued in analogous application of section 186 (3) sentence 4 of the German Stock Corporation Act subject to the exclusion of shareholders' subscription rights while this authorization is in effect; or

b) to avoid fractions of shares.

The Executive Management Board is also authorized to exclude shareholders' subscription rights in connection with capital increases in return for contributions in kind with the approval of the Supervisory Board. Finally, the Executive Management Board is authorized to determine both the additional content of the rights embodied in the shares and the conditions of the share issue, subject to the approval of the Supervisory Board. The Supervisory Board is authorized to amend the wording of the Articles of Association to reflect the scope of the capital increase from Authorized Capital 2017/I.

The Company is not authorized at present to acquire treasury shares pursuant to Section 71 (1) No. 8 of the German Stock Corporation Act. There are no key agreements entered into by the Company providing for a change of control following a takeover bid.

Following the utilization of all authorized capital in existence until then amounting to € 7,484,190 in the context of the capital increase entered in the commercial register on 22 November 2017, there was no further authorized capital available at the reporting date for the 2017 fiscal year.

Remuneration agreements between the Company and members of the Executive Management Board or employees concluded in the event of a takeover bid

Heidelberg Pharma AG has not entered into any remuneration agreements that provide for remuneration to members of the Executive Management Board or employees in the event of a takeover bid.

Key agreements entered into by the parent company providing for a change of control following a takeover bid

There are no key agreements entered into by Heidelberg Pharma AG providing for a change of control following a takeover bid.

6.5 Closing statement from the dependent company report

In fiscal year 2017, Heidelberg Pharma AG was a dependent company within the meaning of section 17 (1) of the German Stock Corporation Act because a majority of its shares are held by dievini Hopp BioTech holding GmbH & Co. KG, which is controlled by DH-Capital GmbH & Co. KG and OH Beteiligungen GmbH & Co. KG. All of these are attributable to Mr. Dietmar Hopp, parties related to him and companies controlled by him because they represent the same general interests of the investor. Pursuant to section 312 (1) of the German Stock Corporation Act, the Executive Management Board of Heidelberg Pharma AG therefore prepared a dependent company report that includes the following closing statement:

"In accordance with section 312 (3) of the German Stock Corporation Act, the Executive Management Board of Heidelberg Pharma AG hereby declares that, with respect to the legal transactions listed in this dependent company report and measures that the Company took or failed to take in the 2017 fiscal year during the period from 1 December 2016 to 30 November 2017, and according to the circumstances that were known to the Executive Management Board when those legal transactions were performed or when the Company took or failed to take those measures, the Company received appropriate consideration for each legal transaction and was not placed at a disadvantage due to the Company taking or failing to take those measures."

7 Risk Report

7.1 Risk management and control

Managing and controlling risk is important to the management of Heidelberg Pharma. The tasks involved include the recording and assessment of risk, as well as the efficient controlling of operational and strategic risks. All potential risks with significant ramifications and a reasonable probability of occurring are closely monitored on a regular basis. All major business decisions are made after a comprehensive assessment of all related risks.

The Company's risk strategy is defined by the Executive Management Board and coordinated with the Supervisory Board. The Chief Financial Officer is responsible for the Company's risk management and control. The Controlling Department regularly reports the current status of risk management to the full Executive Management Board.

Heidelberg Pharma has established a comprehensive and efficient system across its divisions, functions and processes to detect, assess, communicate and manage risks. Risk management is designed to detect risks as early as possible, use suitable measures to keep operating losses at a minimum and avert going-concern risks. Heidelberg Pharma uses an IT-based risk management system to identify risks early; the system complies with the requirements of the German Stock Corporation law (Aktiengesetz) and German Control and Transparency in Business Act (Gesetz zur Kontrolle und Transparenz im Unternehmensbereich). Heidelberg Pharma uses this system to identify and assess risks as well as to monitor measures aimed at minimizing risk.

All material risks are addressed in a risk report that is made available to the Executive Management Board monthly. In addition, the risk report is discussed with the Supervisory Board on a regular basis. Comprehensive risk ratings are carried out on a quarterly basis as part of a systematic process designed to ensure that all material risks related to the different departments and subsidiaries are included.

Heidelberg Pharma distinguishes between short-term risks that might affect the Company in the next 12 months and longer-term strategic risks. Unforeseen risks are discussed alongside the usual risk management process, and countermeasures are put in place upon short notice. The risk management system is described in detail in both a risk manual and a company guideline. These documents are regularly updated and made available to all employees. The risk early warning system is reviewed by the Company's auditor at least once per year in order to ensure that it meets the requirements of Section 91 (2) of the German Stock Corporation Act.

7.2 Internal control system for financial reporting

Pursuant to Section 91 and 93 of the German Stock Corporation Act, the Executive Management Board is responsible for ensuring compliance with and duly reporting on an effective internal control system designed to ensure reliable financial reporting. The Company's internal control system is an integral part of its risk management system and serves primarily to ensure that its financial statements comply with all rules and regulations. It comprises all principles, methods and actions aimed at ensuring the effectiveness, economy and propriety of the Company's accounting system as well as ensuring compliance with material legal requirements. Heidelberg Pharma AG fulfills the requirements of the German Commercial Code and IFRS.

Financial control in the Group is divided into planning, monitoring and reporting. Based on its strategic business plan, Heidelberg Pharma prepares annual budgets for internal management and control purposes that are applicable not only to the Group but also to the parent company and subsidiary. Based on these plans, a monthly as well as a more comprehensive quarterly variance analysis is prepared for all financial and non-financial key performance indicators and reported to the Executive Management Board with the support of the relevant departments. This control tool enables the Finance Department and the Executive Management Board to identify opportunities and risks at an early stage.

The corporate bodies of Heidelberg Pharma AG periodically review the effectiveness of the internal control system to ensure reliable financial reporting. Internal reviews have not uncovered any material weaknesses, and minor defects were remedied immediately. In particular, regular reports on this system are submitted to the Audit Committee of the Supervisory Board, which discusses the audit activities.

To ensure reliable financial reporting, Heidelberg Pharma AG observes the International Financial Reporting Standards (IFRSs) and the provisions of the German Commercial Code (HGB). In addition, the Company uses an internal control system (ICS) which follows the framework "Internal Control – Integrated Framework" of the Committee of Sponsoring Organizations of the Treadway Commission (COSO Framework). In keeping with the COSO Framework, the ICS has the following components:

- Control environment
- Risk assessment
- Control activities
- Information and communication
- Monitoring the internal control system.

The Company's internal control system is intended to ensure compliance with applicable accounting principles to ensure reliable financial reporting. The system comprises actions that are managed automatically and manually. Preventive and downstream risk controls are carried out, and care is taken to maintain both the division of responsibilities in the Finance Department and compliance with corporate guidelines (e. g., dual-control principle when approving expenditures). These controls also include the utilization of IT-based solutions that define different access and permission rights and thus grant limited access, especially in connection with the Group's Finance and Accounting Department, which will be consolidated within an integrated system as of the new fiscal year.

If necessary, the Company also includes external experts in the process, such as for questions related to the measurement of stock option grants, the preparation of securities prospectuses and purchase price allocations.

Specific risks related to the Group's financial reporting process may arise from unusual or complex transactions. Transactions that are not routinely processed also entail inherent risks. Additional risks related to the financial reporting process arise from the latitude given to employees regarding the recognition and measurement of assets and liabilities. To prevent these risks, the Company consults with auditing firms – e. g., the auditor of the Company's annual financial statements – and has established a team of professional finance specialists. The risks are monitored both as part of the monthly reporting system and during the year via the internal control system. External third-party opinions are solicited and the Audit Committee is consulted in connection with special topics.

However, all aspects of the internal control system that serve to provide a proper and reliable financial reporting process ensure complete and timely recording of all transactions in compliance with all requirements under the law and the Company's Articles of Association. A software-based invoice management system that has greatly simplified and accelerated invoice processing is being used. Control activities also serve to ensure that the bookkeeping records provide reliable and plausible information and that all measures taken significantly reduce the risk of a negative impact on the financial reporting.

With Heidelberg Pharma's organizational, control and monitoring structures, the internal control and risk management system makes it possible to record, process and measure all transactions pertaining to the Company and to present them appropriately through the accounting of the Group companies and the Group. However, personal discretion, defective controls, criminal acts or other circumstances cannot be precluded and, as a result, may limit the effectiveness and reliability of the internal control and risk management system such that even group-wide application of the systems utilized cannot guarantee with absolute certainty complete, accurate and timely recording of transactions as part of the financial reporting process. The risk management system is adjusted, as necessary and in a timely manner, to account for changes in the risk environment.

7.3 General business risks

Heidelberg Pharma is exposed to the risks typical for a biotechnology company, namely those arising from the development and production of potential drug candidates for the treatment of cancer. The time between the commencement of drug development and marketing approval spans many years. There is a high risk that none of the product candidates or ATAC development candidates will receive regulatory approval. For Heidelberg Pharma, there is the risk that efficacy and safety data from animal models will not be confirmed in humans.

To date, neither Heidelberg Pharma nor a licensing partner has completed clinical development for any of the product candidates in the Heidelberg Pharma portfolio or applied for regulatory approval for them. Two projects (MESUPRON® and REDECTANE®) have been completely transferred to a licensee for further development and marketing. The licensees are also exposed to the risks typical for the industry.

Heidelberg Pharma is currently unable to finance the Company solely through sales and license revenue and is dependent on funding from equity providers or licensees. Debt financing has not been an alternative for biotechnology companies.

Some of the individual risks set forth below are related and can affect each other in a positive or negative way. Should these risks occur, either individually or together with other risks or circumstances, this may severely compromise Heidelberg Pharma's business activities, its achievement of key corporate goals and/or its ability to fund its operations, as well as significantly adversely affect the results of operations, financial position and net assets of Heidelberg Pharma AG and the Heidelberg Pharma Group and therefore jeopardize the ability of Heidelberg Pharma AG and the Heidelberg Pharma Group to continue as a going concern.

7.4 Operational risks

Product development and technology risks

Drug development is subject to risks typical for the industry. Like other biotechnology companies, Heidelberg Pharma AG has suffered setbacks in clinical development and therefore discontinued clinical development of certain product candidates. Licensing partners conducting development activities are also exposed to this risk, which thus indirectly affects Heidelberg Pharma as the licensor.

The subsidiary Heidelberg Pharma Research GmbH is currently involved in early-stage research and preclinical development and to date has not collected any clinical data. There is a risk that the ATAC technology and the use of Amanitin for cancer therapy may not be suitable for patients due to severe side effects.

As is the case for all drugs, efficacy and tolerability are of pivotal importance for ADCs and ATACs. While most drugs have side effects, there must be a sufficiently wide therapeutic window between efficacy and intolerable side effects. Heidelberg Pharma Research GmbH assumes that the linker combinations used for connecting Amanitin to an antibody (toxin) and the respective Amanitin variant as well as the antibodies suitable for this allow for strong anti-tumor efficacy with adequate tolerability, thus representing a sufficient therapeutic window.

Data collected so far show that occasionally undesirable side effects may occur with the combinations used to date, or the efficacy is insufficient. In particular, there is no certainty that the data obtained to date in animal testing of promising ATACs will be transferable to human patients. Therefore, no assurance may be given that the ATAC technology will ultimately be feasible for therapeutic use in humans. This could adversely affect the further development of the operations of Heidelberg Pharma Research GmbH.

Furthermore, no assurance can be given that contractual partners will not terminate technology partnerships. The possibility that the technology might be unusable or unsuitable for the market for certain antibodies cannot be ruled out. Successful preclinical and early clinical trials do not offer any certainty regarding a compound's safety and efficacy in later-stage trials. Heidelberg Pharma cannot eliminate the possibility that the approval of a drug candidate might be delayed or rejected even after a successful registration trial, for instance if the execution or the results of the trial do not satisfy regulatory requirements.

Risks arising from production and collaboration with service providers

Heidelberg Pharma does not hold a Good Manufacturing Practice (GMP) certificate. Antibodies, the toxin and the conjugates for the planned trials are manufactured by service providers (CDMO). A technology transfer process to a CDMO will need to be established for the CDMO to set up a GMP process. Heidelberg Pharma is exposed to the risk that service providers could have quality or capacity problems during or after production, problems with production facilities or problems arising from supply interruptions or delivery delays. The quality of the manufactured substance must be demonstrated to regulatory authorities. On account of poor quality in manufacturing, inadequate documentation or other quality defects could result in regulatory authorities requiring that trials be discontinued, repeated or terminated of. If Heidelberg Pharma AG or the subsidiary were to again carry out clinical trials in the medium term, the Company could be liable for damages to third parties, especially patients participating in clinical trials, for losses that could arise from faulty production by subcontractors of clinical trial materials. This could result in claims against Heidelberg Pharma. For such cases, the Company will take out the corresponding insurance for its clinical trials. Corresponding insurance was taken out to cover liability for already completed clinical trials by Heidelberg Pharma AG. If risks associated with production at licensees were to occur, this could negatively affect agreed milestone and royalty payments.

Risks from license collaborations

Heidelberg Pharma has entered into alliances and partnerships for the development, manufacture and/or commercialization of development or product candidates. Problems relating to development, production or marketing may arise in the course of the partnership. As a licensor, Heidelberg Pharma is materially dependent on the successful production by licensing partners. Licensees must produce the material for trials or contract to have it produced. In this context, risk also arise from collaboration with service providers as described above.

Additional risks to Heidelberg Pharma could result from license agreements, including: insufficient allocation of capacity by the contracting party, financial difficulties experienced by the contracting party, a change in business strategy resulting in termination of an agreement, a change in the ownership structure of the contracting party or the partial or entire absence of agreed payments such as milestone payments or license payments. Such circumstances could impair the contractual relationships, delay the development or production of the drug and diagnostic candidates concerned and increase the costs for their development or production.

Lack of market maturity of the proprietary ATAC technology

The ATAC technology developed by Heidelberg Pharma Research GmbH is still in the development phase and not yet mature enough for development candidates derived from it to be sold and used on the market. It cannot be precluded that the technology might turn out to be useless or unsuitable for the market. In this case, Heidelberg Pharma Research GmbH's business model would have to be rethought. This could have an adverse effect on the Heidelberg Pharma Group's net assets, financial position and results of operations.

Risks arising from the performance of clinical trials

Heidelberg Pharma Research GmbH is currently preparing to start a clinical trial of the development candidate HDP-101. Clinical trials are expensive and time-consuming, and can only be carried out after approval is given by regulatory authorities in the country in question. These approvals may be withheld, or issued only partially or with delays. The trials themselves may be delayed or not reach completion. The number of trials required depends on the type of product candidate or compound being tested, the planned indication and the results of any preceding preclinical or clinical studies.

It is impossible to make any predictions based on successful preclinical and early clinical trials; such trials do not offer any certainty regarding a compound's safety and efficacy in later-stage trials. Heidelberg Pharma cannot eliminate the possibility that the approval of a drug candidate might be delayed or rejected even after a successful registration trial, for instance if execution does not satisfy regulatory requirements.

License agreement for use of ATAC technology

Heidelberg Pharma Research GmbH has entered into license agreements with various licensors for the use of patents related to the ATAC technology. These license agreements are a key condition for further development of the ATAC technology. They can generally only be terminated by the licensor for good cause, and such cause is generally limited to breaches of duty for which the licensee is liable or insolvency of the licensee. Should a license agreement be terminated nonetheless, there is a risk that further development and marketing of the ATAC technology may not be possible.

Unsuccessful marketing of product candidates

Heidelberg Pharma is subject to the usual industry and market risks relating to the marketing of approved pharmaceutical products. Even in cases where regulatory approval is obtained, no assurance can be given that patients, physicians or other decision-makers in the healthcare system will accept the product candidates to the extent required for commercial success. Assumed advantages that the product candidate has over competing treatment methods could be neutralized by new developments or discoveries. The willingness of physicians to prescribe the product and of insurance companies to cover the costs of treatment also play a key role. No conclusive determination in this regard can be made at this time.

Management and monitoring of the Company's future growth

To continuously expand its business activities, Heidelberg Pharma needs to expand its development capacity and manage the Company efficiently. If the Heidelberg Pharma Group continues to grow, the current management structure and headcount, as well as systems and facilities, will not meet the increased requirements.

Risks arising from workforce reduction or employee turnover

The Group's success depends on its executives and research staff, especially their knowledge of the ATAC technology and its successful development and commercialization. The loss of executives and research staff in key positions could delay the Company's research and development work. The ability of the Group to implement its business strategy will also depend on whether the Company continues to be able to recruit highly qualified staff and executives and retain them over the long term.

Use of hazardous substances and compliance with relevant environmental and health protection as well as general traffic safety laws and regulations

Hazardous substances (such as poisonous or corrosive substances) are used in the research and development programs conducted by Heidelberg Pharma. Use of these materials is subject to the relevant environmental and health protection as well as general traffic safety laws and regulations. The Company cannot completely exclude the risk of accidents with these substances, possibly resulting in contamination or personal injury. Were an accident or contamination to occur, Heidelberg Pharma could be required to pay damages and compensation for personal suffering in addition to fines and penalties. The amount of such payments could be substantial. In certain circumstances, the authorities could impose a ban on operations or revoke a manufacturing permit. The facts mentioned above could significantly negatively impact the Company's net assets, financial position and results of operations.

Impact on research and development activities through restrictions on or obstruction of animal experiments

In the course of its business and as a service provider when developing drugs for its clients, Heidelberg Pharma is required by certain laws and regulations to test drug candidates on animals before clinical testing in humans can be initiated. Experiments involving animals are the subject of controversial debate and negative reporting in the media. Animal activists and other organizations and individuals try to lobby the competent authorities, ministries and political decision-makers to limit animal experiments through the enactment of new laws and regulations or attempt to disrupt or prevent animal experiments from taking place through protests or by other means. Germany has an animal welfare law in place with very high standards. These standards are the basis for work at Heidelberg Pharma and its service providers. Nevertheless, the legal situation regarding testing on animals and official practice may change and make it much more difficult to perform experiments on animals in connection with the Company's preclinical studies. This could delay Heidelberg Pharma's research and development work or significantly increase its cost.

7.5 Financial risks

Financing risks

Two successfully completed corporate actions in the fiscal year ended with a transaction volume of € 39.4 million provided sufficient funding for Heidelberg Pharma's continued existence into 2020 according to current financial planning. Operations can be conducted as planned during this period as long as no extraordinary developments change the situation.

Cash inflows from sales revenue or royalties are not yet sufficient to sustain the Company's operations. The Company's plan to build a proprietary ATAC pipeline will result in an increase in research and development expenses in the future. Current financial planning indicates that financing for this is available into 2020. Beyond that, additional external funds are required to finance these activities.

There is a risk therefore that the cash flow to be generated at Heidelberg Pharma will not be sufficient to ensure financing of the planned business activities beyond 2020.

Other sources of financing along with expansion of the revenue base must continue to be considered in the medium term, because without sufficient funding, the continued existence of the Heidelberg Pharma Group, the parent company Heidelberg Pharma AG and/or Heidelberg Pharma Research GmbH would be endangered. If Heidelberg Pharma fails to cover its costs sustainably by increasing sales revenue or obtaining further financing, Heidelberg Pharma will not be able to meet its payment obligations. To avoid insolvency, the subsidiary, which has been operating at a loss, might require financial support from the parent company. In the event of insolvency, most of the investments in the subsidiary's business and the shareholder loan extended by Heidelberg Pharma AG would be lost.

To date, in addition to sales revenue funds available to Heidelberg Pharma AG have been the main source for funding the expansion and profiling of the ATAC technology. The ability of Heidelberg Pharma Research GmbH to increase its sales revenue from the ATAC technology and the service business and find additional collaboration partners is a key pillar of the business model. The success of such partnerships depends not only on upfront payments and milestone payments by licensing and collaboration partners, but also on the ability of these partners to achieve success in clinical development and to generate the projected sales revenue and any resulting license fees.

Heidelberg Pharma assumes that, despite the risks arising from product research and development described above, the ATAC technology will prove to be marketable in the long term and licensees or buyers for the technology or the product candidates will be found to preserve the solvency of Heidelberg Pharma.

In view of the recent positive share price performance, there is a risk that the Company's share price will continue to stagnate at a low level absent positive news flow. The ability of the Company to obtain broad-based capital market financing at acceptable terms and conditions would be limited in this case. See also section 7.9 "Other risks", sub-section "Risks related to a possible significant influence of main shareholders" for more information about the risk of depending on main shareholders.

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Risks arising from the impairment of assets

Assets, particularly equity investments, goodwill, not yet ready for use IP R&D licenses and trade receivables are subject to an inherent impairment risk. Such impairment risk might be triggered by a negative business development at Heidelberg Pharma AG or its subsidiary or by the insolvency of a creditor. An impairment loss must be recognized if the regular impairment test shows that there are objective indications of impairment which, in turn, arise from events that may have occurred after the initial measurement of the asset.

The carrying amount of the investment in Heidelberg Pharma Research GmbH reported in Heidelberg Pharma AG's HGB single-entity financial statements was tested for impairment as part of the annual impairment testing and was found to be fully recoverable at € 13.26 million. The carrying amounts of the goodwill recognized in the consolidated balance sheet for the business of Heidelberg Pharma Research GmbH and the intangible asset "In Process Research & Development" were also tested and confirmed as recognized.

Based on the annual impairment testing, these risks will continue to exist in the future and might lead to impairment losses. This would have a negative effect on the earnings and equity of Heidelberg Pharma AG, which in turn could impact the Group's share price as well as its net assets, financial position and results of operations. Furthermore, a potentially negative effect on the value of the intangible assets, as well as on the goodwill recognized in the IFRS consolidated balance sheet, cannot be excluded.

Halving of the share capital due to an increasing accumulated deficit

Heidelberg Pharma AG is not yet a profitable company and has always posted an annual operating loss. Due to the high expenses for the research and development activities carried out in the past, net losses each year add up to a large accumulated deficit that reduces equity. Due to ongoing expenses, there is a risk that the share capital of Heidelberg Pharma AG could be halved as a result of further losses, which would trigger a mandatory notification.

As soon as half of the equity under German commercial law has been depleted by the accumulated deficit, the Executive Management Board is required by Section 92 (1) German Stock Corporation Act to convene the Company's General Meeting immediately and disclose this fact. Convening a General Meeting would entail both organizational and financial costs for Heidelberg Pharma AG and might also have a negative impact on the Company's share price.

Risks related to the allowance of tax losses carried forward

Tax losses carried forward as of 30 November 2017 were mainly attributable to Heidelberg Pharma AG (loss carryforward of € 175.6 million for corporation tax; € 172.6 million for municipal trade tax) and may be carried forward indefinitely. Due to the current tax notices, Heidelberg Pharma Research GmbH shows a loss carryforward of € 45.3 million for corporation tax and € 45.2 million for municipal trade tax.

Deferred tax assets of € 0.7 million were offset against deferred tax liabilities on loss carryforwards in the past fiscal year. Deferred tax assets were recognized only in the same amount as the deferred tax liabilities.

In fiscal year 2016, Heidelberg Pharma AG was subject to a tax audit for the period from 2011 to 2014. Since the audit did not result in any changes in the tax base, the final determination was made that the loss carryforwards accrued by 31 December 2014 amounted to € 169.2 million (corporation tax) and € 166.2 million (trade tax).

Effective 1 January 2008, under revised Section 8c of the German Corporation Tax Act (Körperschaftsteuergesetz), the acquisition by an acquirer or parties related to it of 25 % to 50 % of the subscribed capital of a loss corporation results in the pro-rated elimination of its tax loss carryforwards whilst the acquisition of more than 50 % of the subscribed capital results in the complete elimination thereof. Because capital increases also cause shifts in shareholdings and thus adverse acquisitions of equity as defined in Section 8c of the German Corporation Tax Act, the capital increases carried out after 2014 and the changed identity of the Company as a result of the restructuring measures might possibly have led to the pro-rated elimination of the tax loss carryforwards.

The full utilization of Heidelberg Pharma Research GmbH's tax loss carryforward in excess of the value of the hidden reserves may also be jeopardized by Heidelberg Pharma AG's acquisition of this company in March 2011. In the future, this risk will be reduced by Section 8d of the German Income Tax Act (business continuation loss carryforwards), which was introduced at the end of 2016 with retroactive effect to 1 January 2016 but cannot be ruled out completely on account of various derogations.

Market risks

Given its business activities, Heidelberg Pharma is exposed to market risks, particularly currency risks (mainly in USD), interest rate and price risk, liquidity risk and default risk. Heidelberg Pharma's risk management focuses on the unpredictability of the financial markets and aims to minimize any potential adverse effects on the Company's ability to finance its business activities. Heidelberg Pharma does not use embedded derivatives or other derivative financial instruments to hedge against risks.

General fluctuations in share prices

The share price of Heidelberg Pharma AG could undergo significant fluctuations. A variety of factors could lead to substantial fluctuations in the share price, including product development results; the announcement of technological innovations, new products or services or other competitive developments by the Company or its rivals; publications about competitors; recent announcements by public authorities and changes in regulatory requirements and the duration of official approval procedures; general and industry-specific economic conditions; the recruitment or departure of key employees; changes in financial forecasts or recommendations by securities analysts; fluctuations in financial figures; events and changes in the market valuation of other companies that have a similar research focus or are active in the same area of business or segment as Heidelberg Pharma AG; an insufficient trading volume in the Company's shares; publications about business partners or licensors; changes in accounting policies and the general market situation.

7.6 Strategic risks

Marketing risks

The Company and its licensees will have to cooperate with other entities to market future products. Through license agreements, Heidelberg Pharma generally receives upfront payments, payments contingent on certain achievements (milestone payments) and, if regulatory approval has been achieved, royalties on product sales. Hence Heidelberg Pharma's future sales revenue will also depend on the performance of its licensees and their partners. The continued existence of the Group and/or the entities included in consolidation would be materially affected if Heidelberg Pharma AG or its subsidiary Heidelberg Pharma Research GmbH failed to conclude license agreements for development and product candidates on reasonable terms or if cooperation agreements entered into were not successful or were terminated.

Risks related to intellectual property rights

Heidelberg Pharma endeavors to protect its product candidates and technologies in all major markets through patents. Nevertheless, Heidelberg Pharma is unable to ensure that patents will be issued on the basis of pending or future patent applications. Even if patents are issued, there is no certainty that they will not be contested, circumvented or declared invalid.

Any infringement by third parties of the patents or the intellectual property rights used or out-licensed by Heidelberg Pharma could have a negative impact on the Company's business operations. There is also a risk that Heidelberg Pharma or its licensing partners might infringe the intellectual property rights of third parties, including those of whom Heidelberg Pharma is unaware. This could lead to time-consuming and cost-intensive litigation or force Heidelberg Pharma to purchase licenses from third parties to develop and market the Company's products.

Product risks

The marketing and sale of pharmaceuticals and services for specific indications is subject to product liability risks. Product liability actions against Heidelberg Pharma AG or Heidelberg Pharma Research GmbH at a later stage cannot be ruled out. In connection with this, there is no guarantee that Heidelberg Pharma would be able to purchase insurance coverage at both a reasonable price and on acceptable terms or that such insurance would be sufficient to protect the companies from lawsuits or loss. Licensees are likewise subject to product risks. If these risks were to occur, they could negatively affect agreed milestone and/or royalty payments.

7.7 External risks

Risks resulting from competition and technological change

The business area of oncology, in which Heidelberg Pharma is active, is extremely competitive due to the high unmet medical need and enormous market potential. Various companies are active in areas similar to those in which Heidelberg Pharma is active. In addition, there is the risk that competitor products might produce better efficacy data, reach the market earlier or be more commercially successful than products developed by Heidelberg Pharma. Competitors also could be faster and more successful at out-licensing.

Risks and dependencies related to the provision of health care and spending by the pharmaceutical industry

Following regulatory approval of a drug, the framework within which public health authorities, research institutes, private health insurance providers and other organizations (such as the German Institute for Quality and Efficiency in Health Care, IQWiG) operate impacts the business activities of Heidelberg Pharma and its partners. Healthcare reforms and the persistent debate about prices in the key markets of the United States, Europe and Japan are putting increasing pressure on healthcare budgets and thus on the pharmaceuticals market. Overall, this situation could cause potential partners or investors to refrain from making new commitments in drug development and also pose a risk for Heidelberg Pharma.

7.8 Going-concern risks/risks that could adversely affect the Company's development

The realistic likelihood of going-concern risks for the coming fiscal year is low due to the financing successfully obtained in 2017. The Group's cash and cash equivalents as of the reporting date November 30, 2017 are sufficient in the Executive Management Board's estimation based on current planning to continue financing business activities for the next 12 months and beyond. Specifically, there are sufficient funds according to the financial planning to ensure the continued existence of the Company as a going concern into 2020.

Since the Company's financing is guaranteed for at least the next 12 months following the audit date in the Executive Management Board's estimation, the consolidated financial statements according to IFRSs and the single-entity financial statements according to the German Commercial Code were prepared on a going-concern basis. A positive going-concern assessment was made in accordance with IAS 1.25 and Section 252 (1) No. 2 German Commercial Code.

If the Executive Management Board is unable to implement the corporate strategy focused on the ADC technology according to plan, and/or if the Company fails to obtain additional equity funding, the continued existence as a going concern of the Group and/or its consolidated companies would be at risk in the medium term.

It cannot be ruled out therefore that Heidelberg Pharma AG or the subsidiary might be unable after 2020 to satisfy their payment obligations, or become overindebted due to impairment losses, for instance as a result of its subsidiary missing budget targets. This would jeopardize the Group's and the consolidated entity's existence as a going concern and shareholders could lose some or all of their invested capital.

7.9 Other risks

Legal risks

Heidelberg Pharma AG or its subsidiary could become party to a legal dispute, for example in a drug safety, patent, licensing, liability or labor law case, as the plaintiff, defendant or intervener. A court case or even an arbitration case could be time-consuming and expensive. Even if such cases were successful or settlements reached, they could adversely affect the Group's results of operations and shorten the currently expected cash reach.

Currently, an action by Siemens Corporation, NJ, USA, is pending against Heidelberg Pharma AG. This relates to a guarantee for claims arising from a lease that Heidelberg Pharma AG was required to assume in 2010 as part of the acquisition of WILEX Inc. (formerly Oncogene Science). Heidelberg Pharma AG's economic and legal assessment has not changed since the 2016 Annual Report; the Company considers the existing provision of € 408 thousand to be adequate. A ruling is expected in 2018.

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Termination of the lease for business premises in Ladenburg

The lease for the business premises in Ladenburg can be terminated by both parties in writing with notice of six months. If the other party were to terminate the lease and if the Company were unable to lease new business premises during this time, the Company's business activities may be halted temporarily.

Risks related to a possible significant influence of main shareholders

Certain shareholders of Heidelberg Pharma AG (Dietmar Hopp, persons related to him and companies controlled by them) hold a material proportion of its shares (approx. 70.264 %) and could exercise a significant influence on the Company in the General Meeting. They could block decisions by the Annual General Meeting or cause their own interests to prevail. Depending on their presence at the Annual General Meeting of Heidelberg Pharma AG, these shareholders could possibly exert a controlling influence over the resolutions passed at the Annual General Meeting.

In addition, there is a risk that the majority interest of the main shareholder could affect the Company's financing activities. In the event of corporate actions, the influence and control of this shareholder could prevent other investors from participating in a financing of the Company. In the past, the low number of shares in freefloat reduced the liquidity of Heidelberg Pharma shares.

Other risks resulting from non-compliance with official and statutory provisions

Risk could arise from the use of computer systems, networks, software and data storage devices. Other risks related to environmental protection, IT security, purchasing as well as general safety requirements are not deemed significant. Heidelberg Pharma has taken organizational precautions to fulfill the requirements in question and control the internal processes.

7.10 Overall assessment of the risk situation

In fiscal year 2018, new findings are expected that will clear up some uncertainties in the assessment of the risk situation. Management will carefully review this information as it is obtained and aim to further refine the business model to maximize the enterprise value in the long term by leveraging opportunities and minimizing risks.

On the one hand, financing risks will increase continually due to the planned utilization of funds until 2020. However, in the view of the Executive Management Board, the increasing maturity of the technology, assuming continued positive research results and successful entry into the clinical phase, will on the other hand produce better marketing opportunities for the ATAC technology, and therefore enhance revenue potential.

8 Report on post-balance sheet date events

8.1 Exercise of convertible bonds

By 28 February 2018, 14,689,925 (98.14 %) of the 14,968,380 convertible bonds issued as part of the corporate action in November 2017 were converted at a conversion price of € 2.60. This resulted in 5,649,964 new no par value shares that increased the share capital of Heidelberg Pharma AG from € 22,452,570 to € 28,102,534 divided into 28,102,534 no par value bearer shares. Most of the Contingent capital 2017/II has thus been utilized.

8.2 License agreement with the University of Texas MD Anderson Cancer Center

At the beginning of March 2018, Heidelberg Pharma Research GmbH as the licensee and The University of Texas System signed a license agreement for patent rights related to the diagnosis and treatment of patients with RNA polymerase II deletion. The subject of the license is a patent application, filed in the name of the Board of Regents of The University of Texas System, which covers important aspects of a potential personalized treatment of patients based on Heidelberg Pharma's ATAC technology (Antibody Targeted Amanitin Conjugates). The University of Texas System is acting on behalf of the MD Anderson Cancer Center (MD Anderson), a US-based tumor center.

Glossary

8.3 Exclusive multi-target research agreement signed with Magenta Therapeutics for the development of antibody drug conjugates

On 5 March 2018, Heidelberg Pharma announced that it had signed an exclusive multi-target research agreement with Magenta Therapeutics. The collaboration will combine Magenta's stem cell platform with proprietary antibodies for up to four exclusive targets with Heidelberg Pharma's proprietary ATAC (Antibody Targeted Amanitin Conjugates) technology for the development of new ATACs. Under the terms of the exclusive research agreement for multi-target molecules, Magenta will have access to Heidelberg Pharma's Amanitin toxin-linker platform technology. Magenta has an option for an exclusive license for global development and commercialization rights to each of the product candidates resulting from the research collaboration.

As licensor, Heidelberg Pharma receives upfront technology access and exclusivity fees and payments for research support. Under the exclusive license agreement, Heidelberg Pharma would be eligible to receive clinical development, regulatory and sales-related milestone payments of up to USD 334 million, if Magenta were to exercise the options on all target molecules and reach all milestones.

9 Report on expected developments and on opportunities

The following paragraphs contain forecasts and expectations regarding future developments. These forward-looking statements are neither promises nor guarantees and are contingent on many factors and uncertainties, some of which are beyond management's control and could have a significant impact on the statements made herewith.

9.1 Economic environment

The International Monetary Fund (IMF) is forecasting global economic growth of 3.9% for 2018, a slight increase over 2017 (3.7%). The IMF estimates growth of 2.2% for the Eurozone (2017: 2.4%) and 2.3% for Germany, both lower rates than in 2017 (2.5%).[35] In its October 2017 projection, the federal government anticipated an increase of 1.9% for Germany, compared with 2.0% for 2017.[36] The positive economic outlook is boosted by current monetary and fiscal policy. The Kiel Institute for the World Economy (Institut für Weltwirtschaft, IfW) estimates that the interest rate path will remain flat.[37]

9.2 Market opportunities in the biotechnology industry

The healthcare industry worldwide, including in Germany, is in good shape and growth, new therapies and a rising trend towards combination therapies are anticipated.[38] According to an industry report published by the US market research institute, IMS Health, global drug spending is expected to rise to USD 1.5 trillion annually by 2021, representing an average annual increase of 4% to 7%.[39] The main growth drivers of this trend will be drugs for the treatment of cancer, autoimmune diseases, diabetes and therapies for hepatitis C.[40] North America continues to be the largest pharmaceutical market with 40% of revenue[41], followed by China.[42]

Tumor diseases are amongst the most frequent causes of death in industrialized countries, and the number of cancer diagnoses is expected to continue to rise as a result of numerous factors such as higher life expectancy, unhealthy lifestyles and changes in the environment.[43] According to the WHO, 14 million new people are diagnosed with cancer globally each year, a figure that will rise by 70% in the next two decades.[44] Accordingly, there is an urgent medical need for cancer therapies that are both effective and well tolerated. As a result, oncology remains the main focus of interest due also to a robust pipeline, of which 87% are targeted therapies and those associated with relevant biomarkers.[45] Innovative technologies provide new opportunities for the biotech industry.

35 http://www.imf.org/en/Publications/WEO/Issues/2018/01/11/world-economic-outlook-update-january-2018

36 Tagesschau.de: Die Vorhersagen der Wirtschaftsschätzer, as of 28 November 2017 https://www.tagesschau.de/wirtschaft/konjunkturprognose114.html

37 IfW, Kieler Konjunkturberichte NR. 37 (2017|Q4), 13 December 2017

38 Scrip intelligence, What does 2017 hold for Pharma?, from 6 January 2017

39 IMS Institute for Healthcare Informatics, The Global Use of Medicines: Outlook through 2021, December 2016

40 IMS Institute for Healthcare Informatics, The Global Use of Medicines: Outlook through 2021, December 2016

41 https://www.grandviewresearch.com/industry-analysis/biotechnology-market

42 IMS Institute for Healthcare Informatics, The Global Use of Medicines: Outlook through 2021, December 2016

43 http://www.who.int/mediacentre/factsheets/fs297/en/

44 http://www.who.int/mediacentre/factsheets/fs297/en/

45 QuintilesIMS Institute: Global Oncology Trends 2017, Advances, Complexity and Cost$, May 2017

The global cost of cancer therapies totaled USD 113 billion in 2016. QuintilesIMS forecasts an annual cost increase of between 6 % and 9 % in oncology until 2021, even though patent expirations and competition with biosimilars are expected to contribute to lower costs.[46] However, discussions about the high cost of drugs are shaping the health policy debate and negotiations with cost reimbursers in both the USA and Europe.

Experts expect M&A transactions to increase again in 2018 after a particularly weak 2017. Recently announced tax reforms in the USA should alleviate uncertainty among market participants and could clear the backlog from 2016 as major pharmaceutical companies will have the opportunity to retrieve and reinvest overseas funds.[47, 48]

There is nothing to suggest that the successful IPO and financing year witnessed in 2017 could not be repeated. The line of companies waiting for IPOs is still full of high-quality candidates and investors are expecting financing activities to grow at an even faster rate than last year.[49]

9.3 Opportunities

ADC technology

ADC technology continues to be a focal point of the pharmaceutical and biotechnology industry. Analysts from Research & Markets estimate that the global market for ADCs will total approximately USD 3 billion in 2018. This market will grow continually due to increased understanding of these complex molecules and improved technology.[50] The ADC market is expected to expand by USD 4.2 billion by 2021, representing an average annual increase (CAGR) of 25.5 % between 2016 and 2021.[51] The development of ADC collaboration is also positive. Although the number of transactions fell by 25 % year-over-year from 16 to 12 in 2017, publicly announced transaction volume quadrupled from USD 520 million to USD 2.2 billion.[52]

The number of clinical development candidates rose to 94 ADCs in 2017, up from 80 a year earlier. Another 58 candidates are in preclinical development (2016: 46).[53]

Heidelberg Pharma Research GmbH's ATACs occupy a special position due to the Amanitin toxin used and its unique mode of action. Due to improved data from preclinical ATAC trials, the development of a GMP process for Amanitin production and experience with its own development candidate HDP-101, the company was able to sign a research and option agreement with Takeda. There is also growing interest among pharmaceutical and biotechnology companies in this innovative anti-cancer treatment option. New preclinical data on ATACs, including from human cells, confirm its efficacy and show that they have the potential to be effective, even in the case of resistance to existing therapies or against quiescent tumor cells.

46 QuintilesIMS Institute: Global Oncology Trends 2017, Advances, Complexity and Cost$, May 2017

47 BioCentury, 13 January 2018: Choosy investors. https://www.biocentury.com/biocentury/finance/2018-01-12/why-2018-will-be-stock-picker%E2%80%99s-market-biotech

48 STAT, What to watch for in Biotech in 2018, December 2017

49 BioCentury, 13 January 2018: Choosy investors. https://www.biocentury.com/biocentury/finance/2018-01-12/why-2018-will-be-stock-picker%E2%80%99s-market-biotech

50 https://adcreview.com/news/adc-market-reach-us-3-billion-2018/

51 BCC Research, Antibody Drug Conjugates: Technologies and Global Markets, June 2017

52 BioCentury data base BCIQ, as of 19 January 2018

53 BioCentury data base BCIQ, as of 5 January 2018

Heidelberg Pharma expects to enter into additional partnerships similar to the collaboration agreed with Takeda. Heidelberg Pharma Research GmbH plans to grant exclusive license rights for the testing, development and marketing of each individual ATAC to secure significant revenues in the form of customary upfront payments, co-funding of development, milestone payments and royalties, which increase as a project matures. Early-stage research collaborations (material transfer agreements, MTAs) are still ongoing, as are negotiations with different companies on continuing and expanding such collaborations under license agreements.

Heidelberg Pharma Research GmbH has made progress in building a proprietary ATAC portfolio with HDP-101 and will continue to work towards achieving its planned milestones for preparing the clinical trial in 2018. The target antigen for HDP-101, BCMA, is particularly interesting and the subject of various therapeutic approaches for treating certain forms of blood cancer. Heidelberg Pharma Research GmbH is currently one of two companies working on an ADC with this antigen.

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MESUPRON®

Our partner Link Health is working on the issuance of an Investigational New Drug (IND) by Chinese regulatory authorities so that it can then commence clinical development of the out-licensed product candidate MESUPRON® in China. Granting of the IND is taking longer than expected. Partner RedHill is also preparing a clinical trial. New patents have also been submitted that could protect its use for gastrointestinal inflammation.

As it has been shown to be safe and well tolerated, MESUPRON® also has the potential to be used in combination therapies, assuming it successfully completes clinical development.

REDECTANE®

A worldwide license agreement was concluded in early 2017 for the development and commercialization of this radiolabeled antibody as a diagnostic. Heidelberg Pharma AG received an upfront payment from Telix and is eligible to receive milestone payments and significant royalties if the collaboration is successful.

As a first step, Australian partner Telix is developing a new and improved production process for manufacturing this antibody. Telix completed an initial public offering (IPO) in November 2017 and raised AUD 50 million. REDECTANE® has been defined as a key development objective.

In further clinical trials, the superior diagnosis of clear cell renal cell carcinoma by molecular imaging with REDECTANE® and PET/CT compared to standard CT will be evaluated. Due to changes in its production, Telix will prepare to submit a new IND for carrying out the clinical trial.

In addition, Telix is also evaluating the development of therapies based on CAIX-antibodies with both beta- and alpha-emitting radionuclides for a variety of malignancies. For example, Lutetium-177-labeled antibody Girentuximab could be evaluated for disease-stabilizing effects in patients with advanced metastatic renal cancer.

RENCAREX®

As with other projects outside the ATAC portfolio, Heidelberg Pharma AG will not carry out any more of its own development activities for clinical product candidate RENCAREX®. Instead, the Company is seeking external financially viable commercial exploitation. After extensive trials, Sunitinib (Sutent® by Pfizer) was approved as the first adjuvant therapy for patients with a high risk of relapse in November 2017.[54] There

54 http://www.onclive.com/web-exclusives/fda-approves-adjuvant-sunitinib-for-highrisk-rcc, 16. November 2017

continues to be reason for hope given the quality of the clinical data, the need for therapies for clear cell renal cell carcinoma, the IP position and now also the prospect of a new manufacturing process for the Girentuximab antibody.

9.4 Strategy

Heidelberg Pharma's strategy focuses on the development and marketing of its proprietary ATAC technology. Its core elements are the expansion of the Company's own project pipeline, the initiation of research and option agreements and their extension to include longer-term and more comprehensive license agreements, as well as the broadening of the technology base.

With regard to expanding its own project pipeline, Heidelberg Pharma aims to largely complete the preparation of clinical development for HDP-101 in the multiple myeloma indication by the end of 2018 in order to test an ATAC on patients for the first time. The most important steps in this process are:

- Completion of the technology transfer and establishing GMP manufacturing of payload, linker and antibody
- GMP availability of complete ATAC molecule HDP-101
- Continuation of scientific advice with the Paul Ehrlich Institute regulatory authority in Germany for clinical approval
- Scientific advice with the FDA regulatory authority in the USA
- Design and preparation of clinical trial
- Application for approval to conduct a Phase I trial (IND)

An additional aim is to select another development candidate from Heidelberg Pharma Research's ATAC portfolio as a follow-up project.

In order to further expand the therapeutic potential beyond the antibodies available at Heidelberg Pharma, additional research and option agreements will be concluded in a similar manner to the Takeda collaboration. The partnership with Takeda is expected to continue as planned, ideally culminating in a therapeutic candidate.

Expansion of the technology base involves enlarging the biochemical toolkit to enable the Company to use already developed antibodies for ATACs without genetic modifications, for example. Research into additional amatoxins and the optimization of their synthesis is another important issue. This work should be carried out systematically to identify additional potential project candidates or offer our ATAC partners specific new product optimization opportunities.

The Company plans to continue to run its service business as a profitable division using a proven approach.

The corporate actions carried out in 2017 have laid the foundation for implementing these development goals into 2020. We believe that the current financing plan ensures that preparations for the clinical development of HDP-101, including the GMP manufacturing of the antibody and Amanitin as well as the end product (ATAC), can be completed and that clinical development can then commence. Stable revenue from the services business and increased payments from Heidelberg Pharma Research GmbH's technology partnerships are expected to help finance in-house development work.

9.5 Financial forecast

Expected results of operations

The Executive Management Board expects the Heidelberg Pharma Group to generate between € 3.0 million and € 5.0 million in revenue and other income (2017: € 2.5 million) in the 2018 fiscal year. These will primarily comprise the sales revenue generated by Heidelberg Pharma Research GmbH and, to a lesser extent, potential milestone payments to Heidelberg Pharma AG.

Other income will mainly comprise government grants. Sales revenue from a potential license agreement or from the partnering of RENCAREX® was not included in this planning.

Based on current planning, operating expenses are expected to be in the range of € 16.0 million to € 20.0 million, higher than in the reporting year (€ 13.2 million).

Earnings before interest and taxes (EBIT) in the 2018 fiscal year are expected to be between € –12.0 million and € –16.0 million (2017: € –10.8 million).

The results of operations in the next few years will depend to a large extent on whether additional agreements for ATAC partnerships and license agreements can be concluded with various pharmaceutical partners.

Heidelberg Pharma assumes that expenses will again exceed income in the medium term after 2018.

Expected financial position and net assets

If income and expenses develop as anticipated, net change in cash and cash equivalents in the 2018 fiscal year is expected to be between € –13.0 million and € –17.0 million. This corresponds to an average monthly use of cash of € 1.1 million to € 1.4 million.

This planning takes into account additional potential cash inflows from new licensing activities at Heidelberg Pharma. Heidelberg Pharma's financing is secured into 2020 based on current planning.

Consolidated equity (30 November 2017: € 37.0 million) would decline given the anticipated loss for the 2018 fiscal year.

All measures being discussed to improve the Company's financial situation are described in detail in the "Going-concern risks" section of chapter 7, "Risk report."

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Financial outlook	Plan 2018 € million	Actual 2017 € million
Sales revenue and other income	3.0–5.0	2.5
Operating expenses	16.0–20.0	13.2
Operating result	(12.0)–(16.0)	(10.8)
Total funding requirement	13.0–17.0	8.6[1]
Funds required per month	1.1–1.4	0.7[1]

[1] Not including the completed capital increases and the issue of a mandatory convertible bond

10 Disclosures on the annual financial statements of Heidelberg Pharma AG (HGB)

The management report of Heidelberg Pharma AG (formerly: WILEX AG, Munich) and the Group management report for the 2017 fiscal year have been combined in accordance with Section 315 (3) in conjunction with Section 298 (2) of the German Commercial Code (HGB). The annual financial statements of Heidelberg Pharma AG prepared in accordance with the German Commercial Code and the combined management report are published simultaneously in the Federal Gazette.

Domiciled in Ladenburg, Germany, Heidelberg Pharma AG is the parent company of the Heidelberg Pharma Group. Heidelberg Pharma AG wholly owns the company Heidelberg Pharma Research GmbH, Ladenburg, Germany, (formerly: Heidelberg Pharma GmbH, Ladenburg, Germany).

The business activities, economic conditions, non-financial key performance indicators, including important contracts, and the risks and opportunities for Heidelberg Pharma AG have been described in detail in the relevant sections or do not differ materially from the situation of the Group.

10.1 Results of operations, financial position and net assets of Heidelberg Pharma AG

Heidelberg Pharma AG reported an operating result of € –3.0 million (previous year: € –1.2 million) in the 2017 fiscal year (1 December 2016 to 30 November 2017) according to German commercial law. Net loss for the year was € 2.1 million (previous year: € 0.5 million).

Whereas sales revenue and operating income (combined: € 0.6 million; previous year combined: € 0.7 million), remained mostly stable, operating expenses rose sharply year over year to € 3.6 million (previous year: € 1.9 million).

Heidelberg Pharma was thus able to reach the projected level of earnings (€ 0.5 million to € 1.0 million). However, the projected range for total operating expenses (€ 1.5 million to € 2.5 million) and the operating result (€ –1.0 million to € –1.5 million) were both missed.

Sales revenue and other operating income

The Company posted sales revenue of € 0.3 million in the 2017 fiscal year (previous year: € 0.1 million). These stem from the out-licensing of REDECTANE®.

Other operating income of € 0.3 million was lower than the previous year (€ 0.6 million) and mainly included income from the reversal of unutilized provisions attributable to other periods (previous year: € 0.4 million) that were subject to limitation. In 2016, there was also income of € 0.2 million from the loan agreement with Nuclea; this resulted from the sale of the former subsidiary Heidelberg Pharma Inc.

Operating expenses

Personnel expenses rose from € 0.7 million in the previous year to € 0.9 million in the fiscal year ended, mainly due to general salary increases, larger bonuses and the full-year employment of Professor Pahl. In the previous year, personnel expenses did not include Professor Pahl's salary for the entire fiscal year because he was appointed mid-year.

Amortization of intangible assets and depreciation of property, plant and equipment totaled € 9 thousand (previous year: € 14 thousand).

Other operating expenses of € 2.7 million (previous year: € 1.1 million) relate mainly to legal and consulting costs (€ 1.6 million; previous year: € 0.3 million).

This expense item contains the cost of conventional legal representation as well as consulting costs related to business development, costs related to industrial property rights and patents and costs related to the termination of research and development activities. The significant growth here is attributable primarily to various financing and contract drafting services. The costs of the two capital increases, which required extensive banking and legal services, alone amounted to € 1.3 million.

Other costs comprised other expenses related to the stock market listing (€ 0.4 million; previous year: € 0.3 million), costs to prepare and audit the annual financial statements (€ 0.1 million; previous year: € 0.1 million), Supervisory Board remuneration (€ 0.2 million; previous year: € 0.2 million) as well as other delayed costs attributable to earlier clinical trials (€ 0.2 million; previous year: € 0.1 million). An additional total of € 0.2 million was incurred for office costs, insurance and contributions, and for other operating expenses (previous year combined: € 0.1 million).

Interest

Interest and similar income mainly consists of interest income on the loan to affiliated company Heidelberg Pharma Research GmbH (€ 1.1 million; previous year: € 0.7 million). Interest and similar expenses of € 218 thousand were incurred due to the dievini shareholder loan (previous year: € 18 thousand).

Earnings

Heidelberg Pharma AG posted a net loss for the year of € 2.1 million in the reporting year (previous year: € 0.5 million).

Financing and liquidity

With the capital increases during the year, Heidelberg Pharma AG had sufficient funds throughout fiscal year 2017 to ensure the financing of its business operations.

Heidelberg Pharma AG had cash and cash equivalents of € 30.4 million at the close of the fiscal year (30 November 2016: € 4.1 million). Specifically, there are sufficient funds according to the Group's financial planning to ensure the financing of the Heidelberg Pharma Group into 2020.

Capital expenditures

As in the previous year, no new additions were made to tangible fixed assets or intangible fixed assets.

Net assets and financial position

Total assets almost doubled by around 97 % to € 69.1 million compared to € 35.1 million in the previous year. This was due to the inflow of capital in connection with the corporate actions and the expansion of the loan extended to Heidelberg Pharma Research GmbH.

Fixed assets were mainly unchanged compared to the previous year at € 13.3 million at the end of 2017, with the carrying amount of the equity investment in Heidelberg Pharma Research GmbH accounting for almost 100 % of non-current assets.

The impairment test for the carrying amount of the equity investment requires the determination of the value in use based on the expected future cash flows of Heidelberg Pharma Research GmbH and the appropriate discount rate.

Impairment testing, and therefore the calculation of the lower fair value of the equity investment, is based on a model that makes assumptions with respect to company planning and uses the present value of the cash flow calculated in this way to determine the enterprise value.

Mid-term planning of the ADC business is based on a detailed four-year plan for the period from 2018 to 2021 (preclinical phase and clinical phases I and II). This is followed by a second, longer-term 17-year planning phase from 2022 to 2038 (clinical phase III, approval and market launch) that is based on model assumptions and continues the first planning phase. A terminal value for the service business is also factored into the calculation. Allowing for the risks and opportunities arising from the business activities, the weighted average cost of capital (after tax) used for the impairment test was 8.2 %. Furthermore, an effective tax rate of 28.43 % was used for the calculation.

Glossary

Further model parameters:

- Derivation of potential sales revenue based on comparison data of approved cancer drugs
- Significant license agreements in 2020 and 2021
- Sustainable positive cash flow from 2025
- Maximum exploitation period for license income extended until 2038 through patents granted and new patent applications
- Discounts for the success rates of individual clinical phases according to the scientific literature

The carrying amount of the equity investment in Heidelberg Pharma Research GmbH was € 13.3 million for the fiscal year ended, which was the same as the previous year. Despite start-up losses incurred by Heidelberg Pharma Research GmbH, Heidelberg Pharma AG firmly believes that, based on future revenue potential and expected future cash flows, there is no need to write down the investment.

The receivables from affiliates include loan and interest receivables from Heidelberg Pharma Research GmbH under an interest-bearing, uncollateralized and indefinite loan (overdraft or credit line) granted to Heidelberg Pharma Research GmbH to secure its financing. Overall, this receivable (including interest) from Heidelberg Pharma Research GmbH increased from € 17.6 million to € 25.3 million in the fiscal year. This loan

will allow the subsidiary to finance most of its research and development expenses and will be continuously built up as the cash required is drawn down. The recoverability of the loan will depend on the progress of the research and development activities of Heidelberg Pharma Research GmbH and thus on its ability to repay the loan at a future date. Failure to meet targets would directly compromise recoverability. Based on the rise in the entity value of Heidelberg Pharma Research GmbH as research and development activities progress on schedule, Heidelberg Pharma AG firmly believes that the receivable is recoverable.

Cash and bank balances totaled € 30.4 million at the end of the fiscal year (previous year: € 4.1 million). For more information on the Company's financial position, which in the past frequently was strained, and a possible threat to its continuation as a going concern, refer to chapters 7.8 "Going-concern risks" and 7.5 "Financial risks."

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Prepaid expenses of € 18 thousand (previous year: € 42 thousand) mainly related to advance payments to service providers.

Equity according to commercial law increased to € 52.6 million at the balance sheet date (previous year: € 30.2 million). Subscribed capital increased to € 22.5 million due to the capital increases implemented during the year (30 November 2016: € 12.9 million). Capital reserve increased correspondingly from € 200.5 million in the previous year to € 215.4 million at the end of the fiscal year.

Accumulated losses increased by € 2.1 million due to net loss from € 183.2 million to € 185.3 million.

After issuing convertible bonds as part of the capital increase completed in November 2017, Heidelberg Pharma AG recognized a corresponding liability for the first time in the amount of € 15.0 million.

Other provisions increased by € 0.2 million, from € 1.0 million in the previous year to € 1.2 million as of 30 November 2017. These mainly comprise provisions for rent liability risks in the amount of € 0.4 million, for the bonus program for the Executive Management Board and employees (€ 0.2 million) and for higher outstanding invoices as a result of the corporate action successfully completed shortly before the reporting date (€ 0.6 million).

Trade payables rose by € 0.2 million, from € 0.1 million in the previous year to € 0.3 million as of 30 November 2017.

Since the shareholder loan from dievini was contributed in kind against the issuance of shares in the capital increase completed in November 2017, there are no longer any liabilities to affiliated companies. In the previous year, this item totaled € 3.8 million.

Other liabilities increased marginally from € 17 thousand in the previous year to € 21 thousand at the reporting date.

Cash flow statement

Cash outflow from operating activities during the reporting period was € 7.9 million (previous year: € 7.3 million). The main factors affecting this item were cash operating expenses, which exceeded cash income, and the loan payment to Heidelberg Pharma Research GmbH.

As in the previous year, there was no cash outflow in 2017 for investing activities to purchase property, plant and equipment and intangible assets.

The change in cash flow from financing activities was primarily attributable to the capital increases and the issue of convertible bonds, and to the associated cash inflows of € 34.2 million (previous year: € 10.3 million).

Furthermore, there was a negative exchange rate effect of € 20 thousand (previous year: gain of € 6 thousand) due to the increase in the value of the US dollar.

Total net inflow of cash and cash equivalents was € 26.2 million in 2017 (previous year: € 3.1 million). This corresponded to an average inflow of cash of € 2.2 million per month (previous year: € 0.3 million). Adjusted for the effects of cash inflows from capital increases and the shareholder loan, net cash outflow was € 7.9 million, which corresponds to an average monthly outflow of € 0.7 million.

At the end of the period, the Company had cash and bank balances of € 30.4 million (previous year: € 4.1 million).

10.2 Other disclosures

In addition to the two Executive Management Board members, the Company had an average of four salaried employees during the year, all of whom worked in administration.

10.3 Financial outlook for the parent company, Heidelberg Pharma AG

Expected results of operations

The Executive Management Board expects Heidelberg Pharma AG to generate between € 0.5 million and € 1.0 million in sales revenue and other operating income in the 2018 fiscal year (2017: € 0.6 million). The earnings target for 2018 does not include potential sales revenue from a potential additional license agreement.

However, Heidelberg Pharma AG is seeking a quick, financially viable commercial use for RENCAREX® by out-licensing it.

Total operating expenses in 2018 are expected to be in the range of € 2.0 million to € 3.0 million if business proceeds as planned, thus remaining below the level seen in the 2017 reporting period (€ 3.6 million).

The operating result in the 2018 fiscal year is expected to be between € –1.0 million and € –2.0 million (2017: € –3.0 million).

It is assumed that expenses will continue to exceed income in the short and medium term.

Expected financial position and net assets

If income and expenses develop as anticipated, financing requirements in the 2018 fiscal year for Heidelberg Pharma AG's business operations are expected to increase. Thus, the funds used in the Company's role as the parent company of Heidelberg Pharma Research GmbH will be approximately at the level of the consolidated figure of between € 13.0 million and € 17.0 million. This corresponds to an average monthly use of cash of € 1.1 million to € 1.4 million.

Equity as defined by German commercial law (30 November 2017: € 52.6 million) would continue to decline given the anticipated loss for the 2018 fiscal year.

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All measures being discussed to improve the Company's financial situation are described in detail in the "Going-concern risks" section of chapter 7, "Risk report" and in chapter 8 "Report on post-balance sheet events."

Ladenburg, 19 March 2018

The Executive Management Board of Heidelberg Pharma AG

CONSOLIDATED FINANCIAL STATEMENTS

Notes to the consolidated financial statements

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (IFRS)

for the fiscal year from 1 December 2016 to 30 November 2017

	Note	2017 €	2016 €
Sales revenue	21	1,900,153	1,362,137
Other income	22	581,848	1,381,320
Income		**2,482,001**	**2,743,458**
Cost of sales	23	(956,656)	(809,061)
Research and development costs	23	(9,323,181)	(6,119,032)
Administrative costs	23	(2,747,979)	(1,954,236)
Other expenses	23	(206,774)	(222,159)
Operating expenses		(13,234,590)	(9,104,488)
Operating result		**(10,752,589)**	**(6,361,030)**
Finance income	26	0	1,161
Finance costs	26	(217,583)	(19,719)
Financial result	**26**	**(217,583)**	**(18,559)**
Earnings before tax		**(10,970,172)**	**(6,379,589)**
Income tax	27	0	(9,445)
Net loss for the year		**(10,970,172)**	**(6,389,034)**
Net currency gain/loss from consolidation		0	0
Other comprehensive income		**0**	**0**
Comprehensive income		**(10,970,172)**	**(6,389,034)**
Earnings per share	**28**		
Basic and diluted earnings per share		(0.76)	(0.53)
Average number of shares issued		14,372,316	11,980,894

Rounding of exact figures may result in differences.

CONSOLIDATED BALANCE SHEET (IFRS)

for the fiscal year ended 30 November 2017

Assets	Note	30 Nov. 2017 €	30 Nov. 2016 €
Property, plant and equipment	9	1,299,623	1,266,847
Intangible assets	10	2,819,272	2,842,216
Goodwill	10	6,111,166	6,111,166
Other non-current assets	11	51,350	31,350
Non-current assets		**10,281,411**	**10,251,579**
Inventories	12	178,032	190,238
Prepayments	13	154,942	41,888
Trade receivables	14	232,508	91,343
Other receivables	14	261,880	92,042
Cash and cash equivalents	15	30,381,061	4,574,382
Current assets		**31,208,423**	**4,989,894**
Total assets		**41,489,833**	**15,241,473**

Equity and liabilities	Note	30 Nov. 2017 €	30 Nov. 2016 €
Subscribed capital	16	22,452,570	12,927,564
Capital reserve	16	219,789,793	191,076,991
Accumulated losses	16	(205,218,496)	(194,248,324)
Equity	**16**	**37,023,866**	**9,756,231**
Pension obligations	17	8,803	7,130
Non-current liabilities		**8,803**	**7,130**
Trade payables	18	1,501,090	132,063
Provisions	18	408,201	408,201
Other current liabilities	18	2,547,873	1,189,819
Financial liabilities	19	0	3,748,028
Current liabilities		**4,457,164**	**5,478,112**
Total equity and liabilities		**41,489,833**	**15,241,473**

Rounding of exact figures may result in differences.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (IFRS)

for the fiscal year from 1 December 2016 to 30 November 2017

	Note	Shares	Subscribed capital €	Capital reserve: Corporate actions/ premium €	Capital reserve: Stock options €	Accumulated losses €	Total €
				184,572,037	3,461,803		
As of 1 December 2015		**9,305,608**	**9,305,608**	**188,033,840**		**(187,859,290)**	**9,480,158**
Measurement of stock options	24				78,166		78,166
Net loss for the year						(6,389,034)	(6,389,034)
Capital increase after accounting for capital procurement costs		3,621,956	3,621,956	2,964,986			6,586,942
Net change in equity							276,073
				187,537,023	3,539,969		
As of 30 November 2016	**16**	**12,927,564**	**12,927,564**	**191,076,991**		**(194,248,324)**	**9,756,231**
				187,537,023	3,539,969		
As of 1 December 2016		**12,927,564**	**12,927,564**	**191,076,991**		**(194,248,324)**	**9,756,231**
Measurement of stock options	24				128,323		128,323
Net loss for the year						(10,970,172)	(10,970,172)
Capital increase after accounting for capital procurement costs		9,525,006	9,525,006	14,178,171			23,703,177
Issue of mandatory convertible bonds after accounting for capital procurement costs				14,406,308			14,406,308
Net change in equity							27,267,635
				216,121,501	3,668,292		
As of 30 November 2017	**16**	**22,452,570**	**22,452,570**	**219,789,793**		**(205,218,496)**	**37,023,866**

Rounding of exact figures may result in differences.

CONSOLIDATED CASH FLOW STATEMENT (IFRS)

for the fiscal year from 1 December 2016 to 30 November 2017

	Note	2017 €	2016 €
Net loss for the year		**(10,970,172)**	**(6,389,034)**
Adjustment for items in the statement of comprehensive income			
Stock options	24	128,323	78,166
Depreciation, amortization and impairment losses	23	406,242	279,887
Exchange rate effects		17,847	0
Finance costs	26	217,583	19,770
Finance income	26	0	(1,212)
Tax expense	27	0	9,445
		769,995	**386,057**
Changes in balance sheet items			
Inventories	12	12,206	88,930
Trade receivables	14	(141,164)	355,005
Other receivables	14	(169,838)	(739,688)
Prepayments	13	(113,054)	(19,437)
Other non-current assets	11	(20,000)	38,630
Trade payables	18	1,369,026	(147,141)
Provisions	18	0	(26,967)
Other liabilities	18	1,359,727	(80,709)
		2,296,904	**(531,378)**
Cash flow from operating activities		**(7,903,273)**	**(6,534,355)**
Finance costs paid	26	(36,678)	(1,741)
Finance income received	26	0	1,212
Net cash flow from operating activities		**(7,939,952)**	**(6,534,884)**
Cash flow from investing activities			
Purchase of property, plant and equipment	9	(400,436)	(523,613)
Purchase of intangible assets	10	(15,638)	(14,256)
Net cash flow from investing activities		**(416,074)**	**(537,869)**
Cash flow from financing activities			
Change in shareholder loan	19	0	3,748,028
Proceeds from capital increases	16	20,529,966	6,664,399
Capital procurement costs of capital increases	16	(755,716)	0
Proceeds from the issue of the mandatory convertible bond	16	14,968,380	0
Capital procurement costs for the issue of the mandatory convertible bond	16	(562,072)	(77,458)
Net cash flow from financing activities		**34,180,551**	**10,334,970**
Influence of exchange rate and other effects on cash and cash equivalents		(17,847)	6,468
Net change in cash and cash equivalents		**25,806,679**	**3,268,685**
Cash and cash equivalents			
at beginning of period	15	4,574,382	1,305,697
at end of period	15	30,381,061	4,574,382

Rounding of exact figures may result in differences.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

of Heidelberg Pharma AG, Ladenburg, in accordance with IFRSs

for fiscal year 2017
from 1 December 2016 to 30 November 2017

1 Business and the Company

Heidelberg Pharma AG was founded in 1997 by a team of physicians and cancer research specialists from the Technische Universität München (TUM). The Company was converted into a stock corporation (Aktiengesellschaft) under German law in 2001 and WILEX AG was recorded in the Commercial Register in the same year. In November 2006, the Company was listed on the Regulated Market (Prime Standard) of the Frankfurt Stock Exchange, where it has since been listed under ISIN DE000A11QVV0/securities identification number A11QVV/symbol WL6. On 29 September 2017, the Company moved its registered office to Schriesheimer Str. 101, 68526 Ladenburg, near Heidelberg. Since its entry in the Mannheim Commercial Register on 18 October 2017 under registration number HRB 728735, the former Wilex AG has been doing business as Heidelberg Pharma AG. The Company's Executive Management Board consists of Dr. Jan Schmidt-Brand and Professor Andreas Pahl.

"Heidelberg Pharma" will be used as a synonym for the Group hereinafter. Each entity's full corporate name is stated whenever facts specific to Heidelberg Pharma AG as the parent company or Heidelberg Pharma Research GmbH as the subsidiary are reported.

The purpose of Heidelberg Pharma AG as a holding company is to act as the parent company of the Group and to out-license the portfolio of diagnostic and therapeutic oncology drug candidates with the related intellectual property rights. The Heidelberg Pharma AG team mainly performs functions relating to Group strategy, finance, investor relations, legal affairs and contract management. Other areas covered are alliance and data management, as well as patents. In addition, strong research & development (R&D) support is being provided to the partner to develop an out-licensed clinical drug candidate. The clinical product candidates MESUPRON® (2014) and REDECTANE® (2017) have already been out-licensed; RENCAREX® is available for out-licensing and further development.

R&D activities are focused on the operations of the subsidiary Heidelberg Pharma Research GmbH in Ladenburg, which refines and markets a proprietary novel approach for therapeutic antibody drug conjugates (ADCs) and offers preclinical services. Heidelberg Pharma is the first company to utilize and develop the compound Amanitin for cancer therapies. It uses the toxin's biological mode of action as a new therapeutic principle, employing its proprietary ATAC (Antibody Targeted Amanitin Conjugates) technology platform for this purpose. The objective is to produce, research and develop selected proprietary Antibody Targeted Amanitin Conjugates as well as a large number of ATAC candidates in collaborations with external partners.

1.1 Consolidated company

Heidelberg Pharma Research GmbH

The subsidiary Heidelberg Pharma GmbH, which was renamed Heidelberg Pharma Research GmbH during the year, has been part of the Heidelberg Pharma Group since March 2011. The subsidiary's Managing Director is Dr. Jan Schmidt-Brand. The registered office of Heidelberg Pharma Research GmbH is also at Schriesheimer Str. 101, 68526 Ladenburg.

Upon recording in the Commercial Register on 17 March 2011, the former Heidelberg Pharma AG (now: Heidelberg Pharma Research GmbH) became a wholly-owned subsidiary of WILEX AG (now: Heidelberg Pharma AG) and thus an integral part of the Heidelberg Pharma Group.

2 Application of new and revised standards

2.1 New and revised standards and interpretations

First-time application of the following standards and interpretations was mandatory in the past fiscal year beginning on 1 December 2016: All of the amendments listed had either no or just minor effects on the fiscal year just ended or the previous fiscal year.

Amendments to IFRS 11: Joint Arrangements (EU effective date: 1 January 2016)

An acquirer of interests in joint operations constituting a business as defined in IFRS 3 must apply all of the principles for accounting for business combinations in IFRS 3 and other IFRSs as long as these do not contradict the guidance in IFRS 11.

IAS 16: Property, Plant and Equipment/IAS 38: Intangible Assets (EU effective date: 1 January 2016)

These amendments provide guidelines indicating the possible methods of depreciation of property, plant, and equipment and amortization of intangible assets, particularly with regard to revenue-based methods.

Amendments to IAS 16: Property, Plant and Equipment/IAS 41: Agriculture (EU effective date: 1 January 2016)

With these amendments, bearer plants that no longer undergo significant biological transformation are brought within the purview of IAS 16 so that they can be accounted for in the same way as property, plant, and equipment.

Amendments to IAS 27: Separate Financial Statements (EU effective date: 1 January 2016)

The amendments reinstate the equity method as an accounting option for investments in subsidiaries, joint ventures and associates in an entity's separate financial statements.

Annual Improvements 2012–2014 (EU effective date: 1 January 2016)

Amendments and clarifications to various IFRSs.

Amendments to IAS 1: Presentation of Financial Statements (EU effective date: 1 January 2016)

The amendments aim to remove impediments to preparers in exercising their judgment in presenting financial statements.

Amendments to IFRS 10: Consolidated Financial Statements/IFRS 12: Disclosures of Interests in Other Entities/IAS 28: Investments in Associates and Joint Ventures: Investment Entities — Applying the Consolidation Exception (EU effective date: 1 January 2016)

The amendments address circumstances that have arisen in connection with application of the consolidation exception for investment entities.

2.2 New and revised standards and interpretations whose application in the consolidated financial statements was voluntary or who were not yet applicable

Application of the following interpretations and standards was voluntary or not yet required as of 1 December 2016. These interpretations and standards were not yet applied by Heidelberg Pharma in the past fiscal year. All of the new and amended standards and interpretations listed would have had either no or just minor effects on the fiscal year just ended or the previous fiscal year.

2.2.1 New and revised standards and interpretations adopted by the EU

Amendments to IAS 7: Statement of Cash Flows (EU effective date: 1 January 2017)
The amendments in Disclosure Initiative (Amendments to IAS 7) come with the objective that entities shall provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities.

Amendments to IAS 12: Income taxes (EU effective date: 1 January 2017)
The amendment entitled Recognition of deferred tax assets for unrealized losses clarifies several issues.

Annual Improvements 2014–2016 (EU effective date: 1 January 2017/1 January 2018)
Amendments and clarifications to various IFRSs.

Amendments to IFRS 4: Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (EU effective date: 1 January 2018)
The amendments provide entities that issue insurance contracts within the scope of IFRS 4 with two options:

Overlay approach: One option permits entities to reclassify some of the income or expenses arising from designated financial assets from profit or loss to other comprehensive income.

Deferral approach: The other option provides a temporary exemption from applying IFRS 9 for entities whose predominant activity is issuing contracts within the scope of IFRS 4.

New standard IFRS 9: Financial Instruments (EU effective date: 1 January 2018)
This standard provides comprehensive guidance on accounting for financial instruments. The new and revised classification rules for financial assets in the latest version of IFRS 9 constitute the primary changes from the predecessor standard IAS 39. These are based on the type of business model and contractual cash flows associated with the financial assets. Also, completely new are the rules regarding the recognition of credit losses, which are now based on an expected loss model. Accounting for hedges was also reformed in IFRS 9 and aims to more accurately reflect risk management activity.

In the assessment of Heidelberg Pharma, the newly applicable standard IFRS 9 will have an effect on the accounting of the Group companies. Heidelberg Pharma is currently in the process of evaluating how this standard will change the accounting policies.

New standard IFRS 15: Revenue from Contracts with Customers (EU effective date: 1 January 2018)
This standard governs the time when and amount in which revenue must be recognized. IFRS 15 replaces IAS 18 Revenue, IAS 11 Construction Contracts and a number of revenue-related interpretations. IFRS 15 is mandatory for all IFRS adopters and applies to nearly all contracts with customers — the major exceptions are leases, financial instruments and insurance contracts.

This also includes clarifications of the standard that will also be applied from 1 January 2018.

In the assessment of Heidelberg Pharma, the newly applicable standard IFRS 15 will have an effect on the accounting of the Group companies. Heidelberg Pharma is currently in the process of evaluating how this standard will change the accounting policies.

Amendments to IFRS 15: Revenue from Contracts with Customers (EU effective date: 1 January 2018)
Amendments and clarifications to this standard.

Amendments to IFRS 2: Share-based payment (EU effective date: 1 January 2018)
These amendments clarify issues relating to the classification and measurement of share-based payment transactions such as:

- accounting for cash-settled share-based payment transactions that include a performance condition,
- classification of share-based payments settled net of tax withholdings, and
- accounting for modification of share-based payment transactions from cash-settled to equity-settled.

New standard IFRS 16: Leases (EU effective date: 1 January 2019)
The new standard brings most leases on-balance sheet for lessees under a single model, eliminating the distinction between operating and finance leases. For lessors, the rules in IAS 17 "Leases" remain largely in effect. Going forward lessors will continue to distinguish between finance and operating leases with different accounting treatments for each.

In the assessment of Heidelberg Pharma, the newly applicable standard IFRS 16 will have an effect on the accounting of the Group companies. Heidelberg Pharma is currently in the process of evaluating how this standard will change the accounting policies.

2.2.2 New and revised standards and interpretations that have been approved by the IASB, but have not yet been adopted by the EU

New standard IFRS 14: Regulatory Deferral Accounts (EU effective date acc. to IFRS 14: 1 January 2016)
IFRS 14 Regulatory Deferral Accounts permits entities that are first-time adopters of IFRSs to continue to recognize, with certain restrictions, regulatory deferral account balances in their financial statements in accordance with their previous accounting principles. This applies to both the initial financial statements according to IFRSs and subsequent financial statements. Regulatory deferral accounts, and movements in them, must be reported separately in the statement of financial position and income statement or in other comprehensive income. In addition, certain disclosures are required.

This standard has not yet been adopted by the EU.

New interpretation IFRIC 22: Foreign Currency Transactions and Advance Consideration
(expected EU effective date: 1 January 2018)
The Interpretations Committee reached the following conclusions:

- The date of the transaction, for the purpose of determining the exchange rate, is the date of initial recognition of the non-monetary prepayment asset or non-monetary deferred income liability.
- If there are multiple payments or receipts in advance, a transaction date is established for each payment and each receipt.

Amendments to IAS 40: Investment Property (expected EU effective date: 1 January 2018)

- Paragraph 57 was amended to clarify that an entity can only transfer a property to or from investment property when, and only when, there is evidence of a change in use. A change of use occurs if property meets, or ceases to meet, the definition of investment property. A change in management's intentions for the use of a property does not of itself constitute evidence of a change in use.

- The list of evidence in paragraph 57(a) – (d) was specified as a non-exhaustive list of examples instead of the previous exhaustive list.

Amendments to IFRS 9: Financial Instruments (expected EU effective date: 1 January 2019)
The IASB published Prepayment Features with Negative Compensation (Proposed Amendments to IFRS 9) to address concerns about how IFRS 9 classifies particular prepayable financial assets.

Amendments to IAS 28: Long-term Interests in Associates and Joint Ventures
(expected EU effective date: 1 January 2019)
The amendments clarify that an entity applies IFRS 9 Financial Instruments to long-term interests in an associate or joint venture that form part of its net investment in that associate or joint venture but are not accounted for using the equity method.

Annual Improvements 2015 – 2017 (expected EU effective date: 1 January 2019)
Amendments and clarifications to various IFRSs.

New interpretation IFRIC 23: Uncertainty over Income Tax Treatments
(expected EU effective date: 1 January 2019)
IFRIC 23 clarifies how to reflect uncertainty in accounting for income taxes.

New standard IFRS 17 Insurance Contracts (expected EU effective date: 1 January 2021)
IFRS 17 establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts within the scope of the standard. The objective of IFRS 17 is to ensure that reporting entities provide relevant information in a way that faithfully represents insurance contracts. This information gives a basis for users of financial statements to assess the effect that insurance contracts have on net assets, financial position and results of operations of an entity.

Amendments to IAS 19: Employee Benefits (expected EU effective date: 1 January 2019)
Plan Amendment, Curtailment or Settlement contains the following amendments:

- In the event of a defined benefit plan amendment, curtailment or settlement, an entity will in the future be required to remeasure current service cost and net interest for the remainder of the annual period using the current actuarial assumptions used for the required remeasurement of the net liability (asset).

- Amendments have also been included to clarify the effect of a plan amendment, curtailment or settlement on the requirements regarding the asset ceiling.

Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor
and its Associate or Joint Venture (expected effective date: postponed indefinitely)
The amendments address a conflict between the requirements in IAS 28 Investments in Associates and Joint Ventures and those in IFRS 10 Consolidated Financial Statements.

3 Key accounting policies

The significant accounting policies applied are explained below.

3.1 Statement of conformity

These consolidated financial statements were prepared in accordance with the International Financial Reporting Standards (IFRSs) and the Interpretations of the International Financial Reporting Standards Interpretations Committee (IFRS IC) as applicable in the European Union (EU). Moreover, the supplementary provisions of Section 315a German Commercial Code (HGB) were applied.

3.2 Basis for preparation of the consolidated financial statements

- The reporting period begins on 1 December 2016 and ends on 30 November 2017. It is referred to hereafter as the "2017 fiscal year" ("2016 fiscal year" for the previous period).

- Based on Group-wide financial and liquidity planning, cash and cash equivalents ensure a cash reach into 2020 and therefore support the preparation of the IFRS consolidated financial statements on a going concern basis in accordance with IAS 1.25. At the time the financial statements were being prepared, it could be assumed that the Company would continue to operate as a going concern beyond the next 12 months.

- In accordance with Section 325 (3) German Commercial Code, Heidelberg Pharma publishes these IFRS consolidated financial statements in the Federal Gazette (Bundesanzeiger). These consolidated financial statements exempt the Company from preparing consolidated financial statements in accordance with the German Commercial Code.

- These consolidated financial statements were prepared by the Executive Management Board on 19 March 2018 and released for publication in accordance with IAS 10. The consolidated financial statements are to be approved by the Supervisory Board on 20 March 2018. The Supervisory Board can decline to approve the consolidated financial statements and Group management report released by the Executive Management Board, in which case the consolidated financial statements would have to be approved in the Annual General Meeting.

- Due to commercial rounding up or down of exact figures, it is possible that individual figures in these consolidated financial statements may not add up exactly to the totals and that percentages given may not precisely reflect the absolute figures to which they relate.

3.3 Basis of consolidation

The consolidated financial statements comprise the financial statements of the parent company Heidelberg Pharma AG and its subsidiary Heidelberg Pharma Research GmbH, which it controls in accordance with IRFS 10.6/10.7.

All intra-group transactions, balances and profits and losses are eliminated in full during consolidation. Figures can be compared directly with those of the previous year because the Group structure did not change. The annual financial statements of the subsidiary are adjusted, if necessary, to bring their accounting policies in line with those used by the Group.

3.4 Foreign currencies

The consolidated financial statements are prepared in euros (€), the Group's functional currency.

Transactions settled in currencies other than the respective local currency are recognized in the separate financial statements at the foreign exchange rate on the transaction date. The temporal method is applied pursuant to IAS 21.21 ff.

At the end of each reporting period the following steps are taken in accordance with IAS 21.23:

- monetary amounts in a foreign currency are translated at the closing rate;
- non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction;
- non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured.

Heidelberg Pharma carries out business processes in US dollars (USD), Swiss francs (CHF) and, to a smaller extent, British pounds (GBP). In fiscal year 2017, a portion of both sales revenue and expenses were recognized in foreign currencies.

The translation of USD and CHF amounts within the Group was based on the following euro exchange rates: For reasons of materiality, no exchange rates of other currencies are shown.

US dollar:
- Closing rate 30 November 2017: € 1 = USD 1.1872 (previous year: € 1 = USD 1.0627)
- Average exchange rate in fiscal year 2017: € 1 = USD 1.1186 (previous year: € 1 = USD 1.1058)

Swiss francs:
- Closing rate 30 November 2017: € 1 = CHF 1.1706 (previous year: € 1 = CHF 1.0773)
- Average exchange rate in fiscal year 2017: € 1 = CHF 1.1036 (previous year: € 1 = CHF 1.0907)

Differences may result from commercial rounding of exact figures.

3.5 Property, plant and equipment

Heidelberg Pharma does not own plots of land or buildings. All office and laboratory premises used at present are rented. Property, plant and equipment consists mainly of laboratory and office equipment and is recognized at historical cost less accumulated depreciation and impairment losses.

The cost less net carrying amount is depreciated on a straight-line basis over the useful life of the asset. The expected useful lives, net carrying amounts and depreciation methods are reviewed at every reporting date and all necessary changes to estimates are applied prospectively. In addition, impairment charges are recognized immediately if assets are impaired as defined by IAS 36.

Depreciation of property, plant and equipment is based on the following useful lives:

- Laboratory equipment 8 to 14 years
- Other office equipment 3 to 23 years
- Leased property, plant and equipment 10 years

Expenses for the repair and maintenance and for the replacement of subordinate items are recognized in income at the time they arise. Extensive replacements and new fixtures and fittings are capitalized where they create a future economic benefit. Replacements are depreciated over their expected useful life. In the event of disposal, the cost and associated accumulated depreciation are derecognized. Any gains or losses resulting from such disposal are recognized in profit or loss in the fiscal year.

Impairment losses are recognized if the recoverable amount of property, plant and equipment is lower than the net carrying amount.

Heidelberg Pharma has not pledged any property, plant or equipment as collateral for contingent liabilities.

See note 3.20 for information on the accounting treatment of finance leases recognized in property, plant and equipment. Page 104

3.6 Intangible assets

3.6.1 Separately acquired intangible assets

Intangible assets not acquired in a business combination with a determinable useful life are carried at cost less accumulated amortization and impairment losses. Amortization is on a straight-line basis over the expected useful life of the asset and is recognized as an expense. The expected useful life and the amortization method are reviewed at every reporting date and all necessary changes to estimates are applied prospectively. Separately acquired intangible assets with an indefinite useful life are carried at cost less accumulated impairment losses.

In addition, impairment charges are recognized if assets are impaired as defined by IAS 38.111 in conjunction with IAS 36. This did not apply in 2017, however.

The following useful lives are assumed for intangible assets, which comprise capitalized licenses, patents and software:

- Licenses und patents 12.5 to 20 years
- Software 3 years

3.6.2 Intangible assets acquired from a business combination

Intangible assets acquired from a business combination, as well as the not yet ready for use intangible assets (In Process Research & Development, or IP R&D) and the acquired customer base resulting from the takeover of Heidelberg Pharma Research GmbH, are recognized separately from goodwill and measured at fair value, i. e., cost, as of the date of acquisition.

In subsequent periods, intangible assets with a definite useful life that were acquired in a business combination are measured in the same way as separately acquired intangible assets: at cost less accumulated amortization and any accumulated impairment losses.

The following useful lives are assumed here:

- Acquired customer base 9 years

The intangible assets not yet ready for use (IP R&D) are not yet being amortized. The development of the ADC technology and other IP components is ongoing, and no antibody-specific product license agreement (PLA) that would specify the current use and marketability of this technology asset in the form of a therapeutic development candidate has been signed to date. Hence this asset has not yet been classified as ready for use in accordance with IFRSs. Amortization of this asset will begin once the development work has been completed.

Goodwill and IP & R&D are also not amortized. Instead, they are tested for impairment annually (compare notes 3.8 and 8).

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3.6.3 Research and development costs

Costs for research activities are recognized as expenses in the periods in which they are incurred.

Internally generated intangible assets resulting from development activities are recognized if and only if the following has been demonstrated:

- The technical feasibility of completing the intangible asset so that it will be available for use or sale.
- The Group's intention to complete production of the intangible asset and use or sell it.
- The Group's ability to use or sell the intangible asset.
- How the intangible asset will generate probable future economic benefits. Among other things, the entity can demonstrate the existence of a market for the output from the use of the intangible asset or the intangible asset itself or, if it is to be used internally, the usefulness of the intangible asset.
- The availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset.
- The Group's ability to measure reliably the expenditure attributable to the intangible asset during its development.

Since these requirements have not been met, no intangible assets could be recognized in the development phase.

At present, all research and development costs are therefore recognized in the income statement for the fiscal year in which they arise.

3.7 Impairment of property, plant and equipment and intangible assets with the exception of goodwill

The Company reviews the carrying amounts of property, plant and equipment and intangible assets at every reporting date to determine whether there is reason to believe that these assets are impaired. If there is indication of impairment, the recoverable amount of the asset is determined to identify the scope of a possible impairment loss. If the recoverable amount of the individual asset cannot be determined, then the recoverable amount of the cash generating unit to which the asset belongs is estimated.

In the case of intangible assets with an indefinite useful life and those not yet available for use, an impairment test is performed at least once a year and in all cases where there is indication of impairment.

The recoverable amount is the higher of the asset's fair value less costs to sell and its value in use. The estimated future cash flows are discounted using a pre-tax rate when determining the value in use. On the one hand, this pre-tax rate takes into account the current market estimate of the present value of the funds. On the other hand, it reflects the risks inherent in the asset to the extent that these have not already been incorporated into the cash flow estimate.

If the estimated recoverable amount of an asset or a cash generating unit falls below the carrying amount, then the relevant carrying amount is decreased to the recoverable amount. The impairment is recognized immediately in profit or loss.

If there is a subsequent reversal of the impairment loss, the carrying amount of the asset or the cash generating unit is increased to the new estimate of the recoverable amount. The increase in carrying amount is limited to the amount that would have resulted if no impairment losses had been recognized in previous years. An impairment reversal is recognized immediately in profit or loss.

3.8 Goodwill

The goodwill resulting from a business combination is recognized at cost less impairment losses, as required, and is reported separately in the consolidated balance sheet.

For purposes of impairment testing, the goodwill must be distributed among each of the Group's cash generating units expected to derive benefit from the synergies generated by the business combination.

Cash generating units to which the goodwill is allocated must be tested for impairment at least annually. As soon as there is some indication of impairment, the cash generating unit must be tested for impairment immediately. If the recoverable amount of a cash generating unit is less than the carrying amount of the unit, then the impairment loss must be initially allocated to the carrying amount of the allocated goodwill and subsequently pro rata to the other assets based on the carrying amounts of each asset within the cash generating unit. Any impairment loss on goodwill is recognized directly in profit or loss in the consolidated statement of comprehensive income. An impairment loss recognized on goodwill may not be reversed in future periods.

3.9 Other non-current assets

When leases for buildings and laboratory equipment and motor vehicles are signed, rent security or security for leased equipment may have to be paid to the landlord or lessor. Depending on the duration of the lease, this item is allocated to non-current or current assets as of the reporting date.

3.10 Inventories

Inventories comprise raw materials, consumables and supplies and work in progress.

Inventories are measured at the lower of cost and net realizable value based on the FIFO method. The cost of sales for internally generated inventories contains all directly attributable costs as well as a reasonable percentage of the general overhead costs. Borrowing costs are not included in the cost of inventories because the performance period is shorter than 12 months.

3.11 Prepayments

The other assets and prepayments, e.g. to service providers or insurers, are either recognized in income in accordance with progress on the relevant order or offset against the final supplier invoice.

3.12 Trade receivables

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Trade receivables belong to the category of loans and receivables (see note 3.14), which are measured at amortized cost. They are therefore recognized at the initial invoice amount net of any adjustments for doubtful accounts. Such adjustments are based on an assessment by management of the recoverability and aging structure of specific receivables.

3.13 Other receivables

Receivables are initially recognized at fair value and subsequently at amortized cost, less any impairment losses. An impairment of other receivables is recognized if there is an objective, substantial indication that not all of the amounts due according to the original contractual terms and conditions are recoverable or discounting that is adequate for the maturity and risk-adjusted seems reasonable. The impairment is recognized in profit or loss.

3.14 Financial instruments

Financial instruments in accordance with IAS 39 are classified according to type:

- Financial assets or financial liabilities at fair value through profit or loss. This category comprises two sub-categories:

  – Financial assets or liabilities held for trading (AFVPL-Tr.): This category comprises the financial assets and liabilities held for trading such as for instance interest-bearing securities, shares and borrower's note loans. In particular, the liabilities held for trading include derivative financial instruments with a negative fair value. Financial assets and liabilities held for trading are recognized at the fair value at every balance sheet date. The remeasurement gains or losses are recognized the net profit/loss for the period. No such assets or liabilities were recognized in the period under review.

  – Financial instruments designated at fair value through profit or loss (AFVPL-Des.): Under the fair value option, financial instruments may be subjected to a voluntary fair value, including recognition of remeasurement gains or losses in the net profit/loss for the period. The irrevocable decision to use the fair value option must be made on initial recognition of the financial instrument. The fair value option may be applied to a financial instrument for example if it eliminates or significantly reduces a measurement or recognition inconsistency. No such assets or liabilities were recognized in the period under review.

- Available-for-sale financial assets: Non-derivative financial assets that are designated as available for sale or are not classified as (a) loans and receivables, (b) held-to-maturity investments or (c) financial assets at fair value through profit or loss are allocated to this category. In particular, this concerns interest-bearing securities, shares and equity interests. They are measured at the fair value. Equity instruments shall be measured at amortized cost if their fair value cannot be reliably determined. No such assets or liabilities were recognized in the period under review.

- Financial assets held to maturity: Non-derivative financial assets with fixed or determinable payments and fixed maturity may be allocated to this category if an entity has the positive intention and ability to hold them to maturity. They are measured at amortized cost. The following are excluded from classification as held-to-maturity investments: (a) financial assets that the entity upon initial recognition designates as at fair value through profit or loss; (b) those that the entity designates as available for sale; and (c) those that meet the definition of loans and receivables.

Heidelberg Pharma currently does not recognize any of the financial instruments listed above.

- Loans and receivables: Non-derivative financial instruments with fixed or determinable payments for which there is no active market are allocated to this category. They are measured at amortized cost. Any impairment is recognized in profit or loss at the time the amortized cost is determined. A financial asset is impaired if there are objective indications of impairment which, in turn, arise from events that may have occurred after the initial measurement and have a negative effect on the value that was recognized on addition. Depending on the type and nature of the respective financial asset, the insolvency of a debtor for instance or even a reduction in the performance and fair value of an investment or other financial assets may constitute indications of and events leading to impairment. Premiums or discounts are recognized in net financial result over the relevant term. They are also measured at amortized cost.

Financial liabilities are initially measured at fair value. After initial recognition, all financial liabilities shall be measured at amortized cost using the effective interest method, except for:

a) Financial liabilities at fair value through profit or loss.

b) Financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition or when the continuing involvement approach applies.

c) The financial guarantee contracts as defined in IAS 39.9.

d) Commitments to provide a loan at a below-market interest rate.

All financial liabilities of Heidelberg Pharma shall subsequently be measured at amortized cost using the effective interest method.

These financial assets and financial liabilities are classified on initial recognition. Heidelberg Pharma reviews the carrying amounts of these financial assets at regular intervals or at least at every reporting date as to whether there is an active market for the respective assets and whether there are indications of impairment (for example, because the debtor is having substantial financial difficulties).

The net profit always contains all other expenses and income associated with the financial instruments in the given measurement category. Besides interest income and dividends, in particular this includes the results of both the initial and the subsequent measurement.

Carrying amounts and fair values are identical in all cases.

In addition, financial instruments are divided into current or non-current assets or liabilities as of the balance sheet date depending on their remaining life. Financial instruments with a remaining life of more than one year at the reporting date are recognized as non-current financial instruments while those with a remaining life of up to one year are recognized as current assets or liabilities.

A class of financial instruments encompasses financial instruments that are grouped in accordance with the disclosures required under IFRS 7 and the features of the financial instruments an entity uses.

The trade and settlement dates generally do not coincide in regular cash purchases or sales of financial assets. There is the option to use either trade date accounting or settlement date accounting in connection with such regular cash purchases or sales. The Heidelberg Pharma Group uses trade day accounting in connection with regular cash purchases and sales of financial assets at the time of both initial measurement and disposal.

Heidelberg Pharma does not utilize hedge accounting for hedging currency risks. Potential currency risks concern the US dollar and the Swiss franc in particular. A portion of cash and cash equivalents is held in US dollars to minimize risk.

3.15 Capital management

3.15.1 Composition of equity

The Group's equity consists of the subscribed capital, which is denominated in common bearer shares with a notional value of € 1.00 each. Additional costs directly attributable to the issue of new shares and a capital measure are recognized under equity as a deduction from equity (e. g. from capital reserves).

The Company's capital comprises its equity including subscribed capital, capital reserves and accumulated deficits.

The two capital increases completed during the fiscal year upon their entry in the Commercial Register on 15 May 2017 and 22 November 2017 increased the share capital by a total of € 9,525,006 from authorized capital, from € 12,927,564 to € 22,452,570. The proportionate directly attributable capital procurement costs incurred in connection with the two capital increases amounted to a total of € 756 thousand and in accordance with IAS 32.37 in conjunction with IAS 32.38 were each deducted directly from the capital reserves. After capital procurement costs, the capital reserves increased by a net € 14.2 million as a result of the two capital increases.

On 22 November 2017, the Company also issued € 14,968,380 of convertible bonds. Because Heidelberg Pharma AG is entitled to require mandatory conversion, they are classified as a mandatory convertible bond and therefore as an equity instrument. Consequently, the following sections of the report use the term "mandatory convertible bond".

One particular feature of the Heidelberg Pharma AG mandatory convertible bond is that the specific bond terms and conditions only permit bondholders to influence the conversion date without giving them a choice – as is the case with a conventional convertible bond – between receiving repayment of their principal or converting the bond into shares. Bondholders are therefore exposed to the risk of incurring a loss as a result of falling share prices. Neither does this classification change as a result of the fact that bondholders have a right to convert the bond during the term. In this respect, under IFRSs, the mandatory convertible bond is in substance (IAS 32.15) an equity instrument as defined in IAS 32.11. In addition, the conditions set out in IAS 32.16 for an equity instrument are met.

The mandatory convertible bonds were offered to existing shareholders by way of an indirect subscription right. The subscription price per new mandatory convertible bond was € 1.00. The subscription ratio was set at 1:1, meaning that one existing share entitled the holder to subscribe for one new mandatory convertible bond. Heidelberg Pharma AG will not make any interest payments on the convertible bonds (zero-coupon bonds). The bondholders have the right to convert the mandatory convertible bonds into a maximum of

5,757,069 new shares at a conversion price of € 2.60 per share from the fiftieth day after the date of issue (11 January 2018) up to the final maturity date, subject to certain lock-up periods. This option was exercised in the period until the preparation of the consolidated financial statements (see note 33). At the end of the two-year term starting on the issue date, the Company may request that the convertible bonds be converted into shares of the Company.

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In line with its classification as an equity instrument, the proceeds of the mandatory convertible bond issue were allocated at initial recognition to the capital reserves within equity. The pro-rated transaction costs directly attributable to the mandatory convertible bond issue amounted to € 562 thousand and were deducted directly from the capital reserves in accordance with IAS 32.37 in conjunction with IAS 32.38. After capital procurement costs, the capital reserves increased by a net € 14.4 million as a result of issuing the mandatory convertible bond.

Overall, the capital reserves increased by € 28.6 million in 2017 as a result of the corporate actions.

3.15.2 Capital management

The capital management program of Heidelberg Pharma serves to safeguard the currently solid capital base in a sustainable manner so as to be able to continue to assume the going-concern premise and to operate under this premise.

Given the losses the Company has incurred since its founding, it focuses mainly on using cash to fund the ongoing development of its technology and product pipeline and, not least, to maintain the confidence and trust of investors and business partners alike in the Company. As described above, in the fiscal year ended two capital increases were carried out and the mandatory convertible bond was issued in this context, but no capital was borrowed from banks.

Management regularly monitors the liquidity and equity ratios and the sum of the items recognized in equity. There were no changes during the reporting year in the Company's strategy or objectives as they relate to its capital management program.

	30 Nov. 2017 € '000	30 Nov. 2016 € '000
Liquidity	**30,381**	**4,574**
In % of total capital	73.2 %	30.0 %
In % of current liabilities (cash ratio)	681.6 %	83.5 %
Equity	**37,024**	**9,756**
In % of total capital	89.2 %	64.0 %
Liabilities	**4,466**	**5,485**
In % of total capital	10.8 %	36.0 %
Total capital	**41,490**	**15,241**

The liquidity ratios (ratio of available cash and cash equivalents to either total capital or current liabilities) increased uniformly compared with the prior-year comparable figures due to the cash inflow from capital increases.

The ratio of liquidity to total capital rose from 30.0 % to 73.2 %. Analogously, the cash ratio, defined as cash and cash equivalents divided by current liabilities, increased from 83.5 % to 681.6 %.

The equity ratio was 89.2 % as of 30 November 2017. This is higher than in the previous year (64.0 %) due to the two capital increases and the mandatory convertible bond issue in fiscal year 2017. In line with the increase in equity and the reduction in liabilities, these declined as a percentage of total capital from 36.0 % in the previous year to 10.8 % as of 30 November 2017.

In the previous year, the shareholder loan made available to Heidelberg Pharma AG by dievini Hopp BioTech holding GmbH & Co. KG, Walldorf (dievini) was still classified as a financial liability along with the interest payable. As this loan including interest was provided by dievini as a contribution in kind in return for shares issued by way of the capital increase completed in November 2017, no such liability exists any more for Heidelberg Pharma AG.

Preventing the share capital from being reduced by more than half by losses in the separate financial statements prepared under German commercial law is a quantitative control variable of equity management.

3.16 Liabilities and provisions

Liabilities are recognized if a legal or constructive obligation exists towards third parties. With the exception of financial liabilities, liabilities are carried at their settlement amount. In contrast, financial liabilities are initially measured at their fair value. They are subsequently measured at amortized cost. All liabilities that fall due within at least one year are recognized as non-current liabilities; they are discounted to their present value.

Provisions are recognized if the Group has a present obligation from a past event, it is probable that the Group will have to meet this obligation and its amount can be estimated reliably. The provision amount recognized is the best estimated amount as of the reporting date for the expenditure required to fulfill the present obligation, taking into account the risks and uncertainties inherent in the obligation. If it is expected that the amount required to settle the provision will be reimbursed by a third party in whole or in part, this claim is recognized accordingly under other receivables.

3.17 Income taxes

Income tax expense is composed of the current tax expense and deferred taxes. The significant loss carryforwards prevented material tax liabilities from occurring.

Deferred income taxes are recognized by applying the balance sheet liability method for temporary differences which arise between the tax base of the assets and liabilities and their carrying amounts in the financial statements according to IFRS. Deferred income taxes are to be measured in accordance with the tax rates (and tax regulations) that are applicable as of the reporting date or that have essentially been passed as law and are expected to be applicable during the period in which an asset is realized or a debt is settled. Deferred tax assets and deferred tax liabilities are not recognized when the temporary differences arise from the initial recognition of goodwill or from the initial recognition of other assets and liabilities in transactions which are not business combinations and affect neither accounting profit nor taxable profit (tax loss).

Deferred tax assets are recognized to the extent it is probable that a taxable profit will be available against which the temporary differences can be applied. Deferred tax assets for tax loss carryforwards are recognized to the extent it is probable that the benefit arising will be realized in future.

If relevant, current or deferred taxes are recognized in profit or loss, unless they are related to items that are either recognized in other comprehensive income or directly in equity. In this case, the current or deferred tax must also be recognized in other comprehensive income or directly in equity.

3.18 Earnings per share

Undiluted earnings per share are calculated as that proportion of net profit or loss for the year available to common shareholders, divided by the weighted average number of common shares outstanding during the period under review. The Treasury Stock Method is used to calculate the effect of subscription rights (stock options). It is assumed that the options are converted in full in the reporting period. The number of shares issued to the option holder as consideration for the proceeds generated, assuming exercise at the exercise price, is compared with the number of shares that would have been issued as consideration for the proceeds generated assuming the average market value of the shares. The difference is equal to the dilutive effect resulting from the potential shares and corresponds to the number of shares issued to the option holder compared to another market participant receiving no consideration. The proceeds assumed from the issue of potential common shares with dilutive effect must be calculated as if they had been used to repurchase common shares at fair value. The difference between the number of common shares issued and the number of common shares which would have been issued at fair value must be treated as an issue of common shares for no consideration and is reflected in the denominator when calculating diluted earnings per share. The profit or loss is not adjusted for the effects of stock subscription rights. The conditional increase of the share capital to grant stock option rights to employees and members of the Executive Management Board (see note 3.19) could potentially dilute the diluted earnings per share in future. Because the stock options exercisable are currently not dilutive given Heidelberg Pharma AG's share price performance, the diluted and basic earnings per share are identical.

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Applying IAS 33.23 to mandatory convertible bonds, the weighted average number of shares increases from the date the contract for the mandatory convertible bond is entered into and is therefore included in the calculation of basic and diluted earnings per share as of that date.

The new weighted average number of shares to be included in this calculation is determined at initial recognition based on the assumption that the mandatory convertible bond will be fully converted. Diluted earnings per share are not adjusted for finance costs if the mandatory convertible bond is a zero-coupon bond.

3.19 Employee and Executive Management Board member benefits

3.19.1 Share-based payment

Equity-settled share-based payment provided to employees in the form of stock options is recognized at the fair value of the relevant option prevailing on the respective grant date. Additional information on calculation of the fair value of share-based payment is presented in note 24.

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The fair value calculated upon equity-settled share-based payment is recognized as an expense using the straight-line method over the period until vesting with a corresponding increase in equity and is based on the Company's expectations with regard to the equity instruments which are likely to vest. At each reporting date, the Group must review its estimates regarding the number of equity instruments vesting. The effects of changes to the original estimates, if any, must be recognized as in profit or loss in such a way that the cumulative expense reflects the change in the estimate and results in a corresponding adjustment in the reserve for equity-settled share-based payments to employees.

3.19.2 Profit-sharing scheme

Heidelberg Pharma recognizes both a liability and an expense for bonus entitlements of both Executive Management Board members and employees. A liability is recognized if there is a contractual obligation or if an obligation is assumed to have arisen as a result of past business practice.

Bonus entitlements and variable remuneration are contingent on the achievement of personal targets and the Company's performance targets. The performance-based remuneration of the members of the Executive Management Board and non-executive personnel is based for one on corporate goals and for another on performance targets that are fixed on an individual basis. These goals and targets comprise and essentially refer to the achievement of defined milestones in research and development, the securing of the Company's further funding and the future performance of Heidelberg Pharma's shares.

Since profit-sharing payments are made subsequently as of the reporting date and there is uncertainty in terms of their amount as a result, the Company recognizes a corresponding provision that is measured using estimates and judgments based on previous payments.

3.19.3 Pension costs

Payments for defined-contribution pension plans for current and former Executive Management Board members and managing directors are recognized as expenses when the beneficiaries have performed the work that entitles them to the contributions. Currently there is a pension plan at Heidelberg Pharma into which contributions are still being paid.

No material future contributions to a defined benefit pension plan for a former Executive Management Board member at Heidelberg Pharma AG are expected due to the nature of the commitment (one-time payment in the maximum amount of € 48 thousand when the benefit comes due) and a reinsurance policy funded with a one-time payment of € 15 thousand in 2000 constituting the plan assets. If capital market developments are unfavorable, there could be a coverage gap between the future one-time payment promised to the beneficiary and the existing plan assets totaling no more than approximately € 15 thousand.

The payments into a defined contribution plan as pledged in exchange for the work performed by the beneficiaries are expensed in the fiscal year in question. The income from the plan assets and the expenses from the defined benefit pension commitment at Heidelberg Pharma AG are recognized in the fiscal year they arise.

3.19.4 Employer's contributions to the statutory pension insurance scheme

In the 2017 fiscal year, Heidelberg Pharma paid € 249 thousand in employer contributions to the statutory pension insurance scheme; this expense is allocated to staff costs (previous year: € 234 thousand).

3.20 Leases

The lease of equipment for which essentially all opportunities and risks associated with ownership are transferred to Heidelberg Pharma is deemed to represent a finance lease under IAS 17. Assets from finance leases are recognized at the beginning of the lease at the lower of fair value or present value of the minimum lease payments. Each lease payment is split into an interest and repayment portion so as to produce a constant interest rate on the remaining balance of the liability. The relevant lease liabilities are contained in liabilities arising from leases.

The interest portion of the financing costs is recognized in income over the term of the lease using the effective interest method. If there is sufficient certainty that ownership will transfer to the lessee at the end of the term of the lease, the asset acquired under a finance lease is depreciated over its expected useful life. Otherwise, the asset is depreciated over the shorter of its useful life or the term of the lease.

Leases, where the risks and rewards associated with ownership remain essentially with the lessor, are deemed to be operating leases. Any payments made under operating leases are recognized in income on a straight-line basis over the term of the lease.

3.21 Recognition of revenue and earnings

Sales revenue and other income are measured at the fair value of the consideration received or receivable and reduced by discounts and similar deductions.

Heidelberg Pharma's business activities are aimed at generating revenue from cooperation agreements and/or license agreements (depending on the design of the given contract in the form of upfront payments, milestone payments, cost reimbursements and royalties). Heidelberg Pharma also generates sales revenue from the provision of preclinical services as part of a customer specific service business.

3.21.1 Sales revenue from cooperation and out-licensing agreements

Sales revenue from such agreements can consist of up-front payments, milestone payments as well as cost reimbursements and royalties for current project development and management.

Up-front payments are due as prepayments at the start of a given cooperation. Revenue recognition in connection with up-front payments requires a case-by-case analysis of the overall circumstances and is therefore contingent on the content of the relevant contract. Revenue is recognized upon receipt of the invoice providing all conditions in IAS 18.14 ff. have been satisfied. Where individual conditions have not been met, the up-front payments received are recognized as deferred income and recognized on a pro-rata basis in profit or loss over the term of the defined work to be performed.

Milestone payments are contingent upon achievement of contractually stipulated targets. Milestones and the resulting sales revenue are not posted as such until the respective targets triggering the payments have been met in full.

The cooperation agreements also normally generate sales revenue in the form of cost reimbursements for ongoing project development with the respective partner that are billed as the costs are incurred and reported as sales.

Royalties or bonuses can become payable after the successful marketing of technologies or programs, for example when licensees generate sales revenue from these.

3.21.2 Sales revenue from the provision of preclinical services

Income from service contracts is recognized according to the percentage of completion. The percentage of completion is determined as follows: Income from the customer specific service business is calculated on a time-and-materials basis and recognized at the contractually agreed hourly rates and directly incurred costs.

3.21.3 Other income

In addition to the reversal of unused liabilities and provisions from prior periods through profit or loss, other income relates to government grants, such as those from the Federal Ministry of Education and Research (BMBF). These government grants are used to support certain projects by reimbursing (portions of) research expenses from public funds. Reimbursement is based on the project costs incurred and non-refundable. The cash amounts received in advance are recognized over the underlying service period according to the research project's stage-of-completion. There was also income from exchange rate differences and sub-leases.

3.22 Cost of sales

All costs directly related to generating sales revenue are reported as cost of sales. Cost of sales thus comprise staff costs, material costs and other costs directly attributable to manufacturing in reference to the respective goods and services sold.

3.23 Research and development

Research and development activities comprise all associated costs not related to the generation of sales revenue, including staff costs, consulting costs, depreciation, amortization and impairment losses, material and cost of sales, third party services, laboratory costs and fees for legal advice. They are recognized as expenses in the period in which they are incurred.

3.24 Administrative expenses

This expense item essentially comprises staff costs, operating costs, consumables, depreciation and amortization, and costs for external services and the stock listing.

Under IFRSs, the costs of a capital increase are closely related conceptually to the inflow of funds. Costs necessarily incurred as a result of and directly attributable to the capital increase are therefore not recognized as an expense in profit or loss, but taken to the capital reserves and offset directly against the capital received (IAS 32.37).

Administrative expenses therefore do not include expenses for capital increases.

3.25 Other expenses

Other expenses are incurred for business development, marketing and commercial market supply activities.

3.26 Interest income

Interest income is recognized in the statement of comprehensive income at the time it is generated, taking into account the effective yield on the asset.

3.27 Interest expense

Interest expense comprises interest on a shareholder loan that no longer existed at the reporting date, interest expense on current liabilities, interest expense for pension provisions and any interest portion in connection with leases. Since the Group does not own qualifying assets, borrowing costs are recognized as an expense in the period in which they are incurred.

4 Segment reporting in accordance with IFRS 8

Applying IFRS 8 Operating Segments, Heidelberg Pharma reported on three segments in up to and including the 2014 fiscal year: Customer Specific Research (Cx), Diagnostics (Dx) and Therapeutics (Rx). As a consequence of the discontinuation of the parent company's R&D activities, no further business activities are conducted within the Group that differ materially in their risk/reward profiles. R&D activities have since focused on the operations of the subsidiary Heidelberg Pharma Research GmbH. As a result, Heidelberg Pharma discontinued its reporting on segments at the beginning of the 2015 fiscal year.

In fiscal year 2017, Heidelberg Pharma posted sales revenue of € 1.9 million (previous year: € 1.3 million), which was mainly attributable to Heidelberg Pharma Research GmbH (€ 1.6 million). Of this figure, the ADC technology accounted for € 0.7 million and the service business for € 0.9 million. In the previous year, Heidelberg Pharma Research GmbH reported sales revenue of € 1.2 million, of which € 0.2 million was from the ADC technology and € 1.0 million from the service business. Heidelberg Pharma AG also posted milestone payments of € 0.3 million in 2017 in connection with out-licensing agreements (previous year: € 0.1 million).

The following table shows the regional distribution of 2017 sales revenue in terms of a customer's or collaboration partner's domicile:

	2017		2016	
Region	€ '000	%	€ '000	%
Germany	824	43 %	676	50 %
Europe	147	8 %	564	41 %
of which B	58	–	204	–
of which CH	89	–	184	–
of which UK	0	–	66	–
of which DK	0	–	60	–
of which RUS	0	–	50	–
USA	701	37 %	29	2 %
China	–	–	94	7 %
Australia	229	12 %	–	–
Total	1,900	100 %	1,362	100 %

All sales revenue was generated in euros (€ 1.3 million) and US dollar (€ 0.6 million).

Apogenix AG, Heidelberg, Germany, (€ 0.4 million), Millennium Pharmaceuticals Inc., Cambridge, Massachusetts, USA, (€ 0.3 million) and Telix Pharmaceuticals Limited, Melbourne, Australia, (Telix) (€ 0.2 million) each were responsible for more than 10 % of sales revenue.

5 Financial risk management

5.1 Financial risk factors

Given its business activities, Heidelberg Pharma is exposed to certain risks, in particular market risk (including currency risks, interest and price risks), liquidity risk and default risk. Heidelberg Pharma's risk management focuses on the unpredictability of the financial markets and aims to minimize any potential adverse effects on the Group's ability to finance its business activities. However, Heidelberg Pharma does not use embedded derivatives or other derivative financial instruments to hedge against risks.

Responsibility for groupwide risk management rests with the full Executive Management Board. It has implemented an effective groupwide risk management system throughout the entire Heidelberg Pharma Group and monitors compliance with the risk management principles approved by the Supervisory Board with the help of the respective individuals responsible for the individual fields of risk identified as well as in cooperation with Controlling. The Executive Management Board specifies written principles for all risk management aspects. The Risk Officer identifies, assesses and communicates financial and corporate risks in close cooperation with the Executive Management Board. Moreover, all potential risks, particularly financial risks with substantial ramifications and a reasonable probability of occurring are closely monitored and discussed by the Company's Executive Management and Supervisory Boards at every quarterly reporting date.

The groupwide risk management system serves to identify and analyze risks to which Heidelberg Pharma is exposed, making it possible to take appropriate countermeasures as necessary. The principles underlying the risk management system are reviewed and adjusted in a regular and ongoing process in order to ensure that any changes in and requirements of Heidelberg Pharma's business environment are covered. Internal guidelines and training ensure that every employee is aware of their tasks and duties in connection with the risk management system and duly carries them out.

5.1.1 Market risk

5.1.1.1 Currency risk

Heidelberg Pharma cooperates with different service providers worldwide and is therefore exposed to currency risks in connection with currency positions, mainly in US dollars, Swiss francs and, to a lesser extent, in British pounds (GBP). This risk includes the relative decrease or increase of the euro vis-à-vis the other currencies during the period until payment of the liability or receivable.

As the currency risk is limited overall, Heidelberg Pharma has not concluded any hedging transactions but is attempting to achieve financial hedging by matching cash inflows and outflows in the same currency.

5.1.1.2 Price risk

The mandatory convertible bonds issued do not expose Heidelberg Pharma to risks from price fluctuations, as the conversion price has been fixed at € 2.60 per mandatory convertible bond and the total proceeds of the issue have already been collected in the fiscal year ended. Likewise, the Company does not believe it is exposed to risks from changes in the price of commodities, as these are not purchased.

5.1.2 Liquidity and interest risk

Mainly cash, cash equivalents and receivables constitute financial instruments that might expose Heidelberg Pharma to concentrations of default, liquidity and interest rate risks. Heidelberg Pharma has no obligations under long-term financial investments. Heidelberg Pharma has a detailed cash planning system,

which is updated regularly, at least once a month. It serves to ensure that Heidelberg Pharma is aware of the available cash and cash equivalents and the due dates of its liabilities at all times in order to be able to pay liabilities as they fall due.

Given the contractually fixed interest rates and short maturities, market-driven interest rate fluctuations do not have a direct effect on the financial assets and liabilities such that the interest rate risk plays a secondary role for Heidelberg Pharma.

However, interest rate changes could affect the carrying amount of goodwill and not yet ready for use intangible assets (IP R&D) in the context of impairment testing.

5.1.3 Default risk

Heidelberg Pharma is exposed to bad debt risks in connection with its receivables. No material past due trade or other receivables were shown as of the reporting date.

The maximum default risk in connection with trade receivables is € 233 thousand and corresponds to the trade receivables balance sheet item. The maximum default risk from other receivables is € 262 thousand, which mainly comprises receivables from the tax authorities.

The other non-current assets comprise receivables in connection with rent and lease security deposits (€ 46 thousand; previous year: € 26 thousand) and other receivables from service providers (€ 5 thousand; previous year: € 5 thousand).

No reported financial asset is past due. No collateral was furnished for receivables.

5.1.4 Cash flow and fair value interest rate risk from financial instruments

Heidelberg Pharma invests liquid funds only in interest-bearing bank accounts or short-term fixed deposits. Market interest rate fluctuations may therefore affect the Company's ability to generate interest income from these financial instruments. Due to the current interest rate situation, the Company was unable to generate interest cash flow in 2017. This conservative investment approach ensures that there is no nonpayment risk (see note 3.14).

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Furthermore, Heidelberg Pharma maintains domestic credit balances only with major banks that belong to the German Deposit Insurance Fund and/or the German Savings Banks Organization's deposit assurance fund. The default risk in connection with these credit balances is therefore minimal.

5.2 Determination and measurement of fair value

The rules in IFRS 13 Fair Value Measurement must always be applied if fair value measurement is stipulated or permitted by another IAS or IFRS, or if disclosures about fair value measurement are required. The fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (exit price). The fair value of a liability therefore reflects the default risk (i.e. own credit risk). Measurement at fair value assumes that the asset is being sold or the liability is being transferred in the principal market or — if such is unavailable — in the most favorable market. The principal market is the market with the largest volume and the greatest activity to which the entity has access.

Fair value is determined using the same assumptions and taking into account the same characteristics of an asset or a liability on which independent market participants would base their assessment. Fair value is a market-based, not entity-specific measurement. For non-financial assets, the fair value is determined based on the best possible use of the asset by a market participant.

Heidelberg Pharma uses the following hierarchy to determine and disclose the fair value of financial instruments (see note 20):

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Level 1: Quoted (unadjusted) prices in an active market for identical assets and liabilities that the entity can access. The fair value of financial instruments traded on an active market is based on the quoted market price at the reporting date.

Level 2: Inputs, other than quoted prices in Level 1, that are observable for the asset or liability either directly (such as prices) or indirectly (derived from prices). The fair value of financial instruments not traded on an active market can be determined using a valuation technique. In this case, fair value is estimated on the basis of the results of a valuation technique that makes maximum use of market inputs, and relies as little as possible on entity-specific inputs. If all of the inputs required to determine fair value are observable, the instrument is classified in Level 2.

Level 3: Inputs for the asset or liability that are not observable. If important inputs are not based on observable market data, the instrument is classified in Level 3.

The carrying amounts of financial assets and liabilities such as cash and cash equivalents, marketable securities as well as trade receivables and payables are more or less equal to their fair value on account of the short maturities.

6 Going concern risk

As of 30 November 2017, the cash and cash equivalents were sufficient to cover the Heidelberg Pharma Group's financing requirements beyond the next 12 months. More specifically, according to corporate planning, the financing is sufficient to ensure the Company's existence as a going concern into 2020.

As a result, the IFRS consolidated financial statements and the HGB annual financial statements were prepared on a going concern basis. A positive going-concern assessment was made in accordance with IAS 1.25 and Section 252 (1) No. 2 German Commercial Code.

If the Executive Management Board is unable to implement the corporate strategy according to plan, and/or if the Company fails to obtain additional equity funding, the continued existence as a going concern of the Group and/or its consolidated companies would be at risk in the medium term.

It cannot be ruled out therefore that Heidelberg Pharma AG or Heidelberg Pharma Research GmbH might be unable after 2020 to satisfy their payment obligations, or become overindebted due to impairment losses, for instance as a result of missing budget targets – even if the corporate strategy is implemented as planned. This would jeopardize the Group's and the consolidated entities' existence as a going concern and shareholders could lose some or all of their invested capital.

7 Critical estimates and discretionary decisions

Application of the accounting principles described under note 3 requires the Management Board to assess facts, perform estimates and make assumptions with respect to the carrying amounts of assets and liabilities that cannot be readily determined from other sources. Page 93

Estimates and judgments are continually evaluated and are based on historical data and experience and other factors, including expectations of future events that are believed to be reasonable and realistic under the circumstances. The Company makes estimates and assumptions concerning the future. By their nature, the resulting estimates rarely reflect the exact subsequent circumstances. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next fiscal year are discussed below.

The assumptions underlying the estimates are regularly reviewed. Changes in the estimates that concern only a specific period are considered solely in that period; if the changes concerns both the current and subsequent reporting periods, then they are considered in all relevant periods.

Assumptions underlying the recognition of sales revenue (€ 1.9 million; previous year: € 1.3 million) and other income (€ 0.6 million; previous year: € 1.4 million) are in some cases based on estimates by the Executive Management Board.

Determining the expense from the measurement of stock options granted in the reporting year (€ 128 thousand; previous year: € 78 thousand) and the parameters underlying the impairment test for goodwill (€ 6,111 thousand, as in the previous year) and IP R&D (€ 2,493 thousand, as in the previous year) materially concern assumptions and judgments that are made by management and regularly reviewed.

The amount of the continued provision to cover the risk of the Company possibly being held liable under a rent guarantee furnished to Siemens Corporation, NJ, USA, (Siemens) for the former WILEX Inc. is subject to assumptions based on management estimates.

One determining factor in the convertible bond's classification as an equity instrument and therefore as a mandatory convertible bond was the fact that, at the issue date, Heidelberg Pharma AG already considered it highly probable that it will be settled in equity instruments. The large proportion converted by the date of preparation of the consolidated financial statements (see note 33.1) proves this assumption to be accurate. Page 153

It is generally possible that Heidelberg Pharma could deviate in the future from the assumptions made to date, which could necessitate a material adjustment of the carrying amounts of the assets or liabilities in question.

7.1 Expense from the granting of stock options

Heidelberg Pharma recognizes expenses in the amount of € 128 thousand (previous year: € 78 thousand) from the granting of stock options during the reporting year under staff costs (see note 24). For this purpose, future assumptions need to be made regarding the different calculation parameters, such as the expected volatility of the share price, the expected dividend payment, the risk-free interest rate during option terms and staff and Executive Management Board turnover. Should these assumptions change, Heidelberg Pharma would need to change the relevant parameters and adjust its calculations and staff costs accordingly. Page 132

7.2 Impairment test pursuant to IAS 36

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The impairment tests of both goodwill (see note 8) in the amount of € 6,111 thousand (previous year: € 6,111 thousand) and the IP R&D technology asset – which is not yet ready for use – in the amount of € 2,493 thousand (previous year: € 2,493 thousand) require estimating either the fair value less costs to sell or, alternatively, the recoverable amount as the value in use, determined on the basis of the cash generating unit's expected future cash flows and a reasonable discount rate.

Factors such as revenue that is lower than expected and the resulting decrease in net cash flows as well as changes in the WACC could have a material effect on the determination of the value in use and/or the fair value less costs to sell and, in the final analysis, on the impairment of the goodwill or the IP R&D technology asset acquired.

7.3 Impairment loss on the loan to Nuclea Biotechnologies Inc. in accordance with IAS 39

Determining whether or not the loan to Nuclea is impaired requires comparing its carrying amount to the present value of expected future cash flows. In a first step, objective indications of impairment were assessed. An impairment loss is then recognized in the amount of the difference between the carrying amount and the lower present value of the future cash flows. On the one hand, this requires an assessment of the creditworthiness of borrower Nuclea and, on the other hand, an estimate of the timing and amount of expected future payments from the loan agreement. Factors such as a change in credit rating affect the carrying amount.

7.4 Provisions relating to the rent guarantee to Siemens in accordance with IAS 37

Determining the amount of the continued provision for the rent guarantee furnished to Siemens (€ 408 thousand) requires an estimate of the expenditure required to settle the obligation at the reporting date. The expenditure required to settle the obligation must be estimated on a prudent basis as the amount the Company would be required to pay to fulfill the obligation. Estimating the financial consequences of the rent guarantee requires an assessment by management. The most likely result is given as the best possible estimate of the obligation.

Firstly, for purposes of justification this estimate requires an assessment of the creditworthiness of Nuclea, which owes the rent. Secondly, it requires an estimate of the expected future payments from the rent guarantee. Factors such as a change in credit rating could affect the carrying amount.

8 Impairment testing pursuant to IAS 36

The following is a description of impairment testing in January 2018 (previous year: January 2017) of the acquired goodwill and the intangible and not yet ready to use (and therefore not yet amortized) technology asset (IP R&D) acquired in the course of the 2011 business combination with Heidelberg Pharma Research GmbH.

For purposes of annual impairment testing, goodwill and the IP R&D technology asset are assigned to Heidelberg Pharma's lowest cash generating unit, which is monitored by the Executive Management Board.

Heidelberg Pharma AG acquired Heidelberg Pharma Research GmbH in March 2011. This acquisition generated goodwill of € 6,111 thousand. Furthermore, an IP R&D asset consisting of the ADC technology with a net carrying amount of € 2,493 thousand was identified as a not-yet-ready-for-use technology asset in the course of the purchase price allocation performed at the time. The carrying amounts as of 30 November 2017 correspond to the value at acquisition in each case. Despite the progress made in development, management believes that the general conditions under which Heidelberg Pharma Research GmbH operates have not changed significantly since 2011.

Impairment testing, and therefore the calculation of the recoverable amount as the value in use, is based on a model in which assumptions in respect of company planning are included and in which the present value of the cash flows forecast in this way are calculated to determine the value in use. The expected future cash flows from Heidelberg Pharma Research GmbH were discounted applying a company-specific risk-adjusted interest rate.

Planning as regards the service business of Heidelberg Pharma Research GmbH is based on annual sales revenue of around € 0.9 million in the period from 2018 to 2025. Continuous annual growth of 1.5 % is assumed from 2026 to 2038. For the period after 2038, a terminal value of € 419 thousand was taken into account for the service business.

The ADC business was analyzed as to its future partnership and out-licensing potential, and these assumptions were used for sales revenue planning during the period from 2018 to 2038.

The ADC technology platform is a cornerstone of Heidelberg Pharma Research GmbH's business model. It is expected to be used to optimize antibodies for specific customers and manufacture corresponding antibody-drug conjugates to improve cancer treatments in the future. Heidelberg Pharma Research intends to market the ADC technology to third parties and plans to generate sales revenue in the form of milestone payments and royalties. Particularly in the final phase of an ADC agreement (product license agreement), these payments are essential to the business model. They come due as soon as the contractual partner pursues development of a drug candidate and completes the approval process. The development phase comprises the execution of several clinical trials and can therefore take several years, which necessitates a second long-term planning phase for purposes of the impairment test.

The mid-term planning for the ADC business used for the impairment test comprises detailed planning over a four-year period from 2018 to 2021 (preclinical and clinical phases I and II). This is followed by a second, longer-term 17-year planning phase from 2022 to 2038 (clinical phase III, approval and market launch) that continues the first planning phase. Medium-term planning is based on the following assumptions in the model:

- Derivation of potential sales revenue based on comparison data of approved cancer drugs
- Maximum exploitation period for license income until 2038 through patents granted and new patent applications
- Discounts for the success rates of individual clinical phases according to the scientific literature

In the first phase of the four-year period from 2018 to 2021, sharply negative cash flows (discounted) are expected in 2018 and 2019 due in particular to the budgeted preclinical expenses and clinical phase I expenses for HDP-101. Provided all goes to plan, positive discounted cash flows (adjusted for tax effects) of are forecast as early as 2020 due to the material royalties expected. All told, the Company expects sustained positive cash flow as of the planned market phase starting in 2025.

In the phase from 2018 to 2024, the model projects cumulative discounted cash flows (adjusted for tax effects) of € –9.8 million in total, while for the phase as of 2025, it assumes cumulative discounted cash flows (adjusted for tax effects) of € 46.9 million (including terminal value).

The carrying amount of the cash generating unit analyzed was € 7.9 million as of the reporting date (previous year: € 11.0 million), which corresponds to the sum total of assets of Heidelberg Pharma Research GmbH. Allowing for the risks and opportunities arising from the business activities, the discount factor used for the impairment test was 10.3 % (previous year: 12.4 %) before taxes and 8.2 % (previous year: 10.9 %) after taxes. If the discount rate were to increase by one percentage point, the value in use would decrease by € 5.6 million.

The impairment test showed that there was no need to recognize impairment losses on goodwill or the IP R&D technology as of 30 November 2017. Not until a discount factor of 18.1 % (after tax) (previous year: 13.2 %) is reached would the carrying amount of the cash generating unit equal the total present value calculated.

The income tax rate underlying the cash flows in the model is 28.43 %, as in the previous year.

Indications necessitating impairment testing of goodwill and of the IP R&D technology in certain situations in accordance with IAS 36.12 (g)/IAS 36.14 (b) did not arise during the past fiscal year.

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The calculation of fair value is based on unobservable inputs (Level 3; see note 5.2). The cash flows included in the calculation are not influenced by internal transfer prices. There is an active market for the products and services of the cash-generating unit measured.

9 Property, plant and equipment

As of 30 November 2017 and 30 November 2016, property, plant and equipment comprised the following:

	Laboratory equipment (owned) € '000	Other office equipment € '000	Total € '000
2016 fiscal year			
Opening carrying amount	939	46	985
Additions	475	49	524
Disposals	(1)	(2)	(3)
Depreciation	(205)	(34)	(239)
Net carrying amount as of 30 Nov. 2016	**1,208**	**59**	**1,267**
As of 30 Nov. 2016			
Cost	3,556	748	4,304
Accumulated depreciation and impairment	(2,348)	(688)	(3,036)
Net carrying amount as of 30 Nov. 2016	**1,208**	**59**	**1,267**
2017 fiscal year			
Opening carrying amount	1,208	59	1,267
Additions	300	101	400
Depreciation	(329)	(38)	(368)
Net carrying amount as of 30 Nov. 2017	**1,178**	**122**	**1,300**
As of 30 Nov. 2017			
Cost	3,808	848	4,657
Accumulated depreciation and impairment	(2,630)	(726)	(3,357)
Net carrying amount as of 30 Nov. 2017	**1,178**	**122**	**1,300**

Unless allocable to cost of sales, the full amount of depreciation totaling €368 thousand (previous year: €239 thousand) was recognized in profit or loss as R&D costs and as general and administrative expenses. No impairment losses were recognized in the reporting year and the previous year.

Heidelberg Pharma did not sign new finance leases pursuant to IAS 17 (see note 3.20) in the fiscal year just ended. Finance lease assets are measured at present value and amortized over their estimated useful life on a straight-line basis.

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Heidelberg Pharma has not pledged any property, plant or equipment as collateral for liabilities. There are no contractual obligations for the acquisition of property, plant and equipment.

10 Intangible assets

As of 30 November 2017 and 30 November 2016, intangible assets comprised the following:

	Software € '000	Licenses € '000	Patents € '000	Other intangible assets € '000	Intangible assets not yet ready for use € '000	Goodwill € '000	Total € '000
2016 fiscal year							
Opening carrying amount	12	1	286	76	2,493	6,111	8,978
Additions	2	0	12	0	0	0	14
Amortization and impairment	(8)	0	(16)	(17)	0	0	(41)
Net carrying amount as of 30 Nov. 2016	**6**	**1**	**282**	**59**	**2,493**	**6,111**	**8,953**
As of 30 Nov. 2016							
Cost	707	1	1,535	320	2,493	6,111	11,168
Accumulated amortization and impairment	(701)	0	(1,253)	(261)	0	0	(2,215)
Net carrying amount as of 30 Nov. 2016	**6**	**1**	**283**	**59**	**2,493**	**6,111**	**8,953**
2017 fiscal year							
Opening carrying amount	6	1	283	59	2,493	6,111	8,953
Additions	2	0	13	0	0	0	16
Amortization and impairment	(4)	0	(16)	(18)	0	0	(39)
Net carrying amount as of 30 Nov. 2017	**4**	**1**	**279**	**41**	**2,493**	**6,111**	**8,930**
As of 30 Nov. 2017							
Cost	710	1	1,549	320	2,493	6,111	11,184
Accumulated amortization and impairment	(705)	0	(1,269)	(279)	0	0	(2,253)
Net carrying amount as of 30 Nov. 2017	**4**	**1**	**279**	**41**	**2,493**	**6,111**	**8,930**

All of the additions stem from separate acquisitions. Unless allocable to cost of sales, € 39 thousand (previous year: € 41 thousand) in amortization and impairment losses were recognized in profit or loss as research and development costs and as general and administrative expenses.

In addition, the acquired customer base identified as an intangible asset in connection with a purchase price allocation was amortized.

As a rule, software and patents as well as licenses as part of intangible assets have a finite useful life.

There were no currency effects from the translation of foreign currencies into the reporting currency for any group of intangible assets. Heidelberg Pharma has not pledged any intangible assets as collateral for liabilities. The Company has no contractual obligations for the acquisition of intangible assets.

10.1 Goodwill

The goodwill recognized arises from the 2011 business combination of Heidelberg Pharma AG with Heidelberg Pharma Research GmbH. The assets and liabilities acquired as well as the deferred tax assets and liabilities are recognized separately as of the acquisition date.

Goodwill of € 6,111 thousand was identified in connection with the acquisition of Heidelberg Pharma and the subsequent purchase price allocation; it will be tested for impairment annually in accordance with IAS 36 (see note 8).

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10.2 Intangible assets not yet ready for use

In the purchase price allocation carried out in 2011 in connection with the acquisition of Heidelberg Pharma Research GmbH, the novel ADC technology still under development and not yet ready for use was defined as IP R&D and identified as an intangible asset. The carrying amount is € 2,493 thousand.

The Company believes that the ADC technology has the potential to improve the efficacy of many antibody-based compounds, including those marketed.

This technology will not be amortized until its development has been successfully completed and the technology can thus be deemed ready for use, i. e. a therapeutic agent can be marketed. Subsequent costs are recognized through profit and loss as research and development expenses. They are not capitalized pursuant to IAS 38 in keeping with the treatment of other development costs and given Heidelberg Pharma's industry-related specificities. It is typical for the biotechnology industry that particularly the technical feasibility pursuant to IAS 38.57 (a) as well as any future economic benefits pursuant to IAS 38.57 (c) are uncertain, even in projects where the research has largely been completed. This IP R&D technology asset was tested for impairment as of 30 November 2017 during the impairment test carried out in December 2017. Heidelberg Pharma has not found any indication of impairment of this intangible asset.

10.3 Other intangible assets

Other intangible assets comprise a customer base (service business) acquired in the course of the business combination with Heidelberg Pharma Research GmbH in fiscal year 2011. As of the 30 November 2017 reporting date, these are carried at € 41 thousand (previous year: € 59 thousand). This customer base was amortized by € 18 thousand in the reporting year.

10.4 Patents and licenses

On account of the introduction of the restructuring program in early 2014 and the realignment of the Company, the value of the previously recognized patents licenses of the parent company Heidelberg Pharma AG was no longer recoverable. As a result, all previously capitalized patents and licenses were written down in full. There was no need to write down the patents and licenses of Heidelberg Pharma Research GmbH in the fiscal year.

10.5 Software

Software includes various capitalized office and laboratory software items written down over their useful lives.

11 Other non-current assets

The other non-current assets (2017: € 51 thousand; previous year: € 31 thousand) mainly comprise rent security in the amount of € 16 thousand (previous year: € 16 thousand) and security for leased equipment in the amount of € 30 thousand (previous year: € 10 thousand) – all of which is deposited in bank accounts.

As in the previous year, this item also includes other receivables from operations totaling € 5 thousand. Heidelberg Pharma expects no non-current assets to be realized within the next 12 months.

12 Inventories

The inventories recognized at cost (2017: € 178 thousand; previous year: € 190 thousand) mainly concern work in progress within the meaning of a service in Heidelberg Pharma Research GmbH's service business. The parent company no longer recognizes inventories. The inventories recognized as an expense in the cost of sales (expenses for raw materials, consumables and supplies, and purchased goods and services) amounted to € 663 thousand in the fiscal year (previous year: € 617 thousand).

No inventories were pledged as collateral for liabilities. Heidelberg Pharma projects that all inventories will be used up within the next 12 months and work in progress/unfinished goods will be completed/realized.

13 Prepayments

Prepayments are comprised as follows:

	30 Nov. 2017 € '000	30 Nov. 2016 € '000
Insurance	10	10
Prepayments to service providers	145	32
Prepayments	**155**	**42**

Prepayments to service providers include, in particular, payments to R&D business partners. All prepayments made are of a current nature (< 12 months).

14 Trade and other receivables

The trade receivables of € 233 thousand (previous year: € 91 thousand) mainly result from services invoiced by Heidelberg Pharma Research GmbH.

	30 Nov. 2017 € '000	30 Nov. 2016 € '000
Trade receivables	233	91
Total	**233**	**91**

The aging structure of trade receivables as of the reporting date was as follows:

	30 Nov. 2017 € '000	30 Nov. 2016 € '000
0–30 days	233	91
30–90 days	0	0
More than 90 days	0	0
Total	**233**	**91**

Since no trade receivables are due for more than 90 days after the invoice date, no trade receivables are recognized as past due as of the reporting date.

Other receivables are comprised as follows:

	30 Nov. 2017 € '000	30 Nov. 2016 € '000
VAT claim	223	91
Other tax receivables	8	1
Other items	31	0
Other receivables	**262**	**92**

The increase in VAT claims is particularly due to the increase in R&D expenses of Heidelberg Pharma Research GmbH.

Heidelberg Pharma expects all trade receivables and other receivables to be realized within the next 12 months.

15 Cash and cash equivalents

	30 Nov. 2017 € '000	30 Nov. 2016 € '000
Cash and cash equivalents	30,381	4,574
Total	**30,381**	**4,574**

Cash and cash equivalents were up on the prior-year figure due to the completed capital increases.

16 Equity

As of 30 November 2017, the share capital consisted of 22,452,570 (30 November 2016: 12,927,564) no par value bearer shares with a notional value of € 1.00 per share.

Heidelberg Pharma AG carried out a rights issue in May 2017 during which the shareholders subscribed for 2,040,816 new no par value bearer shares by exercising their subscription and oversubscription rights at a subscription price of € 2.45 per share. The rights offering increased the Company's share capital by € 2,040,816, from € 12,927,564 to € 14,968,380, after it was entered in the Commercial Register on 15 May 2017.

In November 2017, a mixed non-cash and cash capital increase was completed. A total of 7,484,190 new no par value bearer shares shares at a price of € 2.60 each and 14,968,380 mandatory convertible bond with a principal amount of € 1.00 each were placed.

After the execution of the capital increase was recorded in the Commercial Register at Mannheim Local Court on 22 November 2017, the new share capital is now € 22,452,570 divided into 22,452,570 no par value bearer shares. Heidelberg Pharma has thus fully utilized the authorized capital available for the issuance of new shares.

The following shares were issued in the reporting period:

Issue date	Entry in the commercial register	Number of shares	€
On 30 Nov. 2015		**9,305,608**	**9,305,608**
09 Dec. 2015	11 Dec. 2015	930,560	930,560
09 Dec. 2015	11 Dec. 2015	443,124	443,124
25 Apr. 2016	27 Apr. 2016	2,248,272	2,248,272
On 30 Nov. 2016		**12,927,564**	**12,927,564**
11 May 2017	15 May 2017	2,040,816	2,040,816
21 Nov. 2017	22 Nov. 2017	7,484,190	7,484,190
On 30 Nov. 2017		**22,452,570**	**22,452,570**

The arithmetical nominal amount and any premium on the issue of shares are reported under "subscribed capital" and "capital reserves" respectively. For the most part, the capital reserve includes the premiums exceeding the par value from the issue of new shares from capital increases as well as staff costs in connection with stock options granted.

Furthermore, the waiver of repayment of the shareholder loan which came about due to discontinuation in 2014 of the partnership with UCB S.A., Brussels, Belgium, (UCB) (€ 2.5 million) resulting from the September 2014 contractual arrangement, including the interest accrued up to that point (€ 100 thousand), in the past had to be recognized as an addition to the capital reserves.

Since the mandatory application of IFRS 2 in respect of the accounting for stock options, the value of the capital reserves is adjusted every quarter in line with the additional expenses resulting from the share-based model. A total of € 128 thousand (previous year: € 78 thousand) was recognized in this context in the period under review (see note 24).

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Mandatory convertible bonds were issued for the first time in the course of the capital increase completed in November 2017. As of the reporting date, these were required to be presented as part of the capital reserve in the amount of € 14,968,380 thousand. There was no such item to be presented in the previous year (see note 3.15).

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As of the reporting date of 30 November 2017, the capital reserves amounted to € 219,790 thousand (previous year: € 191,077 thousand). The costs of € 1,318 thousand directly attributable to the capital transactions in fiscal year 2017 were not recognized as an expense, but charged to the capital reserve in accordance with IAS 32.37.

Taking into account the cumulative losses of € 205,218 thousand accumulated from the date of the Company's establishment through to the reporting date (previous year: € 194,248 thousand), the equity of Heidelberg Pharma amounted to € 37,024 thousand (previous year: € 9,756 thousand).

17 Pension obligations

Heidelberg Pharma has one defined benefit pension commitment, but otherwise maintains only defined contribution pension plans. With the exception of the defined benefit pension commitment, all other benefit obligations as part of defined contribution plans are covered by matching reinsurance (in terms of their amounts and maturity). The Company has a reinsurance policy for the defined benefit commitment, which does not have matching coverage.

In 1998, Heidelberg Pharma AG granted a defined benefit pension commitment to Professor Olaf G. Wilhelm, the Managing Director at the time and chairman of the Executive Management Board until 31 March 2014, as part of a deferred benefit of € 15 thousand. The commitment guarantees a one-time endowment payment of € 47 thousand to the former employee who left the Company in 2014 at the end of his 60th year of life on 1 May 2019, or a disability benefit in the event of disability prior to that date in the amount of 85 % of the endowment value, or an equivalent benefit to survivors in the case of death. The plan is therefore not based on the employee's final salary, although in the event of unfavorable capital market developments, a coverage gap could occur between the future one-time payment promised to the beneficiary and the existing plan assets. The amount of the obligation was calculated using the PUC method, and measurement was based on the Heubeck RT2005G actuarial tables. The interest rate used in the calculation was 3.71 % (previous year: 4.03 %)

As of 30 November 2017, the pension obligation amounted to € 41 thousand (previous year: € 37 thousand). The present value of the pension obligation as of 30 November 2017 will amount to € 41 thousand (previous year: € 37 thousand). The Company holds a reinsurance policy that serves as plan assets and cover for the plan. The policy was funded with a one-time payment of € 15 thousand on 31 January 2000.

The plan assets as the present value of the actuarial reserve of the reinsurance policy was valued at € 32 thousand as of 30 November 2017 (previous year: € 30 thousand). The net liability resulting from the defined benefit pension plan has therefore increased by € 2 thousand to € 9 thousand in fiscal year 2017 (previous year: € 7 thousand), which is reported under pension obligations. Due to the interest rate situation on the capital markets, the net liability is expected to increase by € 3 thousand, from € 9 thousand to € 12 thousand, in 2018.

No service cost was recognized in the reporting year or the previous fiscal year. In fiscal year 2017, the interest income was € 2 thousand (previous year: € 1 thousand) and the interest expense was € 4 thousand (previous year: € 3 thousand). The net interest expense therefore amounted to € 2 thousand in (previous year: € 2 thousand). In line with the expectations mentioned above, net interest expense in 2018 would amount to € 3 thousand. No payouts have been made to date.

A total of € 13 thousand was paid into Heidelberg Pharma Research GmbH's defined contribution pension plan in the reporting period (previous year: € 13 thousand) and included in the staff costs for the fiscal year. There is also a pension commitment in respect of an employee who has since retired and in respect of Dr. Jan Schmidt-Brand, in relation to which reinsurance was arranged for the respective commitment amounts.

18 Liabilities and provisions

Current trade payables increased significantly, from € 132 thousand in fiscal year 2016 to € 1,501 thousand in the past fiscal year, due especially to the expansion of R&D activities and the capital increase completed shortly before the reporting date. They were incurred mainly for services and consulting received.

In addition, a provision set up in 2015 continued to be recognized as of 30 November 2017 in the unchanged amount of € 408 thousand for the event the Company were held liable for a rent guarantee furnished to the landlord of Nuclea (legal successor to WILEX Inc.) for its rent liabilities. Due to the now insolvent Nuclea's prolonged difficulties with rent payment, the landlord asserted claims against Heidelberg Pharma AG arising from the rent guarantee. During the fiscal year, there were no additions to, utilization of, or reversals or discounting of this provision.

Provisions are by definition associated with uncertainty in terms of their amount and timing. However, Heidelberg Pharma is confident that there will be an outflow of economic benefits in the second four months of the 2018 fiscal year.

Other current liabilities included the following:

	30 Nov. 2017 € '000	30 Nov. 2016 € '000
Obligation for holidays not taken	124	132
Other deferred income	830	70
Social security and other taxes	50	135
Accrued liabilities	1,544	853
Other current liabilities	**2,548**	**1,190**

The accrued liabilities are composed as follows:

	30 Nov. 2017 € '000	30 Nov. 2016 € '000
Employee bonuses and profit-sharing bonuses	265	137
Costs for preparing the financial statements	148	119
Deliveries/services	1,131	597
Total	**1,544**	**853**

Heidelberg Pharma recognizes accruals for goods and services where it has a present obligation arising from the supply of goods and services received. Accruals were recognized in the amount of the payment outflow required to fulfill the current obligation. Most obligations in this category relate to research and development costs of service providers for preclinical work and trials, as well as to external consulting costs related to the capital increase completed in November.

The year-over-year increase is due to the intensification of development activities for HDP-101 and the capital increase carried out at the end of November 2017.

Employee bonuses are granted depending on the performance of the Company and of individual employees or members of the Executive Management Board, and are due for payment in the following fiscal year. The year-on-year increase is attributable to the higher headcount and the assumption that, due to the successful expansion of business, the Company expects to pay higher bonuses than in the past fiscal year.

As in the previous year, the other current liabilities have a remaining life of less than one year.

19 Financial liabilities

In the previous year, the shareholder loan made available to Heidelberg Pharma by dievini was classified along with the interest payable as financial liabilities (previous year: € 3,748 thousand). As this loan including interest was provided by dievini as a contribution in kind in return for shares issued by way of the capital increase completed in November 2017, there was no longer a liability of this kind at the end of fiscal year 2017.

20 Other disclosures on financial instruments

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Carrying amounts and fair values follow from the table below. In addition, the financial instruments were broken down into categories pursuant to IAS 39 (see note 3.14):

		Measurement as of 30 Nov. 2017		Measurement as of 30 Nov. 2016	
	Measurement category according to IAS 39	Carrying amount € ‘000	Fair value € ‘000	Carrying amount € ‘000	Fair value € ‘000
Trade receivables	Loans and Receivables	233	233	91	91
Cash and cash equivalents	Loans and Receivables	30,381	30,381	4,574	4,574
Trade payables	Financial Liabilities Amortized Costs	1,501	1,501	132	132
Financial liabilities	Financial Liabilities Amortized Costs	0	0	3,748	3,748
Total		**32,115**	**32,115**	**8,545**	**8,545**
Aggregation by measurement criteria					
	Loans and Receivables	30,614	30,614	4,665	4,665
	Financial Liabilities Amortized Costs	1,501	1,501	3,880	3,880

Trade receivables all have remaining maturities of less than one year. No default risks are discernible in connection with the assets.

The carrying amounts of other assets and liabilities such as cash and cash equivalents as well as trade payables correspond to their fair values on account of their current nature.

With the exception of the interest expense arising from financial liabilities due to the shareholder loan from dievini that no longer existed as of the 30 November 2017 reporting date, which was recognized as an expense (€ 218 thousand), no expense and/or income was incurred for loans or receivables, or for financial liabilities carried at amortized cost.

The table below presents the reconciliation of the balance sheet items related to the classes of financial instruments broken down by carrying amount and fair value.

	Measured at amortized cost				
2017	Carrying amount € '000	Fair value € '000	Measured at fair value € '000	Not within the scope of IFRS 7 € '000	Balance sheet item as of 30 Nov. 2017 € '000
Assets					
Trade receivables	233	233	0	0	233
Cash and cash equivalents	30,381	30,381	0	0	30,381
All other recognized assets	0	0	0	10,876	10,876
Total assets	**30,614**	**30,614**	**0**	**10,876**	**41,490**
Equity and liabilities					
Trade payables	(1,501)	(1,501)	0	0	(1,501)
Equity and all other recognized liabilities	0	0	0	(39,989)	(39,989)
Total equity and liabilities	**(1,501)**	**(1,501)**	**0**	**(39,989)**	**(41,490)**

The following figures apply to the previous year:

2016	Measured at amortized cost		Measured at fair value	Not within the scope of IFRS 7	Balance sheet item as of 30 Nov. 2016
	Carrying amount € '000	Fair value € '000	€ '000	€ '000	€ '000
Assets					
Trade receivables	91	91	0	0	91
Cash and cash equivalents	4,574	4,574	0	0	4,574
All other recognized assets	0	0	0	10,576	10,576
Total assets	**4,665**	**4,665**	**0**	**10,576**	**15,241**
Equity and liabilities					
Trade payables	(132)	(132)	0	0	(132)
Financial liabilities (current)	(3,748)	(3,748)	0	0	(3,748)
Equity and all other recognized liabilities	0	0	0	(11,361)	(11,361)
Total equity and liabilities	**(3,880)**	**(3,880)**	**0**	**(11,361)**	**(15,241)**

Fair value hierarchy levels

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In accordance with IFRS 13.76 ff., Heidelberg Pharma uses hierarchy levels to determine and disclose the fair value of financial instruments (see note 5.2). In 2016 and 2017, all assets and liabilities were assigned to hierarchy level 1.

Fair value is determined using the same assumptions and taking into account the same characteristics of an asset or a liability on which independent market participants would base their assessment. For assets that the Group holds and liabilities that the Group reports, the quoted market price in each case is the bid price.

As of the balance sheet date, the Company held no underlying financial instruments measured at fair value. In 2017 and 2016, there were no reclassifications of items between fair value hierarchy levels.

Risks from financial instruments:

In respect of risks from financial instruments, see for example the section on the management of financial risks (see note 5).

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Financial instruments with an inherent default and liquidity risk mainly comprise cash and cash equivalents, financial assets as well as other receivables. The carrying amounts of the financial assets generally reflect the maximum default risk.

Most of the cash and cash equivalents (€ 30,381 thousand; previous year: € 4,574 thousand) are denominated in euros, with a smaller amount denominated in US dollars, and have been invested essentially with banks belonging to the German Deposit Insurance Fund and/or the deposit assurance fund of the German Savings Banks Organization. But Heidelberg Pharma monitors the positions held and the respective bank's credit rating on an ongoing basis nonetheless. No such risks were identifiable at the reporting date.

Since the Company's cash and cash equivalents as of the reporting date were invested exclusively in demand deposits and current accounts, the Company believes there is no interest rate risk and cash and cash equivalents would not react sensitively to interest rate changes.

The Company is exposed to a liquidity risk given both its business model and the still insufficient cash flows from the marketing of its own products and services. Heidelberg Pharma employs a rolling, monthly cash flow planning and age analysis in order to be able to recognize liquidity risks in due time. Heidelberg Pharma was able to meet its payment obligations at all times in the fiscal year just ended.

The trade receivables (€ 233 thousand; previous year: € 91 thousand) at the close of the fiscal year were attributable to business customers; they were invoiced as of the 30 November 2017 reporting date or immediately preceding it. No trade receivables were past due as of the reporting date (see note 14). No bad debt allowances are necessary in the Executive Management Board's view because Heidelberg Pharma does not expect any default risks to arise.

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Heidelberg Pharma is also exposed to a market risk, e.g. from changes in interest rates, and a currency risk from the euro's exchange rate vis-à-vis other currencies. This exchange rate risk includes the relative decrease or increase of the euro vis-à-vis the other currencies during the period until payment of the liability or receivable. Heidelberg Pharma reviews the need for foreign currency hedges on an ongoing basis during the year but does not engage in any hedging. Instead, the Company aims to pay liabilities in foreign currencies using existing bank balances in the respective currency in order to keep the risk of exchange rate fluctuations as low as possible.

As of 30 November 2017, there were foreign currency risks concerning trade payables in the amount equivalent to € 9.3 thousand in USD, € 18.1 thousand in GBP and € 598.8 thousand in CHF.

Any increase or decrease in the euro by 10% compared to the given foreign currency would have had the following effect on earnings and equity in the fiscal year ended:

	Increase in € '000	Decrease in € '000
Euro vs. British pound	1.7	(2.0)
Euro vs. Swiss franc	54.4	(66.5)
Euro vs. US dollar	0.8	(1.0)

A portion of the Company's sales revenue was affected by the given USD/EUR foreign exchange rate in the financial year ended. Both the up-front payments and the milestone payments were cash transactions that were translated at the reporting date exchange rate, and recognized as revenue or accrued.

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In 2017, some of the sales revenue was affected by the prevailing USD/euro exchange rate (see note 4). Both the up-front payments and the milestone payments were one-off cash transactions that were translated at the transaction date exchange rate, and recognized as revenue or accrued. In fiscal year 2017, the equivalent of € 557 thousand was generated in USD (previous year: € 0 thousand).

An increase of 10% in the average USD exchange rate in fiscal year 2017 as part of a sensitivity analysis (i.e. the USD appreciates against the euro) would have lifted sales revenue by € 62 thousand. A decrease of 10% in the average USD exchange rate (i.e. the USD depreciates against the euro) would have depressed sales revenue by € 51 thousand. As there was no foreign currency sales revenue in the previous year, a change in the average USD exchange rate would have had no effect on sales revenue.

The cash and cash equivalents held in USD are therefore exposed to foreign currency risks. Heidelberg Pharma monitors the USD exchange rate throughout the year in order to intervene as necessary by selling or buying foreign currencies without however hedging such transactions by means of derivative financial instruments. Cash and cash equivalents in USD as of the 30 November 2017 reporting date were equivalent to € 220 thousand (30 November 2016: € 88 thousand).

As the relevant interest rates are contractually fixed, any potential market-driven fluctuations in interest rates do not have a material effect on the financial assets and financial liabilities. In addition, with the exception of the pension obligation, the financial assets and financial liabilities are current assets and liabilities and have a remaining term of less than 12 months, as a result of which changes in interest rates do not have a material effect.

Non-derivative financial liabilities in the form of trade payables must be classified as current. As a rule, trade payables are due within one month.

21 Sales revenue

Sales revenue in the fiscal year just ended totaled € 1,900 thousand (previous year: € 1,362 thousand).

	2017 € '000	2016 € '000
Sales revenue from the provision of services	1,642	1,268
Sales revenue from royalties	258	94
Sales revenue	**1,900**	**1,362**

All sales revenue from the provision of services was generated by Heidelberg Pharma Research GmbH. Of that amount, the service business accounted for € 0.9 million (previous year: € 1.0 million) and the ADC technology accounted for € 0.7 million (previous year: € 0.2 million).

Sales revenue from royalties (€ 0.3 million) mainly stems from out-licensing of REDECTANE® to Telix (€ 0.2 million).

22 Other income

Other income (€ 582 thousand; previous year: € 1,381 thousand) comprises the following items:

Other income	2017 € '000	2016 € '000
Income from grants	165	763
Income from the reversal of liabilities and provisions not utilized to date	325	387
Nuclea income	0	162
Income from sublease and sales of fixed assets	7	12
Income from exchange rate gains	5	8
Other items	80	49
Total	**582**	**1,381**

At € 0.6 million, other income was down compared to the previous year (€ 1.4 million). This figure includes German and European grants, which support Heidelberg Pharma Research GmbH projects in the amount of € 0.2 million (previous year: € 0.8 million). Both grant programs from which income was generated in 2017 were approved in fiscal year 2015.

Furthermore, income of € 0.3 million (previous year: € 0.4 million) was generated from the reversal of unutilized accrued liabilities and provisions, most of which were subject to limitation. Other items amounted to € 0.1 million (previous year: € 0.2 million).

23 Types of expenses

The statement of comprehensive income breaks down operating expenses into the following categories:

- Production
- Research and development
- Administration
- Other

Operating expenses including depreciation, amortization and impairment losses rose by around 45.4% to € 13,235 thousand in 2017 (previous year: € 9,104 thousand).

Operating expenses	2017 € '000	2016 € '000
Cost of sales	957	809
Research and development costs	9,323	6,119
Administrative costs	2,748	1,954
Other expenses	207	222
Total	**13,235**	**9,104**

Cost of sales includes costs directly related to revenue from services provided. At € 1.0 million, the cost of sales was higher than in the previous year (€ 0.8 million), which was in line with the increase in sales revenue and represents 7% of total operating expenses. These costs mainly related to Heidelberg Pharma Research GmbH expenses for customer-specific research.

Research and development (R&D) costs rose from € 6.1 million in the previous year to € 9.3 million as planned due to the advancement of the proprietary platform technology and the ongoing CMC (chemistry, manufacturing and controls) development of HDP-101 at Heidelberg Pharma Research GmbH. The reason for these activities is that the Company is preparing HDP-101, its first ATAC candidate, for clinical development. R&D costs thus accounted for 70% of total operating expenses.

Administrative costs were € 2.7 million, up 41% compared to the prior year (€ 2.0 million) and accounted for 21% of operating expenses. In addition to staff costs (€ 1.2 million; previous year: € 1.1 million), this line item also included, legal and operating consulting costs (€ 0.5 million; previous year: € 0.2 million), rent and utilities (€ 0.2 million; previous year: € 0.1 million), as well as expenses related to the Annual General Meeting, Supervisory Board remuneration and the stock market listing (combined: € 0.5 million; previous year: € 0.4 million). The increase in administrative costs is mainly due to stepped up investor relations activities and consulting and other services purchased in connection with the licensing negotiations.

Other expenses for business development, marketing and commercial market supply activities were unchanged year-over-year at € 0.2 million. They accounted for 2% of total operating expenses and mainly included staff, travel and consulting costs.

The following expenses are recognized in the statement of comprehensive income:

	2017 € '000	2016 € '000
Staff costs	4,176	3,836
Travel costs (incl. conference fees)	208	99
Office costs (incl. utilities and maintenance)	422	306
Laboratory and other internal costs	1,354	1,244
External research and development costs	4,792	1,804
Legal and consulting costs (incl. patent costs)	1,354	784
Depreciation, amortization and impairment losses	406	280
Other expenses	523	751
Total	**13,235**	**9,104**

The increase in staff costs in the past fiscal year is attributable to the higher number of employees (three FTEs as of the reporting date) and general salary increases.

Travel costs rose because the Company increased both its attendance at science conferences and its contact with investors.

Higher office costs are the result of an increase in the costs required to maintain the technical systems at the company sites.

Laboratory and other internal costs include expenses for inventories of € 59 thousand (previous year: € 32 thousand). External research and development costs comprise the cost of purchased services. As planned, they rose considerably year-over-year due to the expansion of research and development work at Heidelberg Pharma Research GmbH.

Legal and consulting costs were up on the prior-year figure due to the numerous projects related to investor relations and business development as well as the expansion of R&D activities. This expense item contains the cost of conventional legal representation as well as consulting costs related to business development and administration, costs related to industrial property rights and patents and costs related to the development of ongoing research and development activities.

Depreciation, amortization and impairment losses were higher than in 2016 because of the investments made in the laboratory and buildings in the reporting period.

In addition to other items, other expenses included costs widely related to the stock market listing.

The expenses contained in the statement of comprehensive income include € 957 thousand in costs of sales (previous year: € 809 thousand).

24 Staff costs

Staff costs are comprised as follows:

	2017 € '000	2016 € '000
Wages and salaries	3,218	2,838
Social security costs	546	474
Bonuses	208	358
Expense from the measurement of stock options	128	78
Other staff costs	76	88
Total staff costs	**4,176**	**3,836**

The wages and salaries and social security costs items rose year-over-year due to the increased headcount and salary structure.

Lower expenses for bonuses are attributable to the reversal through profit or loss of unused provisions in this context.

Other staff costs mainly comprise expenses for training and continuing education, and occupational safety.

In the comparative periods, Heidelberg Pharma employed the following number of staff on average:

	2017	2016
Administration	14	13
Manufacturing, service and distribution	17	16
Research and development	24	24
Average number of employees[1]	**55**	**53**

[1] including the Executive Management Board

The granting of stock options in accordance with IFRS 2 "Share-based Payments" resulted in higher staff costs of € 128 thousand in 2017 (previous year: € 78 thousand). This was due to the new issue of stock options in the middle of the 2016 fiscal year as part of the 2011 Stock Option Plan.

The following is a breakdown of stock option plans measurement in the reporting year:

2005 Stock Option Plan (2005 SOP)

	Share-based payment for the Executive Management Board, executives and employees							
Type of agreement	Tranche 1	Tranche 2	Tranche 3	Tranche 4	Tranche 5	Tranche 6	Tranche 7	Tranche 8
Grant date	30 Dec. 2005	31 Jan. 2006	28 Feb. 2006	30 Apr. 2006	30 Sep. 2006	30 Sep. 2007	31 Oct. 2007	30 Sep. 2010
Options outstanding at the beginning of the reporting period	318,388	167,343	85,078	3,040	148,635	25,200	152,000	59,994
Options granted during the reporting period	0	0	0	0	0	0	0	0
Options forfeited (returned) during the reporting period	0	0	0	0	0	0	0	0
Options exercised during the reporting period	0	0	0	0	0	0	0	0
Options expired during the reporting period	318,388	167,343	85,078	3,040	148,635	0	0	0
Options expired during the reporting period	0	0	0	0	0	25,200	152,000	0
Options outstanding at the end of the reporting period	0	0	0	0	0	0	0	59,994
Options exercisable as of 30 Nov. 2017	0	0	0	0	0	0	0	59,994
Maximum term	10 years	10 years	10 years	10 years	10 years	10 years	10 years	10 years

The fair value of stock options has been calculated on the basis of a binominal model. The fair values are illustrated in the following. Settlement is carried out in equity securities.

	Issue date	Expected term (months)	Share price on issue date €	Total term	Exercise price (on issue date) €	Volatility	Risk-free interest rate	Option value (rounded) €
Tranche 1	30 Dec. 2005	24	6.90	10 years	5.52	42.54 %	2.86 %	2.42
Tranche 2	31 Jan. 2006	24	6.90	10 years	5.52	40.40 %	2.97 %	2.36
Tranche 3	28 Feb. 2006	25	6.90	10 years	5.52	41.69 %	3.06 %	2.44
Tranche 4	30 Apr. 2006	24	6.90	10 years	5.52	40.61 %	3.44 %	2.40
Tranche 5	30 Sep. 2006	24	6.90	10 years	5.52	43.25 %	3.56 %	2.48
Tranche 6	30 Sep. 2007	24–48	9.84	10 years	9.73	45.3–47.4 %	4.06–4.15 %	2.92–4.08
Tranche 7	31 Oct. 2007	24–47	9.02	10 years	9.62	47.4–50.1 %	4.06–4.08 %	2.55–3.57
Tranche 8	30 Sep. 2010	24–48	4.70	10 years	4.34	61.7–72.0 %	0.72–1.20 %	1.96–2.33

An expected dividend yield of 0 % was assumed for all eight tranches as of the measurement date. The only outstanding or exercisable options of Tranche 8 have a vesting period of 2.83 years as of 30 November 2017.

Taking into account a capital reduction completed in 2014, four of these stock options entitle the holder to the acquisition of one new share in return for payment of the exercise price. After the rights issue in April 2015 in which new shares were offered at a subscription price of € 2.80, the exercise price was a uniform € 11.20 as of the balance sheet date (and thus also on average). The new reference price is therefore € 11.20 + 10 % x € 11.20 = € 12.32.

In the meanwhile, the authorization to grant stock options from the 2005 Stock Option Plans has expired. No new options can therefore be granted under this plan.

Heidelberg Pharma no longer incurred any costs in 2017 under the 2005 Stock Option Plan:

2011 Stock Option Plan (2011 SOP)

The Annual General Meeting on 18 May 2011 voted to authorize Heidelberg Pharma AG to issue a total of 809,488 stock options as part of the 2011 Stock Option Plan to employees of Heidelberg Pharma AG and its affiliates.

Taking into account a capital reduction completed in 2014 at a ratio of 4:1 for the issue in March 2012 (Tranche 1), four stock options entitle the holder to the acquisition of one no par value bearer share of Heidelberg Pharma AG at an exercise price of € 3.53. As a result, the conversion price for one share is € 3.53 x 4 = € 14.12. The reference price is € 3.53 + 20 % x € 3.53 = € 4.24. This does not affect the issue of Tranche 2 in June 2016 because it took place after the capital reduction.

The first time the stock options can be exercised is after a lock-up period of four years from the respective issuing date. The stock options can only be exercised if Heidelberg Pharma's share price during the ten trading days preceding the start of the relevant exercise period ("reference price") exceeds the exercise price by at least 20 % (absolute performance target). Furthermore, it must be noted that the options can only be exercised as long as the reference price exceeds the exercise price at least by the ratio by which the TecDAX on the last trading day prior to the relevant exercise period exceeds the TecDAX on the issuing date (relative performance target). The payout amount per employee for the exercised stock options continues to be limited to three times the annual gross remuneration (including all benefits subject to income tax, such as company cars, etc.) that the beneficiary received from the Company or its affiliates in the 12 months preceding the exercise date (cap agreement).

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In view of the terms of exercise under the option plan, the rights issues completed in the fiscal year ended (see note 16) have no effect on the exercise price or the option ratio because the share capital increase granted direct subscription rights to shareholders.

The stock options granted under the 2011 SOP developed as follows in the fiscal year just ended:

	Tranche 1	Tranche 2
Grant date	30 March 2012	02 June 2016
Options outstanding at the beginning of the reporting period	183,211	415,227
Options granted during the reporting period	0	0
Options forfeited (returned) during the reporting period	0	0
Options exercised during the reporting period	0	0
Options expired during the reporting period	0	0
Options outstanding at the end of the reporting period	183,211	415,227
Options exercisable as of 30 November 2017	183,211	0
Maximum term	10 years	10 years

The 2011 SOP was classified and measured as an equity-settled share-based payment. The fair value of the capital reserves to be recognized as a liability due to the stock option plan was calculated based on a Monte Carlo model. In the fiscal year just ended, there was no change to the plan, and it was not revoked.

Measurement is based on the following parameters:

	Tranche 1	Tranche 2
Measurement date	30 March 2012	02 June 2016
Exercise price (uniform and therefore also average)	€ 3.53	€ 1.89
Price of the Heidelberg Pharma share as of the measurement date (for Tranche 1 before 4:1 capital reduction)	€ 3.82	€ 1.83
Expected vesting period until the measurement date	4.81 years	3.95 years
Expected volatility of the Heidelberg Pharma share	57.83 %	89.42 %
Expected dividend yield of the Heidelberg Pharma share	0.00 %	0.00 %
Risk-free interest rate	0.61 %	(0.47 %)

The expected volatility of Tranche 2 was calculated based on the historical volatility of the Heidelberg Pharma share over the past nine-and-a-half years since its IPO in November 2006.

The fair value of the stock options granted in the 2012 fiscal year as part of the 2011 SOP amounted to € 2.13 per option as of the measurement date. The fair value of the stock options granted in the 2016 fiscal year amounted to € 1.41 per option as of the measurement date.

In the meanwhile, the authorization to grant stock options from the 2011 Stock Option Plans has expired. No new options can therefore be granted under this plan.

Heidelberg Pharma incurred staff costs of € 128 thousand under the 2011 Stock Option Plan (previous year: € 78 thousand).

2017 Stock Option Plan (2017 SOP)

The Company's Annual General Meeting adopted a resolution on 20 July 2017 to launch the 2017 Stock Option Plan for employees and Executive Management Board members of Heidelberg Pharma AG and create corresponding Contingent Capital of up to € 661,200. The number of options is limited to 661,200. Settlement is carried out in equity securities.

The following table shows a summary of the Company's stock option plans/stock options:

All information provided in no. of options	Plan 2005	Plan 2011	Plan 2017	Total
Max. number of stock options to be issued acc. to plan terms	**1,289,157**	**1,156,412**	**661,200**	**3,106,769**
of which Executive Management Board	900,000	346,924	201,200	1,448,124
of which employees	389,157	809,488	460,000	1,658,645
Stock options actually issued	**1,161,431**	**685,726**	**0**	**1,847,157**
of which Executive Management Board [1]	894,515	364,000	0	1,258,515
of which employees	266,916	321,726	0	588,642
Max. number of stock options still available for issue	**0**	**0**	**661,200**	**661,200**
of which Executive Management Board	0	0	201,200	201,200
of which employees	0	0	460,000	460,000
Return of stock options by beneficiaries leaving the Company	**201,753**	**87,289**	**0**	**289,042**
of which Executive Management Board	165,180	26,500	0	191,680
of which employees	36,573	60,789	0	97,362
of which Executive Management Board in 2017	0	0	0	0
of which employees in 2017	0	0	0	0
Expiry of stock options without replacement after ten-year term	**899,684**	**0**	**0**	**899,684**
of which Executive Management Board	729,335	0	0	729,335
of which employees	170,349	0	0	170,349
of which Executive Management Board in 2017	150,000	0	0	150,000
of which employees in 2017	27,200	0	0	27,200
Stock options outstanding	**59,994**	**598,437**	**0**	**658,431**
of which Executive Management Board	0	337,500	0	337,500
of which employees	59,994	260,937	0	320,931
Vested stock options (outstanding)	**59,994**	**338,921**	**0**	**398,915**
of which Executive Management Board	0	180,000	0	180,000
of which employees	59,994	158,921	0	218,915
of which have vested in 2017 YTD	0	103,807	0	103,807
of which Executive Management Board	0	63,000	0	63,000
of which employees	0	40,807	0	40,807
Non-vested stock options (outstanding)	**0**	**259,516**	**0**	**259,516**
of which Executive Management Board	0	157,500	0	157,500
of which employees	0	102,016	0	102,016
Exercisable stock options (outstanding)	**59,994**	**183,211**	**0**	**243,205**
of which Executive Management Board	0	85,500	0	85,500
of which employees	59,994	97,711	0	157,705

[1] When options under the 2011 Stock Option Plan were issued, Dr. Schmidt-Brand had not yet been appointed as a member of the Executive Management Board of Heidelberg Pharma AG. The options granted to him were added to the portion attributable to the Executive Management Board after his appointment.

25 Net currency gains/losses

Heidelberg Pharma posted a currency gain of € 131 thousand and a currency loss of € 149 thousand in the 2017 fiscal year, which resulted in a net currency loss of € 18 thousand (previous year: currency gain of € 2 thousand).

26 Financial result

	2017 € '000	2016 € '000
Interest income from bank accounts/other	0	1
Finance income	**0**	**1**
Interest expense from leasing and current liabilities to banks	0	(2)
Interest expense from shareholder loans and others	(218)	(18)
Finance costs	(218)	(20)
Financial result	**(218)**	**(19)**

The negative financial result is attributable to the interest expense for the shareholder loan extended by dievini in October 2016, which was provided as a contribution in kind of € 3.9 million in the form of a right to repayment including accrued interest in return for new shares when the capital increase was completed in November 2017.

A non-cash capital increase against contributions in kind therefore took place in connection with that capital increase, as there were no inflows of funds.

27 Income taxes

Due to operating losses in the reporting periods, no significant income tax was payable in the fiscal year ended, with the exception of € 9 thousand in foreign withholding tax in 2016. Neither expenses nor income from deferred taxes were included in tax expenses in 2016 and 2017.

Deferred tax assets or liabilities were determined using the tax rates in effect in each case. Some of these tax rates changed as a result of the relocation of the parent company's registered office from Munich to Ladenburg. A composite tax rate of 28.43 % (previous year: 32.98 %) is now applied to Heidelberg Pharma AG, which is comprised of a corporation tax rate of 15 % (previous year: 15 %), solidarity surcharge of 5.5 % (previous year: 5.5 %) and municipal trade tax of 12.60 % (previous year: 17.15 %).

A tax rate of 28.43 % (unchanged from the previous year) was applied to the subsidiary Heidelberg Pharma Research GmbH.

The reported current tax expense deviates from the expected tax income. The nominal tax rate of 28.43 % (previous year: 32.98 %) must be applied to income in accordance with IFRSs. Reconciliation of the differences is shown in the following table.

	2017 € '000	2016 € '000
Earnings before tax	(10,970)	(6,380)
Tax rate	28.43 %	32.98 %
Expected tax income	**3,118**	**2,104**
Deferred taxes on losses for the period not qualifying for recognition	(2,874)	(1,927)
Change in non-recognized temporary differences	(24)	9
Non-deductible operating expenses/other	(220)	(177)
Reported tax expense	**0**	**9**

The existing deferred tax assets and deferred tax liabilities as of 30 November are attributable as follows:

	2017 € '000	2016 € '000
Deferred tax assets		
Other non-current assets	1,117	884
Different carrying amount of the equity investment	94	109
Recognized tax loss carryforwards	710	692
	1,921	**1,685**
Deferred tax liabilities		
Intangible assets	720	726
Other non-current assets	848	613
Other liabilities/provisions	350	333
Other	3	13
	1,921	**1,685**
Deferred income taxes, net	**0**	**0**

A portion of € 94 thousand of the deferred tax assets resulted from outside basis differences in respect of different measurements of the equity investment (previous year: € 109 thousand).

Applying IAS 12.74, deferred tax assets and liabilities have been offset, since they exist vis-à-vis the same taxation authority, arise in the same periods and entail corresponding rights. Deferred tax assets on loss carryforwards are recognized only in an amount that corresponds to the amount in which deferred tax liabilities offset such deferred tax assets.

As further losses can be expected in the foreseeable future, no deferred tax assets were recognized regarding the following matters:

	2017 € '000	2016 € '000
Loss carryforwards		
for corporation tax	220,939	231,286
for trade tax	217,714	228,308
Deductible temporary differences	0	0
Loss carryforwards	2,499	2,475

The tax loss carryforwards shown in the table above are mainly attributable to Heidelberg Pharma AG (corporation tax loss carryforward of € 175,622 thousand; municipal trade tax loss carryforward of € 172,619 thousand) and may be carried forward indefinitely. Further loss carryforwards concern the subsidiary Heidelberg Pharma Research GmbH, which based on the tax notices issued by the tax office shows € 45,317 thousand and € 45,095 thousand in losses carried forward for corporation tax and municipal trade tax purposes, respectively. Deferred tax assets (amounting to € 710 thousand) were recognized in the fiscal year just ended for € 2,499 thousand in tax loss carryforwards and offset against correspondingly high deferred tax liabilities.

Note the following in regards to the tax loss carryforwards available to Heidelberg Pharma AG and Heidelberg Pharma Research GmbH: The deduction of existing losses carried forward is excluded if the company carrying forward these losses loses its tax identity. In accordance with Section 8 (4) German Corporation Tax Act (version applicable until the end of 2007), a company is deemed to have lost its tax identity if the two following criteria are met cumulatively: (i) more than 50 % of the shares in the company have been transferred and (ii) the company continues or relaunches its operations mainly with new assets. The legal limit on deductibility of operating losses applies to corporation tax and municipal trade tax.

In fiscal year 2016, Heidelberg Pharma AG was subject to a tax audit for the period from 2011 to 2014. Since the audit did not result in any changes in the tax base, the final determination was made that the loss carryforwards accrued by 31 December 2014 amounted to € 169.2 million (corporation tax) and € 166.2 million (trade tax).

Effective 1 January 2008, under amended Section 8c German Corporation Tax Act (Körperschaftsteuergesetz) the acquisition by an acquirer or parties related to it of 25 % to 50 % of the subscribed capital of a loss corporation results in the pro-rated elimination of its tax loss carryforwards whilst the acquisition of more than 50 % of the subscribed capital results in the complete elimination thereof. Because capital increases also cause shifts in shareholdings and thus adverse acquisitions of equity as defined in Section 8c German Corporation Tax Act, the capital increases carried after 2014 and the changed identity of the Company as a result of the restructuring measures might possibly have led to the pro-rated elimination of the tax loss carryforwards.

Corporations that rely on new shareholders or a change of shareholders for purposes of financing are expected to be able to continue to utilize as yet unused tax loss carryforwards as long as they still operate the same business following the change of shareholders. In December 2016, the existing rules in Section 8c German Corporation Tax Act (Körperschaftsteuergesetz) were supplemented retroactively to 1 January 2016 with the new Section 8d German Corporation Tax Act. According to the new regulation, a loss will not be eliminated as per Section 8c German Corporation Tax Act, if the following conditions are met:

- The business operated for at least three years remains unchanged.
- The corporation is not permitted to take a stake in a partnership.
- The corporation is not permitted to be or become the parent company of a consolidated tax group.
- No assets under fair market value may be contributed to the corporation.

In 2011, Heidelberg Pharma AG acquired 100 % of the shares in Heidelberg Pharma Research GmbH, as a result of which the tax loss carryforwards of € 40,286 thousand accumulated by Heidelberg Pharma Research up to the acquisition date are at risk. The only thing that is not in doubt is that the tax loss carryforwards corresponding to the undisclosed reserves transferred may be retained. The undisclosed reserves result from the difference between the transaction price under German tax law and the equity of Heidelberg Pharma Research under German tax law; they amount to € 12,808 thousand.

A purchase price allocation carried out in connection with this transaction resulted in the identification of intangible assets and goodwill. The deferred tax liabilities determined in connection with the valuation amounted to € 800 thousand; they were offset in the same amount by deferred tax assets from tax loss carryforwards taken over. As of 30 November 2017, € 720 thousand (previous year: € 726 thousand) in deferred tax liabilities were determined; the Company continues to make use of the option to offset them against deferred tax assets in accordance with IAS 12.74.

28 Earnings per share

28.1 Basic

Basic earnings per share are calculated by dividing the net profit for the year available to shareholders by the weighted average number of shares issued during the fiscal year.

In November 2017, Heidelberg Pharma placed a € 15.0 million mandatory convertible bond. In accordance with IAS 33.23, the weighted average number of shares increases from the date the contract for the mandatory convertible bond is entered into and is already required to be included in the calculation of basic earnings per share. The new weighted average number of shares to be included in this calculation is based on the maximum of 5,757,069 new shares that would be created upon conversion of the mandatory convertible bond.

As the mandatory convertible bond is a zero-coupon bond that entails no interest expense, the issue of the convertible bond has no effect on the amount of the earnings to be included in the numerator of basic earnings per share.

		2017	2016
Net loss for the year attributable to equity providers	€ '000	(10,970)	(6,389)
Level of capital and corporate actions in the fiscal year[1]			
Number of issued shares at the beginning of the fiscal year	**in thousand**	**12,928**	**9,306**
Number of shares newly issued during the fiscal year	in thousand	15,282	3,622
Number of issued shares at the end of the fiscal year on the 30 November reporting date	**in thousand**	**28,210**	**12,928**
Basic earnings per share based on shares issued at the end of the fiscal year	**in € per share**	**(0.39)**	**(0.49)**
Average number of shares issued during the fiscal year	in thousand	14,372	11,981
Basic earnings per share based on the average number shares issued in the fiscal year	**in € per share**	**(0.76)**	**(0.53)**

[1] Incl. future conversions of the mandatory convertible bond into shares in accordance with IAS 33.23

Basic earnings per share in 2017

In fiscal year 2017, basic earnings per share amounted to € –0.76 based on the average number of issued shares (14,372,316 shares and earnings attributable to equity providers of € –10,970 thousand).

Where reference is made to the number of shares outstanding as of the reporting date including future conversions of the mandatory convertible bond (28,209,639 shares), the basic earnings per share therefore amount to € –0.39.

Basic earnings per share in 2016

In fiscal year 2016, basic earnings per share amounted to € –0.53 based on the average number of issued shares (11,980,894 shares and earnings attributable to equity providers of € –6,389 thousand).

Where reference is made to the number of shares outstanding as of the reporting date (12,927,564 shares), the basic earnings per share therefore amount to € –0.49.

For reasons of comparability, IAS 33.64 requires the number of shares used as a basis for 2017 to be adjusted retrospectively for 2016. This does not affect the 2016 net loss of € –6,389 thousand attributable to the equity providers.

Where reference is then made for 2016 to the average number of shares issued in 2017 (basis: 14,372,316 shares), the basic earnings per share amount to € –0.44.

Where reference is then made for 2016 to the number of shares issued in 2017 as of the reporting date including future conversions of the mandatory convertible bond (basis: 28,209,639 shares), the basic earnings per share amount to € –0.23.

28.2 Diluted

The Company's Annual General Meetings in 2005, 2011 and 2017 each adopted resolutions to contingently increase the share capital of the Company for the purpose of satisfying subscription rights. The associated possibility of granting stock option rights to employees and members of the Executive Management Board could potentially dilute the basic earnings per share in future.

However, the basic and diluted earnings per share of Heidelberg Pharma are calculated based on the same number of shares in accordance with IAS 33.47 because the average market price of Heidelberg Pharma shares during the entire period fell below the exercise price of the exercisable stock options.

Neither does the issue of the mandatory convertible bond cause diluted earnings per share to differ from basic earnings per share. Firstly, in accordance with IAS 33.23, the weighted average number of shares increases from the date the contract for the mandatory convertible bond is entered into and is already required to be included in the calculation of basic earnings per share. Therefore, the new weighted average number of shares to be included in the calculation of basic earnings is also based on the assumption that the mandatory convertible bond will be fully converted into 5,757,069 new shares. Secondly, diluted earnings per share did not have to be adjusted for finance costs, as the mandatory convertible bond is a zero-coupon bond.

29 Leases, guarantees and obligations

As of the reporting date, a total of € 40 thousand in security were made available for finance and operating leases (previous year: € 10 thousand).

29.1 Finance leases

Laboratory equipment was purchased in prior periods by means of finance leases subject depreciation on a straight-line basis of the purchase cost in property, plant and equipment. All finance leases have now expired.

Heidelberg Pharma will therefore no longer incur any minimum obligations under finance leases in future reporting periods.

29.2 Operating leases, guarantees and obligations

Heidelberg Pharma has leased office equipment and vehicles under operating leases, which will expire at different times until 2019. All of the parent company's office premises used at present are rented under indefinite leases that can be terminated by giving three months notice as of the end of a month.

The leases for the premises of the subsidiary Heidelberg Pharma Research GmbH may be terminated on short notice. The cost of office and laboratory equipment as well as office and laboratory premises under the operating leases are reported as other expenses in the statement of comprehensive income, together with the obligations under lease agreements for company cars:

	2017 € ‘000	2016 € ‘000
Expenses from operating leases and tenancy agreements	**107**	**112**
of which from tenancy agreements	83	95
of which from operating leases	24	17

The decrease in expenses in the past fiscal year is due to the change in Heidelberg Pharma AG’s rental situation. During the year, the office and archive space rented was once again reduced under a sub-lease. The increase in operating leases is due to the fact that each member of the Executive Management Board was provided with a company car for the full year.

Heidelberg Pharma has pledged € 16 thousand as deposit for the landlord. No other guarantees exist.

The future minimum annual payments under tenancy agreements and leases are comprised as follows:

Obligations as of 30 Nov. 2017	Up to 1 year € ‘000	1–5 years € ‘000	More than 5 years € ‘000	Total € ‘000
Rental obligations for laboratory and office premises[1]	81	0	0	81
Obligations under operating leases (laboratory and other office equipment, vehicles)	20	7	0	27
	101	**7**	**0**	**108**

[1] Due to short notice periods assuming that the leases for the offices have been terminated effective at the end of 2018 at the latest.

Below are previous year’s figures:

Obligations as of 30 Nov. 2016	bis zu 1 Jahr € ‘000	1–5 Jahre € ‘000	über 5 Jahre € ‘000	Total € ‘000
Rental obligations for laboratory and office premises	42	0	0	42
Obligations under operating leases (laboratory and other office equipment, vehicles)	23	25	0	48
	65	**25**	**0**	**89**

These leases do not stipulate contingent lease payments, nor do they impose restrictions in respect of dividends, additional liabilities or other leases. No price adjustment clauses were stipulated, and there is no obligation to purchase the leased equipment once the given lease expires.

As of the 2017 reporting date, the Company has a contingent liability in the context of the 2013 sale of former subsidiary WILEX Inc. to Nuclea. The leasing of premises by WILEX Inc. was originally based on a sub-lease between Siemens Corporation, NJ, USA, (Siemens) as landlord and WILEX Inc. as sub-letter. As part of the acquisition of Oncogene Science (later: WILEX Inc.), Heidelberg Pharma AG assumed a rental payment guarantee and a guarantee for payment of damages in case of default in respect of the landlord in 2010. After the sale of the entity and as a result of the merger of WILEX Inc. into Nuclea Biotechnologies Inc. (Nuclea) on 6 November 2013, Nuclea entered into the agreement as tenant. The monthly rent amounts to USD 56 thousand, or USD 673 thousand per year. The sub-lease was signed in 2010 for an initial period ending on 31 January 2016. The guarantee furnished by Heidelberg Pharma AG for WILEX Inc. in respect of the landlord remained in effect even after the merger of WILEX Inc. with Nuclea. On the basis of a separate agreement between Nuclea and Siemens, the lease was extended to 27 February 2019 without the involvement of Heidelberg Pharma AG. Currently, the tenant's rent payments are in arrears for a prolonged period up to 31 January 2016. In accordance with the principle of prudence, Heidelberg Pharma AG has recognized a provision for the liability from the rent guarantee in the amount of € 408 thousand.

In addition, there is a possibility in the future that the agreement could result in Heidelberg Pharma AG being held liable in respect of the landlord for damages due to the default of the current tenant Nuclea and for rent in arrears from the period after 31 January 2016. Insolvency proceedings were opened for Nuclea in mid-2016 and Siemens has claimed payment of back rent and damages for the period up to July 2016 from Heidelberg Pharma AG in the total amount of USD 832 thousand (€ 701 thousand). However, Heidelberg Pharma AG believes that Siemens does not have grounds to assert legal claims for payment of the rent in arrears after 1 February 2016 and damages due to default beyond 31 January 2016. Accordingly, the future existence of an obligation is not considered sufficiently likely for the amount of € 293 thousand for the Siemens claim exceeding the provision of € 408 thousand.

In May 2017, Siemens brought an action against Heidelberg Pharma AG for USD 832 thousand before the United States District Court for the District of Massachusetts, USA.

Heidelberg Pharma AG considers these claims to be unjustified and has already submitted an answer to the complaint. Heidelberg Pharma AG's economic and legal assessment has not changed compared with the disclosures made in the 2016 Annual Report. The Company considers the existing provision to be adequate. A ruling is expected in 2018.

Heidelberg Pharma entered into sub-leases that generated € 7 thousand (previous year: € 12 thousand). Heidelberg Pharma can expect minimum payments of € 8 thousand from existing sub-leases as of the reporting date.

30 Corporate bodies and remuneration

30.1 Executive Management Board

The Executive Management Board members of Heidelberg Pharma AG in the reporting period were:

Dr. Jan Schmidt-Brand, Chief Financial Officer and Spokesman of the Executive Management Board
Professor Andreas Pahl, Chief Scientific Officer

In parallel to his work as a member of the Executive Management Board, Dr. Jan Schmidt-Brand acts as the Managing Director of Heidelberg Pharma Research GmbH, a position he has held since 2004. In the interests of transparency, the remuneration of Dr. Schmidt-Brand is presented in full, which means that the amounts that he has earned as Managing Director of the subsidiary are also listed below.

30.2 Supervisory Board

The Supervisory Board members of Heidelberg Pharma AG as of 30 November 2017 were:

- Professor Christof Hettich (Chairman of the Supervisory Board of Heidelberg Pharma AG), lawyer and partner at RITTERSHAUS Rechtsanwälte Partnerschaftsgesellschaft mbB, Mannheim/Frankfurt am Main/Munich, Germany; Managing Director of dievini Verwaltungs GmbH, the general partner of dievini Hopp BioTech holding GmbH & Co. KG, Walldorf, Germany; and Chairman of the Management Board of SRH Holding SdbR, Heidelberg, Germany

- Dr. Georg F. Baur (Deputy Chairman of the Supervisory Board of Heidelberg Pharma AG), entrepreneur

- Dr. Friedrich von Bohlen und Halbach, Managing Director of dievini Verwaltungs GmbH, the general partner of dievini Hopp BioTech holding GmbH & Co. KG, Walldorf, Germany

- Dr. Birgit Kudlek, self-employed pharmaceutical manager

- Dr. Mathias Hothum, Managing Director of dievini Verwaltungs GmbH, the general partner of dievini Hopp BioTech holding GmbH & Co. KG, Walldorf, Germany

30.2.1 Supervisory Board committees

For reasons of efficiency, a joint Compensation and Nomination Committee was established, which covers both areas separately in its meetings. The Compensation Committee deals with employment issues and with the remuneration of the members of the Executive Management Board. The tasks of the Nomination Committee include proposing suitable candidates for the Supervisory Board to the Annual General Meeting and the appointment of new members of the Executive Management Board. Professor Hettich is the Chairman; Dr. Baur is a member of this committee.

A Research and Development Committee tasked with issues related to Heidelberg Pharma's oncological product candidates also exists. This committee is chaired by Dr. von Bohlen and Halbach; Dr. Kudlek is an additional member.

The Supervisory Board also established an Audit Committee, whose tasks include the discussion and preparatory examination of the IFRS consolidated financial statements, the HGB single-entity financial statements, the quarterly reports of the Group, and the preselection of the auditor of the financial statements. The Audit Committee is chaired by Dr. Baur. Its further members are Dr. Kudlek and Dr. Hothum.

30.2.2 Other appointments of the Supervisory Board members

In addition to being a member of the Supervisory Board of Heidelberg Pharma AG, Professor Christof Hettich is also the Chairman or a member of the following bodies:

Company	Position
• Agennix AG i.L., Heidelberg, Germany	Chairman of the Supervisory Board
• InterComponentWare AG, Walldorf, Germany	Chairman of the Supervisory Board
• LTS Lohmann Therapie-Systeme AG, Andernach, Germany	Member of the Supervisory Board
• immatics biotechnologies GmbH, Tübingen, Germany	Vice Chairman of the Advisory Board
• SRH Holding SdbR, Heidelberg, Germany	Chairman of the Management Board
• Companies of the Vetter Group: Vetter Pharma-Fertigung GmbH & Co. KG, Vetter Pharma-Fertigung Verwaltungs-GmbH, Arzneimittelgesellschaft mbH Apotheker Vetter & Co., Vetter Injekt System GmbH & Co. KG, Vetter Injekt System Verwaltungs-GmbH, Ravensburg, Germany	Member of the Advisory Boards
• Molecular Health GmbH, Heidelberg, Germany	Member of the Advisory Board
• PROMETHERA biosciences AG, Mont-Saint-Guibert, Belgium	Member of the Supervisory Board

In addition to being a member of the Supervisory Board of Heidelberg Pharma AG, Dr. Georg F. Baur is also the Chairman or a member of the following bodies:

Company	Position
• Franz Haniel & Cie. GmbH, Duisburg, Germany	Vice Chairman of the Supervisory Board
• Hussel GmbH, Hagen, Germany	Chairman of the Advisory Board
• J.F. Müller & Sohn AG, Hamburg, Germany	Chairman of the Supervisory Board

In addition to being a member of the Supervisory Board of Heidelberg Pharma AG, Dr. Friedrich von Bohlen und Halbach is also the Chairman or a member of the following bodies:

Company	Position
• Agennix AG i.L., Heidelberg, Germany	Member of the Supervisory Board
• Apogenix AG, Heidelberg, Germany	Chairman of the Supervisory Board
• AC Immune SA, Lausanne, Switzerland	Member of the Board of Directors
• CureVac AG, Tübingen, Germany	Chairman of the Supervisory Board
• febit holding GmbH, Heidelberg, Germany	Member of the Advisory Board
• Immatics GmbH, Tübingen, Germany	Member of the Advisory Board
• Novaliq GmbH, Heidelberg, Germany	Chairman of the Advisory Board
• Wyss Translational Center, Zurich, Switzerland	Member of the Evaluation Board

In addition to being a member of the Supervisory Board of Heidelberg Pharma AG, Dr. Mathias Hothum is also the Chairman or a member of the following bodies:

Company	Position
• Apogenix AG, Heidelberg, Germany	Member of the Advisory Board
• CureVac AG, Tübingen, Germany	Member of the Supervisory Board
• Cytonet GmbH & Co. KG, Weinheim, Germany, now Weinheim 216 GmbH & Co. KG i. L.	Member of the Advisory Board
• Joimax GmbH, Karlsruhe, Germany	Chairman of the Advisory Board
• Novaliq GmbH, Heidelberg, Germany	Member of the Advisory Board
• LTS Lohmann Therapie-Systeme AG, Andernach, Germany	Member of the Supervisory Board
• Molecular Health GmbH, Heidelberg, Germany	Member of the Advisory Board

Dr. Birgit Kudlek is neither the Chairwoman nor a member of other control bodies as defined by Section 125 (1) sentence 5 German Stock Corporation Act. The members of the Company's Supervisory Board were not active in any other control bodies at the reporting date above and beyond the activities described in the foregoing.

30.3 Remuneration of corporate bodies

A detailed description of the remuneration model and the information on remuneration of each Executive Management Board and Supervisory Board member are included in the remuneration report, which is part of the combined management report. These disclosures were subject to the audit of the annual financial statements and consolidated financial statements. The remuneration report is included in chapter 6, "Corporate governance", of the combined management report.

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30.3.1 Executive Management Board

Remuneration consists of a salary (fixed remuneration), other benefits (non-cash remuneration), a variable remuneration component and a stock option plan with a long-term incentive and risk element.

The members of the Executive Management Board received total remuneration of € 540 thousand (previous year: € 587 thousand) in fiscal year 2017, € 388 thousand (previous year: € 409 thousand) of which was fixed remuneration, € 119 thousand (previous year: € 139 thousand) was variable remuneration and € 33 thousand (previous year: € 39 thousand) was paid in the form of other benefits or non-cash remuneration.

For information on the remuneration component of the stock options described below, please refer to the capital reduction in a 4:1 ratio that was implemented in the 2014 fiscal year and is applicable to the options issued until that time. As a result, now only four options entitle the holder to acquire one share, instead of one option to acquire one share prior to the capital reduction (in accordance with the terms of exercise of the option plan). At the same time, following the 4:1 capital reduction, the exercise prices and reference prices quadrupled compared with the situation prior to the measure.

As of the reporting date, the two current members of the Executive Management Board thus held a total of 312,000 stock options from this stock option plan with a long-term incentive and a risk element.

The cumulative fair value of all stock options granted to the current Executive Management Board members was € 450 thousand as of the end of the reporting period (previous year: € 450 thousand). The expenses for the current members of the Executive Management Board incurred in connection with the share-based remuneration in the fiscal year just ended totaled € 92 thousand (previous year: € 51 thousand).

30.3.2 Supervisory Board

In accordance with the Company's Articles of Association, the members of the Supervisory Board receive a fixed remuneration for each full fiscal year of service on the Supervisory Board. Members of a Supervisory Board committee are paid a flat fee per fiscal year and committee. The Supervisory Board members do not receive variable remuneration, nor are they granted options or similar rights. Supervisory Board members are not entitled to a settlement if their membership ends.

The remuneration paid to Supervisory Board members who were not in service for a full fiscal year is pro rated in accordance with the duration of their membership on the Supervisory Board.

In the 2017 fiscal year, the members of the Supervisory Board were paid remuneration of € 184 thousand (previous year: € 197 thousand) without reimbursement of travel expenses.

31 Related party transactions and expenses for the auditors

Balances and transactions between the Company and its subsidiary which are related parties were eliminated in consolidation and are not outlined in this note. Details concerning transactions between the Group and other related parties are listed below.

31.1 Shares held by the Executive Management Board and the Supervisory Board

As of 30 November 2017, members of the Executive Management Board held 124,281 shares of Heidelberg Pharma AG (representing 0.55 % of the Company's share capital of 22,452,570 shares).

Members of the Supervisory Board held 49,452 shares directly and 14,708,890 shares indirectly (representing 0.22 % and 65.51 %, respectively, of the Company's share capital). A disclosure of the shareholdings of the individual Board members is contained in the section "Shares held by the Supervisory Board and the Executive Management Board" of Chapter 6.2 "Corporate Governance".

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31.2 Directors' dealings

In the 2017 fiscal year, Heidelberg Pharma AG's executives reported the following transactions subject to disclosure in accordance with Article 19 of the European Market Abuse Regulation (MAR) (Directors' dealings). These transactions have also been published on the Company website in the section „Press & Investors > Announcements > Directors' Dealings".

www.heidelberg-pharma.com

Name	Date	Transaction	Market-place	Price €	Number	Volume €
Curacyte GmbH i.L.[1]	19 Dec. 2016	Sale	OTC	1.84	574,324	1,056,756.16
dievini Hopp BioTech holding GmbH & Co. KG[2]	19 Dec. 2016	Purchase	OTC	1.84	574,324	1,056,756.16
Dr. Jan Schmidt-Brand (Executive Management Board member)	15 May 2017	Purchase	OTC	2.45	7,173	17,573.85
dievini Hopp BioTech holding GmbH & Co. KG[2]	15 May 2017	Purchase	OTC	2.45	1,810,201	4,434,992.45
NewMarket Venture Verwaltungs GmbH[3]	15 May 2017	Purchase	OTC	2.45	6,337	15,525.65
Dr. Georg F. Baur (Supervisory Board member)	18 May 2017	Purchase	OTC	2.45	4,263	10,444.35
Professor Andreas Pahl (Executive Management Board member)	19 May 2017	Purchase	OTC	2.45	10,186	24,955.70
Dr. Jan Schmidt-Brand (Executive Management Board member)	22 Nov. 2017	Purchase	OTC	2.60	26,303	68,387.80
Dr. Birgit Kudlek (Supervisory Board member)	22 Nov. 2017	Purchase	OTC	2.60	850	2,210.00
Dr. Birgit Kudlek (Supervisory Board member)	22 Nov. 2017	Purchase of convertible bonds	OTC	2.60	1,700	1,700.00
Professor Andreas Pahl (Executive Management Board member)	22 Nov. 2017	Purchase	OTC	2.60	15,000	39,000.00
Dr. Georg F. Baur (Supervisory Board member)	22 Nov. 2017	Purchase	OTC	2.60	15,634	40,648.40

[1] Supervisory Board member Dr. Mathias Hothum has management responsibilities at Curacyte GmbH i.L., which was a shareholder of Heidelberg Pharma AG.

[2] The Supervisory Board members Professor Christof Hettich, Dr. Friedrich von Bohlen und Halbach and Dr. Mathias Hothum have management responsibilities at dievini Hopp BioTech holding GmbH & Co. KG, which is a shareholder of Heidelberg Pharma AG.

[3] Supervisory Board member Professor Christof Hettich has management responsibilities at NewMarket Venture Verwaltungs GmbH, which is a shareholder of Heidelberg Pharma AG.

31.3 Other transactions

- In 1998, Heidelberg Pharma AG granted a defined benefit pension commitment to Professor Olaf G. Wilhelm that promises the beneficiary a one-time payment of € 47 thousand upon reaching the age of 60 (see note 17). The defined benefit pension commitment is based on plan assets funded with a one-time payment of € 15 thousand into a reinsurance policy in 2000. Heidelberg Pharma AG assumes that no substantial future payments to the plan will be necessary. The beneficiary is expected to retire on 1 May 2019.

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  Furthermore, Heidelberg Pharma Research GmbH granted Dr. Jan Schmidt-Brand a defined contribution pension commitment in 2012 in his capacity as Managing Director of the company for which matching reinsurance was arranged.

- Under the 2011 Stock Option Plan, Heidelberg Pharma AG has issued a total of 312,000 subscription rights to current members of the Executive Management Board, all of which are still outstanding. As of the end of the reporting period, 154,500 of these options are vested. In addition, 25,500 options for former members of the Company's Executive Management Board are outstanding and vested. No stock options have been exercised to date.

- The Rittershaus law firm invoiced legal consulting services for both Group companies in the total amount of approximately € 51 thousand in the reporting period. Rittershaus is a related party because the chairman of the Supervisory Board, Professor Christof Hettich, is a partner in this law firm.

- In fiscal year 2017, transactions took place between Heidelberg Pharma Research GmbH and entities controlled by dievini or its affiliated companies, namely Apogenix AG, Heidelberg (amounting to € 447 thousand). All transactions took place without any influence or action on the part of dievini or its affiliated companies and strictly at arm's length.

No other relationships to related parties exist in addition to the relations and financing services listed. Furthermore, no transactions that were not at arm's length within the meaning of IAS 24.23 were entered into.

31.4 Expenses for the auditors

Deloitte GmbH Wirtschaftsprüfungsgesellschaft was appointed the auditor of the Company's consolidated financial statements at its Annual General meeting on 20 July 2017. The following fees for services were recognized in the periods reviewed:

	2017 € '000	2016 € '000
Auditing services	134	80
Other assurance services	188	14
Tax advisory services	0	0
Other services	0	0
Expenses for auditors	**322**	**94**

The audit fees (€ 134 thousand) concern the fees recognized as an expense in the fiscal year for the statutory audit of the IFRS consolidated financial statements and the audits of the annual financial statements of Heidelberg Pharma AG and Heidelberg Pharma Research GmbH pursuant to HGB. The other assurance services (€ 188 thousand) were provided in connection with the capital increases. These were not recognized as an expense but deducted from the capital reserve.

31.5 Disclosures regarding the majority shareholder

The main shareholder in Heidelberg Pharma AG is dievini Hopp BioTech holding GmbH & Co. KG, Walldorf (dievini). Together with all entities attributable or affiliated to it at that time, such as DH Holding Verwaltungs GmbH and Curacyte GmbH, and the shares in Heidelberg Pharma AG held personally by Mr. Dietmar Hopp, dievini held approximately 51.67 % of the 9,305,608 Heidelberg Pharma shares as of 13 April 2015 following the capital increase at Heidelberg Pharma that became effective upon its entry in the Commercial Register on 10 April 2015. An interest of over 50 % in Heidelberg Pharma was therefore attributable to dievini and its affiliated companies for the first time in the 2015 fiscal year.

Following three capital increases in fiscal year 2016, the interest held by dievini and its affiliated companies together with the shares in Heidelberg Pharma AG held personally by Mr. Dietmar Hopp increased to approximately 63.53 % of the Heidelberg Pharma shares.

Following two further capital increases in fiscal year 2017, the interest held by dievini – in this context now the only entity invested in Heidelberg Pharma AG – together with the shares held personally by Mr. Dietmar Hopp increased to approximately 70.26 % of the Heidelberg Pharma shares. Since then, Curacyte GmbH has been liquidated and dievini has acquired its shares and the shares held by DH Holding Verwaltungs GmbH in Heidelberg Pharma.

The shareholdings of Mr. Dietmar Hopp and parties related to him, and the companies they control, exceed the 50 % threshold. This group of persons is the majority shareholder and can exercise far-reaching control over Heidelberg Pharma AG or can exert significant influence over the Company.

32 Declaration of Conformity with the German Corporate Governance Code in accordance with Section 161 German Stock Corporation Act

The Declaration of Conformity to be submitted annually in accordance with Section 161 of the German Stock Corporation Act was submitted by the Executive Management Board and the Supervisory Board in February 2018. It has been made permanently available to all shareholders and interested parties on the Company's website.

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33 Events after the reporting period

33.1 Exercise of the mandatory convertible bonds

By 28 February 2018, 14,689,925 (98.14 %) of the 14,968,380 mandatory convertible bonds issued as part of the corporate action in November 2017 were converted at a conversion price of € 2.60. This resulted in 5,649,964 new no par value shares that increased the share capital of Heidelberg Pharma AG from € 22,452,570 to € 28,102,534 divided into 28,102,534 no par value bearer shares. Most of the Contingent capital 2017/II has thus been utilized.

33.2 License agreement with the University of Texas MD Anderson Cancer Center

At the beginning of March 2018, Heidelberg Pharma Research GmbH as the licensee and The University of Texas System signed a license agreement for patent rights related to the diagnosis and treatment of patients with RNA polymerase II deletion. The subject of the license is a patent application, filed in the name of the Board of Regents of The University of Texas System, which covers important aspects of a potential personalized treatment of patients based on Heidelberg Pharma's ATAC technology (Antibody Targeted Amanitin Conjugates). The University of Texas System is acting on behalf of the MD Anderson Cancer Center (MD Anderson), a US-based tumor center.

33.3 Exclusive multi-target research agreement signed with Magenta Therapeutics for the development of antibody drug conjugates

On 5 March 2018, Heidelberg Pharma announced that it had signed an exclusive multi-target research agreement with Magenta Therapeutics. The collaboration will combine Magenta's stem cell platform with proprietary antibodies for up to four exclusive targets with Heidelberg Pharma's proprietary ATAC (Antibody Targeted Amanitin Conjugates) technology for the development of new ATACs. Under the terms of the exclusive research agreement for multi-target molecules, Magenta will have access to Heidelberg Pharma's Amanitin toxin-linker platform technology. Magenta has an option for an exclusive license for global development and commercialization rights to each of the product candidates resulting from the research collaboration.

As licensor, Heidelberg Pharma receives upfront technology access and exclusivity fees and payments for research support. Under the exclusive license agreement, Heidelberg Pharma would be eligible to receive clinical development, regulatory and sales-related milestone payments of up to USD 334 million, if Magenta were to exercise the options on all target molecules and reach all milestones.

Ladenburg, 19 March 2018

Heidelberg Pharma AG, the Executive Management Board

Dr. Jan Schmidt-Brand
Chief Executive Officer and Chief Financial Officer

Professor Andreas Pahl
Chief Scientific Officer

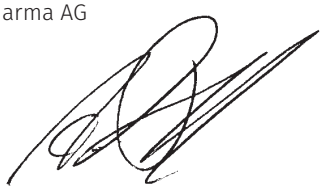
RESPONSIBILITY STATEMENT OF THE EXECUTIVE MANAGEMENT BOARD

"To the best of our knowledge, and in accordance with the applicable reporting principles, the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Heidelberg Pharma Group, and the combined management report includes a fair review of the development and performance of the business and the position of the Heidelberg Pharma Group and of Heidelberg Pharma AG, together with a description of the material opportunities and risks associated with their expected development."

Ladenburg, 19 March 2018

The Executive Management Board of Heidelberg Pharma AG

Dr. Jan Schmidt-Brand
Chief Executive Officer and Chief Financial Officer



Professor Andreas Pahl
Chief Scientific Officer

INDEPENDENT AUDITORS' REPORT

The English translation of the auditors' report is provided for convenience only.
The German original is definitive.

To Heidelberg Pharma AG, Ladenburg

Report on the audit of the consolidated financial statements and of the combined management report

Audit opinions

We have audited the consolidated financial statements of Heidelberg Pharma AG, Ladenburg, Germany, and its subsidiary (the Group), which comprise the balance sheet as of 30 November 2017, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the fiscal year from 1 December 2016 to 30 November 2017, and the notes to the consolidated financial statements, including a summary of significant accounting policies. In addition, we have audited the group management report of Heidelberg Pharma, Ladenburg, Germany, which is combined with the company's management report, for the fiscal year from 1 December 2016 to 30 November 2017. In accordance with the German legal requirements, we have not audited the content of the combined management report specified in the "Other information" section of our auditor's report.

In our opinion, on the basis of the knowledge obtained in the audit,

- the accompanying consolidated financial statements comply, in all material respects, with the International Financial Reporting Standards (IFRSs) as adopted by the EU, and the additional requirements of German commercial law pursuant to Section 315a (1) (old version) German Commercial Code (HGB) and, in compliance with these requirements, give a true and fair view of the assets, liabilities, and financial position of the Group as of 30 November 2017, and of its financial performance for the fiscal year from 1 December 2016 to 30 November 2017, and

- the accompanying combined management report as a whole provides an appropriate view of the Group's position. In all material respects, this combined management report is consistent with the consolidated financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. Our audit opinion on the combined management report does not cover the content of the combined management report specified in the "Other information" section of our auditor's report.

Pursuant to Section 322 (3) Sentence 1 German Commercial Code (HGB), we declare that our audit has not led to any reservations relating to propriety of the consolidated financial statements and of the combined management report.

Basis for the audit opinions

We conducted our audit of the consolidated financial statements and of the combined management report in accordance with Section 317 German Commercial Code (HGB) and the EU Audit Regulation (No. 537/2014; referred to subsequently as "EU Audit Regulation") and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW). Our responsibilities under those requirements and principles are further described in the "Auditor's responsibilities for the audit of the consolidated financial statements and of the combined management report" section of our auditor's report. We are independent of the group entities in accordance with the requirements

of European law and German commercial law and rules of professional conduct and we have fulfilled our other ethical responsibilities applicable in Germany in accordance with these requirements. In addition, in accordance with Article 10 (2) (f) of the EU Audit Regulation, we declare that we have not provided non-audit services prohibited under Article 5 (1) of the EU Audit Regulation. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions on the consolidated financial statements and on the combined management report.

Material uncertainty in connection with the Company's ability to continue as a going concern

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We refer to sections 7.5 "Financial risks" and 7.8 "Going-concern risks/risks that could adversely affect the Company's development" of the combined management report as well as to section 6 "Going concern risk" of the notes to the consolidated financial statements. In these sections, the executive directors explain that Heidelberg Pharma AG and/or its subsidiary Heidelberg Pharma Research GmbH, Ladenburg, Germany, might be unable after 2020 to satisfy their payment obligations, or become overindebted due to impairment losses, for instance as a result of missing budget targets – even if the corporate strategy is implemented as planned. As outlined in the above-mentioned sections of the combined management report and the notes to the consolidated financial statements, this refers to the existence of a material uncertainty that may cast significant doubt on the group's ability to continue as a going concern and constitute a risk that jeopardizes the existence of the group as a going concern within the meaning of Section 322 (2) Sentence 3 German Commercial Code (HGB).

Our audit opinions have not been modified with respect to this matter.

Key audit matters in the audit of the consolidated financial statements

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the financial year from 1 December 2016 to 30 November 2017. These matters were addressed in the context of our audit of the consolidated financial statements as a whole and in forming our audit opinion thereon; we do not provide a separate audit opinion on these matters.

In the following we present the key audit matters we have determined in the course of our audit:

1. Recoverability of goodwill
2. Accounting treatment of a financial instrument – mandatory convertible bond

Our presentation of these key audit matters has been structured as follows:

a) Description (including reference to corresponding information in the consolidated financial statements)
b) Auditor's response
c) Key observations, where applicable

1. Recoverability of goodwill

a) Goodwill of €6,111 thousand (approximately 16 % of total assets) is shown in the consolidated financial statements of Heidelberg Pharma AG. The goodwill results from the acquisition of Heidelberg Pharma Research GmbH in 2011. The Company therefore allocated the goodwill to the Heidelberg Pharma Research GmbH cash-generating unit. On this basis, the Company performs impairment testing once per year and whenever a triggering event occurs.

The basis for measurement is the present value of the future cash flows of the Heidelberg Pharma Research GmbH cash-generating unit to which the goodwill is allocated; this is determined using a discounted cash flow model. The expected future cash flows are derived from the current medium-term planning adopted by the executive directors and approved by the Supervisory Board, which is based on assumptions by the executive directors relating to the future development of the market and the Company. Discounting is based on the weighted average cost of capital of the cash-generating unit. The outcome of this valuation exercise is dependent to a large extent on the estimates made by the executive directors with respect to the future cash inflows and the discount rate used, and is therefore fraught with considerable uncertainty. In the light of this, and owing to the underlying complexity of the valuation models, this issue was of particular importance within the framework of our audit.

The disclosures made by the executive directors about goodwill can be found in sections 3.8, 7.2, 8 and 10.1 of the notes to the consolidated financial statements.

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b) As part of our audit, we first evaluated the method used to perform the impairment test and assessed the calculation of the weighted cost of capital. In addition to our analysis of the planning, we satisfied ourselves of the appropriateness of the future cash inflows used in the measurement by comparing this data with the current projections from the medium-term planning adopted by the executive directors and approved by the Supervisory Board and through reconciliation with general and sector-specific market expectations.

In the knowledge that even relatively small changes in the discount rate applied can have a material impact on the goodwill calculated using this method, we focused on examining the parameters used to determine the discount rate applied including the average cost of capital, and analyzed the method of calculation.

Furthermore, due to the materiality of the goodwill for the Group's net assets, we also performed our own sensitivity analyses so as to be able to estimate a possible impairment risk in the event of a potential change in a key assumption for measurement. In addition, we examined the completeness and appropriateness of the disclosures in the notes to the consolidated financial statements required under IAS 36.

c) The discounted future cash flows of the goodwill exceed the respective carrying amounts. The valuation parameters and assumptions used by the executive directors are within the range of the company- and industry-specific market expectations.

2. Accounting treatment of a financial instrument – mandatory convertible bond

a) On 22 November 2017, Heidelberg Pharma AG issued a mandatory convertible bond of € 14,968 thousand. After deducting transaction costs of € 562 thousand, the mandatory convertible bond of € 14,406 thousand (approx. 36 % of the Group's total assets) was recognized in the capital reserves. The bonds were offered to the existing shareholders by way of indirect subscription rights at a subscription ratio of 1:1; the subscription price for each new bond was € 1.00. The mandatory convertible bond is divided into 14,968,380 registered bonds with equal rights and with a principal amount of € 1.00 each. No interest payments will be made on the bonds (zero-coupon bonds), which were issued at par. The bondholders only have a right of termination in the event of the insolvency or liquidation of Heidelberg Pharma AG during the exercise period. Every bondholder has the right to convert every bond into registered ordinary shares (no par value shares) of the Company, each with a notional interest of € 1.00 in the Company's share capital, at the conversion price of € 2.60 per share during the exercise period. The exercise period began on 11 January 2018 and ends on 22 November 2019. Heidelberg Pharma AG has a mandatory conversion right at the conversion price of € 2.60 at the end of the term.

Where Heidelberg Pharma AG does not exercise this mandatory conversion right, unconverted bonds will be repaid at their principal amount at final maturity. After the conversion has taken place, the new shares will be taken from Contingent Capital 2017/II of Heidelberg Pharma AG.

Since the classification of a mandatory convertible bond has effects on the Group's capital structure and is therefore of significance for the view of the assets, liabilities, financial position, and financial performance, this matter was of key importance for our audit.

The disclosures made by the executive directors about the accounting treatment of the mandatory convertible bond can be found in sections 16 and 28 of the notes to the consolidated financial statements.

b) In our audit, taking into consideration the terms and conditions of issue of the mandatory convertible bond, we critically reviewed the mandatory convertible bond and assessed whether it constitutes a contract within the meaning of IAS 32 that is required to be presented as an equity instrument in the consolidated financial statements of Heidelberg Pharma AG. Among other things, we examined to what extent the requirements of IAS 32 are met and the contractual terms of the mandatory convertible bond have sufficient substance for the mandatory convertible bond to be classified as equity (IAS 32.16 in conjunction with IFRIC Update September 2013 and IFRIC Update January 2014). We also examined whether the proportionate directly attributable transaction costs meet the requirements of IAS 32 and were determined accordingly. We incorporated internal IFRS experts into our review of this matter.

Other information

The executive directors are responsible for the other information. The other information comprises

- the statement on Corporate Governance for the 2017 fiscal year pursuant to Sections 289a, 315 (5) German Commercial Code (HGB) (old version), which is referred to in section 6.1 of the combined management report,

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- the corporate governance report pursuant to Article 3.10 of the German Corporate Governance Code, which is included in section 6.2 of the combined management report,

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- the executive directors' confirmation relating to the consolidated financial statements and to the combined management report pursuant to Section 297 (2) Sentence 4 and Section 315 (1) Sentence 6 German Commercial Code (HGB) (old version) respectively, and

- the remaining parts of the annual report, with the exception of the audited consolidated financial statements and combined management report and our auditor's report.

Our audit opinions on the consolidated financial statements and on the combined management report do not cover the other information, and consequently we do not express an audit opinion or any other form of assurance conclusion thereon.

In connection with our audit, our responsibility is to read the other information and, in so doing, to consider whether the other information

- is materially inconsistent with the consolidated financial statements, with the combined management report or our knowledge obtained in the audit, or

- otherwise appears to be materially misstated.

Responsibilities of the executive directors and the Supervisory Board for the consolidated financial statements and the combined management report

The executive directors are responsible for the preparation of the consolidated financial statements that comply, in all material respects, with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to Section 315a (1) German Commercial Code (HGB) (old version) and that the consolidated financial statements, in compliance with these requirements, give a true and fair view of the assets, liabilities, financial position, and financial performance of the Group. In addition, the executive directors are responsible for such internal control as they have determined necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the executive directors are responsible for assessing the Group's ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting unless there is an intention to liquidate the Group or to cease operations, or there is no realistic alternative but to do so.

Furthermore, the executive directors are responsible for the preparation of the combined management report that, as a whole, provides an appropriate view of the Group's position and is, in all material respects, consistent with the consolidated financial statements, complies with German legal requirements, and appropriately presents the opportunities and risks of future development. In addition, the executive directors are responsible for such arrangements and measures (systems) as they have considered necessary to enable the preparation of a combined management report that is in accordance with the applicable German legal requirements, and to be able to provide sufficient appropriate evidence for the assertions in the combined management report.

The supervisory board is responsible for overseeing the Group's financial reporting process for the preparation of the consolidated financial statements and of the combined management report.

Auditor's responsibilities for the audit of the consolidated financial statements and of the combined management report

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the combined management report as a whole provides an appropriate view of the Group's position and, in all material respects, is consistent with the consolidated financial statements and the knowledge obtained in the audit, complies with the German legal requirements and appropriately presents the opportunities and risks of future development, as well as to issue an auditor's report that includes our audit opinions on the consolidated financial statements and on the combined management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Section 317 German Commercial Code (HGB) and the EU Audit Regulation and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements and this combined management report.

We exercise professional judgment and maintain professional skepticism throughout the audit. We also

- identify and assess the risks of material misstatement of the consolidated financial statements and of the combined management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our audit opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- obtain an understanding of internal control relevant to the audit of the consolidated financial statements and of arrangements and measures relevant to the audit of the combined management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an audit opinion on the effectiveness of these systems.

- evaluate the appropriateness of accounting policies used by the executive directors and the reasonableness of estimates and related disclosures made by the executive directors.

- conclude on the appropriateness of the executive directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the consolidated financial statements and in the combined management report or, if such disclosures are inadequate, to modify our respective audit opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to be able to continue as a going concern.

- evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements present the underlying transactions and events in a manner that the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Group in compliance with IFRSs as adopted by the EU and with the additional requirements of German commercial law pursuant to Section 315a (1) German Commercial Code (HGB) (old version).

- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express audit opinions on the consolidated financial statements and on the combined management report. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinions.

- evaluate the consistency of the combined management report with the consolidated financial statements, its conformity with German law, and the view of the Group's position it provides.

- perform audit procedures on the prospective information presented by the executive directors in the combined management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by the executive directors as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate audit opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with the relevant independence requirements, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, the related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

Other legal and regulatory requirements

Further information pursuant to Article 10 of the EU Audit Regulation

We were elected as group auditor by the annual general meeting on 20 July 2017. We were engaged by the Supervisory Board on 24 August 2017. We have been the group auditor of Heidelberg Pharma AG. Ladenburg, Germany, without interruption since fiscal year 2011/2012.

We confirm that the audit opinions expressed in this auditor's report are consistent with the additional report to the audit committee pursuant to Article 11 of the EU Audit Regulation (long-form audit report).

German public auditor responsible for the engagement

The German Public Auditor responsible for the engagement is Steffen Schmidt.

Mannheim, 19 March 2018

Deloitte GmbH
Wirtschaftsprüfungsgesellschaft

(Dr. Buhleier)
Wirtschaftsprüfer
[German Public Auditor]

(Schmidt)
Wirtschaftsprüfer
[German Public Auditor]

GLOSSARY

Amanitin: toxin that is a member of the amatoxin group of natural poisons occurring in the death cap (Amanita phalloides), among others

Antibody Drug Conjugate (ADC) technology: Antibody drug conjugates are monoclonal antibodies attached to biologically active drugs by chemical linkers. Combining the specific targeting of antibodies with cancer-killing cytotoxic drugs enables ADCs to discriminate between healthy and tumor tissue. This combination enhances the control of drug pharmacokinetics and significantly improves delivery to target tissue.

Antibody Targeted Amanitin Conjugate (ATAC): antibody drug conjugate using the amanitin toxic. ATACs are second-generation ADCs characterized by improved efficacy, also as regards quiescent tumor cells. Quiescent tumor cells are scarcely reached with existing standard therapies and contribute to tumor recurrence and resistance formation. These ATACs will also be used to treat therapy-resistant tumors that no longer respond to standard chemotherapy or anti-tumor antibodies.

Antigen: Structure onto which an antibody specifically binds

Antibodies: Proteins which are produced by the immune system with the aim of identifying and destroying foreign substances that cause disease, such as viruses and bacteria

ARISER: **A**djuvant RENCAREX® **I**mmunotherapy Phase III trial to **S**tudy **E**fficacy in non-metastatic **R**CC. ARISER is a double-blind, placebo-controlled Phase III study to assess the effect of adjuvant treatment with RENCAREX® on disease-free survival and overall survival in RCC patients with a high risk of recurrence following surgery (nephrectomy).

CAIX: Antigen that binds to the antibody Girentuximab

CDMO: Contract Development and Manufacturing Organization

Chemotherapy: Use of cell toxins to destroy tumor cells in the body

Chimeric: Genetically composed from different species

Combination therapy: Therapy with two or more substances

Cytotoxic: Poisonous to cells

Diagnostic agent: A tool, gene or protein that aids in the diagnosis of an illness

FDA: Food and Drug Administration – regulatory authority in the USA

Girentuximab: INN (International Nonproprietary Name) for RENCAREX®. RENCAREX® is the development name for the therapeutic antibody WX-G250, which is based on the chimeric antibody cG250. The INN for the radio labelled antibody, which is developed under the name REDECTANE® is Iodine (124I) girentuximab

Good Laboratory Practice (GLP): International regulations governing the conduct of tests in laboratories

Good Manufacturing Practice (GMP): International regulations governing the production of pharmaceutical products

HPD-101: Development name for the proprietary ATAC candidate that is composed of a BCMA antibody, a linker and the Amanitin toxin

Immune checkpoint: Immune checkpoints are receptors on the surface of T-cells. They act as modulators of T-cell response, and act as intensifiers (pro-inflammatory) or inhibitors (anti-inflammatory; e.g. PD-1). Checkpoint inhibitors are drugs that occupy the immune checkpoints and thus inhibit them.

IND: To be granted official approval for trialing drugs on humans (clinical studies), the applicant must first submit an "investigational new drug" (IND) application to the FDA. This application is based on preclinical data.

Inhibitor: Substance which reduces or inhibits specific biological activities

INN: International Nonproprietary Name

In Process Research & Development (IP R&D): not yet ready for use intangible assets

In vitro: Refers to a procedure or reaction that takes place in a test tube

In vivo: Refers to a procedure or reaction that takes place in the body

Linker: Bridging molecule, used e.g. to connect a toxin to an antibody

MESUPRON®: Name under which the oral uPA inhibitor is being developed (formerly WX-671)

Metastasis: Malignant spread of a tumor in an organism

Metastases: The spread of malignant tumor cells in the body and the formation of secondary tumors

Molecule: A chemical structure composed of at least two particles (atoms)

Monoclonal antibodies: Monoclonal antibodies are produced by cells created when an antibody producing cell (such as a B lymphocyte) fuses with an immortalized cancer cell. This procedure is carried out in the laboratory and produces a hybrid cell (hybridoma) possessing the properties of both cells. Since these cells originate from the same cell, they are all identical and are therefore described as „monoclonal". They produce large amounts of a specific anti-body, which binds to a specific antigen.

Multiple myeloma (MM): MM is a cancer of the hematopoietic system. Its typical characteristic is the proliferation of antibody-producing cells, the plasma cells. Multiple myeloma is the most common malign neoplasm of the bone marrow.

Oncology: Research field which focuses on cancer studies

Oral: Administration via the mouth

Overexpressed: Too many copies of a substance, e.g. a protein

PET/CT: PET/CT is a combination of two imaging procedures. Whereas PET (positron emission tomography) is a radionuclide imaging procedure that can visualize biochemical and physiological processes, CT (computer tomography) is a radiological method which shows the anatomic structures that are necessary to localize the PET signal.

Pharmacology: A scientific discipline investigating the characterization, effect and application of drugs and their interaction with the organism

Phase I: Clinical trial of a substance carried out on a low number of healthy subjects or patients under strict supervision that serves to investigate toxicity, pharmacokinetics, form of administration and safe dosage of a substance

Phase II: Clinical trial with a low number of patients with the aim of testing the efficacy of a substance for specific indications, identifying any side effects and safety risks and determining the tolerance and optimum dosage

Phase III: Clinical trial with a large number of patients (several hundred to several thousand) to ascertain the safety, tolerance and efficacy as well as optimum dosage of a substance under real therapy condition

Positron emission tomography (PET): A radio nuclide imaging procedure, which can visualize biochemical and physiological processes by means of radioactive materials

Preclinical: The preclinical phase comprises all *in vitro* and *in vivo* test systems for examining the features of a substance prior to the start of the clinical phases.

PSMA: Prostate-specific membrane antigen. PSMA is overexpressed in prostate cancer specifically and is a promising target for an ADC approach, as it shows very low expression in normal tissues.

R&D: Research and development

REDECT: **Re**nal Masses: Pivotal Trial To **De**te**ct** clear-cell RCC with pre-surgical PET/CT. REDECT is a Phase III registration trial, which will evaluate whether imaging with REDECTANE® can improve the diagnosis in comparison to the current standard (CT).

REDECTANE®: Development name for the antibody Girentuximab radioactively labelled with iodine-124 (INN Iodine (124I) Girentuximab), formerly CA9-SCAN

RENCAREX®: Development name for the therapeutic antibody Girentuximab (formerly WX-G250)

RNA polymerase II: Enzyme complex that mainly catalyzes the synthesis of mRNA (messenger ribonucleic acids) in the transcription of DNA in eukaryotes

Serine protease: A type of peptidase (i.e. enzymes which catalyze the split of proteins and peptides)

Therapeutic agent: Drug applied for the treatment of illnesses

Thrombin: Enzyme that enables blood to coagulate

uPA: Urokinase-type plasminogen activator

FINANCIAL CALENDAR 2018

Date	Type of report/event
22 March 2018	Annual Report 2017, financial press conference and analysts' meeting
12 April 2018	Interim management statement on the first three months of 2018
26 June 2018	Annual General Meeting 2018
12 July 2018	Half-yearly Financial Report 2018
11 October 2018	Interim management statement on the first nine months of 2018

www.heidelberg-pharma.com

Please see our website for the current list of conferences for 2018.

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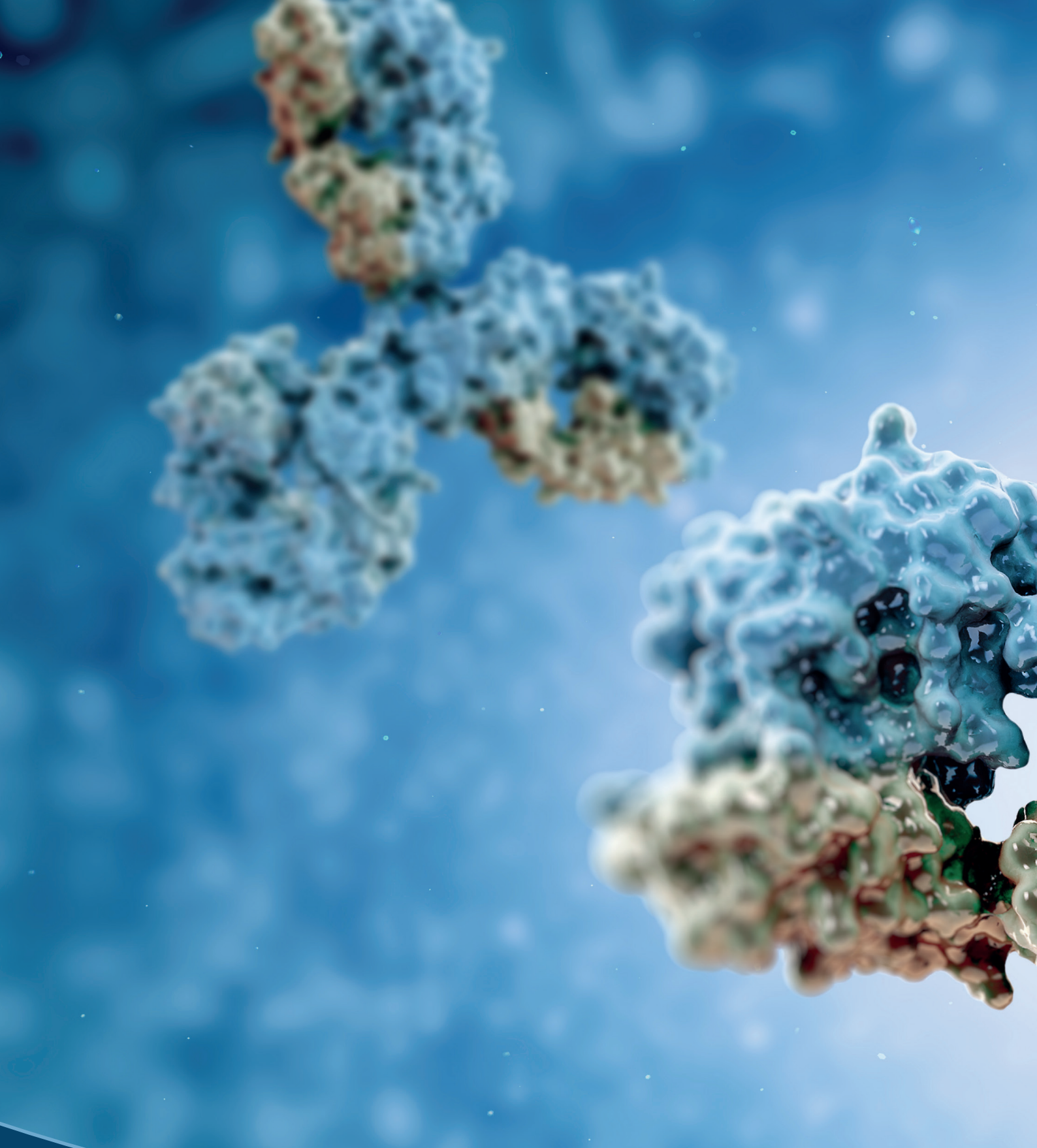
The Annual Report is also published in German and is available for download from our website at www.heidelberg-pharma.com.

The English translation of the Annual Report is provided for convenience only. The German original is definitive.

As of: 21 March 2018



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